

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

20 May 2022

BUY

Last Traded Price (19 May 2022): S\$5.38 (STI : 3,190.71)
Price Target 12-mth: S\$6.20 (15% upside)

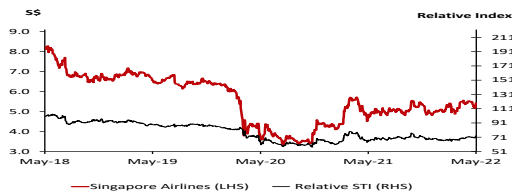
Analyst

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What's New

- SIA slipped into the red in 4QFY22, but that was in line with expectations
- Stronger than anticipated passenger traffic, coupled with healthy passenger and cargo yields should offset cost headwinds
- Lift FY23/24F net profit estimates to reflect higher near-term passenger load factors
- Maintain BUY with unchanged TP of S\$6.20

Price Relative



Forecasts and Valuation

FY Mar (S\$m)	2021A	2022A	2023F	2024F
Revenue	3,816	7,615	14,556	16,927
EBITDA	(630)	1,314	3,214	3,811
Pre-tax Profit	(4,957)	(1,090)	792	1,334
Net Profit	(4,271)	(962)	655	1,090
Net Pft (Pre Ex.)	(2,318)	(903)	655	1,090
Net Pft Gth (Pre-ex) (%)	(993.3)	61.0	nm	66.5
EPS (S cts)	(144)	(32.4)	22.1	36.8
EPS Pre Ex. (S cts)	(78.2)	(30.5)	22.1	36.8
EPS Gth Pre Ex (%)	(520)	61	nm	66
Diluted EPS (S cts)	(100)	(14.9)	10.2	16.9
Net DPS (S cts)	0.0	0.0	6.63	11.0
BV Per Share (S cts)	373	348	369	389
PE (X)	nm	nm	24.3	14.6
PE Pre Ex. (X)	nm	nm	24.3	14.6
P/Cash Flow (X)	nm	5.8	3.1	3.9
EV/EBITDA (X)	nm	13.2	5.0	4.4
Net Div Yield (%)	0.0	0.0	1.2	2.1
P/Book Value (X)	1.4	1.5	1.5	1.4
Net Debt/Equity (X)	0.4	0.0	CASH	0.0
ROAE (%)	(33.9)	(5.0)	2.8	4.5
Earnings Rev (%):			31	2
Consensus EPS (S cts):			(1.0)	18.5
Other Broker Recs:		B: 3	S: 3	H: 6

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

Buy your tickets before it's too late

Investment Thesis:

Recovery in passenger volumes should outpace that of peers in the region. SIA's international passenger traffic has been recovering at a faster clip than its peers since Singapore launched its first Vaccinated Travel Lane (VTL) in Sep 2021. We expect this trend to persist and envisage the group's passenger traffic hitting 72% and 97% of 2019 levels by end-FY23/24F, respectively, supported by Singapore's new Vaccinated Travel Framework and the synchronised reopening of borders in the region and other key markets.

Favourable supply-demand dynamics to underpin healthy passenger and cargo yields. Colossal pent-up travel demand and the gradual restoration of passenger capacity will support passenger yields. Meanwhile, cargo yields should remain high in the near-term due to prolonged widespread supply chain disruptions.

SIA's valuation may be above its historical mean, but still cheaper than competitors in the region. The airline is currently priced at 1.2x FY23F P/BV, at around +1.0SD of its 10-year mean. We believe that its relatively promising recovery trajectory and medium-term outlook justify a multiple that is on par with peers.

Valuation:

Our target price of S\$6.20 for SIA is based on 1.3x FY23/24F P/BV, which is +1.5SD of the stock's 10-year mean P/BV. We treat the mandatory convertible bonds (MCBs) as debt instead of equity, as we see SIA redeeming the MCBs within 10 years and deduct the accrued interest at end-FY23/24F.

Where we differ:

We have above consensus earnings estimates, as we expect SIA's passenger volumes to normalise at a faster rate and assumed higher passenger and cargo yields.

Key Risks to Our View:

The key risks to our view are: 1) repeated COVID-19 episodes impeding the recovery in air travel, and 2) passenger and cargo yields moderate to pre-pandemic levels prior to our expectations.

