

DBS Group Holdings Ltd

Standing Firm Amid Stiff Competition



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SINGAPORE | BANKING | UPDATE

- Finally see positive loan rate and volume dynamics as macro volatility continues to be low and economic recovery gains momentum.
- But as competition heats up, NII will be driven by loans volume growth.
- DBS is likely to outperform in a loans volume led growth as it has the largest amount of cheap CASA to compete with foreign banks for loans in Singapore.
- **Upgrade to “Accumulate” rating from “Reduce” rating with a higher target price of S\$21.45 (previous TP S\$17.92) based on Gordon Growth Model.**

What has changed? And why did we upgrade?

In our 2Q17 results, we alluded to unfavourable conditions that can continue to impact DBS’ total income growth – a) less headroom to expand LDR to improve NII b) unfavourable loan volume and rate dynamics caused by rising SIBOR despite economy is weakening. c) Competition in mature markets.

So we had initially thought the positive sentiments and low volatility post Trump Elections will be temporary but as it appears, a [sustained synchronous global recovery](#) is gaining momentum. Therefore we could continue to see positive loan rate and volume dynamics in 2H17 and early 2018 that will drive NII higher.

But competition within Singapore housing market remains stiff. For further reading, please refer to our [Sept Banking Sector Report](#).

As competition increase, we expect NII to be led by loans volume growth. Even though DBS has the highest LDR which gives it the least headroom to grow loans faster than deposits, DBS is our top pick because it has the highest Singapore CASA ratio of 91% and the largest overall deposit base of S\$342.9bn. This means UOB and OCBC will not be able to lend as much cheap loans as DBS. We believe this is the competitive edge DBS has over its peers against large banks like HSBC and BOC as they begin to compete for loans in Singapore.

18 September 2017

Accumulate (Upgrade)

LAST TRADED PRICE	SGD 20.06
FORECAST DIV	SGD 0.66
TARGET PRICE	SGD 21.45
TOTAL RETURN	10.22%

COMPANY DATA

BLOOMBERG TICKER	DBS SP
O/S SHARES (MN) :	2,556
MARKET CAP (USD mn / SGD mn) :	38078 / 5268
52 - WK HI/LO (SGD) :	22.25 / 14.8
3M Average Daily T/O (mn) :	4.27

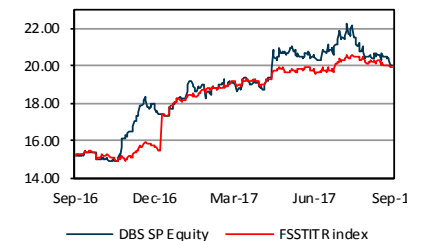
MAJOR SHAREHOLDERS (%)

Temasek Holdings Pte Ltd	29.37%
Vanguard Group	2.06%
Norges Bank Investment Management	197%
BlackRock	180%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(3.5)	(0.2)	38.1
STI RETURN	(2.40)	0.60	18.28

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 15	FY 16	FY 17e	FY 18e
Total Inc (SGDmn)	10,923	11,489	12,266	12,710
OpProfit (SGDmn)	5,280	5,083	6,007	6,673
NPAT (SGDmn)	4,567	4,360	5,235	5,754
EPS (SGD)	1.71	1.73	1.86	2.16
PER, (X)	11.7	10.3	10.8	9.3
P/BV, (X)	13	10	11	10
DPS (SGD)	0.60	0.60	0.66	0.66
ROE, (%)	11.4%	10.0%	10.7%	11.7%

Source: Bloomberg, Company, PSR

Valuation Method:

Gordon Growth Model (ERP: 6.7%, g: 2%)

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Valuation:

