

# DBS GROUP HOLDINGS LTD

## Profit Boost from Wealth Management

### SINGAPORE | BANKING | 1Q17 RESULTS

- 1Q17 PATMI of S\$1.245bn was above our estimate by 12%.
- Surprise came from lower-than-expected provisions. But a flat y-o-y net interest income growth was in line with our expectations.
- Maintain "Reduce" rating with a higher target price of S\$17.24 (previously S\$16.73),** pegged at unchanged 0.95x FY17F book value (excluding perpetual capital securities).

#### Results at a glance

(SGD mn)	1Q17	1Q16	y-o-y (%)	4Q16	q-o-q (%)	Comments
Net interest income	1,831	1,833	-0.1%	1,824	0.4%	NIMs -11bps y-o-y, loans +9.1% y-o-y
Net Fees & Comm income	665	574	15.9%	515	29.1%	Higher WM, Transaction services and Investment Banking y-o-y
Other Non-interest income	740	458	61.6%	437	69.3%	Higher net income from investment securities and Gain from Sale of PwC Building
<b>Total Income</b>	<b>3,236</b>	<b>2,865</b>	<b>12.9%</b>	<b>2,776</b>	<b>16.6%</b>	
Expenses	1,258	1,265	-0.6%	1,223	2.9%	
Credit Allowance	550	170	223.5%	462	19.0%	S\$350mn allocated to General Provision
<b>Net Profit</b>	<b>1,278</b>	<b>1,233</b>	<b>3.6%</b>	<b>945</b>	<b>35.2%</b>	

Source: Company, PSR

**We see loans and deposits growth slowing down quarter-on-quarter ("q-o-q").** Strong loans growth was led by Housing loans (+9% y-o-y), General Commerce (+11% y-o-y) and Transport, storage & communications loans (+25% y-o-y). The Housing loans growth was driven by market share gains in the Singapore Housing loans market and the business loans growth was driven by SMEs. But in this quarter, overall loans growth has started to slow on q-o-q. Similarly, deposits grew 7% y-o-y but has stalled despite deposit rates increasing 3bps in this quarter. And we see the growth slow down coming from Hong Kong and US dollar deposits.

**Net interest income ("NII") growth was flat y-o-y and q-o-q** as loan volume and rates continue to run in opposite ends. We observed that DBS' Net Interest Margins remain sluggish. NIM peaked at 1.85% in 1Q16 and has been tailing off the last 3 quarters. NII is largely unchanged at S\$1.8bn. We opine that the loan rate and volume dynamics for DBS is more challenging as we estimate about c.30% of its net interest income is from the competitive Corporate business segment.

**Non-performing assets ("NPA") remained stable at S\$4.8bn q-o-q while coverage ratio improved from 97% to 103% q-o-q.** NPA remained stable as new NPA formation decreased because the vessels used on standard offshore oil & gas operations are realising values within expected range, and supported by recoveries from some Indian non-performing loans ("NPLs") which were sold. Uncertainty over vessel valuation lies with the lumpy specialised vessels within the offshore oil and gas space. Overall exposure to offshore oil and gas loans remain unchanged at S\$5.5bn. The improvements in coverage ratio came from the divestment gains of SGD350mn from the sale of PwC building.

**Strong fee and commission income supported performance.** Wealth Management ("WM"), up 26% y-o-y and 41% q-o-q from higher sales of investment products and unit trusts. Management has alluded the strong performance to a strong risk-on momentum at the start of the quarter but struck a more cautious note about the sustainability of that momentum moving ahead. Nonetheless they are overall optimistic because they see strong adoption in the WM digital platforms and their study shows that client activities from digital platform double those who had not adopted the digital platform.

5 June 2017

#### Reduce (Maintain)

LAST TRADED PRICE	SGD 20.53
FORECAST DIV	SGD 0.60
TARGET PRICE	SGD 17.24
TOTAL RETURN	-13.10%

#### COMPANY DATA

O/S SHARES (MN) :	2,543
MARKET CAP (USD mn / SGD mn) :	37471 / 52201
52 - WK HI/LO (SGD) :	20.66 / 14.63
3M Average Daily T/O (mn) :	4.72

#### MAJOR SHAREHOLDERS (%)

Temasek Holdings Pte Ltd	29.52%
Vanguard Group	18.3%
Norges Bank Investment Management	19.8%
BlackRock	16.8%

#### PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	2.4	5.8	35.2
STI RETURN	166	6.31	17.42

#### PRICE VS. STI



Source: Bloomberg, PSR

#### KEY FINANCIALS

Y/E Dec	FY 15	FY 16	FY 17F	FY 18F
Total Income (SGD mn)	10,923	11,489	12,257	12,193
Operating Profit (SGD mn)	5,280	5,083	6,102	6,372
NPAT (SGD mn)	4,567	4,360	5,300	5,518
EPS (SGD)	1.71	1.73	2.06	2.07
PER, (X)	11.7	10.3	8.5	8.9
ROE, (%)	11.4%	10.0%	11.1%	10.5%

Source: Bloomberg

Valuation Method: 0.95x FY17F P/B

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### Investment Actions

Management's guidance for 2017 loans and income growth continues to be mid-single digit percentage. We have revised our FY17F total income growth estimate from 5% in the previous quarter to 5.9% as we improved our FY17F NII growth estimate from 1% to 2%. We also see that the Common Equity Tier 1 Ratio is well above the threshold and so there could be room for the management to return some retained earnings to shareholders in the form of bonus dividends barring major developments to Basel 4.

But we continue to see unfavourable loan rate dynamics coming from its loans business, we are cautiously optimistic of DBS' ability to exercise some pricing power without compromising too much volume growth. But some of the key risks still looms over the horizon – a) Owing to the low coverage ratio, we will not expect support from utilisation of General provisions to ease the unexpected spikes in provision expense arising from sudden rises in NPLs; b) Unexpected volatility in funding costs outside of Singapore base could squeeze margins. We estimate Hong Kong dollar funding at c.10% and US dollar funding at c.30% of total deposit funding.

We believe positive financial results and expectations for a bonus dividend to be fully priced in while risks are largely ignored. Therefore we **maintain "Reduce" rating with a higher target price of S\$17.24 (previously S\$16.73)**, pegged at unchanged 0.95x FY17F book value (excluding perpetual capital securities).

Table 1. Fee and commission income

SGD mn	1Q17	1Q16	y-o-y (%)	4Q16	q-o-q (%)
Brokerage	38	41	-7.3%	37	2.7%
Investment banking	45	22	104.5%	30	50.0%
Transaction Services	157	142	10.6%	148	6.1%
Loan related	128	124	3.2%	80	60.0%
Cards	123	114	7.9%	138	-10.9%
Others	28	23	21.7%	11	154.5%
Wealth management	222	176	26.1%	158	40.5%
Fee and commission expense	(76)	(68)	NM	(87)	NM
<b>Total</b>	<b>665</b>	<b>574</b>	<b>15.9%</b>	<b>515</b>	<b>29.1%</b>

Table 2. Other non-interest income

SGD mn	1Q17	1Q16	y-o-y (%)	4Q16	q-o-q (%)
Net trading income	270	315	-14.3%	397	-32.0%
Net income on Fin Inv	102	86	18.6%	25	308.0%
Net gain on fixed assets	1	-	NM	-	NM
Others (inc. rental and assoc)	17	57	-70.2%	15	13.3%
<b>Total other non int Inc</b>	<b>390</b>	<b>458</b>	<b>-14.8%</b>	<b>437</b>	<b>-10.8%</b>

Table 3. Loans by Industries

SGD mn	1Q17	1Q16	y-o-y (%)	4Q16	q-o-q (%)
Manufacturing	30,690	30,808	-0.4%	31,235	-1.7%
Building and construction	57,565	54,403	5.8%	58,358	-1.4%
Housing loans	64,629	59,391	8.8%	64,465	0.3%
General commerce	46,796	42,135	11.1%	46,881	-0.2%
Tpt, storage & comms	31,218	24,961	25.1%	31,964	-2.3%
Fls, invt & holding co	16,594	13,243	25.3%	16,742	-0.9%
Professionals & Pri inv	24,692	23,441	5.3%	25,091	-1.6%
Others	30,758	29,283	5.0%	30,679	0.3%
<b>Total loans</b>	<b>302,942</b>	<b>277,665</b>	<b>9.1%</b>	<b>305,415</b>	<b>-0.8%</b>

