

## STRATEGY – SINGAPORE

### 2025 Budget

#### A Broad-Based Budget For All

While sounding a word of caution for medium-term government revenues, Prime Minister Wong delivered a budget that continued to defray the pain of inflation with an eye toward clean energy, climate change and helping lower-income households. No new equities market proposals were announced, which may disappoint investors in the short term. Our top picks are BAL, CD, KEP, OCBC, STE, STM, SCI, ST, VMS and YZJSGD.

• **Budget 2025.** Singapore's Prime Minister (PM) and Minister of Finance, Mr Lawrence Wong delivered the 2025 Budget on 18 Feb 25. Key highlights from his speech include:

- Growth at a reasonable pace.** Although Singapore's economy expanded by a better-than-expected rate of 4.4% in 2024, PM Wong cautioned that there remains 'considerable uncertainty' about its revenues in the coming years. In 2025, the Singapore government expects growth to moderate with GDP growth forecast to be between 1.0-3.0% while inflation is expected to range between 1.5-2.5%. In the longer term, it stated that it will aim for 2.0-3.0% GDP growth p.a. over the next decade.
  - Defraying rising costs.** In its continued strategy of targeted assistance for those impacted by the pain of inflation, Singaporean citizens will receive: a) S\$800 Community Development Council (CDC) vouchers (2024: S\$300) with half to be spent in supermarkets and the other half at authorised merchants, b) a doubling of utility rebates which would cover around six months of utility costs for the lowest income households, c) various LifeSG credits to defray household expenses, and d) higher allowances for some pensioners.
  - Climate change worries.** To meet Singapore's growing energy needs and to bring down carbon emissions, Mr Wong stated that the government will build up capabilities in this area and study the potential adoption of nuclear power via small modular reactors. As a result, it will top up the Future Energy Fund by S\$5b. In addition, it will top up the Coastal and Flood Protection Fund by \$5b for the construction of sea walls/barrages, tidal gates and land reclamation (eg the development of Long Island in the southeastern part of Singapore which will include new homes and parks)
  - Focusing on clean heavy vehicles.** To accelerate the adoption of clean heavy vehicles, the government will introduce a new Heavy Vehicle Zero Emissions Scheme and an Electric Heavy Vehicle Charger Grant. These schemes will give incentives for the purchase of heavy vehicles and co-funding for charging infrastructure.
  - Stock market review – no new developments.** During his speech, PM Wong stated that a S\$1b private credit growth fund would be set up to provide financing options for high-growth local enterprises. In addition, he mentioned that the Monetary Authority of Singapore's (MAS) equities market review group had proposed tax incentives to attract enterprises and fund managers to list on the SGX. This announcement on 13 February was an anaemic measure, in our view, and the market may be disappointed with the lack of new and material measures within the budget speech. We look forward to more substantial and meaningful proposals in the coming months.
- **Strong growth in government revenues.** PM Wong stated that corporate income taxes contributed S\$30.9b in revenues in 2024, a number that was a hefty 10.2% higher than estimates. Historically, corporate income taxes made up around 3.2% of GDP; however this rose to 4.1% in 2024 which he attributed to the finance and wholesale trade sectors, with multinational corporations attracted to Singapore's politically and financially stable and reliable system. Notably, Singapore companies will receive a 50% corporate tax rebate for 2025, capped at S\$40,000.
  - **In 2024, Singapore saw a budget surplus of S\$6.4b** (or 0.9% of GDP) which PM Wong attributed to strong corporate income tax receipts. In 2025, the budget will remain expansionary, with total expenditure projected at S\$123.8b (+9.6% yoy) and an overall budget surplus of S\$6.8b or 0.9% of GDP.

