

5 August 2022

Financial Services | Banks

## DBS (DBS SP)

**Buy** (Maintained)

### 1H22: Robust NIM Expansion, Solid Asset Quality

Target Price (Return): SGD37.60 (16.0%)  
 Price (Market Cap): SGD32.40 (USD60,489m)  
 ESG score: 3.30 (out of 4)  
 Avg Daily Turnover (SGD/USD) 133m/95.6m

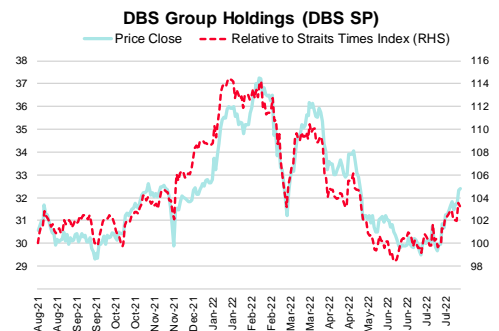
- **Stay BUY, new SGD37.60 TP from SGD38.10, 16% upside with c.4.5% FY22F yield.** 1H22 earnings were within expectations, as positive NIM surprise offset non-II weakness. FY22F earnings are projected to rise by a robust 21% on continued NIM expansion in 2H22 and benign credit cost compensates for still subdued non-II. Share price has retreated 10% in the past six months on rising macroeconomic concerns. With FY23 ROE projected to rise to 15%, the current 1.4x FY22F P/BV valuation is compelling.
- **1H22 results in line.** 1H22 earnings of SGD3.62bn (-3% YoY) accounted for 47% and 49% of our and Street's FY22F bottomline. Reported ROE was 13.3% (FY: 12.5%) while CET-1 was stable at 14.2%. An interim DPS of SGD0.36 was declared. In 2Q22, PPOP rose a modest 1% QoQ, as robust NII growth of 12% QoQ was negated by lower net fee income (-14%) and other non-II (-15%). CIR was stable at 43.7%. With provisions down 16% QoQ, net profit ticked up 1% QoQ. Specific provisions (SP) credit cost was 8bps (1Q22: 15bps) (see Figure 1).
- **Loan growth guidance toned down.** DBS expects US interest rates to peak at 3.5-4%, with inflation tempered and the US economy slipping into a mild recession. The flow-through to Asia is likely to be contained. That said, management sees some tail risks from geopolitical developments in Russia-Ukraine and China. Consequently, loan growth guidance is dialled down to mid-single digit from an earlier target of mid-to-high single digit.
- **The bright spot** remains tailwinds from sharper- and faster-than-expected hikes in the US Federal Funds Rate that will have a positive impact on NIM over two years. NIM, which has reached 1.80% in July (2Q22: 1.58%), is expected to rise above 2% by 4Q22. This compared with earlier guidance of 1.58-1.6% in FY22 with the exit rate at 1.8% (FY21: 1.45%). DBS reiterated that NII would rise by SGD18-20m on every 1bp hike in US rates.
- **Fee income to remain subdued.** Management believes fee income has bottomed in 2Q22. That said, uncertainty in capital markets would continue to weigh on the wealth management business as investors stay side-lined. Overall, fee income is expected to decline YoY in FY22.
- **Asset quality resilient.** Non-performing assets (NPA) was little changed in 2Q22. NPL ratio was stable QoQ at 1.27% and NPA coverage a comfortable 113% (4Q21: 116%). Having tightened its portfolios over the past two years, management believes customers would be able to absorb the higher interest rates. Exposure to China's real estate sector is a small SGD2bn with no stress detected. SP credit cost of 11bps in 1H22 is lower than FY22F guidance of 15-20bps (FY21: 12bps).
- **Earnings and TP.** We raised FY22F-24F earnings by 4-8% as we pencilled in higher NIMs, which helped offset downward revisions in non-II. Our TP is lowered to SGD37.60 as we raised the equity risk premium for geopolitical tensions and recessionary risks. Our TP incorporates a 4% ESG premium based on RHB's in-house methodology (Figure 4).

