

MITA No. 010/06/2008

6 May 2009

ST Engineering Ltd

Downgrade to

HOLD

Previous Rating : BUY

S\$2.63

Fair Value: S\$2.46

Stock Code:

Reuters: STEGSI

ISIN Code S63

Bloomberg: STE SP

Event:

Results

General Data

Issued Capital (m)	3,003
Mkt Cap (S\$m/US\$m)	7,899/5,361
Major Shareholder	Temasek Hldgs Pte Ltd (49.19%)
Free Float (%)	34.0
NAV per share (S\$)	0.55
Daily Vol 3-mth ('000)	4,755
52Wk High (S\$)	3.186
52Wk Low (S\$)	1.757

Slow start to the year. Downgrade on valuation

Outlier quarter. Singapore Technologies Engineering's (STE) 1Q09 topline was flat at S\$1.32b while PATMI shrunk by 30% YoY to S\$85.2m. The quarter was primarily marred by STE's Aerospace division as it did not deliver any MD-11 conversions. STE grew its order book to S\$11b where S\$2.88b (52% of our FY09F revenue) will be delivered over the next three quarters. Management has indicated that the next three quarters should see improvements in margins and better spaced out deliveries that will provide comparable annual performance vs. FY08.

Sticking to its guidance. STE continues to iterate its guidance for a "comparable" PBT for this year while turnover has been downgraded from "higher" to "comparable". For 1Q09, "nil" deliveries of the very mature and profitable MD-11 Passenger-to-Freighter (PTF) conversion created the gap between our forecasts and actual earnings. While Aerospace has contributed to significant drag in the previous quarters, the 757 PTF conversions are expected to be accretive in FY09F after its loss-making year in FY08. This should kick in during 2H09. We have adjusted our estimates to factor in a weaker 1H09 and are giving STE a chance to perform for its 2H09.

Still vague with order book. With the exception of Land division, management maintained its enigmatic view of the division that has driven the order book to its record highs. The remainder of the 48% of our topline can be fulfilled from recurrent businesses that are not reflected in the order book.

Defensive but not growth. STE's share price initially saw its share price trade in a tight range (S\$2.00-S\$2.50) without large contract wins or accretive acquisitions that typically served as share price catalysts. While its S\$1.38b of cash equivalents puts STE in good stead to make acquisitions, we doubt that significant ones that will give major earnings accretion to the group will occur this year. We have rolled our valuation forward to a blended 16x FY09/10F PER (prev. 15x FY09F PER) and our fair value is bumped up to S\$2.46 (prev. S\$2.31). However, the recent 30% surge with the market rally since our upgrade on the 13 Feb seems to have factored in a growth story vs. our estimates which show a decline for FY09F. In view of the limited upside, we are downgrading our rating to a **HOLD**. Sustained improvements in margins and accretive contract wins will incentivise us to re-peg our valuation.

Kelly Chia

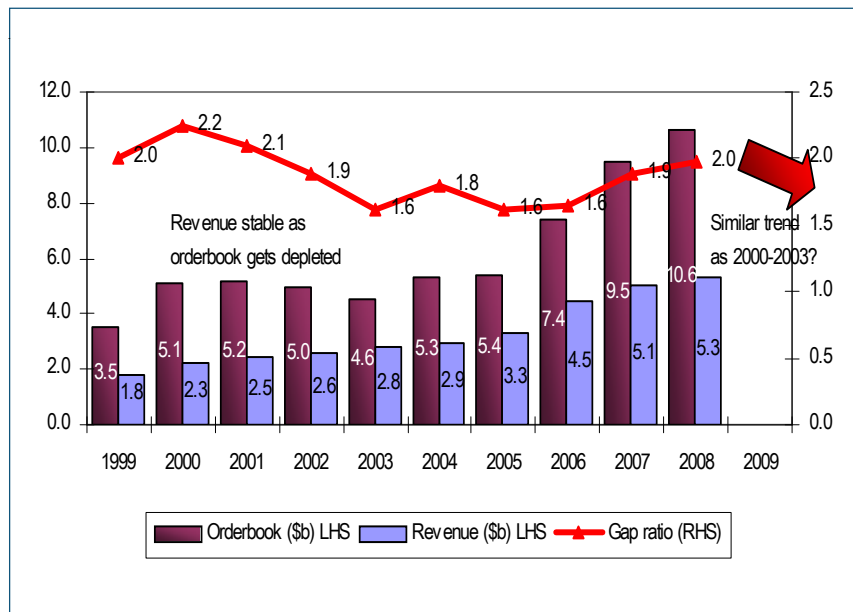
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Year to 31 Dec	Turnover (S\$m)	Gross Profit (S\$m)	Net Profit (S\$m)	EPS (cents)	EPS Growth (%)	PER (x)	Div Yield (%)
FY 07	5,051.0	1,128.3	503.5	17.0	12.7	15.5	6.4
FY 08	5,344.5	1,156.2	473.6	15.8	-6.7	16.7	6.0
FY 09F	5,555.9	1,165.1	435.6	14.5	-8.0	18.1	5.5
FY 10F	5,925.9	1,288.8	488.2	16.3	12.1	16.2	6.2

