

COMPANY RESULTS

DBS Group Holdings (DBS SP)

4Q23: Accelerating Pace Of Returning Surplus Capital To Shareholders

DBS' 4Q23 net profit of S\$2,269m (-3% yoy) met our expectation. NIM narrowed 6bp qoq and net interest income grew at a single-digit rate of 4.7% yoy. Asset quality was stable and credit cost low at 13bp. 4Q23 DPS increased by 6 S cents to 54 S cents. Quarterly DPS is expected to remain at 54 S cents in 2024 after the 1-for-10 bonus issue. Management will continue to review DBS' capital structure in view of returning more surplus capital to investors. Maintain BUY. Target price: S\$40.75.

RESULTS

- **DBS Group Holdings (DBS)** reported net profit of S\$2,269m for 4Q23, down 3% yoy and 12% qoq. The results included one-time integration costs of S\$24m for Citibank Taiwan and contribution of S\$100m to Corporate Social Responsibility (CSR). Operationally, 4Q23 results were in line with our expectation.
- **Slower growth for net interest income.** NIM narrowed by 6bp qoq to 2.13% in 4Q23 due to the full-period impact of higher deposit costs from 3Q23 and the accumulation of fixed-rate asset positions. CASA outflows eased in 4Q23. Net interest income grew at single-digit rate of 4.7% yoy.
- **Tepid loan growth.** Loans grew 1% qoq on a constant-currency basis in 4Q23. Citi Taiwan contributed loans of S\$10b, offset by corporate customers repaying their loans due to high interest rates. Excluding Citi Taiwan, full-year loans declined S\$4b due primarily to contraction for trade loans. Loans to Hong Kong tumbled 8% yoy due to trimming of exposures to real estate developers and commercial real estate.
- **Citi Taiwan provided boost to wealth management and cards.** Fees & commissions grew a hefty 31% yoy in 4Q23, accentuated by a low-base effect. The recovery was led by higher wealth management (+41% yoy), cards (+27% yoy) and loan-related fees (+80% yoy) as well as the consolidation of Citi Taiwan. AUM expanded 23% to S\$365b.
- **Other non-interest income remained strong** and expanded 9% yoy to S\$706m in 4Q23 due to higher treasury customer sales to wealth management customers.
- **Added expenses from CSR commitment.** Expenses rose 12% yoy in 4Q23. Excluding the full-quarter impact of Citi Taiwan and non-recurring technology costs, expenses increased by a smaller 3% yoy. DBS gave a one-time bonus totalling S\$15m in accordance with guidelines from National Wages Council to help lower-income employees cope with inflation. It made an inaugural contribution of S\$100m for its CSR commitment of S\$1b over 10 years to support vulnerable communities.
- **Asset quality remains stable.** NPLs decreased 5% qoq in 4Q23 as new non-performing asset formation fell coupled with more write-offs. NPL ratio improved by 0.1ppt qoq to 1.1%. DBS set aside specific provisions of S\$139m equivalent to credit cost of 11bp.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2022	2023	2024F	2025F	2026F
Net interest income	10,941	13,642	13,530	12,688	12,855
Non-interest income	5,561	6,538	6,688	6,993	7,315
Net profit (rep./act.)	8,196	10,062	9,822	9,305	9,534
Net profit (adj.)	8,192	10,286	9,822	9,305	9,534
EPS (S\$ cent)	318.4	399.4	347.1	328.9	337.0
PE (x)	10.2	8.1	8.5*	9.0*	8.8*
P/B (x)	1.5	1.4	1.3*	1.3*	1.2*
Dividend yield (%)	6.1	5.9	7.3*	7.3*	7.3*
Net int margin (%)	1.7	2.2	2.0	1.8	1.8
Cost/income (%)	43.0	41.1	41.6	42.9	42.8
Loan loss cover (%)	121.8	128.1	128.6	131.8	132.7
Consensus net profit	-	-	9,917	9,984	10,276
UOBKH/Consensus (x)	-	-	0.99	0.93	0.93

Source: DBS Group Holdings, Bloomberg, UOB Kay Hian
*Based on theoretical ex-bonus share price of S\$29.58.

BUY

(Maintained)

Share Price	S\$32.45
Target Price	S\$40.75
Upside	+25.2%
(Previous TP)	S\$40.25)

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):	2,579.2
Market cap (S\$m):	83,927.6
Market cap (US\$m):	62,330.2
3-mth avg daily t'over (US\$m):	93.1

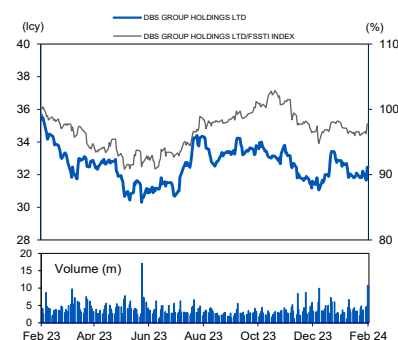
Price Performance (%)

52-week high/low	S\$35.48/S\$30.30			
1mth	3mth	6mth	1yr	YTD
(1.0)	(2.5)	(5.1)	(8.0)	(2.6)

