

COMPANY RESULTS

DBS Group Holdings (DBS SP)

1Q22: Steady Execution And Results In Uncertain Times

DBS saw its first quarter of NIM expansion in three years, rising 3bp qoq to 1.46% in 1Q22. There was healthy growth in loans-related and cards fees. SZRCB contributed S\$66m to other non-interest income. DBS maintained quarterly dividend at 36 S cents. Interest rates are on the rise and we expect NIM to improve to 1.50% in 2022 and expand 23bp to 1.73% in 2023. DBS provides attractive dividend yield of 4.2% for 2022 and 4.4% for 2023. Maintain BUY. Target price: S\$37.25.

RESULTS

- DBS Group Holdings (DBS) reported net profit of S\$1,801m for 1Q22, down 10% yoy but up 30% qoq. The results were above our net profit forecast of S\$1,700m.
- **First quarter of NIM expansion in three years.** Loan growth was 8% yoy and 2% qoq in 1Q22. Non-trade corporate loans expanded 2% qoq, driven by Singapore and Hong Kong. Trade loans grew 5% qoq amidst higher commodity prices. NIM expanded 3bp qoq to 1.46%, benefitting from the 25bp hike in Fed Funds Rate in March and the associated increase in loan yield.
- Customer deposits grew 9% yoy and CASA ratio has improved 16ppt to 75% compared to pre-pandemic levels.
- **Growth from loans-related and cards fees.** Fees & commissions dropped 6% yoy but rebounded 7% qoq in 1Q22. Contribution from wealth management declined 21% yoy due to lower investment products sales that was offset by higher bancassurance income. Loans related fees grew 21% yoy. Cards fees increased 11% yoy and have already exceeded pre-pandemic levels due to a pick-up in travel spending.
- **Investment in SZRCB paying off so far.** Other non-interest income dropped 16% yoy in 1Q22 due to lower net trading income, less gains from investment securities and a higher base last year. Shenzhen Rural Commercial Bank (SZRCB) contributed S\$66m to other non-interest income in 1Q22.
- **Cost-to-income ratio healthy at 44%.** Operating expenses increased 4% yoy. Staff costs increased 8% yoy due to a base salary increment instituted in mid-21.
- **Up-tick in new NPL formation.** We saw an up-tick in new NPL formation by 60% qoq to S\$465m while NPL balance increased 2% qoq in 1Q22. NPL ratio was unchanged at 1.3%. Specific provisions were S\$167m or 15bp, which was partially offset by write-back of general provisions of S\$112m (credit upgrades and transfers to NPLs).
- The board has proposed an interim dividend of 36 S cents for 1Q22.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net interest income	9,076	8,440	9,223	11,291	12,037
Non-interest income	5,516	5,961	5,686	6,053	6,515
Net profit (rep./fact.)	4,721	6,805	6,790	7,246	7,993
Net profit (adj.)	4,721	6,801	6,790	7,246	7,993
EPS (S\$ cent)	182.8	261.0	260.3	277.9	306.7
PE (x)	18.6	13.0	13.0	12.2	11.1
P/B (x)	1.7	1.6	1.6	1.5	1.4
Dividend yield (%)	2.6	3.5	4.2	4.4	4.8
Net int margin (%)	1.6	1.5	1.5	1.7	1.7
Cost/income (%)	42.2	45.6	45.7	46.5	45.1
Loan loss cover (%)	109.6	116.3	116.3	95.2	83.6
Consensus net profit	-	-	7,424	8,658	9,451
UOBKH/Consensus (x)	-	-	0.91	0.84	0.85

Source: DBS Group Holdings, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$33.92
Target Price	S\$37.25
Upside	+9.8%
(Previous TP)	S\$37.55

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):	2,573.4
Market cap (S\$m):	87,290.9
Market cap (US\$m):	63,263.5
3-mth avg daily t'over (US\$m):	120.5

Price Performance (%)

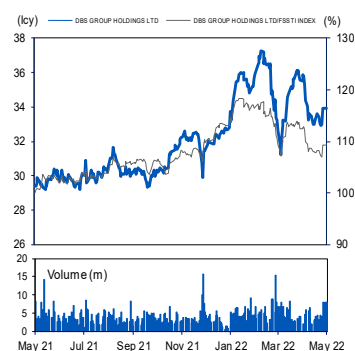
52-week high/low	S\$37.25/S\$29.18				
1mth	3mth	6mth	1yr	YTD	
(5.7)	(2.6)	7.6	15.4	3.9	

Major Shareholders

Temasek Hldgs	29.6
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FY22 NAV/Share (S\$)	21.51
FY22 CAR Tier-1 (%)	14.37

