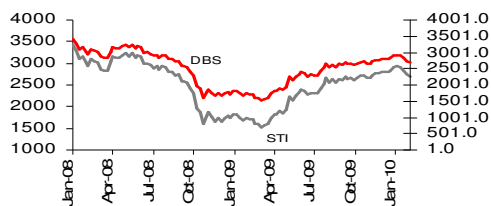


8 February 2010

Maintain

BUY

Previous Rating: BUY

Current Price: S\$14.04
Fair Value: S\$16.60


DBS Group Holdings Ltd

Remains a BUY

Posted FY09 net profit of S\$2041m. DBS group reported a 67% YoY increase (but a 12% QoQ decline) in 4Q09 net profit to S\$493m, bringing full year net profit to S\$2041m, up 6% YoY, and in line with market expectations. Net interest income amounted to S\$4455m in FY09, up 4%. Non-interest income grew 23% to S\$2148m, giving total income of S\$6603m. Expenses were well contained and fell 2% to S\$2604m, bringing cost-to-income ratio down from 43.3% in FY08 to 39.4% in FY09. Allowances rose QoQ in 4Q09, resulting in full year charges of S\$1552m, up 75% YoY. Total NPLs rose from S\$1958m in FY08 to S\$3876m in FY09, and the increase was largely due to the Middle East. On the Dubai exposure, management shared that 43% of NPL are current and that Dubai World is still paying interest. The group announced a final dividend of 14 cents, bringing full year payout to 56 cents.

Likely to have lion share of local fund-raising activities. Management highlighted that SME constituted a substantial part of its corporate banking business. It is also the largest mortgage loan provider in Singapore and a leading lender in the government loan programme. It also has a lion share of the market for fund raised through rights issues in Singapore. And as mentioned in our earlier report, this and with more IPOs expected this year, we expect DBS to continue to play a significant role in these capital market activities and this should in turn buoy its non-interest income.

Strategies from the new CEO. New CEO Piyush Gupta also emphasized the priority to continue to entrench its position in Singapore. This includes building up customer assets, the POSB franchise, improve cross selling, etc. The rebalancing of its geographic business mix will also mean that it aims to achieve about 40% of its revenue from Singapore, 30% from Greater China and the balance 30% from South and Southeast Asia. In Taiwan and Indonesia, it intends to broaden its consumer banking business, while it will focus on corporate top-end, affluent consumers in China and India.

Reiterate BUY and fair value of S\$16.60. We have raised our FY10 earnings from S\$2480m to S\$2575m, mainly due to lower allowances. We continue to favour DBS as our pick in the sector and reiterate our **BUY** rating and S\$16.60 fair value.

Reuters Code	DBSM.SI
ISIN Code	D05
Bloomberg Code	DBS SP
Issued Capital (m)	2,283
Mkt Cap (S\$/US\$m)	32,049 / 22,533
Major Shareholders	
Temasek	28%
Free Float (%)	43%
Daily Vol 3-mth ('000)	5,270
52 Wk Range	6.420 - 15.800

(S\$m)	FY08	FY09	FY10F	FY11F
Total income	6,053	6,603	6,472	6,719
Operating income	3,398	3,999	3,931	3,978
Net profits	1,929	2,041	2,575	2,766
EPS (cts)	1.27	0.89	1.13	1.21
PER (x)	11.1	15.7	12.4	11.6

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DBS' Key Financial Data

EARNINGS FORECAST Year Ended 31 Dec (\$m)					BALANCE SHEET As at 31 Dec (\$m)				
	FY08	FY09	FY10F	FY11F		FY08	FY09	FY10F	FY11F
Interest Income	8,122	6,114	6,368	6,591	Share capital	4,215	8,435	8,435	8,435
Interest Expense	3,821	1,659	2,120	2,243	Revenue & other reserves	19,788	21,064	23,264	25,253
Net Interest Income	4,301	4,455	4,248	4,348	Shareholders' fund	24,003	29,499	31,699	33,688
Fee & commission income	1,274	1,394	1,434	1,400	Deposits and other accounts	163,359	178,448	182,874	187,994
Non-Interest Income	1,752	2,148	2,224	2,371	Other liabilities	60,335	41,589	45,295	52,097
Total Income	6,053	6,603	6,472	6,719	Total liabilities	232,715	229,145	237,559	249,810
Staff and operating expenses	-2,655	-2,604	-2,540	-2,741	Cash and balances	15,790	22,515	21,234	25,460
Impairment charges	-888	-1,552	-588	-334	Loans & advances	125,841	129,973	125,286	129,616
Pretax profit	2,585	2,513	3,414	3,724	Other assets	79,823	67,993	72,462	72,733
Reported net profit	1,929	2,041	2,575	2,766	Total assets	256,718	258,644	269,258	283,498
CASH FLOW Year Ended 31 Dec (\$m)					Key RATES & RATIOS				
	FY08	FY09	FY10F	FY11F		FY08	FY09	FY10F	FY11F
Pretax profits	2,139	2,228	3,414	3,724	EPS (S cents)	1.27	0.89	1.13	1.21
Depreciation	149	195	195	195	NAV per share (S cents)	10.25	10.85	11.29	12.03
Others	865	1,504	697	542	Net interest income growth (%)	4.7	3.6	-4.7	2.4
Changes in working capital	-8,615	1,163	1,340	-6,430	Non-interest income growth (%)	-14.7	22.6	3.5	6.6
Net cash from operating activities	-5,462	5,090	5,647	-1,969	Interest Inc / Total Inc (%)	71.1	67.5	65.6	64.7
Net cash in investing activities	2,174	-81	-45	-47	Cost-to-income (%)	43.9	39.4	39.3	40.8
Cash flow from financing activities	64	1,557	-1,454	-1,502	PER (x)	11.1	15.7	12.4	11.6
Change in cash	-3,275	6,603	4,147	-3,518	Price/NAV (x)	1.4	1.3	1.2	1.2
Beg cash	15,953	12,678	19,281	23,428	Dividend yield (%)	4.6	4.0	4.0	4.0
Cash at end of year	12,678	19,281	23,428	19,910	ROE (%)	9.6	9.0	9.9	10.0

Source: Company data, OIR estimates

SHAREHOLDING DECLARATION:

The analyst/analysts who wrote this report holds NIL shares in the above security.

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- For companies with less than S\$150m market capitalization, OIR's Buy = More than 30% upside from the current price; Hold = Trade within +/- 30% from the current price; Sell = More than 30% downside from the current price.

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For OCBC Investment Research Pte Ltd



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Head of Research

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