

DBS Group Holdings Ltd

Last NIM Rally



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SINGAPORE | BANKING | 2Q19 RESULTS

30 July 2019

- 2Q19 Revenue and PATMI grew 15.8% YoY and 20.2% YoY respectively. Exceeding our estimates by 4-5%.
- Stronger than expected 2Q19 NIM of 1.91%. NIM expanded 6bps YoY and 3bps QoQ as loans were repriced with higher interest rates in Singapore and Hong Kong.
- Loans growth slowed to 3.7% YoY, with an increase in non-trade corporate loans offset by the continued decline in housing loan growth.
- Declared a quarterly dividend of 30 cents per share. We forecast 2019 dividend of \$1.20/share.
- Maintain ACCUMULATE at a lower target price of S\$27.60.** Our TP is based on target price-to-book of 1.4x, derived from the Gordon Growth model (long term ROE assumption: 12.5%, COE: 9.3% (Beta: 1.2x), Growth: 2.0%). We toned down terminal growth from 2.5% to 2.0%.

Results at a glance

(SGD mn)	2Q19	2Q18	YoY (%)	1Q19	QoQ (%)	Comments
NII	2,429	2,224	9.2%	2,310	5.2%	NIM expanded 6bps YoY. Loans grew 3.7% YoY.
Net Fees & Comm	767	706	8.6%	730	5.1%	Record fee income led by wealth management, cards and investment banking fees growth.
Other Non-II	513	273	87.9%	511	0.4%	Rebound in trading income by 57% from weak performance a year ago, and gains from investment securities quadrupled from a low base.
Total Income	3,709	3,203	15.8%	3,551	4.4%	
Expenses	1,546	1,422	8.7%	1,498	3.2%	Positive JAWS resulted in 2 p.p. improvement in CIR to 42%.
Allowance	251	105	139.0%	76	230.3%	Rise in allowances was a move to build up some GP buffers due to uncertainties in the environment.
PATMI	1,603	1,334	20.2%	1,651	-2.9%	

Source: Company, PSR

The Positives

+ Record NIM in 1Q19 broke new high in 2Q at 1.91%. NIM rose 6bps YoY and 3bps QoQ to 1.91% due to stronger than anticipated hold up of SIBOR and HIBOR, combined with higher push-through of loan repricing. We expect modest headwind impact from potential US interest rate cuts in 2H19 and DBS guided that each 25bps fed rate cut in 3Q and 4Q could translate into a 1bps and 1-2bps NIM contraction respectively. However, DBS built up some longer-term positions and a similar lag repricing effect of lower interest rates should provide some buffer. We previously expected a couple more quarters of NIM expansion from 1Q's 1.88% before reaching 1.90%. However, with a strong 2Q NIM, we believe NIM has reached its peak this quarter and would contract from 3Q onwards. We lower our NIM forecast for 2019 and 2020 NIM to 1.89% & 1.88% respectively.

+ CIR well contained, improving 2p.p. to 42%. Positive JAWS resulted in improvement in CIR with well-managed expenses. We expect full-year CIR to be higher at 43% due to seasonality movements with staff costs and 2H CIR to be slightly higher.

+ Rebound in other non-interest income by 87.9% YoY. Trading income rose 57.3% to \$357mn while gains on investment securities quadrupled to \$131mn from a low base. Compared to the previous quarter, non-interest income was little changed as a decline in trading income was offset by higher gains on investment securities.

