

COMPANY UPDATE

Singapore Airlines (SIA SP)

Dec 23 Operation Data: Pax Data In Line But Cargo Data A Slight Miss

SIA's Dec 23 pax data was in line with our expectations, with pax capacity/load respectively standing at 92.6%/98.0% of pre-pandemic levels. Cargo load data, a slight drop yoy, missed our expectations of a mild yoy growth, due to a decline in average cargo travel distance. We forecast SIA's 3QFY24 earnings at S\$670m-810m with a good chance to beat the previous quarterly record of S\$734m seen in 1QFY24. Maintain HOLD on SIA (for its strong FY24 dividend) and target price of S\$6.80.

WHAT'S NEW

- Singapore Airlines (SIA) released its Dec 23 operation data on 15 Jan 24.
- 3QFY24 results preview.

SIA'S DEC 23 AND 3QFY24 OPERATION DATA

	----- Monthly comparison -----				----- Quarterly comparison -----					
	Dec-23	Nov-23	Chg mom	Dec-22	Chg yoy	3Q FY24	2Q FY24	Chg mom	3Q FY23	Chg yoy
Pax operation										
Pax capacity (m seat-km)	14,663	13,599	+7.8%	12,632	+16.1%	42,043	40,421	+4.0%	35,649	+17.9%
as % of pre-covid (Jan 20)	92.6%	85.9%	+6.7ppts	79.8%	+12.8ppts	88.5%	85.1%	+3.4ppts	75.1%	+13.5ppts
Pax load (m pax-km)	13,110	11,935	+9.8%	11,326	+15.8%	37,093	35,807	+3.6%	31,154	+19.1%
as % of pre-covid (Jan 20)	98.0%	89.2%	+8.8ppts	84.7%	+13.3ppts	92.4%	89.2%	+3.2ppts	77.6%	+14.8ppts
Pax load Factor	89.4%	87.8%	+1.6ppts	89.1%	-0.3ppts	88.2%	88.6%	-0.4ppts	87.4%	+0.8ppts
Cargo operation										
Cargo capacity (m ton-km)	863	838	+3.0%	843	+2.4%	2,504	2,473	+1.3%	2,463	+1.6%
as % of pre-covid	91.4%	87.5%	+4ppts	89.3%	+2.1ppts	88.7%	88.9%	-0.2ppts	87.2%	+1.4ppts
Cargo load (m ton-km)	453	485	-6.5%	458	-0.9%	1,390	1,324	+5.0%	1,338	+3.9%
as % of pre-covid	81.3%	80.3%	+1ppts	82.0%	-0.7ppts	80.2%	81.7%	-1.5ppts	77.3%	+2.9ppts
Cargo load factor	52.6%	57.9%	-5.3ppts	54.3%	-1.7ppts	55.5%	53.5%	+2ppts	54.3%	+1.2ppts

Source: SIA, UOB Kay Hian

ESSENTIALS

• Key highlights for Dec 23 operation data:

- **Pax data: In line, pax load at 98% of pre-pandemic levels.** Dec 23 pax load rose 9.8% mom, driven by holiday season travels and coming in at 98% of the pre-pandemic levels. Dec 23 pax capacity rose to 92.6% of pre-pandemic levels, slightly above SIA's previous guidance of a 92% recovery by Dec 23. Pax load factor improved 1.6ppt mom to 89.4% in Dec 23, still stronger than Dec 19's 87.6% (pre-pandemic).
- **Cargo data: Slightly missed our projection with cargo load dipping 0.9% yoy.** SIA's cargo load (measured by freight tonne-km) dropped 0.9% yoy (-6.5% mom) while we were expecting a mild growth. The slight miss seemed attributable to the average shorter distance travelled by cargo shipments in Dec 23 than a year ago, since actual freight carried rose 4.3% yoy in weight. Cargo capacity recovered to 91.4% of the pre-pandemic levels in Dec 23, driven by the recovery of bellyhold capacity. Cargo load factor dipped 5.3ppt to 52.6% in Dec 23, 6.5ppt below Dec 19's 59.1% (pre-pandemic).

