Edited transcript of DBS third-quarter 2024 conference call for the buy and sell sides, 7 November 2024

Nicholas Teh Welcome to the call. We have participants in the room today, so we will start with their questions.

Harsh Modi (JPM) On the buyback, Piyush, your comparison at the media briefing to JPM and Apple was interesting because over the past decade they have canceled 30% of shares. Is yours a one-time programme because of the capital release from the Basel 3 transitional arrangement or is it the beginning of a longer-term journey to cancel a chunk of shares? Does Temasek's shareholding become an issue at some point? How will you carry out the buyback – will you do so on weakness or regularly?

Piyush Gupta JPM announces a buyback of about 5% of market cap that is executed over two to three years. They continue to buy back as valuations go up but they are quite sensible about it. That is what we are going to do. We have the capacity to do the current programme and a second tranche of a few billion dollars before we run into the Temasek ceiling.

We have another $3 billion to $5 billion of capital to return based on the final CET-1 ratio. We also have another $3 billion based on the transitional ratio assuming we pay down the AT-1 and Tier-2, but we have not formed a view on whether to return it since it is transitional. We could return some of it because we will be creating additional profit along the way.

The options are doing another buyback, special dividends and continuing to step up the ordinary dividend.

Tan Su Shan We will continue to return capital to shareholders when I take over. The buyback adds to our toolkit. Our three-prong approach will continue.

Harsh Modi What level of Temasek's holdings does it become a challenge?

Piyush Gupta At 30%, it will need to make a general offer unless it gets a whitewash. While getting one is not an insurmountable challenge, it is preferable to avoid such a situation.

Harsh Modi On asset-liability management, one of the discussions last quarter was on lengthening duration to reduce interest-rate sensitivity. How are you thinking about it for 2026-27?

Piyush Gupta This year, we will have put on $60 billion of fixed-rate assets while $45 billion existing ones mature, so we will have added another $15 billion by year-end. The maturing assets are yielding 2.5% and the new ones are being added at 4.2%, giving us 170 basis points of pick-up.

Next year, our maturing assets are about $55 billion. Based on eight rate cuts, we will be getting a yield pick-up in the first half but not any in the second half. Beyond that, there will not continue to be yield pick-up if the neutral rate winds up at three-odd percent. But how rates would turn out by then is anybody's guess at this time.

Harsh Modi How much NIM are you willing to give away today to lock in rates for two years?

Piyush Gupta It depends on the outlook. If it is for declining rates, then you will have to make the tradeoff to lock in rates, but if it is for steady or rising rates, you will not have to. We take a view every month whether to add duration at current levels or not. The view is not carved in stone.

Chng Sok Hui We have been quite sensible. When rates were on the way up, our sensitivity was $18 million to $20 million per basis point, and then on the way down it was $4 million. The monthly process at the group ALM committee aligns everybody on how we want to take interest rate risk. It is a dynamic read.

Piyush Gupta The average duration is not very long, about three years in the belly of the curve.

Chng Sok Hui Which is why for the $55 billion that is maturing in 2025, if rates end up higher than previously expected, there is room to get a further yield lift.

Nick Lord (Morgan Stanley) A couple of questions. First, where might the 4-5% loan growth next year come from. It seems like quite a big recovery compared to this year. Second, how does the global minimum tax rate of 15% affect you?

Piyush Gupta The loan growth projection is not a dramatic increase. We are up 2% so far this year and we could wind up at 3% by year-end. If rates come off, even if it is less than the expected two percentage points, there will be some pick-up in demand. We are seeing reasonably healthy pipelines across both geographies and sectors.

Tan Su Shan We actually had quite a lot of new loan drawdowns this year. However, repayments also came in quite strongly in the second and third quarters, although they seem to be petering out now. Our pipeline is strong. There is a return of leveraged buyouts, and there is organic growth in Asia for data centers, semiconductor supply chains, food and agriculture, and healthcare.

Piyush Gupta Property continues to be an area of growth. A lot of it is deal specific but there also are consolidations.

Tan Su Shan Recovery in the REIT market will be helpful. The structural pipeline is good and I am constructive for next year's outlook.

Chng Sok Hui As you can see in our Singapore segment disclosure, the tax rate is below 15%. The other locations are above 15%. Singapore is the country where we will be facing this minimum tax rate issue because of dispensations we get today on, for example, bond derivatives trading. The increased tax we will be paying next year is around $400 million.

Nick Lord For oil and gas recoveries, is there a lot more still to come?

Piyush Gupta We recovered $130 million in NPL and SP of $80 million this quarter. We could do more as we have been able to sell collateral.

