

COMPANY RESULTS

SIA Engineering (SIE SP)

1QFY24: Results In Line; Core Profitability Continues To Recover

SIAEC's 1QFY24 net profit of S\$27.0m (+111% yoy) was in line with our expectation, at 22% of our full-year forecast. The company achieved a turnaround at the operating level while its JV/associates contribution continued to improve. We expect SIAEC's earnings to further improve for the rest of FY24, as regional flight activities continue to recover. Maintain BUY with an unchanged target price of S\$2.67.

1QFY24 RESULTS

Year to 31 Mar (\$m)	1Q FY24	4Q FY23	qoq % chg	1Q FY23	yoy % chg	Prev. FY24F
Revenue	262	226	+16.0	172	+52.7	983
Opex	262	229	+14.4	176	+49.0	946
EBIT	0.4	-3.0	n.m.	-4.0	n.m.	37.3
Core EBIT (excl. gov support)	0.4	-3.0	n.m.	-12.6	n.m.	37.3
JVs/associates contribution	21.9	17.1	+28.1	16.4	+33.5	80.0
Net profit	27.0	21.1	+27.9	12.8	+110.9	121.0
Core net profit (excl. gov support)	27.0	21.0	+28.7	4.2	n.m.	121.0
Margins (%)						
EBIT	0.2	-1.3	+1.5ppt	-2.3	+2.5ppt	3.8
Net profit margin	10.3	9.4	+1.0ppt	7.5	+2.8ppt	12.3

Source: SIA Engineering, UOB Kay Hian

RESULTS

- Results in line.** SIA Engineering's (SIAEC) 1QFY24 net profit of S\$27.0m (+28% qoq, +111% yoy) was in line with our expectation, within our guided range of S\$25m-30m and forming 22% of our full-year forecast. Revenue rose 16% qoq or 53% yoy to S\$262m, driven by recovery of demand for line maintenance and maintenance, repair, and overhaul (MRO) services. In 1QFY24, the number of flights handled by SIAEC's line maintenance unit in Singapore recovered to 84% of pre-pandemic volume (+69% yoy, +11% qoq).
- Turnaround at the operating level.** SIAEC recorded an operating profit of \$0.4m for the quarter, an improvement of \$4.4m yoy. It marked the first quarter of profit (without government wage support) at the operating level since the onset of the pandemic. Excluding the impact of wage support recorded in the same quarter last year, operating performance improved by \$13.0m yoy.
- Improving performance of JVs and associates.** SIAEC's JVs and associates remained the key profit contributors to the group, turning in S\$21.9m profit in 1QFY24 (4QFY23: S\$17.1m, 1QFY23: S\$17.1m). JVs and associates of the engine and component segment contributed a profit of S\$21.2m and those in the airframe and line maintenance segment contributed the remaining S\$0.7m. Management noted that the company is still facing some supply chain issues (component shortage) in some of its businesses, though the operational impacts are still manageable.
- Balance sheet remained rock-solid** with a net cash position of over S\$600m as at end-1QFY24, equivalent to about 23% of SIAEC's market cap.

KEY FINANCIALS

Year to 31 Mar (\$m)	2022	2023	2024F	2025F	2026F
Net turnover	566	796	1,060	1,161	1,203
EBITDA	41	38	102	144	150
Operating profit	(22)	(26)	30	69	73
Net profit (rep./act.)	68	66	121	174	180
EPS (S\$ cent)	6.0	5.9	10.7	15.4	16.0
PE (x)	40.3	41.1	22.5	15.7	15.2
P/B (x)	1.7	1.6	1.6	1.5	1.5
EV/EBITDA (x)	36.6	40.4	15.7	10.9	10.3
Dividend yield (%)	0.0	2.3	3.7	5.0	5.0
Net margin (%)	11.9	8.3	11.4	15.0	14.9
Net debt/(cash) to equity (%)	(38.4)	(37.6)	(31.7)	(31.8)	(31.8)
ROE (%)	4.3	4.1	7.2	10.1	10.1

Source: SIAEC, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$2.42
Target Price	S\$2.67
Upside	+10.2%

COMPANY DESCRIPTION

Aircraft maintenance, repair, and overhaul (MRO) operator, 2022 Asia-Pacific MRO of the Year Award winner by Airline Economics Magazine

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SIE SP
Shares issued (m):	1,123.9
Market cap (S\$m):	2,719.8
Market cap (US\$m):	2,047.1
3-mth avg daily t'over (US\$m):	0.7

Price Performance (%)

