

## Singapore

October 14, 2024 - 2:09 PM

**ADD** (no change)

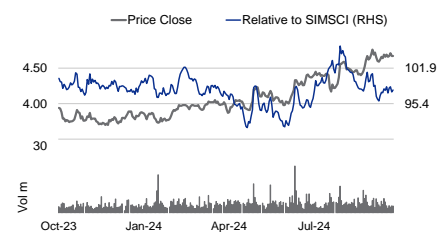
Consensus ratings\*: Buy 12 Hold 2 Sell 0

Current price:	S\$4.67
Target price:	S\$5.30
Previous target:	S\$5.30
Up/downside:	13.5%
CGSI / Consensus:	6.3%
Reuters:	STEG.SI
Bloomberg:	STE SP
Market cap:	US\$11,149m S\$14,559m
Average daily turnover:	US\$14.95m S\$19.62m
Current shares o/s	3,122m
Free float:	49.0%

\*Source: Bloomberg

### Key financial forecasts

	Dec-24F	Dec-25F	Dec-26F
Net Profit (S\$m)	702.5	805.0	873.1
Core EPS (S\$)	0.23	0.26	0.28
Core EPS Growth	22.4%	14.6%	8.5%
FD Core P/E (x)	20.72	18.08	16.67
Recurring ROE	27.4%	28.6%	27.7%
P/BV (x)	5.47	4.90	4.36
DPS (S\$)	0.16	0.16	0.16
Dividend Yield	3.43%	3.43%	3.43%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	3.3	5.9	20.7
Relative (%)	-0.5	1.8	0.7

Major shareholders	% held
Temasek Holdings	50.0
Capital Group	5.0
BlackRock	1.8

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# ST Engineering

## Growing smart city presence in Middle East

- STE clinched a S\$60m smart city contract in Qatar. While the contract size is small, we are positive on future potential wins in the Middle East region.
- For its business update on 18 Nov 2024, we preview 3Q24F revenue to come in at S\$2.75-2.79bn (+13-15% yoy), largely in line with consensus figures.
- Reiterate Add. Our TP is unchanged at S\$5.30, based on 20x CY25F P/E.

### S\$60m smart city contract clinched in Qatar

- STE announced today (14 Oct 2024) the clinching of a c.S\$60m contract from Lusail Real Estate Development Company, a subsidiary of Qatari Diar (unlisted).
- The contract entails the design, build and operation of a smart city platform for Lusail City, Qatar. STE estimates the project to commence in 4Q24F and conclude by 2027F.
- STE will be mainly providing its Urban Solution's AGIL Smart City Operating System, a system powered by artificial intelligence (AI), machine learning, and data analytics. The system will be used to integrate a diverse range of smart city solutions (across various sectors such as lighting, building, and traffic management) to provide insights into Lusail city's operations.
- While the contract value is small relative to group revenue, we view the contract win positively as successful execution could pave the way for future larger contracts in the Middle East. Recall that STE has been steadily ramping up its Middle East contract wins over the past few quarters; notable wins include a smart carpark contract in Dubai as well as various international defence contracts.
- In addition, we understand that STE is working hard to win tolling contracts in Asia. Large contract wins in this space could be a key re-rating catalyst, as this presents TransCore (tolling subsidiary, forms c.10% of FY24F revenue by our estimate) with a longer-term growth runway, we think.

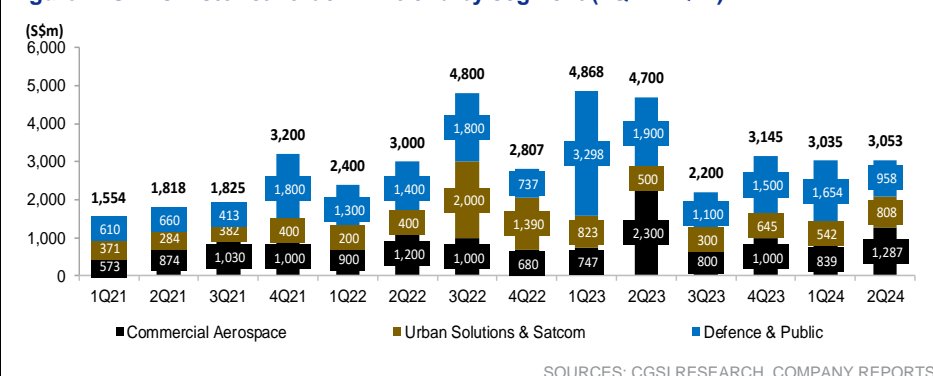
### 3Q24F: expecting double-digit topline growth yoy

