

### INITIATE COVERAGE

## SIA Engineering Company (SIE SP)

Preferred Proxy To Ride Singapore Aviation Recovery

An immediate beneficiary of airlines' increasing flight activities at Changi Airport, SIAEC is likely the first to regain core profitability under our Singapore aviation coverage. We see a good chance for its dividend to rebound to a meaningful level in as early as FY23, backed by its strong net cash (about 26% of market cap). There is also hope for a special dividend payout by FY24, given its parent SIA's cash needs for MCB redemption. Re-initiate coverage with BUY and FY23 DCF-based target price of S\$2.80.

- **An immediate beneficiary of increasing flight activities.** SIA Engineering Company's (SIAEC) line maintenance service (about 50% of its pre-COVID-19 revenue) would immediately benefit from airlines' increasing flight activities at Changi Airport, which we believe would outpace the expected passenger volume recovery. This puts SIAEC in a faster lane of recovery vs other aviation plays whose financial performances are more geared to the relatively lagged passenger volume growth. SIAEC's engine & components JVs, which demonstrated good resilience during the pandemic, are also due for a recovery, as SIAEC is proactively working with airlines and engine OEMs to bring forward service volume in anticipation of a peak in demand with the aviation sector's full recovery.
- **Positive core profit around the corner.** Within our Singapore aviation coverage space, SIAEC is likely the first to regain positive core net profit (ie excluding government grants). The consistent narrowing of core net losses over the past five quarters is an encouraging sign. Should this recovery trajectory continue, SIAEC would return to core net profit in the next 1-2 quarters. We are now projecting net profit to recover to S\$92m in FY23, representing 57% of its pre-COVID-19 (FY19) level.
- **Positive business developments preparing SIAEC for future growth.** SIAEC has made good progress in business development over the past two years. Its deepened working relationships with global leading engine OEMs would help SIAEC expand its engineering capabilities to serve the OEMs' newer generations of engines. The recent acquisition of Malaysia-based SR Technics Malaysia would allow SIAEC to optimise the cost structure of its component maintenance, repair and overhaul (MRO) businesses.
- **Dividend outlook raised in the medium term.** In the light of its earnings recovery and strong balance sheet (S\$679m in net cash), SIAEC is well positioned to resume dividend payment in as early as FY23. We do not rule out the possibility of a special payout by FY24, given its major shareholder Singapore Airlines' cash needs for MCB redemption.
- **Re-initiate coverage with BUY and FY23 DCF-based target price of S\$2.80.** SIAEC is our top sector pick. Potential catalysts include a faster-than-expected earnings recovery and dividend resumption. Risks include events that disrupt the sector's recovery and stiffer competition for its MRO business.

### KEY FINANCIALS

| Year to 31 Mar (\$m)          | 2020   | 2021   | 2022F  | 2023F  | 2024F  |
|-------------------------------|--------|--------|--------|--------|--------|
| Net turnover                  | 994    | 443    | 563    | 759    | 921    |
| EBITDA                        | 144    | 46     | 41     | 84     | 111    |
| Operating profit              | 68     | (25)   | (22)   | 19     | 38     |
| Net profit (rep./act.)        | 194    | (11)   | 68     | 92     | 133    |
| EPS (S\$ cent)                | 17.3   | (1.0)  | 6.1    | 8.2    | 11.8   |
| PE (x)                        | 13.5   | n.m.   | 38.4   | 28.5   | 19.8   |
| P/B (x)                       | 1.6    | 1.7    | 1.6    | 1.5    | 1.5    |
| EV/EBITDA (x)                 | 11.3   | 32.3   | 33.4   | 15.9   | 12.0   |
| Dividend yield (%)            | 3.4    | 0.0    | 0.0    | 2.6    | 3.9    |
| Net margin (%)                | 19.5   | (2.5)  | 12.2   | 12.1   | 14.4   |
| Net debt/(cash) to equity (%) | (30.5) | (39.2) | (44.4) | (44.8) | (43.4) |
| ROE (%)                       | 12.3   | n.a.   | 4.4    | 5.6    | 7.8    |
| Consensus net profit          | -      | -      | 73     | 66     | 79     |
| UOBKH/Consensus (x)           | -      | -      | 0.94   | 1.39   | 1.68   |

Source: SIAEC, Bloomberg, UOB Kay Hian

### BUY

|              |         |
|--------------|---------|
| Share Price  | S\$2.33 |
| Target Price | S\$2.80 |
| Upside       | +20.2%  |

### COMPANY DESCRIPTION

Aircraft MRO operator, 2021 Asia-Pacific MRO of the Year Award winner by Airline Economics Magazine.

### STOCK DATA

|                                 |             |
|---------------------------------|-------------|
| GICS sector                     | Industrials |
| Bloomberg ticker:               | SIE SP      |
| Shares issued (m):              | 1,122.5     |
| Market cap (S\$m):              | 2,615.5     |
| Market cap (US\$m):             | 1,926.4     |
| 3-mth avg daily t'over (US\$m): | 0.7         |

### Price Performance (%)

|                  |                 |             |            |            |
|------------------|-----------------|-------------|------------|------------|
| 52-week high/low | S\$2.51/S\$2.01 |             |            |            |
| <b>1mth</b>      | <b>3mth</b>     | <b>6mth</b> | <b>1yr</b> | <b>YTD</b> |
| 6.4              | 7.9             | 9.4         | 10.4       | 6.9        |

### Major Shareholders

|                           |       |
|---------------------------|-------|
| SIA                       | 77.6% |
| FY22 NAV/Share (S\$)      | 1.43  |
| FY22 Net Cash/Share (S\$) | 0.64  |

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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*This report uses the closing prices of 24 March 2022*

### Investment Highlights

**An immediate beneficiary of increasing flight activities with...** With its lion's share of about 78% of Changi Airport's line maintenance service volume, SIAEC is a direct beneficiary of airlines' increasing flight activities at Changi Airport.

