

MITA No. 010/06/2008

4 March 2009

DBS Group Holdings Ltd

Upgrade to

BUY

Previous Rating: HOLD

\$7.24

Fair Value: \$8.20

Stock Code: DBSM.SI
 Reuters: D05
 ISIN Code: DBS SP
 Bloomberg: DBS SP

Event: Update

General Data	
Issued Capital (m)	2,281
Mkt Cap (S\$/US\$m)	16,518 / 10,636
Major Shareholder	Temasek (28.5%)
Free Float (%)	43
NBV per share (S\$)	10.25
Daily Vol 3-mth ('000)	12,069
52Wk High (S\$)	17.929
52Wk Low (S\$)	6.940

Valuations close to trough levels

Weakness in banking stocks. Banking stocks have taken a severe beating this week. The market capitalisation of the three local banks fell 21%, where about S\$11.2b was wiped off since the start of the year (or doubled the combined FY08 net profits of S\$5.6b for the three local banks). As the unceasing spate of negative news continues to hit, the rapid deterioration in recent weeks, including dismal economic indicators and comments, are signals that provisions will go up. One key area of concern is the exposure to the SME segment, which could translate into more loan provisioning in the months ahead.

Higher impairment charges in 2009. DBS mentioned recently at the results briefing that it has about S\$15b of SME loans in Hong Kong and about S\$9b in Singapore. In terms of its loans breakdown, the manufacturing sector accounted for about 12% of total loan, and this could pose an issue in terms of loan defaults and bankruptcies. While some market watchers are expecting the NPL rate to go back to the Asian Financial Crisis high (which was around 8-9%, see Exhibit 1), we believe that it was due to the inclusion of DBS Thai Danu Bank (DTDB) then. DBS's NPLs stood at S\$1958m as at end 2008 or a NPL ratio of 1.5%. If it were to reach 8%, this would mean an increase in NPLs of S\$8.5b and we think this situation is unlikely although the market seems to have priced in a certain portion as DBS's market cap fell \$2.7b YTD.

In 4Q08, the specific allowances for loans amounted to \$224m or an annualised 70bp (more than double the 33bp for the full year). Taking into account DBS's core exposure to both the Singapore and Hong Kong markets, we have upped the provisions for FY09 and FY10, lowered other expenses, and fine-tuned some of the income estimates. We are now going for FY09 earnings of S\$1328m, with a more than doubling in provisions to S\$1386m (up from S\$561m previously), as we expect another 2-3 quarters of high provisions to the same tune or higher than what was reported in 4Q08 of S\$316m.

Upgrade to BUY. Since our last report, the stock has dropped 14% to S\$7.24 (with yesterday's low at S\$6.94). At current price level, we are raising our rating to a **BUY** with fair value estimate of S\$8.20 (prev: \$8.60) based on same 0.8x book.

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Year to 31-Dec	Net Interest Income (S\$m)	Non-interest Income (S\$m)	Net Profit (S\$m)	EPS (cents)	EPS Growth (%)	PER (x)	Net Div Yield (%)	Net DPS (cents)
FY 07	4,108.0	2,055.0	2,278.0	127.0	-15.4	5.7	9.4	68.0
FY 08	4,301.0	1,752.0	1,929.0	107.0	-15.7	6.8	9.0	65.0
FY 09F	4,215.4	1,233.0	1,328.4	58.2	-45.6	12.4	4.1	30.0
FY 10F	4,336.7	1,644.3	1,723.2	75.5	29.7	9.6	5.5	40.0

Please refer to the important disclosures at the back of this document.

