

# DBS Group Holdings Ltd

ROE at multi-year highs



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## SINGAPORE | BANKING | 1Q18 RESULTS

- 1Q18 PATMI was in-line with expectations (after excluding S\$86mn disposal gain)
- The standout performers were group NIMs, wealth management and Hong Kong
- Growth momentum in NII provides sustainability and visibility in earnings. ROE was 12.5% excluding disposal gain.
- We raised our target price to S\$32.70 (previously S\$29.30). Our rating has been downgraded to ACCUMULATE due to the share price performance.

### Results at a glance

(SGD mn)	1Q18	1Q17	YoY (%)	4Q17	QoQ (%)	Comments
NII	2,128	1,831	16.2%	2,097	1.5%	NIMs +9bps YoY, loans +10% YoY.
Net Fees & Comm	744	665	11.9%	636	17.0%	WM Fees +46% YoY.
Other Non-II	488	390	25.1%	322	51.6%	Higher trading income but lower investment income.
<b>Total Income</b>	<b>3,360</b>	<b>2,886</b>	<b>16.4%</b>	<b>3,055</b>	<b>10.0%</b>	
Expenses	1,408	1,258	11.9%	1,387	1.5%	CIR at against 41.6% better than guidance of 43%
Allowance	164	200	-18.0%	225	-27.1%	Credit cost of 20 bps
<b>Adj.Net Profit</b>	<b>1,521</b>	<b>1,210</b>	<b>25.7%</b>	<b>1,218</b>	<b>24.9%</b>	Includes disposal gain \$86mn

Source: Company, PSR

### The Positives

**+ Net interest margins (NIM) at almost two-year highs.** NIM touched 1.83%, the highest in seven quarters. Around 1/3 (or S\$119mn) of the improvement in NII came from increased margins. Every 1 basis point rise in NIM, translates into \$8mn in net income. Guidance is for FY18e NIMs to rise by 100 bps to 1.85% (Figure 1).

**+ Hong Kong earnings surged 66% YoY in 1Q18.** Net profit for Hong Kong jumped 66% to S\$350mn. Interest and fee income increased 14% while operating expenses stayed flat and there was a write-back in provisions. Hong Kong now accounts for almost 30% of group profits. Hong Kong has built up CASA deposit base over the past few years from ~30% to 63% on account of their attractive cash management solution to mainland based clients.

**+ Asset quality benign.** New NPA formation in 1Q18 was S\$195mn. This is the lowest in four years. There were no meaningful specific provisions on the new NPAs. Credit cost is 20 bps this quarter against 25-30bps guidance.

### The Negatives

**- Only investment income missed the mark.** Income from investment securities tends to generate income of S\$100mn per quarter. This fell to S\$22mn in 1Q18. Part of the reason was due to a reclassification of only debt securities. Another reason we believe, is the overall weak bond market performance. Picking up the slack in this other non-interest income category was a rebound in net trading income to S\$368mn (1Q17: S\$270mn).

**- Possible flip-side in higher interest.** Not a concern at the moment but rising interest rates has the secondary effect of creating stress on borrowers. SME and consumer loan book will be the most vulnerable depending on the speed interest rate ascends. DBS did emphasize that the mortgagors are assessed using 3.5% interest rate assumption. Furthermore, historically, housing loan asset quality has limited impact when rates rise. The more obvious driver of housing loan asset quality will be employment.

**- Singapore provisions still sticky.** Whilst group provisions were lower than our forecast, Singapore provisions was S\$125mn, just marginally below 1Q17 provisions of S\$140mn. We are assuming DBS took a more aggressive stage 2 provisioning under the new SFRS (I) 9. Stage 2 requires the recognition of credit loss over remaining life of the loan.

