

4 November 2022

Financial Services | Banks

DBS (DBS SP)

Buy (Maintained)

Staying Prudent On FY23 Guidance; BUY

Target Price (Return): SGD41.10 (+20%)

Price (Market Cap): SGD34.20 (USD62,362m)

ESG score: 3.30 (out of 4)

Avg Daily Turnover (SGD/USD) 132m/93.8m

- **Stay BUY, new SGD41.10 TP from SGD37.60, 20% upside with c.4% FY23F yield.** 9M22 results met Street expectations with NIM expansion, sustained business momentum and solid asset quality being key positives. Management expects FY23 ROE to be comfortably above 15% (FY22F: 14%) with NIM expansion and recovery in fee income cushioning conservative assumptions on credit cost. The healthy ROE trajectory and robust capital should support a share price outperformance relative to the broader market.

- **9M22 results within Street expectations.** DBS' 9M22 net profit of SGD5.85bn (+8% YoY) was at 76% of consensus FY22F earnings, and at 71% of ours. Reported ROE was a higher 14.3% (9M21: 13.4%) while CET-1 slipped to 13.8% (2Q22: 14.2%). A third interim DPS of SGD0.36 was declared. In 3Q22, PPOP surged by 27% QoQ, boosted by the 23% jump in NII and 14% rise in non-II that mitigated the 10% increase in opex. CIR improved to 40.2% vs 43.7% in 2Q22. With provisions up 287% QoQ, net profit growth moderated to 23% QoQ. See Figure 1 for details.

- **Expects mid-single digit loan growth.** DBS sees the risk of a US recession in 2023 that would lead to a sharper slowdown in Asia, especially if China's easing of COVID-19 border restrictions takes longer than expected. Although this would likely moderate business momentum in 4Q22, DBS believes loan growth can reach a mid-single digit in 2023. For FY22, we expect loan growth of 5.8%, a moderation from the annualised growth of 6.4% for 9M22. The increase would be underpinned by non-trade corporates and mortgages.

- **NIM to reach 2.25% by mid-2023.** Tailwinds from the aggressive rise in the US Federal Funds Rate (FFR), which management believes could peak at 5.0%, could see NIM rise above 2.25% by mid-2023. Support should also come from SGD180bn of assets that will be repriced in 2023-2024. NIM rose 32bps QoQ to 1.90% in 3Q22 and is expected reach 2.0% in 4Q22. This increase would be somewhat capped by the expected decline in NIM from treasury markets and higher funding cost, given the attrition in CASA deposits.

- **Fee income to recover in 2023.** DBS' wealth management business remain challenged in 4Q22, and could offset the recovery in fees from cards and transaction banking. Still, management is optimistic of double-digit fee income growth in FY23F, led by wealth management and cards.

- **Prudent despite not seeing asset quality stress.** Upgrades and recoveries led to a 5% QoQ fall in non-performing assets (NPA) while NPL ratio improved to 1.2% (2Q22: 1.27%). Although not seeing any stress in its portfolio, DBS has prudently topped up its general provision (GP) overlays that lifted NPA coverage to 120%. Management conservatively guides for specific provision (SP) credit cost to normalise to 20bps in FY23F from the 10-11bps in FY22F.

- **Earnings and TP.** Our FY23-24F earnings are raised by 9-14%, but we shaved FY22F net profit by 2% (Figure 3) as we factored in higher NIMs and provisions. The new SGD41.10 TP (from SGD37.60) incorporates a 4% ESG premium based on RHB's in-house methodology (Figure 4).

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Reported net profit (SGDm)	4,721	6,805	8,098	10,053	10,761
Net profit growth (%)	(26.1)	44.1	19.0	24.1	7.0
Recurring net profit (SGDm)	4,721	6,805	8,098	10,053	10,761
Recurring EPS (SGD)	1.85	2.66	3.15	3.91	4.19
BVPS (SGD)	21.41	22.40	22.78	25.14	27.53
DPS (SGD)	0.72	1.20	1.47	1.62	1.83
Recurring P/E (x)	18.49	12.86	10.85	8.74	8.16
P/B (x)	1.60	1.53	1.50	1.36	1.24
Dividend Yield (%)	2.1	3.5	4.3	4.7	5.4
Return on average equity (%)	8.9	12.1	14.0	16.3	15.9

