

COMPANY RESULTS

Singapore Airlines (SIA SP)

1QFY24: Results In Line; Peak Quarterly Earnings Helped By Tailwinds

SIA's 1QFY24 reported net profit of S\$734m falls within our guidance of S\$700m-750m. Besides the still-strong pax yields and upbeat load factors, the record quarterly earnings were also helped by several tailwinds such as favourable fluctuation of jet fuel price. Coming into the summer peak season, earnings are likely to stay strong but we reckon that it would not be stronger than 1QFY24. Maintain SELL with a lower target price of S\$6.82 based on 1.35x FY24F P/B (1.5SD above historical mean).

1QFY24 RESULTS

Year to 31 Mar (\$m)	1Q24	4Q23	qoq % chg	1Q23	yoy % chg	Prev. FY24F	Comment / as % of full-year forecast
Revenue	4,479	4,512	-0.7	3,928	+14.0	18,691	In line; 1Q at 24% of FY24F
Pax flown revenue	3,676	3,620	+1.6	2,676	+37.4	15,405	In line; 1Q at 24% of FY24F
Cargo & mail revenue	542	643	-15.7	1,096	-50.6	2,343	In line; 1Q at 23% of FY24F
EBIT (reported)	755	703	+7.4	556	+35.6	2,513	In line
Fuel hedge gains/(losses)	101	136	-25.5	203	-50.2	85	In line
Adjusted EBIT*	604	562	+7.3	363	+66.1	2,428	In line; 1Q at 25% of FY24F
Net Profit (reported)	734	602	+21.9	370	+98.2	3,291	Within guided S\$700m-750m
Adjusted net profit*	600	518	+15.9	212	+183.3	2,108	In line; 1Q at 28% of FY24F
Margins (%)							
Adjusted EBIT*	13.5	12.5	+1.0ppt	9.3	+4.2ppt	13.0	
Adjusted net profit*	13.4	11.5	+1.9ppt	5.4	+8.0ppt	11.3	

* Adjusted by excluding impacts from one-offs such as fuel hedging gains and forex gains

Source: SIA, UOB Kay Hian

RESULTS

- Results in line.** Singapore Airlines' (SIA) 1QFY24 net profit of S\$734m (+22% qoq, +98% yoy) is in line with our expectation, falling within the guided range of S\$700m-750m. Apart from the still-strong pax yields and upbeat pax load factors, we note that 1QFY24 also benefitted from a number of tailwinds including: a) a sizeable downswing of jet fuel prices (-19% qoq), b) fuel hedge gain of S\$101m (pre-tax), and c) some moderate forex gain (about S\$60m). Excluding one-off items, SIA's 1QFY24 adjusted net profit was S\$600m (+16% qoq) by our estimate.
- Pax operation: slight moderation of pax yields qoq.** Pax revenue rose 2% qoq (37% yoy), driven by higher pax load (+6.3% qoq or +49.0% yoy) but partly offset by moderation of pax yields (-4.4% qoq, -7.8% yoy). Management attributed the dip in pax yields to the mix of routes, as Scoot reactivated/added frequencies to a number of routes of relatively lower yields (likely second-tier cities in China). Pax load factors were at a record level of 88.9% in 1QFY24. According to management, forward bookings remain robust in the near term and pax yields are likely to largely hold up in the summer peak season.

KEY FINANCIALS

Year to 31 Mar (\$m)	2022	2023	2024F	2025F	2026F
Net turnover	7,615	17,775	19,221	20,873	20,888
EBITDA	1,390	4,773	4,576	4,153	3,730
Operating profit	(610)	2,692	2,398	1,767	1,370
Net profit (rep./act.)	(962)	2,157	3,291	1,426	1,043
Adjusted net profit	(1,187)	1,758	1,941	1,376	1,043
Adjusted EPS (S\$ cent)	-40.0	52.4	67.0	46.3	35.1
Core PE (x)	n.m.	14.5	11.3	16.4	21.6
P/B (x)	1.8	1.7	1.5	1.5	1.5
EV/EBITDA (x)	24.1	5.7	5.7	6.7	8.4
Dividend yield (%)	0.0	5.0	5.0	4.4	3.2
Net margin (%)	(12.6)	12.1	17.1	6.8	5.0
Net debt/(cash) to equity (%)	63.1	7.9	7.8	20.3	41.9
ROE (%)	n.a.	10.2	18.9	9.4	6.8

Source: SIA, Bloomberg, UOB Kay Hian

n.m. : not meaningful; negative P/E reflected as "n.m."

