

26 March 2024

Financial Services | Banks

DBS (DBS SP)

Buy (Maintained)

Upcoming 1Q24 Results Unlikely To Surprise

Target Price (Return): SGD38.30 (+8%)
 Price (Market Cap): SGD35.5 (USD68,185m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (SGD/USD) 128m/91.5m

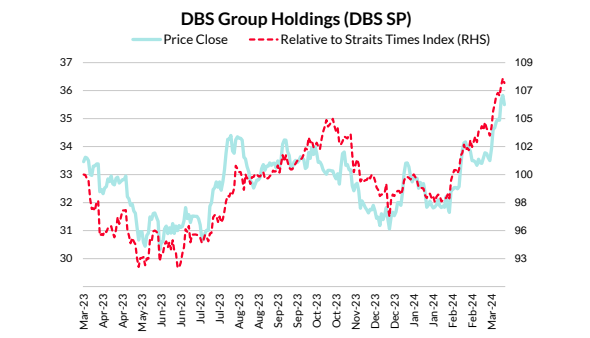
- **BUY this sector Top Pick, TP rises to SGD38.30 from SGD36.70, 8% upside with c.6% FY24F yield.** We recently met DBS for an update. We expect earnings to stay muted but the shift to non-IL-led income growth from NII should free up capital and support capital return initiatives. As such, in a scenario of flattish earnings as the interest rate cycle turns, DBS' commitment to increase DPS by 24 SG cents pa means its absolute DPS will continue to grow, and investors should have a solid view on its trajectory.
- **1Q24 loan growth should still be muted,** amidst the ongoing trade-off between NIM and loan growth. The trend of higher repayments has persisted, and the softer growth environment has led to competitive pricing pressure in the mortgage segment – which, so far, DBS has avoided competing aggressively in. Hence, we think its 1Q loan growth is likely to track its own guidance of low single-digit growth.
- **NIM guidance of a few bps squeeze to hold for now,** despite the shift in market expectations on the number of US Federal Funds Rate (FFR) cuts to three (vs 6-7 cuts earlier and DBS' assumption of five cuts in its NIM guidance). Despite the shift in expectations, DBS does not think the difference would be meaningful enough to impact its NIM guidance as the additional cuts it expects would have been towards the tail-end of 2024.
- **Non-IL looks decent, although it is still early days.** Growth of its assets under management has been healthy and improved market sentiment should allow for better wealth management opportunities and help drive the double-digit fee income growth guided for 2024. As for opex, DBS' tech uplift programme (SGD80m commitment) should be largely done by Mar 2024. That said, the main opex pressure this year would be from the full-year consolidation of Citi Taiwan (TW). While opex growth was guided to be at a high single digit, DBS was confident that the full contribution from Citi TW at the topline level plus non-IL growth should help cap the CIR at a low 40% level. Also, with no red flags on asset quality, management was comfortable with its specific provisions charge off guidance of 17-20bps.
- **Dividends.** DBS reiterated its commitment to increase absolute DPS by 24 SG cents, which takes into account the 1-for-10 bonus issue. Management also highlighted that, in recent years, the trend has been for a bump up in 4Q DPS and this is likely to be retained. As such, we raise FY24-26F DPS by 6 SG cents pa as we bring forward the DPS uplift by a quarter. We now expect FY24F absolute DPS to rise by 30 SG cents, followed by 24 SG cents pa in FY25-26. These figures exclude further initiatives down the road to return excess capital, since its CET-1 ratio will move up by 2%-pts (transitional basis) when the Basel IV regime kicks in later this year.
- **Keeping to medium-term ROE guidance of 15-17%,** which takes into account a normalised FFR. Hitting the top end of the range requires its India and non-IL businesses to be firing on all cylinders.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	6.3	4.9	10.9	6.1	6.4
Relative	7.6	4.5	9.1	6.6	6.9
52-wk Price low/high (SGD)				30.3	35.8



