

COMPANY RESULTS

Singapore Technologies Engineering (STE SP)

3Q24: Revenue In Line; Expect To End 2024 On A Strong Note

STE's 3Q24/9M24 revenue of S\$2.78b/S\$8.30b was in line with our expectations, forming 25%/74% of our 2024 full-year forecast. 3Q24 group revenue rose 14% yoy, driven by revenue growth in DPS (+31%, backed by strong demand) and CA (+7%). USS posted a 5% yoy revenue drop in 3Q24 as Satcom is still undergoing transformation. Orderbook remained strong at S\$26.9b as of end-3Q24. Management is confident about ending 2024 with a strong performance. Maintain BUY. Target price: S\$4.95.

3Q24/9M24 REVENUE PERFORMANCE

Year to 31 Dec (\$m)	3Q24	3Q23	yoy % chg	9M24	9M23	yoy % chg	FY24F	Comment
Revenue	2,782	2,434	+14	8,302	7,297	+14	11,250	In line, 9M24 at 74% of 2024F
- DPS	1,273	973	+31	3,644	3,090	+18	4,748	Above, 9M24 at 77% of 2024F
- CA	1,054	982	+7	3,285	2,838	+16	4,531	Slightly below, 9M24 at 73% of 2024F
- USS	455	478	-5	1,373	1,369	+0.3	1,971	Slightly below, 9M24 at 70% of 2024F

Source: STE

RESULTS

• **3Q24 revenue in line.** Singapore Technologies Engineering's (STE) 3Q24 revenue of S\$2.78b (+14% yoy, -1% qoq) was in line with our expectations, at 25% of our full-year forecast. 9M24 revenue of S\$8.30b (+14% yoy) stood at 74%. Segmental revenue performance was more mixed.

a) Defence & public security (DPS). 3Q24 DPS revenue of S\$1.27b (+31% yoy, +2% qoq) came in slightly above our expectations, with 9M24 revenue of S\$3.64b (+18% yoy) forming 77% of our full-year forecasts. DPS has seen revenue growth across all sub-segments on the back of strong demand.

b) Commercial aerospace (CA). 3Q24 CA revenue of S\$1.05b (+7% yoy, -2% qoq) was slightly weaker than expected, with 9M24 revenue of S\$3.29b (+16% yoy) forming 73% of our full-year forecast. The passenger-aircraft-to-freighter conversation (P2F) segment faced some challenges due to aircraft feedstock constraints, but its revenue impact on the overall CA revenue was largely offset by the MRO sub-segment's strong revenue delivery.

c) Urban solutions & satcom (USS). 3Q24 USS revenue of S\$455m (-5% yoy, -7% qoq) was slightly behind our projections, with 9M24 revenue of S\$1.37b (+0.3% yoy) forming 70% of our full-year projections. In 9M24, revenue growth at the urban solutions sub-segment (including TransCore) was largely offset by lower Satcom revenue.

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

KEY FINANCIALS

Year to 31 Dec (\$m)	2022	2023	2024F	2025F	2026F
Net turnover	9,035	10,101	11,200	11,624	12,064
EBITDA	1,181	1,382	1,542	1,600	1,658
Operating profit	665	840	969	1,015	1,059
Net profit (rep./act.)	535	586	676	707	751
Net profit (adj.)	435	554	666	707	751
EPS (S\$ cent)	13.9	17.7	21.2	22.5	23.9
PE (x)	32.1	25.2	21.0	19.8	18.6
P/B (x)	5.8	5.6	5.3	4.9	4.5
EV/EBITDA (x)	16.3	13.9	12.5	12.0	11.6
Dividend yield (%)	3.6	3.6	3.6	3.6	3.6
Net margin (%)	5.9	5.8	6.0	6.1	6.2
Net debt/(cash) to equity (%)	198.5	184.9	169.7	149.5	129.3
ROE (%)	22.2	24.1	26.5	25.8	25.3
Consensus net profit	-	-	711	810	883
UOBKH/Consensus (x)	-	-	0.94	0.87	0.85

Source: STE, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$4.45
Target Price	S\$4.95
Upside	+11.2%

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):	3,116.2
Market cap (S\$ m):	13,867.0
Market cap (US\$m):	10,314.6
3-mth avg daily t'over (US\$m):	16.3

Price Performance (%)

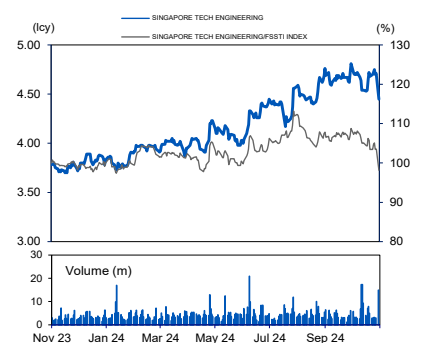
52-week high/low S\$ 4.81/S\$ 3.66

1mth	3mth	6mth	1yr	YTD
(7.5)	(2.4)	5.2	15.0	14.4

Major Shareholders

Major Shareholders	%
Temasek Hldgs	51.7
-	-
FY24 NAV/Share (S\$)	0.85
FY24 Net Debt/Share (S\$)	1.82