KEY FINANCIALS

Year to 31 Mar (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	7,615	17,775	18,904	19,831	19,631
EBITDA	1,390	4,773	5,188	4,307	3,766
Operating profit	(610)	2,692	3,024	1,975	1,488
Net profit (rep./act.)	(962)	2,157	3,837	1,624	1,094
Net profit (adj.)	(962)	2,157	2,725	1,624	1,094
EPS (S\$ cent)	(32.4)	72.6	91.7	54.7	36.8
PE (x)	n.m.	9.0	7.1	11.9	17.7
P/B (x)	1.6	1.5	1.2	1.2	1.2
EV/EBITDA (x)	13.7	4.0	3.7	4.4	5.0
Dividend yield (%)	0.0	5.8	5.8	5.8	3.8
Net margin (%)	(12.6)	12.1	20.3	8.2	5.6
Net debt/(cash) to equity (%)	(9.6)	(28.0)	(4.9)	17.4	40.1
Interest cover (x)	4.0	653.8	n.a.	44.8	16.0
ROE (%)	n.a.	10.2	20.7	9.7	6.8
Consensus net profit	-	-	2,478	1,446	1,329
UOBKH/Consensus (x)	-	-	1.10	1.12	0.82

Source: Singapore Airlines Limited, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$6.53
Target Price	S\$6.80
Upside	+4.1%

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):	2,974.4
Market cap (S\$m):	19,422.5
Market cap (US\$m):	14,556.3
3-mth avg daily t'over (US\$m):	22.6

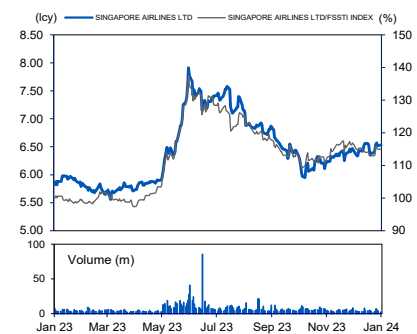
Price Performance (%)

52-week high/low	S\$7.91/S\$5.56								
1mth	0.9	3mth	1.4	6mth	(11.9)	1yr	11.4	YTD	(0.5)

Major Shareholders

Temasek Hldgs	55.4
FY24 NAV/Share (S\$)	5.24
FY24 Net Cash/Share (S\$)	0.28

PRICE CHART



Source: Bloomberg

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- **Network recovery: Resumed services to Xiamen.** During the month, SIA resumed services to Xiamen, China. SIA's passenger network now covers 121 destinations (+1 mom), compared with 137 destinations before the pandemic.

• **Global air freight rates rebounded in 4Q23 (SIA's 3QFY24).** According to Drewry, global average air freight rates rebounded in the past three months from US\$3.58/kg in Sep 23 to US\$5.28/kg, representing a 47% increase. 4Q23 averaged at US\$4.47/kg, a 25% increase over 3Q23's US\$3.58/kg. According to Baltic Exchange Air Freight Index, air freight rates from Hong Kong to Europe and from Hong Kong to North America rebounded 44% and 45% between Sep 23 and Dec 23. The rebound in air freight rates were believed to be driven by growing cross-border e-commerce demand amid a seasonally strong 4Q. We are lacking reliable data tracking air freight rates in Singapore, but given Singapore's transshipment hub status for air cargo, we remain hopeful that SIA may also see some moderate strength in cargo yields in 3QFY24.

• **Jet fuel price has come off from the peak.** According to S&P Global, the global jet fuel price index was in a largely declining trend throughout 4Q23 (SIA's 3QFY24). The latest reading of 298 as of 12 Jan 24 represents a 19.5% decline from the peak of 370 seen in mid-Sep 23. The index averaged at 316 in 4Q23, largely comparable to 3Q23's average of 324.

• **Forecasting SIA's 3QFY24 net profit at S\$670m-810m.** Given the updated Oct-Dec 23 operating data of SIA and factoring in a potential stronger-than-expected qoq rebound in SIA's 3QFY24 air cargo yields, we update our 3QFY24 net profit guidance for SIA to S\$670m-810m, an increase from our previous guided range of S\$650m-770m. Note that the mid-point of our updated guidance range (S\$740m) is already higher than SIA's quarterly historical high of S\$734m in 1QFY24. Key factors causing variance to our forecast include: a) SIA's cost management efficiency, b) our lack of sufficiently accurate data to track SIA's pax yield, and c) SIA's high operating leverage (a small swing of the preceding two factors would cause a relatively large swing in SIA's earnings figures).

