

COMPANY UPDATE

DBS Group Holdings (DBS SP)

Bolt-on Acquisition To Enhance Scale In Greater China

DBS has agreed to acquire Citi Consumer Taiwan via a transfer of assets and liabilities. It will pay Citigroup a premium of S\$956m and also inject S\$1.2b into DBS Taiwan to support incremental risk-weighted assets. Based on the total cost of S\$2.2b, DBS paid PE of 9x for Citi Consumer Taiwan based on pre-pandemic earnings. Citi Consumer Taiwan generated ROE of above 20% pre-pandemic in 2018 and 2019 and has a high CASA ratio of 70%. Maintain BUY. Target Price: S\$40.28.

WHAT'S NEW

- Scaling up in Taiwan.** DBS Group Holdings (DBS) has agreed to acquire the consumer banking business of Citigroup in Taiwan (Citi Consumer Taiwan) via a transfer of assets (loans of S\$11.3b) and liabilities (deposits of S\$15.1b). Given that Citi Consumer Taiwan's net assets are negative (deposits exceed loans by S\$3.8b), Citigroup will transfer cash of S\$3.8b to DBS. DBS will pay Citigroup a premium of S\$956m (NT\$19.8b) and also inject S\$1.2b (NT\$24.5b) into DBS Taiwan to support incremental risk-weighted assets and future capital needs. Based on the total cost of S\$2.2b (S\$1.2b + S\$956m), DBS paid PE of 9x for Citi Consumer Taiwan based on pre-pandemic earnings.
- Becoming the largest foreign bank in Taiwan.** Citi Consumer Taiwan has 2.7m credit cards and unsecured accounts, 0.5m deposit and wealth customers and 45 branches. It has an earning asset base of S\$20.3b, comprising loans of S\$11.3b and investment AUM of S\$9b. It has total deposits of S\$15.1b, of which more than 70% are sticky low-cost deposits (high current and savings accounts (CASA) ratio of 70%), as of Sep 21. It generated annual net profit of S\$250m on average and ROE of above 20% pre-pandemic in 2018 and 2019.
- Enlarge scale with acquisition of high-quality consumer franchise.** The acquisition will expand DBS Taiwan's credit card customer base by 5.7x to 3,280,000. The huge credit card customer base has a high spending per card, which is more than 20% above DBS' average spending. For wealth management, DBS Taiwan will increase its affluent and high net worth customer base by 1.9x and 3.7x respectively to 139,000 and 5,700. The combined average total relationship balance will increase by 50% to S\$224,000 for affluent customers and 120% to S\$2.4m for high net worth customers.

STOCK IMPACT

- Acquisition is earnings and ROE accretive.** This is DBS' third strategic acquisition since the start of the COVID-19 pandemic. DBS Taiwan and Citi Consumer Taiwan on a combined basis will have the largest credit cards balance, investment AUM, loan book and deposit base among foreign banks in Taiwan. Excluding one-time transaction costs of S\$200m, the acquisition is expected to be accretive to earnings and ROE immediately after completion.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2019	2020	2021F	2022F	2023F
Net interest income	9,625	9,076	8,436	8,971	10,615
Non-interest income	4,919	5,516	6,003	5,913	6,474
Net profit (rep. fact.)	6,391	4,721	6,871	6,796	7,552
Net profit (adj.)	6,429	4,721	6,871	6,796	7,552
EPS (S\$ cent)	250.1	182.8	263.7	260.5	289.7
PE (x)	13.9	19.0	13.2	13.4	12.0
P/B (x)	1.8	1.7	1.6	1.5	1.4
Dividend yield (%)	3.5	2.5	3.4	4.0	4.4
Net int margin (%)	1.9	1.6	1.4	1.4	1.6
Cost/income (%)	43.0	42.2	44.6	43.5	43.9
Loan loss cover (%)	93.8	109.6	105.0	107.0	99.1
Consensus net profit	-	-	6,885	7,188	8,028
UOBKH/Consensus (x)	-	-	1.00	0.95	0.94

Source: DBS Group Holdings, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$34.82
Target Price	S\$40.28
Upside	+15.7%

COMPANY DESCRIPTION

DBS is a pan-Asian banking group with a significant presence in Singapore and Hong Kong. It also has operations in India, Indonesia, Taiwan and China.

