

3 May 2024

Financial Services | Banks

DBS (DBS SP)

Buy (Maintained)

A Strong Start To FY24; Stay BUY

Target Price (Return): SGD38.90 (+12%)
 Price (Market Cap): SGD34.90 (USD72,736m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (SGD/USD) 151m/112m

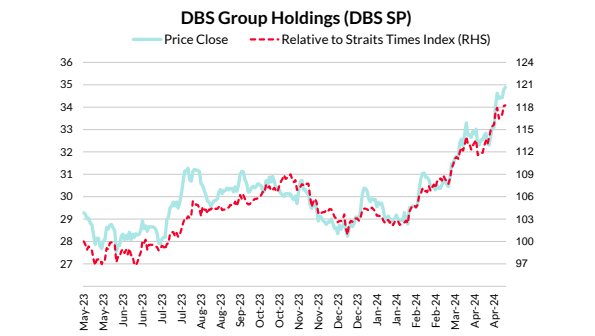
- **Stay BUY, new SGD38.90 TP from SGD34.80 (ex-bonus), 12% upside with c.6% FY24F yield.** DBS' 1Q24 results beat estimates on better-than-expected non-II, and loan impairments tracking below estimates. As a result, it is now more optimistic on operating income growth and guided for some PATMI growth in 2024 (vs flat earnings previously). We lift FY24-26F earnings by c.7% pa. We believe the dividend yield and yield compression investment thesis for DBS remains intact. There could be further upside to capital returns should capital-light, non-II continue to drive its bottomline.
- **1Q24 results a beat**, with SGD3bn (+15% YoY, +30% QoQ) in earnings at 30% of our and consensus FY24F PATMI. ROE rose to a new high of 19.4% (FY23: 18%) while CET-1 was stable at 14.7% (FY23: 14.6%). As expected, an interim DPS of 54 cents (vs 1Q23: 38 cents, adjusted for bonus) was declared. 1Q PIOP rose 14% YoY, underpinned by a 23% YoY jump in fees while other non-II rose 24% YoY. Wealth management (WM), cards and loans-related fees were key fee income drivers while stronger treasury customer sales drove other non-II. Do note that the strong YoY growth also reflects the inclusion of Citi Taiwan (TW) (since 3Q23) and a non-recurring SGD100m FX hedging gain from its overseas books. NII was up 7% YoY on 2% loan growth and a 2bps YoY NIM expansion while opex grew 11% YoY. Specific provision (SP) charge was contained at just 10bps (vs 17-20bps guidance).
- **Loan growth was decent** (+2% YoY and QoQ) thanks to non-trade corporate loans. Drivers were Singapore (commodity and energy) and India (broad-based). Despite the strong start, DBS said the 2Q pipeline would not be as robust as that in 1Q24. Deposits rose 3% YoY (+2% QoQ) but CASA slipped 7% YoY (-2% QoQ). CASA ratio was 51.2% (1Q23: 57.1%, 4Q23: 53.4%).
- **NIM ticked up 2bps YoY ... (+1bps QoQ)** on the prospective reclassification of income from perpetual securities to NII from other non-II. The impact was 2bps. Also, SGD16bn in fixed rate assets were repriced in 1Q24 with another SGD24bn to be repriced in the coming quarters. A third of its total commercial assets have been locked in at fixed rates for the next 2-3 years. DBS maintained its guidance of a slight NIM squeeze this year.
- **... while non-II outlook looks promising.** DBS raised its fee income growth guidance to mid-to-high teens (from double digit growth). WM momentum appears to have carried through into 2Q on improved investor sentiment, and DBS thinks this is the effect of the strong net new money inflows in recent years. Also, cross-selling between DBS and Citi TW customers have been positive. Apart from that, cards look healthy but loan-related syndication fees could be volatile.
- **Capital.** DBS will continue to explore opportunities to return excess capital. Its capital build has been solid, despite the 70bps regulatory capital penalty.
- **TP raised** following the earnings revisions and refreshed GGM assumptions. Our TP of SGD38.90 includes a 2% ESG premium.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	14.9	6.5	20.6	16.5	17.0
Relative	13.3	4.4	16.1	9.0	16.3
52-wk Price low/high (SGD)				27.5	34.9



