

Singapore

ADD (no change)

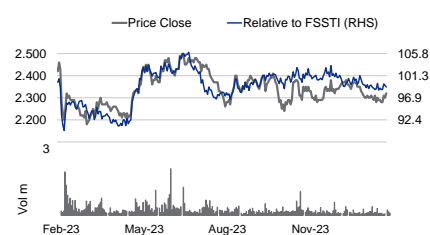
Consensus ratings*: Buy 3 Hold 0 Sell 0

Current price:	S\$2.32
Target price:	S\$2.70
Previous target:	S\$2.70
Up/downside:	16.4%
CGS-CIMB / Consensus:	-1.6%
Reuters:	SIAE.SI
Bloomberg:	SIE SP
Market cap:	US\$1,930m
	S\$2,605m
Average daily turnover:	US\$0.26m
	S\$0.35m
Current shares o/s:	1,121m
Free float:	22.4%

*Source: Bloomberg

Key changes in this note

- FY24F core EPS lowered by 5% due to larger-than-expected forex losses.
- FY25-26F core EPS kept intact as we factor in higher revenue, offset by higher staff cost assumptions.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-1.3	-1.3	-4.1
Relative (%)	-0.6	-2.7	-0.9

Major shareholders	% held
Singapore Airlines	77.6

Analyst(s)



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SIA Engineering

Topline strength dragged by forex losses

- 3QFY24 net profit of S\$27m (+110% yoy) was a slight miss on forex losses of S\$3.9m. 3QFY24 revenue (+40% yoy) was c.9% above FY15-19 levels.
- We expect heightened MRO demand and elevated associate profits to drive FY25F EPS growth of 24%, but staff cost pressures likely to remain a drag.
- Reiterate Add at an unchanged TP of S\$2.70. Current valuation is decent at 17x CY25F P/E (1 s.d. below 2010-19 mean), in our view.

3QFY24 revenue c.9% above pre-Covid, but forex costs dragged

SIA Engineering's (SIE) 3QFY3/24 net profit of S\$27m (-17% qoq, +110% yoy) was slightly below our S\$31m estimate, with 9MFY24 net profit forming 70%/71% of our/Bloomberg consensus' full-year forecasts. 3QFY24 revenue grew strongly to S\$292m (+16% qoq, +40% yoy) on increased air traffic volume at Changi Airport. 3QFY24 EBIT came in at a S\$3.4m loss (3QFY23: S\$12.5m loss), due largely to S\$3.9m forex losses, excluding which, EBIT would be positive at S\$0.5m. 3QFY24 associate profits was in line at S\$24m (-15% qoq, +23% yoy).

Both airframe and engine likely saw healthy operating trends

We believe the strong 3QFY24 revenue growth was driven by healthy recovery in both the airframe and engine segments (undisclosed by SIE). Flights handled by SIE at Changi Airport in 3QFY24 recovered well to 92% of 3QFY20 levels, as reported by SIE, in tandem with increased commercial flight arrivals (+23% yoy) into Singapore. Total checks performed in Singapore was up 25% yoy on increased aircraft utilisation. As of end-Dec 23, passenger volumes at Changi Airport hit 90% of end-Dec 19 levels, with the Singapore Ministry of Transport expecting volumes to reach pre-Covid levels in 2024F.

Expect rising associate profits, while staff costs should stay high

We believe 49%-owned Eagle Services Asia (ESA) had commenced its induction of geared turbofan (GTF) engines in 3QFY24 and expect volumes to ramp-up further in the coming quarters, in line with RTX Corp's (RTX US, NR) guidance. On the opex front, we estimate 3QFY24 labour cost pressure worsened to c.56% of revenue (FY15-19 average: c.45%). We expect staff costs to remain elevated in FY25-26F as SIE faces challenges in sourcing skilled mechanics, but ongoing cost cuts and productivity gains from digitalisation efforts should help as a buffer.

