

COMPANY RESULTS

Singapore Technologies Engineering (STE SP)

3Q22: Revenue A Slight Miss; Ongoing Review To Uplift Quality Of Group Portfolio

9M22 revenue of S\$6.5b was a slight miss, at about 69% of our full-year projection. Orderbook stood at a record high of S\$23.1b (excluding the disposed US marine businesses) as of end-3Q22, 71% higher than pre-pandemic levels at end-19. Despite the expected higher interest cost pressure, the recent exit of the loss-making US marine businesses and the new contract wins by TransCore should provide meaningful support to STE's bottom line. Maintain BUY and target price of S\$4.07.

RESULTS

- **9M22 revenue of S\$6.5b (+19% yoy).** Singapore Technologies Engineering's (STE) 9M22 revenue of S\$6.5b was a slight miss, at 69% of our full-year projection; we believe that the miss was mainly attributable to slightly lower-than-expected non-orderbook-driven revenue. 3Q22 revenue of S\$2.24b was largely flat qoq, as the growth in commercial aerospace (CA) revenue (+6.4% qoq) is largely offset by the slightly lower Urban Solutions & Satcomm (USS) revenue (-1.9% qoq) and Defence & Public Security (DPS) revenue (-3.5% qoq). On a yoy basis, CA, USS and DPS revenue rose 28.0%, 74.3% and 4.6% respectively.
- **CA recovery on track; USS revenue still affected by global chip shortage.** According to management, the recovery of the CA segment has been on track. The overall utilisation rate of STE's MRO capacity (including airframe, component and engine) was about 90% in 3Q22 and passenger-to-freighter (P2F) conversion slots have been fully booked through 2025/26. According to IATA, global air travel demand was at 74% of the pre-pandemic levels in Sep 22, indicating scope for further recovery in STE's MRO (especially engine MRO) businesses. During 3Q22, the performance of the USS segment was still impacted by the global chip shortage. Management expects the segment to see some moderate recovery in 2023 and a possible full recovery in 2024.
- **Record orderbook of S\$23.1b.** Driven by upbeat order wins across all three segments, STE's orderbook stood at a record level of S\$23.1b as at end-3Q22, about 71% above the pre-pandemic levels of S\$13.5b in end-19. The S\$23.1b orderbook has excluded the orderbook of S\$1.9b from the disposed US marine businesses (disposal completed on 14 Nov 22) but has yet to include the contract wins by TransCore on the New Jersey All Electronic Tolling (AET) projects (worth US\$1.1b or S\$1.5b, announced on 15 Nov 22). STE guided that S\$2.5b of the orderbook would be delivered in 4Q22; this is compared to the guided S\$1.9b orderbook conversion into revenue at the same time of last year.
- **Slightly higher gross debt qoq.** STE's gross debt rose to S\$6.8b as at end-3Q22 (end-2Q22: S\$6.2b), leading to a net gearing of over 200% by our estimate. The increase was due mainly to: a) additional debts assumed to raise the aviation leasing asset portfolio, and b) the translational effect of STE's US\$-denominated debt (appreciated US\$ against S\$). Among the S\$6.8b in gross debt, 46% (S\$3.1b) was based on floating rates. Management shared that STE may securitise several hundred million worth of aviation assets in the next few months to pare down the debt and that STE plans to refinance US\$500-700m (S\$700m-1b) of the floating-rate debts with fixed coupon bonds/loan within the next one year.

KEY FINANCIALS

Year to 31 Dec (\$m)	2020	2021	2022F	2023F	2024F
Net turnover	7,158	7,693	9,208	9,800	10,400
EBITDA	949	1,044	1,218	1,364	1,450
Operating profit	570	646	730	841	911
Reported net profit	522	571	532	552	612
Core net profit	182	321	467	552	612
Core EPS (\$ cent)	5.8	10.3	14.9	17.6	19.5
PE (x)	60.3	34.0	23.4	19.8	17.9
P/B (x)	4.7	4.5	4.8	4.7	4.5
EV/EBITDA (x)	12.6	11.4	13.3	11.9	11.1
Dividend yield (%)	4.3	4.3	4.6	4.6	4.6
Net margin (%)	7.3	7.4	5.8	5.6	5.9
Net debt/(cash) to equity (%)	29.7	26.8	200.5	195.6	182.6
ROE (%)	23.1	24.3	22.8	24.1	25.8
Consensus net profit	-	-	563	627	704
UOBKH/Consensus (x)	-	-	0.95	0.88	0.87

Source: STE, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$3.49
Target Price	S\$4.07
Upside	+16.6%
(Previous TP)	S\$4.07

