

5 November 2018

Financial Services | Banks

DBS

Buy (Maintained)

Future Earnings Still On Growth Momentum

Maintain BUY, new TP of SGD29.80 from SGD30.30, 21% upside and 5% FY19F yield. At DBS' results teleconference, management reiterated its bullish stance for 2019 – guiding for further NIM widening from FFR hikes, stable loan growth of mid-single digits and wealth management growth potential. We derive our TP on assuming long-term ROE of 13.8%, which could be achievable based on management's guidance of ~13 2019F ROE. Widening NIM is the catalyst to drive DBS' share price higher. UOB remains our Top Pick for Singapore bank stocks.

DBS' 3Q18 net profit of SGD1.41bn was up 6% QoQ and 76% YoY. Excluding the 3Q17 one-time ANZ integration costs, core net profit would have risen 72% YoY.

Expect NIM to widen over the next few quarters. 3Q18 NIM of 1.86% was 1bp wider QoQ. At the teleconference, management said exit NIM was 1.86%, and guided for 4Q18 NIM of 1.86-1.87%, with more widening in 2019 from lagged effects of SIBOR increases (45% of Singapore loans are booked off SIBOR). We forecast 2018-2019 NIM of 1.86% and 1.92%, premised on the trend of a rising US federal funds rate (FFR).

Slower loan growth guidance due to trade loans. DBS' 3Q18 loans were 1% higher QoQ, with trade loans being a drag as yields are unattractive. It had earlier guided for SGD4bn mortgage loan growth this year, but it now appears a SGD2.5bn growth is more likely – the group has a 31% share of the Singapore housing loan market. Management is guiding for mid-single digit 2019 loans growth, as trade loans are seen to remain weak. We forecast overall 2019 loan growth of 6%.

Wealth management strength offsets investment banking weakness. 9M18 wealth management fees rose 25% YoY (to SGD923m), whilst investment banking recorded a 34% YoY decline (to SGD99m). DBS is optimistic on future wealth management growth, following the addition of 600 staff in wealth management – an area where productivity should rise over the next 2-3 years.

Our long-term ROE assumption is 13.8%. This is on track, as evident from management's guidance of 13% by 2019 (from 9M18's 12.4%). Our CoE assumption is 10%, yielding a target P/BV of 1.54x, which is applied to our 2019F BV to derive our SGD29.80 TP. We believe the premium over its 5-year historical average P/BV of 1.2x is justified, given the rising NIM trend.

During the previous FFR upcycle between mid-2003 and mid-2007, the FFR rose to >5% from 1%. For that duration, DBS' P/BV correspondingly rose as high as 1.9x from 1x (Figure 4). The bank now trades only at 1.28x 2019F book, and our target P/BV is set at 1.54x.

Maintain BUY, with a lower SGD29.80 TP. Downside risks to our forecasts include higher impairment charges and weaker NIM.

Target Price: SGD29.80
Price: SGD24.66
Market Cap: USD45,849m
Bloomberg Ticker: DBS SP

Share Data

Avg Daily Turnover (SGD/USD) 132.1m/96m
52 week price low/high (SGD) 30.76 - 22.23
Free Float (%) 69.9
Shares outstanding (m) 2,554
Estimated Return 21%

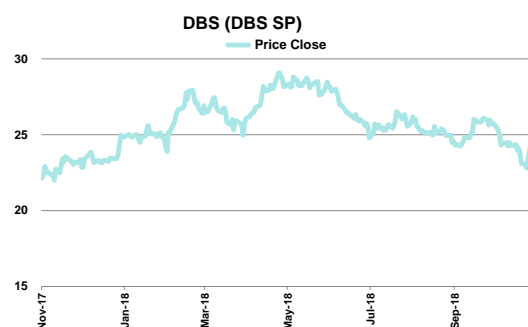
Shareholders (%)

Temasek 30.1
Capital Group 3.2
Vanguard Group 2.2

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.7)	(6.8)	(8.1)	(16.6)	6.3
Relative	8.4	(2.1)	(1.8)	(2.9)	15.9

