

18 July 2024

Financial Services | Banks

DBS (DBS SP)

Buy (Maintained)

Still All About Dividends And Capital Returns; Stay BUY

Target Price (Return): SGD41.20 (+11%)
 Price (Market Cap): SGD37.30 (USD78,838m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (SGD/USD) 150m/110m

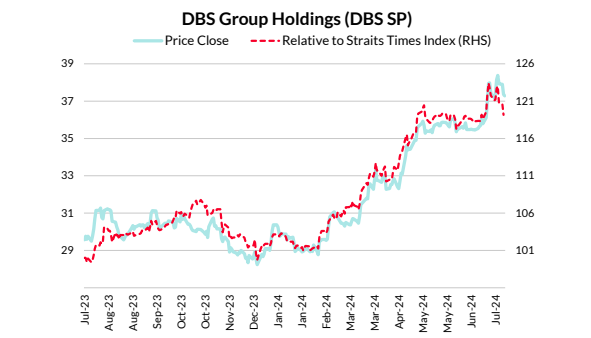
- **Maintain BUY, with new SGD41.20 TP from SGD38.90, 11% upside and c.7% FY25F yield.** Post meeting with management, we think 2Q24 earnings could ease sequentially as non-II wanes from a very strong 1Q24. However, we are not expecting any major negative surprises. With the sector's earnings outlook likely remaining muted amid the monetary easing cycle, dividend yields and DPS growth should continue as the main driver for SG Banks' share price performance. DBS, in our view, is best positioned to deliver on this, thanks to its absolute DPS commitment.
- **Expecting a softer 2Q24 reporting quarter QoQ.** This is mainly because of the high non-II base enjoyed previously, specifically, other non-II, which jumped 43% QoQ (+24% YoY) aided by non-recurring gains from forex hedges. 1Q24 fee income was up 23% QoQ (+23% YoY), and we sensed from our discussion that the positive wealth management momentum appears to have been sustained, which would be an overall positive for fees. As for the NII line, management had previously mentioned that the 2Q loan pipeline was not as robust as 1Q and thus, we think NII could be muted as well. Similarly, we are not expecting any major movements in NIM. Finally, given the operating environment does not appear to have changed much either way, asset quality should remain under control. 1Q24 special provisions (SP) were 10bps vs 17-20bps guidance, and we are not discounting the possibility that 2Q SP will continue to trend below guidance.
- **Expect an interim DPS of 54 SG cents, unchanged from 1Q24 but up from the 43.6 SG cents (adjusted for bonus issue) in 2Q23.** We have assumed the step up in interim DPS only takes place in 4Q, unlike last year, where there were two step ups – in 2Q23 and 4Q23. Also, we have not factored in any capital management initiatives but even then, its dividend yield based on its commitment to raise absolute DPS by 24 SG cents annually is sufficient to provide investors with an attractive 6.6% yield for FY25F.
- **Overall – 2Q24 could be an uneventful reporting quarter.** With the onset of the rate cut cycle approaching, we think the two main areas of investor interest would be on forward guidance on the impact of rate cuts and updates on capital management initiatives. Apart from that, updates on the outlook with respect to asset quality and the wealth business will also be of interest.
- **Forecasts.** Pending the upcoming 2Q24 results in August, we leave our earnings forecasts unchanged. We project FY24F PATMI by 3.5% YoY on the back of a 6% YoY rise in operating income – both broadly in line with management's guidance. Beyond that, earnings growth is projected to stay muted at +1-2% YoY as NIM pressure from rate cuts kick in.
- **TP is raised to SGD41.20 from SGD38.90** after we roll forward our valuation to FY25F. There is no change to our GGM-derived fair P/BV of 1.69x nor the 2% ESG premium (based on in-house methodology) we ascribed.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	22.7	5.1	14.0	28.8	26.3
Relative	15.1	(0.7)	3.4	17.8	19.1
52-wk Price low/high (SGD)				28.2	-38.4



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)	12.88	10.28	10.15	9.99	9.89
P/B (x)	1.86	1.70	1.59	1.51	1.44
Dividend Yield (%)	4.9	4.7	6.0	6.6	7.3
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 is a much publicised ongoing money laundering case in Singapore, where DBS is 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)	12.88	10.28	10.15	9.99	9.89
GGM-derived intrinsic value with an ESG overlay. Key GGM assumptions are:	P/B (x)	1.9	1.7	1.6	1.5	1.4
i. 16.5% ROE;	Dividend Yield (%)	4.9	4.7	6.0	6.6	7.3
ii. 11% COE; and						
iii. 3.0% long term growth.						
Key drivers	Income statement (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key earning 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; and	Non interest income	5,561	6,744	7,465	7,869	8,346
iv. Loans 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 IEs (%)	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 IEs	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 IEs	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

Valuation and TP

We raise our TP to SGD41.20 from SGD38.90 after we roll forward our valuation to FY25F. There is no change to our GGM-derived P/BV of 1.69x, which is slightly above the peak P/BV level of 1.66x in 2022. In the near- to mid-term, we believe DBS' valuation would be supported by its attractive dividend yield. At our TP, the implied FY25F dividend yield would be 6%, slightly ahead of the 5.5-5.7% dividend yield currently offered by peer banks.

