

COMPANY RESULTS

Singapore Technologies Engineering (STE SP)

1Q24: Strong 1Q24 Revenue Performance Bodes Well For The Full Year

STE's 1Q24 revenue of S\$2.70b is in line, accounting for 24.6% of our full-year projection. Group revenue rose 18% yoy, driven by strong revenue growth in CA (+32%, backed by strong demand) and DPS (+14%). USS posted yoy marginally lower revenue due to project timing. A strong orderbook of S\$27.7b as of end-1Q24 provides good revenue visibility in the medium term. Maintain BUY on STE for its strong organic core earnings growth (2024-26 CAGR: 10.2%). Target price: S\$4.50.

1Q24 REVENUE PERFORMANCE

Year to 31 Dec (S\$m)	1Q24		1Q23		yoy %		qoq %		FY24F	Comment
	Q1	Q2	Q1	Q2	chng	chng	Q1	Q2		
Revenue	2,703	2,289	2,703	2,289	+18	-4	11,000		11,000	In line, 1Q24 at 24.6% of FY24F
- CA	1,152	873	1,152	873	+32	+8	4,200		4,200	Slightly above, 1Q24 at 27.4% of FY24F
- USS	429	434	429	434	-1	-25	2,150		2,150	Slightly below, 1Q24 at 20.0% of FY24F
- DPS	1,123	982	1,123	982	+14	-3	4,650		4,650	In line, 1Q24 at 24.2% of FY24F

Source: STE

RESULTS

• **1Q24 business update; revenue in line.** Singapore Technologies Engineering's (STE) 1Q24 revenue of S\$2.70b (+18% yoy) is in line with our expectations at 24.6% of our full-year forecast.

- **Commercial aerospace (CA):** 1Q24 CA revenue of S\$1.15b (+32% yoy) came in slightly stronger than our expectations, at 27.4% of our full-year forecast. The CA revenue growth was driven by broad-based revenue growth across different sub-segments. According to management, the CA division is firing on all cylinders (MRO, P2F, Nacelle manufacturing) and its capacity is close to being optimally utilised.

- **Defence & public security (DPS):** 1Q24 DPS revenue of S\$1.12b (+14% yoy) is in line with our expectations, at 24.2% of our full-year forecast. The DPS revenue growth was also driven by growth in all sub-segments.

- **Urban solutions & satcom (USS):** 1Q24 USS revenue of S\$429m (-1%) is slightly behind our projections, at 20.0% of our full-year forecast. STE noted that TransCore has registered over 10% yoy growth in 1Q24, but the Urban Solutions base business revenue will be more 2H weighted. Satcom business remains under transformation, which has been progressing well, according to management.

• **Quarterly dividend of 4 S cents** has been maintained by STE.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	9,035	10,101	11,000	11,330	11,670
EBITDA	1,181	1,361	1,500	1,560	1,609
Operating profit	665	840	930	981	1,022
Net profit (rep./act.)	535	586	641	700	743
Net profit (adj.)	435	554	641	700	743
EPS (S\$ cent)	13.9	17.7	20.4	22.3	23.7
PE (x)	29.1	22.8	19.7	18.1	17.0
P/B (x)	5.2	5.1	4.8	4.5	4.1
EV/EBITDA (x)	15.0	12.8	11.8	11.4	11.0
Dividend yield (%)	4.0	4.0	4.0	4.0	4.0
Net margin (%)	5.9	5.8	5.8	6.2	6.4
Net debt/(cash) to equity (%)	198.5	182.9	162.8	143.9	124.7
ROE (%)	22.2	24.1	25.3	25.9	25.4
Consensus net profit	-	-	684	783	861
UOBKH/Consensus (x)	-	-	0.94	0.89	0.86

Source: STE, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$4.03
Target Price	S\$4.50
Upside	+11.6%

COMPANY DESCRIPTION

ST Engineering is a global technology, defence and engineering group with a diverse portfolio of businesses across the aerospace, smart city, defence and public security segments.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	STE SP
Shares issued (m):	3,119.9
Market cap (S\$ m):	12,573.1
Market cap (US\$m):	9,288.6
3-mth avg daily t'over (US\$m):	12.0

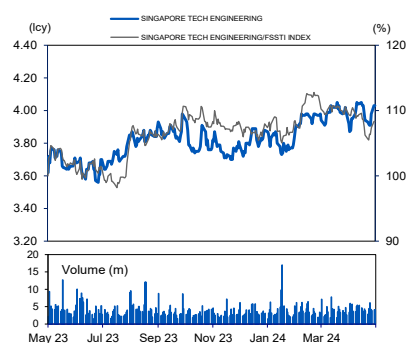
Price Performance (%)

