

8 November 2024

Financial Services | Banks

**DBS (DBS SP)**

**Buy** (Maintained)

## Expanding Options For Capital Returns; BUY

- **Still BUY this preferred sector pick, new SGD44.70 TP from SGD41.40, 7% upside with c.6% FY25F yield.** DBS' 3Q24 results beat estimates, and management reinforced its capital return commitment by announcing a SGD3bn share buyback programme while reaffirming its progressive dividend policy. We think markets could be volatile in the near term, post-US presidential election. In our view, Singapore banks may offer investors a safe haven on the FX front and shifting rates outlook, among others, further supported by attractive dividend yields and relatively low-risk earnings.
- **3Q24 results a beat**, with reported PATMI of SGD3bn (+9% QoQ, +17% YoY) bringing 9M24 net profit to SGD8.8bn (+12% YoY) – at 82% of our and 80% of consensus FY24F estimates. Strong investor sentiment helped boost wealth fees, which was the main reason for the beat. While NII, trading income and opex were also tracking favourably against our forecasts, we expect the gap to narrow in 4Q on a combination of rate cuts and seasonality. 9M24 reported ROE was 18.8% (FY23: 18%) while the fully phased-in CET-1 ratio under Basel III reforms looked solid at 15.2% (2Q24: 14.8%; 3Q23: 14.1%). As expected, DBS declared a 3Q24 DPS of 54 SG cents, which brought 9M24 DPS to SGD1.62 (3Q23 and 9M23: 43.6 cents and 125.5 cents, adjusted for bonus). 9M24 payout ratio was 53%, vs 46% in 9M23.
- **Results highlights.** 3Q24 non-II (+14% QoQ; +28% YoY) was the main standout. Wealth fees (+18% QoQ; +55% YoY) underpinned fee growth, benefiting from strong investor sentiment, while other non-II was up 25% QoQ (+24% YoY) from improved customer flows and trading opportunities from market volatility. Otherwise, loan and deposit growth were muted, partly due to SGD strength, while asset quality improved on higher repayment and recoveries from previous oil & gas NPLs and property-related loans from a local money laundering case and in North Asia.
- **Share buyback expands capital return toolkit.** DBS also announced a SGD3bn share buyback programme as part of its commitment to return excess capital. Shares bought back (DBS' preference is to buy on weakness) will be cancelled, which will help lift EPS and ROE. While this is expected to reduce the fully phased-in CET-1 ratio by 80bps, DBS said it would still be sitting on excess capital north of SGD3bn that can be utilised.
- **Flat 2025 pretax profit guided** with commercial book non-II driving income growth, offset by opex growth and a conservative SP charge assumed. 2025 PATMI, however, is expected to be lower YoY due to the global minimum tax rate of 15%. SGD55bn in fixed rate assets is expected to be repriced next year, and there could be upside to NII from higher-than-expected rates.
- **FY24F, FY25F and FY26F PATMI raised by 3% , 1% and 3% following the better-than-expected results.** Accordingly, we upped our TP to SGD44.70 on a higher ROE assumption, given the continued strong earnings delivery and commitments to capital returns. Our TP includes a 2% ESG premium.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Reported net profit (SGDm)	8,193	10,062	11,040	10,711	11,107
Net profit growth (%)	20.4	22.8	9.7	(3.0)	3.7
Recurring net profit (SGDm)	8,193	10,286	11,040	10,711	11,107
Recurring EPS (SGD)	2.90	3.63	3.89	3.77	3.91
BVPS (SGD)	20.08	21.87	23.64	25.01	26.28
DPS (SGD)	1.82	1.74	2.23	2.47	2.71
Recurring P/E (x)	14.40	11.49	10.72	11.05	10.65
P/B (x)	2.08	1.91	1.76	1.67	1.59
Dividend Yield (%)	4.4	4.2	5.3	5.9	6.5
Return on average equity (%)	14.3	16.9	17.1	15.5	15.3

Source: Company data, RHB

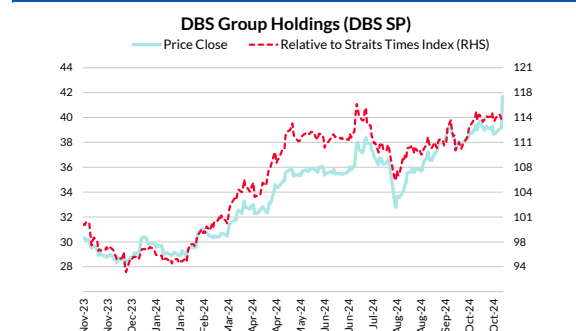
Target Price (Return): SGD44.70 (+7%)  
 Price (Market Cap): SGD41.70 (USD88,807m)  
 ESG score: 3.2 (out of 4)  
 Avg Daily Turnover (SGD/USD) 171m/125m

