

COMPANY RESULTS

Singapore Airlines (SIA SP)

FY22: Results In Line; Emerging Strong In FY23

SIA's FY22 revenue of S\$7,615m and net loss of S\$962m were in line with our forecasts. There are signs that SIA's recovery trajectory is steeper than we previously expected. We now expect SIA to turn in an exceptionally strong FY23 net profit of S\$1.35b, driven by strong pax volume, strong pax yields and a fuel hedge gain of over S\$1b. Despite strong near-term earnings outlook, valuation is stretched. Maintain HOLD. Our new target price of S\$4.88 is based on 1.12x FY23 P/B (2SD above historical average).

RESULTS

• **Results in line.** Singapore Airlines' (SIA) FY22 revenue of S\$7,615m and net loss of S\$962m are in line with our expectations, at 100% and 99% of our forecasts respectively. Revenue growth was contributed by all segments: passenger flown revenue rose 310% yoy to S\$2,806m in FY22 and cargo revenue rose 60% yoy to S\$4,339m. Net loss narrowed significantly to S\$962m in FY22, from S\$4,270m in net losses in FY21, driven by: a) improving operating performance, b) absence of major impairment charges (impairment charges collectively amounted to about S\$2b in FY21), and c) a fuel hedge gain of S\$297m in FY22 vs a hedge loss of S\$548m in FY21. Excluding non-recurring gains/losses, SIA would have registered a net loss of S\$1,186m in FY22 (FY21: S\$1,693m net loss).

STOCK IMPACT

- **Upbeat Apr 22 operation data pointing to faster-than-expected recovery.** SIA's recently released Apr 22 operation data was stronger than our expectations. While the pace of recovery in pax capacity (at 57% of pre-pandemic level in Apr 22) was well-guided by SIA, the key surprise came from the magnitude of improvement in pax load factor (LF). The Apr 22 actual pax LF of 72.7% (+18.2ppt mom) was already ahead of our FY23 full-year pax LF projection of 68.3%, pointing to a recovery trajectory that is steeper than we previously expected.
- **Strong pax yield in next few quarters.** The recent border measure relaxations in Singapore have unlocked significant pent-up demand for air travel. The immediate lift in demand for air tickets has outpaced the near-term ramp-up in seat supply, leading to generally higher air ticket prices than pre-pandemic days. According to management, seats of SIA are well booked in the next few months till August. We believe the bookings are on strong pricing points and will translate to strong pax yield in the next few quarters.
- **MCB redemption likely earlier than expected, in FY23/24.** In our SIA initiation report dated 28 Mar 22, we noted that the redemption of the Mandatory Convertible Bonds (MCBs) should be a priority of SIA and our base case was that SIA would redeem the MCBs in two batches in FY25 and FY26, by refinancing them with straight debts. Now given the strong recovery trajectory and upbeat earnings outlook in FY23, we believe SIA is likely to redeem the MCBs even earlier. Our updated assumption is that SIA will redeem the MCBs in two batches in FY23 and FY24 (outstanding redemption value of MCBs as of end-22 was S\$10.14b vs SIA's end-22 gross cash balance of S\$13.76b).

KEY FINANCIALS

Year to 31 Mar (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	3,816	7,615	16,714	19,563	21,224
EBITDA	(371)	1,390	4,326	4,007	3,809
Operating profit	(2,513)	(610)	2,131	1,762	1,473
Net profit (rep./act.)	(4,271)	(962)	1,351	1,054	778
EPS (S\$ cent)	(162.2)	(32.4)	45.5	35.5	26.2
PE (x)	n.m.	n.m.	11.8	15.1	20.5
P/B (x)	1.3	1.3	1.2	1.2	1.1
EV/EBITDA (x)	n.m.	19.4	6.4	7.0	7.6
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(111.9)	(12.6)	8.1	5.4	3.7
Net debt/(cash) to equity (%)	55.5	63.1	65.8	65.1	67.9
ROE (%)	n.a.	n.a.	6.4	6.4	5.5
Consensus net profit	-	-	161	711	1,270
UOBKH/Consensus (x)	-	-	8.38	1.48	0.61

Source: SIA, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$5.38
Target Price	S\$4.88
Upside	-9.3%
(Previous TP)	S\$4.85

COMPANY DESCRIPTION

Singapore's flag carrier, flying to more than 130 destinations in over 30 countries before the pandemic. Frequently ranked as Best Airline by magazines and ranking agencies.

