

### COMPANY RESULTS

## Singapore Airlines (SIA SP)

1QFY23: Result Beat Expectations; Exceptionally Strong Profit Expected In FY23

SIA's 1QFY23 net profit of S\$370m came in above expectations at 27% of our full-year forecast. 1QFY23 operating profit of S\$556m was the second-highest quarterly profit in SIA's history. We raise our FY23 net profit forecast from S\$1.35b previously to S\$1.85b, a level not seen in the past decade. Note that this level of profitability should not be taken as the norm and SIA's current valuation is stretched. Maintain HOLD with a higher target price of S\$5.18, pegged to 1.15x FY23F P/B (2SD above historical mean).

### 1QFY23 RESULTS

Year to 31 Mar (\$m)	1QFY23	4QFY22	qoq % change	1QFY22	yoy % change
Revenue	3,911	2,472	+58.2	1,294	+202.1
EBIT (reported)	556	-67	n.m.	-274	n.m.
EBIT (adjusted)*	354	-178	n.m.	-359	n.m.
Net Profit (reported)	370	-210	-276.5	-409	n.m.
Net profit (adjusted)*	202	-303	n.m.	-479	n.m.
<b>Margins (%)</b>					
EBIT (adjusted)	9.0	-7.2	+16.3ppt	-27.7	+36.8ppt
Net profit (adjusted)	5.2	-12.2	+17.4ppt	-37.0	+42.2ppt

\* Adjusted by excluding fuel hedge gains/(losses)  
Source: SIA, UOB Kay Hian

### RESULTS

- Results beat expectations.** Singapore Airlines' (SIA) 1QFY23 net profit of S\$370m (4QFY22: S\$210m loss) came in above expectations, at 27% of our FY23 full-year forecast but 96% of consensus'. The upbeat 1QFY23 earnings performance was mainly attributable to the steeper-than-expected pax volume recovery and strong pax yields, with their positive impact further amplified by SIA's high operating leverage. SIA also benefited from a favourable fuel hedge gain of S\$202m (pre-tax) in 1QFY23. Excluding the fuel hedge gain, SIA's 1QFY23 net profit was still a positive S\$202m, vs the S\$303m net loss a quarter ago.
- Revenue rose 58% qoq, driven by the passenger business.** Pax flown rose 119.3% qoq to S\$2,676m in 1QFY23, driven by a 126.7% qoq growth in pax volume. Pax yield moderated slightly to 11.7 S cents per passenger-km in 1QFY23 (4QFY22: 12.1 S cents), but still at about 25-30% above pre-pandemic levels. Cargo-flown revenue fell 1.5% qoq to S\$1,096m on weaker cargo loads (-3.6% qoq) due to lockdowns in China, but cargo yields stayed at an elevated level of 80 S cents per tonne-km (+2.2% qoq), significantly higher than pre-pandemic levels of 28-33 S cents.
- Improving operating cash surplus and balance sheet strength.** Operating cash surplus rose to S\$1.48b in 1QFY23 (4QFY22: S\$502m). This helped strengthen SIA's balance sheet. Even with all its Mandatory Convertible Bonds (MCBs) treated as debt, SIA's net gearing would be near 50% as at end-1QFY23 by our estimate, down from 63% a quarter ago.

### KEY FINANCIALS

Year to 31 Mar (\$m)	2021	2022	2023F	2024F	2025F
Net turnover	3,816	7,615	18,425	20,729	22,112
EBITDA	(371)	1,390	4,930	4,332	4,026
Operating profit	(2,513)	(610)	2,735	2,087	1,614
Net profit (rep./act.)	(4,271)	(962)	1,852	1,374	963
EPS (S\$ cent)	(162.2)	(32.4)	62.4	46.3	32.5
PE (x)	n.m.	n.m.	8.7	11.8	16.8
P/B (x)	1.3	1.3	1.2	1.1	1.0
EV/EBITDA (x)	n.m.	19.5	5.5	6.3	7.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(111.9)	(12.6)	10.1	6.6	4.4
Net debt/(cash) to equity (%)	55.5	63.1	58.5	54.8	56.8
ROE (%)	n.a.	n.a.	8.7	8.0	6.4
Consensus net profit	-	-	527	874	1,025
UOBKH/Consensus (x)	-	-	3.52	1.57	0.94

