

4 August 2023

Financial Services | Banks

DBS (DBS SP)

Neutral (Maintained)

Dividend Receives a Boost Amid a Solid Quarter

Target Price (Return):	SGD36.30 (+7%)
Price (Market Cap):	SGD33.80 (USD65,190m)
ESG score:	3.1 (out of 4)
Avg Daily Turnover (SGD/USD)	121m/90.2m

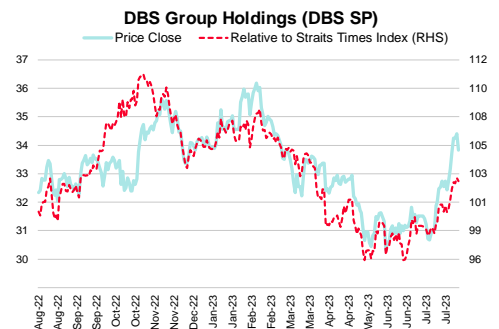
- **Stay NEUTRAL, with new SGD36.30 TP from SGD33, 7% upside.** 2Q23 slightly beat on lower-than-expected credit cost (CoC) while NIM continued to trend higher. Given the strong results, and meeting its guidance for a baseline increase in DPS of 24 SG cents pa, DBS raised 2Q DPS to 48 SG cents (1Q: 42 SG cents). While 2Q is largely positive, we remain wary of the sharp rate hikes' impact on asset quality and beyond that, the turn in the interest rate cycle, with which DBS has significant leverage.
- **2Q23 – a slight beat.** DBS' 1H23 net profit of SGD5.2bn (+44% YoY) was ahead of estimates, at 53-54% of our and consensus FY23F PATMI, with lower-than-expected CoC and NIM continuing to drift higher. Reported ROE improved to 18.9% (1H22: 13.3%) while CET-1 was 14.1% (1Q23: 14.4%). 1H DPS was 90 SG cents (1H22: 72 SG cents) – a 45% payout ratio. In addition to its dividend guidance above, DBS estimates a further SGD3bn (SGD1.20/share) can be returned to shareholders in the coming years as part of its capital management plan.
- **QoQ, net profit rose 2%**, driven by lower loan allowances (-55% QoQ) as DBS wrote back SGD42m in general allowances (1Q23: SGD99m charge) due to transfers to non-performing assets (NPA) and credit upgrades. PIOP was flat with stronger NII (+5% QoQ), underpinned by 4bps QoQ NIM expansion and offset by a 3% drop in Non-II and higher opex (+6% QoQ).
- **Loan growth stayed subdued** (flat QoQ/-2% YoY) due to market softness (macro plus a shift from offshore to onshore on lower onshore rates and weaker CNY) and unattractive loan pricing. Non-trade corporate and trade loans are expected to pick up in 2H but given the flat loan base YTD, DBS downgraded its FY23F loan growth to a low single digit, from 3-5%.
- **Fee income growth dialled down** to a mid-single digit (from high single digit) for FY23 due to the slower-than-expected pick up in 2Q. That said, 2H growth momentum should improve thanks to higher card spending and stronger wealth management fees on better market sentiment.
- **More optimism on FY23F NIM.** Given the QoQ NIM expansion, coupled with the recent hike in US Federal Funds Rate and higher Hong Kong Interbank Offered Rate (HIBOR), both unexpected by DBS, management now thinks there could be an upside bias to NIM from current levels. Also, c.20% of its commercial book has yet to be repriced while deposit pricing pressure is easing as system liquidity remains ample as well as weak loans growth.
- **Asset quality held up** with NPA stable QoQ, while NPL ratio and coverage were unchanged at 1.1% and 127%. DBS is not seeing any signs of stress in its portfolio, and highlighted that its watchlist improved, having shrunk over the past year. As such, FY23 specific allowances are guided to end up at the lower end of the 10-15bps range.
- **Earnings and TP.** We raise FY23F-25F earnings by 3-6% as we factor in higher NIM and lower CoC, while FY23F-25F DPS is lifted by 7-9% on the 2Q DPS boost. TP rises to SGD36.30 and includes a 2% ESG premium.

