

MITA No. 010/06/2008

11 May 2009

DBS Group Holdings Ltd

Downgrade to

HOLD

Previous Rating: BUY

\$S\$11.90

Fair Value: \$S\$12.40

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

Downgrade to HOLD

Better than expected 1Q09 earnings. DBS posted 1Q09 net earnings of S\$433m, down 28% YoY and 47% QoQ. This was above market estimates (with Dow Jones consensus estimate of S\$353m). Net Interest Income rose 2% YoY, but was down 4% QoQ to S\$1076m. With Non-interest Income of S\$586m, up 63% QoQ, total income improved 6% YoY and 13% QoQ to S\$1662m. Net Interest Margin fell from 2.04% in 1Q08 and 2.09% in 4Q08 to 1.99% in 1Q09. This was due to a decline in Singapore interbank rates, but partly offset by higher credit spreads and prime-HIBOR spreads in Hong Kong. Fee and commission income fell 10% YoY (but was up 21% QoQ) to S\$317m due to weak capital market activities.

Allowances surged 3x YoY. Total expenses fell 3% YoY and 7% QoQ to S\$638m, resulting in cost-to-income ratio of 38.4%, down from 42% in 1Q08 and 46.8% in 4Q08. As expected, allowances surged, up 3-fold YoY or 38% QoQ to S\$437m. This comprised of specific loan allowances of S\$225m. NPL doubled YoY to S\$2721m, while NPL ratio rose from 1% in 1Q08 and 1.5% in 4Q08 to 2.0% in 1Q09. This compares with 2.1% for UOB and 1.8% for OCBC in 1Q09. Management has declared a 1Q dividend of 14 cents payable on 4 Jun 2009.

Downgrade to HOLD, but raising fair value estimate to \$S\$12.40. Management expects NPL to remain high (2% currently), although deterioration appeared to have stopped. We expect impairment charges to remain high for 2Q and 3Q, although at lower level than 1Q, making full year charges of S\$1386m. We have revised our numbers and raised net earnings from S\$1328m to S\$1572m for FY09 taking into account slightly better 1Q09 performance. As the worst appears to be over for the global economy, we have also raised our expectations for FY10, increasing net earnings from S\$1723m to S\$1965m. Since our last report in Mar 2009, the stock has appreciated some 64% to S\$11.90 currently. With the recent re-rating for Singapore banking stocks, with average P/book of 1.4x, we are raising our fair value estimate to S\$12.40 (based on 1.2x book, the discount being for the still cautious economic environment). However, until we see clearer increase in regional trades and activities, price upside looks limited at current price level. As such, we are downgrading the stock to **HOLD**.

General Data	
Issued Capital (m)	2,281
Mkt Cap (\$m/US\$m)	27,149 / 18,601
Major Shareholder	Temasek (28.5%)
Free Float (%)	43
NBV per share (\$)	10.27
Daily Vol 3-mth ('000)	12,111
52Wk High (\$)	17.671
52Wk Low (\$)	6.420

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Year to 31-Dec	Net Interest Income (\$m)	Non-interest Income (\$m)	Net Profit (\$m)	EPS (S cents)	EPS Growth (%)	PER (x)	Net Div Yield (%)
FY 07	4,108.0	2,055.0	2,278.0	127.0	-15.4	9.4	5.7
FY 08	4,301.0	1,752.0	1,929.0	107.0	-15.7	11.1	5.5
FY 09F	4,051.1	1,988.0	1,571.6	68.9	-35.6	17.3	3.9
FY 10F	4,219.4	2,157.3	1,965.2	86.1	25.0	13.8	3.9

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

DBS's Key Financial Data

DBS Results	4Q08	1Q08	1Q09	% Chg	% Chg
Year Ended 31 Dec (S\$ m)	(S\$m)	(S\$m)	(S\$m)	(YoY)	(QoQ)
Interest Income	2,016.0	2,147.0	1,655.0	-22.9%	-17.9%
Interest Expense	901.0	1,090.0	579.0	-46.9%	-35.7%
Net Int Income	1,115.0	1,057.0	1,076.0	1.8%	-3.5%
Non Int Income	360.0	506.0	586.0	15.8%	62.8%
Total Income	1,475.0	1,563.0	1,662.0	6.3%	12.7%
- Fee & com income	263.0	353.0	317.0	-10.2%	20.5%
- Net trading income	144.0	-161.0	204.0	-226.7%	41.7%
- Net income fr fin instruments designated at fair val	-169.0	85.0	-54.0	-163.5%	-68.0%
- Net income fr fin investments	104.0	211.0	106.0	-49.8%	1.9%
- Other income	18.0	18.0	13.0	-27.8%	-27.8%
	360.0	506.0	586.0	15.8%	62.8%
Operating Expenses	-734.0	-656.0	-638.0	-2.7%	-13.1%
- Staff	-391.0	-352.0	-327.0	-7.1%	-16.4%
- Other expenses	-343.0	-304.0	-311.0	2.3%	-9.3%
Operating Expenses (incl goodwill)	-734.0	-656.0	-638.0	-2.7%	-13.1%
Operating Profit	741.0	907.0	1024.0	12.9%	38.2%
Allowances for credit & other losses	-316.0	-140.0	-437.0	212.1%	38.3%
Associates	10.0	23.0	20.0	-13.0%	100.0%
Pretax Profit	435.0	790.0	607.0	-23.2%	39.5%
Net Profit	295.0	603.0	433.0	-28.2%	46.8%

