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S'pore banks had record year in 2024 – here's what could drive further growth in 2025

Shares of Singapore's three local banks shares hit all-time highs in December. ST PHOTO: CHONG JUN LIANG

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SINGAPORE – Shares of Singapore's three local banks enjoyed a record-breaking year in 2024, but there could still be room for growth in 2025, with share buybacks on the cards and wealth-management operations going from strength to strength, analysts said.

DBS, OCBC and UOB shares hit all-time highs in December, thanks to higher wealth-management fee income, strong trading income and management's updates on capital management, analysts noted.

DBS rose the most in 2024, racking up gains of around 44 per cent since January. The stock hit an all-time high of $44.95 on Dec 5.

OCBC hit a record of $17 on Dec 16, and is up by some 28 per cent in the year to date. UOB, meanwhile, hit an all-time high of $37.42 on Dec 13. Its shares are up by 27 per cent in 2024.

Despite trading at their current lofty levels, some analysts said the banks' shares have room to appreciate further in 2025.

"We remain bullish on the sector's long-term prospects, given the strong commitment to capital return and resilient return on equity (ROE)," Jefferies analysts noted on Dec 3, citing the positive results logged by the three banks during the third quarter ended Sept 30.

ROE shows how effectively a company is using its equity base to generate profits.

The three banks announced record profits in the quarter ended Sept 30, with DBS growing its earnings by 15 per cent to $3.03 billion, compared with the same quarter in 2023.

Over the same period, UOB's net profit rose 16 per cent to $1.61 billion, while OCBC's net profit was up 9 per cent to $1.97 billion.

Dividend payouts to shareholders have risen as a result.

For the third quarter, DBS paid 54 cents per share in dividends, unchanged from the first and second quarters of the year and representing an annual yield of around 5 per cent at the current level.

In 2023, DBS paid dividends ranging from 38 cents to 49 cents per share in each quarter.

While UOB and OCBC pay out dividends semi-annually, the two banks have also delivered higher yields in 2024.

OCBC made a dividend payout of 44 cents per share for the first half of 2024, compared with 40 cents and 42 cents per share a year ago, representing a more than 5 per cent annual yield.

UOB declared 88 cents per share for the period, up from 85 cents per share paid in the first and second half a year ago, delivering close to 4.8 per cent yield.

The three banks' highly competitive dividend payouts "continue to cater to income investors seeking yield", said Mr Geoff Howie, market strategist at Singapore Exchange.

For further share price gains in 2025, however, several targets must first be met, noted Mr Michael Makdad, an analyst at financial services firm Morningstar.

"We would need to see more upside surprises in shareholder returns, wealth-management growth, and/or the global interest rate cycle shifting again," he said.

Commitment to capital management

One factor that could enhance the appeal of the shares is how effectively the banks manage their excess capital in the coming year.

During its third-quarter earnings conference in November, DBS announced the launch of a $3 billion share buyback programme, with stocks to be purchased in the open market and cancelled.

It commenced the buyback programme on Nov 28. As at Dec 16, DBS had purchased 4.05 million shares at an average price of $43.56. Based on OCBC analysts' calculations, DBS can buy the balance of 47.5 million shares under the buyback programme at a maximum price of $59 per share.

UOB also said it would explore share buybacks or paying out more dividends to manage excess capital, although no decision has been made.

"There is a potential catalyst for UOB shares in coming months if it were to announce a share buyback as DBS recently did," said Mr Makdad.

He added that UOB's capital levels afford room for additional shareholder distributions, and sees further share price upside to the stock.

OCBC, meanwhile, said it prefers to pay dividends over share buybacks to return capital to shareholders.

Momentum in wealth management

DBS, UOB and OCBC could continue to see momentum in the wealth-management business in 2025, analysts said.

Increased fee income from wealth management was among the main drivers of the banks' strong performance in the third quarter.

Ms Tan Su Shan, deputy chief executive and group head of institutional banking at DBS, said during the bank's earnings conference that wealth management was a growth opportunity and high-ROE business.

"There's still more to be done," she said.

UOB's chief executive officer Wee Ee Cheong noted at the bank's earnings conference that its $5 billion acquisition of Citigroup's South-east Asia consumer banking businesses in Indonesia, Malaysia, Thailand and Vietnam in 2022 has started to contribute to the bank's performance.

"Following the US Fed rate cut in September, we see positive consumer sentiment in Asean markets. Our card and wealth fees continue to grow double digit year on year for the first nine months. Synergies from our Citi acquisition have kicked in."

Fewer interest rate cuts

The banks may be able to benefit from movements in US interest rates, which could fall at a slower pace than previously anticipated.

While it cut interest rates by a quarter of a percentage point to a target of 4.25 per cent to 4.5 per cent on Dec 18, the US Federal Reserve signalled a slower pace of rate cuts ahead as inflation remains elevated.

Fed officials now project just two quarter-percentage-point rate cuts in 2025, down from an original forecast of four quarter-percentage-point cuts.

This could help shore up the banks' net interest income, resulting in higher net interest margins and profitability.

Morningstar's Mr Makdad said: "The Fed's relatively hawkish stance could mean that net interest margins for Singapore banks would narrow less next year than the market expects, which could be positive for the banks' share prices."

A hawkish monetary policy focuses on keeping inflation in check and may involve higher interest rates.

Mr Pramod Shenoi from CreditSights noted that with higher-for-longer rates, he expects limited margin declines, although this could be offset by slower loan growth.