

SECTOR UPDATE

Aviation – Singapore

Visa-free Scheme With China A Key Positive, Raising Sector Outlook From 2024

Singapore’s air traffic is set to rise further in 2024, propelled by the implementation of the new visa-free arrangement with China. Air cargo volume has been stabilising and we see hopes of a moderate pick-up in growth by mid-24 backed by the US’ inventory restocking needs. We expect SIA’s FY25 earnings to be lower yoy, driven by moderation of pax yields, while SATS and SIAEC should see earnings rise yoy on better business volume. Maintain MARKET WEIGHT. Top picks: SATS and SIAEC.

WHAT’S NEW

- Singapore and China establishing a 30-day mutual visa exemption arrangement for ordinary passport holders.
- 2024 sector outlook.
- 3QFY24 results preview for Singapore Airlines (SIA), SATS and SIA Engineering (SIAEC).

ESSENTIALS

- Singapore’s air traffic recovery to date been more driven by Singaporeans travelling overseas. Pax traffic at Changi Airport recovered to 91% of the pre-pandemic levels as of Oct 23. We note that Singapore’s air traffic recovery to date has been more driven by Singaporeans travelling overseas, which we estimate to have already exceeded pre-pandemic levels at 105-110% in 10M23.
- Number of foreign visitors to Singapore also recovering but return of Chinese visitors has been slow. The number of foreign visitors coming to Singapore has also been recovering, but still currently stands at less than 80% of the pre-pandemic levels. Among all foreign visitors, Singapore has seen the slowest recovery from Chinese nationals, which are currently only at about 50% of pre-pandemic levels. Before the pandemic, China was Singapore’s largest source market of international visitors, forming 19% of total international visitor arrivals to Singapore in 2019. In 10M23, China’s contribution to total international visitor arrivals to Singapore declined to 10%, overtaken by Indonesia’s 16.6%.
- New visa-free arrangement with China a key positive for Singapore aviation sector, ... During the 19th Joint Council for Bilateral Cooperation (JCBC) between Singapore and China on 7 Dec 23, the governments of the two countries announced that they are establishing a mutual 30-day visa exemption arrangement for Singaporeans and Chinese nationals visiting the other country, as the two countries seek to push travel back to and beyond pre-pandemic levels. The new regime is expected to be implemented in early-24. Currently, Singaporeans can enter China for up to 15 days visa-free but Chinese nationals coming to Singapore need to apply for a visa. Given the sheer size of China’s population (1.4b, about 10% of which have a passport) and the similarity between the two countries’ cultures, we see the new mutual visa-free arrangement a major positive for the Singapore aviation sector.
- ...raising sector outlook in 2024 and beyond. The new arrangement may turbocharge the return of Chinese tourists to Singapore. However, we think it might be overly optimistic for one to expect the visa-free arrangement to immediately bring Chinese visitor arrivals back to pre-pandemic levels as: a) China’s current weak economic situation, b) the scarring effect of the pandemic crisis on Chinese people (financially and emotionally), and c) the weak renminbi (which renders overseas travel more expensive) may remain a drag on Chinese citizens’ overseas travel demand in the near term. Our best guess is that the number of Chinese visitors to Singapore can return to the pre-pandemic levels by end-24, supported by airlines’ restoration of flight frequencies. We are sanguine that the visa-free scheme with China will raise the sector’s growth prospect in the mid-to-long run.

MARKET WEIGHT

(Maintained)

SECTOR PICKS

Company	Rec	Current Price	Target Price
Singapore Airlines	HOLD	S\$6.38	S\$6.80
SATS	BUY	S\$2.69	S\$3.22
SIA Engineering	BUY	S\$2.34	S\$2.73

