

4 March 2024

Industrials | Aerospace & Defence

ST Engineering (STE SP)

Buy (Maintained)

Earnings Growth Momentum To Continue; BUY

Target Price (Return): SGD4.50 (13.4%)
 Price (Market Cap): SGD3.97 (USD9,180m)
 ESG score: 3.3 (out of 4)
 Avg Daily Turnover (SGD/USD) 14.2m/10.5m

- **Reiterate BUY with SGD4.50 TP, 13% upside, c.4% yield.** ST Engineering's 2023 performance was in line. Post results briefing, we still believe that the business outlook for all segments remains robust. The ongoing recovery of Commercial Aerospace (CA) and strong improvements in Urban Solutions and Satcom (USS) should drive medium-term earnings growth. Defence and Public Security (DPS) revenue should continue to improve on orderbook delivery. We expect a 15% profit CAGR in 2023–2026. STE should continue paying 16 cents of dividends each year while lowering its debt levels.

- **Strong 2023 results.** 2023 revenue came in at SGD10.1bn (+12 YoY), with the CA and USS segments reporting strong growth. The reported PATMI of SGD587m (+10% YoY) was in line with our estimates. Excluding one-offs, recurring PATMI was SGD612m (+27% YoY). CA and DPS segments reported EBIT growth. On a recurring basis, USS EBIT was down YoY after accounting for the one-offs from the SatixFy divestment losses and severance expenses related to right-sizing the business. As expected, the 2023 dividend came in at 16 cents.

- **Outlook remains strong.** The recovery of the CA segment will continue to be aided by the ongoing gradual pick-up in global air travel. We get a sense from management that the passenger-to-freighter (PTF) conversion and nacelle businesses are going strong. 2023 CA EBIT margin came in a tad below our estimate. However, we expect this to improve as PTF margins strengthen on the back of higher deliveries. The TransCore business has now become net earnings accretive. The right-sizing exercise for the USS segment should boost its EBIT in the coming years. We expect growth in the DPS segment to sustain as STE continues to deliver the orderbook.

- **Strong order wins and the potential for lower interest costs next year.** STE won new contracts worth SGD3.1bn in 4Q23 (+12% YoY, +43% QoQ). It reported an order backlog of SGD27.4bn, implying a book-to-bill ratio of 2.7 years. SGD7.9bn of the orderbook will be delivered in 2024, at 73% of our full-year revenue estimate. STE's weighted average borrowing cost for 2023 was 3.3%. We expect this to increase marginally to 3.5% in 2024. With expectation of a rate cut in 2H24 and 38% of STE's debt still exposed to a floating interest rate, we see a possibility of lower interest costs in 2025.

- **Small estimate changes.** We raise the 2025 profit by 4%. We continue to derive our TP using an average of P/E, P/BV, EV/EBITDA, and DCF. The TP includes a 4% ESG premium over the fair value of SGD4.33.

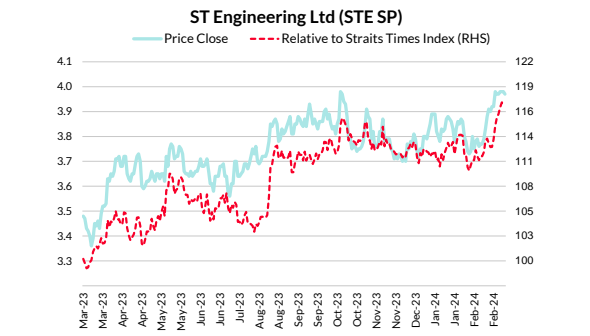
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	2.1	6.1	6.4	4.2	13.1
Relative	5.3	6.3	4.9	7.2	16.8
52-wk Price low/high (SGD)				3.36	–3.98



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)	25.64	20.20	17.33	14.72	13.35
P/B (x)	5.2	5.0	4.7	4.1	3.6
P/CF (x)	18.36	10.49	9.48	8.36	8.56
Dividend Yield (%)	5.5	4.0	4.0	4.0	4.0
EV/EBITDA (x)	15.70	13.32	12.00	10.56	9.70
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

STE believes in conserving resources and contributing to a sustainable future by developing and deploying greener products and solutions. In 2021, it reported a 46% reduction in GHG emissions intensity over 2010 base year and is working towards its target to achieve a 50% absolute Scope 1 and 2 GHG emissions reduction by 2030 compared to a 2010 base year.