52-week high/low	S\$ 4.05/S\$ 3.56			
1mth	3mth	6mth	1yr	YTD
1.0	6.3	7.2	10.4	3.6

Major Shareholders

Temasek Hldgs	51.7
FY24 NAV/Share (S\$)	0.84
FY24 Net Debt/Share (S\$)	1.76

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Orderbook standing at a record high.** STE's orderbook stood at S\$27.7b at end-1Q24 (4Q23: S\$27.4b), matching the previous record-high levels at end-2Q23. During the quarter, STE secured S\$3.0b worth of new contracts, contributed by healthy contract wins across all three segments (CA: S\$0.84b, DPS: S\$1.65b, USS: S\$0.54b). STE guided for S\$6.5b worth of contracts to be delivered in the rest of 2024; this is 12% higher than S\$5.8b contract delivery guidance a year ago for Apr-Dec 23.
- On track to hit record levels of revenue and net profit in 2024.** With the strong orderbook and STE's guided yoy higher orderbook conversion to revenue, we maintain our expectations that STE will achieve record-high levels of annual revenue at S\$11b in 2024 (+8.9% yoy). This means that STE will hit its 2026 revenue target (communicated in its 2021 corporate strategy) two years in advance. We forecast STE's core net profit to grow 15.6% yoy to S\$641m in 2024. The faster growth in core net profit than revenue is explained by our projected slightly better overall operating margins for the group in 2024 at 8.5% (2023: 8.4%), backed by largely stable/improving operating margins of individual business segments.

Individual business segment outlook:

- CA:** Management believes that the strong revenue momentum seen by CA in 1Q24 will continue into the rest of the year, underpinned by strong demand across all sub-segments. CA operating margin is expected to improve yoy in 2024 as operating leverage kicks in with higher MRO project deliveries, nacelle production, and improving learning curves of STE's Airbus P2F conversion programme.
- DPS:** Although DPS' quarterly revenue and margin performance may depict lumpiness due to the project-based nature, we expect DPS to maintain steady performance in 2024, given its strong orderbook and management's targeted low double-digit margins. Within DPS, the digital business (including cloud, AI analytics and cybersecurity) has been one of fastest growing sub-segments, with a 40% revenue CAGR in 2020-23. Although it is still a relatively small contributor to STE (4.6% of group revenue in 2023) due to STE's sheer size, we see it as a promising business with strong outlook, backed by growing demand from STE's customer base including governments, critical infrastructure owners/operators and enterprises.
- USS:** Management guided for USS to record yoy stronger performance in both revenue and profit in 2024, backed by satisfactory contribution from TransCore (which has turned earnings-accretive since 2H23), and expected improving performance of Satcom, following the sub-segment's restructuring and on-going transformation.

EARNINGS REVISION/RISKS

- Earnings forecast:** No change. Our earnings forecasts implies a 2024-26 core earnings CAGR of 10.2%.
- Key risks:** Negative margin surprises due to project cost overrun and/or inflationary cost pressure.

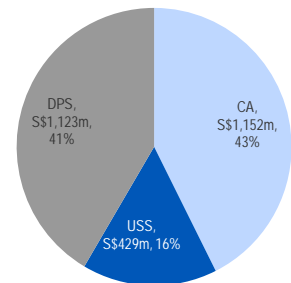
VALUATION/RECOMMENDATION

- Maintain BUY and target price of S\$4.50.** Our target price is based on 7.75% WACC and 2.5% terminal growth assumptions. STE currently trades at 18.1x 2025F PE, 1.7SD below its historical one-year forward mean PE of 21.7x. Our target price implies a 20.2x 2025F PE, 0.7SD below the historical one-year forward mean.

SHARE PRICE CATALYST

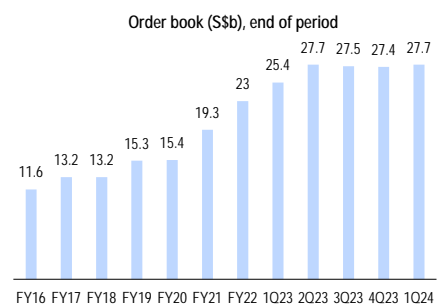
- Organic core earnings growth.
- Monetisation of non-core businesses and paring down of debt.

