Singapore

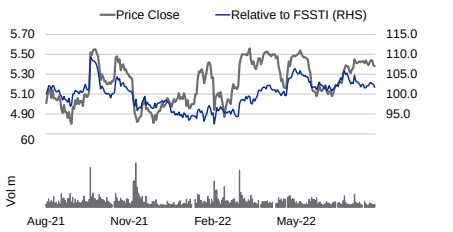
**ADD** *(previously HOLD)*

| Consensus ratings*: | Buy 5 | Hold 5 | Sell 2 |
|---|---|---|---|
| Current price: | | | S$5.38 |
| Target price: | ▲ | | S$6.10 |
| Previous target: | | | S$5.89 |
| Up/downside: | | | 13.4% |
| CGS-CIMB / Consensus: | | | 4.5% |
| Reuters: | | | SIAL.SI |
| Bloomberg: | | | SIA SP |
| Market cap: | | | US$11,503m |
| | | | S$15,982m |
| Average daily turnover: | | | US$15.80m |
| | | | S$21.78m |
| Current shares o/s: | | | 2,967m |
| Free float: | | | 40.0% |

*Source: Bloomberg*

### Key changes in this note

- FY23-25F core EPS forecasts raised by 55-66% on account of upward revisions to passenger load factor assumptions and yield assumptions, as demand for travel is likely to be stronger than previously expected and competition appears muted for now.




*Source: Bloomberg*

| Price performance | 1M | 3M | 12M |
|---|---|---|---|
| Absolute (%) | 0 | -1.7 | 7 |
| Relative (%) | -2.6 | -2.4 | 1.8 |

| Major shareholders | % held |
|---|---|
| Temasek | 55.7 |

### Analyst(s)

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# Singapore Airlines

## F1 and MICE events to spur travel demand

- Upgrade from Hold to Add with a higher TP of S$6.10 (mean FY23F P/BV of 0.95x) as we become more confident about the strong demand outlook.
- We raise our FY23-25F core EPS forecasts by 55-66% on stronger load factor and yield assumptions.

### Strong capacity restoration and muted competition

We expect SIA to do very well in the coming quarters, due to the combination of rising capacity restoration, strong demand, high load factors and robust yields. The SIA group's ASK capacity rose from 4QFY3/22's 52% of the pre-pandemic base to 1QFY23's 66% and we forecast further recovery to 73% in 2QFY23F and to 79% in 3QFY23F. For FY23F as a whole, we think that the SIA group should be able to restore 74% of its pre-Covid-19 capacity, rising to at least 95% in FY24F or higher if China reopens its borders sooner. Competition has also been relatively muted so far, with airlines in Southeast Asia gradually ramping up capacity deployment and certain key competitors such as Cathay Pacific and the mainland Chinese airlines still held back by Hong Kong's border controls.

### Demand to be boosted by F1 race and MICE events

On the demand side, SIA expects the strong demand in 1QFY23 (Apr-Jun 2022) to continue until Dec 2022F, based on the robust forward booking curve. In our view, the strong demand was on account of a powerful mix of pent-up travel demand, lags in competitors' capacity restoration (due to operational bottlenecks at individual airlines), and North Asian governments' continued closure of their borders which handed SIA greater market share of transfer traffic through Changi at the expense of say, Hong Kong. In 1QFY23, SIA group achieved a passenger load factor (PLF) of 79%, with Jun 2022 PLF at 85.5%. The strength in demand continued into Jul 2022 with PLF at 87.4%, which is the second-highest PLF in SIA's history. In light of this, our previous FY23F PLF assumption of 79% appears too conservative, and we now raise it to 83%, while we also raise PLF assumptions for FY24-25F from 79-80% previously to 82%. Anecdotally, Singapore is seeing strong inflows of foreign professionals, while the F1 race event scheduled for 30 Sep to 2 Oct this year could draw as many as 35k tourists (see page 8 of our 19 Aug note), with hotel room rates already spiking. Separately, the line-up of MICE events in 2H22F could further boost inbound travel into Singapore; these include major international events, such as Food and Hotel Asia – Food & Beverage (5-8 Sep) and Food and Hotel Asia (25-28 Oct), with each expected by the Singapore Tourism Board to attract more than 30,000 physical attendees.

### Both passenger and cargo yields may remain elevated for now

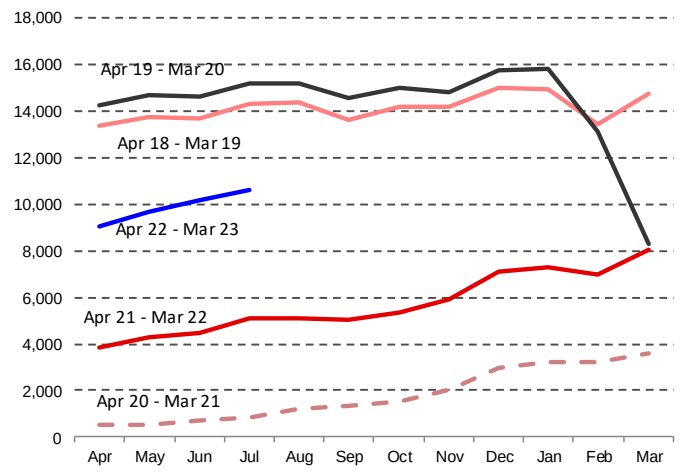
Strong demand is likely to sustain average passenger yields at historically-high levels in FY23F, albeit still lower than in FY22 due to the small traffic base in the comparative year. Cargo yields are also likely to remain elevated, especially between Europe and NE Asia, due to the avoidance of Russian airspace. Key downside risks include the potential for oil prices to surprise on the upside in the event of negative geopolitical developments, and more competition as and when other airlines are able to redeploy more of their fleet.

| Financial Summary | Mar-21A | Mar-22A | Mar-23F | Mar-24F | Mar-25F |
|---|---|---|---|---|---|
| Revenue (S$m) | 3,816 | 7,615 | 17,840 | 19,606 | 20,044 |
| Operating EBITDA (S$m) | -424 | 1,282 | 4,817 | 4,060 | 4,002 |
| Net Profit (S$m) | -4,271 | -962 | 1,933 | 1,316 | 1,200 |
| Core EPS (S$) | -0.80 | -0.38 | 0.59 | 0.38 | 0.34 |
| Core EPS Growth | 962% | (53%) | | (36%) | (10%) |
| FD Core P/E (x) | NA | NA | 9.18 | 14.23 | 15.87 |
| DPS (S$) | - | - | - | - | - |
| Dividend Yield | 0% | 0% | 0% | 0% | 0% |
| EV/EBITDA (x) | NA | 13.81 | 3.63 | 4.24 | 4.60 |
| P/FCFE (x) | NA | 391.1 | 24.8 | 22.5 | NA |
| Net Gearing | 37.2% | 6.0% | 4.6% | 3.3% | 7.7% |
| P/BV (x) | 1.00 | 0.71 | 0.66 | 0.62 | 0.60 |
| ROE | (17.5%) | (5.9%) | 7.4% | 4.5% | 3.9% |
| % Change In Core EPS Estimates | | | 61.7% | 65.9% | 54.5% |
| CGS-CIMB/Consensus EPS (x) | | | 2.13 | 1.26 | 1.10 |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

