

STRATEGY – SINGAPORE

Market Strategy

Opportunities Abound Despite Muted Earnings Growth In 2025

For 1H25, we believe that a number of stocks within our universe should deliver strong returns in the near to medium term, backed by sustainable dividend yields despite our modest below-consensus 1.2% EPS growth forecast for our covered STI stocks in 2025. We forecast a 2025 year-end target of 4,115 for the STI, implying a 10% upside from current levels. Our top picks are BAL, CD, KEP, MINT, OCBC, SCI, ST, STE, VMS and YZJSGD. For the small/mid caps, we like CENT, CSE, MPM, SSG and VALUE.

- Staying constructive for 1H25.** Despite our muted earnings outlook next year, we believe that the Straits Times Index (STI) can nevertheless witness a PE multiple expansion given the prevalence of blue-chip defensive stocks with strong cash flow generation and relatively high dividend yields. In addition, we point to our focus list of 10 large caps and five small/mid-cap stocks (see table on RHS) given the prevalence of quality, value and dividend stocks relative to its regional peers.
- Muted EPS growth for 2024.** We forecast a 1.2% EPS growth in 2025 for the index stocks while our broader coverage universe has an aggregate 0.5% EPS decline. Since 1H24 results, we have seen earnings downgrades come through in the heavyweight aviation, financials, REITs and telecommunications sectors which upgrades in the healthcare, land transport, plantation, industrials, technology and consumer sectors have not been able to offset. We highlight that for the STI component stocks, Bloomberg consensus forecasts 2.7% yoy EPS growth for 2025, while UOB Global Economics & Markets Research has forecast Singapore's 2025 GDP growth at 2.5% (2024: 3.5%).
- 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.
- Despite its 3Q rally, the STI remains inexpensive in our view,** trading at a forecast 2025 PE and P/B of 11.5x and 1.2x respectively and paying a yield of 5.3%. We highlight that these multiples are meaningful discounts to the STI's long-term averages and vs its regional peers.
- Our top large-cap picks** are Bumitama Agri, ComfortDelGro Corp, Keppel Ltd, Mapletree Industrial Trust, Oversea-Chinese Banking Corp, Singapore Technologies Engineering, 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.

Click [here](#) for Blue Top dated 09 Dec 24

PEER COMPARISON

Company	Ticker	Rec	Price (\$)		Upside to TP (%)	PE (x)		2025F (%)		M.cap \$m	P/B (x)	
			4 Dec	Target		2023	2024F	Yield	ROE			
Large-caps												
Bumitama	BAL SP	BUY	0.915	0.95	3.8	7.4	8.9	8.4	4.8	14.5	1,587	1.5
ComfortDelGro	CD SP	BUY	1.48	1.83	23.6	17.8	15.2	13.3	5.5	9.0	3,206	1.2
Keppel Corp	KEP SP	BUY	6.83	9.25	35.4	3.0	13.9	13.4	4.5	8.4	12,336	1.2
Mapletree Ind Tr	MINT SP	BUY	2.28	3.05	33.8	17.2	16.9	16.3	6.2	7.5	6,485	1.3
O C B C	OCBC SP	BUY	16.30	21.00	28.8	10.5	9.7	10.0	5.4	12.4	73,339	1.3
Sembcorp Ind	SCI SP	BUY	5.50	7.47	35.8	10.4	10.1	9.7	2.4	18.0	9,805	1.9
SingTel	ST SP	BUY	3.16	3.58	13.3	65.6	20.1	18.8	5.6	10.6	52,186	2.2
ST Engineering	STE SP	BUY	4.59	4.95	7.8	24.4	21.6	20.4	3.5	25.8	14,296	5.6
Venture Corp	VMS SP	BUY	13.07	15.55	19.0	14.1	15.5	14.3	5.7	9.2	3,780	1.3
YZJ ShipBldg	YZJSGD SP	BUY	2.58	3.60	39.5	13.1	8.5	7.0	4.2	24.9	10,193	2.4
Small/mid-caps												
Centurion	CENT SP	BUY	1.00	1.11	11.0	5.5	8.7	8.6	3.0	9.9	841	0.9
CSE Global	CSE SP	BUY	0.465	0.59	26.9	12.7	14.3	10.7	5.9	11.6	328	1.3
MarcoPolo Marine	MPM SP	BUY	0.054	0.072	33.3	7.7	9.3	7.8	3.7	13.2	203	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	0.63	0.78	23.8	9.5	8.8	8.3	7.8	12.1	258	1.1