At A Glance

Issued Capital (m shrs)	2,967
Mkt. Cap (S\$m/US\$m)	15,965 / 11,560
Major Shareholders (%)	
Napier Investments Pte Ltd	33.2
Temasek Holdings Pte Ltd	22.2
Free Float (%)	44.6
3m Avg. Daily Val (US\$m)	27.3
GIC Industry : Industrials / Transportation	



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WHAT'S NEW

4QFY22 results in line; recovery prospects look brighter

Results highlights

- 4QFY22 net loss came in at S\$209.9m (vs net loss of S\$661.9m in 4QFY21 and net profit of S\$84.7m in 3QFY22). Full-year net loss of S\$962.0m was in line with consensus' estimate of a S\$954m net loss.
- Passenger revenue surpassed cargo revenue for the first time since the pandemic started in 4QFY22. 4QFY22 revenue of S\$2,471.9m was up 6.7% q-o-q and 121.7% y-o-y. Softer sequential growth in the quarter was due to a 14.2% decline in air freight volumes and marginal cargo yield compression, but offset by a significant increase in passenger volumes (group RPK up by 64.7% q-o-q)
- The SIA group generated positive operating cash flow (before interest payments) of S\$3,041.5m in FY22, up significantly from a net cash outflow from operations of S\$3,292.4m in FY21 due to improvement in its core operations and favourable working capital changes (significant increase in forward bookings).
- **Forward bookings indicate an imminent meaningful rebound in air passenger traffic across all customer segments** – The management shared that forward bookings as a % of total available seat capacity for SIA Group flights over the next three months is fast approaching pre-pandemic levels, and flights for the next two months are fully booked for many sectors. The turnaround in corporate bookings was sluggish at the onset, but SIA has seen a marked rebound in corporate travel activity since April when Singapore fully reopened its borders, with the contribution from the corporate segment similar to pre-COVID19 levels. The pace of recovery is certainly ahead of our expectations, as we initially anticipated an extended timeframe for the recovery in SIA's corporate travel activity.
- **Adequate manpower to swiftly ramp up passenger capacity, but wage inflation pressures are present** – the management shared that in terms of headcount, the number of pilots with the group is close to pre-pandemic levels as the group did not retrench any pilots (except for expats) over the pandemic. Although cabin crew headcount is below pre-COVID19 levels, SIA is currently calling back cabin crew members that were previously re-deployed elsewhere during the pandemic and started hiring again two months ago. The management expressed confidence that they will have sufficient manpower as they rebuild capacity. However, the progressive reversal of pilot wage cuts over April-22 and December-22 coupled with the absence of wage subsidies will translate into steeper increase in staff costs in FY23F.

Analyst briefing highlights:

- **Krisflyer membership is 11% above pre-COVID19 levels** – the group also shared that Krisflyer revenue has exceeded pre-pandemic levels, which was north of S\$700m in FY19. Additionally, its new lifestyle and rewards app, Kris+, saw a 3-fold and 4-fold increase in active users and total downloads respectively in FY22. SIA will continue to roll out new product features and onboard more merchants on Kris+ to enhance the user experience and further drive customer engagement.
- **No change to SIA's hedging position** – SIA has hedged about 40% of its projected jet fuel consumption over the next five quarters at an average Brent price of US\$60/bbl, and will also recognise US\$98m of hedging gains from trades closed out earlier.
- **Capex guidance revised to S\$12.5bn over the next three years, up from S\$12.0bn previously** – the increase in capex largely stems from the group's order of 7 A350 freighters. In FY23F, the group has plans to introduce 17 aircraft, consisting of 3 A350s, 3 B787s and 8 B737-MAX, and retire 1 aircraft. While the B787 deliveries are still on hold at the moment, Boeing recently announced that deliveries should resume in 2H of 2022. Additionally, delays in B777X deliveries should have limited impact on the group's forward capacity, according to the management.
- **Sustainable aviation fuel (SAF) project with CAAS and Temasek to start from 2QFY23** – Testament to the group's commitment to net zero emissions by 2050, SIA recently completed a feasibility study with various ecosystem partners on the use of sustainable aviation fuel at Changi Airport, and will begin with the purchase of 1.25m litres of neat SAF to be used on SIA and Scoot flights from July-2022. Based on preliminary discussions, we believe this will not lead to increased operating costs for the group as project partners will cover the cost differential between traditional jet fuel and SAF.