#### FOCUS STOCKS

Company	Rec	Price (S\$)	
		18 Feb	Target
Bumitama	BUY	0.83	0.95
ComfortDelGro	BUY	1.36	1.77
Keppel	BUY	6.80	9.25
O C B C	BUY	17.76	20.80
ST Engineering	BUY	5.11	4.95
Seatrium	BUY	2.56	2.80
Sembcorp Ind	BUY	5.52	7.47
SingTel	BUY	3.33	3.58
Venture Corp	BUY	12.95	15.55
YZJ Shipbldg	BUY	3.13	3.60
<u>Small/mid-caps</u>			
Centurion	BUY	1.05	1.11
CSE Global	BUY	0.47	0.59
Marco Polo Marine	BUY	0.053	0.072
Sheng Siong	BUY	1.66	1.93
Valuetronics	BUY	0.64	0.78

Source: UOB Kay Hian

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## SECTOR IMPACT

### AVIATION (MARKET WEIGHT – unchanged)

- **A very long-term view.** While the Changi Airport Terminal 5 (T5, development starting in the next few months) is expected to expand Changi Airport's overall passenger capacity by over 50% and strengthen Singapore's aviation hub status, the positive impact on SATS is not within our investment horizon since T5 will only be fully operational in the mid-2030s.
- **SATS was featured** as one of the beneficiaries from the NTUC Company Training Committee (CTC) grant, which can co-fund up to 70% of job redesign and staff training costs. We note that the news of SATS enrolling in this programme first came out in Aug 24. While the availability of the grant would allow SATS to enhance career progression for its Singapore workforce without incurring much additional costs, the actual net savings from the grant could be S\$2m-4m by our estimates and likely one-off in nature. As such, we see immaterial impact to our current earnings projection for SATS.

### CONSUMER (MARKET WEIGHT – unchanged)

- **Government vouchers to ease cost of living and celebrate SG60.** All households will receive S\$800 in Community Development Council (CDC) vouchers to defray the higher cost of living. The first S\$500 will be distributed on May 25, with the remaining S\$300 to follow in Jan 26. To celebrate Singapore's 60th anniversary, adult Singaporeans will also receive SG60 vouchers. Singaporeans aged 21-59 will receive S\$600, while those aged 60 and above will receive S\$800. These vouchers, which will be distributed in Jul 25, can be used in the same manner as CDC vouchers.
- **Local retailers to benefit, albeit marginally, from consumer spending boost.** Half of the vouchers can be used at participating supermarket operators such as Sheng Siong (SSG SP/BUY/Target: S\$1.93) which has a more pronounced presence in the mass market areas compared to DFI Retail Group (DFI SP/BUY/Target: S\$2.57). The other half of the vouchers can be used at heartland merchants and hawkers, including coffeshop operators like Kimly (KMLY SP/HOLD/Fair value: S\$0.34). We do not expect significant revenue growth as they essentially function as an alternative payment method to cash for groceries and essential items.

### CONSTRUCTION (OVERWEIGHT - unchanged)

- **Spending on housing, Changi T5 and redevelopment of hawker centres.** In mid-Jan 25, the Housing Development Board announced that it will launch more than 50,000 new Build-to-Order (BTO) flats across 2025-27. PM Wong highlighted that the government recognises the need to meet housing demand and will continue to increase the supply of new flats in the near to medium term. In addition, there may be some trickle-down effect from government topping up the T5 development fund by S\$5b, as well as the projected spending of S\$1b to redevelop the country's aging hawker centres.
- **Stocks involved in the construction supply chain** of construction, materials and workers' accommodation are likely to see business growth from rising demand, in our view. These include: a) construction material providers like BRC Asia, Pan United and Hong Leong Asia, Tai Sing Electric, b) crane operators like Tiong Woon Corp, c) construction and refurbishment players like ISOTeam, and d) dormitory operators like Centurion and Wee Hur.

