

DBS Group Holdings Ltd

Inflection point



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SINGAPORE | BANKING | 1Q21 RESULTS

2 May 2021

- 1Q21 earnings above, at 34.5% of our FY21e forecast. The strong beat came from net fee income and a S\$190mn reversal in GPs.
- NIM fell 37bps to 1.49%, at the upper-end of guidance. Loan growth of 7% YoY cushioned NII. NIM was unchanged from last quarter.
- Fees and commissions surged 15% YoY, rising above pre-COVID levels.
- Credit cost stabilised, resulting in a general allowance write-back of S\$190mn and SPs returning to pre-pandemic S\$200mn or 21 basis points. Total allowances in FY21e likely to be below S\$1bn.
- Maintain ACCUMULATE with higher GGM TP of S\$31.40, from S\$29.50.** We raise FY21e earnings by 5.6% as we lower our allowance estimates and crank up our fee income estimates. We now assume 1.36x FY21e P/BV in our GGM valuation, up from 1.31x.

ACCUMULATE (Maintain)

LAST TRADED PRICE	SGD 29.91
FORECAST DIV	SGD 1.17
TARGET PRICE	SGD 31.40
DIVIDEND YIELD	3.9%
TOTAL RETURN	8.9%

COMPANY DATA

BLOOMBERG TICKER	DBS SP
O/S SHARES (MN) :	2,556
MARKET CAP (USD mn / SGD mn) :	57479 / 76459
52 - WK HI/LO (SGD) :	30.12 / 18.91
3M Average Daily T/O (mn) :	4.97

Results at a glance

(SGD mn)	1Q21	1Q20	YoY	4Q20	QoQ (%)	Comments
Net Interest Income	2,107	2,482	(15%)	2,120	(1%)	NII up 2% QoQ on day-adjusted basis from stable NIM and loan growth of 3%.
Net Fees & Comm	953	832	15%	747	28%	Boosted by broad-based growth; led by strong growth in wealth management fees (+24% YoY) and transaction services.
Other non-interest income	794	712	12%	396	101%	Other non-II grew 12% as trading income doubled. Treasury markets and non-II and treasury customer income also boosted this segment.
Total Income	3,854	4,026	(4%)	3,263	18%	
Expenses	(1,587)	(1,556)	2%	(1,580)	0%	
Profit before allowances	2,267	2,470	(8%)	1,683	35%	
Allowances	(10)	(1,086)	n.m.	(577)	(98%)	Stabilising asset quality resulted in a general allowance write-back of S\$190mn.
PATMI	2,009	1,165	72%	1,012	99%	

Source: Company, PSR

The Positives

+ Net Interest Income up 2% QoQ on day-adjusted basis

Net interest income grew 2% QoQ to S\$2.11bn, adjusted for the number of days in the quarter. NIM was unchanged at 1.49% QoQ, and remained at the upper-end of its guidance.

Loans growth was broad-based, and grew 3% QoQ in constant-currency terms while deposits increased 2% from the previous quarter.

+ Net fee income increased 15% YoY rising above pre-COVID levels

Wealth-management fees increased 24% to a record S\$519mn on the back of strong investor demand for a wide range of investment products in a low-interest-rate environment. Transaction services were up 10% to a new high of S\$230mn as trade finance and cash management fees mitigated a fall in card-related fees.

Investment banking fees jumped 36% from higher fixed income and equity-market activities. Management guided that the pipeline for both debt and equity capitals remains healthy.

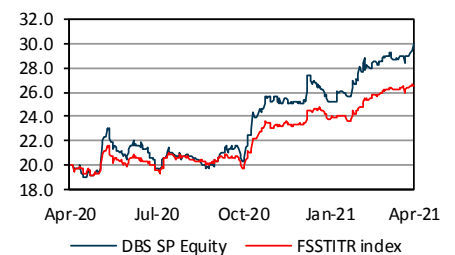
MAJOR SHAREHOLDERS (%)

Temasek Holdings Pte Ltd	30.2%
Capital Group Cos Inc	5.0%
Vanguard Group Inc	2.5%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	4.54	19.53	20.19
STI RETURN	2.00	11.62	13.99

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 19	FY 20	FY 21e	FY 22e
Total Inc (SGD mn)	14,544	14,592	14,180	14,923
Op Profit (SGD mn)	7,583	5,368	6,920	7,483
NPAT (SGD mn)	6,429	4,756	6,143	6,804
EPS (SGD)	2.51	1.81	2.33	2.34
PER, (X)	10.3	14.4	11.2	11.1
P/BV, (X)	1.4	1.3	1.1	1.1
DPS (SGD)	1.23	0.87	1.17	1.32
ROE	13.1%	9.2%	10.4%	12.3%