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-16	Dec-17	Dec 18F	Dec 19F	Dec 20F
Reported net profit (SGDm)	4,238	4,371	5,682	6,339	6,582
Net profit growth (%)	(4.8)	3.1	30.0	11.6	3.8
Recurring net profit (SGDm)	4,238	4,390	5,682	6,339	6,582
Recurring EPS (SGD)	1.68	1.72	2.23	2.49	2.58
BVPS (SGD)	16.87	17.85	18.09	19.33	21.10
DPS (SGD)	0.60	1.43	1.20	1.20	1.20
Recurring P/E (x)	14.6	14.3	11.1	9.9	9.5
P/B (x)	1.46	1.38	1.36	1.28	1.17
Dividend Yield (%)	2.4	5.8	4.9	4.9	4.9
Return on average equity (%)	10.1	9.7	12.3	12.9	12.8
Return on average assets (%)	0.92	0.89	1.07	1.15	1.17
Our vs consensus EPS (adjusted) (%)			(2.5)	(2.9)	(7.5)

Source: Company data, RHB

Analyst

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Figure 1: DBS' 3Q18 results summary

FYE Dec (SGDm)	3Q17	2Q18	3Q18	QoQ%	YoY% Comments
Net Interest Income	1,975	2,224	2,273	2.2	15.1 3Q18 NIM was up 1bp QoQ at 1.86% from higher interest rates in Singapore and HK
Non-interest Income	1,084	979	1,102	12.6	1.7 3Q18 net trading income jumped 56% QoQ to SGD354m, whilst fee & commission income was up a marginal 1% QoQ
Total Operating Income	3,059	3,203	3,375	5.4	10.3
Operating Expenses	(1,278)	(1,422)	(1,481)	4.1	15.9
Operating Profit	1,781	1,781	1,894	6.3	6.3
Provisions	(815)	(105)	(236)	124.8	(71.0) 3Q18's specific credit cost of 21bps was 9bps higher QoQ, as there was a 2Q18 writeback
Pre-tax profit	966	1,676	1,658	(1.1)	71.6
Taxation	(126)	(314)	(236)	(24.8)	87.3
Profit after tax	840	1,362	1,422	4.4	69.3
Minorities	(38)	(28)	(9)	(67.9)	(76.3)
Net Profit	802	1,334	1,413	5.9	76.2 9M18 net profit accounted for 75% & 73% of ou and consensus pre-results FY18 forecasts
Other Key Data & Ratios					
ROE (Avg)	7.1	11.8	12.2		
Net Interest Margin	1.73	1.85	1.86		Management said 3Q18 exit NIM was 1.86%, and guided for 4Q18 NIM of 1.86-1.87%
Net interest income / income	64.6	69.4	67.3		
Ops exp / income (excl one-time items)	41.1	44.3	43.9		
Assets	507,766	540,004	541,524	0.3	6.6
Non-bank loans	314,135	338,071	340,375	0.7	8.4 Loan sequential expansion was mainly driven by 4% QoQ rise for building and construction loans
Customer deposit	362,102	387,560	388,295	0.2	7.2
Non-performing assets	6,127	5,870	5,902	0.5	(3.7)
Cumulative loan loss provisions	5,083	5,106	5,191	1.7	2.1
Loans Deposit Ratio	86.8	87.2	87.7		
Non-bank NPL / Non-bank loans	1.7	1.6	1.6		NPL ratio was unchanged sequentially
Loan loss coverage	83.0	87.0	88.0		
Total CAR	15.6	16.2	16.2		
Tier 1 CAR	14.8	14.4	14.4		Management said DBS' CET1 CAR of 13.3% is within its range of 12.5-13.5%

Source: Company data

NIM to widen in 2019. The market expects 2-4 US interest rate hikes next year. Management said that the pass-through from US FFR to SIBOR can be as low as 30% or as high as 90%. In the likely scenario of a strengthening USD, the pass-through should be higher. With 45% of the Singapore loan book priced off SIBOR, there will be lagged effects of NIM widening over the next few quarters. Hence, we forecast 2019 NIM of 1.92%, vs 9M18' 1.85%.