2 May 2018

## Accumulate (Downgrade)

LAST TRADED PRICE	SGD 30.84
FORECAST DIV	SGD 1.20
TARGET PRICE	SGD 32.70
<b>TOTAL RETURN</b>	<b>9.92%</b>

### COMPANY DATA

BLOOMBERG TICKER	DBS SP
O/S SHARES (MN):	2,564
MARKET CAP (USD mn / SGD mn):	59273 / 79070
52 - WK HI/LO (SGD):	30.98 / 19.45
3M Average Daily T/O (mn):	5.98

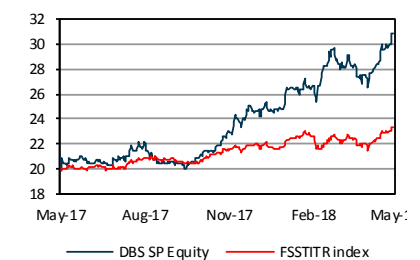
### MAJOR SHAREHOLDERS (%)

Temasek Holdings Pte Ltd	29.27%
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### PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	12.1	16.8	64.3
STIRETURN	5.9	3.1	17.6

### 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	11,924	13,371	13,963
Op Profit (SGDmn)	5,083	5,175	6,899	7,262
NPAT (SGDmn)	4,238	4,371	5,850	6,150
EPS (SGD)	1.73	1.86	2.28	2.40
PER, (X)	10.3	18.0	13.5	12.9
P/BV, (X)	10	17	17	15
DPS (SGD)	0.60	1.43	1.20	1.20
ROE, (%)	10.4%	9.9%	12.5%	12.5%

Source: Bloomberg, Company, PSR

### Valuation Method:

**Gordon Growth Model (ERP: 5.5%, g: 3%)**

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## Outlook

There are multiple drivers to 2018 growth. Firstly, margin expansion from rising SIBOR, SOR and HIBOR. Secondly, volume growth as overall economy improves. Hong Kong loans growth has been stellar and Singapore housing loans will be supported by the surge in transaction volume. Thirdly, asset quality is benign and we expect around an S\$1bn reversal in provisions. Fourthly, wealth management is enjoying structural growth as DBS builds a stronger franchise and platform.

**Figure 1: DBS guidance vs. PSR estimates**

Assumptions	1Q18	DBS	PSR
Loans growth	9.9%	8%	9.6%
CIR	41.6%	43%	43.7%
NIM	1.83%	1.85%	1.89%
Credit cost	20 bps	25-27bps	20 bps

Source: Company, PSR

## 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

## Investment Actions

We raised our target price to S\$32.70 (previously S\$29.30). Our rating has been downgraded to ACCUMULATE due to the share price performance. Our target was raised on the back of higher terminal growth rate and a modest upward revision to our ROE.

## Valuation: Gordon Growth Model

Item	Description	Value
$R_f$	Risk-free rate	2.6%
E	Equity-risk premium	5.5%
B	Beta	1.1
COE	Cost of Equity	8.4%
ROE	FY18e Return on Equity	12.5%
g	Terminal growth rate	3.0%
(ROE-g)	FY18e Target Price to Book	1.8
(COE-g)		
	FY18e BVPS, S\$	18.6
	FY18e Valuation, S\$	32.7

Figure 2: Growth in revenue

SGD mn	1Q18	1Q17	YoY (%)	4Q17	QoQ (%)
Net interest inc	2,128	1,831	16.2%	2,097	1.5%
Net fee and comm inc	744	665	11.9%	636	17.0%
Other non-interest inc	488	390	25.1%	322	51.6%
<b>Total</b>	<b>3,360</b>	<b>2,886</b>	<b>16.4%</b>	<b>3,055</b>	<b>10.0%</b>

NIM improvement supported NII growth

Figure 3: Fee and commission income

SGD mn	1Q18	1Q17	YoY (%)	4Q17	QoQ (%)
Brokerage	49	38	28.9%	39	25.6%
Investment banking	38	45	-15.6%	66	-42.4%
Transaction Services	156	157	-0.6%	153	2.0%
Loan related	99	128	-22.7%	77	28.6%
Cards	156	123	26.8%	151	3.3%
Others	22	28	-21.4%	21	4.8%
Wealth management	331	222	49.1%	227	45.8%
Fee and comm expense	(107)	(76)	NM	(98)	NM
<b>Total</b>	<b>744</b>	<b>665</b>	<b>11.9%</b>	<b>636</b>	<b>17.0%</b>

Wealth management grew better than expected. ANZ acquisition middle FY17 provided some one-off boost.

