Singapore Technologies Engineering (STE SP)

3Q26: Revenue Broadly In Line; Expect Strong Closing For 2026 And Sustainable Healthy Growth In the Medium Term

Highlights

- STE's 3Q/9M26 revenue came in broadly in line with our expectations, forming 25%/73% of our full-year forecast, respectively.
- Management guides for a strong closing for 2026, and we remain upbeat on STE's medium-term growth trajectory, backed by a record-high orderbook and further improvement in margins.
- Maintain BUY as we continue to like STE, though our target price is moderated to S$10.97 (based on 25.2x 2028F PE, or 1SD above mean), reflecting the recent global defence sector de-rating and a higher risk-free rate environment.

3Q26 Results

Year to 31 Dec (S$m)	3Q26	3Q25	yoy % chg	2Q26	qoq % chg	9M26	9M25	yoy % chg	FY26F	9M as % of 2026F
Revenue	**3,410**	**3,142**	**+9**	**3,316**	**+3**	**9,990**	**9,058**	**+10**	**13,705**	**73%**
- DPS	1,440	1,334	+8	1,412	+2	4,260	3,981	+7	5,755	74%
- CA	1,370	1,286	+7	1,373	-0	4,070	3,633	+12	5,600	73%
- USS	600	522	+15	531	+13	1,660	1,443	+15	2,350	71%

Source: STE, UOB Kay Hian

Analysis

- **3Q26 revenue broadly in line.** Singapore Technologies Engineering's (STE) 3Q26 revenue of S$3.4b (+9% yoy) was broadly in line with our expectations, with 9M26 revenue of S$10.0b (+10% yoy), forming 73% of our full-year forecast. If adjusted for the Leeboy disposal (completed in Sep 25) and foreign currency fluctuations, STE's 3Q26 revenue would have grown 11% yoy.
- **Broad-based growth across three segments.** Revenue of Defence & Public Security (DPS) rose 8% yoy in 3Q26, driven by higher revenue led by Marine and Digital Systems & Cybersecurity businesses. Revenue of Commercial Aerospace (CA) rose 7%, driven by higher revenue from Engine MRO and Nacelle production. Revenue of Urban Solutions & Satcom (USS) rose 15%, backed by higher revenue from both Urban Solution and Satcom businesses.

Key Financials

Year to 31 Dec (S$m)	2024	2025	2026F	2027F	2028F
Net turnover	11,276	12,346	13,590	14,914	16,379
EBITDA	1,523	1,374	1,936	2,121	2,332
Operating profit	1,006	843	1,437	1,594	1,773
Net profit (rep./act.)	702	463	1,054	1,195	1,356
Net profit (adj.)	681	851	1,041	1,195	1,356
EPS (S$ cents)	21.7	27.1	33.2	38.1	43.2
PE (x)	44.6	35.7	29.1	25.4	22.4
P/B (x)	11.3	11.7	10.6	8.9	7.4
EV/EBITDA (x)	22.1	24.8	17.6	16.1	14.6
Dividend yield (%)	1.8	2.4	2.1	2.2	2.4
Net margin (%)	6.2	3.7	7.8	8.0	8.3
Net debt/(cash) to equity (%)	161.1	120.9	104.9	76.7	50.2
ROE (%)	27.4	17.6	38.9	38.3	36.4
Consensus net profit	-	-	1,061	1,224	1,378
UOBKH/Consensus (x)	-	-	0.98	0.98	0.98

Source: STE, Bloomberg, UOB Kay Hian

Analyst(s)

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BUY (Maintained)

Share Price	S$9.67
Target Price	S$10.97
Upside	13.4%
Previous TP	S$11.75

Stock Data

Sector	Industrials
Bloomberg ticker	STE SP
Shares issued (m)	3,116.3
Market cap (S$m)	30,135.1
Market cap (US$m)	23,411.3
3-mth avg daily t'over (US$m)	39.0

Price Performance (%)

52-week high/low				S$11.63/S$8.07
1mth	**3mth**	**6mth**	**1yr**	**YTD**
(6.6)	(6.7)	(10.3)	11.4	14.8

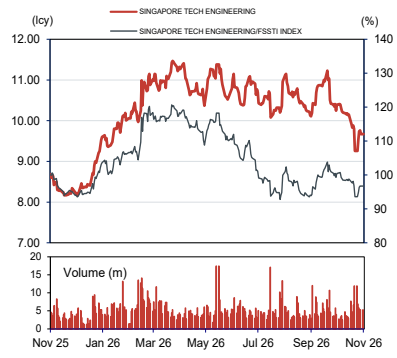
Major Shareholders (%)

Temasek Hldgs	51.0

Balance Sheet Metrics

FY26 NAV/Share (S$)	0.91
FY26 Net Debt/(Cash)/Share (S$)	1.09

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.