#### Analyst

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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(0.8)	8.0	(4.8)	(9.9)	6.0
Relative	(5.5)	3.2	(2.4)	(8.0)	3.3
52-wk Price low/high (SGD)					29.3 – 37.3



Source: Bloomberg

#### Overall ESG Score: 3.30 (out of 4)

#### E: GOOD

DBS' sustainability agenda is centred around three sustainability 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, a first in the world by a bank. It aims to build a sustainable finance portfolio of SGD50bn by 2024 (2020: SGD9.6bn), and is committed to ensure net zero operational carbon emissions by 2022.

#### S: EXCELLENT

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 2020, women accounted for 51% of total employees, 27% of the Board and 25% of its Group Management Committee. DBS has initiatives to on-board 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 Feb 2022, Monetary Authority of Singapore required DBS to set aside SGD930m additional regulatory capital for the disruption of its digital banking services.

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Reported net profit (SGDm)	4,721	6,805	8,228	9,180	9,406
Net profit growth (%)	(26.1)	44.1	20.9	11.6	2.5
Recurring net profit (SGDm)	4,721	6,805	8,228	9,180	9,406
Recurring EPS (SGD)	1.85	2.66	3.20	3.57	3.66
BVPS (SGD)	21.41	22.40	22.83	24.85	26.71
DPS (SGD)	0.72	1.20	1.47	1.62	1.83
Recurring P/E (x)	17.52	12.19	10.12	9.07	8.85
P/B (x)	1.51	1.45	1.42	1.30	1.21
Dividend Yield (%)	2.2	3.7	4.5	5.0	5.6
Return on average equity (%)	8.9	12.1	14.2	15.0	14.2

