Industrials

3Q26 Round-Up: Mixed Performance Amid Geopolitical Volatilities

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Highlights

- Large-cap industrial companies reported mixed results in 3Q26: Yangzijiang beat our expectations; ST Engineering, SIA Engineering, and SATS met our expectations; Keppel and Seatrium missed our expectations.
- Following the recent broad-based sector de-rating, the overall valuation of the large-cap industrial sector appears largely adequate, although there remain ongoing geopolitical and trade-related risks.
- Maintain MARKET WEIGHT. We favour companies with strong medium-term organic growth potential, with our top picks including SATS (at 14.3x FY28F PE, or -2.1SD vs its historical mean), Yangzijiang (7.1x 2028F PE, +0.5SD), and ST Engineering (19.8x 2028F PE, -0.4SD).

MARKET WEIGHT (Maintained)

Sector Picks

Company	Ticker	Rec	Share Price (S$)	Target Price (S$)
SATS	SATS SP	BUY	3.62	4.67
Yangzijiang	YZJSGD SP	BUY	4.18	5.30
ST Engineering	STE SP	BUY	8.62	10.16

Source: UOB Kay Hian

Summary Of Financial/Operating Results – At A Glance

Company	Key metrics	yoy chg	Remark	Key highlights
Singapore Airlines	2QFY27 reported earnings	+300%	Miss	yoy growth reflects 2QFY26's low base; earnings deemed a miss due to weaker-than-projected fuel cost pass-through
SIA Engineering	2QFY27 reported earnings	+3%	In line	Results in line; excluding gestation cost for new capacity expansion initiatives, earnings would have risen 20% yoy
SATS	2QFY27 reported earnings	+3%	In line	Headline earnings supported by tax items; core earnings dropped 10% yoy on well-guided peaking cost pressures
ST Engineering	3Q26 revenue	+9%	In line	Revenue in line; improving operating efficiency implies upbeat 2H26 margins; orderbook at a record-high level
Keppel	9M26 recurring earnings	+10%	Miss	9M26 recurring earnings growth missed expectations due to weaker-than-projected integrated power profit contribution
Yangzijiang Shipbldg.	Quarterly order intake	n.a.	Beat	>US$5b order wins in the past quarter, with ytd order wins beating its full-year target; orderbook at a record-high level
Seatrium	Quarterly order intake	n.a.	Miss	~S$940m new order wins in the past quarter, with ytd order wins of S$1.7b implying a book-to-bill ratio of <0.3x

Source: UOB Kay Hian

Analysis

- **Mixed 3Q26 performance.** Of the seven large-cap industrial names that reported September-quarter results or business updates, Yangzijiang Shipbuilding beat our expectations; ST Engineering, SIA Engineering and SATS were in line; while Singapore Airlines, Keppel and Seatrium missed.
- **Aviation names more sensitive to the Middle East tensions.** Singapore Airlines's earnings were more impacted, given its high sensitivity to jet-fuel prices and exposure through its 25%-owned associate, Air India, whose operations are geographically closer to the Middle East. SATS and SIA Engineering were also somewhat affected, as flight cancellations and cargo rerouting related to the Middle East conflicts weighed on business volumes and margins.
- **Divergence in order intake.** Yangzijiang and ST Engineering reported strong order intake, which lifted their orderbooks to record highs and provides good visibility for medium-term earnings growth. Seatrium's order-win momentum improved qoq but remained subdued, with its net orderbook declining to S$12.2b at end-3Q26 (equivalent to less than 1.5 years of revenue coverage at the current burn rate) and limiting earnings visibility.

