

DBS GROUP HOLDINGS LTD

Stellar Performance Across All Key Parameters



StocksBnB.com

SINGAPORE | BANKING | 4Q17 RESULTS

- 4Q17 PATMI of S\$1.2bn was in line with our estimates.
- Loan volume, NIMs, loans quality and Non-II results were stellar.
- Strong momentum in Consumer and SME banking segment in Hong Kong and Singapore.
- Strong momentum in WM and IB fee income.
- **Maintain BUY rating with unchanged target price of S\$29.30**

Results at a glance

| (SGD mn) | 4Q17 | 4Q16 | YoY (%) | 3Q17 | QoQ (%) | Comments |
|---------------------|--------------|--------------|--------------|--------------|--------------|---------------------------------------------------|
| NII | 2,097 | 1,824 | 15.0% | 1,975 | 6.2% | NIMs +7bps YoY, loans +7% YoY |
| Net Fees & Comm | 636 | 515 | 23.5% | 685 | -7.2% | Higher WM and IB YoY. |
| Other Non-II | 322 | 437 | -26.3% | 399 | -19.3% | Lower Net Trading Income YoY and QoQ |
| Total Income | 3,055 | 2,776 | 10.1% | 3,059 | -0.1% | |
| Expenses | 1,387 | 1,223 | 13.4% | 1,278 | 8.5% | Higher marketing & tech costs and ANZ integration |
| Allowance | 225 | 462 | -51.3% | 815 | -72.4% | Provision expense normalised |
| Net Profit | 1,225 | 945 | 29.6% | 840 | 45.8% | |

Source: Company, PSR

The Positives

+ **Stronger NII is driven by strong broad-based loans growth and higher yields.** Loans growth was c.7% higher YoY as housing loans continued the strong QoQ growth momentum. DBS share of Singapore mortgage loans edged higher to 30.8% from 28.7% in June 2017. Rates and volume growth for trade assets was robust helped by the strengthening of RMB.

+ **Consumer and SME banking in Singapore and Hong Kong gained momentum.** 4Q17 WM income was S\$534mn (+26.5% YoY) but was 2.2% lower QoQ due to a seasonally weak 4Q. 4Q17 Retail income growth was flat YoY but grew 5.7% QoQ following a generally weak performance from 1Q17 through to 3Q17. SME banking was a bright spot, growing 16.2% YoY and 2.8% QoQ on the strong business expectations and PMI reading in Singapore and [continued strength in Chinese consumer sentiment](#).

+ **Provision expense has normalised after the major clean-up in 3Q17.** The normalisation of the provision expense in 4Q17 was a pleasant surprise as we had expected a carryover of higher provision expense from the 3Q17 clean-up. We believe the normalisation is an indication that the clean-up in 3Q17 was sufficient to clear the path a stronger asset quality performance in 2018.

+ **Annual dividend per share will double in 2018 from the pay-out in 2016!** The final one-tier tax exempt dividend was increased to S\$0.60 per share from S\$0.30 per share in 2016. In addition, a special dividend of S\$0.50 per share was also announced. Barring any unforeseen circumstances, the proposed annual dividend moving ahead will be raised to S\$1.20 per share, double the annual rate of S\$0.60 per share in 2016. The S\$1.20 per share dividend represents a c.50% dividend pay-out ratio based on FY18e earnings and a dividend yield of c.4.5% at current share price.

The Negatives

- **CIR expected to be stable at 43%.** We had expected CIR to improve slightly in FY18. However management has guided it to be stable at 43% in FY18. This is due to the integration of Indonesia and Taiwan markets from the ANZ acquisition. Indonesia and Taiwan businesses' CIR is between 60% and 80%. Excluding these 2 businesses, CIR would have been 42.5%.

12 February 2018

Buy (Maintain)

| | |
|---------------------|---------------|
| LAST TRADED PRICE | SGD 26.60 |
| FORECAST DIV | SGD 1.20 |
| TARGET PRICE | SGD 29.30 |
| TOTAL RETURN | 14.66% |

COMPANY DATA

| | |
|------------------------------|-------------|
| BLOOMBERG TICKER | DBS SP |
| O/S SHARES (MN) | 2,564 |
| MARKET CAP (USD mn / SGD mn) | 5193 / 6899 |
| 52 - WK HI/LO (SGD) | 27.4 / 18.2 |
| 3M Average Daily T/O (mn) | 4.91 |

