

DBS Group Holdings Ltd

Tenacity in adversity

SINGAPORE | BANKING | FY20 RESULTS

- FY20 earnings in line as lower credit costs compensated for weaker-than-expected income.
- NIM fell 27bps to 1.62% YoY but loan growth of 4% YoY cushioned NII. NIM further contracted 4bps to 1.49% QoQ.
- Fees and commissions grew 1% YoY, recovering to pre-COVID levels.
- Allowances matched 3Q20 levels despite the consolidation of troubled Lakshmi Vilas Bank (LVB).
- Upgrade to ACCUMULATE from NEUTRAL with higher GGM TP of S\$29.50, from S\$22.60.** We increase earnings by 6% for lower allowances following a better credit outlook. We now assume 1.31x FY21e P/BV in our GGM valuation, up from 1.26x.

Results at a glance

(SGD mn)	4Q20	4Q19	YoY	3Q20	QoQ	Comments
Net Interest Income	2,120	2,426	(13%)	2,171	(2%)	NIM fell 37bps to 1.49% from a year ago, but impact on NII was partially offset by loans growth of 4% YoY.
Net Fees & Comm	747	741	1%	798	(6%)	Fees and commission recovered to pre-COVID levels as WM fees grew 21% YoY. Other non-II grew 35% on better trading incomes, but fell 35% QoQ as DBS halted realising gains in investment securities.
Other Non-II	396	294	35%	608	(35%)	
Total Income	3,263	3,461	(6%)	3,577	(9%)	
Expenses	1,580	1,600	(1%)	1,539	3%	
PPOP	1,683	1,861	(10%)	2,038	(17%)	
Allowance	577	122	n.m.	554	4%	Allowances increased five times YoY, but only increased 4% QoQ. Total allowances provided for FY20 exceed S\$3bn to reach lower end of guidance over FY20-FY21e within the first year.
PATMI	1,012	1,508	(33%)	1,297	(22%)	

Source: Company, PSR

The Positives

+ Fees and commissions back to pre-COVID levels

Fees and commissions grew 1% YoY in 4Q20 from S\$741mn to S\$747mn. WM fees grew 21% YoY to offset weakness in investment-banking and credit-card fees.

We forecast 12% growth in fees and commissions for FY21e as economic conditions improve. Investment-banking and credit-card fees are expected to recover to pre-COVID levels while WM fees should continue to power ahead.

+ FY20 allowances at lower end of 2-year guidance

4Q20 allowances of S\$577mn ticked up 4% QoQ. They included S\$183mn of GP from its consolidation of LVB.

FY20 allowances totalled above S\$3bn. But this was at the lower end of the S\$3-5bn guided by the bank for FY20-21. GP reserves hit S\$4.31bn, in excess of MAS' requirement by 42%.

We think that FY20 provisions will be sufficient for asset-quality deterioration in FY21 and expect credit costs to normalise to pre-COVID levels along with the economic recovery.

15 February 2021

ACCUMULATE (Upgrade)

LAST TRADED PRICE	SGD 26.07
FORECAST DIV	SGD 1.10
TARGET PRICE	SGD 29.50
DIVIDEND YIELD	4.2%
TOTAL RETURN	17.4%

COMPANY DATA

BLOOMBERG TICKER	DBS SP
O/S SHARES (MN):	2,551
MARKET CAP (USD mn / SGD mn):	50209 / 66506
52 - WK HI/LO (SGD):	27.47 / 16.65
3M Average Daily T/O (mn):	5.21

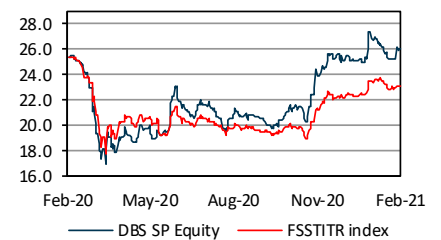
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(5.18)	7.36	3.83
STI RETURN	(2.07)	8.71	3.07