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary (SGD)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Singapore	EPS	1.85	2.66	3.20	3.57	3.66
Financial Services	Recurring EPS	1.85	2.66	3.20	3.57	3.66
<b>DBS</b>	DPS	0.72	1.20	1.47	1.62	1.83
DBS SP	BVPS	21.41	22.40	22.83	24.85	26.71
Buy						
	<b>Valuation metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Recurring P/E (x)	17.52	12.19	10.12	9.07	8.85
	P/B (x)	1.5	1.4	1.4	1.3	1.2
	Dividend Yield (%)	2.2	3.7	4.5	5.0	5.6
	<b>Valuation basis</b>					
GGM-derived intrinsic value with an ESG overlay. Key GGM assumptions are:						
	i. 14.8% ROE;					
	ii. 10.5% COE;					
	iii. 3% long-term growth.					
	<b>Key drivers</b>					
Key earning drivers are:						
	i. Credit cost;					
	ii. NIM;					
	iii. Fee income growth;					
	iv. Loan growth.					
	<b>Key risks</b>					
Key risks are:						
	i. Higher-than-expected credit cost					
	ii. Weaker-than-expected NIM;					
	iii. Execution risks related to integration of newly acquired assets.					
	<b>Company Profile</b>					
DBS is the largest Singapore bank by assets. It also has significant exposure to Greater China.						
	<b>Income statement (SGDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Interest income	12,208	10,185	13,000	15,585	15,869
	Interest expense	(3,132)	(1,745)	(2,640)	(3,534)	(3,379)
	<b>Net interest income</b>	<b>9,076</b>	<b>8,440</b>	<b>10,360</b>	<b>12,051</b>	<b>12,491</b>
	Non interest income	5,516	5,961	5,800	6,123	6,595
	<b>Total operating income</b>	<b>14,592</b>	<b>14,401</b>	<b>16,160</b>	<b>18,174</b>	<b>19,086</b>
	Overheads	(6,158)	(6,569)	(6,600)	(7,169)	(7,608)
	<b>Pre-provision operating profit</b>	<b>8,434</b>	<b>7,832</b>	<b>9,560</b>	<b>11,005</b>	<b>11,478</b>
	Loan impairment allowances	(3,063)	(51)	(100)	(450)	(600)
	Other impairment allowances	(3)	(1)	-	-	-
	<b>Pre-tax profit</b>	<b>5,368</b>	<b>7,780</b>	<b>9,460</b>	<b>10,555</b>	<b>10,878</b>
	Taxation	(612)	(973)	(1,230)	(1,372)	(1,469)
	Minority interests	(35)	(2)	(2)	(3)	(4)
	<b>Reported net profit</b>	<b>4,721</b>	<b>6,805</b>	<b>8,228</b>	<b>9,180</b>	<b>9,406</b>
	<b>Recurring net profit</b>	<b>4,721</b>	<b>6,805</b>	<b>8,228</b>	<b>9,180</b>	<b>9,406</b>
	<b>Profitability ratios</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Return on average assets (%)	0.8	1.0	1.1	1.1	1.1
	Return on average equity (%)	8.9	12.1	14.2	15.0	14.2
	Return on IEAs (%)	2.1	1.6	1.9	2.2	2.1
	Cost of funds (%)	0.6	0.3	0.4	0.5	0.5
	Net interest spread (%)	1.5	1.3	1.5	1.6	1.6
	Net interest margin (%)	1.6	1.4	1.5	1.7	1.6
	Non-interest income / total income (%)	37.8	41.4	35.9	33.7	34.6
	Cost to income ratio (%)	42.2	45.6	40.8	39.4	39.9
	Credit cost (bps)	82.8	1.3	2.3	10.0	12.7
	<b>Balance sheet (SGDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Total gross loans	377,770	415,072	437,901	459,796	482,786
	Other interest earning assets	218,641	230,708	259,050	289,603	311,216
	Total gross IEAs	596,411	645,780	696,951	749,399	794,002
	Total provisions	(6,599)	(6,079)	(6,300)	(6,550)	(6,800)
	Net loans to customers	371,171	408,993	431,601	453,246	475,986
	Total net IEAs	589,812	639,701	690,651	742,849	787,202
	Total non-IEAs	60,126	46,372	102,791	90,530	86,180
	Total assets	649,938	686,073	793,442	833,379	873,382
	Customer deposits	464,850	501,959	538,000	564,900	595,970
	Other interest-bearing liabilities	75,467	87,415	99,500	97,755	98,704
	Total IBLs	540,317	589,374	637,500	662,655	694,673
	Total non-IBLs	54,978	38,985	97,100	106,709	109,910
	Total liabilities	595,295	628,359	734,600	769,364	804,583
	Share capital	2,441	2,441	2,441	2,441	2,441
	Shareholders' equity	54,626	57,526	58,647	63,820	68,603
	Minority interests	17	188	195	195	196
	<b>Asset quality and capital</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Reported NPLs / gross cust loans (%)	1.6	1.3	1.3	1.3	1.3
	Total provisions / reported NPLs (%)	108.9	114.9	112.4	109.6	107.9
	CET-1 ratio (%)	13.9	14.4	14.9	14.8	14.5
	Tier-1 ratio (%)	15.0	15.1	15.6	15.5	15.1
	Total capital ratio (%)	16.9	17.0	17.2	16.9	16.3

