

# DBS Group (DBS SP)

## Taiwan 2.0

### Taiwan deal positive, but not transformational

The purchase of Citi's Taiwan consumer business should add scale to DBS' own operations there. It could drive stronger growth from cross-selling opportunities and cost savings. The large low cost deposit base DBS is inheriting should enhance its price competitiveness in Taiwan. However, this is not a transformational transaction to the Group, where HK and China are the key growth engines in North Asia. Maintain BUY with near term catalysts from rising NIMs, fees and reserve write-backs.

### Synergistic to the franchise

DBS is paying ~SGD956m premium for Citi Group's (C US, USD64.15, NR) consumer assets in Taiwan. In addition, it is injecting ~SGD1.2bn of capital to support incremental RWA. The cumulative pricing (~1.8x PB) is not cheap, but the deal is meaningfully synergistic to its Greater China strategy (14% of loans). As a result, credit card loans are set to increase by 4.7x and AUM by 3.5x in Taiwan. Citi's business serves a more affluent client segment (20% higher credit card spend than DBS, 50% higher balance for premier clients). As such, significant cross-selling opportunities could open for the combined entity. Concurrently, low cost CASA is rising from 39% to 53% giving DBS a significant funding advantage in their institutional banking business - which accounted for 69% of loans pre-deal.

### Watch for execution risks

DBS is still digesting the LVB investment made in 2020, so another large deal increases execution risks. Having said that, its integration of ANZ's retail business across 5 markets in 2016 was executed well. Client attrition during the combination is a key operational risk. Management has budgeted a range of 10-20% (15-17% for ANZ), so this needs to be watched. Of course, the geo-political risks between China and Taiwan adds to the complexity vs. buying Citi's franchises in ASEAN, in our view.

### Maintain BUY. Rising NIMs, fees near term catalysts

Management claims the deal could add SGD250m of earnings in a Covid normalised environment. At Group level, this is just +3% in 2022E. Cost synergies and a larger platform should support stronger growth. Indeed, DBS Taiwan earnings have grown 24% CAGR 2009-20. However, China and Hong Kong are the key North Asian engines for the Group in the medium term, in our view. We keep our EPS and multi-stage DDM (9.3% COE, 3% terminal) unchanged ahead of results on Feb 14. Higher NIMs from rising rates, increasing fees from rising regional transactions and potential allowance write-backs are near term positive catalysts.

FYE Dec (SGD m)	FY19A	FY20A	FY21E	FY22E	FY23E
Operating income	14,544	14,592	15,131	16,137	17,941
Pre-provision profit	8,286	8,434	8,491	8,881	10,228
Core net profit	6,391	4,721	7,146	7,419	8,527
Core EPS (SGD)	2.5	1.9	2.8	2.9	3.3
Core EPS growth (%)	14.1	(26.0)	51.4	3.8	14.9
Net DPS (SGD)	1.2	0.9	1.2	1.4	1.6
Core P/E (x)	10.3	13.5	12.6	12.1	10.5
P/BV (x)	1.3	1.2	1.5	1.4	1.3
Net dividend yield (%)	4.8	3.5	3.3	4.0	4.6
Book value (SGD)	19.96	21.41	23.04	24.56	26.26
ROAE (%)	13.4	9.4	13.4	12.9	13.9
ROAA (%)	1.1	0.8	1.1	1.1	1.2
Consensus net profit	-	-	6,871	7,338	8,194
MKE vs. Consensus (%)	-	-	4.0	1.1	4.1

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# BUY

Share Price	SGD 35.26
12m Price Target	SGD 37.03 (+5%)
Previous Price Target	SGD 37.03

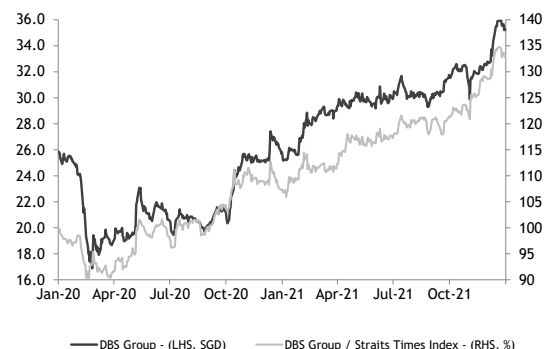
### Statistics

52w high/low (SGD)	36.00/25.18
3m avg turnover (USDm)	95.0
Free float (%)	70.3
Issued shares (m)	2,564
Market capitalisation	SGD90.4B USD66.8B

