

# ST Engineering Ltd

All engines roaring, but satellite no signal



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## SINGAPORE | CONGLOMERATE | 1Q24 UPDATE

14 May 2024

- 1Q24 revenue update was within our expectations at 25% of our FY24e. Revenue grew an impressive 18% YoY to S\$2.7bn. Around 2/3 of the growth was from commercial aerospace revenue that jumped 32% YoY to S\$1.1bn. 1Q24 DPS was 4 cents unchanged.
- Rising aircraft flying hours, slower introduction of new engines, and increased capacity boosted revenue in aircraft MRO. Defence and public security revenue rose 14% YoY from increased demand for digital services and higher munitions sales. Satellite operations is still looking to transition customers to its multi-orbit next-gen platform.
- We nudge our FY24e earnings by 3% to S\$713mn. We expect revenue momentum and operating leverage to build up in the remaining quarters. Our DCF TP is raised to S\$4.90 (prev. S\$4.50). ST Engineering is enjoying multiple growth drivers backed by a record orderbook of S\$27.7bn. Earning growth is supported by aircraft MRO, passenger-to-freighter conversion, A320 nacelle engine production, increased defense spending, and migration of enterprises into secured cloud and cybersecurity solutions.

### ACCUMULATE (Maintained)

LAST CLOSE PRICE	SGD 4.170
FORECAST DIV	SGD 0.016
TARGET PRICE	SGD 4.900
TOTAL RETURN	17.9%

### COMPANY DATA

BLOOMBERG CODE:	STE SP
O/S SHARES (MN) :	3,119
MARKET CAP (USD mn / SGD mn) :	9607 / 13008
52 - WK HI/LO (SGD) :	4.18 / 3.54
3M Average Daily T/O (mn) :	4.08

### MAJOR SHAREHOLDER (%)

TEMASEK HOLDINGS	49.3%
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### Results at a glance

Y/E Dec (S\$ mn)	1Q24	1Q23	YoY	Comments
Revenue	2,703	2,289	18.1%	
- Commercial Aerospace	1,152	873	32.0%	MRO driven growth.
- Defence & Public Security	1,123	982	14.4%	
- Urban Solutions & Satcom	429	434	-1.2%	
Order Book (S\$bn)	27.7	25.4	9.1%	
New contract wins (S\$bn)	3.0	4.9	-37.7%	1Q23 incl. 6 combat vessel wins.
DPS (cents)	4.0	4.0	0.0%	

Source: Company, PSR Note# Limited financials were provided in the 1Q24 update.

### The Positives

**+ Aircraft MRO remains the growth driver.** Commercial aerospace (CA) registered a 32% YoY jump in 1Q24 revenue to S\$1.2bn. Growth was broad-based and led by aircraft MRO (Maintenance, Repair, and Overhaul). With longer flying hours, MRO work is rising on engines, airframes, and other components. Delays in aircraft deliveries will further push the lifecycle of the existing aircraft fleet.

**+ Broad-based growth in defence and public security (DPS).** DPS revenue expanded 14% YoY to S\$1.1bn. International defence revenue has grown from munition sales, C130 support services, Unmanned Surface Vehicles and Terrex deliveries. Another leg of growth in DPS stems from digital services (cloud, AI, and cybersecurity). Customers seek secure hybrid cloud solutions where DPS supports migration and cybersecurity requirements.

### The Negative

**- Satcom is still a work in progress.** Satcom has reduced its cost base but while transitioning customers to a multi-orbit next-gen platform. The rebranding only occurred in March. We expect a gestation period for customer acceptance.

### Outlook

Earnings growth will be driven by CA and DPS. There is also earnings visibility with the record S\$27.7bn in order books. Urban Solutions and Satcom (USS) will be the weakest of the 3 segments as Satcom undergoes a product refresh. Nevertheless, USS earning is expected to recover in 2024 from the realignment of cost at Satcom and earning contribution from TransCore with project deliveries.