REVENUE BY BUSINESS SEGMENT (1Q24)



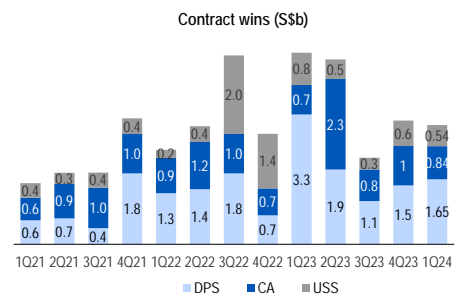
Source: STE

ORDERBOOK AT HISTORICAL HIGH



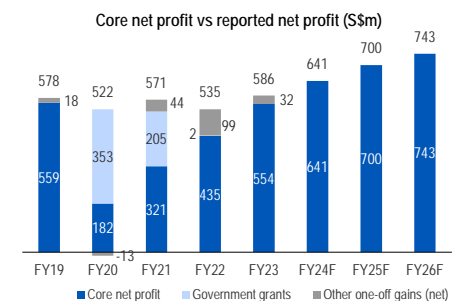
Source: STE

CONTRACT WIN BY BUSINESS SEGMENT



Source: STE

WE FORECAST STE'S CORE NET PROFIT TO GROW BY A 10.2% CAGR IN 2024-26



Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Net turnover	10,101.0	11,000.0	11,330.0	11,669.9
EBITDA	1,361.0	1,500.4	1,559.8	1,608.9
Deprec. & amort.	520.9	570.4	578.4	586.7
EBIT	840.1	930.0	981.3	1,022.2
Total other non-operating income	16.5	0.0	0.0	0.0
Associate contributions	58.1	60.0	63.0	64.9
Net interest income/(expense)	(210.4)	(201.5)	(182.3)	(173.5)
Pre-tax profit	704.2	788.4	862.1	913.5
Tax	(99.8)	(123.8)	(135.8)	(144.3)
Minorities	(18.0)	(23.8)	(26.7)	(26.7)
Net profit	586.5	640.8	699.6	742.6
Core net profit	554.3	640.8	699.6	742.6

BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Fixed assets	2,727.3	2,921.5	2,984.3	3,048.7
Other LT assets	6,021.8	5,958.8	5,896.8	5,834.8
Cash/ST investment	353.3	176.8	151.6	167.7
Other current assets	6,276.5	6,306.9	6,412.2	6,520.6
Total assets	15,378.9	15,364.0	15,444.9	15,571.9
ST debt	2,563.7	2,563.7	2,563.7	2,563.7
Other current liabilities	4,758.7	5,035.7	5,138.6	5,244.7
LT debt	3,544.4	3,086.3	2,836.3	2,586.3
Other LT liabilities	1,759.8	1,759.8	1,759.8	1,759.8
Shareholders' equity	2,459.3	2,601.8	2,803.0	3,047.3
Minority interest	293.0	316.8	343.5	370.1
Total liabilities & equity	15,378.9	15,364.0	15,444.9	15,571.9

CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Operating	1,178.6	1,633.1	1,432.7	1,473.3
Pre-tax profit	704.2	788.4	862.1	913.5
Tax	(158.9)	(123.8)	(135.8)	(144.3)
Deprec. & amort.	541.4	570.4	578.4	586.7
Associates	(58.1)	(60.0)	(63.0)	(64.9)
Working capital changes	(100.8)	246.5	(2.3)	(2.4)
Other operating cashflows	250.6	211.7	193.4	184.6
Investing	(200.8)	(557.0)	(431.6)	(439.6)
Capex (maintenance)	(615.9)	(617.0)	(494.6)	(504.5)
Investments	0.0	0.0	0.0	0.0
Others	415.2	60.0	63.0	64.9
Financing	(1,226.1)	(1,252.7)	(1,026.3)	(1,017.6)
Dividend payments	(498.7)	(498.3)	(498.3)	(498.3)
Proceeds from borrowings	3,199.5	0.0	0.0	0.0
Loan repayment	(3,506.5)	(458.1)	(250.0)	(250.0)
Others/interest paid	(420.5)	(296.2)	(278.0)	(269.2)
Net cash inflow (outflow)	(248.3)	(176.5)	(25.2)	16.1
Beginning cash & cash equivalent	601.7	353.3	176.8	151.6
Changes due to forex impact	(0.2)	0.0	0.0	0.0
Ending cash & cash equivalent	353.3	176.8	151.6	167.7

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	13.5	13.6	13.8	13.8
Pre-tax margin	7.0	7.2	7.6	7.8
Net margin	5.8	5.8	6.2	6.4
ROA	3.9	4.2	4.5	4.8
ROE	24.1	25.3	25.9	25.4
Growth				
Turnover	11.8	8.9	3.0	3.0
EBITDA	15.2	10.2	4.0	3.1
Pre-tax profit	17.9	12.0	9.3	6.0
Net profit (reported)	9.6	9.3	9.2	6.2
Core net profit	27.5	15.6	9.2	6.2
EPS	27.5	15.6	9.2	6.2
Leverage				
Debt to total capital	68.9	65.9	63.2	60.1
Debt to equity	248.4	217.2	192.6	169.0
Net debt/(cash) to equity	182.9	162.8	143.9	124.7

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