

10 December 2020

Financial Services | Banks

DBS (DBS SP)

Buy (Maintained)

ROE Firmly On Road To Recovery; Keep BUY

Target Price (Return): SGD30.00 (+18%)
 Price: SGD25.45
 Market Cap: USD48,349m
 Avg Daily Turnover (SGD/USD) 118m/87.2m

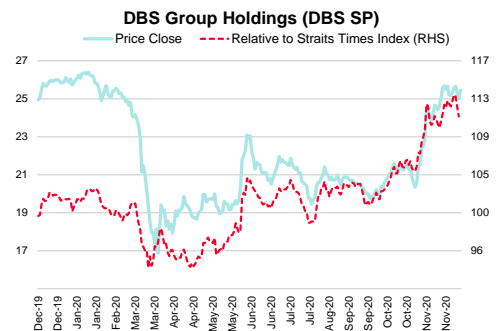
- Maintain BUY, new SGD30.00 TP from SGD25.20, 18% upside with 3.5% FY21F yield.** We believe DBS is on its way to a sustained ROE recovery in FY21-22F. Aside from lower credit costs, the pick-up in economic activities will underpin continued improvements in fee income growth and loan demand. Strategies to manage excess liquidity and deposit repricing should also help support NII. The acceleration in digital adoption, spurred by COVID-19, also places DBS ahead of peers. At 1.05x FY21F P/BV against ROE of 9.5%, the current valuation remains compelling.
- Provision buffers are high.** Compared to peers, DBS has more headroom to absorb any potential losses from credit risks. With provisions of SGD2,489m set aside in 9M20, that included adjustments for macroeconomic variables (MEV) and management overlay, management has front-loaded much of its 2-year provision guidance of SGD3-5bn. Its LLR was increased to 107% at end-Sep 2020, compared with 94% in Dec 2019. We believe DBS' provision buffers are sufficient, when put up against the c.5% of loans under relief programmes.
- Sustained recovery in fee income.** In 3Q20, DBS' fee income rebounded by a sharp 17% QoQ to pre-COVID-19 levels. We expect a sustained improvement in fee income from wealth management and customer treasury flows, as economic activities regain pace. Management is optimistic the bank can achieve double-digit fee income growth in FY21.
- Managing the low-interest rate environment.** Singapore's short-term interest rates are expected to stay low for longer, dampening prospects of a NIM recovery. DBS expects NIM to ease to 1.4-1.5% (3Q20: 1.53%, FY19: 1.89%). To prop up NIM, the bank is working to manage the excess liquidity built up from robust deposit growth, and reprice deposits lower. Overhead expenses will also be tightly controlled, to improve operating leverage. On a positive note, management believes loans will grow by a mid-single digit in FY21F, vs the annualised 4.3% growth in 9M20.
- Capital position solid, safeguarding dividend prospects.** CET-1 is a very comfortable 13.7%, and should safeguard dividend prospects. We project DPS would rise to SGD0.90 in FY21F, from SGD0.74 in FY20F.
- Key downside risks** to our view are: i) A sharp resurgence in COVID-19 cases that would once again derail global economic recovery and exert further pressure on asset quality, ii) a sharper-than-expected deterioration in asset quality post expiry of loan relief programmes, and iii) weaker-than-expected growth in fee income.
- TP rises to SGD30.00.** We make no changes to our earnings forecasts. Our GGM-derived TP is raised to SGD30.00, as we revised the equity risk premium assumption and rolled forward the base year to reflect the higher risk appetite and improving prospects (Figure 1). Our new TP is based on a GGM-based P/BV of 1.25x.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.7)	10.9	24.0	10.9	1.8
Relative	10.6	2.6	10.9	9.8	12.9
52-wk Price low/high (SGD)				16.9 – 26.4	