Source: SIA, Bloomberg, UOB Kay Hian

## HOLD

(Maintained)

Share Price	S\$5.45
Target Price	S\$5.18
Upside	-5.0%
(Previous TP	S\$4.88)

### 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.

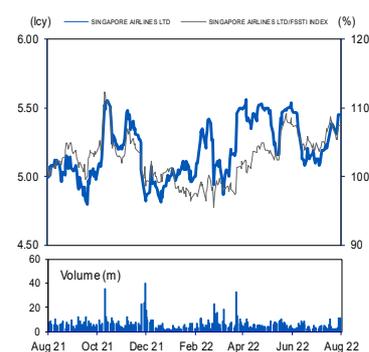
### STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SIA SP
Shares issued (m):	2,970.5
Market cap (S\$m):	16,189.2
Market cap (US\$m):	11,733.8
3-mth avg daily t'over (US\$m):	18.9

### Price Performance (%)

52-week high/low	S\$5.56/S\$4.80			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
6.2	(0.9)	9.9	5.2	9.2
<b>Major Shareholders</b>				<b>%</b>
Temasek Hldgs				55.7
FY23 NAV/Share (S\$)				4.51
FY23 Net Debt/Share (S\$)				0.49

### PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- Upbeat pax capacity recovery.** According to SIA, the group's pax capacity is projected to increase to around 68% of pre-pandemic levels in 2QFY23 (1QFY23: 61%) and 76% by 3QFY23. In an earlier press release, the company guided to restore pax capacity to 81% by Dec 22, with a plan to expand/restore its Japan and India networks as well as to increase flight frequencies to Los Angeles and Paris.
- Pax load factor already at pre-pandemic levels.** Driven by the strong air travel demand, pax load factor has recovered to pre-pandemic levels, standing at 85.5% in Jun 22. We expect the pax load factor to stay upbeat through end-22, given that the next two quarters are seasonally strong (with holiday travel periods).
- Healthy forward sales indicating buoyant pax yields.** According to management, SIA's forward sales today is very close to pre-pandemic levels. Based on the forward sales, pax yields are holding up till the end of 2022. Management noted that the company has not seen aggressive price competition at this juncture as all airlines are focusing on their own profitability recovery amid the current high level of fuel prices and inflationary pressure.
- Cargo yields staying elevated in the near to medium term.** Management believes cargo yields are likely to stay higher than pre-pandemic levels in the near- to medium-term as air cargo capacity remains tight on key trade lines, particularly between Europe and Asia, amid the Russia-Ukraine conflict. This would support the profitability of SIA's cargo business in the near- to medium-term.
- Strong near-term earnings momentum driving FY23 profitability to a record level not seen in the past decade...** We believe all the above factors are paving the way for SIA's strong earnings momentum in the next two quarters. Our updated net profit projection of S\$1.85b (previous: S\$1.35b) is a record level not seen by SIA in the past decade. FY23 net profit includes a substantial fuel hedge gain of S\$910m (pre-tax) by our estimate, due to its favourable fuel hedge position (SIA hedged 40% of its projected fuel consumption till Jun 23/1QFY24 at Brent crude oil price of US\$60/bbl, vs the current Brent spot price of US\$110/bbl).
- ...but this level of profitability should not be taken as the norm.** After the exceptionally strong FY23, we expect SIA's profitability to trend downwards in FY24-25, as: a) its currently favourable fuel hedge position ends in 1Q24, b) competition (other airlines adding/restoring capacity) drives pax yields down to more normalised levels, and c) cargo yields would also gradually return to normalised levels as the supply chain issue gets resolved. Air travel recovery is also likely to slow down beyond FY23 if China does not open up or opens up at a very slow pace. We expect SIA's net profit to see two consecutive years of decline in FY24 (-26% yoy) and FY25 (-30% yoy), before stabilising at a more normalised level of net profit of S\$963m in FY25.

### EARNINGS REVISION/RISKS

- Table below summarises our earnings revision and change in key assumptions.