S: EXCELLENT

In 2021, it delivered SGD7.2bn in economic contributions despite challenging business conditions. With people remaining the cornerstone of its business, STE further strengthened learning and development framework, accelerated workforce digitalisation and deepened our engineering, technology and innovation capabilities.

G: EXCELLENT

Despite having exposure to defence business, STE does not design, produce or sell anti-personnel mines, cluster munitions, white phosphorus munitions, and their related key components. STE's board comprises of 13 directors, of which 9 are independent (69%) and 2 are female (15%).

Financial Exhibits

Asia	Financial summary (SGD)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
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
ST Engineering	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						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	25.64	20.20	17.33	14.72	13.35
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)	5.2	5.0	4.7	4.1	3.6
	FCF Yield (%)	(0.6)	7.3	5.3	8.3	8.6
	Dividend Yield (%)	5.5	4.0	4.0	4.0	4.0
	EV/EBITDA (x)	15.70	13.32	12.00	10.56	9.70
	EV/EBIT (x)	27.91	21.91	18.95	16.29	14.86
Key drivers	Income statement (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. Strong order wins;	Total turnover	9,035	10,101	10,876	11,715	12,644
ii. Contributions from acquisitions.	Gross profit	1,699	1,973	2,215	2,446	2,630
	EBITDA	1,181	1,382	1,531	1,705	1,812
	Depreciation and amortisation	(517)	(541)	(562)	(600)	(629)
	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
Key risks	Cash flow (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. Slower revival in commercial aerospace sector;	Change in working capital	(442)	(101)	(205)	(192)	(332)
ii. Lower-than-expected contribution from acquisitions;	Cash flow from operations	673	1,179	1,304	1,478	1,445
iii. Delay in the implementation of Singapore's smart nation initiative.	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
Company Profile	Balance sheet (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
ST Engineering (STE) is an integrated engineering group in the aerospace, electronics, land systems and marine sectors. The company has over the years, diversified its businesses and geographical coverage.	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
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	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

Figure 1: 2023 results summary

	unit	1H22	2H22	1H23	2H23	HoH %	YoY %	2022	2023	YoY %	2023 % of 2023 est.
Income statement (SGDm)											
Revenue	SGD m	4,269.9	4,765.2	4,863.4	5,237.6	8%	10%	9,035.1	10,101.0	12%	102%
Cost of sales	SGD m	(3,421.0)	(3,915.4)	(3,883.0)	(4,245.3)	9%	8%	(7,336.4)	(8,128.3)	11%	102%
Gross profit	SGD m	848.9	849.8	980.4	992.3	1%	17%	1,698.7	1,972.8	16%	102%
Operating Profit	SGD m	360.3	304.2	420.8	419.3	0%	38%	664.5	840.1	26%	105%
Finance costs	SGD m	(33.5)	(104.1)	(92.8)	(117.7)	27%	13%	(137.6)	(210.4)	53%	107%
Net other income / (expense)	SGD m	13.4	23.9	(0.2)	16.7	-8346%	-30%	37.3	16.5	-56%	35%
Associates and JVs	SGD m	10.9	22.3	23.6	34.5	47%	55%	33.3	58.1	75%	108%
Profit before tax	SGD m	351.1	246.4	351.4	352.8	0%	43%	597.5	704.2	18%	100%
Income tax	SGD m	(68.7)	14.6	(66.0)	(33.8)	-49%	-331%	(54.1)	(99.8)	84%	88%
Profit after tax	SGD m	282.4	261.0	285.4	319.1	12%	22%	543.3	604.4	11%	102%
Minority Interest	SGD m	(2.4)	(5.9)	(4.7)	(13.2)	179%	123%	(8.3)	(18.0)	116%	198%
Profit for equity holders	SGD m	280.0	255.0	280.6	305.9	9%	20%	535.0	586.5	10%	101%
PATMI (recurring)	SGD m	227.0	255.0	299.6	312.2	4%	22%	482.0	611.9	27%	101%
Depreciation & amortisation	SGD m	(227.7)	(289.2)	(266.4)	(275.1)	3%	-5%	(516.9)	(541.4)	5%	83%
EBITDA	SGD m	588.0	593.4	687.2	694.4	1%	17%	1,181.4	1,381.5	17%	95%
Margins (%)											
Gross margin	%	19.9%	17.8%	20.2%	18.9%			18.8%	19.5%		
Operating margin	%	8.4%	6.4%	8.7%	8.0%			7.4%	8.3%		
EBITDA margin	%	13.8%	12.5%	14.1%	13.3%			13.1%	13.7%		
Net margin	%	6.6%	5.4%	5.8%	5.8%			5.9%	5.8%		

