

# DBS Group Holdings Ltd

Earnings in line despite lower fee income



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## SINGAPORE | BANKING | 1Q22 RESULTS

5 May 2022

- 1Q22 earnings of S\$1.80bn in line with our estimates. 1Q22 PATMI is 24% of our FY22e forecast. 1Q22 DPS stable QoQ at 36 cents.
- NIM fell 3bps YoY to 1.46% but loan growth of 8% YoY cushioned NII. NIM grew 3bps QoQ. Fee income grew 9% QoQ but fell 7% YoY due to weaker market sentiment.
- Maintain ACCUMULATE with unchanged target price of S\$41.60.** Our FY22e estimates remain unchanged. 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 earnings by 13%.

### ACCUMULATE (Maintained)

LAST TRADED PRICE	SGD 34.05
FORECAST DIV	SGD 1.44
TARGET PRICE	SGD 41.60
DIVIDEND YIELD	4.2%
TOTAL RETURN	17.0%

#### COMPANY DATA

BLOOMBERG TICKER	DBS SP
O/S SHARES (MN) :	2,573
MARKET CAP (USD mn / SGD mn) :	63397 / 87728
52 - WK HI/LO (SGD) :	37.49 / 28.53
3M Average Daily T/O (mn) :	4.79

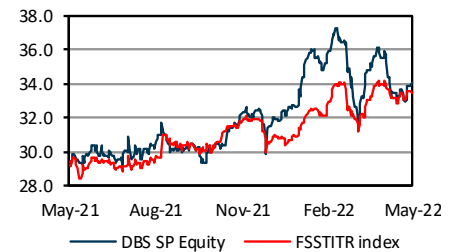
#### MAJOR SHAREHOLDERS (%)

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

#### PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(4.34)	(2.63)	4.95
STIRETURN	(0.82)	4.46	8.68

#### PRICE VS. STI



#### Results at a glance

(SGD mn)	1Q22	1Q21	YoY	4Q21	QoQ (%)	Comments
Net Interest Income	2,187	2,107	4%	2,140	2%	NII up 4% QoQ due to 2% loans growth and 3bps improvement in NIM QoQ.
Net Fees & Comm	891	953	(7%)	815	9%	Fee income grew 9% QoQ but fell 7% YoY as weaker market sentiment affected wealth management and investment banking.
Other non-interest income	669	794	(16%)	338	98%	16% decline YoY were mainly due to lower trading income and lower investment gains.
<b>Total Income</b>	<b>3,747</b>	<b>3,854</b>	<b>(3%)</b>	<b>3,293</b>	<b>14%</b>	
Expenses	(1,644)	(1,587)	4%	(1,671)	(2%)	Expenses up by 4% YoY due to base salary increments carried out in mid-2021. Cost-income ratio at 44%.
<b>Profit before allowances</b>	<b>2,103</b>	<b>2,267</b>	<b>(7%)</b>	<b>1,622</b>	<b>30%</b>	
Allowances	55	10	450%	33	67%	Allowances higher due to a lower write-back in general allowances (S\$112mn in 1Q22). Credit cost at 15bps.
<b>PATMI</b>	<b>1,801</b>	<b>2,009</b>	<b>(10%)</b>	<b>1,393</b>	<b>29%</b>	

Source: Company, PSR

#### The Positives

**+ Asset quality stable, 1Q22 allowances at S\$55mn.** 1Q22 total allowances were higher YoY and QoQ due to higher SPs of S\$167mn for the quarter. Nonetheless, credit costs were maintained at 15bps which is in line with recent quarters when significant repayments were excluded. The GP write-back of S\$112mn for 1Q22 was from credit upgrades and transfers to NPA. GP reserves remained prudent at S\$3.75bn, which were S\$200mn above the MAS requirement and S\$1bn above Tier-2 eligibility. NPL ratio was maintained at 1.3%.

**+ Loan growth up 8%, deposits up 9% YoY in 1Q22.** Loans grew 8% YoY and 2% QoQ to S\$416bn. This was mainly due to non-trade corporate loans growth led by drawdowns in Singapore and Hong Kong across a range of industries. Housing and WM loan growth was sustained at the previous quarter's levels. Management has maintained its FY22e loan growth guidance of mid to single-digit or better. Deposits grew 9% YoY and 4% QoQ to S\$520bn, and current and savings accounts (CASA) accounted for 75% of customer deposits.

