

ST Engineering

Defence and security led earnings growth



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SINGAPORE | CONGLOMERATE | FY23 RESULTS

4 March 2024

- FY23 net profit was in line with our expectations. Net profit was affected by several one-offs amounting to S\$66mn. Excluding these, net profit would have grown by 23.7%.
- Defence and Public Security (DPS) (+40.1% YoY) led earnings growth, with digital systems and cyber the largest growth engine. Commercial aerospace (CA) grew 47% YoY (excluding one-off items) with increased MRO demand and improved margins from passenger-to-freighter conversions. Urban solutions and Satcom (USS) incurred loss on divestment and severance costs on restructuring. Transcore turned profitable in 4Q23. Orderbook remained strong at S\$27.4bn.
- We maintain our FY24e earnings forecast and TP of S\$4.50. DPS would remain the key earnings driver in FY24e, underpinned by digital solutions, AI-enabled command and controls, and cybersecurity. Due to recent price appreciation, we downgrade our recommendation to ACCUMULATE from BUY.

ACCUMULATE (Downgrade)

LAST CLOSE PRICE	SGD 3.970
FORECAST DIV	SGD 0.160
TARGET PRICE	SGD 4.500
TOTAL RETURN	17.4%

COMPANY DATA

BLOOMBERG CODE:	STE SP
O/S SHARES (MN) :	3,113
MARKET CAP (USD mn / SGD mn) :	9194 / 12357
52 - WK HI/LO (SGD) :	4 / 3.35
3M Average Daily T/O (mn) :	3.88

MAJOR SHAREHOLDER (%)

TEMASEK HOLDINGS	50.0%
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Results at a glance

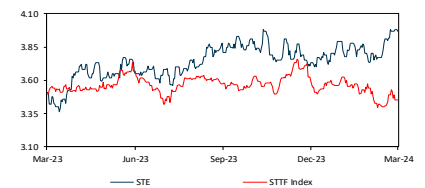
Y/E 31 Dec (\$\$mn)	FY22	FY23	% YoY	Comments
Total EBIT	735	915	24.4%	
Commercial Aerospace (CA)	301	337	12.1%	Growth would be 47% if S\$72mn one-off restructuring gain in FY22 were excluded. Strong aerospace MRO demand, PTF margin improved.
Urban Solutions & Satcom (USS)	29	10	-65.8%	S\$32mn loss from divestment of SatixFy and Satcom severance costs, Transcore contributed positively from 4Q
Defence & Public Security (DPS)	405	567	40.1%	Absence of losses from divested US Marine. Digital systems and cyber the key growth driver
Net interest expense	- 138	- 210	52.9%	Average cost of debt was 3.3%
Net profit	535	586	9.6%	
Net gearing (x)	2.2	2.1		Net debt was lowered from S\$5.9bn to S\$5.8bn
Net debt/EBITDA (x)	5.0	4.2		Improved from lower debt and 17% growth in EBITDA
Order wins (\$\$bn)	13.1	14.8	13.0%	Defence and public security >50%
Orderbook (\$\$bn)	23.0	27.4	19.1%	Record high orderbook

Source: Company, PSR

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	6.1	6.4	18.1
STTF RETURN	0.0	1.8	1.2

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (\$\$, 'mn)	FY22	FY23	FY24e	FY25e
Revenue	9,035	10,101	10,675	11,287
Gross Profit	1,699	1,973	2,211	2,419
EBIT	735	915	1,014	1,107
NPAT	535	586	690	759
P/NAV (x)	5.2	5.0	4.7	4.2
P/E (x)	23.1	21.1	17.9	16.3
ROE (%)	22.3%	23.8%	26.0%	26.0%

Source: Company, PSR

VALUATION METHOD

DCF (WACC 6.8%, Terminal g 1%)

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The Positives

- Aerospace MRO revenue rose 41%, as demand surged in tandem with recovery in air travel.** The passenger-to-freighter conversion business has also scaled the learning curve and is turning profitable. However, commercial aerospace FY23 EBIT margin fell 1.5% pt to 8.6% due to higher manpower costs.
- Defence and public security posted EBIT growth of 40%.** Despite the flat revenue, EBIT margin gained 3.8% pt to 13.3% due to better product mix and absence of US Marine losses. The largest sub-segment, digital systems and cyber accounted for 39% of total revenue (FY22:35%).
- Net debt was marginally lower at S\$5.8bn (Dec 22: S\$5.9bn), but net debt to EBITDA improved to 4.2x, from 5.0x in Dec 22** due to stronger EBITDA. Management remains focused on paring down the debt. The dividend is expected to be maintained at 16 Sct/share.