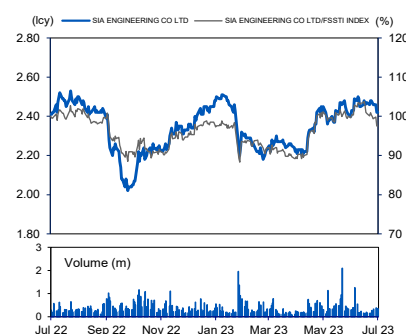
52-week high/low S\$2.53/S\$2.02

1mth	3mth	6mth	1yr	YTD
0.4	9.0	(2.4)	(0.4)	3.4

Major Shareholders

	%
SIA	77.5
FY24 NAV/Share (S\$)	1.51
FY24 Net Cash/Share (S\$)	0.38

PRICE CHART



Source: Bloomberg

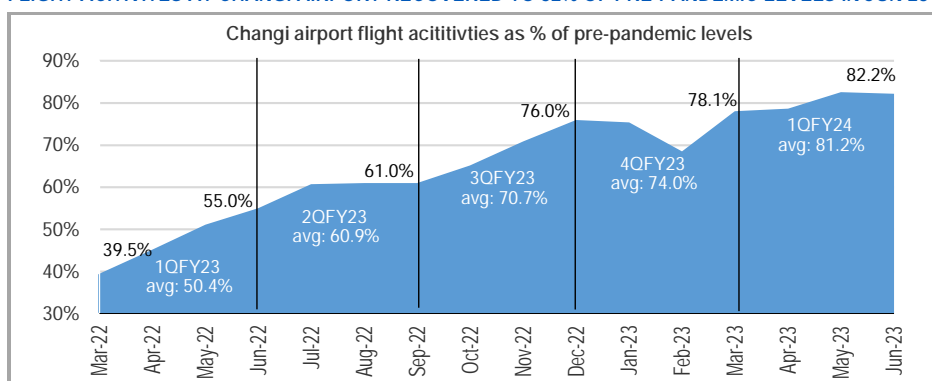
ANALYST(S)

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

STOCK IMPACT

- Continued recovery of flight activities at Changi Airport.** Flight activities at Changi Airport (SIAEC's home base) recovered to 82.2% of the pre-pandemic levels in Jun 23 (averaging at 81.2% for 1QFY24). Based on our estimates, SIAEC commanded the lion's 84% share of line maintenance business volume at Changi Airport in 1QFY24, higher than its typical 78-79% market share before the pandemic. SIAEC's line maintenance business volume is expected to rise further in the rest of FY24, driven by increasing flight activities between Singapore and China and the rest of the world.

FLIGHT ACTIVITIES AT CHANGI AIRPORT RECOVERED TO 82% OF PRE-PANDEMIC LEVELS IN JUN 23



- Management's outlook guidance.** According to management, the outlook for global air travel demand continues to be strong. While this bodes well for demand for MRO services, further recovery in MRO demand will be at a slower pace than the rate of recovery over the past year as airlines manage various constraints to return fully to pre-pandemic flight levels. Management also noted that the ongoing geopolitical tensions and macroeconomic uncertainties, inflationary pressure and supply chain disruptions present challenges to business recovery and operating margins. As such, the company would continue to focus on cost management while driving productivity and efficiency.

- Proactive business development.** We note that SIAEC has been proactively pushing for business development:

- In May 23, SIAEC announced its plan to acquire an additional 10% stake in JAMCO Aero Design & Engineering (JADE), an engineering solutions provider for aircraft cabin, raising its stake to 55% from previously 45%.
- In Jun 23, SIAEC signed an agreement to form a line maintenance JV in Cambodia, which is expected to be operational in 2025.
- In Jun 23, SIAEC also signed an agreement with Hawaiian Airlines to provide airframe maintenance services for the latter's 18 A321neo aircraft.
- In Jul 23, SIAEC signed an agreement with Eaton to form a component MRO JV in Malaysia for Eaton-manufactured aircraft components.

These developments, though not expected to have material earnings impact to SIAEC in the near term, are likely incrementally positive to SIAEC in the long run.

EARNINGS REVISION/RISK

- No change.
- Key risks:** a) Slower-than-expected business volume recovery, b) margin pressure from cost inflation, and c) delay in project delivery due to supply chain issues.

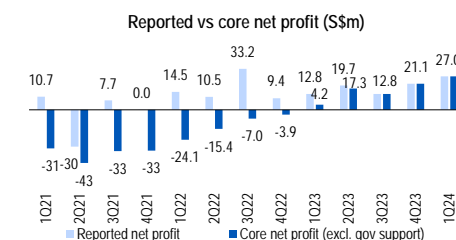
VALUATION/RECOMMENDATION

- Maintain BUY and target price of S\$2.67.** Our DCF-based target price is based on a WACC of 8.5% and a terminal growth rate of 2.5%. SIAEC is currently trading at 15.7x FY25F (normalised year) PE (or 12.0x if ex-net-cash).

