

COMPANY RESULTS

DBS Group Holdings (DBS SP)

2Q23: Net Profit Of S\$10b Is Within Reach

DBS achieved net profit of S\$2,629m (+45% yoy) in 2Q23. NIM expanded 4bp qoq, while net interest income grew 40% yoy. Management expects CIR to fall below 40% and ROE to rise above 17% in 2023. DBS has increased quarterly DPS by 14% qoq to 48 S cents for 2Q23. Surplus capital of S\$3b or S\$1.20 per share could be returned to shareholders through step-up of quarterly dividend, special dividends or share buyback. Maintain BUY. Target price: S\$44.35.

RESULTS

- DBS Group Holdings (DBS) reported net profit of S\$2,629m for 2Q23, up 45% yoy and 2% qoq. The results are above our net profit forecast of S\$2,466m. The results included one-time integration cost of S\$60m for Citigroup's consumer banking business in Taiwan.
- Benefitting from higher interest rates.** NIM expanded by 58bp yoy and 4bp qoq to 2.16% in 2Q23 as the Fed raised the Fed funds rate by 25bp in May and HIBOR rebounded in Hong Kong. Net interest income grew 40% yoy.
- Loans contracted 2% yoy in 2Q23** due to a decline in low-margin trade loans. Maturing trade loans were not replaced due to market slowdown and unattractive pricing.
- Wealth management gaining momentum.** Fees & commissions grew 7% yoy, the first yoy increase in six quarters. The recovery was led by wealth management (+12% yoy) and cards (+17% yoy). Sentiment has improved and high network clients have started to put their money to work, especially towards the later part of the quarter. DBS attracted net new money of S\$6b and assets under management (AUM) grew 9% yoy to S\$294b
- Other non-interest income remained strong** despite remaining flat qoq at S\$641m in 2Q23. Treasury customer sales grew 13% yoy to S\$458m.
- Improving cost efficiency.** Operating expenses increased 16% yoy (exclude Citi integration costs). Cost-to-income ratio improved 6ppt yoy to 38.3% in 2Q23.
- Asset quality is stable.** NPL formation was benign and NPL balance dropped 3% qoq in 2Q23. NPL ratio was stable 1.1%. Specific provisions of S\$114m were 10bp of loans. DBS wrote-back general provisions of S\$42m due to transfers and credit upgrade.
- Scaling greater heights.** Total income crossed the S\$5b mark for the first time in 1H23. ROE reached a new quarterly record of 19.2% in 2Q23. The board has declared a quarterly dividend of 48 S cents for 2Q23, an increase of 14% qoq.

KEY FINANCIALS

Year to 31 Dec (\$m)	2021	2022	2023F	2024F	2025F
Net interest income	8,440	10,941	13,849	14,413	14,369
Non-interest income	5,915	5,561	6,146	6,018	6,306
Net profit (rep./act.)	6,802	8,196	10,010	10,034	10,221
Net profit (adj.)	6,806	8,192	10,070	10,034	10,221
EPS (S\$ cent)	261.2	314.3	386.7	385.3	392.6
PE (x)	12.9	10.7	8.7	8.8	8.6
P/B (x)	1.6	1.6	1.5	1.4	1.3
Dividend yield (%)	3.6	5.9	5.5	5.9	5.9
Net int margin (%)	1.5	1.7	2.2	2.1	2.0
Cost/income (%)	45.8	43.0	40.2	40.2	39.7
Loan loss cover (%)	116.3	121.8	119.8	122.7	127.8
Consensus net profit	-	-	9,747	9,678	9,883
UOBKH/Consensus (x)	-	-	1.03	1.04	1.03

Source: DBS Group Holdings, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$33.76
Target Price	S\$44.35
Upside	+31.4%
(Previous TP)	S\$41.50)

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):	2,579.1
Market cap (S\$m):	87,070.1
Market cap (US\$m):	64,818.1
3-mth avg daily t'over (US\$m):	92.8
Price Performance (%)	

52-week high/low S\$35.64/S\$30.30

1mth	3mth	6mth	1yr	YTD
7.1	4.8	(3.4)	6.0	1.1

Major Shareholders	%
Temasek Hldgs	29.1
FY23 NAV/Share (S\$)	22.72
FY23 CAR Tier-1 (%)	14.99