Source: Company data, RHB

## Results At a Glance

Figure 1: DBS – summary of 2Q22 and 1H22 results

FYE 31 Dec (SGDm)	2Q21	1Q22	2Q22	QoQ (%)	YoY (%)	1H21	1H22	YoY (%)	Comments: 1H22 vs 1H21
<b>NII</b>	2,089	2,187	2,454	12	17	4,196	4,641	11	Up YoY on healthy loan growth and better NIM.
<i>NIM (%) – reported</i>	1.45%	1.46%	1.58%			1.47%	1.52%		NIM up 5bps YoY as interest rates began to rise.
<b>Non-II</b>	1,500	1,560	1,338	-14	-11	3,247	2,898	-11	
Net fee & commission income	868	891	768	-14	-12	1,821	1,659	-9	Down YoY on lower fees from wealth management (-21% YoY) and investment banking (-36% YoY). These offset recovery in fees from loan-related, cards and transaction services.
Other non-II	632	669	570	-15	-10	1,426	1,239	-13	Down YoY on lower investment gains.
<i>Non-II/total income (%)</i>	41.8%	41.6%	35.3%			43.6%	38.4%		
<b>Operating income</b>	<b>3,589</b>	<b>3,747</b>	<b>3,792</b>	<b>1</b>	<b>6</b>	<b>7,443</b>	<b>7,539</b>	<b>1</b>	
Overhead expenses	(1,543)	(1,644)	(1,658)	1	7	(3,130)	(3,302)	5	Staff cost rose 7% YoY on wage increases and higher headcount.
<i>CIR (%)</i>	43.0%	43.9%	43.7%			42.1%	43.8%		
<b>PIOP</b>	<b>2,046</b>	<b>2,103</b>	<b>2,134</b>	<b>1</b>	<b>4</b>	<b>4,313</b>	<b>4,237</b>	<b>-2</b>	
Impairments charges	(79)	(55)	(46)	-16	-42	(89)	(101)	13	Increase mainly due to lower while general provision write-backs of SGD135m vs SGD275m in 1H21. Specific provision were down 35% YoY.
<i>Credit cost (bps) - SP</i>	14	15	8			18	11		
<b>Operating profit</b>	<b>1,967</b>	<b>2,048</b>	<b>2,088</b>	<b>2</b>	<b>6</b>	<b>4,224</b>	<b>4,136</b>	<b>-2</b>	
Associates	-	-	-			-	-		
<b>Pre-tax profit</b>	<b>1,967</b>	<b>2,048</b>	<b>2,088</b>	<b>2</b>	<b>6</b>	<b>4,224</b>	<b>4,136</b>	<b>-2</b>	
Tax	(271)	(239)	(280)			(511)	(519)		
<i>Effective tax rate (%)</i>	13.8%	11.7%	13.4%			12.1%	12.5%		
Minorities	7	(8)	7			(1)	(1)		
<b>Net profit</b>	<b>1,703</b>	<b>1,801</b>	<b>1,815</b>	<b>1</b>	<b>7</b>	<b>3,712</b>	<b>3,616</b>	<b>-3</b>	1H22 earnings at 47% and 49% of our and Street's FY22F bottomline.
<b>Other key data and ratios</b>									
Gross loans	403,460	422,000	430,677	2	7				Loans grew 3.8% YTD or an annualised 7.6%, led mainly by trade loans on rising commodity prices.
Customer deposits	482,837	519,723	527,828	2	9				Deposits grew 5.2% YTD or 10.4% annualised. CASA deposits were flattish YTD. CASA ratio remained high at 72%.
Non-performing assets	6,621	5,981	5,908	-1	-11				Loan NPLs were little changed QoQ. NPL ratio was stable at 1.27%.
Total assets	671,841	723,681	745,637	3	11				
Shareholders' funds	57,594	56,495	55,875	-1	-3				
ROAA (%)	1.03	1.04	0.99			1.14	1.02		
ROAE (%) - Reported	12.7	13.1	13.4			14.0	13.3		
LDR (%)	82.2	80.1	80.4						
NPA ratio	1.51	1.30	1.27						
Loan loss coverage	106.7	114.0	111.9						
CET-1 ratio (%)	14.5	14.0	14.2						
Total capital ratio (%)	17.5	16.5	16.7						