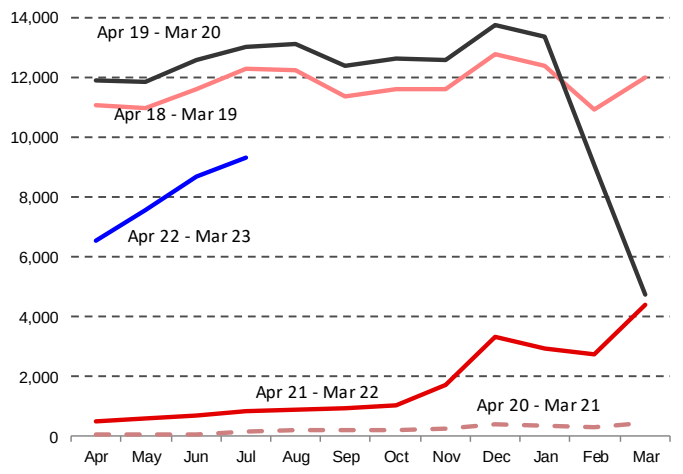
## SIA's operating statistics were very strong in July 2022 »

**Figure 1: SIA group's passenger capacity in ASK (m)**



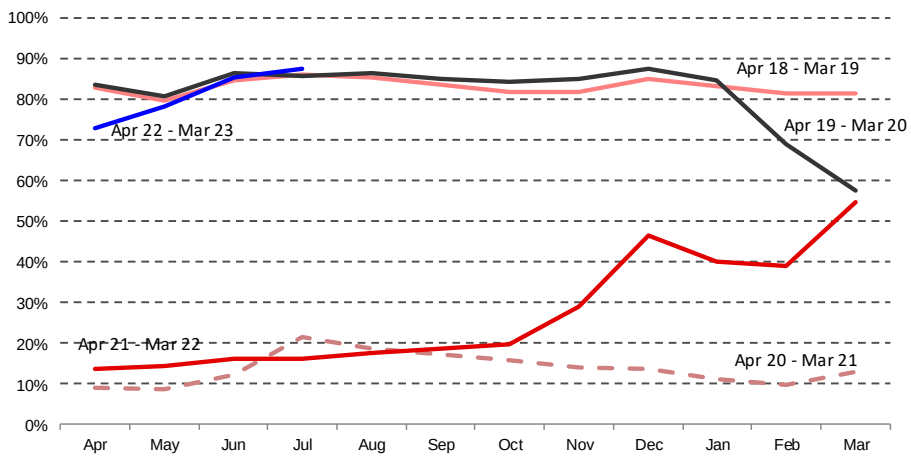

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 2: SIA group's passenger traffic in RPK (m)**




SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 3: SIA group's passenger load factors (%)**




SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

SIA's RPK demand has been rising sharply since Singapore's borders reopened to quarantine-free travel for fully-vaccinated individuals on 1 April 2022, with RPK demand rising faster than ASK capacity. As a result, SIA's PLF rose to highs of 85.5% in June 2022 and 87.4% in July 2022, suggesting that the stronger-than-expected yield environment in the April-June 2022 quarter is likely to extend into the July-September 2022F quarter (SIA's 2QFY23F).

## Target price computation

**Figure 4: Calculation of SIA's target price**

| As reported: Based on SIA's accounting treatment of Mandatory Convertible Bonds (MCB) as equity | End-FY21 | End-FY22 | End-FY23F | End-FY24F | End-FY24F |
|---|---|---|---|---|---|
| Shareholders' equity (S$ m) | 15,905.9 | 22,411.9 | 24,344.9 | 25,660.4 | 25,660.4 |
| No of ordinary shares (m) | 2,965.0 | 2,967.5 | 2,967.5 | 2,967.5 | 2,967.5 |
| **BVPS (S$)** | **5.36** | **7.55** | **8.20** | **8.65** | **8.65** |

| Scenario 1: Assuming Mandatory Convertible Bonds (MCB) are treated as wholly debt | End-FY21 | End-FY22 | End-FY23F | End-FY24F | End-FY24F |
|---|---|---|---|---|---|
| Shareholders' equity (S$ m) | 15,905.9 | 22,411.9 | 24,344.9 | 25,660.4 | 25,660.4 |
| Less: Outstanding MCBs (S$ m) - capital value | -3,496.1 | -9,691.2 | -9,691.2 | -9,691.2 | -9,691.2 |
| Less: Outstanding MCBs (S$ m) - assume 4% YTM (i.e. redemption between Year 1 and Year 4) | -114.5 | -452.5 | -862.3 | -1,288.8 | -1,288.8 |
| **Adjusted shareholders' equity (S$ m)** | **12,295.2** | **12,268.2** | **13,791.3** | **14,680.4** | **14,680.4** |
| No of ordinary shares (m) | 2,965.0 | 2,967.5 | 2,967.5 | 2,967.5 | 2,967.5 |
| **Adjusted BVPS (S$)** | **4.15** | **4.13** | **4.65** | **4.95** | **4.95** |

| Scenario 2: Assuming Mandatory Convertible Bonds (MCB) are treated as half debt and half equity | End-FY21 | End-FY22 | End-FY23F | End-FY24F | End-FY24F |
|---|---|---|---|---|---|
| Shareholders' equity (S$ m) | 15,905.9 | 22,411.9 | 24,344.9 | 25,660.4 | 25,660.4 |
| Less: Half of outstanding MCBs (S$ m) - capital value | -1,748.1 | -4,845.6 | -4,845.6 | -4,845.6 | -4,845.6 |
| Less: Half of outstanding MCBs (S$ m) - assume 4% YTM (i.e. redemption between Year 1 and Year 4) | -57.3 | -226.2 | -431.2 | -644.4 | -644.4 |
| **Adjusted shareholders' equity (S$ m)** | **14,100.6** | **17,340.1** | **19,068.1** | **20,170.4** | **20,170.4** |
| No of ordinary shares (m) | 2,965.0 | 2,967.5 | 2,967.5 | 2,967.5 | 2,967.5 |
| **Adjusted BVPS (S$)** | **4.76** | **5.84** | **6.43** | **6.80** | **6.80** |
| Target P/BV multiple (x) | | | 0.95 | | |
| **Target price (S$)** | | | **6.10** | | |

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

We have raised our end-CY22F target price from S$5.89 to S$6.10, still based on an unchanged target P/BV multiple of 0.95x (mean since 2011), applied to the end-FY23F adjusted BVPS. We are applying the P/BV mean to derive our target price for SIA (and not any higher), as we have already reflected the strong near-term outlook into our earnings forecasts and book values for SIA. Our target price has been increased because we have raised our FY23-25F core net profit forecasts by 55-66%. We upgrade our call on SIA from Hold to Add, as we expect SIA to surprise the market with very strong FY23F earnings; our FY23F core net profit forecasts are 62% above Bloomberg consensus.