Source: Company data, RHB

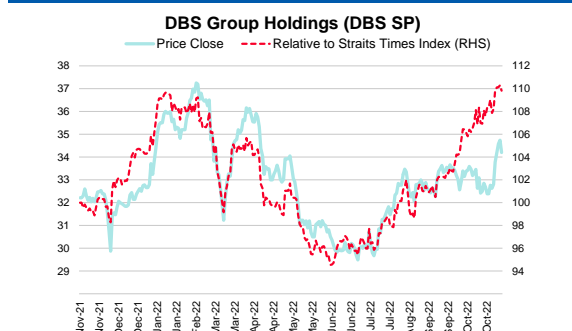
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	4.7	3.2	5.8	0.8	6.2
Relative	5.4	3.4	10.4	8.4	9.8
52-wk Price low/high (SGD)					29.5 – 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 ensuring 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, the banking group 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 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 Feb 2022, Monetary Authority of Singapore required DBS to set aside SGD930m in additional regulatory capital for the disruption of its digital banking services.

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Financial Exhibits

Asia	Financial summary (SGD)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Singapore	EPS	1.85	2.66	3.15	3.91	4.19
Financial Services	Recurring EPS	1.85	2.66	3.15	3.91	4.19
DBS	DPS	0.72	1.20	1.47	1.62	1.83
DBS SP	BVPS	21.41	22.40	22.78	25.14	27.53
Buy						
Valuation basis	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
GGM-derived intrinsic value with an ESG overlay. Key GGM assumptions are:	Recurring P/E (x)	18.49	12.86	10.85	8.74	8.16
i. 15.5% ROE;	P/B (x)	1.6	1.5	1.5	1.4	1.2
ii. 10.5% COE;	Dividend Yield (%)	2.1	3.5	4.3	4.7	5.4
iii. 3.0% long-term growth.						
Key drivers	Income statement (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Key earning drivers are:	Interest income	12,208	10,185	13,550	18,584	20,126
i. Credit cost;	Interest expense	(3,132)	(1,745)	(2,640)	(4,379)	(4,825)
ii. NIM;	Net interest income	9,076	8,440	10,910	14,205	15,300
iii. Fee income growth;	Non interest income	5,516	5,961	5,710	6,220	6,488
iv. Loan growth.	Total operating income	14,592	14,401	16,620	20,425	21,789
	Overheads	(6,158)	(6,569)	(6,930)	(7,957)	(8,554)
	Pre-provision operating profit	8,434	7,832	9,690	12,468	13,235
	Loan impairment allowances	(3,063)	(51)	(380)	(910)	(790)
	Other impairment allowances	(3)	(1)	-	-	-
	Pre-tax profit	5,368	7,780	9,310	11,558	12,445
	Taxation	(612)	(973)	(1,210)	(1,503)	(1,680)
	Minority interests	(35)	(2)	(2)	(3)	(4)
	Reported net profit	4,721	6,805	8,098	10,053	10,761
	Recurring net profit	4,721	6,805	8,098	10,053	10,761
Key risks	Profitability ratios	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Key risks are:	Return on average assets (%)	0.8	1.0	1.1	1.2	1.3
i. Higher-than-expected credit cost;	Return on average equity (%)	8.9	12.1	14.0	16.3	15.9
ii. Weaker-than-expected NIM;	Return on IEAs (%)	2.1	1.6	2.0	2.6	2.6
iii. Execution risks related to the integration of newly acquired assets.	Cost of funds (%)	0.6	0.3	0.4	0.7	0.7
	Net interest spread (%)	1.5	1.3	1.6	1.9	1.9
	Net interest margin (%)	1.6	1.4	1.6	2.0	2.0
	Non-interest income / total income (%)	37.8	41.4	34.4	30.5	29.8
	Cost to income ratio (%)	42.2	45.6	41.7	39.0	39.3
	Credit cost (bps)	82.8	1.3	8.9	20.2	16.7
Company Profile	Balance sheet (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
DBS is the largest Singapore bank by assets. It also has significant exposure to Greater China.	Total gross loans	377,770	415,072	439,000	460,950	483,998
	Other interest earning assets	218,641	230,708	259,050	291,385	315,602
	Total gross IEAs	596,411	645,780	698,050	752,335	799,599
	Total provisions	(6,599)	(6,079)	(6,300)	(6,450)	(6,450)
	Net loans to customers	371,171	408,993	432,700	454,500	477,548
	Total net IEAs	589,812	639,701	691,750	745,885	793,149
	Total non-IEAs	60,126	46,372	101,561	90,926	88,998
	Total assets	649,938	686,073	793,311	836,811	882,147
	Customer deposits	464,850	501,959	538,000	567,590	601,645
	Other interest-bearing liabilities	75,467	87,415	99,500	97,755	99,695
	Total IBLs	540,317	589,374	637,500	665,345	701,341
	Total non-IBLs	54,978	38,985	97,100	106,709	109,910
	Total liabilities	595,295	628,359	734,600	772,054	811,251
	Share capital	2,441	2,441	2,441	2,441	2,441
	Shareholders' equity	54,626	57,526	58,516	64,562	70,700
	Minority interests	17	188	195	195	196
	Asset quality and capital	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Reported NPLs / gross cust loans (%)	1.6	1.3	1.2	1.2	1.2
	Total provisions / reported NPLs (%)	108.9	114.9	117.6	116.6	113.9
	CET-1 ratio (%)	13.9	14.4	14.8	14.9	14.8
	Tier-1 ratio (%)	15.0	15.1	15.5	15.6	15.4
	Total capital ratio (%)	16.9	17.0	17.2	17.0	16.6