In S\$m	OCBC 1Q09	OCBC 1Q08	YoY	DBS 1Q09	DBS 1Q08	YoY	UOB 1Q09	UOB 1Q08	YoY
Total Assets	180,160	179,997	0%	273,252	251,453	9%	178,543	185,784	-4%
Loans	78,815	73,977	7%	130,557	114,227	14%	99,660	94,373	6%
Deposits	92,401	92,867	-1%	179,818	157,379	14%	119,357	109,580	9%
Loans to Deposits	85.30%	79.66%	7%	72.61%	72.58%	0%	83.50%	86.12%	-3%
Stockbroking / Futures ^	13	24	-46%	28	50	-44%	9	9	0%
Investment related	13	20	-35%	17	29	-41%	17	30	-43%
Trade & remittances	28	32	-13%	66	52	27%	43	53	-19%
Loan-related	37	33	12%	96	90	7%	76	74	3%
Deposit-related / Services	14	13	8%	20	19	5%	22	21	5%
Credit card	10	14	-29%	33	31	6%	35	44	-20%
Fund management	16	21	-24%	5	14	-64%	26	55	-53%
Wealth management	11	41	-73%	16	40	-60%			
Others	13	14	-7%	36	28	29%	11	17	-35%
Fee & Commission	155	212	-27%	317	353	-10%	239	303	-21%
Fee & commission	155	212	-27%	317	353	-10%	240	303	-21%
Dividend	17	18	-6%				4	3	33%
Rental income	19	15	27%				34	24	42%
Other income	119	274	-57%	13	18	-28%	156	84	86%
Insurance	297	25	>200%						
- Net trading income				204	-161	-227%			
- Net inc fr fin instru designated at FV				-54	85	-164%			
- Net income fr fin investment				106	211	-50%			
Non-interest Income (NII)	607	544	12%	586	506	16%	434	414	5%
Int Income	1146	1331	-14%	1655	2147	-23%	1,429	1,795	-20%
Int Expense	406	693	-41%	579	1090	-47%	480	943	-49%
Net Interest Income (II)	740	638	16%	1076	1057	2%	949	852	11%
Non-interest Income (NII)	607	544	12%	586	506	16%	434	414	5%
Total Income	1347	1182	14%	1662	1563	6%	1,383	1,266	9%
Total operating expenses	413	426	-3%	638	656	-3%	491	497	-1%
Operating profits	934	756	24%	1024	907	13%	892	769	16%
Allowances for credit & other lc	-197	8	nm	-437	-140	212%	-378	-89	325%
Pretax profits	725	753	-4%	607	790	-23%	523	700	-25%
Net profits	545	622	-12%	433	603	-28%	409	529	-23%
Net interest margin (%)	2.42%	2.17%		1.99%	2.09%		2.41%	2.20%	
NII / Total income (Adj)	45.1%	37.1%		35.3%	32.4%		31.4%	32.7%	
Cost to income (%) (Adj)	30.7%	42.0%		38.4%	42.0%		35.5%	39.3%	

In S\$m	OCBC 1Q09	OCBC 1Q08	YoY	DBS 1Q09	DBS 1Q08	YoY	UOB 1Q09	UOB 1Q08	YoY
EPS (\$)	0.18	0.20		0.83	1.29		1.01	1.38	
NAV (\$)	4.75	4.79		10.27	10.71		9.37	10.73	
Net DPS (cents)				14.00	17.00		-	-	
ROE (%)	14.90	12.20		8.01	11.61		11.20	12.70	
ROA (%)	1.54	1.34		0.69	0.99		0.90	1.17	
Total NPLs	1,424	1,212		2,721	1,188	2,376	2,185	1,602	
NPL ratio	1.80%	1.60%		2.00%	1.00%		2.10%	1.60%	
Tier 1 Capital	15.10%	12.80%		12.50%	9.20%		12.30%	10.70%	
Total CAR	15.80%	13.50%		16.70%	13.40%		17.30%	15.60%	
Tpt, Storage & Comm	7%	5%		10%	10%		6%	6%	
Building & Construction	21%	20%		14%	12%		12%	13%	
Mfg	8%	8%		13%	13%		10%	10%	
Non-bank fin institutions	14%	15%		13%	12%		16%	17%	
Gen commerce	8%	9%		9%	10%		13%	13%	
Prof & pte individuals	10%	10%		8%	9%		13%	12%	
Housing loans	24%	26%		23%	23%		24%	24%	
Others	8%	6%		11%	11%		6%	6%	
Total	100%	100%		100%	100%		100%	100%	