PRICE VS. STI



KEY FINANCIALS

Y/E Dec	FY 19	FY 20	FY 21e	FY 22e
Total Inc (SGD mn)	14,544	14,592	14,090	14,823
Op Profit (SGD mn)	7,583	5,368	6,564	7,383
NPAT (SGD mn)	6,429	4,756	5,817	6,734
EPS (SGD)	2.51	1.81	2.23	2.28
PER, (X)	10.3	14.4	11.6	11.4
P/BV, (X)	14	13	12	11
DPS (SGD)	1.23	0.87	1.0	1.32
ROE	13.1%	9.2%	10.1%	12.2%

Source: Bloomberg, Company, PSR

Valuation Method:

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

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The Negative

- NIM down by 4bps QoQ to 1.49%

NIM further tightened in 4Q20, contributing to a 2% decline NII QoQ. FY20 NII fell 6% on a 27bp YoY drop in NIM. The impact on NII was muted by 4% loan growth YoY in FY20.

The bank guided for NIM of 1.45-1.50% for FY21e as interest rates stabilise. Nevertheless, a cheap funding environment should allow it to continue with its low-yield lending, including interbank loans, to boost NII.

Outlook

Clarity on loan moratorium

Loans under moratorium fell significantly to S\$4.5bn, to roughly 1.2% of DBS' loan book, as Singapore exited the first phase of its loan moratorium. Low delinquencies from the loans that exited moratorium support a lower credit-cost forecast of S\$1bn for FY21e. This implies FY20-21 allowances of S\$4bn, midway of the S\$3-5bn range guided by the bank.

Pipeline for 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 securities JV in China and digital-exchange partnership with SGX are also expected to augment its business from FY21.

Investment Action

Upgrade to ACCUMULATE with higher target price of S\$29.50, up from S\$22.60

We raise FY21e earnings by 6% as we lower allowances by S\$1bn. We also lower COE in our GGM valuation from 9.4% to 8.2% and assume a 10.1% FY21e ROE. This reflects lower risks as equity markets improve.

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	10.1%
g	Terminal growth rate	2.0%
(ROE-g)/ (COE-g)	Target Price to Book	1.31
	BVPS, S\$	22.60
	Valuation, S\$	29.50

Source: PSR

List of Abbreviations

NII – Net Interest Income
 Non-II – Non-Interest Income
 NIM – Net Interest Margin
 GP – general provisions
 WM – Wealth Management

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	3,423	3,768
Other Non int income	1,448	1,867	2,458	1,889	2,017
Total income	13,183	14,544	14,592	14,090	14,823
Operating expenses	5,814	6,258	6,158	6,488	6,643
Provisions	710	703	3,066	1,038	797
Operating profit	6,659	7,583	5,368	6,564	7,383
Associates & JVs	0	0	0	0	0
Profit Before Tax	6,659	7,583	5,368	6,564	7,383
Taxation	1,006	1,154	612	747	649
Profit After Tax	5,653	6,429	4,756	5,817	6,734
Non-controlling Interest	76	38	35	66	30
Net Income, reported	5,653	6,429	4,721	5,817	6,734
Net Income, adj.	5,653	6,429	4,721	5,817	6,734

Per share data (SGD)

Y/E Dec	FY18	FY19	FY20e	FY21e	FY22e
EPS, reported	2.17	2.51	1.81	2.23	2.28
DPS	1.20	1.23	0.87	1.10	1.32
BVPS	18.12	19.17	20.08	22.60	22.87
Dividend Pay-out Ratio	55.4%	49.0%	48.1%	49.2%	57.9%

Supplementary items

Y/E Dec	FY18	FY19	FY20e	FY21e	FY22e
CET1 CAR	13.9%	14.1%	13.9%	13.9%	14.2%
Tier 1 CAR	15.1%	15.0%	15.0%	14.8%	15.0%
Total CAR	16.9%	16.7%	16.8%	16.6%	16.8%

