

2 August 2018

Financial Services | Banks

DBS

Buy (Maintained)

Target Price: SGD30.30

Price: SGD26.94

Market Cap: USD50,733m

Bloomberg Ticker: DBS SP

Stronger 2Q18 Net Interest Income

Maintain BUY, but we place our SGD30.30 TP under review, pending an analyst briefing to be held later today. 2Q18 results announced this morning are in line with expectations. Core net profit of SGD1.37bn was up 20% YoY (-10% QoQ). 1H18 net profit represented 50% of our full-year forecast of SGD5.67bn. Positives included 2Q18 NIM widening 2bps QoQ to 1.85% on higher Singapore and Hong Kong interest rates, and 2Q18 loans growth of 3% QoQ – both these factors drove net interest income up by 5% QoQ, and +18% YoY. There was sequential weakness in wealth management fees, which dragged down fee and commission income. We will be reviewing our earnings forecasts and TP after the analyst briefing. Our current TP is derived from a long-term ROE assumption of 13.6%, which will build on 1H18's ROE of 12.5% (1H17: 10.6%).

DBS released its 2Q18 results this morning. Highlights for the quarter are:

- 2Q18 net profit stood at SGD1.33bn**, down 12% QoQ and up 18% YoY. Excluding one-time items, 2Q18 core net profit would have been slightly higher at SGD1.37bn;
- 2Q18 NIM of 1.85%** was 2bps wider QoQ, and 11bps wider YoY. With loan also expanding, 2Q18 net interest income showed good growth momentum, expanding 5% QoQ and 18% YoY;
- 2Q18 fee and commission income fell 5% QoQ, mainly on weaker wealth management fees.** However, it rose 11% YoY, supported mainly by a 22% YoY expansion in wealth management fees;
- 2Q18 cost-to-income ratio of 44.3% was higher than 1Q18's s 41.6%**, primarily due to the sequential decline in total income;
- 2Q18 credit cost (specific loan allowances) of 12bps** was below 1Q18's 20bps;
- 2Q18 loans were 3% higher QoQ**, driven mainly by building and construction loans, which rose by 6% QoQ. Loans were up 11.6% YoY. In constant currency terms, loan expanded by 1% QoQ as consumer and non-trade corporate loans grew 2%;
- 1H18 dividend of SGD0.60/share was declared, versus SGD0.33 a year ago.**

We are reviewing our earnings forecasts and TP. More highlights will be unveiled after the analyst briefing to be held later today.

Figure 1: 2Q18 results announced on 2 Aug are in line

FYE Dec (SGDm)	2Q17	1Q18	2Q18	QoQ%	YoY%	Comments
Net interest income	1,888	2,128	2,224	4.5	17.8	2Q18 NIM was up 2bp QoQ at 1.85%, underpinned by higher interest rates in Singapore and HK
Non-interest income	1,036	1,232	979	(20.5)	(5.5)	2Q18 fee & commission income fell 5% QoQ, mainly due to a 9% QoQ fall in wealth management fees
PIOP	1,642	1,950	1,781	(8.7)	8.5	
Impairment charges	(304)	(164)	(105)	(36.0)	(65.5)	2Q18's specific credit cost of 12bps was 8bps lower QoQ
Core net profit	1,140	1,521	1,372	(9.8)	20.4	1H18 net profit accounted for 50% of our FY18 forecast

Source: Company data

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Reported net profit (SGDm)	4,238	4,371	5,666	6,027	6,588
Net profit growth (%)	(4.8)	3.1	29.6	6.4	9.3
Recurring net profit (SGDm)	4,238	4,390	5,666	6,027	6,588
Recurring EPS (SGD)	1.68	1.72	2.19	2.31	2.49
BVPS (SGD)	17.6	18.6	19.5	20.6	21.9
DPS (SGD)	0.60	1.43	1.20	1.20	1.20
Recurring P/E (x)	16.0	15.6	12.3	11.7	10.8
P/B (x)	1.53	1.45	1.38	1.31	1.23
Dividend Yield (%)	2.2	5.3	4.5	4.5	4.5
Return on average equity (%)	10.0	9.5	11.6	11.5	11.7
Return on average assets (%)	0.9	0.9	1.1	1.1	1.2
Our vs consensus EPS (adjusted) (%)			(3.9)	(9.5)	(10.0)

Source: Company data, RHB

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