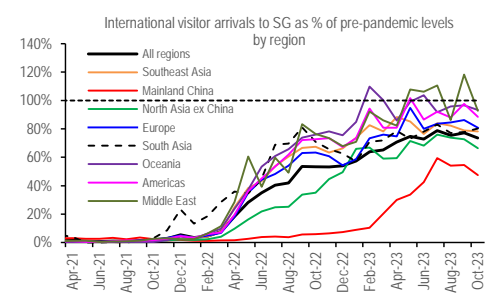
Source: UOB Kay Hian

FLIGHT ACTIVITIES AND PAX VOLUME AT CHANGI AIRPORT RECOVERED TO 90%/91% OF PRE-PANDEMIC LEVELS IN OCT 23



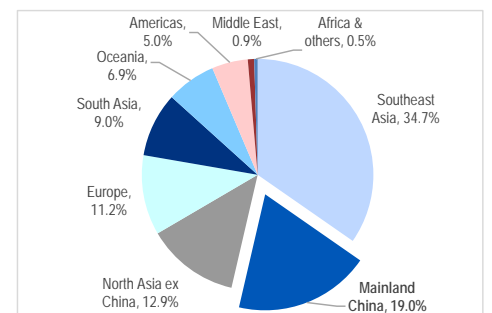
Source: Changi Airport

RETURN OF CHINESE VISITORS TO SINGAPORE HAS BEEN THE KEY LAGGARD



Source: Civil Aviation Authority of Singapore, UOB Kay Hian

CHINA WAS SINGAPORE’S LARGEST SOURCE MARKET OF INTERNATIONAL VISITORS IN 2019, CONTRIBUTING 19%



Source: Singapore Tourism Board

ANALYST(S)

Roy Chen, CFA
+65 6590 6627
roychen@uobkayhian.com

SECTOR VALUATION

Company	Rec	Price @ 8-Dec-23 (\$)	Target Price (\$)	Upside to TP (%)	Market Cap (\$m)	PE			P/B		Yield		24F Net Gearing (%)
						24F (x)	25F (x)	26F (x)	24F (x)	25F (x)	24F (%)	25F (%)	
SIA	HOLD	6.38	6.80	6.6	19,000	4.9	11.7	17.3	1.2	1.2	6.0	6.0	4.9
SATS	BUY	2.69	3.22	19.7	4,010	97.0	25.3	14.1	1.7	1.6	2.0	3.6	84.3
SIAEC	BUY	2.34	2.73	16.7	2,630	21.8	15.2	14.7	1.5	1.5	3.6	5.1	(33.0)

Source: Bloomberg, UOB Kay Hian

• **Air cargo outlook: Expecting a moderate pick-up in 2024.** Latest leading economic indicators send more mixed signals for global trade outlook, which is already an improvement from the mostly bearish signals a few months ago. Global manufacturing PMI and new export orders index stood at 49.3 and 48.1 respectively in Nov 23, a moderate improvement from Oct 23's 48.8 and 47.5 and indicating slower contraction of global manufacturing and export activities. Retail confidence in the EU has remained weak in recent months, but consumer sentiment in the US rebounded significantly in Dec 23, erasing the declines in the preceding three months. One leading indicator that has turned more favourable is the US total business inventory-to-sales ratio, which has been on a normalising trend since mid-23. Oct 23's reading of 1.34 was already comparable to pre-pandemic lows. We are hopeful that, with another 1-2 quarters for consumption to pare down inventory stocks further, the US' inventory restocking may reaccelerate and give rise to a moderate pick-up of global trade demand by mid-24.

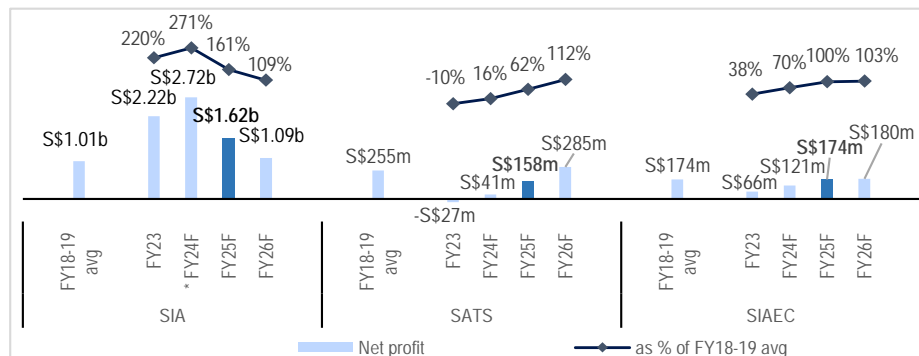
• **FY25 (2024) earnings projections for individual companies.**

