

DBS Group Holdings Ltd

Analyst Briefing Key Takeaways

SINGAPORE | BANKING | NON-RATED NOTE

03 November 2015

Results at a Glance

(SGD mn)	9M15	9M14	y-y (%)	Comments
Net Interest Income	5246.0	4647.0	12.9%	NIMs expansion supported by lower Cost of Funds
Non-Interest Income	2892.0	2631.0	9.9%	Supported by fee income from WM, Cards and Loans-related
Expenses	3658.0	3204.0	14.2%	
Net Profit	3316.0	3010.0	10.2%	

These are the key takeaways from DBS' 3Q2015 results briefing.

Analyst briefing key takeaways

- Total income boosted by NIM expansion** – Net interests Income for 3Q15 QoQ growth +4% was due to expansion of Net Interests Margin (NIM) by 3 basis points, contributed mainly by improved loan yields and as the loan portfolio re-priced on rising interbank and swap offer rates. However Total Income in 3Q2015 grew by +1% QoQ owing to a +5% QoQ growth from Trading Income but offset by -22% QoQ decline in Wealth Management and -40% QoQ decline in Investment Banking. Generally, the QoQ NIMs expansion has been driven by a -7 basis points decline on Cost of Funds from interests bearing liabilities against a -3 basis points decline on Cost of Credit from interests earning assets.
- Asset Quality** – Management remains confident of the asset quality and continues to maintain 0.9% Non-Performing Loan (NPL) ratio with 160% allowance cover. The management does not expect these numbers to change moving into FY2016. Exposure to non-oil commodities is about SGD12bil. Of the SGD12bil, SGD10bil is related to structured trade finance for a diverse group of customers. Management continues to monitor counterparty exposure in these trades to mitigate risks. The remaining SGD2bil is related to up upstream non-oil commodity producers. Exposure to oil & gas is about SGD22bil wherein SGD13bil is related to upstream producers, traders and processors who are large MNCs. The management is confident of this segment of the oil and gas exposure. The remaining SGD9bil (approximately 3% of total loans book) exposure is related to oil and gas support and services which sees the highest risks. We view that this is a small exposure against total loan assets and is deemed manageable. Exposure for non-trade loans by mainland Chinese companies of Chinese parentage remains manageable at SGD10bil. Singapore consumer debt including retail mortgage is not experiencing stress. Though allowance for unsecured consumer debt as a percentage of net receivables is 1.61% above a 3-year average of 1.57%, it is in line with slowing economy.
- Outlook** – Management is confident that non-trade loan book growth can maintain at 6%. However near term headwinds from trade loans will impact results and temper growth prospects. Weak manufacturing growth from China is expected to impact loan's growth in coming quarters. This quarter results already show Chinese trade loans drop from SGD36bil in June 2014 to SGD26bil in Sept 2016. Trade assets have also been impacted by CNY devaluation after 11 Aug 2015 while volatility of spreads between SHIBOR and CNH HIBOR will add headwinds to trade assets growth and margins. In view of China's risk of macro volatility and DBS's strong presence in Greater China, we expect DBS to be front-footed in their approach to grow wealth management, loan related and cards fee income.

Non-rated

LAST TRADED PRICE	SGD 17.250
FORECAST DIV	N/A
TARGET PRICE	N/A
TOTAL RETURN	N/A

COMPANY DATA

O/S SHARES (MN) :	2,502
MARKET CAP (USD mn / SGD mn) :	30775 / 43164
52 - WK HI/LO (SGD) :	215 / 16
3M Average Daily T/O (mn) :	6.99

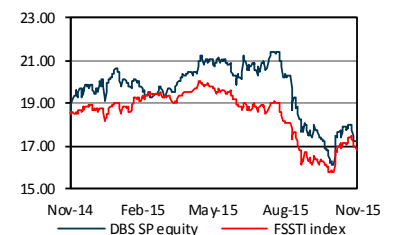
MAJOR SHAREHOLDERS (%)

Temasek Holdings Pte Ltd	30.01%
Norges Bank Investment Management	17.3%
Vanguard Group	16.7%
Blackrock	14.9%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	6.5	(14.4)	N/A
STI RETURN	7.55	(5.53)	(5.32)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