Table 4. Loans by currencies

SGD mn	1Q17	1Q16	y-o-y (%)	4Q16	q-o-q (%)
Singapore dollar	124,096	118,144	5.0%	123,733	0.3%
US dollar	100,487	83,860	19.8%	102,120	-1.6%
Hong Kong dollar	33,502	32,691	2.5%	35,588	-5.9%
Chinese yuan	10,912	16,180	-32.6%	11,577	-5.7%
Others	33,945	26,790	26.7%	32,397	4.8%
<b>Total loans</b>	<b>302,942</b>	<b>277,665</b>	<b>9.1%</b>	<b>305,415</b>	<b>-0.8%</b>

Table 5. Revenue by Business segments

SGD mn	1Q17	1Q16	y-o-y (%)	4Q16	q-o-q (%)
Consumer/ Priv Banking	1159	1022	13.4%	1081	7.2%
Institutional Banking	1319	1311	0.6%	1255	5.1%
Treasury	187	307	-39.1%	264	-29.2%
Others	221.00	225.00	-1.8%	176.00	25.6%
<b>Total Revenue</b>	<b>2886</b>	<b>2865</b>	<b>0.7%</b>	<b>2776</b>	<b>4.0%</b>

Table 6. Revenue by Geographical segments

SGD mn	1Q17	1Q16	y-o-y (%)	4Q16	q-o-q (%)
Singapore	1,870.00	1,911.00	-2.1%	1,784.00	4.8%
Hong Kong	524.00	504.00	4.0%	512.00	2.3%
Rest of Greater China	208.00	217.00	-4.1%	221.00	-5.9%
South and Southeast Asia	195.00	170.00	14.7%	178.00	9.6%
Rest of the world	89.00	63.00	41.3%	81.00	9.9%
<b>Total Revenue</b>	<b>2,886</b>	<b>2,865</b>	<b>0.7%</b>	<b>2,776</b>	<b>4.0%</b>

Source (tables 1-6): Company, Phillip Securities Research

US and Hong Kong Dollar funding showing signs of slow down q-o-q.

Within the Institutional Banking Group, we think competition is stiff in the Corporate segment and the SME segment had driven the overall q-o-q growth.