Figure 4: Other non-interest income

SGD mn	1Q18	1Q17	YoY (%)	4Q17	QoQ (%)
Net trading income	368	270	36.3%	228	61.4%
Net income on Fin Invnt	22	102	-78.4%	107	-79.4%
Net gain on fixed assets	86	1	NM	-	NM
Others (inc. rental and assoc)	12	17	-29.4%	(13)	-192.3%
<b>Total other non int Inc</b>	<b>488</b>	<b>390</b>	<b>25.1%</b>	<b>322</b>	<b>51.6%</b>

Net trading income offset the fall in net income on financial investments

Figure 5: Loans by Industries

SGD mn	1Q18	1Q17	YoY (%)	4Q17	QoQ (%)
Manufacturing	33,449	30,690	9.0%	32,636	2.5%
Building & construction	66,447	57,565	15.4%	64,520	3.0%
Housing loans	73,500	64,629	13.7%	73,293	0.3%
General commerce	51,947	46,796	11.0%	51,119	1.6%
Tpt, storage & comms	29,374	31,218	-5.9%	30,480	-3.6%
FIs, invt & holding co	19,937	16,594	20.1%	17,221	15.8%
Professionals & Pri inv	30,180	24,692	22.2%	29,393	2.7%
Others	28,034	30,758	-8.9%	29,107	-3.7%
<b>Total loans</b>	<b>332,868</b>	<b>302,942</b>	<b>9.9%</b>	<b>327,769</b>	<b>1.6%</b>

Loans to FI, investment and holding companies experiencing strong loan momentum past two quarters

Figure 6: Loans by currencies

SGD mn	1Q18	1Q17	YoY (%)	4Q17	QoQ (%)
Singapore dollar	137,370	124,096	10.7%	134,558	2.1%
US dollar	104,038	100,487	3.5%	103,943	0.1%
Hong Kong dollar	38,541	33,502	15.0%	38,891	-0.9%
Chinese yuan	11,865	10,912	8.7%	11,055	7.3%
Others	41,054	33,945	20.9%	39,322	4.4%
<b>Total loans</b>	<b>332,868</b>	<b>302,942</b>	<b>9.9%</b>	<b>327,769</b>	<b>1.6%</b>

SGD loans surprisingly strong despite the weaker system loans growth

Figure 7: Revenue by Business segments

SGD mn	1Q18	1Q17	YoY (%)	4Q17	QoQ (%)
Consumer/Priv Banking	1,359	1,159	17.3%	1,198	13.4%
Institutional Banking	1,358	1,319	3.0%	1,331	2.0%
Treasury	249	187	33.2%	200	24.5%
Others	394	221	78.3%	326	20.9%
<b>Total Revenue</b>	<b>3,360</b>	<b>2,886</b>	<b>16.4%</b>	<b>3,055</b>	<b>10.0%</b>

Institutional banking lagging behind as large corporate business was slower

Figure 8: Revenue by Geographical segments

SGD mn	1Q18	1Q17	YoY (%)	4Q17	QoQ (%)
Singapore	2,084	1,870	11.4%	1,980	5.3%
Hong Kong	721	524	37.6%	600	20.2%
Rest of Greater China	278	208	33.7%	226	23.0%
South and SE Asia	191	195	-2.1%	165	15.8%
Rest of the world	86	89	-3.4%	84	2.4%
<b>Total Revenue</b>	<b>3,360</b>	<b>2,886</b>	<b>16.4%</b>	<b>3,055</b>	<b>10.0%</b>