### Major shareholders:

Temasek Holdings	29.0%
Capital Research	2.1%
The Vanguard Group	2.1%

### Price Performance



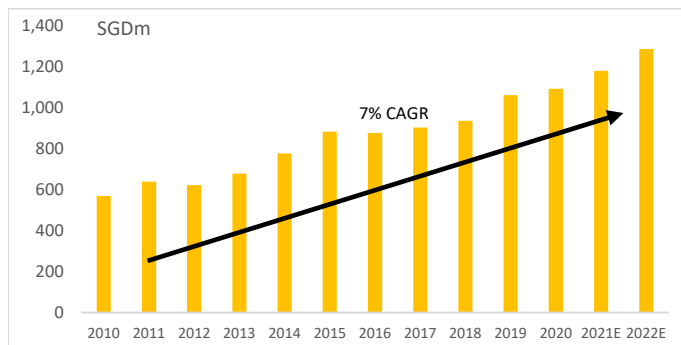
	-1M	-3M	-12M
Absolute (%)	8	11	37
Relative to index (%)	3	9	24

Source: FactSet

## Value Proposition

- SE Asia’s largest bank by assets, with strength in large corporate loans, cash management and wealth
- Over 50% market share of SGD CASA deposits through strong heartland banking franchise. Also strong USD funding base through HK operations
- Current strategy has the group refocusing on commercial banking following attempts to transform in to a universal bank pre-GFC which had mixed results
- Increasing presence in South and South Asia particularly India and Indonesia
- Early adopter of technology and automation providing opportunities for new revenue streams and cost savings

### IT spend opening up opportunities

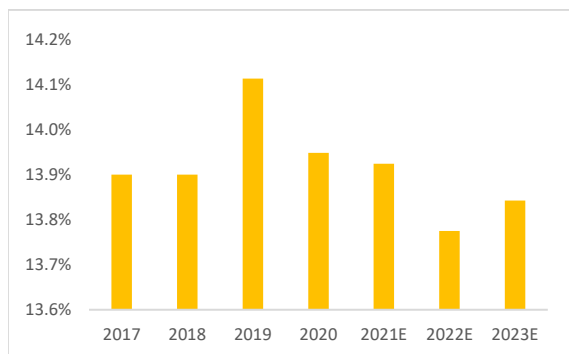


Source: Company

## Financial Metrics

- Following a +3bps YoY rise in 2019, NIMs should fall 35bps by 2021E from weaker interest rates
- Credit charges will range between 7-10bps between 2021-2023E as COVID-19 provision building ease off
- Gross NPLs should increase fall from 1.6% in 2020 to 1.5% in 2022E as economies open up
- CET1 should remain above management comfort level of 12.5%

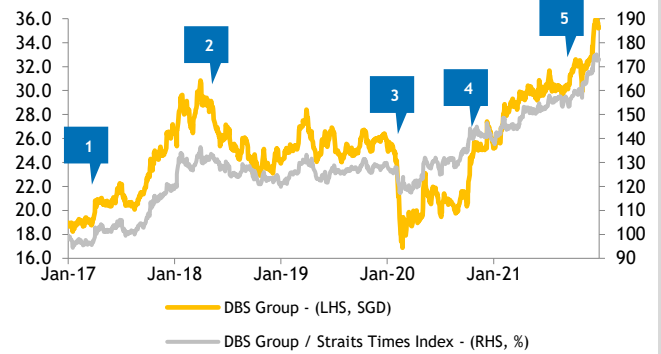
### CET1 levels above 12.5%



Source: Company

## Price Drivers

### Historical share price trend



Source: Company, Maybank IBG Research

1. Positive sentiment from expectation of Fed rate hike, USD strength and oil
2. Concerns of US-China trade war, slowing mortgage lending from property cooling measures and slower regional growth
3. Start of COVID-19 pandemic
4. Announcement of successful COVID-19 vaccine trials
5. Fed tapering expectations

