

DBS Group (DBS SP)

Rates rider

BUY

Share Price	SGD 37.20
12m Price Target	SGD 41.82 (+12%)
Previous Price Target	SGD 37.03

Rising rates, strong execution justifies a higher PB

DBS marginally missed 2021 earnings. However, we think this is largely a timing mismatch with NIMs not yet reflecting higher interest rates. The Group's large, low cost funding base and strong franchise designed to capture regional flows make it a prime beneficiary of rising rates as well as reopening, we believe. We estimate ROEs are set to rise nearly 4ppts above the levels of the past 10-years. This justifies a higher valuation, in our view, especially as risks to dividend payouts are on the upside. We increase TP to SGD41.82, where DBS would trade at 1.7x PB. Maintain BUY.

Higher rates beneficiary

DBS CASA base has increased to 76% of deposits (73% 2020, 59% 2019) giving it a significant low cost funding advantage in a rising rate environment. Even with deposit leakage, Management estimates NII could grow SGD18-20m per bps of USD rates. A 100bps Fed rate rise could have increased 2021 NII +21%. Current expectations are for 100-175bps of hikes. Our Singapore SORA expectations are for +54bps in 2022E. We forecast 2022E NIMs to rise 18bps YoY vs. 8bps earlier. Conservatively, we expect NIMs to recover to 2019 levels only in 2024E, leaving room for upgrades as the rate cycle becomes clearer. Concurrently, we have raised 2022-23E loan growth by 1-2% to reflect guidance and broader regional re-opening.

Potential for lower allowances, but NPL risk exists

Together with write-backs, overall credit charges fell to 1bps vs. 83bps in 2020. Management expect this level to continue in 2022E, signifying additional write-backs. Credit quality remains benign with NPLs falling to 1.3% in 4Q21 (c. 1.5% 3Q21) with improving recoveries and settlements. Nevertheless, uncertainty on the Chinese economy and rising rates pressuring SMEs are key risks to watch out for going forward, we believe.

Raise TP to SGD41.82. Maintain BUY

We have conservatively raised 2022-23E EPS by 7-8%. Economic re-opening, rising rates, increased digitalisation and improving asset quality are all drivers that could support earnings upgrades going forward, we believe. Our multistage DDM (COE 9.3%, 3% terminal) based TP is raised to SGD41.82 (SGD37.03). With 12% upside, maintain BUY. At our TP, DBS would trade at 1.7x PB. Over the next 3-years, the Group's structural ROE is set to rise 374bps to 14.3% vs. the past 10-years. Therefore, we think a higher multiple is justified. Indeed, pre-GFC, when Group ROEs were closer to 11%, DBS has traded up to 1.8x. Additionally, with three big recent acquisitions to digest, we believe DBS has increased room for higher dividend payouts rather than expending additional capital for growth.

FYE Dec (SGD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Operating income	14,592	14,297	16,275	18,288	20,348
Pre-provision profit	8,434	7,828	9,236	10,835	12,702
Core net profit	4,721	6,801	8,025	9,145	10,468
Core EPS (SGD)	1.9	2.6	3.1	3.6	4.1
Core EPS growth (%)	(26.0)	43.1	18.0	14.0	14.5
Net DPS (SGD)	0.9	1.2	1.5	1.7	2.0
Core P/E (x)	13.5	12.3	11.9	10.4	9.1
P/BV (x)	1.2	1.5	1.6	1.4	1.3
Net dividend yield (%)	3.5	3.7	4.1	4.6	5.3
Book value (SGD)	21.41	22.40	23.99	25.84	27.96
ROAE (%)	9.4	12.8	14.0	14.8	15.7
ROAA (%)	0.8	1.0	1.1	1.2	1.3
Consensus net profit	-	-	7,343	8,227	na
MKE vs. Consensus (%)	-	-	9.3	11.2	na