The line maintenance business is a more profitable business of the group, representing 40-46% of SIAEC's total revenue in FY15-17 with respectable operating margins of 18.4-23.4%. Although SIAEC ceased reporting line maintenance as a standalone segment after FY17, we estimate that its revenue contribution to SIAEC should have risen to over 50% by FY19.

Flight activities in Singapore are expected to rise ahead of the passenger volume recovery. With over 50% of its revenue derived from the line maintenance business (which is directly geared to capacity/flight activities), we expect SIAEC to recover ahead of other Singapore aviation plays whose businesses are more linked to the relatively lagged passenger volume.

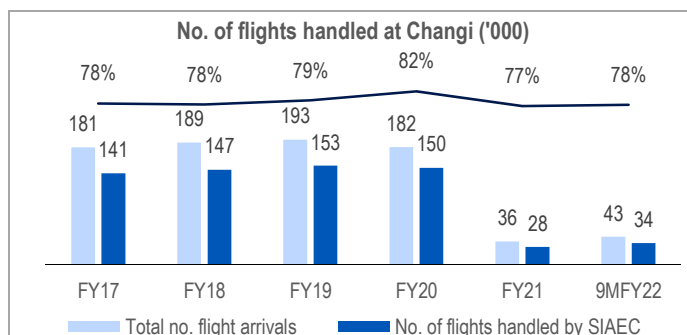
**...improving outlook for engine and component JVs/associates.** SIAEC's engine and components JVs/associates are also recovering along with more flying activities. SIAEC is working with airlines and engine OEMs to even out the service schedule in anticipation of the peaking of engine service demand. This will support the engine segment's recovery.

*Line maintenance service is a more lucrative business and contributes >50% of SIAEC's revenue before pandemic, by our estimate.*

*Flight activities are expected to recover earlier than passenger volume, leading to a faster recovery of SIAEC than other aviation plays.*

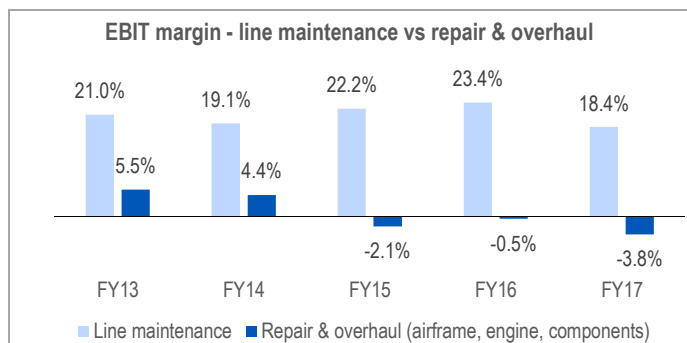
*The recovery of engine and component JVs is likely supported by business volume brought forward.*

**FIGURE 1: OWNS 78% LINE MAINTENANCE SHARE AT CHANGI AIRPORT**



Source: SIAEC, UOB Kay Hian

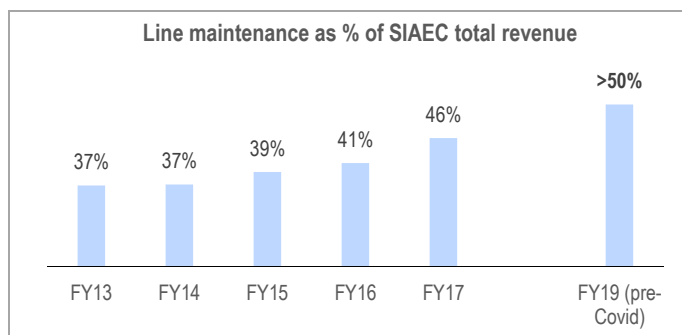
**FIGURE 3: LINE MAINTENANCE ENJOYS HIGHER MARGINS THAN REPAIR & OVERHAUL**



Source: SIAEC, UOB Kay Hian

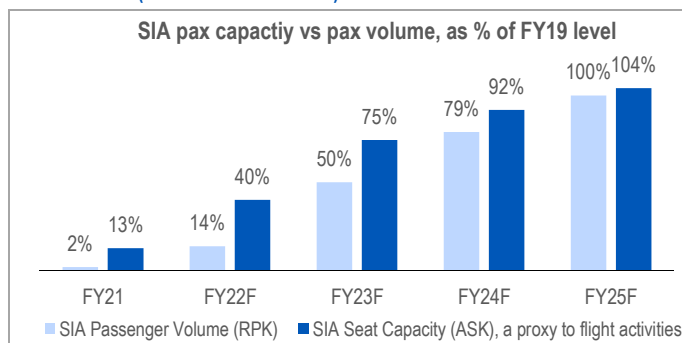
**Positive core profit around the corner.** In our Singapore aviation universe, SIAEC is likely the first to return to positive core net profit without government support. The steady narrowing of core net losses over the past five quarters is an encouraging sign. Should this recovery trajectory continue, SIAEC would return to positive core net profit within the next 1-2 quarters. We now expect net profit to recover to S\$92m/S\$133m/S\$183m in FY23/24/25 respectively, forming 57%/82%/114% of its pre-pandemic (FY19) level.

