Singapore Technologies Engineering (STE SP)

1H26: Results In Line; Expect Strong Contract Wins In 2H26

Highlights

- STE's 1H26 results came in in line with our expectations, with net profit of S$512m (+27.1% yoy) forming 48.6% of our full-year forecast.
- Orderbook hit a new record-high level of S$35.7b by end-1H26. The slower 2Q26 order win was only a timing issue, as demand remained strong. STE guides for 2026 total contract wins to be at least comparable to 2025 levels, implying strong order wins of S$11b or more in 2H26.
- Maintain BUY; target price remains at S$11.75, based on 27.0x 2028F PE.

1H26 Results

Year to 31 Dec (S$m)	1H26	1H25	yoy % chg	2H25	hoh % chg	2026F	1H as of 2026F	Remarks
Revenue	6,573	5,916	+11.1	6,430	+2.2	13,705	48.0%	In line
- CA	2,694	2,347	+14.8	2,639	+2.1	5,400	49.9%	In line
- USS	1,056	921	+14.7	1,105	-4.5	2,271	46.5%	Broadly in line
- DPS	2,823	2,648	+6.6	2,686	+5.1	6,034	46.8%	Broadly in line
Reported EBIT	701	563	+24.6	280	+150.3	1,415	49.6%	In line
Core EBIT	685	563	+21.6	619	+10.6	1,415	48.4%	In line
- CA	259	187	+38.6	245	+6.1	470	55.2%	Beat expectations
- USS	46	12	+299.9	20	+132.0	143	32.4%	Behind our projection
- DPS	396	364	+8.7	354	+11.7	802	49.3%	In line
Reported net profit	512	403	+27.1	60	+759.0	1,053	48.6%	In line
Core net profit	499	403	+24.0	448	+11.5	1,053	47.4%	In line
Core EBIT margin	10.4	9.5	+0.9ppt	9.6	+0.8ppt	10.3		
- CA	9.6	8.0	+1.7ppt	9.3	+0.4ppt	8.7		Above expectations
- USS	4.4	1.3	+3.1ppt	1.8	+2.6ppt	6.3		Below expectations
- DPS	14.0	13.8	+0.3ppt	13.2	+0.8ppt	13.3		Above expectations
Core net profit margin	7.6	6.8	+0.8ppt	7.0	+0.6ppt	7.7		In line

Source: STE, UOB Kay Hian

Analysis

- **1H26 results in line.** Singapore Technologies Engineering (STE) reported a 1H26 net profit of S$512m (+27.1% yoy), forming 48.6% of our full-year forecast. Excluding one-offs, core net profit rose 24.0% yoy to S$499m. EBIT grew 24.6% yoy to S$701m, forming 49.6% of our full-year forecast.

Key Financials

Year to 31 Dec (S$m)	2024	2025	2026F	2027F	2028F
Net turnover	11,276	12,346	13,705	15,111	16,673
EBITDA	1,523	1,374	1,939	2,125	2,335
Operating profit	1,006	843	1,437	1,593	1,771
Net profit (rep./act.)	702	463	1,054	1,195	1,356
Net profit (adj.)	681	851	1,041	1,195	1,356
EPS (S$ cents)	21.7	27.1	33.2	38.1	43.2
PE (x)	47.8	38.2	31.2	27.2	24.0
P/B (x)	12.1	12.5	11.1	9.3	7.8
EV/EBITDA (x)	23.3	26.2	18.5	16.9	15.4
Dividend yield (%)	1.6	2.2	1.9	2.1	2.3
Net margin (%)	6.2	3.7	7.7	7.9	8.1
Net debt/(cash) to equity (%)	161.1	120.9	100.9	72.3	46.8
ROE (%)	27.4	17.6	38.4	37.4	35.5
Consensus net profit	-	-	1,049	1,218	1,379
UOBKH/Consensus (x)	-	-	0.99	0.98	0.98

Source: STE, Bloomberg, UOB Kay Hian

Analyst(s)

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BUY (Maintained)

Share Price	S$10.36
Target Price	S$11.75
Upside	13.4%
Previous TP	S$11.75

Stock Data

Sector	Industrials
Bloomberg ticker	STE SP
Shares issued (m)	3,119.3
Market cap (S$m)	32,316.0
Market cap (US$m)	25,239.0
3-mth avg daily t'over (US$m)	43.4

Price Performance (%)

52-week high/low: S$11.63/S$7.54

1mth	3mth	6mth	1yr	YTD
(5.0)	(3.9)	3.5	15.6	23.0

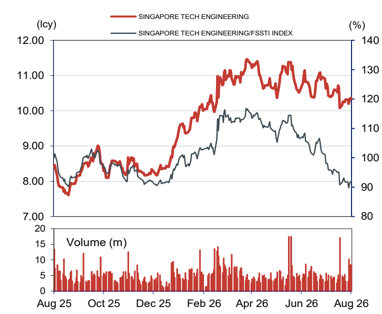
Major Shareholders (%)

Temasek Hldgs	51.0

Balance Sheet Metrics

FY26 NAV/Share (S$)	0.93
FY26 Net Debt/(Cash)/Share (Rmb)	1.30

Price Chart



Source: Bloomberg

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.

