

Singapore Company Update

Singapore Airlines

Bloomberg: SIA SP | Reuters: SIAL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

28 Feb 2022

HOLD

Last Traded Price (25 Feb 2022): S\$5.07 (STI : 3,294.47)
Price Target 12-mth: S\$4.90 (3% downside)

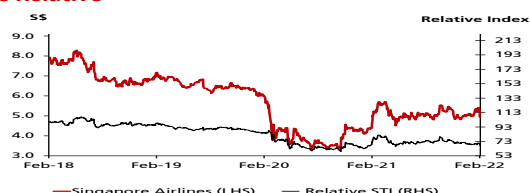
Analyst

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What's New

- 3QFY22 results were above expectations
- Turnaround primarily driven by exceptional performance from cargo segment
- Longer-term recovery in sight for core passenger business, but several headwinds will impede the segment's return to profitability
- Maintain HOLD with an unchanged TP of S\$4.90

Price Relative



Forecasts and Valuation

FY Mar (\$m)	2021A	2022F	2023F	2024F
Revenue	3,816	7,134	11,317	16,106
EBITDA	(630)	1,232	1,937	2,852
Pre-tax Profit	(4,957)	(1,069)	(358)	381
Net Profit	(4,271)	(898)	(311)	310
Net Pft (Pre Ex.)	(2,318)	(898)	(311)	310
Net Pft Gth (Pre-ex) (%)	(993.3)	61.3	65.4	nm
EPS (S cts)	(144)	(30.3)	(10.5)	10.4
EPS Pre Ex. (S cts)	(78.2)	(30.3)	(10.5)	10.4
EPS Gth Pre Ex (%)	(520)	61	65	nm
Diluted EPS (S cts)	(100)	(13.9)	(4.8)	4.81
Net DPS (S cts)	0.0	0.0	0.0	0.0
BV Per Share (S cts)	373	348	351	360
PE (X)	nm	nm	nm	48.5
PE Pre Ex. (X)	nm	nm	nm	48.5
P/Cash Flow (X)	nm	46.3	5.6	5.0
EV/EBITDA (X)	nm	14.3	9.8	7.2
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	1.4	1.5	1.4	1.4
Net Debt/Equity (X)	0.4	0.1	0.2	0.2
ROAE (%)	(33.9)	(4.7)	(1.4)	1.4
Earnings Rev (%):		(32)	298	(58)
Consensus EPS (S cts):		(25.6)	1.2	19.1
Other Broker Recs:		B: 2	S: 4	H: 6

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Encouraging 3Q, but not out of the woods yet

Investment Thesis:

Fairly Valued as a cashed-up SIA is in a strong position to wait patiently for a recovery. The timeline for a sustained re-opening of international borders to air travel continues to be pushed back with the emergence of new COVID-19 variants but SIA is in a strong position to wait for the eventual recovery. Trading at 1.2x adjusted P/BV, or at +1 SD of its 10-year mean, we see SIA's longer-term recovery as largely priced in already.

Issuance of S\$6.2bn MCBs ensures SIA remains financially sound and in a strong position to recover... The strong show of support from Temasek, which took up c. 95% of the MCBs, boosted SIA's pro-forma cash balance to c. S\$14bn, providing it with a firm buffer to navigate through the current crisis and fund the capital expenditure for its fleet renewal program.

... but the MCBs could also be highly dilutive, whether eventually redeemed or converted. A total of S\$9.7bn of MCBs are now in issue, with a yield to call of 4% in the first 4 years and up to 6% in years 8 to 10, meaning that the MCBs are highly dilutive whether they are redeemed or converted. We believe SIA would look to redeem most, if not all, of these MCBs as soon as demand recovers and stabilises.

Valuation:

Our target price of S\$4.90 for SIA is based on 1.2x FY23F P/BV, which is +1 SD above the stock's ten-year mean P/BV. We treat the MCBs as debt instead of equity as we see SIA redeeming the MCBs within 10 years and include the implied accrued interest at end FY23.

Where we differ:

Lower than consensus net profit projections as we expect SIA's passenger volumes to take longer to normalise.

Key Risks to Our View:

The key risks on SIA are international borders opening at a faster than anticipated pace, and pent-up travel demand exceeding our expectations.

