

# ST Engineering Ltd

Firing and flying on all cylinders



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## SINGAPORE | CONGLOMERATE | 2H24 RESULTS

1 March 2025

- FY24 revenue and adj. PATMI were within expectations at 101% of our FY24e forecast. Excluding exceptionals, 2H24 adj. PATMI jumped 32% YoY to S\$386mn. Commercial aerospace (CA) earnings rebounded on more substantial margins due to project timing, operating leverage and product mix. Orderbook healthy at S\$28.5bn (2023: S\$27.7bn). Final quarterly dividend raised 25% YoY to 5 cents.
- We believe the company's underlying growth drivers remain on track. CA benefits from rising travel and aircraft maintenance. Improving A320 neo deliveries will further boost growth in engine nacelle production. Elevated geopolitical concerns and nations raising their defence budgets will drive demand for defence ammunition and equipment.
- We raise our FY25e earnings by 5% to S\$858mn. Our DCF TP is raised to S\$6.10 (prev. S\$5.00) from higher earnings and nudging up our terminal growth forecast to 2% (prev. 1%). We increased our long-term growth assumptions in the new era of post-Pax Americana defence budgets. Nations have to rely more on their own defence spending needs than larger nations. Singapore's defence budget in 2025 is expected to rise by 12% YoY (2024: +8%). Our ACCUMULATE recommendation is maintained.

### ACCUMULATE (Maintained)

LAST CLOSE PRICE	SGD 5.410
FORECAST DIV	SGD 0.200
TARGET PRICE	SGD 6.100
TOTAL RETURN	16.5%

### COMPANY DATA

BLOOMBERG CODE:	STE SP
O/S SHARES (MN) :	3,113
MARKET CAP (USD mn / SGD mn) :	12416 / 16746
52 - WK HI/LO (SGD) :	5.49 / 3.84
3M Average Daily T/O (mn) :	3.94

### MAJOR SHAREHOLDER

TEMASEK HOLDINGS	51.0%
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### TOTAL RETURN (%)

	1MTH	3MTH	YTD
COMPANY	8.0	17.7	12.7
STTF RETURN	3.5	6.0	3.8

### Results at a glance

Y/E Dec (\$\$ mn)	2H24	2H23	YoY	Comments
Revenue	5,755	5,238	9.9%	
a) Commercial Aerospace	2,154	2,050	5.1%	Includes aircraft sales S\$16mn (2H24: Nil).
-Aircraft MRO	1,138	1,089	4.5%	
-Aerostructures & Systems	1,040	1,026	1.4%	
b) Defence & Public Security	2,563	2,135	20.0%	
- Defence Aerospace	245	226	8.4%	
- Digital Systems & Cyber	1,081	820	31.8%	
- Land systems	959	847	13.2%	
- Marine	332	300	10.7%	
c) Urban Solutions & Satcom	1,038	1,125	-7.7%	
- Urban Solutions	905	892	1.5%	
- Satcom	168	183	-8.2%	
EBIT	553.5	470.5	17.7%	
a) Commercial Aerospace	210.5	159.7	31.8%	
b) Defence & Public Security	312.0	266.7	17.0%	
c) Urban Solutions & Satcom	31.1	44.1	-29.4%	
PATMI	365.7	305.8	19.6%	
Adj. PATMI	386.0	292.3	32.1%	Excl. inventory obsol. 2H24 S\$26.7mn / US Marine gain S\$16.6mn (2H23).
Order Book (\$\$bn)	28.5	27.7	2.9%	
DPS - Final	5.0	4.0	25.0%	

Source: Company, PSR

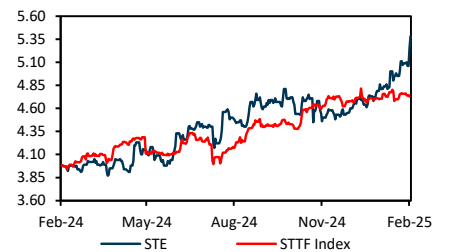
### The Positive

**+ Jump in CA/DPS earnings.** CA earnings surged 32% YoY to S\$210.5mn in 2H24. A combination of operating leverage, spare sales, and improving margin in the freighter conversion operations. Defence and Public Security (DPS) surged on the delivery of ammunition and completion of cybersecurity projects.

### The Negative

**- Satcom earnings are still soft.** Urban Solutions and Satcom (USS) declined 29% YoY to S\$31.1mn from an 8% drop in Satcom revenue. There are signs of a recovery in Satcom in 4Q24 with a 12% YoY rebound in revenue. However, any turnaround depends on releasing iDirect's Intuition platform, which taps into multi-orbit systems to serve customers better.

### PRICE VS. STTF



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Dec (\$\$mn)	FY23	FY24	FY25e	FY26e
Revenue	10,101	11,276	12,787	13,542
Gross Profit	1,973	2,174	2,508	2,642
EBIT	915	1,076	1,234	1,311
PATMI	586	702	858	938
P/NAV (x)	6.8	6.3	5.8	5.4
P/E (x)	28.7	24.0	19.6	18.0
Dividend yield	3.0%	3.1%	3.7%	4.4%
ROE	23.8%	26.3%	29.5%	30.3%

Source: Company, PSR

### VALUATION METHOD

DCF (WACC 6.8%, Terminal g 2%)

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**Outlook**

We expect another year of healthy growth for ST Engineering in FY25e.