ACCUMULATE (Maintained)

LAST TRADED PRICE	SGD 26.6
FORECAST DIV	SGD 1.2
TARGET PRICE	SGD 27.6
TOTAL RETURN	7.9%

COMPANY DATA

BLOOMBERG TICKER	DBS SP
O/S SHARES (MN) :	2,555
MARKET CAP (USD mn / SGD mn) :	49566 / 67865
52 - WK HI/LO (SGD) :	28.64 / 22.65
3M Average Daily T/O (mn) :	4.54

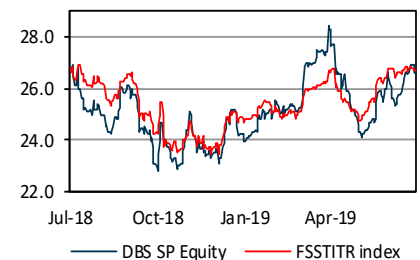
MAJOR SHAREHOLDERS (%)

Temasek Holdings Pte Ltd	30.0%
Capital Group Cos Inc	4.4%
Vanguard Group Inc	2.3%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	2.6	(3.0)	4.1
STI RETURN	1.2	0.03	4.76

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY17	FY18	FY19e	FY20e
Total Inc (SGD mn)	11,924	13,183	14,453	15,312
Op Profit (SGD mn)	5,175	6,659	7,258	7,632
NPAT (SGD mn)	4,504	5,653	6,136	6,496
EPS (SGD)	1.69	2.17	2.46	2.42
PER, (X)	15.7	12.3	10.8	11.0
P/BV, (X)	15	15	14	12
DPS (SGD)	1.43	1.20	1.20	1.30
ROE	9.9%	12.3%	12.8%	12.2%

Source: Bloomberg, Company, PSR

Valuation Method:

Gordon Growth Model (COE: 9%, g: 2.0%)

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The Negatives

- **A moderate rise in GP with a net increase of \$57mn QoQ to reflect heightened economic uncertainty and geopolitical tensions.** DBS took a more conservative stance this quarter by building up some GP due to the overall uncertainty in the environment. Due to the ultra-conservative stance DBS made over the years, there is potential upside in the next 1-2 years with opportunities to sharpen some of the cumulative allowances made as well as possible recoveries.

- **Gross customer loans grew 3.70% YoY to \$355bn, the slowest in 3 years.** The growth this quarter was driven by corporate non-trade loans from broad-based activities across the region offset by the continued decline in housing loan growth. Some of the drawdown in the loans pipeline did not materialize due to uncertainties in the environment resulted in slower loan growth. DBS guided for some pick up in trade loan growth in 2H19 due to festive seasonality and new mortgage bookings in 2Q to translate to more drawdowns in 3Q onwards. DBS maintains a mid-single-digit loan growth guidance for 2019.

List of Abbreviations

WM – Wealth Management
IB – Investment Banking
IBG – Institutional Banking Group
CBG – Consumer Banking Group
NII – Net Interest Income
Non-II – Non-Interest Income
NIM – Net Interest Margin
LDR – Loan to Deposit Ratio
NPL – Non-performing Loans
CASA – Current Account, Savings Account
O&G – Oil and Gas
SP – specific provisions
GP – general provisions
AUM – Asset Under Management
CIR – Cost-to-income ratio
P.P. – Percentage points

Figure 1: DBS FY19e guidance vs. PSR estimates

Assumptions	DBS	PSR
Loans growth (%)	5-6%	5.0%
NIM (%)	1.90%	1.89%
CIR (%)	43%	43%
Credit cost (bps)	25	26

Source: Company, PSR

Investment Actions

Maintain ACCUMULATE at a lower target price of S\$27.60. Our TP is based on target price-to-book of 1.4x, derived from the Gordon Growth model (long term ROE assumption: 12.5%, COE: 9.3% (Beta: 1.2x), Growth: 2.0%). We toned down terminal growth from 2.5% to 2.0%.

Dividend yield support. We forecast FY19 DPS of \$1.20, giving a 4.5% dividend yield support.