• **The Red Sea crisis may help air cargo in the seasonally weak 1Q24 (SIA's 4QFY23).** A possible diversion of more time-sensitive cargo from ocean freight to air freight due to the ongoing crisis at the Red Sea may help support airlines' cargo load in the seasonally weak 1Q24. However, given the still fluid situation, we have yet to incorporate any earnings impact from the possible increment in cargo volume.

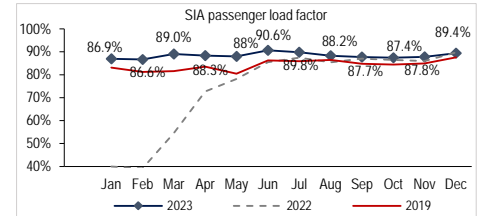
EARNINGS REVISION/RISK

- **No change.** We will do a holistic review of our FY24 earnings forecast after SIA's 3QFY24 results.
- **Key risks:** a) Weaker-than-expected macroeconomic environment dampening air travel and air cargo demand, and b) competition catching up faster than expected.

VALUATION/RECOMMENDATION

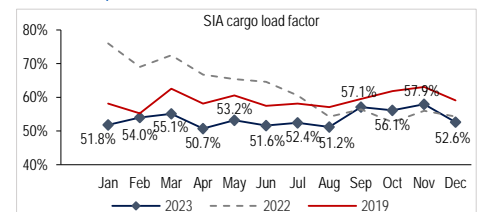
- **Maintain HOLD and target price of S\$6.80.** Our target price for SIA remains based on 1.26x FY25F P/B, pegged to 1SD above long-term historical mean of 1.08x. The +1SD peg reflects our recognition for SIA's outstanding operation track record demonstrated during the pandemic crisis and the likely improved long-term outlook given Singapore's new visa-free arrangement with China.
- **Decent yield of 5.8% for FY24 with possible surprise to the upside.** We believe that SIA can at least sustain the 38 S cents dividend payout in FY24 (the same level as FY23) and has the flexibility to pay out more. Having said that, the strong dividend in these 1-2 years are unlikely sustainable as we expect SIA's earnings to normalise/moderate in the next few years, driven by competition.

PAX LOAD FACTOR ROSE 1.6PPT MOM TO 89.4% IN DEC 23, STILL STRONGER THAN 87.6% IN DEC 19



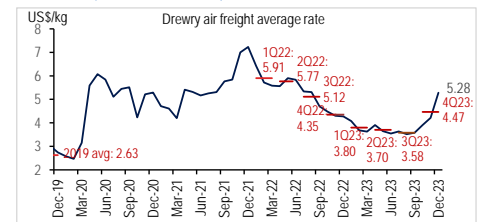
Source: SIA

CARGO LOAD FACTOR DIPPED 5.3PPT MOM TO 52.6% IN DEC 23, WEAKER THAN 59.1% IN DEC 19.



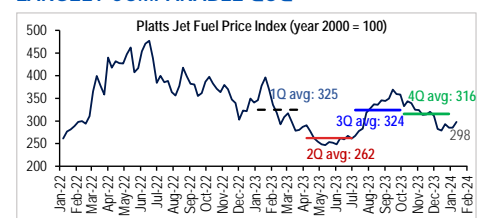
Source: SIA

DREWRY AIR FREIGHT AVERAGE RATE REBOUNDED IN 4Q23 (SIA'S 3QFY23)



Source: Drewry

JET FUEL PRICE ON A DECLINING TREND IN 4Q23 (SIA'S 3QFY24); AVREAGE QUARTERLY FUEL PRICE LARGELY COMPARABLE QOQ



Source: S&P Global

TARGET PRICE REFERENCE TABLE

		FY23	FY24F	FY25F
BVPS, adj		S\$4.45	S\$5.24	S\$5.40
P/B peg		Target price		
+2.0SD	1.44x	S\$6.40	S\$7.53	S\$7.76
+1.5SD	1.35x	S\$6.00	S\$7.06	S\$7.28
+1.0SD	1.26x	S\$5.60	S\$6.59	S\$6.80
+0.5SD	1.17x	S\$5.20	S\$6.12	S\$6.31
Mean	1.08x	S\$4.80	S\$5.66	S\$5.83