- **Segmental performance: CA beat, USS miss, DPS in line.**
  - **Commercial aerospace (CA):** 1H26 CA EBIT of S$259m (+38.6% yoy) beat our expectation, forming 55.2% of our full-year forecast. The beat was mainly from higher-than-expected EBIT margin of 9.6% in 1H26 (+1.7ppt yoy), which was driven by a more favourable product mix and productivity savings. Revenue was largely in line, rising 14.8% yoy, driven by stronger engine MRO, nacelles and spares sales.
  - **Urban solutions and satcom (USS):** 1H26 USS EBIT of S$46m (+300% yoy) came in behind our projection, forming 32.4% of our full-year forecast. 2H26 is expected to be stronger for USS, driven by better performances from both the urban solutions (URS) and satcom businesses. Management targets the satcom business to turn EBIT-positive in 4Q26 and 2027, driven by both: a) cost initiatives completed in 1H26, and b) increasing demand for its new I-Direct Intuition platform.
  - **Defence & public security (DPS):** 1H26 DPS EBIT of S$396m (+8.7% yoy) was in line with our expectation, at 49.3% of our full-year forecast. Revenue rose 6.6% yoy, driven by growth across all sub-segments. Excluding the impacts from the disposal of Leeboy, revenue would have grown 14% yoy. DPS EBIT margin came in slightly above our projection, at 14.0% (+0.3ppt yoy) in 1H26.
- **Declared 2Q26 interim dividend of 5 S cents.** This is in line with our expectation. Another 5 S cents interim dividend is planned for 3Q26.
- **Record-high orderbook backlog.** Orderbook backlog stood at S$35.7b as of end-1H26 (end-25: S$33.2b, end-1Q26: S$34.5b), providing good medium-term revenue visibility. STE secured S$2.9b worth of contract wins in 2Q26, slower than the quarterly contract wins of over S$4b in the preceding six quarters. We understand that this moderation in contract wins in 2Q26 was only due to the timing of contract awards, as the demand and fundamentals of all three segments have remained strong.
- **Orderbook to revenue conversion guidance implies yoy faster revenue growth for 2H26.** STE has guided to convert S$5.7b orderbook into revenue in 2H26, representing a 14% yoy increase from the S$5.0b guidance that was given a year ago for 2H25. The implied 2H26 revenue growth is slightly faster than the of 11.1% yoy revenue growth achieved in 1H26.
- **Outlook remains upbeat...** Management believes that STE is well on track to achieve its 2029 growth targets, and noted that the CA segment and digital businesses are likely to hit their respective revenue targets one year ahead of schedule. For 2H26, management expects the strong revenue growth momentum of DPS and CA to sustain and guides for USS to record a stronger performance hoh, driven by both the URS and satcom businesses.
- **…with stronger contract win momentum expected for 2H26.** Backed by the secular demand growth across STE's all three business segments, management remains bullish about STE's contract win momentum moving forward. Management guided that STE's 2026 total contract wins should be at least as robust as the 2025 contract win levels (S$18.7b), implying contract wins of S$11b or more for 2H26, or an average quarterly win of over S$5.5b; this is even stronger than the previous six peak quarters through 4Q24-1Q26, when quarterly contract wins ranged at S$4.2b-4.9b.

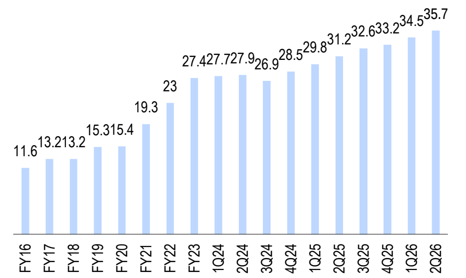
Earnings Revision/Risk

- **We maintain our 2026 net profit forecast, while trimming our 2027-28 forecasts by 2%,** as we fine-tune our effective tax rate projections for STE**.**
- **Key risks:** a) project cost overrun, and b) adverse forex translation from a weaker US dollar.

Valuation/Recommendation

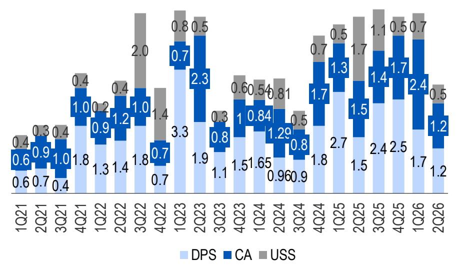
- **Maintain BUY.** Our target price remains unchanged at S$11.75, which is now based on 27.0x 2028F PE (rolled over), or 2.0SD above STE's historical mean PE of 21.0x. STE currently trades at 27.0x 2027F PE and 23.8x 2028F PE, 2.0SD/0.9SD above its historical mean.

