

17 June 2025

Industrials | Aerospace & Defence

## ST Engineering (STE SP)

**Buy** (Maintained)

### Defence Growth Catalyst; Reiterate BUY

Target Price (Return): SGD8.90 (+11%)  
 Price (Market Cap): SGD7.96 (USD19,416m)  
 ESG score: 3.3 (out of 4)  
 Avg Daily Turnover (SGD/USD) 55.6m/42.3m

- **BUY, new SGD8.90 TP from SGD8.30, 12% upside.** ST Engineering, with its growing potential for international defence contract wins, diversified orderbook, and increasing capabilities in conventional and digital defence, should benefit from the global surge in defence spending. Despite solid fundamentals, its YTD share price gain lags that of regional peers. It is trading below the regional peer average (ex-India and China), but with comparable margins, superior ROEs and higher yields (c.2% for FY25F), offering a more balanced and resilient growth profile through its international expansion.
- **STE's defence exposure.** In FY24, 31% of STE's revenue was defence-related. In 1Q25, the Defence & Public Security (DPS) segment recorded the fastest revenue growth at 18% YoY, contributing 45% of total revenue. DPS secured SGD2.7bn in new orders during 1Q25, including a SGD200m contract from Singapore's Home Team Science & Technology Agency for the integration and installation of an island-wide public camera system, to enable real-time sense-making and faster incident response. The DPS order wins also included international contracts for 40mm and 155mm ammunition, defence platform electronics, and ship repair and maintenance services for naval vessels.
- **Recent contract wins.** On 7 May, STE announced that it secured contracts from Singapore's Ministry of Defence to deliver a suite of mine countermeasure (MCM) unmanned systems for the Republic of Singapore Navy. The MCM suite will include a fleet of unmanned surface vessels, autonomous underwater vehicles, and a command & control (C2) centre. On the same day, STE announced the progression of the European Protected Waveform (EPW) project to its second phase. The project aims to enhance secure satellite communications for military operations and critical government functions across Europe. Additionally, Saab Australia and STE signed an agreement to deliver deployable health solutions for combat field hospitals in the Asia-Pacific.
- **Asian peer benchmarking.** STE's YTD share price gain lags that of other Asian defence players, like Austal (+106%), Hanwha Aerospace (+170%), Korea Aerospace (+77%), and Hyundai Rotem (+281%). Excluding India and China defence names, regional peers trade at around 30x 2FY P/E and 17.5x 2FY EV/EBITDA – both above STE's current forward multiples. STE matches peers on EBITDA and net margins, while outperforming on ROE and dividend yield (Figure 1). Accordingly, we have raised our target P/E and EV/EBITDA multiples for STE to align with peers in Asia's developed markets.
- **ESG.** Our TP includes a 4% ESG premium based on STE's ESG score of 3.3 (above the country median).

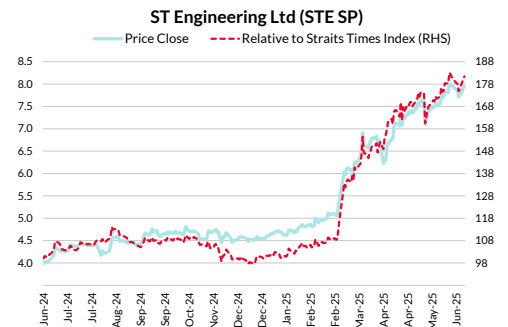
#### Analyst

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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	70.8	7.4	28.2	76.5	100.0
Relative	67.6	7.1	26.3	74.2	81.5
52-wk Price low/high (SGD)				4.00	-8.01



Source: Bloomberg

Forecasts and Valuation	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
Total turnover (SGDm)	10,101	11,276	12,534	13,711	14,890
Recurring net profit (SGDm)	595	702	840	948	1,044
Recurring net profit growth (%)	23.5	17.9	19.6	12.9	10.1
Recurring P/E (x)	41.62	35.30	29.52	26.14	23.75
P/B (x)	10.1	9.3	8.5	7.5	6.6
P/CF (x)	21.03	14.43	17.60	14.14	13.21
Dividend Yield (%)	2.0	2.0	2.2	2.2	2.5
EV/EBITDA (x)	22.32	19.74	17.53	15.86	14.50
Return on average equity (%)	24.1	27.4	29.9	30.2	29.4
Net debt to equity (%)	209.1	182.7	158.2	124.1	94.2

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 2023, STE reported a 36% decrease 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.