Source: Company data, RHB

## Management guidance

Figure 2: DBS – management guidance and financial targets

	FY21 actual	1H22 achieved	2022 targets	Comments on FY22 targets
Loan growth (YoY)	+9.9%	+7%	Mid-single digit (from mid-single-digit or better)	Guidance toned down mainly due to difficulty projecting geopolitical developments in Russia-Ukraine and China. Pipelines remain healthy and management expects to add about SGD4-5bn per quarter in new loans for 2H22.
NIM	1.45%	1.52%	Above 2% by 4Q22 (from 1.58-1.60%)	Expects continued expansion in NIM with the sharp rise in US interest rates. Management guided for NII enhancement of SGD18-20m per bps of the US rate hike.
Fee income growth (YoY)	+15%	-9%	Negative growth (from double-digits growth)	Management believes fee income has bottomed in 2Q22. But with wealth fees expected to remain weak due to the uncertain capital markets, fee income for FY22 would be lower YoY.
Opex growth (%)	+5%	+5%	CIR of c.40% (from +6-7%)	Robust growth in NII, which will offset the decline in non-II, is now expected to result in positive JAWS in FY22 (revised from mild negative JAWS). Management expects CIR to improve to c.40% from 45.6% in FY21.
Provision allowances	SGD52m	SGD101m	SGD0-100m	Management expects asset quality to remain resilient as stress tests indicate ability of borrowers to absorb the rise in interest rates. Exposure to China's real estate sector is a small SGD2bn with bulk of lending to network customers. At end-2021, GP reserves were at SGD3.74bn, which includes an GP overlay of SGD1.8bn.

Source: Company data, RHB

## Revisions to earnings estimates

We upgraded FY22F-24F earnings by 4-8% as we raised assumptions on NIM, which more than offset cuts in non-II.

Figure 3: DBS – revisions to earnings forecasts

FYE Dec	Previous FY22F	Previous FY23F	Previous FY24F	Revised FY22F	Revised FY23F	New FY24F	% Change FY22F	% Change FY23F	% Change FY24F
(SGDm)									
NII	9,635	10,960	11,760	10,360	12,051	12,491	7.5%	10.0%	6.2%
Non-II	6,430	6,989	7,541	5,800	6,123	6,595	-9.8%	-12.4%	-12.5%
Operating expenses	(7,103)	(7,714)	(8,185)	(6,600)	(7,169)	(7,608)	-7.1%	-7.1%	-7.0%
PIOP	8,962	10,235	11,116	<b>9,560</b>	<b>11,005</b>	<b>11,478</b>	6.7%	7.5%	3.3%
<b>Provision expenses</b>	(100)	(450)	(600)	(100)	(450)	(600)	0.0%	0.0%	0.0%
Pre-tax profit	8,862	9,785	10,516	9,460	10,555	10,878	6.7%	7.9%	3.4%
<b>Net profit</b>	7,680	8,478	9,054	<b>8,228</b>	<b>9,180</b>	<b>9,406</b>	7.1%	8.3%	3.9%
EPS (SGD)	2.99	3.30	3.53	3.20	3.57	3.66			
DPS (SGD)	1.47	1.62	1.83	1.47	1.62	1.83			
Loan growth (%)	6.5	5.5	5.0	5.5	5.0	5.0			
NIM (%)	1.48	1.61	1.65	1.56	1.68	1.63			
CIR (%)	44.2	43.0	42.4	40.8	39.4	39.9			
Credit cost (bps)	2	10	13	2	10	13			

Source: Company data, RHB

**Valuation and TP**

We lowered our TP to SGD37.60 from SGD38.10 based on an intrinsic value of SGD36.19 from SGD36.68 and a 4% ESG premium based on our in-house ESG methodology.

The revised intrinsic value is mainly due to the assumptions of a higher cost of equity and lower long-term growth on account of geopolitical tensions and recessionary risks. These offset assumptions of higher ROE and BVPS following the upgrade in FY22F-24F earnings.

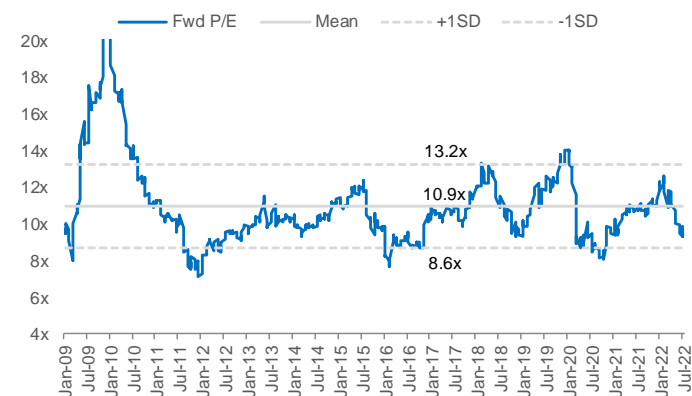
The GGM-derived P/BV of 1.57x (unchanged) is above +1SD from the historical mean, against a multi-year high ROE of above 13%.

