

Singapore

REDUCE (no change)

Consensus ratings*: Buy 1 Hold 4 Sell 7

Current price:	S\$6.33
Target price:	S\$5.66
Previous target:	S\$6.78
Up/downside:	-10.6%
CGS-CIMB / Consensus:	-19.5%
Reuters:	SIAL.SI
Bloomberg:	SIA SP
Market cap:	US\$13,757m
	S\$18,828m
Average daily turnover:	US\$31.17m
	S\$42.12m
Current shares o/s:	2,971m
Free float:	40.0%

*Source: Bloomberg

Key changes in this note

- No change to core EPS forecasts in this note, but highlight that prevailing jet fuel prices have risen to levels above what we have pencilled into our model, resulting in downside risks to our core EPS estimates for all forecast years.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-7.9	-14.6	25.6
Relative (%)	-4.3	-12	21.5

Major shareholders	% held
Temasek	55.7

Analyst(s)

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Singapore Airlines

Expect qoq drop in core EPS for 2QFY24F

- We expect SIA's Jul-Sep 2023 (2QFY24F) quarterly EBIT to decline 16% qoq as jet fuel prices rose 20% qoq, while pax/cargo yields may have fallen qoq.
- We reiterate Reduce with a lower TP of S\$5.66, now based on target P/BV of 0.91x (average since 2011) and rolling forward to end-CY24F.
- We previously used a target P/BV of 1.12x (1.5 s.d. above mean) but cut the multiple as higher oil prices now threaten our FY24-26F core EPS estimates.

SIA's earnings likely peaked in 1QFY24; 2Q may see drop qoq

SIA will release its 1HFY24F results on 7 Nov 2023, to be followed by a briefing the next day. For 1HFY24F, we expect SIA to announce core EBIT of S\$1,355m-1,405m, below 2HFY23's S\$1,458m, but above 1HFY23's S\$1,234m, and our estimate of 1HFY24F PATAMI of S\$1,134m-1,184m is below 2HFY23's S\$2,157m, but above 1HFY23's S\$927m. SIA already announced a core EBIT of S\$755m for 1QFY24, and we expect SIA to deliver a reduced core EBIT of S\$600m-650m for 2QFY24F, which is also likely below 2QFY23's S\$678m. As for PATAMI, SIA delivered S\$734m in 1QFY24, and we expect a reduced performance of S\$400m-450m in 2QFY24, i.e. also below 2QFY23's S\$557m.

Higher oil prices put our FY24-26F core EPS forecasts at risk

The key takeaway from the above numbers is that SIA's PATAMI likely peaked in the Apr-Jun 2023 quarter (1QFY24), and will most likely trend lower in 2QFY24F on the back of 1) sequentially-higher oil prices (spot jet fuel prices rose 20% qoq to average US\$110/bbl in 2QFY24F), 2) lower pax yields (we estimate a 1.5% qoq contraction), 3) lower cargo yields (we estimate 4.5% qoq decline), partially offset by 5.5% qoq growth in revenue passenger kilometres (RPK) demand for SIA and Scoot combined (as both airlines increased their flight capacities and passenger load factors were sustained at high levels), and 8.9% qoq rise in revenue freight tonne kilometres (RFTK) cargo demand due to a technical rebound from very low levels of air freight demand in the first six months of 2023. SIA hedged about 39% of its fuel requirements for the 9-month period from Jul 2023 to Mar 2024 (see Fig 2), and this would have helped mitigate the rise in jet fuel prices. However, the rally in oil prices arising from the Saudi Arabia and Russia export cuts in 2HCY23F, and a further rally on the back of Middle East geopolitical risk after the outbreak of the Hamas-Israel war, could nevertheless raise SIA's operating costs in the months ahead. Last week, the US Energy Information Administration (EIA) raised its 2024F Brent price forecast from US\$88/bbl to US\$95/bbl. Even as oil prices increase, we expect SIA's pax and cargo yields to gradually decline, as other airlines continue to reactivate aircraft and increase competition to SIA. The key derating catalyst is the increasing likelihood of cuts in our forecasts; if jet fuel prices remain at the current level of US\$115/bbl until end-Mar 2024F, average spot jet fuel prices may reach US\$108/bbl for FY24F, vs. our current estimate of US\$95/bbl. Every US\$1/bbl increase in our assumption will hit FY24F core net profit by 1.8%, all else being equal. Upside risk: potential for SIA to outperform our assumptions for yield, PLF and other revenue metrics as demand will likely remain strong until the Lunar New Year.