Valuation: Gordon Growth Model

Item	Description	Value
R_f	Risk-free rate	2.6%
E	Equity-risk premium	5.5%
B	Beta	1.2
COE	Cost of Equity	9.3%
ROE	Return on Equity	12.5%
g	Terminal growth rate	2.0%
(ROE-g)/ (COE-g)	Target Price to Book	1.44
	BVPS, S\$	19.2
	Valuation, S\$	27.6

Figure 2: Growth in revenue

SGD mn	2Q19	2Q18	YoY (%)	1Q19	QoQ (%)
Net interest inc	2,429	2,224	9.2%	2,310	5.2%
Net fee and comm inc	767	706	8.6%	730	5.1%
Other non-interest inc	513	273	87.9%	511	0.4%
Total	3,709	3,203	15.8%	3,551	4.4%

Total income for 1H19 rose 11% to a new high of \$7.26 billion, underpinned by corporate loan growth, higher net interest margin, record fee income and improved trading performance.

Figure 3: Fee and commission income

SGD mn	2Q19	2Q18	YoY (%)	1Q19	QoQ (%)
Brokerage	30	38	-21.1%	29	3.4%
Investment banking	56	39	43.6%	22	154.5%
Transaction Services	182	178	2.2%	188	-3.2%
Loan related	98	91	7.7%	108	-9.3%
Cards	198	171	15.8%	189	4.8%
Wealth management	332	300	10.7%	315	5.4%
Fee and comm expense	(129)	(111)	16.2%	(121)	6.6%
Total	767	706	8.6%	730	5.1%

2Q19 gross fee income up 10% YoY, led by wealth management, cards and investment banking.

Figure 4: Other non-interest income

SGD mn	2Q19	2Q18	YoY (%)	1Q19	QoQ (%)
Net trading income	357	227	57.3%	443	-19.4%
Net income on Fin Invnt	131	30	336.7%	53	147.2%
Others (inc. rental and assoc)	25	16	56.3%	15	66.7%
Total other non int inc	513	273	87.9%	511	0.4%

Other non-interest income rose 88% from a weak year-ago performance to \$513 million. Trading income increased 57% to \$357 million while gains on investment securities quadrupled to \$131 million.

Figure 5: Loans by Industries

SGD mn	2Q19	2Q18	YoY (%)	1Q19	QoQ (%)
Manufacturing	40,530	35,178	15.2%	40,740	-0.5%
Building & construction	77,596	70,421	10.2%	76,444	1.5%
Housing loans	73,850	73,968	-0.2%	74,441	-0.8%
General commerce	47,400	53,153	-10.8%	46,656	1.6%
Tpt, storage & comms	30,697	30,729	-0.1%	30,835	-0.4%
Fis, invt & holding co	22,934	20,445	12.2%	22,416	2.3%
Professionals & Pri inv	32,695	31,309	4.4%	31,652	3.3%
Others	29,663	27,468	8.0%	28,589	3.8%
Total loans	355,365	342,671	3.7%	351,773	1.0%

During the quarter, loan growth was due to both trade and non-trade corporate loans. Consumer loans were little changed as a continued decline in housing loans was offset by growth in other consumer loans.

Figure 6: Loans by currencies

SGD mn	2Q19	2Q18	YoY (%)	1Q19	QoQ (%)
Singapore dollar	143,815	137,588	4.5%	142,310	1.1%
US dollar	107,793	107,873	-0.1%	110,109	-2.1%
Hong Kong dollar	42,672	41,648	2.5%	41,568	2.7%
Chinese yuan	13,017	12,926	0.7%	12,870	1.1%
Others	48,068	42,636	12.7%	44,916	7.0%
Total loans	355,365	342,671	3.7%	351,773	1.0%