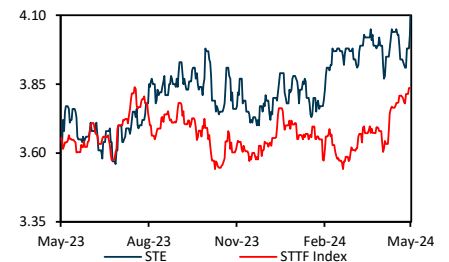
**Maintain ACCUMULATE with a higher TP of S\$4.90 (prev. S\$4.50)**

We nudged our FY24e earnings by 3% and raised our TP from S\$4.50 to S\$4.90.

### PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	2.0	7.4	4.6
STTF RETURN	4.5	7.7	4.6

### PRICE VS. STTF



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Dec (S\$m)	FY22	FY23	FY24e	FY25e
Revenue	9,035	10,101	10,988	11,635
Gross Profit	1,699	1,973	2,276	2,490
EBIT	735	915	1,041	1,135
NPAT	535	586	713	783
P/NAV (x)	5.4	5.3	4.9	4.4
P/E (x)	24.3	22.1	18.2	16.6
Dividend yield	3.8%	3.8%	3.8%	3.8%
ROE	22.3%	23.8%	26.7%	26.5%

Source: Company, PSR

### VALUATION METHOD

DCF (WACC 6.8%, Terminal g 1%)

Paul Chew (+65 6212 1851)

Head of Research  
paulchewkl@phillip.com.sg

## Financials

### Income Statement

Y/E Dec, (\$'mn)	FY21	FY22	FY23	FY24e	FY25e
<b>Revenue</b>	<b>7,693</b>	<b>9,035</b>	<b>10,101</b>	<b>10,988</b>	<b>11,635</b>
Cost of sales	(5,631)	(6,158)	(7,336)	(7,803)	(7,712)
<b>Gross Profit</b>	<b>1,535</b>	<b>1,699</b>	<b>1,973</b>	<b>2,276</b>	<b>2,490</b>
Selling and distribution	(183)	(195)	(179)	(237)	(251)
Administration	(608)	(727)	(753)	(879)	(931)
Others	(87)	(75)	(184)	(180)	(233)
Share of results of associates and joint v	16	33	58	60	60
<b>EBIT</b>	<b>674</b>	<b>735</b>	<b>915</b>	<b>1,041</b>	<b>1,135</b>
Net finance expenses	(36)	(138)	(210)	(190)	(202)
<b>Profit before tax</b>	<b>638</b>	<b>597</b>	<b>704</b>	<b>851</b>	<b>933</b>
Taxation	(71)	(54)	(100)	(128)	(140)
<b>Net Profit</b>	<b>567</b>	<b>543</b>	<b>604</b>	<b>723</b>	<b>793</b>
Minority interests	4	(8)	(18)	(10)	(10)
<b>Profit attributable to owners</b>	<b>571</b>	<b>535</b>	<b>586</b>	<b>713</b>	<b>783</b>

### Per share data (\$\$ cents)

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
BVPS	77.5	77.0	79.0	85.9	95.1
DPS	15.0	16.0	16.0	16.0	16.0
EPS	18.3	17.2	18.8	22.9	25.2