- i. CA has increased hangar capacity from the rise in aircraft maintenance caused by the delay in aircraft deliveries and rising air traffic. With A320 Neo deliveries ramping up, nacelle production can enjoy further growth.
- ii. DPS will be supported by increased defence spending in Singapore and growing ammunition and equipment export sales.
- iii. The rising traction of Transcore solutions will support USS. The company has secured its first tolling solution in Southeast Asia. Since the New York congestion pricing went live, there has been more interest from Europe and SE Asia. E-ZPass is another project to be recognised in the order book.
- iv. Cost savings from procurement and lower interest expenses.

**Maintain ACCUMULATE with a higher TP of S\$6.10 (prev. S\$5.00)**

We raise our FY25e earnings by 5% to S\$858mn. Our DCF TP is raised to S\$6.10 (prev. S\$5.00) from higher earnings and nudging up our terminal growth forecast to 2% (prev. 1%).

## Financials

### Income Statement

Y/E Dec, (\$'mn)	FY22	FY23	FY24	FY25e	FY26e
<b>Revenue</b>	<b>9,035</b>	<b>10,101</b>	<b>11,276</b>	<b>12,787</b>	<b>13,542</b>
Cost of sales	(6,158)	(7,336)	(7,803)	(7,712)	(8,480)
<b>Gross Profit</b>	<b>1,699</b>	<b>1,973</b>	<b>2,174</b>	<b>2,508</b>	<b>2,642</b>
Selling and distribution	(195)	(179)	(207)	(234)	(230)
Administration	(727)	(753)	(797)	(895)	(948)
Others	(75)	(184)	(165)	(205)	(217)
Associates and joint venture	33	58	71	60	63
<b>EBIT</b>	<b>735</b>	<b>915</b>	<b>1,076</b>	<b>1,234</b>	<b>1,311</b>
Net finance expenses	(138)	(210)	(214)	(195)	(174)
<b>Profit before tax</b>	<b>597</b>	<b>704</b>	<b>863</b>	<b>1,039</b>	<b>1,137</b>
Taxation	(54)	(100)	(133)	(161)	(174)
<b>Net Profit</b>	<b>543</b>	<b>604</b>	<b>729</b>	<b>878</b>	<b>963</b>
Minority interests	(8)	(18)	(27)	(20)	(25)
<b>PATMI</b>	<b>535</b>	<b>586</b>	<b>702</b>	<b>858</b>	<b>938</b>

### Per share data (\$ cents)

Y/E Dec	FY22	FY23	FY24	FY25e	FY26e
BVPS	77.0	79.0	85.8	93.4	99.5
DPS	16.0	16.0	17.0	20.0	24.0
EPS	17.2	18.8	22.6	27.6	30.1

### Cash Flow

Y/E Dec, (\$'mn)	FY22	FY23	FY24	FY25e	FY26e
<b>CFO</b>					
<b>Pretax profit</b>	<b>597</b>	<b>704</b>	<b>863</b>	<b>1,039</b>	<b>1,137</b>
Adjustments	618	722	725	732	726
WC changes	(442)	(101)	274	(166)	(10)
<b>Cash generated from ops</b>	<b>774</b>	<b>1,326</b>	<b>1,862</b>	<b>1,605</b>	<b>1,853</b>
Others	(173)	(147)	(144)	(344)	(335)
<b>Cashflow from ops</b>	<b>601</b>	<b>1,179</b>	<b>1,718</b>	<b>1,262</b>	<b>1,519</b>
<b>CFI</b>					
CAPEX, net	(763)	(540)	(480)	(500)	(500)
Others	(3,809)	340	66	60	60
<b>Cashflow from investments</b>	<b>(4,571)</b>	<b>(201)</b>	<b>(414)</b>	<b>(440)</b>	<b>(440)</b>
<b>CFF</b>					
Dividends paid to owners	(695)	(499)	(499)	(622)	(747)
Proceeds from borrowings, net	4,491	(430)	(400)	(400)	-
Others	(26)	(297)	(323)	-	-
<b>Cashflow from financing</b>	<b>3,770</b>	<b>(1,226)</b>	<b>(1,222)</b>	<b>(1,022)</b>	<b>(747)</b>
<b>Net change in cash</b>	<b>(201)</b>	<b>(248)</b>	<b>82</b>	<b>(201)</b>	<b>332</b>
Cash at the start of the period	816	602	353	430	229
Currency translation	(14)	(0)	(5)	-	-
<b>Ending cash</b>	<b>602</b>	<b>353</b>	<b>430</b>	<b>229</b>	<b>561</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