- We expect STE to report its 3Q24F business update on 18 Nov 2024. No financials will be shared except for revenue.
- We preview 3Q24F revenue to come in at S\$2.75-2.79bn (+13-15% yoy, flattish qoq), largely in line with Bloomberg consensus.
- We believe Commercial Aerospace and Defence are the key revenue drivers for 3Q24F, with both segments up c.15% yoy by our estimates.

### Reiterate Add with an unchanged TP of S\$5.30

- Reiterate Add. We continue to like STE as we see industry tailwinds driving both Aerospace and Defence, supporting our FY24-27F core EPS CAGR of c.15%. Our TP remains at S\$5.30, still based on 20x CY25F P/E (10-year average).
- Re-rating catalysts: large defence contract wins and large tolling contract wins in Asia. Downside risks: economic slowdown affecting order wins and Aerospace activities.

Figure 1: STE's historical order win trend by segment (1Q21-2Q24)



SOURCES: CGSI RESEARCH, COMPANY REPORTS

Figure 2: Peers comparison

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	P/E (x) CY24F	P/E (x) CY25F	3-year EPS CAGR	P/BV (x) CY24F	P/BV (x) CY25F	Recurring ROE CY24F	EV/EBITDA (x) CY24F	EV/EBITDA (x) CY25F	Dividend Yield CY24F
ST Engineering	STE SP	Add	4.67	5.30	11,149	20.7	18.1	16.1%	5.47	4.90	27.3%	13.1	11.8	3.4%
<b>Commercial Aerospace:</b>														
AAR Corp	AIR US	NR	59	NA	2,205	45.7	14.2	37.2%	na	na	na	10.8	9.4	na
FTAI Aviation Ltd	FTAI US	NR	144	NA	14,964	158.4	32.5	40.0%	94.03	45.23	49.5%	21.8	17.9	0.8%
General Electric Co	GE US	NR	188	NA	207,277	44.4	36.2	-9.9%	11.33	11.55	25.8%	22.6	20.1	0.5%
HEICO Corp	HEI US	NR	258	NA	31,746	68.5	57.2	10.8%	9.36	8.04	17.0%	33.1	30.0	0.1%
RTX Corp	RTX US	NR	123	NA	164,857	22.4	20.1	45.1%	2.73	2.64	11.1%	16.0	14.6	2.0%
Safran SA	SAF FP	NR	205	NA	96,613	29.0	24.1	6.3%	6.75	5.79	23.4%	16.3	14.1	1.4%
SIA Engineering	SIE SP	Add	2.39	2.65	2,051	19.3	17.6	16.5%	1.54	1.49	8.1%	21.5	17.6	3.7%
Spirit AeroSystems Holdings In	SPR US	NR	31	NA	3,669	nm	30.3	na	na	na	88.5%	na	10.1	0.1%
Triumph Group Inc	TGI US	NR	14	NA	1,160	2.0	19.1	-39.7%	na	na	-33.7%	8.0	9.0	0.0%
<b>Median</b>						<b>36.7</b>	<b>24.1</b>	<b>13.7%</b>	<b>8.06</b>	<b>6.92</b>	<b>20.2%</b>	<b>18.9</b>	<b>14.6</b>	<b>0.7%</b>
<b>Urban Solutions:</b>														
ABB Ltd	ABBN SW	NR	50	NA	108,962	25.4	23.5	10.0%	7.18	6.17	28.4%	17.6	16.0	1.7%
Cisco Systems Inc	CSCO US	NR	54	NA	216,497	21.0	14.5	12.0%	4.71	4.48	26.2%	11.2	11.0	2.9%
Fujitsu Ltd	6702 JP	NR	3,156	NA	43,344	23.3	18.1	9.3%	3.19	3.02	15.8%	13.5	11.4	0.9%
General Electric Co	GE US	NR	188	NA	207,277	44.4	36.2	-9.9%	11.33	11.55	25.8%	22.6	20.1	0.5%
Hitachi Ltd	6501 JP	NR	3,935	NA	122,363	31.0	24.2	13.5%	3.10	2.89	11.2%	16.9	12.4	0.9%
Honeywell International Inc	HON US	NR	214	NA	140,322	21.2	19.2	12.6%	8.08	7.78	37.6%	15.5	14.2	2.1%
International Business Machine	IBM US	NR	233	NA	214,867	23.0	21.9	11.0%	8.17	6.96	37.9%	17.1	16.1	2.9%
Intel Corp	INTC US	NR	23	NA	100,743	94.8	21.3	65.5%	0.88	0.85	1.0%	12.9	8.0	1.7%
Motorola Solutions Inc	MSI US	NR	465	NA	78,072	34.9	32.0	16.2%	48.03	28.93	225.8%	23.8	22.8	0.8%