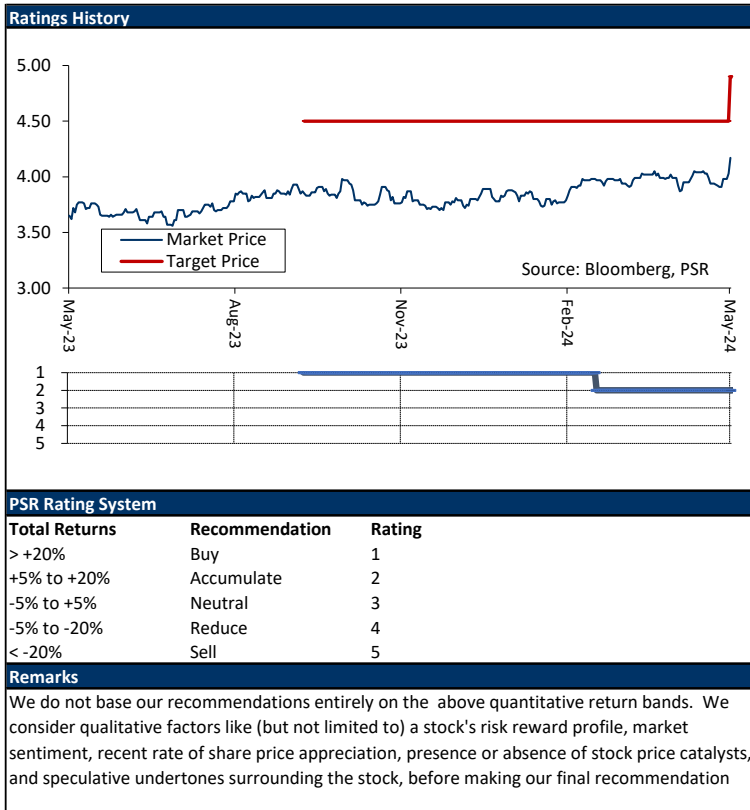
### Cash Flow

Y/E Dec, (\$'mn)	FY21	FY22	FY23	FY24e	FY25e
<b>CFO</b>					
<b>Pretax profit</b>	<b>638</b>	<b>597</b>	<b>704</b>	<b>851</b>	<b>933</b>
Adjustments	446	618	722	735	733
WC changes	139	(442)	(101)	131	(23)
<b>Cash generated from ops</b>	<b>1,223</b>	<b>774</b>	<b>1,326</b>	<b>1,717</b>	<b>1,642</b>
Others	(118)	(133)	(373)	(296)	(270)
<b>Cashflow from ops</b>	<b>1,105</b>	<b>641</b>	<b>953</b>	<b>1,421</b>	<b>1,373</b>
<b>CFI</b>					
CAPEX, net	(312)	(763)	(540)	(500)	(500)
Others	(126)	(3,849)	283	-	-
<b>Cashflow from investments</b>	<b>(438)</b>	<b>(4,612)</b>	<b>(257)</b>	<b>(500)</b>	<b>(500)</b>
<b>CFF</b>					
Dividends paid to owners	(484)	(695)	(499)	(498)	(498)
Proceeds from borrowings, net	(49)	4,491	(430)	(400)	(400)
Others	(48)	(26)	(16)	-	-
<b>Cashflow from financing</b>	<b>(581)</b>	<b>3,770</b>	<b>(944)</b>	<b>(898)</b>	<b>(898)</b>
<b>Net change in cash</b>	<b>86</b>	<b>(201)</b>	<b>(248)</b>	<b>23</b>	<b>(26)</b>
Cash at the start of the period	729	816	602	353	377
Currency translation	1	(14)	(0)	-	-
<b>Ending cash</b>	<b>816</b>	<b>602</b>	<b>353</b>	<b>377</b>	<b>351</b>

