

### COMPANY RESULTS

## SIA Engineering (SIE SP)

FY22: Results In Line; Expecting Stronger FY23 Driven By Accelerated Recovery

SIA Engineering's FY22 revenue of S\$566m and headline net profit of S\$68m were in line with our full-year forecasts. Business recovery picked up in 2HFY22 and particularly towards the end of FY22. We are looking at an even faster pace of recovery from the start of FY23 given that the positive impact from Singapore's border measure relaxations is expected to kick in from Apr 22 onwards. Maintain BUY with unchanged target price of S\$2.90. SIA Engineering is our top sector pick.

### FY22 RESULTS

Year to 31 Mar (S\$m)	2H22	1H22	hoh % chg	2H21	yoy % chg	FY22	FY21	yoy % chg
Revenue	302.6	263.5	+14.8	220.0	+37.5	566.1	443.0	+27.8
EBIT	-15.2	-6.7	n.m.	2.2	n.m.	-21.9	-25.0	n.m.
government wage support	21.9	55.2	-60.3	71.7	-69.4	77.2	151.9	-49.2
EBIT less wage support	-37.1	-61.9	n.m.	-69.5	n.m.	-99.0	-176.9	nm
JVs / associates contribution	52.3	26.8	+94.7	11.5	+356.1	79.1	39.9	+98.3
Net Profit	42.6	25.0	+70.1	7.7	n.m.	67.6	-11.2	n.m.
Adjusted net profit*	-10.9	-39.3	n.m.	-66.6	n.m.	-50.2	-140.9	n.m.

\* Adjusted net profit excludes government wage support and other major one-off items, based on UOB Kay Hian's estimates  
Source: SIA Engineering, UOB Kay Hian

### RESULTS

- Results in line.** SIA Engineering reported FY22 net profit of S\$67.6m, vs S\$11.2m net loss in FY21. The improvement was achieved despite a significant reduction in government wage support during the year. Excluding the impact of wage support and adjusted for other major one-off items (impairments, disposal gains, tax provision writebacks, etc), SIA Engineering would have registered a S\$50m net loss by our estimate, representing a significant improvement against the S\$141m net loss in FY21 on the similar adjusted basis. Revenue rose 28% yoy to S\$566m in FY22 (FY21: S\$443m)
- Recovery momentum picked up in 2HFY22 and towards the end of FY22.** Operating loss (excluding wage support) narrowed to S\$37m in 2HFY22, from S\$62m loss in 1HFY22 and S\$69m loss in 2HFY21. JV and associate contribution also improved significantly, though it was partially helped by a sizeable tax provision writeback (the amount was not disclosed but we believe it could be in the north of S\$20m). Management confirmed that even without the tax writeback, the JV and associates' performance still improved meaningfully in 2HFY22, driven by the recovery in engine and component service volume. SIA Engineering's quarterly core net losses have been consistently narrowing, to only a tad negative of S\$4m in 4Q22 (3Q22: S\$7m loss) by our estimate.

### KEY FINANCIALS

Year to 31 Mar (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	443	566	813	973	1,121
EBITDA	46	41	81	123	155
Operating profit	(25)	(22)	16	51	70
Net profit (rep./act.)	(11)	68	92	143	188
EPS (S\$ cent)	(1.0)	6.0	8.2	12.7	16.7
PE (x)	n.m.	43.5	31.9	20.5	15.7
P/B (x)	1.9	1.8	1.7	1.7	1.6
EV/EBITDA (x)	39.1	41.8	21.1	14.0	11.1
Dividend yield (%)	0.0	0.0	2.3	3.8	5.0
Net margin (%)	(2.5)	11.9	11.4	14.7	16.7
Net debt/(cash) to equity (%)	(39.2)	(38.4)	(37.1)	(34.4)	(32.9)
ROE (%)	n.a.	4.3	5.6	8.3	10.6
Consensus net profit	-	-	79	106	-
UOBKH/Consensus (x)	-	-	1.17	1.35	-

Source: SIA Engineering, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	S\$2.61
Target Price	S\$2.90
Upside	+11.1%

### COMPANY DESCRIPTION

Aircraft maintenance, repair, and overhaul (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):	2,929.8
Market cap (US\$m):	2,114.6
3-mth avg daily t'over (US\$m):	1.9

### Price Performance (%)

52-week high/low S\$2.71/S\$2.01

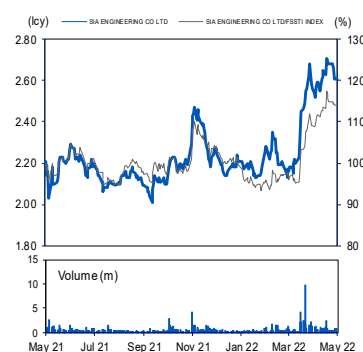
1mth	3mth	6mth	1yr	YTD
(0.8)	19.7	17.6	17.0	19.7

### Major Shareholders

Shareholder	%
SIA	77.6

FY23 NAV/Share (S\$)	1.52
FY23 Net Cash/Share (S\$)	0.57

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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- **Rock solid balance sheet.** As at end-FY22, SIA Engineering had a considerable net cash position of S\$623m, equivalent to 21% of its market cap.
- **No dividends declared for FY22.** This is expected as SIA Engineering was still receiving substantial government wage support in FY22, without which the group would have reported a net loss.