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Statistics

52w high/low (SGD)	37.25/25.60
3m avg turnover (USDm)	104.6
Free float (%)	70.3
Issued shares (m)	2,564
Market capitalisation	SGD95.4B
	USD71.0B

Major shareholders:

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

Price Performance



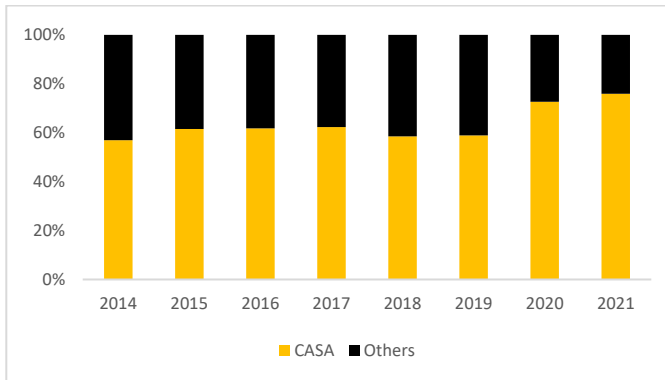
	-1M	-3M	-12M
Absolute (%)	4	16	43
Relative to index (%)	(1)	9	22

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

Low cost CASA vs. other deposit mix (%)

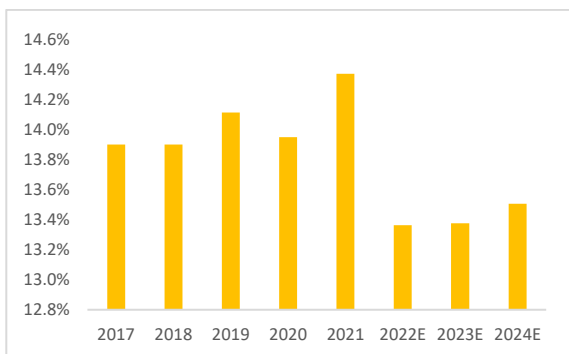


Source: Company

Financial Metrics

- NIM are set to see strong inflection from rising rates after bottoming in 2021 from rates cuts. 2022E NIMs set to rise 18bps YoY
- Asset quality is set to remain benign in 2022E and 2023E with NPLs rising 5-6% YoY compared to +12% YoY in 2020. SME and China risks need to be watched
- CET1 ratios are set to remain above 13% giving sufficient buffer for higher dividend payouts.

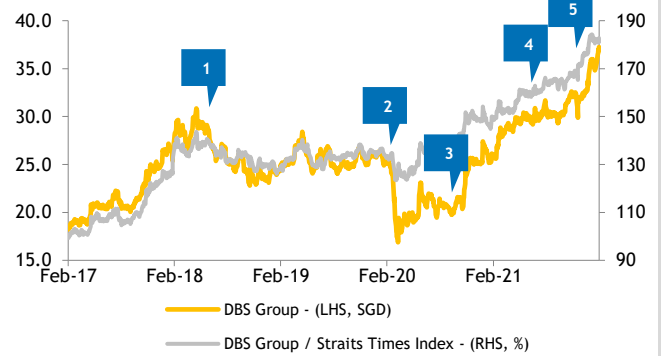
CET1 ratio



Source: Company, Maybank IBG

Price Drivers

Historical share price trend



Source: Company, Maybank Kim Eng

1. Concerns of US-China trade war, slowing mortgage lending from property cooling measures and slower regional growth
2. Start of COVID-19 pandemic
3. Announcement of successful COVID-19 vaccine trials
4. Regional COVID-19 variant uncertainty
5. Central Bank tightening expectations

Swing Factors

Upside

- Higher NIMs from stronger than expected Central Bank tightening as well as better loan growth
- Regional integration may provide enhanced market share opportunities
- Provision write-backs are NPL formation slows from regional recovery

Downside

- Increased asset quality risks from a slower recovery in China as well as pressure on SMEs from higher interest rates
- Disruptions and outages to digital infrastructure
- Integration issues from new acquisitions delaying ROEs or increasing costs

