

COMPANY UPDATE

Singapore Technologies Engineering (STE SP)

Stay Invested For Steady Growth Outlook

Despite STE's recent share price strength, we recommend investors stay invested for its steady growth outlook, driven by expected stable/upbeat performances across its three business segments. We forecast STE's core net profit growth at 10.8% CAGR in 2024-26. In light of the record-high orderbook that offers good visibility, we roll over our valuation to end-25. Maintain BUY with a higher target price of S\$4.95.

WHAT'S NEW

- Achieving S\$11b revenue target two years in advance.** On its investor day in late-21, Singapore Technologies Engineering (STE) set a 2026 revenue target of S\$11b. We believe STE can meet/exceed this target in 2024 at S\$11.25b, driven by strong revenue from commercial aerospace (estimated at S\$4.65b for 2024, vs 2026 target of S\$3.50b). Development of the digital business is also ahead of schedule, with digital business revenue on track to beat the 2026 target of S\$500m this year. Smart city revenue (estimated at S\$2.5b-3.0b in 2023) has enough time to meet the S\$3.5b target by 2026.
- Commercial aerospace (CA): Strong demand met by STE's expanding capacity, likely to beat industry growth.** CA is firing on all cylinders, including airframe, engine and component MRO, freighter conversion, and nacelle and composite manufacturing. With its airframe MRO capacity expected to grow 20% by end-26, STE is poised to capture the growing MRO demand, driven by: a) the global air traffic recovery, and b) aircraft OEMs' delays in new aircraft delivery, leading to older aircraft with higher MRO requirements staying in service for longer.
- Defence & public security (DPS): Expecting steady performance; digital business a bright spot for growth.** Benefitting from Singapore's steadily growing defence needs and getting increasing international orders amid global geopolitical tensions, DPS should continue its steady performance in the years to come. Within DPS, the digital business (cloud, AI analytics and cybersecurity) is a bright spot for growth (40% CAGR in 2021-23). STE's recent investment in a new high-spec data centre will complement STE's digital offerings and add to its growth from 2026 onwards.
- Urban solutions & Satcom (USS): Pause on New York congestion pricing has limited/no impact on TransCore.** With TransCore's tolling device cameras still live as the New York Metropolitan Transportation Authority (MTA) uses them to collect and monitor traffic data, TransCore continues to execute the operation and management (O&M) contract for MTA and gets duly paid. Our base case is that the congestion pricing project will resume after the US election. In the very unlikely scenario that the O&M contract is cancelled by MTA and that TransCore could not recoup any cost savings or compensation, the earnings impact would be less than 5% of STE's bottom line.
- Stay invested for steady growth.** We forecast STE's core net profit to grow by a three-year CAGR of 10.8% in 2024-26. Our DCF-based target price (WACC: 7.5%, terminal growth: 2.5%) is raised to S\$4.95, as we roll over our valuation to end-25. STE currently trades at 19.5x 2025 PE, 0.7SD below its historical mean PE of 20.7x.

Click [here](#) for Blue Top dated 15 Jul 24

KEY FINANCIALS

Year to 31 Dec (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	9,035	10,101	11,250	11,681	12,129
EBITDA	1,181	1,382	1,529	1,613	1,676
Operating profit	665	840	955	1,026	1,075
Net profit (rep./act.)	535	586	655	706	754
Core net profit	435	554	655	706	754
EPS (S\$ cent)	13.9	17.7	20.9	22.5	24.0
PE (x)	31.6	24.8	21.0	19.5	18.2
P/B (x)	5.7	5.5	5.2	4.8	4.4
EV/EBITDA (x)	16.1	13.8	12.4	11.8	11.4
Dividend yield (%)	3.7	3.7	3.7	3.7	3.7
Net margin (%)	5.9	5.8	5.8	6.0	6.2
Net debt/(cash) to equity (%)	198.5	184.9	171.7	151.2	130.5
ROE (%)	22.2	24.1	25.8	26.0	25.5
Consensus net profit	-	-	692	790	871
UOBKH/Consensus (x)	-	-	0.95	0.89	0.87

Source: STE, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$4.38
Target Price	S\$4.95
Upside	+13.0%
(Previous TP)	S\$4.50

COMPANY DESCRIPTION

Singapore Technologies 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):	3,118.7
Market cap (S\$ m):	13,659.8
Market cap (US\$m):	10,171.1
3-mth avg daily t'over (US\$m):	15.0

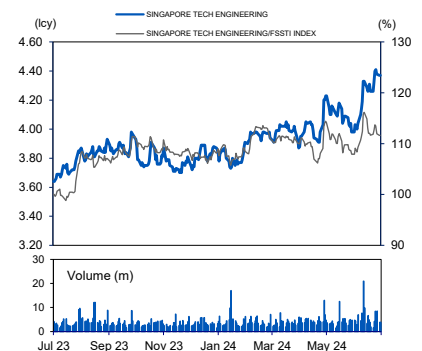
Price Performance (%)