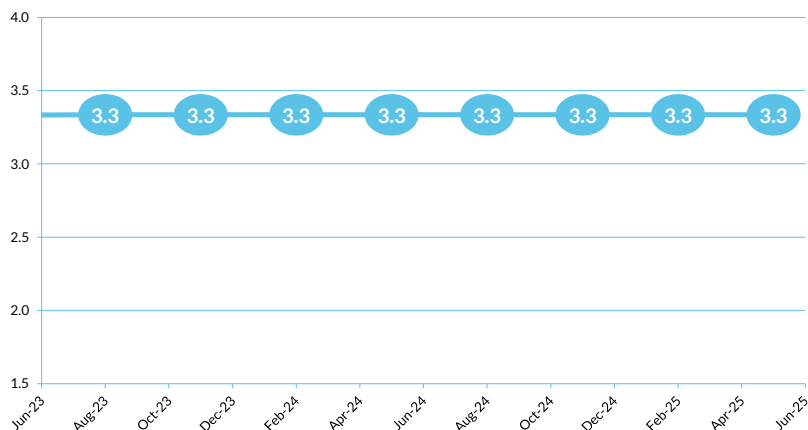
S Score: 3.7 (EXCELLENT)

STE serves its communities through a combination of volunteer work and skills-based contributions, as well as in kind and via 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 Score: 3.7 (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 women (23%).

## ESG Rating History



Source: RHB

17 June 2025

Industrials | Aerospace &amp; Defence

## Financial Exhibits

Asia	Financial summary (SGD)	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
Singapore	Recurring EPS	0.19	0.23	0.27	0.30	0.34
Industrials	DPS	0.16	0.16	0.18	0.18	0.20
<b>ST Engineering</b>	BVPS	0.79	0.86	0.94	1.06	1.20
STESP	Return on average equity (%)	24.1	27.4	29.9	30.2	29.4
Buy						
	<b>Valuation metrics</b>	<b>Dec-23</b>	<b>Dec-24</b>	<b>Dec-25F</b>	<b>Dec-26F</b>	<b>Dec-27F</b>
<b>Valuation basis</b>	Recurring P/E (x)	41.62	35.30	29.52	26.14	23.75
Our TP is derived by using an average of forward P/E, EV/EBITDA and DCF of adjusted free cash flows.	P/B (x)	10.1	9.3	8.5	7.5	6.6
	FCF Yield (%)	3.6	5.8	3.8	5.2	5.7
	Dividend Yield (%)	2.0	2.0	2.2	2.2	2.5
	EV/EBITDA (x)	22.32	19.74	17.53	15.86	14.50
	EV/EBIT (x)	36.70	30.30	26.35	23.55	21.38
<b>Key drivers</b>						
i. New order wins and continuing delivery of order book;						
ii. Sustained improvement in global aviation market;						
iii. Contributions from acquisitions.						
	<b>Income statement (SGDm)</b>	<b>Dec-23</b>	<b>Dec-24</b>	<b>Dec-25F</b>	<b>Dec-26F</b>	<b>Dec-27F</b>
<b>Key risks</b>	Total turnover	10,101	11,276	12,534	13,711	14,890
i. Slower revival in commercial aerospace sector;	Gross profit	1,973	2,174	2,582	2,829	3,063
ii. Lower margin from higher costs caused by supply chain issues;	EBITDA	1,382	1,543	1,725	1,871	2,004
iii. Delays in the delivery of order book;	Depreciation and amortisation	(541)	(538)	(577)	(611)	(645)
iv. Lower-than-expected contribution from acquisitions.	Operating profit	840	1,006	1,147	1,260	1,359
	Net interest	(210)	(214)	(194)	(184)	(168)
	Pre-tax profit	704	863	1,038	1,172	1,291
	Taxation	(100)	(133)	(166)	(188)	(206)
	Reported net profit	586	702	840	948	1,044
	Recurring net profit	595	702	840	948	1,044
<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-23</b>	<b>Dec-24</b>	<b>Dec-25F</b>	<b>Dec-26F</b>	<b>Dec-27F</b>
	Change in working capital	(101)	274	(235)	(27)	(22)
	Cash flow from operations	1,179	1,718	1,409	1,753	1,877
	Capex	(279)	(290)	(475)	(475)	(475)
	Cash flow from investing activities	(201)	(414)	(425)	(419)	(418)
	Dividends paid	(499)	(499)	(561)	(561)	(623)
	Cash flow from financing activities	(1,226)	(1,222)	(955)	(1,145)	(1,243)
	Cash at beginning of period	602	353	431	459	648
	Net change in cash	(248)	82	28	189	216
	Ending balance cash	353	430	459	648	864
	<b>Balance sheet (SGDm)</b>	<b>Dec-23</b>	<b>Dec-24</b>	<b>Dec-25F</b>	<b>Dec-26F</b>	<b>Dec-27F</b>
	Total cash and equivalents	353	431	459	648	864
	Tangible fixed assets	2,076	2,115	2,206	2,263	2,286
	Total investments	567	621	572	516	458
	Total assets	15,379	16,221	16,579	16,952	17,318
	Short-term debt	2,564	2,945	0	0	0
	Total long-term debt	3,544	2,876	5,622	5,222	4,772
	Total liabilities	12,627	13,270	13,317	13,265	13,170
	Total equity	2,752	2,951	3,262	3,687	4,148
	Total liabilities & equity	15,379	16,221	16,579	16,952	17,318
	<b>Key metrics</b>	<b>Dec-23</b>	<b>Dec-24</b>	<b>Dec-25F</b>	<b>Dec-26F</b>	<b>Dec-27F</b>
	Revenue growth (%)	11.8	11.6	11.2	9.4	8.6
	Recurrent EPS growth (%)	23.5	17.9	19.6	12.9	10.1
	Gross margin (%)	19.5	19.3	20.6	20.6	20.6
	Operating EBITDA margin (%)	13.7	13.7	13.8	13.6	13.5
	Net profit margin (%)	5.8	6.2	6.7	6.9	7.0
	Dividend payout ratio (%)	85.0	71.0	66.7	59.1	59.7
	Capex/sales (%)	2.8	2.6	3.8	3.5	3.2
	Interest cover (x)	3.34	4.00	5.22	5.95	6.81