### Adjusted BVPS calculation

Our *reported* BVPS forecasts treat the S$9,693m mandatory convertible bonds (MCB) as wholly equity, in line with the accounting treatment adopted by SIA. The MCBs comprise the first tranche of S$3.5bn issued on 8 June 2020 and the second tranche of S$6.2bn issued on 24 June 2021.

Our *adjusted* BVPS calculation:

- Treats half of the MCBs as debt (although the accounting treatment sees it as wholly equity) because we have assumed that SIA will endeavour to redeem half of the MCBs before their maturity on 8 June 2030 or will refinance them using other sources of debt; and
- Deducts an assumed 4% yield-to-maturity (YTM) on half the MCBs that we have treated as debt.

### Ignoring potential dilution from conversion of MCBs into new ordinary shares

While the MCBs are potentially EPS- and BVPS-dilutive because they entail a potential future issue of new ordinary shares (at the conversion price of S$4.84), we have not factored in an increase in the number of shares for the purposes of deriving our target price for SIA. This is because:

- The MCBs can only be converted on one specific day, i.e. 8 June 2030, which is the maturity date of both tranches of MCBs; a conversion date that

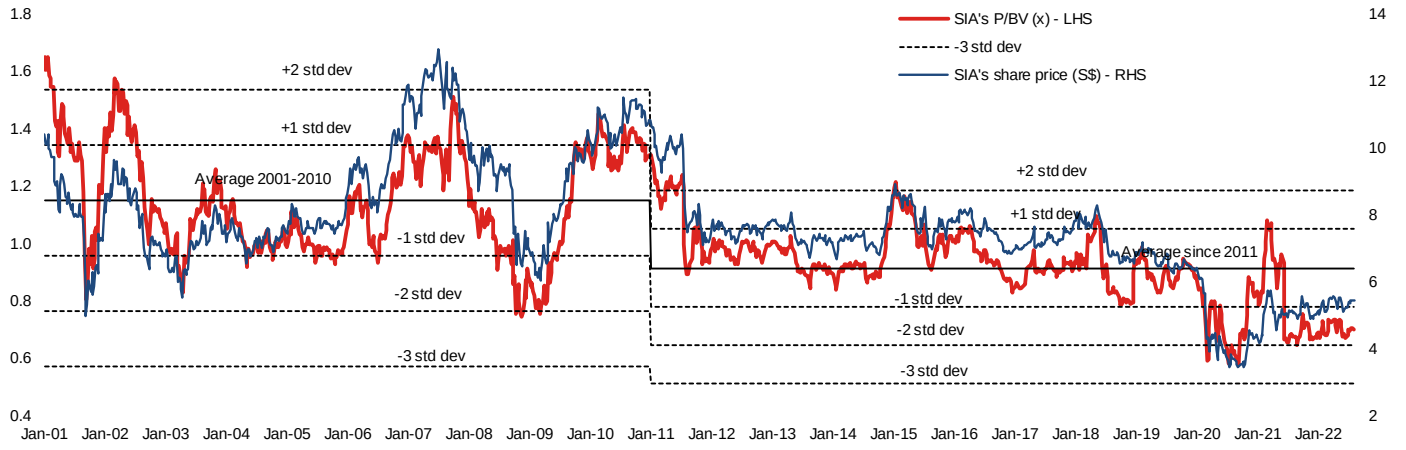
is eight years away is beyond the decision-making horizon of many investors, in our view.

- Furthermore, ample access to cash from shareholders is an advantage for SIA in the current environment and something that many of its airline competitors struggle with. Hence, we reflect the value of SIA's privilege by not assuming the conversion of the MCBs when deriving our target price for the airline.
- Finally, we believe that SIA will endeavour to redeem some or all the MCBs from its own cash pile, or via debt refinancing. Hence, the MCBs may ultimately never be converted into new equity.

**The P/BV valuation levels depend on whether the MCBs are viewed as equity or debt**

The MCBs comprise the first tranche of S$3.5bn issued on 8 June 2020 and the second tranche of S$6.2bn issued on 24 June 2021. Since the issue of the MCBs, SIA's historical P/BV multiples have been depressed at between 1 and 2 s.d. *below* the 2011 mean level (Figure 5) because the MCBs provided a big boost to equity on the balance sheet, and because conversion of the MCBs will not happen, if at all, until June 2030.

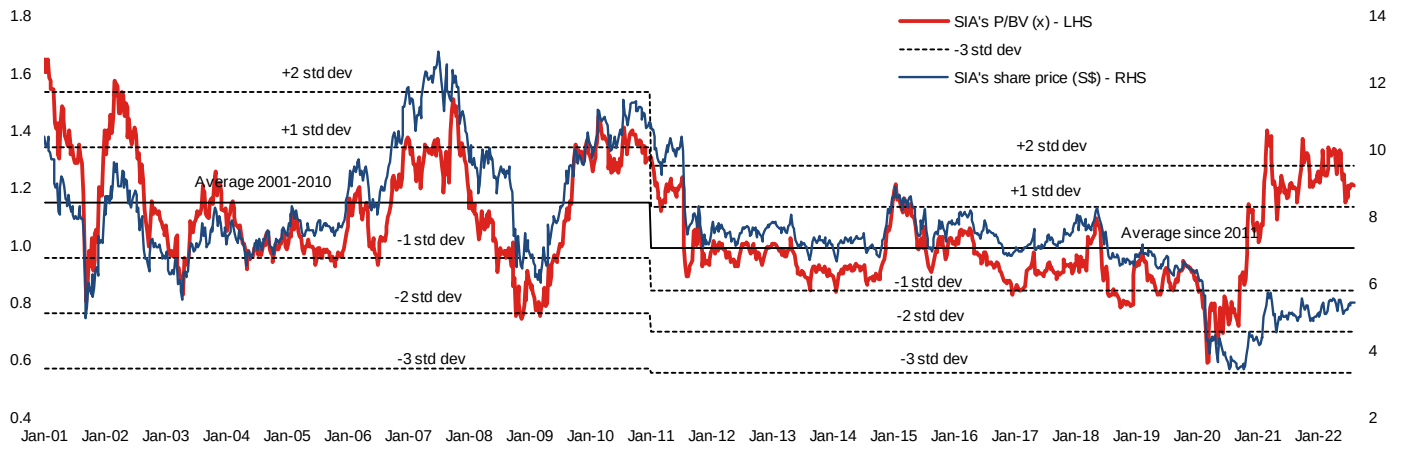
**Figure 5: Singapore Airlines historical P/BV chart – P/BV average 2001-10 and P/BV average since 2011, and standard deviations based on those averages**




SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

However, if the MCBs are treated as wholly debt, SIA's historical P/BV multiple valuation chart since the issue of the MCBs looks very different, with P/BV multiples trading at between 1 and 2 s.d. *above* the 2011 mean level (Figure 6). This is because if MCBs are treated as wholly debt, the book value attributable to shareholders will immediately decline by the full S$9.7bn value of the MCBs.