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(0.2)	7.4	2.7	(3.5)	6.7
Relative	(2.5)	3.7	1.4	(2.3)	4.0
52-wk Price low/high (SGD)				30.3	36.2



Source: Bloomberg

Overall ESG Score: 3.1 (out of 4)

E: GOOD

DBS' sustainability agenda is centered around three pillars – responsible banking, responsible business practices, and creating social impact. To encourage carbon-intensive companies to adopt more carbon-efficient operations, DBS published the Sustainable and Transition Finance Framework and Taxonomy. It aims to build a sustainable finance portfolio of SGD50bn by 2024 and is committed to ensure net zero operational carbon emissions by 2022.

S: GOOD

DBS has a comprehensive approach to talent management and retention. As skills required in banking are fast evolving, DBS is doubling down on efforts to build a future-ready workforce. In 2021, women accounted for 51% of total employees, 27% of the Board and 25% of its Group Management Committee. DBS has initiatives to onboard the underbanked, nurture healthy savings and investment habits, and provide financing to underserved businesses and customers.

G: EXCELLENT

DBS has a multi-year roadmap to modernise its data governance programme. In Mar 2023, the Monetary Authority of Singapore warns of supervisory action after a second disruption in the bank's digital services in 16 months.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Reported net profit (SGDm)	6,805	8,193	10,399	9,898	10,325
Net profit growth (%)	44.1	20.4	26.9	(4.8)	4.3
Recurring net profit (SGDm)	6,801	8,193	10,399	9,898	10,325
Recurring EPS (SGD)	2.66	3.19	4.04	3.85	4.01
BVPS (SGD)	22.40	22.10	23.07	24.83	26.52
DPS (SGD)	1.20	2.00	1.90	2.14	2.38
Recurring P/E (x)	12.74	10.62	8.38	8.80	8.44
P/B (x)	1.51	1.53	1.47	1.36	1.28
Dividend Yield (%)	3.5	5.9	5.6	6.3	7.0
Return on average equity (%)	12.1	14.3	17.9	16.1	15.6