### Balance Sheet

Y/E Dec, (\$'mn)	FY22	FY23	FY24	FY25e	FY26e
<b>ASSETS</b>					
PPE & Investment Properties	2,076	2,076	2,115	2,288	2,430
Others	6,761	6,673	6,783	6,512	6,258
<b>Total non-current assets</b>	<b>8,837</b>	<b>8,749</b>	<b>8,898</b>	<b>8,800</b>	<b>8,688</b>
Cash and cash equivalents	602	353	431	230	561
Inventories	1,684	1,897	2,061	2,253	2,389
Trade and other receivables	1,152	1,581	1,461	1,752	1,855
Others	2,689	2,798	3,371	3,371	3,371
<b>Total current assets</b>	<b>6,127</b>	<b>6,630</b>	<b>7,324</b>	<b>7,605</b>	<b>8,175</b>
<b>Total Assets</b>	<b>14,964</b>	<b>15,379</b>	<b>16,221</b>	<b>16,405</b>	<b>16,863</b>
<b>LIABILITIES</b>					
Trade and other payables	2,826	3,155	3,486	3,802	4,031
ST borrowings	3,628	2,564	2,945	2,545	2,545
Others	1,551	1,604	1,808	1,820	1,833
<b>Total current liabilities</b>	<b>8,005</b>	<b>7,322</b>	<b>8,239</b>	<b>8,167</b>	<b>8,409</b>
LT borrowings	2,907	3,544	2,876	2,876	2,876
Others	1,399	1,760	2,155	2,155	2,155
<b>Total non-current liabilities</b>	<b>4,306</b>	<b>5,304</b>	<b>5,032</b>	<b>5,032</b>	<b>5,032</b>
<b>Total liabilities</b>	<b>12,311</b>	<b>12,627</b>	<b>13,270</b>	<b>13,199</b>	<b>13,441</b>

### EQUITY

Share Capital	896	896	896	896	896
Retained profits	1,473	1,563	1,779	2,015	2,206
Others	29	0	(5)	(5)	(5)
Minority interests	255	293	280	300	325
<b>Total equity</b>	<b>2,653</b>	<b>2,752</b>	<b>2,951</b>	<b>3,206</b>	<b>3,423</b>
<b>Total equity and liabilities</b>	<b>14,964</b>	<b>15,379</b>	<b>16,221</b>	<b>16,405</b>	<b>16,864</b>

### Valuation Ratios

Y/E Dec	FY22	FY23	FY24	FY25e	FY26e
P/E (x)	31.5	28.7	24.0	19.6	18.0
P/B (x)	7.0	6.8	6.3	5.8	5.4
EV/EBITDA (x)	19.3	16.4	13.8	12.0	11.3
Dividend yield (%)	3.0	3.0	3.1	3.7	4.4

### Growth & Margins

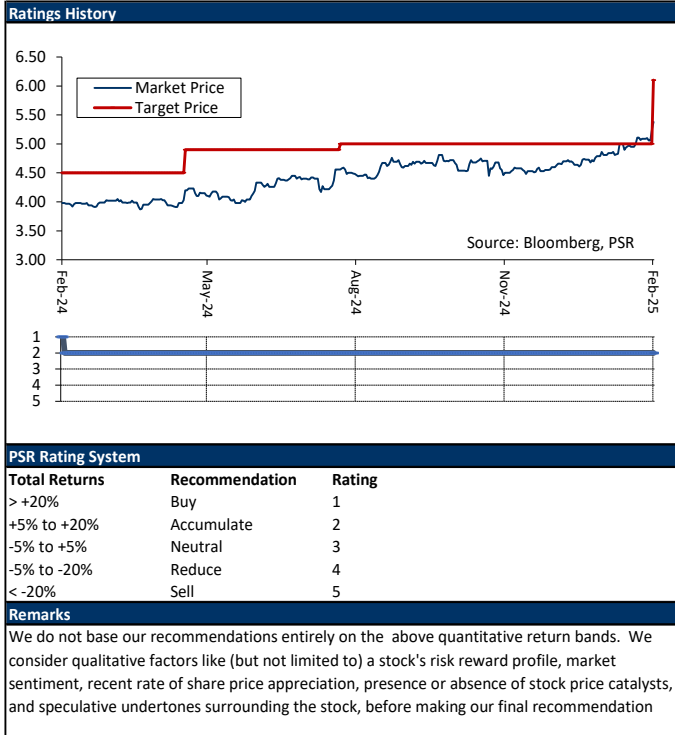
	FY22	FY23	FY24	FY25e	FY26e
<b>Growth</b>					
Revenue	17.4%	11.8%	11.6%	13.4%	5.9%
Gross profit	10.7%	16.1%	10.2%	15.4%	5.4%
EBIT	9.1%	24.4%	17.7%	14.6%	6.2%
PATMI	-6.2%	9.6%	19.7%	22.2%	9.3%

### Margins

Gross profit margin	18.8%	19.5%	19.3%	19.6%	19.5%
EBIT margin	8.1%	9.1%	9.5%	9.7%	9.7%
Net profit margin	5.9%	5.8%	6.2%	6.7%	6.9%

### Key Ratios

ROE	22.3%	23.8%	26.3%	29.5%	30.3%
ROA	4.4%	5.5%	6.2%	7.2%	7.4%
Net Gearing	223.6%	209.1%	182.7%	161.9%	142.0%



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