**Figure 6: Singapore Airlines historical P/BV chart – P/BV average 2001-10 and P/BV average since 2011, and standard deviations based on those averages**




SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

So, SIA's P/BV valuation could either look very cheap (Figure 5) or very expensive (Figure 6), depending on whether the MCBs are treated as equivalent to equity or closer in nature to debt. The market's view may swing towards valuations being appropriate at the mean, as it becomes clearer that there is a high probability that SIA will redeem approximately *half* of the MCBs, and/or refinance them with new debt, in the next 2-3 years.

Since our adjusted BVPS calculation assumes that SIA will redeem half of the MCBs, the P/BV multiple of 0.95x that we have used to derive SIA's target price of S$5.89 also uses this presumption.

SIA's P/BV mean since 2011 is 0.91x if the MCBs are treated as wholly equity, while SIA's P/BV mean is 0.99x if the MCBs are treated as wholly debt. The mid-point is 0.95x.

### SIA likely to redeem half of the MCBs, in our view

The first tranche of the MCBs of S$3.5bn was issued on 8 June 2020, and:

- If redeemed before its 4th anniversary on 8 June 2024, SIA will pay a yield of 4% p.a. from the time of issue;
- If redeemed before the 7th anniversary on 8 June 2027, SIA will pay a yield of 5% p.a. from the time of issue; and
- If redeemed before the 10th anniversary on 8 June 2030, SIA will pay a yield of 6% p.a. from the time of issue.

The second MCB tranche of S$6.2bn was issued on 24 June 2021, and:

- If redeemed before its 4th anniversary on 24 June 2025, SIA will pay a yield of 4% p.a. from the time of issue;
- If redeemed before the 7th anniversary on 24 June 2028, SIA will pay a yield of 5% p.a. from the time of issue; and
- If redeemed before 8 June 2030 (approximately the 9th anniversary), SIA will pay a yield of 6% p.a. from the time of issue.

The rise in the yield from 4% to 5% effective 8 June 2024 (for the first tranche) and 24 June 2025 (for the second tranche) suggests that SIA will likely redeem at least some of the MCBs prior to the MCBs' 4th anniversary dates.

SIA had a gross cash pile of S$16.1bn as at 30 June 2022, and a debt balance of S$15.7bn (including straight bank debt, lease liabilities and convertible bonds), representing a net cash balance of S$0.4bn, a position that SIA had not enjoyed for years, even prior to the start of the Covid-19 pandemic.

If, on 30 June 2022, SIA had redeemed half of the S$9,693m MCBs, i.e. S$4,847m, its net gearing level would be S$4.45bn, or 19% of shareholders'

equity. On 31 December 2020, prior to the start of the pandemic, SIA's net gearing stood at 32%. As such, we think that SIA would be comfortable to redeem approximately half of its MCBs prior to their 4th anniversaries on 8 June 2024 and 24 June 2025 for the first and second tranches, respectively.

### Potential re-rating catalysts and downside risks

Potential re-rating catalysts include the continuation of the strong recovery in international passenger traffic and average ticket prices that we have seen after 1 April 2022 when Singapore opened up quarantine-free travel to fully vaccinated travellers from around the world. So far, SIA's July 2022 operating statistics are very strong, and Singapore is looking to welcome many overseas guests for its F1 race that is scheduled to run from 30 September to 2 October 2022, as well as for the many MICE events scheduled for 2HCY22. Furthermore, airfreight markets remain strong given the still-choked container shipping logistics chain and the curtailment of airfreight capacity between Europe and Northeast Asia because of the avoidance of Russian airspace.

Downside risks include potentially higher oil prices as SIA is only 40% hedged at an average Brent strike price of US$60/bbl for 15 months from 1QFY23 to 1QFY24F (April 2022 to June 2023), beyond which SIA is unhedged for its jet fuel requirements. SIA did not hedge the crack spread between jet fuel and crude oil.

Brent crude oil and Singapore jet fuel has, so far in 3QCY22F, traded at average prices of US$105/bbl and US$131/bbl, respectively, which are lower than 2QCY22's US$113/bbl and US$142/bbl, but much higher than 3QCY21's US$73/bbl and US$75/bbl. Our Singapore jet fuel price forecast for FY23F is currently in line with recent spot prices, and we see no immediate downside risk to our earnings forecasts unless oil prices spike on geopolitical developments.

Other downside risks include the potential for more competition once Hong Kong fully reopens its borders and Cathay Pacific (293 HK, Not rated) is able to deploy more capacity regionally and globally, which could attract more travellers to the Hong Kong hub. Southeast Asian carriers are also gradually redeploying their fleet, and could pose more competition to SIA on short-haul regional flights over time. Cathay Pacific could also pose more competition on the air cargo side. We have reflected some of the risks of heightened competition into our FY24-25F forecasts, which is why our FY24-25F core net profit forecasts are lower than FY23F, on the back of potential yield pressures. What is uncertain is how quickly the additional competition could materialise, and how intense the yield pressure may be.

## Key assumptions

For FY23F, we estimate that SIA group's ASK capacity will average 74% of the pre-Covid-19 capacity, rising to an average of 95% in FY24F, as shown below. This is unchanged from our previous estimates.

However, we have raised our SIA group PLF assumption for FY23F from 79% to 83.2%, and the PLF assumption for subsequent years from 79-80% previously to 81.6%. This is on account of the strong load factors seen in July 2022, the strong pent-up travel demand, the upcoming F1 race event in Singapore, the pipeline of MICE events in Singapore, lags in competitors' capacity restoration (due to operational bottlenecks at individual airlines), and North Asian governments' continued closure of their borders which handed SIA greater market share of transfer traffic through Changi Airport.

- The SQ PLF assumption for FY23F has been increased from 81% to 85%, and FY24-25F from 80% to 82%, on account of the ongoing strong demand.
- The TR PLF assumption has been increased to 80% for FY23-24F, from 70% in FY23F and 75% in FY24F, with the FY25F assumption of 80% unchanged.

