

COMPANY RESULTS

Singapore Airlines (SIA SP)

3QFY24: Results Miss Mainly On Cost Pressure

SIA's 3QFY24 headline net profit of S\$659m (+4.9% yoy, -6.8% qoq) came in below our guided range of S\$670m-810m, even though 3QFY24 was already helped by some one-offs such as tax credit and disposal gains. The miss was mainly attributable to higher-than-expected costs, as well as slightly weaker-than-expected cargo yields. Forward ticket booking is healthy but yields for both pax and cargo operations could be under pressure. Maintain HOLD on SIA, with a lower target price of S\$6.28.

2Q/1HFY24 RESULTS

Year to 31 Mar (\$m)	3Q FY24	3Q FY23	yoy % chg	2Q FY24	qoq % chg	9M FY24	9M FY23	yoy % chg
Revenue	5,082	4,846	+4.9	4,683	+8.5	14,244	13,263	+7.4
Pax flown revenue	4,165	3,767	+10.6	3,874	+7.5	11,715	9,746	+20.2
Cargo & mail revenue	559	862	-35.2	518	+7.9	1,619	2,961	-45.3
Non-fuel opex	3,019	2,758	+9.5	2,654	+13.8	8,345	7,245	+15.2
Fuel cost	1,454	1,333	+9.1	1,230	+18.2	3,737	4,029	-7.2
EBIT (reported)	609	755	-19.3	799	-23.8	2,163	1,989	+8.7
Adjusted EBIT*	553	755	-26.8	652	-15.3	1,808	1,376	+31.4
Net Profit (reported)	659	628	+4.9	707	-6.8	2,100	1,555	+35.0
Adjusted net profit*	507	661	-23.4	585	-13.3	1,664	1,241	+34.1
Margins (%)								
Adjusted EBIT*	10.9	15.6	-4.7ppt	13.9	-3.1ppt	12.7	10.4	+2.3ppt
Adjusted net profit*	10.0	13.6	-3.7ppt	12.5	-2.5ppt	11.7	9.4	+2.3ppt

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

Source: SIA, UOB Kay Hian

RESULTS

- 3QFY24 results missed...** Singapore Airlines' (SIA) 3QFY24 headline net profit of S\$659m (+4.9% yoy, -6.8% qoq) missed our guided range of S\$670m-810m. Note that SIA's 3QFY24 headline net profit was already helped by one-offs including a one-time tax credit (size not disclosed, but we estimate it to be close to S\$100m) and asset disposal gains (about S\$10m by our estimate), partly offset by some forex losses (about S\$30m by our estimate). Excluding the impact of one-offs, the miss would have been more significant.
- ...mainly on cost pressure.** Examining major revenue and cost items, the earnings miss was mainly due to higher-than-expected non-fuel cost, with 3QFY24 non-fuel cost per Available-Tonne-Kilometre (ATK) of 44.0 S cents (1H24 average: 41.5 S cents) exceeding our expected range of 41.5-42.5 S cents. According to management, the company is seeing major cost pressure from staff, ground handling and in-flight meals. Apart from non-fuel cost pressure, 3QFY24 fuel cost per ATK (22.4 S cents, +8.9% qoq) also stood at the higher end of our forecast range, while cargo yield (40.3 S cents, +2.9% qoq, -37.4% yoy) was at the lower end of our forecast range. The negative impacts of these items on SIA's earnings have been partly offset by the strength in pax yields (11.2 S cents, +3.5% qoq, -7.4% yoy), which stood at the higher end of our expected range.

KEY FINANCIALS

Year to 31 Mar (\$m)	2022	2023	2024F	2025F	2026F
Net turnover	7,615	17,775	19,164	20,349	20,456
EBITDA	1,390	4,773	4,907	4,232	3,872
Operating profit	(610)	2,692	2,717	1,886	1,474
Net profit (rep./fact.)	(962)	2,157	3,695	1,576	1,094
Net profit (adj.)	(1,187)	1,758	2,111	1,513	1,094
EPS (S\$ cent)	(32.4)	72.6	86.9	53.1	36.8
PE (x)	n.m.	9.2	7.7	12.6	18.1
P/B (x)	1.6	1.5	1.3	1.3	1.3
EV/EBITDA (x)	22.1	5.1	4.7	5.9	7.3
Dividend yield (%)	0.0	5.7	5.7	5.5	3.7
Net margin (%)	(12.6)	12.1	19.3	7.7	5.4
Net debt/(cash) to equity (%)	63.1	7.9	5.8	17.3	38.5
ROE (%)	n.a.	10.2	20.0	9.6	6.9

Source: SIA, Bloomberg, UOB Kay Hian

HOLD (Maintained)

