

Singapore Company Update

Singapore Airlines

Bloomberg: SIA SP | Reuters: SIAL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

18 Jan 2024

HOLD

Last Traded Price (18 Jan 2024): S\$6.42 (STI : 3,139.78)
Price Target 12-mth: S\$7.00 (9% upside) (Prev S\$6.80)

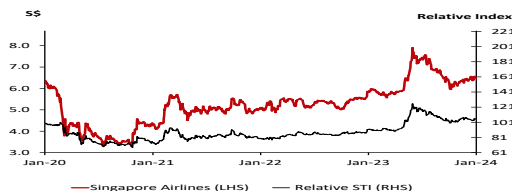
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What's New

- FY24F is likely to be another record year, but capacity growth will likely be inadequate to fully offset lower unit revenue in FY25/26F
- Lift FY24/25F earnings by 11/18% on expectations of slightly softer but more resilient passenger yields
- Valuations in line with fundamentals, as we expect SIA's earnings to moderate in the next two years
- Maintain HOLD with revised TP of S\$7.00

Price Relative



Forecasts and Valuation

FY Mar (S\$m)	2023A	2024F	2025F	2026F
Revenue	17,775	18,661	19,019	19,218
EBITDA	4,680	5,286	4,453	4,001
Pre-tax Profit	2,637	4,295	2,121	1,508
Net Profit	2,157	3,767	1,751	1,223
Net Pft (Pre Ex.)	2,112	2,680	1,751	1,223
Net Pft Gth (Pre-ex) (%)	nm	26.9	(34.6)	(30.2)
EPS (S cts)	72.4	127	58.8	41.1
EPS Pre Ex. (S cts)	70.9	90.0	58.8	41.1
EPS Gth Pre Ex (%)	nm	27	(35)	(30)
Diluted EPS (S cts)	49.4	102	58.8	41.1
Net DPS (S cts)	37.9	48.7	31.1	21.7
BV Per Share (S cts)	455	483	558	568
PE (X)	8.9	5.1	10.9	15.6
PE Pre Ex. (X)	9.1	7.1	10.9	15.6
P/Cash Flow (X)	2.2	4.2	5.1	5.2
EV/EBITDA (X)	3.7	4.0	5.2	6.2
Net Div Yield (%)	5.9	7.6	4.8	3.4
P/Book Value (X)	1.4	1.3	1.2	1.1
Net Debt/Equity (X)	CASH	0.1	0.2	0.3
ROAE (%)	10.2	20.0	10.2	7.3
Earnings Rev (%)		11	18	-
Consensus EPS (S cts)		86.9	48.7	44.6
Other Broker Recs:		B: 3	S: 5	H: 4

Source of all data on this page: Company, DBS Bank Ltd, Bloomberg Finance L.P.

Limited upside as earnings peak

Investment Thesis:

Singapore's flag carrier with a strong foothold in Asia's leading aviation hub. Singapore Airlines (SIA) has one of the most extensive networks among the airlines in Asia, which allows the group to capture substantial transit traffic from neighbouring countries in the region. The group also generally enjoys stronger loyalty among consumers because of its stellar branding and service. SIA has a best-in-class balance sheet, which is not only advantageous in a rising interest rate environment, but also enables the group to retain many of its pilots and aircraft despite the devastating impact of COVID-19. As a result, SIA was able to swiftly deploy capacity as borders reopened and gain market share from competitors in the region.

Downward pressure on earnings to begin following an impressive two years.

We anticipate SIA's earnings to peak in FY24F, though earnings will remain elevated at above pre-pandemic levels over the next two years. Passenger yields are still softening, but remain more resilient than our initial expectations on the back of a slower-than-expected reinstatement of capacity in the region and with premium demand holding up strongly. However, with SIA's capacity already restored significantly at c.93% of pre-pandemic levels, the group faces constraints in increasing capacity further and mitigating margin pressures. As a result, earnings are expected to decline in the near-term from its peak expected in FY24F.

Valuations are broadly in line with its fundamentals. We believe that SIA's valuations are fair at this juncture, considering that the group's earnings will moderate over the next two years, albeit more gradually. Comparing to peers in the region that not only have greater headroom for recovery and exhibit superior earnings trajectory, but also present more compelling valuations, the risk-to-reward profile for SIA appears fair for now.

Maintain HOLD with revised TP of S\$7.00. Our TP is based on 5.1x EV/EBITDA (blended FY24/25F), one standard deviation below its five-year pre-pandemic average.

Key Risks

The key risks for SIA are 1) persistent cost pressures stemming from inflation and 2) passenger and cargo yields softening faster than expectations.