Valuation Metrics For Large-cap Industrial Names

Company	Ticker	Rec	Price @ 26-Nov-26 (lcy)	Target Price (lcy)	PE 2026F (x)	PE 2027F (x)	PE 2028F (x)	EV/EBIT 2026F (x)	EV/EBIT 2027F (x)	EV/EBIT 2028F (x)	P/B 2026F (x)	P/B 2027F (x)	Yield 2026F (%)	Yield 2027F (%)	ROE 2026F (%)	ROE 2027F (%)	Net Gearing (%)
ST Engineering	STE SP	BUY	8.62	10.16	26.0	22.6	20.0	20.4	18.4	16.6	9.4	7.9	2.3	2.5	38.9	38.3	129.5
SATS	SATS SP	BUY	3.62	4.67	17.8	14.3	12.8	10.8	9.3	8.7	1.8	1.7	2.2	2.8	10.6	12.5	60.2
Singapore Airlines	SIA SP	SELL	6.85	6.65	27.1	22.5	18.4	18.3	15.7	13.2	1.3	1.3	5.1	5.0	4.8	5.9	(15.5)
SIA Engineering	SIE SP	BUY	2.74	3.60	18.2	16.3	14.6	14.0	12.3	11.1	1.7	1.6	4.0	4.6	9.5	10.3	(28.0)
Yangzijiang Shipbldg.	YZJSGD SP	BUY	4.18	5.30	8.3	7.1	7.2	5.4	4.6	4.7	2.2	1.9	6.1	7.1	29.6	29.0	(37.6)
Seatrium	STM SP	HOLD	1.31	1.55	10.2	10.3	9.9	5.0	6.3	6.3	0.6	0.6	3.1	3.1	8.5	5.7	9.2
Keppel	KEP SP	BUY	8.39	11.70	17.1	15.7	14.9	15.4	14.6	14.3	1.5	1.5	5.5	5.7	5.1	3.6	82.1
Sembcorp Industries	SCI SP	BUY	5.53	6.35	10.9	10.1	10.0	15.9	12.4	12.4	1.7	1.6	5.2	6.0	12.3	16.3	239.2
Average					**16.9**	**14.9**	**13.5**	**13.2**	**11.7**	**10.9**	**2.5**	**2.3**	**4.2**	**4.6**	**14.9**	**15.2**	**54.9**

Source: Bloomberg, UOB Kay Hian

- **Mostly positive 2H26 earnings outlook.** Except for Singapore Airlines, whose financial performance is expected to remain weighed by elevated jet fuel prices, we expect most large-cap industrials to deliver stable-to-improving yoy earnings in 2H26.
- ST Engineering and Yangzijiang are likely to deliver the highest-quality growth, supported by strong revenue conversion and steady margins.
- We expect Seatrium to report strong 2H26 earnings growth, driven by improving project margins. However, its weak orderbook remains a key concern and limits earnings visibility beyond 2H26.
- Keppel and Sembcorp should benefit from contributions from their new gas-fired power plants, although this could be partly offset by lower yoy average spark spreads across their existing Singapore power portfolios, in our view.
- SATS should continue to deliver healthy volume growth, with margins gradually recovering as cost pressures are likely to have peaked in 2QFY27.

Summary Of 2H26 Earnings Outlook

	2H26F earnings	2H25 earnings	yoy chg	Key drivers
Singapore Airlines*	S$670m	S$946m	-29%	Elevated jet fuel prices, Air India to remain a drag
SIA Engineering*	S$87m	S$86m	+2%	Less expansion-related costs at consolidated entities, offset by higher gestation cost at a key engine JV
SATS*	S$146m	S$135m	+8%	Healthy business volume growth, partly offset by temporary margin pressure (cost pressure peaked in 2QFY27)
ST Engineering	S$542m	S$448m**	+21%	Upbeat revenue growth and likely higher margins driven by improving operating efficiencies
Keppel	S$490m	S$446m**	+10%	Growing asset management fee income, and additional contribution from the Keppel Sakra Cogen plant
Sembcorp Industries	S$548m	S$512m**	+7%	Fresh contribution from a new 600MW gas-fired power plant in Singapore and newly acquired Alinta, offset by weaker spark spread of Singapore gas-power portfolio
Yangzijiang Shipbldg.	Rmb4,999m	Rmb4,424m	+13%	Strong revenue conversion, Hongyuan yard contribution, and steady margins
Seatrium	S$234m	S$179m	+30%	Still healthy near-term revenue run rate and improving gross profit margins