Reiterate Add, with an unchanged TP of S\$2.70

Reiterate Add as we still see a healthy earnings rebound ahead, driven by improved operating profitability and elevated associate profits. Our TP of S\$2.70 is still based on 19.5x CY25F P/E (0.5 s.d below 2010-19 mean). Re-rating catalysts: strong profits from ESA, easing labour cost pressures. Downside risks: an economic slowdown impacting maintenance, repair and overhaul (MRO) volumes, and margin erosion from inability to pass on elevated staff costs.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (S\$m)	566	796	1,100	1,250	1,323
Operating EBITDA (S\$m)	41.5	37.7	64.3	92.6	103.4
Net Profit (S\$m)	67.6	66.4	116.9	144.6	158.8
Core EPS (S\$)	0.05	0.06	0.10	0.13	0.14
Core EPS Growth	51.6%	17.1%	86.5%	23.7%	9.8%
FD Core P/E (x)	48.60	41.52	22.26	18.00	16.40
DPS (S\$)	-	0.055	0.075	0.085	0.090
Dividend Yield	0.00%	2.37%	3.23%	3.66%	3.88%
EV/EBITDA (x)	37.21	40.61	22.98	15.32	13.05
P/FCFE (x)	68.82	58.23	46.52	33.61	28.37
Net Gearing	(38.4%)	(37.6%)	(35.8%)	(33.9%)	(32.3%)
P/BV (x)	1.62	1.56	1.51	1.46	1.41
ROE	3.41%	3.83%	6.90%	8.26%	8.75%
% Change In Core EPS Estimates			(4.58%)	(0.36%)	(0.00%)
EPS/Consensus EPS (x)			0.95	0.92	0.94

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Topline strength dragged by forex losses

Figure 1: Results comparison

FYE Mar (\$m)	3QFY24	3QFY23	yoy % chg	2QFY24	qoq % chg	9MFY24	9MFY23	yoy % chg	Prev. FY24F	Comments
Revenue	291.7	208.1	40.2	252.1	15.7	805.7	570.3	41.3	1,044.5	Above, 9MFY24 formed 77% of both our and Bloomberg consensus FY24F
Operating costs	(295.1)	(220.6)	33.8	(252.4)	16.9	(809.0)	(593.6)	36.3	(1,039.0)	Below, due to S\$3.9m in FX losses
Operating profit	(3.4)	(12.5)	n.m.	(0.3)	n.m.	(3.3)	(23.3)	n.m.	5.5	Below. Excluding FX losses, EBIT would have been profitable at S\$0.5m
OPM (%)	-1.2%	-6.0%	n.m.	-0.1%	n.m.	-0.4%	-4.1%	n.m.	0.5%	
Associates' contrib	23.8	19.3	23.3	28.1	(15.4)	73.8	60.7	21.6	103.4	In line
Net profit	26.9	12.8	110.2	32.3	(16.8)	86.2	45.4	90.1	122.6	Below, formed 70% of our and 71% of Bloomberg consensus FY24F
NPM (%)	9.2%	6.2%	n.m.	12.8%	n.m.	10.7%	8.0%	n.m.	11.7%	

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 2: Quarterly operational performance

	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Light checks	85	77	92	94	118	140	151	159	173	212	199
Heavy checks	21	25	25	22	20	22	28	24	23	22	24
Total	106	102	117	116	138	162	179	183	196	234	223
qoq (%)	31%	-4%	15%	-1%	19%	17%	10%	2%	7%	19%	-5%
yoy %	54%	59%	70%	43%	30%	59%	53%	58%	42%	44%	25%
Flights handled at Changi	9,755	10,990	12,860	14,280	20,281	24,982	29,181	30,695	34,173	36,540	37,154
qoq (%)	13%	13%	17%	11%	42%	23%	17%	5%	11%	7%	2%
yoy %	97%	74%	65%	65%	108%	127%	127%	115%	68%	46%	27%
Fleet management size	79	77	76	95	97	99	108	109	114	107	92
qoq (%)	-1%	-3%	-1%	25%	2%	2%	9%	1%	5%	-6%	-14%
yoy %	-8%	-6%	-4%	19%	23%	29%	42%	15%	18%	8%	-15%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 3: Associate profits were up 23% yoy, largely led by engine associates

(\$m)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Assocs' and JV	14.8	12.0	40.1	12.2	16.4	25.0	19.3	17.1	21.9	28.1	23.8
qoq change (%)	n.m.	-18.9%	234.2%	-69.6%	34.5%	52.5%	-22.8%	-11.4%	28.1%	28.5%	-15.4%
yoy change (%)	8.0%	-18.5%	226.0%	n.m.	10.8%	108.4%	-51.9%	40.2%	33.5%	12.5%	23.3%