SELL

(Maintained)

Share Price	S\$7.58
Target Price	S\$6.82
Upside	-10.0%
(Previous TP)	S\$7.28

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):	2,974.2
Market cap (S\$m):	22,544.7
Market cap (US\$m):	16,924.2
3-mth avg daily t'over (US\$m):	56.8
Price Performance (%)	

52-week high/low S\$7.91/S\$5.00

	1mth	3mth	6mth	1yr	YTD
	1.1	29.6	26.8	41.4	37.1
Major Shareholders					%
Temasek Hldgs					55.4
-					-
-					-
FY24 NAV/Share (S\$)					5.06
FY24 Net Debt/Share (S\$)					0.39

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- Cargo operation: Weaknesses in both yields and load factors.** Cargo revenue fell 16% qoq (51% yoy), mainly driven by lower cargo yields (-15% qoq) which stayed in a downward trend. 1QFY24 cargo yields of 44.6 S cents/tonne-km was still about 50% higher than the pre-pandemic 30-ish levels. Cargo load factors weakened to 51.8% in 1QFY24, -1.8ppt qoq and -13.7ppt yoy. Management expects cargo performance to remain under pressure in the near term, driven by further moderation of cargo yields due to unfavourable supply-demand dynamics (slow air cargo volume vs rising bellyhold capacity).

STOCK IMPACT

- Overall strong earnings expected for this year...** 1QFY24 was a strong start. With the upbeat demand amid still-tight industry-wide capacity supply, SIA's reported earnings for the next two quarters are likely to stay stronger than the same period in pre-pandemic years. We expect SIA to turn in a stellar performance in FY24, with its FY24 net profit level (excluding the Vistara disposal gain of S\$1.11b) largely comparable to that of FY23.
- ...but quarterly earnings likely to have peaked in the past quarter.** Despite the strong seasonality for the upcoming 2QFY24, we expect SIA's 2QFY24 reported earnings to be no stronger than 1QFY24, as:
 - The several favourable factors that pushed 1QFY24 to a record level, are likely absent (eg forex gains), weaker (fuel hedge gains) or even work the other way round (jet fuel price fluctuations) in 2QFY24;
 - SIA's lower cash pile of S\$13.8b end-1QFY24 (end-FY23 S\$16.3b), drained down mainly by the partial redemption of its outstanding Mandatory Convertible Bonds (MCBs) during the past quarter, would lead to qoq lower net interest income in 2QFY24.
 - further weakness is expected for SIA's cargo performance.
- Based on our estimates, the positive impacts from further pax capacity/load recovery (with a flattish or mildly higher pax yields) in 2QFY24 would not be sufficient to offset the negative qoq impacts from the abovementioned unfavourable factors.**
- Upswing in jet fuel price since Jul 23.** We note that there has been a sizeable 22% upswing in jet fuel prices since Jul 23; this is in contrast to the 19% qoq decline of jet fuel prices in 1QFY24. Our current projection has factored in the assumption that jet fuel prices would stay at the current level for the rest of the year.
- Good dividend likely to sustain in FY24 but not beyond.** Given the overall strong FY24 earnings estimates, we expect SIA to sustain the 38 S cents full-year dividend in FY24, leading to a 5% yield based on current price. However, we expect dividend to come down in FY25 onwards, in line with our projected earnings decline as SIA's pax yields and load factors moderate to more normalised levels driven by competition.

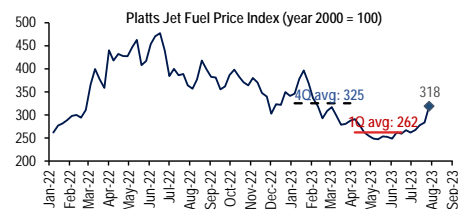
EARNINGS REVISION/RISKS

- No change.
- Key risks:** a) Weaker-than-expected macroeconomic environment dampening air travel and air cargo demand, b) rising competition, and c) unfavourable fluctuation of jet fuel prices.