**Figure 7: Medium-term estimates for SIA group's passenger airline ASK capacity, RPK demand, and PLF**

| | ASK capacity (m) | Yoy change | As a percentage of the CY19 base | RPK demand (m) | Yoy change | As a percentage of the CY19 base | Passenger load factor (%) | Yoy change (% pts) |
|---|---|---|---|---|---|---|---|---|
| CY 2019 | 177,066 | | | 149,120 | | | 84.2% | |
| FY 3/20 | 171,211 | | 96.7% | 140,999 | | 94.6% | 82.4% | -1.9% |
| FY 3/21 | 21,721 | -87.3% | 12.3% | 2,891 | -97.9% | 1.9% | 13.3% | -69.0% |
| FY 3/22 | 68,570 | 215.7% | 38.7% | 20,665 | 614.9% | 13.9% | 30.1% | 16.8% |
| FY 3/23F | 131,494 | 91.8% | 74.3% | 109,362 | 429.2% | 73.3% | 83.2% | 53.0% |
| FY 3/24F | 168,212 | 27.9% | 95.0% | 137,259 | 25.5% | 92.0% | 81.6% | -1.6% |
| FY 3/25F | 177,066 | 5.3% | 100.0% | 144,483 | 5.3% | 96.9% | 81.6% | 0.0% |
| FY 3/26F | 191,231 | 8.0% | 108.0% | 156,042 | 8.0% | 104.6% | 81.6% | 0.0% |

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

We have increased our TR yield assumptions by 3.8% for TR for all forecast years, as higher load factors will likely help TR price its tickets higher. Our SQ yield assumptions have been tweaked up by less than 1% for all forecast years.

Our cargo assumptions are unchanged.

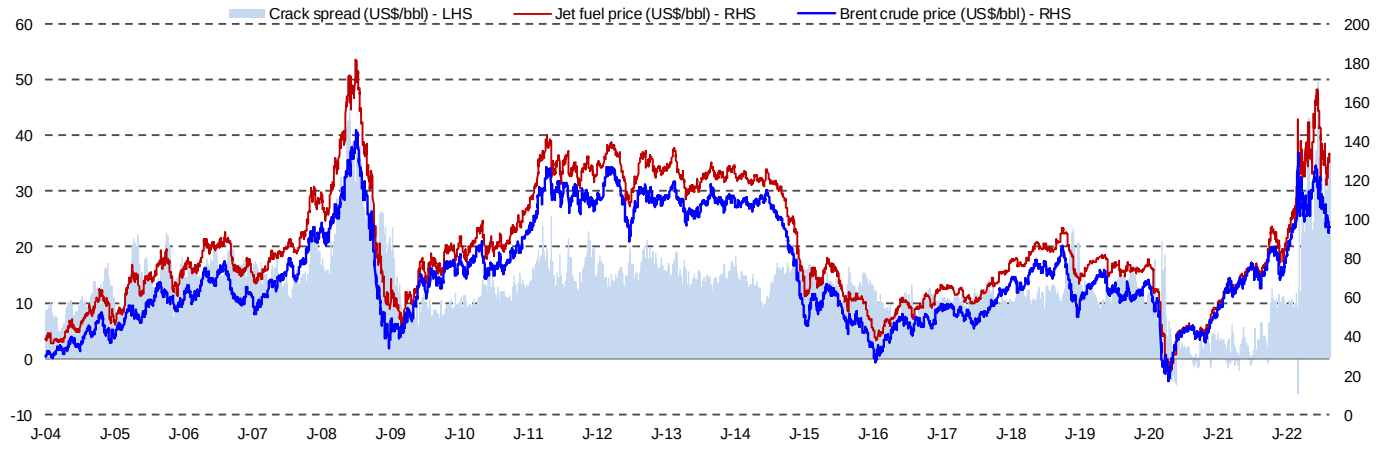
Our assumption for the spot price of jet fuel are unchanged at US$135/bbl for FY23F (which is similar to the to-date spot average price of US$138/bbl between 1 April and 21 August 2022).

**Figure 8: Key assumptions - SIA group**

| | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23F | FY24F | FY25F |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Full-service carrier (FSC)** | | | | | | | | | | | |
| FSC ASK (m km) | 128,356 | 127,484 | 127,749 | 129,493 | 135,218 | 137,765 | 19,493 | 58,748 | 107,415 | 134,459 | 141,536 |
| *Change in ASK (%)* | *-0.1%* | *-0.7%* | *0.2%* | *1.4%* | *4.4%* | *1.9%* | *-85.9%* | *201.4%* | *82.8%* | *25.2%* | *5.3%* |
| FSC RPK (m km) | 100,074 | 100,784 | 100,052 | 104,199 | 111,512 | 112,330 | 2,669 | 19,178 | 91,303 | 110,257 | 116,060 |
| *Change in RPK (%)* | *-0.5%* | *0.7%* | *-0.7%* | *4.1%* | *7.0%* | *0.7%* | *-97.6%* | *618.5%* | *376.1%* | *20.8%* | *5.3%* |
| FSC Load Factor | 78.0% | 79.1% | 78.3% | 80.5% | 82.5% | 81.5% | 13.7% | 32.6% | 85.0% | 82.0% | 82.0% |
| FSC Pax Yield (Scts/RPK) | 11.36 | 10.79 | 10.49 | 10.30 | 10.16 | 10.05 | 20.98 | 13.07 | 12.20 | 11.22 | 11.00 |
| *Change in yield (%)* | *1.0%* | *-5.0%* | *-2.7%* | *-1.8%* | *-1.4%* | *-1.1%* | *108.7%* | *-37.7%* | *-6.6%* | *-8.0%* | *-2.0%* |
| **Scoot** | | | | | | | | | | | |
| Scoot ASK (m km) | | 21,733 | 26,793 | 29,888 | 34,389 | 33,446 | 2,228 | 9,822 | 24,079 | 33,753 | 35,530 |
| *Change in ASK (%)* | | | *23.3%* | *11.6%* | *15.1%* | *-2.7%* | *-93.3%* | *340.8%* | *145.1%* | *40.2%* | *5.3%* |
| Scoot RPK (m km) | | 18,225 | 22,084 | 25,600 | 29,326 | 28,669 | 222 | 1,487 | 19,263 | 27,002 | 28,424 |
| *Change in RPK (%)* | | | *21.2%* | *15.9%* | *14.6%* | *-2.2%* | *-99.2%* | *570.9%* | *1195.6%* | *40.2%* | *5.3%* |
| Scoot Load Factor | | 83.9% | 82.4% | 85.7% | 85.3% | 85.7% | 9.9% | 15.1% | 80.0% | 80.0% | 80.0% |
| Scoot Pax Yield (Scts/RPK) | | 6.41 | 5.90 | 5.80 | 5.70 | 5.60 | 54.98 | 19.97 | 8.30 | 7.47 | 6.72 |
| *Change in yield (%)* | | *0.0%* | *-7.9%* | *-1.7%* | *-1.7%* | *-1.8%* | *881.7%* | *-63.7%* | *-58.4%* | *-10.0%* | *-10.0%* |
| **SIA Cargo** | | | | | | | | | | | |
| Cargo AFTK (m km) | 10,025 | 10,513 | 10,912 | 11,127 | 11,210 | 10,778 | 4,795 | 7,195 | 8,623 | 9,700 | 10,778 |
| *Change in AFTK (%)* | *-2.4%* | *4.9%* | *3.8%* | *2.0%* | *0.8%* | *-3.9%* | *-55.5%* | *50.1%* | *19.8%* | *12.5%* | *11.1%* |
| Cargo FTK (m km) | 6,347 | 6,511 | 6,896 | 7,260 | 7,007 | 6,389 | 4,112 | 5,941 | 5,605 | 6,305 | 7,006 |
| *Change in LTK (%)* | *-1.1%* | *2.6%* | *5.9%* | *5.3%* | *-3.5%* | *-8.8%* | *-35.6%* | *44.5%* | *-5.7%* | *12.5%* | *11.1%* |
| Cargo Load Factor | 63.3% | 61.9% | 63.2% | 65.3% | 62.5% | 59.3% | 85.8% | 82.6% | 65.0% | 65.0% | 65.0% |
| Cargo Yield (Scts/FTK) | 32.80 | 29.00 | 25.90 | 28.20 | 31.70 | 30.50 | 65.90 | 73.02 | 76.67 | 69.01 | 63.49 |
| *Change in yield (%)* | *0.3%* | *-11.6%* | *-10.7%* | *8.9%* | *12.4%* | *-3.8%* | *116.1%* | *10.8%* | *5.0%* | *-10.0%* | *-8.0%* |
| **Fuel price (US$/barrel)** | | | | | | | | | | | |
| Spot Brent crude price (average) | 85.9 | 48.2 | 49.8 | 57.6 | 70.2 | 63.0 | 49.6 | 80.0 | 110.0 | 95.0 | 90.0 |
| Spot jet fuel price (average) | 99.4 | 58.3 | 58.4 | 67.9 | 82.2 | 74.5 | 53.7 | 85.1 | 135.0 | 115.0 | 110.0 |
| Hedged jet fuel price (average) | 117.0 | 84.3 | 68.9 | 68.9 | 78.5 | 81.9 | 92.2 | 76.8 | 119.0 | 115.5 | 114.0 |