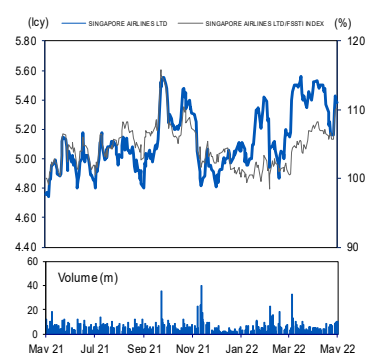
STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SIA SP
Shares issued (m):	2,967.5
Market cap (S\$m):	15,965.1
Market cap (US\$m):	11,518.8
3-mth avg daily t'over (US\$m):	27.3

Price Performance (%)

52-week high/low	S\$5.56/S\$4.74				
1mth	3mth	6mth	1yr	YTD	
(1.1)	(0.7)	1.3	14.5	7.8	
Major Shareholders					%
Temasek Hldgs					55.7
FY23 NAV/Share (S\$)					4.34
FY23 Net Debt/Share (S\$)					0.71

PRICE CHART



Source: Bloomberg

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FY22 RESULTS

Year to 31 Mar (S\$m)	2H22	1H22	hoh % change	2H21	yoy % change	FY22	FY21	yoy % change
Revenue	4,788	2,827	+69.4	2,182	+119.5	7,615	3,816	+99.6
EBIT (reported)	10	-619	n.m.	-650	n.m.	-610	-2,513	n.m.
Fuel hedge gains/(losses)	167	131	+27.7	173	-3.6	297	-548	n.m.
EBIT (adjusted)*	-157	-750	n.m.	-821	n.m.	-907	-1,950	n.m.
Net Profit (reported)	-125	-837	-85.0	-804	n.m.	-962	-4,271	n.m.
Net profit (adjusted)*	-291	-895	n.m.	-588	n.m.	-1,186	-1,693	n.m.
Margins (%)								
EBIT (reported)	0.2	-21.9	+22.1ppt	-29.8	+30.0ppt	-8.0	-65.8	+57.8ppt
EBIT (adjusted)	-3.3	-26.5	+23.2ppt	-37.6	+34.3ppt	-11.9	-51.1	+39.2ppt
Net profit (adjusted)	-6.1	-31.7	+25.6ppt	-26.9	+20.9ppt	-15.6	-44.4	+28.8ppt

* Adjusted by excluding impacts from one-off items, comprising mainly fuel hedging gains/(losses) and impairment charges
Source: SIA, UOB Kay Hian

EARNINGS REVISION

- **Expecting exceptionally strong FY23.** We have revised our FY23-25 net profit forecasts upward, as summarized in the table below. FY23 earnings have seen the biggest uplift – we are now forecasting S\$1.35b net profit in FY23 (previously S\$420m), on the back of a strong pax volume recovery and strong pax yields. FY23 performance would also be helped by a fuel hedge gain of about S\$1b. FY24 net profit forecast is lower than FY23 due mainly to a lower fuel hedge gain (about S\$290m), although net profit excluding the fuel hedge gain would be higher yoy. FY25 net profit forecast is lower than FY24, due to the absence of fuel hedge gain as well as higher interest costs from straight debts that replace MCBs (the accrued interest costs of the MCBs in FY23 and FY24 were not reflected in SIA's financial statement due to the special accounting treatment of MCBs).

