

29 April 2019

Financial Services | Banks

**DBS (DBS SP)**

**Buy** (Maintained)

**Strength In 1Q19 ROE; Reiterate BUY**

Target Price (Return) SGD29.60 (+8%)  
 Price: SGD27.41  
 Market Cap: USD51,237m  
 Avg Daily Turnover (SGD/USD) 71.3m/52.3m

- **Reiterate BUY, with our TP under review pending an analyst teleconference later today.** Our current TP of SGD29.60 offers 8% upside plus 4% FY19F yield, and is derived from our long-term ROE assumption of 13.5% (vs 1Q19 and 2018 ROEs of 14% and 12.2%). 1Q19 net profit released this morning was in line with expectations, accounting for 27% of our and consensus FY19F net profit. The 1bps QoQ widening of NIM to 1.88% is encouraging.
- **1Q19 net profit rose 9% YoY, and was up 25% QoQ.** The YoY improvement was driven by 9% YoY rise in net interest income. The sequential expansion was boosted by a recovery in wealth management and trading income.
- **1Q19 NIM of 1.88% was 1bps wider QoQ and 5bps wider YoY.** Asset yields rose 8bps QoQ whilst cost of funds rose 7bps QoQ. Other factors supporting net interest income include customer loans expanding 6% YoY and 1% QoQ.
- Sequential strength in total income, in addition to sequentially flat expenses, led to CIR falling 4.1ppts to 42.2%.
- 1Q19 ROE was at 14%, higher than 1Q18's 13.1%.
- **We are reviewing our earnings forecasts and TP.** More highlights will be unveiled after the analyst teleconference later today.

**Figure 1: 1Q19 results announced on 29 Apr are in line**

| FYE Dec (SGDm)      | 1Q18  | 4Q18  | 1Q19  | QoQ %  | YoY%   | Comments   |
|---------------------|-------|-------|-------|--------|--------|--|
| Net interest income | 2,128 | 2,330 | 2,310 | (0.9)  | 8.6    | 1Q19 NIM was up 1bps QoQ at 1.88%. Higher interest rates in Singapore and HK contributed to the YoY NIM expansion. |
| Non-interest income | 1,232 | 915   | 1,241 | 35.6   | 0.7    | 1Q19 net trading income rose 20% YoY to SGD443m.   |
| PIOP                | 1,950 | 1,744 | 2,053 | 17.7   | 5.3    |  |
| Impairment charges  | (164) | (205) | (76)  | (62.9) | (53.7) | 1Q19's specific credit cost of 15bps was 5bps lower YoY.   |
| Core net profit     | 1,521 | 1,319 | 1,651 | 25.2   | 8.5    | 1Q19 net profit of SGD1.65bn represented 27% of our 2019 forecast.   |

Source: Company data

| Forecasts and Valuation     | Dec-17 | Dec-18 | Dec-19F | Dec-20F | Dec-21F |
|-----------------------------|--------|--------|---------|---------|---------|
| Reported net profit (SGDm)  | 4,371  | 5,577  | 6,075   | 6,617   | 6,849   |
| Recurring net profit (SGDm) | 4,390  | 5,625  | 6,075   | 6,617   | 6,849   |
| Recurring net profit gr (%) | 3.6    | 28.1   | 8.0     | 8.9     | 3.5     |
| Recurring EPS (SGD)         | 1.72   | 2.20   | 2.37    | 2.59    | 2.68    |
| BVPS (SGD)                  | 17.85  | 18.12  | 19.27   | 20.65   | 22.13   |
| DPS (SGD)                   | 1.43   | 1.20   | 1.20    | 1.20    | 1.20    |
| Recurring P/E (x)           | 15.9   | 12.5   | 11.5    | 10.6    | 10.2    |
| P/B (x)                     | 1.54   | 1.51   | 1.42    | 1.33    | 1.24    |
| Dividend Yield (%)          | 5.2    | 4.4    | 4.4     | 4.4     | 4.4     |
| Return on average equity    | 9.7    | 12.1   | 12.3    | 12.7    | 12.3    |
| Return on average assets    | 0.89   | 1.05   | 1.07    | 1.11    | 1.10    |

Source: Company data, RHB

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|                     |  |
|---------------------|--|
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