### Balance Sheet

Y/E Dec, (\$'mn)	FY21	FY22	FY23	FY24e	FY25e
<b>ASSETS</b>					
PPE & Investment Properties	1,794	2,076	2,076	2,249	2,421
Others	3,365	6,761	6,673	6,395	6,132
<b>Total non-current assets</b>	<b>5,159</b>	<b>8,837</b>	<b>8,749</b>	<b>8,644</b>	<b>8,553</b>
Cash and cash equivalents	816	602	353	377	351
Inventories	1,261	1,684	1,897	1,909	2,005
Trade and other receivables	1,067	1,152	1,581	1,505	1,594
Others	2,213	2,689	2,798	2,798	2,798
<b>Total current assets</b>	<b>5,356</b>	<b>6,127</b>	<b>6,630</b>	<b>6,589</b>	<b>6,747</b>
<b>Total Assets</b>	<b>10,516</b>	<b>14,964</b>	<b>15,379</b>	<b>15,233</b>	<b>15,301</b>
<b>LIABILITIES</b>					
Trade and other payables	2,613	2,826	3,155	3,222	3,383
ST borrowings	560	3,628	2,564	2,164	1,764
Others	1,507	1,551	1,604	1,565	1,578
<b>Total current liabilities</b>	<b>4,680</b>	<b>8,005</b>	<b>7,322</b>	<b>6,951</b>	<b>6,724</b>
LT borrowings	1,555	2,907	3,544	3,544	3,544
Others	1,612	1,399	1,760	1,760	1,760
<b>Total non-current liabilities</b>	<b>3,168</b>	<b>4,306</b>	<b>5,304</b>	<b>5,304</b>	<b>5,304</b>
<b>Total liabilities</b>	<b>7,847</b>	<b>12,311</b>	<b>12,627</b>	<b>12,255</b>	<b>12,028</b>
<b>EQUITY</b>					
Share Capital	896	896	896	896	896
Retained profits	1,548	1,473	1,563	1,778	2,063
Others	(31)	29	0	0	0
Minority interests	255	255	293	303	313
<b>Total equity</b>	<b>2,668</b>	<b>2,653</b>	<b>2,752</b>	<b>2,977</b>	<b>3,272</b>
<b>Total equity and liabilities</b>	<b>10,516</b>	<b>14,964</b>	<b>15,379</b>	<b>15,233</b>	<b>15,301</b>
<b>Valuation Ratios</b>					
Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/E (x)	22.8	24.3	22.1	18.2	16.6
P/B (x)	5.4	5.4	5.3	4.9	4.4
EV/EBITDA (x)	13.7	16.0	13.6	11.1	10.4
Dividend yield (%)	3.6	3.8	3.8	3.8	3.8
<b>Growth &amp; Margins</b>					
<b>Growth</b>					
Revenue	7.5%	17.4%	11.8%	8.8%	5.9%
Gross profit	0.5%	10.7%	16.1%	15.4%	9.4%
EBIT	13.0%	9.1%	24.4%	13.8%	9.1%
PATMI	9.3%	-6.2%	9.6%	21.6%	9.8%
<b>Margins</b>					
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%
<b>Key Ratios</b>					
ROE	23.6%	22.3%	23.8%	26.7%	26.5%
ROA	6.1%	4.4%	5.5%	6.4%	7.0%
Net Gearing	48.7%	223.6%	209.1%	179.1%	151.5%

Source: Company, Phillip Securities Research (Singapore) Estimates



**Contact Information (Singapore Research Team)**
**Head of Research**

 Paul Chew – [paulchewkl@phillip.com.sg](mailto:paulchewkl@phillip.com.sg)
**Research Admin**

 Qystina Azli – [gystina@phillip.com.sg](mailto:gystina@phillip.com.sg)
**Technical Analyst**

 Zane Aw – [zaneawyx@phillip.com.sg](mailto:zaneawyx@phillip.com.sg)
**Property | REITs**

 Darren Chan – [darrenchanrx@phillip.com.sg](mailto:darrenchanrx@phillip.com.sg)
**Banking & Finance**

 Glenn Thum – [glenthumic@phillip.com.sg](mailto:glenthumic@phillip.com.sg)
**Credit Analyst**

 Shawn Sng – [shawnsngkh@phillip.com.sg](mailto:shawnsngkh@phillip.com.sg)
**Property | REITs**

 Liu Miaomiao – [liumm@phillip.com.sg](mailto:liumm@phillip.com.sg)
**US Tech Analyst (Hardware/E-commerce/ETF)**

 Helena Wang – [helenawang@phillip.com.sg](mailto:helenawang@phillip.com.sg)
**US Tech Analyst (Software/Services)**

 Ambrish Shah – [amshah@phillipventuresifsc.in](mailto:amshah@phillipventuresifsc.in)
**US Tech Analyst (Digital Entertainment/Semicons)**

 Jonathan Woo – [jonathanwookj@phillip.com.sg](mailto:jonathanwookj@phillip.com.sg)
**Contact Information (Regional Member Companies)**
**SINGAPORE**

**Phillip Securities Pte Ltd**  
Raffles City Tower  
250, North Bridge Road #06-00  
Singapore 179101  
Tel +65 6533 6001  
Fax +65 6535 6631  
Website: [www.poems.com.sg](http://www.poems.com.sg)

**JAPAN**

**Phillip Securities Japan, Ltd.**  
4-2 Nihonbashi Kabuto-cho Chuo-ku,  
Tokyo 103-0026  
Tel +81-3 3666 2101  
Fax +81-3 3666 6090  
Website: [www.phillip.co.jp](http://www.phillip.co.jp)

