

**DBS Group -----RESTRICTED**

**DBS HK CFO meeting - NIMs unlikely to rebound near term; on track to meet 12-13% ROE targets**

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- We met DBS Hong Kong CFO Mr Cristo Chow to get an operational update and colour on near- to medium-term priorities.
- In 2011, Hong Kong was the biggest contributor of profits outside Singapore, at 18% of DBS Group PBT. FY11 profit was up 7% YoY in constant currency terms and down 1% YoY in SGD terms.
- Mixed outlook for FY12 earnings drivers: slowdown in loan growth in high single digits, flat NIMs (tight pricing and funding continue), decent non-interest income growth (RMB volumes robust), flat cost-income ratios and stable credit costs.
- The main focus in the near term is to build up the SME business. The medium-term target is to improve the share of SME loans from 10% to 20% in the DBS Hong Kong loan book. This will help improve the structural NIM and ROE profile of DBS Hong Kong. DBS is confident of meeting its medium-term ROE target of 12-13% (from the current 10-11% levels) driven by (1) consumer banking (wealth management/private banking), (2) GTS platform rollout and (3) increase in market share of SME loans.

Bbg/RIC	DBS SP / DBS.M.SI	Price (05 Apr 12, S\$)	13.34		
Rating (prev. rating)	R (R)	TP (prev. TP S\$)	R (R)		
Shares outstanding (mn)	2,421.81	Est. pot. % chg. to TP	RESTRICTED		
Daily trad vol - 6m avg (mn)	4.8	52-wk range (S\$)	15.6 - 10.9		
Daily trad val - 6m avg (US\$ mn)	49.8	Mkt cap (S\$/US\$ bn)	32.3/ 25.6		
Free float (%)	72.0	<b>Performance</b>			
Major shareholders	Temasek (28.1%)	1M	3M		
		12M			
		Absolute (%)	(6.4) 12.3 (9.9)		
		Relative (%)	(6.2) 3.5 (2.7)		
<b>Year</b>	<b>12/10A</b>	<b>12/11A</b>	<b>12/12E</b>	<b>12/13E</b>	<b>12/14E</b>
Pre-prov Op profit (S\$ mn)	3,728.0	3,855.0	4,418.1	5,038.8	5,733.4
Net profit (S\$ mn)	2,620	3,005	2,926	3,270	3,654
EPS (CS adj. S\$)	1.09	1.24	1.19	1.33	1.48
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (S\$)	n.a.	n.a.	1.23	1.34	1.54
EPS growth (%)	24.8	13.1	(3.6)	11.4	11.4
P/E (x)	12.2	10.8	11.2	10.0	9.0
Dividend yield (%)	4.2	4.2	4.2	4.5	5.1
BVPS (CS adj. S\$)	11.5	12.2	12.9	13.7	14.5
P/B (x)	1.16	1.09	1.03	0.98	0.92
ROE (%)	10.1	10.9	9.9	10.4	10.9
ROA (%)	1.0	1.0	0.8	0.8	0.9
Tier 1 Ratio (%)	15.1	12.9	12.2	12.0	11.8

Note 1: ORD/ADR=4.00. Note 2: DBS Group Holdings Ltd is an investment holding company that operates through its main subsidiary, DBS Bank Ltd (the Bank). The Bank is engaged in the provision of retail, small and medium-sized enterprise, corporate, and investment banking services.

**DBS HK loan growth to slow down; NIM improvement unlikely in the near term; asset quality comfortable**

Overall, DBS HK CFO remains confident of the prospects in 2012 and expects the turnaround to continue despite challenges.

**Loan growth (expect high single digit in 2012):** Loan growth is unlikely to match the 26% YoY seen in 2011. DBS is still not active in the mortgage market, and trade finance volume growth YoY is likely to slow down. Overall, we expect high single digit loan growth in 2012.

**NIMs (unlikely to improve significantly in 2012):** Core HK pricing remains competitive. NIMs are unlikely to improve significantly in the near term. NIM momentum will depend on the pace of high-margin SME loan growth.

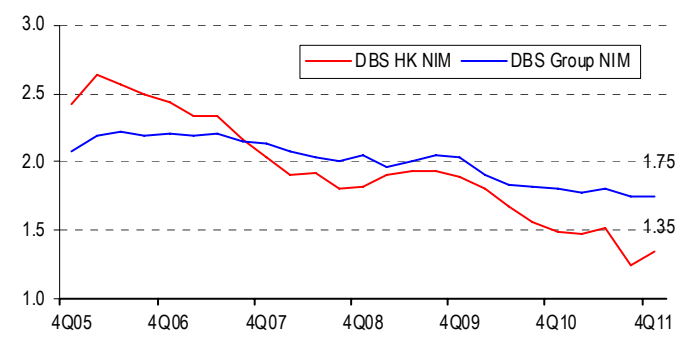
**Non-interest income (healthy growth to continue):** Non-interest income should continue to see steady growth (6% YoY LC terms in 2011). Volumes in RMB treasury business continue to be robust.

Increased push into SME and cash management should improve fee income growth.

**Operating expenses (cost-income ratio to remain under control):** Operating expenses should remain under control and in line with revenue growth (with some residual pressure from ongoing IT infrastructure spending). Cost-income ratio should not increase from the 44% seen in 2011.

**Asset quality (credit costs unlikely to spike in 2012):** Management appeared comfortable with asset quality; credit costs are unlikely to spike in 2012.

Figure 1: DBS NIM—group versus HK (%)



Source: Company data

**Focus on building up the SME business—key to NIMs and profitability**

A major focus is to build up the SME business in the near to medium term. SME loans (IBG4 in DBS parlance) is around 10% in the DBS HK loan book. The medium-term target is to improve this share to 20%. The new SME blueprint for DBS HK has been finalised and is being actively rolled out. Growing the SME business will help in two aspects: (1) better sustainable NIM profile and overall profitability and (2) better structural funding base, given better liability (operational accounts and deposit collateral) growth associated with the SME business.

**Three potential drivers to meet target 12-13% ROEs**

DBS HK CFO is confident of achieving 12-13% ROEs (from 10.6% in 2011) in the near term, driven by:

(1) **Consumer banking:** Focus will be on higher profitability segments in wealth management, unsecured lending and private banking.

(2) **GTS platform rollout:** DBS' pan-Asia GTS platform (cash management and trade finance) will continue to drive growth and profitability improvement in the near term, along with improving DBS HK's core deposit base.

(3) **SME business growth:** With the target of increasing SME (IBG4) loan share from 10% to 20%, DBS HK NIMs and overall profitability should see good momentum in the near term.