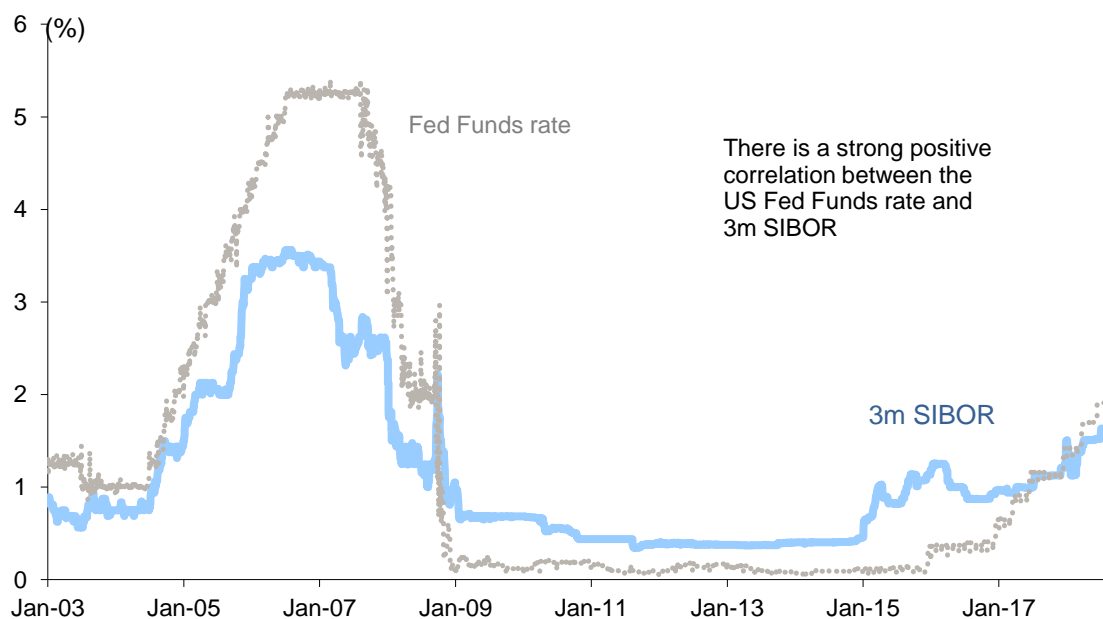
Potential for further wealth management growth. The wealth management segment had assets under management (AUM) of SGD220bn, up 13% YoY. Out of this, SGD151bn relates to high net worth and private banking clients. Management believes its AUM can outperform peers' during periods of economic uncertainty, on the back of flight to safety.

Figure 2: DBS' financial data

DBS (SGDm)	FY16	FY17	FY18F	FY19F	FY20F
Net Interest Income	7,305	7,791	8,947	9,571	10,346
Non-interest Income	4,184	4,483	4,412	5,155	5,326
- Fee & Commission Income	2,331	2,622	2,838	3,280	3,226
- Other Operating Income	1,853	1,861	1,574	1,875	2,100
Total Operating Income	11,489	12,274	13,359	14,726	15,672
Operating Expenses	(4,972)	(5,205)	(5,765)	(6,222)	(6,803)
Operating Profit	6,517	7,069	7,594	8,504	8,869
Provisions	(1,434)	(1,894)	(775)	(800)	(858)
Pre-tax profit	5,083	5,175	6,819	7,704	8,011
Taxation	(723)	(671)	(1,045)	(1,256)	(1,308)
Profit after tax	4,360	4,504	5,774	6,448	6,703
Minorities	(122)	(133)	(92)	(109)	(121)
Net Profit	4,238	4,371	5,682	6,339	6,582
EPS (SGD¢)	167.7	170.8	222.5	248.3	257.8
Book value (SGD)	16.87	17.85	18.09	19.33	21.09
Revalued book (SGD)	17.23	18.42	18.66	19.90	21.66
P&L ratios (%)					
ROE (Avg)	10.1	9.7	12.3	12.9	12.8
Net Interest Margin	1.80	1.75	1.86	1.92	1.99
Net interest income / income	63.6	63.5	67.0	65.0	66.0
Operating expenses / income	43.3	42.4	43.2	42.3	43.4
P&L YoY change (%)					
Net Interest Income	2.9	6.7	14.8	7.0	8.1
Non-interest Income	9.0	7.1	(1.6)	16.8	3.3
Fee & Commission Income	8.7	12.5	8.2	15.6	(1.6)
Total Income	5.0	6.8	8.8	10.2	6.4
Operating expenses	1.5	4.7	10.8	7.9	9.3
Operating profit	8.0	8.5	7.4	12.0	4.3
Provisions	93.0	32.1	(59.1)	3.2	7.3
Pre-tax Profit	(4.0)	1.8	31.8	13.0	4.0
Net Profit	(4.8)	3.1	30.0	11.6	3.8
BS data (SGDm)					
Assets	481,570	517,711	542,497	556,705	565,379
Non-bank loans	301,516	323,099	344,100	364,746	386,631
Customer deposit	347,446	373,634	390,074	410,748	432,517
Non-performing assets	4,856	6,070	6,035	6,085	6,295
Cumulative loan loss provisions	4,707	5,139	5,280	4,820	5,018
Balance sheet ratios (%)					
Loans Deposit Ratio	86.8	86.5	88.2	88.8	89.4
Non-bank loans growth (YoY%)	6.4	7.2	6.5	6.0	6.0
Customer deposit growth (YoY%)	8.5	7.5	4.4	5.3	5.3
Non-bank NPL / Non-bank loans	1.4	1.7	1.6	1.5	1.5
Loan loss coverage	96.9	84.7	87.5	79.2	79.7
Total CAR	16.2	15.9	16.1	16.4	16.8
Tier 1 CAR	14.7	15.1	14.4	14.8	15.2