** For Singapore Airlines, SIA Engineering and SATS, 2H26 refers to 2HFY27, given their March financial year end.*
*** 2H25 earnings figures for ST Engineering, Keppel and Sembcorp Industries have excluded significant one-off/non-core items*
Source: UOB Kay Hian

- **Key events to watch out for in the near term:**
  a) **New US Section 301 tariffs.** The Trump administration has proposed excess-capacity tariffs on 14 economies, including China, the EU and Singapore, at rates of up to 20%, 15% and 20%, respectively, subject to exemptions and trade-agreement adjustments. With comments due by 5 Jan 27 and hearings beginning on 25 Jan 27, the proposals may serve as bargaining leverage, leaving room for delays or negotiated reductions; political and legal scrutiny could also increase once Democrats take control of Congress. Meanwhile, companies have had time to diversify sourcing and adapt their supply chains since the Liberation Day tariffs. These factors may help explain the relatively contained initial market reaction and suggest less near-term disruption than the earlier broad-based package, although implementation and escalation remain key risks.
  b) **The 8-9 Dec FOMC meeting.** The market has priced in a 25bps hike, although hawkish Fed commentary, including support for a possible 50bps hike, signals further upside risks.
  c) **Sembcorp's potential IPO of its Indian renewable-energy arm, Sembcorp Green Infra.** Previous media reports suggest a launch as early as Dec 26, although the IPO remains subject to regulatory and internal approvals, market conditions and pricing.
  d) **The US-China discussions over port charges**, with the relevant Section 301 maritime, logistics and shipbuilding measures currently suspended until 9 Jan 27. Any reinstatement could raise shipping costs and weigh on sentiment towards Chinese shipyards such as Yangzijiang.
  e) **Developments in the Middle East**, particularly any signs of de-escalation or renewed conflict, given their implications for oil prices, freight rates, project timing and risk appetite.

Valuation/Recommendation

- **Recent broad-based sector de-rating.** Except for Singapore Airlines, whose share price has largely held up due to recent pullback in oil prices, all large-cap industrial stocks under our coverage have declined by 10-40% over the past three months.
- Some key factors that drove the sector de-rating include: a) higher risk-free-rate expectations; b) policy uncertainty following the US mid-term elections;

Broad-Based Sector De-Rating

	------- Share price -------		3m chg
	26 Aug 26	26 Nov 26	
ST Engineering	S$10.58	S$8.62	-18.5%
SATS	S$4.07	S$3.62	-11.1%
Singapore Airlines	S$6.93	S$6.85	-1.2%
SIA Engineering	S$3.14	S$2.74	-12.7%
Yangzijiang Shipbldg.	S$4.84	S$4.18	-13.6%
Seatrium	S$2.18	S$1.31	-39.9%
Keppel	S$11.41	S$8.39	-26.5%
Sembcorp Industries	S$6.12	S$5.53	-9.6%

Source: UOB Kay Hian

and c) more normalised liquidity on the Singapore Exchange as enthusiasm over MAS's market-revitalisation initiatives faded.

- **Target price reviews.** Acknowledging the above de-rating factors, we take the opportunity to review our target prices assigned to the industrial stocks, applying more conservative valuation multiples on selective names while keeping all ratings. Our latest valuations are summarised in the below table.