2H21 results summary

Fig 1: 2H21 results summary

SGDm	2H21	2H20	YoY (%)	1H21	HoH (%)	2021	2020	YoY	Comments
Net interest income	4,244	4,291	-1.1	4,196	1.1	8,440	9,076	(7.0)	Continued weak NIMs, offset by loan growth
Non-interest income	2,610	2,549	2.4	3,247	-19.6	5,857	5,516	6.2	Growth in cards, IB, but seasonally weaker wealth
Total income	6,854	6,840	0.2	7,443	-7.9	14,297	14,592	(2.0)	
Total expenses	(3,339)	(3,119)	7.1	(3,130)	6.7	(6,469)	(6,158)	5.1	Rising from staff costs and higher business activities
Profit before allowances (PPOP)	3,515	3,721	-5.5	4,313	-18.5	7,828	8,434	(7.2)	
Allowances for credit and other losses	37	(1,131)	NM	(89)	NM	(52)	(3,066)	(98.3)	Continued GP write back and lower SP
Profit before tax	3,552	2,590	37.1	4,224	-15.9	7,776	5,368	44.9	
Core Net Profit	3,089	2,309	33.8	3,712	-16.8	6,801	4,721	44.1	2021 NPA 99% of Street, 95% of MIBG
One time gains/expenses	4	-	NM	-	NM	4	-	NM	
Reported Net profit	3,093	2,309	34.0	3,712	-16.7	6,805	4,721	44.1	
NIM (Reported) %	1.43%	1.51%	(8)	1.47%	(4)	1.45%	1.62%	(17)	Lower policy rates, higher competition
Cost/income ratio	48.7%	45.60%	310	42.10%	660	45.20%	42.20%	300	Higher from staff costs
Net Loans	408,993	371,171	10.2	396,963	3.0	415,072	377,770	9.9	Led by Singapore and Hong Kong
Deposits	501,959	464,850	8.0	482,837	4.0	501,959	464,850	8.0	Continued CASA inflows
Gross NPLs	1.3%	1.6%	(30)	1.5%	(20)	1.3%	1.6%	(33)	Improving repayments, recoveries

Source: Company data, Maybank IBG Research

Key assumption changes

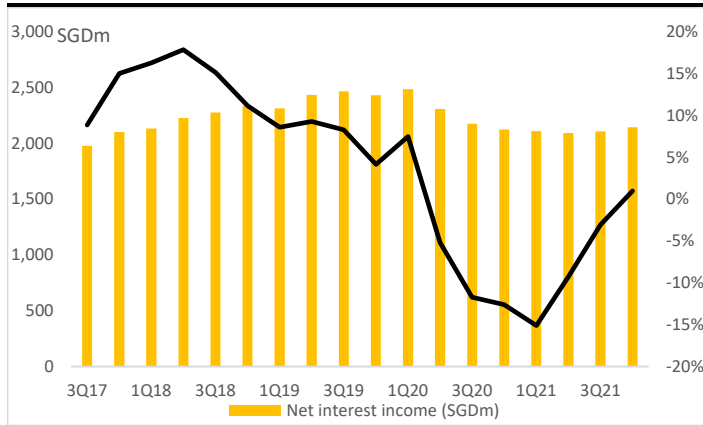
Fig 2: Key assumption changes

	2022E			2023E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	9,607	10,186	6%	10,920	11,801	8%
Non-interest income	6,530	6,089	-7%	7,021	6,487	-8%
Total Income	16,137	16,275	1%	17,941	18,288	2%
Total Expenses	(7,257)	(7,039)	-3%	(7,713)	(7,453)	-3%
PPOP	8,881	9,236	4%	10,228	10,835	6%
Allowance for credit and other losses	(362)	(61)	-83%	(443)	(379)	-14%
PBT	8,519	9,175	8%	9,785	10,456	7%
Core-Net Profit	7,419	8,025	8%	8,527	9,145	7%
NIM	1.57%	1.55%	-1 bps	1.72%	1.71%	-1 bps
Gross Loans	440,836	446,672	1%	468,250	478,906	2%
Deposits	507,141	518,946	2%	530,139	541,357	2%