PRICE CHART



Source: Bloomberg

ANALYST(S)

Roy Chen, CFA
 +65 6590 6627
 roychen@uobkayhian.com

STOCK IMPACT

- Orderbook dipped slightly qoq, partly due to forex translation.** STE's orderbook of S\$26.9b at end-3Q24 came off the record-high S\$27.9b a quarter ago. Management noted that about half of the qoq dip was attributable to forex translation from a sharp depreciation of USD against SGD in 3Q24. On a same currency basis, STE's orderbook as of end-3Q24 would have been comparable to that at end-23. STE guided for S\$2.6b worth of contracts to be delivered in 4Q24, slightly higher than the S\$2.5b contract delivery guidance a year ago for 4Q23.
- Healthy contract wins.** STE secured S\$2.2b worth of new contracts in 3Q24, contributed by contract wins across all three segments (CA: S\$0.94b, DPS: S\$0.75b, USS: S\$0.47b). Note that the reported 3Q24 contract win figure has yet to include a sizeable US\$1.73b New Jersey tolling system back-office project. TransCore won the bid and was selected by the New Jersey Turnpike Authority to install and operate the state's tolling system back-office functions for a total contract period of 11 years. However, as the incumbent operator who lost the contract to TransCore filed a protest against the authority, STE has not included this project in its reported orderbook figure for the sake of prudence.
- Management expects to end 2024 with strong earnings.** Management is confident in closing 2024 with a strong performance. We forecast STE's 2024 revenue to rise 11% yoy to S\$11.2b (2023: S\$10.1b) and its core net profit (excluding one-off items such as gains/losses related to forex translation, disposal and financial asset fair value changes) to rise 20% yoy to S\$666m in 2024 (2023: S\$554m by our estimate), driven by yoy better operating profit performances of all three business segments.
- Individual business segment outlook:**
 - CA.** STE continues to see strong demand for airframe and engine MRO services. STE has been building full-service capabilities for LEAP 1A/1B engines and expect full shop visits by customers to start in early-25. Despite the feedstock issues with the P2F business, the company is backfilling the workshop slots vacated by P2F work with airframe MRO projects, which commands comparable, if not better, project margins. STE has maintained its target for its P2F business to achieve a mid-single-digit operating margin in 2024 and a high-single-digit margin in 2025.
 - DPS.** STE has gained traction in defence sales to new countries in recent quarters and management expects this strong trend of defence exports to continue, given the increasing geopolitical tensions. We believe the strong DPS operating margin seen in 1H24 is likely to extend into 2H24.
 - USS.** Management expects USS to record stronger revenue performance in 2H24 than 1H24. The 2024 full-year revenue performance of USS is guided to be higher than 2023. This implies an uptick of USS revenue in 4Q24 to at least S\$570m in 4Q24 (3Q24: S\$455m).

EARNINGS REVISION/RISKS

- Earnings forecast.** 2024 core earnings forecasts nudged up by 1.3% as we refine our projections for revenue and margin mixes. 2025/26 core earnings forecasts have been kept largely intact.
- Key risks:** Negative margin surprises due to project cost overrun and/or inflationary cost pressure.

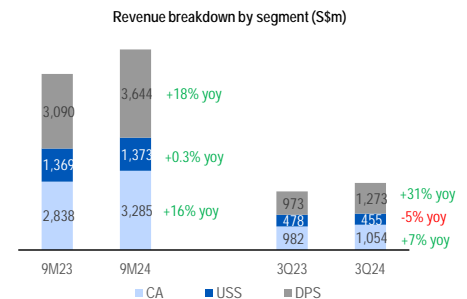
VALUATION/RECOMMENDATION

- Maintain BUY and target price of S\$4.95.** Our target price is based on 20.7x 2026F PE, pegged to STE's historical mean PE.

SHARE PRICE CATALYST

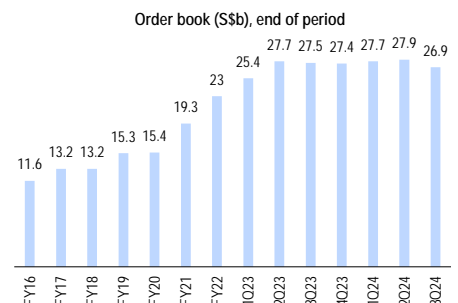
- Organic core earnings growth.
- Monetisation of non-core businesses and paring down of debt.