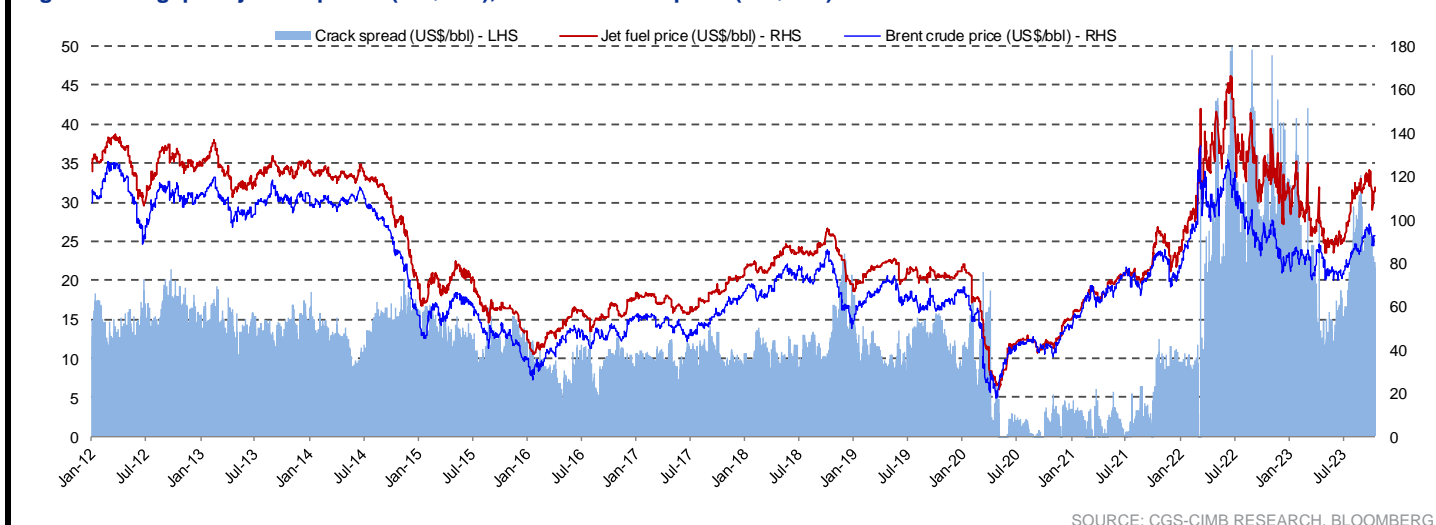
Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (S\$m)	7,615	17,775	18,674	18,026	18,235
Operating EBITDA (S\$m)	1,282	4,697	5,074	3,864	3,198
Net Profit (S\$m)	-962	2,157	3,185	1,283	890
Core EPS (S\$)	-0.38	0.66	0.66	0.39	0.26
Core EPS Growth	(52.7%)		0.0%	(40.5%)	(33.9%)
FD Core P/E (x)	NA	9.65	9.65	16.22	24.54
DPS (S\$)	0.00	0.38	0.38	0.22	0.14
Dividend Yield	0.00%	6.01%	6.00%	3.48%	2.21%
EV/EBITDA (x)	16.01	3.74	4.14	5.63	7.37
P/FCFE (x)	460.2	2.6	14.2	32.2	NA
Net Gearing	6.0%	(7.9%)	9.4%	13.2%	22.3%
P/BV (x)	0.84	0.95	1.01	1.00	0.99
ROE	(5.9%)	9.2%	10.1%	6.2%	4.0%
% Change In Core EPS Estimates			0%	0%	0%
EPS/Consensus EPS (x)			1.34	0.91	0.77

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Jet fuel prices have rallied >

Figure 1: Singapore jet fuel prices (US\$/bbl), vs. Brent crude price (US\$/bbl)



Oil prices have rallied since mid-2023 because Saudi Arabia announced that it would offer a 1 million barrels per day (mbpd) oil production cut from Jul 2023, which will continue into Dec 2023F, and as Russia also implemented crude exports cuts of 0.3-0.5 mbpd also into Dec. The onset of the war between Hamas and Israel since 7 Oct 2023 also pushed oil prices up, due to fears of a wider conflagration that may involve major oil producer Iran. On the other hand, the oil producers' grouping of OPEC+ said that it is ready to "take additional measures" to "support market stability" if needed after the Hamas attack on Israel; this suggests that ongoing production cuts by major producers such as Saudi Arabia may be scaled back ahead of schedule, if necessary.