Fig 1: Net interest margin

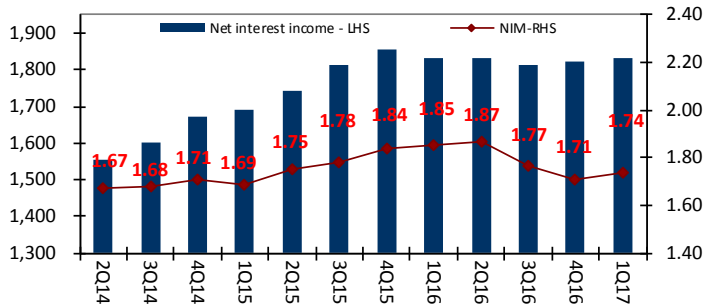


Fig 2: NonII/Total Income

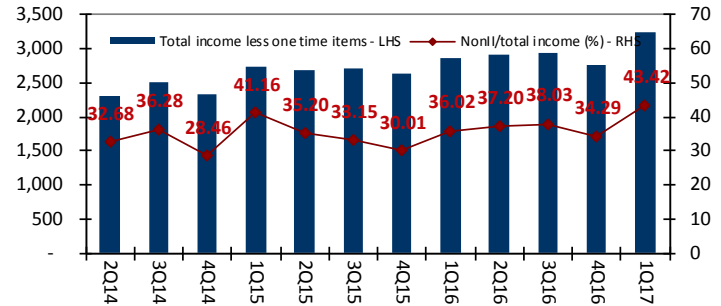


Fig 3: Efficiency ratio

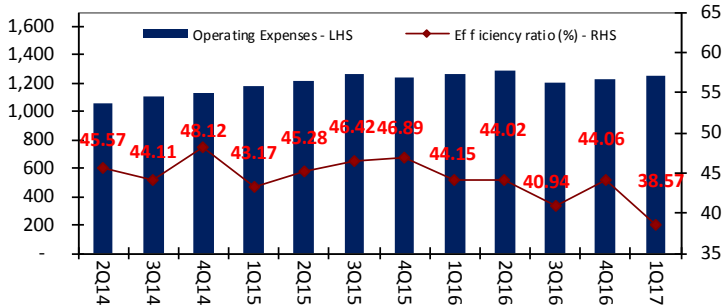


Fig 4: Net profit margin

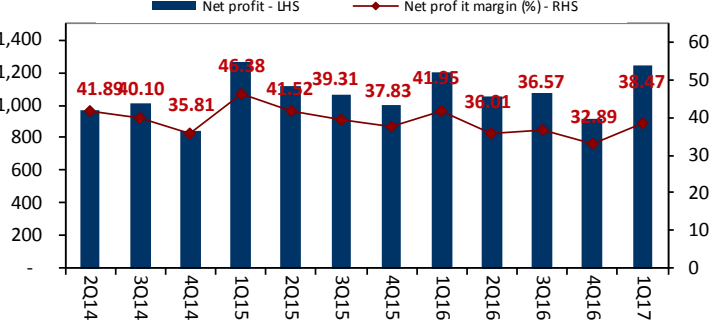


Fig 5: Deposits, Loans, LDR

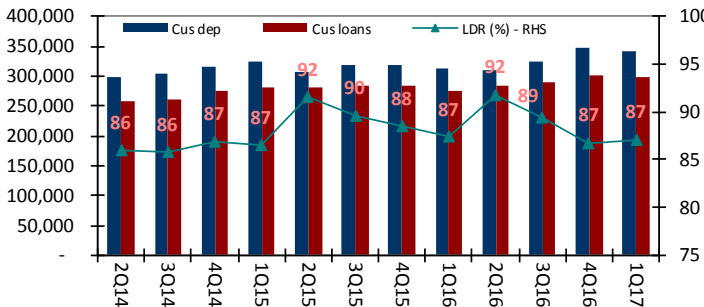


Fig 6: NPA, NPL

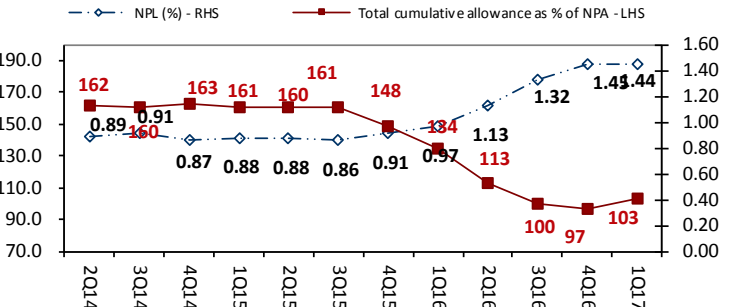


Fig 7: Growth in selected asset items

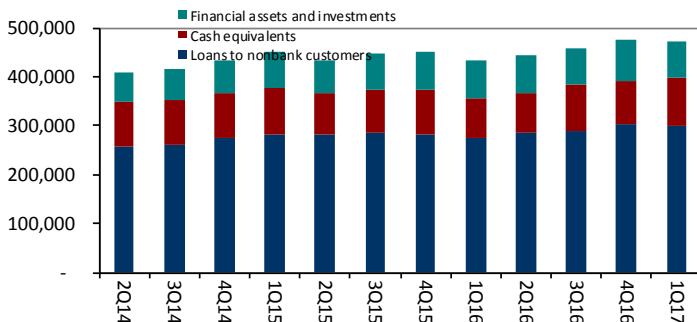


Fig 8: CAR

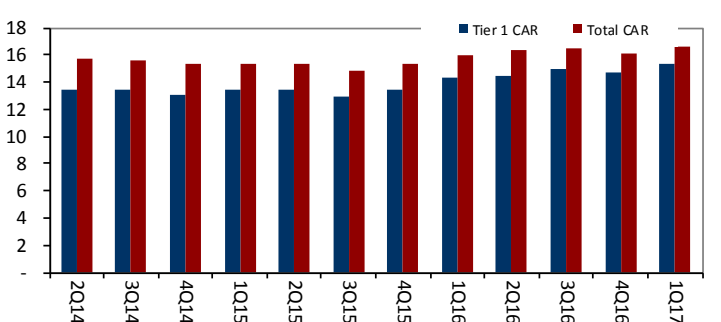


Fig 9: ROE and ROA

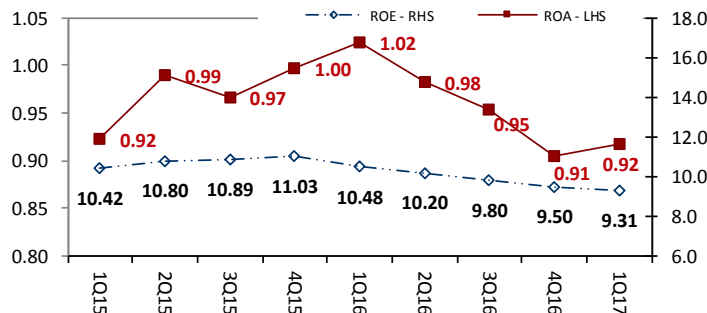


Fig 10: EPS and NBV

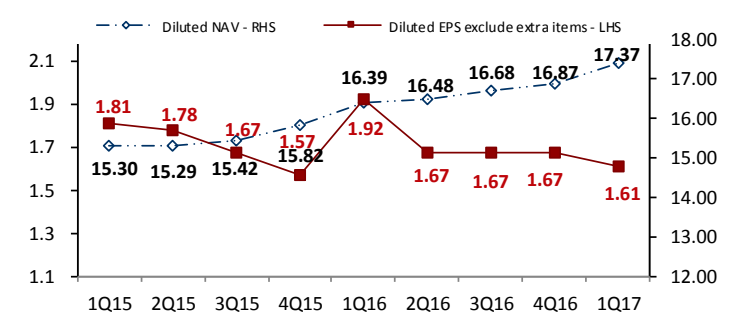


Fig 11: Profit before tax by geographical segment

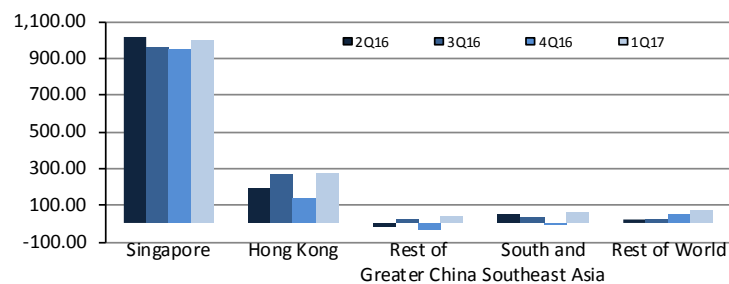


Fig 12: Profit before tax by Geographical segment breakdown

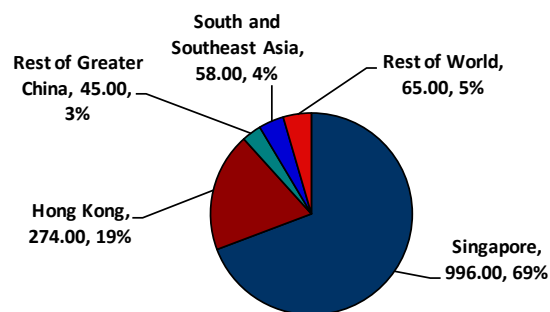


