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Nov 11, 2010

\$500m share issue for retail investors

DBS preference shares to pay 4.7% a year for 10 years

By Gabriel Chen

RETAIL investors looking for a product yielding far more than bank deposits have a new option to consider.

Singapore's largest bank, DBS, has taken the wraps off a \$500 million preference share issue that qualifies for Tier 1 capital to small investors.

The launch today is the largest retail offering ever made in Singapore and dwarfs OCBC's \$250 million preference share issue for retail investors unveiled in 2008.

DBS has the option to further increase the offer to as much as \$800 million.

The shares, which operate in a similar manner to bonds, pay an attractive dividend of 4.7 per cent a year for 10 years - well above the 0.125 per cent interest that a saver currently gets on a POSB savings account.

The offer follows DBS selling \$1.7 billion worth of preference shares last month to institutional investors. And the retail tranche should prove just as popular, judging from the voracious appetite of institutional investors.

DBS had indicated that demand from institutional investors was so hot for its earlier offering that it could have sold in excess of \$2.5 billion in preference shares.

Unlike the first tranche, where the minimum investment size was \$250,000, retail investors need only buy a minimum subscription of \$10,000. And they will be sold in units of \$100 each and traded on the Singapore Exchange.

The retail tranche shares can be purchased at the three local banks' ATMs from 9am today to noon next Thursday.

DBS' move signals a concerted effort to cater to the needs of the small investor market.

'We want to minimise disappointment from investors,' said Mr Clifford Lee, DBS' head of fixed income. 'It's also an effort on our part to deepen the retail bond market here.'

When the bank issued its preference shares in 2008, there was no retail offering, and the omission prompted sharp criticism from retail investors wanting a bite of the cherry.

At the time, DBS chairman Koh Boon Hwee noted that 'we made a decision to keep it to only institutional customers because we were concerned that the product may not be suitable for retail'.

Retail investors who spoke to The Straits Times said they were keen to apply.

'Look, it's 4.7 per cent. It beats bank deposits,' said Mr George Koh, a 35-year old retail investor.

Proceeds from DBS' share offering will replace \$2.2 billion worth of Tier 1 instruments issued in 2001 that can be redeemed next year.

They will also be used to strengthen the bank's capital base and support its growth initiatives, DBS said yesterday.

Kim Eng analyst James Koh noted, however, that, in relation to the possibility of acquisitions, 'there is, of course, always a possibility, but the amount raised here is probably not sufficient for such a move'.

While preference shares yield more than deposits, money experts point out that they are not risk-free and come with potential pitfalls.

'One big difference between a preference share and a bond is that the dividends from preference shares are generally not guaranteed, unless otherwise explicitly stated,' said Mr David Mok, IPP Financial Advisers' head of fund management.

'Investors need to also understand that the price of the preference share will fluctuate according to prevailing interest rates and market conditions.'

Also, in the very remote likelihood of DBS crashing, holders of preference shares will be among the last to get paid.

In terms of payment priority, preference shares rank above ordinary shares, but below bank deposits, interbank borrowings and other creditors, including holders of subordinated debt.

Fitch has assigned an 'A' rating to DBS' preference shares.

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