Source: UOB Kay Hian

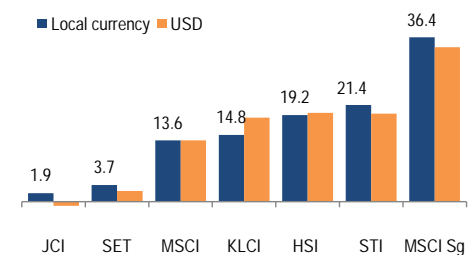
STI 2025 YEAR-END TARGET: 4,115

KEY FOCUS STOCKS

Company	Rec	Price (\$)	
		4 Dec	Target
Bumitama	BUY	0.915	0.95
ComfortDelGro	BUY	1.48	1.83
Keppel Ltd*	BUY	6.83	9.25
Mapletree Ind Tr*	BUY	2.28	3.05
OCBC*	BUY	16.30	21.00
Sembcorp Ind	BUY	5.50	7.47
SingTel	BUY	3.16	3.58
ST Engineering	BUY	4.59	4.95
Venture*	BUY	13.07	15.55
Yangzijiang S' bldg*	BUY	2.58	3.60
Small/mid-caps			
Centurion	BUY	1.00	1.11
CSE Global	BUY	0.465	0.59
Marco Polo Marine	BUY	0.054	0.072
Sheng Siong	BUY	1.66	1.93
Valuetronics	BUY	0.63	0.78

Note: * denotes stocks in the Straits Times Index
Source: Bloomberg, UOB Kay Hian

STI VS PEERS: YTD PERFORMANCE



Note: 2 Jan 24 to 4 Dec 24
Source: Bloomberg

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- **Our modest below-consensus 1.2% EPS growth forecast** for our covered STI stocks for 2025 belies the fact that there are a number of stocks within our universe that should deliver strong returns in the near to medium term, backed by strong cash flow and sustainable dividend yields. We forecast a 2025 year-end target of 4,115 for the STI, implying 12.9x PE and 10% upside from current levels. In our view, the index's current valuation appears inexpensive at 2025F PE and P/B of 11.5x and 1.2x respectively.
- **“Safer than houses”**. With a 21.4% total return in 2024 ytd, the Straits Times Index (STI) and the MSCI Singapore indices were the best performers in the Asia-Pacific region, helped by an aggregate 30% increase in the banks' share prices. That said, the STI underperformed the MSCI Singapore Index (up 36.4% ytd%) which was positively impacted by share price strength in Sea Ltd, and to a lesser extent Grab Holdings.
- **Outlook**. Despite our muted earnings forecast of 1.2% for the STI next year, we believe that it can nevertheless witness a PE multiple expansion given the prevalence of blue-chip defensive stocks with strong cash flow generation and relatively high dividend yields. This is exemplified by our focus list of 10 large caps and six small/mid-cap stocks.
- **Strategy for 1H25, and key focus sectors and stocks**. As always, we believe that investors should focus on stocks that have revenue certainty over the next 6-12 months and trade at reasonable valuations while being underpinned by decent yield protection (ie >5% dividend yield). Invariably, quality companies like those listed below have strong business resilience that should enable them to withstand an economic downturn and yet be well-placed to take advantage of a post-recession rebound. As a result, we believe that investors should focus on companies within the five broad “buckets” outlined below.