NEC Corp	6701 JP	NR	13,650	NA	24,989	24.3	18.8	13.7%	1.82	1.70	8.0%	10.8	8.6	0.9%
Schneider Electric SE	SU FP	NR	242	NA	152,841	29.4	25.8	13.9%	4.72	4.29	16.5%	19.5	17.5	1.5%
Siemens AG	SIE GR	NR	185	NA	161,959	15.8	16.8	-4.0%	2.82	2.61	16.5%	13.7	12.3	2.7%
<b>Median</b>						<b>24.9</b>	<b>21.6</b>	<b>12.3%</b>	<b>4.72</b>	<b>4.39</b>	<b>21.2%</b>	<b>16.2</b>	<b>13.3</b>	<b>1.6%</b>
<b>Satellite communications:</b>														
EchoStar Corp	SATS US	NR	25	NA	6,778	nm	nm	-11.5%	0.35	0.36	-2.0%	15.6	15.4	0.0%
Eutelsat Communications SACA	ETL FP	NR	3.82	NA	1,982	nm	nm	-45.1%	0.48	0.50	-5.5%	6.4	5.8	0.0%
Gilat Satellite Networks Ltd	GILT US	NR	4.96	NA	281	16.2	13.2	na	na	na	5.2%	4.6	3.8	na
Iridium Communications Inc	IRDM US	NR	29	NA	3,498	34.4	28.7	131.6%	5.19	7.17	15.8%	11.0	10.3	1.9%
Viasat Inc	VSAT US	NR	11	NA	1,373	nm	12.4	na	0.28	0.29	-6.8%	4.5	4.3	na
<b>Median</b>						<b>25.3</b>	<b>13.2</b>	<b>-11.5%</b>	<b>0.42</b>	<b>0.43</b>	<b>-2.0%</b>	<b>6.4</b>	<b>5.8</b>	<b>0.0%</b>
<b>Defence and Public Security:</b>														
BAE Systems PLC	BAES US	NR	65	NA	50,107	18.4	16.2	na	3.35	3.09	18.5%	12.3	11.2	2.5%
Elbit Systems Ltd	ESLT US	NR	205	NA	9,146	25.9	22.3	na	na	na	na	15.6	13.8	na
General Dynamics Corp	GD US	NR	296	NA	82,279	20.8	18.0	13.8%	3.68	3.43	18.2%	15.3	13.8	1.9%
Hanwha Aerospace Co Ltd	012450 KS	NR	356,500	NA	11,968	27.3	18.9	6.5%	4.16	3.50	16.1%	14.5	12.1	0.6%
Hyundai Rotem Co Ltd	064350 KS	NR	61,500	NA	4,984	19.1	14.1	42.3%	3.35	2.73	19.1%	14.3	10.1	0.2%
LIG Nex1 Co Ltd	079550 KS	NR	242,500	NA	3,881	24.9	20.8	23.3%	4.35	3.71	19.1%	16.9	14.2	0.8%
Lockheed Martin Corp	LMT US	NR	597	NA	144,009	22.5	21.1	3.1%	23.81	21.26	98.0%	16.5	15.7	2.1%
Mitsubishi Heavy Industries Lt	7011 JP	NR	2,210	NA	49,937	33.4	23.1	19.8%	3.17	2.88	11.3%	16.5	15.3	1.0%
Northrop Grumman Corp	NOC US	NR	527	NA	77,320	20.9	19.0	29.3%	5.30	4.94	24.9%	15.6	14.4	1.5%
Oshkosh Corp	OSK US	NR	100	NA	6,766	8.6	8.7	9.1%	1.63	1.44	19.1%	7.3	7.4	1.8%
Rheinmetall AG	RHM GR	NR	474	NA	23,084	21.8	16.0	47.1%	5.38	4.35	25.3%	12.5	9.7	1.6%
<b>Median</b>						<b>21.8</b>	<b>18.9</b>	<b>19.8%</b>	<b>3.92</b>	<b>3.47</b>	<b>19.1%</b>	<b>15.3</b>	<b>13.8</b>	<b>1.6%</b>
<b>Marine:</b>														
China CSSC Holdings Ltd	600150 CH	NR	40	NA	25,692	34.0	20.4	57.6%	3.44	3.01	10.2%	20.5	12.8	1.0%
China Shipbuilding Industry Co	601989 CH	NR	5.35	NA	17,324	56.3	28.2	na	1.4	1.4	0.0%	na	na	na
Hanwha Ocean	042660 KS	Add	30,850	42,600	6,998	48.2	19.6	51.1%	2.10	1.90	4.5%	28.6	13.4	0.0%
HD Hyundai Mipo	010620 KS	Add	98,500	143,000	2,912	114.5	16.9	na	1.96	1.76	1.7%	34.9	10.2	0.0%
Korea Shipbuilding & Offshore	009540 KS	Add	185,200	232,000	9,703	18.3	8.2	120.9%	1.22	1.04	6.9%	8.8	4.6	0.0%
Samsung Heavy Industries	010140 KS	Add	9,870	16,500	6,430	38.6	17.9	na	2.36	2.08	6.3%	6.8	3.5	0.0%
Yangzijiang Shipbuilding	YZJSGD SP	Add	2.50	3.20	7,563	9.3	8.4	15.4%	2.15	1.83	25.1%	4.9	3.7	3.5%
<b>Median</b>						<b>38.6</b>	<b>17.9</b>	<b>54.4%</b>	<b>2.10</b>	<b>1.83</b>	<b>6.3%</b>	<b>14.7</b>	<b>7.4</b>	<b>0.0%</b>

SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG  
Note: All forecasts for Not rated companies are based on Bloomberg consensus estimates  
Data as at 13 Oct 2024

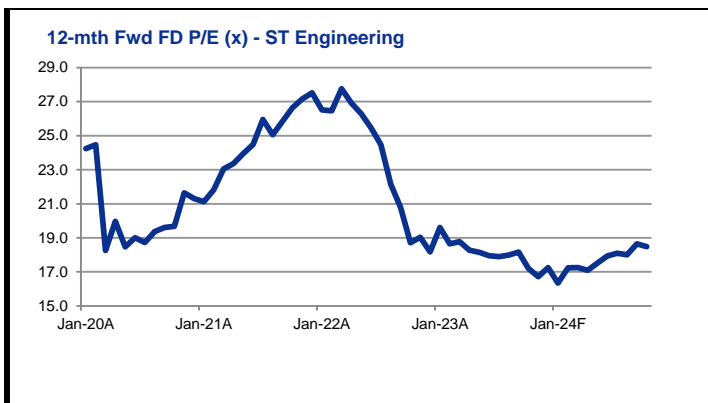
## BY THE NUMBERS

Profit & Loss				
(\$m)	Dec-23A	Dec-24F	Dec-25F	Dec-26F
<b>Total Net Revenues</b>	<b>10,101</b>	<b>11,350</b>	<b>12,124</b>	<b>12,719</b>
<b>Gross Profit</b>	<b>1,973</b>	<b>2,254</b>	<b>2,476</b>	<b>2,629</b>
<b>Operating EBITDA</b>	<b>1,382</b>	<b>1,524</b>	<b>1,665</b>	<b>1,765</b>
Depreciation And Amortisation	(541)	(539)	(553)	(568)
<b>Operating EBIT</b>	<b>840</b>	<b>985</b>	<b>1,111</b>	<b>1,196</b>
Financial Income/(Expense)	(210)	(201)	(200)	(207)
Pretax Income/(Loss) from Assoc.	58	77	77	87
Non-Operating Income/(Expense)	16	0	0	0
<b>Profit Before Tax (pre-EI)</b>	<b>704</b>	<b>860</b>	<b>988</b>	<b>1,076</b>
Exceptional Items				
<b>Pre-tax Profit</b>	<b>704</b>	<b>860</b>	<b>988</b>	<b>1,076</b>
Taxation	(100)	(138)	(158)	(172)
Exceptional Income - post-tax				
<b>Profit After Tax</b>	<b>604</b>	<b>723</b>	<b>830</b>	<b>904</b>
Minority Interests	(18)	(20)	(25)	(31)
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
<b>Net Profit</b>	<b>586</b>	<b>703</b>	<b>805</b>	<b>873</b>
Recurring Net Profit	574	703	805	873
<b>Fully Diluted Recurring Net Profit</b>	<b>574</b>	<b>703</b>	<b>805</b>	<b>873</b>

Balance Sheet				
(\$m)	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Cash And Equivalents	353	389	673	1,144
Total Debtors	1,581	1,648	1,711	1,742
Inventories	1,897	2,043	2,088	2,101
Total Other Current Assets	2,798	2,938	3,105	3,232
<b>Total Current Assets</b>	<b>6,630</b>	<b>7,019</b>	<b>7,576</b>	<b>8,220</b>
Fixed Assets	2,076	2,237	2,389	2,481
Total Investments	630	633	636	639
Intangible Assets	4,958	4,849	4,741	4,633
Total Other Non-Current Assets	1,084	1,084	1,084	1,084
<b>Total Non-current Assets</b>	<b>8,749</b>	<b>8,804</b>	<b>8,850</b>	<b>8,836</b>