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (SGD)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Singapore	EPS	2.66	3.19	4.04	3.85	4.01
Financial Services	Recurring EPS	2.66	3.19	4.04	3.85	4.01
DBS	DPS	1.20	2.00	1.90	2.14	2.38
DBS SP	BVPS	22.40	22.10	23.07	24.83	26.52
Neutral						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Recurring P/E (x)	12.74	10.62	8.38	8.80	8.44
	P/B (x)	1.5	1.5	1.5	1.4	1.3
	Dividend Yield (%)	3.5	5.9	5.6	6.3	7.0
	Income statement (SGDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Interest income	10,185	15,927	20,502	20,465	20,921
	Interest expense	(1,745)	(4,986)	(6,591)	(6,616)	(6,832)
	Net interest income	8,440	10,941	13,912	13,848	14,089
	Non interest income	5,744	5,561	6,082	6,375	6,954
	Total operating income	14,184	16,502	19,994	20,224	21,043
	Overheads	(6,569)	(7,090)	(7,745)	(8,151)	(8,513)
	Pre-provision operating profit	7,615	9,412	12,249	12,073	12,530
	Loan impairment allowances	(51)	(237)	(525)	(680)	(655)
	Other impairment allowances	(1)	-	-	-	-
	Income from associates	213	207	238	262	283
	Other exceptional items	4	-	-	-	-
	Pre-tax profit	7,780	9,382	11,962	11,655	12,158
	Taxation	(973)	(1,188)	(1,555)	(1,748)	(1,824)
	Minority interests	(2)	(1)	(8)	(9)	(10)
	Reported net profit	6,805	8,193	10,399	9,898	10,325
	Recurring net profit	6,801	8,193	10,399	9,898	10,325
	Profitability ratios	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Return on average assets (%)	1.0	1.1	1.4	1.3	1.3
	Return on average equity (%)	12.1	14.3	17.9	16.1	15.6
	Return on IEAs (%)	1.6	2.4	3.0	2.8	2.8
	Cost of funds (%)	0.3	0.8	1.1	1.0	1.0
	Net interest spread (%)	1.3	1.6	1.9	1.8	1.8
	Net interest margin (%)	1.4	1.7	2.0	1.9	1.9
	Non-interest income / total income (%)	40.5	33.7	30.4	31.5	33.0
	Cost to income ratio (%)	46.3	43.0	38.7	40.3	40.5
	Credit cost (bps)	1.29	5.67	12.31	15.33	14.13
	Balance sheet (SGDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total gross loans	415,072	420,284	432,893	454,537	472,719
	Other interest earning assets	230,708	254,753	269,502	280,327	292,542
	Total gross IEAs	645,780	675,037	702,395	734,864	765,260
	Total provisions	(6,079)	(5,765)	(6,450)	(6,450)	(6,510)
	Net loans to customers	408,993	414,519	426,443	448,087	466,209
	Total net IEAs	639,701	669,272	695,945	728,414	758,750
	Total non-IEAs	46,372	74,096	62,240	55,942	54,106
	Total assets	686,073	743,368	758,185	784,356	812,856
	Customer deposits	501,959	527,000	548,080	575,484	601,381
	Other interest-bearing liabilities	87,415	91,284	87,513	86,077	86,085
	Total IBLs	589,374	618,284	635,593	661,561	687,466
	Total non-IBLs	38,985	68,012	63,035	58,688	56,928
	Total liabilities	628,359	686,296	698,629	720,250	744,394
	Share capital	2,441	2,441	2,441	2,441	2,441
	Shareholders' equity	57,526	56,887	59,366	63,911	68,265
	Minority interests	188	185	190	195	198
	Asset quality and capital	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Reported NPLs / gross cust loans (%)	1.3	1.1	1.2	1.1	1.1
	Total provisions / reported NPLs (%)	114.9	121.1	129.6	125.6	124.1
	CET-1 ratio (%)	14.4	14.6	15.0	14.9	15.6
	Tier-1 ratio (%)	15.1	15.2	15.8	15.6	16.3
	Total capital ratio (%)	17.0	17.0	17.3	16.9	17.5

