

17 September 2018

Financial Services | Banks

## DBS

**Buy** (Maintained)

### NIM Widening Trend Intact

We remain bullish on DBS, with unchanged SGD30.30 TP giving 22% upside. We believe the key catalyst for the stock is the US FFR's rising trend widening DBS' NIM going forward. After the early July property cooling measures, subsequent show-flat visits by potential buyers suggest good demand for upcoming launches as developers lower selling prices – this should support mortgage loan demand. DBS' CAR should also be strengthened by the recent raising of its Additional Tier 1 capital.

**NIM to widen.** The market expects the US federal funds rate (FFR) to be raised by 25bps during the 25-26 Sep Federal Open Market Committee (FOMC) meeting. Expectations are for further FFR hikes on the growing US economy.

Given the historical correlation between the FFR and 3-month SIBOR (Figure 1), we expect further upside in the 3-month SIBOR (from 1.64% now). The 3-month SIBOR averaged 1.51% in 2Q18, and a higher 1.63% for QTD 3Q18 – this rising trend is positive for Singapore banks' NIM. From DBS' 2Q18's NIM of 1.85%, we are forecasting NIM of 1.87% for 2018 (vs management's guided 1.86-1.87%) and 1.95% for 2019.

**Recent positive news flow.** In late August, DBS was named the first Singaporean and Asian winner for Global Finance Magazine's Best Bank in the World Award. In early September, adding to its digital initiatives, DBS unveiled a service that allows wealthy clients to interact with relationship managers on WeChat and WhatsApp.

**Impact of property cooling measures may be subdued.** After the Singapore Government announced property cooling measures in early July, the market was concerned that Singapore banks' loan growth may weaken. Recent new property show-flat visits (eg to JadeScape) however, point to continued interest from potential buyers, as indicative prices were lowered by ~10%. We expect mortgage growth to remain steady until end-2019, as drawdown of already-approved loans take effect. Loan growth from 2020 onwards should remain firm if property sales continue to be supported by lower selling prices.

**Additional Tier 1 Capital raised.** In early September, DBS priced its SGD1bn, 3.98% perpetual capital securities first callable in 2025 to qualify as Additional Tier 1 Capital. Whilst this could marginally slow NIM expansion, it will strengthen DBS' CAR ratios.

**Our long-term ROE assumption is 13.8%,** premised on gains from DBS' digital strategy and nationwide digital strategies such as the Monetary Authority of Singapore (MAS)-driven Paynow. Management guided for ROEs of 13-14%, with 14% being achievable if costs are well controlled.

Our cost of equity (CoE) assumption is 10.2%, yielding a target P/BV of 1.51x, which is applied to our 2019F BV to derive our SGD30.30 TP. We believe the premium over its 5-year historical average P/BV of 1.2x is justified given the rising NIM trend – this was evident historically (Figure 2). Downside risks include higher impairment charges, and weaker NIMs.

Forecasts and Valuations	Dec-16	Dec-17	Dec 18F	Dec 19F	Dec 20F
Reported net profit (SGDm)	4,238	4,371	5,703	6,428	6,893
Net profit growth (%)	(4.8)	3.1	30.5	12.7	7.2
Recurring net profit (SGDm)	4,238	4,390	5,703	6,428	6,893
Recurring EPS (SGD)	1.68	1.72	2.21	2.46	2.60
BVPS (SGD)	16.87	17.85	18.87	20.09	21.84
DPS (SGD)	0.60	1.43	1.20	1.20	1.20
Recurring P/E (x)	14.8	14.4	11.3	10.1	9.5
P/BV (x)	1.47	1.39	1.32	1.24	1.14
Dividend Yield (%)	2.4	5.8	4.8	4.8	4.8
Return on average equity (%)	10.1	9.7	12.0	12.6	12.6
Return on average assets (%)	0.92	0.89	1.08	1.17	1.23
Our vs consensus EPS (adjusted) (%)			(2.2)	(1.6)	(3.1)

Source: Company data, RHB

Target Price: SGD30.30  
Price: SGD24.85  
Market Cap: USD46,900m  
Bloomberg Ticker: DBS SP

#### Share Data

Avg Daily Turnover (SGD/USD) 99.2m/72.2m  
52 week price low/high (SGD) 30.76 - 19.81  
Free Float (%) 70.5  
Shares outstanding (m) 2,555  
Estimated Return 22%