Akash Rawat (UBS) On the buybacks, Piyush, you mentioned that other companies do it in two or three years. Is that the timeframe you are setting for yourself?

Piyush Gupta It goes back to this – we want to do it on weakness, so it depends on how tomorrow is. If Trump comes in and imposes massive tariffs across Asia, I can tell you we will have a buying opportunity.

Akash Rawat And the 24-cent ordinary dividend annual step-up that you announced in the past. How long is that for?

Piyush Gupta We said it was for the medium term, which could be three to five years. That was about 12-18 months ago.

Akash Rawat And in terms of the NIM sensitivity, which is lower at the moment because of the fixed-rate hedges that you have.

Piyush Gupta The fixed-rate hedges only account for one-third of the decline in rate sensitivity. The bigger reason is the switch from Casa to fixed deposits, which lock in rates and reduce the sensitivity.

Akash Rawat I think as you were saying, Casa is back, so the sensitivity will go back up.

Piyush Gupta Our current projection is that the NIM sensitivity at end of next year could move closer to $6 million per basis point of interest rate change because the asset repricing will have a bit of a headwind and some Casa will start coming back. Right now, it is $4 million.

Akash Rawat On the transition and continuity, I believe investors are wondering if Chairman Peter Seah's contract is also part of that continuity?

Piyush Gupta There is no contract for either him or me. In planning the transition, we just made sure that we do not both walk away at the same time.

Akash Rawat What about one year later?

Piyush Gupta He is going to be around.

Akash Rawat That is very good to hear. Su Shan, you are inheriting the bank at its peak profitability. Even if we assume ten rate cuts, we could get a 16-17% ROE. I think there is bound to be a lot of competition from existing players or new ones. How do you think about that?

Tan Su Shan I still see growth opportunities. The key message is to continue growing, delivering, executing, performing. It has worked for us to be very focused on these things. We have built a great base and we are not going to change course suddenly.

Singapore and Hong Kong are our core connectivity markets. We have got wealth management and trade growing in these two hubs. In the growth markets – India, Indonesia, China – there will be years where some do better than others, and we are well positioned to toggle between them. In Taiwan, the Citi acquisition is highly earnings accretive and we are seeing further upside there.

The growth in connectivity is from a lot of inbound traffic – intra-regional, China coming to Asean. That trade growth is up 30-odd percent. We will continue to double down on that.

Wealth management is another high growth and ROE business where there is more to be done – new customers onboarded, new product relationships with existing customers. A lot of new RMs are settling in and productivity is kicking in.

There are growth opportunities with high ROE around financial institutions. When we started the business, revenues were $500 million, then $800 million, then $1.3 billion. There are pathways to go to $2 billion. Low-value cross-border payments is another high-ROE business with good growth.

And then the commitment to continue with technology transformation – digital adoption, AI models, now generative AI – for productivity gains. Models work better if you continue at it so we will stay ahead with that.

To put it together – there is the underbelly of strong growth, focusing on where the growth is, toggling between markets as some are higher growth, discipline on costs, focusing on high ROE delivery.

Akash Rawat How keen are you on Malaysia or Indonesia, where DBS is not that big?

Tan Su Shan If you are asking about M&A, we have always been consistent. Number one, is it is in our existing markets. Two, is it a business we know how to integrate and operate. Three, whether there are synergies and is it consistent with our strategy. If it ticks all three boxes, we will look at it. Specifically on Malaysia – it is close to our Singapore hub, but it depends on things like government approvals and regulatory issues.

Melissa Kuang (Goldman Sachs) I have two follow-up questions. First, does the change in NIM sensitivity from $4 million to $6 million per basis point take into account the roll-off of the hedges?

Piyush Gupta It depends on our view of rates. The $190 billion of fixed-rate assets we have, which is 36% of the commercial book, consist of three things: fixed-rate loans such as mortgages, the duration overlay portfolio such as bonds, and hedges we put on. All three are subject to our view of the markets. If we have a view that rates are going to rise and it is better to let the balance sheet float, then we will not replace them when they mature.

Melissa Kuang You said that Casa has been coming back, but the spread between Casa and FD rates is still quite decent. In a high-rate environment it will remain so. Do you think Casa will continue to come back when the spread is still quite decent?

Piyush Gupta Your guess is as good as mine. Historically, 3% is a tipping point. When rates start coming below 3%, people are less sensitive to the spread and so you expect a lot more to come back from fixed deposits to Casa. Has consumer behavior changed today? Maybe. I think it is instructive that as T-bill rates have come down to 3%, the outflow to T-bills has declined by half, so I think that the consumer psychology still plays. It could change at the margin and I cannot predict how much Casa will come back. But generally, it is helpful for us. Obviously, it changes the sensitivity, but it improves our interest income massively.