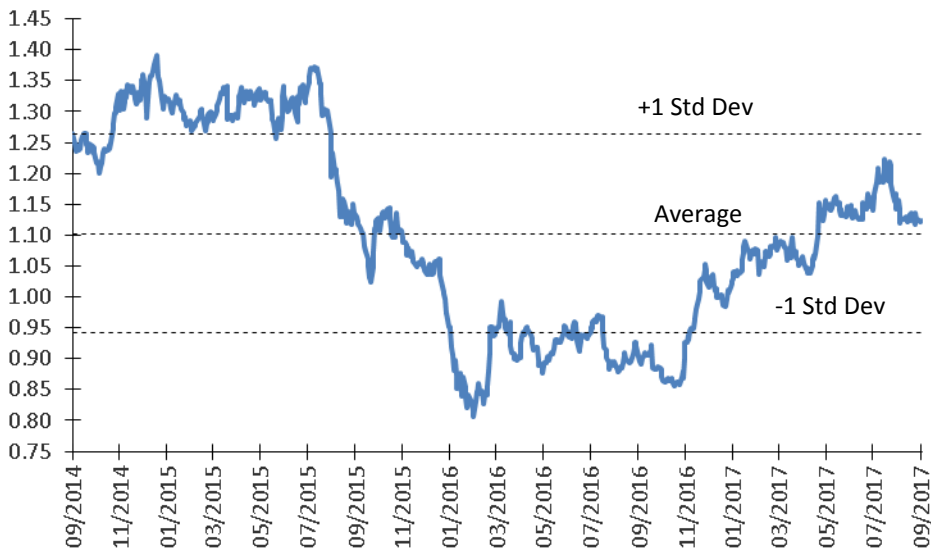
Gordon Growth Model

Item	Description	Value
R _f	Risk-free rate	2.0%
E	Equity-risk premium	6.7%
B	Beta	1.085
COE	Cost of Equity	9.3%
ROE	FY17e Return on Equity	10.7%
g	Terminal growth rate	2.0%
(ROE-g) / (COE-g)	FY17e Target Price to Book	1.20
	FY17e BVPS, S\$	17.90
	FY17e Valuation, S\$	21.45

List of Abbreviations

- WM – Wealth Management
- IBG – Institutional Banking Group
- CBG – Consumer Banking Group
- NII – Net Interest Income
- NIM – Net Interest Margin
- LDR – Loan to Deposit Ratio
- NPL – Non-performing Loans
- CASA – Current Account, Savings Account

3-Year Historical Price-to-Book



Investment Actions

Upgrade to “Accumulate” rating from “Reduce” rating with a higher target price of S\$21.45 (previous TP S\$17.92) based on Gordon Growth Model.

Financials

Income Statement

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
Net Interest Income	6,321	7,100	7,305	7,646	8,073
Fees and Commission	2,027	2,144	2,331	2,444	2,793
Other Non interest income	1,468	1,679	1,853	2,176	1,845
Total income	9,816	10,923	11,489	12,266	12,710
Operating expenses	4,330	4,900	4,972	5,101	5,324
Provisions	667	743	1,434	1,159	713
Operating profit	4,819	5,280	5,083	6,007	6,673
Associates & JVs	79	14	0	0	0
Profit Before Tax	4,898	5,294	5,083	6,007	6,673
Taxation	713	727	723	772	920
Profit After Tax	4,185	4,567	4,360	5,235	5,754
Non-controlling Interest	139	113	122	128	127
Net Income, reported	4,046	4,454	4,238	5,107	5,627
Net Income, adj.	3,848	4,318	4,238	4,757	5,627

Per share data (SGD)

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
EPS, reported	1.63	1.71	1.73	1.86	2.16
DPS	0.58	0.60	0.60	0.66	0.66
BVPS	14.44	15.49	16.61	17.90	19.23

Supplementary items

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
CET1 CAR (%)	13.1%	13.5%	14.1%	14.4%	14.8%
Tier 1 CAR (%)	13.1%	13.5%	14.7%	15.0%	15.3%
Total CAR (%)	15.3%	15.4%	16.2%	16.5%	16.8%

Balance Sheet

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
Cash and bal with central banks	19,517	18,829	26,840	18,092	20,064
Due from banks	42,263	38,285	30,018	33,198	33,198
Govt, Bank & Corp Sec & T Bills	67,457	74,574	78,818	92,989	99,575
Derivatives	16,995	23,631	25,757	15,336	10,207
Goodwill and intangibles	5,117	5,117	5,117	5,114	5,114
Property and other fixed assets	1,485	1,547	1,572	1,332	1,853
Loans to non-bank customers	275,588	283,289	301,516	311,238	319,572
JV and Associates	995	1,000	890	896	933
Other assets	11,249	11,562	11,042	11,881	10,785
Total Assets	440,666	457,834	481,570	490,076	501,302
Due to banks	16,176	18,251	15,915	22,709	22,709
Deposits from customers	317,173	320,134	347,446	346,498	358,135
Derivatives	18,755	22,145	24,497	15,336	10,207
Other liabilities	11,728	12,404	15,895	18,961	19,034
Other debt securities	31,963	38,078	27,745	34,099	34,593
Subordinated term debts	4,665	4,026	3,102	2,186	2,186
Total liabilities	400,460	415,038	434,600	439,789	446,863
Shareholder's equity	37,708	40,374	44,609	47,936	52,112
Non-controlling interest	2,498	2,422	2,361	2,350	2,328
Total Equity	40,206	42,796	46,970	50,287	54,439

