

# DBS Group Holdings Ltd

NIM at 2-year high and guided higher



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## SINGAPORE | BANKING | 2Q18 RESULTS

3 August 2018

- 2Q18 PATMI of S\$1.33bn missed our forecast by 7%.
- The downside surprise came mainly from higher than expected income tax expense. However, NII and profit before tax was in line with our expectations.
- The standout performers were higher NIMs and loans growth.
- 1H18 dividends at 60 cents/share (+82% YoY), in line with guidance. DBS is now trading at a dividend yield of 4.5%.
- We tweaked our target price to S\$33.32 (previously S\$32.70). Our rating has been upgraded to BUY due to higher book value assumption.

### Buy (Upgrade)

LAST TRADED PRICE	SGD 26.50
FORECAST DIV	SGD 1.20
TARGET PRICE	SGD 33.32
TOTAL RETURN	30.27%

#### COMPANY DATA

BLOOMBERG TICKER	DBS SP
O/S SHARES (MN):	2,563
MARKET CAP (USD mn / SGD mn):	48862 / 66946
52 - WK HI/LO (SGD):	30.76 / 19.68
3M Average Daily T/O (mn):	4.89

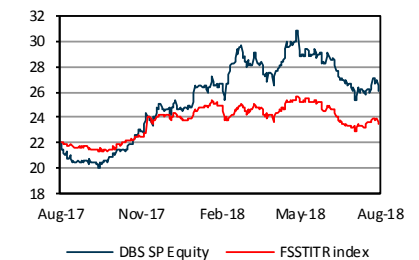
#### MAJOR SHAREHOLDERS (%)

Temasek Holdings Pte Ltd	29.28%
Capital Research & Management Co	17.9%
Norges Bank Investment Management	14.1%

#### PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	0.5	(10.2)	25.9
STIRETURN	19	(7.9)	15

#### 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	13,269	13,874
Op Profit (SGDmn)	5,083	5,175	7,002	7,452
NPAT (SGDmn)	4,238	4,371	5,827	6,228
EPS (SGD)	1.73	1.86	2.16	2.43
PER, (X)	10.3	15.5	11.7	10.9
P/BV, (X)	10	15	14	13
DPS (SGD)	0.60	1.43	1.20	1.20
ROE, (%)	10.4%	9.9%	12.3%	12.3%

Source: Bloomberg, Company, PSR

#### Valuation Method:

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

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#### Results at a glance

(SGD mn)	2Q18	2Q17	YoY (%)	1Q18	QoQ (%)	Comments
NII	2,224	1,888	17.8%	2,128	4.5%	NIMs +11bps YoY, loans +11.5% YoY.
Net Fees & Comm	706	636	11.0%	744	-5.1%	WM Fees +22.5% YoY.
Other Non-II	273	400	-31.8%	488	-44.1%	Lower Net Trading Income YoY and QoQ.
<b>Total Income</b>	<b>3,203</b>	<b>2,924</b>	<b>9.5%</b>	<b>3,360</b>	<b>-4.7%</b>	
Expenses	1,410	1,258	12.1%	1,387	1.7%	1H18 CIR at 43%, in line with guidance of 43%.
Allowance	164	200	-18.0%	225	-27.1%	Credit cost declines to 12 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>	

#### The Positives

**+ NIM at two-year highs.** NIM touched 1.85%, expanding 11bps YoY; the highest in seven quarters. NIM expansion was driven by higher SIBOR and HIBOR this year. In view of 2 more expected rate hikes and healthy pass through rate, guidance is for FY18e NIMs to rise by 1-2 bps above previous guidance of 1.85% (Figure 1).

**+NII driven by broad-based loans growth.** Loans growth was strong at 11.5% YoY, driven by double-digit growth in building and construction, housing loans and loans to financial institutions. Housing loans spiked to 14.1% YoY, continuing the strong QoQ momentum. DBS' market share of Singapore housing loan remains strong at 31%.

**+ Hong Kong earnings surged 33% YoY in 2Q18.** Net profit for Hong Kong grew 33% YoY to S\$304mn. NII grew 28% YoY, driven by rising interest rates which gave a 28 bps increase in NIM to 1.98%. The rise in HIBOR in Hong Kong has become much more significant with a growing CASA base and loans growth was robust at 12.3% YoY. Fee income grew 12% YoY on the back of growth in wealth management and cash management business.

#### The Negatives

**- Treasury market income missed the mark.** Revenue from treasury markets declined 58.5% YoY to S\$107million. The poor performance resulted in a pre-tax loss of S\$50mn as compared to a profit of S\$107mn in 2Q17.