COMPANY DESCRIPTION

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

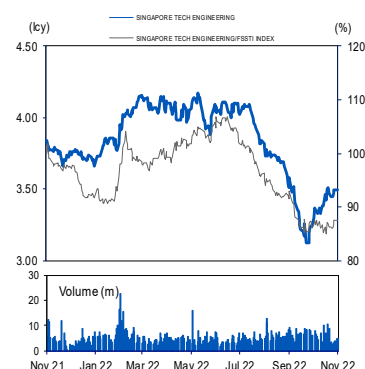
GICS sector	Industrials
Bloomberg ticker:	STE SP
Shares issued (m):	3,113.4
Market cap (\$ m):	10,865.6
Market cap (US\$m):	7,909.2
3-mth avg daily t'over (US\$m):	15.7
Price Performance (%)	
52-week high/low	S\$ 4.17/S\$ 3.66

1mth	3mth	6mth	1yr	YTD
7.7	(9.1)	(13.8)	(9.4)	(7.2)

Major Shareholders

	%
Temasek Hldgs	51.7
-	-
-	-
FY22 NAV/Share (\$)	0.73
FY22 Net Debt/Share (\$)	1.81

PRICE CHART



Source: Bloomberg

ANALYST(S)

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

STOCK IMPACT

- Exit of US marine businesses...** STE had, on 14 Nov 22, completed the disposal of its loss-making US marine businesses. While the disposal would lead to a one-time divestment loss of S\$13.3m, it would uplift STE's core earnings going forward as the US marine businesses used to incur annual pre-tax losses of US\$40m-60m (S\$56m-85m). Everything else equal, assuming a US corp tax rate of 25%, STE's annual net profit would be lifted by S\$42m-64m by our rough estimate; this will provide meaningful support to STE's bottom line from 2023 onwards.
- ...as part of ongoing portfolio review.** In the recent years, STE has exited about 15 businesses. According to management, STE will continue to take a disciplined approach to review its business portfolio and may, at the right valuation, monetise its non-core businesses.
- Possible disposal candidates.** While STE did not identify the potential disposal candidates, management noted that some criteria for identifying such candidates include non-scalability and lack of growth potential. Scanning through STE's business portfolio, we believe a number of candidates could be from the USS segment, which, besides the core smart mobility and satcomm businesses, also comprises of multiple smaller and more traditional businesses such as the testing services, taxi business (CityCab, a 46.5% associate), water & wastewater treatment, waste management businesses etc. We are positive towards STE's plan to dispose non-core businesses, as it would not only allow STE recoup capital to pare down its debts, but also sharpen the group's focus on its core and fast-growing businesses.
- Recent major contract wins have boosted confidence in TransCore...** On 15 Nov 22, STE announced that its newly-acquired TransCore (acquisition completed in Mar 22), a market leader in electronic toll collection, congestion pricing and intelligent transportation systems in North America, was awarded two turnkey tolling system contracts in New Jersey with a total value of US\$1.07b (about S\$1.5b). Both contracts involve the design, installation, operation and maintenance of tolling systems for expressways, and will be delivered over 10 years and 12 years respectively. We believe that the key significance of these contract wins is that it has demonstrated: a) TransCore's capability of continuing winning large contracts under the new owner, and b) the customers' confidence in TransCore's technology and product/service offerings.
- ...although financial impacts would be very limited in the near term.** We understand from management that the smaller contract (US\$159m worth) among the two contracts awarded has commenced and is now in the design phase, but the larger one (US\$914m worth) will only commence in a few years' time. Also taking into account the long project delivery horizons and STE's large annual revenue size of over S\$9b, we believe the financial impacts from these new tolling contracts would be very limited to STE in the near term.

EARNINGS REVISION/RISKS

- Lower 2022F core net profit forecast by 1.9% while keeping 2023/24 forecasts largely intact.** The adjustment in our 2022F core net profit forecast was mainly attributable to our lowered 2022F revenue forecast as a result of the slight miss in 9M22 revenue. We have largely maintained our 2023-24 core net profit forecasts as we expect the positive earnings impact from the US marine business divestment to be largely offset by the rising interest cost and operating margin pressure due to the high inflation.
- Risks** include negative margin surprises due to project cost overrun and failure to pass down inflationary cost pressure.

VALUATION/RECOMMENDATION

- Maintain BUY and DCF-based target price of S\$4.07.** We have applied WACC of 7.5% and terminal growth rate of 2.5% for STE. STE's current price of S\$3.49 implies 2023F/24F core PE 20.4x/18.4x, equivalent to 0.6SD/1.5SD below its historical mean of 21.7x.

SHARE PRICE CATALYST

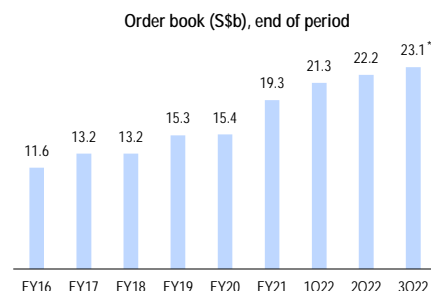
- Core profitability growth on higher project deliveries.
- Monetisation of non-core businesses and paring down of debt.