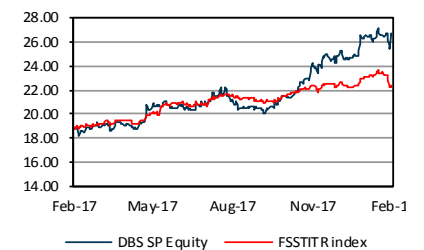
MAJOR SHAREHOLDERS (%)

| | |
|-----------------------------------|--------|
| Temasek Holdings Pte Ltd | 29.27% |
| Vanguard Group | 2.1% |
| Norges Bank Investment Management | 2.02% |
| JP Morgan Chase & Co | 1.36% |

PRICE PERFORMANCE (%)

| | 1M TH | 3M TH | 1YR |
|------------|--------|-------|-------|
| COMPANY | 10 | 12.4 | 46.4 |
| STI RETURN | (2.62) | 0.23 | 15.05 |

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

| Y/E Dec | FY 16 | FY 17 | FY 18 e | FY 19 e |
|-------------------|--------|--------|---------|---------|
| Total Inc (SGDmn) | 11,489 | 12,274 | 13,505 | 14,122 |
| Op Profit (SGDmn) | 5,083 | 5,175 | 6,823 | 7,193 |
| NPAT (SGDmn) | 4,360 | 4,504 | 5,913 | 6,219 |
| EPS (SGD) | 1.73 | 1.86 | 2.26 | 2.38 |
| PER, (X) | 10.3 | 15.5 | 11.8 | 11.2 |
| P/BV, (X) | 10 | 15 | 14 | 13 |
| DPS (SGD) | 0.60 | 1.43 | 1.20 | 1.20 |
| ROE, (%) | 10.4% | 9.1% | 12.4% | 12.4% |

Source: Bloomberg, Company, PSR

Valuation Method:

Gordon Growth Model (ERP: 5.1%, g: 2%)

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Outlook

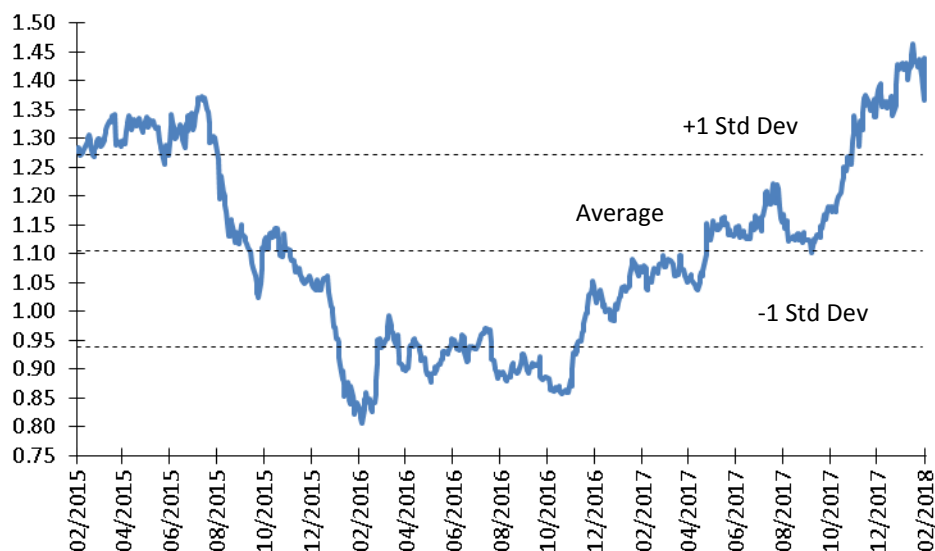
In FY18, we expect NIM to be c.1.87% and loans growth to be between 7% and 8%. Given those assumptions, we can expect total income to grow 10%. We expect full year total credit cost to be 26bps and CIR to be 43%.

- List of Abbreviations
 WM – Wealth Management
 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
 IB – Investment Banking
 O&G – Oil and Gas
 SP – specific provisions
 GP – general provisions
 AUM – Asset Under Management
 Cost-to-income ratio – CIR

Valuation: Gordon Growth Model

| Item | Description | Value |
|--------------------|----------------------------|-------|
| R _f | Risk-free rate | 3.0% |
| E | Equity-risk premium | 5.1% |
| B | Beta | 1.098 |
| COE | Cost of Equity | 8.6% |
| ROE | FY18e Return on Equity | 12.4% |
| g | Terminal growth rate | 2.0% |
| (ROE-g) (COE-g) | FY18e Target Price to Book | 1.58 |
| | FY18e BVPS, S\$ | 18.51 |
| | FY18e Valuation, S\$ | 29.30 |