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Reported net profit (SGDm)	8,193	10,062	10,419	10,586	10,700
Net profit growth (%)	20.4	22.8	3.5	1.6	1.1
Recurring net profit (SGDm)	8,193	10,286	10,419	10,586	10,700
Recurring EPS (SGD)	2.90	3.63	3.67	3.73	3.77
BVPS (SGD)	20.08	21.87	23.43	24.75	25.87
DPS (SGD)	1.82	1.74	2.23	2.47	2.71
Recurring P/E (x)	12.05	9.62	9.51	9.36	9.26
P/B (x)	1.74	1.60	1.49	1.41	1.35
Dividend Yield (%)	5.2	5.0	6.4	7.1	7.8
Return on average equity (%)	14.3	16.9	16.2	15.5	14.9

Source: Company data, RHB

Overall ESG Score: 3.2 (out of 4)

E: EXCELLENT

DBS' sustainability agenda is centred around three pillars – responsible banking, responsible business practices, and creating social impact. It has set science-informed decarbonisation pathways for each of its priority sectors. As at end-2023, progress for the majority of the identified sectors is tracking well against the set pathways.

S: GOOD

DBS has a comprehensive approach to talent management and retention. In 2023, women accounted for 50% of total employees, 41% of senior management and 20% of the Board. DBS has initiatives to on-board the underbanked, nurture healthy savings and investment habits, and provide financing to underserved businesses and customers.

G: EXCELLENT

70% of its board members are independent. A Board Sustainability Committee was established in Feb 2022, and chaired by the group CEO. There was a much publicised ongoing money laundering case in Singapore, where DBS was one of several banks mentioned in relation to the case.

Financial Exhibits

Asia	Financial summary (SGD)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	EPS	2.90	3.55	3.67	3.73	3.77
Financial Services	Recurring EPS	2.90	3.63	3.67	3.73	3.77
DBS	DPS	1.82	1.74	2.23	2.47	2.71
DBS SP	BVPS	20.08	21.87	23.43	24.75	25.87
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	12.05	9.62	9.51	9.36	9.26
GGM-derived intrinsic value with an ESG overlay. Key GGM assumptions are:	P/B (x)	1.7	1.6	1.5	1.4	1.3
i. 16.5% ROE;	Dividend Yield (%)	5.2	5.0	6.4	7.1	7.8
ii. 11% COE;						
iii. 3.0% long term growth.						
Key drivers	Income statement (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key earnings drivers are:	Interest income	15,927	27,862	28,157	27,471	26,643
i. Credit cost;	Interest expense	(4,986)	(14,220)	(14,286)	(13,444)	(12,548)
ii. NIM;	Net interest income	10,941	13,642	13,871	14,027	14,095
iii. Fee income growth;	Non interest income	5,561	6,744	7,465	7,869	8,346
iv. Loan growth.	Total operating income	16,502	20,386	21,336	21,896	22,441
	Overheads	(7,090)	(8,291)	(8,913)	(9,306)	(9,642)
	Pre-provision operating profit	9,412	12,095	12,423	12,589	12,799
	Loan impairment allowances	(237)	(590)	(750)	(675)	(630)
	Other impairment allowances	-	(9)	-	-	-
	Income from associates	207	214	235	254	275
	Other exceptional items	-	(224)	-	-	-
	Pre-tax profit	9,382	11,486	11,909	12,169	12,443
	Taxation	(1,188)	(1,423)	(1,489)	(1,582)	(1,742)
	Minority interests	(1)	(1)	(1)	(1)	(1)
	Reported net profit	8,193	10,062	10,419	10,586	10,700
	Recurring net profit	8,193	10,286	10,419	10,586	10,700
Key risks						
Key risks are:	Profitability ratios	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. Higher-than-expected credit cost	Return on average assets (%)	1.1	1.4	1.4	1.4	1.3
ii. Weaker-than-expected NIM; and	Return on average equity (%)	14.3	16.9	16.2	15.5	14.9
iii. Execution risks related to integration of newly acquired assets.	Return on IEAs (%)	2.4	4.1	4.0	3.7	3.5
	Cost of funds (%)	0.8	2.3	2.2	2.0	1.8
	Net interest spread (%)	1.6	1.8	1.8	1.7	1.7
	Net interest margin (%)	1.7	2.0	2.0	1.9	1.8
	Non-interest income / total income (%)	33.7	33.1	35.0	35.9	37.2
	Cost to income ratio (%)	43.0	40.7	41.8	42.5	43.0
	Credit cost (bps)	5.67	14.01	17.42	15.07	13.53
Company Profile						
DBS is the largest Singapore bank by assets. It also has significant exposure to Greater China.	Balance sheet (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total gross loans	420,284	422,152	439,038	456,600	474,864
	Other interest earning assets	254,753	269,974	281,693	292,440	302,319
	Total gross IEAs	675,037	692,126	720,731	749,039	777,182
	Total provisions	(5,765)	(5,989)	(6,450)	(6,450)	(6,500)
	Net loans to customers	414,519	416,163	432,588	450,150	468,364
	Total net IEAs	669,272	686,137	714,281	742,589	770,682
	Total non-IEAs	74,096	53,164	50,485	48,470	48,216
	Total assets	743,368	739,301	764,766	791,060	818,898
	Customer deposits	527,000	535,103	556,507	578,767	601,918
	Other interest-bearing liabilities	91,284	96,102	95,747	96,025	97,526
	Total IBLs	618,284	631,205	652,254	674,792	699,444
	Total non-IBLs	68,012	45,849	45,849	45,849	45,849
	Total liabilities	686,296	677,054	698,103	720,641	745,293
	Share capital	2,441	2,441	2,441	2,441	2,441
	Shareholders' equity	56,887	62,065	66,480	70,234	73,420
	Minority interests	185	182	183	184	185
	Asset quality and capital	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Reported NPLs / gross cust loans (%)	1.1	1.1	1.1	1.1	1.1
	Total provisions / reported NPLs (%)	121.1	127.5	130.0	127.3	127.9
	CET-1 ratio (%)	14.6	14.6	15.2	15.7	15.9
	Tier-1 ratio (%)	15.2	15.3	15.8	16.3	16.5
	Total capital ratio (%)	15.2	16.1	16.7	17.1	17.3