### STOCK IMPACT

- **Expect accelerated recovery ahead, starting from April.** Statistics of flight activities at Changi Airport and operating data of Singapore Airlines had picked up remarkably in March. Coming into April and May, the recovery momentum can only be stronger with the tailwinds from Singapore border relaxations (since April) and a number of public holidays and long weekends in May. April aviation data from various public sources support our case of an accelerated recovery. According to SIA Engineering's inhouse statistics, its line maintenance business volume had recovered to 45% of the pre-pandemic level in April, compared to 38% in March and FY22 full-year average of 29% (see figure next page).
- **Core earnings likely to turn positive in 1QFY23.** Given that SIA Engineering's core earnings (ie net profit adjusted for government wage support and one-off items) was only a tad negative in 4QFY22 and in view of the accelerated recovery in the coming quarter, we believe SIA Engineering's core profitability would return to the positive territory in 1QFY23. The government wage support, which had already been reduced to a very subdued level in 4QFY22, is slated to end in Jul 23.
- **Ramping up recruitment in preparation for faster recovery.** Management shared that one of the company's priorities in FY23 is to ramp up manpower recruitment in preparation for further flight recovery. While this might create some short-term mismatch between revenue recovery and cost build-up, it would not change our base case of an overall strong recovery in FY23.

### EARNINGS REVISION/RISK

- We trim our FY23 net profit forecast by S\$10m to reflect a slightly faster manpower ramp-up. Our new FY23 net profit forecast of S\$92m is still S\$24m or 35% higher than FY22 reported net profit of S\$68m as we expect the business recovery to more than offset the reduction in government support. Our FY24-25 forecasts remain intact.

### VALUATION/RECOMMENDATION

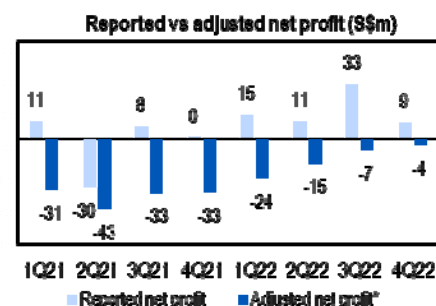
- **Maintain BUY and DCF-based target price of S\$2.90.** SIA Engineering remains our top sector pick. It is currently trading at 15.7x FY25F (normalised year) PE (only 12.3x if ex-net-cash) which is at 2.0SD below its FY14-19 (pre-COVID-19 years) average PE of 23.2x. The 15.7x PE or 12.3x ex-net-cash PE are undemanding in our view, considering SIA Engineering's strategic position, especially its line maintenance business' market leadership (78% market share) in the international air hub Singapore.

### SHARE PRICE CATALYST

- **Core earnings recovery.** We believe the market should turn more positive on SIA Engineering for its core profitability recovery and further improvement. We also expect FY23 to be the year that SIA Engineering resumes dividend payment.
- **Pressure to do something with its big cash pile.** SIA Engineering has a sizeable net cash position of S\$623m on its balance sheet earning non-meaningful interest income (only S\$1.8 in FY21, equivalent to 0.3% interest rate); this is in contrast to its 77.6% controlling shareholder Singapore Airlines' (SIA) huge cash needs to pay off the expensive Mandatory Convertible Bonds (MCB) bearing compounded finance cost of 4% (to step up to 6% with later redemptions). As such, we believe that SIA Engineering would be under pressure to make utilisation of the cash pile to either:
  - a) dividend the cash out to shareholders - in this way, more cash would be channelled back to SIA for the parent company to pay for the expensive MCBs; or
  - b) utilise the cash for some sizeable acquisition, which should at least beat the parent company SIA's MCB finance cost of 6%. In that case, a S\$600m acquisition could mean additional net profit of S\$36m at the steady state, equivalent to 20% of our FY25 net profit forecast of S\$188m.

Either way is a good value-unlocking event for shareholders.