**THAILAND**

**Phillip Securities (Thailand) Public Co. Ltd**  
15th Floor, Vorawat Building,  
849 Silom Road, Silom, Bangrak,  
Bangkok 10500 Thailand  
Tel +66-2 6351700 / 22680999  
Fax +66-2 22680921  
Website [www.phillip.co.th](http://www.phillip.co.th)

**UNITED STATES**

**Phillip Capital Inc**  
141 W Jackson Blvd Ste 3050  
The Chicago Board of Trade Building  
Chicago, IL 60604 USA  
Tel +1-312 356 9000  
Fax +1-312 356 9005  
Website: [www.phillipusa.com](http://www.phillipusa.com)

**INDIA**

**PhillipCapital (India) Private Limited**  
No.1, 18th Floor, Urmi Estate  
95, Ganpatrao Kadam Marg  
Lower Parel West, Mumbai 400-013  
Maharashtra, India  
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969  
Website: [www.phillipcapital.in](http://www.phillipcapital.in)

**MALAYSIA**

**Phillip Capital Management Sdn Bhd**  
B-3-6 Block B Level 3 Megan Avenue II,  
No. 12, Jalan Yap Kwan Seng, 50450  
Kuala Lumpur  
Tel +603 2162 8841  
Fax +603 2166 5099  
Website: [www.poems.com.my](http://www.poems.com.my)

**INDONESIA**

**PT Phillip Securities Indonesia**  
ANZ Tower Level 23B,  
Jl Jend Sudirman Kav 33A  
Jakarta 10220 – Indonesia  
Tel +62-21 5790 0800  
Fax +62-21 5790 0809  
Website: [www.phillip.co.id](http://www.phillip.co.id)

**FRANCE**

**King & Shaxson Capital Limited**  
3rd Floor, 35 Rue de la Bienfaisance 75008  
Paris France  
Tel +33-1 45633100  
Fax +33-1 45636017  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**AUSTRALIA**

**Phillip Capital Limited**  
Level 10, 330 Collins Street  
Melbourne, Victoria 3000, Australia  
Tel +61-03 8633 9803  
Fax +61-03 8633 9899  
Website: [www.phillipcapital.com.au](http://www.phillipcapital.com.au)

**TURKEY**

**PhillipCapital Menkul Degerler**  
Dr. Cemil Bengü Cad. Hak Is Merkezi  
No. 2 Kat. 6A Caglayan  
34403 Istanbul, Turkey  
Tel: 0212 296 84 84  
Fax: 0212 233 69 29  
Website: [www.phillipcapital.com.tr](http://www.phillipcapital.com.tr)

**HONG KONG**

**Phillip Securities (HK) Ltd**  
11/F United Centre 95 Queensway  
Hong Kong  
Tel +852 2277 6600  
Fax +852 2868 5307  
Websites: [www.phillip.com.hk](http://www.phillip.com.hk)

**CHINA**

**Phillip Financial Advisory (Shanghai) Co Ltd**  
No 550 Yan An East Road,  
Ocean Tower Unit 2318,  
Postal code 200001  
Tel +86-21 5169 9200  
Fax +86-21 6351 2940  
Website: [www.phillip.com.cn](http://www.phillip.com.cn)

**UNITED KINGDOM**

**King & Shaxson Capital Limited**  
6th Floor, Candlewick House,  
120 Cannon Street,  
London, EC4N 6AS  
Tel +44-20 7426 5950  
Fax +44-20 7626 1757  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**CAMBODIA**

**Phillip Bank Plc**  
Ground Floor of B-Office Centre, #61-64,  
Norodom Blvd Corner Street 306, Sangkat  
Boeung Keng Kang 1, Khan Chamkamorn,  
Phnom Penh, Cambodia  
Tel: 855 (0) 7796 6151/855 (0) 1620 0769  
Website: [www.phillipbank.com.kh](http://www.phillipbank.com.kh)

**DUBAI**

**Phillip Futures DMCC**  
Member of the Dubai Gold and  
Commodities Exchange (DGCC)  
Unit No 601, Plot No 58, White Crown Bldg,  
Sheikh Zayed Road, P.O.Box 212291  
Dubai-UAE  
Tel: +971-4-3325052 / Fax: + 971-4-3328895

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