	Old			New			Change		
	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F
<b>Earnings forecasts</b>									
Net profit (reported)	1,351	1,054	778	1,852	1,374	963	+37%	+30%	+24%
Net profit (adjusted)*	487	814	778	1,097	1,159	963	+125%	+42%	+24%
<b>Key assumptions</b>									
Pax load, % of FY19 level	71%	90%	102%	80%	97%	105%	+9.2ppt	+6.8ppt	+3.5ppt
Pax yield (cents/pkm)	12.0	11.6	11.7	11.6	11.4	11.6	-3%	-2%	-1%

\* Adjusted net profit excludes impacts from fuel hedging gains

- Key risks:** a) air traffic recovery losing steam, b) a possible recession impacting air travel demand, and c) increasing competition from competitors adding capacities.

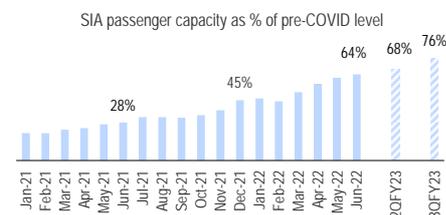
### VALUATION/RECOMMENDATION

- Valuation is stretched; maintain HOLD.** Our new target price of S\$5.18 is based on 1.15x FY23 P/B, which is 2.0SD above SIA's historical average of 0.97x in the pre-pandemic years. SIA's current price of S\$5.45 implies a 1.21x FY23 P/B or 2.7SD above historical average. Sentiment on SIA may remain strong in the next 1-2 quarters on strong earnings momentum and we recommend investors to offload SIA into share price strength.

### SHARE PRICE CATALYST

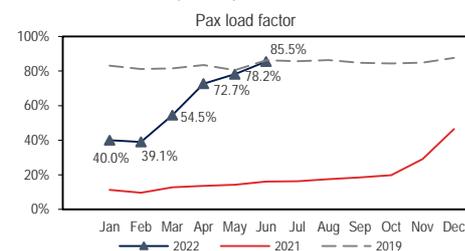
- Positive newsflow on Northeast Asian countries' opening-up (including possible shifts in China's stance in treating COVID-19).

### SIA'S PAX CAPACITY RECOVERY GUIDANCE



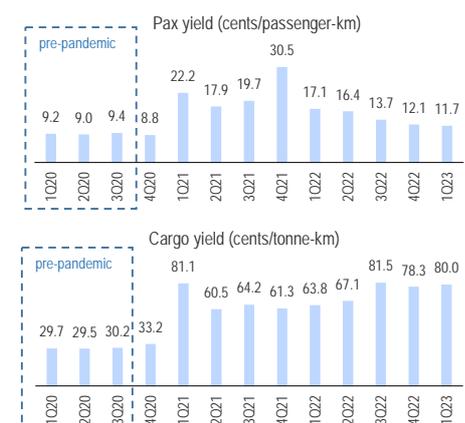
Source: SIA

### PAX LOAD FACTOR RECOVERED TO PRE-PANDEMIC LEVEL IN JUN-22 (85.5%)



Source: SIA

### PAX YIELD AND CARGO YIELD



Source: SIA

### SIA HISTORICAL P/B BAND



	FY22	FY23F	FY24F	FY25F
BVPS, adj	S\$4.14	S\$4.51	S\$4.88	S\$5.20
P/B peg		Target price		
+2SD	1.15x	S\$4.75	S\$5.18	S\$5.60
+1SD	1.06x	S\$4.37	S\$4.77	S\$5.16
Mean	0.97x	S\$4.00	S\$4.36	S\$4.71
-1SD	0.88x	S\$3.62	S\$3.95	S\$4.27
-2SD	0.79x	S\$3.25	S\$3.51	S\$3.83

