

DBS Group (DBS SP)

Driving transparency

High levels of ESG disclosures, plus dividends. BUY

Under our enhanced ESG 2.0 scoring methodology, DBS emerges with a score of 78 - significantly above average. The Group has set a clear pathway to achieving Net Zero and has strong levels of transparency around its emissions and targets. Increased disclosure of Scope 3 financed emissions, improvements in Board diversity and independence compared to global banks could further improve its score going forward, in our view. Better prospects from increasing interest income and potentially higher dividends should drive earnings momentum. Maintain BUY.

Transparent targets, clear Net Zero commitment

DBS has published a clear, science-based approach to achieving Net Zero. By 2023, the Group plans to disclose decarbonisation transition pathways and set interim targets for 2030. While it publishes Scope 3 operational emissions, disclosure of financed emissions are at an early stage. However, DBS is targeting detailed reporting by 2024. Notably, under its social targets, the Group has increased sustainable investing AUM for its private banking products to 53% vs. a target of 50% by 2024. A significant portion of its financial inclusion strategy is based on digitalized banking access. Risks here from disruptions and cyber-security need to be watched.

Improvements to diversity, board independence could drive score higher

While DBS has maintained a higher proportion of women in senior management roles, the proportion of women in the overall workforce has declined to 49% in 2021 (vs. 51.9% in 2019). Similarly, the proportion of female directors in the Board has fallen to 20% (vs. 27% 2020) and sits lower compared global peers such as HSBC (5 HK, HKD40.30, NR). Also, the mix of independent directors on its board is lower compared to 5 HK. Improvements here, as well as lower waste and energy consumption could drive the Group's overall scoring higher, in our view.

NIMs set to rise, asset quality benign. Maintain BUY

We expect improving prospects for net interest income in 2H22 as asset re-pricing accelerates supported by the Fed's rate hikes. We believe there is significant upside risks to dividend payouts going forward as the Group looks to return excess capital. Asset quality is a key risk, especially from North Asia, but the Group's strong portfolio and provisioning provides significant buffer. A potential China re-opening and a turnaround in wealth fees are near term catalysts. Maintain BUY.

FYE Dec (SGD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Operating income	14,592	14,297	16,127	18,033	19,512
Pre-provision profit	8,434	7,828	9,015	10,500	11,784
Core net profit	4,721	6,801	7,457	8,330	9,149
Core EPS (SGD)	1.9	2.6	2.9	3.2	3.6
Core EPS growth (%)	(26.0)	43.1	9.6	11.7	9.8
Net DPS (SGD)	0.9	1.2	1.5	1.8	1.9
Core P/E (x)	13.5	12.3	11.5	10.3	9.4
P/BV (x)	1.2	1.5	1.5	1.4	1.3
Net dividend yield (%)	3.5	3.7	4.5	5.3	5.8
Book value (SGD)	21.41	22.40	22.39	23.85	25.48
ROAE (%)	9.4	12.8	13.5	14.6	15.0
ROAA (%)	0.8	1.0	1.1	1.1	1.2
Consensus net profit	-	-	7,672	9,022	9,412
MKE vs. Consensus (%)	-	-	(2.8)	(7.7)	(2.8)

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BUY

Share Price SGD 33.38
 12m Price Target SGD 42.18 (+26%)
 Previous Price Target SGD 42.18

Statistics

52w high/low (SGD)	37.25/29.49
3m avg turnover (USDm)	95.0
Free float (%)	70.3
Issued shares (m)	2,564
Market capitalisation	SGD85.6B USD60.0B

Major shareholders:

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

Price Performance



— DBS Group - (LHS, SGD) — DBS Group / Straits Times Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	3	11	10
Relative to index (%)	6	12	9

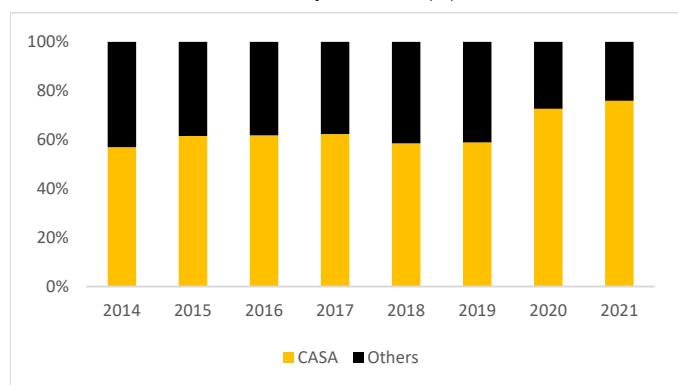
Source: FactSet

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 Tear Sheet Insert

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 (%)