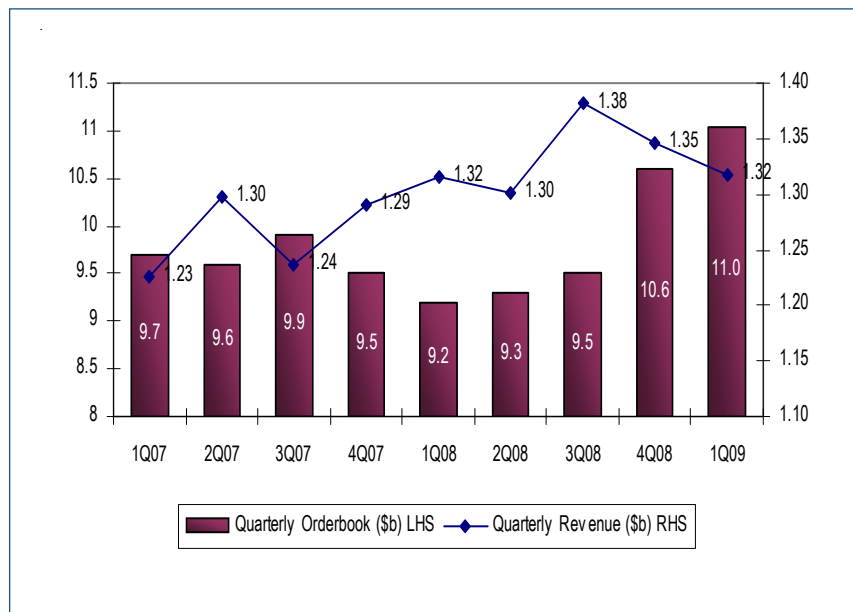
Please refer to the important disclosures at the back of this document.