Summary Of Valuation Metrics For Eight Large-Cap Industrial Companies Under Coverage

Company	Rating	Current price	Implied valuation	Versus historical mean	Updated target price	Updated TP peg	TP valuation basis
Singapore Airlines	SELL	S$6.85	1.32x FY27F P/B	+1.2SD vs historical mean P/B	S$6.65	1.29x FY27F P/B	+1.0SD vs historical mean P/B
SIA Engineering	BUY	S$2.74	16.3x FY28F PE	-1.3SD vs historical mean PE	S$3.60	21.3x FY28F PE	historical mean PE
SATS	BUY	S$3.62	14.3x FY28F PE	-2.1SD vs historical mean PE	S$4.67 (reduced)	18.4x FY28F PE	-0.5SD vs historical mean PE
ST Engineering	BUY	S$8.62	19.8x 2028F PE	-0.4SD vs historical mean PE	S$10.16 (reduced)	23.4x 2028F PE	+0.5SD vs historical mean PE
Keppel	BUY	S$8.39	14.8x 2028F PE	-0.6SD vs historical mean PE	S$11.70	SOTP: 17x core earnings + non-core portfolio value	
Sembcorp Industries	BUY	S$5.53	9.9x 2028F PE	+0.4SD vs historical mean PE	S$6.35 (reduced)	11.4x 2028F PE	+1.0SD vs historical mean PE
Yangzijiang Shipbldg.	BUY	S$4.18	7.1x 2028F PE	+0.5SD vs historical mean PE	S$5.30	9.0x 2028F PE	+1.5SD vs historical mean PE
Seatrium	HOLD	S$1.31	0.60x 2026F P/B	-2.0SD vs historical mean P/B	S$1.55 (reduced)	0.71x 2026F P/B	-1.5SD versus historical mean P/B

Source: UOB Kay Hian

- **Maintain MARKET WEIGHT.** Following the recent sell-offs, five of the eight large-cap industrial names under our coverage - SATS, Keppel, ST Engineering, SIA Engineering and Seatrium, - are now trading below their respective historical mean PE or P/B valuations. Singapore Airlines, Sembcorp Industries and Yangzijiang are trading above their respective historical means. As such, the overall sector valuation does not appear excessive, although there are ongoing geopolitical and trade-related risks.
- **Preferred picks: SATS, Yangzijiang and ST Engineering.** We favour these three companies for their strong medium-term organic growth potential, while their valuations are also more attractive after the recent share-price declines.
  - **SATS (BUY/Target: Lowered to S$4.67):** SATS demonstrated good resilience sustaining a close-to 10% yoy cargo volume growth at the height of the much larger-scale Liberation Day tariff war. While the newly proposed US tariffs may cause some near-term volatility, it should not materially impact underlying global trade demand, in our view. Backed by its extensive global air cargo network, SATS is well positioned to capture any possible air cargo re-routing. We reckon that SATS' latest share price, at 14.3x FY28F PE, or 2.1SD below its historical mean of 19.7x, has more than priced in the uncertainties related to the new tariffs.
  - **Yangzijiang (BUY/Target: S$5.30):** The official commissioning of its new Hongyuan yard in early-27 should would meaningfully expand Yangzijiang's earnings potential, while its record orderbook provides strong earnings visibility through 2030. Yangzijiang is currently trading at 7.1x 2028F PE, or 0.5SD above its historical mean PE of 6.1x.
  - **ST Engineering (BUY/Target: Lowered to S$10.16):** Favourable secular trends across its business segments, together with a strong management track record and record order book, should underpin sustained medium-term earnings growth. The company is now trading at 19.8x 2028F PE, or 0.4SD below its historical mean PE of 21.5x.
- **Other target price adjustments:**
  - **Sembcorp Industries: Maintain BUY; target price lowered to S$6.35.** Our revised target price (pegged to 11.4x 2028F PE, or 1SD above the historical mean of 8.9x) is premised on our reduced 2026-28 core earnings forecasts of S$917m/S$986m/S$991m, respectively, as we have moderated our spark-spread expectations for Sembcorp Industries' Singapore power portfolio to reflect potentially more balanced underlying industry supply-demand dynamics following Singapore's progressive expansion of power-generation capacity in recent years.
  - **Seatrium: Maintain HOLD; target price lowered to S$1.55.** Despite the recent share price decline, we remain reluctant to re-enter given limited earnings visibility from its weak orderbook. Our revised target price is now based on 0.71x 2026F P/B, or 1.5SD below its historical mean of 1.05x.

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