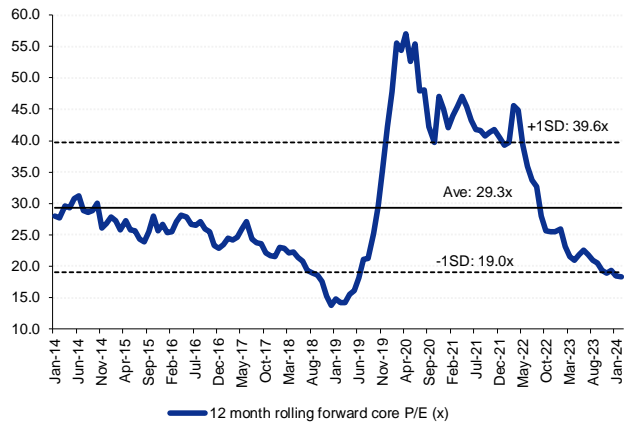
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 4: Earnings revision

FYE Mar (\$m)	New			Old			% change		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Revenue	1,100.0	1,250.2	1,323.3	1,044.5	1,175.7	1,242.2	5.3%	6.3%	6.5%
Operating profit	0.0	26.5	35.2	5.5	27.3	35.7	-99.1%	-3.2%	-1.4%
Assoc & JVs	103.4	116.7	124.7	103.4	116.7	124.7	0.0%	0.0%	0.0%
Core net profit	116.9	144.6	158.8	122.6	145.2	158.8	-4.6%	-0.4%	0.0%
Core EPS (Scts)	10.4	12.9	14.1	10.9	12.9	14.1	-4.6%	-0.4%	0.0%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 5: SIA Engineering's 12-month rolling forward core P/E (x)



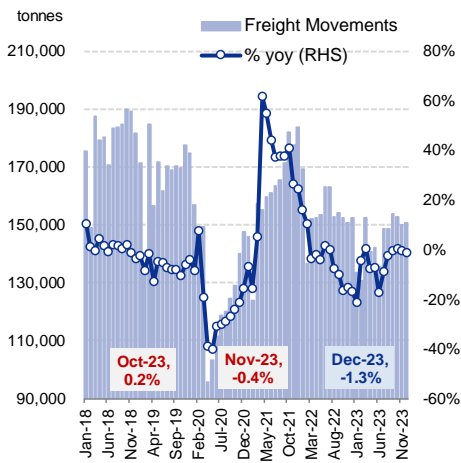
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

Figure 6: SIA Engineering's P/BV (x)



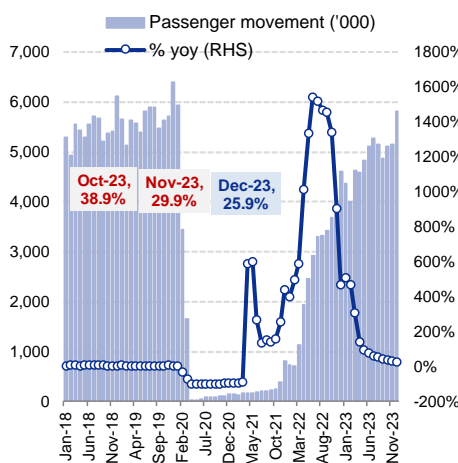
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

Figure 7: Changi Airport: freight movements (Singapore)



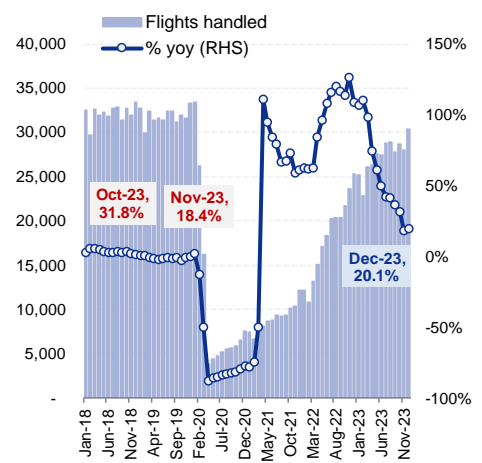
SOURCES: CGS-CIMB RESEARCH, CEIC

Figure 8: Changi Airport: passenger movements (Singapore)



SOURCES: CGS-CIMB RESEARCH, CEIC

Figure 9: Changi Airport: no. of flights (Singapore)