Melissa Kuang You said the annual 24-cent dividend step-up is going to go on. Is there any payout ratio limit? Is it 70%?

Piyush Gupta We have never guided to a payout ratio but it is not a bad assumption that it will probably get up to that level.

Melissa Kuang If I could squeeze one last question for Su Shan. Is there a division or segment that you want might to get a bit more out of?

Tan Su Shan India has been the best-performing market for our corporate bank due to our early investments in technology and the deepening of corporate relationships. The consumer bank still needs some work. India is a great growth market and we are very committed.

Piyush Gupta We would consider a bolt-on if we can find the right deal, but it is not straightforward because the sizes are too big and might not suit us. Even doing the LVB deal was not easy with 500 branches. Right now, we are trying to make sure we sweat what we bought. Only 300 of the 500 LVB branches are profitable; 100 will not be because they are semi-rural and the idea is just to get them to break even.

Andrea Choong (CGS) Two questions from me. First, will the potential GP write-backs you mentioned depend on model improvements or from your own portfolio in terms of PD, LGD? How large could it be?

Piyush Gupta We do not tamper with the model, so the question is the $2.3 billion of overlays we have, which are sort of judgmental. We link them to macroeconomic variables, our assessment of downside scenarios and the probability of these scenarios. If the assessment changes or the probability changes, then we could release GP.

Most of the big banks that built up GP during Covid have released a lot of it. We have not released anything. Frankly, we are coming under some scrutiny from our auditors who are saying we have too much GP, but we will see whether it might still be sensible to keep some money in the hip pocket with the uncertainty of Trump's policies.

Chng Sok Hui The other thing I will point out is that we put substantial GP for watchlist cases, so when they move to NPL, the GP is released, partially offsetting SP.

Andrea Choong With the recovery in the oil and gas sector, is the bank more positive on giving new loans to it, or has the stance not changed?

Piyush Gupta The big write-offs we took in the oil and gas sector were to the mid-caps in Singapore. We were over-exposed in the category. I do not think we are going to change the stance. Outside of that, there is no issue with the larger players. It is just that it is not a big sector for us other than the trading companies.

Jayden Vantakaris (Macquarie) Some follow-up questions. On wealth management, the performance was excellent even if you strip out Taiwan. You mentioned during the media briefing that the proportion of investments to total AUM is now 56%. How high do you think it could get to? Are there any peer benchmarks you look at and push the RMs to achieve?

Piyush Gupta Fifty-six percent is already a record for us. The private bank is closer to 70% and the affluent 30%, giving the average of 56%. In the affluent business, there will be some pick-up with our digital tools – financial planning, digital portfolio – but I do not see it getting up to 50%. I think it will probably stay in the high-30%. If you look at the blue-blood private banks, the ratio can get up to 75-80%, so I think there is more headroom in those segments.

Jayden Vantakaris Is it fair to say then that because most of the growth in fees has come from the conversion from cash to investments, the growth in fees is largely done?

Piyush Gupta No. Net new money has growing at $6 billion a quarter for the past three years. We added 120 RMs in the past year and many have not hit productivity targets yet. We are in in the high-60% in the upper two segments. If we can drive it to 75-80%, there is still a lot more room.

Jayden Vantakaris On M&A, this is the first time you have openly discussed Malaysia. It would be different from past acquisitions because it would not be bolt-on but an integration of a new business. How much appetite is there to do something like that? What would be the preconditions before you moved into that market? Is it political or just finding the right franchise?

Piyush Gupta If you go back some years, not in recent times, I talked about three-and-a-half franchises. The half was Malaysia. The problem of Malaysia is not lack of interest but government-to-government agreement. The Malaysians have always said there are already two big Singapore banks over there, why do we need a third one? With the current administration, there might be a bit more flexibility. That is the only reason we are happy to talk about it again. But even so, we would have to find something that makes sense to us.

Tan Yong Hong (Citi) Two questions for me. First, what are the drivers of the commercial bank non-interest income and how should we think about it from here. Second, on strategy, Su Shan mentioned the connectivity and outbound Greater China business. How can we quantify it in terms of P&L, loans growth and geographic exposure? Also, have you done any stress tests on potential tariffs on China?

Chng Sok Hui We created the commercial book non-interest income view to differentiate it from the more volatile markets trading. Commercial book non-interest income is more stable with a large component from treasury customer sales, some of which we cannot put under fee income under accounting rules because the products are manufactured internally. The non-interest income chart we show should give you more comfort about the commercial book component.