In addition, the crack spread between Mean of Platts Singapore (MOPS) jet fuel and Brent crude widened from US\$13.71/bbl in Apr-Jun 2023 to US\$23.59/bbl in Jul-Sep 2023, higher than the long-term average of US\$10-15/bbl. This is due to the stronger demand for jet fuel as airlines restore their flight capacities.

For Apr-Jun 2023 (1QFY24), SIA hedged 40% of its fuel requirements via a Brent hedge at a strike price of US\$60/bbl, vs. average spot Brent price of US\$78/bbl.

For the rest of FY24F, SIA hedged a total of 39% of its fuel requirements:

- 10% pts via a Brent hedge at a strike price of US\$79/bbl, vs. average spot Brent price of US\$87/bbl in Jul-Sep 2023 (2QFY24F); and
- 29% pts via a jet fuel hedge at a strike price of US\$93/bbl, vs. average spot jet fuel price of US\$110/bbl in Jul-Sep 2023 (2QFY24F).

We have incorporated fuel hedging gains into our earnings forecasts for SIA.

Figure 2: SIA's latest fuel hedging position (as disclosed on 17 May 2023)

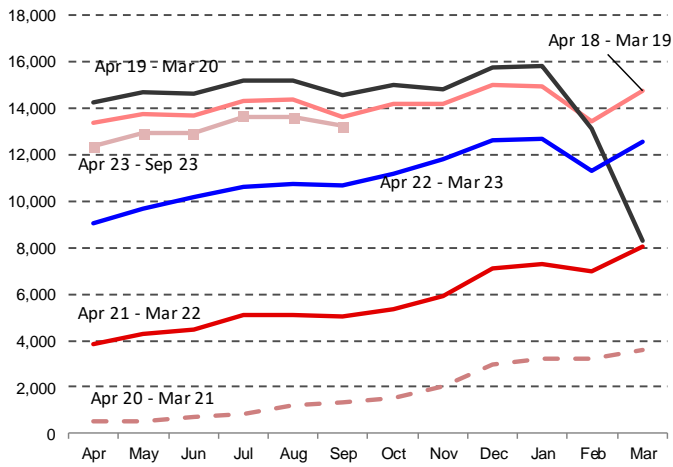
Fuel Hedging Position (as at 5 May 2023)	Percentage Hedged (%)		Average Hedged Price (USD/BBL)	
	Brent	MOPS	Brent	MOPS
Q1 FY23/24 [^]	40	-	60	-
Q2 - Q4 FY23/24	10	29	79	93
Q1 - Q3 FY24/25	10	2	75	88

[^] These hedges were contracted prior to Covid-19 as part of the Group's long-term fuel hedging programme

SOURCE: COMPANY REPORTS

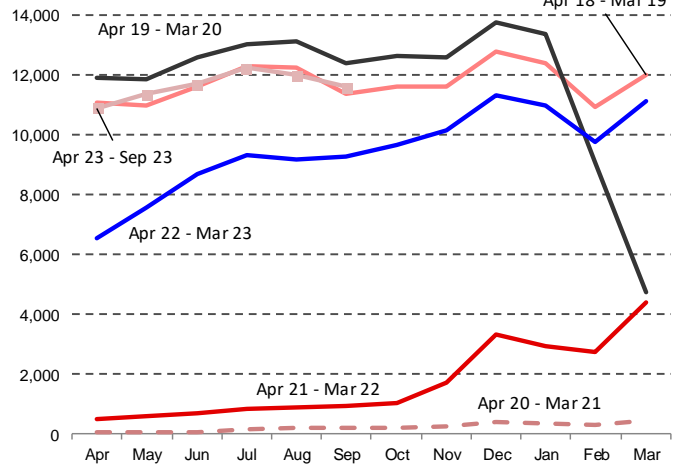
Group passenger airline business ▶

Figure 3: SIA group's passenger capacity in ASK (m)