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Reported net profit (SGDm)	8,193	10,062	9,778	9,924	10,010
Net profit growth (%)	20.4	22.8	(2.8)	1.5	0.9
Recurring net profit (SGDm)	8,193	10,286	9,778	9,924	10,010
Recurring EPS (SGD)	3.19	3.99	3.79	3.85	3.88
BVPS (SGD)	22.10	24.06	25.70	27.14	28.38
DPS (SGD)	2.00	1.92	2.22	2.46	2.70
Recurring P/E (x)	11.14	8.89	9.36	9.23	9.15
P/B (x)	1.61	1.48	1.38	1.31	1.25
Dividend Yield (%)	5.6	5.4	6.3	6.9	7.6
Return on average equity (%)	14.3	16.9	15.2	14.6	14.0

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 is a much publicised ongoing money laundering case in Singapore, where DBS is one of several banks mentioned in relation to the case.

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Financial Exhibits

Asia	Financial summary (SGD)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	EPS	3.19	3.91	3.79	3.85	3.88
Financial Services	Recurring EPS	3.19	3.99	3.79	3.85	3.88
DBS	DPS	2.00	1.92	2.22	2.46	2.70
DBS SP	BVPS	22.10	24.06	25.70	27.14	28.38
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	11.14	8.89	9.36	9.23	9.15
GGM-derived intrinsic value with an ESG overlay. Key GGM assumptions are:	P/B (x)	1.6	1.5	1.4	1.3	1.3
i. 16.2% ROE;	Dividend Yield (%)	5.6	5.4	6.3	6.9	7.6
ii. 11.7% COE;						
iii. 3.0% long term growth.						
	Income statement (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key drivers	Interest income	15,927	27,862	27,877	27,180	26,340
Key earning drivers are:	Interest expense	(4,986)	(14,220)	(14,286)	(13,444)	(12,548)
i. Credit cost;	Net interest income	10,941	13,642	13,591	13,736	13,793
ii. NIM;	Non interest income	5,561	6,744	6,772	7,150	7,587
iii. Fee income growth;	Total operating income	16,502	20,386	20,363	20,885	21,380
iv. Loan growth.	Overheads	(7,090)	(8,291)	(8,673)	(9,056)	(9,384)
	Pre-provision operating profit	9,412	12,095	11,690	11,829	11,996
Key risks	Loan impairment allowances	(237)	(590)	(750)	(675)	(630)
Key downside risks are:	Other impairment allowances	-	(9)	-	-	-
i. Higher-than-expected credit cost	Income from associates	207	214	235	254	275
ii. Weaker-than-expected NIM;	Other exceptional items	-	(224)	-	-	-
iii. Execution risks related to the integration of newly acquired assets.	Pre-tax profit	9,382	11,486	11,176	11,408	11,641
	Taxation	(1,188)	(1,423)	(1,397)	(1,483)	(1,630)
	Minority interests	(1)	(1)	(1)	(1)	(1)
	Reported net profit	8,193	10,062	9,778	9,924	10,010
	Recurring net profit	8,193	10,286	9,778	9,924	10,010
Company Profile						
DBS is the largest Singapore bank by assets. It also has significant exposure to Greater China.						
	Profitability ratios	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Return on average assets (%)	1.1	1.4	1.3	1.3	1.2
	Return on average equity (%)	14.3	16.9	15.2	14.6	14.0
	Return on IEAs (%)	2.4	4.1	3.9	3.7	3.5
	Cost of funds (%)	0.8	2.3	2.2	2.0	1.8
	Net interest spread (%)	1.6	1.8	1.7	1.7	1.6
	Net interest margin (%)	1.7	2.0	1.9	1.9	1.8
	Non-interest income / total income (%)	33.7	33.1	33.3	34.2	35.5
	Cost to income ratio (%)	43.0	40.7	42.6	43.4	43.9
	Credit cost (bps)	5.67	14.01	17.42	15.07	13.53
	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	50,277	48,242	48,003
	Total assets	743,368	739,301	764,558	790,831	818,685
	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	66,272	70,006	73,207
	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	15.6	15.9
	Tier-1 ratio (%)	15.2	15.3	15.8	16.2	16.4
	Total capital ratio (%)	15.2	16.1	16.6	17.0	17.2

Source: Company data, RHB

Valuation and TP

The sector's equity risk premium (ERP) remains elevated at 34bps above +1SD from the mean, which we believe is a reflection of investors pricing in earnings risks from a FFR cut cycle. We note that the Singapore banks have attempted to provide a longer term ROE outlook and, as visibility improves with respect to a normalised US FFR level and confidence surrounding the ROE guidance provided rises, we see room for the ERP to ease. In the near term, continued strength in fees, a benign NPL environment and attractive dividends could help support a rerating in valuations, in our view.

