

**Company update**

# Singapore Airlines

**Singapore | Industrials**
**Chu Peng**  
 Equity Research

 Rating            HOLD (as at 20 May 2022)  
 Last Close        SGD 5.38  
 Fair Value        SGD 5.57

## Net loss narrowed

- **Full year net loss narrowed by 77.5% year-on year (YoY) to SGD962.0m**
- **SIA remained hedged up to 1QFY24**
- **Plans to reinstate 61% of pre-Covid passenger capacity by Jun 2022**

## Investment thesis

Singapore Airlines' (SIA) 2HFY22 (financial year ending Mar 2022)'s revenue improved 69.4% half-on-half (HoH) to SGD4.8b, supported by stronger passenger and cargo performances. Net profit in 4QFY22 was back to a loss of SGD209.9m vs a profit of SGD84.7m in 3QFY22, due to the impact of Omicron variant and a seasonally weaker quarter of cargo demand. For full year, SIA's revenue rose 99.6% year-on-year (YoY) to SGD7.6b while net loss narrowed by 77.5% YoY to SGD962.0m. Passenger flown revenue grew by four-fold YoY to SGD2.8b in FY22, which was ~22% of its pre-Covid levels, while cargo flown revenue reached a record high of SGD4.3b (+60.2% YoY). In Apr 2022, passenger capacity had reached 57% of its pre-Covid levels. SIA plans to reinstate 61% of pre-Covid passenger capacity by 1QFY23 (Jun 2022). We revise our estimates and consequently, increase our fair value estimate from SGD5.23 to SGD5.57. Valuations look demanding and the optimism from reopening has largely been priced in, in our view.

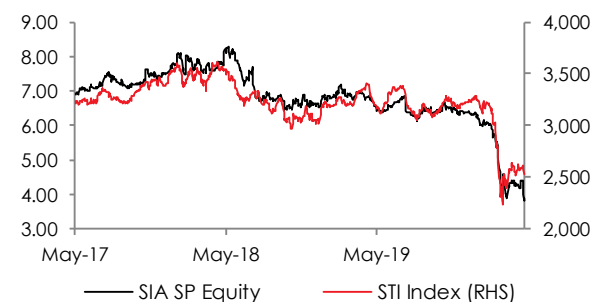
## Investment summary

- **Net loss of SGD125.2m in 2HFY22 as 4QFY22 net income was back to red** – SIA's 2HFY22 results came in within our expectations. Revenue improved 69.4% HoH to SGD4.8b in 2HFY22, supported by stronger passenger and cargo performances, on the back of easing travel restrictions and the expansion of Vaccinated Travel Lanes (VTL). Net profit in 4QFY22 was back to a loss of SGD209.9m vs a profit of SGD84.7m in 3QFY22, due to the impact of Omicron variant and a seasonally weaker quarter of cargo demand. For full year, SIA's revenue rose 99.6% YoY to SGD7.6b while net loss narrowed by 77.5% YoY to SGD962.0m. No dividend was declared, same as last year.

## Security information

Ticker	SIA SP
Market Cap (SGD b)	16.2
Daily turnover (SGD m)	34.5
Free Float	67%
Shares Outstanding (m)	2,967
Top Shareholder	NAPIER INVESTMENTS P 33.2%

## Price performance chart



## Financial summary

SGD mn	FY22	FY23E	FY24E
Revenue	7,615	12,273	15,225
EBITDA	1,390	2,596	3,101
PATMI	-962	409	800
EPS (\$-cents)	-32.3	13.7	26.9
DPS (\$-cents)	0.0	0.0	12.1

## Key ratios

	FY22	FY23E	FY24E
EBIT margin (%)	-8.0	6.7	8.3
ROE (%)	-4.3	1.8	3.4
Dividend yield (%)	0.0	0.0	2.2