Source: Bloomberg, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Mar (S\$m)	2022	2023F	2024F	2025F
Net turnover	7,614.8	18,425.2	20,728.8	22,112.2
EBITDA	1,389.9	4,929.7	4,331.8	4,025.6
Deprec. & amort.	1,999.6	2,195.0	2,245.0	2,411.5
EBIT	(609.7)	2,734.7	2,086.8	1,614.1
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)	(424.6)	(470.3)
<b>Pre-tax profit</b>	<b>(1,090)</b>	<b>2,257.9</b>	<b>1,686.3</b>	<b>1,197.7</b>
Tax	141.9	(385.7)	(282.6)	(194.4)
Minorities	(13.9)	(20.0)	(30.0)	(40.0)
<b>Net profit</b>	<b>(962.0)</b>	<b>1,852.2</b>	<b>1,373.7</b>	<b>963.3</b>

### BALANCE SHEET

Year to 31 Mar (S\$m)	2022	2023F	2024F	2025F
Fixed assets	27,860.7	30,595.2	32,737.2	35,212.7
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	3,035.3	2,822.7	2,888.2
<b>Total assets</b>	<b>48,671.0</b>	<b>41,737.7</b>	<b>42,687.1</b>	<b>44,278.1</b>
ST debt	606.8	606.8	606.8	606.8
Other current liabilities	7,261.8	8,436.9	9,218.7	9,946.8
LT debt	11,405.5	5,814.5	11,560.3	11,421.3
Other LT liabilities	6,596.5	6,445.6	6,398.4	6,398.4
Shareholders' equity	22,411.9	20,026.8	14,467.2	15,430.5
Minority interest	388.5	407.1	435.7	474.3
<b>Total liabilities &amp; equity</b>	<b>48,671.0</b>	<b>41,737.7</b>	<b>42,687.1</b>	<b>44,278.1</b>

### CASH FLOW

Operating	3,041.5	5,653.5	4,765.5	4,493.7
Pre-tax profit	(1,090.0)	2,257.9	1,686.3	1,197.7
Tax	(8.3)	(385.7)	(282.6)	(194.4)
Deprec. & amort.	1,999.6	2,195.0	2,245.0	2,411.5
Associates	(175.7)	(115.0)	(80.0)	(50.0)
Working capital changes	1,518.7	1,109.6	716.3	662.6
Non-cash items	141.2	0.0	0.0	0.0
Other operating cashflows	656.0	591.8	480.6	466.3
<b>Investing</b>	<b>(2,246.6)</b>	<b>(4,405.5)</b>	<b>(3,827.0)</b>	<b>(4,328.0)</b>
Capex (growth)	(1,440.6)	(2,640.0)	(1,985.0)	(2,301.8)
Capex (maintenance)	(1,682.5)	(1,835.0)	(1,890.0)	(2,073.2)
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
<b>Financing</b>	<b>5,159.7</b>	<b>(10,417)</b>	<b>(1,938.5)</b>	<b>(1,165.7)</b>
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)	(5,591.0)	5,745.9	(139.0)
Others/interest paid	(955.8)	(4,826.1)	(7,684.4)	(1,026.7)
<b>Net cash inflow (outflow)</b>	<b>5,954.6</b>	<b>(9,169.1)</b>	<b>(1,000.0)</b>	<b>(1,000.0)</b>
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
<b>Ending cash &amp; cash equivalent</b>	<b>13,762.7</b>	<b>4,593.6</b>	<b>3,593.6</b>	<b>2,593.6</b>
Operating	3,041.5	5,653.5	4,765.5	4,493.7

### KEY METRICS

Year to 31 Mar (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	18.3	26.8	20.9	18.2
Pre-tax margin	(14.3)	12.3	8.1	5.4
Net margin	(12.6)	10.1	6.6	4.4
ROA	n.a.	4.1	3.3	2.2
ROE	n.a.	8.7	8.0	6.4
<b>Growth</b>				
Turnover	99.6	142.0	12.5	6.7
EBITDA	n.a.	254.7	(12.1)	(7.1)
Pre-tax profit	n.a.	n.a.	(25.3)	(29.0)
Net profit	n.a.	n.a.	(25.8)	(29.9)
EPS	n.a.	n.a.	(25.8)	(29.9)
<b>Leverage</b>				
Debt to total capital	48.6	44.9	43.1	42.6
Debt to equity	175.0	94.7	81.6	75.6
Net debt/(cash) to equity	63.1	58.5	54.8	56.8

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