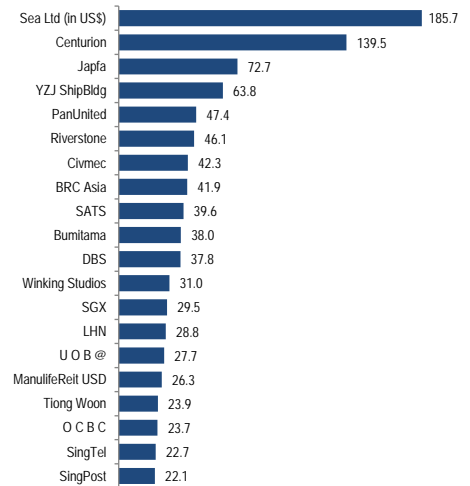
INVESTMENT THEMES FOR 2025

Revenue Certainty	All Cashed Up	Laggard Plays	Small-Mid Caps	Technology
DBS, OCBC Mapletree Ind Trust ST Engineering Sembcorp Industries SingTel Yangzijiang Shipbuilding	Genting Singapore Yangzijiang Shipbuilding SIA Venture	Lendlease REIT Venture Thai Beverage City Developments CapitaLand Invest	Centurion Marco Polo Marine Sheng Siong PropNex Riverstone	Sea Ltd Valuetronics Venture
These blue-chip companies generate healthy levels of cash flow that should continue even if Singapore tips into a recession in 2025, and underpin their dividend yields, thus potentially providing share price support on the downside.	Companies in this segment have high levels of net cash and thus are well placed to either distribute higher-than-expected levels of dividends to shareholders or protect themselves in the event of an economic downturn.	Underperformed due largely to the interest rate sensitive sectors that they are exposed to. In 2025, these stocks could outperform should consensus 100bps of US Fed rate cuts materialise. The exception is THBEV which has been negatively impacted by worse-than-expected resumption of tourism numbers.	These small-mid cap companies have distinct EPS growth drivers in 2025	Investment thesis based on sequential earnings recovery in 1H25 driven by a) upturn in the semiconductor capex cycle, b) strengthening demand for semiconductors in the high-performance computing (HPC) and memory segments, and c) offshoring trend into Asean

Source: UOB Kay Hian

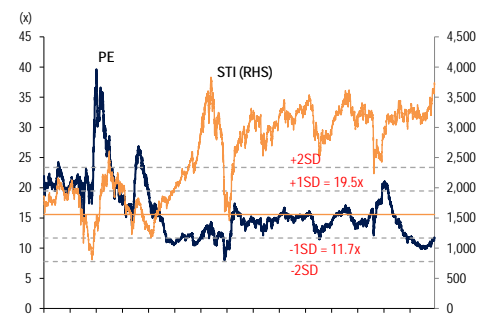
- **We forecast an aggregate 1.2% earnings growth in 2025** for the index stocks under our coverage, and a 0.5% decline for all Singapore stocks under our coverage. The key sectors that will contribute to the positive earnings growth in UOB Kay Hian's coverage universe for 2025 are the plantation, property, REITs, industrials, technology, telecommunications and “others” sectors. Note that for the plantation sector, the earnings growth will come from our forecast yoy increase in CPO prices in 2025 while the property sector's apparent earnings growth in 2025 will be due to depressed numbers in 2024 caused by impairments. Industrials, technology and telecommunications should continue to experience strong earnings growth on a yoy basis while the gaming segment will drive 2025 earnings growth within the “others” sector. We expect the large-cap finance and aviation sectors to be two key sectors that will degrade the positive earnings growth in 2025. Upside earnings surprise could come from lower-than-expected US interest rate cuts. We highlight that for the STI component stocks, Bloomberg consensus forecasts 2.7% yoy EPS growth for 2025.

20 BEST PERFORMING STOCKS YTD IN OUR UOBKH COVERAGE UNIVERSE



Source: Bloomberg

STI PE TRADING BAND



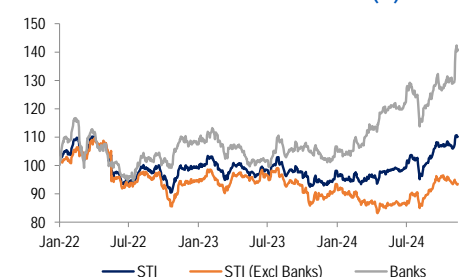
Source: Bloomberg

STI P/B TRADING BAND



Source: Bloomberg

STI VS STI EX-BANKS - JAN 22-24 YTD (%)



Index 100 = 3 Jan 22
Source: Bloomberg

CORE EPS GROWTH BY SECTOR (YOY % CHANGE)