Fig 13: Profit before tax by business segment

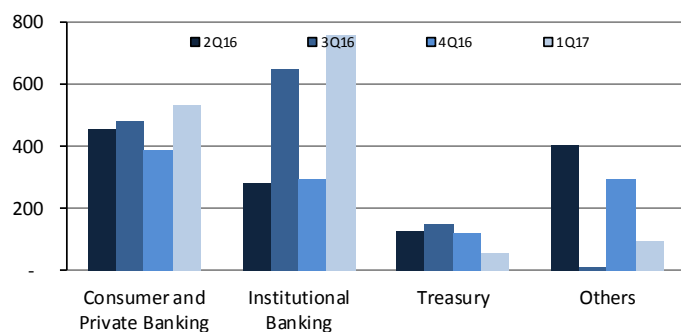


Fig 14: Net interest income trend

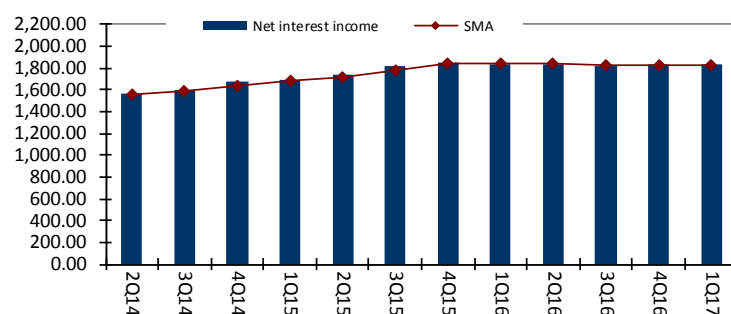


Fig 15: Fee and Commission trend

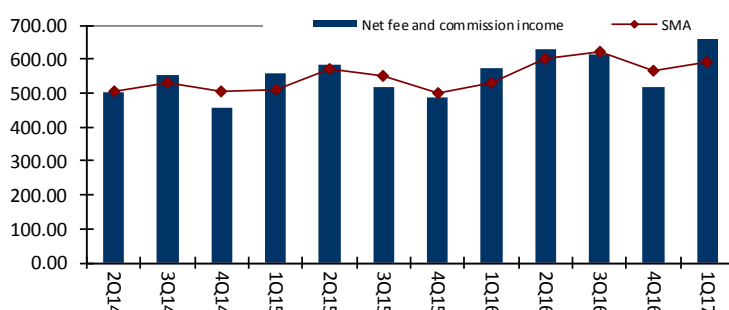
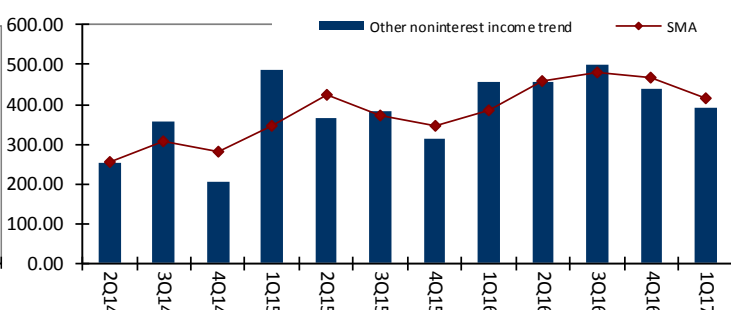


Fig 16: Other noninterest income trend



## Financials

### Income Statement

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17F	FY18F
Net Interest Income	6,321	7,100	7,305	7,452	7,600
Fees and Commission	2,027	2,144	2,331	2,435	2,491
Other Non interest income	1,468	1,679	1,853	2,278	1,995
<b>Total income</b>	<b>9,816</b>	<b>10,923</b>	<b>11,489</b>	<b>12,164</b>	<b>12,086</b>
Operating expenses	4,330	4,900	4,972	5,056	5,121
Provisions	667	743	1,434	1,095	696
<b>Operating profit</b>	<b>4,819</b>	<b>5,280</b>	<b>5,083</b>	<b>6,013</b>	<b>6,269</b>
Associates & JVs	79	14	0	0	0