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Net turnover	17,774.8	18,903.7	19,831.1	19,630.5
EBITDA	4,772.6	5,188.4	4,307.1	3,766.3
Deprec. & amort.	2,080.5	2,164.0	2,332.5	2,278.7
EBIT	2,692.1	3,024.4	1,974.6	1,487.6
Total other non-operating income	(16.8)	28.1	0.0	0.0
Associate contributions	(31.2)	65.0	100.0	100.0
Net interest income/(expense)	(7.3)	174.2	(96.1)	(235.6)
Pre-tax profit	2,636.8	4,403.7	1,978.5	1,352.0
Tax	(473.5)	(543.8)	(319.4)	(212.8)
Minorities	(6.5)	(23.0)	(35.0)	(45.0)
Net profit	2,156.8	3,836.9	1,624.2	1,094.2
Net profit (adj.)	2,156.8	2,724.9	1,624.2	1,094.2

BALANCE SHEET

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Fixed assets	27,687.0	28,451.6	30,150.1	32,802.4
Other LT assets	2,114.9	3,291.9	3,391.9	3,491.9
Cash/ST investment	16,731.5	9,440.5	5,802.5	4,078.0
Other current assets	2,567.8	2,596.8	2,889.4	2,914.0
Total assets	49,101.2	43,780.8	42,234.0	43,286.3
ST debt	2,547.7	2,547.7	2,547.7	2,547.7
Other current liabilities	11,123.2	10,958.5	10,625.5	9,769.0
LT debt	8,613.7	6,052.3	6,052.3	7,952.3
Other LT liabilities	6,566.8	6,522.0	6,522.0	6,522.0
Shareholders' equity	19,858.3	17,287.5	16,040.2	16,005.6
Minority interest	391.5	412.9	446.3	489.7
Total liabilities & equity	49,101.2	43,780.8	42,234.0	43,286.3

CASH FLOW

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Operating	9,130.1	4,217.7	3,362.2	2,672.4
Pre-tax profit	2,636.8	4,403.7	1,978.5	1,352.0
Tax	(5.2)	(543.8)	(319.4)	(212.8)
Deprec. & amort.	2,080.5	2,164.0	2,332.5	2,278.7
Associates	(94.8)	(5.0)	20.0	20.0
Working capital changes	4,036.6	(457.4)	(625.6)	(881.0)
Non-cash items	326.1	30.5	0.0	0.0
Other operating cashflows	150.1	(1,374.3)	(23.9)	115.6
Investing	(134.0)	(1,761.0)	(3,171.0)	(4,181.0)
Capex (growth)	31.5	(622.5)	(1,537.2)	(2,496.3)
Capex (maintenance)	(1,715.5)	(1,756.5)	(1,941.8)	(1,882.7)
Investments	(35.1)	0.0	0.0	0.0
Proceeds from sale of assets	1,219.8	0.0	0.0	0.0
Others	365.3	618.0	308.0	198.0
Financing	(6,213.4)	(9,747.7)	(3,829.2)	(216.0)
Dividend payments	(297.1)	(1,128.8)	(1,128.8)	(1,128.8)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	(981.8)	(2,561.4)	0.0	1,900.0
Others/interest paid	(4,934.5)	(6,057.4)	(2,700.4)	(987.2)
Net cash inflow (outflow)	2,782.7	(7,291.0)	(3,638.0)	(1,724.5)
Beginning cash & cash equivalent	13,762.7	16,327.6	9,036.6	5,398.6
Changes due to forex impact	(217.8)	0.0	0.0	0.0
Ending cash & cash equivalent	16,327.6	9,036.6	5,398.6	3,674.1

KEY METRICS

Year to 31 Mar (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	26.9	27.4	21.7	19.2
Pre-tax margin	14.8	23.3	10.0	6.9
Net margin	12.1	20.3	8.2	5.6
ROA	4.4	8.3	3.8	2.6
ROE	10.2	20.7	9.7	6.8
Growth				
Turnover	133.4	6.4	4.9	(1.0)
EBITDA	243.4	8.7	(17.0)	(12.6)
Pre-tax profit	n.a.	67.0	(55.1)	(31.7)
Net profit	n.a.	77.9	(57.7)	(32.6)
Net profit (adj.)	n.a.	26.3	(40.4)	(32.6)
EPS	n.a.	26.3	(40.4)	(32.6)
Leverage				
Debt to total capital	35.5	32.7	34.3	38.9
Debt to equity	130.8	64.7	52.2	63.7
Net debt/(cash) to equity	(28.0)	(4.9)	17.4	40.1
Interest cover (x)	653.8	n.a.	44.8	16.0

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