Source: Company data, RHB

Results At a Glance

Figure 1: DBS – summary of 2Q23 and 1H23 results

FYE 31 Dec (SGDm)	2Q22	1Q23	2Q23	QoQ (%)	YoY (%)	1H22	1H23	YoY (%)	Comments: 1H22 vs 1H23
NII	2,454	3,271	3,433	5	40	4,641	6,704	44	Driven by NIM expansion (+62bps YoY) while loan book was flat. Exit NIM was 2.2%
<i>NIM (%) – reported</i>	1.58%	2.12%	2.16%			1.52%	2.14%		
Non-II	1,338	1,665	1,612	(3)	20	2,780	3,277	18	
Net fee & commission income	768	851	823	(3)	7	1,659	1,674	1	Underpinned by credit card fees from higher spending, including travel. Loan-related fees were up 7% YoY, wealth was flat while transaction services fell 5% YoY.
Other non-II	570	814	789	(3)	38	1,121	1,603	43	
<i>Non-II/total income (%)</i>	35.3%	33.7%	32.0%			37.5%	32.8%		Driven by net trading income (+35% YoY) from higher trading gains and increase in treasury customer sales.
Operating income	3,792	4,936	5,045	2	33	7,421	9,981	34	
Overhead expenses	(1,658)	(1,882)	(2,004)	6	21	(3,302)	(3,886)	18	Higher staff cost (+18% YoY on 10% rise in headcount and salary increment). Non-staff costs up 11% YoY.
<i>CIR (%)</i>	43.7%	38.1%	39.7%			44.5%	38.9%		
PIOP	2,134	3,054	3,041	(0)	43	4,119	6,095	48	Higher general allowances of SGD57m vs. 1H22: SGD135m writeback. Specific allowances at 8bps (1H22: 11bps) as asset quality stable.
Impairments charges	(46)	(161)	(72)	(55)	57	(101)	(233)	131	
<i>Annualised credit cost (bps)</i>	4	15	7			5	11		
Operating profit	2,088	2,893	2,969	3	42	4,018	5,862	46	
Associates	0	63	42	(33)	nm	118	105	(11)	
Pre-tax profit	2,088	2,956	3,011	2	44	4,136	5,967	44	
Tax	(280)	(377)	(389)	3	39	(519)	(766)	48	
<i>Effective tax rate (%)</i>	13.4%	12.8%	12.9%			12.5%	12.8%		
Minorities	7	(8)	7	nm	0	(1)	(1)	0	
Net profit	1,815	2,571	2,629	2	45	3,616	5,200	44	
Other key data and ratios									
Gross loans	430,677	423,000	421,583	(0)	(2)				Flat YTD - growth from South and South-East Asia, as well as rest of the world, offset by a contraction in Hong Kong/Greater China loan book – rise in HIBOR and CNY depreciation accelerated repayments.
Customer deposits	527,828	529,223	520,071	(2)	(1)				
Non-performing loans	5,908	4,951	4,990	1	(16)				Fixed deposits up 59% YoY while CASA slipped 24% YoY. CASA ratio was 56.1% vs 72.3% a year ago. CASA outflow has slowed down to SGD10bn in 2Q vs SGD15bn in 1Q. YoY uptick from Greater China (+40%) but more than offset by the decline in other geographies.
Total assets	745,637	744,968	757,907	2	2				
Shareholders' funds	55,875	57,595	58,748	2	5				
ROAA (%)	0.99	1.41	1.44			1.02	1.42		
ROAE (%)	13.4	18.6	19.2			13.3	18.9		
LDR (%)	80.4	78.8	79.9						
NPL ratio	1.3	1.1	1.1						
NPA coverage	111.9	127.0	127.0						
CET-1 ratio (%)	14.2	14.4	14.1						
Total capital ratio (%)	16.7	16.5	15.8						

Source: Company data, RHB

Figure 2: DBS – management guidance and financial targets

	2022 achieved	1H23 achieved	FY23 guidance	Comments – FY23 targets
Loan growth	+1.3% YoY	Flat YoY	Low single digit (from 3-5%)	Weak growth YTD as China macro was soft together with borrowers shifting preference to onshore market from offshore due to rate differentials and weaker CNY. Pricing for incremental trade loans was also unattractive in 2Q. Better growth prospects seen in 2H, driven by non-trade corporate and trade loans.
NIM	1.75%	2.14%	Upside bias from current level (from 2.05-2.10%)	Management more optimistic on NIM, seeing an upside bias to current levels of 2.16%/2.14% in 2Q23/1H23 as recent FFR hike and sharp increase in HIBOR were not expected. Also, 20% of the commercial book have yet to be repriced (half of which to be repriced over the next 18 months) while deposit repricing pressure is ebbing as system liquidity remains ample coupled with muted loan demand. All these have pushed back expectations for NIM to peak in later part of 2H.
Fee income growth	-12% YoY	1% YoY	Mid-single digit growth (vs high single digit previously)	Management thinks fee income growth could accelerate to high single digit in 2H, bringing full-year growth to mid-single digit level. Drivers include higher credit card fees from higher spending and stronger momentum from wealth management given improved market sentiment and net new money inflow of SGD12bn in 1H.
Opex growth	+10%	18%	c. 10% with CIR below 40%	Base effect from non-recurrence of some one-time expenses in 2H22 to kick in and moderate YoY growth ahead.
Specific allowances	8bps	8bps	10-15bps	Likely at low-end of guided range as asset quality has been stable and no visible stress noted from portfolio thus far.