The Negative

- **Restructuring at Satcom and divestment of SatixFY resulted in a S\$24mn loss at USS.**
On a positive note, Transcore turned profitable in 4Q23, and is expected to lift USS' EBIT from FY24e.

Outlook

Growth in the next two years is likely to be driven by 1) stronger order flows from increased defence spending and stockpiling; 2) greater deployment of digital services, AI-enabled critical command and control systems; and 3) positive contribution from Transcore.

We maintain our FY24e net profit estimates and TP of S\$4.50. We downgrade to ACCUMULATE (prev. BUY) after the recent price appreciation.

Financials

Income Statement

Y/E Dec, (\$'mn)	FY21	FY22	FY23	FY24e	FY25e
Revenue	7,693	9,035	10,101	10,675	11,287
Cost of sales	(5,631)	(6,158)	(7,336)	(7,803)	(7,712)
Gross Profit	1,535	1,699	1,973	2,211	2,419
Selling and distribution	(183)	(195)	(179)	(230)	(243)
Administration	(608)	(727)	(753)	(854)	(903)
Others	(87)	(75)	(184)	(174)	(226)
Share of results of associates and	16	33	58	60	60
EBIT	674	735	915	1,014	1,107
Net finance expenses	(36)	(138)	(210)	(190)	(202)
Profit before tax	638	597	704	824	904
Taxation	(71)	(54)	(100)	(124)	(136)
Net Profit	567	543	604	700	769
Minority interests	4	(8)	(18)	(10)	(10)
Profit attributable to owners	571	535	586	690	759

Per share data (\$ cents)

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
BVPS	77.5	77.0	79.0	85.2	93.6
DPS	15.0	16.0	16.0	16.0	16.0
EPS	18.3	17.2	18.8	22.2	24.4

Cash Flow

Y/E Dec, (\$'mn)	FY21	FY22	FY23	FY24e	FY25e
CFO					
Pretax profit	638	597	704	824	904
Adjustments	446	618	722	735	733
WC changes	139	(442)	(101)	136	(23)
Cash generated from ops	1,223	774	1,326	1,696	1,614
Others	(118)	(133)	(373)	(296)	(266)
Cashflow from ops	1,105	641	953	1,400	1,348
CFI					
CAPEX, net	(312)	(763)	(540)	(500)	(500)
Others	(126)	(3,849)	283	-	-
Cashflow from investments	(438)	(4,612)	(257)	(500)	(500)
CFF					
Dividends paid to owners	(484)	(695)	(499)	(498)	(498)
Proceeds from borrowings, net	(49)	4,491	(430)	(400)	(400)
Others	(48)	(26)	(16)	-	-
Cashflow from financing	(581)	3,770	(944)	(898)	(898)
Net change in cash	86	(201)	(248)	2	(50)
Cash at the start of the period	729	816	602	353	355
Currency translation	1	(14)	(0)	-	-
Ending cash	816	602	353	355	305

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, (\$'mn)	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
PPE & Investment Properties	1,794	2,076	2,076	2,249	2,421
Others	3,365	6,761	6,673	6,395	6,132
Total non-current assets	5,159	8,837	8,749	8,644	8,553
Cash and cash equivalents	816	602	353	355	305
Inventories	1,261	1,684	1,897	1,855	1,944
Trade and other receivables	1,067	1,152	1,581	1,462	1,546
Others	2,213	2,689	2,798	2,798	2,798
Total current assets	5,356	6,127	6,630	6,470	6,593
Total Assets	10,516	14,964	15,379	15,114	15,146
LIABILITIES					
Trade and other payables	2,613	2,826	3,155	3,131	3,280
ST borrowings	560	3,628	2,564	2,164	1,764
Others	1,507	1,551	1,604	1,561	1,573
Total current liabilities	4,680	8,005	7,322	6,855	6,617
LT borrowings	1,555	2,907	3,544	3,544	3,544
Others	1,612	1,399	1,760	1,760	1,760
Total non-current liabilities	3,168	4,306	5,304	5,304	5,304
Total liabilities	7,847	12,311	12,627	12,160	11,921
EQUITY					
Share Capital	896	896	896	896	896
Retained profits	1,548	1,473	1,563	1,755	2,016
Others	(31)	29	0	0	0
Minority interests	255	255	293	303	313
Total equity	2,668	2,653	2,752	2,955	3,225
Total equity and liabilities	10,516	14,964	15,379	15,114	15,146