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Reported net profit (SGDm)	5,577	6,391	4,819	5,703	6,959
Net profit growth (%)	27.6	14.6	(24.6)	18.3	22.0
Recurring net profit (SGDm)	5,625	6,391	4,819	5,703	6,959
Recurring EPS (SGD)	2.21	2.50	1.89	2.24	2.74
BVPS (SGD)	19.22	19.96	22.86	24.35	26.09
DPS (SGD)	1.20	1.23	0.74	0.90	1.15
Recurring P/E (x)	11.51	10.17	13.45	11.34	9.29
P/B (x)	1.32	1.28	1.11	1.05	0.98
Dividend Yield (%)	4.7	4.8	2.9	3.5	4.5
Return on average equity (%)	11.6	12.8	8.8	9.5	10.9

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Singapore	EPS	2.19	2.50	1.89	2.24	2.74
Financial Services	Recurring EPS	2.21	2.50	1.89	2.24	2.74
DBS	DPS	1.20	1.23	0.74	0.90	1.15
DBS SP	BVPS	19.22	19.96	22.86	24.35	26.09
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Recurring P/E (x)	11.51	10.17	13.45	11.34	9.29
	P/B (x)	1.3	1.3	1.1	1.0	1.0
	Dividend Yield (%)	4.7	4.8	2.9	3.5	4.5
	Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Interest income	13,798	15,592	13,050	13,650	14,380
	Interest expense	(4,843)	(5,967)	(3,925)	(4,150)	(4,450)
	Net interest income	8,955	9,625	9,125	9,500	9,930
	Non interest income	4,276	4,919	5,570	5,550	5,930
	Total operating income	13,231	14,544	14,695	15,050	15,860
	Overheads	(5,814)	(6,258)	(6,155)	(6,485)	(6,815)
	Pre-provision operating profit	7,417	8,286	8,540	8,565	9,045
	Loan impairment allowances	(708)	(704)	(2,980)	(1,960)	(900)
	Other impairment allowances	(2)	1	-	-	-
	Other exceptional items	(48)	-	-	-	-
	Pre-tax profit	6,659	7,583	5,560	6,605	8,145
	Taxation	(1,006)	(1,154)	(701)	(859)	(1,140)
	Minority interests	(76)	(38)	(40)	(43)	(46)
	Reported net profit	5,577	6,391	4,819	5,703	6,959
	Recurring net profit	5,625	6,391	4,819	5,703	6,959
	Profitability ratios	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Return on average assets (%)	1.0	1.1	0.8	0.8	1.0
	Return on average equity (%)	11.6	12.8	8.8	9.5	10.9
	Return on IEs (%)	2.8	2.9	2.3	2.2	2.2
	Cost of funds (%)	1.1	1.3	0.8	0.8	0.8
	Net interest spread (%)	1.7	1.7	1.5	1.4	1.4
	Net interest margin (%)	1.8	1.8	1.6	1.5	1.5
	Non-interest income / total income (%)	32.3	33.8	37.9	36.9	37.4
	Cost to income ratio (%)	43.9	43.0	41.9	43.1	43.0
	Credit cost (bps)	20.9	19.8	80.4	50.5	22.2
	Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total gross loans	349,645	362,427	379,000	398,000	414,000
	Other interest earning assets	167,838	179,173	230,900	241,000	242,600
	Total gross IEAs	517,483	541,600	609,900	639,000	656,600
	Total provisions	(4,642)	(4,543)	(6,600)	(6,900)	(7,250)
	Net loans to customers	345,003	357,884	372,400	391,100	406,750
	Total net IEAs	512,841	537,057	603,300	632,100	649,350
	Total non-IEAs	37,910	41,889	61,419	58,301	66,937
	Total assets	550,751	578,946	664,719	690,401	716,287
	Customer deposits	393,785	404,289	457,000	480,000	497,000
	Other interest-bearing liabilities	71,959	84,439	84,807	83,586	86,200
	Total IBLs	465,744	488,728	541,807	563,586	583,200
	Total non-IBLs	35,132	38,419	64,000	64,100	65,950
	Total liabilities	500,876	527,147	605,807	627,686	649,150
	Share capital	2,441	2,441	2,441	2,441	2,441
	Shareholders' equity	49,045	50,981	58,092	61,890	66,307
	Minority interests	830	818	820	825	830
	Asset quality and capital	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Reported NPLs / gross cust loans (%)	1.5	1.5	1.7	1.7	1.7
	Total provisions / reported NPLs (%)	88.4	84.1	105.5	103.2	104.2
	CET-1 ratio (%)	13.9	14.1	14.9	15.4	15.6
	Tier-1 ratio (%)	15.1	15.0	15.7	16.1	16.3
	Total capital ratio (%)	16.9	16.7	17.4	17.8	18.0