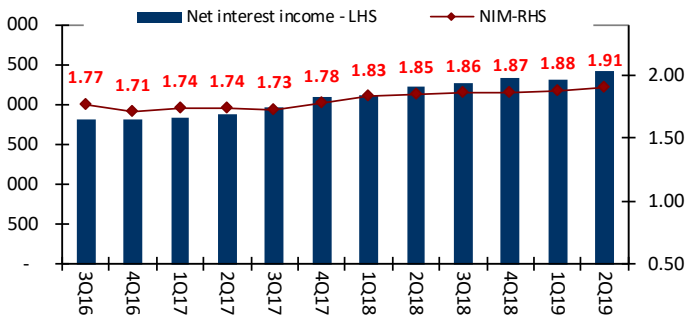
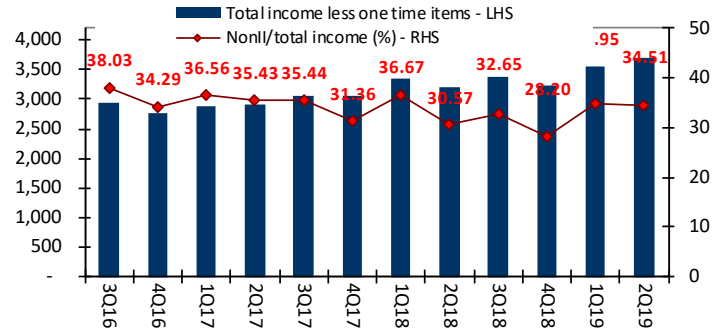
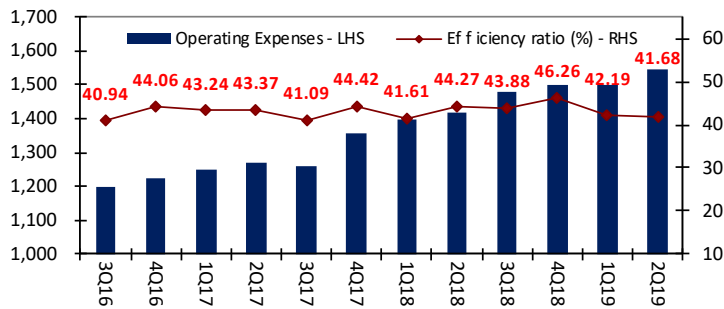
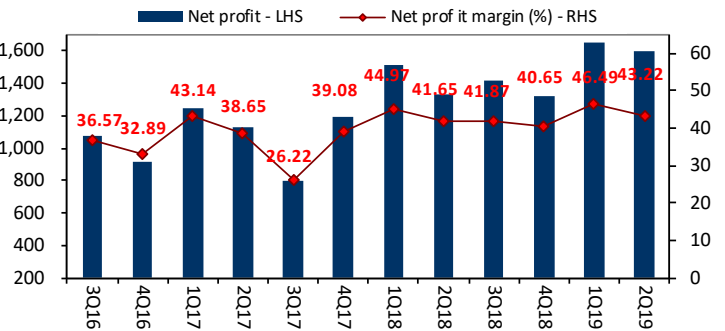
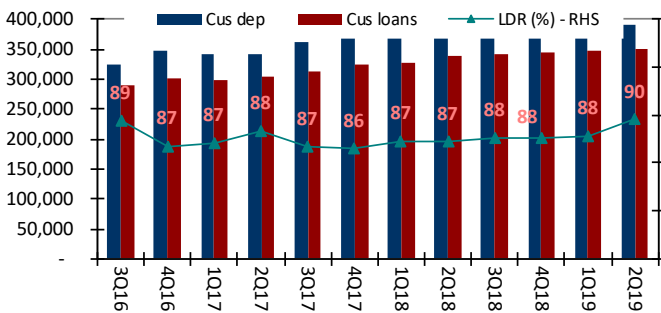