### Analyst

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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	37.3	8.7	23.9	16.1	35.7
Relative	26.1	8.6	13.0	6.9	22.2
52-wk Price low/high (SGD)				28.2	41.7



Source: Bloomberg

### 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

<b>Asia</b>	<b>Financial summary (SGD)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
Singapore	EPS	2.90	3.55	3.89	3.77	3.91
Financial Services	Recurring EPS	2.90	3.63	3.89	3.77	3.91
<b>DBS</b>	DPS	1.82	1.74	2.23	2.47	2.71
DBS SP	BVPS	20.08	21.87	23.64	25.01	26.28
Buy						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
GGM-derived intrinsic value with an ESG overlay. Key GGM assumptions are:	Recurring P/E (x)	14.40	11.49	10.72	11.05	10.65
i. 17.5% ROE;	P/B (x)	2.1	1.9	1.8	1.7	1.6
ii. 11% COE;	Dividend Yield (%)	4.4	4.2	5.3	5.9	6.5
iii. 3.0% long term growth.						
<b>Key drivers</b>	<b>Income statement (SGDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
Key earnings growth drivers are:	Interest income	15,927	27,862	28,196	27,372	26,713
i. Credit cost;	Interest expense	(4,986)	(14,220)	(14,286)	(13,444)	(12,548)
ii. NIM;	<b>Net interest income</b>	<b>10,941</b>	<b>13,642</b>	<b>13,910</b>	<b>13,928</b>	<b>14,165</b>
iii. Fee income growth;	Non interest income	5,561	6,744	7,995	8,392	9,003
iv. Loan growth.	<b>Total operating income</b>	<b>16,502</b>	<b>20,386</b>	<b>21,905</b>	<b>22,320</b>	<b>23,168</b>
	Overheads	(7,090)	(8,291)	(8,871)	(9,226)	(9,595)
	<b>Pre-provision operating profit</b>	<b>9,412</b>	<b>12,095</b>	<b>13,034</b>	<b>13,094</b>	<b>13,572</b>
	Loan impairment allowances	(237)	(590)	(600)	(750)	(805)
	Other impairment allowances	-	(9)	(25)	(25)	(25)
	Income from associates	207	214	246	283	325
	Other exceptional items	-	(224)	-	-	-
	<b>Pre-tax profit</b>	<b>9,382</b>	<b>11,486</b>	<b>12,655</b>	<b>12,602</b>	<b>13,068</b>
	Taxation	(1,188)	(1,423)	(1,613)	(1,890)	(1,960)
	Minority interests	(1)	(1)	(1)	(1)	(1)
	<b>Reported net profit</b>	<b>8,193</b>	<b>10,062</b>	<b>11,040</b>	<b>10,711</b>	<b>11,107</b>
	<b>Recurring net profit</b>	<b>8,193</b>	<b>10,286</b>	<b>11,040</b>	<b>10,711</b>	<b>11,107</b>
<b>Key risks</b>						
Key risks are:	<b>Profitability ratios</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
i. Higher-than-expected credit cost	Return on average assets (%)	1.1	1.4	1.5	1.4	1.4
ii. Weaker-than-expected NIM;	Return on average equity (%)	14.3	16.9	17.1	15.5	15.3
iii. Execution risks related to the integration of newly acquired assets.	Return on IEAs (%)	2.4	4.1	4.0	3.8	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	1.9
	Non-interest income / total income (%)	33.7	33.1	36.5	37.6	38.9
	Cost to income ratio (%)	43.0	40.7	40.5	41.3	41.4
	Credit cost (bps)	5.67	14.01	14.07	16.99	17.37
<b>Company Profile</b>						
DBS is the largest Singapore bank by assets. It also has significant exposure to Greater China.	<b>Balance sheet (SGDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Total gross loans	420,284	422,152	430,595	452,125	474,731
	Other interest earning assets	254,753	269,974	281,693	292,440	302,319
	Total gross IEAs	675,037	692,126	712,288	744,565	777,050
	Total provisions	(5,765)	(5,989)	(6,450)	(6,450)	(6,500)
	Net loans to customers	414,519	416,163	424,145	445,675	468,231
	Total net IEAs	669,272	686,137	705,838	738,115	770,550
	Total non-IEAs	74,096	53,164	59,550	53,691	49,501
	Total assets	743,368	739,301	765,388	791,806	820,051
	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	67,101	70,981	74,573
	Minority interests	185	182	183	184	185
	<b>Asset quality and capital</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Reported NPLs / gross cust loans (%)	1.1	1.1	1.1	1.1	1.1
	Total provisions / reported NPLs (%)	121.1	127.5	132.6	128.5	128.0
	CET-1 ratio (%)	14.6	14.6	15.4	15.8	16.2
	Tier-1 ratio (%)	15.2	15.3	16.0	16.4	16.8
	Total capital ratio (%)	15.2	16.1	16.8	17.2	17.5

