

Company Update

Singapore Airlines

Singapore | Industrials

Ada Lim
Equity Research

Rating BUY (as at 8 November 2023)
Last Close SGD 6.24
Fair Value SGD 7.29

Bated breath

- **Record half-year operating and net profits on the back of record load factors and robust travel demand**
- **Interim dividend of 10 Singapore cents per share announced**
- **Expect FY24 (financial year ending 31 Mar 2024) to be a bumper year, but normalisation lurks on the horizon**

Investment thesis

Singapore Airlines (SIA) reported a record performance for 1HFY24, with net profit coming in at SGD1.44b, up 55.4% year-on-year (YoY) on the back of robust travel demand and SIA's sustained lead in capacity post-reopening. Management has guided positively on air travel demand for the rest of FY24, which is expected to offset softer performance from the cargo business. While we expect SIA to continue to deliver excellent results for the rest of the year, we note that its operating environment is set to become more competitive, as regional airlines continue to return more international capacity to the market. A recessionary outlook also remains a key overhang on discretionary travel expenditure, while geopolitical tensions could pose further upside risks to oil prices and inflationary pressures. We make some adjustments to our forecasts and revise our fair value estimate to SGD7.29. SIA continues to have long-term value in investors' portfolios, and current valuations are reasonable, in our view.

Investment summary

- **Record 2QFY24 operating profit** – SIA posted 2QFY24 revenue of SGD4.68b, representing a growth of 4.3% YoY and ~4.6% quarter-on-quarter (QoQ). This was driven by a 17.3% YoY increase in passenger flown revenue to SGD3.87b, as a 28.9% increase in traffic outpaced a 26% increase in capacity during the period, uplifting group passenger load factors (PLFs) by 2 percentage points (ppt) to 88.6%. Stronger air travel demand during the peak summer season more than offset a 48.3% dip in cargo flown revenue to SGD519m. The segment continues to struggle with an increase in industry bellyhold cargo capacity – with SIA's cargo load factor dipping 3.5ppt to 53.5% – and

Security information

Ticker (Refinitiv / Bloomberg)	SIAL.SI / SIA.SP
Market Cap (USD b)	13.8
Daily turnover (SGD m)	60.1
Free Float	46%
Shares Outstanding (m)	2,971
Top Shareholder	Temasek Holdings Pte. Ltd. 53.4%

Price performance chart



Financial summary

SGD m	FY23	FY24E	FY25E
Revenue	17,775	18,449	18,802
EBITDA	4,773	4,958	4,975
PATMI	2,157	2,536	2,211
EPS (\$ cents)	35.1	85.2	74.2
DPS (\$ cents)	38.0	34.1	29.7

Key ratios

%	FY23	FY24E	FY25E
EBIT margin (%)	15.1	15.2	14.4
ROE (%)	10.2	13.4	11.9
Dividend yield (%)	6.1	5.5	4.8

Source: Refinitiv, Internal estimates

hence the softening of cargo yields to 39.2 Singapore cents per load tonne-kilometre (1QFY24: 44.6 Singapore cents per load tonne-kilometre), although this remains elevated at 28.5% above pre-pandemic levels. Group expenditure grew by a narrower 1.9% YoY to SGD3.88b during the quarter, as the increase in non-fuel expenditure was partially offset by a decline in net fuel costs. Altogether, SIA reported a record 2QFY24 operating profit of SGD799m, up 17.8% YoY. For 1HFY24, SIA's group revenue and expenditure rose by 8.9% and 5.9% to SGD9.16b and SGD7.61m respectively, flowing through to a record operating profit of SGD1.55b, up 25.9% YoY. 1HFY24 net income of SGD1.45b constituted ~60% of our initial forecast. SIA has declared an interim dividend of 10 Singapore cents per share, which is unchanged YoY.