Source: Company data, RHB

Results At a Glance

Figure 1: DBS – summary of 1Q24 results

FYE 31 Dec (SGDm)	1Q23	4Q23	1Q24	QoQ (%)	YoY (%)	Comments: 1Q23 vs 1Q24
NII	3,271	3,434	3,505	2	7	
<i>NIM (%) - reported</i>	2.12%	2.13%	2.14%	1bps	2bps	DBS has prospectively reclassified coupons from perpetual securities to NII from other non-II – impact was 2bps.
Non-II	1,665	1,555	2,052	32	23	
Net fee & commission income	851	849	1,043	23	23	Strong YoY growth partly reflects Citi Taiwan's contribution (consolidated since 3Q23). Wealth fees surged 47% YoY (35% YoY, ex-Citi Taiwan), cards rose 33% YoY (+12% YoY, ex-Citi Taiwan) while loans-related fees rose 30% YoY.
Other non-II	814	706	1,009	43	24	Driven by increase in treasury customer sales (e.g. hedging activities) plus SGD100m non-recurring gains from forex hedges DBS put on for its overseas book.
<i>Non-II/total income (%)</i>	33.7%	31.2%	36.9%			
Operating income	4,936	4,989	5,557	11	13	
Overhead expenses	(1,882)	(2,318)	(2,084)	(10)	11	Inclusion of Citi Taiwan (consolidated since 3Q23) drove half of the YoY rise. 1Q24 opex also includes Citi Taiwan integration costs (c. SGD5-6m).
<i>CIR (%)</i>	38.1%	46.5%	37.5%			
PIOP	3,054	2,671	3,473	30	14	
Amortisation charges	0	(9)	(6)	(33)	n.m.	
Impairments charges	(161)	(142)	(135)	(5)	(16)	Higher SP of SGD113m vs. (1Q23: SGD62m) cushioned by lower GP of SGD22m (1Q23: SGD99m).
<i>Annualised credit cost (bps)</i>	15	13	13			
Operating profit	2,893	2,520	3,332	32	15	
Associates	63	47	51	9	(19)	
Pre-tax profit	2,956	2,567	3,383	32	14	
Net profit	2,571	2,269	2,951	30	15	
Other key data and ratios						
Gross loans	423,000	422,152	431,000	2	2	1Q growth was thanks to non-trade corporate loans while, by geography, Singapore (energy and commodity) and India (broad-based) were key drivers.
Customer deposits	529,223	535,103	547,197	2	3	Annualised loan growth on constant currency was at +4%. CASA contracted by 7% YoY while the CASA ratio slipped to 51.2% from 57.1% a year ago (FY23: 53.4%).
Non-performing loans	4,951	5,056	5,221	3	5	Annualised deposit growth (constant currency) was at +4%. Increase in NPA formation in 1Q24, although these appear to be idiosyncratic cases rather than systemic.
Total assets	744,968	739,301	783,208	6	5	
Shareholders' funds	57,595	62,065	63,683	3	11	
ROAA (%)	1.41	1.28	1.56			
ROAE (%)	18.6	16.1	19.4			
LDR (%)	78.8	77.8	77.6			
NPL ratio	1.1	1.1	1.1			
NPA coverage	127.0	127.5	125.0			
CET-1 ratio (%)	14.4	14.6	14.7			
Total capital ratio (%)	16.5	16.1	16.2			