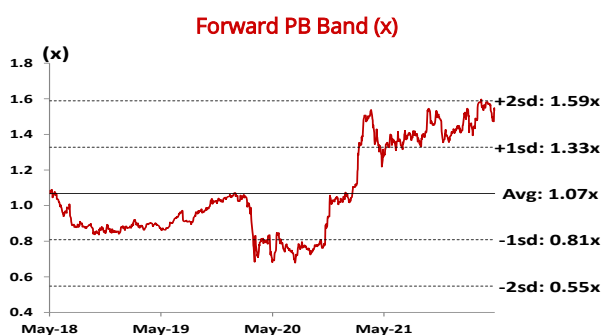
Earnings revision and recommendation:

- Lift FY23/24F net profit estimates by 31.0% and 2.2% respectively, to factor higher near-term passenger load factors for the group given the solid momentum in forward bookings. **Maintain BUY with unchanged TP of S\$6.20.**

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 Scoot, a low-cost carrier, as a subsidiary. It also owns SIA Engineering, listed on SGX, which is involved in aircraft maintenance and repair.

Historical PB Band



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

Key Assumptions

FY Mar	2020A	2021A	2022A	2023F	2024F
Available seat-km (m)	127,166	19,493	58,748	101,500	124,600
Passenger load factor	81.9	13.7	32.6	72.5	80.3
Passenger yield	10.8	21.0	13.1	11.5	11.1
Jet Fuel Price - US\$ per	71.2	48.9	77.6	129	102
US\$/S\$ exchange rate	1.37	1.37	1.35	1.40	1.37

Segmental Breakdown

FY Mar	2020A	2021A	2022A	2023F	2024F
Revenues (\$m)					
Airline Operations	14,904	3,391	7,141	13,881	15,937
SATS	0.0	0.0	0.0	0.0	0.0
SIA Engineering	498	163	197	350	490
Others	572	262	277	325	500
Total	15,974	3,816	7,615	14,556	16,927

Income Statement (\$m)

FY Mar	2020A	2021A	2022A	2023F	2024F
Revenue	15,976	3,816	7,615	14,556	16,927
Cost of Goods Sold	(15,917)	(6,328)	(8,225)	(13,417)	(15,386)
Gross Profit	59.1	(2,513)	(610)	1,139	1,541
Other Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Operating Profit	59.1	(2,513)	(610)	1,139	1,541
Other Non Opg (Exp)/Inc	(21.8)	(146)	40.4	0.0	0.0
Associates & JV Inc	(78.7)	(113)	(116)	(10.0)	60.0
Net Interest (Exp)/Inc	(179)	(233)	(346)	(337)	(268)
Exceptional Gain/(Loss)	0.0	(1,953)	(58.9)	0.0	0.0
Pre-tax Profit	(220)	(4,957)	(1,090)	792	1,334
Tax	50.8	674	142	(127)	(213)
Minority Interest	(42.6)	12.7	(13.9)	(10.0)	(30.0)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	(212)	(4,271)	(962)	655	1,090
Net Profit before Except.	(212)	(2,318)	(903)	655	1,090
EBITDA	2,165	(630)	1,314	3,214	3,811
Growth					
Revenue Gth (%)	(2.1)	(76.1)	99.6	91.2	16.3
EBITDA Gth (%)	(7.2)	nm	nm	144.6	18.6
Opg Profit Gth (%)	(94.5)	(4,351.3)	(75.7)	(286.9)	35.3
Net Profit Gth (Pre-ex) (%)	nm	(993.3)	61.0	nm	66.5
Margins & Ratio					
Gross Margins (%)	0.4	(65.8)	(8.0)	7.8	9.1
Opg Profit Margin (%)	0.4	(65.8)	(8.0)	7.8	9.1
Net Profit Margin (%)	(1.3)	(111.9)	(12.6)	4.5	6.4
ROAE (%)	(1.9)	(33.9)	(5.0)	2.8	4.5
ROA (%)	(0.7)	(12.0)	(2.2)	1.4	2.3
ROCE (%)	0.3	(12.6)	(2.7)	4.0	5.2
Div Payout Ratio (%)	N/A	N/A	N/A	30.0	30.0
Net Interest Cover (x)	0.3	(10.8)	(1.8)	3.4	5.8