At A Glance

Issued Capital (m shrs)	2,967
Mkt. Cap (\$m/US\$m)	15,045 / 11,117
Major Shareholders (%)	
Napier Investments Pte Ltd	33.2
Temasek Holdings Pte Ltd	22.2
Free Float (%)	44.6
3m Avg. Daily Val (US\$m)	23.1
GIC Industry : Industrials / Transportation	



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WHAT'S NEW

1st quarterly profit since the pandemic started, but SIA is not out of the woods yet

Surprise net profit in 3QFY22. SIA booked a net profit of S\$84.7m in 3QFY22 (2QFY22: -\$427.6m, 3QFY21: -\$141.8m), returning into the black for the first time since the pandemic began. 9MFY22 net losses amounted to S\$752.1m, which was narrower than our full-year projection of a net loss of S\$1.3bn. Outperformance during the quarter was mainly driven by the exceptional showing at its cargo segment, which booked a record high revenue of S\$1.35bn, though offset by lower degree of government subsidies.

Group revenue in 3QFY22 was at 52% of pre-crisis levels. The Group's top line came in at S\$2,316m, with cargo accounting for 58% of total revenue. Cargo revenue was remarkably strong during the quarter because of elevated yields, that were at 269% of the same period pre-COVID19, and even higher than what SIA achieved during the height of the pandemic in 1QFY21. Passenger revenue came in at S\$830.3m (+352% y-o-y, +91% q-o-q), hitting 21% of pre-crisis levels during the period, with growth underpinned by a 556.8% increase in air traffic, though tempered by a decline in passenger yields.

3QFY22 reversed net cash outflow from operations in 1HFY22; balance sheet remains robust. SIA also exceeded our expectations on cash flow generation, registering positive operating cash flow of S\$322m for 9MFY22, as compared to our initial expectation of the airline turning cash flow neutral to slightly positive in 3QFY22. Management reiterated that the key criteria for capacity to be restored is for flights to be cash flow positive. The airline had an adjusted (MCBs treated as debt) net debt to equity ratio of around 1.0x, which is significantly lower than the industry average.

Other important updates:

- **Ukraine-Russia conflict has no immediate impact on SIA.** SIA has not been using Ukraine's air space for several years now. However, it remains to be seen if passenger traffic to Europe might decline due to passenger fears.
- **Fuel hedging** – SIA has hedged 40% of its planned jet fuel consumption at US\$60/bbl Brent over the next five quarters.
- **Market share gains** – SIA has taken considerable market share away from its competitors across its traditional routes (Europe, Australia, Southeast Asia, etc). Some of these gains will be lost as

competitors restore capacity, but the airline is hopeful that they can retain some of the new customers.

- **Business travel is lagging leisure travel** – According to the management, discussions with corporates indicated that low travel budgets are hindering business travellers from returning to the skies.
- **Delays in reopening of Greater China market will not have a material impact on SIA** – Prior to COVID-19, Greater China accounted for sub-10% of SIA's network capacity. This is capacity that can be redeployed to fill gaps in other parts of the market. However, this will be more challenging for Scoot, given that Greater China forms a larger portion of its capacity.

Project narrower net losses in FY22F, but deeper net losses in FY23F and lower net profits in FY24F respectively. We now project SIA's net loss to narrow to S\$898m in FY22F, as compared to a net loss of S\$4,271m in FY21, which implies sequential decline in the airline's earnings in 4QFY22, owing to rising jet fuel prices, lower quantum of government grants and a decline in cargo yields after a seasonally stronger 3QFY22. Additionally, we are cutting our FY23/24F net earnings estimates to reflect higher jet fuel prices and margin erosion stemming from inflationary pressures.

Maintain HOLD with unchanged TP of S\$4.90. Despite increased momentum on easing of international border controls in Asia Pacific, we believe that SIA's current recovery prospects are fairly aligned with its valuation of 1.2x P/adjusted BVPS (+1.0 SD above 10-year average). We will stay on the sidelines until there is further clarity on the recovery of business travel (which has historically been an important earnings contributor) or there are indications that the recovery in SIA's air traffic could surpass our expectations (70% and 95% of pre-COVID19 passenger capacity by 4QFY23 and 4QFY24 respectively).

Company Background

Singapore Airlines (SIA) is a leading global airline group based in Singapore. In the passenger service segment, SIA operates its flagship Singapore Airlines product, and has SilkAir and Scoot, a low-cost carrier, as subsidiaries. It also owns SIA Engineering, listed on SGX, which is involved in aircraft maintenance and repair.