**FIGURE 2: LINE MAINTENANCE LIKELY AT >50% OF PRE-COVID REVENUE**



Source: SIAEC, UOB Kay Hian

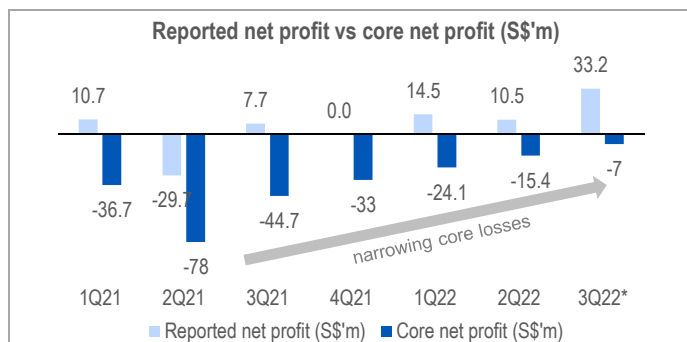
**FIGURE 4: PAX CAPACITY (FLIGHT ACTIVITIES) TO RECOVER AHEAD OF PAX VOLUME (SIA AS AN EXAMPLE)**



Source: SIAEC, UOB Kay Hian

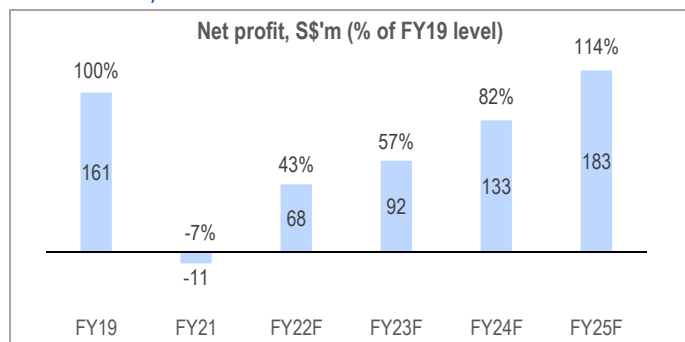
*SIAEC's core earnings are likely to return to positive territory within the next 1-2 quarters.*

**FIGURE 5: NARROWING CORE NET PROFIT OVER PAST 5 QUARTERS**



Source: SIAEC, UOB Kay Hian

**FIGURE 6: NET PROFIT RECOVERY TRAJECTORY (TO EXCEED FY19 LEVEL BY FY25)**



Source: SIAEC, UOB Kay Hian

**Positive business developments preparing SIAEC for future growth.** SIAEC has made good progress in its business development activities during the pandemic.

**FIGURE 7: MAJOR BUSINESS DEVELOPMENTS**

| Date        | Announcements/business activities  |
|-------------|--|
| 19 Feb 2022 | Safran Electronics & Defense Service Asia (SIAEC's JV with Safran) will carry out MRO on landing gear control systems for business jets and civilian aircraft in Singapore. It also acquired a new scope of repairs for external lighting, wiper systems, cockpit control and cargo door systems   |
| 18 Feb 2022 | SIAEC launched a new aircraft engine services facility in Singapore to provide engine maintenance services to Safran Aircraft Engines, including quick turn and modification embodiment services for both CFM LEAP-1A and LEAP-1B engines.   |
| 16 Feb 2022 | SIAEC entered into an agreement to acquire a 75% stake in SR Technics Malaysia, a Malaysia-based component MRO company, for US\$3.75m.   |
| 14 Feb 2022 | SIAEC will collaborate with North American Aerospace Industries to carry out aircraft parking & storage, component harvesting and dismantling activities at SIAEC's facility in Clark, Philippines.  |
| 11 Feb 2022 | SIAEC established a new Component Services Division, which serves as SIAEC's component platform, to: a) consolidate its existing component capabilities, b) acquire new component capabilities, and c) complement and derive synergies out of its network of component JVs with OEMs.              |
| 18 Jan 2022 | SIAEC signed a 10-year agreement with Rolls-Royce to provide line maintenance and in-field services for Rolls-Royce Trent 7000,1000, 900, 800, 700, 500 and XWB engines.   |
| 4 Dec 2021  | SIAEC signed a 10-year agreement with Safran Aircraft Engines to provide engine test services for the CFM LEAP-1A and LEAP-1B engines, in addition to the existing service agreement to provide on-site support, quick turn and boroscope inspection services for the LEAP-1A and LEAP-1B engines. |
| 24 Feb 2021 | SIAEC established a new Engine Services Division, which serves as SIAEC's engine platform, to: a) consolidate its existing engine capabilities, and b) complement and derive synergies out of its network of engine JVs in Singapore.  |
| 31 Jan 2020 | SIAEC entered into an agreement with GE Aviation to set up a JV to provide engine MRO services for the GE90/GE9X engines.  |
| 13 Dec 2019 | SIAEC signed a 10-year agreement with Safran Aircraft Engines to provide quick turn and modification embodiment services for CFM LEAP-1A and LEAP-1B engines.  |

Source: SIAEC, SGX

SIAEC has formed engine JVs/partnerships with GE Aviation (GE) and Safran Electronics & Defense (Safran) respectively. The deepened relationships would help SIAEC expand its engineering capabilities to be able to serve the engine OEMs' newer-generation engines. In fact, we are hopeful that SIAEC's relationships with Safran and GE will eventually replicate the successes that it had with Singapore Aero Engine Services (SAESL) and Eagle Services Asia (ESA), two existing engine JVs that SIAEC has with the other two leading global engine OEMs, Rolls-Royce and Pratt & Whitney, respectively.