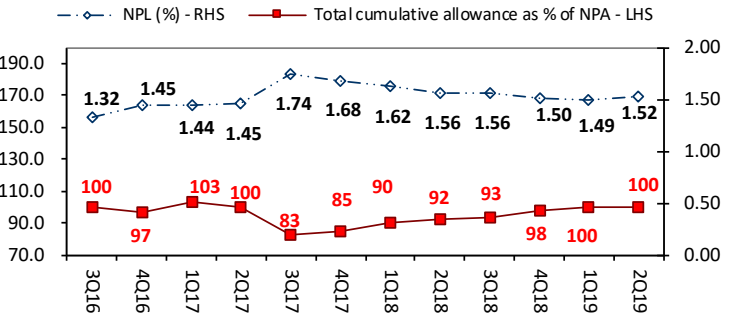
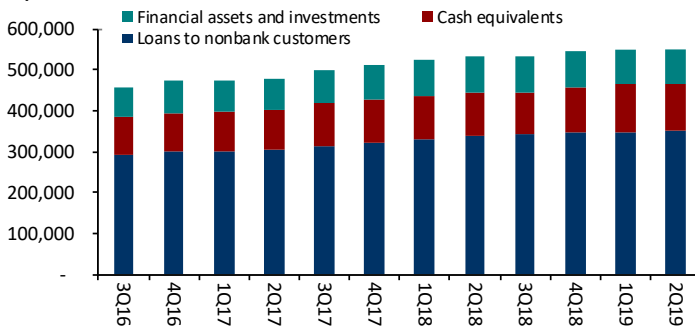
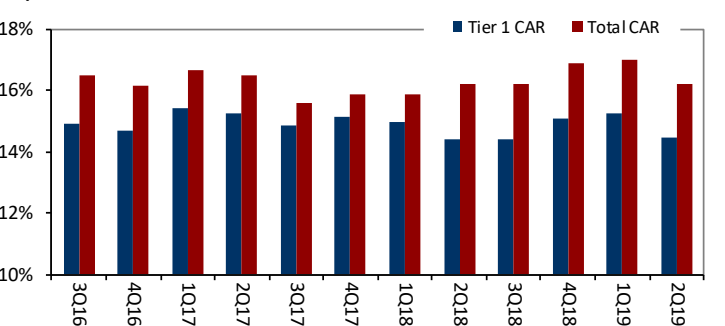
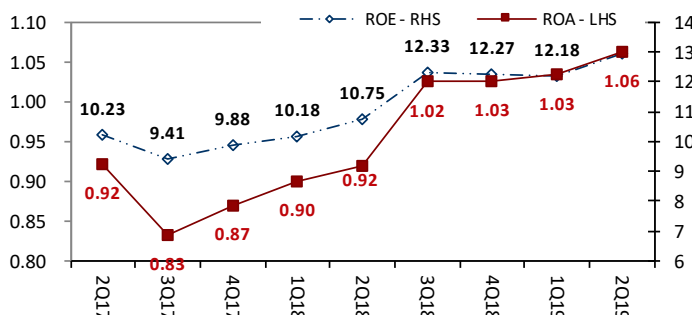
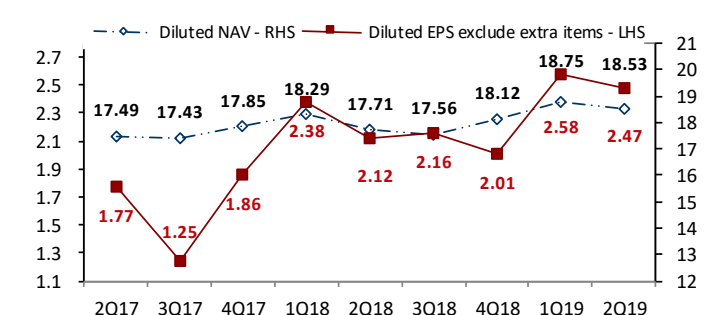
Figure 7: Revenue by Business segments