Source: Maybank IBG Research

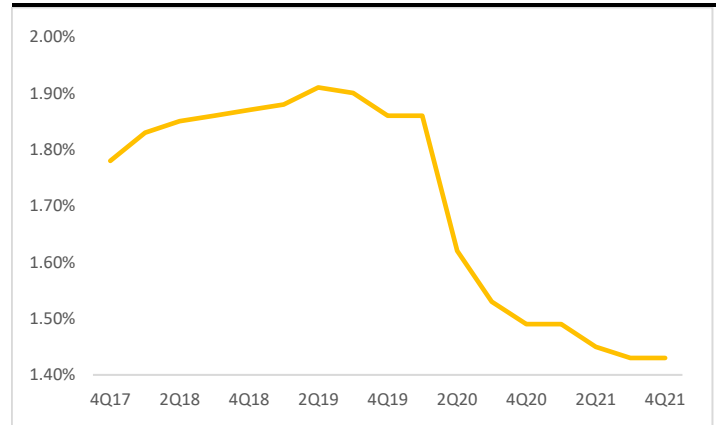
Focus charts

Fig 3: Net interest income YoY (%)



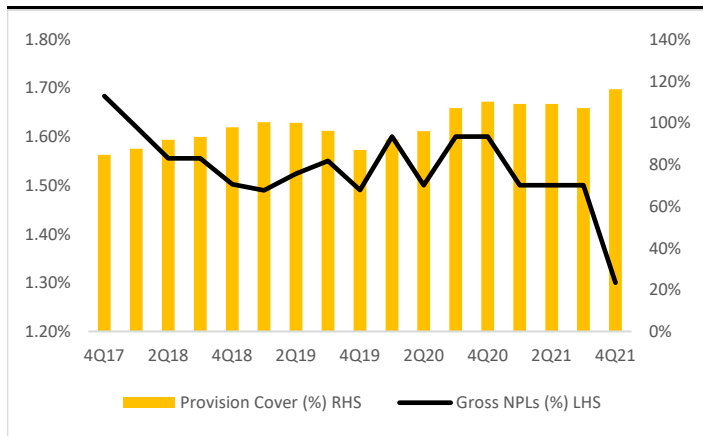
Source: Company data, Maybank IBG Research

Fig 4: Net interest margin (%)



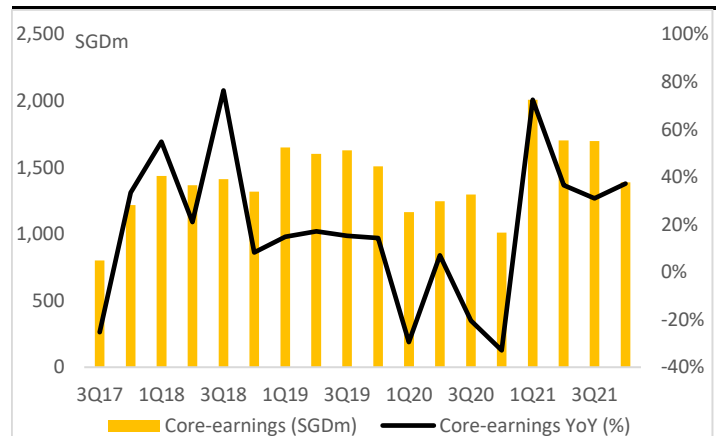
Source: Company data, Maybank IBG Research

Fig 5: Gross NPLs and provision cover



Source: Company data, Maybank IBG Research

Fig 6: Core-earnings YoY (%)