[^] Futures broking for UOB and Stockbroking for OCBC & DBS

EARNINGS FORECAST

Year Ended 31 Dec (S\$ m)

	FY07	FY08	FY09F	FY10F
Interest income	9,090.0	8,122.0	6,685.0	7,709.7
Interest expense	4,982.0	3,821.0	2,633.9	3,490.3
Net Interest Income	4,108.0	4,301.0	4,051.1	4,219.4
Non-interest income	2,055.0	1,752.0	1,988.0	2,157.3
- Fee & com income	1,462.0	1,274.0	1,232.0	1,434.3
- Net trading income	180.0	-187.0	480.0	311.0
- Net inc fr fin instru designated at FV	-86.0	210.0	20.0	68.0
- Net income fr fin investments	450.0	367.0	196.0	277.0
- Other operating income	49.0	88.0	60.0	67.0
Total operating income	6,163.0	6,053.0	6,039.1	6,376.7
- Staff costs	-1,384.0	-1,301.0	-1,214.0	-1,274.7
- Other operating expenses	-1,234.0	-1,354.0	-1,280.2	-1,384.4
Operating expenses	-2,618.0	-2,655.0	-2,494.1	-2,659.1
Operating profit	3,545.0	3,398.0	3,544.9	3,717.6
Provisions	-617.0	-888.0	-1,386.0	-1,116.5
Associates	110.0	75.0	58.0	71.0
Pre-tax profit	3,038.0	2,585.0	2,216.9	2,672.1
Taxation	-589.0	-446.0	-438.3	-504.4
Minorities	-171.0	-210.0	-207.0	-202.5
Net profits	2,278.0	1,929.0	1,571.6	1,965.2
EPS (\$)	1.50	1.27	0.69	0.86
PER (x)	7.9	9.4	17.3	13.8
Net DPS (\$)	0.68	0.65	0.46	0.46
Yield (%)	5.7	5.5	3.9	3.9
Net asset backing (\$)	10.55	10.25	10.32	10.80
KEY RATIOS				
Net interest income growth (%)	14.4%	4.7%	-5.8%	4.2%
Non-interest income growth (%)	11.3%	-14.7%	13.5%	8.5%
Operating profit growth(%)	15.5%	-4.1%	4.3%	4.9%
Pre-tax growth (%)	1.1%	-14.9%	-14.2%	20.5%
Net profit growth (%)	0.4%	-15.3%	-18.5%	25.0%
Cost-to-income ratio (%)	42.5%	43.9%	41.3%	41.7%

BALANCE SHEET				
As at 31 Dec (S\$ m)	FY07	FY08	FY09F	FY10F
Share capital	4,164	4,215	8,337	8,337
Reserves	18,994	19,788	20,738	22,034
Shareholders' Funds	23,158	24,003	29,075	30,371
Deposits & balance of banks	15,464	9,021	8,390	8,650
Deposits & other accounts of non-bank customers	144,740	163,359	175,500	179,852
Other liabilities	49,601	60,335	61,040	62,016
Total liabilities	209,805	232,715	244,930	250,518
Equity and liabilities	232,963	256,718	274,005	280,888
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	31,590	30,575
Loans & advances to non-bank clients	106,344	125,841	120,274	124,371
Other assets	69,712	79,823	86,036	88,574
Total Assets	232,963	256,718	274,005	280,888
CASH FLOW				
Year Ended 31 Dec (S\$ m)	FY07	FY08	FY09F	FY10F
Pretax profits	2,449	2,139	2,217	2,672
Depreciation	126	149	149	149
Others	640	917	1,067	926
Changes in working capital	2,036	-8,719	1,457	249
Net cash from operating activities	5,251	-5,514	4,890	3,995
Net cash used in investing activities	-100	2,226	-64	-67
Cash flow from financing activities	1,550	64	2,807	-1,211
Change in cash/(debt)	6,663	-3,275	7,633	2,717
End cash/(debt)	15,953	12,678	20,311	23,028

Source: Company data, OIR estimates

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