- **SIA: FY25 net profit of S\$1.62b, -40% yoy.** We forecast SIA's FY25 earnings at S\$1.62b, a 40% yoy drop from the FY24 record level of S\$2.72b (excluding exceptional gains from the Vistara-Air India merger). We expect the negative impact from pax yields/airfare moderation (driven by rising competition) to outweigh the impact from further air traffic recovery (SIA has projected for its pax capacity to reach 92% of the pre-pandemic levels by Dec 23 and 100% within FY25). We project SIA's earnings to normalise further and stabilise in FY26 at S\$1.09b, above pre-pandemic levels.

- **SATS: FY25 net profit of S\$158m, +283% yoy (from FY24's low base).** We expect SATS' earnings to stay on the recovery track in FY25-26, driven by pax/flight volume recovery and moderate growth of global air cargo volume. Our FY25 net profit forecast of S\$158m is equivalent to 62% of the pre-pandemic levels. We expect FY26 to be the year when SATS can largely realise its full earnings potential, with FY26 earnings of S\$285m exceeding SATS' FY18-19 average levels at 112%, helped by the stabilising contribution by Worldwide Flight Services (WFS, acquired in Apr 23).

- **SIAEC: FY25 net profit of S\$174m, +44% yoy.** We forecast SIAEC's net profit to reach S\$174m in FY25, largely matching its pre-pandemic levels, thanks to further recovery of regional flight activities driving SIAEC's line maintenance and MRO business volume. SIAEC's 49%-owned associate Eagle Service Asia (ESA) is also set to benefit from engine OEM Pratt & Whitney's (P&W) recall of over 3,000 geared turbofan (GTF) engines for defect inspections.

FY24-26F EARNINGS PROJECTIONS FOR SINGAPORE AVIATION PLAYS

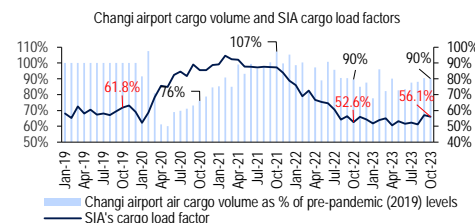


*FY24F net profit estimate for SIA excludes exceptional disposal gains of S\$1.11b from the Vistara-Air India merger.

Source: Respective Companies, UOB Kay Hian

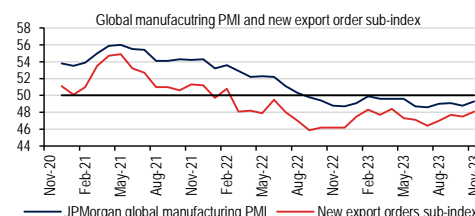
• **3QFY24 results preview: Seasonally strong quarter for Singapore aviation sector.** Singapore aviation companies are expected to release their 3QFY24 (Oct-Dec 23) results in Feb 24. Our forecasts for their 3QFY24 earnings are summarised in the table below.

CHANGI AIRPORT AIR CARGO VOLUME AT 90% OF PRE-PANDEMIC LEVELS IN OCT 23



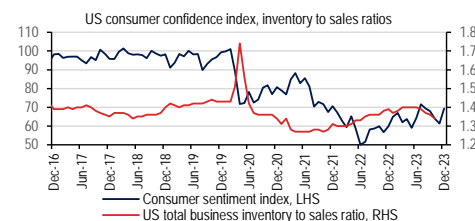
Source: Changai Airport, SIA

GLOBAL MANUFACTURING PMI AND NEW EXPORT ORDER INDEX IMPROVED TO 49.3 AND 48.1 IN NOV 23, INDICATING SLOWER CONTRACTION OF MANUFACTURING AND EXPORT ACTIVITIES