Share Price	S\$6.67
Target Price	S\$6.28
Upside	-5.9%
(Previous TP)	S\$6.80

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):	2,974.4
Market cap (S\$m):	19,838.9
Market cap (US\$m):	14,760.0
3-mth avg daily t'over (US\$m):	23.4

Price Performance (%)

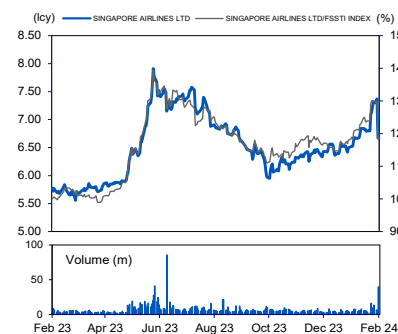
52-week high/low S\$7.91/S\$5.56

1mth	3mth	6mth	1yr	YTD
2.6	5.4	(3.3)	15.4	1.7

Major Shareholders

	%
Temasek Hldgs	55.4
FY24 NAV/Share (S\$)	5.19
FY24 Net Cash/Share (S\$)	0.27

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Healthy forward booking...** According to SIA, demand for air travel remains healthy, with robust forward sales in 4QFY24 (ie Jan-Mar 24) and 1QFY25 (ie Apr-Jun 24). The forward sales are in line with capacity increases in most markets, supported by demand for leisure travel through the school holidays and Easter peak in Mar and Apr 24.
- ...but pax yields likely under pressure.** Despite healthy booking volume, SIA expects pax yields to continue to come under pressure from increased competition as capacity restoration continues across the industry. SIA has seen yield pressure across all cabin classes.
- Cargo not helping.** SIA expects air freight volume to soften qoq in 4QFY24 due to weak seasonality. This would continue to put downward pressure on pax yields as capacity supply continues to grow due to the return of passenger aircraft bellyhold capacity.
- Cost pressure.** SIA cautions that inflationary pressure, supply chain constraints and potentially high fuel prices may present a more challenging operating cost environment.
- Update on Air India-Vistara merger.** SIA updated that the proposed merger of Air India and Vistara is still in progress, pending foreign direct investment and other regulatory approvals. Once completed, the merger will give SIA a 25.1% stake in the enlarged Air India group. SIA is expected to recognise a S\$1.11b non-cash accounting gain from the merger.

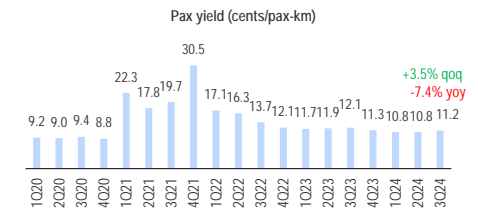
EARNINGS REVISION/RISKS

- Cut our FY24 and FY25 earnings forecasts by 3.6% and 3.0% to S\$3.69b and S\$1.58b,** as we raise our non-fuel operating cost projection to reflect higher cost pressure. Note that our S\$3.69b net profit estimate for FY24 includes the accounting gain of S\$1.11b from the Air India-Vistara merger, excluding which our FY24 earnings forecast would have been S\$2.58b, implying 4QFY24 net profit of S\$475m. Our FY26 (normalised year) net profit forecast for SIA remains unchanged at S\$1.09b
- Key risks:** a) Weaker-than-expected macroeconomic environment dampening air travel and air cargo demand, b) competition rising faster than expected, and c) unfavourable fluctuation of jet fuel prices.

VALUATION/RECOMMENDATION

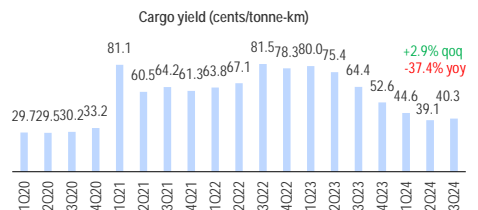
- Maintain HOLD on SIA with a lower target price of S\$6.28.** We have lowered our P/B valuation peg to 1.18x FY25, or 0.5SD above long-term historical mean P/B of 1.09x, from 1.26x previously (1SD above historical mean), reflecting likely weaker market sentiment on SIA given the anticipated profitability moderation in the next two years. The +0.5SD of our new P/B peg reflects our appreciation of SIA's outstanding track record demonstrated during the pandemic. In addition, even with the 3QFY24 earnings miss, SIA is set to report record-level of earnings for the full year and can at least sustain the same 28 S cents final dividend as last year. This would lead to FY24 total dividend per share of at least 38 S cents, or over 6.0% yield based on our updated target price of S\$6.28. With the valuation support from dividends, we maintain HOLD on SIA.

