

Singapore Company Update

Singapore Airlines

Bloomberg: SIA SP | Reuters: SIAL.SI

Refer to important disclosures at the end of this report

2680DBS Group Research . Equity

22 Feb 2024

HOLD

Last Traded Price (21 Feb 2024): S\$6.67 (STI : 3,217.11)
Price Target 12-mth: S\$6.10 (9% downside) (Prev S\$7.00)

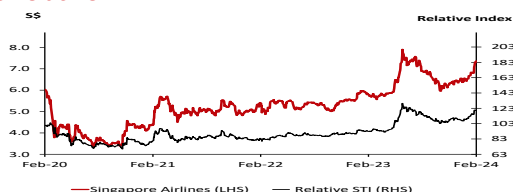
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What's New

- Continued downward pressure on passenger yields and rising costs likely to impact SIA's profitability
- Cut FY24-26F core net profit by 8%-14% following disappointing 3QFY24 results
- Risk-to-reward appears neutral with current valuation closely aligning with less optimistic earnings outlook
- Maintain HOLD with revised TP of S\$6.10

Price Relative



Forecasts and Valuation

FY Mar (\$m)	2023A	2024F	2025F	2026F
Revenue	17,775	18,709	18,905	19,181
EBITDA	4,680	4,936	4,159	3,873
Pre-tax Profit	2,637	2,854	2,920	1,394
Net Profit	2,157	2,443	2,596	1,128
Net Pft (Pre Ex.)	2,112	2,443	1,509	1,128
Net Pft Gth (Pre-ex) (%)	nm	15.7	(38.2)	(25.3)
EPS (S cts)	72.4	82.1	87.2	37.9
EPS Pre Ex. (S cts)	70.9	82.1	50.7	37.9
EPS Gth Pre Ex (%)	nm	16	(38)	(25)
Diluted EPS (S cts)	49.4	66.1	87.2	37.9
Net DPS (S cts)	37.9	44.4	26.8	20.0
BV Per Share (S cts)	455	447	546	557
PE (X)	9.2	8.1	7.6	17.6
PE Pre Ex. (X)	9.4	8.1	13.2	17.6
P/Cash Flow (X)	2.3	4.6	4.4	5.6
EV/EBITDA (X)	3.9	4.5	5.6	6.4
Net Div Yield (%)	5.7	6.7	4.0	3.0
P/Book Value (X)	1.5	1.5	1.2	1.2
Net Debt/Equity (X)	CASH	0.1	0.2	0.3
ROAE (%)	10.2	13.4	15.8	6.9
Earnings Rev (%):		(35)	48	(8)
Consensus EPS (S cts):		92.0	64.5	50.0
Other Broker Recs:		B: 3	S: 6	H: 3

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

Dual turbulence - navigating pricing and cost pressures

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 airline networks in Asia, enabling the group to capture significant transit traffic from neighbouring countries. 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 facilitates 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, gaining market share from competitors in the region.

Continued downward pressure on passenger yields and rising costs pressures likely to impact the group's profitability. We anticipate SIA's earnings to peak in FY24F, though earnings will remain elevated at above pre-pandemic levels over the next two years. The group has limited scope to mitigate pricing pressures in a weaker-than-expected yield environment through further capacity growth, which can help lower unit costs, as the group's capacity has already been restored to c.93% of pre-pandemic levels. As a result, we cut FY24-26F core net profits by 8%-14% due to disappointing 3QFY24 results.

Valuations are broadly in line with its fundamentals. We believe that SIA's valuations are fair at this juncture, considering the group's core earnings are expected to decline in FY25-256F. Compared to regional peers, which have greater room for recovery, exhibit a superior earnings trajectory, and offer more compelling valuations, SIA's risk-to-reward profile seems fair for now.

Maintain HOLD with TP of S\$6.10. Our TP is based on 5.0x EV/EBITDA (blended FY24/25F), which is 0.5 standard deviation above its five-year pre-pandemic average.