Hong Kong and Greater China now almost 30% of total revenue

Source (Figure 2-8): Company, PSR

## Financials

### Income Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Net Int Income	7,100	7,305	7,791	8,970	9,584
Fees and Commission	2,144	2,331	2,622	2,942	2,889
Other Non int income	1,679	1,853	1,511	1,459	1,489
<b>Total income</b>	<b>10,923</b>	<b>11,489</b>	<b>11,924</b>	<b>13,371</b>	<b>13,963</b>
Operating expenses	4,900	4,972	5,205	5,840	6,033
Provisions	743	1,434	1,894	632	668
<b>Operating profit</b>	<b>5,280</b>	<b>5,083</b>	<b>4,825</b>	<b>6,899</b>	<b>7,262</b>
Associates & JVs	14	0	0	0	0
<b>Profit Before Tax</b>	<b>5,294</b>	<b>5,083</b>	<b>4,825</b>	<b>6,899</b>	<b>7,262</b>
Taxation	727	723	671	954	1,013
<b>Profit After Tax</b>	<b>4,567</b>	<b>4,360</b>	<b>4,154</b>	<b>5,945</b>	<b>6,249</b>
Non-controlling Interest	113	122	133	127	128
<b>Net Income, reported</b>	<b>4,454</b>	<b>4,238</b>	<b>4,021</b>	<b>5,818</b>	<b>6,121</b>
<b>Net Income, adj.</b>	<b>4,318</b>	<b>4,238</b>	<b>4,021</b>	<b>5,818</b>	<b>6,121</b>

### Per share data (SGD)

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	1.71	1.73	1.86	2.27	2.39
DPS	0.60	0.60	1.43	1.20	1.20
BVPS	15.49	16.61	17.85	18.55	19.93

### Supplementary items

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CET1 CAR (%)	13.5%	14.1%	14.3%	13.1%	13.1%
Tier 1 CAR (%)	13.5%	14.7%	15.1%	13.9%	13.8%
Total CAR (%)	15.4%	16.2%	15.9%	14.5%	14.5%

### Balance Sheet

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Cash and bal w central banks	18,829	26,840	26,463	23,272	29,603
Due from banks	38,285	30,018	35,975	38,662	40,232
Govt, Bank & Corp Sec & T Bills	74,574	78,818	95,342	99,569	99,004
Derivatives	23,631	25,757	17,585	18,252	18,252
Goodwill and intangibles	5,117	5,117	5,165	5,174	5,174
Property and other fixed assets	1,547	1,572	1,233	1,326	1,418
Loans to non-bank customers	283,289	301,516	323,099	354,283	382,726
JV and Associates	1,000	890	783	842	842
Other assets	11,562	11,042	12,066	14,977	14,977
<b>Total Assets</b>	<b>457,834</b>	<b>481,570</b>	<b>517,711</b>	<b>556,356</b>	<b>592,229</b>
Due to banks	18,251	15,915	17,803	19,518	21,968
Deposits from customers	320,134	347,446	373,634	401,615	431,226
Derivatives	22,145	24,497	18,003	19,185	19,185
Other liabilities	12,404	15,895	16,615	19,751	19,751
Other debt securities	38,078	27,745	40,716	43,169	43,457
Subordinated term debts	4,026	3,102	1,138	1,379	1,379
<b>Total liabilities</b>	<b>415,038</b>	<b>434,600</b>	<b>467,909</b>	<b>504,617</b>	<b>536,966</b>
Shareholder's equity	40,374	44,609	47,458	49,370	52,914
Non-controlling interest	2,422	2,361	2,344	2,369	2,349
<b>Total Equity</b>	<b>42,796</b>	<b>46,970</b>	<b>49,802</b>	<b>51,739</b>	<b>55,263</b>

### Valuation Ratios

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
P/E (X), avg	11.7	10.3	19.6	13.6	12.9
P/B (X), avg	1.3	1.0	1.7	1.7	1.5
Dividend Yield (%)	3.1%	3.5%	4.6%	3.9%	3.9%