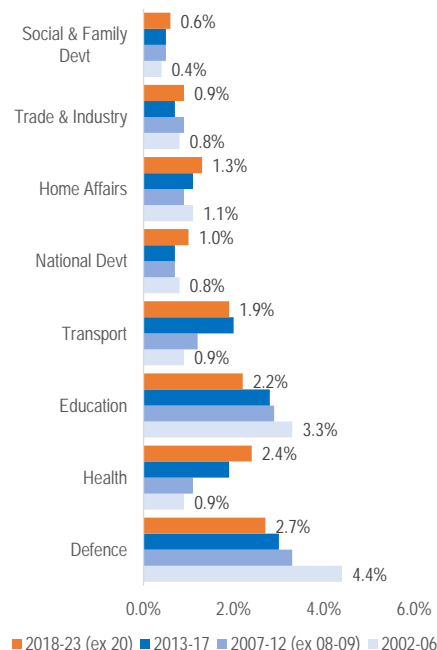
### S-REITS (OVERWEIGHT – unchanged)

- **The disbursement of CDC and SG60 vouchers and LifeSG credits would boost consumer spending, especially in the heartlands.** The U-Save and personal income tax rebates would increase disposable income, especially for lower-income households. Suburban malls are beneficiaries of the boost to consumption. BUY Capitaland Integrated Commercial Trust (CICT SP/Target: S\$2.37), Frasers Centrepoint Trust (FCT SP/Target: S\$2.63) and Lendlease Global Commercial REIT (LREIT SP/Target: S\$0.72).

## CONCLUSION

- **Budget 2025 to have limited impact on listed companies...** As with previous years, we expect the Singapore Budget to have a relatively minimal impact on Singapore-listed

## AVERAGE TOTAL EXPENDITURE BY MINISTRY (% of nominal GDP)



Source: Macrobond, UOB Global Economics & Market Research

## US TRADE MEASURES ANNOUNCED TO DATE

Date	Tariff Measures
4 Feb 25	US imposes 10% tariff on >US\$400b Chinese goods while 25% on Mexico and Canada (energy resources from Canada at 10% tariff) receives 30-day delay with a decision due on 4 March.
10 Feb 25	China imposes retaliatory tariffs on US\$14b-20b worth of American products (10-14% of US exports to China) including coal and LNG (15%) and crude oil, agricultural machinery and large-engine cars (10%). This is significantly lower in magnitude and do not include strategic items.
12 Mar 25	US to reinstate the full 25% tariff on steel imports and increase tariffs on aluminium imports to 25%, accounting for US\$49b or 1.5% of its imports.
1 Apr 25	US to announce reciprocal tariffs on trading partners with Brazil, India and EU being flagged.
	US to announce new tariffs on automobiles.
	Recommendations under "America First Trade Policy" due for announcement

Source: UOB Kay Hian

companies. As in prior years, Budget 2025 was very much focused on supporting lower- and middle-income households struggling under the weight of inflation, assisting larger families cope with the costs of raising children, enhancing the lifelong employability of Singaporeans and defraying the healthcare costs of senior citizens, amongst others.

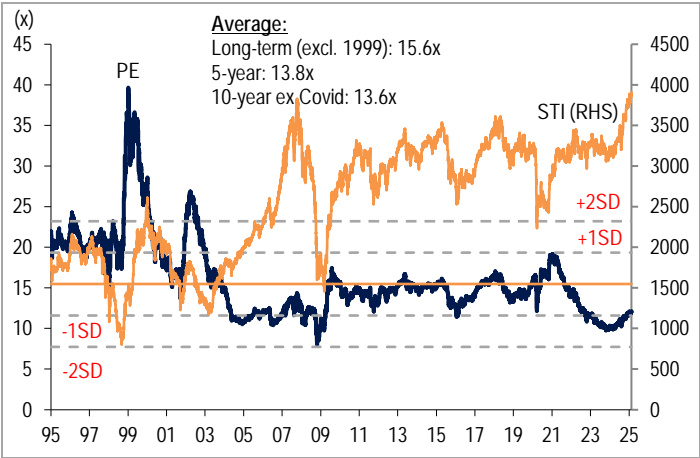
- **...with perhaps the clear beneficiary being the construction sector.** As noted in the construction sector comments, its outlook appears strong given continued robust public housing demand coupled with large capex projects (eg Changi T5, redevelopment of hawker centres and the development of coastal defences). In addition, we note that the Building and Construction Authority's (BCA) construction demand forecast for 2025 is for spending of between S\$47b-53b with 64:56 split between the public and private sector. In the medium term (2026-29), the BCA projects annual average demand at between S\$39b-46b per year, supported by ongoing infrastructure projects and a steady pipeline of public housing.
- **Trade escalation could have a larger impact on global economies including Asia-ex China** this time round. Trump has announced tariffs including direct tariffs, steel and aluminium tariffs 2.0 and reciprocal tariffs. Additional tariffs were also flagged for automobile products, pharmaceuticals and semis, which could potentially have a larger impact on most Asian economies.
- **Our top large-cap picks** are Bumitama Agri, ComfortDelGro Corp, Keppel Ltd, Oversea-Chinese Banking Corp, Singapore Technologies Engineering, Seatrium, Sembcorp Industries, Singapore Telecommunications, Venture Corp and Yangzijiang Shipbuilding. Small/mid-cap stocks that we like include Centurion, CSE Global, Marco Polo Marine, Sheng Siong and Valuetronics Holdings. Ytd this portfolio has outperformed on a price-weighted basis, up 4.1% on aggregate vs the STI's 3.8% increase.
- **We forecast the STI to reach 4,115 by end-25** using an aggregate of both top-down and bottom-up methodology, implying about 10% upside from current levels. Our 2025 STI target is based on 1.2% earnings growth and implies a PE multiple of 12.9x which we do not view as stretched for a Singapore market that is long on quality defensive names. This PE multiple is a 17% discount to the index's long-term average. In our view, the index appears inexpensive, trading at a 2025F PE of 12.0x with a dividend yield of 5.2% and delivering an ROE of 10.8%.