### CONSISTENTLY IMPROVING CORE EARNINGS



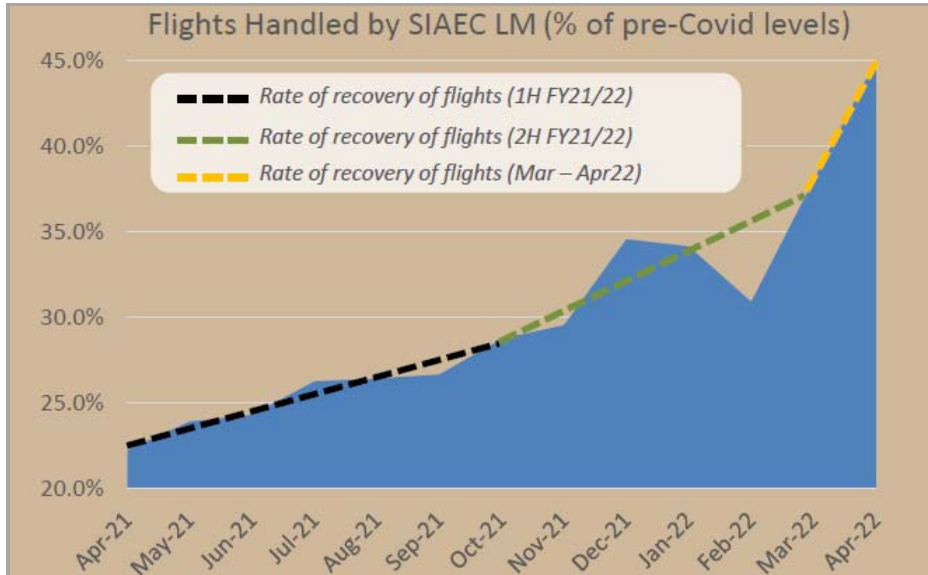
\* Adjusted net profit based on UOB Kay Hian's adjustment  
Source: SIA Engineering, UOB Kay Hian

### HISTORICAL PE BAND (FY15-19)



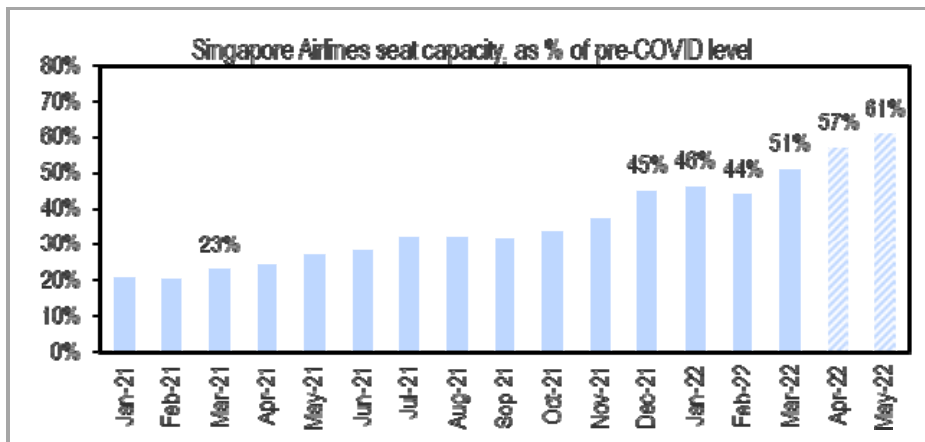
Source: Bloomberg, UOB Kay Hian

SIA ENGINEERING'S LINE MAINTENANCE BUSINESS HAD RECOVERED TO 45% OF THE PRE-PANDEMIC WORKLOAD IN APR (38% IN MAR AND 29% FOR FULL YEAR FY22)



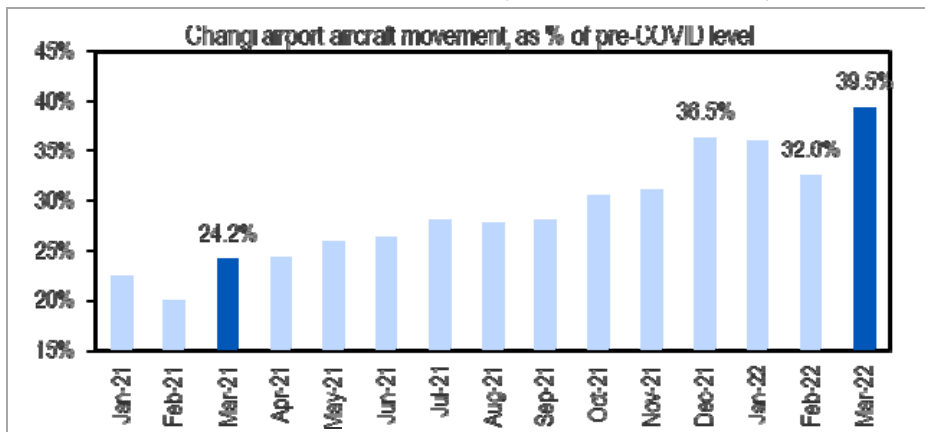
Source: SIA Engineering

SINGAPORE AIRLINES GUIDED FOR ITS PAX CAPACITY TO RISE TO 61% OF THE PRE-PANDEMIC LEVEL IN MAY 22



Source: Singapore Airlines

CHANGI AIRPORT AIRCRAFT MOVEMENT STATISTICS (DISCLOSURE UP TO MAR 22)