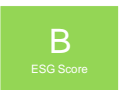

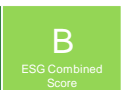



SOURCES: CGS-CIMB RESEARCH, CEIC

Figure 10: Peer comparison

Company	Bbg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	Core P/E (x)		P/BV (x) CY24F	Recurring ROE (%)		Dividend Yield (%) CY24F
						CY24F	CY25F		CY24F	CY25F	
SIA Engineering	SIE SP	Add	2.32	2.70	1,930	18.9	16.8	1.47	8.0%	8.6%	3.6%
ST Engineering	STE SP	Add	3.88	4.36	8,951	17.7	15.4	4.58	27.0%	28.2%	4.1%
SATS Ltd	SATS SP	Add	2.75	3.44	3,038	42.4	22.4	1.92	4.5%	8.4%	1.2%
Simple Average (all co)						26.3	18.2	2.66	13.2%	15.1%	3.0%

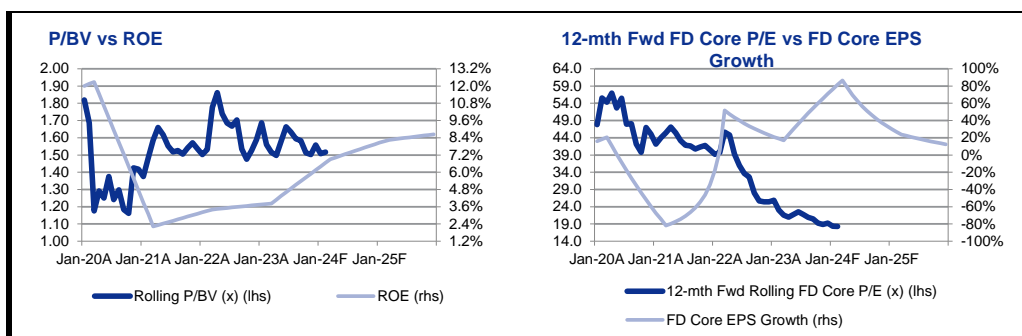
DATA AS OF 15 FEB 2024

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

Refinitiv ESG Scores	
	
     	
<p>ESG in a nutshell</p> <p>SIA Engineering (SIE) has made steady progress in improving its ESG standing via increased environmental and social initiatives. According to Refinitiv, the group's overall ESG score improved from C- in FY16 to B in FY23. Its current score of B is split into Environment: A (weightage: 29.1%), Social: B (weightage: 42.7%) and Governance: C- (weightage: 28.2%). We believe the group will continue to improve its ESG standing as it strives towards its long-term 2030 carbon emissions target.</p>	
<p>Keep your eye on</p> <p>SIE was fined S\$230k in FY18 over a workplace safety lapse, which resulted in the death of a foreign worker at the Changi Hangar Complex. SIE was charged for failing to ensure an adequately safe workplace environment, as well as failing to implement adequate risk assessment. In FY20, an SIE employee fell from an aircraft while performing maintenance work, the result of which was fatal.</p>	<p>Implications</p> <p>As a company with labour-intensive operations, it is imperative for SIE to maintain high workplace safety standards. Since FY18, the group has steadily improved its safety measures, resulting in a decline in the reportable accident rate (accidents per million hours) from 2.06 in FY18 to 1.62 in FY20. However, we believe there is room for improvement, given the two workplace fatalities over the course of FY18-20. Positively, there were zero work-related fatalities in FY21-23. We will continue to monitor the group's adherence to high international safety standards.</p>
<p>ESG highlights</p> <p>According to Refinitiv, SIE scored an overall ESG score of A in FY23, which is above its Singapore aviation services peer SATS Ltd (scored B by Refinitiv).</p> <p>SIE improved its Environmental score to A- from C- in 2018. We believe this was attributable to the installation of solar photovoltaic systems on the roofs of its buildings and hangars, which reduced its electricity consumption from non-renewable sources by 20%. SIE has also set a long-term target of achieving more than 24.48% reduction in carbon emissions intensity level by 2030F (base year: FY14).</p>	<p>Implications</p> <p>We like that SIE has made efforts to improve its environmental performance, showing its commitment to environmental sustainability. The group also fares satisfactorily with regards to corporate governance, with little controversy in recent years. We have not factored this into our fundamental valuations of SIE yet.</p>
<p>Trends</p> <p>SIE steadily improved its Social score from D+ in FY17 to B in FY23.</p> <p>In FY18, SIE introduced various initiatives to promote safe workplace behaviour. These initiatives include the introduction of an aircraft towing simulator offering risk-free virtual training to staff, automated guided vehicles (AGVs) with enhanced safety features, and development of a computer-based workplace safety training module.</p> <p>In FY22, SIE launched its new Lean Academy, a training institute targeted at re-skilling and upskilling its workforce. In FY23, SIE launched a diversity task force to implement initiatives that promote inclusiveness and attract varied talents from various backgrounds.</p>	<p>Implications</p> <p>SIE is showing a clear commitment towards better safety and staff welfare, as demonstrated by its efforts in recent years. We have not factored these into our fundamental valuations of SIE yet.</p>