Tan Su Shan On connectivity, we have done a lot of work to create industry expertise in renewables, project finance, syndicated loans, structuring, financial advice in TMT, EV, nickel mining, and so on. We have created a name for ourselves as the go-to bank for such deals. We have set targets for each industry to see what the connectivity dollars are and whether they are growing, so every country and industry has its outbound and inbound targets.

We have seen opportunities in TMT, renewables, and China plus one because Chinese supply chains have moved to Asean. As long as we are embedded in the customer, we know their flows and can advise and structure, and get the fees. It keeps recurring income steady. I see it continuing to grow because intra-regional trade continues to grow.

The connectivity is also outside-in because western MNCs want to come to Asia. They might want to go to India but set up a regional trading hub in Singapore, so our growth is linked to Singapore's growth as a connectivity hub. Another opportunity is the pipeline between Asia and the Middle East, which has seen a lot more trade flows. We know the clients going there and we can help.

We have done stress tests from oil prices to inflation to tariffs. Many of the Chinese companies that we bank have de-risked from the US. They have had the past four or five years since the first Trump administration to adjust their exports. If anything, we are helping them make the pivot. So even as we have stress tested, a lot of our existing positions are not quite geared towards that pipeline.

Piyush Gupta The bigger vulnerability, which is hard to stress test, is regulatory change, for example, in the sanctions regime or a doubling down of technology restrictions. Semiconductors is the classic case. It is not easy to stress test that. But the macroeconomic variables are stress-tested every quite often.

Weldon Sng (HSBC) I have two questions. On the high single-digit growth in non-interest income next year, does it assume some type of market sentiment for wealth management? What is the proportion of trailer fees so that you still get fees if there are no transactions? On markets trading, does the quarterly income run-rate guidance of $250 million include the negative part of net interest income?

Piyush Gupta We have been increasing the annuity component of the wealth fees, such as trailer fees and discretionary portfolio fees, but it is still only about 15% of the total. More than 80% is still transactional and dependent on market sentiment. If markets collapse and it is risk-off, it will have an impact on the guidance.

Tan Su Shan Asean high net worth clients like to trade, but we have been shifting to more annuity and discretionary flows as wealth is transferred to the next generation. I think that as family offices get set up, and people become more familiar with diversification and risk volatility, there is more discipline in wealth is managed. There is a strategic asset allocation bucket to funds that have steadier returns and a trading bucket that is more tactical. We are seeing sophistication levels rise and we are building the platform to meet the change in appetite.

Akash Rawat Piyush, you gave us the investment percentage in the three segments of wealth management. Is it possible to start sharing like the information in a more structured manner, such as the revenue contribution, AUM and profitability if each segment? Wealth management is becoming such an important part of the business, and investors might find it useful to kind of value it separately.

Piyush Gupta I am wary of doing that for competitive reasons. We will give it some thought but I do not know of any other private bank or wealth management that gives that data. I am not inclined to be the first to start disclosing it if nobody else wants to.

Tan Su Shan Does UBS do it?

Akash Rawat I do not think they do. I think Switzerland for UBS retail Bank is separate from the wealth management.

Piyush Gupta Our three segments operate at a cost-income ratio of 48-49%, so there is no efficiency difference between them while other private banks high 60%. We run a very efficient private banking business.

Harsh Modi Housekeeping questions on non-interest income and cost. With rates moving higher now, how do we think about the sustainability of some of the markets income? What are the gains on FVOCI and can they be reversed with the recent increase in bond yields?

Piyush Gupta We still have not clawed back all the FVOCI we gave up in the past year or two. We are still negative about $1 billion from a peak of negative $3 billion to $4 billion.

Harsh Modi Quarterly card fees seem to be stabilising around $300 million. Should we assume the significant growth is largely over and activity is normalising?

Piyush Gupta No. I think 5-7% growth is reasonable for card spend and income. Net card fee income might grow in the double digits as rewards are managed. The slow growth this quarter is deliberate because delinquencies have been picking up around the region.

Harsh Modi The cost-income guidance of 40% for next year is a bit higher than this year.

Piyush Gupta It has to be because income is not going to go up as much as this year because we are assuming a loss of $500 million or so of net interest income from eight rate cuts by the end of next year. We have to cover up the loss through loan growth and non-interest income. Su Shan is going to bring it down expense growth to 5%. Even so, it will end up with a higher cost-income ratio. The increase is due more to income than cost.

Nicholas Teh Since there are no more questions we can call it a close. Thank you all.