Valuation Ratios

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
P/E (X), avg	11.8	11.7	10.3	10.8	9.3
P/B (X), avg	1.3	1.3	1.0	1.1	1.0
Dividend Yield (%)	3.3%	3.1%	3.5%	3.9%	3.6%

Growth & Margins (%)

Growth					
Net interest income	13.5%	12.3%	2.9%	4.7%	0.8%
Net Fee and Comm Inc	7.5%	5.8%	8.7%	4.9%	2.7%
Total income	7.9%	11.3%	5.2%	6.8%	1.1%
Profit before tax	9.3%	9.6%	-3.7%	18.2%	0.9%
Net income, reported	10.2%	10.1%	-4.8%	20.5%	1.0%
Net income, adj.	9.9%	12.2%	-1.9%	12.3%	1.0%

Margins

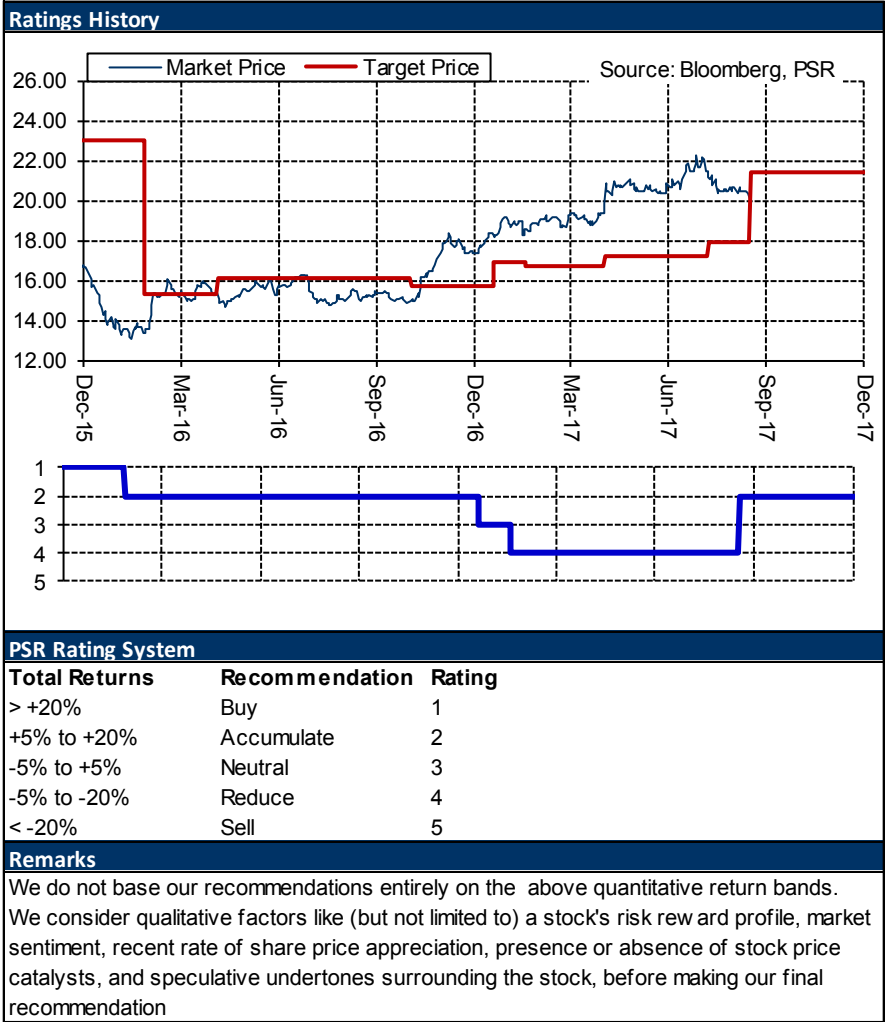
Net interest margin	1.71%	1.84%	1.71%	1.80%	1.80%
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Key Ratios (%)

ROE	10.9%	11.3%	10.4%	10.7%	11.7%
ROA	0.9%	1.0%	0.9%	1.0%	1.1%
RORWA	1.5%	1.6%	1.5%	1.7%	1.8%
Non-interest/total income ratio	35.6%	35.0%	36.4%	37.7%	36.5%
Cost/income ratio	44.1%	44.9%	43.3%	41.6%	41.9%
Loan/deposit ratio	86.9%	88.5%	86.8%	89.8%	89.2%
NPL ratio	0.87	0.91	1.45	1.44	1.32

Source: Company, PSR

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



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