Source: Company data, RHB

## Results At a Glance

Figure 1: DBS – summary of 3Q24 and results

FYE 31 Dec (SGDm)	3Q23	2Q24	3Q24	QoQ (%)	YoY (%)	9MFY23	9MFY24	YoY (%)	Comments:
<b>NII</b>	3,504	3,594	3,597	0	3	10,208	10,696	5	Higher commercial book NII due to asset growth and higher NIM from higher rates, but markets trading NII was down on higher funding costs.
<i>NIM (%) – reported</i>	2.19%	2.14%	2.11%	-3bps	-8bps	2.16%	2.13%	-3bps	
<b>Non-II</b>	1,688	1,888	2,156	14	28	4,965	6,096	23	
Net fee & commission income	843	1,048	1,109	6	32	2,517	3,200	27	9M jump underpinned by wealth management (+47% YoY), loan-related (+26% YoY) and cards (+25% YoY), partly offset by lower investment banking fees (-29% YoY). Excluding Citi Taiwan, 9M growth would have been +18% YoY.
Other non-II	845	840	1,047	25	24	2,448	2,896	18	Driven by higher trading gains and increase in treasury customer sales.
<i>Non-II/total income (%)</i>	32.5%	34.4%	37.5%			32.7%	36.3%		
<b>Operating income</b>	5,192	5,482	5,753	5	11	15,173	16,792	11	
Overhead expenses	(2,087)	(2,186)	(2,249)	3	8	(5,973)	(6,523)	9	9M up on higher staff (+12% YoY) and non-staff (+4% YoY) costs. Opex includes consolidation of Citi Taiwan and associated integration costs. 9M24 tracking below 40% CIR target, but opex is expected to be seasonally higher in 2H (vs 1H).
<i>CIR (%)</i>	40.2%	39.9%	39.1%			39.4%	38.8%		
<b>PIOP</b>	3,105	3,296	3,504	6	13	9,200	10,269	12	
Amortisation charges	0	(6)	(6)	0	n.m.	0	(18)	n.m.	
Impairment charges	(215)	(148)	(130)	(12)	(40)	(448)	(413)	(8)	9M SP charge stable YoY at 11bps, cushioned by small writebacks for other credit exposures.
<i>Total credit cost (bps)</i>	20	14	12			14	14		
<b>Operating profit</b>	2,890	3,142	3,368	7	17	8,752	9,838	12	
Associates	62	63	66	5	6	167	180	8	
<b>Pre-tax profit</b>	2,952	3,205	3,434	7	16	8,919	10,018	12	
<b>Net profit</b>	2,593	2,789	3,027	9	17	7,793	8,767	12	
<b>Core net profit</b>	2,633	2,803	3,027	8	15	7,893	8,786	11	Ex- Citi integration costs
<b>Other key data and ratios</b>									
Gross loans	426,000	430,912	424,000	(2)	(0)				In constant currency terms, loans grew 2% YoY thanks to trade loans and non-trade corporate loans.
Customer deposits	531,269	551,088	544,961	(1)	3				+4% YoY in constant currency terms, led by fixed deposits while CASA was flat. CASA ratio ticked up to 51.7% from 50.5% in 2Q24 but down from 53.4% at end-2023
Non-performing loans	5,303	5,077	4,680	(8)	(12)				Repayments, upgrades and write-offs more than offset new NPA formation, leading to QoQ improvement
Total assets	745,173	790,111	789,609	(0)	6				
Shareholders' funds	59,940	65,301	67,266	3	12				
ROAA (%)	1.4	1.4	1.5			1.4	1.5		
ROAE (%)	18.2	18.2	18.7			18.6	18.8		
LDR (%)	79.0	77.1	76.7						
NPL ratio	1.2	1.1	1.0						
NPA coverage	125.0	127.8	135.0						
CET-1 ratio (%)	14.1	14.8	15.2*						

Note: \*Based on Basel III reforms, fully phased-in CET-1 ratio. CET-1 ratio under transitional arrangement was 17.2%.