Source: Company, DBS Bank

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 Opg (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
Opg 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)
Opg 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	2022A	2023F	2024F
Net Fixed Assets	26,964	25,879	27,861	29,776	32,066
Invts in Associates & JVs	1,009	1,033	1,039	1,029	1,089
Other LT Assets	898	997	2,083	2,083	2,083
Cash & ST Invts	3,109	8,055	14,169	11,268	8,708
Inventory	239	195	187	220	240
Debtors	821	940	1,566	1,617	1,539
Other Current Assets	674	483	1,765	1,765	1,765
Total Assets	33,713	37,581	48,671	47,759	47,490
ST Debt	2,661	907	607	607	607
Creditor	3,016	2,117	2,733	3,235	3,385
Other Current Liab	5,325	2,689	4,529	6,450	7,106
LT Debt	8,631	12,920	14,520	10,520	8,520
Other LT Liabilities	4,348	2,670	3,482	2,782	2,382
Shareholder's Equity	9,314	15,906	22,412	23,767	25,061
Minority Interests	419	372	389	399	429
Total Cap. & Liab.	33,713	37,581	48,671	47,759	47,490
Non-Cash Wkg. Capital	(6,607)	(3,189)	(3,743)	(6,082)	(6,948)
Net Cash/(Debt)	(8,183)	(5,773)	(958)	141	(419)
Debtors Turn (avg days)	26.8	84.2	60.1	39.9	34.0
Creditors Turn (avg days)	82.3	223.8	142.2	96.1	91.7
Inventory Turn (avg days)	6.2	18.9	11.2	6.6	6.4
Asset Turnover (x)	0.5	0.1	0.2	0.3	0.4
Current Ratio (x)	0.4	1.7	2.2	1.4	1.1
Quick Ratio (x)	0.4	1.6	2.0	1.3	0.9
Net Debt/Equity (X)	0.8	0.4	0.0	CASH	0.0
Net Debt/Equity ex MI (X)	0.9	0.4	0.0	CASH	0.0
Capex to Debt (%)	43.8	9.9	15.4	35.9	49.3
Z-Score (X)	0.9	0.7	1.2	1.2	1.2

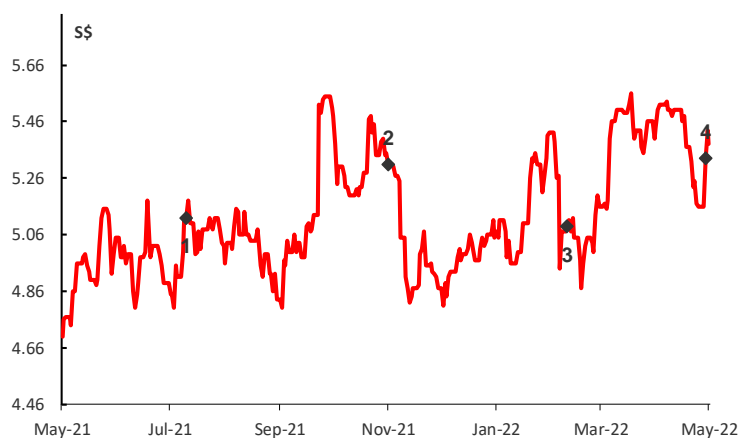
Source: Company, DBS Bank

Cash Flow Statement (\$\$m)

FY Mar	2020A	2021A	2022A	2023F	2024F
Pre-Tax Profit	(220)	(4,957)	(1,090)	792	1,334
Dep. & Amort.	2,206	2,142	2,000	2,085	2,210
Tax Paid	(19.8)	(17.6)	(8.3)	(127)	(213)
Assoc. & JV Inc/(loss)	78.7	113	116	10.0	(60.0)
Chg in Wkg.Cap.	(460)	(3,424)	1,741	2,339	866
Other Operating CF	941	2,620	5.90	0.0	0.0
Net Operating CF	2,526	(3,525)	2,765	5,099	4,136
Capital Exp.(net)	(4,944)	(1,375)	(2,330)	(4,000)	(4,500)
Other Invs.(net)	56.3	219	(80.0)	0.0	0.0
Invs in Assoc. & JV	(166)	(212)	(149)	0.0	0.0
Div from Assoc & JV	89.2	47.9	35.9	0.0	0.0
Other Investing CF	0.0	5.30	277	0.0	0.0
Net Investing CF	(4,965)	(1,314)	(2,247)	(4,000)	(4,500)
Div Paid	(386)	(14.3)	(1.4)	0.0	(197)
Chg in Gross Debt	2,531	1,141	(756)	(4,000)	(2,000)
Capital Issues	1.00	8,829	6,197	0.0	0.0
Other Financing CF	(38.6)	32.6	(24.1)	2.00	2.00
Net Financing CF	2,142	9,969	5,437	(4,000)	(2,197)
Currency Adjustments	38.6	(32.6)	25.1	0.0	0.0
Chg in Cash	(259)	5,098	5,980	(2,901)	(2,560)
Opg CFPS (S cts)	177	(3.4)	34.5	93.1	110
Free CFPS (S cts)	(144)	(165)	14.6	37.1	(12.3)

Source: Company, DBS Bank

Target Price & Ratings History



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

Source: DBS Bank

Analyst: Paul YONG, CFA

Jason SUM, CFA

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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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