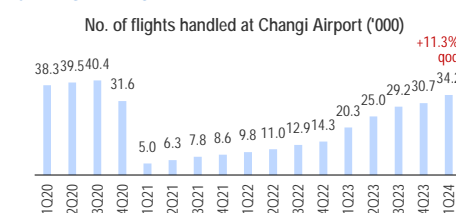
SHARE PRICE CATALYST

- Re-rating catalysts for SIAEC** include: a) continued earnings recovery and potentially higher dividend payment, and b) value-unlocking events that make better utilisation of its large cash pile, such as earnings-accretive acquisitions.

CONSISTENTLY IMPROVING CORE EARNINGS



NUMBER OF FLIGHTS HANDLED BY SIAEC AT CHANGI AIRPORT



PROFIT & LOSS

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Net turnover	796.0	1,060.0	1,161.2	1,203.1
EBITDA	37.7	102.3	144.0	150.4
Deprec. & amort.	64.0	71.9	75.4	77.5
EBIT	(26.3)	30.4	68.5	72.9
Total other non-operating income	3.7	0.0	0.0	0.0
Associate contributions	77.8	85.0	107.9	110.6
Net interest income/(expense)	10.3	15.2	15.0	14.7
Pre-tax profit	65.5	130.6	191.5	198.2
Tax	1.0	(9.6)	(17.5)	(18.4)
Minorities	(0.1)	0.0	0.0	0.0
Net profit	66.4	121.0	173.9	179.8

CASH FLOW

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Operating	64.6	(2.9)	110.0	125.6
Pre-tax profit	65.5	130.6	191.5	198.2
Tax	3.0	(9.6)	(17.5)	(18.4)
Deprec. & amort.	64.0	71.9	75.4	77.5
Associates	(19.2)	(21.0)	(37.9)	(38.8)
Working capital changes	21.5	(95.6)	(16.4)	(6.4)
Non-cash items	2.4	0.0	0.0	0.0
Other operating cashflows	(72.6)	(79.2)	(85.0)	(86.5)
Investing	(19.4)	41.0	56.6	56.8
Capex (maintenance)	(59.6)	(52.4)	(56.8)	(58.6)
Investments	(4.6)	0.0	0.0	0.0
Proceeds from sale of assets	0.6	0.0	0.0	0.0
Others	44.2	93.4	113.4	115.4
Financing	(37.1)	(131.3)	(145.6)	(168.6)
Dividend payments	0.0	(95.4)	(112.2)	(134.6)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	3.2	0.0	0.0	0.0
Loan repayment	(3.6)	(2.5)	0.0	0.0
Others/interest paid	(36.7)	(33.4)	(33.4)	(34.0)
Net cash inflow (outflow)	8.1	(93.1)	21.0	13.8
Beginning cash & cash equivalent	625.5	633.0	539.9	560.8
Changes due to forex impact	(0.6)	0.0	0.0	0.0
Ending cash & cash equivalent	633.0	539.9	560.8	574.6

BALANCE SHEET

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Fixed assets	287.5	296.8	306.9	317.5
Other LT assets	743.6	755.0	769.1	783.6
Cash/ST investment	633.0	539.9	560.8	574.6
Other current assets	319.1	452.7	484.5	498.1
Total assets	1,983.2	2,044.3	2,121.5	2,173.8
ST debt	24.6	22.6	22.6	22.6
Other current liabilities	190.8	228.8	244.2	251.4
LT debt	90.6	90.1	90.1	90.1
Other LT liabilities	0.5	0.5	0.5	0.5
Shareholders' equity	1,666.1	1,691.7	1,753.5	1,798.6
Minority interest	10.6	10.6	10.6	10.6
Total liabilities & equity	1,983.2	2,044.3	2,121.5	2,173.8

KEY METRICS

Year to 31 Mar (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	4.7	9.7	12.4	12.5
Pre-tax margin	8.2	12.3	16.5	16.5
Net margin	8.3	11.4	15.0	14.9
ROA	3.5	6.0	8.3	8.4
ROE	4.1	7.2	10.1	10.1
Growth				
Turnover	40.6	33.2	9.5	3.6
EBITDA	(9.1)	171.4	40.7	4.4
Pre-tax profit	33.2	99.4	46.6	3.5
Net profit	(1.8)	82.3	43.7	3.4
EPS	(1.9)	82.4	43.7	3.4
Leverage				
Debt to total capital	6.4	6.2	6.0	5.9
Debt to equity	6.9	6.7	6.4	6.3
Net debt/(cash) to equity	(37.6)	(31.7)	(31.8)	(31.8)

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