GROUP REVENUE ROSE 14% YOY IN 3Q24 AND 9M24, LED BY REVENUE GROWTH IN THE DPS AND CA SEGMENTS



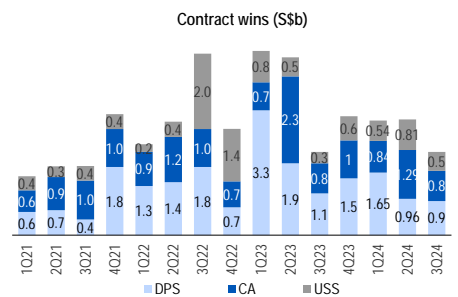
Source: STE

ORDERBOOK DIPPED QOQ PARTLY DUE TO FOREX TRANSLATION FROM WEAKEND USD AGAINST SGD



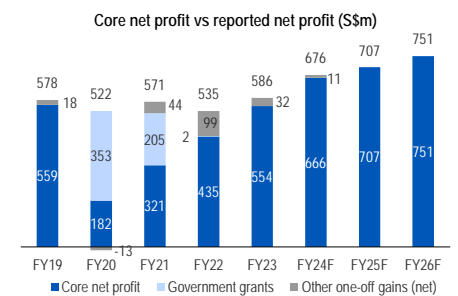
Source: STE

CONTRACT WIN BY BUSINESS SEGMENT



Source: STE

WE FORECAST STE'S CORE NET PROFIT TO GROW BY A 10.7% CAGR IN 2024-26



Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Net turnover	10,101.0	11,200.0	11,623.6	12,064.3
EBITDA	1,381.5	1,541.9	1,599.9	1,657.9
Deprec. & amort.	541.4	572.6	585.4	598.6
EBIT	840.1	969.3	1,014.6	1,059.3
Total other non-operating income	16.5	(0.1)	0.0	0.0
Associate contributions	58.1	74.0	76.2	78.5
Net interest income/(expense)	(210.4)	(208.5)	(214.2)	(207.4)
Pre-tax profit	704.2	834.7	876.6	930.5
Tax	(99.8)	(133.1)	(136.1)	(144.8)
Minorities	(18.0)	(25.2)	(33.4)	(34.4)
Net profit	586.5	676.4	707.1	751.2
Core net profit	554.3	665.6	707.1	751.2

BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Fixed assets	2,727.3	2,947.3	3,034.5	3,125.0
Other LT assets	6,021.8	5,928.9	5,835.9	5,743.0
Cash/ST investment	353.3	320.1	305.4	331.8
Other current assets	6,276.5	6,437.9	6,575.6	6,718.8
Total assets	15,378.9	15,634.2	15,751.4	15,918.6
ST debt	2,563.7	2,563.7	2,563.7	2,563.7
Other current liabilities	4,758.7	4,918.9	5,044.2	5,174.7
LT debt	3,544.4	3,436.3	3,186.3	2,936.3
Other LT liabilities	1,759.8	1,759.8	1,759.8	1,759.8
Shareholders' equity	2,459.3	2,637.4	2,845.8	3,098.2
Minority interest	293.0	318.2	351.6	386.0
Total liabilities & equity	15,378.9	15,634.2	15,751.4	15,918.6

CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Operating	1,178.6	1,422.9	1,463.6	1,512.3
Pre-tax profit	704.2	834.7	876.6	930.5
Tax	(158.9)	(133.1)	(136.1)	(144.8)
Deprec. & amort.	541.4	572.6	585.4	598.6
Associates	(58.1)	(74.0)	(76.2)	(78.5)
Working capital changes	(100.8)	(1.3)	(12.3)	(12.8)
Other operating cashflows	250.6	224.1	226.2	219.4
Investing	(200.8)	(535.8)	(413.5)	(427.8)
Capex (maintenance)	(615.9)	(609.8)	(489.8)	(506.3)
Investments	(615.9)	(609.8)	(489.8)	(506.3)
Others	415.2	74.0	76.2	78.5
Financing	(1,226.1)	(920.3)	(1,064.8)	(1,058.0)
Dividend payments	(498.7)	(498.3)	(498.8)	(498.8)
Proceeds from borrowings	3,199.5	0.0	0.0	0.0
Loan repayment	(3,506.5)	(108.1)	(250.0)	(250.0)
Others/interest paid	(420.5)	(313.8)	(316.0)	(309.2)
Net cash inflow (outflow)	(248.3)	(33.2)	(14.8)	26.5
Beginning cash & cash equivalent	601.7	353.3	320.1	305.4
Changes due to forex impact	(0.2)	0.0	0.0	0.0
Ending cash & cash equivalent	353.3	320.1	305.4	331.8

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	13.7	13.8	13.8	13.7
Pre-tax margin	7.0	7.5	7.5	7.7
Net margin	5.8	6.0	6.1	6.2
ROA	3.9	4.4	4.5	4.7
ROE	24.1	26.5	25.8	25.3
Growth				
Turnover	11.8	10.9	3.8	3.8
EBITDA	16.9	11.6	3.8	3.6
Pre-tax profit	17.9	18.5	5.0	6.1
Net profit (reported)	9.6	15.3	4.5	6.2
Core net profit	27.5	20.1	6.2	6.2
EPS	27.4	20.1	6.2	6.2
Leverage				
Debt to total capital	68.9	67.0	64.3	61.2
Debt to equity	248.4	227.5	202.1	177.5
Net debt/(cash) to equity	184.9	169.7	149.5	129.3

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