#### KEY FINANCIALS

Y/E Dec	FY 20	FY 21	FY 22e	FY 23e
Total Inc (SGD mn)	14,592	14,297	15,530	18,426
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)	1.81	2.62	2.95	3.78
PER, (X)	20.3	14.1	12.5	9.7
P/BV, (X)	1.8	1.7	1.6	1.4
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 grew 3bps QoQ but declined 3bps YoY to 1.46% as a result of lower market interest rates as customer deposits grew 4% QoQ to S\$520bn. NII grew 2% QoQ and 4% YoY to S\$2.2bn as higher loan and deposit volumes were moderated by stagnant NIMs. Management has increased its guidance for FY22e NIM to 158 - 160bps.

- **Fee income fell 7% YoY.** Fee income decline YoY was mainly due to weaker market sentiment affecting wealth management and investment banking. WM fees fell 21% YoY to S\$408mn with declines in investment product sales mitigated by higher bancassurance income. Investment banking fees fell by 12% YoY to S\$43mn as fixed income activities fell. Nonetheless, fee income grew 9% QoQ mainly due to higher fees from loan-related activities, transaction banking and wealth management as it recovered from a seasonally lower 4Q21.

**Outlook**

**Business momentum strong:** Despite economic uncertainties from macroeconomic factors such as slower growth, higher inflation and supply chain disruptions, loans and transaction pipelines are expected to be strong. Management said that stress tests of vulnerable sectors and countries reveal no imminent areas of concern.

**GP reserves sufficient:** With its capital position and liquidity well above regulatory requirements and high allowance reserves, we believe the bank has sufficient provisions to ride out current economic uncertainties. While the CET-1 ratio fell by 0.4% QoQ due to MAS' operational risk penalty, the CET-1 ratio of 14% is still at the upper end of DBS' target operating range. 1Q22 DPS is maintained QoQ at 36 cents, above pre-pandemic 33 cents.

**Upside from higher rates:** DBS said that a 1 bps rise in interest rates could raise NII by \$18mn-20mn (or NII sensitivity of 2% for every 10bps). Assuming hikes of 100bps this year, our FY22e NII can climb S\$2bn (or 21%) resulting in an increase in our FY22e PATMI by 26%.

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: DBS guidance vs PSR estimates for FY22e**

Assumptions	DBS	PSR
NIM (%)	1.58% - 1.60%	1.46%
Loans growth (%)	Mid to high single-digit	7.0%
Credit cost (bps)	Stable at 12 bps	10

Source: Company, PSR

**Investment Action**

**Maintain ACCUMULATE with unchanged target price of S\$41.60.**

We maintain our ACCUMULATE recommendation with an unchanged GGM target price of S\$41.60. We are keeping our FY22e forecast unchanged. Our target price remains based on GGM (1.79x FY22e P/BV, 13.0% ROE estimate) valuation.

**Valuation: Gordon Growth Model**

Item	Description	Value
R <sub>f</sub>	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
<b>Total income</b>	<b>14,544</b>	<b>14,592</b>	<b>14,297</b>	<b>15,530</b>	<b>18,426</b>
Operating expenses	-6,258	-6,158	-6,469	-6,612	-6,883
Provisions	-703	-3,066	-52	-20	-12
<b>Operating profit</b>	<b>7,583</b>	<b>5,368</b>	<b>7,776</b>	<b>8,899</b>	<b>11,531</b>
Associates & JVs	0	0	0	0	0
<b>Profit Before Tax</b>	<b>7,583</b>	<b>5,368</b>	<b>7,776</b>	<b>8,899</b>	<b>11,531</b>
Taxation	-1,154	-612	-973	-1,276	-1,732
<b>Profit After Tax</b>	<b>6,429</b>	<b>4,756</b>	<b>6,803</b>	<b>7,622</b>	<b>9,799</b>
Non-controlling Interest	38	35	2	16	10
<b>Net Income, reported</b>	<b>6,429</b>	<b>4,721</b>	<b>6,803</b>	<b>7,622</b>	<b>9,799</b>
<b>Net Income, adj.</b>	<b>6,429</b>	<b>4,721</b>	<b>6,807</b>	<b>7,622</b>	<b>9,799</b>

