



DBS GROUP | BUY

MARKET CAP: USD 35.5B

AVG DAILY TURNOVER: USD 48M

10 Feb 2015
Company Update

INCREASING FAIR VALUE TO S\$21.68

- **Improvement in 4Q14 NIM**
- **Cautiously optimistic outlook**
- **Increasing FV to S\$21.68**

4Q came in below consensus

DBS posted FY14 net earnings of S\$4046m, up 10%, and in line with our estimate of S\$4023m. However, this was below consensus estimate of S\$4103m (based on Bloomberg). The variance is likely to be due to higher allowances in 4Q14, which surged up to S\$211m, up 40% YoY and 19% QoQ, and lower net trading income of S\$92m (down 44% YoY and down 66% QoQ). 4Q net earnings amounted to S\$838m, down 14% YoY and 17% QoQ. Net Interest Margin (NIM) improved from 1.61% in 4Q13 and 1.68% in 3Q14 to 1.71% in 4Q14. Management has declared a final dividend of 30 cents (same as last year), bringing full year dividend to 58 cents. The stock will trade ex-dividend on 27 April 2015.

Management remains cautiously optimistic about 2015

While acknowledging that 4Q14 was a tough period due to the high volatility which impacted the contribution from its Non-interest Income, management's general tone for 2015 is still fairly upbeat as they guided for loans growth of 8% for 2015. In addition, management believes that its business is fairly well-cushioned and this will help to negate any unfavorable economic or market downside. Giving further insight into its exposures to the slowing energy and commodity sector, management shared that it has S\$30b exposure to the commodity sector, of which S\$25b are LCs (letter of credit). It reiterated its stand to invest in digital banking, and this is an apt move to capture the current change in consumer transactional patterns. Finally, on recent market talks of his move to another bank, CEO Piyush Gupta said that he is not entertaining any offers and is "happy" to stay at DBS.

Maintain BUY; increase FV to S\$21.68

Overall, as its earnings were fairly in line with our expectations, we fine-tuned our FY15 estimates with slightly better projected income, mitigated by estimated higher expenses and allowances. Rolling our estimates into FY15 and FY16 and taking a 1.3x peg to book, we raise our fair value estimate from S\$21.10 to S\$21.68. At current price, the yield is 3%. We are retaining our **BUY** rating as estimated total return to our new fair value is 14%.

Key financial highlights

Year ended 31 Dec (\$m)	FY13	FY14	FY15F	FY16F
Interest Income	7,986.0	8,948.0	9,425.8	9,850.0
Interest Expense	2,417.0	2,627.0	2,783.4	2,915.6
Fee & commission income	1,885.0	2,027.0	2,191.2	2,291.3
Reported net profit	3,672.0	4,046.0	4,321.6	4,560.9
EPS (\$)	1.5	1.6	1.7	1.8
Cons. EPS (\$)	na	na	1.6	1.8
Non-interest income growth (%)	9.3	-1.0	7.1	6.3
Interest Inc / Total Inc (%)	61.2	64.4	64.0	63.5
Dividend yield (%)	3.0	3.0	3.0	3.0
PER (x)	13.1	11.9	11.1	10.6

BUY (maintain)

Fair value	S\$21.68
add: 12m dividend forecast	S\$0.580
versus: Current price	S\$19.45
12m total return forecast	14%

Analysts

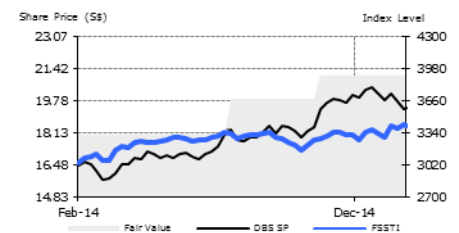
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Key information

Market cap. (m)	S\$47,974 / USD35,450
Avg daily turnover (m)	S\$65 / USD48
Avg daily vol. (m)	3.6
52-wk range (S\$)	15.65 - 20.67
Free float (%)	71.2
Shares o/s. (m)	2,474.2
Exchange	SGX
BBRG ticker	DBS SP
Reuters ticker	DBSM.SI
ISIN code	D05
GICS Sector	Financials
GICS Industry	Financials
Top shareholder	Temasek - 27.0%

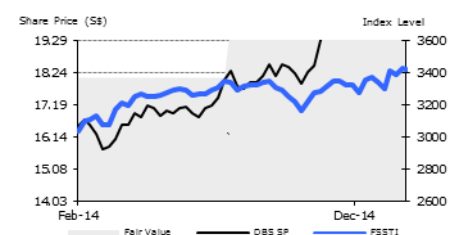
Relative total return	1m	3m	12m
Company (%)	-3	1	23
STI-adjusted (%)	-6	-4	6