Exhibit 1: Gap Ratio between Revenue and Orderbook



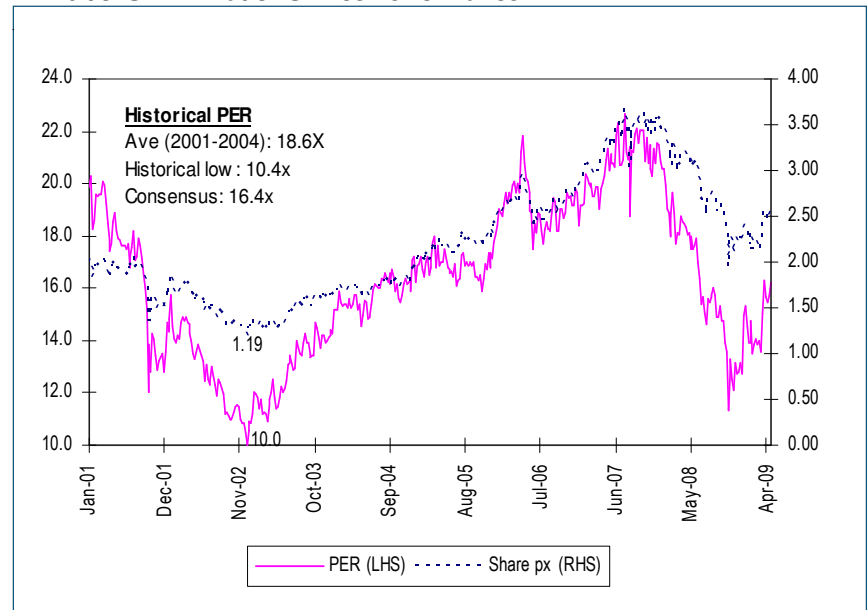
Source: Bloomberg

Exhibit 2: Quarterly Gap Ratio



Source: Company

Exhibit 3: STE PE ratio vs Price Performance



Source: Bloomberg

ST Engrg's Key Financial Data

ST Engrg Results Year Ended 31 Dec (S\$ m)	1Q08 (S\$m)	1Q09 (S\$m)	% Chg (YoY)	4Q08 (S\$m)	% Chg (QoQ)
Total Turnover (S\$m)	1315.24	1,318.2	0.2%	1,346.4	-2.1%
Aerospace revenue	469.245	459.1	-2.2%	476.1	-3.6%
Aircraft Maintenance & Mod	220.985	216.3	-2.1%	246.0	-12.1%
Component/Engine Repair & O/H	201.104	196.6	-2.2%	184.2	6.7%
Engr & Materials Svc	47.156	46.1	-2.1%	45.8	0.7%
Aerospace PBT	82.64	39.8	-51.9%	42.6	-6.7%
Aircraft Maintenance & Mod	51.049	25.7	-49.7%	33.3	-22.9%
Component/Engine Repair & O/H	10.84	3.8	-64.9%	-12.0	NM
Engr & Materials Svc	20.751	10.3	-50.4%	21.3	-51.8%
Electronics revenue	248.001	337.7	36.2%	326.4	3.5%
Large Scale sys group	50.783	65.7	29.3%	62.0	6.0%
Comms and Sensor sys group	119.475	157.2	31.6%	166.8	-5.7%
Software sys group	77.743	114.8	47.6%	97.6	17.5%
Electronics PBT	20.148	21.7	7.8%	14.6	49.2%
Large Scale sys group	4.053	5.4	32.5%	-13.1	NM
Comms and Sensor sys group	5.925	7.0	17.7%	9.8	-29.0%
Software sys group	10.17	9.4	-7.8%	17.8	-47.4%
Land systems revenue	364.706	255.3	-30.0%	287.4	-11.2%
Automotive	226.797	156.7	-30.9%	190.4	-17.7%
Munitions & Weapons	123.461	83.4	-32.5%	78.0	6.9%
Svc, trading and others	14.448	15.2	5.3%	19.0	-20.1%
Land Systems PBT	32.869	26.4	-19.7%	8.8	199.1%
Automotive	3.792	5.8	53.4%	-4.4	NM
Munitions & Weapons	24.178	14.4	-40.2%	6.9	108.8%
Svc, trading and others	4.899	6.1	25.1%	6.3	-2.2%
Marine revenue	198.274	234.0	18.0%	217.5	7.6%
Shipbuilding	118.182	149.1	26.2%	139.0	7.3%
Shiprepair	73.027	77.4	5.9%	71.0	9.0%
Engineering	7.065	7.5	6.3%	7.6	-1.4%
Marine PBT	17.429	20.7	18.9%	16.5	25.9%
Shipbuilding	0.876	5.8	559.2%	-4.9	NM
Shiprepair	15.793	13.1	-17.0%	20.4	-35.7%
Engineering	0.76	1.8	143.0%	1.0	91.2%
Others	44.744	52.0	16.3%	53.2	-2.3%
Elimination	-9.73	-19.8	103.9%	-14.2	39.6%
Cost of Sales	-1020.664	-1,073.1	5.1%	-1,059.1	1.3%
Gross Profit	294.576	245.1	-16.8%	287.3	-14.7%
Other operating income	21.579	5.1	-76.3%	-5.8	NM
Distribution and selling expenses	-40.8	-37.3	-8.6%	-71.3	-47.7%
Admin expenses	-92.532	-99.8	7.9%	-100.7	-0.9%
Other operating expenses	-21.479	-19.2	-10.4%	-19.8	-2.7%
Profit from operations	161.344	93.9	-41.8%	89.8	4.5%
Other income, net	-2.128	22.6	NM	-0.2	NM
Financial expenses	-11.357	-15.4	35.2%	-10.8	42.2%
Share of assoc coys and JVs	8.506	10.2	19.7%	10.1	0.7%
Profit Before Tax	156.365	111.3	-28.8%	88.9	25.2%
Income Tax	-30.584	-24.0	-21.7%	17.9	NM
Profit After Tax	125.781	87.4	-30.5%	106.9	-18.2%
Minority Interests	-3.239	-2.1	-34.1%	-4.6	-53.6%
Net Profit After Tax attributable to shareholders	122.542	85.2	-30.4%	102.3	-16.6%