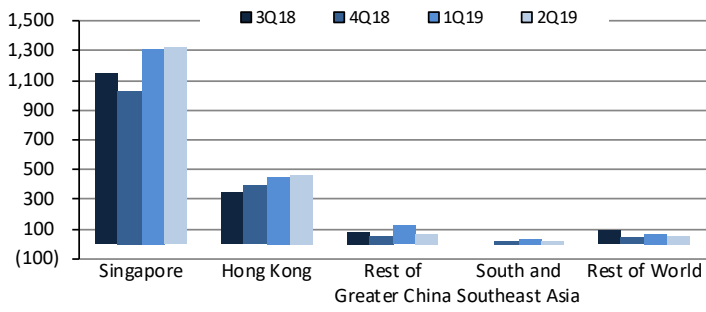
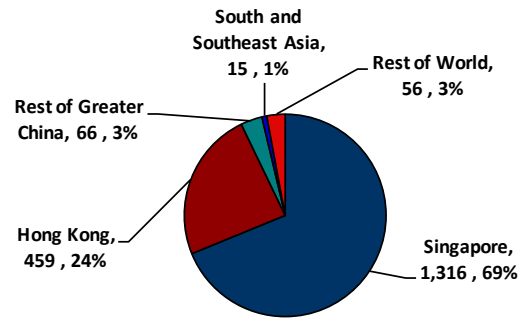
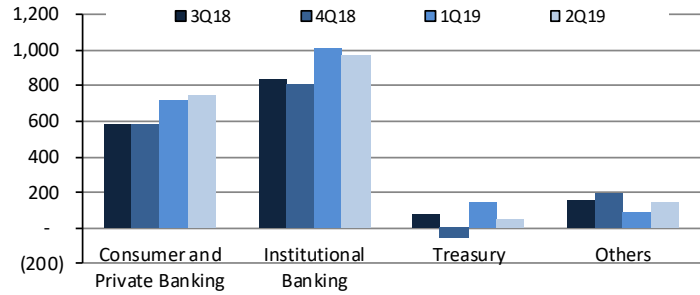
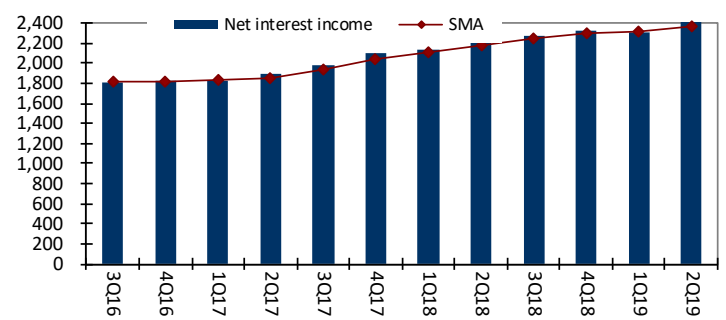
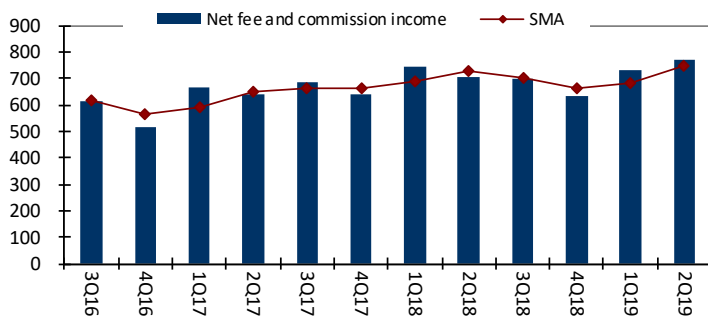
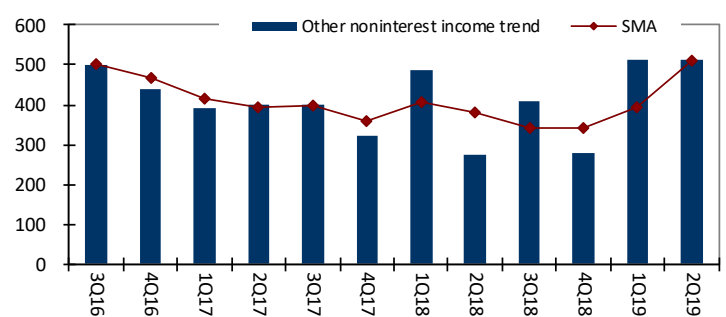
SGD mn	2Q19	2Q18	YoY (%)	1Q19	QoQ (%)
Consumer/Priv Banking	1,609	1,399	15.0%	1,557	3.3%
Institutional Banking	1,538	1,421	8.2%	1,499	2.6%
Treasury	202	107	88.8%	293	-31.1%
Others	360	276	30.4%	202	78.2%
Total Revenue	3,709	3,203	15.8%	3,551	4.4%