SGD MN	FY 12	FY 13	FY 14	9M 15
Interest Income	7,621	7,986	8,984	7,348
Total Income	8,514	9,098	9,816	8,138
Net Income	4,019	3,874	4,185	3,316
EPS (SGD)	1.56	1.48	1.61	1.72
PER, x (adj.)	9.45	11.40	12.64	10.0
ROCE, %	12.6%	11.2%	11.2%	9.9%

Source: Bloomberg

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Investment Actions

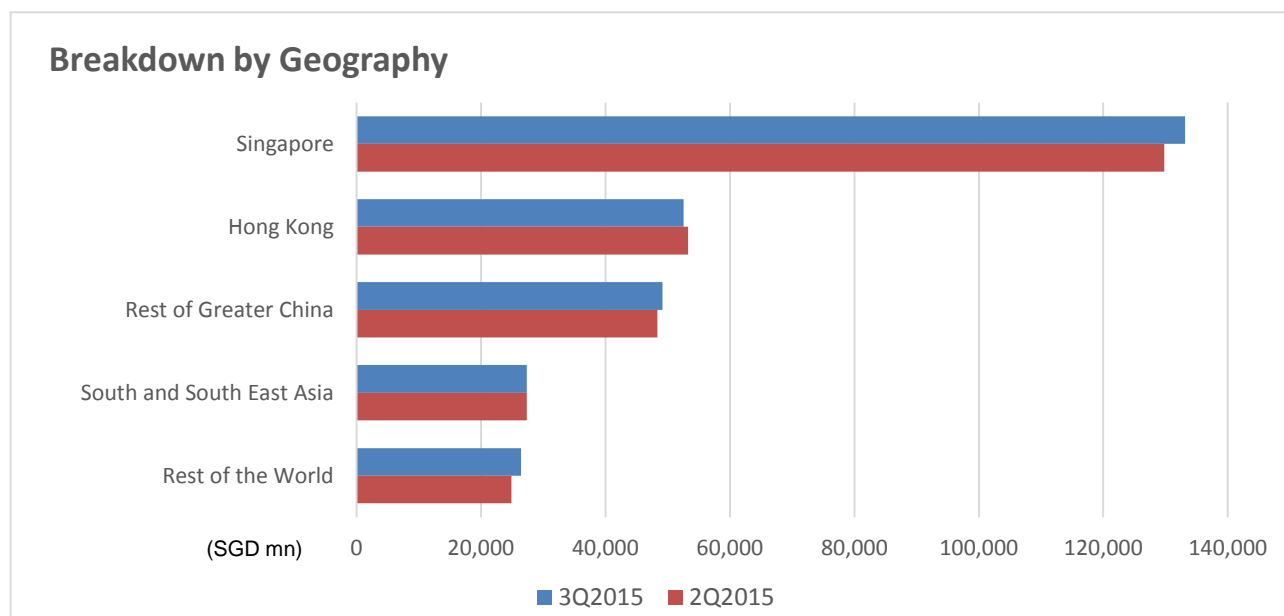
No stock rating or price target provided, as we do not have coverage on DBS. However, we felt the stock will be facing near-term headwind. DBS trading at consensus valuation at 9.9x FY16 PER and 1.0x PBR which is in line with industry average.

Business Segments

(SGD mn)	3Q2015	2Q2015	q-q (%)
Net Interests Income			
Corporate Banking	889.0	867.0	2.5%
Retail Banking	560.0	510.0	9.8%
Global Treasury	209.0	172.0	21.5%
Others	155.0	194.0	-20.1%
Non Interests Income			
Corporate Banking	454.0	455.0	-0.2%
Retail Banking	320.0	393.0	-18.6%
Global Treasury	71.0	83.0	-14.5%
Others	54.0	16.0	237.5%
Total Loans			
Corporate Banking	200058	196438	1.8%
Retail Banking	87279	84605	3.2%
Others	1412	2680	-47.3%

Loans by Geography

(SGD mn)	3Q2015	%	2Q2015	%	q-q (%)	Comments
Singapore	133154.0	46.1%	129819.0	45.8%	2.6%	
Hong Kong	52575.0	18.2%	53301.0	18.8%	-1.4%	
Rest of Greater China	49187.0	17.0%	48357.0	17.0%	1.7%	Slowing down owing to drop in trade assets
South and South East Asia	27381.0	9.5%	27345.0	9.6%	0.1%	
Rest of the World	26452.0	9.2%	24901.0	8.8%	6.2%	
TOTAL	288749.0	100%	283723.0	100%		



Source: Bloomberg, Phillip Securities Research (Singapore)

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