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 9: Singapore jet fuel prices (US$/bbl), vs. Brent crude price (US$/bbl)**




SOURCE: CGS-CIMB RESEARCH, BLOOMBERG

**Figure 10: Earnings revision**

| RM m | 2022A | 2023F | | | 2024F | | | 2025F | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Old | New | chg | Old | New | chg | Old | New | chg |
| Revenue | 7,615 | 17,022 | 17,840 | 5% | 19,059 | 19,606 | 3% | 19,612 | 20,044 | 2% |
| EBITDA | 1,282 | 3,998 | 4,817 | 20% | 3,514 | 4,060 | 16% | 3,570 | 4,002 | 12% |
| Reported PBT | (1,090) | 1,575 | 2,394 | 52% | 1,069 | 1,619 | 51% | 1,037 | 1,475 | 42% |
| Core pretax profit | (1,254) | 1,333 | 2,154 | 62% | 829 | 1,380 | 66% | 798 | 1,236 | 55% |
| Reported net profit | (962) | 1,269 | 1,933 | 52% | 870 | 1,316 | 51% | 845 | 1,200 | 42% |
| Reported EPS | (0.32) | 0.43 | 0.65 | 52% | 0.29 | 0.44 | 51% | 0.28 | 0.40 | 42% |
| Core net profit | (1,126) | 1,075 | 1,739 | 62% | 676 | 1,122 | 66% | 651 | 1,006 | 54% |
| Core EPS | (0.38) | 0.36 | 0.59 | 62% | 0.23 | 0.38 | 66% | 0.22 | 0.34 | 54% |

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

**Abbreviations used in this report**

SIA: Representing the SIA group, which includes the passenger airlines (and cargo), as well as SIA Engineering.

SQ: SIA mainline carrier, which is now combined with SilkAir, the short-haul full-service carrier (FSC)

TR: Scoot, the low-cost carrier (LCC), wholly-owned by SIA

SIE: SIA Engineering, an 80.7% subsidiary of SIA

ASK: Available seat kilometre capacity, measure of passenger capacity

RPK: Revenue passenger kilometre demand, measure of passenger demand

PLF: Passenger load factor, RPK divided by ASK

Yield: Revenue per RPK demand

RASK: Revenue per ASK capacity

CASK: Cost per ASK capacity

AFTK: Available freight tonne kilometres, measure of air freight capacity

FTK: Freight tonne kilometres, measure of air freight demand

CLF: Cargo load factor, FTK divided by AFTK

MTM: Mark-to-market gains/losses from fuel hedges and other derivatives

## ESG in a nutshell

Refinitiv ESG Scores

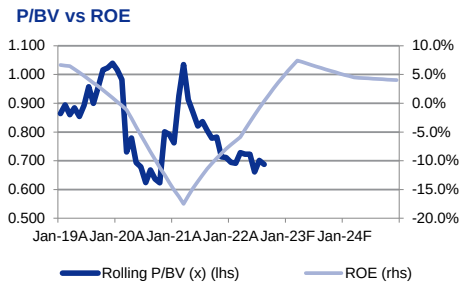
| B+ | A- | B+ | B | B+ | A- |
|---|---|---|---|---|---|
| ESG Score | ESG Controversies Score | ESG Combined Score | ESG Environment Pillar Score | ESG Social Pillar Score | ESG Government Pillar Score |

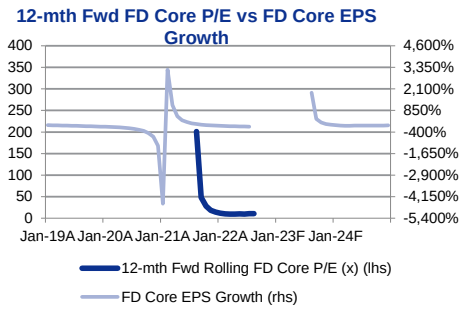
SIA is one of the world's premier airlines and takes great pride in improving its ESG credentials. Its standards of service and care to passengers are excellent and its measures to protect the health and safety of its crew and passengers during the Covid-19 pandemic have been recognised as one of the best in the world by the International Air Transport Association. SIA has also set a target to achieve net zero carbon emissions by 2050F and is a participant in the International Civil Aviation Organization's (ICAO) Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA).

