

COMPANY UPDATE

Singapore Airlines (SIA SP)

Jun 24 Operation Data In Line; Expecting Earnings Moderation In 1QFY25

SIA's Jun 24 pax and cargo data were largely in line with our expectations, with pax and cargo loads standing at 99.5% and 94.5% of pre-pandemic levels respectively. SIA's pax yield is likely to remain under pressure in the medium term, driven by increasing competition, but the recent rebound in air freight rates may provide some near-term earnings support. We forecast SIA's 1QFY25 net profit at S\$390m-550m, representing a qoq and yoy decline. Maintain HOLD on SIA. Target: S\$6.43.

WHAT'S NEW

- Singapore Airlines (SIA) released its Jun 24 operation data on 15 Jul 24.
- 1QFY25 results preview.

SIA'S JUN 24 AND 1QFY25 OPERATION DATA

	----- Monthly comparison -----					----- Quarterly comparison -----				
	Jun-24	May-24	Chg mom	Jun-23	Chg yoy	1Q FY25	4Q FY24	Chg qoq	1Q FY24	Chg yoy
Pax operation										
Pax capacity (m seat-km)	14,322	14,534	-1.5%	12,900	+11.0%	42,820	42,854	-0.1%	38,150	+12.2%
as % of same period in 2019	98.1%	98.9%	-0.8ppt	88.4%	+9.7ppt	98.3%	99.5%	-1.2ppt	87.6%	+10.7ppt
Pax load (m pax-km)	12,522	12,516	+0.0%	11,685	+7.2%	37,221	37,056	+0.4%	33,933	+9.7%
as % of same period in 2019	99.5%	105.8%	-6.3ppt	92.8%	+6.6ppt	102.4%	105.0%	-2.5ppt	93.4%	+9ppt
Pax load Factor	87.4%	86.1%	+1.3ppt	90.6%	-3.2ppt	86.9%	86.5%	+0.5ppt	88.9%	-2ppt
vs same period in 2019	+1.2ppt	+5.6ppt		+4.4ppt		+3.5ppt	+4.5ppt		+5.5ppt	
Cargo operation										
Cargo capacity (m tonne-km)	876	880	-0.4%	789	+11.0%	2,596	2,484	+4.5%	2,344	+10.7%
as % of same period in 2019	93.4%	92.8%	+0.6ppt	84.1%	+9.3ppt	92.5%	90.9%	+1.6ppt	83.6%	+9ppt
Cargo load (m tonne-km)	508	497	+2.3%	407	+24.9%	1,497	1,419	+5.5%	1,216	+23.2%
as % of same period in 2019	94.5%	86.7%	+7.8ppt	75.6%	+18.8ppt	91.0%	88.3%	+2.7ppt	73.9%	+17.1ppt
Cargo load factor	58.0%	56.5%	+1.5ppt	51.6%	+6.4ppt	57.7%	57.1%	+0.6ppt	51.8%	+5.8ppt
vs same period in 2019	+0.6ppt	-4.0ppt		-5.8ppt		-1.0ppt	-1.7ppt		-6.8ppt	

Source: SIA, UOB Kay Hian

STOCK IMPACT

- Key highlights for Jun 24 operation data:
- Pax data largely in line. Jun 24 pax load stood at 99.5% of pre-pandemic (Jun 19) levels, largely in line with our projection. Pax capacity stood at 98.1% of pre-pandemic levels. Pax load factor stood at 87.4% in Jun 24, 1.2ppt above pre-pandemic levels. Already very close to pre-pandemic levels, seasonally adjusted pax capacity and load recovery/growth have been mild/flattish in the past few months.

KEY FINANCIALS

Year to 31 Mar (S\$m)	2023	2024	2025F	2026F	2027F
Net turnover	17,775	19,013	20,264	20,186	20,979
EBITDA	4,773	4,913	4,723	4,151	4,213
Operating profit	2,692	2,728	2,322	1,705	1,659
Net profit (rep./act.)	2,157	2,675	3,192	1,381	1,282
Net profit (adj.)	1,722	2,124	1,898	1,362	1,282
EPS (S\$ cent)	58.0	71.5	63.8	45.8	43.1
PE (x)	12.2	9.9	11.1	15.5	16.4
P/B (x)	1.6	1.4	1.3	1.3	1.3
EV/EBITDA (x)	5.0	4.9	5.1	5.8	5.7
Dividend yield (%)	5.4	6.8	5.8	4.5	4.2
Net margin (%)	12.1	14.1	15.7	6.8	6.1
Net debt/(cash) to equity (%)	7.9	(2.7)	6.5	25.8	39.0
ROE (%)	10.2	14.8	19.7	8.5	7.8
Consensus net profit	-	-	1,989	1,469	1,496
UOBKH/Consensus (x)	-	-	0.95	0.93	0.86

Source: SIA, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$7.09
Target Price	S\$6.43
Upside	-9.3%
(Previous TP)	S\$6.35)

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):	2,973.4
Market cap (S\$m):	21,081.1
Market cap (US\$m):	15,684.2
3-mth avg daily t'over (US\$m):	25.8