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- **NIM to peak in 3Q23.** Management has guided for loan growth at low single-digit of 3-5% for 2023, driven by non-trade corporate loans. It expects mid single-digit fee income growth with recovery in wealth management and sustained growth in card fees. Management expect mild upside for NIM in 2H23. Exit NIM was higher at 2.2% in Jun 23.
- **CIR to fall below 40% and ROE to rise above 17% in 2023.** Management expects operating expenses to increase 10% and CIR to fall below 40% in 2023. It expects specific provisions to be at the lower end of its guidance of 10-15bp (2021: 12bp, 2022: 8bp). ROE is likely to be above 17% in 2023.
- **Short-term positive impact from Basel 4.** The Monetary Authority of Singapore (MAS) is expected to finalise Basel 4 in Jul 23, ahead of implementation starting 1 Jan 24. Basel 4 will initially improve DBS' CET-1 CAR by 2ppt (short-term boost) during the five-year transitional period. The improvement gets eroded over time as the output floor is calibrated higher during the transitional period.
- **DBS will continue to review its dividend policy.** Management guided that an increased in dividends of 24 S cents per year is sustainable for the medium term. There is surplus capital of S\$3b or S\$1.20 per share based on operating range for CET-1 CAR of 12.5-13.5%. Management will consider three options: a) step-up of regular quarterly dividend, b) returning capital to shareholders via special dividends, and c) share buyback.

EARNINGS REVISION/RISK

- We raise our earnings forecast by 3% for 2023 due to the better results for 2Q23 and mild upside for NIM in 2H23.

VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price of S\$44.35 is based on 1.81x 2024F P/B, derived from Gordon Growth model (ROE: 16.3%, COE: 9.0%, Growth: 0.0%).

2Q23 RESULTS

Profit & Loss (\$m)	2Q23	2Q22	yoy % Chg	UOBKH Estimate	Deviation (%)
Net Interest Income	3,433	2,454	39.9	3,361	2.1
Fees & Commissions	823	768	7.2	810	1.6
Other Non-interest Income	789	518	52.3	620	27.3
Total Income	5,045	3,740	34.9	4,791	5.3
Operating Expenses	(2,004)	(1,658)	20.9	(1,885)	6.3
PPOP	3,041	2,082	46.1	2,906	4.6
Provisions	(72)	(45)	60.0	(149)	-51.6
Associates	42	52	-19.2	55	n.a.
PBT	3,011	2,089	44.1	2,812	7.1
Net Profit	2,629	1,816	44.8	2,466	6.6
EPS (S cents)	103.5	69.8	48.4	94.7	9.3
DPS (S cents)	48.0	36.0	33.3	42.0	14.3
BVPS (S\$)	21.85	20.78	5.1	21.01	4.0
Financial Ratios (%)	2Q23	2Q22	yoy Chg (ppt)	1Q23	qoq Chg (ppt)
NIM	2.16	1.58	0.58	2.12	0.04
Loan Growth, yoy	-2.1	6.7	-8.9	0.1	-2.2
Deposit Growth, yoy	-1.5	9.3	-10.8	1.8	-3.3
Loan/Deposit Ratio	79.9	80.4	-0.5	78.8	1.1
Cost/Income Ratio	38.3	44.3	-6.0	38.1	0.2
ROE	19.2	13.4	5.8	18.6	0.6
NPL Ratio	1.1	1.3	-0.2	1.1	0.0
Credit Costs (bp)	6.8	4.2	2.6	15.3	-8.5
Loan Loss Coverage	126.8	113.3	13.5	126.6	0.2
CET-1 CAR	14.1	14.2	-0.1	14.4	-0.3

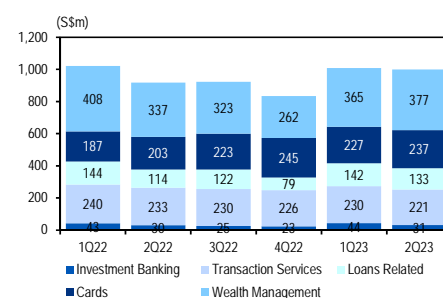
Source: DBS, UOB Kay Hian

KEY ASSUMPTIONS

	2021	2022	2023F	2024F	2025F
Loan Growth (%)	9.9	1.3	2.3	4.9	4.9
NIM (%)	1.45	1.75	2.16	2.13	2.03
Fees, % Chg	15.2	(12.3)	14.0	7.8	7.6
NPL Ratio (%)	1.27	1.13	1.21	1.27	1.29
Credit Costs (bp)	0.6	5.4	16.3	22.1	22.1
Net Profit (\$m)	6,802	8,196	10,010	10,034	10,221
% Chg	44.1	20.5	22.1	0.2	1.9