SIAEC has also recently announced the acquisition of a 75% stake in an MRO company, SR Technics Malaysia. According to management, the acquisition would not only allow SIAEC to optimise its cost structure (by channelling some component work to the lower-cost base in Malaysia), but also expand its capabilities for some narrow body aircraft components.

**Dividend outlook raised in the medium term.** SIAEC paused dividend payment in FY21 when it ran into net losses. We believe SIAEC is well positioned to resume dividend payment in as early as FY23, backed by the expected recovery of core profitability and strengthened net cash position. We are projecting DPS of 6/9/12 S cents in FY23/24/25 respectively, translating to a dividend yield of 2.6%/3.9%/5.2% on current trading price of S\$2.33. We also see a case for a special payout, likely by FY24, because: a) its 77.6% controlling shareholder SIA would need to redeem its costly mandatory convertible bonds (MCB) (likely in early-FY25), and b) SIAEC does not have heavy capex needs and hence will not need a big cash pile unless some attractive M&A opportunities are on its radar.

*Stronger ties with Safran and GE would help expand SIAEC's capabilities to their newer generations of engines.*

*The acquisition of SR Technics Malaysia allows SIAEC to optimise its cost structure and expand component service capabilities.*

*We project dividend yield of 2.6%/3.9%/5.2% for FY23/24/25 and do not rule out the possibility of a special dividend by FY24.*

### Valuation

Re-initiate coverage with BUY and FY23 DCF-based target price of S\$2.80. We have applied a WACC of 8.5%. The terminal growth of 3.0% is our assumed long-term Singapore aviation sector growth rate, which has been applied across our Singapore aviation coverage. In Figure 8, we have also included a sensitivity analysis of our target price for a range of WACC and terminal growth assumptions.

FIGURE 8: DCF VALUATION

| Year to 31 Mar (S\$m)                          | FY21           | FY22F        | FY23F       | FY24F       | FY25F        | FY26F        | FY27F        | FY28F        |
|--|----------------|--------------|-------------|-------------|--------------|--------------|--------------|--------------|
| Revenue  | 443.0          | 562.7        | 759.1       | 921.1       | 1,070.1      | 1,116.8      | 1,165.6      | 1,216.6      |
| <i>growth yoy</i>                              | -55.4%         | 27.0%        | 34.9%       | 21.3%       | 16.2%        | 4.4%         | 4.4%         | 4.4%         |
| EBIT   | -25.0          | -22.4        | 19.1        | 37.7        | 64.5         | 68.7         | 73.1         | 77.7         |
| <i>EBIT margin</i>                             | -5.6%          | -4.0%        | 2.5%        | 4.1%        | 6.0%         | 6.2%         | 6.3%         | 6.4%         |
| EBIT*(1-tax rate)                              | -8.2           | -11.9        | 15.1        | 29.8        | 51.0         | 54.3         | 57.7         | 61.4         |
| Add: depreciation & amortisation charge        | 71.2           | 63.8         | 64.8        | 73.3        | 80.0         | 82.1         | 84.3         | 86.5         |
| less: operating lease                          | -27.5          | -28.4        | -28.4       | -28.4       | -28.4        | -28.4        | -28.4        | -28.4        |
| less: capex for PPE & intangible assets        | -20.4          | -35.7        | -36.7       | -45.2       | -51.9        | -54.0        | -56.2        | -61.2        |
| less: net increase in working capital          | 125.7          | 56.8         | -40.1       | -37.1       | -13.7        | -3.1         | -4.7         | -3.3         |
| Dividend income from JVs/associates            | 29.5           | 76.0         | 71.3        | 95.0        | 122.6        | 126.2        | 130.0        | 133.9        |
| <b>Free cash flow to firm (FCF)</b>            | <b>170.3</b>   | <b>120.5</b> | <b>45.9</b> | <b>87.3</b> | <b>159.4</b> | <b>177.0</b> | <b>182.7</b> | <b>189.0</b> |
| <b>PV of FCF</b>                               |                |              |             | <b>80.5</b> | <b>135.4</b> | <b>138.6</b> | <b>131.9</b> | <b>125.7</b> |
| <b>Valuation as at end-FY23F</b>               |                |              |             |             |              |              |              |              |
| WACC applied                                   | 8.5%           |              |             |             |              |              |              |              |
| Terminal growth assumption                     | 3.0%           |              |             |             |              |              |              |              |
| Terminal value                                 | 2,641.3        |              |             |             |              |              |              |              |
| PV of terminal value                           | 1,756.6        |              |             |             |              |              |              |              |
| Sum of PV of FCF in forecast period            | 612.1          |              |             |             |              |              |              |              |
| <b>Enterprise value</b>                        | <b>2,368.6</b> |              |             |             |              |              |              |              |
| Net cash/(debt)                                | 764.3          |              |             |             |              |              |              |              |
| <b>Equity value (100% stake)</b>               | <b>3,132.9</b> |              |             |             |              |              |              |              |
| Less: NCI                                      | 10             |              |             |             |              |              |              |              |
| <b>Fair value attributable to shareholders</b> | <b>3,143.1</b> |              |             |             |              |              |              |              |
| Outstanding share base                         | 1,122.5        |              |             |             |              |              |              |              |
| <b>Target price</b>                            | <b>S\$2.80</b> |              |             |             |              |              |              |              |