- Cautiously optimistic outlook** – Management expects demand for air travel to remain healthy for the rest of FY24, with the passenger business typically performing well in the third quarter on the back of the year-end travel season. There remains room for further upside, in our view, given that SIA's group capacity is only expected to recover to ~92% of pre-pandemic levels by Dec 2023, and corporate travel demand has yet to fully return to pre-pandemic levels. We remain confident in the company's network and fleet development strategies, and commitment to service excellence. We do, however, note that although SIA and Scoot have both achieved record PLFs of 88.0% and 91.3% respectively in 1HFY24, yields could come under some pressure going forward as international flight capacity continues to recover. Meanwhile, management expects the demand for air freight to remain soft in 3QFY24 despite the seasonal peak, amidst the continued decline in cargo yields and macroeconomic headwinds. In terms of the bottom line, geopolitical tensions could pose upside risk to oil prices, while inflationary pressures remain in play, which could weigh on margins and profitability. All in all, we expect SIA to continue to deliver excellent results for the rest of this year, but caution that performance may peak in FY24.
- Revise fair value estimate to SGD7.29** – We make some minor adjustments to our forecast, which take into account subsequent events after 30 Sep 2023: (i) the redemption of SGD600m worth of 3.16% 5-year fixed rate notes upon maturity on 25 Oct 2023; and (ii) the announced redemption of 50% of the remaining mandatory convertible bonds (MCBs) that were issued in Jun 2021 for an accreted principal amount of SGD1.71b in Dec 2023. We maintain our target price-to-book (P/B) ratio at 1.13x, in line with one standard deviation (s.d.) above the rolling 10-year historical average at the time of writing. Our adjusted book value now assumes that SIA will fully redeem the

Results highlights

SGD m	1HFY23	1HFY24	%chg
Revenue	8,416.5	9,162.4	8.9%
Expenditure	-7,182.1	-7,608.6	5.9%
Operating profit	1,234.4	1,553.8	25.9%
PATMI	926.9	1,441.1	55.5%
EPS (Singapore cents) - Basic	14.4	31.2	116.7%
EPS (Singapore cents) - Diluted	14.2	30.4	114.1%

Source: Company, Internal estimates

remainder of its MCBs over our forecast horizon (versus 50% previously). As a result, our fair value estimate slips from SGD7.81 to SGD7.29.

ESG Updates

- According to research, SIA scores better than its global peers in terms of social issues due to its robust compensation practices, higher customer satisfaction, and on-time performance metrics. It is also on par with peers in terms of corporate governance practices, including staff training on business ethics standards and a detailed anti-corruption policy. In particular, SIA has adopted industry best practices in data security to mitigate regulatory risks in the event of a breach of customer data.

Potential catalysts

- Stronger-than-expected recovery in capacity
- Rapid network growth to capture demand, especially in Asia Pacific
- Favourable fluctuations in oil prices

Investment risks

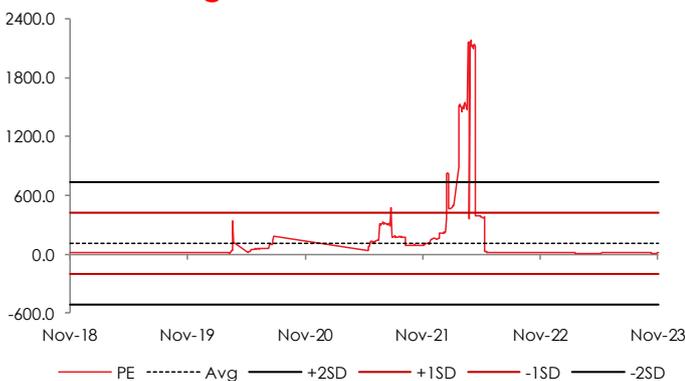
- Significant further weakening in cargo demand
- Increased competition as other airlines ramp up on international capacity
- Steep moderation in air travel demand and prices

Valuation analysis

	Price/Earnings		Price/Book		EV/EBITDA		Dividend Yield (%)		ROE (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
SINGAPORE AIRLINES LTD (SIAL.SI)	7.8	12.9	1.0	1.1	4.5	5.4	5.9	3.9	14.7	9.2
CAPITAL A BERHAD (AIRA.KL)	33.4	7.7	-	-	7.9	6.2	0.0	0.0	7.7	(26.9)
THAI AIRWAYS INTERNATIONAL PCL (THAI.BK)	-	-	-	-	-	-	-	-	-	-
CATHAY PACIFIC AIRWAYS LTD (0293.HK)	7.0	6.8	0.9	0.8	4.9	5.2	2.2	5.5	13.7	12.4
ANA HOLDINGS INC (9202.T)	13.9	12.6	1.5	1.4	6.9	6.3	1.1	1.7	11.3	11.4

