

2 September 2024

Industrials | Aerospace & Defence

## ST Engineering (STE SP)

**Buy** (Maintained)

### New Order Win, Potential Business Opportunity; BUY

- **Reiterate BUY and SGD5 TP (12% upside), c.4% yield.** ST Engineering won a contract of undisclosed value to provide its enhanced Passenger Information System (PIS) for 65 new 6-car passenger trains in Australia. In collaboration with MAN Bus, STE also launched a single-deck electric bus, which could become one of the options for the Land Transport Authority's (LTA) plans to have half of Singapore's 6,000 public buses run on electricity by 2030. We remain optimistic of STE delivering a mid-teen earnings CAGR in 2023-2026.
- **New contract win "Down Under".** STE's Urban Solution & Satcom (USS) business secured a contract to provide its enhanced PIS for 65 new 6-car passenger trains in Australia as part of the Queensland Train Manufacturing Programme (QTMP). As per the [website](#), the Queensland government has committed AUD9.5bn for the QTMP. While the order value was not disclosed, STE noted that the contracted scope has commenced and is expected to be completed in 1Q30. The contract marks STE's largest international PIS order win to date. PIS includes the train traveller information system, passenger announcement and communications system, and train-borne wireless system.
- **New electric bus.** STE, the exclusive importer and distributor of MAN Bus in Singapore, launched MAN Lion's City E, a single-deck electric bus, on 29 Aug. The bus offers innovative advanced driver assistance system technology and a c.480 kWh battery capacity, which is one of the highest among single-deck electric buses in Singapore. The LTA plans to have half of Singapore's 6,000 public buses run on electricity by 2030, and have all public buses run on cleaner energy by 2040. As part of the first large-scale award of contracts for new electric buses in Nov 2023, LTA ordered 360 new electric buses worth SGD166.4m from BYD and Cycle & Carriage through a tendering process. STE previously supplied 20 single-deck electric buses as part of LTA's first small-scale electric bus tender in Dec 2017.
- **Strong growth outlook.** STE's record order backlog of SGD27.9bn offers close to three years of revenue visibility. Continued demand for aviation MRO work, higher aircraft engine nacelle deliveries, and improving margins for its passenger-to-freighter (PTF) conversions should drive the Commercial Aerospace (CA) business profit higher. The right-sizing and cost optimisation exercises for the USS segment undertaken in 2023 should boost EBIT in the coming years. We expect growth in the Defence & Public Security (DPS) segment to sustain, as the group continues to deliver the orderbook. Our TP includes a 4% ESG premium over the fair value of SGD4.81.

Target Price (Return):	SGD5 (12.4%)
Price (Market Cap):	SGD4.45 (USD10,651m)
ESG score:	3.3 (out of 4)
Avg Daily Turnover (SGD/USD)	20.5m/15.3m

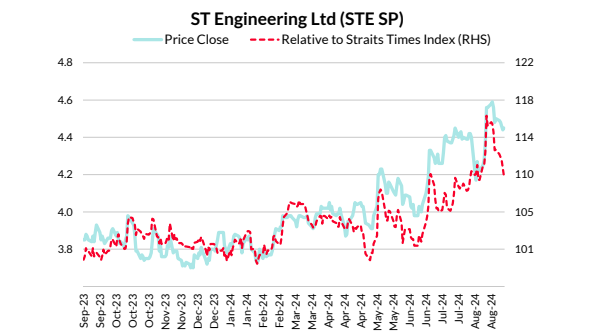
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	14.4	1.4	7.5	11.8	14.7
Relative	8.1	1.4	3.9	2.2	7.8
52-wk Price low/high (SGD)	3.70 - 4.59				



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (SGDm)	9,035	10,101	10,876	11,715	12,644
Recurring net profit (SGDm)	482	612	713	840	926
Recurring net profit growth (%)	(15.5)	26.9	16.6	17.7	10.3
Recurring P/E (x)	28.74	22.65	19.43	16.50	14.96
P/B (x)	5.8	5.6	5.2	4.6	4.1
P/CF (x)	20.58	11.76	10.63	9.38	9.59
Dividend Yield (%)	4.9	3.6	3.6	3.6	3.6
EV/EBITDA (x)	16.96	14.41	12.98	11.43	10.52
Return on average equity (%)	22.2	24.1	27.8	29.5	28.7
Net debt to equity (%)	223.6	209.1	192.1	159.1	127.9

Source: Company data, RHB

#### Overall ESG Score: 3.3 (out of 4)

##### E: GOOD

In 2023, it reported a 36% reduction in absolute Scope 1 and 2 emissions over the 2010 base year and is on track to meet its target of achieving a 50% reduction in absolute Scope 1 and 2 emissions by 2030 compared to the 2010 base year.