- **Orderbook hit a new record high.** Orderbook backlog strengthened to a new record-high level of S$37.7b as of end-3Q26, versus S$35.7b as of end-1H26, driven by strong order wins of S$5.6b during 3Q26 (9M26: S$13.2b); this comprises of S$1.8b in new order wins from DPS, S$1.4b from CA and S$2.4b from USS.
- **Guiding for S$3.1b revenue conversion from orderbook in 4Q26.** This is compared with a S$2.8b revenue conversion one year ago for 4Q25, implying a 10% revenue growth in 4Q26.
- **Maintaining a 5 S cents interim dividend for 3Q26.** This is flat qoq, but a 1 S cent increase yoy.
- **Upbeat outlook guidance.** Management guides for a strong closing for 2026. Beyond 2026, management highlighted that even though STE has significantly outperformed its five-year CAGR targets (revenue CAGR: 8.6%, net profit CAGR: ~13.6%) announced on its early-25 Strategy Day, this does not mean STE's growth will slow in the remainder of the five-year period. STE expects to sustain/beat the target growth CAGRs in the remainder of the five-year period (ie till 2029).
- **Contract pipeline remains upbeat,** driven by healthy underlying demand across the three key business segments. STE continues to pursue over US$11b international defence projects in the pipeline over the next 24 months. Recall that STE previously guided that 2026 order intake value would be similar with 2025 levels (S$18.8b); this implied S$5b-5.5b order intake in 4Q26, though management noted that actual order intakes would depend on the timing of customers' contract signing.
- **Gaining traction in the Europe defence market.** Management shared that STE recently secured some low-rate production orders for its land platform products from a European customer, and guided that this is likely to lead to some additional low-rate production order in the very near term, and has the potential to scale into much larger full-size production in future. Management refrained from providing more details at this juncture, but noted that this is remarkable progress for STE, as it validates the quality and ability of STE's platforms, and opens up opportunities with more European customers.
- **Consistently improving operation and cost efficiencies**. STE has achieved consistent improvement in cost efficiencies over the past years, with its opex-to-revenue ratio having improved from 12.1% in 2022 to 10.2% in 2025, and to 9.0% in 9M26. Within 9M26, opex-to-revenue ratio continues to improve qoq through 1Q to 3Q. This implies a potentially stronger operating margin in 2H26, in our view. Management remains confident in medium-term margin expansion, highlighting that margins of new projects in STE's orderbook tend to be better than those in the past.
- **Satcom is on track to achieve EBIT-positive in 4Q26** and should remain profitable in 2027, driven by all cost initiatives implemented earlier this year. USS revenue is expected manage a yoy growth in 4Q26 on top of 4Q25's high base.

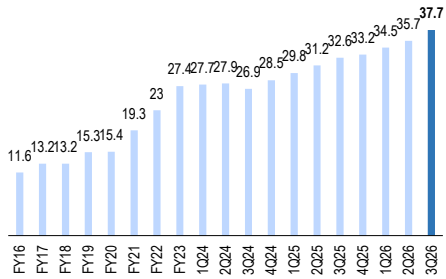
Earnings Revision/Risk

- **No change.**
- Key risks: a) project cost overrun, and b) adverse forex translation.

Valuation/Recommendation

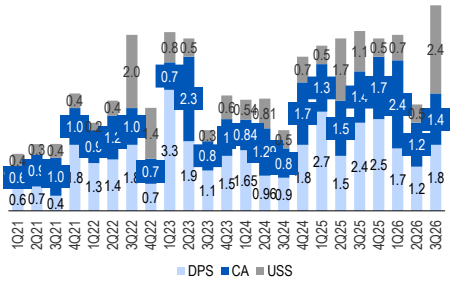
- **Maintain BUY; target price moderated to S$10.97.** We like STE for its strong execution and upbeat medium-term growth trajectory. Our target price is now based on 25.2x 2028F PE or 1SD above historical mean of 21.5x, versus previously 27x (+2SD). The lower PE peg takes into account: a) recent de-rating of global defence players (share prices of which pulled back by an average of 18% from mid-Aug 26 levels); b) a higher risk-free rate environment (10-year US government bond yield now stands at 5.15%, about 50bps higher than mid-Aug levels); and c) recent slowdown in liquidity on the Singapore Exchange.