Source: Company data, RHB

Figure 2: 2023 segment results

	unit	1H22	2H22	1H23	2H23	HoH %	YoY %	2022	2023	YoY %	2023 % of 2023 est.
Revenue (SGDm)											
Commercial Aerospace	SGD m	1,404.2	1,587.0	1,855.6	2,049.7	10%	29%	2,991.2	3,905.3	31%	109%
Urban Solutions & Satcom	SGD m	757.3	1,015.0	890.7	1,053.1	18%	4%	1,772.2	1,943.8	10%	101%
Defence & Public Security	SGD m	2,108.4	2,163.2	2,117.2	2,134.8	1%	-1%	4,271.7	4,252.0	0%	97%
Segment EBIT (SGDm)											
Commercial Aerospace	SGD m	110.7	118.2	177.5	159.7	-10%	35%	228.9	337.2	47%	94%
Urban Solutions & Satcom	SGD m	(12.1)	41.3	(8.1)	44.1	-647%	7%	29.2	36.0	23%	152%
Defence & Public Security	SGD m	214.0	191.0	300.7	266.7	-11%	40%	405.0	567.4	40%	120%
Segment EBIT margin (%)											
Commercial Aerospace	%	7.9%	7.5%	9.6%	7.8%			7.7%	8.6%		
Urban Solutions & Satcom	%	-1.6%	4.1%	-0.9%	4.2%			1.6%	1.9%		
Defence & Public Security	%	10.1%	8.8%	14.2%	12.5%			9.5%	13.3%		

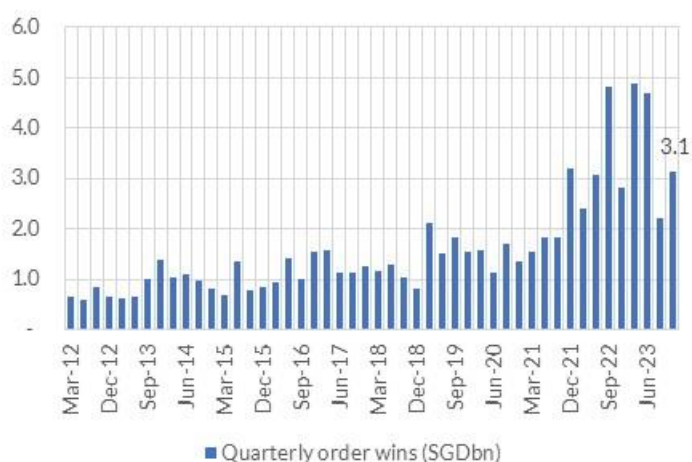
Source: Company data, RHB

Figure 3: 2023 business results

	SGD m	1H22	2H22	1H23	2H23	HoH %	YoY %	2022	2023	YoY %	2023 % of 2023 est.
Commercial Aerospace revenue											
- Aerospace MRO	SGD m	632.0	760.0	868.0	1,089.0	25%	43%	1,392.0	1,957.0	41%	112%
- Aerostructures & Systems	SGD m	825.0	846.0	951.0	1,026.0	8%	21%	1,671.0	1,977.0	18%	103%
- Aviation Asset Management (AUM)**	SGD m	1,420.0	1,821.0	1,964.0	2,081.0	6%	14%	1,821.0	2,081.0	14%	0%
Urban Solutions & Satcom revenue											
- Urban Solutions	SGD m	585.0	821.0	741.0	892.0	20%	9%	1,406.0	1,633.0	16%	103%
- Satcom	SGD m	199.0	216.0	165.0	183.0	11%	-15%	415.0	348.0	-16%	89%
Defence & Public Security revenue											
- Marine	SGD m	385.0	460.0	314.0	300.0	-4%	-35%	845.0	614.0	-27%	91%
- Land Systems		765.0	817.0	770.0	847.0	10%	4%	1,582.0	1,617.0	2%	102%
- Digital Systems & Cyber	SGD m	777.0	727.0	848.0	820.0	-3%	13%	1,504.0	1,668.0	11%	100%
- Defence Aerospace	SGD m	239.0	232.0	245.0	226.0	-8%	-3%	471.0	471.0	0%	95%