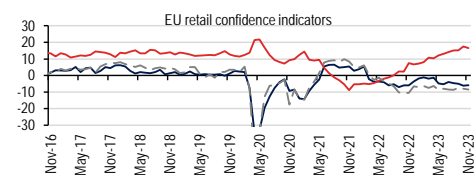
Source: UOB Kay Hian

US CONSUMER SENTIMENT PICKED UP IN DEC 23; INVENTORY-TO-SALES IN A NORMALISING TREND SINCE MID-23



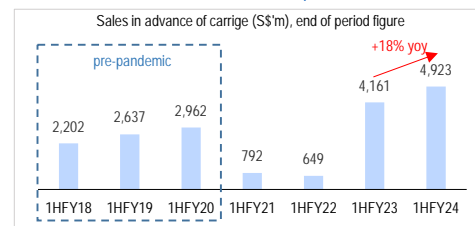
Source: US Census Bureau, University of Michigan

EU RETAIL CONFIDENCE REMAINED WEAK IN RECENT MONTHS



Source: Eurostat

SIA'S 3QFY24 EARNINGS ARE UNDERPINNED BY STRONG FORWARD BOOKINGS, ...



Source: SIA

3QFY24 RESULTS PREVIEW FOR AVIATION COMPANIES

	3QFY24F	2QFY24	qoq change	3QFY23	yoy change
SIA	S\$650m-770m	S\$707.1m	-8% to +9%	S\$628.0m	+4% to +23%
SATS	S\$25m-35m	S\$22.1m	+13% to +58%	S\$0.5m	n.m.
SIAEC	S\$32m-35m	S\$32.3m	0% to +8%	S\$12.8m	+150% to +173%

Source: Respective Companies, UOB Kay Hian

- **SIA: 3QFY24 net profit in the range of S\$650m-770m.** We forecast SIA's 3QFY24 at S\$650m-770m, largely comparable to 2QFY24 net profit of S\$707m. Our forecast has included an estimated forex loss of about S\$30m due to the recent depreciation of US\$ against S\$. Key factors causing variance to our forecast include: a) SIA's cost management efficiency, and b) lack of sufficient clarity to accurately estimate SIA's quarterly fuel cost. We highlight that there remains a meaningful chance that SIA's 3QFY24 net profit may match or even exceed the previous quarterly record level of S\$734m seen in 1QFY24.
- **SATS: 3QFY24 net profit in the range of S\$25m-35m.** Our forecast range of SATS' 3QFY24 net profit represents a meaningful qoq improvement from 2QFY24 headline net profit of S\$22.1m or core net profit of S\$6m by our adjustment excluding one-off items. The qoq earnings improvement is expected to be driven by improving business volume of both inflight catering and gateway service business, helped by the strong seasonality (year-end holiday travels and festive season consumptions).
- **SIAEC: 3QFY24 net profit in the range of S\$32m-35m.** We forecast SIAEC's 3QFY24 net profit to be flat or improve moderately qoq, driven by improving line maintenance and MRO business volume (in line with the recovery of regional flight activities). Factors that may cause variance to our forecast include the lumpiness of MRO revenue recognition of both consolidated and JV/associate entities.

EARNINGS REVISION

- No change.

