



DBS Group Holdings Ltd

Lower provisions drove earnings



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SINGAPORE | BANKING | 4Q21 RESULTS

- FY21 earnings of S\$6.8bn met our estimates as higher fee income and strong loans growth offset lower NIMs. 4Q21 DPS rose 9% to 36 cents.
- NIM fell 6bps YoY to 1.43% but loan growth of 9% YoY cushioned NII. NIM remained flat QoQ. SPs down 1% to 67mn in 4Q21.
- Maintain ACCUMULATE with a higher GGM TP of S\$41.60, up from S\$35.90.** We raise FY22e earnings by 2% as we raise NII estimates for FY22e. We now assume 1.79x FY22e P/BV in our GGM valuation, up from 1.56x, as we raise our ROE estimates to 13.0%. For FY22e, management guided benign provisions, continued growth in loans and stable NIMs. We believe there is upside to NIM guidance. A 50bps move in interest can raise our earnings by 13%.

Results at a glance

(SGD mn)	4Q21	4Q20	YoY	3Q21	QoQ (%)	Comments
Net Interest Income	2,140	2,120	1%	2,104	2%	NII up 2% QoQ due to 1% loans growth and unchanged NIM QoQ.
Net Fees & Comm	815	747	9%	888	(8%)	Fee income grew 9% YoY but fell 8% QoQ despite higher card and investment banking fees offset by lower contributions from other activities.
Other non-interest income	338	396	(15%)	569	(41%)	Declines were due to lower trading income and gains from investment securities.
Total Income	3,293	3,263	1%	3,561	(8%)	
Expenses	(1,671)	(1,580)	6%	(1,688)	(1%)	Expenses up by 6% YoY due to government grants in the previous year but remained stable QoQ.
Profit before allowances	1,622	1,683	(4%)	1,873	(13%)	
Allowances	33	577	(94%)	(70)	(147%)	Allowances significantly lower YoY but higher QoQ due to a lower write-back in general allowances.
PATMI	1,392	1,012	38%	1,700	(18%)	

Source: Company, PSR

The Positives

+ Fee income grew 9% YoY. Fee income growth YoY was broad-based and was led by wealth management and transaction services. However, fee income fell 8% QoQ despite higher card and investment activities which were offset by seasonally lower WM fee income. Full-year fee income grew by 15% YoY to a record S\$3.52bn as economic and market conditions improved.

+ Asset quality stable, FY21 total allowances at S\$52mn. 4Q21 total allowances were significantly lower YoY but higher QoQ due to a lower write-back in GPs. SPs fell 82% YoY to S\$67mn (6bps) but remained relatively unchanged QoQ. Full-year allowances fell 98% YoY to S\$52mn due to repayments of weaker exposure, credit upgrades and transfers to non-performing assets resulting in general allowance write-backs during the year. Full-year credit cost of 12bps is below pre-pandemic levels. Management has guided similar allowances for FY22e.

+ Loan growth up 9% YoY in 4Q21. Loan growth was led by non-trade corporate loans with growth led by drawdowns in Singapore and Hong Kong. Housing and WM loan growth was sustained at the previous quarter's levels. Full-year loan growth of 9% was the highest in seven years as growth was recorded across the region and a range of industries. Management has guided FY22e loan growth of mid to single-digit or better.

17 February 2022

ACCUMULATE (Maintained)

LAST TRADED PRICE	SGD 36.80
FORECAST DIV	SGD 1.44
TARGET PRICE	SGD 41.60
DIVIDEND YIELD	3.9%
TOTAL RETURN	17.0%

COMPANY DATA

BLOOMBERG TICKER	DBS SP
O/S SHARES (MN):	2,570
MARKET CAP (USD mn / SGD mn):	70376 / 94579
52 - WK HI/LO (SGD):	37.49 / 25.4
3M Average Daily T/O (mn):	4.30

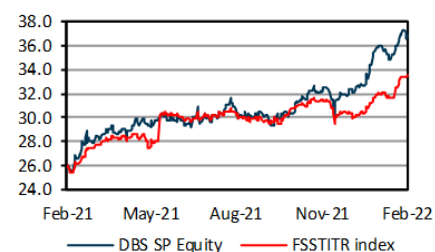
MAJOR SHAREHOLDERS (%)

Temasek Holdings Pte Ltd	30.2%
Capital Group Cos Inc	5.0%
Vanguard Group Inc	2.5%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	181	13.48	1185
STI RETURN	4.45	6.03	9.74