|      |             | Sensitivity Analysis for TP |                |                |                |                |
|------|-------------|-----------------------------|----------------|----------------|----------------|----------------|
|      |             | Terminal growth             |                |                |                |                |
|      |             | 2.0%                        | 2.5%           | 3.0%           | 3.5%           | 4.0%           |
| WACC | 7.5%        | S\$2.89                     | S\$3.10        | S\$3.35        | S\$3.67        | S\$4.09        |
|      | 8.0%        | S\$2.68                     | S\$2.84        | S\$3.05        | S\$3.30        | S\$3.61        |
|      | <b>8.5%</b> | <b>S\$2.50</b>              | <b>S\$2.64</b> | <b>S\$2.80</b> | <b>S\$3.00</b> | <b>S\$3.24</b> |
|      | 9.0%        | S\$2.35                     | S\$2.46        | S\$2.60        | S\$2.76        | S\$2.95        |
|      | 9.5%        | S\$2.22                     | S\$2.31        | S\$2.43        | S\$2.56        | S\$2.72        |

Source: UOB Kay Hian

SIAEC does not have a directly comparable listed peer. Its current price of S\$2.33 implies a 28.5x FY23 PE, which will be compressed to 14.4x by FY25 (9.9x if excluding net cash), the year when Singapore's aviation sector is expected to recover fully. The 14.4x PE for FY25 stands at 2.3SD below its five-year mean in a normal market.

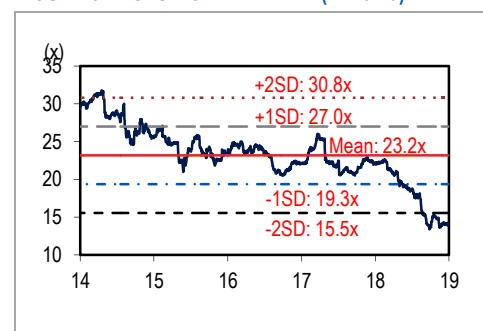
FIGURE 10: TARGET PRICE AND CURRENT PRICE IMPLYING FORWARD PE

|                                      | FY22F | FY23F | FY24F | FY25F |
|--------------------------------------|-------|-------|-------|-------|
| EPS (Scents)                         | 6.1   | 8.2   | 11.8  | 16.2  |
| Current price implied PE             | 38.4x | 28.5x | 19.8x | 14.4x |
| Current price implied ex-net cash PE | 27.8x | 20.1x | 14.0x | 9.9x  |
| Target price implied PE              | 46.1x | 34.2x | 23.8x | 17.3x |
| Target price implied ex-net cash PE  | 35.5x | 25.8x | 18.0x | 12.8x |

Source: UOB Kay Hian

**Catalysts and risks.** Potential catalysts for SIAEC include: a) a faster-than-expected earnings recovery, and b) an early resumption of dividend payment. Risks include: a) any event that disrupts the aviation sector's recovery (eg a more infectious/fatal COVID-19 variant which results in a rollback of the global economic reopening, or further escalation of the Russia-Ukraine war which could dampen travellers' sentiment), and b) stiffer competition for SIAEC's MRO business.

FIGURE 9: HISTORICAL PE BAND (FY15-19)



Source: Bloomberg, UOB Kay Hian

### Business Outlook

**An immediate beneficiary of increasing flight activities with...** With its lion's share of about 78% of Changi Airport's line maintenance service volume, SIAEC is a direct beneficiary of airlines' increasing flight activities at Changi Airport. The line maintenance business used to be the more profitable business of the group, representing 40-46% of SIAEC's total revenue in FY15-17 with operating margins of 18.4-23.4%, compared with the slight negative to low single-digit operating margins for the airframe, engine and component repair and overhaul businesses.

Since FY18, SIAEC has reorganised its segment reporting structure by lumping airframe overhaul and line maintenance together, offering no clarity on the performance of line maintenance on a standalone basis. Having said that, with SIAEC handling growing numbers of flights at Changi Airport and its airframe overhaul business facing more challenging conditions, SIAEC's line maintenance revenue should have risen to >50% of FY19 group total revenue (the pre-COVID-19 year) by our estimate.

Given airlines' proactive network reactivation and capacity expansion, we expect the flight activities at Changi Airport to rise ahead of the passenger volume recovery. SIA, which accounts for about 50% of Changi Airport's flight operation volume, had reactivated 44% of its pre-COVID-19 passenger capacity by Feb 22 (and guided for 57% by Apr 22) when passenger volume was at about 20% of its pre-COVID-19 level. This is due to SIA's proactive strategy to reactivate a route/flight as long as the operation is cash flow positive.

With about 50% of its revenue derived from the line maintenance business (which is directly geared to capacity/flight activities), we expect SIAEC to see a faster recovery than other Singapore aviation plays whose businesses are more linked to the relatively lagged passenger volume.

**...improving outlook for engine and component JVs/associates.** Management guided that SIAEC's engine and components JVs/associates, which have been key anchors for SIAEC's probability before and during the pandemic (JVs/associates contributed 60-70% of SIAEC's pre-pandemic bottom line), are also recovering gradually along with more flying activities. Total engine inductions and shipments at SIAEC's engine JVs stand at about 75% of the pre-pandemic level.

According to management, SIAEC is proactively working with airlines and engine OEMs to plan ahead to even out the service schedule in anticipation of the peaking of engine service demand that comes with the sector's full recovery. The brought forward service volume should also help stabilise and support SIAEC's engine segment recovery.

**Positive business developments preparing SIAEC for future growth.** Notably, SIAEC has made good progress in its business development activities during the pandemic, with a good number of them announced in the past few months (Figure 7).