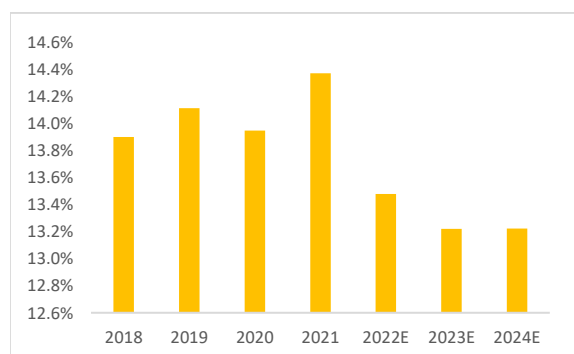


Source: Company

Financial Metrics

- NIM are set to see strong inflection from rising rates after bottoming in 2021 from rates cuts. 2022E NIMs set to rise 24bps YoY
- Asset quality risks may rise on higher interest rates and inflation. NPL ratios could go from 1.3% in 2021 to 1.4% in 2023E
- CET1 ratio are expected remain elevated, but we forecast some capital releases from higher dividends going forward. In such a scenario, CET1 could drop from 14.4% in 2021 to 13.5% in 2022E

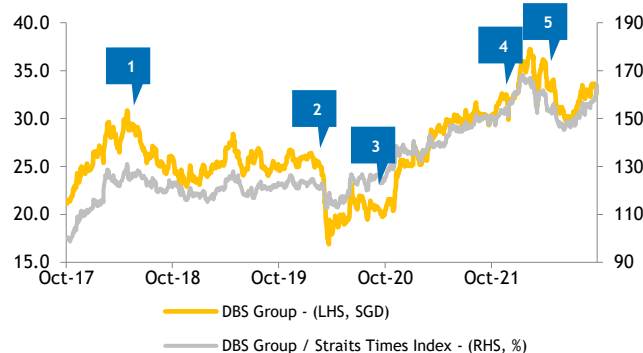
CET1 ratio



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

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. Rising rate expectations
5. Slowing growth fears

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
- Potential turnaround in wealth management income as market clarity improves

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

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Risk Rating & Score ¹	20.2
Score Momentum ²	+0.3
Last Updated	03 Oct 2022
Controversy Score ³ (Updated: 03 Oct 2022)	2

Business Model & Industry Issues

- The nature of DBS’ business of lending and investments exposes it to multiple risks including environmental, social, money laundering, corruption through its clients. It has been increasing weightings towards green, sustainability linked lending along with clean energy (52% of incremental loans in 2021) with a sustainable financing target of SGD50bn by 2024.
- Its extensive investments in digitisation and automation of banking processes & digital banking exposes it to data and cyber-security risks. While there were no material data or security lapses in the past 5-years, it suffered system outages in 2021
- DBS’ significant private banking and wealth management business exposes it to product governance, business ethics risks. Its long term exclusive relationship with Manulife for insurance distribution also exposes DBS to similar risks
- DBS displays no exceptional risks not typical for a large, regional bank for ESG. In our view, it has a regionally above average track record of disclosure in terms of adhering to ESG standards. This is complemented by an overlay of a strong balance sheet and proactive regulatory oversight by MAS

Material E issues

- Establishing a methodology to measure, manage and reduce carbon emissions from lending activities with a target for completion by 2023. Ceased accepting new customers who derive >25% revenue from thermal coal
- Potential contagion risks from lending & investment to sectors with ESG issues. However, pledged to phase out thermal coal financing by 2039 and is exiting palm oil clients who do not commit to NDPE or RSPO by a fixed date.
- First SG bank signatory to the NZBA commitment letter to align business to limit emissions to Net Zero by 2050
- Established CIX, a carbon exchange and market place for carbon credits to support industry decarbonisation efforts
- The Group is targeting to become carbon neutral by end-2022