### 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
<b>Total Assets</b>	<b>578,946</b>	<b>649,938</b>	<b>686,073</b>	<b>757,707</b>	<b>854,231</b>
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
<b>Total liabilities</b>	<b>527,147</b>	<b>595,295</b>	<b>628,359</b>	<b>695,034</b>	<b>784,860</b>
Shareholder's equity	50,981	54,626	57,526	62,475	69,166
Non-controlling interest	818	17	188	198	204
<b>Total Equity</b>	<b>51,799</b>	<b>54,643</b>	<b>57,714</b>	<b>62,673</b>	<b>69,370</b>

### 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

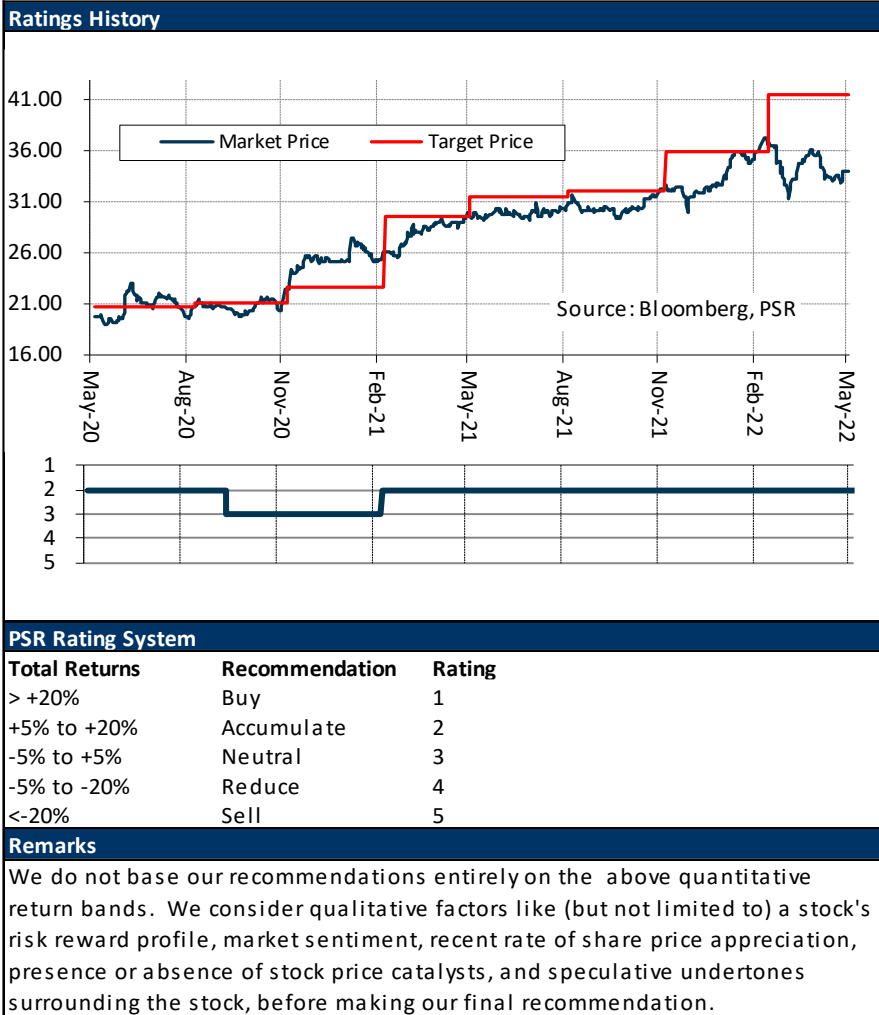
	FY19	FY20	FY21	FY22e	FY23e
<b>Growth</b>					
Net interest income	7.5%	-5.7%	-7.0%	11.0%	11.0%
Net Fee and Comm Inc	9.8%	0.2%	15.2%	2.9%	6.4%
Total income	10.3%	0.3%	-2.0%	8.6%	18.6%
Profit before tax	13.9%	-29.2%	44.9%	14.4%	29.6%
Net income, adj.	13.7%	-26.6%	44.2%	12.0%	28.6%

### Margins

	FY19	FY20	FY21	FY22e	FY23e
Net interest margin	1.89%	1.62%	1.45%	1.46%	1.53%

### Key Ratios

	FY19	FY20	FY21	FY22e	FY23e
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%



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