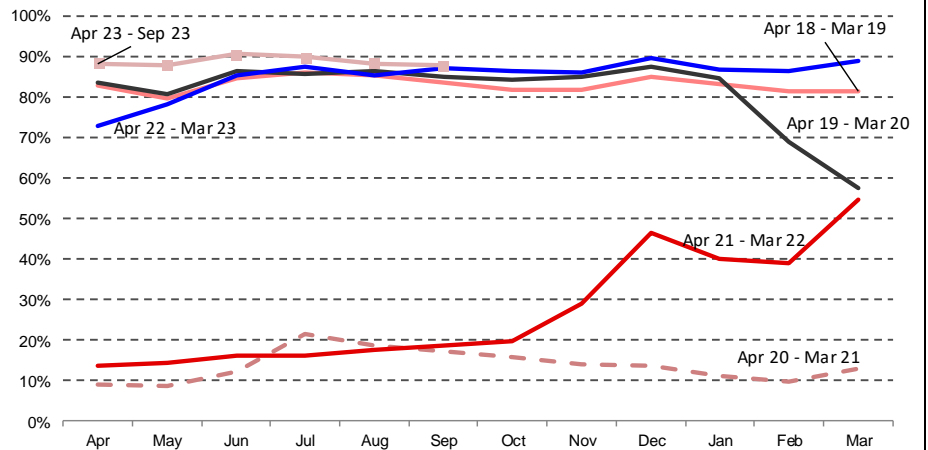
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 4: SIA group's passenger traffic in RPK (m)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

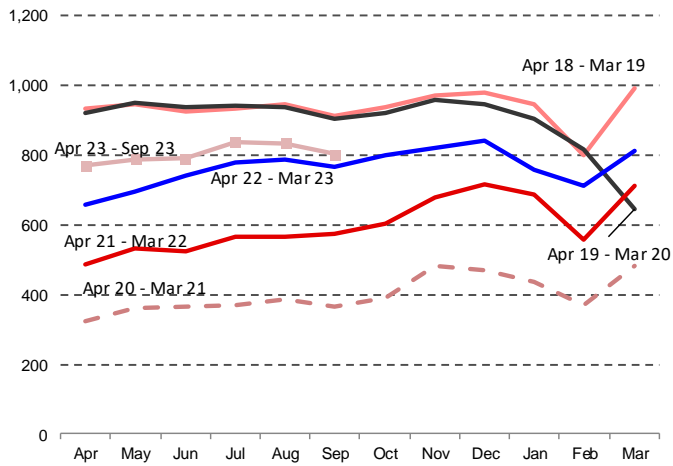
Figure 5: SIA group's passenger load factors (%)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

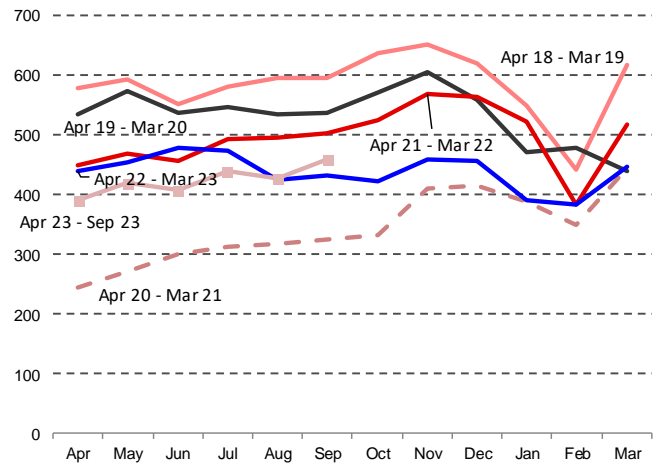
Air cargo business ►

Figure 6: SIA's cargo capacity in AFTK (m)