Material S issues

- Potential financial inclusion risks from vulnerable sectors such as low income, elderly, migrant workers etc. DBS has launched multiple digital inclusion programs including robo-advisory for retail clients, co-lending partnerships and instant approval digital loans in Indonesia and appointing elderly digital ambassadors through their heartland POSB franchise in Singapore. DBS has also launched digital banking inclusion program for migrant workers
- Social impact risks from investing activities. DBS has surpassed its sustainable investment AUM of >50% by 2024 already. New target is pending.
- Employee diversity and equal opportunity risks. Female employees make up 49% of the workforce. It has a Board level diversity policy. It also has a whistleblowing program to escalate employee concerns

Key G metrics and issues

- Established a Board-level sustainability committee - so far the sole domestic bank to have done so
- DBS has not had any material accounting & tax, lobbying & public policy, sanctions related, data privacy or security controversies in the past 5-yers
- Given the breadth of products offered and the large wealth and PB franchise, fair dealing risks cannot be ignored. This is addressed by the Group Fair Dealing and Conduct Committee (FDCC) - chaired by CEO - and the Board’s Risk Management Committee. DBS has not had any material fair dealing controversies since its temporary product selling ban following mis-selling complex ‘mini-bond’ products to unqualified investors in 2008/9
- Significant investments in technology for systems and business integration as well as online banking opens it to material cyber-security risks. In Feb 2022, DBS was required to set aside SGD930m (0.4% CAR) of additional capital by MAS in response to technology disruptions in 4Q21. It has Data Governance and Data Privacy policies in place to deal with data governance risks.
- Corporate Governance Risks. 60% of Board composition is Independent Directors. Gender diversity is lower with 20% of female Board representation. In the Management committee this is 25%
- DBS is a signatory to the UN Global Compact. It has been producing a detailed standalone sustainability report since 2018. The report has been prepared under the ESG standards of SGX, GRI, ABS and the recommendations of TCFD

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company’s exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company’s enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company’s score since the last update - a **negative** integer indicates a company’s improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Quantitative parameters (Score: 67)						
	Particulars	Unit	2019	2020	2021	HSBC (2021)
E	Scope 1 GHG emissions	tCO2e	1,547	992	757	22,000
	Scope 2 GHG emissions	tCO2e	42,310	40,724	37,119	307,000
	Total	tCO2e	43,857	41,716	37,876	329,000
	Scope 3 GHG emissions	tCO2e	23,038	13,008	17,482	12,000
	Total	tCO2e	66,895	54,724	55,358	341,000
	GHG intensity (Scope 1 and 2)	kgCO2e/emp	1,537	1,431	1,328	1,470
	Energy consumption	MWh	102,897	98,507	99,228	833,000
	Water consumption	m3	200,801	174,896	139,058	1,594,000
	Printing paper from eco-friendly sources	%	N/A	91%	98%	N/A
	Total waste generated	ton	1,421	977	1,163	13,000
Cases of environmental non-compliance	number	0	0	0	N/A	
S	% of women in workforce	%	51.9%	51.5%	49.0%	52.0%
	% of women in management roles	%	40.0%	40.0%	40.0%	32.0%
	Policy, data & framework breaches	number	0	0	0	0
	Average training hours per employee	hours	38.7	38.9	39.2	26.3
	Non-compliance concerning fair dealing outcomes	number	0	0	0	N/A
G	MD/CEO salary as % of reported net profit	%	0.19%	0.19%	0.20%	0.04%
	Board salary as % of reported net profit	%	0.07%	0.09%	0.06%	0.05%
	Independent directors on the Board	%	60%	55%	60%	85%
	Female directors on the Board	%	20%	27%	20%	38%

Qualitative Parameters (Score: 100)	
a) is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?	<i>Yes, the group has established a Board Sustainability Committee chaired by the CEO. This is supported by Group Sustainability Council comprising of pillar heads. There is also a specialised Climate Steering Committee co-chaired by the CRO, Head of Institutional Banking and the CSO</i>
b) is the senior management salary linked to fulfilling ESG targets?	<i>Yes. The BSC KPI's include strengthening risk, compliance frameworks as well as championing efforts in responsible banking, responsible business practices and impacts beyond banking. The Remuneration Committee takes these into account when setting senior management variable pay</i>
c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?	<i>Yes</i>
e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	<i>Yes, ongoing. It is quantifying Scope 3 financed emissions across 9 priority sectors representing 34% of its wholesale portfolio. For 5 sectors DBS publishes financed emission intensities compared to 2020 reference baselines. The Group is also disclosing Scope 3 operational emissions.</i>
f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>The Group is retrofitting its office buildings into net-zero energy buildings. Employees are given remote working flexibility 40% of the time and installed sensors in office building to optimise energy usage according to occupancy. It is also installing solar arrays. Water reduction is achieved through implementing Greenmark standards as well as waste condensate reclamation.</i>
g) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>Yes</i>