Short-term Debt	2,564	2,564	2,564	2,564
Current Portion of Long-Term Debt				
Total Creditors	3,155	3,464	3,621	3,760
Other Current Liabilities	1,604	1,725	1,826	1,904
<b>Total Current Liabilities</b>	<b>7,322</b>	<b>7,752</b>	<b>8,011</b>	<b>8,227</b>
Total Long-term Debt	3,544	3,335	3,350	3,360
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	1,760	1,760	1,760	1,760
<b>Total Non-current Liabilities</b>	<b>5,304</b>	<b>5,095</b>	<b>5,110</b>	<b>5,120</b>
Total Provisions	0	0	0	0
<b>Total Liabilities</b>	<b>12,627</b>	<b>12,847</b>	<b>13,121</b>	<b>13,347</b>
Shareholders' Equity	2,459	2,662	2,968	3,341
Minority Interests	293	313	337	368
<b>Total Equity</b>	<b>2,752</b>	<b>2,975</b>	<b>3,305</b>	<b>3,709</b>

Cash Flow				
(\$m)	Dec-23A	Dec-24F	Dec-25F	Dec-26F
EBITDA	1,382	1,524	1,665	1,765
Cash Flow from Invnt. & Assoc.	(58)	(77)	(77)	(87)
Change In Working Capital	(101)	77	(15)	44
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	355	318	297	304
Net Interest (Paid)/Received	(240)	(201)	(200)	(207)
Tax Paid	(159)	(138)	(158)	(172)
<b>Cashflow From Operations</b>	<b>1,179</b>	<b>1,503</b>	<b>1,512</b>	<b>1,646</b>
Capex	(540)	(500)	(500)	(450)
Disposals Of FAs/subsidiaries				
Acq. Of Subsidiaries/investments				
Other Investing Cashflow	340	(17)	(23)	(18)
<b>Cash Flow From Investing</b>	<b>(201)</b>	<b>(517)</b>	<b>(523)</b>	<b>(468)</b>
Debt Raised/(repaid)	(297)	(209)	15	10
Proceeds From Issue Of Shares	0	0	0	0
Shares Repurchased	(21)	0	0	0
Dividends Paid	(499)	(500)	(500)	(500)
Preferred Dividends				
Other Financing Cashflow	(409)	(241)	(220)	(217)
<b>Cash Flow From Financing</b>	<b>(1,226)</b>	<b>(950)</b>	<b>(705)</b>	<b>(707)</b>
Total Cash Generated	(248)	36	284	472
<b>Free Cashflow To Equity</b>	<b>680</b>	<b>777</b>	<b>1,004</b>	<b>1,188</b>
<b>Free Cashflow To Firm</b>	<b>1,230</b>	<b>1,227</b>	<b>1,209</b>	<b>1,395</b>