Source: Bloomberg, Company, Internal estimates

- Passenger capacity improved to 47% of pre-Covid levels in 4QFY22** – Passenger carriage improved ~6x in FY22 which outpaced capacity expansion of 216% YoY. As such, passenger flown revenue grew by four-fold YoY to SGD2.8b in FY22, which was ~22% of its pre-Covid levels, while cargo flown revenue reached a record high of SGD4.3b (+60.2% YoY) due to continued capacity constraints and strong demand. Operating income of SIA's full service carrier and Scoot remained in a loss of SGD112m and SGD434m respectively in FY22 due to higher operating expenses.
- Passenger capacity reached 47% and 57% of its pre-Covid levels in Mar and Apr 2022** – Singapore fully reopened its borders in Apr 2022, management shared that the forward bookings are strong and saw recovery across both leisure and corporate travellers. As of 4QFY22, overall capacity stood at 56.3% (passenger: 47%; cargo: 72%), comparing to 31.1% (passenger: 21%; cargo: 47%) of pre-Covid levels in 4QFY21. In Apr 2022, passenger capacity had reached 57% of its pre-Covid levels (+6 percentage points month-on-month). SIA plans to reinstate 61% of pre-Covid passenger capacity by 1QFY23 (Jun 2022).
- 40% of fuel hedged for 1QFY23-1QFY24** – Total expenditure cost rose 38.6% HoH in 2HFY22 to SGD4.8b, with net fuel cost increasing 70.2% HoH due to higher fuel prices and volume while non-fuel costs were up 25.2% in line with an increase in capacity. SIA had hedged 40% of its fuel requirements at a weighted average price of USD60/bbl for Brent from 1QFY23-1QFY24. Management is comfortable with the current hedging position. We revise our estimates and consequently, increase our fair value estimate from SGD5.23 to SGD5.57. Valuations look demanding and the optimism from reopening has largely been priced in, in our view. While air travel demand is strong with an earlier-than-expected reopening in Singapore, cost inflation could weigh on SIA's performance and recovery trajectory.

### Results highlights

SGD mn	2HFY21	2HFY22	% chg
Revenue	2,182	4,788	119%
Net fuel costs	640	1,379	116%
Depreciation & amortisation	-1,019	-1,009	1%
Operating profit/(loss)	-650	10	nm
Interest income/(expense)	-132	-172	30%
Share of JVs & associates	-49	-8	83%
Other non-operating items	-50	-2	97%
Impairment loss	-299	-44	85%
Profit/(loss) before taxation	-1,182	-142	-88%
Profit/(loss) after tax	-806	-117	86%
Net profit	-804	-125	84%
DPS (\$ cents)	0	0	nm

Source: Company

## ESG Updates

- Singapore Airlines (SIA) scores better than its global peers in terms of social issues due to its robust compensation practices, higher customer satisfaction and on-time performance metrics. However, SIA's governance and environment scores rank below the industry average. As a state-owned firm, minority shareholders of SIA may face risks of their interests being subsumed by those of the Singapore government. While SIA operates a relatively young fleet, and has reduced its carbon emission intensity by an average of 12% per year, its emission intensity still exceeds the industry average. However, SIA appears to have stepped up its environmental efforts to achieve net zero carbon emissions by 2050, with

continued investment in new generation aircraft, adoption of low-carbon technology such as sustainable aviation fuels and carbon offsetting.

## Potential catalysts

- Recovery in passenger yields
- Favourable fluctuations in oil prices
- Capacity rationalization by competitors

## Investment risks

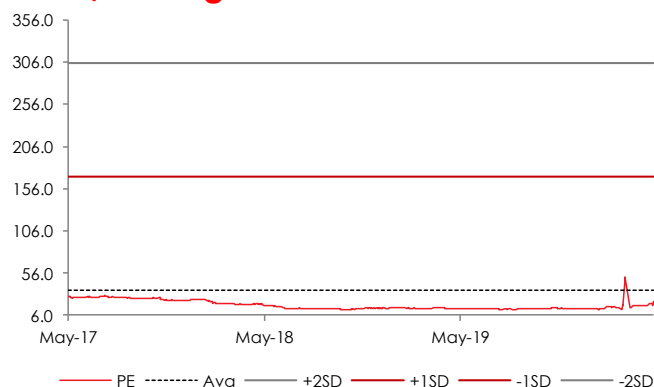
- Further weakening of passenger and/or cargo yields
- Unfavourable fluctuations in oil prices
- Significant drop in passenger and/or cargo loads

## Valuation analysis

	Price/Earnings		Price/Book		EV/EBITDA		Dividend Yield (%)		ROE (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
<b>SINGAPORE AIRLINES LTD (SIA SP)</b>	165.5	27.0	1.5	1.5	7.4	5.7	0.3	1.3	0.4	4.4
<b>AIRASIA BHD (AIRA MK)</b>	NA	NA	NA	NA	NA	NA	NA	NA	18.9	NA
<b>THAI AIRWAYS INTERNATIONAL PCL (THAI TB)</b>	NA	NA	NA	NA	NA	NA	NA	NA	32.0	20.7
<b>CATHAY PACIFIC AIRWAYS LTD (293 HK)</b>	NA	20.2	0.9	0.8	9.6	6.3	0.0	1.9	(7.0)	4.4
<b>ANA HOLDINGS INC (9202 JP)</b>	56.1	15.5	1.3	1.2	9.9	7.0	0.2	1.6	2.7	8.7

