

### SECTOR UPDATE

## Aviation – Singapore

A Potentially Steeper-than-expected Recovery Trajectory

**Mar 22 air traffic data at Changi Airport and operating data of Singapore Airlines beat our forecasts, even before the positive impacts from the border measure relaxations kicked in. Singapore's scrapping of pre-departure test requirements for fully-vaccinated air travellers entering Singapore would further support a sector recovery. Maintain MARKET WEIGHT on the sector. Maintain BUY on SIA Engineering (new TP: S\$2.90) and SATS (new TP: S\$4.85) and HOLD on SIA (new TP: S\$4.85).**

### WHAT'S NEW

- **Strong March air traffic statistics.** Mar 22 air traffic statistics at Changi Airport and operating data of Singapore Airlines (SIA) came in stronger than we have expected. While the paces of recovery in the flight activities and the passenger capacity reactivation were broadly in line, surprise mainly came from the passenger volume. Changi airport passenger volume rose 62.2% mom to 1,140,000 in Mar 22, which stood 19.2% of the pre-COVID-19 (Jan 20) level. National carrier SIA saw its passenger load rising 61.2% mom in Mar 22, on the back of a 15.7% mom increase in passenger capacity (ASK) and a significant 15.4%pt mom improvement in passenger load factor.
- The substantial improvement in Mar 22 operating statistics has been achieved even before the anticipated positive impacts of Singapore's recent round of border measure relaxations (effective from Apr 22 onwards) kicked in. This is a sign that reaffirms the strong pend-up demand of air travel and points to a potentially steeper-than-expected recovery trajectory for the Singapore aviation sector.
- **Further easing of border measures.** Since 1 April, Singapore has scrapped the previous quota-based Vaccinated Travel Lane (VTL) arrangement and replaced it with a new Vaccinated Travel Framework (VTF) which allows fully-vaccinated travellers to enter Singapore free of quarantine and on-arrival tests. Last Friday (22 April), Singapore announced the further relaxation of its COVID-19 measures. From 26 April onwards, pre-departure tests are no longer required for fully-vaccinated travellers and children aged 12 and below to enter Singapore. This will further ease entry process into Singapore.
- **Positive guidance.** According to a press release by Civil Aviation Authority of Singapore (CAAS) on 18 April, air passenger traffic in Singapore has reached 31% of the pre-COVID-19 levels in the week ending 17 April; this is compared with 19.2% for the whole month of March by our estimate. CAAS also guided that Singapore is on track to achieve its goal to restore over 50% of pre-COVID-19 air travel passenger volume in 2022. In its most recent update, SIA guided that it would raise its passenger capacity to 61% of the pre-COVID-19 levels by May 22, compared with 51% in Mar 22.

### ACTION

- **Raising FY22-24 financial forecasts for the three Singapore Aviation plays.** Given the strong showing of Mar 22 operating statistics of Changi Airport and SIA and considering the further easing of travel restrictions effective from Apr 22, we have raised our FY22-24 net profit forecasts for SIA, SATS and SIA Engineering Company (SIAEC) upward (figure below), to reflect a potential steeper recovery trajectory.

## MARKET WEIGHT

(Maintained)

### SECTOR PICKS

Company	Ticker	Rec	Share Price	Target Price
SIA Engineering	SIE SP	BUY	2.65	2.90
SATS	SATS SP	BUY	4.47	4.85
Singapore Airlines	SIA SP	HOLD	5.52	4.85

Source: Bloomberg, UOB Kay Hian

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### MARCH AIR TRAFFIC STATISTICS OF CHANGI AIRPORT AND SINGAPORE AIRLINES

	Monthly comparison					Quarterly comparison				
	Mar-22	Feb-22	Change mom	Mar-21	Change yoy	4Q FY22	3Q FY22	Change qoq	4Q FY21	Change yoy
<b>Changi Airport</b>										
Flight movements ('000)	13.2	10.9	+21.1%	8.1	+63.0%	36.2	32.8	+10.4%	22.31	+62.3%
Passenger movements ('000)	1,140	703	+62.2%	166	+586.7%	2,563	1,467	+74.7%	429	+497.4%
<b>Singapore Airlines</b>										
ASK (m)	8,062	6,970	+15.7%	3,618	+122.8%	22,350	18,373	+21.6%	10,053	+122.3%
RPK (m)	4,395	2,726	+61.2%	464	+847.3%	10,046	6,099	+64.7%	1,137	+783.2%
Load Factor	54.5%	39.1%	+15.4 pts	12.8%	+41.7 pts	44.9%	33.2%	+11.7 pts	11.3%	+33.6 pts