Source: Company data, RHB

Figure 2: DBS – management guidance and financial targets

	2023 achieved	9M24 achieved	FY24 guidance	2025 outlook	Comments
Loan growth	Flat YoY	Flat YoY	Low single digit	Mid single digit	2024 growth impacted by loan repayments but pipeline has been strong across geographies and sectors, and expected to be sustained going into 2025.
NIM	2.15%	2.13%	< 2023 exit NIM of 2.13%	Slight decline in NIM	Commercial book NIM to be impacted by lower rates, cushioned by benefits markets trading will enjoy from lower funding cost.
Fee income growth	+9%	+27% YoY	Mid-high teens growth	Commercial book non-ll growth of high single digit	To be driven by wealth management fees and treasury customer sales.
Opex growth	14% (CIR: 40%) (underlying basis)	+9% YoY (CIR: 38.8%)	CIR c. 40%	c. mid single-digit growth (CIR: low-40%)	Higher CIR expected in 2025 as opex growth outpaces that of operating income.
Specific allowances	11bps	11bps	10-15bps	17-20bps	While DBS has not noted signs of stress so far, higher SP charge guided for 2025 is on assumption that SP normalises. Management is confident overall credit cost can be contained as DBS is sitting on >SGD2bn in overlay buffers – part of which can be reversed should SP turn out to be higher than expected.
ROE	18%	18.8%	15-17%	n.a.	2025 pretax profit at the 2024 level, 2025 PATMI to be below the 2024 figure due to the global minimum tax rate of 15%.

Source: Company data, RHB

## Revisions to estimates

Following the better-than-expected results and after updating for management's 2025 outlook, we have raised our FY24, FY25 and FY26 PATMI projections by 3%, 1% and 3%. The key driver to the upward revisions is non-ll – specifically, fees. This, however, is partly offset by an upward revision to our credit cost assumptions and a higher effective tax rate.

Post the changes, we expect FY24F PATMI to rise by 10%, but forecast a 3% YoY drop in FY25F PATMI on a higher effective tax rate (FY25F PBT projected to be flat). We maintain our DPS growth estimate at 24 SG cents pa, which translates to a FY25F DPS growth of 11%.

Our forecasts have not factored in the announced share buybacks nor any further capital return initiatives (apart from the higher DPS).

Figure 3: DBS – revisions to forecasts

	Previous FY24F	Previous FY25F	Previous FY26F	Revised FY24F	Revised FY25F	Revised FY26F	% Change FY24F	% Change FY25F	% Change FY26F
<b>FYE Dec (SGDm)</b>									
Net interest income	14,011	14,173	14,247	13,910	13,928	14,165	-0.7%	-1.7%	-0.6%
Non-interest income	7,557	7,804	8,278	7,995	8,392	9,003	5.8%	7.5%	8.8%
Operating expenses	(8,913)	(9,306)	(9,642)	(8,871)	(9,226)	(9,595)	-0.5%	-0.9%	-0.5%
PIOP	<b>12,656</b>	<b>12,670</b>	<b>12,882</b>	<b>13,034</b>	<b>13,094</b>	<b>13,572</b>	3.0%	3.3%	5.4%
Provision expenses	(625)	(700)	(655)	(625)	(775)	(830)	0.0%	10.7%	26.7%
Pretax profit	12,266	12,225	12,502	12,655	12,602	13,068	3.2%	3.1%	4.5%
<b>Net profit</b>	<b>10,701</b>	<b>10,634</b>	<b>10,750</b>	<b>11,040</b>	<b>10,711</b>	<b>11,107</b>	3.2%	0.7%	3.3%
EPS (SGD)	3.77	3.75	3.79	3.89	3.77	3.91	3.2%	0.7%	3.3%
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	2.0	5.0	5.0			
NIM (%)	2.00	1.95	1.88	2.00	1.93	1.88			
CIR (%)	41.3	42.3	42.8	40.5	41.3	41.4			
Credit cost (bps)	14	15	14	14	17	17			