Source: Bloomberg, Company, PSR

Valuation Method:

Gordon Growth Model (COE: 8.2%, g: 2.0%)

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+ Credit cost stabilising, resulting in GP write-back of S\$190mn

Stabilising asset quality allowed the bank to write-back S\$190mn of GPs. SPs of S\$200mn or 21 basis points back to pre-pandemic levels. Delinquencies for both corporate and consumer segments stayed low despite the tapering of loan moratoriums.

FY21 allowances likely to be below S\$1bn vs. S\$3bn in FY20. GP reserves at S\$4.13bn, in excess of MAS' requirement by 31%.

We believe FY21 provisions is sufficient to account for asset-quality deterioration in FY21 and expect credit costs to normalise to pre-COVID levels along with the economic recovery.

The Negative

- No indication when MAS will lift dividend cap

In 2020, MAS had called on local banks to cap their total DPS at 60% of the amount in FY19. As it has yet to lift the dividend cap, DBS declared dividends of 18 Singapore cents per share for 1Q21.

With its capital and liquidity – CET-1 ratio of 14.3% in 1Q21 vs. 13.9% last year - well above regulatory requirements and high allowance reserves, we believe the bank will revert to 33 cents per quarter or an annualised DPS of S\$1.32 once the cap is lifted. We do not rule out special dividends.

Outlook

Business momentum strong

Singapore's latest economic data confirm a strengthening of the global economic rebound. Business momentum, hence, is expected to be strong. We upgrade our estimates for FY21e and FY22e fee income by 2.6% and 2.7% respectively. We also lower allowance estimates for FY21e. Consequently, our earnings for FY21e/FY22e are raised by 5.6%/1.0%.

Acquisitions to drive future growth

DBS' LVB consolidation will expand the bank's footprint in India. Earlier operating concerns have waned after DBS took decisive action to provide for NPAs.

The bank's recent acquisition of a 13% stake in Shenzhen Rural Commercial Bank for RMB 5.3bn or S\$1.1bn - at 1.01x FY20 P/BV - should also allow it to tap growth opportunities in the Greater Bay Area. The acquisition – subject to approval from China Securities Regulatory Commission – should help it further penetrate the Chinese consumer market and is expected to be immediately earnings- and ROE- accretive. On a pro-forma basis assuming DBS had owned a 13% stake in Shenzhen Rural Commercial Bank since the start of 2020, the acquisition would translate to about S\$113mn of associate income to DBS, assuming an exchange rate of RMB4.90/1.

Investment Action

Maintain ACCUMULATE with higher target price of S\$31.40, up from S\$29.50

We raise FY21e earnings by 5.6% as we lower allowances and crank up fee income estimates for FY21e. We now assume 1.36x FY21e P/BV in our GGM valuation, up from 1.31x, as we raise our ROE estimates modestly to 10.4% and increased the book value.

List of Abbreviations

CET-1 ratio – Common Equity Tier 1
 NII – Net Interest Income
 Non-II – Non-Interest Income
 NIM – Net Interest Margin
 GP – general provisions
 WM – Wealth Management

Valuation: Gordon Growth Model

Item	Description	Value
R_f	Risk-free rate	1.1%
E	Equity-risk premium	5.9%
B	Beta	1.2
COE	Cost of Equity	8.2%
ROE	Return on Equity	10.4%
g	Terminal growth rate	2.0%
(ROE-g)/ (COE-g)	Target Price to Book	1.36
	BVPS, S\$	23.08
	Valuation, S\$	31.40

Source: PSR

Financials

Income Statement

Y/E Dec, SGD mn	FY18	FY19	FY20	FY21e	FY22e
Net Int Income	8,955	9,625	9,076	8,777	9,038
Fees and Commission	2,780	3,052	3,058	3,513	3,868
Other Non int income	1,448	1,867	2,458	1,889	2,017
Total income	13,183	14,544	14,592	14,180	14,923
Operating expenses	(5,814)	(6,258)	(6,158)	(6,488)	(6,643)
Provisions	(710)	(703)	(3,066)	(772)	(797)
Operating profit	6,659	7,583	5,368	6,920	7,483
Associates & JVs	0	0	0	0	0
Profit Before Tax	6,659	7,583	5,368	6,920	7,483
Taxation	(1,006)	(1,154)	(612)	(777)	(679)
Profit After Tax	5,653	6,429	4,756	6,143	6,804
Non-controlling Interest	76	38	35	66	30
Net Income, reported	5,653	6,429	4,721	6,143	6,804
Net Income, adj.	5,653	6,429	4,721	6,143	6,804