Source: Refinitiv

Price/Earnings chart



Source: Refinitiv

Price/Book chart



Source: Refinitiv

Company overview (as of 15 May 2023)

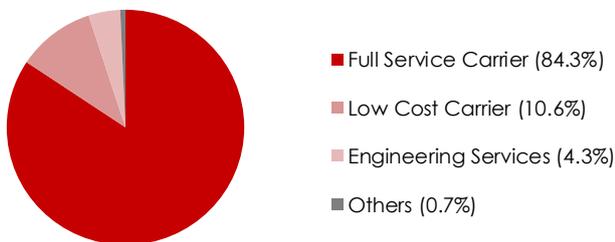
Company description

The Singapore Airlines Group's history dates back to 1947 with the maiden flight of Malayan Airways Limited. The airline was later renamed Malaysian Airways Limited, and then Malaysia-Singapore Airlines. In 1972, Malaysia-Singapore Airlines split into Singapore Airlines (SIA) and Malaysian Airline System.

Initially operating a modest fleet of 10 aircraft to 22 cities in 18 countries, SIA has grown from strength to strength, and now distinguishes itself as an international airline group with a fleet comprising of more than 180 aircraft. It currently operates three main business segments. Its Full-Service Carrier segment provides passenger and cargo air transportation under the Singapore Airlines brand, while its Low-Cost Carrier segment provides passenger air transportation under the Scoot brand. Its Engineering Services segment manufactures aircraft cabin equipment, and provides airframe maintenance and overhaul services, technical ground handling services, and fleet management services.

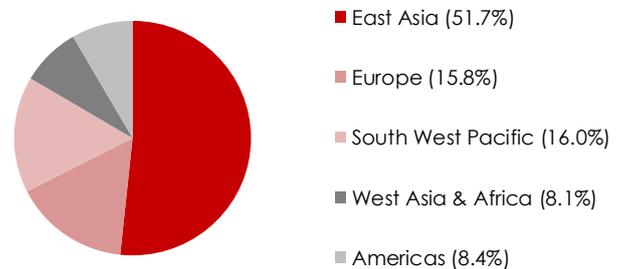
SIA employs a multi-hub strategy, with a presence in India through Vistara and Thailand through NokScoot. These investments in airlines outside of Singapore allow SIA to create new markets and tap into new traffic flows.

FY23 Revenue breakdown



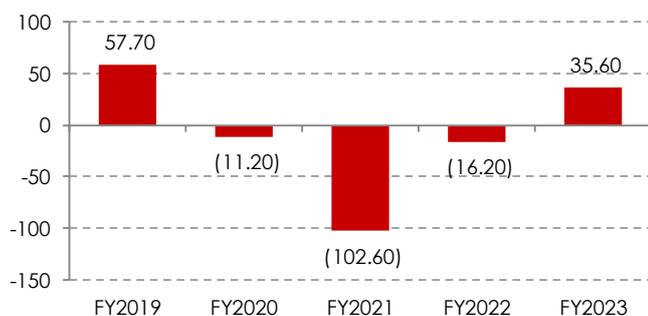
Source: Company

FY23 Airline operations revenue breakdown



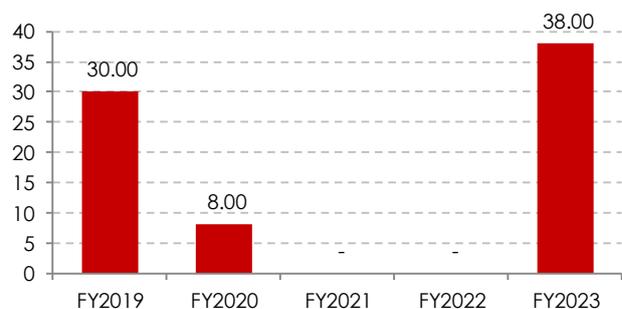
Source: Company

Basic earnings per share (\$ cents)



Source: Company

Dividends per share (\$ cents)