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY20	FY21	FY22e	FY23e
Total Inc (SGD mn)	14,592	14,297	15,530	16,426
Op Profit (SGD mn)	5,368	7,776	8,899	11,531
NPAT (SGD mn)	4,756	6,803	7,622	9,799
EPS (SGD)	181	2.62	2.95	3.78
PER, (X)	20.3	14.1	12.5	9.7
P/BV, (X)	18	17	16	14
DPS (SGD)	0.87	1.20	1.44	1.44
ROE	9.2%	12.3%	12.7%	14.7%
Dividend Yield	2.4%	3.3%	3.9%	3.9%

Source: Bloomberg, Company, PSR

Valuation Method:

Gordon Growth Model (COE: 8.2%, g: 2.0%)

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The Negative

- NII and NIMs remain relatively unchanged. NIM remained flat QoQ but declined 6bps YoY to 1.43% as a result of lower market interest rates as customer deposits grew 3% QoQ to S\$502bn. NII grew 2% QoQ to S\$2.1bn as higher loan and deposit volumes were moderated by stagnant NIMs. Management guided similar FY22e NIMs of 145-150bps.

Outlook

Business momentum strong: Despite economic uncertainties from Singapore's return to Phase 2 (Heightened Alert), loans and transaction pipelines are expected to be strong.

GP reserves sufficient: With its capital position and liquidity – CET-1 ratio of 14.4% in 4Q21 vs 13.9% in 4Q20 – well above regulatory requirements and high allowance reserves, we believe the bank has sufficient provisions to ride out current economic uncertainties. If we were to include the acquisition of Citigroup's Taiwan consumer banking business and MAS' operational risk penalty, the CET-1 ratio of 13.3% is still at the upper end of DBS' target operating range. 4Q21 DPS is up 9% to 36 cents, above pre-pandemic levels.

Upside from higher rates: DBS mentioned that a 1 bps rise in interest rates could raise NII by \$18mn-20mn (or NII sensitivity of 2% for every 10bps). Assuming two rate hikes of 50bps this year, our FY22e NII can climb S\$2bn (or 21%) resulting in an increase in our FY22e PATMI by 26%.

Benign provisioning cycle. DBS guided credit cost of 12 bps. This is below the pre-pandemic FY18/19 credit cost of 19/20bps. The lower credit cost is due to lower SPs and an improving environment.

List of Abbreviations

CET-1 ratio – Common Equity Tier 1
 NII – Net Interest Income
 Non-II – Non-Interest Income
 NIM – Net Interest Margin
 GP – General provisions
 SP – Specific provisions
 WM – Wealth Management

Table 1: FY21 results vs DBS guidance vs PSR estimates for FY22e

Assumptions	FY21 Results	DBS	PSR
NIM (%)	1.43%	1.45% - 1.50%	1.46%
Loans growth (%)	9%	Mid to high single-digit	7.0%
Credit cost (bps)	12bps	Stable at 12 bps	10

Source: Company, PSR

Investment Action

Maintain ACCUMULATE with a higher target price of S\$41.60, up from S\$35.90.

We raise FY22e earnings by 2% as we raise NII estimates for FY22e. We now assume 1.79x FY22e P/BV in our GGM valuation, up from 1.56x, as we raise our ROE estimates to 13.0%.

Valuation: Gordon Growth Model

Item	Description	Value
R _f	Risk-free rate	1.1%
E	Equity-risk premium	5.9%
B	Beta	1.2
COE	Cost of Equity	8.2%
ROE	Return on Equity	13.0%
g	Terminal growth rate	2.0%
(ROE-g)/ (COE-g)	Target Price to Book	1.79
	BVPS, S\$	23.29
	Valuation, S\$	41.60

Source: PSR

Financials

Income Statement

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
Net Int Income	9,625	9,076	8,440	9,370	10,400
Fees and Commission	3,052	3,058	3,524	3,626	3,858
Other Non int income	1,867	2,458	2,333	2,534	4,167
Total income	14,544	14,592	14,297	15,530	18,426
Operating expenses	-6,258	-6,158	-6,469	-6,612	-6,883
Provisions	-703	-3,066	-52	-20	-12
Operating profit	7,583	5,368	7,776	8,899	11,531
Associates & JVs	0	0	0	0	0
Profit Before Tax	7,583	5,368	7,776	8,899	11,531
Taxation	-1,154	-612	-973	-1,276	-1,732
Profit After Tax	6,429	4,756	6,803	7,622	9,799
Non-controlling Interest	38	35	2	16	10
Net Income, reported	6,429	4,721	6,803	7,622	9,799
Net Income, adj.	6,429	4,721	6,807	7,622	9,799

Per share data (SGD)