Source: Bloomberg

## Price/Earnings chart



Source: Bloomberg

## Price/Book chart



Source: Bloomberg

## Company overview (as of 31 December 2021)

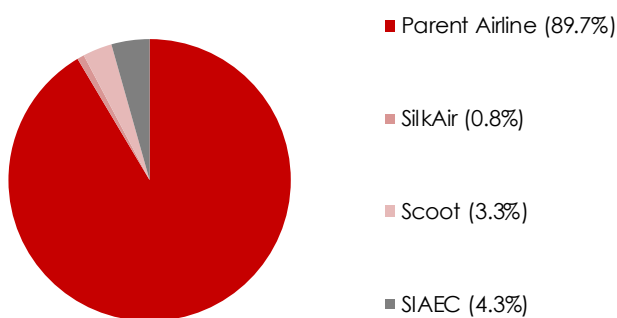
### Company description

The Singapore Airlines Group's history dates back to 1947 with the maiden flight of Malayan Airways Limited. The airline was later renamed Malaysian Airways Limited, and then Malaysia-Singapore Airlines. In 1972, Malaysia-Singapore Airlines split into Singapore Airlines (SIA) and Malaysian Airline System.

Initially operating a modest fleet of 10 aircraft to 22 cities in 18 countries, SIA has quickly distinguished itself as an international airline group, and together with wholly-owned subsidiaries SilkAir, Budget Aviation Holdings (holding subsidiary operating the Scoot and Tigerair brands) and SIA Cargo, the SIA Group fleet comprises more than 180 aircraft.

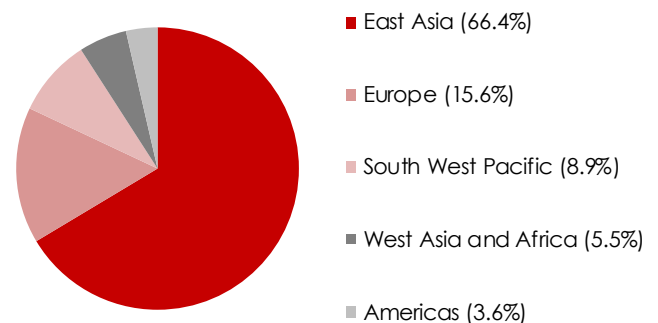
SIA also employs a multi-hub strategy, with expansion to India through Vistara and Thailand through NokScoot. The investment in airlines outside of Singapore allows SIA to set up new hubs, create new markets, and tap into new traffic flows.