Valuation Ratios

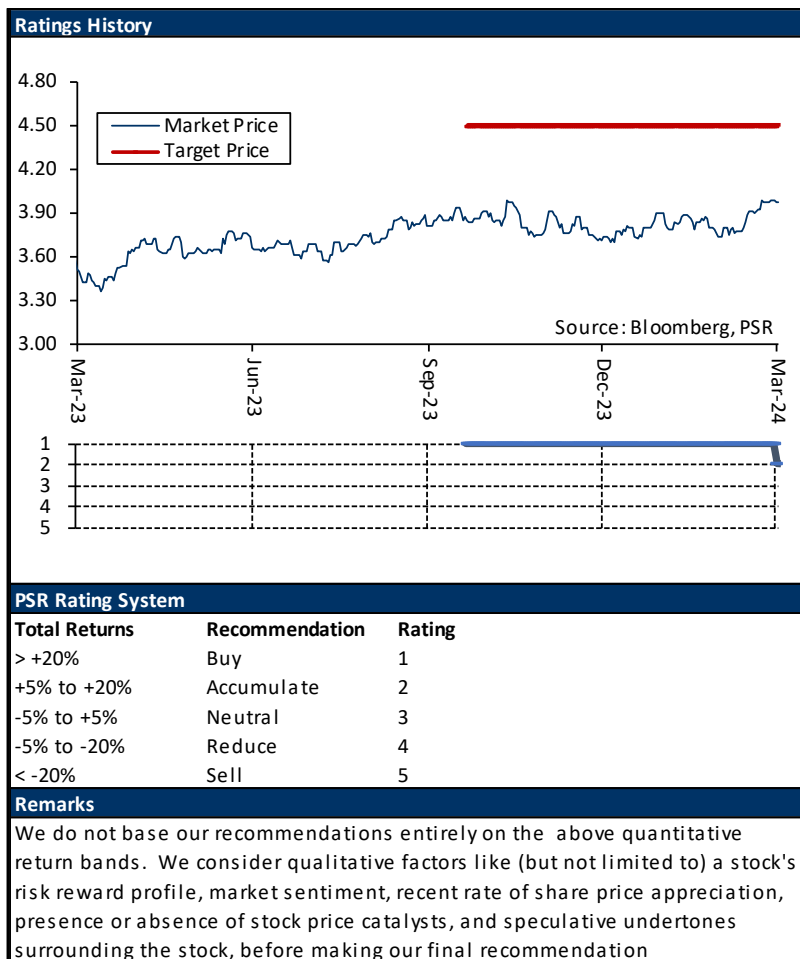
Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/E (x)	21.7	23.1	21.1	17.9	16.3
P/B (x)	5.1	5.2	5.0	4.7	4.2
EV/EBITDA (x)	13.1	15.5	13.1	10.9	10.2
Dividend yield (%)	3.8	4.0	4.0	4.0	4.0

Growth & Margins (%)

	FY21	FY22	FY23	FY24e	FY25e
Growth					
Revenue	7.5%	17.4%	11.8%	5.7%	5.7%
Gross profit	0.5%	10.7%	16.1%	12.1%	9.4%
EBIT	13.0%	9.1%	24.4%	10.8%	9.2%
PBT	19.3%	-6.3%	17.9%	17.0%	9.8%
Margins					
Gross profit margin	20.0%	18.8%	19.5%	20.7%	21.4%
EBIT margin	8.8%	8.1%	9.1%	9.5%	9.8%
Net profit margin	7.4%	5.9%	5.8%	6.5%	6.7%

Key Ratios

ROE	23.6%	22.3%	23.8%	26.0%	26.0%
ROA	6.1%	4.4%	5.5%	6.3%	6.9%
Net Gearing	48.7%	223.6%	209.1%	181.2%	155.1%



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