Worth highlighting are the two engine JVs/partnerships that SIAEC formed with GE and Safran respectively. The deepened relationships with these engine OEMs would help SIAEC expand its capabilities to be able to serve the OEMs' newer generations of engines. The Safran contract, for example, allows SIAEC to provide quick turn and testing services for the CFM LEAP-1A and LEAP-1B engines, which power the world's two dominating narrow body aircraft, A320neo and B737MAX respectively. We expect SIAEC to build on this working relationship and eventually expand its capability in LEAP-1A and LEAP-1B into full MRO services in future. In fact, we are hopeful that SIAEC's relationships with Safran and GE will eventually replicate the successes that it had with SAESL and ESA, two existing engine JVs that SIAEC has with the other two leading global engine OEMs, Rolls-Royce and Pratt & Whitney, respectively. (SAESL and ESA have been the key anchors for SIAEC's profitability before and during the pandemic.)

Apart from the development on the engine side, SIAEC has also recently announced the acquisition of a 75% stake in the Malaysia-based component MRO company SR Technics Malaysia. According to management, the acquisition would not only allow SIAEC to optimise its cost structure (by channelling some component work to the low-cost base of Malaysia), but also expand its capabilities for some narrow body aircraft components.

*Line maintenance service is a more lucrative business with decent margins...*

*...and contributed >50% of SIAEC's revenue before the pandemic, by our estimate.*

*Flight activities are expected to recover earlier than passenger volume, ...*

*...leading to a faster recovery of SIAEC than other aviation plays.*

*Engine and component JVs have been key anchors for SIAEC's profitability before and during the pandemic.*

*Engine JVs will also benefit from service volume brought forward by OEMs.*

*Deepened relationships with Safran and GE would help expand SIAEC's capabilities to the OEMs' newer generations of engines.*

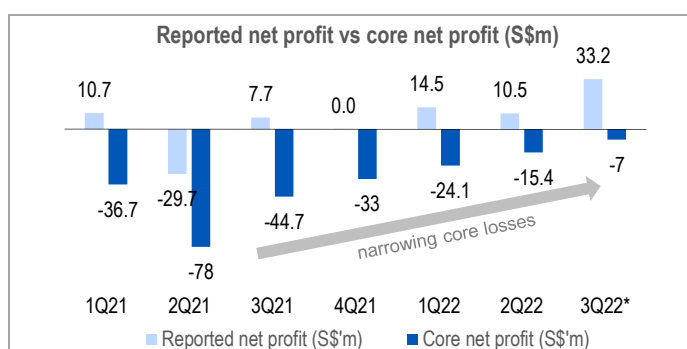
*The acquisition of SR Technics Malaysia allows SIAEC to optimise its cost structure and expand component service capabilities.*

### Financials

**Positive core profit around the corner.** In our Singapore aviation universe, SIAEC is likely the first to return to positive core net profit without government support. The steady narrowing of core net losses over the past five quarters is an encouraging sign. Should this recovery trajectory continue, SIAEC would return to positive core net profit within the next 1-2 quarters. We now expect net profit to recover to S\$92m/S\$133m/S\$183m in FY23/24/25 respectively, forming 57%/82%/114% of its pre-pandemic (FY19) level.

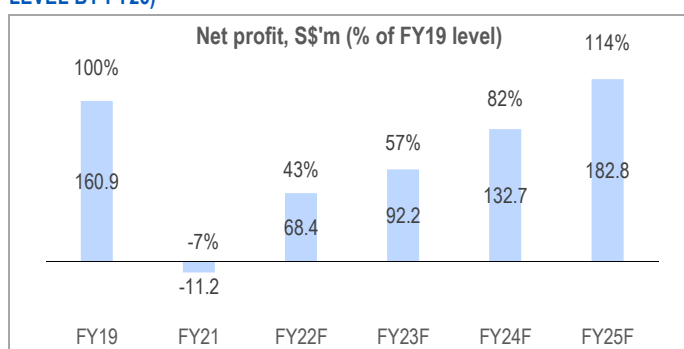
*SIAEC's core earnings are likely to return to positive territory within the next 1-2 quarters.*

**FIGURE 11: NARROWING CORE NET PROFIT OVER PAST 5 QUARTERS**



Source: SIAEC, UOB Kay Hian

**FIGURE 12: NET PROFIT RECOVERY TRAJECTORY (TO EXCEED FY19 LEVEL BY FY25)**



Source: SIAEC, UOB Kay Hian

**Dividend outlook raised in the medium term.** SIAEC paused dividend payment in FY21 when the company ran into net losses. SIAEC is expected to end FY22 in the black. However, the FY22 bottom line is still significantly helped by government support and hence does not offer a good case for dividend resumption.

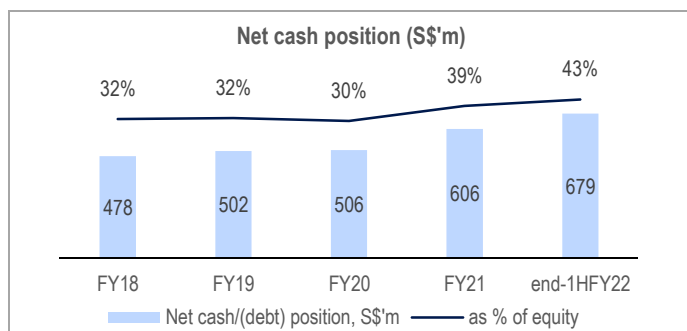
We believe SIAEC is well positioned to resume dividend payment in as early as FY23, backed by the expected recovery of core profitability and strengthened net cash position (its subsidiaries and JVs continued to generate good cash flow during the pandemic). We are projecting DPS of 6/9/12 S cents in FY23/24/25 respectively, translating to a dividend yield of 2.6%/3.9%/5.2% on current trading price of S\$2.33.