Source: Company data, RHB

Revisions to estimates

We raise FY23F earnings by 6% after factoring in higher NIM and lower CoC while the 3% pa upward revision to FY24F-25F PATMI reflects the flow through impact of the higher NIM in FY23F.

We also lift our FY23F-25F DPS by 7-9% to factor in the higher 2Q23 DPS declared while retaining our DPS growth assumption of 24 SG cents pa for FY24F-25F. Our revised DPS forecasts translate to a dividend payout ratio of 47% in FY23, rising to 59% in FY25.

Figure 3: DBS – revisions to forecasts

	Previous FY23F	Previous FY24F	Previous FY25F	Revised FY23F	Revised FY24F	New FY25F	% Change FY23F	% Change FY24F	% Change FY25F
FYE Dec (SGDm)									
Net interest income	13,448	13,367	13,588	13,912	13,848	14,089	3.4%	3.6%	3.7%
Non-interest income	6,034	6,472	7,063	6,082	6,375	6,954	0.8%	-1.5%	-1.5%
Operating expenses	(7,745)	(8,151)	(8,513)	(7,745)	(8,151)	(8,513)	0.0%	0.0%	0.0%
PIOP	11,738	11,688	12,139	12,249	12,073	12,530	4.4%	3.3%	3.2%
Provision expenses	(660)	(680)	(655)	(525)	(680)	(655)	-20.5%	0.0%	0.0%
Pretax profit	11,316	11,270	11,766	11,962	11,655	12,158	5.7%	3.4%	3.3%
Net profit	9,837	9,570	9,992	10,399	9,898	10,325	5.7%	3.4%	3.3%
EPS (SGD)	3.82	3.72	3.88	4.04	3.85	4.01	5.7%	3.4%	3.3%
DPS (SGD)	1.74	1.98	2.22	1.90	2.14	2.38	9.2%	8.1%	7.2%
Loan growth (%)	3.0	5.0	4.0	3.0	5.0	4.0			
NIM (%)	1.97	1.88	1.83	2.04	1.94	1.89			
CIR (%)	39.8	41.1	41.2	38.7	40.3	40.5			
Credit cost (bps)	15	15	14	12	15	14			

Source: Company data, RHB

Valuation and TP

Our new TP of SGD36.30 (from SGD33) is based on an intrinsic value of SGD35.34 (from SGD32.36). The change reflects a combination of a roll forward in BVPS to FY24F, together with a refreshed ROE assumption of 16.2% from 15.6% due to the earnings and dividend revisions. Our TP includes a 2% ESG premium based on RHB's proprietary ESG methodology.

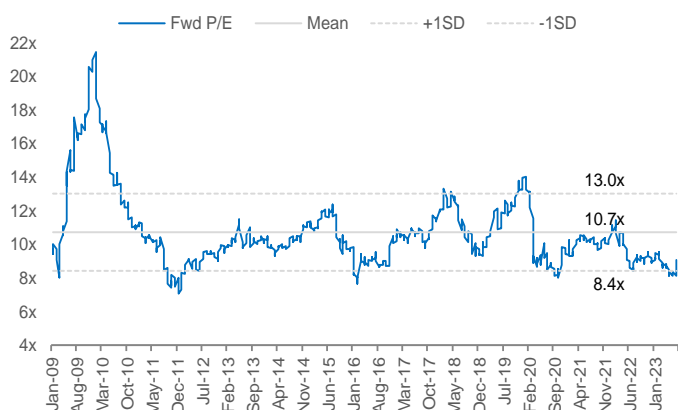
The GGM-derived P/BV of 1.47x is above the +1SD from its historical mean, supported by a long-term ROE target range of 15-17% that management thinks can be sustained.