Source: Company data, RHB

Figure 2: DBS – management guidance and financial targets

	2023 achieved	1Q24 achieved	FY24 guidance	Comments
Loan growth	Flat YoY	2%	Low single digit	1Q24 loan growth was good and, while the pipeline for 2Q looks healthy, this is not as strong as that seen in 1Q24.
NIM	2.15%	2.14%	< 2023 exit NIM of 2.13%	DBS maintained its NIM guidance of a few bps decline, which now assumes two US Federal Funds Rate cuts in 2H24 (vs five previously). There could be some upside to NII if the expected rate cuts fail to materialise.
Fee income growth	+9%	23%	Mid-high teens growth (from double digit growth)	Guidance upped on strong start to wealth management activities, which have been sustained so far in 2Q as investor sentiment improved.
Opex growth	14% (CIR: 40%) (underlying basis)	11% (CIR: 37.5%)	High single digit opex growth (CIR low 40%)	High single digit opex growth partly due to Citi TW.
Specific allowances	11bps	10bps	17-20bps	Retained SP charge off guidance due to uncertainties as rates stay higher for longer, despite no systemic signs of stress at the moment. Management is keeping an eye on SME and consumer books but, given the 1Q charge and environment, DBS admitted SP charge off could come in lower than guided. DBS is sitting on >SGD2bn in overlay buffers.
ROE	18%	19.4%	15-17%	LT ROE guidance is 15-17% and DBS thinks 2024 ROE could be ahead of the top end of the range, but did not provide any figures. Management did, however, raise its guidance on: i) total income growth to be 1-2%-pts above the previous mid-single digit guidance; and ii) net profit to be above 2023 levels (from c. SGD10bn).

Source: Company data, RHB

Revisions to estimates

Following the better-than-expected results and the update to management's guidance, we have raised our FY24-26F PATMI by c. 7% pa. The key revisions are with respect to:

- Milder NIM compression of 3bps for FY24F vs 7bps previously. We continue to assume c.6bps NIM squeeze pa in FY25-26;
- 10% upward revision to our FY24-26F non-II projections. We assumed FY24F fee income growth of 17%, which is at the upper end of the guided range, while we assumed FY24F other non-II would rise by 12%;
- Slightly higher FY24F opex growth of 7.5%, from 5%.

Apart from the above, we have also adjusted our EPS numbers to reflect the completion of DBS' 1-for-10 bonus exercise.

We have retained our SP charge-off assumption of 17-20bps despite the lower-than-expected 1Q figure. All in, we now expect FY24 reported net profit to rise by 3% YoY from the previous 3% YoY decline. Our FY25-26F PATMI growth stays muted, at 1-2% YoY.