Source: Company data, Maybank IBG Research

Detailed assumptions

Fig 7: Detailed assumptions

	2017	2018	2019	2020	2021	2022E	2023E	2024E
Balance Sheet								
Loan growth y-o-y (%)	7%	7%	4%	4%	10%	8%	7%	7%
Consumer Loan growth y-o-y (%)	15%	3%	2%	0%	10%	8%	7%	7%
Corporate Loan growth y-o-y (%)	4%	8%	4%	6%	10%	8%	7%	7%
Deposit growth y-o-y (%)	8%	5%	3%	15%	8%	3%	4%	6%
CASA Deposit growth y-o-y (%)	9%	-1%	3%	42%	13%	-18%	4%	6%
Cash and balances with central banks as a % of Deposits	7%	6%	7%	11%	11%	10%	9%	5%
Loan to Deposit Ratio (%)	87.7%	88.8%	89.6%	81.3%	82.7%	86.1%	88.5%	89.5%
Profit & Loss								
Net Interest Margin - Adjusted (%)	1.70%	1.80%	1.83%	1.61%	1.37%	1.55%	1.71%	1.83%
Net Interest income growth y-o-y (%)	6.7%	14.9%	7.5%	-5.7%	-7.0%	20.7%	15.9%	13.8%
Non-interest income growth y-o-y (%)	-1.2%	2.3%	16.3%	12.1%	6.2%	4.0%	6.5%	6.6%
PPOP growth y-o-y (%)	3.1%	9.9%	12.2%	1.8%	-7.2%	18.0%	17.3%	17.2%
PBT growth y-o-y (%)	-5.1%	38.3%	13.6%	-29.2%	44.9%	18.0%	14.0%	14.5%
Cost to Income Ratio (%)	43.7%	44.0%	43.0%	42.2%	45.2%	43.2%	40.8%	37.6%
Dividend Payout on core-profits (%)	90%	55%	49%	47%	45%	49%	48%	48%
Asset Quality								
Gross NPL (%)	1.7%	1.5%	1.5%	1.6%	1.3%	1.3%	1.2%	1.2%
Provision coverage (GP+SP+RLAR/NPA) (%)	86%	98%	94%	110%	116%	103%	98%	97%
Credit charge (Allowance for credit losses/gross loans) (%)	0.60%	0.21%	0.20%	0.83%	0.01%	0.01%	0.08%	0.15%
NPA growth y-o-y (%)	25.0%	-6.4%	1.6%	15.8%	-12.5%	4.6%	3.3%	5.7%
Capital								
CET1 ratio (%)	13.9%	13.9%	14.1%	13.9%	14.4%	13.4%	13.4%	13.5%
Tier-1 ratio (%)	15.1%	15.1%	15.0%	15.0%	15.1%	14.4%	14.4%	14.5%
Total Capital ratio (%)	15.9%	16.9%	16.7%	16.8%	17.0%	15.9%	15.9%	16.0%