Figure 8: Revenue by Geographical segments

SGD mn	2Q19	2Q18	YoY (%)	1Q19	QoQ (%)
Singapore	2,364	1,977	19.6%	2,236	5.7%
Hong Kong	752	650	15.7%	707	6.4%
Rest of Greater China	254	300	-15.3%	283	-10.2%
South and SE Asia	241	197	22.3%	232	3.9%
Rest of the world	98	79	24.1%	93	5.4%
Total Revenue	3,709	3,203	15.8%	3,551	4.4%

Source (Figure 2 to 8): Company, PSR

Graph 1: Net interest margin

Graph 2: Nonll/Total Income

Graph 3: Efficiency ratio

Graph 4: Net profit margin

Graph 5: Deposits, Loans, LDR

Graph 6: NPA, NPL

Graph 7: Growth in selected asset items

Graph 8: CAR

Graph 9: ROE and ROA

Graph 10: EPS and NBV


Graph 11: Profit before tax by geographical segment

Graph 12: Profit before tax by Geographical segment breakdown

Graph 13: Profit before tax by business segment

Graph 14: Net interest income trend

Graph 15: Fee and Commission trend

Graph 16: Other noninterest income trend


Financials

Income Statement

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Net Int Income	7,305	7,791	8,955	9,705	10,082
Fees and Commission	2,331	2,622	2,780	2,964	3,299
Other Non int income	1,853	1,511	1,448	1,784	1,931
Total income	11,489	11,924	13,183	14,453	15,312
Operating expenses	4,972	5,205	5,814	6,260	6,740
Provisions	1,434	1,544	710	935	939
Operating profit	5,083	5,175	6,659	7,258	7,632
Associates & JVs	0	0	0	0	0
Profit Before Tax	5,083	5,175	6,659	7,258	7,632
Taxation	723	671	1,006	1,122	1,137
Profit After Tax	4,360	4,504	5,653	6,136	6,496
Non-controlling Interest	122	133	76	60	67
Net Income, reported	4,238	4,371	5,577	6,076	6,428
Net Income, adj.	4,238	4,371	5,577	6,076	6,428

Per share data (SGD)

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	1.73	1.69	2.17	2.46	2.42
DPS	0.60	1.43	1.20	1.20	1.30
BVPS	16.61	17.85	18.12	19.16	21.98
Dividend Pay-out Ratio	34.6%	84.4%	55.4%	48.7%	53.6%

Supplementary items

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
CET1 CAR	14.1%	14.3%	13.9%	14.0%	15.3%
Tier 1 CAR	14.7%	15.1%	15.1%	15.1%	16.6%
Total CAR	16.2%	15.9%	16.9%	16.9%	18.5%

Balance Sheet

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Cash and bal w central banks	26,840	26,463	22,185	26,835	33,113
Due from banks	30,018	35,975	40,178	44,557	46,366
Govt, Bank & Corp Sec & T Bills	78,818	95,342	105,475	112,897	114,149
Derivatives	25,757	17,585	17,029	16,887	17,053
Goodwill and intangibles	5,117	5,165	5,175	5,170	5,170
Property and other fixed assets	1,572	1,233	1,450	1,283	4,396
Loans to non-bank customers	301,516	323,099	345,003	361,438	378,020
JV and Associates	890	783	838	845	852
Other assets	11,042	12,066	13,418	14,183	13,702
Total Assets	481,570	517,711	550,751	584,096	612,822
Due to banks	15,915	17,803	22,648	28,090	31,615
Deposits from customers	347,446	373,634	393,785	404,787	420,857
Derivatives	24,497	18,003	16,692	16,957	17,053
Other liabilities	15,895	16,615	18,440	23,742	25,660
Other debt securities	27,745	40,716	45,712	54,218	54,228
Subordinated term debts	3,102	1,138	3,599	3,572	3,572
Total liabilities	434,600	467,909	500,876	531,365	552,984
Shareholder's equity	44,609	47,458	49,045	51,977	59,171
Non-controlling interest	2,361	2,344	830	753	667
Total Equity	46,970	49,802	49,875	52,731	59,838