Figure 3: DBS – revisions to forecasts

	Previous FY24F	Previous FY25F	Previous FY26F	Revised FY24F	Revised FY25F	Revised FY26F	% Change FY24F	% Change FY25F	% Change FY26F
FYE Dec (SGDm)									
Net interest income	13,591	13,736	13,793	13,871	14,027	14,095	2.1%	2.1%	2.2%
Non-interest income	6,772	7,150	7,587	7,465	7,869	8,346	10.2%	10.1%	10.0%
Operating expenses	(8,673)	(9,056)	(9,384)	(8,913)	(9,306)	(9,642)	2.8%	2.8%	2.8%
PIOP	11,690	11,829	11,996	12,423	12,589	12,799	6.3%	6.4%	6.7%
Provision expenses	(750)	(675)	(630)	(750)	(675)	(630)	0.0%	0.0%	0.0%
Pretax profit	11,176	11,408	11,641	11,909	12,169	12,443	6.6%	6.7%	6.9%
Net profit	9,778	9,924	10,010	10,419	10,586	10,700	6.6%	6.7%	6.9%
EPS (SGD)	3.79	3.85	3.88	3.67	3.73	3.77	-3.2%	-3.1%	-2.9%
DPS (SGD)	2.22	2.46	2.70	2.22	2.46	2.70	0.0%	0.0%	0.0%
Loan growth (%)	4.0	4.0	4.0	4.0	4.0	4.0			
NIM (%)	1.94	1.89	1.82	1.98	1.93	1.86			
CIR (%)	42.6	43.4	43.9	41.8	42.5	43.0			
Credit cost (bps)	17	15	14	17	15	14			

Source: Company data, RHB

Valuation and TP

We raise our TP to SGD38.90 from the post-bonus TP of SGD34.80. The upward revision reflects: i) Earnings estimate changes above, which filters into our FY24F BVPS and revised ROE assumption of 16.5% (from 16.2%); and ii) A lower COE assumption of 11%, from 11.7%.

As such, our GGM-derived P/BV has been revised up to 1.69x from 1.52x, which is slightly above the recent peak P/BV level of 1.66x. In the near-to-mid term, we believe DBS' valuation would be supported by attractive dividend yields – especially given the recent shift in rates expectations to a higher-for-longer scenario. At our TP, the implied FY24F dividend yield would be 5.7%, which is in line with the market and FY24-25F dividend yields currently offered by peer banks, before rising to 6.3% in FY25F.

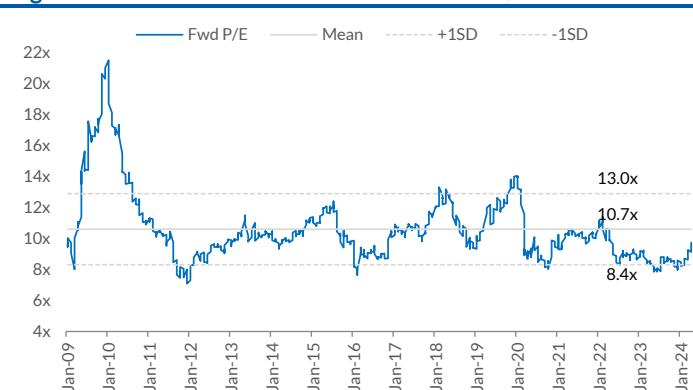
Our TP includes an unchanged ESG premium of 2% applied – given DBS' ESG score of 3.2 out of 4.0, using our proprietary in-house methodology.