3-Year Historical Price-to-Book



Investment Actions

Maintain BUY rating with unchanged target price of S\$29.30

Table 1: Fee and commission income

| SGD mn | 4Q17 | 4Q16 | YoY (%) | 3Q17 | QoQ (%) |
|----------------------|------------|------------|--------------|------------|--------------|
| Brokerage | 39 | 37 | 5.4% | 39 | 0.0% |
| Investment banking | 66 | 30 | 120.0% | 64 | 3.1% |
| Transaction Services | 153 | 148 | 3.4% | 154 | -0.6% |
| Loan related | 77 | 80 | -3.8% | 100 | -23.0% |
| Cards | 151 | 138 | 9.4% | 139 | 8.6% |
| Others | 21 | 11 | 90.9% | 20 | 5.0% |
| Wealth management | 227 | 158 | 43.7% | 272 | -16.5% |
| Fee and comm expense | (98) | (87) | NM | (103) | NM |
| Total | 636 | 515 | 23.5% | 685 | -7.2% |

Wealth management the stand-out performer

Table 2: Other non-interest income

| SGD mn | 4Q17 | 4Q16 | YoY (%) | 3Q17 | QoQ (%) |
|--------------------------------|------------|------------|---------------|------------|---------------|
| Net trading income | 228 | 397 | -42.6% | 265 | -14.0% |
| Net income on Fin Inv | 107 | 25 | 328.0% | 120 | -10.8% |
| Net gain on fixed assets | - | - | NM | - | NM |
| Others (inc. rental and assoc) | (13) | 15 | -186.7% | 14 | -192.9% |
| Total other non int Inc | 322 | 437 | -26.3% | 399 | -19.3% |

Weak Net Trading Income due to a globally weak FICC trading environment

Table 3: Loans by Industries

| SGD mn | 4Q17 | 4Q16 | YoY (%) | 3Q17 | QoQ (%) |
|-------------------------|----------------|----------------|-------------|----------------|-------------|
| Manufacturing | 32,636 | 31,235 | 4.5% | 33,563 | -2.8% |
| Building & construction | 64,520 | 58,358 | 10.6% | 62,502 | 3.2% |
| Housing loans | 73,293 | 64,465 | 13.7% | 69,956 | 4.8% |
| General commerce | 51,119 | 46,881 | 9.0% | 50,792 | 0.6% |
| Tpt, storage & comms | 30,480 | 31,964 | -4.6% | 29,307 | 4.0% |
| Fis, invt & holding co | 17,221 | 16,742 | 2.9% | 15,605 | 10.4% |
| Professionals & Pri inv | 29,393 | 25,091 | 17.1% | 28,039 | 4.8% |
| Others | 29,107 | 30,679 | -5.1% | 29,071 | 0.1% |
| Total loans | 327,769 | 305,415 | 7.3% | 318,835 | 2.8% |

Real Estate related loans leading the group

Table 4: Loans by currencies

| SGD mn | 4Q17 | 4Q16 | YoY (%) | 3Q17 | QoQ (%) |
|--------------------|----------------|----------------|-------------|----------------|-------------|
| Singapore dollar | 134,558 | 123,733 | 8.7% | 132,144 | 1.8% |
| US dollar | 103,943 | 102,120 | 1.8% | 100,678 | 3.2% |
| Hong Kong dollar | 38,891 | 35,588 | 9.3% | 36,932 | 5.3% |
| Chinese yuan | 11,055 | 11,577 | -4.5% | 10,340 | 6.9% |
| Others | 39,322 | 32,397 | 21.4% | 38,741 | 1.5% |
| Total loans | 327,769 | 305,415 | 7.3% | 318,835 | 2.8% |

Table 5: Revenue by Business segments

| SGD mn | 4Q17 | 4Q16 | YoY (%) | 3Q17 | QoQ (%) |
|-----------------------|--------------|--------------|--------------|--------------|--------------|
| Consumer/Priv Banking | 1,198 | 1,081 | 10.8% | 1,174 | 2.0% |
| Institutional Banking | 1,331 | 1,255 | 6.1% | 1,327 | 0.3% |
| Treasury | 200 | 264 | -24.2% | 211 | -5.2% |
| Others | 326 | 176 | 85.2% | 347 | -6.1% |
| Total Revenue | 3,055 | 2,776 | 10.1% | 3,059 | -0.1% |

Table 6: Revenue by Geographical segments

| SGD mn | 4Q17 | 4Q16 | YoY (%) | 3Q17 | QoQ (%) |
|-----------------------|--------------|--------------|--------------|--------------|--------------|
| Singapore | 1,980 | 1,784 | 11.0% | 2,025 | -2.2% |
| Hong Kong | 600 | 512 | 17.2% | 563 | 6.6% |
| Rest of Greater China | 226 | 221 | 2.3% | 213 | 6.1% |
| South and SE Asia | 165 | 178 | -7.3% | 168 | -1.8% |
| Rest of the world | 84 | 81 | 3.7% | 90 | -6.7% |
| Total Revenue | 3,055 | 2,776 | 10.1% | 3,059 | -0.1% |