Price performance chart



Sources: Bloomberg, OIR estimates

Industry-relative metrics



Note: Industry universe defined as companies under identical GICS classification listed on the same exchange.
Sources: Bloomberg, OIR estimates



Exhibit 1: DBS's FY14 Key Financial Highlights

Y/E: Dec 31 (In S\$m)	4Q14	4Q13	YoY	3Q14	QoQ
Interest Income	2,335.0	2,085.0	12.0%	2,266.0	3.0%
Interest Expense	661.0	631.0	4.8%	664.0	-0.5%
Net Int Income	1,674.0	1,454.0	15.1%	1,602.0	4.5%
Non Int Income	666.0	868.0	-23.3%	912.0	-27.0%
Total Income	2,340.0	2,322.0	0.8%	2,514.0	-6.9%
- Fee & com income	459.0	439.0	4.6%	555.0	-17.3%
- Net trading income	92.0	149.0	-38.3%	271.0	-66.1%
- Net income fr investment securities	100.0	82.0	22.0%	74.0	35.1%
- Other income	15.0	184.0	-91.8%	12.0	25.0%
Operating Expenses	-1,126.0	-1,030.0	9.3%	-1,109.0	1.5%
Operating Profit	1,214.0	1,292.0	-6.0%	1,405.0	-13.6%
Allowances for credit & other losses	-211.0	-151.0	39.7%	-177.0	19.2%
Pretax Profit	1,012.0	1,154.0	-12.3%	1,234.0	-18.0%
Net Profit	838.0	973.0	-13.9%	1,008.0	-16.9%

Company financial highlights

Income statement

Year ended 31 Dec (\$m)	FY13	FY14	FY15F	FY16F
Interest Income	7,986	8,948	9,426	9,850
Interest Expense	2,417	2,627	2,783	2,916
Net Interest Income	5,569	6,321	6,642	6,934
Fee & commission income	1,885	2,027	2,191	2,291
Non-Interest Income	3,529	3,495	3,744	3,979
Total Income	9,098	9,816	10,386	10,913
Staff and operating expenses	-3,918	-4,330	-4,633	-4,925
Impairment charges	-770	-667	-596	-534
Pretax profit	4,489	4,898	5,240	5,537
Reported net profit	3,672	4,046	4,322	4,561

Balance sheet

As at Dec 31 (\$m)	FY13	FY14	FY15F	FY16F
Share capital	9,676	10,171	10,571	10,971
Revenue & other reserves	24,557	27,537	29,923	33,250
Shareholders' fund	37,686	40,206	46,406	50,677
Deposits and other accounts	292,365	317,173	340,961	364,828
Other liabilities	58,385	67,111	70,281	72,180
Total liabilities	364,322	400,460	427,984	454,336
Cash and balances	18,726	19,517	23,890	24,506
Loans & advances	248,654	275,588	299,013	322,934
Other assets	67,314	73,604	77,308	81,225
Total assets	402,008	440,666	474,389	505,013

Cash flow statement

Year ended 31 Dec (\$m)	FY13	FY14	FY15F	FY16F
Pretax profits	3,874	4,185	5,240	5,537
Depreciation	214	220	220	220
Others	841	854	1,029	1,017
Changes in working capital	-3,636	-1,283	-3,531	-1,852
Net cash from operating activities	1,293	3,976	2,958	4,922
Net cash in investing activities	248	-44	-160	-408
Cash flow from financing activities	-1,494	-3,121	-1,453	-1,560
Change in cash	-44	902	1,345	2,955
Beg cash	10,993	10,949	11,851	13,196
Cash at end of year	10,949	11,851	13,196	16,150

Key rates & ratios

	FY13	FY14	FY15F	FY16F
EPS (\$)	1.5	1.6	1.7	1.8
NAV per share (\$)	13.4	14.8	15.9	17.4
Net interest income growth (%)	5.4	13.5	5.1	4.4
Non-interest income growth (%)	9.3	-1.0	7.1	6.3
Interest Inc / Total Inc (%)	61.2	64.4	64.0	63.5
Cost-to-income (%)	43.1	44.1	44.6	45.1
PER (x)	13.1	11.9	11.1	10.6
Price/NAV (x)	1.5	1.3	1.2	1.1
Dividend yield (%)	3.0	3.0	3.0	3.0
ROE (%)	11.1	11.2	11.1	10.8

Sources: Company, OIR forecasts

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