

12 July 2019

Financial Services | Banks

DBS (DBS SP)

Buy (Maintained)

NIM Likely Wider In 2Q19, But Peakish; BUY

Target Price (Return) SGD30.30 (+18%)
Price: SGD25.61
Market Cap: USD48,495m
Avg Daily Turnover (SGD/USD) 114.8m/84.7m

• **Still BUY with a new SGD30.30 TP from SGD30.80 based on 1.47x 2020F P/BV, 18% upside plus 4.7% FY19F yield.** This report spells out our expectations for DBS' 2Q19 results, which will be released on 29 Jul before trading hours. Expected 2Q19 marginal sequential growth for both loans and NIMs should continue to drive the share price higher.

• **Mild sequential 2Q19 loan expansion expected.** At end-April, management guided for 2019 loan growth in the mid-single digits. We believe business loans expansion could have offset the weak housing mortgage trend. Consequently, we expect DBS to record a ~1% QoQ loan expansion for 2Q19.

• **Higher 2Q19 SIBOR should have led to wider NIM.** In 2Q19, the 3-month SIBOR averaged 1.98%. This is higher than 1Q19's 1.92%, which is positive for DBS' NIM. There is also the lagged effect of a rising SIBOR on the bank's NIM. Overall, we believe DBS' 2Q19 NIM could have widened marginally from 1Q19's 1.88%.

• **Indications point to continued good asset quality,** as there is no distress in any particular sector. We believe 2Q19's NPL ratio should be flattish QoQ.

• **Likelihood of a US Federal Reserve rate cut at end-July.** Separately, US Fed chair Jerome Powell said on Wednesday that "manufacturing, trade, and investment are weak all around the world". Powell also indicated that inflation was too low. Markets saw his comments as pointing towards a rate cut at the US Fed's next meeting at end-July.

• **We lower our 2020 and 2021 NIM assumptions following the US Fed chair's comments** – down 6-8bps to 1.87%. However, this negative is offset by stronger non-IL, particularly from the wealth management segment, as trading could pick up with stimulation from the interest rate cuts. Hence, our 2020F and 2021F earnings are both only lowered marginally by 1%.

• **Our long-term ROE assumption is lowered** to 13.6% from 13.8% vs 1Q19's 14%. This factors in revenue growth from wealth management and digitisation-driven cost efficiencies.

• **DBS continues to be attractively priced,** with a FY19F yield of 4.7% – sharply higher than the 10-year Singapore Government Bond yield of 1.98% – and a P/BV (2020) of 1.24x, ie close to the 6-year average of 1.2x. However, with earnings growth seen to persist – mainly driven by non-IL and cost efficiencies – we have a target P/BV of 1.47x, and keep our call.

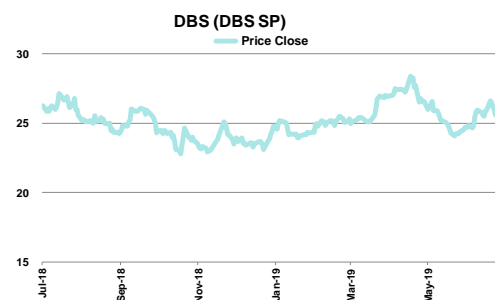
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	9.0	4.6	(4.1)	4.2	(0.7)
Relative	(0.7)	(0.2)	(5.2)	(1.0)	(4.3)
52-wk Price low/high (SGD)	22.65 – 28.64				



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Reported net profit (SGDm)	4,371	5,577	6,241	6,531	6,778
Recurring net profit (SGDm)	4,390	5,625	6,241	6,531	6,778
Recurring net profit gr (%)	3.6	28.1	10.9	4.7	3.8
Recurring EPS (SGD)	1.72	2.20	2.44	2.55	2.65
BVPS (SGD)	17.85	18.12	19.33	20.59	21.84
DPS (SGD)	1.43	1.20	1.20	1.30	1.40
Recurring P/E (x)	14.9	11.7	10.5	10.0	9.7
P/B (x)	1.43	1.41	1.32	1.24	1.17
Dividend Yield (%)	5.6	4.7	4.7	5.1	5.5
Return on average equity (%)	9.7	12.1	12.6	12.5	12.3
Return on average assets (%)	0.89	1.05	1.10	1.10	1.11