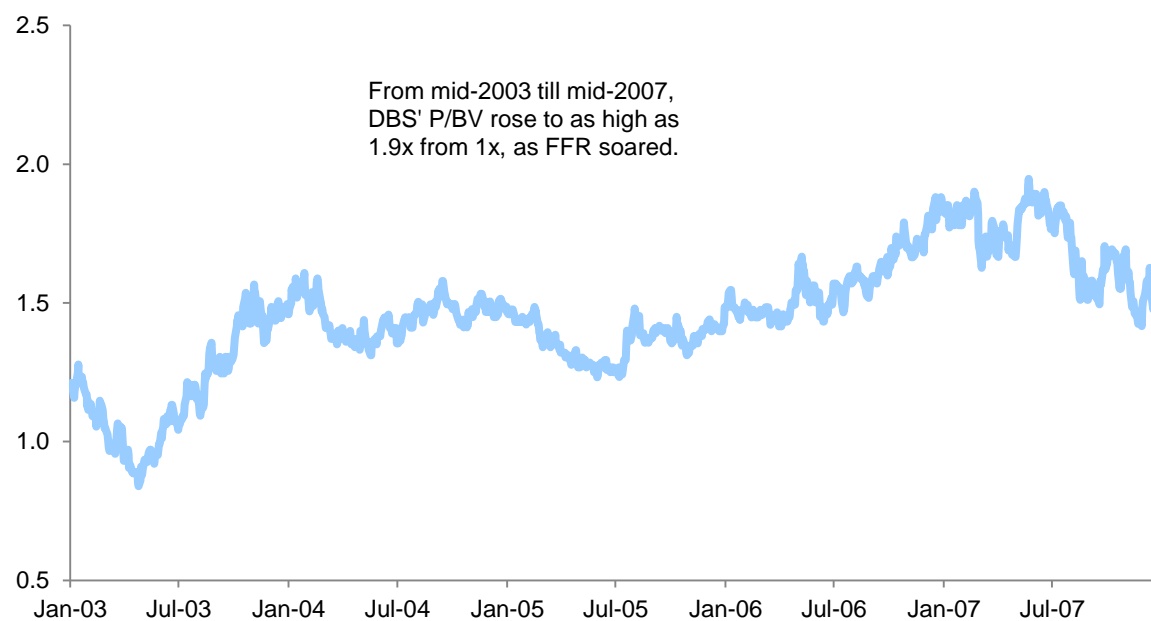
Source: Company data, RHB

Figure 3: US FFR and 3-month SIBOR



Source: Bloomberg

Figure 4: DBS' P/BV rose as FFR increased between 2003 and 2007



Source: Bloomberg

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Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

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