Orderbook Backlog (S$b)



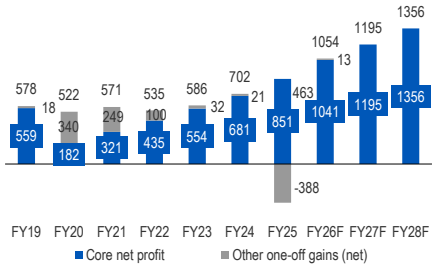
Source: STE

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	28.9x	S$9.79	S$11.10	S$12.59
+1.5SD	27.1x	S$9.16	S$10.38	S$11.78
+1.0SD	**25.2x**	S$8.53	S$9.67	**S$10.97**
+0.5SD	23.4x	S$7.90	S$8.95	S$10.16
Mean	21.5x	S$7.27	S$8.24	S$9.35

Source: UOB Kay Hian

Profit & loss

Year to 31 Dec (S$m)	2025	2026F	2027F	2028F
Net turnover	**12,346**	**13,590**	**14,914**	**16,379**
EBITDA	1,374	1,936	2,121	2,332
Deprec. & amort.	531	499	527	558
EBIT	843	1,437	1,594	1,773
Total other non-op. income	0	0	0	0
Associate contributions	62	67	68	69
Net interest income/(expense)	(204)	(168)	(150)	(130)
Pre-tax profit	**701**	**1,336**	**1,512**	**1,713**
Tax	(205)	(248)	(282)	(321)
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	3,151	3,348	3,514
Other LT assets	5,012	4,919	4,826	4,733
Cash/ST investment	576	498	440	409
Other current assets	7,517	7,821	8,218	8,658
Total assets	**16,032**	**16,390**	**16,832**	**17,315**
ST debt	1,637	1,637	1,637	1,637
Other current liabilities	5,850	6,121	6,523	6,968
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	2,849	3,383	4,064
Minority interest	348	382	418	454
Total liabilities & equity	**16,032**	**16,390**	**16,832**	**17,315**

Cash Flow

Year to 31 Dec (S$m)	2025	2026F	2027F	2028F
Operating	**1,708**	**1,662**	**1,855**	**2,028**
Pre-tax profit	701	1,336	1,512	1,713
Tax	(145)	(248)	(282)	(321)
Deprec. & amort.	531	499	527	558
Associates	(62)	(67)	(68)	(69)
Working capital changes	44	(33)	5	6
Non-cash items	0	0	0	0
Other operating cashflows	639	175	161	140
Investing	**170**	**(464)**	**(463)**	**(462)**
Capex	0	0	0	0
Investment	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	170	(464)	(463)	(462)
Financing	**(1,801)**	**(1,277)**	**(1,451)**	**(1,596)**
Dividend payments	(530)	(779)	(660)	(675)
Proceeds from borrowings	1,910	0	0	0
Loan repayment	(2,834)	(223)	(530)	(680)
Others/interest paid	(346)	(275)	(261)	(241)
Net cash inflow (outflow)	**78**	**(78)**	**(58)**	**(30)**
Beginning cash & cash equiv.	**430**	**576**	**498**	**440**
Changes due to forex impact	69	0	0	0
Ending cash & cash equiv.	**576**	**498**	**440**	**409**

Key Metric

Year to 31 Dec	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	11.1	14.2	14.2	14.2
Pre-tax margin	5.7	9.8	10.1	10.5
Net margin	3.7	7.8	8.0	8.3
ROA	2.9	6.5	7.2	7.9
ROE	17.6	38.9	38.3	36.4
Growth (% yoy)				
Turnover	9.5	10.1	9.7	9.8
EBITDA	(9.8)	41.0	9.5	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	58.8	51.8	42.9
Debt to equity	165.4	142.7	107.3	75.3
Net debt/(cash) to equity	120.9	104.9	76.7	50.2

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