| Keep your eye on | Implications |
|---|---|
| SIA announced in May 2021 that it had set a target to achieve net zero carbon emissions by 2050F and that it will continue its ongoing efforts to move in this direction. In order to reduce carbon emissions, SIA can employ three strategies: 1) reduce fuel consumption, 2) reduce the carbon intensity of its fuels, and 3) offset its emissions by purchasing carbon credits. | To reduce fuel consumption, SIA will employ various levers, such as renewing its fleet with fuel-efficient aircraft, keeping its fleet young and increasing the operational efficiency of its flying operations. Reducing fuel consumption not only serves SIA's ESG goals but also reduces SIA's operational expenses and benefits the bottomline. SIA plans to gradually increase its use of sustainable aviation fuels, which can reduce the lifecycle greenhouse gas (GHG) emissions by at least 80%. For the residual carbon emissions, SIA plans to purchase high-quality carbon credits. |
| **ESG highlights** | **Implications** |
| Singapore has signed up for ICAO's CORSIA scheme, which took effect on a voluntary basis from 2021F until 2026F. From 2027F onwards, it will be mandatory for airlines of participating countries to offset their carbon emissions. Carbon emissions above the 2019 baseline on international flights between countries that have chosen to participate in CORSIA will have to be offset from 2027F. | The SIA group of airlines (SIA mainline, SilkAir, Scoot and SIA Cargo) generated 16.3m tonnes of Scope 1 CO2 emissions in FY20, which most closely corresponds to the 2019 base calendar year for the CORSIA scheme. Airline CO2 emissions fell to 4m tonnes in FY21 from the impact of Covid-19 and we do not expect SIA to exceed FY20 emissions until FY25F (CY24F) or later if SIA improves its carbon efficiency. As such, we do not expect SIA to pay for carbon credits out of pocket anytime soon. The price of voluntary carbon credits depends on supply and demand and it is not possible to estimate how much carbon credits will cost SIA in the years ahead. |
| **Trends** | **Implications** |
| SIA is aware that it will have to improve its ESG credentials to remain in the good books of its customers who are paying increasing attention to global warming. In this regard, from June 2021, SIA empowered its customers by giving them an option to reduce their individual carbon footprint by purchasing carbon offsets that will be used to support verified projects that reduce carbon emissions, protect endangered species, and empower developing communities. | SIA has been the airline partner of the *Hutan Harapan* Initiative, an ecosystem restoration concession that covers nearly 100,000 hectares of tropical rainforest in Sumatra, Indonesia, since 2010. SIA has also introduced a new short-haul economy class meal concept that uses recyclable paper and bamboo cutlery to reduce plastic use. Food wastage is reduced using digital planning technologies. SIA has also installed 20,000 solar panels at its offices, generating 10,2000 MWh of clean energy annually. These measures to reduce SIA's environmental footprint may help SIA to maintain high ESG ratings, which may have positive implications for SIA's stock market valuations. |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, REFINITIV

# BY THE NUMBERS




## Profit & Loss

| (S$m) | Mar-21A | Mar-22A | Mar-23F | Mar-24F | Mar-25F |
|---|---|---|---|---|---|
| **Total Net Revenues** | **3,816** | **7,615** | **17,840** | **19,606** | **20,044** |
| **Gross Profit** | **479** | **1,907** | **5,617** | **4,860** | **4,802** |
| **Operating EBITDA** | **-424** | **1,282** | **4,817** | **4,060** | **4,002** |
| Depreciation And Amortisation | -2,076 | -1,928 | -2,034 | -2,107 | -2,193 |
| **Operating EBIT** | **-2,500** | **-645** | **2,783** | **1,953** | **1,809** |
| Financial Income/(Expense) | -233 | -346 | -333 | -334 | -339 |
| Pretax Income/(Loss) from Assoc. | -113 | -116 | -60 | -5 | 0 |
| Non-Operating Income/(Expense) | 10 | 31 | 5 | 5 | 5 |
| **Profit Before Tax (pre-EI)** | **-2,835** | **-1,077** | **2,394** | **1,619** | **1,475** |
| Exceptional Items | -2,122 | -14 | 0 | 0 | 0 |
| **Pre-tax Profit** | **-4,957** | **-1,090** | **2,394** | **1,619** | **1,475** |
| Taxation | 674 | 142 | -466 | -309 | -280 |
| Exceptional Income - post-tax | | | | | |
| **Profit After Tax** | **-4,283** | **-948** | **1,928** | **1,311** | **1,195** |
| Minority Interests | 13 | -14 | 5 | 5 | 5 |
| Preferred Dividends | 0 | 0 | 0 | 0 | 0 |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | | | | | |
| **Net Profit** | **-4,271** | **-962** | **1,933** | **1,316** | **1,200** |
| Recurring Net Profit | -2,207 | -1,126 | 1,739 | 1,122 | 1,006 |
| **Fully Diluted Recurring Net Profit** | **-2,207** | **-1,126** | **1,739** | **1,122** | **1,006** |

## Cash Flow

| (S$m) | Mar-21A | Mar-22A | Mar-23F | Mar-24F | Mar-25F |
|---|---|---|---|---|---|
| EBITDA | -424 | 1,282 | 4,817 | 4,060 | 4,002 |
| Cash Flow from Invt. & Assoc. | | | | | |
| Change In Working Capital | -3,424 | 1,519 | 587 | 651 | 109 |
| (Incr)/Decr in Total Provisions | | | | | |
| Other Non-Cash (Income)/Expense | | | | | |
| Other Operating Cashflow | 573 | 249 | 8 | 8 | 8 |
| Net Interest (Paid)/Received | 0 | 0 | 0 | 0 | 0 |
| Tax Paid | -18 | -8 | -466 | -309 | -280 |
| **Cashflow From Operations** | **-3,292** | **3,042** | **4,945** | **4,410** | **3,839** |
| Capex | -2,696 | -3,049 | -4,400 | -3,800 | -4,300 |
| Disposals Of FAs/subsidiaries | 1,343 | 728 | 0 | 0 | 0 |
| Acq. Of Subsidiaries/investments | 0 | 0 | 0 | 0 | 0 |
| Other Investing Cashflow | 38 | 74 | 0 | 0 | 0 |
| **Cash Flow From Investing** | **-1,314** | **-2,247** | **-4,400** | **-3,800** | **-4,300** |
| Debt Raised/(repaid) | 1,786 | -754 | 98 | 101 | 103 |
| Proceeds From Issue Of Shares | 8,829 | 6,197 | 0 | 0 | 0 |
| Shares Repurchased | 0 | 0 | 0 | 0 | 0 |
| Dividends Paid | -14 | 0 | 0 | 0 | -407 |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | -864 | -283 | -328 | -329 | -334 |
| **Cash Flow From Financing** | **9,737** | **5,160** | **-230** | **-228** | **-638** |
| Total Cash Generated | 5,130 | 5,955 | 315 | 382 | -1,099 |
| **Free Cashflow To Equity** | **-2,821** | **41** | **643** | **711** | **-358** |
| **Free Cashflow To Firm** | **-4,607** | **795** | **545** | **610** | **-461** |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## BY THE NUMBERS… cont'd