VALUATION/RECOMMENDATION

- Maintain SELL with a lower target price of S\$6.82.** Our updated target price is based on a peg of 1.35x FY24F P/B (1.5SD above its historical mean), lowered from the previous 1.44x (2SD above historical mean), as we expect some de-rating of valuation multiple on account of the likely qoq slower quarterly earnings. Our target price reference table is shown in the side bar to guide for possible future de-rating should earnings decelerate further.

UPSWING OF JET FUEL PRICE SINCE JUL 23 COULD ADVERSELY AFFECT SIA'S 2QFY24 EARNINGS



Source: SIA

SIA HISTORICAL P/B BAND (SINCE 2005)



Source: Bloomberg, UOB Kay Hian

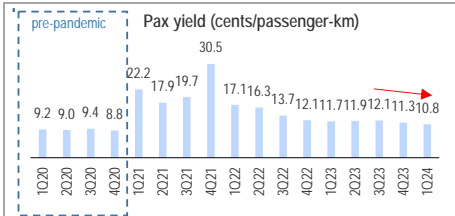
TARGET PRICE REFERENCE TABLE

		FY23	FY24F	FY25F
Adjusted BVPS		S\$4.45	S\$5.06	S\$5.16
P/B peg			Target price	
+2.0SD	1.44x	S\$6.40	S\$7.28	S\$7.42
+1.5SD	1.35x	S\$6.00	S\$6.82	S\$6.96
+1.0SD	1.26x	S\$5.60	S\$6.37	S\$6.50
+0.5SD	1.17x	S\$5.20	S\$5.92	S\$6.03
Mean	1.08x	S\$4.80	S\$5.46	S\$5.57

*Adjusted BVPS has factored in full redemption of MCBs

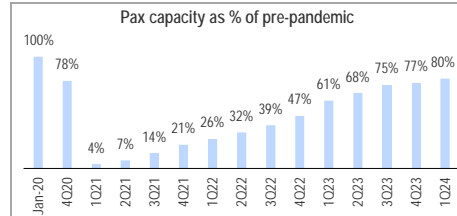
Source: UOB Kay Hian

PAX YIELDS DIPPED 4.4% QOQ IN 1QFY24F



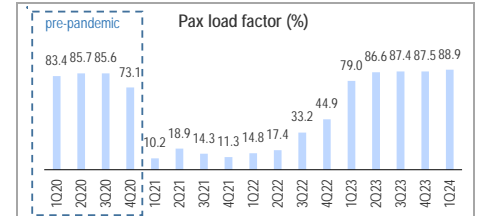
Source: SIA, UOB Kay Hian

PAX CAPACITY CONTINUED TO RECOVER IN 1QFY24



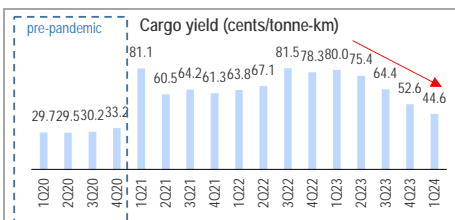
Source: SIA, UOB Kay Hian

STRONG PAX LF AT ABOVE PRE-PANDEMIC LEVELS



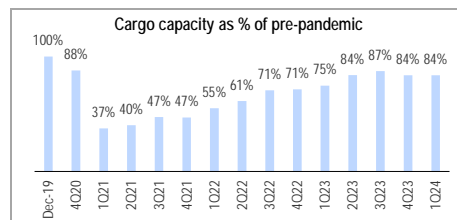
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CARGO YIELDS DECLINING SHARPLY