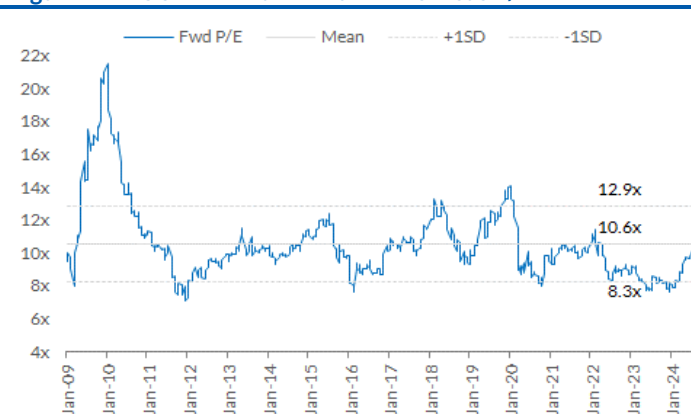
Our TP includes an unchanged ESG premium of 2% applied – given DBS' ESG score of 3.2 out of 4.0, using our proprietary in-house methodology.

Figure 1: DBS – GGM valuation with ESG overlay

Cost of equity (COE) computation:		Sustainable ROE (%)	16.5
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 – FY25F	SGD23.91
		Intrinsic value	SGD40.36
ESG premium/(discount) (%)	2.0	ESG premium/(discount)	SGD0.81
		TP (rounded)	SGD41.20

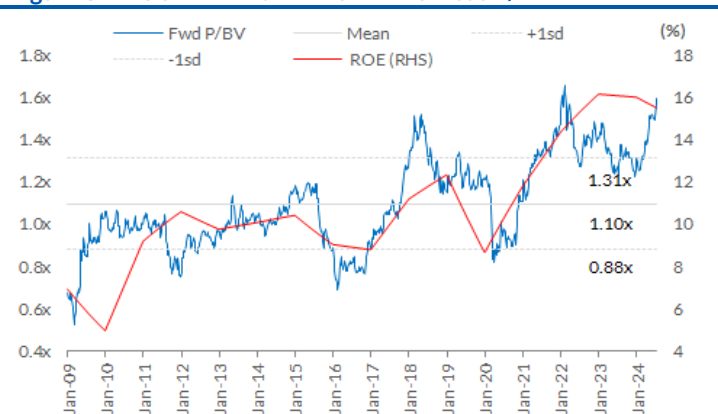
Source: Company data, RHB

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.

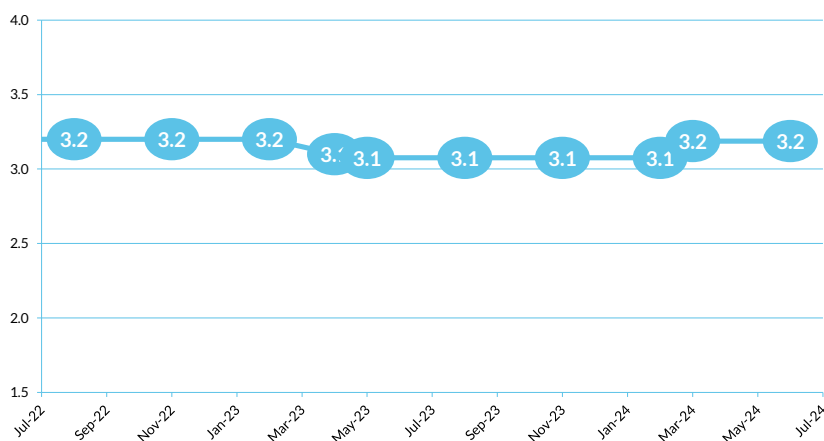
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	757	318	582
Scope 2	31,207	16,824	19,712
Scope 3	17,482	24,427	33,152
Total emissions	49,446	41,569	53,446

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 c 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
2024-05-02	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
2022-02-14	Buy	42.7	33.8
2021-11-07	Buy	40.4	29.4

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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Not Rated:	Stock is not within regular research coverage

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