Source: Company data, RHB

## Valuation and TP

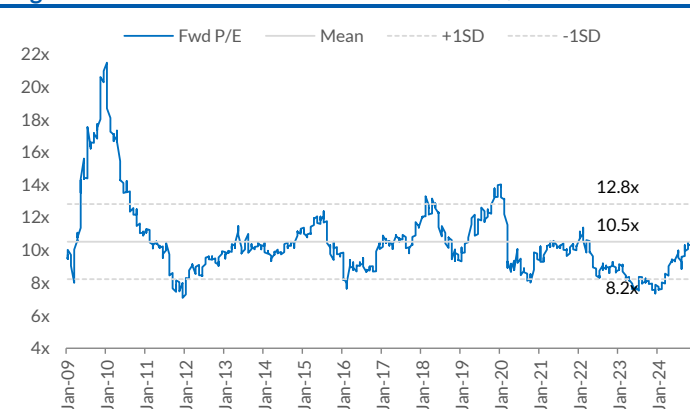
Following the sustained strong earnings delivery and management's continued commitment to return excess capital, we have raised our ROE assumption to 17.5% from 16.5%. This has led to a revised GGM-derived P/BV of 1.81x (from 1.69x) and, accordingly, our intrinsic value has been increased to SGD43.83 from SGD40.56. After incorporating an unchanged 2% ESG premium, our TP rises to SGD44.70 from SGD41.40. The 2% ESG premium applied is based on DBS' ESG score of 3.2 out of 4.0, using our proprietary in-house methodology. At our TP, the implied FY25F dividend yield would be 5.5%.

**Figure 4: DBS – GGM valuation with ESG overlay**

<b>Cost of equity (COE) computation:</b>		Sustainable ROE (%)	17.5
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)	1.81
Cost of equity - CAPM (%)	11.0	BVPS	SGD24.17
		Intrinsic value	SGD43.83
ESG premium/(discount) (%)	2.0	ESG premium/(discount)	SGD0.88
		<b>TP (rounded)</b>	<b>SGD44.70</b>

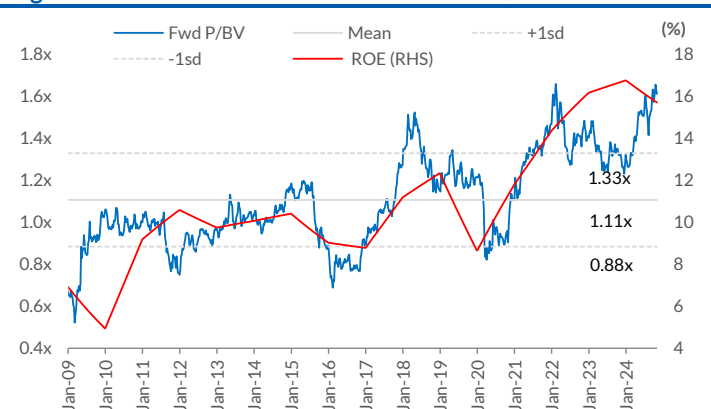
Source: Company data, RHB

**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.

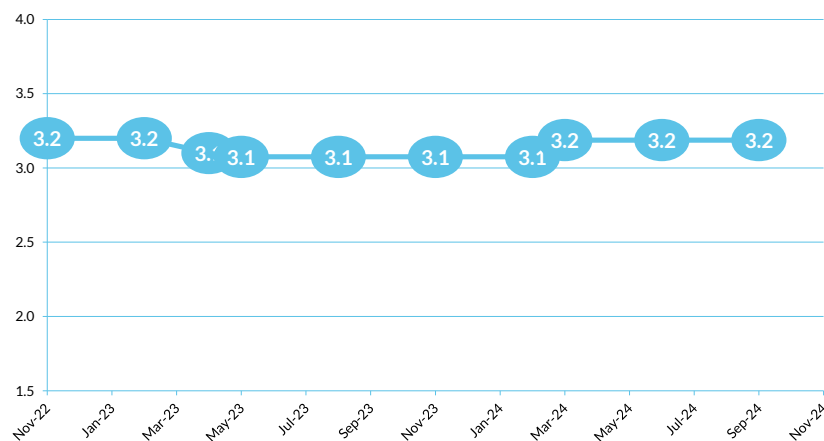
Emissions (tCO <sub>2</sub> e)	Dec-21	Dec-22	Dec-23
Scope 1	757	318	582
Scope 2	31,207	16,824	19,712
Scope 3	17,482	24,427	33,152
Total emissions	49,446	41,569	53,446

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, was 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
2024-08-08	Buy	41.4	33.6
2024-07-17	Buy	41.2	37.3
2024-05-02	Buy	38.9	35.6
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

Source: RHB, Bloomberg



## RHB Guide to Investment Ratings

<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
<b>Sell:</b>	Share price may fall by more than 10% over the next 12 months
<b>Not Rated:</b>	Stock is not within regular research coverage

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