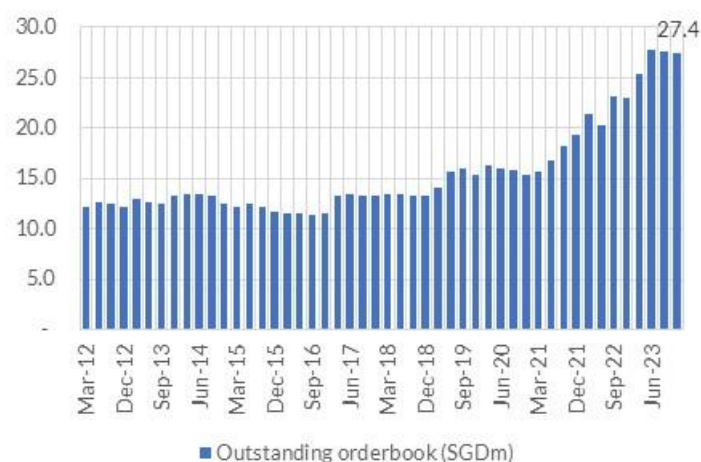
Source: Company data, RHB

Figure 4: Quarterly order wins



Source: Company data, RHB

Figure 5: Outstanding orderbook



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 2020–2022, STE has reduced GHG intensity as a measure of revenue for its Singapore operations to 11.95 tCO₂e/SGDm in 2022 from 16.34 tCO₂e/SGDm in 2020.

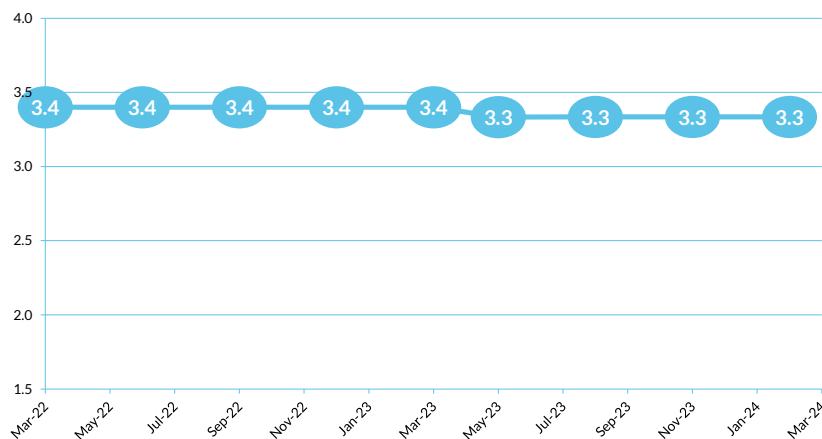
Emissions (tCO ₂ e)	Dec-21	Dec-22	Dec-23
Scope 1	37,000	38,000	na
Scope 2	83,000	70,000	na
Scope 3	1,900	37,000	na
Total emissions	121,900	145,000	na

Source: Company data, RHB

Latest ESG-Related Developments

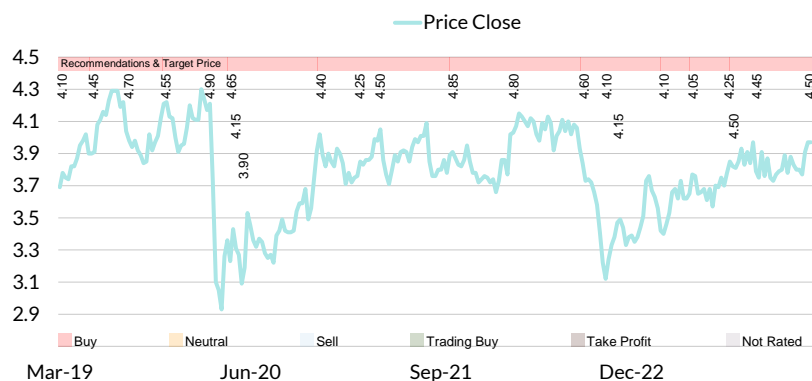
- In 2021, STE set a target to reduce its GHG emissions by 50% over the 2010 base year by 2030. It is also targeting halving absolute Scope 1 and Scope 2 GHG emissions by 2030 compared to a 2010 base year.
- In 2022, ST Engineering was included in the Dow Jones Sustainability Asia Pacific Index as identified 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.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2022-02-27	Buy	4.80	3.77
2021-10-04	Buy	4.85	3.88
2021-04-12	Buy	4.50	3.97

Source: RHB, Bloomberg

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Not Rated:	Stock is not within regular research coverage

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