Major Shareholders

Temasek Hldgs	29.1
FY24 NAV/Share (S\$)	22.36
FY24 CAR Tier-1 (%)	15.38

PRICE CHART



Source: Bloomberg

ANALYST

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- Accelerating the pace of capital returns to shareholders.** The Board proposed a final dividend of 54 S cents per share for 4Q23, an increase of 6 S cents or 12.5%. In addition, the Board proposed a 1-for-10 bonus issue. The bonus shares will qualify for dividends starting with 1Q24 interim dividend. Barring unforeseen circumstances, the annualised ordinary dividend going forward would be maintained at S\$2.16 per share (54 S cents per quarter) despite the enlarged share base post-bonus issue. We estimate dividend yield at 7.3% and dividend payout ratio at 65% in 2024.

STOCK IMPACT

- Guidance for 2024.** Management guided for 2024 NIM to be slightly lower than 4Q23's 2.13%. Net interest income is expected to be around 2023 levels, supported by full-year impact of Citi Taiwan consolidation. Management expects double-digit growth for fee income driven by wealth management (boost from Citi Taiwan and net new money inflows) and cards (boost from Citi Taiwan and organic growth in spending). Cost-to-income ratio is expected to be in low 40%. Specific provisions are estimated at 17-20bp. ROE is forecast to be 15-17%.
- Potential capital management.** Management will continue to review DBS' capital structure. Surplus capital could be returned to shareholders through special dividend and share buyback assuming there is no escalation in the Russia-Ukraine war and Israel-Hamas war.
- Management team taking collective responsibility for digital disruptions.** Variable pay for members of Group Management Committee was collectively reduced by 21% despite record earnings to take accountability for the series of digital disruptions. The CEO's variable pay was cut by a steeper 30%. Management assured investors that DBS has made good progress in executing its Tech Resiliency Roadmap to achieve a higher level of service availability.

EARNINGS REVISION/RISK

- We raised our earnings forecast by 1.6% for 2025 due to higher treasury income.

VALUATION/RECOMMENDATION

- Maintain BUY.** Our target price of S\$40.75 is based on 1.58x 2025F P/B, derived from the Gordon Growth Model (ROE: 14.2%, COE: 9.0%, Growth: 0.0%).

4Q23 RESULTS

Profit & Loss (\$m)	4Q23	4Q22	yoy % Chg	UOBKH Estimate	Deviation (%)
Net Interest Income	3,434	3,280	4.7	3,515	-2.3
Fees & Commissions	867	661	31.2	915	-5.3
Other Non-interest Income	706	649	8.8	430	64.2
Total Income	5,007	4,590	9.1	4,860	3.0
Operating Expenses	(2,338)	(1,963)	19.1	(2,081)	12.3
PPOP	2,669	2,627	1.6	2,779	-4.0
Provisions	(142)	44	-422.7	(128)	11.1
Associates	47	36	30.6	40	n.a.
PBT	2,574	2,707	-4.9	2,691	-4.4
Net Profit	2,269	2,343	-3.2	2,368	-4.2
EPS (S cents)	91.3	89.5	2.0	92.1	-0.9
DPS (S cents)	54.0	42.0	28.6	54.0	0.0
BVPS (S\$)	23.14	21.17	9.3	22.85	1.3
Financial Ratios (%)	4Q23	4Q22	yoy Chg (ppt)	3Q23	qoq Chg (ppt)
NIM	2.13	2.05	0.08	2.19	-0.06
Loan Growth, yoy	0.4	1.3	-0.8	-2.1	2.6
Deposit Growth, yoy	1.5	5.0	-3.5	-0.3	1.8
Loan/Deposit Ratio	77.8	78.7	-0.9	79.0	-1.3
Cost/Income Ratio	44.0	42.8	1.2	39.3	4.7
ROE	16.1	17.2	-1.1	18.2	-2.1
NPL Ratio	1.1	1.1	0.0	1.2	-0.1
Credit Costs (bp)	13.4	-4.1	17.5	20.3	-6.9
Loan Loss Coverage	128.1	121.8	6.3	125.0	3.0
CET-1 CAR	14.6	14.6	0.0	14.1	0.5

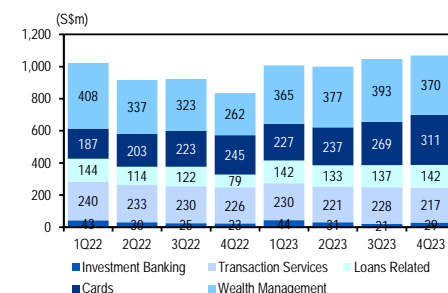
Source: DBS, UOB Kay Hian

KEY ASSUMPTIONS

	2022	2023	2024F	2025F	2026F
Loan Growth (%)	1.3	0.4	4.5	4.9	4.9
NIM (%)	1.75	2.15	2.05	1.83	1.79
Fees, % Chg	(12.3)	9.5	14.3	7.9	7.7
NPL Ratio (%)	1.13	1.11	1.18	1.21	1.22
Credit Costs (bp)	5.4	13.7	20.1	20.1	20.1
Net Profit (\$m)	8,196	10,062	9,988	9,465	9,674
% Chg	20.5	22.8	(0.7)	(5.2)	2.2