Key Risks

The key risks for SIA are 1) continued 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)	19,814 / 14,747
Major Shareholders (%)	
Temasek Holdings Pte	55.3
Free Float (%)	44.7
3m Avg. Daily Val (US\$m)	26.2
GIC Industry : Industrials / Transportation	



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WHAT'S NEW

Dual turbulence – navigating pricing and cost pressures

3QFY24 was a significant miss. SIA reported 3QFY24 headline net profit of S\$659m (-6.8% q-o-q, +4.9% y-o-y). The sequential decline in net profits for the quarter was unexpected, given the reduction in jet fuel prices and the fact that the Oct-Dec quarter is a peak season for both travel and cargo. Additionally, the group recognised a one-off tax credit (estimated to be around S\$60m based on our calculations; the amount is not disclosed) that resulted in materially lower tax expenses for the quarter. Without this, the core net profit would likely have been between S\$575m and S\$625m. 9MFY24 core net profit of S\$2016m to S\$2066m accounted for about 76% of the consensus and DBS's full-year estimate.

3QFY24 revenue was S\$5,082m (+8.5% q-o-q and +4.9% y-o-y), setting a record for quarterly revenue for the group. This was driven by passenger traffic growth, though it was partially offset by softer passenger yields (-7.4% y-o-y) and cargo yields (-37.4% y-o-y). Group passenger traffic grew by 3.6% q-o-q and 19.1% y-o-y to approximately 95% of 2019's level in 3QFY24 (up from 80% in 3QFY23), with overall passenger load factors remaining at an elevated level of 88.2%. Passenger yields for both SIA and Scoot declined more rapidly than anticipated (SIA: -4.6% y-o-y, Scoot: -15.3% y-o-y). Meanwhile, the cargo segment saw a slight increase in volumes (+5.0% q-o-q, +3.9% y-o-y) due to robust e-commerce demand, though cargo yields demonstrated limited improvement (+2.5% q-o-q) on a sequential basis.

The sequential decline in the group's operating profits and margins in a seasonally stronger quarter is concerning.

Operating profits sank by 19.3% y-o-y to S\$609m in 3QFY24, as marginally lower unit costs (group cost per ATK: -1.8% y-o-y) and traffic growth were insufficient to offset pricing pressures and a lower cargo contribution (-35.1% y-o-y to S\$559.4m). As a recap, the group booked close to S\$190m of FX losses as an operating expense in 3QFY23, excluding which, would have translated into a considerably more acute y-o-y deterioration in its operating profits. On a sequential basis, operating profits fell by an even wider margin of 23.8%, despite higher passenger traffic and a q-o-q increase in passenger yields and cargo revenue, as unit costs spiked by 11.9% q-o-q. Consequently, SIA's operating margin contracted to 12.0% in 3QFY24, down from 17.1% in 2QFY24 and 15.6% in 3QFY23.

Scoot is bearing the brunt of fierce competition from regional LCCs.

While Scoot is still performing better relative to pre-pandemic levels, the low-cost carrier saw a substantial 70.5% y-o-y decline in its operating profits in 3QFY24, largely due to acute yield compression amid intense competition. The group is taking

several measures to improve Scoot's profitability, including adding smaller regional Embraer jets from April 2024 to operate in new destinations and serve existing ones that can be better served by smaller aircraft, and to step up cross-selling efforts between Scoot and SIA by leveraging SIA's distribution channels.

Forward bookings remain strong, while load factors are likely to stay elevated; the main issue is pricing. Management highlighted that air travel demand appears robust ahead, bolstered by the upcoming March school holidays, the Easter holiday season, and the typical peak summer season, with passenger load factors anticipated to remain high across all cabin classes. While corporate travel has yet to recover to pre-pandemic levels, leisure travellers have been upgrading to premium cabins, with load factors in premium cabins surpassing pre-pandemic levels. Despite the uncertain macroeconomic environment, management highlighted that they do not see any signs of weakness in demand from any sector or country. However, a normalisation of travel patterns (gradual diminishing of pent-up travel demand), coupled with the continued reinstatement of capacity by peers, will continue to challenge passenger yields.