**- Lacklustre performance from other non-interest income.** Other non-interest income declined 31.8% YoY due to a flattening yield curve and wider credit spreads due to trade tensions.

## Outlook

With the recent property cooling measures implemented, management is expecting a slowdown in housing loans and property related business loans growth. Trade war tensions are anticipated to have an impact on trade loans as well and the spillover effects have already been seen in the weaker Treasury Markets performance this quarter. As a result, guidance for full year loans growth target has been adjusted to 6-7% from 8%. Despite the softer expectation of loans growth due to market headwinds, NIM will still be on a positive trajectory as trade issues will impact trade volumes more significantly than overall margins.

There are multiple drivers for 2018 growth. Firstly, margin expansion from rising SIBOR, SOR and HIBOR. Secondly, volume growth as the overall domestic economy improves. Hong Kong loans growth has been stellar and although Singapore housing loans growth may be subdued, we can still expect the stable growth that we have seen so far because, despite the 50 bps increase in SIBOR this year, housing loans remained resilient. Thirdly, asset quality is benign and the high new NPA we saw this quarter is mainly from one corporation. Fourthly, wealth management is enjoying structural growth as DBS builds a stronger franchise globally and digitalise platforms.

## 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

Figure 1: DBS guidance vs. PSR estimates

Assumptions	2Q18	DBS	PSR
Loans growth	11.5%	6-7%	8.5%
CIR	44.3%	43%	43.6%
NIM	1.85%	1.86-1.87%	1.87%
Credit cost	12 bps	25-27bps	20 bps

Source: Company, PSR

## Investment Actions

We raised our target price to S\$33.32 (previously S\$32.70). Our rating has been upgraded at BUY due to higher book value assumption.

## Valuation: Gordon Growth Model

Item	Description	Value
R <sub>f</sub>	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	1.7
(COE-g)		
	FY18e BVPS, S\$	19.1
	FY18e Valuation, S\$	33.3

Figure 2: Growth in revenue

SGD mn	2Q18	2Q17	YoY (%)	1Q18	QoQ (%)
Net interest inc	2,224	1,888	17.8%	2,128	4.5%
Net fee and comm inc	706	636	11.0%	744	-5.1%
Other non-interest inc	273	400	-31.8%	488	-44.1%
<b>Total</b>	<b>3,203</b>	<b>2,924</b>	<b>9.5%</b>	<b>3,360</b>	<b>-4.7%</b>

NIM improvement supported NII growth.

Figure 3: Fee and commission income

SGD mn	2Q18	2Q17	YoY (%)	1Q18	QoQ (%)
Brokerage	38	38	0.0%	49	-22.4%
Investment banking	39	41	-4.9%	38	2.6%
Transaction Services	160	154	3.9%	156	2.6%
Loan related	91	104	-12.5%	99	-8.1%
Cards	171	130	31.5%	156	9.6%
Others	18	19	-5.3%	22	-18.2%
Wealth management	300	245	22.4%	331	-9.4%
Fee and comm expense	(111)	(95)	NM	(107)	NM
<b>Total</b>	<b>706</b>	<b>636</b>	<b>11.0%</b>	<b>744</b>	<b>-5.1%</b>

Wealth management grew better than expected.

Figure 4: Other non-interest income

SGD mn	2Q18	2Q17	YoY (%)	1Q18	QoQ (%)
Net trading income	227	295	-23.1%	368	-38.3%
Net income on Fin Invt	30	95	-68.4%	22	36.4%
Net gain on fixed assets	-	-	NM	86	NM
Others (inc. rental and assc)	16	10	60.0%	12	33.3%
<b>Total other non int inc</b>	<b>273</b>	<b>400</b>	<b>-31.8%</b>	<b>488</b>	<b>-44.1%</b>

Non-interest income performed weaker than expected.