At A Glance

Issued Capital (m shrs)	2,971
Mkt. Cap (S\$m/US\$m)	19,071 / 14,182
Major Shareholders (%)	
Temasek Holdings Pte	55.3
Free Float (%)	44.7
3m Avg. Daily Val (US\$m)	21.7

GIC Industry : Industrials / Transportation



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WHAT'S NEW

Limited upside as earnings peak

Our 2024 outlook report for the [airlines sector](#) highlights that macroeconomic indicators still largely favour the sector, though we expect to see diverging earnings outlook across regions and business segments. This underpins our expectation of global passenger traffic hitting 105-110%/115-120% of 2019's level in 4Q24/4Q25. Across the three major regions, we are most positive on airlines in Asia Pacific, as we expect them to demonstrate stronger earnings momentum, underpinned by relatively higher capacity growth and wider margins, with the Chinese airlines are likely to see the biggest upswing in earnings. While valuation multiples for Asian airlines might appear high, they are commensurate with the region's stronger earnings potential. Our top picks are Cathay Pacific (CX) and China Southern Airlines (CSA).

We expect some downward pressure on SIA's earnings as supernormal passenger yields revert to more normalised levels, though we now believe it will be more gradual than initially anticipated, as well as capacity growth that will be inadequate to fully offset lower unit revenue. With SIA's capacity already restored significantly at c.93% of pre-COVID19 levels, the group faces constraints in increasing capacity further and has lesser scope to drive unit costs down.

Maintain HOLD for SIA with revised TP of S\$7.00 as we roll over our valuations, with valuation peg of 5.1x (one standard deviation below five-year pre-pandemic average) blended FY24/25F EBITDA (previous: blended FY23F/24F EBITDA).

Company Background

Singapore Airlines (SIA) is a leading global airline group based in Singapore. In the passenger service segment, SIA operates its flagship Singapore Airlines product and has Scoot, a low-cost carrier, as a subsidiary. It also owns SIA Engineering, listed on the SGX, which is involved in aircraft maintenance and repair.

Valuation table

(in S\$ millions unless specified otherwise)	Value	Comments
EBITDA	4,916	Blended FY24/25F
EV/EBITDA multiple peg (x)	5.1	One SD below five-year pre-pandemic average
Enterprise value	24,824	
Less: net debt	(1,173)	As at Sep-23
Less: MCBs	(3,098)	As at Sep-23
Less: MCB accrued interest	(391)	As at Sep-23
Less: minority interest	(401)	As at Sep-23
Add: JVs and assocs	1,039	As at Sep-23
Equity value	20,800	
Number of shares outstanding (m)	2,978	
Value per share (S\$)	7.00	

Source: DBS Bank estimates

Historical PB band



Source: Bloomberg Finance L.P., DBS Bank Ltd estimates

Singapore Airlines

Key Assumptions

FY Mar	2022A	2023A	2024F	2025F	2026F
Available seat-km (m)	58,748	106,099	122,618	136,500	148,575
Passenger load factor	32.6	85.8	87.9	84.7	83.0
Passenger yield (cents/pkm)	13.1	12.7	12.3	11.6	10.9
Jet Fuel Price - US\$ per barrel	86.5	124	98.4	91.1	90.0
US\$/S\$ exchange rate	1.35	1.36	1.37	1.37	1.35

Segmental Breakdown

FY Mar	2022A	2023A	2024F	2025F	2026F
Revenues (S\$m)					
Passenger services	2,803	13,372	15,446	15,398	15,425
Cargo services	4,338	3,604	2,150	2,396	2,448
SIA Engineering	197	311	438	525	595
Others	277	488	627	700	750
Total	7,615	17,775	18,661	19,019	19,218

Income Statement (S\$m)

FY Mar	2022A	2023A	2024F	2025F	2026F
Revenue	7,615	17,775	18,661	19,019	19,218
Cost of Goods Sold	(8,225)	(15,083)	(15,599)	(16,626)	(17,418)
Gross Profit	(610)	2,692	3,062	2,393	1,801
Other Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Operating Profit	(610)	2,692	3,062	2,393	1,801
Other Non Opg (Exp)/Inc	40.4	(61.7)	0.0	0.0	0.0
Associates & JV Inc	(116)	(31.2)	67.7	(160)	(110)
Net Interest (Exp)/Inc	(346)	(7.3)	78.7	(112)	(183)
Exceptional Gain/(Loss)	(58.9)	44.9	1,087	0.0	0.0
Pre-tax Profit	(1,090)	2,637	4,295	2,121	1,508
Tax	142	(474)	(513)	(339)	(256)
Minority Interest	(13.9)	(6.5)	(15.0)	(30.0)	(29.0)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	(962)	2,157	3,767	1,751	1,223
Net Profit before Except.	(903)	2,112	2,680	1,751	1,223
EBITDA	1,314	4,680	5,286	4,453	4,001
Growth					
Revenue Gth (%)	99.6	133.4	5.0	1.9	1.0
EBITDA Gth (%)	nm	256.1	13.0	(15.8)	(10.2)
Opg Profit Gth (%)	(75.7)	(541.5)	13.7	(21.8)	(24.7)
Net Profit Gth (Pre-ex) (%)	61.0	nm	26.9	(34.6)	(30.2)
Margins & Ratio					
Gross Margins (%)	(8.0)	15.1	16.4	12.6	9.4
Opg Profit Margin (%)	(8.0)	15.1	16.4	12.6	9.4
Net Profit Margin (%)	(12.6)	12.1	20.2	9.2	6.4
ROAE (%)	(5.0)	10.2	20.0	10.2	7.3
ROA (%)	(2.2)	4.4	7.9	3.9	2.9
ROCE (%)	(2.7)	10.5	14.2	9.9	6.9
Div Payout Ratio (%)	N/A	52.3	38.5	52.8	52.8
Net Interest Cover (x)	(1.8)	368.8	NM	21.3	9.9