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	DBS SP
Shares issued (m):	2,568.3
Market cap (S\$m):	89,429.7
Market cap (US\$m):	65,873.4
3-mth avg daily t'over (US\$m):	96.5

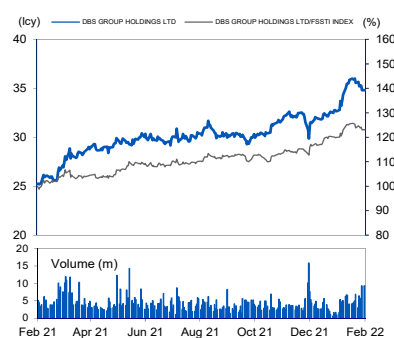
Price Performance (%)

52-week high/low	S\$36.00/S\$25.18				
1mth	3mth	6mth	1yr	YTD	
6.3	10.1	15.8	36.9	6.6	

Major Shareholders

Temasek Hldgs	29.3
FY22 NAV/Share (S\$)	22.79
FY22 CAR Tier-1 (%)	15.44

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **Ability to pay dividends not compromised.** CET-1 CAR is expected to drop by 70bp but management does not expect any impact on DBS' ability to pay dividends.

- **Timeline.** Completion and full integration of Citi Consumer Taiwan is anticipated in the middle of 2023.

EARNINGS REVISION/RISK

- We have factored in contributions from Citi Consumer Taiwan starting from 1Q23.
- The impact on DBS' financial performance in 2023 is neutral due to the one-off transaction costs of S\$200m. We estimate that the acquisition will increase net profit after tax by 2.3% to S\$8,975m, enhance ROE by 0.2ppt to 13.7%, but lower CET-1 CAR by 0.6ppt to 14.1% in 2024.

VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price of S\$40.28 is based on 1.66x 2023F P/B, derived from Gordon Growth Model (ROE: 12.3%, COE: 8.0%, growth: 1.5%).

SHARE PRICE CATALYST

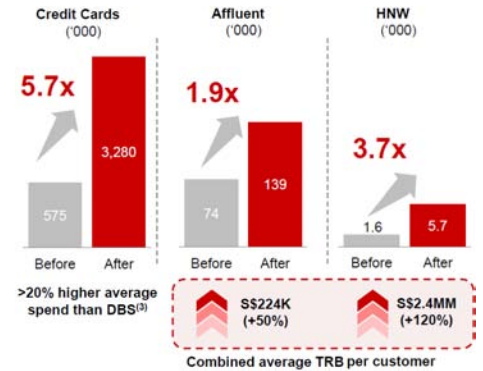
- DBS to benefit from NIM expansion in 2H22 and 2023 due to higher interest rates.
- We expect DBS to reward shareholders by paying dividends at 35 S cents per quarter in 2022 and 38 S cents per quarter in 2023.

KEY ASSUMPTIONS

	2020	2021F	2022F	2023F	2024F
Loan Growth (%)	4.2	10.4	7.0	10.1	7.4
NIM (%)	1.63	1.45	1.44	1.58	1.76
Fees, % Chg	0.2	17.7	8.7	14.3	9.5
NPL Ratio (%)	1.60	1.55	1.53	1.45	1.44
Credit Costs (bp)	79.7	3.8	14.8	20.4	20.2
Net Profit (S\$m)	4,721	6,871	6,796	7,552	8,975
% Chg	(26.1)	45.5	(1.1)	11.1	18.8