### FY21 Revenue breakdown



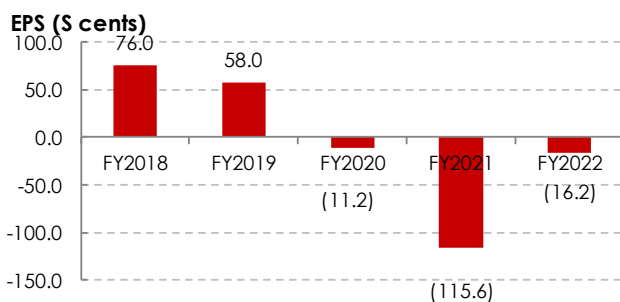
Source: Company

### FY21 Airline operations revenue breakdown



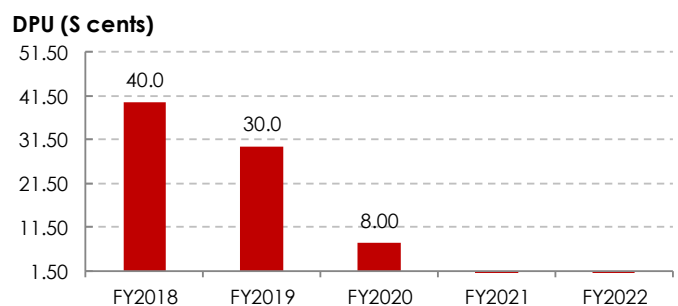
Source: Company

### Earning per share (\$-cents)



Source: Company

### Dividends per share (\$-cents)



Source: Company

## Company financials

### Income Statement

In Millions of SGD except Per Share	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
12 Months Ending	31/03/2018	31/03/2019	31/03/2020	31/03/2021	31/03/2022
<b>Revenue</b>	<b>15,806.1</b>	<b>16,323.2</b>	<b>15,975.9</b>	<b>3,815.9</b>	<b>7,614.8</b>
- Cost of Revenue	—	—	—	—	—
<b>Gross Profit</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
+ Other Operating Income	0.0	0.0	0.0	0.0	0.0
- Operating Expenses	14,227.5	15,179.6	15,842.9	6,317.4	8,226.6
<b>Operating Income or Losses</b>	<b>1,578.6</b>	<b>1,143.6</b>	<b>133.0</b>	<b>-2,501.5</b>	<b>-611.8</b>
- Interest Expense	87.6	113.4	216.8	259.3	—
- Foreign Exchange Losses (Gains)	31.6	77.6	75.3	12.2	-0.9
- Net Non-Operating Losses (Gains)	-133.8	84.0	61.1	2,184.2	479.1
<b>Pretax Income</b>	<b>1,593.2</b>	<b>868.6</b>	<b>-220.2</b>	<b>-4,957.2</b>	<b>-1,090.0</b>
- Income Tax Expense (Benefit)	247.7	147.0	-50.8	-673.8	-141.9
<b>Income Before XO Items</b>	<b>1,345.5</b>	<b>721.6</b>	<b>-169.4</b>	<b>-4,283.4</b>	<b>-948.1</b>
- Extraordinary Loss Net of Tax	0.0	0.0	0.0	0.0	0.0
- Minority/Non Controlling Interests (Credits)	43.9	38.9	42.6	-12.7	13.9
<b>Net Income/Net Profit (Losses)</b>	<b>1,301.6</b>	<b>682.7</b>	<b>-212.0</b>	<b>-4,270.7</b>	<b>-962.0</b>
<b>Net Inc Avail to Common Shareholders</b>	<b>1,301.6</b>	<b>682.7</b>	<b>-212.0</b>	<b>-4,270.7</b>	<b>-962.0</b>
Abnormal Losses (Gains)	-10.0	55.9	11.5	2,103.9	-15.3
Tax Effect on Abnormal Items	1.7	-9.5	-2.0	-328.7	2.6
<b>Normalized Income</b>	<b>1,293.3</b>	<b>729.1</b>	<b>-202.5</b>	<b>-2,495.5</b>	<b>-974.7</b>
<b>Basic Earnings per Share</b>	<b>0.8</b>	<b>0.4</b>	<b>-0.1</b>	<b>-1.2</b>	<b>-0.2</b>
Basic Weighted Avg Shares	1,677.9	1,679.5	1,681.5	3,694.7	5,938.3
<b>Diluted EPS Before Abnormal Items</b>	<b>0.8</b>	<b>0.4</b>	<b>-0.1</b>	<b>-0.7</b>	<b>-0.2</b>
<b>Diluted EPS Before XO Items</b>	<b>0.8</b>	<b>0.4</b>	<b>-0.1</b>	<b>-1.2</b>	<b>-0.2</b>
<b>Diluted EPS</b>	<b>0.8</b>	<b>0.4</b>	<b>-0.1</b>	<b>-1.2</b>	<b>-0.2</b>
Diluted Weighted Avg Shares	1,683.4	1,686.8	1,681.5	3,694.7	5,938.3

### Profitability Ratios

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
12 Months Ending	31/03/2018	31/03/2019	31/03/2020	31/03/2021	31/03/2022
<b>Returns</b>					
Return on Common Equity	10.03	5.22	-1.88	-33.87	-5.02
Return on Assets	5.14	2.42	-0.66	-11.98	-2.23
Return on Capital	9.04	4.45	0.05	-15.61	-1.80
Return on Invested Capital	7.55	4.69	0.58	-8.20	-1.53
<b>Margins</b>					
Operating Margin	9.99	7.01	0.83	-65.55	-8.03
Incremental Operating Margin	99.26	—	-290.99	-21.67	49.74
Pretax Margin	10.08	5.32	-1.38	-129.91	-14.31
Income before XO Margin	8.51	4.42	-1.06	-112.25	-12.45
Net Income Margin	8.23	4.18	-1.33	-111.92	-12.63
Net Income to Common Margin	8.23	4.18	-1.33	-111.92	-12.63
<b>Additional</b>					
Effective Tax Rate	15.55	16.92	—	—	—
Dvd Payout Ratio	36.34	52.01	—	—	—
Sustainable Growth Rate	6.39	2.51	—	—	—

### Credit Ratios

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
12 Months Ending	31/03/2018	31/03/2019	31/03/2020	31/03/2021	31/03/2022
Total Debt/EBIT	1.98	5.82	88.61	—	—
Net Debt/EBIT	0.25	3.14	65.23	—	—
EBIT to Interest Expense	18.02	10.08	0.61	-9.65	-1.56
Long-Term Debt/Total Assets	12.00	21.06	25.60	34.43	29.83
Net Debt/Equity	3.03	26.26	89.14	38.59	6.69

Source: Bloomberg

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