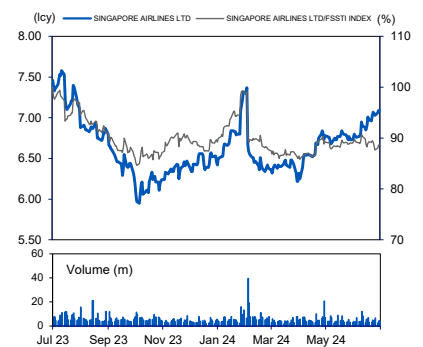
Price Performance (%)

52-week high/low	S\$7.58/S\$5.95			
1mth	3mth	6mth	1yr	YTD
5.3	14.0	8.6	(4.3)	8.1

Major Shareholders

Temasek Hldgs	53.6
-	-
FY25 NAV/Share (S\$)	5.42
FY25 Net Debt/Share (S\$)	0.36

PRICE CHART



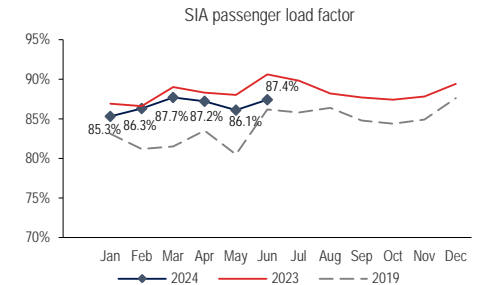
Source: Bloomberg

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Cargo data in line; recovery continues at a moderate pace. Jun 24 cargo load stood at 94.5% of pre-pandemic levels, in line with our projection. Cargo load factors stood at 58% in Jun 24, 0.6ppt above pre-pandemic levels. Cargo load has sustained a moderate pace of recovery in the past few months, helped by growing e-commerce demand and some demand spillover from sea freight as a result of liner service disruptions due to the Red Sea attacks and worsened congestions at the Singapore port.

PAX LOAD FACTOR STOOD ABOVE PRE-PANDEMIC LEVELS IN JUN 24, AT 87.4%

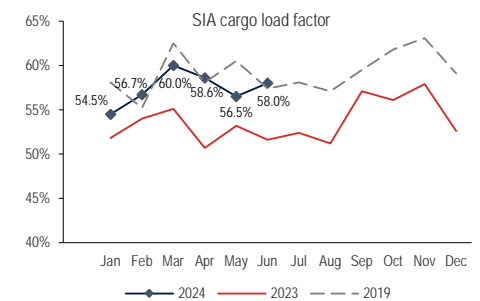


Source: SIA

Notably, the recovery of SIA's cargo volume, at 92.7% of pre-pandemic levels by tonnage, appears slower than Changi airport's cargo volume recovery at 99.2%. This difference might be due to: a) SIA's slightly smaller fleet size today vs pre-pandemic, and b) a different composition of SIA's fleet today vs pre-pandemic, with a number of B777 and A380 aircraft (of larger cargo capacity) replaced by B787 and A350 aircraft (of smaller cargo capacity.)

Network recovery. During the month, SIA and Scoot launched new services to London (Gatwick) and Sibiu respectively. SIA's passenger network now covers 125 destinations (+2 mom), compared with 137 destinations before the pandemic.

CARGO LOAD FACTOR STOOD SLIGHTLY ABOVE PRE-PANDEMIC LEVELS IN JUN 24, AT 58.0%



Source: SIA

Pax yields likely to remain under pressure, but rebound in airfreight rates may provide some support to FY25 earnings. We expect SIA's pax yields to continue to moderate in the medium term driven by increasing competition; this will put pressure on SIA's profitability. Nevertheless, the rebound in air freight rates should provide some support to SIA's FY25 earnings. According to some news reports, some local companies are paying up to 50% more for air freight as compared with the start of 2024. Given the on-going Red Sea attacks and ocean freight disruption, we think the strength in air freight rates may stay throughout 2H24, and hence provide some support SIA's FY25 earnings.

1QFY25 results preview: expecting S\$390m-550m net profit, a qoq and yoy decline. SIA will report its 1QFY25 financial performance on 31 Jul 24 after market close. Based on SIA's Apr-Jun 24 operation data and factoring in the expected pax yield moderation and recent rebound in air freight rates, we forecast SIA's 1QFY25 net profit at S\$390m-550m, representing a 4-32% qoq decline from its 4QFY24 reported net profit S\$575m, or a 25-47% yoy decline from 1QFY24 reported net profit S\$734m (quarterly historical high). Our estimates have included fuel hedge gains but excluded other possible one-off items such as tax credit.

SIA HISTORICAL P/B BAND



Source: UOB Kay Hian, Bloomberg

Update on the Air India-Vistara deal. According to SIA, the Air India-Vistara merger remains on track, having recently received the green light from the National Company Law Tribunal of India, but is still waiting for foreign direct investment and other approvals. According to Air India's CEO, the deal is likely to be completed by the end of this year.