## Swing Factors

### Upside

- Potentially higher NIMs from stronger than expected loan growth and interest rate hikes
- Regional integration may provide enhanced market share opportunities
- Provision write-backs are NPL formation slows from regional recovery

### Downside


- Sharp decline in value of trading securities and shocks in fixed-income portfolio.
- Prolonged Covid-19 epidemic fallout and continued political instability in Hong Kong
- Potential entry of digital banks and competition for market share

# Transaction summary

Fig 1: Transaction summary

Transaction overview	
<b>Business Acquired</b>	<ul style="list-style-type: none"> <li>▪ Citibank's Taiwan consumer banking business<sup>(1)</sup> ("Citi Consumer Taiwan"), comprising:               <ul style="list-style-type: none"> <li>– Earning Assets of S\$20.3BN (S\$11.3BN in Loans and S\$9.0BN in Investment AUM<sup>(2)</sup>)</li> <li>– Deposits of S\$15.1BN, of which ~70% are CASA<sup>(3)</sup></li> <li>– 45 branches, ~2.7MM credit cards and unsecured accounts and 0.5MM deposit and wealth customers</li> </ul> </li> <li>▪ DBS will make offers of employment to all ~3,500 Citi Consumer Taiwan employees</li> </ul>
<b>Purchase Consideration and Financial Impact</b>	<ul style="list-style-type: none"> <li>▪ Total purchase consideration to be based on net assets at completion plus a premium of S\$956MM<sup>(4)</sup> <ul style="list-style-type: none"> <li>– ~70 bps impact to DBS Group's capital ratio based on ~S\$2.2BN capital injection into DBS Taiwan for (a) premium of S\$956MM to be paid to Citi and (b) ~S\$1.2BN to support incremental RWA<sup>(5)</sup> and capital needs</li> <li>– Represents 1.8x P/B and 9x P/E based on S\$250MM net profit (pre-Covid average)</li> </ul> </li> <li>▪ Immediately EPS and ROE accretive after completion (excluding one-time transaction costs)</li> <li>▪ Funded by excess capital, with no impact to ability to pay dividends</li> </ul>
<b>Timeline and Closing</b>	<ul style="list-style-type: none"> <li>▪ Subject to regulatory approvals and migration, target completion in middle of 2023</li> </ul>

Notes: Based on S\$ to NT\$ rate of 20.75 throughout the presentation  
 (1) Figures as of 3Q 2021 unless indicated  
 (2) Assets under Management  
 (3) Current Account and Savings Accounts, which represents low-cost sticky deposits  
 (4) Premium based on earning assets as of 30 Sep 2021, to be adjusted depending on financial performance of Citi Consumer Taiwan at completion and capped at \$1.06BN  
 (5) Assuming 13% CET1 ratio on estimated Risk Weighted Assets ("RWA")