	2022	2023	2024F	2025F	2026F
Aviation ¹	n.a.	24.4	(7.8)	(18.1)	8.0
Finance	19.3	22.6	5.7	(5.1)	4.1
Healthcare	71.4	(37.3)	(25.7)	9.6	9.5
Land Transport	5.1	27.2	18.5	20.4	10.7
Plantation	34.5	(34.7)	(18.4)	24.3	15.0
Property	10.0	(76.3)	86.6	11.3	8.2
REITs	2.1	(0.9)	(4.9)	5.0	1.2
Shipyards/Industrials	(1.2)	37.4	8.0	10.7	5.8
Technology	18.2	(27.0)	(9.1)	8.2	6.3
Telecommunications ¹	(1.3)	14.0	14.7	7.4	10.0
Others ²	25.0	7.7	(3.2)	15.6	7.3
AGGREGATE GROWTH	25.7	7.3	4.6	(0.5)	5.4

Note: ¹2024F reflects FY24; ²Others includes DFI Retail Group, Genting Singapore, Thai Beverage and SingPost
Source: UOB Kay Hian

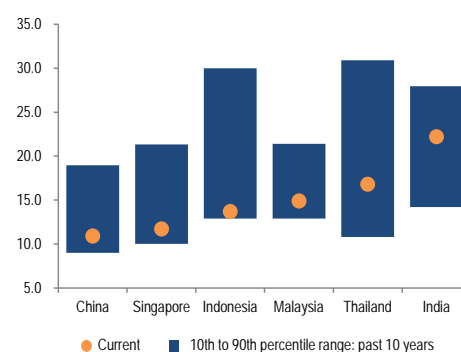
- STI target for 2025.** We forecast the STI to reach 4,115 by end-25 using an aggregate of top-down and bottom-up methodology, which implies about 10% upside from current levels.
 - From a top-down approach, we use mean PE and P/B valuations of 12.4x and 1.3x respectively, thus arriving at an STI target of 3,840.
 - From a bottom-up approach, we use our target prices for the STI stocks that we cover (and consensus target prices for those companies that we do not cover) thus arriving at a 2025 STI target of 4,390.
- Trading well below long-term valuations.** In our view, the STI's valuations are not stretched at present, trading at 2025F PE and P/B of 11.5x and 1.2x respectively and paying a yield of about 5.3%. We highlight that these multiples are meaningful discounts to the STI's long-term averages, and inexpensive vs its peers in the region and vs its own 10th to 90th percentile range.
- At 1.2x 2025F P/B, the STI appears inexpensive.** The recent rally in the banks sector has seen the STI's 2025E P/B valuations rise towards 1.2x which is still a 13% discount to its past five-year average but a 20% discount to its long-term average of 1.5x. We believe this discount may continue to narrow in the near to medium term, given that ROE is expected to increase slightly in 2025 to 10.6% from 10.3% in 2024. We highlight that this gap is closing in on the STI's long-term average ROE of 10.8%.

SECTOR WEIGHTINGS

Weighting	Sectors	Preferred stocks
OVERWEIGHT	Consumer	Thai Beverage, Sheng Siong Group
	Financials	Oversea-Chinese Banking Corporation
	REITs	Mapletree Industrial Trust; Lendlease Global Commercial REIT
	Shipyards/Industrials	Keppel Ltd, Sembcorp Industries, Yangzijiang Shipbuilding
	Technology	Venture Corp, Valuetronics, Frencken Group
	Telecommunications	Singapore Telecommunications
MARKET WEIGHT	Aviation	Singapore Technologies Engineering, SATS
	Gaming	Genting Singapore
	Healthcare	IHH Healthcare
	Land Transport	ComfortDelGro Corp
	Plantations	Bumitama Agri, First Resources, Wilmar International
	Property	CapitaLand Investment, PropNex, Centurion Corp

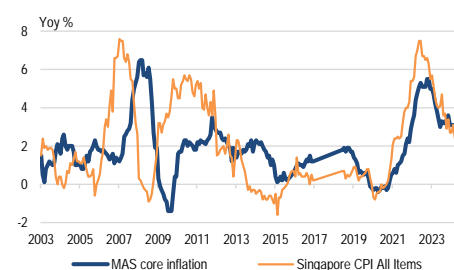
Source: UOB Kay Hian

STI VS PEERS: 12-MONTH FORWARD PE RATIOS



Source: Bloomberg

MAS CORE INFLATION VS CPI ALL ITEMS



Source: Bloomberg

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