**Figure 4: DBS – GGM valuation**

<b>Cost of equity (COE) computation:</b>		Sustainable ROE (%)	14.80
Risk free rate (%)	2.65	COE (%)	10.50
Equity premium (%)	7.85	Long-term growth (g)	3.00
Beta (x)	1.00	Implied P/BV (x)	1.57
Cost of equity - CAPM (%)	10.0	BVPS – rolling 12-mth forward	SGD23
		Intrinsic value	SGD36.19
ESG premium/(discount) (%)	4.0	ESG premium/(discount)	SGD1.45
		<b>TP (rounded)</b>	<b>SGD37.60</b>

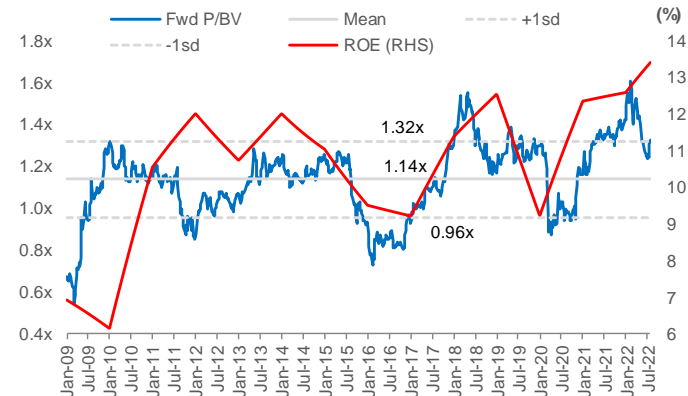
Source: Company data, RHB

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



Source: Bloomberg, RHB

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



Source: Bloomberg, RHB

## Recommendation Chart

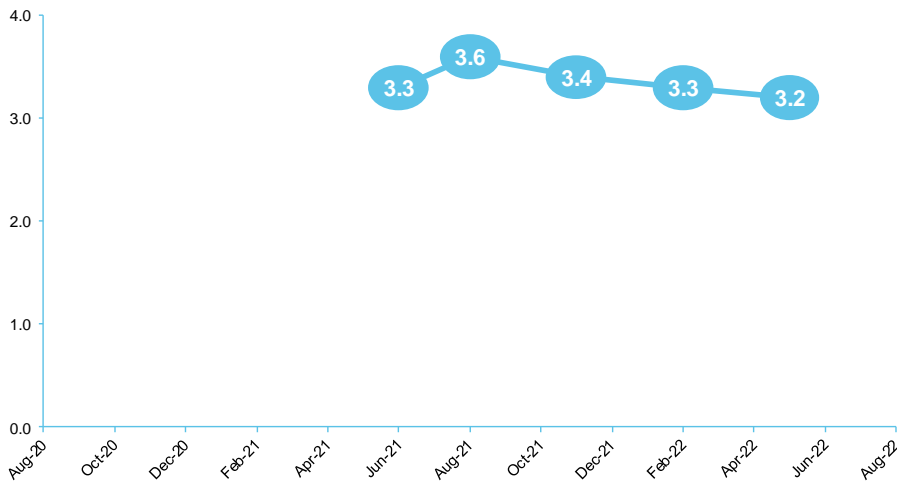


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2020-08-07	Neutral	18.5	20.6
2020-04-30	Neutral	18.7	20.0
2020-03-12	Neutral	21.5	20.2
2020-02-13	Neutral	24.8	25.4
2020-02-13	Neutral	25.8	25.4
2020-02-13	Neutral	24.8	25.4

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB



## 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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