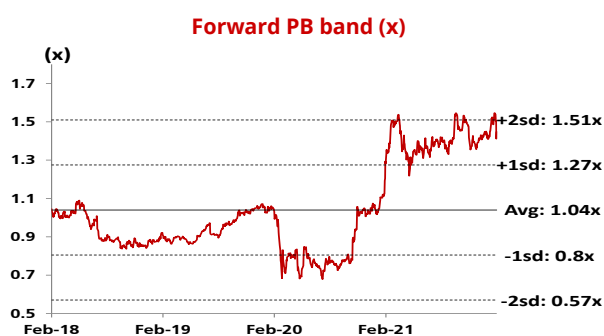
Singapore Airlines

Peer comparison table

Company	Market cap (US\$m)	P/E		EV-to-EBITDA		P/BV		ROE (%)	
		CY22F	CY23F	CY22F	CY23F	CY22F	CY23F	CY22F	CY23F
Air China	19,458	nm	12.9x	11.5x	7.7x	1.1x	1.0x	-0.8%	7.5%
China Southern	16,708	nm	14.8x	10.9x	7.7x	1.1x	0.9x	1.2%	6.8%
China Eastern	13,970	nm	7.5x	9.4x	6.9x	0.9x	0.8x	0.2%	11.2%
Singapore Airlines	11,108	5,070.0x	27.6x	7.8x	5.7x	1.3x	1.2x	-0.2%	3.8%
ANA Holdings	10,410	54.1x	13.2x	9.4x	6.5x	1.2x	1.1x	2.6%	9.5%
Japan Airlines	8,467	70.6x	11.9x	5.9x	3.7x	1.2x	1.1x	1.2%	10.4%
Korean Air	8,375	14.2x	18.6x	6.7x	6.8x	1.3x	1.3x	9.6%	5.9%
Spring Airlines	7,761	66.5x	25.7x	16.1x	11.0x	3.1x	2.7x	10.1%	14.1%
EVA Airways	6,881	14.3x	7.4x	4.6x	3.4x	90.4x	8.1x	-45.2%	216.7%
China Airlines	5,921	13.5x	16.4x	5.1x	4.9x	1.9x	1.9x	12.3%	10.8%
Qantas Airways	5,721	10.5x	12.2x	4.1x	3.9x	1.9x	1.7x	19.7%	14.4%
Cathay Pacific	5,820	nm	17.2x	8.4x	6.1x	0.8x	0.8x	-2.5%	5.3%
Juneyao Airlines	4,952	27.6x	16.6x	12.7x	8.3x	2.6x	2.3x	9.4%	14.0%
Air New Zealand	1,137	48.5x	11.5x	4.0x	3.0x	2.9x	2.4x	2.5%	20.3%
Asiana Airlines	1,178	nm	nm	6.8x	6.7x	2.1x	2.2x	-10.3%	-5.3%
Sector Median		38.1x	14.0x	7.8x	6.5x	1.3x	1.3x	1.2%	10.4%

Source: Bloomberg Finance L.P., DBS Bank estimates

Historical PB Band



Source: Bloomberg Finance L.P., DBS Bank estimates

Singapore Airlines

Key Assumptions

FY Mar	2020A	2021A	2022F	2023F	2024F
Available seat-km (m)	127,166	19,493	53,928	84,000	122,500
Passenger load factor	81.9	13.7	31.0	59.7	78.9
Passenger yield	10.8	21.0	13.3	11.5	10.8
Jet Fuel Price - US\$ per	72.3	49.9	79.2	90.9	94.6
US\$/S\$ exchange rate	1.35	1.35	1.35	1.35	1.35

Segmental Breakdown

FY Mar	2020A	2021A	2022F	2023F	2024F
Revenues (\$m)					
Airline Operations	14,904	3,391	6,700	10,672	15,181
SIA Engineering	498	222	292	420	500
Others	572	203	143	225	425
Total	15,974	3,816	7,134	11,317	16,106

Income Statement (\$m)