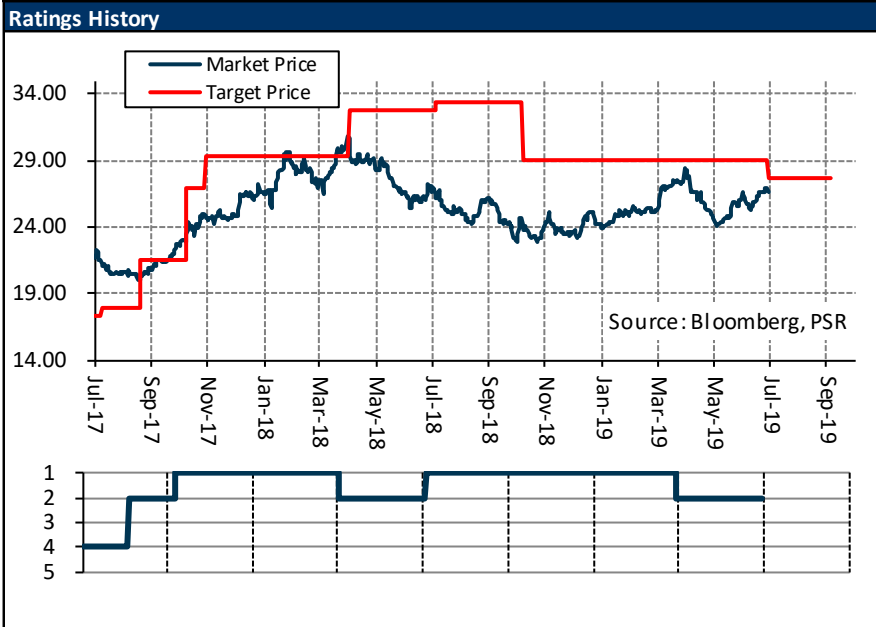
Valuation Ratios

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
P/E (X), avg	15.4	15.7	12.3	10.8	11.0
P/B (X), avg	1.6	1.5	1.5	1.4	1.2
Dividend Yield	2.3%	5.4%	4.5%	4.5%	4.9%

Growth & Margins

Growth					
Net interest income	2.9%	6.7%	14.9%	8.4%	3.9%
Net Fee and Comm Inc	8.7%	12.5%	6.0%	6.6%	11.3%
Total income	5.2%	3.8%	10.6%	9.6%	5.9%
Profit before tax	-3.7%	1.8%	28.7%	9.0%	5.2%
Net income, reported	-4.8%	3.1%	27.6%	9.0%	5.8%
Net income, adj.	-1.9%	3.1%	27.6%	9.0%	5.8%
Margins					
Net interest margin	1.80%	1.75%	1.85%	1.89%	1.88%
Key Ratios					
ROE	10.4%	9.9%	12.3%	12.8%	12.2%
ROA	0.9%	0.9%	1.0%	1.1%	1.1%
RORWA	1.5%	1.5%	1.9%	2.0%	2.0%
Non-interest/total income ratio	36.4%	34.7%	32.1%	32.8%	34.2%
Cost/income ratio	43.3%	43.7%	44.1%	43.3%	44.0%
Loan/deposit ratio	86.8%	86.5%	87.6%	89.3%	89.8%
NPL ratio	1.4%	1.7%	1.5%	1.5%	1.3%

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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