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Source: Company data

## Key assumptions

Fig 2: Key assumptions

	2016	2017	2018	2019	2020	2021E	2022E	2023E
<b>Balance Sheet</b>								
Loan growth y-o-y (%)	6%	7%	7%	4%	4%	9%	7%	6%
Consumer Loan growth y-o-y (%)	8%	15%	3%	2%	0%	7%	7%	6%
Corporate Loan growth y-o-y (%)	6%	4%	8%	4%	6%	10%	7%	6%
Deposit growth y-o-y (%)	9%	8%	5%	3%	15%	4%	4%	5%
CASA Deposit growth y-o-y (%)	9%	9%	-1%	3%	42%	-7%	-4%	5%
Cash and balances with central banks as a % of Deposits	8%	7%	6%	7%	11%	5%	3%	2%
Loan to Deposit Ratio (%)	87.9%	87.7%	88.8%	89.6%	81.3%	84.8%	86.9%	88.3%
<b>Profit &amp; Loss</b>								
Net Interest Margin - Adjusted (%)	1.71%	1.70%	1.80%	1.83%	1.61%	1.49%	1.57%	1.72%
Net Interest income growth y-o-y (%)	2.9%	6.7%	14.9%	7.5%	-5.7%	-2.2%	8.2%	13.7%
Non-interest income growth y-o-y (%)	13.5%	-1.2%	2.3%	16.3%	12.1%	13.3%	4.5%	7.5%
PPOP growth y-o-y (%)	10.7%	3.1%	9.9%	12.2%	1.8%	0.7%	4.6%	15.2%
PBT growth y-o-y (%)	-1.5%	-5.1%	38.3%	13.6%	-29.2%	52.9%	3.8%	14.9%
Cost to Income Ratio (%)	43.3%	43.7%	44.0%	43.0%	42.2%	43.9%	45.0%	43.0%
Dividend Payout on core-profits (%)	36%	90%	55%	49%	47%	42%	48%	49%
<b>Asset Quality</b>								
Gross NPL (%)	1.4%	1.7%	1.5%	1.5%	1.6%	1.6%	1.5%	1.4%
Provision coverage (GP+SP+RLAR/NPA) (%)	100%	86%	98%	94%	110%	94%	86%	83%
Credit charge (Allowance for credit losses/gross loans) (%)	0.48%	0.60%	0.21%	0.20%	0.83%	0.07%	0.08%	0.10%
NPA growth y-o-y (%)	73.9%	25.0%	-6.4%	1.6%	15.8%	6.0%	2.1%	2.1%
<b>Capital</b>								
CET1 ratio (%)	13.3%	13.9%	13.9%	14.1%	13.9%	13.9%	13.8%	13.8%
Tier-1 ratio (%)	14.7%	15.1%	15.1%	15.0%	15.0%	15.0%	14.8%	14.9%
Total Capital ratio (%)	16.2%	15.9%	16.9%	16.7%	16.8%	16.7%	16.5%	16.5%