Source: Company data, Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
Core P/E (x)	13.5	12.3	11.9	10.4	9.1
Core FD P/E (x)	13.5	12.3	11.9	10.4	9.1
P/BV (x)	1.2	1.5	1.6	1.4	1.3
P/NTA (x)	1.3	1.6	1.7	1.6	1.4
Net dividend yield (%)	3.5	3.7	4.1	4.6	5.3
INCOME STATEMENT (SGD m)					
Interest income	12,208.0	10,185.0	13,642.9	16,140.0	18,764.2
Interest expense	(3,132.0)	(1,745.0)	(3,457.1)	(4,339.0)	(5,334.6)
Net interest income	9,076.0	8,440.0	10,185.8	11,801.0	13,429.6
Net insurance income	0.0	0.0	0.0	0.0	0.0
Net fees and commission	3,058.0	3,524.0	3,946.9	4,302.1	4,689.3
Other income	2,458.0	2,333.0	2,142.3	2,184.9	2,229.1
Total non-interest income	5,516.0	5,857.0	6,089.2	6,487.0	6,918.4
Operating income	14,592.0	14,297.0	16,275.0	18,288.1	20,348.0
Staff costs	(3,550.0)	(3,875.0)	(4,340.0)	(4,687.2)	(4,827.8)
Other operating expenses	(2,608.0)	(2,594.0)	(2,698.8)	(2,766.2)	(2,818.3)
Operating expenses	(6,158.0)	(6,469.0)	(7,038.8)	(7,453.4)	(7,646.1)
Pre-provision profit	8,434.0	7,828.0	9,236.2	10,834.7	12,701.8
Loan impairment allowances	(3,066.0)	(52.0)	(61.2)	(379.1)	(734.3)
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
Pretax profit	5,368.0	7,780.0	9,175.0	10,455.6	11,967.5
Income tax	(612.0)	(973.0)	(1,148.1)	(1,308.3)	(1,497.5)
Minorities	(35.0)	(2.0)	(2.0)	(2.0)	(2.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	4,721.0	6,805.0	8,025.0	9,145.3	10,468.0
Core net profit	4,721.0	6,801.0	8,025.0	9,145.3	10,468.0
Preferred Dividends	(38.0)	0.0	0.0	0.0	0.0
BALANCE SHEET (SGD m)					
Cash & deposits with banks	101,485.0	107,754.0	102,516.6	101,987.1	94,179.4
Sec. under resale agreements	0.0	0.0	0.0	0.0	0.0
Derivatives financial assets	31,108.0	19,681.0	21,649.1	23,814.0	26,195.4
Dealing securities	0.0	0.0	0.0	0.0	0.0
Available-for-sale securities	65,456.0	69,692.0	75,267.4	80,536.1	86,173.6
Investment securities	51,700.0	53,262.0	51,894.6	54,135.7	68,562.9
Loans & advances	371,171.0	408,993.0	441,036.5	473,374.2	505,622.6
Central bank deposits	0.0	0.0	0.0	0.0	0.0
Investment in associates/JVs	862.0	2,172.0	2,172.0	2,172.0	2,172.0
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	3,338.0	3,262.0	3,187.7	3,115.2	3,115.2
Intangible assets	5,323.0	5,362.0	5,362.0	5,362.0	5,362.0
Other assets	19,495.0	15,895.0	17,484.5	19,233.0	21,156.2
Total assets	649,938.0	686,073.0	720,570.4	763,729.2	812,539.3
Deposits from customers	464,850.0	501,959.0	518,946.0	541,357.5	571,357.7
Deposits from banks & FIs	28,220.0	30,209.0	32,338.2	34,617.4	36,348.3
Derivatives financial instruments	32,904.0	20,318.0	20,318.0	20,318.0	20,318.0
Subordinated debt	3,970.0	4,636.0	4,636.0	4,636.0	4,636.0
Other securities in issue	0.0	0.0	0.0	0.0	0.0
Other borrowings	43,277.0	52,570.0	63,858.5	77,571.0	89,206.7
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	22,074.0	18,667.0	18,667.0	18,667.0	18,667.0
Total liabilities	595,295.0	628,359.0	658,763.7	697,167.0	740,533.7
Share capital	10,942.0	11,383.0	11,383.0	11,383.0	11,383.0
Reserves	40,283.0	43,751.0	47,843.7	52,599.3	58,042.7
Shareholders' funds	51,225.0	55,134.0	59,226.7	63,982.3	69,425.7
Preference shares	3,401.0	2,392.0	2,392.0	2,392.0	2,392.0
Minority interest	17.0	188.0	188.0	188.0	188.0
Total equity	54,643.0	57,714.0	61,806.7	66,562.3	72,005.7
Total liabilities & equity	649,938.0	686,073.0	720,570.4	763,729.2	812,539.3