### Balance Sheet

| (S$m) | Mar-21A | Mar-22A | Mar-23F | Mar-24F | Mar-25F |
|---|---|---|---|---|---|
| Total Cash And Equivalents | 7,783 | 13,763 | 14,077 | 14,459 | 13,361 |
| Total Debtors | 940 | 1,566 | 3,670 | 4,033 | 4,123 |
| Inventories | 195 | 187 | 385 | 460 | 475 |
| Total Other Current Assets | 755 | 2,172 | 2,164 | 2,156 | 2,148 |
| **Total Current Assets** | **9,672** | **17,688** | **20,296** | **21,108** | **20,107** |
| Fixed Assets | 25,879 | 27,861 | 30,226 | 31,920 | 34,026 |
| Total Investments | 1,729 | 2,819 | 2,759 | 2,754 | 2,754 |
| Intangible Assets | 301 | 303 | 303 | 303 | 303 |
| Total Other Non-Current Assets | 0 | 0 | 0 | 0 | 0 |
| **Total Non-current Assets** | **27,909** | **30,983** | **33,289** | **34,977** | **37,084** |
| Short-term Debt | 907 | 607 | 607 | 607 | 607 |
| Current Portion of Long-Term Debt | | | | | |
| Total Creditors | 2,117 | 2,733 | 5,621 | 6,710 | 6,924 |
| Other Current Liabilities | 2,689 | 4,529 | 4,529 | 4,529 | 4,529 |
| **Total Current Liabilities** | **5,713** | **7,869** | **10,757** | **11,845** | **12,060** |
| Total Long-term Debt | 12,171 | 13,753 | 13,851 | 13,951 | 14,055 |
| Hybrid Debt - Debt Component | 768 | 768 | 768 | 768 | 768 |
| Total Other Non-Current Liabilities | 2,652 | 3,482 | 3,482 | 3,482 | 3,482 |
| **Total Non-current Liabilities** | **15,590** | **18,002** | **18,100** | **18,201** | **18,304** |
| Total Provisions | 0 | 0 | 0 | 0 | 0 |
| **Total Liabilities** | **21,303** | **25,871** | **28,857** | **30,046** | **30,364** |
| Shareholders' Equity | 15,906 | 22,412 | 24,345 | 25,660 | 26,453 |
| Minority Interests | 372 | 389 | 384 | 379 | 374 |
| **Total Equity** | **16,278** | **22,800** | **24,728** | **26,039** | **26,827** |

### Key Ratios

| | Mar-21A | Mar-22A | Mar-23F | Mar-24F | Mar-25F |
|---|---|---|---|---|---|
| Revenue Growth | (76%) | 100% | 134% | 10% | 2% |
| Operating EBITDA Growth | (119%) | N/A | 276% | (16%) | (1%) |
| Operating EBITDA Margin | (11.1%) | 16.8% | 27.0% | 20.7% | 20.0% |
| Net Cash Per Share (S$) | -2.04 | -0.46 | -0.39 | -0.29 | -0.70 |
| BVPS (S$) | 5.36 | 7.55 | 8.20 | 8.65 | 8.91 |
| Gross Interest Cover | -9.33 | -1.65 | 6.91 | 4.82 | 4.43 |
| Effective Tax Rate | 0.0% | 0.0% | 19.5% | 19.1% | 19.0% |
| Net Dividend Payout Ratio | NA | NA | NA | NA | NA |
| Accounts Receivables Days | 84.17 | 60.06 | 53.56 | 71.90 | 74.26 |
| Inventory Days | 23.75 | 12.22 | 8.55 | 10.49 | 11.19 |
| Accounts Payables Days | 280.8 | 155.1 | 124.7 | 153.0 | 163.3 |
| ROIC (%) | (11.8%) | (2.8%) | 11.2% | 7.3% | 6.5% |
| ROCE (%) | (9.64%) | (1.76%) | 7.32% | 4.98% | 4.49% |
| Return On Average Assets | (5.41%) | (1.37%) | 4.42% | 3.00% | 2.71% |

### Key Drivers

| | Mar-21A | Mar-22A | Mar-23F | Mar-24F | Mar-25F |
|---|---|---|---|---|---|
| SIA mainline ASK (m) | 19,253.7 | 58,747.8 | 107,414.9 | 134,459.3 | 141,536.1 |
| SIA mainline RPK (m) | 2,581.6 | 19,177.7 | 91,302.6 | 110,256.6 | 116,059.6 |
| SIA mainline PLF (%) | 13.4% | 32.6% | 85.0% | 82.0% | 82.0% |
| SIA mainline yield (Scts/RPK) | 20.7 | 13.1 | 12.2 | 11.2 | 11.0 |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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|---|---|---|---|---|---|
| **Description:** | Excellent | Very Good | Good | N/A | N/A |

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| Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2022<br>643 companies under coverage for quarter ended on 30 June 2022 | | |
|---|---|---|
| | Rating Distribution (%) | Investment Banking clients (%) |
| Add | 68.4% | 0.8% |
| Hold | 24.6% | 0.0% |
| Reduce | 7.0% | 0.2% |


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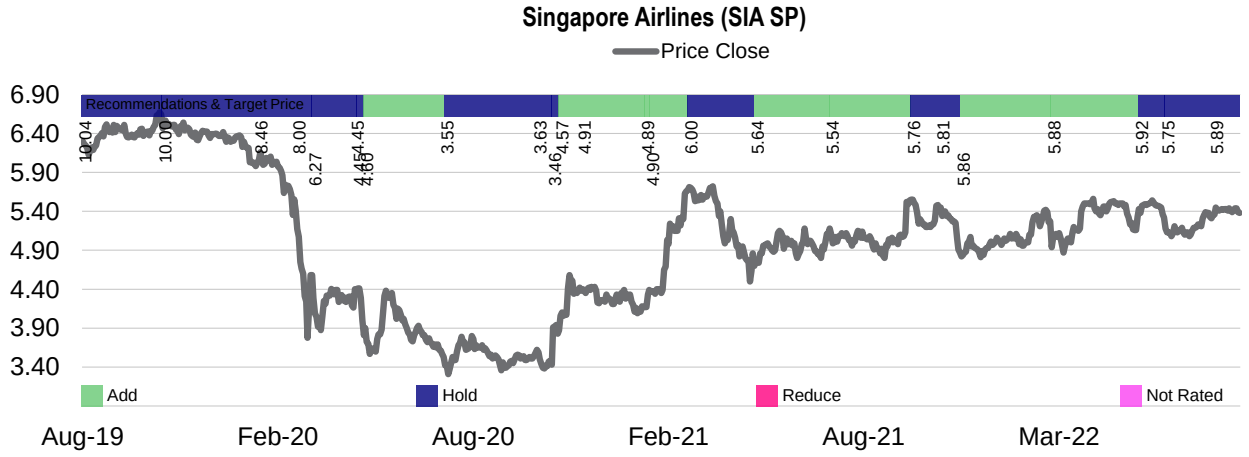
**Spitzer Chart for stock being researched ( 2 year data )**




## Recommendation Framework

| Stock Ratings | Definition: |
|---|---|
| Add | The stock's total return is expected to exceed 10% over the next 12 months. |
| Hold | The stock's total return is expected to be between 0% and positive 10% over the next 12 months. |
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*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

| Sector Ratings | Definition: |
|---|---|
| Overweight | An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation. |
| Neutral | A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation. |
| Underweight | An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation. |

| Country Ratings | Definition: |
|---|---|
| Overweight | An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark. |
| Neutral | A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark. |
| Underweight | An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark. |


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