52-week high/low	S\$ 4.41/S\$ 3.64			
1mth	3mth	6mth	1yr	YTD
9.0	9.8	12.9	21.3	12.6

Major Shareholders

Temasek Hldgs	51.7%
-	-
FY24 NAV/Share (S\$)	0.84
FY24 Net Debt/Share (S\$)	1.83

PRICE CHART



Source: Bloomberg

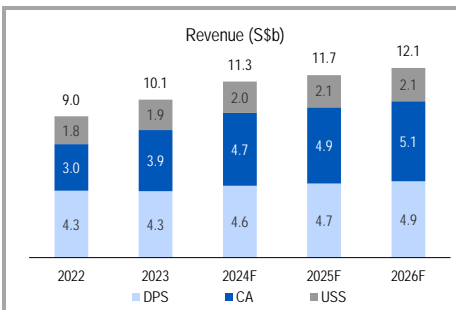
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EARNINGS OUTLOOK

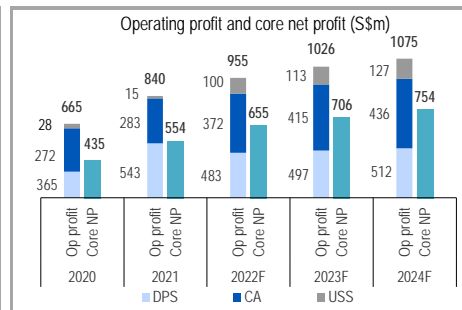
- Refer to our Blue Top report for a more detailed business outlook discussion for the individual business segments.
- Revenue CAGR of 6.3% in 2024-26.** We forecast STE's revenue to grow by a three-year CAGR of 6.3% in 2024-26, underpinned by STE's record-high orderbook. We expect STE's 2024 revenue to reach S\$11.25b (+11.4% yoy), meeting/exceeding its 2026 group revenue target of S\$11b. Among the three segments, CA is expected to see the strongest growth at 19%/5%/5% yoy in 2024/25/26 respectively, backed by MRO capacity expansion and beating the global MRO industry's average growth rate. We forecast DPS and USS revenue to grow 8%/3%/3% and 3%/3%/3% yoy in 2024/25/26 respectively, though we caution that their actual revenue recognition would be affected by the timing of project deliveries.
- Core net profit CAGR of 10.8% in 2024-26.** We forecast STE's core net profit to grow by a three-year CAGR of 10.8% in 2024-26, faster than revenue CAGR, driven by improving blended operating margins (from 8.3% in 2023 to 8.5%/8.8%/8.9% in 2024/25/26) thanks to the larger revenue scale and favourable operating leverage. At the segmental levels, we expect DPS operating margin to stay at 10.5% in 2024-26, in line with management's guided double-digit margin target. We project CA operating margin to improve from 7.2% in 2023 to 8.0%/8.5%/8.5% in 2024/25/26 respectively, driven by scale effects, and USS operating margin to improve from 0.7% in 2023 to 5.0%/5.5%/6.0% in the same period, driven by TransCore's growing contribution and reduced losses of Satcom catalysed by the Satcom division's restructuring and ongoing transformation.

REVENUE TO GROW BY 6.3% CAGR IN 2024-26, UNDERPINNED BY STRONG ORDERBOOK



Source: STE, UOB Kay Hian

NET PROFIT TO GROW BY 10.8% CAGR IN 2024-26, DRIVEN BY STABLE/IMPROVING PERFORMANCE OF THE THREE BUSINESS SEGMENTS



Source: STE, UOB Kay Hian

VALUATION/RECOMMENDATION

- Maintain BUY with a higher DCF-based target price of S\$4.95 (rolled over to end-25).** Our updated target price is based on a WACC of 7.5% and terminal growth of 2.5%. The slightly early valuation rollover takes into account STE's strong orderbook, which provides somewhat good visibility for STE's financial performance in the next few years. STE currently trades at 19.5x 2025F PE, 0.7SD below its historical average one-year forward PE of 20.7x. Our target price implies a 22.0x 2025F PE, 0.7SD above the historical mean. The +0.7SD reflects STE's upbeat growth outlook, in our view.

FORWARD PE IMPLIED BY CURRENT PRICE AND TARGET PRICE

	2023	2024F	2025F	2026F
EPS (Scents)	18.69	20.88	22.52	24.03
Current price implied PE	23.4x	21.0x	19.5x	18.2x
Target price implied PE	26.5x	23.7x	22.0x	20.6x

Source: UOB Kay Hian

SHARE PRICE CATALYST

- a) Delivery of core earnings growth; and b) strong contract win momentum.