### Growth & Margins (%)

#### Growth

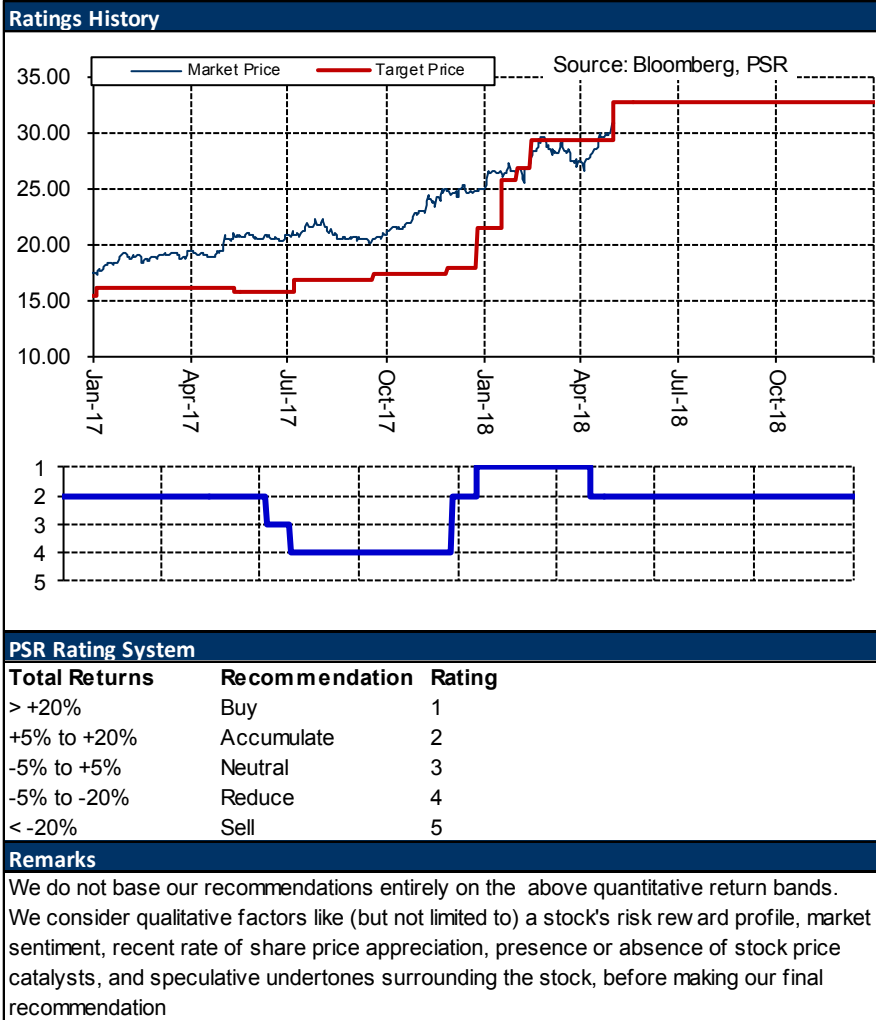
Net interest income	12.3%	2.9%	6.7%	15.1%	6.8%
Net Fee and Comm Inc	5.8%	8.7%	12.5%	12.2%	-1.8%
Total income	11.3%	5.2%	3.8%	12.1%	4.4%
Profit before tax	9.6%	-3.7%	-5.1%	43.0%	5.3%
Net income, reported	10.1%	-4.8%	-5.1%	44.7%	5.2%
Net income, adj.	12.2%	-1.9%	-5.1%	44.7%	5.2%

#### Margins

Net interest margin	1.84%	1.71%	1.78%	1.89%	1.86%
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#### Key Ratios (%)

ROE	11.3%	10.4%	9.1%	12.5%	12.4%
ROA	1.0%	0.9%	0.8%	1.1%	1.1%
RORWA	1.6%	1.5%	1.4%	1.9%	1.8%
Non-interest/total income ratio	35.0%	36.4%	34.7%	32.9%	31.4%
Cost/income ratio	44.9%	43.3%	43.7%	43.7%	43.2%
Loan/deposit ratio	88.5%	86.8%	86.5%	88.2%	88.8%
NPL ratio	0.91	1.45	1.68	1.53	1.38



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