##### S: EXCELLENT

STE serves its communities through a combination of volunteer work and skills-based contributions, as well as in kind and monetary support. In 2023, it contributed SGD2.3m to community causes. STE promotes the professional and personal development of its employees, as seen by the increase in the average number of training hours per employee.

##### G: EXCELLENT

Despite having exposure to the defence business, STE does not design, produce, or sell anti-personnel mines, cluster munitions, white phosphorus munitions, or their related key components. STE's board comprises 13 directors, of whom seven are independent (54%), and three are female (23%).

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (SGD)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
Singapore	Recurring EPS	0.15	0.20	0.23	0.27	0.30
Industrials	DPS	0.22	0.16	0.16	0.16	0.16
<b>ST Engineering</b>	BVPS	0.77	0.79	0.85	0.96	1.10
STE SP	Return on average equity (%)	22.2	24.1	27.8	29.5	28.7
Buy						
	<b>Valuation metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
<b>Valuation basis</b>	Recurring P/E (x)	28.74	22.65	19.43	16.50	14.96
Our TP is derived by using an average of forward P/E, P/BV, EV/EBITDA and DCF of adjusted free cash flows.	P/B (x)	5.8	5.6	5.2	4.6	4.1
	FCF Yield (%)	(0.5)	6.5	4.7	7.4	7.7
	Dividend Yield (%)	4.9	3.6	3.6	3.6	3.6
<b>Key drivers</b>	EV/EBITDA (x)	16.96	14.41	12.98	11.43	10.52
i. New order wins and continued delivery of order book;	EV/EBIT (x)	30.16	23.69	20.49	17.64	16.12
ii. Sustained improvement in global aviation market;						
iii. Contributions from acquisitions.						
	<b>Income statement (SGDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
<b>Key risks</b>	Total turnover	9,035	10,101	10,876	11,715	12,644
i. Slower revival in commercial aerospace sector;	Gross profit	1,699	1,973	2,215	2,446	2,630
ii. Lower margin from higher costs caused by supply chain issues;	EBITDA	1,181	1,382	1,531	1,705	1,812
iii. Delays in the delivery of orderbook;	Depreciation and amortisation	(517)	(541)	(562)	(600)	(629)
iv. Lower-than-expected contribution from acquisitions	Operating profit	665	840	970	1,105	1,183
	Net interest	(138)	(210)	(209)	(203)	(189)
	Pre-tax profit	597	704	875	1,030	1,137
	Taxation	(54)	(100)	(140)	(165)	(182)
	Reported net profit	535	586	713	840	926
	Recurring net profit	482	612	713	840	926
<b>Company Profile</b>						
ST Engineering is an integrated engineering group in the Commercial Aerospace (CA), Urban Solutions & Satcom (USS), and Defence & Public Security (DPS) sectors. The company has over the years, diversified its businesses and geographical coverage.	<b>Cash flow (SGDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Change in working capital	(442)	(101)	(205)	(192)	(332)
	Cash flow from operations	673	1,179	1,304	1,478	1,445
	Capex	(743)	(279)	(650)	(450)	(380)
	Cash flow from investing activities	(4,571)	(201)	(582)	(371)	(290)
	Dividends paid	(686)	(499)	(498)	(498)	(498)
	Cash flow from financing activities	3,698	(1,226)	(810)	(1,003)	(1,091)
	Cash at beginning of period	816	602	353	265	368
	Net change in cash	(201)	(248)	(89)	104	64
	Ending balance cash	602	353	265	368	432
	<b>Balance sheet (SGDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Total cash and equivalents	602	353	265	368	432
	Tangible fixed assets	2,076	2,076	2,358	2,401	2,344
	Total investments	468	567	499	421	331
	Total assets	14,964	15,379	15,609	15,775	15,822
	Short-term debt	3,628	2,564	0	0	0
	Total long-term debt	2,907	3,544	6,008	5,708	5,308
	Total liabilities	12,311	12,627	12,620	12,419	12,010
	Total equity	2,653	2,752	2,989	3,356	3,813
	Total liabilities & equity	14,964	15,379	15,609	15,775	15,822
	<b>Key metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Revenue growth (%)	17.4	11.8	7.7	7.7	7.9
	Recurrent EPS growth (%)	(15.5)	26.9	16.5	17.7	10.3
	Gross margin (%)	18.8	19.5	20.4	20.9	20.8
	Operating EBITDA margin (%)	13.1	13.7	14.1	14.6	14.3
	Net profit margin (%)	5.9	5.8	6.6	7.2	7.3
	Dividend payout ratio (%)	128.2	85.0	69.9	59.3	53.8
	Capex/sales (%)	8.2	2.8	6.0	3.8	3.0
	Interest cover (x)	4.47	3.34	4.40	5.16	5.83

Source: Company data, RHB

## Emissions And ESG

### Trend analysis

Although overall emissions have been on the rise on the back of rising economic output, during 2020–2023, STE has reduced GHG intensity as a measure of revenue for its Singapore operations to 10.99 tCO<sub>2</sub>e/SGDm in 2023 from 16.34 tCO<sub>2</sub>e/SGDm in 2020 and 14.82 tCO<sub>2</sub>e/SGDm in 2021.