Source: Company, DBS Bank Ltd

Balance Sheet (\$m)

FY Mar	2022A	2023A	2024F	2025F	2026F
Net Fixed Assets	27,861	27,687	27,531	28,311	30,001
Invt in Associates & JVs	1,039	1,022	2,537	2,377	2,267
Other LT Assets	2,083	1,093	1,093	1,093	1,093
Cash & ST Invt	14,169	16,732	12,140	7,904	4,673
Inventory	187	227	240	260	261
Debtors	1,566	1,193	1,435	1,585	1,602
Other Current Assets	1,765	1,148	1,148	1,148	1,148
Total Assets	48,671	49,101	46,124	42,677	41,043
ST Debt	607	2,548	2,548	2,548	2,548
Creditor	2,733	4,040	3,888	3,657	3,696
Other Current Liab	4,529	7,083	7,252	7,252	7,253
LT Debt	14,520	12,174	11,174	9,174	7,174
Other LT Liabilities	3,482	3,006	3,006	3,006	3,006
Shareholder's Equity	22,412	19,858	17,850	16,603	16,901
Minority Interests	389	392	407	437	466
Total Cap. & Liab.	48,671	49,101	46,124	42,677	41,043
Non-Cash Wkg. Capital	(3,743)	(8,555)	(8,316)	(7,916)	(7,938)
Net Cash/(Debt)	(958)	2,010	(1,582)	(3,818)	(5,049)
Debtors Turn (avg days)	60.1	28.3	25.7	29.0	30.3
Creditors Turn (avg days)	142.2	95.1	107.6	95.6	88.8
Inventory Turn (avg days)	11.2	5.8	6.3	6.3	6.3
Asset Turnover (x)	0.2	0.4	0.4	0.4	0.5
Current Ratio (x)	2.2	1.4	1.1	0.8	0.6
Quick Ratio (x)	2.0	1.3	1.0	0.7	0.5
Net Debt/Equity (X)	0.0	CASH	0.1	0.2	0.3
Net Debt/Equity ex MI (X)	0.0	CASH	0.1	0.2	0.3
Capex to Debt (%)	15.4	3.2	14.6	25.6	41.1

Source: Company, DBS Bank Ltd

Cash Flow Statement (\$m)

FY Mar	2022A	2023A	2024F	2025F	2026F
Pre-Tax Profit	(1,090)	2,637	4,295	2,121	1,508
Dep. & Amort.	2,000	2,081	2,156	2,220	2,310
Tax Paid	(8.3)	(5.2)	(513)	(339)	(256)
Assoc. & JV Inc/(loss)	116	31.2	(67.7)	160	110
Chg in Wkg.Cap.	1,741	4,099	(239)	(400)	21.7
Other Operating CF	5.90	(44.3)	(1,087)	0.0	0.0
Net Operating CF	2,765	8,798	4,544	3,762	3,694
Capital Exp.(net)	(2,330)	(468)	(2,000)	(3,000)	(4,000)
Other Invt.(net)	(80.0)	335	0.0	0.0	0.0
Invt in Assoc. & JV	(149)	(54.8)	(360)	0.0	0.0
Div from Assoc & JV	35.9	40.7	0.0	0.0	0.0
Other Investing CF	277	13.3	0.0	0.0	0.0
Net Investing CF	(2,247)	(134)	(2,360)	(3,000)	(4,000)
Div Paid	(1.4)	(1.6)	(1,129)	(1,450)	(925)
Chg in Gross Debt	(756)	(1,722)	(1,000)	(2,000)	(2,000)
Capital Issues	6,197	(3,860)	(4,646)	(1,549)	0.0
Other Financing CF	(24.1)	220	2.00	2.00	3.00
Net Financing CF	5,437	(5,881)	(6,775)	(4,999)	(2,925)
Currency Adjustments	25.1	(218)	0.0	0.0	0.0
Chg in Cash	5,980	2,565	(4,591)	(4,237)	(3,231)
Opg CFPS (S cts)	34.4	158	161	140	123
Free CFPS (S cts)	14.6	280	85.4	25.6	(10.3)

Source: Company, DBS Bank Ltd

Target Price & Ratings 12-mth History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	20 Jan 23	5.88	6.80	BUY
2:	23 Feb 23	5.72	6.80	BUY
3:	10 Mar 23	5.74	6.80	BUY
4:	18 May 23	6.09	6.80	BUY
5:	26 Jun 23	7.48	6.80	HOLD

Note : Share price and Target price are adjusted for corporate actions.

Source: DBS Bank Ltd

Analysts: Jason SUM, CFA

Tabitha FOO

Paul YONG

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 18 Jan 2024 20:13:03 (SGT)

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