*We project dividend yield of 2.6%/3.9%/5.2% for FY23/24/25...*

Beyond the normal course of dividend recovery, we also see a case for a special payout, likely by FY24, considering that: a) its 77.6% controlling shareholder SIA would need to redeem the costly MCBs (likely in early-FY25), and b) being a know-how-based and human capital-driven engineering business, SIAEC does not have heavy capex needs. In that sense, SIAEC does not have to maintain such a big cash pile unless there are attractive strategic M&A opportunities on the horizon.

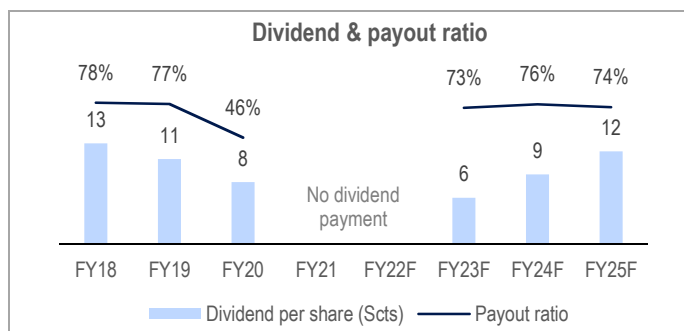
*...while not ruling out the possibility of a special dividend by FY24.*

**FIGURE 13: STRENGTHENED NET CASH POSITION**



Source: SIAEC, UOB Kay Hian

**FIGURE 14: DIVIDEND PAYOUT LIKELY TO RESUME FROM FY23**



Source: SIAEC, UOB Kay Hian

**FIGURE 15: PROFIT & LOSS**

| Year to 31 Mar (\$m)          | 2020       | 2021        | 2022F       | 2023F     | 2024F      |
|-------------------------------|------------|-------------|-------------|-----------|------------|
| Revenue, net                  | 994        | 443         | 563         | 759       | 921        |
| Operating expenses            | (926)      | (468)       | (585)       | (740)     | (883)      |
| <b>EBIT</b>                   | <b>68</b>  | <b>(25)</b> | <b>(22)</b> | <b>19</b> | <b>38</b>  |
| Other non-operating income    | 2          | (52)        | (0)         | 0         | 0          |
| Associate contributions       | 128        | 40          | 80          | 75        | 100        |
| Net interest income/(expense) | 7          | 1           | 1           | 3         | 4          |
| <b>Pre-tax profit</b>         | <b>204</b> | <b>(36)</b> | <b>58</b>   | <b>97</b> | <b>141</b> |
| Tax                           | (14)       | 16          | 10          | (5)       | (9)        |
| Minorities                    | 3          | 8           | 0           | 0         | 0          |
| Extraordinary items           | 0          | 0           | 0           | 0         | 0          |
| <b>Net profit(rep./act.)</b>  | <b>194</b> | <b>(11)</b> | <b>68</b>   | <b>92</b> | <b>133</b> |
| Net profit(adj.)              | 194        | (11)        | 68          | 92        | 133        |
| Deprec. & amort.              | 76         | 71          | 64          | 65        | 73         |
| EBITDA                        | 144        | 46          | 41          | 84        | 111        |

Source: SIAEC, UOB Kay Hian

**FIGURE 16: BALANCE SHEET**

| Year to 31 Mar (\$m)                       | 2020         | 2021         | 2022F        | 2023F        | 2024F        |
|--|--------------|--------------|--------------|--------------|--------------|
| Cash/Near cash equiv.                      | 520          | 616          | 716          | 764          | 753          |
| Accounts receivable/debtors                | 320          | 178          | 176          | 221          | 263          |
| Stocks                                     | 39           | 35           | 33           | 33           | 33           |
| Other current assets                       | 119          | 97           | 47           | 47           | 47           |
| <b>Current assets</b>                      | <b>998</b>   | <b>926</b>   | <b>973</b>   | <b>1,066</b> | <b>1,097</b> |
| Fixed assets                               | 328          | 241          | 246          | 246          | 246          |
| Intangible assets                          | 52           | 32           | 32           | 32           | 33           |
| Other non-current tangible assets          | 627          | 611          | 620          | 624          | 629          |
| <b>Total non-current assets</b>            | <b>1,007</b> | <b>884</b>   | <b>898</b>   | <b>902</b>   | <b>908</b>   |
| <b>Total assets</b>                        | <b>2,006</b> | <b>1,810</b> | <b>1,871</b> | <b>1,968</b> | <b>2,005</b> |
| Accounts payable/creditors                 | 194          | 168          | 171          | 176          | 181          |
| Short-term debt/borrowings                 | 6            | 7            | 0            | 0            | 0            |
| Other current liabilities                  | 41           | 34           | 29           | 29           | 29           |
| <b>Current liabilities</b>                 | <b>241</b>   | <b>209</b>   | <b>201</b>   | <b>206</b>   | <b>211</b>   |
| Long-term debt                             | 7            | 3            | 0            | 0            | 0            |
| Deferred tax liability                     | 18           | 1            | 1            | 1            | 1            |
| Other non-current liabilities              | 78           | 52           | 57           | 57           | 57           |
| <b>Total non-current liabilities</b>       | <b>104</b>   | <b>56</b>    | <b>58</b>    | <b>58</b>    | <b>58</b>    |
| <b>Total liabilities</b>                   | <b>345</b>   | <b>265</b>   | <b>259</b>   | <b>264</b>   | <b>269</b>   |
| Minority interest - accumulated            | 32           | 11           | 10           | 10           | 10           |
| <b>Shareholders' equity</b>                | <b>1,629</b> | <b>1,534</b> | <b>1,602</b> | <b>1,694</b> | <b>1,726</b> |
| <b>Liabilities and shareholders' funds</b> | <b>2,006</b> | <b>1,810</b> | <b>1,871</b> | <b>1,968</b> | <b>2,005</b> |