Source: Company data, RHB

Results At a Glance

Figure 1: DBS – summary of 3Q22 and 9M22 results

FYE 31 Dec (SGDm)	3Q21	2Q22	3Q22	QoQ (%)	YoY (%)	9M21	9M22	YoY (%)	Comments: 9M22 vs 9M21
NII	2,104	2,454	3,020	23	44	6,300	7,661	22	Up YoY, on robust NIM expansion and healthy loan growth.
<i>NIM (%) – reported</i>	1.43%	1.58%	1.90%			1.45%	1.65%		NIM grew by 20bps YoY as domestic interest rates rose along with the FFR.
Non-II	1,457	1,338	1,524	14	5	4,704	4,422	-6	
Net fee & commission income	888	768	771	0	-13	2,709	2,430	-10	Down YoY, on lower fees from wealth management (-24% YoY) and investment banking (-36% YoY). These offset the recovery in fees from loan-related, cards and transaction services.
Other non-II	569	570	753	32	32	1,995	1,992	0	
<i>Non-II/total income (%)</i>	40.9%	35.3%	33.5%			42.7%	36.6%		
Operating income	3,561	3,792	4,544	20	28	11,004	12,083	10	
Overhead expenses	(1,668)	(1,658)	(1,825)	10	9	(4,798)	(5,127)	7	Staff costs rose 8% YoY as a result of wage increases and a higher headcount.
<i>CIR (%)</i>	46.8%	43.7%	40.2%			43.6%	42.4%		
PIOP	1,893	2,134	2,719	27	44	6,206	6,956	12	
Impairments charges	70	(46)	(178)	287	-354	(19)	(279)	1368	Increased, mainly due to higher general provision overlays as specific provisions declined 40% YoY.
<i>Credit cost (bps) - SP</i>	(7)	4	16			1	10		
Operating profit	1,963	2,088	2,541	22	29	6,187	6,677	8	
Associates	-	-	-			-	-		
Pre-tax profit	1,963	2,088	2,541	22	29	6,187	6,677	8	
Tax	(255)	(280)	(312)			(766)	(831)		
<i>Effective tax rate (%)</i>	13.0%	13.4%	12.3%			12.4%	12.4%		
Minorities	(8)	7	7			(9)	6		
Net profit	1,700	1,815	2,236	23	32	5,412	5,852	8	9M22 earnings at 71% and 76% of our and Street FY22F bottomlines.
Other key data and ratios									
Gross loans	411,000	430,677	435,000	1	6				Loans increased 4.8% YTD or an annualised 6.4%, led mainly by non-trade corporate loans (up SGD15bn).
Customer deposits	488,899	527,828	532,758	1	9				Deposits grew 6.1% YTD, or 8.2% annualised. CASA deposits were down 8% YTD. CASA ratio of 65% remained above pre-pandemic levels.
Non-performing assets	6,570	5,908	5,600	-5	-15				Decline helped by upgrades and repayments, while new NPL formation was low.
Total assets	676,272	745,637	766,637	3	13				
Shareholders' funds	57,430	55,875	55,556	-1	-3				
ROAA (%)	1.03	1.04	0.99			1.14	1.02		
ROAE (%) - Reported	12.1	13.4	16.3			13.4	14.3		
LDR (%)	82.8	80.4	80.6						
NPA ratio	1.50	1.27	1.20						
NPA coverage	107.0	113.0	120.0						
CET-1 ratio (%)	14.5	14.2	13.8						
Total capital ratio (%)	17.1	16.7	16.2						