EARNINGS FORECAST

Year Ended 31 Dec (S\$ m)	FY07	FY08	FY09F	FY10F
Revenue	5,051.0	5,344.5	5,555.9	5,925.9
Gross profit	1,128.3	1,156.2	1,165.1	1,288.8
Other operating income	88.4	27.0	13.6	29.6
Distribution and selling expenses	-146.1	-189.9	-164.4	-207.4
Admin expenses	-362.9	-381.4	-404.9	-426.7
Other operating expenses	-69.0	-75.9	-74.3	-77.0
Operating profit	638.7	536.0	535.0	607.4
Other income	3.1	8.5	26.9	5.9
Finance expenses	-50.4	-42.7	-57.7	-59.3
Associates	46.6	38.9	44.1	47.4
Exceptionals	0.0	0.0	0.0	0.0
Pre-tax profit	638.1	540.7	548.2	601.4
Tax	-114.6	-51.9	-103.4	-103.3
Minority interests	-20.0	-15.1	-9.3	-10.0
Net profit	503.5	473.6	435.6	488.2
Earnings per share (S\$ cents)	17.0	15.8	14.5	16.3
Fully diluted earnings per share (S\$ cents)	16.9	15.8	14.5	16.3
EPS growth	12.7%	-6.7%	-8.0%	12.1%
Gross profit margin (%)	22.3	21.6	21.0	21.7
EBIT margin (%)	12.6	10.0	9.6	10.2
Net profit margin (%)	10.0	8.9	7.8	8.2
Revenue revision	NA	NA	0.0	0.0
Net profit revision	NA	NA	0.0	-0.1
<u>Segment revenue</u>				
Aerospace revenue	1,837.1	1,941.0	1,950.4	2,062.5
Electronics revenue	1,035.1	1,157.7	1,278.1	1,348.8
Land revenue	1,181.2	1,280.9	1,244.7	1,344.3
Marine revenue	864.6	821.8	903.3	971.1
Others & inter segment elimination	133.0	143.2	179.4	199.3

BALANCE SHEET

As at 31 Dec (S\$ m)	FY07	FY08	FY09F	FY10F
Cash in bank and other liquid assets	625.8	818.9	911.1	974.0
Other current assets	3,325.5	3,020.1	3,122.9	3,496.3
Fixed assets	1,014.6	1,019.1	1,011.1	957.6
Other long term assets	1,077.3	1,134.7	989.9	979.2
Total assets	6,043.3	5,992.8	6,035.1	6,407.2
Current liabilities less debt	2,895.0	2,735.0	2,872.4	3,211.8
Debt	866.2	899.5	809.6	728.6
Other long term liabilities	502.9	681.1	666.7	770.4
Total liabilities	4,264.1	4,315.7	4,348.7	4,710.8
Shareholders equity	1,632.5	1,580.4	1,580.4	1,580.4
Minority interests	146.7	96.7	106.0	115.9
Total equity and liabilities	6,043.3	5,992.8	6,035.1	6,407.2
NTA per share (S\$ cents)	38.7	34.9	35.7	36.4
Net Asset Value (incl intangibles)	55.0	53.3	53.3	53.3

CASH FLOW

Year Ended 31 Dec (S\$ m)	FY07	FY08	FY09F	FY10F
Operating profit before working cap. changes	718.6	715.0	698.0	738.2
Working capital changes	-8.0	-153.7	-29.7	134.5
Interest and tax	-63.0	-68.1	-18.0	-52.9
Net cash from operations	661.3	511.4	643.2	823.6
Capex	-172.0	-191.3	-150.0	-100.0
Other investing flows	178.2	-5.8	145.0	165.0
Investing cash flow	6.1	-197.1	-5.0	65.0
Change in equity	80.0	30.5	0.0	0.0
Net change in debt	-1.0	33.4	-90.0	-81.0
Dividends paid	-530.0	-547.3	-487.0	-450.5
Financing cash flow	-513.1	-543.1	-634.7	-590.7
Other adjustments	0.0	0.0	0.0	1.0
Net cash flow	154.3	-228.8	3.5	297.8
Cash equivalents at beginning of year	1,141.3	1,282.7	1,049.1	1,052.6
Cash equivalents at end of year	1,282.7	1,049.1	1,052.6	1,350.4

Key Ratios

PER (x)	15.5	16.7	18.1	16.2
Price/NTA (x)	6.8	7.5	7.4	7.2
EV/EBITDA (x)	10.3	11.5	11.4	10.4
Dividend yield (%)	6.4	6.0	5.5	6.2
ROA (%)	8.3	7.9	7.2	7.6
ROE (%)	30.8	30.0	27.6	30.9
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash
PE to growth (x)	1.4	NA	NA	1.3

Source: Company data, OIR estimates

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The analyst/analysts who wrote this report holds NIL shares in the above security.

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Head of Research

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