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS



Profit & Loss

(\$m)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	566.1	796.0	1,100.0	1,250.2	1,323.3
Gross Profit	485.3	677.2	921.2	1,047.7	1,110.3
Operating EBITDA	41.5	37.7	64.3	92.6	103.4
Depreciation And Amortisation	(63.3)	(64.0)	(64.3)	(66.2)	(68.1)
Operating EBIT	(21.9)	(26.3)	0.0	26.5	35.2
Financial Income/(Expense)	(0.8)	10.3	20.0	18.3	17.5
Pretax Income/(Loss) from Assoc.	79.1	77.8	103.4	116.7	124.7
Non-Operating Income/(Expense)	(7.2)	3.7	0.0	0.0	0.0
Profit Before Tax (pre-EI)	49.2	65.5	123.4	161.5	177.4
Exceptional Items					
Pre-tax Profit	49.2	65.5	123.4	161.5	177.4
Taxation	18.6	1.0	(6.2)	(16.1)	(17.7)
Exceptional Income - post-tax					
Profit After Tax	67.8	66.5	117.2	145.3	159.7
Minority Interests	(0.2)	(0.1)	(0.3)	(0.7)	(0.9)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	67.6	66.4	116.9	144.6	158.8
Recurring Net Profit	53.5	62.7	116.9	144.6	158.8
Fully Diluted Recurring Net Profit	53.5	62.7	116.9	144.6	158.8

Cash Flow

(\$m)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	41.46	37.70	64.35	92.64	103.35
Cash Flow from Invt. & Assoc.	(79.09)	(77.81)	(103.36)	(116.73)	(124.67)
Change In Working Capital	(9.05)	21.51	(12.21)	(12.02)	(5.85)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	81.45	74.69	58.36	73.43	82.17
Net Interest (Paid)/Received	(0.86)	5.54	20.00	18.30	17.50
Tax Paid	(4.71)	2.99	(6.17)	(16.15)	(17.74)
Cashflow From Operations	29.20	64.61	20.97	39.47	54.76
Capex	(18.43)	(48.60)	(30.00)	(30.00)	(30.00)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	34.18	29.14	65.00	68.00	67.00
Cash Flow From Investing	15.75	(19.46)	35.00	38.00	37.00
Debt Raised/(repaid)	(7.14)	(0.44)	0.00	0.00	0.00
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	0.00	0.00	(61.79)	(84.17)	(95.39)
Preferred Dividends					
Other Financing Cashflow	(28.61)	(36.67)	(5.00)	(4.70)	(4.50)
Cash Flow From Financing	(35.74)	(37.11)	(66.79)	(88.87)	(99.89)
Total Cash Generated	9.21	8.04	(10.82)	(11.40)	(8.13)
Free Cashflow To Equity	37.81	44.71	55.97	77.47	91.76
Free Cashflow To Firm	47.58	47.15	60.97	82.17	96.26

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	625	633	622	611	603
Total Debtors	35	34	49	56	60
Inventories	33	43	60	69	73
Total Other Current Assets	219	242	257	281	293
Total Current Assets	913	952	990	1,017	1,028
Fixed Assets	157	175	171	164	156
Total Investments	448	453	516	588	668
Intangible Assets	33	41	36	31	26
Total Other Non-Current Assets	287	362	362	362	362
Total Non-current Assets	925	1,031	1,085	1,146	1,212
Short-term Debt	3	2	2	2	2
Current Portion of Long-Term Debt					
Total Creditors	128	162	198	225	238
Other Current Liabilities	47	51	51	51	51
Total Current Liabilities	178	216	251	279	292
Total Long-term Debt	0	0	0	0	0
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	39	91	91	91	91
Total Non-current Liabilities	39	91	91	91	91
Total Provisions	0	0	0	0	0
Total Liabilities	217	307	343	370	383
Shareholders' Equity	1,611	1,666	1,721	1,782	1,845
Minority Interests	11	11	11	12	12
Total Equity	1,621	1,677	1,732	1,793	1,858