ACTION

- **Maintain MARKET WEIGHT on the Singapore aviation sector.**
- **Maintain HOLD on SIA (Target: 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: a) our recognition for SIA's outstanding operation track record demonstrated in the pandemic crisis, and b) the improved growth prospects from the new visa-free arrangement with China (the exact financial impacts of which are hard to assess at this juncture). Currently trading at 1.18x FY25F P/B, or 0.6SD above its historical mean, SIA is a HOLD for its not-so-cheap valuation but decent FY24-25 dividend yield of 6%.
- **Maintain BUY on SATS (Target price raised to S\$3.22); added to our top pick for 2024.** SATS has been a laggard in terms of earnings recovery but we expect its recovery momentum to gain speed in 2024, driven by: a) the continued recovery of regional air traffic/flight activities (benefiting inflight catering and passenger/flight handling businesses), and b) the stabilisation and a potential reacceleration of air cargo growth. With a more or less stabilised headcount ramp-up, operating leverage should also kick in and help SATS' earnings recovery. We have switched our valuation method for SATS from EV/adjusted EBITDA to PE method and rolled over our valuation basis to end-FY25. Our updated target price of S\$3.22 is now based on 16.8x FY26F PE, 1SD below SATS' historical mean PE of 19.9x. The -1SD PE peg takes into account the likely higher margin of error for our FY26 (steady-state) earnings forecast for SATS.
- **Maintain BUY on SIAEC (Target price raised to S\$2.73); kept as a top pick.** We continue to like SIAEC for: a) its market leadership in line maintenance at Changi Airport (with about 84% of Changi Airport's line maintenance business volume), and b) good earnings recovery prospect driven by rising regional flight activities and MRO service demand. Its current price implies 15.2x/14.7x FY25/26F PE (11.7x/11.3x if excluding net cash). We have rolled over our valuation basis for SIAEC to end-FY25; as a result, our target price has been raised to S\$2.73.

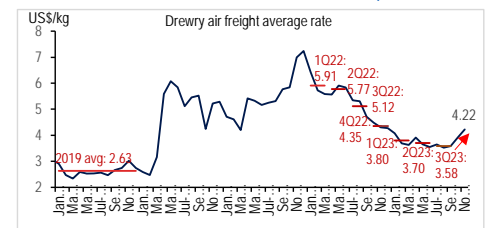
SECTOR CATALYSTS

- a) Continued air traffic recovery, propelled by Singapore's new visa-free arrangement with China, and b) a potential reacceleration of global air cargo growth.

RISKS

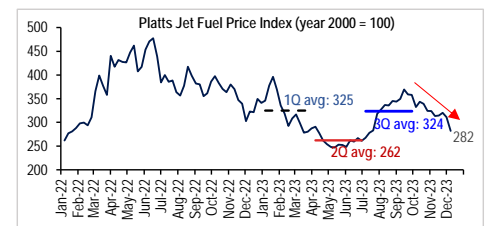
- a) Weak macroeconomy dampening air travel and air cargo demand, b) inflationary cost pressure, and c) for SIA, competition catching up faster than expected, driving a faster-than-expected moderation of pax yields;

QOQ REBOUND IN AIR FREIGHT RATES, ...



Source: Drewry

...AND RECENT DECLINE IN JET FUEL PRICES



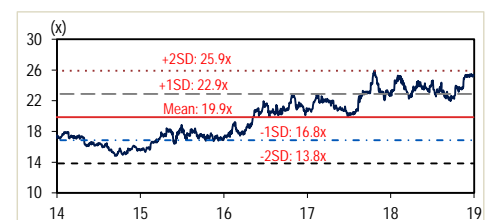
Source: S&P Global

SIA P/B VALUATION REFERENCE TABLE

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

*Adjusted BVPS has factored in full redemption of MCBs
Source: UOB Kay Hian

SATS HISTORICAL PE BAND



Source: Bloomberg

SATS PE VALUATION REFERENCE TABLE

PE peg	FY26F EPS	Valuation
mean	19.9x	S\$3.80
-0.5SD	18.4x	S\$3.51
-1.0SD	16.8x	S\$3.22
-1.5SD	15.3x	S\$2.94
-2.0SD	13.8x	S\$2.65

Source: UOB Kay Hian

SIAEC DCF VALUATION REFERENCE TABLE

	Terminal growth		
	2.0%	2.5%	3.0%
7.5%	S\$2.94	S\$3.18	S\$3.48
8.0%	S\$2.73	S\$2.93	S\$3.18
WACC	8.5%	S\$2.56	S\$2.73
	9.0%	S\$2.41	S\$2.56
	9.5%	S\$2.28	S\$2.41

Source: UOB Kay Hian

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2023, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W