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth (%)					
Net interest income	(5.7)	(7.0)	20.7	15.9	13.8
Non-interest income	12.1	6.2	4.0	6.5	6.6
Operating expenses	(1.6)	5.1	8.8	5.9	2.6
Pre-provision profit	1.8	(7.2)	18.0	17.3	17.2
Core net profit	(26.1)	44.1	18.0	14.0	14.5
Gross loans	4.2	9.9	7.6	7.2	6.8
Customer deposits	15.0	8.0	3.4	4.3	5.5
Total assets	12.3	5.6	5.0	6.0	6.4
Profitability (%)					
Non-int. income/Total income	37.8	41.0	37.4	35.5	34.0
Average lending yields	2.17	1.66	2.08	2.34	2.56
Average financing yields	0.00	0.00	0.00	0.00	0.00
Average cost of funds	0.61	0.31	0.57	0.68	0.78
Net interest margin	1.61	1.37	1.55	1.71	1.83
Net income margin	32.35	47.57	49.31	50.01	51.45
Cost/income	42.2	45.2	43.2	40.8	37.6
Liquidity (%)					
Loans/customer deposits	79.8	81.5	85.0	87.4	88.5
Asset quality (%)					
Net NPL	(0.1)	(0.2)	(0.0)	0.1	0.1
Gross NPL	1.6	1.3	1.3	1.2	1.2
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	0.8	0.0	0.0	0.1	0.1
(SP+GP)/average gross financing	0.0	0.0	0.0	0.0	0.0
Loan loss coverage	109.6	116.3	103.1	98.0	97.4
Capital adequacy (%)					
CET1	13.9	14.4	13.4	13.4	13.5
Tier 1 capital	15.0	15.1	14.4	14.4	14.5
Risk-weighted capital	16.8	17.0	15.9	15.9	16.0
Returns (%)					
ROAE	9.4	12.8	14.0	14.8	15.7
ROAA	0.8	1.0	1.1	1.2	1.3
Shareholders equity/assets	7.9	8.0	8.2	8.4	8.5

Source: Company; Maybank

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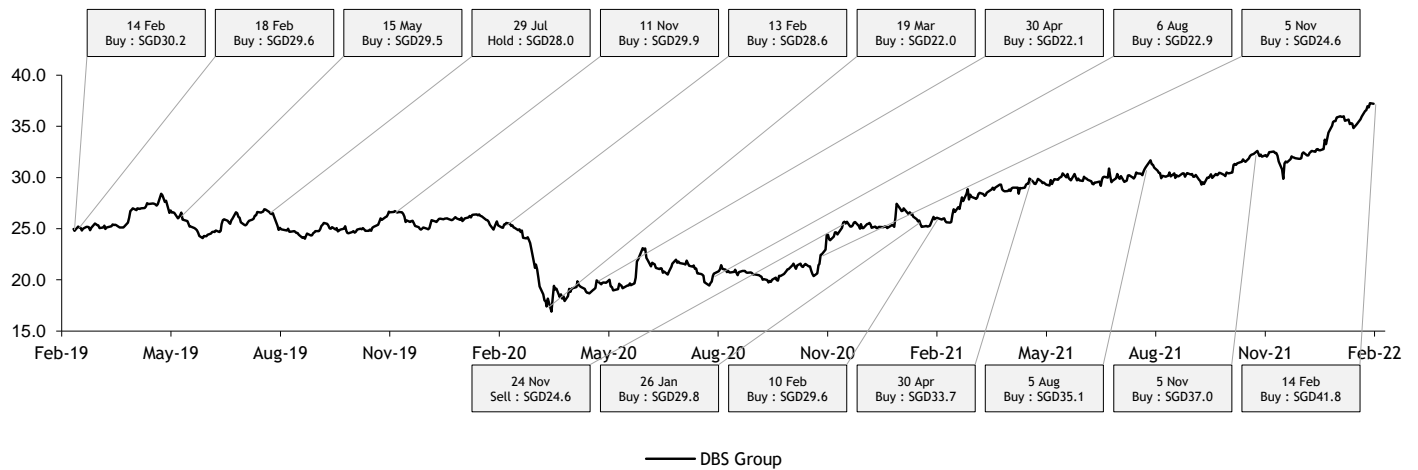
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