Figure 4: DBS – GGM valuation with ESG overlay

Cost of equity (COE) computation:		Sustainable ROE (%)	16.5
Risk free rate (%)	3.00	COE (%)	11.0
Equity premium (%)	8.0	Long-term growth (g)	3.00
Beta (x)	1.0	Implied P/BV (x)	1.69
Cost of equity - CAPM (%)	11.0	BVPS – FY24F	SGD22.58
		Intrinsic value	SGD38.13
ESG premium/(discount) (%)	2.0	ESG premium/(discount)	SGD0.76
		TP (rounded)	SGD38.90

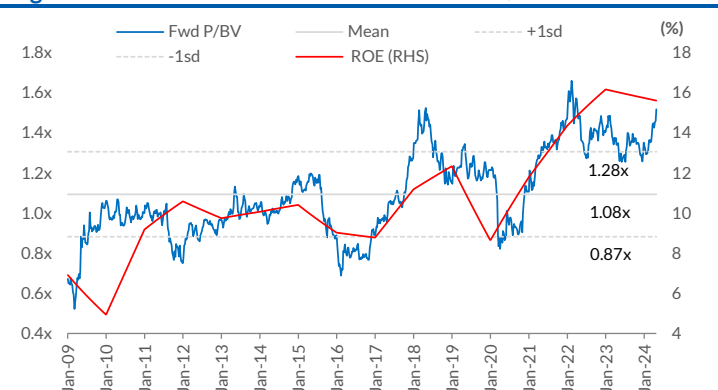
Source: Company data, RHB

Figure 5: DBS's 12-month forward consensus P/E



Source: Bloomberg, RHB

Figure 6: DBS's 12-month forward consensus P/BV



Source: Bloomberg, RHB

Emissions And ESG

Trend analysis

DBS' total emissions declined by 18% vs 2019 levels, thanks to the purchase of RE certificates in Hong Kong, China, Taiwan, India and Indonesia.

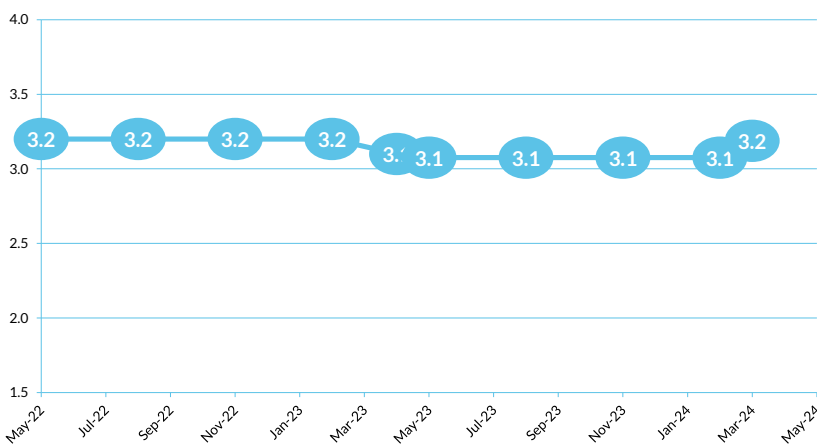
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	757	318	582
Scope 2	31,207	16,824	19,712
Scope 3	17,482	24,427	33,152
Total emissions	49,446	41,569	53,446

Source: Company data, RHB

Latest ESG-Related Developments

- **Published climate agenda in 2022:** DBS published its science-informed decarbonisation pathways and set interim 2030 decarbonisation targets for a large number of sectors, as well as a 2050 net-zero target.
- Its sustainable financing commitments (for loans and trade finance), net of payments, were at SGD70bn as at Dec 2023.
- DBS also facilitated about SGD18bn of ESG bond issuances in 2023.
- Based on its latest disclosure, five out of seven sectors are tracking well against the relevant science-informed decarbonisation pathways, while steel and shipping may require broader ecosystem partnerships across the public and private sectors.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-03-25	Buy	38.3	32.3
2024-03-21	Buy	36.7	32.4
2024-02-07	Buy	36.1	29.5
2023-11-01	Neutral	34.7	30.0
2023-08-03	Neutral	36.3	30.7
2023-06-22	Neutral	33.0	28.9
2023-05-02	Neutral	35.7	30.0
2023-04-02	Buy	39.8	30.0
2023-02-13	Buy	42.0	32.1
2022-11-04	Buy	41.1	31.3
2022-08-05	Buy	37.6	29.9
2022-05-03	Buy	38.1	30.8
2022-02-14	Buy	42.7	33.8
2021-11-07	Buy	40.4	29.4
2021-08-05	Buy	35.5	28.0

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

Buy:	Share price may exceed 10% over the next 12 months
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
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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