#### STOCK PICKS

Company	Ticker	Rec	Price (\$S)		Upside to TP (%)	PE (x)			2025F (%)		M.cap S\$m	P/B (x)
			18 Feb	Target		2023A	2024F	2025F	Yield	ROE		
Bumitama	BAL SP	BUY	0.83	0.95	14.5	6.7	8.3	7.8	5.1	14.5	1,439	1.3
ComfortDelGro	CD SP	BUY	1.36	1.77	30.1	16.3	14.0	12.4	6.0	8.8	2,946	1.1
Keppel	KEP SP	BUY	6.80	9.25	36.0	3.0	13.2	13.2	5.0	8.5	12,282	1.1
O C B C	OCBC SP	BUY	17.76	20.80	17.1	11.5	10.5	11.0	5.2	12.4	79,847	1.4
ST Engineering	STE SP	BUY	5.11	4.95	(3.1)	27.2	24.1	22.7	3.1	25.8	15,911	6.2
Seatrium	STM SP	BUY	2.56	2.80	9.4	n.a.	83.0	29.5	0.0	4.4	8,665	1.4
Sembcorp Ind	SCI SP	BUY	5.52	7.47	35.3	10.4	10.2	9.8	2.4	18.0	9,824	2.0
SingTel	ST SP	BUY	3.33	3.58	7.5	69.1	21.2	19.9	5.3	10.6	54,949	2.3
Venture Corp	VMS SP	BUY	12.95	15.55	20.1	14.0	15.3	14.2	5.8	9.2	3,742	1.3
YZJ ShipBldg SGD	YZJSGD SP	BUY	3.13	3.60	15.0	15.9	10.3	8.5	3.5	24.9	12,365	2.9
<b>Small/mid-caps</b>												
Centurian	CENT SP	BUY	1.05	1.11	5.7	5.8	9.1	9.0	2.9	9.9	883	0.9
CSE Global	CSE SP	BUY	0.47	0.59	26.9	12.7	14.3	10.7	5.9	11.6	328	1.3
MarcoPolo Marine	MPM SP	BUY	0.053	0.072	35.8	7.6	9.1	7.0	3.8	14.6	199	1.1
Sheng Siong	SSG SP	BUY	1.66	1.93	16.3	18.7	17.3	16.8	4.2	26.6	2,496	4.8
Valuetronics	VALUE SP	BUY	0.64	0.78	21.9	9.6	9.0	8.5	7.7	12.1	262	1.1

Source: UOB Kay Hian, Bloomberg

STI PE TRADING BAND VS STI



STI P/B TRADING BAND



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