

2 September 2025

Industrials | Aerospace & Defence

ST Engineering (STE SP)

Buy (Maintained)

Divests Non-Core Stake In CityCabs; Keep BUY

Target Price (Return): SGD9.10 (+20%)
 Price (Market Cap): SGD7.61 (USD18,488m)
 ESG score: 3.3 (out of 4)
 Avg Daily Turnover (SGD/USD) 43.3m/33.7m

- **Stay BUY and SGD9.10 TP, 20% upside and c.3% FY26F yield.** ST Engineering has divested its 46.5% stake in CityCab for SGD116.3m. Proceeds will go towards debt repayment, with modest interest savings, and a negligible earnings impact. Our investment case is underpinned by a record-high SGD31.2bn orderbook that supports multi-year revenue visibility, structural tailwinds (rising global defence outlays, resilient demand for core services), and limited tariff exposure. Importantly, our 2029 forecasts remain below management's targets, creating upside risks.

- **Divestment of stake in CityCab.** STE's subsidiary, ST Engineering Land Systems, has completed the disposal of its entire 46.5% stake in CityCab to JV partner ComfortDelGro (CD SP, BUY, TP: SGD1.75) on 1 Sep 2025, for a cash consideration of SGD116.3m. CD, which already owned the remaining 53.5% stake, is now the sole owner of the Singapore-based taxi operator. The transaction consideration was arrived at on a willing-buyer, willing-seller basis, and compares favourably against a valuation report dated 25 Aug 2025, which ascribed a value of SGD98.9m to STE's stake in CityCab. As of 30 Jun 2025, the net tangible assets and BV attributable to STE's interest in CityCab stood at c.SGD36.0m. The disposal is expected to generate a one-off gain of around SGD77.2m in 2025.

- **Impact from divestment.** STE intends to use the divestment proceeds to pare down debt, which is expected to generate an annualised interest expense savings of about SGD4m. Based on our financial model, this also translates into c.SGD2m in savings for 2025, and SGD4m interest cost savings per year from 2026 onwards. STE's share of CityCab's net profit in 2024 was SGD8.7m, which we have excluded from the defence & public security (DPS) segment from 2025 onwards. We have treated the disposal gain as a one-off item. While the incremental interest savings are slightly lower than the forgone associate earnings, the net impact on group earnings for 2025-2027 is immaterial.

- **Positive long-term outlook.** STE's share price has fallen c.15% since 13 Aug, which we view as a post-results "sell-the-news" pullback after a strong YTD rally, exacerbated by the ex-dividend adjustment. We reiterate that our 2029 forecasts are below management's targets, leaving room for upside; potentially via stronger international defence orders, lower interest costs from faster deleveraging, and capital recycling (including migrating aviation asset management to a fund structure). Our TP includes a 4% ESG premium.

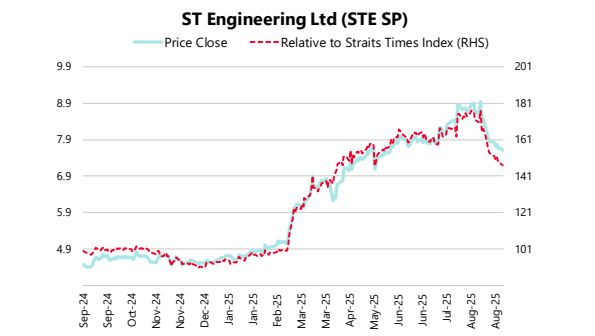
Analyst

Shekhar Jaiswal
 +65 6320 0806
shekhar.jaiswal@rhbgroup.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	63.3	(12.1)	(2.7)	40.7	71.0
Relative	50.4	(15.0)	(12.5)	30.9	46.8
52-wk Price low/high (SGD)				4.40	-8.96



Source: Bloomberg

Forecasts and Valuation	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
Total turnover (SGDm)	10,101	11,276	12,198	12,939	13,951
Recurring net profit (SGDm)	595	702	833	958	1,060
Recurring net profit growth (%)	23.5	17.9	18.7	15.0	10.6
Recurring P/E (x)	39.79	33.75	28.44	24.73	22.36
P/B (x)	9.6	8.9	7.4	6.7	5.9
P/CF (x)	20.11	13.80	14.37	13.70	12.74
Dividend Yield (%)	2.1	2.1	2.2	2.5	2.6
EV/EBITDA (x)	21.53	19.03	16.53	15.10	13.72
Return on average equity (%)	24.1	27.4	36.7	28.1	27.8
Net debt to equity (%)	209.1	182.7	132.8	105.3	78.9