Bleak prospect for cargo yields, SIA could see limited support from ongoing Red Sea disruptions. Despite potential challenges in sea freight due to the Red Sea attacks, management mentioned that there has been no positive spillover effect to air freight, which is a stark contrast to what North Asian airlines are reporting. SIA's cargo operations primarily consist of transshipment, involving goods originating from China and other regional manufacturing hubs being transported via Singapore to Europe. This trade route continues to experience fierce competition as regional airlines rapidly increase their capacity. Hence, SIA's cargo yields will likely continue to trend lower as more capacity returns to the market.

The inflationary environment is expected to negatively impact margins; there is limited scope to drive unit costs down with capacity build-up. Management highlighted sticky inflation, especially in handling costs at overseas stations due to a lack of manpower, as well as rising passenger costs (such as in-flight meal costs) and maintenance costs. Unit staff costs could be slightly erratic on a q-o-q basis due to timing issues with the provision of bonuses, but there have been no material swings on a h-o-h basis. With passenger capacity already at a high base of around 90% of pre-pandemic levels in 3QFY24, we do not see much scope to further reduce unit costs as the group progressively ramps up capacity to 100% by 3QFY25.

Singapore Airlines

Divergence in market jet fuel prices and all-in jet fuel price is likely due to timing issues; expect lower fuel hedging gains going forward as existing hedges are closer to prevailing spot prices.

SIA indicated that its reported all-in jet fuel costs are higher than MOPS due to two reasons: 1) different benchmarks are used when they uplift jet fuel from multiple airports around the world; and 2) there is a lag effect based on actual billing. There has been no change to SIA's fuel hedging strategy, which is for a declining wedge over an 18-month period, meaning it is more heavily hedged in the short-term, at around 40% in the nearer quarters, with the level of hedging tapering off over time. The group is likely to book lower fuel hedging gains going forward as advantageous hedges secured prior to the pandemic had mostly expired. Hence, existing hedges in place are anticipated to align much more closely with the prevailing jet fuel prices.

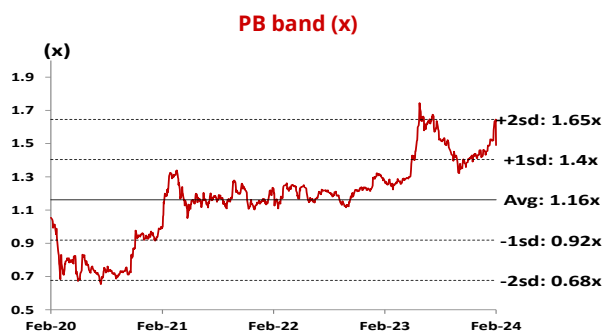
Maintain HOLD with revised TP of S\$6.10; cut FY24-26F core net profit estimates by 8%-14%. We moderate our FY24F net profit estimate, and now expect to see a more significant decline in SIA's FY25-26F core net profits, largely reflecting a faster

moderation in passenger yields and higher unit costs due to sustained inflationary pressures. With the merger between Vistara and Air India unlikely to be completed by FY24F as it is still pending authority approvals, the S\$1.1bn one-off non-cash accounting gain is expected to be recorded in FY25F instead. As Vistara's financials are undisclosed, we have decided to be conservative and assume ongoing losses at the airline over FY25-26, which will weigh on profits in those two years. We maintain our HOLD call for SIA with a lower target price of S\$6.10, based on 5.0x EV/EBITDA (blended FY24F/FY25F), which is 0.5 standard deviation (SD) above its five-year pre-COVID-19 average.

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.