<b>Profit Before Tax</b>	<b>4,898</b>	<b>5,294</b>	<b>5,083</b>	<b>6,013</b>	<b>6,269</b>
Taxation	713	727	723	789	840
<b>Profit After Tax</b>	<b>4,185</b>	<b>4,567</b>	<b>4,360</b>	<b>5,224</b>	<b>5,429</b>
Non-controlling Interest	139	113	122	128	127
<b>Net Income, reported</b>	<b>4,046</b>	<b>4,454</b>	<b>4,238</b>	<b>5,096</b>	<b>5,302</b>
<b>Net Income, adj. for one time item</b>	<b>3,848</b>	<b>4,318</b>	<b>4,238</b>	<b>5,096</b>	<b>5,302</b>

### Per share data (SGD)

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17F	FY18F
EPS, reported	1.63	1.71	1.73	2.03	2.04
DPS	0.58	0.60	0.60	0.60	0.60
BVPS	14.44	15.49	16.61	18.12	19.37

### Supplementary items

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17F	FY18F
CET1 CAR (%)	13.1%	13.5%	14.1%	14.6%	14.9%
Tier 1 CAR (%)	13.1%	13.5%	14.7%	15.2%	15.5%
Total CAR (%)	15.3%	15.4%	16.2%	16.7%	17.0%