3Q22 REVENUE PERFORMANCE

(\$m)	3Q22	2Q22	qoq % chg	3Q21	yoy % chg
Revenue	2,238	2,237	+0.1	1,831	+22.2
- CA	777	730	+6.4	607	+28.0
- USS	452	460	-1.9	259	+74.3
- DPS	1,010	1,046	-3.5	965	+4.6

Source: STE

ORDERBOOK AT HISTORICAL HIGH



*3Q22 figure has excluded the orderbook of the disposed US marine businesses but has yet to include the recent new contract wins by TransCore.

Source: STE

CONTRACT WINS



Source: STE

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	7,692.9	9,208.0	9,800.0	10,400.0
EBITDA	1,044.0	1,217.7	1,364.1	1,449.7
Deprec. & amort.	398.1	487.9	522.8	538.5
EBIT	645.9	729.8	841.2	911.1
Total other non-operating income	11.7	13.4	0.0	0.0
Associate contributions	16.0	22.0	30.0	39.0
Net interest income/(expense)	(36.0)	(107.3)	(194.7)	(190.6)
Pre-tax profit	637.6	657.8	676.5	759.5
Tax	(70.6)	(120.8)	(109.9)	(122.5)
Minorities	3.6	(4.7)	(14.7)	(24.7)
Net profit	570.5	532.3	551.9	612.3
Net profit (adj.)	321.4	466.6	551.9	612.3

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	2,352.4	2,716.0	2,798.0	2,884.7
Other LT assets	2,806.8	6,446.1	6,386.2	6,326.4
Cash/ST investment	815.9	508.0	428.1	387.8
Other current assets	4,540.6	4,888.7	5,175.5	5,343.5
Total assets	10,515.7	14,558.8	14,787.8	14,942.5
ST debt	559.9	3,242.7	3,242.7	3,242.7
Other current liabilities	4,119.8	4,311.7	4,588.9	4,771.3
LT debt	1,555.3	2,907.3	2,807.3	2,657.3
Other LT liabilities	1,612.5	1,593.4	1,593.4	1,593.4
Shareholders' equity	2,412.8	2,260.1	2,313.8	2,427.9
Minority interest	255.5	243.6	241.8	249.9
Total liabilities & equity	10,515.7	14,558.8	14,787.8	14,942.5

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	1,114.3	890.2	1,249.6	1,346.6
Pre-tax profit	637.6	657.8	676.5	759.5
Tax	(112.4)	(120.8)	(109.9)	(122.5)
Deprec. & amort.	398.1	487.9	522.8	538.5
Associates	(16.0)	(22.0)	(30.0)	(39.0)
Working capital changes	137.5	16.6	(9.5)	14.4
Other operating cashflows	69.6	(129.3)	199.7	195.6
Investing	(413.7)	(4,296.3)	(442.4)	(453.9)
Capex (maintenance)	(428.8)	(684.6)	(472.4)	(492.9)
Investments	(7.3)	(3,633.6)	0.0	0.0
Others	22.5	22.0	30.0	39.0
Financing	(615.0)	3,098.1	(887.1)	(933.0)
Dividend payments	(467.9)	(685.0)	(498.2)	(498.2)
Proceeds from borrowings	900.7	3,665.0	0.0	0.0
Loan repayment	(877.0)	319.6	(100.0)	(150.0)
Others/interest paid	(170.9)	(201.5)	(288.9)	(284.8)
Net cash inflow (outflow)	85.6	(307.9)	(79.9)	(40.3)
Beginning cash & cash equivalent	729.5	815.9	508.0	428.1
Changes due to forex impact	0.9	0.0	0.0	0.0
Ending cash & cash equivalent	815.9	508.0	428.1	387.8
Year to 31 Dec (\$m)	2021	2022F	2023F	2024F

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	13.6	13.2	13.9	13.9
Pre-tax margin	8.3	7.1	6.9	7.3
Net margin	7.4	5.8	5.6	5.9
ROA	5.6	4.2	3.8	4.1
ROE	24.3	22.8	24.1	25.8
Growth				
Turnover	7.5	19.7	6.4	6.1
EBITDA	10.1	16.6	12.0	6.3
Pre-tax profit	19.3	3.2	2.8	12.3
Net profit (reported)	9.3	(6.7)	3.7	10.9
Core net profit	77.0	45.2	18.3	10.9
EPS	77.0	45.3	18.3	10.9
Leverage				
Debt to total capital	44.2	71.1	70.3	68.8
Debt to equity	79.3	245.6	236.7	220.3
Net debt/(cash) to equity	26.8	200.5	195.6	182.6

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK has provided investment banking services to China Resources Mixc Lifestyle Services (1209 HK) and has received compensation for such services in the preceding 12 months. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2022, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W