Balance Sheet

Y/E Dec, SGD mn	FY18	FY19	FY20e	FY21e	FY22e
Cash and bal w central banks	22,185	26,362	50,618	59,493	65,513
Due from banks	40,178	39,336	50,867	50,836	49,834
Govt, Bank & Corp Sec & T Bills	105,475	113,475	117,156	118,475	117,812
Derivatives	17,029	17,235	31,108	33,064	32,942
Goodwill and intangibles	5,175	5,170	5,323	5,323	5,323
Property and other fixed assets	1,450	3,225	3,338	3,338	3,338
Loans to non-bank customers	345,003	357,884	371,171	387,435	368,546
JV and Associates	838	835	862	869	865
Other assets	13,418	15,424	19,495	18,798	19,112
Total Assets	550,751	578,946	649,938	677,631	663,286
Due to banks	22,648	23,773	28,220	28,220	28,220
Deposits from customers	393,785	404,289	464,850	485,644	474,224
Derivatives	16,692	17,512	32,904	33,064	32,942
Other liabilities	18,440	20,907	22,074	22,897	22,268
Other debt securities	45,712	57,128	43,277	42,688	43,028
Subordinated term debts	3,599	3,538	3,970	3,970	3,970
Total liabilities	500,876	527,147	595,295	616,483	604,652
Shareholder's equity	49,045	50,981	54,626	61,111	58,597
Non-controlling interest	830	818	17	37	37
Total Equity	49,875	51,799	54,643	61,148	58,633

Valuation Ratios

Y/E Dec	FY18	FY19	FY20e	FY21e	FY22e
P/E (X), avg	12.0	10.3	14.4	11.6	11.4
P/B (X), avg	1.4	1.4	1.3	1.2	1.1
Dividend Yield	4.6%	4.7%	3.3%	4.2%	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%	11.9%	10.1%
Total income	10.6%	10.3%	0.3%	-3.4%	5.2%
Profit before tax	28.7%	13.9%	-29.2%	22.3%	12.5%
Net income, adj.	29.3%	13.7%	-26.6%	23.2%	15.8%

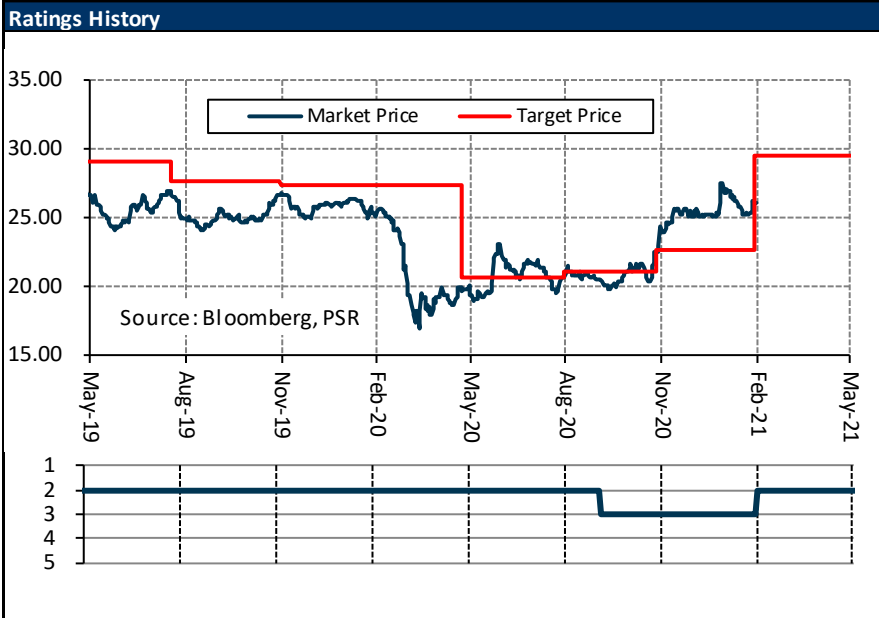
Margins

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%	10.1%	12.2%
ROA	1.1%	1.1%	0.7%	0.9%	1.0%
RORWA	2.0%	2.2%	1.5%	1.7%	2.1%
Non-interest/total income ratio	32.1%	33.8%	37.8%	37.7%	39.0%
Cost/income ratio	44.1%	43.0%	42.2%	44.8%	44.8%
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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