EARNINGS FORECAST REVISION AND UPDATED ASSUMPTIONS

	Old			New			Change		
	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F
Earnings forecasts									
Net profit (reported)	420	492	747	1,351	1,054	778	+221%	+114%	+4%
Net profit (adjusted)*	-256	307	747	487	814	778	n.m.	+165%	+4%
Key assumptions									
RPK, % of FY19 level	66.2%	86.1%	100.4%	70.7%	90.3%	101.9%	+4.5ppt	+4.2ppt	+1.6ppt
Pax yield (cents/pkm)	10.7	11.0	11.4	12.0	11.6	11.7	+11.8%	+6.0%	+2.8%

* Adjusted net profit excludes impacts from fuel hedging gains
Source: UOB Kay Hian

VALUATION/RECOMMENDATION

- **Maintain HOLD with a new target price of S\$4.88 (from S\$4.85).** We have switched our valuation methodology for SIA to P/B (previously DCF). Our target price of S\$4.88 is now based on 1.12x FY23 P/B, which is equivalent to 2SD above SIA's historical mean P/B of 0.79x. The table on the right shows the sensitivity of our target price on different P/B pegs. SIA's current trading price of S\$5.38 implies an FY23 P/B of 1.24x, standing at 2.7SD above historical average.

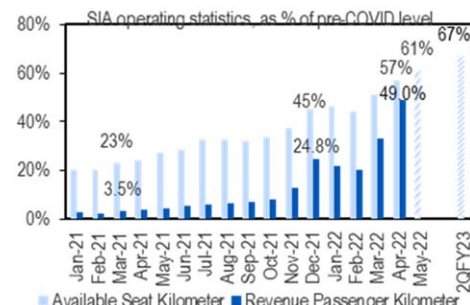
SHARE PRICE CATALYST

- Positive news flow on the Singapore aviation sector recovery would keep the sentiment towards SIA buoyant. SIA is likely to report strong net profits in the next two quarters.

RISKS

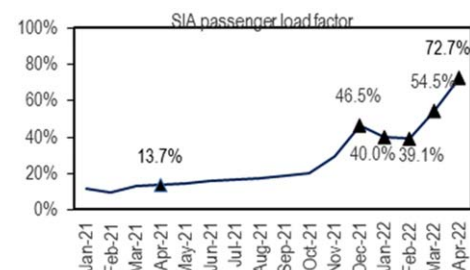
- Any event that disrupts the aviation sector recovery.

PAX CAPACITY GUIDED TO REACH 67% OF PRE-PANDEMIC LEVEL BY 2QFY23



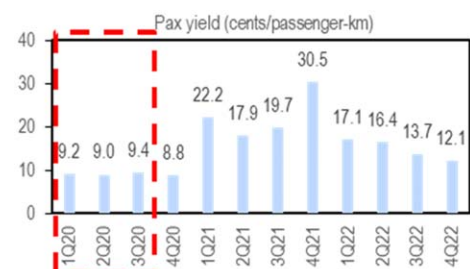
Source: SIA

PAX LOAD FACTOR JUMPED TO 72.7% IN APR-22



Source: SIA

PAX YIELD TREND



Source: SIA

TARGET PRICE ON DIFFERENT P/B PEGS

	FY22	FY23F	FY24F
BVPS, adj	S\$4.14	S\$4.34	S\$4.60
P/B peg	----- Target price -----		
+2SD	1.12x	S\$4.65	S\$4.88
+1SD	0.96x	S\$3.95	S\$4.15
Mean	0.79x	S\$3.25	S\$3.42
-1SD	0.62x	S\$2.56	S\$2.69
-2SD	0.45x	S\$1.86	S\$1.96

Source: Bloomberg, UOB Kay Hian

HISTORICAL P/B BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Net turnover	7,614.8	16,714.4	19,563.3	21,223.8
EBITDA	1,389.9	4,325.5	4,007.0	3,808.7
Deprec. & amort.	1,999.6	2,195.0	2,245.0	2,335.3
EBIT	(609.7)	2,130.5	1,762.0	1,473.4
Total other non-operating income	(18.5)	4.0	4.0	4.0
Associate contributions	(116.1)	(15.0)	20.0	50.0
Net interest income/(expense)	(345.7)	(465.8)	(485.2)	(552.5)
Pre-tax profit	(1,090.0)	1,653.7	1,300.9	974.9
Tax	141.9	(283.0)	(217.1)	(156.6)
Minorities	(13.9)	(20.0)	(30.0)	(40.0)
Net profit	(962.0)	1,350.7	1,053.8	778.3