### Balance Sheet

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17F	FY18F
Cash and bal with central banks	19,517	18,829	26,840	26,102	27,200
Due from banks	42,263	38,285	30,018	33,127	33,127
Govt, Bank & Corp Securities and T Bills	67,457	74,574	78,818	90,471	96,868
Derivatives	16,995	23,631	25,757	16,692	13,547
Goodwill and intangibles	5,117	5,117	5,117	5,115	5,115
Property and other fixed assets	1,485	1,547	1,572	1,459	2,176
Loans to non-bank customers	275,588	283,289	301,516	304,109	311,080
JV and Associates	995	1,000	890	933	1,000
Other assets	11,249	11,562	11,042	11,370	12,158
<b>Total Assets</b>	<b>440,666</b>	<b>457,834</b>	<b>481,570</b>	<b>489,378</b>	<b>502,271</b>
Due to banks	16,176	18,251	15,915	19,028	19,028
Deposits and balances from customers	317,173	320,134	347,446	352,854	365,456
Derivatives	18,755	22,145	24,497	16,692	13,547
Other liabilities	11,728	12,404	15,895	17,399	16,447
Other debt securities	31,963	38,078	27,745	30,316	30,737
Subordinated term debts	4,665	4,026	3,102	2,201	2,201
<b>Total liabilities</b>	<b>400,460</b>	<b>415,038</b>	<b>434,600</b>	<b>438,489</b>	<b>447,416</b>
Shareholder's equity	37,708	40,374	44,609	48,503	52,493
Non-controlling interest	2,498	2,422	2,361	2,385	2,363
<b>Total Equity</b>	<b>40,206</b>	<b>42,796</b>	<b>46,970</b>	<b>50,889</b>	<b>54,855</b>

### Valuation Ratios

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17F	FY18F
P/E (X), avg	11.8	11.7	10.3	8.7	9.0
P/B (X), avg	1.3	1.3	1.0	0.95	0.95
Dividend Yield (%)	3.3%	3.1%	3.5%	3.5%	3.3%

### Growth & Margins (%)

<b>Growth</b>					
Net interest income	13.5%	12.3%	2.9%	2.0%	0.5%
Net Fee and Commission Income	7.5%	5.8%	8.7%	4.4%	0.4%
Total income	7.9%	11.3%	5.2%	5.9%	0.4%
Profit before tax	9.3%	9.6%	-3.7%	18.3%	0.7%
Net income, reported	10.2%	10.1%	-4.8%	20.2%	1.0%
Net income, adj. for one time item	9.9%	12.2%	-1.9%	20.2%	1.0%

### Margins

Net interest margin	1.71%	1.84%	1.71%	1.74%	1.72%
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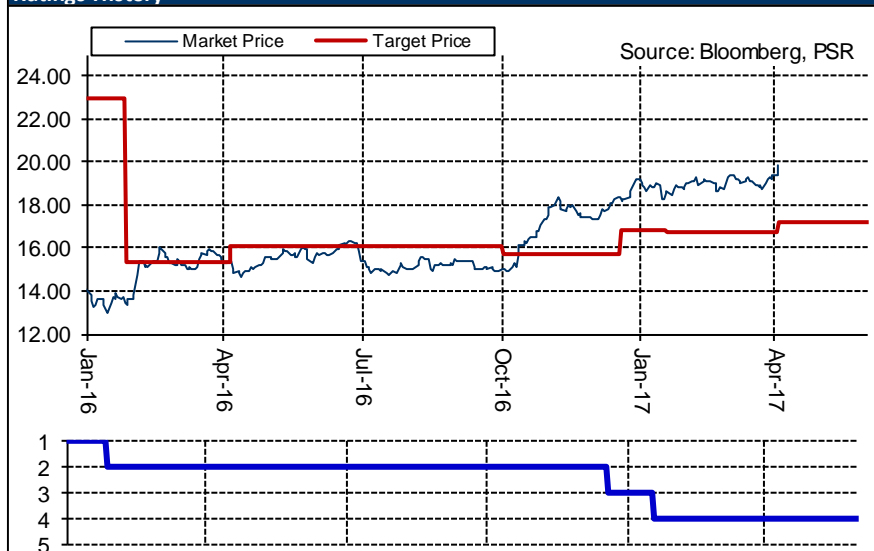
### Key Ratios (%)

ROE	11.2%	11.4%	10.0%	10.9%	10.4%
ROA	1.0%	1.0%	0.9%	1.0%	1.1%
RORWA	1.5%	1.6%	1.5%	1.7%	1.6%
Non-interest/total income ratio	35.6%	35.0%	36.4%	38.7%	37.1%
Cost/income ratio	44.1%	44.9%	43.3%	41.6%	42.4%
Loan/deposit ratio	86.9%	88.5%	86.8%	86.2%	85.1%
NPL ratio	0.87	0.91	1.45	1.49	1.37

Source: Company, Phillip Securities Research (Singapore) Estimates

\*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

### Ratings History



### PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

### Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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