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	124,718	136,500	148,575
Passenger load factor	32.6	85.8	87.6	84.7	83.0
Passenger yield	13.1	12.7	12.1	11.5	10.8
Jet Fuel Price - US\$ per	86.5	124	101	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 (\$m)					
Passenger services	2,803	13,372	15,486	15,283	15,388
Cargo services	4,338	3,604	2,158	2,396	2,448
SIA Engineering	197	311	438	525	595
Others	277	488	627	700	750
Total	7,615	17,775	18,709	18,905	19,181

Income Statement (\$m)

FY Mar	2022A	2023A	2024F	2025F	2026F
Revenue	7,615	17,775	18,709	18,905	19,181
Cost of Goods Sold	(8,225)	(15,083)	(16,057)	(16,846)	(17,578)
Gross Profit	(610)	2,692	2,652	2,059	1,603
Other Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Operating Profit	(610)	2,692	2,652	2,059	1,603
Other Non Opng (Exp)/Inc	40.4	(61.7)	45.0	0.0	0.0
Associates & JV Inc	(116)	(31.2)	82.7	(120)	(40.0)
Net Interest (Exp)/Inc	(346)	(7.3)	74.4	(106)	(169)
Exceptional Gain/(Loss)	(58.9)	44.9	0.0	1,087	0.0
Pre-tax Profit	(1,090)	2,637	2,854	2,920	1,394
Tax	142	(474)	(396)	(293)	(237)
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	2,443	2,596	1,128
Net Profit before Except.	(903)	2,112	2,443	1,509	1,128
EBITDA	1,314	4,680	4,936	4,159	3,873
Growth					
Revenue Gth (%)	99.6	133.4	5.3	1.0	1.5
EBITDA Gth (%)	nm	256.1	5.5	(15.7)	(6.9)
Opg Profit Gth (%)	(75.7)	(541.5)	(1.5)	(22.4)	(22.1)
Net Profit Gth (Pre-ex) (%)	61.0	nm	15.7	(38.2)	(25.3)
Margins & Ratio					
Gross Margins (%)	(8.0)	15.1	14.2	10.9	8.4
Opg Profit Margin (%)	(8.0)	15.1	14.2	10.9	8.4
Net Profit Margin (%)	(12.6)	12.1	13.1	13.7	5.9
ROAE (%)	(5.0)	10.2	13.4	15.8	6.9
ROA (%)	(2.2)	4.4	5.2	6.0	2.7
ROCE (%)	(2.7)	10.5	12.3	9.6	6.4
Div Payout Ratio (%)	N/A	52.3	54.1	30.7	52.8
Net Interest Cover (x)	(1.8)	368.8	NM	19.3	9.5

Source: Company, DBS Bank Ltd

Singapore Airlines

Interim Income Statement (\$m)

FY Mar	1H2022	2H2022	1H2023	2H2023	1H2024
Revenue	2,827	4,788	8,417	9,358	9,162
Cost of Goods Sold	(3,446)	(4,778)	(7,182)	(7,901)	(7,609)
Gross Profit	(619)	9.70	1,234	1,458	1,554
Other Oper. (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Operating Profit	(619)	9.70	1,234	1,458	1,554
Other Non Opg (Exp)/Inc	(46.2)	71.6	16.2	(79.1)	27.7
Associates & JV Inc	(108)	(8.2)	(62.4)	31.2	22.7
Net Interest (Exp)/Inc	(174)	(172)	(105)	97.8	117
Exceptional Gain/(Loss)	0.0	(43.9)	9.00	46.1	0.0
Pre-tax Profit	(948)	(142)	1,092	1,554	1,721
Tax	116	25.9	(151)	(323)	(268)
Minority Interest	(5.2)	(8.7)	(5.7)	(0.8)	(11.5)
Net Profit	(837)	(125)	936	1,230	1,441
Net profit bef Except.	(837)	(81.3)	927	1,184	1,441
EBITDA	217	1,082	2,213	2,465	2,676