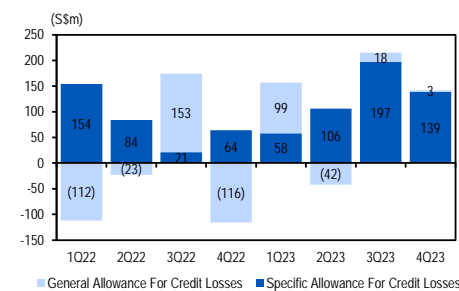
Source: UOB Kay Hian

FEE INCOME - SEGMENTAL BREAKDOWN



Source: DBS

TOTAL ALLOWANCE



Source: DBS

PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Interest income	27,862	28,134	25,053	24,899
Interest expense	(14,220)	(14,604)	(12,365)	(12,045)
Net interest income	13,642	13,530	12,688	12,855
Fees & commissions	3,384	3,868	4,173	4,495
Other income	3,154	2,820	2,820	2,820
Non-interest income	6,538	6,688	6,993	7,315
Total income	20,180	20,218	19,681	20,169
Staff costs	(5,045)	(5,126)	(5,164)	(5,294)
Other operating expense	(3,257)	(3,288)	(3,270)	(3,337)
Pre-provision profit	11,878	11,804	11,247	11,539
Loan loss provision	(578)	(867)	(909)	(953)
Other provisions	(12)	0	0	0
Associated companies	214	225	236	248
Pre-tax profit	11,502	11,161	10,574	10,834
Tax	(1,423)	(1,339)	(1,269)	(1,300)
Minorities	(17)	0	0	0
Net profit	10,062	9,822	9,305	9,534
Net profit (adj.)	10,286	9,822	9,305	9,534

BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Cash with central bank	50,213	52,771	55,460	58,285
Govt treasury bills & securities	70,565	74,160	77,938	81,909
Interbank loans	67,461	70,758	74,216	77,843
Customer loans	416,163	434,379	455,224	477,077
Investment securities	81,735	85,899	90,275	94,874
Derivative receivables	22,700	23,856	25,072	26,349
Associates & JVs	2,487	2,712	2,948	3,195
Fixed assets (incl. prop.)	6,313	6,313	6,313	6,313
Other assets	21,664	25,259	26,585	28,048
Total assets	739,301	776,107	814,030	853,894
Interbank deposits	46,704	48,986	51,380	53,891
Customer deposits	535,103	561,254	588,683	617,452
Derivative payables	23,457	24,652	25,908	27,228
Debt equivalents	49,398	51,847	54,422	57,127
Other liabilities	22,392	23,533	24,732	25,992
Total liabilities	677,054	710,273	745,125	781,690
Shareholders' funds	62,065	65,652	68,723	72,022
Minority interest - accumulated	182	182	182	182
Total equity & liabilities	739,301	776,107	814,030	853,894

OPERATING RATIOS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Capital Adequacy				
Tier-1 CAR	15.3	15.4	15.3	15.7
Total CAR	16.1	16.2	16.1	16.4
Total assets/equity (x)	11.9	11.8	11.8	11.9
Tangible assets/tangible common equity (x)	12.6	12.5	12.5	12.4
Asset Quality				
NPL ratio	1.1	1.2	1.2	1.2
Loan loss coverage	128.1	128.6	131.8	132.7
Loan loss reserve/gross loans	1.4	1.5	1.6	1.6
Increase in NPLs	(1.3)	10.6	7.7	7.6
Credit cost (bp)	13.7	20.1	20.1	20.1
Liquidity				
Loan/deposit ratio	77.8	77.4	77.3	77.3
Liquid assets/short-term liabilities	32.4	32.4	32.4	32.5
Liquid assets/total assets	25.5	25.5	25.5	25.5

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Growth				
Net interest income, yoy chg	24.7	(0.8)	(6.2)	1.3
Fees & commissions, yoy chg	9.5	14.3	7.9	7.7
Pre-provision profit, yoy chg	26.2	(0.6)	(4.7)	2.6
Net profit, yoy chg	22.8	(2.4)	(5.3)	2.5
Net profit (adj.), yoy chg	25.6	(4.5)	(5.3)	2.5
Customer loans, yoy chg	0.4	4.4	4.8	4.8
Customer deposits, yoy chg	1.5	4.9	4.9	4.9
Profitability				
Net interest margin	2.2	2.0	1.8	1.8
Cost/income ratio	41.1	41.6	42.9	42.8
Adjusted ROA	1.4	1.3	1.2	1.1
Reported ROE	16.9	15.4	13.8	13.5
Adjusted ROE	17.3	15.4	13.8	13.5
Valuation				
P/BV (x)	1.4	1.5	1.4	1.3
P/NTA (x)	1.5	1.5	1.5	1.4
Adjusted P/E (x)	8.1	9.4	9.9	9.7
Dividend Yield	5.9	6.6	6.6	6.6
Payout ratio	49.1	62.2	65.7	64.1

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