Higher CPF contribution to have minimal impact on firms: DBS

Any reduction in earnings should be capped at 1% of net profit, it adds

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[SINGAPORE] The increase in Central Provident Fund (CPF) contribution proposed in this year's Budget would have minimal impact on listed companies in labour-intensive sectors, DBS Group Research said in a report released yesterday.

Deputy Prime Minister and Minister for Finance Tharman Shanmugaratnam said last Friday that the CPF rate for employers would go up by at least one percentage point to help pay for workers' future healthcare needs. Besides a one-point rise that will go into the Medisave account of all workers, employers must contribute more to the CPF of older workers.

DBS noted that sectors such as banks, retail, transport and construction are operating in a more labour-intensive environment than others. Among those with a high staff cost-to-revenue ratio is SATS Ltd, which hires about 11,000 staff here. Staff cost accounts for about 44 per cent of its revenue. Another example is SMRT, which employs about 7,600 people. Its staff cost makes up about 40 per cent of its total revenue.

DBS analysts said that any reduction in earnings should be capped at one per cent of net profit. On the assumption that salary is at or above $5,000 a month, the one percentage point increase in CPF contribution translates to a maximum of $600 per staff per year.

"For companies such as SMRT, ComfortDelGro and SATS which have a high number of staff, a large proportion is likely to fall below the maximum CPF contribution" of 37 per cent, the analysts said.

Despite the various healthcare measures proposed in this year's Budget, DBS said that healthcare players should see little benefit from these initiatives. "The thrust of this year's Budget is to provide healthcare support for the lower, middle-income households as well as the pioneer generation," the analysts said. "Traditionally, the target markets for the private healthcare players are the more affluent patients, and international patients."

With all of the pioneer generation to be admitted under the Community Health Assist Scheme – a programme that allows lower and middle-income households to get subsidies for medical and dental treatment – dental clinics including Q&M Dental could benefit from more patient visits.

But this is "unlikely to move the needle much" for other healthcare players such as Raffles Medical, given that primary healthcare services are low-margin businesses, DBS said.

It remains "underweight" on the construction sector. "While contracts are set to ramp up heading into 2015, rising cost from higher foreign workers' levies and CPF top-ups will continue to put pressure on earnings growth," it said.

The only related beneficiary could be Centurion Corporation, the sole listed operator of dormitories for foreign workers, DBS said, since there is no direct and immediate tightening of the inflow of foreign workers.