Figure 5: Loans by Industries

SGD mn	2Q18	2Q17	YoY (%)	1Q18	QoQ (%)
Manufacturing	35,178	32,771	7.3%	33,449	5.2%
Building & construction	70,421	60,546	16.3%	66,447	6.0%
Housing loans	73,968	64,850	14.1%	73,500	0.6%
General commerce	53,153	48,692	9.2%	51,947	2.3%
Tpt, storage & comms	30,729	30,411	1.0%	29,374	4.6%
FIs, invt & holding co	20,445	14,768	38.4%	19,937	2.5%
Professionals & Pri inv	31,309	25,312	23.7%	30,180	3.7%
Others	27,468	30,072	-8.7%	28,034	-2.0%
<b>Total loans</b>	<b>342,671</b>	<b>307,422</b>	<b>11.5%</b>	<b>332,868</b>	<b>2.9%</b>

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

Figure 6: Loans by currencies

SGD mn	2Q18	2Q17	YoY (%)	1Q18	QoQ (%)
Singapore dollar	137,588	126,378	8.9%	137,370	0.2%
US dollar	107,873	101,206	6.6%	104,038	3.7%
Hong Kong dollar	41,648	34,389	21.1%	38,541	8.1%
Chinese yuan	12,926	10,127	27.6%	11,865	8.9%
Others	42,636	35,322	20.7%	41,054	3.9%
<b>Total loans</b>	<b>342,671</b>	<b>307,422</b>	<b>11.5%</b>	<b>332,868</b>	<b>2.9%</b>

SGD loans surprisingly strong despite the weakening in currency.

Figure 7: Revenue by Business segments

SGD mn	2Q18	2Q17	YoY (%)	1Q18	QoQ (%)
Consumer/Priv Banking	1,399	1,140	22.7%	1,359	2.9%
Institutional Banking	1,421	1,298	9.5%	1,358	4.6%
Treasury	107	258	-58.5%	249	-57.0%
Others	276	228	21.1%	394	-29.9%
<b>Total Revenue</b>	<b>3,203</b>	<b>2,924</b>	<b>9.5%</b>	<b>3,360</b>	<b>-4.7%</b>

Treasury markets' contribution from various equity and FOREX products were lacklustre.

Figure 8: Revenue by Geographical segments

SGD mn	2Q18	2Q17	YoY (%)	1Q18	QoQ (%)
Singapore	1,977	1,923	2.8%	2,084	-5.1%
Hong Kong	650	536	21.3%	721	-9.8%
Rest of Greater China	300	208	44.2%	278	7.9%
South and SE Asia	197	168	17.3%	191	3.1%
Rest of the world	79	89	-11.2%	86	-8.1%
<b>Total Revenue</b>	<b>3,203</b>	<b>2,924</b>	<b>9.5%</b>	<b>3,360</b>	<b>-4.7%</b>

Hong Kong and Greater China contributed to almost 30% of total revenue.

Source (Figure 2 to 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	8,955	9,606
Fees and Commission	2,144	2,331	2,622	2,920	2,887
Other Non int income	1,679	1,853	1,511	1,395	1,381
<b>Total income</b>	<b>10,923</b>	<b>11,489</b>	<b>11,924</b>	<b>13,269</b>	<b>13,874</b>
Operating expenses	4,900	4,972	5,205	5,789	5,976
Provisions	743	1,434	1,544	479	446
<b>Operating profit</b>	<b>5,280</b>	<b>5,083</b>	<b>5,175</b>	<b>7,002</b>	<b>7,452</b>
Associates & JVs	14	0	0	0	0
<b>Profit Before Tax</b>	<b>5,294</b>	<b>5,083</b>	<b>5,175</b>	<b>7,002</b>	<b>7,452</b>
Taxation	727	723	671	1,055	1,103
<b>Profit After Tax</b>	<b>4,567</b>	<b>4,360</b>	<b>4,504</b>	<b>5,947</b>	<b>6,349</b>
Non-controlling Interest	113	122	133	120	121
<b>Net Income, reported</b>	<b>4,454</b>	<b>4,238</b>	<b>4,371</b>	<b>5,827</b>	<b>6,228</b>
<b>Net Income, adj.</b>	<b>4,318</b>	<b>4,238</b>	<b>4,371</b>	<b>5,827</b>	<b>6,228</b>

### Per share data (SGD)

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	1.71	1.73	1.86	2.16	2.43
DPS	0.60	0.60	1.43	1.20	1.20
BVPS	15.49	16.61	17.85	19.11	20.46

### Supplementary items

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CET1 CAR (%)	13.5%	14.1%	14.3%	12.9%	13.2%
Tier 1 CAR (%)	13.5%	14.7%	15.1%	13.6%	13.9%
Total CAR (%)	15.4%	16.2%	15.9%	14.3%	14.6%