Source: Company data, RHB

Valuation and TP

We raise our TP to SGD30.00 from SGD25.20, after making the following revisions in assumptions:

- i. Lowered the market risk premium to 8.85% (from 9.0%), to reflect investors' increased risk appetite; and
- ii. Revised our base year to the average of FY21F-22F (from FY21F), to better reflect the recovery in growth prospects. As a result, our ROE assumption is adjusted to 11.0% (from 10.5%), while our BVPS assumption rises to SGD23.88 (from SGD23.00).

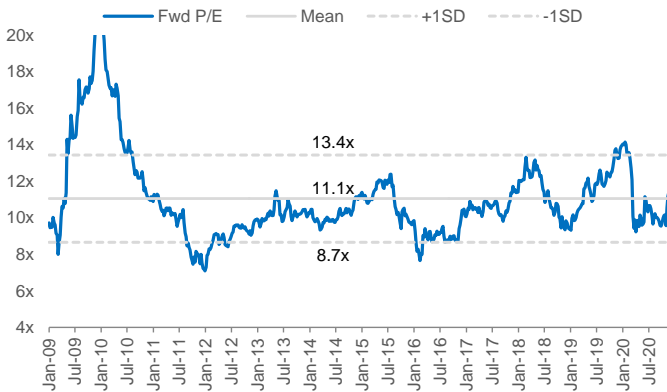
Our TP is based on a GGM-derived P/BV of 1.25x, near +1SD from the historical mean.

Figure 1: DBS – GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	11.0
Risk free rate (%)	0.81	COE (%)	9.48
Equity premium (%)	8.85	Long-term growth (g)	3.5
Beta (x)	0.98	Implied P/BV (x)	1.25
Cost of equity - CAPM (%)	9.48	BVPS – FY21F	SGD23.88
		Target price	SGD29.95
		TP (rounded)	SGD30.00

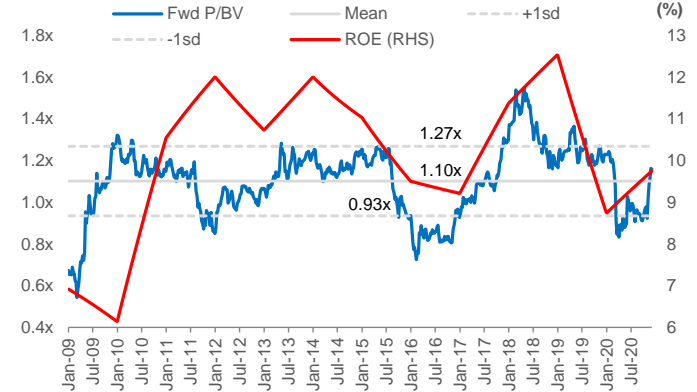
Source: Company data, RHB

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



Source: Bloomberg, RHB

Figure 3: DBS' 12-month forward consensus P/BV



Source: Bloomberg, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2019-11-12	Neutral	25.8	26.7
2019-09-06	Neutral	25.3	24.8
2019-07-12	Buy	30.3	25.8
2019-04-10	Buy	29.6	27.0

Source: RHB, Bloomberg

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Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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