RISK

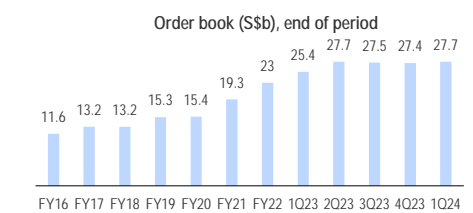
- Negative margin surprises due to project cost overruns or failure to pass down cost pressure from inflation.

SUMMARY OF STE'S 2026 FINANCIAL TARGET AND PROGRESS

2026 Target	Progress
S\$11b group revenue	Expected to meet/exceed in 2024
S\$3.5b CA revenue	Met in 2023; expected to exceed by 33% in 2024
S\$500m digital business revenue	Expected to exceed in 2024
S\$3.5b smart city revenue	On track, S\$2.5b-3.0b in 2023
Profit to grow in tandem with revenue	On track

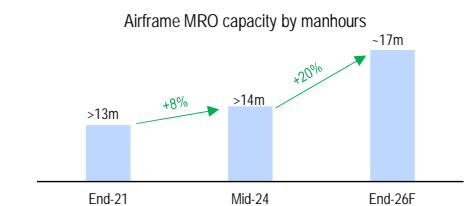
Source: STE, UOB Kay Hian

STE'S ORDERBOOK AT RECORD HIGH



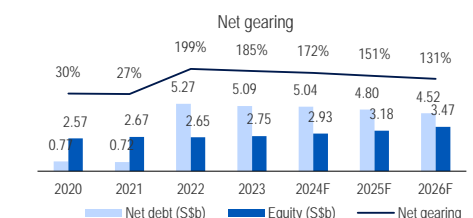
Source: STE

STE'S AIRFRAME MRO CAPACITY EXPANSION



Source: STE, UOB Kay Hian

EXPECT STE'S NET GEARING TO FALL



Source: STE, UOB Kay Hian

HISTORICAL PE BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Net turnover	10,101	11,250	11,681	12,129
EBITDA	1,382	1,529	1,613	1,676
Deprec. & amort.	541	574	587	600
EBIT	840	955	1,026	1,075
Total other non-operating income	16	0	0	0
Associate contributions	58	60	63	65
Net interest income/(expense)	(210)	(208)	(210)	(204)
Pre-tax profit	704	807	878	937
Tax	(100)	(127)	(139)	(148)
Minorities	(18)	(25)	(33)	(34)
Net profit	586	655	706	754
Core net profit	554	655	706	754

CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Operating	1,179	1,409	1,471	1,525
Pre-tax profit	704	807	878	937
Tax	(159)	(127)	(139)	(148)
Deprec. & amort.	541	574	587	600
Associates	(58)	(60)	(63)	(65)
Working capital changes	(101)	(3)	(12)	(13)
Other operating cashflows	251	218	220	214
Investing	(201)	(550)	(429)	(444)
Capex (maintenance)	(616)	(610)	(492)	(508)
Investments	0	0	0	0
Others	415	60	63	65
Financing	(1,226)	(914)	(1,058)	(1,052)
Dividend payments	(499)	(498)	(498)	(498)
Proceeds from borrowings	3,200	0	0	0
Loan repayment	(3,506)	(108)	(250)	(250)
Others/interest paid	(420)	(308)	(310)	(304)
Net cash inflow (outflow)	(248)	(55)	(16)	29
Beginning cash & cash equivalent	602	353	298	283
Changes due to forex impact	(0)	0	0	0
Ending cash & cash equivalent	353	298	283	312

BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Fixed assets	2,727	2,946	3,034	3,125
Other LT assets	6,022	5,929	5,836	5,743
Cash/ST investment	353	298	283	312
Other current assets	6,276	6,454	6,594	6,740
Total assets	15,379	15,627	15,746	15,919
ST debt	2,564	2,564	2,564	2,564
Other current liabilities	4,759	4,934	5,061	5,194
LT debt	3,544	3,436	3,186	2,936
Other LT liabilities	1,760	1,760	1,760	1,760
Shareholders' equity	2,459	2,616	2,824	3,080
Minority interest	293	318	352	386
Total liabilities & equity	15,379	15,627	15,746	15,919

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	13.7	13.6	13.8	13.8
Pre-tax margin	7.0	7.2	7.5	7.7
Net margin	5.8	5.8	6.0	6.2
ROA	3.9	4.2	4.5	4.8
ROE	24.1	25.8	26.0	25.5
Growth				
Turnover	11.8	11.4	3.8	3.8
EBITDA	16.9	10.7	5.5	3.9
Pre-tax profit	17.9	14.6	8.9	6.6
Net profit	9.6	11.7	7.9	6.7
Core net profit	27.5	18.1	7.9	6.7
EPS	27.4	18.2	7.9	6.7
Leverage				
Debt to total capital	68.9	67.2	64.4	61.3
Debt to equity	221.9	204.5	181.1	158.7
Net debt/(cash) to equity	184.9	171.7	151.2	130.5

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