Source: Changi Airport

### PROFIT & LOSS

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Net turnover	566.1	813.0	973.1	1,121.2
EBITDA	41.5	80.9	123.0	154.7
Deprec. & amort.	63.3	64.8	71.7	84.5
EBIT	(21.9)	16.1	51.3	70.2
Total other non-operating income	(7.2)	0.0	0.0	0.0
Associate contributions	79.1	75.0	100.0	129.0
Net interest income/(expense)	(0.8)	2.6	3.6	4.0
<b>Pre-tax profit</b>	<b>49.2</b>	<b>93.7</b>	<b>155.0</b>	<b>203.2</b>
Tax	18.6	(1.4)	(11.5)	(15.6)
Minorities	(0.2)	0.0	0.0	0.0
<b>Net profit</b>	<b>67.6</b>	<b>92.3</b>	<b>143.4</b>	<b>187.6</b>

### BALANCE SHEET

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Fixed assets	219.9	228.2	238.1	251.3
Other LT assets	705.5	717.6	733.5	753.7
Cash/ST investment	625.5	636.5	604.4	598.0
Other current assets	287.3	387.5	446.2	497.1
<b>Total assets</b>	<b>1,838.2</b>	<b>1,969.8</b>	<b>2,022.2</b>	<b>2,100.1</b>
ST debt	2.8	0.0	0.0	0.0
Other current liabilities	175.0	217.1	227.1	240.9
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	39.0	39.0	39.0	39.0
Shareholders' equity	1,610.8	1,703.1	1,745.5	1,809.6
Minority interest	10.6	10.6	10.6	10.6
<b>Total liabilities &amp; equity</b>	<b>1,838.2</b>	<b>1,969.8</b>	<b>2,022.2</b>	<b>2,100.1</b>

### CASH FLOW

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>29.2</b>	<b>21.4</b>	<b>62.8</b>	<b>102.0</b>
Pre-tax profit	49.2	93.7	155.0	203.2
Tax	(4.7)	(1.4)	(11.5)	(15.6)
Deprec. & amort.	63.3	64.8	71.7	84.5
Associates	(20.3)	(35.0)	(40.0)	(39.0)
Working capital changes	(9.1)	(58.1)	(48.7)	(37.2)
Non-cash items	1.5	0.0	0.0	0.0
Other operating cashflows	(50.7)	(42.6)	(63.6)	(94.0)
<b>Investing</b>	<b>15.7</b>	<b>22.9</b>	<b>36.5</b>	<b>45.5</b>
Capex (maintenance)	(23.3)	(45.5)	(54.1)	(70.1)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	5.4	0.0	0.0	0.0
Others	33.7	68.4	90.6	115.7
<b>Financing</b>	<b>(35.7)</b>	<b>(33.3)</b>	<b>(131.4)</b>	<b>(153.9)</b>
Dividend payments	0.0	0.0	(101.0)	(123.5)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	(7.1)	(2.8)	0.0	0.0
Others/interest paid	(28.6)	(30.4)	(30.4)	(30.4)
<b>Net cash inflow (outflow)</b>	<b>9.2</b>	<b>11.1</b>	<b>(32.1)</b>	<b>(6.4)</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>616.0</b>	<b>625.5</b>	<b>636.5</b>	<b>604.4</b>
Changes due to forex impact	0.3	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>625.5</b>	<b>636.5</b>	<b>604.4</b>	<b>598.0</b>

### KEY METRICS

Year to 31 Mar (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	7.3	9.9	12.6	13.8
Pre-tax margin	8.7	11.5	15.9	18.1
Net margin	11.9	11.4	14.7	16.7
ROA	3.7	4.8	7.2	9.1
ROE	4.3	5.6	8.3	10.6
<b>Growth</b>				
Turnover	27.8	43.6	19.7	15.2
EBITDA	(10.3)	95.1	52.1	25.8
Pre-tax profit	n.a.	90.6	65.4	31.1
Net profit	n.a.	36.5	55.4	30.8
EPS	n.a.	36.5	55.4	30.8
<b>Leverage</b>				
Debt to total capital	0.2	0.0	0.0	0.0
Debt to equity	0.2	0.0	0.0	0.0
Net debt/(cash) to equity	(38.4)	(37.1)	(34.4)	(32.9)
Interest cover (x)	50.8	n.a.	n.a.	n.a.

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