Source: Company data, RHB

Figure 2: DBS – management guidance and financial targets

	FY21 actual	9M22 achieved	2022 targets	Comments on FY22 targets
Loan growth (YoY)	+9.9%	+5.8%	Mid-single digit	Growth in non-trade corporate loans and mortgages was faster than that of 1H22. This momentum should be sustained into 4Q22.
NIM	1.45%	1.65%	~2% in 4Q22	With 3Q22 exit NIM at c.2.0%, management expects the margin to be stable at 2.0% in 4Q22, with lower NII from treasury markets mitigating the NIM expansion in commercial book.
Fee income growth (YoY)	+15%	-10%	Negative growth	Recovery in fees from cards and transaction services will be offset by wealth fees, which remains challenged due to the weak capital markets.
Opex growth (%)	+5%	+7%	CIR of sub-40%	9M22 CIR was at 42.4%, easing from 43.8% in 1H22 on robust growth in NII that offset the decline in non-II. With topline growth expected to remain healthy in 4Q22, management expects CIR to improve to c.40% from 45.6% in FY21.
Specific allowances	12 bps	8 bps	10-11 bps	SP declined to a low 2bps in 3Q22 as asset quality is healthy with upgrades and repayments more than offsetting the new NPL formation.

Source: Company data, RHB

Revisions to earnings estimates

We trim FY22F earnings by 2%, as the upward revisions in NII to reflect the better NIM is offset mainly by assumptions of higher provision charges, in view of the GP overlays added in 3Q22.

For FY23-24F, we lift net profit by 9.5% and 14.4%. We pencilled in higher NIMs on the back of the higher-than-expected FFR. The upward revisions in NII are more than sufficient to offset assumptions of higher opex and impairment allowances.

Figure 3: DBS – revisions to forecasts

FYE Dec	Previous FY22F	Previous FY23F	Previous FY24F	Revised FY22F	Revised FY23F	New FY24F	% Change FY22F	% Change FY23F	% Change FY24F
(SGDm)									
NII	10,360	12,051	12,491	10,910	14,205	15,300	5.3%	17.9%	22.5%
Non-II	5,800	6,123	6,595	5,710	6,220	6,488	-1.6%	1.6%	-1.6%
Operating expenses	(6,600)	(7,169)	(7,608)	(6,930)	(7,957)	(8,554)	5.0%	11.0%	12.4%
PIOP	9,560	11,005	11,478	9,690	12,468	13,235	1.4%	13.3%	15.3%
Provision expenses	(100)	(450)	(600)	(380)	(910)	(790)	280.0%	102.2%	31.7%
Pre-tax profit	9,460	10,555	10,878	9,310	11,558	12,445	-1.6%	9.5%	14.4%
Net profit	8,228	9,180	9,406	8,098	10,053	10,761	-1.6%	9.5%	14.4%
EPS (SGD)	3.20	3.57	3.66	3.15	3.91	4.19			
DPS (SGD)	1.47	1.62	1.83	1.47	1.62	1.83			
Loan growth (%)	5.5	5.0	5.0	5.8	5.0	5.0			
NIM (%)	1.56	1.68	1.63	1.64	1.98	1.99			
CIR (%)	40.8	39.4	39.9	41.7	39.0	39.3			
Credit cost (bps)	2	10	13	9	20	17			

Source: Company data, RHB

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Valuation and TP

Our TP is revised to SGD41.10 (from SGD37.60) based on an intrinsic value of SGD39.50 (from SGD36.19) and a 4% ESG premium based on our in-house ESG methodology.

The revised intrinsic value takes into account assumptions of a higher ROE and BVPS following the upgrade in FY22-24F earnings.

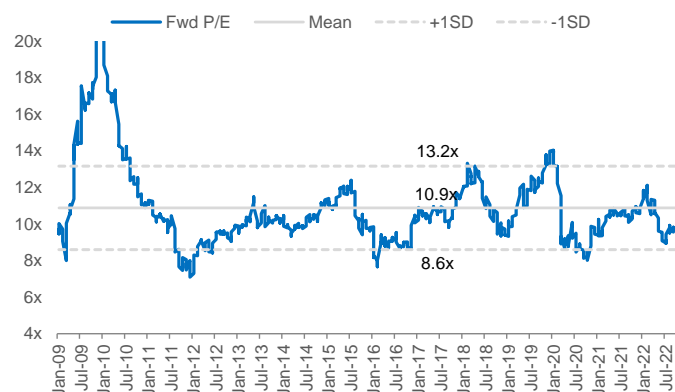
The GGM-derived P/BV of 1.67x (from 1.57x) is above +2SD from the historical mean, against a multi-year high ROE of above 15%.