As such, we have lowered our COE assumption for DBS by 35bps to 11.7%. This results in a revised fair GGM-derived P/BV of 1.52x (from 1.45x) and a higher intrinsic value of SGD37.54 (SGD36 previously). While the 1.52x P/BV is above the +1SD level of 1.28x, this would be supported by management's medium-term ROE guidance of 15-17% and its attractive dividend commitment. 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 1: DBS – GGM valuation with ESG overlay

Cost of equity (COE) computation:		Sustainable ROE (%)	16.20
Risk free rate (%)	3.00	COE (%)	11.7
Equity premium (%)	8.3	Long-term growth (g)	3.00
Beta (x)	1.05	Implied P/BV (x)	1.52
Cost of equity - CAPM (%)	11.7	BVPS – FY24F	SGD24.77
		Intrinsic value	SGD37.54
ESG premium/(discount) (%)	2.0	ESG premium/(discount)	SGD0.75
		TP (rounded)	SGD38.30

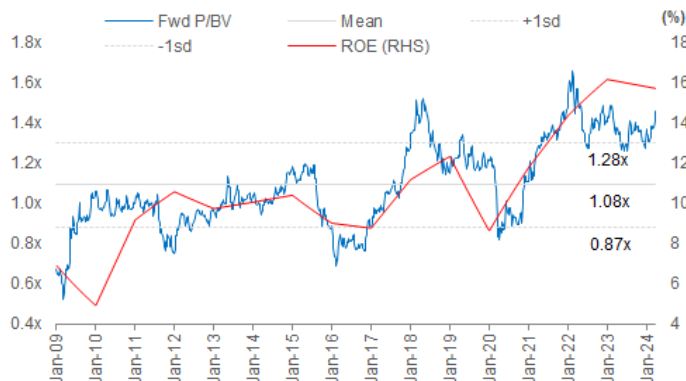
Source: Company data, RHB

Figure 2: DBS's 12-month forward consensus P/E



Source: Bloomberg, RHB

Figure 3: 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.

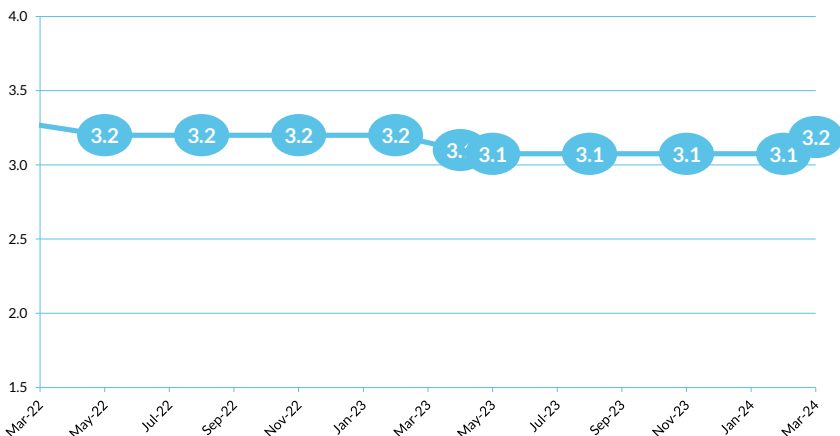
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	757	318	582
Scope 2	31,207	16,824	19,712
Scope 3	17,482	24,427	33,152
Total emissions	49,446	41,569	53,446

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, was SGD70bn as at Dec 2023.
- DBS also facilitated about SGD18bn in 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
2024-03-21	Buy	36.7	35.7
2024-02-07	Buy	36.1	32.5
2023-11-01	Neutral	34.7	33.0
2023-08-03	Neutral	36.3	33.8
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

Source: RHB, Bloomberg

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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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