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
EPS, reported	2.51	1.81	2.62	2.95	3.78
DPS	1.23	0.87	1.20	1.44	1.44
BVPS	19.17	20.08	21.47	23.29	25.76
Dividend Pay-out Ratio	49.0%	48.1%	45.9%	48.8%	38.1%

Supplementary items

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
CET1 CAR	14.1%	13.9%	14.4%	14.6%	15.1%
Tier 1 CAR	15.0%	15.0%	15.1%	15.3%	15.8%
Total CAR	16.7%	16.8%	17.0%	17.2%	17.6%

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
Cash and bal w central banks	26,362	50,618	56,377	97,663	160,993
Due from banks	39,336	50,867	51,377	51,775	52,146
Govt, Bank & Corp Sec & T Bills	113,475	117,156	122,954	129,195	135,814
Derivatives	17,235	31,108	19,681	17,712	15,402
Goodwill and intangibles	5,170	5,323	5,362	5,362	5,362
Property and other fixed assets	3,225	3,338	3,262	3,262	3,262
Loans to non-bank customers	357,884	371,171	408,993	437,135	468,423
JV and Associates	835	862	2,172	2,260	2,351
Other assets	15,424	19,495	15,895	13,343	10,478
Total Assets	578,946	649,938	686,073	757,707	854,231
Due to banks	23,773	28,220	30,209	33,330	35,197
Deposits from customers	404,289	464,850	501,959	567,483	656,593
Derivatives	17,512	32,904	20,318	17,712	15,402
Other liabilities	20,907	22,074	18,667	17,027	14,599
Other debt securities	57,128	43,277	52,570	54,846	58,433
Subordinated term debts	3,538	3,970	4,636	4,636	4,636
Total liabilities	527,147	595,295	628,359	695,034	784,860
Shareholder's equity	50,981	54,626	57,526	62,475	69,166
Non-controlling interest	818	17	188	198	204
Total Equity	51,799	54,643	57,714	62,673	69,370

Valuation Ratios

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/E (X), avg	14.6	20.3	14.1	12.5	9.7
P/B (X), avg	1.9	1.8	1.7	1.6	1.4
Dividend Yield	3.3%	2.4%	3.3%	3.9%	3.9%

Growth & Margins

Growth					
Net interest income	7.5%	-5.7%	-7.0%	11.0%	11.0%
Net Fee and Comm Inc	9.8%	0.2%	15.2%	2.9%	6.4%
Total income	10.3%	0.3%	-2.0%	8.6%	18.6%
Profit before tax	13.9%	-29.2%	44.9%	14.4%	29.6%
Net income, adj.	13.7%	-26.6%	44.2%	12.0%	28.6%

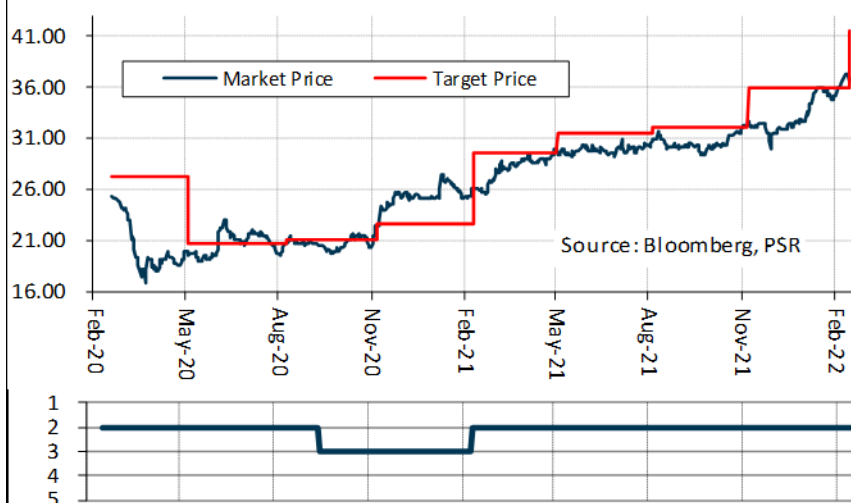
Margins

Net interest margin	1.89%	1.62%	1.45%	1.46%	1.53%
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Key Ratios

ROE	13.1%	9.2%	12.3%	12.7%	14.7%
ROA	1.1%	0.7%	1.0%	1.0%	1.1%
RORWA	2.1%	1.5%	2.1%	2.1%	2.4%
Non-interest/total income ratio	33.8%	37.8%	41.0%	39.7%	43.6%
Cost/income ratio	43.0%	42.2%	45.2%	42.6%	37.4%
Loan/deposit ratio	88.5%	79.8%	81.5%	77.0%	71.3%
NPL ratio	1.5%	1.6%	1.6%	1.6%	1.6%

Ratings History



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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