Target (Score: 80)		
Particulars	Target	Achieved
SGD 50bn Sustainable financing target by 2024	50.0	39.4
DBS Private Bank suite of sustainable products to 50% of AUM by 2023	50%	53%
Zero thermal coal exposure by 2039	0%	N/A
Carbon neutral operations by 2022 (tons)	0	32.7
Net-zero carbon emissions by 2050	Net 0	N/A
Impact		
NA		
Overall score: 78		
As per our ESG matrix, DBS (DBS SP) has an overall score of 78.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	67	33
Qualitative	25%	100	25
Target	25%	80	20
Total			78

DBS displays a very high degree of transparency in its ESG disclosures. It is the only one amongst its peers with a Board Level Sustainability Committee and have initiated aligning senior management rewards with ESG outcomes. Improving Board diversity and independence, benchmarked to global banks could drive further scoring upside. (See Appendix 1)

Appendix 1

Methodology of our proprietary ESG scoring

We have evaluated the ESG ratings based on quantitative, qualitative and ESG targets. We assign a score for each of these three parameters. The overall rating is based on the weighted average of the scores: quantitative (50%), qualitative (25%) and ESG target (25%). For the quantitative, qualitative and ESG target, the sub-parameters are assigned a score - '0' for data not available, '+1' for improving trajectory, positive change, 'Yes', better than peers or a positive number if historical is not available and '-1' for declining trajectory, negative change, 'No', lower than peers or a negative number. The total of the scores of all sub-parameters is divided by the total number of sub-parameter to receive the final score of that segment. The inputs of each sub-parameters may be different for different industries depending on the key areas to monitor for each industry. A company should achieve a minimum score of 50 for an average ESG rating.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
Core P/E (x)	13.5	12.3	11.5	10.3	9.4
Core FD P/E (x)	13.5	12.3	11.5	10.3	9.4
P/BV (x)	1.2	1.5	1.5	1.4	1.3
P/NTA (x)	1.3	1.6	1.6	1.5	1.4
Net dividend yield (%)	3.5	3.7	4.5	5.3	5.8
INCOME STATEMENT (SGD m)					
Interest income	12,208.0	10,185.0	13,988.3	15,978.8	17,719.2
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	10,531.2	11,639.8	12,384.6
Net insurance income	0.0	0.0	0.0	0.0	0.0
Net fees and commission	3,058.0	3,524.0	3,453.5	4,144.2	4,765.9
Other income	2,458.0	2,333.0	2,142.3	2,249.4	2,361.9
Total non-interest income	5,516.0	5,857.0	5,595.8	6,393.6	7,127.7
Operating income	14,592.0	14,297.0	16,127.0	18,033.5	19,512.3
Staff costs	(3,550.0)	(3,875.0)	(4,456.3)	(4,812.8)	(4,957.1)
Other operating expenses	(2,608.0)	(2,594.0)	(2,655.6)	(2,720.8)	(2,771.6)
Operating expenses	(6,158.0)	(6,469.0)	(7,111.8)	(7,533.6)	(7,728.7)
Pre-provision profit	8,434.0	7,828.0	9,015.2	10,499.9	11,783.6
Loan impairment allowances	(3,066.0)	(52.0)	(489.4)	(975.9)	(1,323.3)
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	8,525.8	9,524.0	10,460.2
Income tax	(612.0)	(973.0)	(1,066.8)	(1,191.7)	(1,308.9)
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	7,457.0	8,330.2	9,149.4
Core net profit	4,721.0	6,801.0	7,457.0	8,330.2	9,149.4
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	106,585.9	102,722.1	112,727.0
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	46,705.1	54,135.7	51,422.2
Loans & advances	371,171.0	408,993.0	438,033.4	467,508.8	497,850.8
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	716,447.1	758,598.9	806,174.4
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	43,720.3	47,469.0	51,677.7
Shareholders' funds	51,225.0	55,134.0	55,103.3	58,852.0	63,060.7
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	57,683.3	61,432.0	65,640.7
Total liabilities & equity	649,938.0	686,073.0	716,447.1	758,598.9	806,174.4