Source (Tables 1-6): Company, PSR

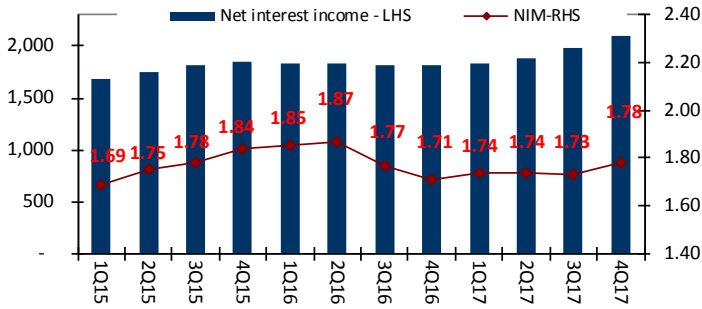
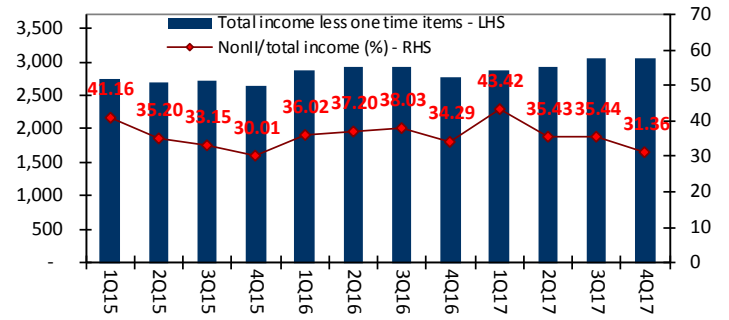
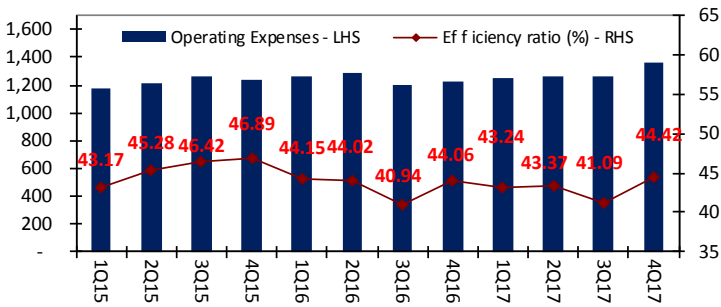
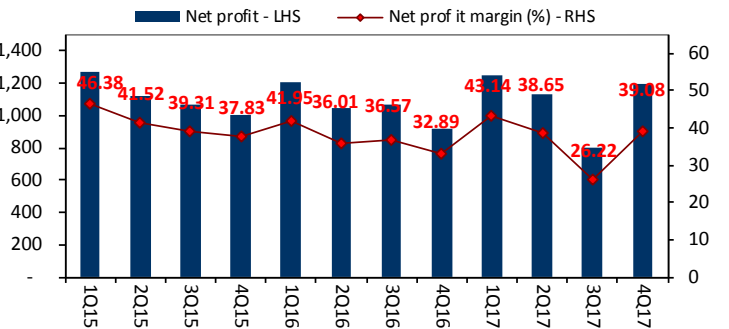
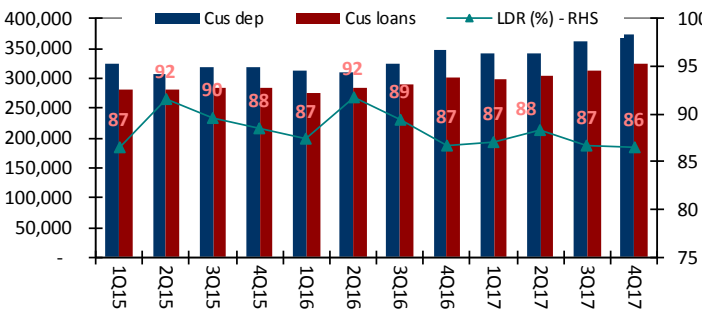