Figure 4: DBS – GGM valuation with ESG overlay

Cost of equity (COE) computation:	Sustainable ROE (%)	16.20
Risk free rate (%)	3.00	COE (%) 11.96
Equity premium (%)	8.00	Long-term growth (g) 3.00
Beta (x)	1.12	Implied P/BV (x) 1.47
Cost of equity - CAPM (%)	11.96	BVPS – FY24F SGD24.11
		Intrinsic value SGD35.54
ESG premium/(discount) (%)	2.0	ESG premium/(discount) SGD0.71
	TP (rounded)	SGD36.30

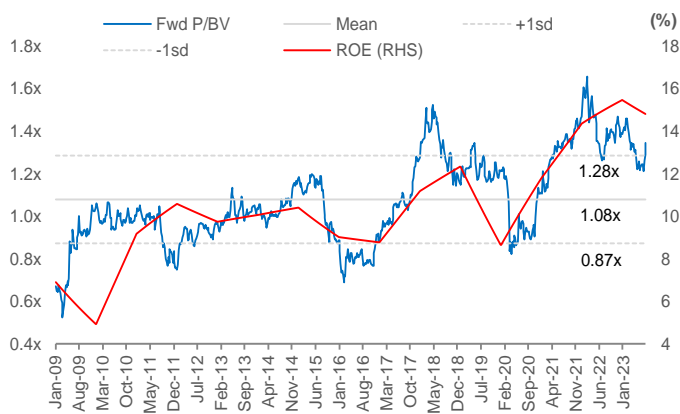
Source: Company data, RHB

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

Recommendation Chart

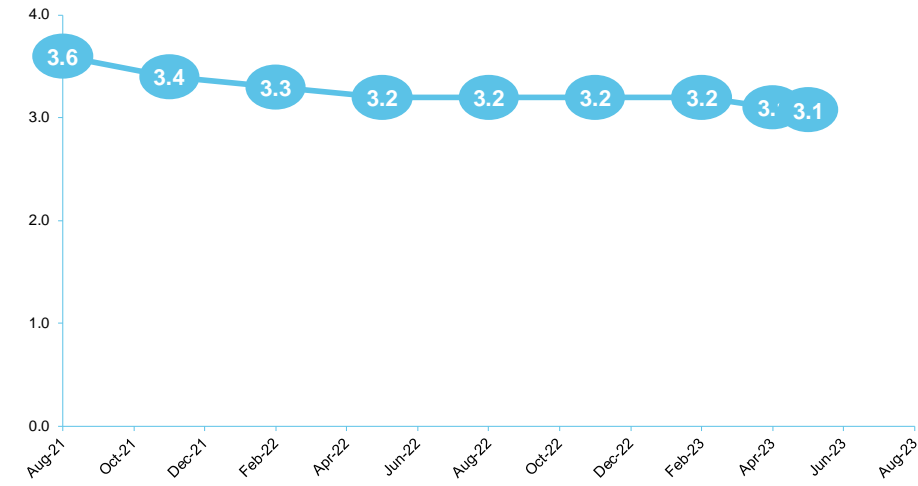


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-06-22	Neutral	33.0	31.8
2023-05-02	Neutral	35.7	33.0
2023-04-02	Buy	39.8	33.0
2023-02-13	Buy	42.0	35.3
2022-11-04	Buy	41.1	34.5
2022-08-05	Buy	37.6	32.8
2022-05-03	Buy	38.1	33.9
2022-02-14	Buy	42.7	37.2
2021-11-07	Buy	40.4	32.3
2021-08-05	Buy	35.5	30.8
2021-05-02	Buy	34.0	29.9
2021-03-30	Buy	33.0	29.0
2021-02-10	Buy	30.0	26.0
2020-12-09	Buy	30.0	25.5
2020-11-05	Buy	25.2	22.4

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Not Rated:	Stock is not within regular research coverage

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