Source: Company data, Maybank IBG Research

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Key Metrics</b>					
Core P/E (x)	10.3	13.5	12.6	12.1	10.5
Core FD P/E (x)	10.3	13.5	12.6	12.1	10.5
P/BV (x)	1.3	1.2	1.5	1.4	1.3
P/NTA (x)	1.4	1.3	1.7	1.6	1.5
Net dividend yield (%)	4.8	3.5	3.3	4.0	4.6
<b>INCOME STATEMENT (SGD m)</b>					
Interest income	15,592.0	12,208.0	11,962.0	13,319.1	15,348.0
Interest expense	(5,967.0)	(3,132.0)	(3,082.4)	(3,711.9)	(4,427.8)
<b>Net interest income</b>	<b>9,625.0</b>	<b>9,076.0</b>	<b>8,879.6</b>	<b>9,607.3</b>	<b>10,920.1</b>
Net insurance income	0.0	0.0	0.0	0.0	0.0
Net fees and commission	3,052.0	3,058.0	3,577.9	3,864.1	4,250.5
Other income	1,867.0	2,458.0	2,673.6	2,665.9	2,770.4
<b>Total non-interest income</b>	<b>4,919.0</b>	<b>5,516.0</b>	<b>6,251.5</b>	<b>6,530.0</b>	<b>7,020.9</b>
<b>Operating income</b>	<b>14,544.0</b>	<b>14,592.0</b>	<b>15,131.1</b>	<b>16,137.3</b>	<b>17,941.1</b>
Staff costs	(3,514.0)	(3,550.0)	(3,905.0)	(4,373.6)	(4,723.5)
Other operating expenses	(2,744.0)	(2,608.0)	(2,735.5)	(2,882.9)	(2,989.6)
<b>Operating expenses</b>	<b>(6,258.0)</b>	<b>(6,158.0)</b>	<b>(6,640.5)</b>	<b>(7,256.5)</b>	<b>(7,713.1)</b>
<b>Pre-provision profit</b>	<b>8,286.0</b>	<b>8,434.0</b>	<b>8,490.6</b>	<b>8,880.7</b>	<b>10,228.0</b>
Loan impairment allowances	(703.0)	(3,066.0)	(283.6)	(361.8)	(443.2)
Other allowances	0.0	0.0	0.0	0.0	0.0
Associates & JV income	0.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>7,583.0</b>	<b>5,368.0</b>	<b>8,207.0</b>	<b>8,518.9</b>	<b>9,784.7</b>
Income tax	(1,154.0)	(612.0)	(1,025.9)	(1,064.9)	(1,223.1)
Minorities	(38.0)	(35.0)	(35.0)	(35.0)	(35.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
<b>Reported net profit</b>	<b>6,391.0</b>	<b>4,721.0</b>	<b>7,146.2</b>	<b>7,419.0</b>	<b>8,526.6</b>
<b>Core net profit</b>	<b>6,391.0</b>	<b>4,721.0</b>	<b>7,146.2</b>	<b>7,419.0</b>	<b>8,526.6</b>
Preferred Dividends	(38.0)	(38.0)	(38.0)	(38.0)	(38.0)
<b>BALANCE SHEET (SGD m)</b>					
Cash & deposits with banks	65,698.0	101,485.0	77,309.4	68,702.2	68,556.3
Sec. under resale agreements	0.0	0.0	0.0	0.0	0.0
Derivatives financial assets	17,235.0	31,108.0	34,218.8	37,640.7	41,404.7
Dealing securities	0.0	0.0	0.0	0.0	0.0
Available-for-sale securities	63,746.0	65,456.0	67,419.7	72,813.3	76,453.9
Investment securities	49,729.0	51,700.0	53,993.1	45,642.7	37,109.7
Loans & advances	357,884.0	371,171.0	405,478.4	435,203.2	462,756.5
Central bank deposits	0.0	0.0	0.0	0.0	0.0
Investment in associates/JVs	835.0	862.0	862.0	862.0	862.0
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	3,225.0	3,338.0	3,455.0	3,576.0	3,701.3
Intangible assets	5,170.0	5,323.0	5,323.0	5,323.0	5,323.0
Other assets	15,424.0	19,495.0	21,444.5	23,589.0	25,947.8
<b>Total assets</b>	<b>578,946.0</b>	<b>649,938.0</b>	<b>669,503.8</b>	<b>693,351.9</b>	<b>722,115.4</b>
Deposits from customers	404,289.0	464,850.0	485,468.3	507,140.9	530,138.8
Deposits from banks & FIs	23,773.0	28,220.0	33,498.9	39,765.2	47,203.7
Derivatives financial instruments	17,512.0	32,904.0	32,904.0	32,904.0	32,904.0
Subordinated debt	3,538.0	3,970.0	3,970.0	3,970.0	3,970.0
Other securities in issue	0.0	0.0	0.0	0.0	0.0
Other borrowings	57,128.0	43,277.0	32,784.3	24,835.5	18,814.0
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	20,907.0	22,074.0	22,074.0	22,074.0	22,074.0
<b>Total liabilities</b>	<b>527,147.0</b>	<b>595,295.0</b>	<b>610,699.4</b>	<b>630,689.6</b>	<b>655,104.5</b>
Share capital	10,948.0	10,942.0	10,942.0	10,942.0	10,942.0
Reserves	38,024.0	40,283.0	44,444.4	48,302.3	52,650.9
Shareholders' funds	48,972.0	51,225.0	55,386.4	59,244.3	63,592.9
Preference shares	2,009.0	3,401.0	3,401.0	3,401.0	3,401.0
Minority interest	818.0	17.0	17.0	17.0	17.0
Total equity	51,799.0	54,643.0	58,804.4	62,662.3	67,010.9
<b>Total liabilities &amp; equity</b>	<b>578,946.0</b>	<b>649,938.0</b>	<b>669,503.8</b>	<b>693,351.9</b>	<b>722,115.4</b>