FY Mar	2020A	2021A	2022F	2023F	2024F
Revenue	15,976	3,816	7,134	11,317	16,106
Cost of Goods Sold	(15,917)	(6,328)	(7,754)	(11,385)	(15,484)
Gross Profit	59.1	(2,513)	(620)	(67.7)	622
Other Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Operating Profit	59.1	(2,513)	(620)	(67.7)	622
Other Non Opng (Exp)/Inc	(21.8)	(146)	0.0	0.0	0.0
Associates & JV Inc	(78.7)	(113)	(168)	(55.0)	30.0
Net Interest (Exp)/Inc	(179)	(233)	(281)	(235)	(271)
Exceptional Gain/(Loss)	0.0	(1,953)	0.0	0.0	0.0
Pre-tax Profit	(220)	(4,957)	(1,069)	(358)	381
Tax	50.8	674	171	57.3	(60.9)
Minority Interest	(42.6)	12.7	0.0	(10.0)	(10.0)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	(212)	(4,271)	(898)	(311)	310
Net Profit before Except.	(212)	(2,318)	(898)	(311)	310
EBITDA	2,165	(630)	1,232	1,937	2,852
Growth					
Revenue Gth (%)	(2.1)	(76.1)	87.0	58.6	42.3
EBITDA Gth (%)	(7.2)	nm	nm	57.2	47.2
Opg Profit Gth (%)	(94.5)	(4,351.3)	(75.3)	(89.1)	(1,019.7)
Net Profit Gth (Pre-ex) (%)	nm	(993.3)	61.3	65.4	nm
Margins & Ratio					
Gross Margins (%)	0.4	(65.8)	(8.7)	(0.6)	3.9
Opg Profit Margin (%)	0.4	(65.8)	(8.7)	(0.6)	3.9
Net Profit Margin (%)	(1.3)	(111.9)	(12.6)	(2.7)	1.9
ROAE (%)	(1.9)	(33.9)	(4.7)	(1.4)	1.4
ROA (%)	(0.7)	(12.0)	(2.4)	(0.8)	0.8
ROCE (%)	0.3	(12.6)	(2.6)	(0.3)	1.9
Div Payout Ratio (%)	N/A	N/A	N/A	N/A	0.0
Net Interest Cover (x)	0.3	(10.8)	(2.2)	(0.3)	2.3

Source: Company, DBS Bank

Singapore Airlines

Interim Income Statement (\$\$m)

FY Mar	1H2019	2H2019	1H2020	2H2020	1H2021
Revenue	7,907	8,417	8,325	7,651	1,634
Cost of Goods Sold	(7,481)	(7,776)	(7,911)	(8,005)	(3,497)
Gross Profit	426	641	413	(354)	(1,863)
Other Oper. (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Operating Profit	426	641	413	(354)	(1,863)
Other Non Opp (Exp)/Inc	10.5	(60.6)	19.8	(41.6)	(94.3)
Associates & JV Inc	(114)	39.8	(58.8)	(19.9)	(63.6)
Net Interest (Exp)/Inc	(34.0)	(40.2)	(87.6)	(91.2)	(101)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	(1,654)
Pre-tax Profit	291	583	291	(502)	(3,770)
Tax	(73.8)	(73.2)	(60.6)	111	298
Minority Interest	(18.7)	(20.2)	(20.3)	(22.3)	10.8
Net Profit	198	490	210	(413)	(3,461)
Net profit bef Except.	198	490	210	(413)	(1,807)
EBITDA	988	1,350	1,405	768	(892)

Growth

Revenue Gth (%)	(2.3)	6.5	(1.1)	(8.1)	(78.6)
EBITDA Gth (%)	(33.7)	36.7	4.1	(45.3)	nm
Opp Profit Gth (%)	(45.9)	50.5	(35.6)	(185.7)	426.2
Net Profit Gth (%)	(70.5)	147.3	(57.2)	(296.9)	738.8

Margins

Gross Margins (%)	5.4	7.6	5.0	(4.6)	(114.0)
Opp Profit Margins (%)	5.4	7.6	5.0	(4.6)	(114.0)
Net Profit Margins (%)	2.5	5.8	2.5	(5.4)	(211.8)

Balance Sheet (\$\$m)