Key Ratios				
	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Revenue Growth	11.8%	12.4%	6.8%	4.9%
Operating EBITDA Growth	16.9%	10.3%	9.3%	6.0%
Operating EBITDA Margin	13.7%	13.4%	13.7%	13.9%
Net Cash Per Share (\$)	(1.85)	(1.77)	(1.68)	(1.53)
BVPS (\$)	0.79	0.85	0.95	1.07
Gross Interest Cover	3.34	4.08	5.04	5.51
Effective Tax Rate	14.2%	16.0%	16.0%	16.0%
Net Dividend Payout Ratio	85.2%	71.1%	62.1%	57.2%
Accounts Receivables Days	49.39	52.07	50.56	49.55
Inventory Days	80.41	79.29	78.15	75.77
Accounts Payables Days	134.3	133.2	134.0	133.5
ROIC (%)	7.6%	8.6%	9.7%	10.4%
ROCE (%)	9.8%	11.6%	12.5%	12.8%
Return On Average Assets	5.17%	5.71%	6.19%	6.44%



Key Drivers				
	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Commercial Aerospace sales (\$m)	3,905.3	4,552.0	4,836.8	5,077.3
Urban Solutions & Satcom sales (\$m)	1,943.8	2,014.5	2,195.0	2,324.2
Defence & Public Security sales (\$m)	4,252.0	4,783.1	5,092.4	5,317.5

SOURCES: CGSI RESEARCH, COMPANY REPORTS

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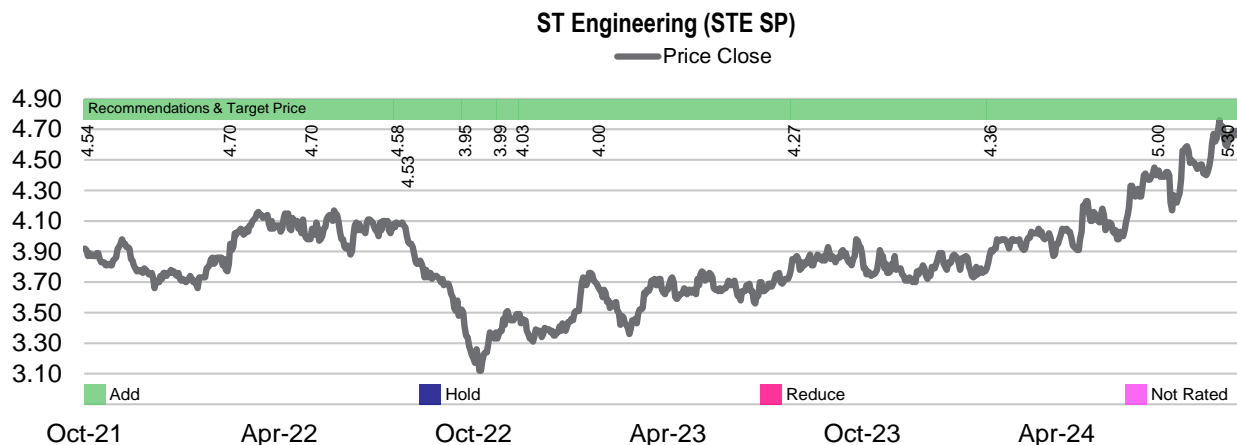
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588 companies under coverage for quarter ended on 30 September 2024		
	Rating Distribution (%)	Investment Banking clients (%)
Add	67.0%	0.5%
Hold	23.5%	0.9%
Reduce	9.5%	0.2%

**Spitzer Chart for stock being researched ( 2 year data )**



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Add	The stock's total return is expected to exceed 10% over the next 12 months.
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