Source: Company data, RHB

17 June 2025

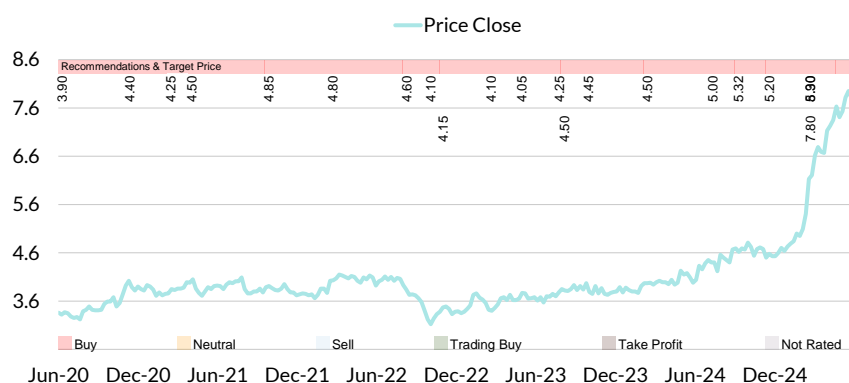
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Figure 1: Peer comparison of Asian defence companies

Company name	BBG ticker	M Cap (USDm)	Last year	P/E		EV/EBITDA		D Yield 1FY	ROE 1FY	EBITDA Margin 1FY	Net Margin 1FY
				1FY	2FY	1FY	2FY				
<b>Asia</b>											
Austal	ASB AU	1,746	Jun-24	43.7	36.3	16.3	13.5	0.2%	4.6%	9.2%	3.2%
AVIC Airborne Systems	600372 CH	7,713	Dec-24	33.7	29.4	16.6	14.8	0.9%	3.1%	13.1%	5.3%
AVICOPTER	600038 CH	4,262	Dec-24	42.0	36.9	15.2	13.0	0.6%	4.2%	4.0%	2.0%
AVIC Xi'an Aircraft Industry	000768 CH	9,930	Dec-24	56.7	46.9	24.1	21.6	0.5%	5.6%	5.5%	2.5%
AVIC Shenyang Aircraft	600760 CH	21,018	Dec-24	37.2	31.7	28.1	23.7	0.8%	19.6%	10.4%	8.0%
Bharat Electronics	BHE IN	33,804	Mar-25	49.9	42.2	38.3	32.1	0.8%	26.8%	26.7%	21.1%
Hindustan Aeronautics	HNAL IN	39,207	Mar-25	38.1	33.1	28.2	24.3	0.8%	23.6%	29.9%	25.3%
Mazagon Dock Shipbuilders	MAZDOCKS IN	14,691	Mar-25	25.6	22.3	35.4	29.6	0.8%	37.8%	20.2%	22.3%
Mitsubishi Heavy Industries	7011 JP	83,732	Mar-25	40.4	33.9	21.0	18.6	0.7%	11.8%	11.0%	5.5%
Hanwha Aerospace	012450 KS	34,584	Dec-24	29.0	23.1	17.6	15.1	0.4%	26.3%	14.2%	6.5%
Korea Aerospace Industries	047810 KS	7,014	Dec-24	40.1	25.3	23.4	16.9	0.6%	13.5%	10.8%	5.9%
Hyundai Rotem	064350 KS	15,747	Dec-24	27.5	23.2	20.2	17.7	0.1%	31.4%	18.7%	14.1%
<b>Weighted average</b>		<b>273,448</b>		<b>38.5</b>	<b>32.2</b>	<b>24.9</b>	<b>21.4</b>	<b>0.7%</b>	<b>19.7%</b>	<b>16.7%</b>	<b>11.8%</b>
<b>Weighted average (ex IN &amp; CH)</b>		<b>142,823</b>		<b>36.3</b>	<b>29.7</b>	<b>20.1</b>	<b>17.5</b>	<b>0.6%</b>	<b>17.4%</b>	<b>12.6%</b>	<b>6.7%</b>
ST Engineering	STE SP	19,346	Dec-24	29.4	26.1	17.7	16.3	2.3%	29.9%	13.8%	6.7%

Source: Bloomberg, RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
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

Source: RHB, Bloomberg

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<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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