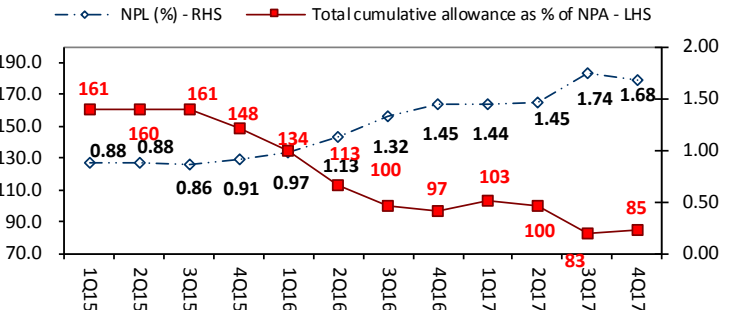
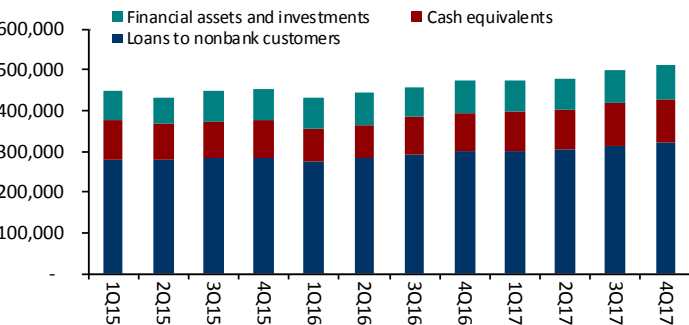
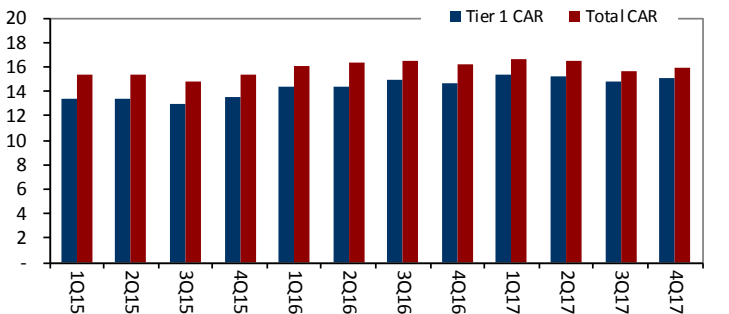
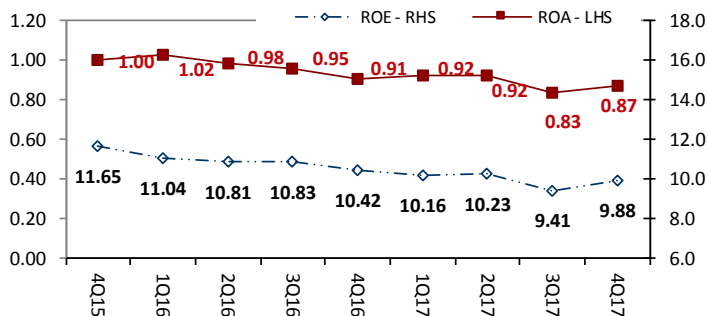
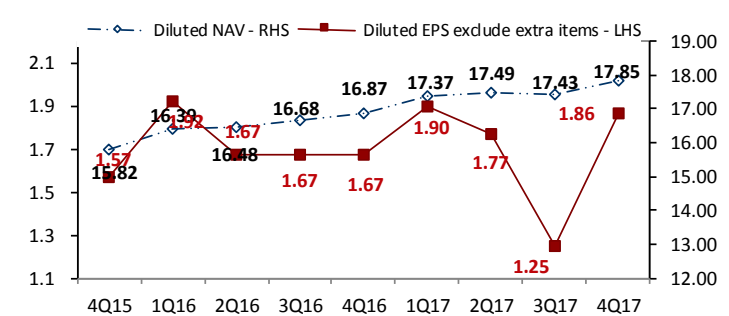
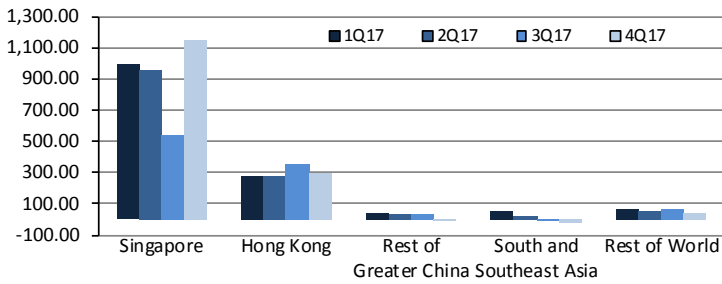