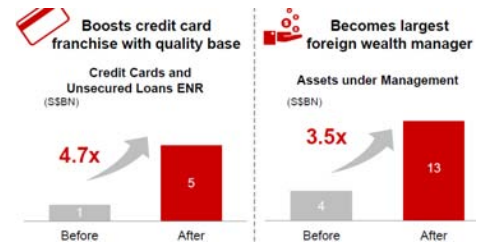
Source: UOB Kay Hian

HIGH-QUALITY AND DIGITALLY ENGAGED CUSTOMERS



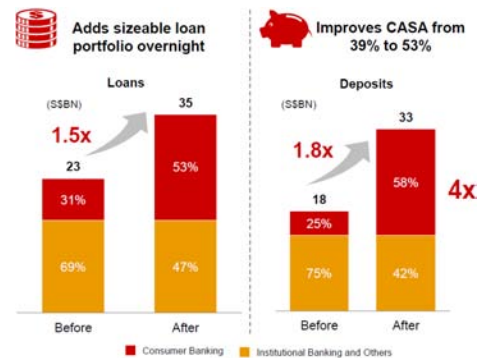
Source: DBS

BECOMING THE LARGEST FOREIGN BANK BY ASSETS



Source: DBS

ENLARGE CREDIT CARD AND WEALTH MANAGEMENT BUSINESS



Source: DBS

PROFIT & LOSS

Year to 31 Dec (\$m)	2020	2021F	2022F	2023F
Interest income	12,208	10,226	10,994	14,995
Interest expense	(3,132)	(1,790)	(2,023)	(4,380)
Net interest income	9,076	8,436	8,971	10,615
Fees & commissions	3,058	3,598	3,913	4,474
Other income	2,458	2,405	2,000	2,000
Non-interest income	5,516	6,003	5,913	6,474
Total income	14,592	14,439	14,884	17,088
Staff costs	(3,550)	(3,888)	(3,885)	(4,423)
Other operating expense	(2,608)	(2,547)	(2,594)	(3,085)
Pre-provision profit	8,434	8,004	8,405	9,581
Loan loss provision	(2,950)	(149)	(639)	(956)
Other provisions	(116)	0	0	0
Associated companies	0	0	0	0
Pre-tax profit	5,368	7,855	7,766	8,625
Tax	(612)	(941)	(932)	(1,035)
Minorities	(35)	(42)	(38)	(38)
Net profit	4,721	6,871	6,796	7,552
Net profit (adj.)	4,721	6,871	6,796	7,552

BALANCE SHEET

Year to 31 Dec (\$m)	2020	2021F	2022F	2023F
Cash with central bank	50,618	54,988	59,521	64,428
Govt treasury bills & securities	51,700	53,255	55,418	57,668
Interbank loans	50,867	52,491	55,712	59,364
Customer loans	371,171	410,237	438,791	483,998
Investment securities	65,456	68,937	71,736	74,649
Derivative receivables	31,108	21,651	22,980	24,390
Associates & JVs	862	899	899	899
Fixed assets (incl. prop.)	3,338	3,308	3,308	3,308
Other assets	24,818	21,541	20,370	22,514
Total assets	649,938	687,308	728,735	791,218
Interbank deposits	28,220	35,578	37,761	40,236
Customer deposits	464,850	493,517	523,801	573,974
Derivative payables	32,904	23,069	24,970	27,029
Debt equivalents	47,247	50,918	52,794	54,747
Other liabilities	22,074	25,224	27,304	29,555
Total liabilities	595,295	628,306	666,631	725,541
Shareholders' funds	54,626	58,965	62,030	65,565
Minority interest - accumulated	17	36	74	112
Total equity & liabilities	649,938	687,308	728,735	791,218

OPERATING RATIOS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Capital Adequacy				
Tier-1 CAR	15.0	15.5	15.4	14.8
Total CAR	16.8	17.2	17.0	16.2
Total assets/equity (x)	11.9	11.7	11.7	12.1
Tangible assets/tangible common equity (x)	13.1	12.7	13.0	13.4
Asset Quality				
NPL ratio	1.6	1.6	1.5	1.4
Loan loss coverage	109.6	105.0	107.0	99.1
Loan loss reserve/gross loans	1.7	1.6	1.6	1.4
Increase in NPLs	12.2	6.8	5.6	4.1
Credit cost (bp)	79.7	3.8	14.8	20.4
Liquidity				
Loan/deposit ratio	79.8	83.1	83.8	84.3
Liquid assets/short-term liabilities	31.1	30.4	30.4	29.5
Liquid assets/total assets	23.6	23.4	23.4	22.9

KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Growth				
Net interest income, yoy chg	(5.7)	(7.1)	6.3	18.3
Fees & commissions, yoy chg	0.2	17.7	8.7	14.3
Pre-provision profit, yoy chg	1.8	(5.1)	5.0	14.0
Net profit, yoy chg	(26.1)	45.5	(1.1)	11.1
Net profit (adj.), yoy chg	(26.6)	45.5	(1.1)	11.1
Customer loans, yoy chg	3.7	10.5	7.0	10.3
Customer deposits, yoy chg	15.0	6.2	6.1	9.6
Profitability				
Net interest margin	1.6	1.4	1.4	1.6
Cost/income ratio	42.2	44.6	43.5	43.9
Adjusted ROA	0.8	1.0	1.0	1.0
Reported ROE	8.9	12.1	11.2	11.8
Adjusted ROE	8.9	12.1	11.2	11.8
Valuation				
P/BV (x)	1.7	1.6	1.5	1.4
P/NTA (x)	1.9	1.8	1.7	1.6
Adjusted P/E (x)	19.0	13.2	13.4	12.0
Dividend Yield	2.5	3.4	4.0	4.4
Payout ratio	47.6	44.4	53.7	52.5

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