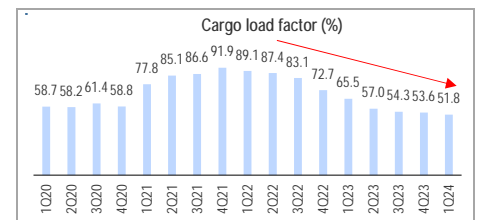
Source: SIA, UOB Kay Hian

CARGO CAPACITY STILL ON RECOVERY TREND



Source: SIA, UOB Kay Hian

CARGO LF DECLINED ON SLOWER GLOBAL TRADE



Source: SIA, UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (S\$m)	2023	2024F	2025F	2026F
Net turnover	17,774.8	19,221.4	21,027.4	21,042.1
EBITDA	4,772.6	4,575.9	4,185.2	3,763.6
Deprec. & amort.	2,080.5	2,178.0	2,410.6	2,385.1
EBIT	2,692.1	2,397.9	1,774.6	1,378.4
Total other non-operating income	(16.8)	4.0	4.0	4.0
Associate contributions	(31.2)	119.0	110.0	110.0
Net interest income/(expense)	(7.3)	102.8	(145.6)	(205.0)
Pre-tax profit	2,636.8	3,735.7	1,743.0	1,287.4
Tax	(473.5)	(425.1)	(276.9)	(199.5)
Minorities	(6.5)	(20.0)	(40.0)	(45.0)
Net profit	2,156.8	3,290.6	1,426.1	1,043.0

CASH FLOW

Year to 31 Mar (S\$m)	2023	2024F	2025F	2026F
Operating	9,130.1	3,936.9	3,287.0	2,656.5
Pre-tax profit	2,636.8	3,735.7	1,742.8	1,281.7
Tax	(5.2)	(425.1)	(276.9)	(198.5)
Deprec. & amort.	2,080.5	2,178.0	2,385.7	2,360.2
Associates	(94.8)	31.0	10.0	10.0
Working capital changes	4,036.6	(213.9)	(589.2)	(875.4)
Non-cash items	326.1	0.0	0.0	0.0
Other operating cashflows	150.1	(1,368.8)	14.6	78.6
Investing	(134.0)	(1,878.0)	(3,234.0)	(4,198.0)
Capex (growth)	31.5	(595.0)	(1,466.5)	(2,394.6)
Capex (maintenance)	(1,715.5)	(1,783.0)	(2,011.5)	(1,983.4)
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	500.0	244.0	180.0
Financing	(6,213.4)	(11,395.8)	(2,051.0)	(2.4)
Dividend payments	(297.1)	(1,128.8)	(1,128.8)	(980.3)
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)	(7,705.6)	(922.2)	(922.2)
Net cash inflow (outflow)	2,782.7	(9,337.0)	(1,998.0)	(1,543.9)
Beginning cash & cash equivalent	13,762.7	16,327.6	6,990.6	4,992.6
Changes due to forex impact	(217.8)	0.0	0.0	0.0
Ending cash & cash equivalent	16,327.6	6,990.6	4,992.6	3,448.7

BALANCE SHEET

Year to 31 Mar (S\$m)	2023	2024F	2025F	2026F
Fixed assets	27,687.0	28,429.0	30,063.3	32,623.1
Other LT assets	2,114.9	3,345.9	3,455.9	3,565.9
Cash/ST investment	16,731.5	7,394.5	5,396.5	3,852.6
Other current assets	2,567.8	2,608.1	2,912.1	2,962.1
Total assets	49,101.2	41,777.5	41,827.8	43,003.8
ST debt	2,547.7	2,547.7	2,547.7	2,547.7
Other current liabilities	11,123.2	11,213.3	10,928.1	10,102.8
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	15,032.3	15,329.4	15,392.3
Minority interest	391.5	409.9	448.3	486.7
Total liabilities & equity	49,101.2	41,777.5	41,827.8	43,003.8

KEY METRICS

Year to 31 Mar (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	26.9	23.8	19.9	17.9
Pre-tax margin	14.8	19.4	8.3	6.1
Net margin	12.1	17.1	6.8	5.0
ROA	4.4	7.2	3.4	2.5
ROE	10.2	18.9	9.4	6.8
Growth				
Turnover	133.4	8.1	8.6	0.1
EBITDA	243.4	(4.1)	(9.2)	(10.2)
Pre-tax profit	n.a.	41.7	(53.3)	(26.5)
Net profit	n.a.	52.6	(56.7)	(26.8)
Core net profit	n.a.	10.4	(29.1)	(24.2)
Core EPS	n.a.	10.4	(29.1)	(24.2)
Leverage				
Debt to total capital	35.8	35.3	39.8	42.5
Debt to equity	130.8	55.7	54.5	66.1
Net debt/(cash) to equity	7.9	7.8	20.3	41.9

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