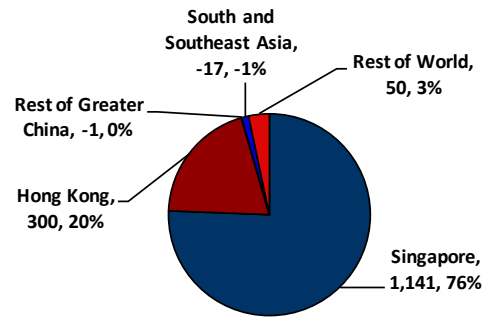
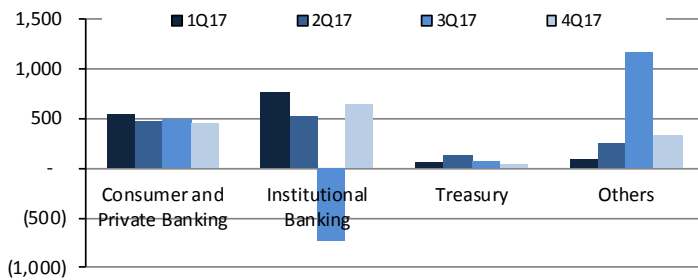
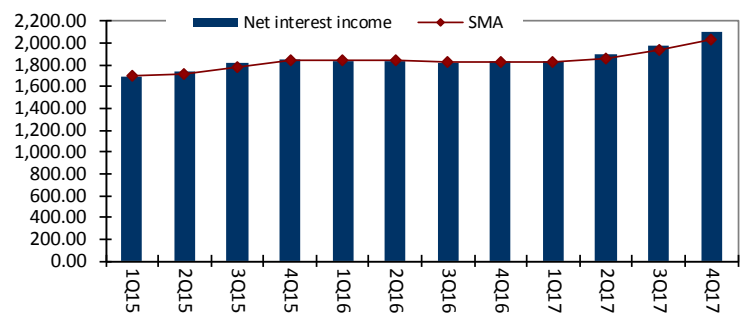
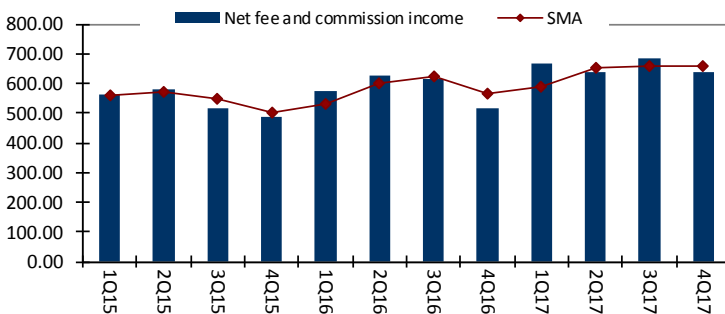
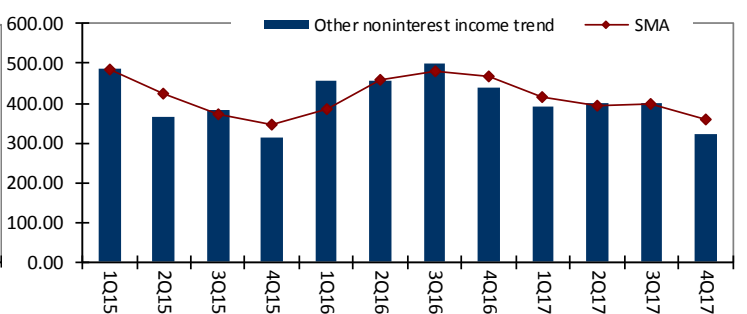
Figure 1: Net interest margin