Orderbook Backlog (S$b)



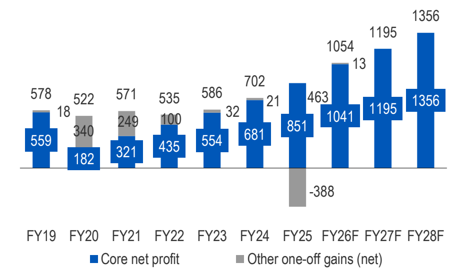
Source: STE

Order Wins By Business Segment



Source: STE

Yearly Net Profit Trend (S$m)



Source: STE, UOB Kay Hian

PE-based Valuation

		2026F	2027F	2028F
EPS		S$0.338	S$0.383	S$0.435
PE peg		----------- Target price ---------------		
+2.0SD	27.0x	S$9.13	S$10.35	S$11.75
+1.5SD	25.5x	S$8.63	S$9.78	S$11.09
+1.0SD	24.0x	S$8.12	S$9.20	S$10.44
+0.5SD	22.5x	S$7.61	S$8.63	S$9.79
Mean	21.0x	S$7.10	S$8.05	S$9.14

Source: UOB Kay Hian

Profit & loss

Year to 31 Dec (S$m)	2025	2026F	2027F	2028F
Net turnover	12,346	13,705	15,111	16,673
EBITDA	1,374	1,939	2,125	2,335
Deprec. & amort.	531	501	531	564
EBIT	843	1,437	1,593	1,771
Total other non-op. income	0	0	0	0
Associate contributions	62	67	68	69
Net interest income/(expense)	(204)	(168)	(150)	(127)
Pre-tax profit	701	1,336	1,512	1,713
Tax	(205)	(248)	(282)	(320)
Minorities	(33)	(34)	(36)	(37)
Net profit	463	1,054	1,195	1,356
Net profit (adj.)	851	1,041	1,195	1,356

Balance Sheet

Year to 31 Dec (S$m)	2025	2026F	2027F	2028F
Fixed assets	2,926	3,149	3,341	3,501
Other LT assets	5,012	4,919	4,826	4,733
Cash/ST investment	576	563	540	517
Other current assets	7,517	7,856	8,277	8,746
Total assets	16,032	16,487	16,985	17,497
ST debt	1,637	1,637	1,637	1,637
Other current liabilities	5,850	6,156	6,583	7,058
LT debt	3,196	2,973	2,443	1,763
Other LT liabilities	2,428	2,428	2,428	2,428
Shareholders' equity	2,574	2,911	3,477	4,157
Minority interest	348	382	418	454
Total liabilities & equity	16,032	16,487	16,985	17,497

Cash flow

Year to 31 Dec (S$m)	2025	2026F	2027F	2028F
Operating	1,708	1,665	1,860	2,032
Pre-tax profit	701	1,336	1,512	1,713
Tax	(145)	(248)	(282)	(320)
Deprec. & amort.	531	501	531	564
Associates	(62)	(67)	(68)	(69)
Working capital changes	44	(33)	6	6
Non-cash items	0	0	0	0
Other operating cashflows	639	175	161	138
Investing	170	(464)	(463)	(462)
Capex	(581)	(530)	(531)	(531)
Investment	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	751	67	68	69
Financing	(1,801)	(1,215)	(1,420)	(1,594)
Dividend payments	(530)	(717)	(629)	(675)
Proceeds from borrowings	1,910	0	0	0
Loan repayment	(2,834)	(223)	(530)	(680)
Others/interest paid	(346)	(275)	(261)	(239)
Net cash inflow (outflow)	78	(13)	(23)	(24)
Beginning cash & cash equiv.	430	576	563	540
Changes due to forex impact	69	0	0	0
Ending cash & cash equiv.	576	563	540	517

Key Metric

Year to 31 Dec	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	11.1	14.1	14.1	14.0
Pre-tax margin	5.7	9.7	10.0	10.3
Net margin	3.7	7.7	7.9	8.1
ROA	2.9	6.5	7.1	7.9
ROE	17.6	38.4	37.4	35.5
Growth (% yoy)				
Turnover	9.5	11.0	10.3	10.3
EBITDA	(9.8)	41.1	9.6	9.9
Pre-tax profit	(18.7)	90.6	13.1	13.3
Net profit	(34.1)	127.8	13.3	13.5
Net profit (adj.)	24.9	22.4	14.7	13.5
EPS	24.9	22.5	14.7	13.5
Leverage				
Debt to total capital	62.3	58.3	51.2	42.4
Debt to equity	165.4	140.0	104.8	73.7
Net debt/(cash) to equity	120.9	100.9	72.3	46.8