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- Headwinds from macro environment.** Management sees macroeconomic headwinds from higher inflation, supply chain disruptions and the COVID-19 outbreak in mainland China. Companies will be affected by second order impact from the Russia-Ukraine War through higher energy and commodity prices. Some companies may not be able to push through increases in pricing, which will result in margin compression. SMEs will increasingly feel the burden of debt servicing due to higher interest rates. Nevertheless, DBS' SME portfolio is seasoned and largely secured. On a bottom-up basis, DBS has stress tested exposures to vulnerable sectors but did not uncover areas of concern.
- Guidance for 2022.** Management expects loan growth of 1-2% qoq in 2Q22, bringing loan growth in 1H22 to 3-4%. Loan growth for full-year 2022 is expected to come in at mid-single digit if growth slows in 2H22. Management sees a mixed outlook for fee income. While contribution from cards is expected to benefit from easing of safe distancing measures locally and reopening of international border. However, fees from wealth management and investment banking would be highly dependent on market conditions. Operating expenses are expected to be slightly higher than in 2021.
- Sensitivity to US rate hikes.** Management estimated positive impact to net interest income at S\$18m-20m for every 1bp increase in the US Fed Funds Rate. Thus, rate hikes of 100bp in 2022 would translate to additional net interest income of S\$1,800-2,000m with full impact in 2023.
- Management expects to complete the acquisition and full integration of Citi Consumer Taiwan in Jun 23.

EARNINGS REVISION/RISK

- We expect successive hikes of 50bp during the upcoming FOMC meetings on 3-4 May and 14-15 June. We have factored in the impact of Fed Funds Rate rising to 2.5% by end-22. We expect NIM to improve to 1.50% in 2022 and expand 23bp to 1.73% in 2023. We forecast earnings growth of 7.4% in 2023 and 10.3% in 2024.
- We have raised our 2022 net profit forecast for by 1% primarily due to the better-than-expected 1Q22 financial performance. We trim our 2023 net profit forecast by 1% after adjusting credit costs slightly higher by 2bp to 22bp.

VALUATION/RECOMMENDATION

- Maintain BUY.** Our target price of S\$37.25 is based on 1.64x 2023F P/B, derived from Gordon Growth model (ROE: 12.5%, COE: 8.25%, Growth: 1.5%).

1Q22 RESULTS

Profit & Loss (\$m)	1Q22	1Q21	yoy % Chg	UOBKH Estimate	Deviation (%)
Net Interest Income	2,187	2,107	3.8	2,177	0.5
Fees & Commissions	891	953	-6.5	859	3.7
Other Non-interest Income	669	794	-15.7	620	7.9
Total Income	3,747	3,854	-2.8	3,656	2.5
Operating Expenses	(1,644)	(1,587)	3.6	(1,659)	-0.9
PPOP	2,103	2,267	-7.2	1,997	5.3
Provisions	(55)	(10)	450.0	(54)	1.4
PBT	2,048	2,257	-9.3	1,943	5.4
Net Profit	1,801	2,009	-10.4	1,700	5.9
EPS (S cents)	70.3	78.5	-10.5	65.2	7.8
DPS (S cents)	36.0	18.0	100.0	36.0	0.0
BVPS (\$)	21.02	20.46	2.7	22.11	-4.9
Financial Ratios (%)	1Q22	1Q21	yoy Chg (ppt)	4Q21	qoq Chg (ppt)
NIM	1.46	1.49	-0.03	1.43	0.03
Loan Growth, yoy	7.6	4.8	2.8	9.9	-2.3
Deposit Growth, yoy	8.7	7.4	1.3	8.0	0.7
Loan/Deposit Ratio	80.1	80.8	-0.7	81.5	-1.4
Cost/Income Ratio	43.9	41.2	2.7	50.7	-6.8
ROE	13.1	15.4	-2.3	9.9	3.2
NPL Ratio	1.3	1.5	-0.2	1.3	0.0
Credit Costs (bp)	5.3	1.0	4.2	3.2	2.1
Loan Loss Coverage	118.1	109.2	8.9	116.3	1.8
CET-1 CAR	14.0	14.3	-0.3	14.4	-0.4

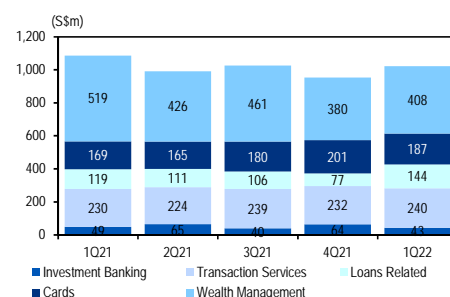
Source: DBS, UOB Kay Hian

KEY ASSUMPTIONS

	2020	2021	2022F	2023F	2024F
Loan Growth (%)	4.2	9.9	4.9	7.2	6.1
NIM (%)	1.63	1.45	1.50	1.73	1.74
Fees, % Chg	0.2	15.2	1.8	14.7	9.3
NPL Ratio (%)	1.60	1.27	1.37	1.43	1.44
Credit Costs (bp)	79.7	1.3	9.2	22.4	22.2
Net Profit (\$m)	4,721	6,805	6,747	7,246	7,993
% Chg	(26.1)	44.1	(0.8)	7.4	10.3