Figure 2: NonII/Total Income

Figure 3: Efficiency ratio

Figure 4: Net profit margin

Figure 5: Deposits, Loans, LDR

Figure 6: NPA, NPL

Figure 7: Growth in selected asset items

Figure 8: CAR

Figure 9: ROE and ROA

Figure 10: EPS and NBV


Figure 11: Profit before tax by geographical segment

Figure 12: Profit before tax by Geographical segment breakdown

Figure 13: Profit before tax by business segment

Figure 14: Net interest income trend

Figure 15: Fee and Commission trend

Figure 16: Other noninterest income trend


Financials

Income Statement

| Y/E Dec, SGD mn | FY15 | FY16 | FY17 | FY18e | FY19e |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|
| Net Int Income | 7,100 | 7,305 | 7,791 | 8,929 | 9,355 |
| Fees and Commission | 2,144 | 2,331 | 2,622 | 3,090 | 3,254 |
| Other Non int income | 1,679 | 1,853 | 1,861 | 1,487 | 1,513 |
| Total income | 10,923 | 11,489 | 12,274 | 13,505 | 14,122 |
| Operating expenses | 4,900 | 4,972 | 5,205 | 5,808 | 6,022 |
| Provisions | 743 | 1,434 | 1,894 | 875 | 907 |
| Operating profit | 5,280 | 5,083 | 5,175 | 6,823 | 7,193 |
| Associates & JVs | 14 | 0 | 0 | 0 | 0 |
| Profit Before Tax | 5,294 | 5,083 | 5,175 | 6,823 | 7,193 |
| Taxation | 727 | 723 | 671 | 909 | 974 |
| Profit After Tax | 4,567 | 4,360 | 4,504 | 5,913 | 6,219 |
| Non-controlling Interest | 113 | 122 | 133 | 133 | 133 |
| Net Income, reported | 4,454 | 4,238 | 4,371 | 5,780 | 6,085 |
| Net Income, adj. | 4,318 | 4,238 | 4,021 | 5,780 | 6,085 |

Per share data (SGD)

| Y/E Dec, SGD mn | FY15 | FY16 | FY17 | FY18e | FY19e |
|-----------------|-------|-------|-------|-------|-------|
| EPS, reported | 1.71 | 1.73 | 1.86 | 2.26 | 2.38 |
| DPS | 0.60 | 0.60 | 1.43 | 1.20 | 1.20 |
| BVPS | 15.49 | 16.61 | 17.85 | 18.51 | 19.79 |

Supplementary items

| Y/E Dec, SGD mn | FY15 | FY16 | FY17 | FY18e | FY19e |
|-----------------|-------|-------|-------|-------|-------|
| CET1 CAR (%) | 13.5% | 14.1% | 14.3% | 13.4% | 13.9% |
| Tier 1 CAR (%) | 13.5% | 14.7% | 15.1% | 14.2% | 14.7% |
| Total CAR (%) | 15.4% | 16.2% | 15.9% | 14.9% | 15.4% |

Balance Sheet

| Y/E Dec, SGD mn | FY15 | FY16 | FY17 | FY18e | FY19e |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|
| Cash and bal w central banks | 18,829 | 26,840 | 26,463 | 26,537 | 29,393 |
| Due from banks | 38,285 | 30,018 | 35,975 | 37,436 | 38,956 |
| Govt, Bank & Corp Sec & T Bills | 74,574 | 78,818 | 95,342 | 94,513 | 94,234 |
| Derivatives | 23,631 | 25,757 | 17,585 | 16,219 | 17,451 |
| Goodwill and intangibles | 5,117 | 5,117 | 5,165 | 5,165 | 5,165 |
| Property and other fixed assets | 1,547 | 1,572 | 1,233 | 1,715 | 2,365 |
| Loans to non-bank customers | 283,289 | 301,516 | 323,099 | 348,873 | 365,704 |
| JV and Associates | 1,000 | 890 | 783 | 816 | 850 |
| Other assets | 11,562 | 11,042 | 12,066 | 10,952 | 9,995 |
| Total Assets | 457,834 | 481,570 | 517,711 | 542,226 | 564,112 |
| Due to banks | 18,251 | 15,915 | 17,803 | 17,803 | 17,803 |
| Deposits from customers | 320,134 | 347,446 | 373,634 | 398,179 | 414,900 |
| Derivatives | 22,145 | 24,497 | 18,003 | 16,219 | 17,451 |
| Other liabilities | 12,404 | 15,895 | 16,615 | 16,679 | 17,037 |
| Other debt securities | 38,078 | 27,745 | 40,716 | 40,716 | 41,016 |
| Subordinated term debts | 4,026 | 3,102 | 1,138 | 1,138 | 1,138 |
| Total liabilities | 415,038 | 434,600 | 467,909 | 490,734 | 509,345 |
| Shareholder's equity | 40,374 | 44,609 | 47,458 | 49,150 | 52,440 |
| Non-controlling interest | 2,422 | 2,361 | 2,344 | 2,342 | 2,326 |
| Total Equity | 42,796 | 46,970 | 49,802 | 51,492 | 54,766 |

Valuation Ratios

| Y/E Dec, SGD mn | FY15 | FY16 | FY17 | FY18e | FY19e |
|--------------------|------|------|------|-------|-------|
| P/E (X), avg | 11.7 | 10.3 | 15.5 | 11.8 | 11.2 |
| P/B (X), avg | 1.3 | 1.0 | 1.5 | 1.4 | 1.3 |
| Dividend Yield (%) | 3.1% | 3.5% | 5.4% | 4.5% | 4.5% |