Figure 4: DBS – GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	15.50
Risk free rate (%)	3.45	COE (%)	10.50
Equity premium (%)	7.05	Long-term growth (g)	3.0
Beta (x)	1.00	Implied P/BV (x)	1.67
Cost of equity - CAPM (%)	10.5	BVPS – rolling 12-mth forward	SGD23.70
		Intrinsic value	SGD39.50
ESG premium/(discount) (%)	4.0	ESG premium/(discount)	SGD1.85
		TP (rounded)	SGD41.10

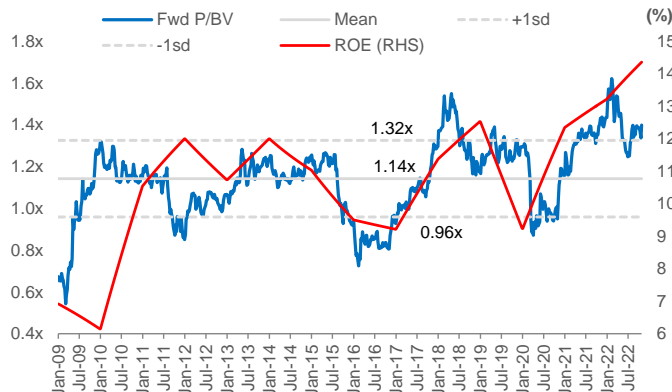
Source: Company data, RHB

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



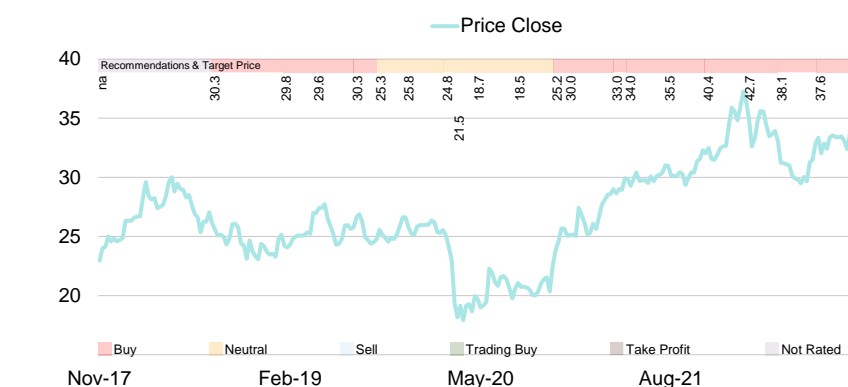
Source: Bloomberg, RHB

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



Source: Bloomberg, RHB

Recommendation Chart

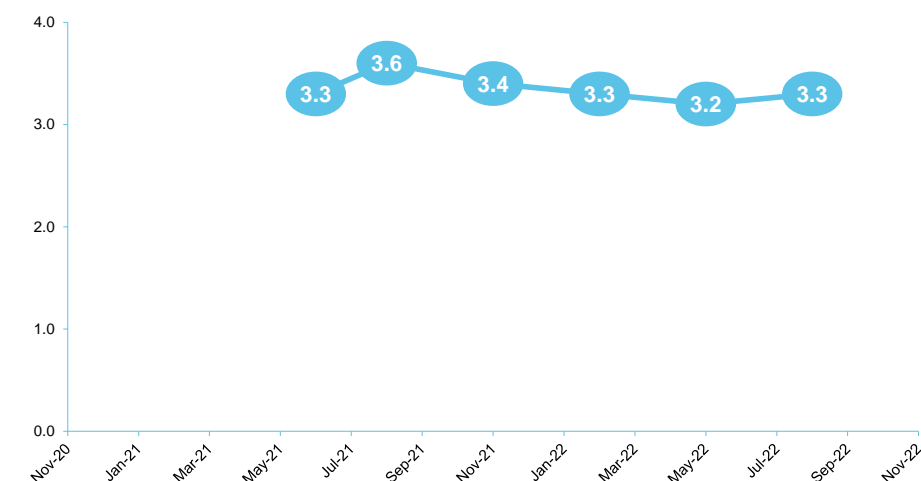


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-08-05	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
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

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

RHB Guide to Investment Ratings

Buy:	Share price may exceed 10% over the next 12 months
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
Take Profit:	Target price has been attained. Look to accumulate at lower levels
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Not Rated:	Stock is not within regular research coverage

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