Source: Company data, RHB

Overall ESG Score: 3.3 (out of 4)

E Score: 3.0 (GOOD)

S Score: 3.7 (EXCELLENT)

G Score: 3.7 (EXCELLENT)

Please refer to the ESG analysis on the next page

Emissions And ESG

Trend analysis	Emissions (tCO2e)	Dec-22	Dec-23	Dec-24	Dec-25
Although overall emissions have been on the rise on the back of rising economic output, during 2020–2024, STE has reduced GHG intensity as a measure of revenue to 10.82 tCO2e/SGDm in 2024 from 16.34 tCO2e/SGDm in 2020 and 14.82 tCO2e/SGDm in 2021.	Scope 1	45,000	45,000	45,000	na
	Scope 2	73,000	78,000	77,000	na
	Scope 3	33,000	39,000	40,000	na
	Total emissions	151,000	162,000	162,000	na

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 2024, the base year was changed to 2015, in line with best practices. As STE's emissions have significantly decreased over 2010-2015, this change in base year means that its target of achieving a 50% reduction of Scope 1 and 2 emissions by 2030 will become more challenging.

In 2024, STE has estimated the emissions for the following Scope 3 categories and will continue to increase the comprehensiveness and accuracy of the data: i) Category 5 – waste generated in operations; ii) Category 8 – upstream leased assets, and iii) Category 13 – downstream leased assets. In 2025, it will explore the expansion of renewable energy usage and rainwater harvesting globally, and continue to quantify its Scope 3 emissions in more categories.

ESG Unbundled

Overall ESG Score: 3.3 (out of 4)

Last Updated: 6 May 2025

E Score: 3.0 (GOOD)

In 2024, STE reported a 25% reduction in absolute Scope 1 and 2 emissions compared to its 2015 baseline, demonstrating solid progress toward its sustainability goals. The company remains on track to meet its target of a 50% absolute reduction in Scope 1 and 2 emissions by 2030, relative to the 2015 base year.

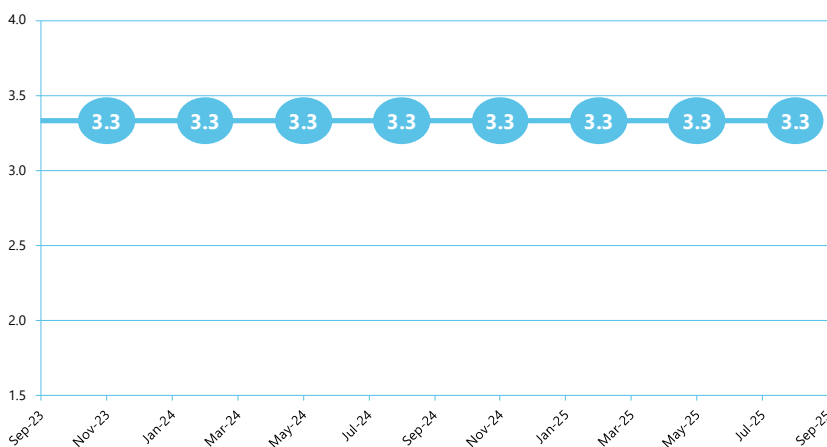
S Score: 3.7 (EXCELLENT)

STE supports its communities through a blend of volunteer efforts, skills-based contributions, and both in-kind and monetary support. In 2024, it contributed SGD2.8m to various community initiatives. It also places strong emphasis on employee development, with a continued increase in the average number of training hours per employee, reflecting its commitment to both professional and personal growth.

G Score: 3.7 (EXCELLENT)

Despite its exposure to the defence sector, STE does not design, produce, or sell anti-personnel mines, cluster munitions, white phosphorus munitions, or their key components. It has continued to strengthen its governance structure, with independent directors comprising 62% of the board and female representation at 33%—both improvements over 2023 levels.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2025-08-15	Buy	9.10	8.46
2025-07-18	Buy	8.70	8.40
2025-06-26	Buy	8.65	7.87
2025-06-16	Buy	8.90	7.96
2025-05-07	Buy	8.30	7.59
2025-03-20	Buy	7.80	6.91
2025-02-28	Buy	5.90	5.41
2024-11-28	Buy	5.20	4.50
2024-09-18	Buy	5.32	4.69
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

Source: RHB, Bloomberg

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RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 2302 8100
Fax : +603 2302 8134

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 5093 9888
Fax : +6221 5093 9777

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RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470