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Key Ratios</b>					
<b>Growth (%)</b>					
Net interest income	7.5	(5.7)	(2.2)	8.2	13.7
Non-interest income	16.3	12.1	13.3	4.5	7.5
Operating expenses	7.9	(1.6)	7.8	9.3	6.3
Pre-provision profit	12.2	1.8	0.7	4.6	15.2
Core net profit	13.6	(26.1)	51.4	3.8	14.9
Gross loans	3.7	4.2	8.9	7.1	6.2
Customer deposits	2.7	15.0	4.4	4.5	4.5
Total assets	5.1	12.3	3.0	3.6	4.1
<b>Profitability (%)</b>					
Non-int. income/Total income	33.8	37.8	41.3	40.5	39.1
Average lending yields	2.97	2.17	2.00	2.17	2.42
Average financing yields	0.00	0.00	0.00	0.00	0.00
Average cost of funds	1.25	0.61	0.56	0.66	0.75
Net interest margin	1.83	1.61	1.49	1.57	1.72
Net income margin	43.94	32.35	47.23	45.97	47.53
Cost/income	43.0	42.2	43.9	45.0	43.0
<b>Liquidity (%)</b>					
Loans/customer deposits	88.5	79.8	83.5	85.8	87.3
<b>Asset quality (%)</b>					
Net NPL	0.2	(0.1)	0.1	0.2	0.2
Gross NPL	1.5	1.6	1.6	1.5	1.4
Net NPF	0.0	0.0	0.0	0.0	0.0
Gross NPF	0.0	0.0	0.0	0.0	0.0
(SP+GP)/average gross loans	0.2	0.8	0.1	0.1	0.1
(SP+GP)/average gross financing	0.0	0.0	0.0	0.0	0.0
Loan loss coverage	93.8	109.6	94.3	86.4	82.6
<b>Capital adequacy (%)</b>					
CET1	14.1	13.9	13.9	13.8	13.8
Tier 1 capital	15.0	15.0	15.0	14.8	14.9
Risk-weighted capital	16.7	16.8	16.7	16.5	16.5
<b>Returns (%)</b>					
ROAE	13.4	9.4	13.4	12.9	13.9
ROAA	1.1	0.8	1.1	1.1	1.2
Shareholders equity/assets	8.5	7.9	8.3	8.5	8.8

Source: Company; Maybank

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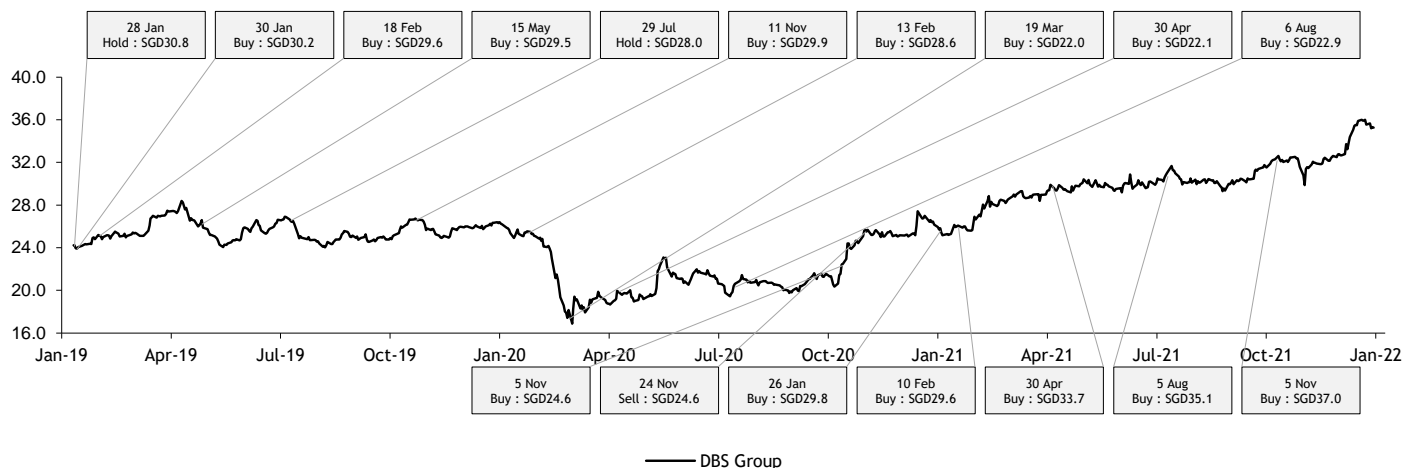
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