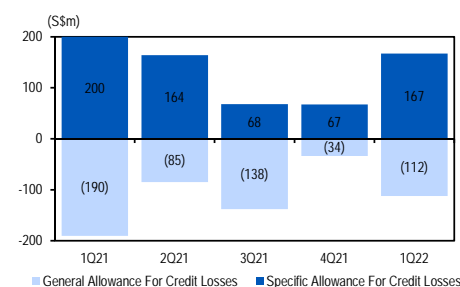
Source: UOB Kay Hian

FEE INCOME - SEGMENTAL BREAKDOWN



Source: DBS

TOTAL ALLOWANCE



Source: DBS

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Interest income	10,185	11,521	15,732	16,918
Interest expense	(1,745)	(2,298)	(4,441)	(4,881)
Net interest income	8,440	9,223	11,291	12,037
Fees & commissions	3,524	3,587	4,113	4,495
Other income	2,437	2,099	1,940	2,020
Non-interest income	5,961	5,686	6,053	6,515
Total income	14,401	14,908	17,345	18,552
Staff costs	(3,875)	(4,062)	(4,661)	(4,985)
Other operating expense	(2,694)	(2,753)	(3,398)	(3,376)
Pre-provision profit	7,832	8,094	9,285	10,191
Loan loss provision	(52)	(345)	(1,009)	(1,065)
Other provisions	0	0	0	0
Associated companies	0	0	0	0
Pre-tax profit	7,780	7,749	8,277	9,126
Tax	(932)	(921)	(993)	(1,095)
Minorities	(43)	(38)	(38)	(38)
Net profit	6,805	6,790	7,246	7,993
Net profit (adj.)	6,801	6,790	7,246	7,993

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Cash with central bank	56,377	61,024	66,055	71,500
Govt treasury bills & securities	53,262	55,425	57,675	60,017
Interbank loans	51,377	54,807	58,170	61,740
Customer loans	408,993	428,462	460,356	489,416
Investment securities	69,692	72,522	75,466	78,531
Derivative receivables	19,681	20,889	22,171	23,531
Associates & JVs	2,172	2,172	2,172	2,172
Fixed assets (incl. prop.)	3,262	3,262	3,262	3,262
Other assets	21,257	28,534	41,440	44,320
Total assets	686,073	727,097	786,767	834,488
Interbank deposits	30,209	32,226	34,203	36,302
Customer deposits	501,959	535,471	584,119	619,963
Derivative payables	20,318	21,993	23,806	25,768
Debt equivalents	57,206	59,341	61,562	63,873
Other liabilities	18,667	20,206	21,871	23,674
Total liabilities	628,359	669,236	725,562	769,581
Shareholders' funds	57,526	57,634	60,941	64,606
Minority interest - accumulated	188	226	264	301
Total equity & liabilities	686,073	727,097	786,767	834,488

OPERATING RATIOS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Capital Adequacy				
Tier-1 CAR	15.2	14.4	13.6	13.7
Total CAR	16.9	16.0	15.1	15.1
Total assets/equity (x)	11.9	12.6	12.9	12.9
Tangible assets/tangible common equity (x)	13.0	14.0	14.8	14.7
Asset Quality				
NPL ratio	1.3	1.4	1.4	1.4
Loan loss coverage	116.3	116.3	95.2	83.6
Loan loss reserve/gross loans	1.5	1.6	1.3	1.2
Increase in NPLs	(12.7)	13.1	11.4	7.2
Credit cost (bp)	1.3	8.1	22.4	22.2
Liquidity				
Loan/deposit ratio	81.5	80.0	78.8	78.9
Liquid assets/short-term liabilities	30.3	30.2	29.4	29.4
Liquid assets/total assets	23.5	23.6	23.1	23.2

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Growth				
Net interest income, yoy chg	(7.0)	9.3	22.4	6.6
Fees & commissions, yoy chg	15.2	1.8	14.7	9.3
Pre-provision profit, yoy chg	(7.1)	3.3	14.7	9.8
Net profit, yoy chg	44.1	(0.2)	6.7	10.3
Net profit (adj.), yoy chg	44.1	(0.2)	6.7	10.3
Customer loans, yoy chg	10.2	4.8	7.4	6.3
Customer deposits, yoy chg	8.0	6.7	9.1	6.1
Profitability				
Net interest margin	1.5	1.5	1.7	1.7
Cost/income ratio	45.6	45.7	46.5	45.1
Adjusted ROA	1.0	1.0	1.0	1.0
Reported ROE	12.1	11.8	12.2	12.7
Adjusted ROE	12.1	11.8	12.2	12.7
Valuation				
P/BV (x)	1.6	1.6	1.5	1.4
P/NTA (x)	1.7	1.8	1.7	1.6
Adjusted P/E (x)	13.0	13.0	12.2	11.1
Dividend Yield	3.5	4.2	4.4	4.8
Payout ratio	46.0	55.3	53.3	53.5

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