Exhibit 1: Some historical information from FY08 & FY09

In S\$m	FY99	FY98
Provisions	1,063	996
Provisions as % of operating profits	54.1%	88.9%
NPL	8,149	7,086
NPL / Total Loans	9.3%	8.2%
General provisions	1,190	1,116
Specific provisions	3,095	2,032
Cumulative provisions	4,285	3,147
Cumulative provisions as % of NPLs	52.6%	44.4%

Source: DBS Annual Report 1999

DBS's Key Financial Data**EARNINGS FORECAST**

Year Ended 31 Dec (S\$ m)	FY07	FY08	FY09F	FY10F
Interest income	9,090.0	8,122.0	7,985.2	8,211.3
Interest expense	4,982.0	3,821.0	3,769.8	3,874.6
Net Interest Income	4,108.0	4,301.0	4,215.4	4,336.7
Non-interest income	2,055.0	1,752.0	1,233.0	1,644.3
- Fee & com income	1,462.0	1,274.0	952.0	1,108.3
- Net trading income	180.0	-187.0	-47.0	111.0
- Net inc fr fin instru designated at FV	-86.0	210.0	52.0	68.0
- Net income fr fin investments	450.0	367.0	196.0	277.0
- Other operating income	49.0	88.0	80.0	80.0
Total operating income	6,163.0	6,053.0	5,448.4	5,981.0
- Staff costs	-1,384.0	-1,301.0	-1,214.0	-1,274.7
- Other operating expenses	-1,234.0	-1,354.0	-1,128.8	-1,315.1
Operating expenses	-2,618.0	-2,655.0	-2,342.8	-2,589.8
Operating profit	3,545.0	3,398.0	3,105.6	3,391.3
Provisions	-617.0	-888.0	-1,386.0	-1,153.6
Associates	110.0	75.0	58.0	71.0
Pre-tax profit	3,038.0	2,585.0	1,777.6	2,308.7
Taxation	-589.0	-446.0	-314.6	-407.9
Minorities	-171.0	-210.0	-134.6	-177.5
Net profits	2,278.0	1,929.0	1,328.4	1,723.2
EPS (\$)	1.50	1.27	0.58	0.76
PER (x)	4.8	5.7	12.4	9.6
Net DPS (\$)	0.68	0.65	0.30	0.40
Yield (%)	9.4	9.0	4.1	5.5
Key Ratios				
Net interest income growth (%)	14.4%	4.7%	-2.0%	2.9%
Non-interest income growth (%)	11.3%	-14.7%	-29.6%	33.4%
Operating profit growth(%)	15.5%	-4.1%	-8.6%	9.2%
Pre-tax growth (%)	1.1%	-14.9%	-31.2%	29.9%
Net profit growth (%)	0.4%	-15.3%	-31.1%	29.7%
Cost-to-income ratio (%)	42.5%	43.9%	43.0%	43.3%

BALANCE SHEET				
As at 31 Dec (S\$ m)	FY07	FY08	FY09F	FY10F
Shareholders' Funds	23,158	24,003	29,219	30,390
Deposits & balance of banks	15,464	9,021	8,390	8,650
Deposits & other accounts of non-bank customers	144,740	163,359	160,000	163,968
Other liabilities	49,601	60,335	60,830	61,852
Total liabilities	209,805	232,715	229,219	234,469
Equity and liabilities	232,963	256,718	258,438	264,860
Cash, & balances and placements with central banks	18,564	15,790	20,594	21,132
Singapore government securities & treasury bills	15,433	14,797	15,510	16,237
Balances, placements with, loans and advances to banks	22,910	20,467	19,200	19,676
Loans & advances to non-bank clients	106,344	125,841	120,098	121,741
Other assets	69,712	79,823	83,036	86,074
Total Assets	232,963	256,718	258,438	264,860
CASH FLOW				
Year Ended 31 Dec (S\$ m)	FY07	FY08	FY09F	FY10F
Pretax profits	2,449	2,139	1,778	2,309
Depreciation	126	149	149	149
Others	640	917	1,067	963
Changes in working capital	2,036	-8,719	-1,612	931
Net cash from operating activities	5,251	-5,514	1,381	4,351
Net cash used in investing activities	-100	2,226	-64	-67
Cash flow from financing activities	1,550	64	3,230	-1,055
Change in cash/(debt)	6,663	-3,275	4,547	3,230
End cash/(debt)	15,953	12,678	17,225	20,454

Source: Company data, OIR estimates

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