FY Mar	2020A	2021A	2022F	2023F	2024F
Net Fixed Assets	26,964	25,879	26,859	28,799	31,099
Invts in Associates & JVs	1,009	1,033	865	810	840
Other LT Assets	898	997	997	997	997
Cash & ST Invts	3,109	8,055	6,574	5,268	3,788
Inventory	239	195	195	195	195
Debtors	821	940	1,427	1,415	2,013
Other Current Assets	674	483	483	483	483
Total Assets	33,713	37,581	37,400	37,966	39,415
ST Debt	2,661	907	907	907	907
Creditor	3,016	2,117	1,784	2,515	3,579
Other Current Liab	5,325	2,689	2,545	2,680	2,745
LT Debt	8,631	12,920	7,920	7,920	7,920
Other LT Liabilities	4,348	2,670	1,470	970	670
Shareholder's Equity	9,314	15,906	22,403	22,592	23,202
Minority Interests	419	372	372	382	392
Total Cap. & Liab.	33,713	37,581	37,400	37,966	39,415
Non-Cash Wkg. Capital	(6,607)	(3,189)	(2,224)	(3,103)	(3,633)
Net Cash/(Debt)	(8,183)	(5,773)	(2,253)	(3,560)	(5,040)
Debtors Turn (avg days)	26.8	84.2	60.5	45.8	38.8
Creditors Turn (avg days)	82.3	223.8	124.2	84.1	83.7
Inventory Turn (avg days)	6.2	18.9	12.4	7.6	5.4
Asset Turnover (x)	0.5	0.1	0.2	0.3	0.4
Current Ratio (x)	0.4	1.7	1.7	1.2	0.9
Quick Ratio (x)	0.4	1.6	1.5	1.1	0.8
Net Debt/Equity (X)	0.8	0.4	0.1	0.2	0.2
Net Debt/Equity ex MI (X)	0.9	0.4	0.1	0.2	0.2
Capex to Debt (%)	43.8	9.9	34.0	45.3	51.0
Z-Score (X)	0.9	0.7	1.2	1.2	NA

Source: Company, DBS Bank

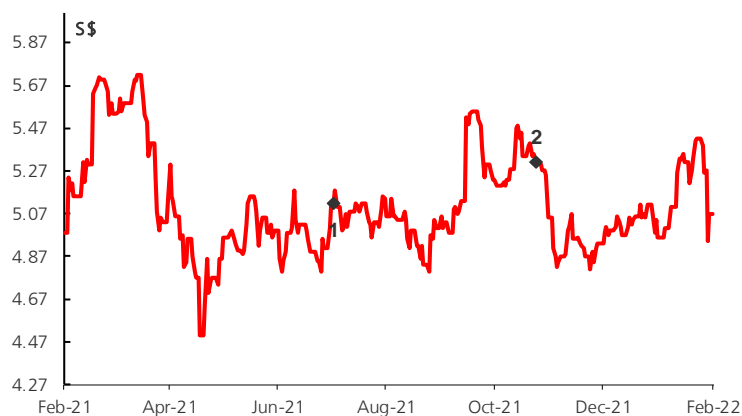
Singapore Airlines

Cash Flow Statement (\$m)

FY Mar	2020A	2021A	2022F	2023F	2024F
Pre-Tax Profit	(220)	(4,957)	(1,069)	(358)	381
Dep. & Amort.	2,206	2,142	2,020	2,060	2,200
Tax Paid	(19.8)	(17.6)	(95.4)	171	57.3
Assoc. & JV Inc/(loss)	78.7	113	168	55.0	(30.0)
Chg in Wkg.Cap.	(460)	(3,424)	(699)	765	412
Other Operating CF	941	2,852	0.0	0.0	0.0
Net Operating CF	2,526	(3,292)	325	2,693	3,020
Capital Exp.(net)	(4,944)	(1,375)	(3,000)	(4,000)	(4,500)
Other Invs.(net)	56.3	219	0.0	0.0	0.0
Invs in Assoc. & JV	(166)	(212)	0.0	0.0	0.0
Div from Assoc & JV	89.2	47.9	0.0	0.0	0.0
Other Investing CF	0.0	5.30	0.0	0.0	0.0
Net Investing CF	(4,965)	(1,314)	(3,000)	(4,000)	(4,500)
Div Paid	(386)	(14.3)	0.0	0.0	0.0
Chg in Gross Debt	2,531	1,141	(5,000)	0.0	0.0
Capital Issues	1.00	8,829	0.0	0.0	0.0
Other Financing CF	(38.6)	32.6	1.00	2.00	2.00
Net Financing CF	2,142	9,737	1,195	0.0	0.0
Currency Adjustments	38.6	(32.6)	0.0	0.0	0.0
Chg in Cash	(259)	5,098	(1,480)	(1,307)	(1,480)
Opg CFPS (S cts)	177	4.44	34.5	65.0	88.0
Free CFPS (S cts)	(144)	(157)	(90.2)	(44.1)	(49.9)

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	28 Jul 21	5.12	4.90	HOLD
2:	19 Nov 21	5.31	4.90	HOLD

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Paul YONG, CFA

Jason SUM, CFA

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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