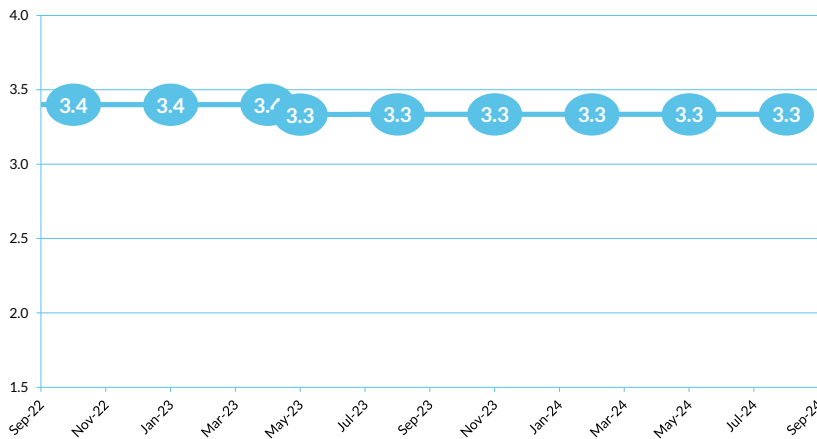
Emissions (tCO <sub>2</sub> e)	Dec-21	Dec-22	Dec-23
Scope 1	36,000	39,000	37,000
Scope 2	78,000	71,000	74,000
Scope 3	1,900	33,000	39,000
Total emissions	115,900	143,000	150,000

Source: Company data, RHB

## Latest ESG-Related Developments

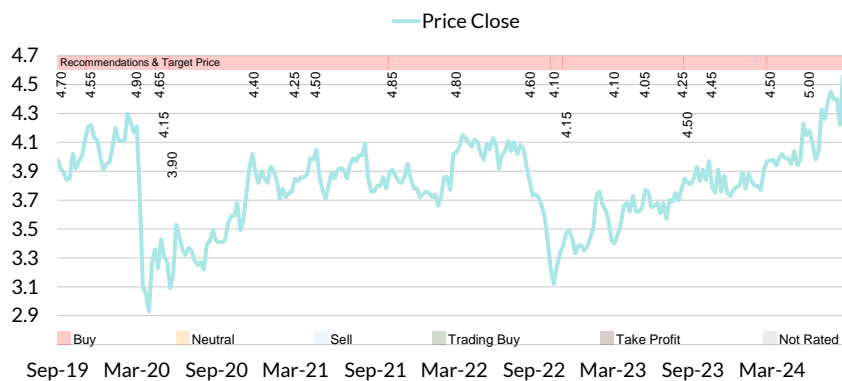
- In 2021, STE set a target to halve its absolute Scope 1 and Scope 2 GHG emissions by 2030 compared to a 2010 base year. In the same year, it also set a target to increase its sustainability linked revenue to more than SGD3bn by 2026.
- In 2022, STE was included in the Dow Jones Sustainability Asia Pacific Index as identified by S&P Global through the Corporate Sustainability Assessment. It is also a component stock of the iEdge SG ESG Transparency Index and the iEdge SG ESG Leaders Index.
- In 2023, STE implemented an internal shadow carbon price on major capital expenditure, established roadmaps, and embarked on the development of a product carbon footprint for its major products and services.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-07-21	Buy	5.00	4.45
2024-04-08	Buy	4.50	3.98
2024-03-04	Buy	4.50	3.95
2024-02-21	Buy	4.50	3.92
2023-10-23	Buy	4.45	3.75
2023-10-09	Buy	4.45	3.81
2023-08-14	Buy	4.50	3.85
2023-08-02	Buy	4.25	3.70
2023-05-08	Buy	4.05	3.65
2023-02-27	Buy	4.10	3.54
2023-01-18	Buy	4.15	3.45
2022-11-08	Buy	4.15	3.33
2022-10-11	Buy	4.10	3.34
2022-09-23	Buy	4.60	3.66
2022-08-15	Buy	4.60	4.00

Source: RHB, Bloomberg

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
<b>Sell:</b>	Share price may fall by more than 10% over the next 12 months
<b>Not Rated:</b>	Stock is not within regular research coverage

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