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	27.8%	40.6%	38.2%	13.7%	5.8%
Operating EBITDA Growth	(10.3%)	(9.1%)	70.7%	44.0%	11.6%
Operating EBITDA Margin	7.32%	4.74%	5.85%	7.41%	7.81%
Net Cash Per Share (S\$)	0.55	0.56	0.55	0.54	0.53
BVPS (S\$)	1.44	1.48	1.53	1.59	1.64
Gross Interest Cover	(8.31)	(13.15)	0.01	5.63	7.83
Effective Tax Rate	0.0%	0.0%	5.0%	10.0%	10.0%
Net Dividend Payout Ratio	NA	93.1%	72.0%	65.9%	63.6%
Accounts Receivables Days	22.62	15.93	13.92	15.44	15.97
Inventory Days	153.8	117.3	106.3	116.5	121.2
Accounts Payables Days	642.6	445.4	368.6	381.2	396.8
ROIC (%)	(5.38%)	(4.53%)	0.01%	3.47%	4.61%
ROCE (%)	(1.26%)	(0.85%)	1.47%	2.80%	3.13%
Return On Average Assets	3.78%	2.93%	4.84%	6.08%	6.54%

Key Drivers

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Airframe overhaul and line maintenance yoy (%)	23.6%	38.5%	31.9%	13.3%	6.1%
Engine and component yoy (%)	51.1%	50.6%	65.0%	15.0%	5.0%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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Description:	Excellent	Very Good	Good	N/A	N/A

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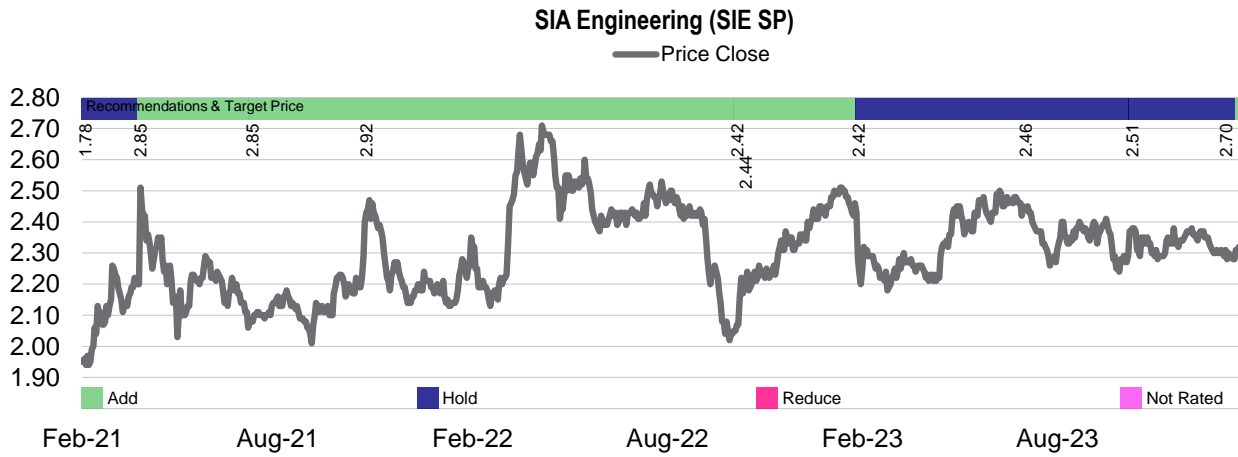
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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2023		
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	Rating Distribution (%)	Investment Banking clients (%)
Add	67.5%	1.3%
Hold	22.5%	0.0%
Reduce	10.1%	0.2%

Spitzer Chart for stock being researched (2 year data)



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Definition:

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

Hold The stock's total return is expected to be between 0% and positive 10% over the next 12 months.

Reduce The stock's total return is expected to fall below 0% or more over the next 12 months.

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