Source: Bloomberg, UOB Kay Hian

### FY22-24 EARNINGS FORECASTS REVISED UPWARD

Company	Earnings forecast (old)			Earnings forecast (new)			Change		
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
Singapore Airlines	-1,054	-28	338	-973	420	492	n.m.	n.m.	+45.7%
SATS	44	86	159	56	109	182	+26.8%	+26.5%	+14.0%
SIA Engineering	68	92	133	68	103	143	-	+11.3%	+8.1%

Source: UOB Kay Hian

- **Still looking at 2024 (FY25) for the full sector recovery.** Despite the raised FY22-24 earnings projection for the three aviation plays, our forecasts beyond FY25 are lightly touched as the stronger-than-expected recovery in the near horizon does not necessarily lead to higher longer-term earnings potential. We are still looking at FY25 as the year for the sector to see a full recovery, as some major markets in Northeast Asia (particularly China) are expected to lag behind in the trend of global opening-up.
- **Maintain BUY on SATS and SIAEC, HOLD on SIA with higher target prices.** We have retained our recommendations on SATS, SIAEC and SIA, with target prices uplifted by 4.3%, 3.6% and 1.0% respectively.
- **SIAEC and SATS are our preferred proxies to ride the sector recovery.** SIAEC and SATS are trading at 15.9x and 18.7x FY25F (normalised year) PE, standing at 1.9SD and 0.4SD below their FY14-19 (pre-COVID-19 years) average PE of 23.2x and 19.9x, respectively.
- **MCBs, SIA's legacy baggage from COVID-19.** Despite possible positive earnings surprise for SIA, we maintain our case that the significant and potentially highly dilutive mandatory convertible bonds (MCB) have to be redeemed first, before SIA's earnings recovery can deliver more meaningful valuation accretion to its common shareholders. Refer to our SIA re-initiation report dated 28 Mar 22 for more detailed discussion on the MCBs. SIA is currently trading at 1.47x FY23F P/B, an unprecedentedly high level or 4.0SD above its historical average P/B of 0.79x.

### UPDATED TARGET PRICES FOR SIA, SATS AND SIAEC

Company	Target price			Valuation basis	DCF Assumptions	
	new	old	Change		WACC	terminal g.
Singapore Airlines	S\$4.85	S\$4.80	+1.0%	FY25 DCF	6.0%	3.0%
SATS	S\$4.85	S\$4.65	+4.3%	FY23 DCF	7.0%	3.0%
SIA Engineering	S\$2.90	S\$2.80	+3.6%	FY23 DCF	8.5%	3.0%

Source: UOB Kay Hian

### PEER COMPARISON

Company	Rec	Price @ 22-Apr-22 (lcy)	Target Price (lcy)	Upside to TP (%)	Market Cap (US\$m)	PE			P/B			Yield			2022F Net Gearing (%)
						23F (x)	24F (x)	25F (x)	23F (x)	24F (x)	25F (x)	23F (%)	24F (%)	25F (%)	
Singapore Airlines	HOLD	5.52	4.85	(12.1)	11,957	42.0	30.8	21.9	1.5	1.5	1.4	0.0	0.0	0.0	78.3
SATS	BUY	4.47	4.85	8.5	3,661	46.0	27.7	18.7	3.0	2.8	2.6	1.3	2.7	4.3	(11.2)
SIA Engineering	BUY	2.65	2.90	9.4	2,171	29.1	20.8	15.9	1.7	1.7	1.6	2.3	3.8	4.9	(44.3)
<b>Average</b>						<b>39.1</b>	<b>26.4</b>	<b>18.8</b>	<b>2.1</b>	<b>2.0</b>	<b>1.9</b>	<b>1.2</b>	<b>2.2</b>	<b>3.1</b>	

Source: Bloomberg, UOB Kay Hian

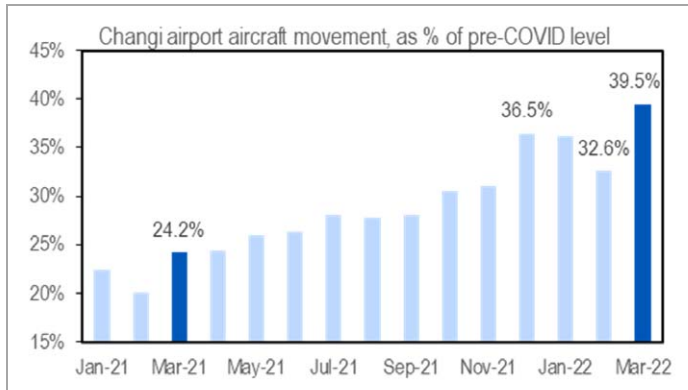
### SECTOR CATALYSTS

- Key sector catalysts include positive news flow of Singapore air travel recovery and possible shifts in stance in treating COVID-19 by Northeast Asian countries (particularly China).