CASH FLOW

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Operating	3,041.5	4,970.5	4,514.9	4,488.3
Pre-tax profit	(1,090.0)	1,653.7	1,300.9	974.9
Tax	(8.3)	(283.0)	(217.1)	(156.6)
Deprec. & amort.	1,999.6	2,195.0	2,245.0	2,335.3
Associates	(175.7)	(115.0)	(80.0)	(50.0)
Working capital changes	1,518.7	928.0	725.0	836.2
Non-cash items	141.2	0.0	0.0	0.0
Other operating cashflows	656.0	591.8	541.2	548.5
Investing	(2,246.6)	(4,405.5)	(3,827.0)	(4,328.0)
Capex (growth)	(1,440.6)	(2,640.0)	(1,985.0)	(2,385.7)
Capex (maintenance)	(1,682.5)	(1,835.0)	(1,890.0)	(1,989.3)
Investments	(266.4)	0.0	0.0	0.0
Proceeds from sale of assets	1,064.5	0.0	0.0	0.0
Others	78.4	69.5	48.0	47.0
Financing	5,159.7	(9,734.1)	(1,687.9)	(1,160.3)
Dividend payments	0.0	0.0	0.0	0.0
Issue of shares	6,195.1	0.0	0.0	0.0
Proceeds from borrowings	(79.6)	(4,908.0)	6,057.1	(51.4)
Others/interest paid	(955.8)	(4,826.1)	(7,745.0)	(1,108.9)
Net cash inflow (outflow)	5,954.6	(9,169.1)	(1,000.0)	(1,000.0)
Beginning cash & cash equivalent	7,783.0	13,762.7	4,593.6	3,593.6
Changes due to forex impact	25.1	0.0	0.0	0.0
Ending cash & cash equivalent	13,762.7	4,593.6	3,593.6	2,593.6

BALANCE SHEET

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Fixed assets	27,860.7	30,595.2	32,737.2	35,288.9
Other LT assets	3,122.2	3,107.2	3,127.2	3,177.2
Cash/ST investment	14,169.1	5,000.0	4,000.0	3,000.0
Other current assets	3,519.0	3,027.0	2,784.1	2,830.2
Total assets	48,671.0	41,729.4	42,648.5	44,296.4
ST debt	606.8	606.8	606.8	606.8
Other current liabilities	7,261.8	8,235.9	9,007.1	9,889.5
LT debt	11,405.5	6,497.5	12,554.6	12,503.2
Other LT liabilities	6,596.5	6,447.5	6,398.4	6,398.4
Shareholders' equity	22,411.9	19,534.6	13,645.9	14,424.3
Minority interest	388.5	407.1	435.7	474.3
Total liabilities & equity	48,671.0	41,729.4	42,648.5	44,296.4

KEY METRICS

Year to 31 Mar (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	18.3	25.9	20.5	17.9
Pre-tax margin	(14.3)	9.9	6.6	4.6
Net margin	(12.6)	8.1	5.4	3.7
ROA	n.a.	3.0	2.5	1.8
ROE	n.a.	6.4	6.4	5.5
Growth				
Turnover	99.6	119.5	17.0	8.5
EBITDA	n.a.	211.2	(7.4)	(4.9)
Pre-tax profit	n.a.	n.a.	(21.3)	(25.1)
Net profit	n.a.	n.a.	(22.0)	(26.1)
EPS	n.a.	n.a.	(22.0)	(26.1)
Leverage				
Debt to total capital	63.6	50.8	48.3	46.8
Debt to equity	175.0	103.4	93.5	88.0
Net debt/(cash) to equity	63.1	65.8	65.1	67.9

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