Per share data (SGD)

Y/E Dec	FY18	FY19	FY20e	FY21e	FY22e
EPS, reported	2.17	2.51	1.81	2.33	2.34
DPS	1.20	1.23	0.87	1.17	1.32
BVPS	18.12	19.17	20.08	23.08	23.35
Dividend Pay-out Ratio	55.4%	49.0%	48.1%	50.3%	56.4%

Supplementary items

Y/E Dec	FY18	FY19	FY20e	FY21e	FY22e
CET1 CAR	13.9%	14.1%	13.9%	14.2%	14.2%
Tier 1 CAR	15.1%	15.0%	15.0%	15.1%	15.1%
Total CAR	16.9%	16.7%	16.8%	16.9%	16.9%

Valuation Ratios

Y/E Dec	FY18	FY19	FY20e	FY21e	FY22e
P/E (X), avg	12.0	10.3	14.4	11.2	11.1
P/B (X), avg	1.4	1.4	1.3	1.1	1.1
Dividend Yield	4.6%	4.7%	3.3%	4.5%	5.1%

Growth & Margins

Growth					
Net interest income	14.9%	7.5%	-5.7%	-3.3%	3.0%
Net Fee and Comm Inc	6.0%	9.8%	0.2%	14.9%	10.1%
Total income	10.6%	10.3%	0.3%	-2.8%	5.2%
Profit before tax	28.7%	13.9%	-29.2%	28.9%	8.1%
Net income, adj.	29.3%	13.7%	-26.6%	30.1%	10.8%

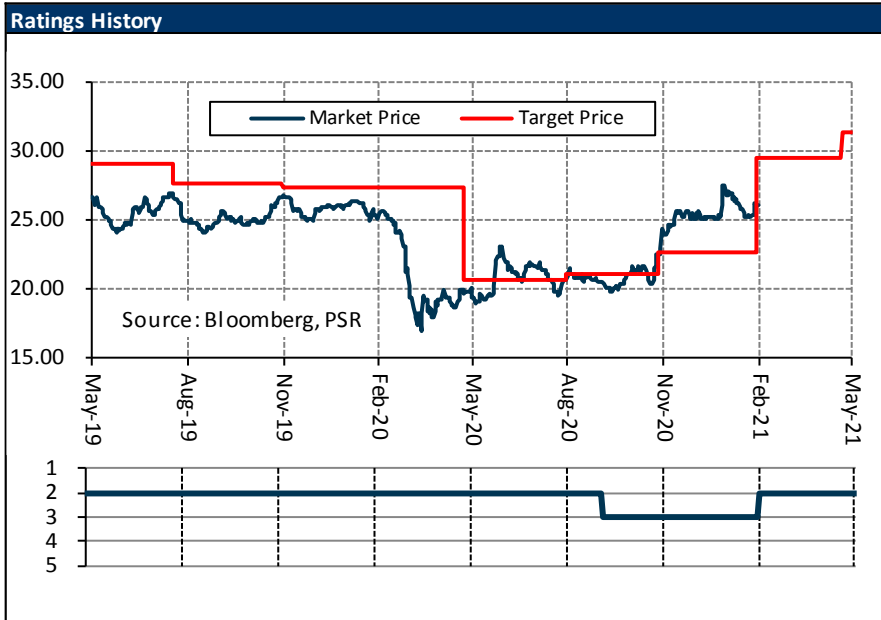
Margins

Net interest margin	1.85%	1.89%	1.62%	1.47%	1.48%
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Key Ratios

ROE	12.4%	13.1%	9.2%	10.4%	12.3%
ROA	1.1%	1.1%	0.7%	0.9%	1.0%
RORWA	2.0%	2.2%	1.5%	1.8%	2.1%
Non-interest/total income ratio	32.1%	33.8%	37.8%	38.1%	39.4%
Cost/income ratio	-44.1%	-43.0%	-42.2%	44.5%	-44.5%
Loan/deposit ratio	87.6%	88.5%	79.8%	79.8%	85.1%
NPL ratio	1.5%	1.5%	1.7%	1.8%	1.5%

Source: Company, Phillip Securities Research (Singapore) Estimates



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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