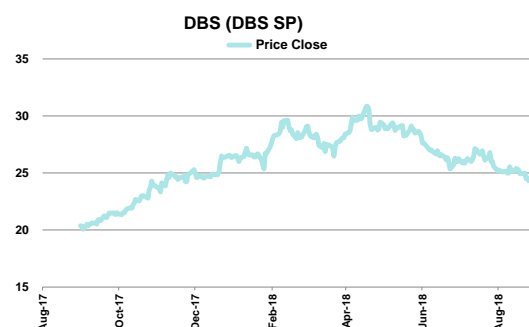
#### Shareholders (%)

Temasek 29.4

#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	1.7	(1.0)	(10.0)	(10.5)	26.0
Relative	8.8	0.5	(4.2)	(0.6)	27.5

Source: Bloomberg



Source: Bloomberg

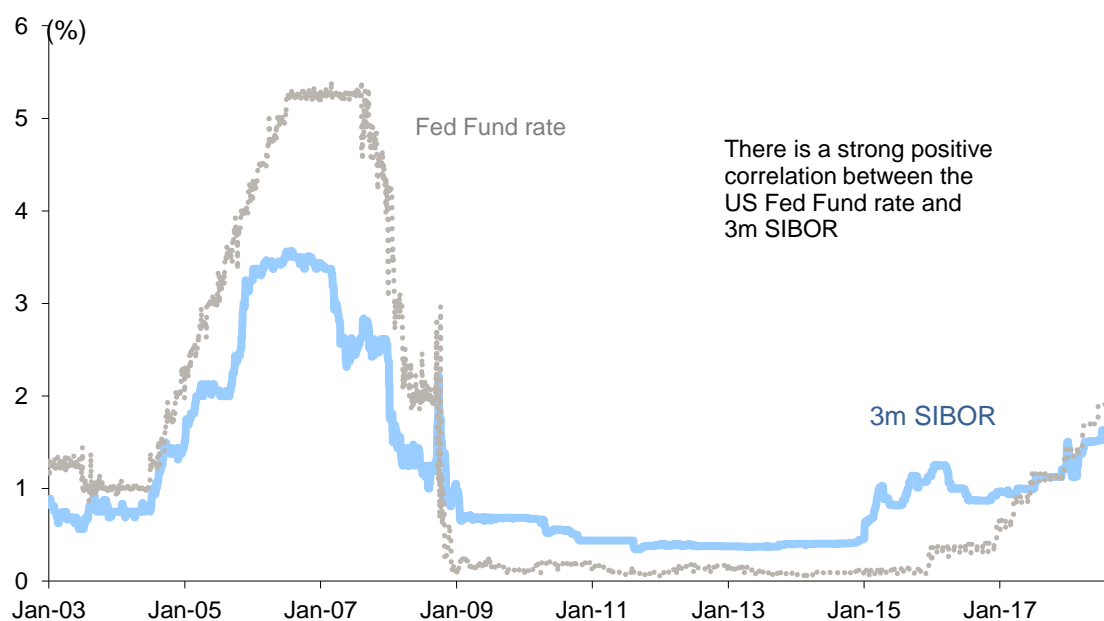
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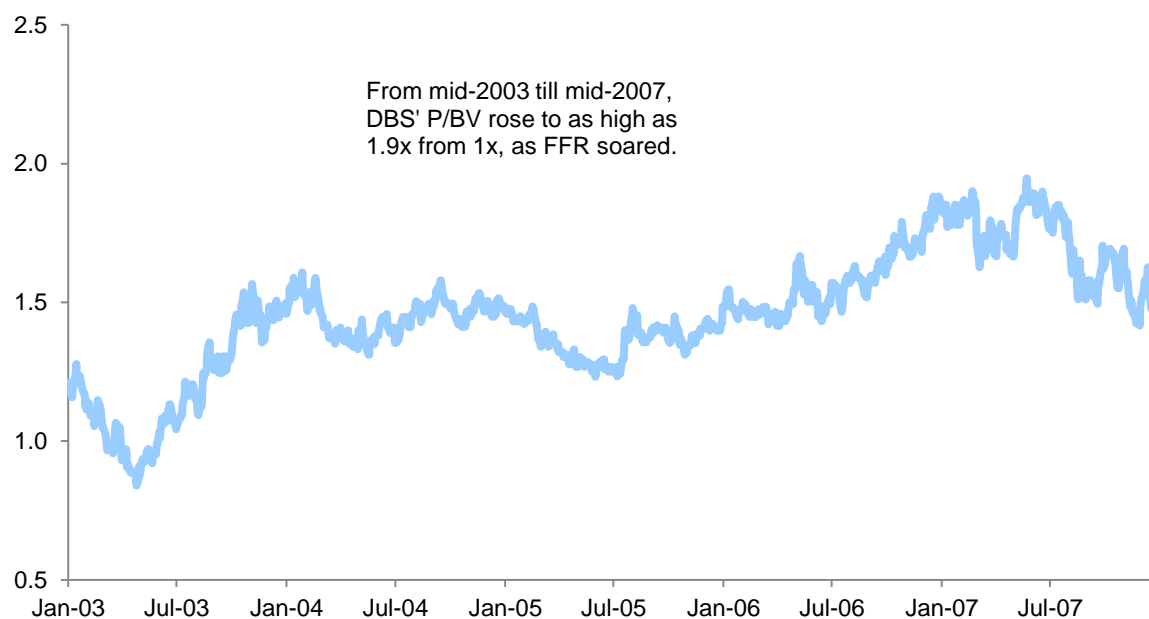