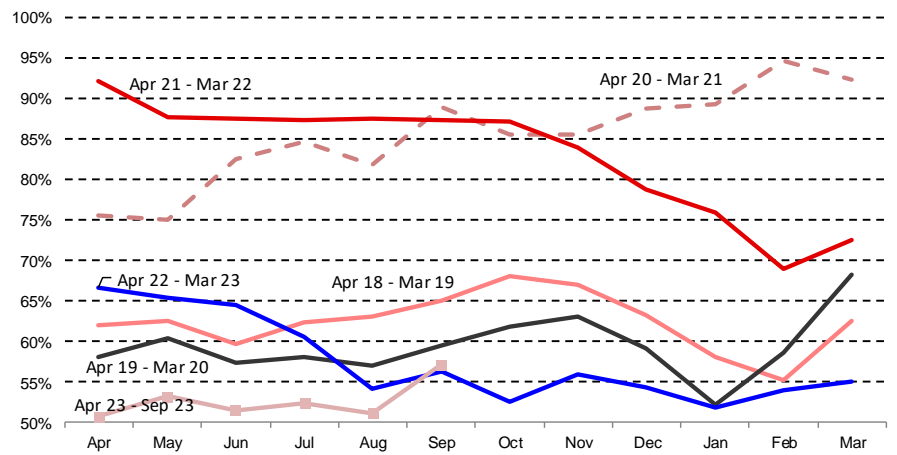
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 7: SIA's cargo traffic in RFTK (m)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

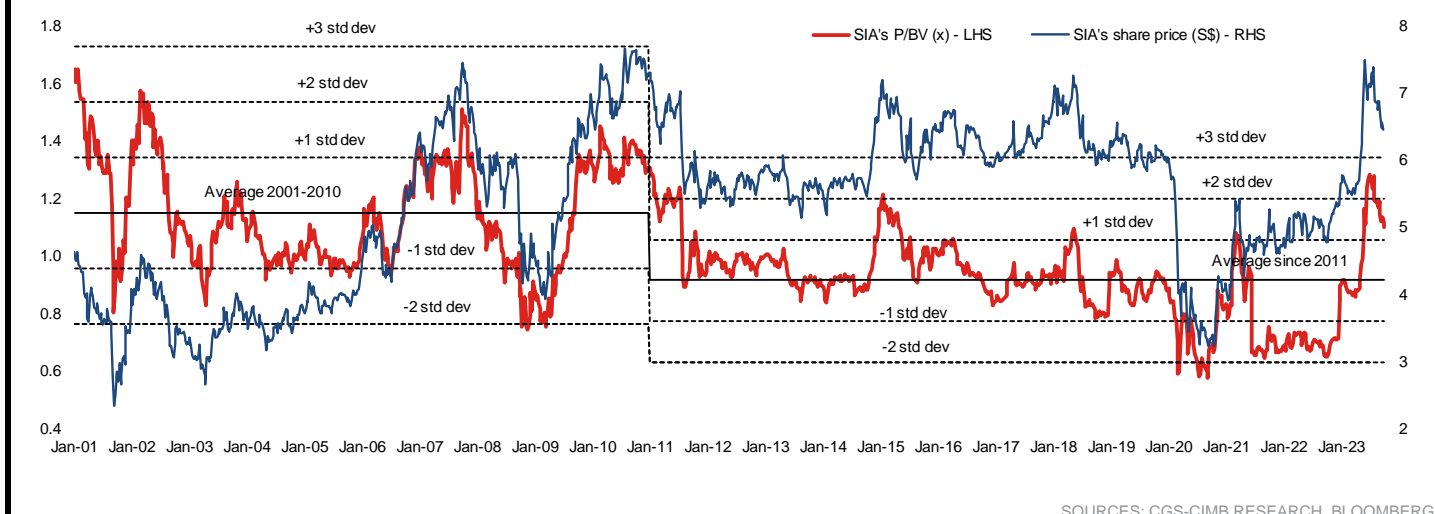
Figure 8: SIA's cargo load factors (%)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

SIA's historical P/BV chart >

Figure 9: Singapore Airlines historical P/BV chart – P/BV average 2001-10 and P/BV average since 2011, and standard deviations based on those averages



Valuation and recommendation >


We reiterate our **Reduce** call on SIA, because even though the revenue dynamics of the passenger airline business remain robust for the next 6-9 months, higher fuel costs may eat into earnings in the coming quarters.