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth (%)					
Net interest income	(5.7)	(7.0)	24.8	10.5	6.4
Non-interest income	12.1	6.2	(4.5)	14.3	11.5
Operating expenses	(1.6)	5.1	9.9	5.9	2.6
Pre-provision profit	1.8	(7.2)	15.2	16.5	12.2
Core net profit	(26.1)	44.1	9.6	11.7	9.8
Gross loans	4.2	9.9	7.0	6.7	6.5
Customer deposits	15.0	8.0	3.4	4.3	5.5
Total assets	12.3	5.6	4.4	5.9	6.3
Profitability (%)					
Non-int. income/Total income	37.8	41.0	34.7	35.5	36.5
Average lending yields	2.17	1.66	2.14	2.33	2.44
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	1.61	1.70	1.70
Net income margin	32.35	47.57	46.24	46.19	46.89
Cost/income	42.2	45.2	44.1	41.8	39.6
Liquidity (%)					
Loans/customer deposits	79.8	81.5	84.4	86.4	87.1
Asset quality (%)					
Net NPL	(0.1)	(0.2)	(0.1)	0.0	(0.0)
Gross NPL	1.6	1.3	1.3	1.4	1.4
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	0.1	0.2	0.3
(SP+GP)/average gross financing	0.0	0.0	0.0	0.0	0.0
Loan loss coverage	109.6	116.3	110.1	102.3	106.9
Capital adequacy (%)					
CET1	13.9	14.4	13.5	13.2	13.2
Tier 1 capital	15.0	15.1	14.5	14.2	14.2
Risk-weighted capital	16.8	17.0	16.2	15.8	15.8
Returns (%)					
ROAE	9.4	12.8	13.5	14.6	15.0
ROAA	0.8	1.0	1.1	1.1	1.2
Shareholders equity/assets	7.9	8.0	7.7	7.8	7.8

Source: Company; Maybank IBG Research

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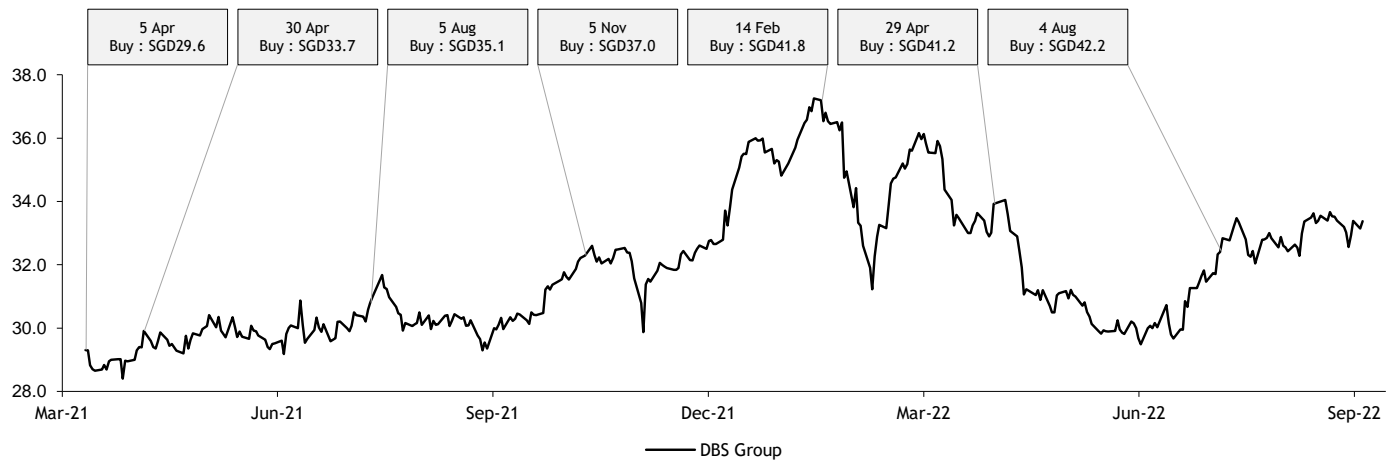
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