Growth & Margins (%)

| Growth | | | | | |
|----------------------|-------|-------|-------|-------|------|
| Net interest income | 12.3% | 2.9% | 6.7% | 14.6% | 4.8% |
| Net Fee and Comm Inc | 5.8% | 8.7% | 12.5% | 17.8% | 5.3% |
| Total income | 11.3% | 5.2% | 6.8% | 10.0% | 4.6% |
| Profit before tax | 9.6% | -3.7% | 1.8% | 31.8% | 5.4% |
| Net income, reported | 10.1% | -4.8% | 3.1% | 32.2% | 5.3% |
| Net income, adj. | 12.2% | -1.9% | -5.1% | 43.7% | 5.3% |

Margins

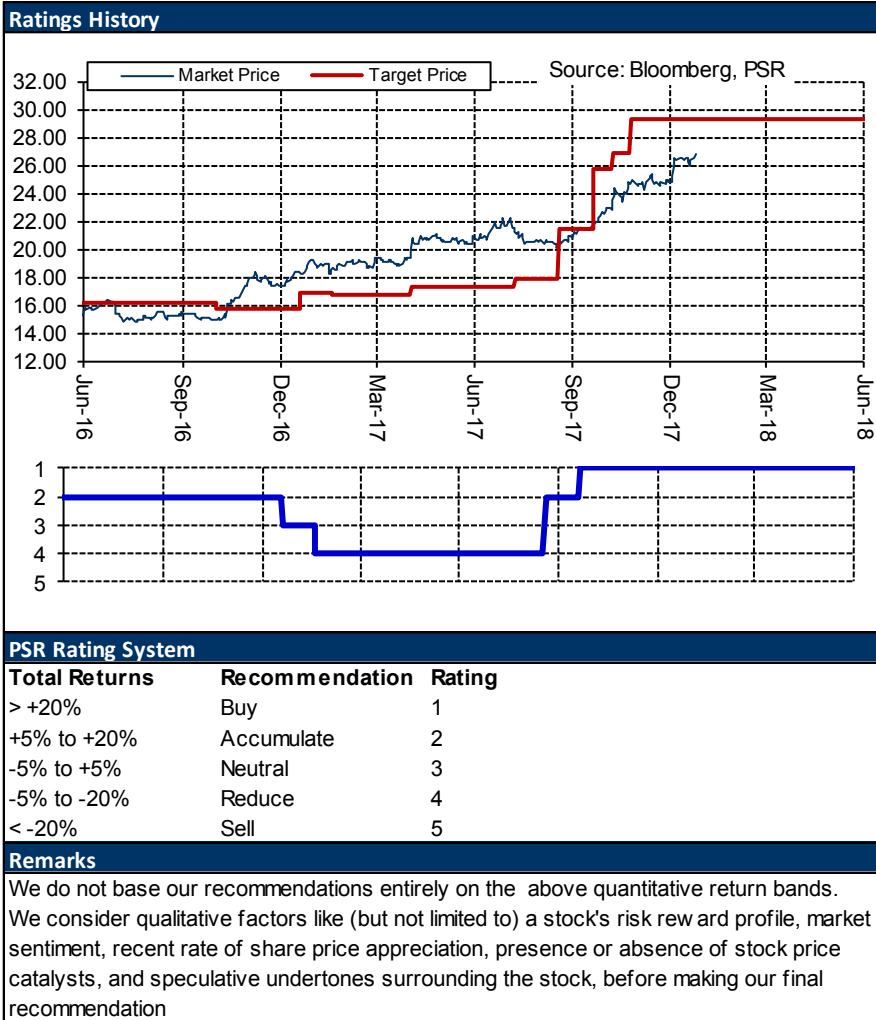
| | | | | | |
|---------------------|-------|-------|-------|-------|-------|
| Net interest margin | 1.84% | 1.71% | 1.78% | 1.91% | 1.88% |
|---------------------|-------|-------|-------|-------|-------|

Key Ratios (%)

| | | | | | |
|---------------------------------|-------|-------|-------|-------|-------|
| ROE | 11.3% | 10.4% | 9.1% | 12.4% | 12.4% |
| ROA | 1.0% | 0.9% | 0.8% | 1.1% | 1.1% |
| RORWA | 1.6% | 1.5% | 1.4% | 1.9% | 1.9% |
| Non-interest/total income ratio | 35.0% | 36.4% | 36.5% | 33.9% | 33.8% |
| Cost/income ratio | 44.9% | 43.3% | 42.4% | 43.0% | 42.6% |
| Loan/deposit ratio | 88.5% | 86.8% | 86.5% | 87.6% | 88.1% |
| NPL ratio | 0.91 | 1.45 | 1.68 | 1.55 | 1.44 |

Source: Company, PSR

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



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