Growth

Revenue Gth (%)	29.6	69.4	75.8	11.2	(2.1)
EBITDA Gth (%)	(19.1)	398.7	104.5	11.4	8.5
Opg Profit Gth (%)	(4.6)	(101.6)	12,625.8	18.1	6.6
Net Profit Gth (%)	4.1	(85.0)	(847.5)	31.4	17.2

Margins

Gross Margins (%)	(21.9)	0.2	14.7	15.6	17.0
Opg Profit Margins (%)	(21.9)	0.2	14.7	15.6	17.0
Net Profit Margins (%)	(29.6)	(2.6)	11.1	13.1	15.7

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	1,465	1,345	1,305
Other LT Assets	2,083	1,093	1,093	1,093	1,093
Cash & ST Invt	14,169	16,732	11,895	8,573	5,313
Inventory	187	227	240	260	261
Debtors	1,566	1,193	1,439	1,575	1,598
Other Current Assets	1,765	1,148	1,148	1,148	1,148
Total Assets	48,671	49,101	44,811	42,304	40,718
ST Debt	607	2,548	2,548	2,548	2,548
Creditor	2,733	4,040	3,898	3,636	3,689
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	16,526	16,252	16,583
Minority Interests	389	392	407	437	466
Total Cap. & Liab.	48,671	49,101	44,811	42,304	40,718
Non-Cash Wkg. Capital	(3,743)	(8,555)	(8,322)	(7,904)	(7,934)
Net Cash/(Debt)	(958)	2,010	(1,827)	(3,149)	(4,409)
Debtors Turn (avg days)	60.1	28.3	25.7	29.1	30.2
Creditors Turn (avg days)	142.2	95.1	104.2	94.0	87.5
Inventory Turn (avg days)	11.2	5.8	6.1	6.2	6.2
Asset Turnover (x)	0.2	0.4	0.4	0.4	0.5
Current Ratio (x)	2.2	1.4	1.1	0.9	0.6
Quick Ratio (x)	2.0	1.3	1.0	0.8	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

Singapore Airlines

Cash Flow Statement (S\$m)

FY Mar	2022A	2023A	2024F	2025F	2026F
Pre-Tax Profit	(1,090)	2,637	2,854	2,920	1,394
Dep. & Amort.	2,000	2,081	2,156	2,220	2,310
Tax Paid	(8.3)	(5.2)	(396)	(293)	(237)
Assoc. & JV Inc/(loss)	116	31.2	(82.7)	120	40.0
Chg in Wkg.Cap.	1,741	4,099	(233)	(418)	30.1
Other Operating CF	5.90	(44.3)	0.0	0.0	0.0
Net Operating CF	2,765	8,798	4,299	4,548	3,537
Capital Exp.(net)	(2,330)	(468)	(2,000)	(3,000)	(4,000)
Other Invs.(net)	(80.0)	335	0.0	0.0	0.0
Invs 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)	(1,322)	(797)
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)	(4,871)	(2,797)
Currency Adjustments	25.1	(218)	0.0	0.0	0.0
Chg in Cash	5,980	2,565	(4,836)	(3,323)	(3,260)
Opg CFPS (S cts)	34.4	158	152	167	118
Free CFPS (S cts)	14.6	280	77.2	52.0	(15.6)

Source: Company, DBS Bank Ltd

Target Price & Ratings 12-mth History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	23 Feb 23	5.72	6.80	BUY
2:	10 Mar 23	5.74	6.80	BUY
3:	18 May 23	6.09	6.80	BUY
4:	26 Jun 23	7.48	6.80	HOLD
5:	18 Jan 24	6.42	7.00	HOLD

Source: DBS Bank Ltd

Analysts: Jason SUM, CFA

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Paul YONG, CFA

DBS Group Research recommendations are based on an Absolute Total Return* Rating system, defined as follows:

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

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Dissemination Date: 22 Feb 2024 08:04:17 (SGT)

Sources for all charts and tables are DBS Bank Ltd unless otherwise specified.

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