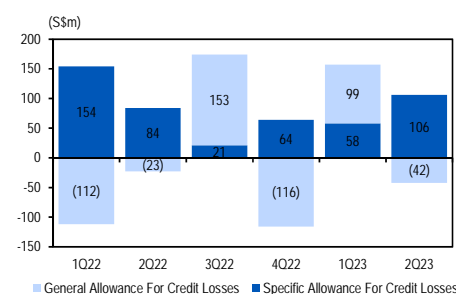
Source: UOB Kay Hian

FEE INCOME – SEGMENTAL BREAKDOWN



Source: DBS

TOTAL ALLOWANCE



Source: DBS

PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Interest income	15,927	28,327	30,650	31,027
Interest expense	(4,986)	(14,477)	(16,237)	(16,658)
Net interest income	10,941	13,849	14,413	14,369
Fees & commissions	3,091	3,523	3,798	4,086
Other income	2,470	2,623	2,220	2,220
Non-interest income	5,561	6,146	6,018	6,306
Total income	16,502	19,995	20,431	20,675
Staff costs	(4,376)	(4,992)	(5,157)	(5,221)
Other operating expense	(2,714)	(3,043)	(3,062)	(2,992)
Pre-provision profit	9,412	11,960	12,212	12,462
Loan loss provision	(225)	(692)	(975)	(1,022)
Other provisions	(9)	(12)	0	0
Associated companies	207	198	208	218
Pre-tax profit	9,385	11,454	11,445	11,658
Tax	(1,188)	(1,424)	(1,373)	(1,399)
Minorities	(1)	(20)	(38)	(38)
Net profit	8,196	10,010	10,034	10,221
Net profit (adj.)	8,192	10,070	10,034	10,221

OPERATING RATIOS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Capital Adequacy				
Tier-1 CAR	15.2	15.0	15.4	15.8
Total CAR	17.0	16.1	16.4	16.8
Total assets/equity (x)	13.1	12.7	12.4	12.2
Tangible assets/tangible common equity (x)	14.3	13.8	13.4	13.1
Asset Quality				
NPL ratio	1.1	1.2	1.3	1.3
Loan loss coverage	121.8	119.8	122.7	127.8
Loan loss reserve/gross loans	1.4	1.5	1.6	1.7
Increase in NPLs	(10.0)	9.7	9.6	7.0
Credit cost (bp)	5.4	16.3	22.1	22.1
Liquidity				
Loan/deposit ratio	78.7	79.9	79.8	79.7
Liquid assets/short-term liabilities	31.6	31.6	31.8	31.9
Liquid assets/total assets	24.1	23.8	23.8	23.8

BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Cash with central bank	54,170	45,043	48,756	52,775
Govt treasury bills & securities	64,995	71,572	74,478	77,502
Interbank loans	60,131	68,124	71,454	74,946
Customer loans	414,519	423,816	444,059	465,280
Investment securities	75,457	81,835	85,158	88,616
Derivative receivables	44,935	53,557	56,844	60,332
Associates & JVs	2,280	2,446	2,654	2,872
Fixed assets (incl. prop.)	3,238	3,215	3,215	3,215
Other assets	23,643	26,118	30,976	36,072
Total assets	743,368	775,727	817,593	861,611
Interbank deposits	39,684	53,630	56,251	59,000
Customer deposits	527,000	530,524	556,452	583,646
Derivative payables	45,265	53,708	58,135	62,927
Debt equivalents	51,600	50,622	52,582	54,621
Other liabilities	22,747	26,046	28,193	30,518
Total liabilities	686,296	714,530	751,612	790,711
Shareholders' funds	56,887	60,991	65,737	70,619
Minority interest - accumulated	185	206	243	281
Total equity & liabilities	743,368	775,727	817,593	861,611

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Growth				
Net interest income, yoy chg	29.6	26.6	4.1	(0.3)
Fees & commissions, yoy chg	(12.3)	14.0	7.8	7.6
Pre-provision profit, yoy chg	20.9	27.1	2.1	2.0
Net profit, yoy chg	20.5	22.1	0.2	1.9
Net profit (adj.), yoy chg	20.4	22.9	(0.4)	1.9
Customer loans, yoy chg	1.4	2.2	4.8	4.8
Customer deposits, yoy chg	5.0	0.7	4.9	4.9
Profitability				
Net interest margin	1.7	2.2	2.1	2.0
Cost/income ratio	43.0	40.2	40.2	39.7
Adjusted ROA	1.1	1.3	1.3	1.2
Reported ROE	14.3	17.0	15.8	15.0
Adjusted ROE	14.3	17.1	15.8	15.0
Valuation				
P/BV (x)	1.6	1.5	1.4	1.3
P/NTA (x)	1.8	1.6	1.5	1.4
Adjusted P/E (x)	10.7	8.7	8.8	8.6
Dividend Yield	5.9	5.5	5.9	5.9
Payout ratio	63.6	48.4	51.9	50.9

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