The three key potential de-rating catalysts are:

1. Rising competition from FY25F onwards from other airlines that are picking up speed in their capacity restoration programmes.
2. Weakening air cargo markets on a sequential basis have seen cargo yields decline rapidly.
3. Higher Singapore jet fuel prices that have risen since mid-2023.

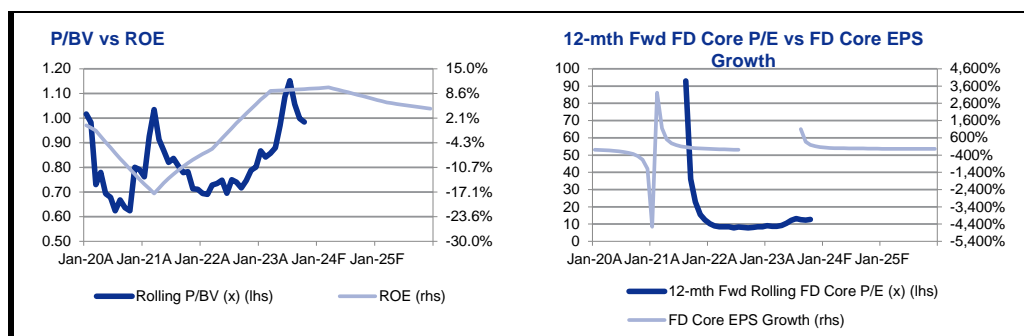
Upside risks include the potential for SIA to outperform our assumptions for yield, PLF and other revenue metrics as demand will likely remain strong until the Lunar New Year.

We reduce our target price to **S\$5.66**, now based on target P/BV of 0.91x (average since 2011) and rolling forward to end-CY24F. We previously used a target P/BV of 1.12x (1.5 s.d. above mean), but cut the multiple as higher oil prices now threaten our and Bloomberg consensus FY24-26F core EPS estimates.

<div style="display: flex; justify-content: space-between; align-items: center;"> <div data-bbox="67 291 351 336"> <h2>ESG in a nutshell</h2> </div> <div data-bbox="606 201 766 336">  </div> <div data-bbox="1021 190 1292 235" style="text-align: center;"> Refinitiv ESG Scores </div> </div> <div style="display: flex; justify-content: center; margin-top: 10px;"> <div data-bbox="798 235 917 324" style="background-color: #4CAF50; color: white; padding: 5px; text-align: center; margin: 0 5px;"> B+ <small>ESG Score</small> </div> <div data-bbox="917 235 1037 324" style="background-color: #4CAF50; color: white; padding: 5px; text-align: center; margin: 0 5px;"> B- <small>ESG Controversies Score</small> </div> <div data-bbox="1037 235 1157 324" style="background-color: #4CAF50; color: white; padding: 5px; text-align: center; margin: 0 5px;"> B <small>ESG Combined Score</small> </div> <div data-bbox="1157 235 1276 324" style="background-color: #4CAF50; color: white; padding: 5px; text-align: center; margin: 0 5px;"> B+ <small>ESG Environment Pillar Score</small> </div> <div data-bbox="1276 235 1396 324" style="background-color: #4CAF50; color: white; padding: 5px; text-align: center; margin: 0 5px;"> B+ <small>ESG Social Pillar Score</small> </div> <div data-bbox="1396 235 1516 324" style="background-color: #4CAF50; color: white; padding: 5px; text-align: center; margin: 0 5px;"> A- <small>ESG Government Pillar Score</small> </div> </div>	
<p>Keep your eye on</p> <p>SIA announced in May 2021 that it had set a target to achieve net zero carbon emissions by 2050 and that it will continue its ongoing efforts to move in this direction. In order to reduce carbon emissions, SIA said it 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.</p>	<p>Implications</p> <p>To reduce fuel consumption, SIA said it 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 (SAF), which can reduce the lifecycle greenhouse gas (GHG) emissions by up to 80%. For the residual carbon emissions, SIA plans to purchase high-quality carbon credits.</p>
<p>ESG highlights</p> <p>Singapore has signed up for ICAO's CORSIA scheme, which took effect on a voluntary basis from 2021 until 2026. From 2027 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 2027.</p>	<p>Implications</p> <p>The SIA group of airlines (SIA, Scoot, and the air freight operations) 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 4 mtCO2 in FY21 from the impact of Covid-19, but partially recovered to 7.8 mtCO2 in FY22. We do not expect SIA to exceed FY20 emissions until FY25F (CY24F) or later if SIA improves its carbon efficiency and increases its use of SAF. We expect SIA to pass on the cost of SAF and the cost of purchasing carbon credits to its customers via higher ticket prices.</p>
<p>Trends</p> <p>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.</p>	<p>Implications</p> <p>SIA has been the airline partner of the <i>Hutan Harapan</i> 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 the group maintain high ESG ratings, which may have positive implications for SIA's stock market valuations.</p>