Source: Company data, RHB

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Financial Services | Banks

Financial Exhibits

Financial model updated on: 2019-07-11

Asia	Financial summary	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Singapore	EPS (SGD)	1.71	2.17	2.43	2.55	2.64
Financials	Core EPS (SGD)	1.72	2.20	2.44	2.55	2.65
DBS	DPS (SGD)	1.43	1.20	1.20	1.30	1.40
DBS SP	BVPS (SGD)	17.85	18.12	19.33	20.59	21.84
BUY						
Valuation basis	Valuation metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Gordon Growth Methodology.	Recurring P/E (x)	14.9	11.7	10.5	10.0	9.7
	P/B (x)	1.43	1.41	1.32	1.24	1.17
	Dividend yield (%)	5.6	4.7	4.7	5.1	5.5
Key drivers	Balance sheet (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Our net profit forecast is most sensitive to:	Gross loans & advances	327,769	349,645	367,359	380,298	397,485
i. Changes in NIM;	Loan impairment allowances	4,670	4,642	5,106	5,366	5,681
ii. Non-interest income growth;	Net loans & advances	323,099	345,003	362,253	374,932	391,804
iii. Credit cost.	Total assets	517,711	550,751	582,112	600,658	623,210
	Deposits from customers	373,634	393,785	414,656	439,120	461,076
	Total liabilities	467,909	500,876	528,907	544,154	563,330
	Shareholders' funds	47,458	49,045	52,208	55,406	58,595
	Total equity	49,802	49,875	53,205	56,504	59,880
Key risks	Income statement (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
i. Higher impairment charges;	Net interest income	7,791	8,955	9,865	10,125	10,586
ii. Weaker NIMs;	Non-interest income	4,483	4,228	4,715	5,314	5,681
iii. Softer non-II.	Operating income	12,274	13,183	14,580	15,439	16,267
	Overhead expenses	5,205	5,814	6,146	6,614	7,085
	Pre-provision operating profit	7,069	7,369	8,434	8,825	9,182
	Loan impairment allowances	1,894	710	885	920	975
	Other impairment allowances	0	0	0	0	0
	Pre-tax profit	5,175	6,659	7,549	7,905	8,207
	Reported net profit	4,371	5,577	6,241	6,531	6,778
	Recurring net profit	4,390	5,625	6,241	6,531	6,778
Company Profile	Profitability	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
DBS is the largest Singapore bank by assets. It also has significant Greater China operations.	ROA (%)	0.89	1.05	1.10	1.10	1.11
	ROE (%)	9.7	12.1	12.6	12.5	12.3
	Yield on IEAs (%)	2.43	2.85	3.05	3.10	3.10
	Cost of funds (%)	0.74	1.07	1.29	1.38	1.35
	Net interest margin (%)	1.75	1.85	1.89	1.87	1.87
	Non-II / Total income (%)	34.7	32.1	32.3	34.4	34.9
	CIR (%)	43.0	44.0	42.2	42.8	43.6
	Credit cost (bps)	60.6	21.3	25.0	25.0	25.4
	PIOP growth (%)	8.5	4.2	14.5	4.6	4.0
	Net profit growth (%)	3.1	27.6	11.9	4.7	3.8
	Asset quality	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
	Gross impaired loans/Loans (%)	1.7	1.5	1.4	1.4	1.4
	Loan loss coverage ratio (%)	84.7	91.2	89.0	90.3	92.3
	NPL formation (bps)	105	25	39	47	54
	Liquidity	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
	Loan growth (%)	7.2	6.8	5.0	3.5	4.5
	Customer deposits growth (%)	7.5	5.4	5.3	5.9	5.0
	LDR (%)	86.5	87.6	87.4	85.4	85.0
	Capital	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
	CET1 ratio (%)	14.3	13.9	15.6	16.5	17.0
	Tier-1 ratio (%)	15.1	15.1	15.7	16.5	17.0
	Total capital ratio (%)	15.9	16.9	17.4	18.2	18.6

Source: Company data, RHB

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