### RISKS

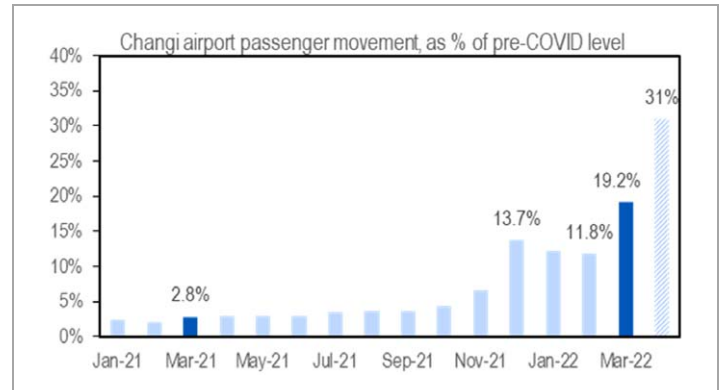
- Slower-than-expected earnings recovery; a more infectious/fatal COVID-19 variant leading to rollback of the global economic reopening.

### AIRCRAFT MOVEMENT AT CHANGI AIRPORT RECOVERED TO 39.5% OF PRE-COVID-19 LEVEL IN MAR 22



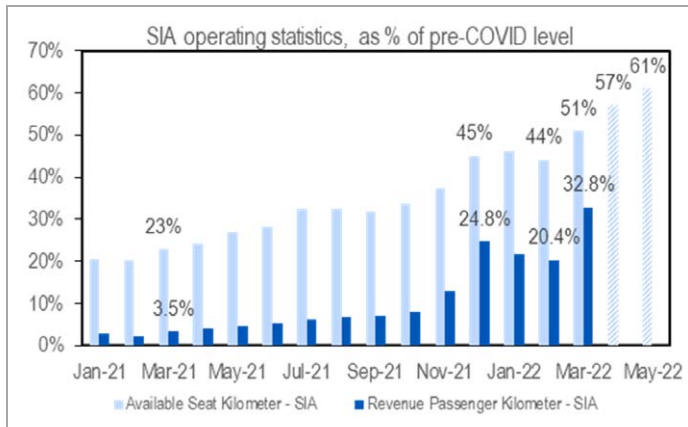
Source: Changi Airport Website

### CHANGI PAX VOLUME RECOVERED TO 19.2% OF PRE-COVID-19 LEVEL IN MAR 22 (GUIDED FOR 31% OF PRE-COVID-19 LEVEL IN THE WEEK OF 17 APRIL)



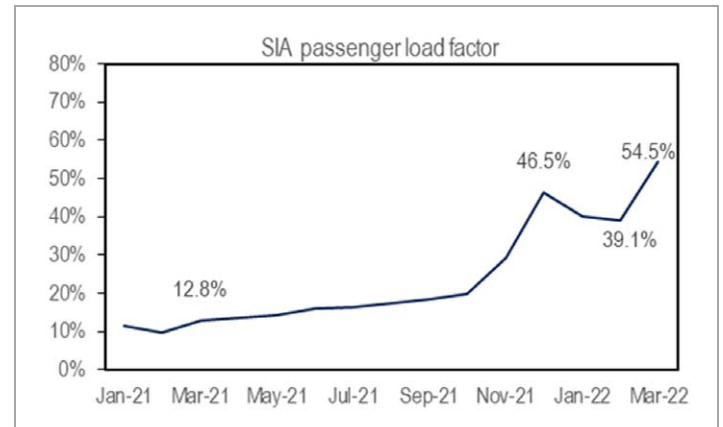
Source: Changi Airport Website, Civil Aviation Authority of Singapore

### PAX CAPACITY RECOVERED TO 51% OF THE PRE-COVID-19 LEVEL IN MAR 22 (GUIDED TO RISE TO 61% BY MAY 22)



Source: SIA

### PASSENGER LOAD FACTOR IMPROVED 15.4% POINTS MOM TO 54.5% IN MAR 22



Source: SIA

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