Figure 1: US FFR and 3-month SIBOR



Source: Bloomberg

Figure 2: DBS' P/BV rose as FFR increased between 2003 and 2007



Source: Bloomberg

Figure 3: DBS' financial data

DBS (SGDm)	FY16	FY17	FY18F	FY19F	FY20F
Net Interest Income	7,305	7,791	8,904	9,631	10,422
Non-interest Income	4,184	4,483	4,542	5,211	5,534
- Fee & Commission Income	2,331	2,622	3,008	3,179	3,226
- Other Operating Income	1,853	1,861	1,534	2,032	2,308
Total Operating Income	11,489	12,274	13,446	14,842	15,956
Operating Expenses	(4,972)	(5,205)	(5,855)	(6,252)	(6,731)
Operating Profit	6,517	7,069	7,591	8,590	9,225
Provisions	(1,434)	(1,894)	(695)	(743)	(808)
Pre-tax profit	5,083	5,175	6,896	7,847	8,417
Taxation	(723)	(671)	(1,058)	(1,280)	(1,377)
Profit after tax	4,360	4,504	5,838	6,567	7,040
Minorities	(122)	(133)	(135)	(139)	(147)
<b>Net Profit</b>	<b>4,238</b>	<b>4,371</b>	<b>5,703</b>	<b>6,428</b>	<b>6,893</b>
EPS (SGD¢)	167.7	170.8	220.3	245.2	259.7
Book value (SGD)	16.87	17.85	18.86	20.08	21.84
Revalued book (SGD)	17.23	18.42	19.43	20.64	22.39
NTA (SGD)	14.85	15.83	16.87	18.11	19.89
Revalued NTA (SGD)	15.21	16.40	17.43	18.67	20.44
<b>P&amp;L ratios (%)</b>					
ROE (Avg)	10.1	9.7	12.0	12.6	12.6
Net Interest Margin	1.80	1.75	1.87	1.95	2.05
Net interest income / income	63.6	63.5	66.2	64.9	65.3
Operating expenses / income	43.3	42.4	43.5	42.1	42.2
<b>P&amp;L YoY change (%)</b>					
Net Interest Income	2.9	6.7	14.3	8.2	8.2
Non-interest Income	9.0	7.1	1.3	14.7	6.2
Fee & Commission Income	8.7	12.5	14.7	5.7	1.5
Total Income	5.0	6.8	9.5	10.4	7.5
Operating expenses	1.5	4.7	12.5	6.8	7.7
Operating profit	8.0	8.5	7.4	13.2	7.4
Provisions	93.0	32.1	(63.3)	6.9	8.7
Pre-tax Profit	(4.0)	1.8	33.3	13.8	7.3
Net Profit	(4.8)	3.1	30.5	12.7	7.2
<b>BS data (SGDm)</b>					
Assets	481,570	517,711	539,210	556,705	565,379
Non-bank loans	301,516	323,099	344,100	364,746	386,631
Customer deposit	347,446	373,634	394,184	415,076	437,075
Non-performing assets	4,856	6,070	6,016	5,510	5,004
Cumulative loan loss provisions	4,707	5,139	4,638	4,121	4,269
<b>Balance sheet ratios (%)</b>					
Loans Deposit Ratio	86.8	86.5	87.3	87.9	88.5
Non-bank loans growth (YoY%)	6.4	7.2	6.5	6.0	6.0
Customer deposit growth (YoY%)	8.5	7.5	5.5	5.3	5.3
Non-bank NPL / Non-bank loans	1.4	1.7	1.6	1.3	1.1
Loan loss coverage	96.9	84.7	77.1	74.8	85.3
Total CAR	16.2	15.9	16.1	16.6	17.2
Tier 1 CAR	14.7	15.1	15.4	15.9	16.5

Source: Company data, RHB

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

**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months

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