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, REFINITIV

BY THE NUMBERS



Profit & Loss

(\$m)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	7,615	17,775	18,674	18,026	18,235
Gross Profit	1,907	5,817	6,124	4,864	4,198
Operating EBITDA	1,282	4,697	5,074	3,864	3,198
Depreciation And Amortisation	-1,928	-2,005	-2,023	-2,034	-2,109
Operating EBIT	-645	2,692	3,051	1,830	1,088
Financial Income/(Expense)	-346	-7	-68	-122	-153
Pretax Income/(Loss) from Assoc.	-116	-31	-427	-146	110
Non-Operating Income/(Expense)	31	-54	5	5	5
Profit Before Tax (pre-EI)	-1,077	2,599	2,561	1,567	1,051
Exceptional Items	-14	38	1,112	0	0
Pre-tax Profit	-1,090	2,637	3,673	1,567	1,051
Taxation	142	-474	-478	-274	-151
Exceptional Income - post-tax					
Profit After Tax	-948	2,163	3,195	1,293	900
Minority Interests	-14	-7	-10	-10	-10
Preferred Dividends	0	0	0	0	0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	-962	2,157	3,185	1,283	890
Recurring Net Profit	-1,126	1,947	1,949	1,159	766
Fully Diluted Recurring Net Profit	-1,126	1,947	1,949	1,159	766

Cash Flow

(\$m)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	1,282	4,697	5,074	3,864	3,198
Cash Flow from Invt. & Assoc.					
Change In Working Capital	1,519	4,037	92	207	241
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	249	402	8	8	0
Net Interest (Paid)/Received	0	0	0	0	0
Tax Paid	-8	-5	-478	-274	-151
Cashflow From Operations	3,042	9,130	4,696	3,805	3,289
Capex	-3,049	-1,602	-2,300	-3,400	-4,300
Disposals Of FAs/subsidiaries	728	1,185	-1,240	0	0
Acq. Of Subsidiaries/investments	0	0	0	0	0
Other Investing Cashflow	74	283	0	0	0
Cash Flow From Investing	-2,247	-134	-3,540	-3,400	-4,300
Debt Raised/(repaid)	-754	-1,722	172	179	186
Proceeds From Issue Of Shares	6,197	-3,860	-3,354	0	0
Shares Repurchased	0	0	0	0	0
Dividends Paid	0	-299	-1,129	-1,040	-654
Preferred Dividends					
Other Financing Cashflow	-283	-333	-63	-117	-148
Cash Flow From Financing	5,160	-6,213	-4,374	-978	-615
Total Cash Generated	5,955	2,783	-3,218	-573	-1,627
Free Cashflow To Equity	41	7,274	1,327	584	-826
Free Cashflow To Firm	795	8,996	1,156	405	-1,011

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(S\$m)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	13,763	16,328	13,109	12,536	10,909
Total Debtors	1,566	1,193	1,253	1,210	1,224
Inventories	187	227	236	246	261
Total Other Current Assets	2,172	1,552	1,544	1,537	1,537
Total Current Assets	17,688	19,299	16,143	15,528	13,931
Fixed Assets	27,861	27,687	27,964	29,329	31,520
Total Investments	2,819	1,817	3,742	3,596	3,706
Intangible Assets	303	298	298	298	298
Total Other Non-Current Assets	0	0	0	0	0
Total Non-current Assets	30,983	29,802	32,003	33,223	35,524
Short-term Debt	607	2,548	2,548	2,548	2,548
Current Portion of Long-Term Debt					
Total Creditors	2,733	4,040	4,201	4,375	4,645
Other Current Liabilities	4,529	7,083	7,083	7,083	7,083
Total Current Liabilities	7,869	13,671	13,832	14,006	14,276
Total Long-term Debt	13,737	11,371	11,542	11,721	11,906
Hybrid Debt - Debt Component	783	804	804	804	804
Total Other Non-Current Liabilities	3,482	3,006	3,006	3,006	3,006
Total Non-current Liabilities	18,002	15,181	15,352	15,531	15,716
Total Provisions	0	0	0	0	0
Total Liabilities	25,871	28,851	29,184	29,536	29,993
Shareholders' Equity	22,412	19,858	18,560	18,804	19,040
Minority Interests	389	392	402	412	422
Total Equity	22,800	20,250	18,962	19,215	19,462