Source: SIAEC, UOB Kay Hian



**FIGURE 17: CASH FLOW**

| Year to 31 Mar (\$m)                  | 2020         | 2021        | 2022F       | 2023F       | 2024F        |
|---------------------------------------|--------------|-------------|-------------|-------------|--------------|
| <b>Operating cashflows</b>            | <b>91</b>    | <b>166</b>  | <b>98</b>   | <b>39</b>   | <b>65</b>    |
| Pre-tax profit                        | 204          | (36)        | 58          | 97          | 141          |
| Tax                                   | (18)         | (13)        | (0)         | (5)         | (9)          |
| Deprec. & amort.                      | 76           | 71          | 64          | 65          | 73           |
| Associates                            | (39)         | (12)        | (40)        | (35)        | (40)         |
| Working capital changes               | (51)         | 126         | 57          | (40)        | (37)         |
| Non-cash items                        | 16           | 7           | (0)         | 0           | 0            |
| Others                                | (98)         | 22          | (41)        | (43)        | (64)         |
| <b>Cash from investing activities</b> | <b>62</b>    | <b>23</b>   | <b>44</b>   | <b>40</b>   | <b>56</b>    |
| Capex (maintenance)                   | (44)         | (20)        | (36)        | (37)        | (45)         |
| Investments                           | (0)          | 0           | 0           | 0           | 0            |
| Proceeds from sale of assets          | 11           | 8           | 0           | 0           | 0            |
| Others                                | 95           | 35          | 80          | 76          | 101          |
| <b>Cash from financing activities</b> | <b>(159)</b> | <b>(90)</b> | <b>(41)</b> | <b>(31)</b> | <b>(132)</b> |
| Dividend payments                     | (123)        | (56)        | 0           | 0           | (101)        |
| Issue of shares                       | 0            | 0           | 0           | 0           | 0            |
| Proceeds from borrowings              | 0            | 1           | 0           | 0           | 0            |
| Loan repayment                        | (7)          | (3)         | (10)        | 0           | 0            |
| Others/interest paid                  | (29)         | (31)        | (31)        | (31)        | (31)         |
| Net increase/(decrease) in cash       | (6)          | 99          | 100         | 48          | (11)         |
| Beginning cash                        | 522          | 520         | 616         | 716         | 764          |
| Changes due to forex impact           | 4            | (3)         | 0           | 0           | 0            |
| <b>End cash</b>                       | <b>520</b>   | <b>616</b>  | <b>716</b>  | <b>764</b>  | <b>753</b>   |

Source: SIAEC, UOB Kay Hian

**FIGURE 18: KEY METRICS**

| Year to 31 Mar (%)        | 2020   | 2021    | 2022F  | 2023F  | 2024F  |
|---------------------------|--------|---------|--------|--------|--------|
| <b>Growth</b>             |        |         |        |        |        |
| Turnover                  | (2.6)  | (55.4)  | 27.0   | 34.9   | 21.3   |
| EBITDA                    | 30.5   | (67.8)  | (10.5) | 102.8  | 32.3   |
| Pre-tax profit            | 14.2   | (117.4) | n.a.   | 65.6   | 46.1   |
| Net profit                | 20.5   | (105.8) | n.a.   | 34.7   | 43.9   |
| Net profit (adj.)         | n.a.   | (105.8) | n.a.   | 34.7   | 43.9   |
| EPS                       | 20.3   | (105.8) | n.a.   | 34.7   | 43.9   |
| <b>Profitability</b>      |        |         |        |        |        |
| EBITDA margin             | 14.5   | 10.4    | 7.3    | 11.1   | 12.0   |
| EBIT margin               | 6.8    | (5.6)   | (4.0)  | 2.5    | 4.1    |
| Pre-tax margin            | 20.6   | (8.0)   | 10.4   | 12.7   | 15.3   |
| Net margin                | 19.5   | (2.5)   | 12.2   | 12.1   | 14.4   |
| ROE                       | 12.3   | n.a.    | 4.4    | 5.6    | 7.8    |
| ROA                       | 10.1   | n.a.    | 3.7    | 4.8    | 6.7    |
| ROIC                      | 3.6    | (0.0)   | (0.8)  | 0.9    | 1.7    |
| RONTA                     | 7.1    | 3.8     | 2.8    | 4.2    | 5.2    |
| <b>Leverage</b>           |        |         |        |        |        |
| Debt to total capital     | 0.8    | 0.6     | 0.0    | 0.0    | 0.0    |
| Debt to equity            | 0.8    | 0.6     | 0.0    | 0.0    | 0.0    |
| Net debt/(cash) to equity | (30.5) | (39.2)  | (44.4) | (44.8) | (43.4) |
| Current ratio (x)         | 4.1    | 4.4     | 4.8    | 5.2    | 5.2    |

Source: SIAEC, UOB Kay Hian

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