QUARTERLY PAX YIELD TREND



Source: SIA

QUARTERLY CARGO YIELD TREND



Source: SIA

SIA HISTORICAL P/B BAND



Source: Bloomberg

TARGET PRICE REFERENCE TABLE

		FY23	FY24F	FY25F
Adjusted BVPS		S\$4.45	S\$5.19	S\$5.34
P/B peg		Target price		
+2.0SD	1.45x	S\$6.44	S\$7.51	S\$7.72
+1.5SD	1.36x	S\$6.04	S\$7.05	S\$7.24
+1.0SD	1.27x	S\$5.64	S\$6.58	S\$6.76
+0.5SD	1.18x	S\$5.24	S\$6.11	S\$6.28
Mean	1.09x	S\$4.83	S\$5.64	S\$5.80

*Adjusted BVPS has factored in full redemption of Mandatory Convertible Bonds

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Net turnover	17,774.8	19,164.0	20,349.1	20,456.0
EBITDA	4,772.6	4,906.6	4,232.5	3,872.4
Deprec. & amort.	2,080.5	2,190.0	2,346.8	2,398.2
EBIT	2,692.1	2,716.6	1,885.7	1,474.2
Total other non-operating income	(16.8)	38.1	0.0	0.0
Associate contributions	(31.2)	115.0	115.0	110.0
Net interest income/(expense)	(7.3)	238.2	(83.3)	(233.8)
Pre-tax profit	2,636.8	4,219.9	1,917.3	1,350.3
Tax	(473.5)	(502.3)	(306.4)	(210.9)
Minorities	(6.5)	(23.0)	(35.0)	(45.0)
Net profit	2,156.8	3,694.6	1,575.9	1,094.5

BALANCE SHEET

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Fixed assets	27,687.0	28,426.6	30,111.8	32,645.6
Other LT assets	2,114.9	3,341.9	3,456.9	3,566.9
Cash/ST investment	16,731.5	9,401.6	5,779.2	4,212.2
Other current assets	2,567.8	2,608.2	2,912.3	2,979.6
Total assets	49,101.2	43,778.3	42,260.1	43,404.3
ST debt	2,547.7	2,547.7	2,547.7	2,547.7
Other current liabilities	11,123.2	11,098.2	10,842.2	10,047.6
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	17,145.2	15,849.7	15,845.1
Minority interest	391.5	412.9	446.3	489.7
Total liabilities & equity	49,101.2	43,778.3	42,260.1	43,404.3

CASH FLOW

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Operating	9,130.1	4,115.7	3,366.0	2,799.6
Pre-tax profit	2,636.8	4,219.9	1,917.3	1,350.3
Tax	(5.2)	(502.3)	(306.4)	(210.9)
Deprec. & amort.	2,080.5	2,190.0	2,346.8	2,398.2
Associates	(94.8)	45.0	35.0	30.0
Working capital changes	4,036.6	(329.1)	(560.1)	(861.9)
Non-cash items	326.1	40.5	0.0	0.0
Other operating cashflows	150.1	(1,548.3)	(66.7)	93.8
Investing	(134.0)	(1,712.0)	(3,172.0)	(4,194.0)
Capex (growth)	31.5	(595.0)	(1,522.5)	(2,366.0)
Capex (maintenance)	(1,715.5)	(1,785.0)	(1,957.5)	(2,014.0)
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	668.0	308.0	186.0
Financing	(6,213.4)	(9,733.6)	(3,816.4)	(172.6)
Dividend payments	(297.1)	(1,128.8)	(1,128.8)	(1,099.1)
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)	(6,043.4)	(2,687.6)	(973.4)
Net cash inflow (outflow)	2,782.7	(7,329.9)	(3,622.4)	(1,567.0)
Beginning cash & cash equivalent	13,762.7	16,327.6	8,997.7	5,375.3
Changes due to forex impact	(217.8)	0.0	0.0	0.0
Ending cash & cash equivalent	16,327.6	8,997.7	5,375.3	3,808.3

KEY METRICS

Year to 31 Mar (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	26.9	25.6	20.8	18.9
Pre-tax margin	14.8	22.0	9.4	6.6
Net margin	12.1	19.3	7.7	5.4
ROA	4.4	8.0	3.7	2.6
ROE	10.2	20.0	9.6	6.9
Growth				
Turnover	133.4	7.8	6.2	0.5
EBITDA	243.4	2.8	(13.7)	(8.5)
Pre-tax profit	n.a.	60.0	(54.6)	(29.6)
Net profit	n.a.	71.3	(57.3)	(30.6)
Adjusted net profit	n.a.	20.0	(28.3)	(27.7)
Adjusted EPS	n.a.	20.0	(28.3)	(27.7)
Leverage				
Debt to total capital	35.5	32.9	34.5	39.1
Debt to equity	130.8	65.2	52.8	64.3
Net debt/(cash) to equity	7.9	5.8	17.3	38.5

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