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	100%	133%	5%	(3%)	1%
Operating EBITDA Growth	N/A	266%	8%	(24%)	(17%)
Operating EBITDA Margin	16.8%	26.4%	27.2%	21.4%	17.5%
Net Cash Per Share (S\$)	-0.46	0.54	-0.60	-0.85	-1.46
BVPS (S\$)	7.55	6.68	6.25	6.33	6.41
Gross Interest Cover	-1.65	6.41	7.00	4.13	2.44
Effective Tax Rate	0.0%	18.0%	13.0%	17.5%	14.3%
Net Dividend Payout Ratio	NA	53.3%	54.5%	50.9%	46.7%
Accounts Receivables Days	60.06	28.33	23.97	24.93	24.35
Inventory Days	12.22	6.32	6.75	6.68	6.59
Accounts Payables Days	155.1	103.4	120.2	118.9	117.3
ROIC (%)	(2.8%)	10.8%	15.4%	9.1%	5.1%
ROCE (%)	(1.76%)	8.52%	9.93%	6.31%	4.00%
Return On Average Assets	(1.37%)	4.36%	4.42%	2.92%	2.14%

Key Drivers

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
SIA mainline ASK (m)	58,747.8	106,099.3	123,136.4	130,213.2	140,120.7
SIA mainline RPK (m)	19,177.7	91,025.2	108,360.0	111,983.4	119,803.2
SIA mainline PLF (%)	32.6%	85.8%	88.0%	86.0%	85.5%
SIA mainline yield (Scts/RPK)	13.1	12.7	12.3	11.6	11.2

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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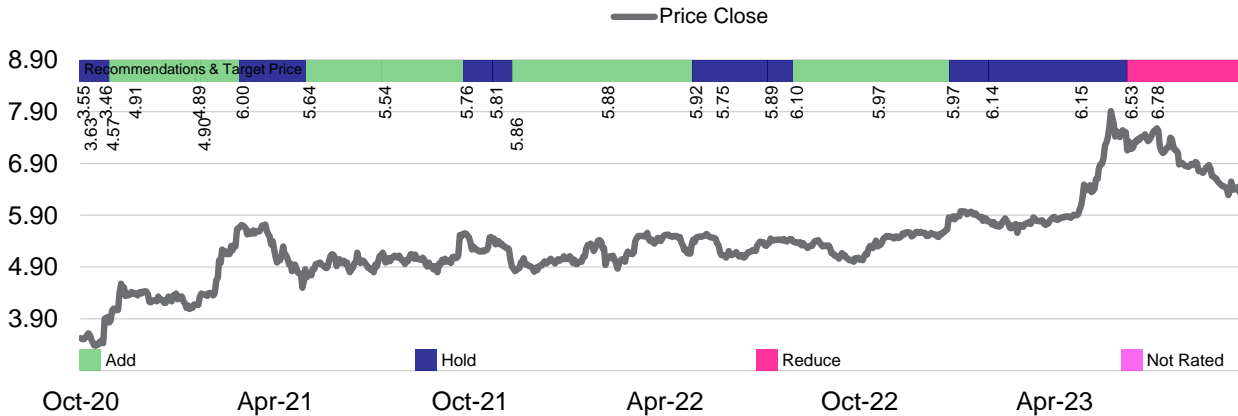
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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2023		
634 companies under coverage for quarter ended on 30 September 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	66.7%	0.9%
Hold	23.7%	0.0%
Reduce	9.6%	0.2%

Spitzer Chart for stock being researched (2 year data)

Singapore Airlines (SIA SP)



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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
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