### Balance Sheet

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Cash and bal w central banks	18,829	26,840	26,463	32,691	52,109
Due from banks	38,285	30,018	35,975	36,409	37,888
Govt, Bank & Corp Sec & T Bills	74,574	78,818	95,342	103,180	102,513
Derivatives	23,631	25,757	17,585	18,360	18,360
Goodwill and intangibles	5,117	5,117	5,165	5,175	5,175
Property and other fixed assets	1,547	1,572	1,233	1,314	1,393
Loans to non-bank customers	283,289	301,516	323,099	351,533	380,834
JV and Associates	1,000	890	783	849	849
Other assets	11,562	11,042	12,066	15,647	15,647
<b>Total Assets</b>	<b>457,834</b>	<b>481,570</b>	<b>517,711</b>	<b>565,158</b>	<b>614,767</b>
Due to banks	18,251	15,915	17,803	21,462	24,156
Deposits from customers	320,134	347,446	373,634	408,119	449,483
Derivatives	22,145	24,497	18,003	18,893	18,893
Other liabilities	12,404	15,895	16,615	20,704	20,704
Other debt securities	38,078	27,745	40,716	40,701	42,825
Subordinated term debts	4,026	3,102	1,138	3,641	3,641
<b>Total liabilities</b>	<b>415,038</b>	<b>434,600</b>	<b>467,909</b>	<b>513,520</b>	<b>559,701</b>
Shareholder's equity	40,374	44,609	47,458	50,814	54,270
Non-controlling interest	2,422	2,361	2,344	824	796
<b>Total Equity</b>	<b>42,796</b>	<b>46,970</b>	<b>49,802</b>	<b>51,638</b>	<b>55,066</b>

### Valuation Ratios

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
P/E (X), avg	11.7	10.3	15.5	11.7	10.9
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%	14.9%	7.3%
Net Fee and Comm Inc	5.8%	8.7%	12.5%	11.4%	-1.1%
Total income	11.3%	5.2%	3.8%	11.3%	4.6%
Profit before tax	9.6%	-3.7%	1.8%	35.3%	6.4%
Net income, reported	10.1%	-4.8%	3.1%	33.3%	6.9%
Net income, adj.	12.2%	-1.9%	3.1%	33.3%	6.9%

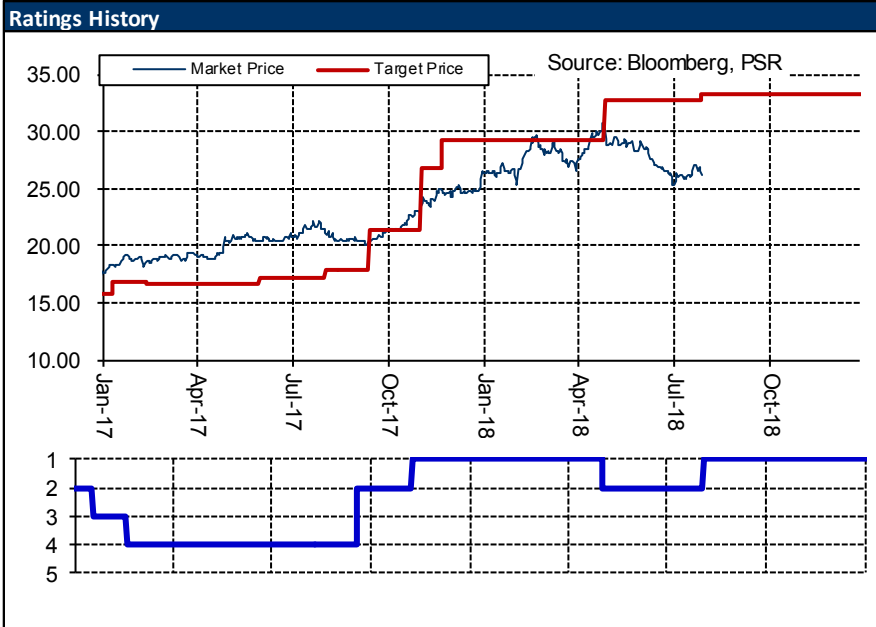
#### Margins

Net interest margin	1.84%	1.71%	1.78%	1.87%	1.86%
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#### Key Ratios (%)

ROE	11.3%	10.4%	9.9%	12.3%	12.3%
ROA	1.0%	0.9%	0.9%	1.1%	1.1%
RORWA	1.6%	1.5%	1.5%	1.9%	1.8%
Non-interest/total income ratio	35.0%	36.4%	34.7%	32.5%	30.8%
Cost/income ratio	44.9%	43.3%	43.7%	43.6%	43.1%
Loan/deposit ratio	88.5%	86.8%	86.5%	86.1%	84.7%
NPL ratio	0.91	1.45	1.68	1.53	1.37

Source: Company, PSR



### 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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