Source: Company

Company financials

Income Statement

In Millions of SGD except Per Share	FY2019	FY2020	FY2021	FY2022	FY2023
12 Months Ending	31/03/2019	31/03/2020	31/03/2021	31/03/2022	31/03/2023
Revenue	16,323.2	15,975.9	3,815.9	7,614.8	17,774.8
- Cost of Revenue	9,837.5	9,153.3	2,163.7	4,113.7	8,576.0
Gross Profit	6,485.7	6,822.6	1,652.2	3,501.1	9,198.8
+ Other Operating Income	--	--	--	--	--
- Operating Expenses	5,478.8	6,772.6	6,171.3	4,175.5	6,463.3
Operating Income or Losses	1,006.9	50.0	-4,519.1	-674.4	2,735.5
- Interest Expense	114.0	218.6	264.7	386.8	416.2
- Foreign Exchange Losses (Gains)	--	--	--	--	--
- Net Non-Operating Losses (Gains)	24.3	51.6	173.4	28.8	-317.5
Pretax Income	868.6	-220.2	-4,957.2	-1,090.0	2,636.8
- Income Tax Expense (Benefit)	147.0	-50.8	-673.8	-141.9	473.5
Income Before XO Items	721.6	-169.4	-4,283.4	-948.1	2,163.3
- Extraordinary Loss Net of Tax	--	--	--	--	--
- Minority/Non Controlling Interests (Credits)	38.9	42.6	-12.7	13.9	6.5
Net Income/Net Profit (Losses)	682.7	-212.0	-4,270.7	-962.0	2,156.8
Net Inc Avail to Common Shareholders	682.7	-212.0	-4,270.7	-962.0	2,156.8
Abnormal Losses (Gains)	--	--	--	--	--
Tax Effect on Abnormal Items	--	--	--	--	--
Normalized Income	769.9	-160.4	-2,957.1	-962.1	2,134.0
Basic Earnings per Share	0.4	-0.1	-1.4	-0.3	0.4
Basic Weighted Avg Shares	1,679.5	1,681.5	2,965.0	2,967.5	6,058.4
Diluted EPS Before Abnormal Items	0.4	-0.1	-1.4	-0.3	0.4
Diluted EPS Before XO Items	0.4	-0.1	-1.4	-0.3	0.4
Diluted EPS	0.4	-0.1	-1.4	-0.3	0.4
Diluted Weighted Avg Shares	1,686.8	1,681.5	2,965.0	2,967.5	6,058.4

Profitability Ratios

	FY2019	FY2020	FY2021	FY2022	FY2023
12 Months Ending	31/03/2019	31/03/2020	31/03/2021	31/03/2022	31/03/2023
Returns					
Return on Common Equity	5.22	-1.88	-33.87	-5.02	10.20
Return on Assets	2.56	-0.53	-12.02	-2.20	4.43
Return on Capital	11.79	10.34	8.30	6.26	5.84
Return on Invested Capital	12.20	-	-	-	9.74
Margins					
Operating Margin	6.17	0.31	-118.43	-8.86	15.39
Incremental Operating Margin	0.63	0.05	-378.40	0.07	-1.74
Pretax Margin	5.32	-1.38	-129.91	-14.31	14.83
Income before XO Margin	4.18	-1.33	-111.92	-12.63	12.13
Net Income Margin	4.18	-1.33	-111.92	-12.63	12.13
Net Income to Common Margin	4.18	-1.33	-111.92	-12.63	12.13
Additional					
Effective Tax Rate	16.92	-	-	-	17.96
Dvd Payout Ratio	52.23	-44.71	-	-	106.74
Sustainable Growth Rate	5.19	-1.88	-	-	10.10

Credit Ratios

	FY2019	FY2020	FY2021	FY2022	FY2023
12 Months Ending	31/03/2019	31/03/2020	31/03/2021	31/03/2022	31/03/2023
Total Debt/EBIT	6.24	15.05	-6.24	-22.82	5.70
Net Debt/EBIT	3.37	11.08	-2.74	-2.22	-0.52
EBIT to Interest Expense	9.36	3.58	-8.68	-1.78	6.47
Long-Term Debt/Total Assets	21.06	25.60	34.43	29.83	24.79
Net Debt/Equity	0.30	0.98	0.42	0.09	-0.05

Source: Refinitiv

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