EARNINGS REVISION/RISK

Raise FY25/26/27 earnings estimates by 5.8%/13.2%/4.2% to S\$3.19b/S\$1.38b/1.28b respectively, to reflect: a) stronger air freight rates in FY25, and b) potentially slower-than-expected pax yield moderation, as Airbus' and Boeing's delays in new aircraft deliveries may keep the airline industry's capacity supply tight for longer. Note that our S\$3.19b net profit estimate for FY25 includes an extraordinary gain of S\$1.11b from the Air India-Vistara merger, excluding which our FY25 earnings forecast would have been S\$2.08b.

TARGET PRICE REFERENCE TABLE

		FY23	FY24F	FY25F
BVPS, adj		S\$4.91	S\$5.42	S\$5.48
P/B peg		----- Target price -----		
+2.0SD	1.46x	S\$7.18	S\$7.93	S\$8.01
+1.5SD	1.37x	S\$6.73	S\$7.43	S\$7.50
+1.0SD	1.28x	S\$6.28	S\$6.93	S\$7.00
+0.5SD	1.19x	S\$5.82	S\$6.43	S\$6.49
Mean	1.09x	S\$5.37	S\$5.93	S\$5.99

Source: UOB Kay Hian

VALUATION/RECOMMENDATION

Maintain HOLD with a slightly higher target price of S\$6.43. Our target price for SIA remains based on 1.19x FY25F P/B, pegged to 0.5SD above long-term historical mean of 1.09x. The +0.5SD peg reflects our recognition of SIA's outstanding operation track record demonstrated during the pandemic crisis. Investors may hold SIA for decent dividend yields (estimated at 5.8% in FY25) and possibly slower-than-expected earnings moderation. However, SIA may lack near-term re-rating catalysts, in our view.

FY24 final dividend of 38 S cents going ex on 1 Aug 24. We think SIA's recent share price strength might have been helped by its FY24 final dividend of 38 S cents, which is expected to go ex in two weeks' time, on 1 Aug 24.

PROFIT & LOSS

Year to 31 Mar (\$m)	2024	2025F	2026F	2027F
Net turnover	19,012.7	20,263.7	20,186.0	20,979.4
EBITDA	4,913.3	4,722.9	4,151.5	4,213.1
Deprec. & amort.	2,185.8	2,400.6	2,446.8	2,554.2
EBIT	2,727.5	2,322.3	1,704.7	1,658.9
Total other non-operating income	28.7	0.0	0.0	0.0
Associate contributions	73.7	115.0	136.1	167.1
Net interest income/(expense)	207.2	16.5	(157.0)	(261.4)
Pre-tax profit	3,037.1	3,565.8	1,683.7	1,564.6
Tax	(342.0)	(344.3)	(263.1)	(237.6)
Minorities	(20.3)	(30.0)	(40.0)	(45.0)
Net profit	2,674.8	3,191.5	1,380.6	1,282.0
Net profit (adj.)	2,124.3	1,898.0	1,362.2	1,282.0

CASH FLOW

Year to 31 Mar (\$m)	2024	2025F	2026F	2027F
Operating	5,054.9	3,610.1	3,314.5	3,740.6
Pre-tax profit	3,037.1	3,565.8	1,683.7	1,564.6
Tax	(10.7)	(344.3)	(263.1)	(237.6)
Deprec. & amort.	2,185.8	2,400.6	2,446.8	2,554.2
Associates	8.1	45.0	64.0	92.9
Working capital changes	49.9	(768.4)	(573.9)	(234.9)
Non-cash items	127.8	(0.2)	0.0	0.0
Other operating cashflows	(343.1)	(1,288.5)	(43.0)	1.4
Investing	(1,436.2)	(2,642.0)	(4,302.0)	(4,052.0)
Capex (growth)	468.0	(1,085.3)	(2,534.5)	(2,116.4)
Capex (maintenance)	(1,795.3)	(1,994.7)	(2,045.5)	(2,163.6)
Investments	(92.9)	0.0	0.0	0.0
Proceeds from sale of assets	125.9	0.0	0.0	0.0
Others	(141.9)	438.0	278.0	228.0
Financing	(8,779.1)	(5,239.0)	(347.0)	(533.8)
Dividend payments	(1,130.2)	(1,427.4)	(1,219.3)	(951.6)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	(1,531.6)	(1,052.8)	1,900.0	1,500.0
Others/interest paid	(6,117.3)	(2,758.8)	(1,027.7)	(1,082.1)
Net cash inflow (outflow)	(5,160.4)	(4,270.9)	(1,334.5)	(845.2)
Beginning cash & cash equivalent	16,327.6	11,268.8	6,997.9	5,663.4
Changes due to forex impact	101.6	0.0	0.0	0.0
Ending cash & cash equivalent	11,268.8	6,997.9	5,663.4	4,818.2

BALANCE SHEET

Year to 31 Mar (\$m)	2024	2025F	2026F	2027F
Fixed assets	26,806.8	28,058.2	30,763.4	33,061.2
Other LT assets	1,816.2	3,043.2	3,179.3	3,346.4
Cash/ST investment	11,788.5	7,517.6	6,183.1	5,337.9
Other current assets	3,853.2	3,850.2	3,826.1	3,903.5
Total assets	44,264.7	42,469.1	43,951.8	45,648.9
ST debt	915.4	915.4	915.4	915.4
Other current liabilities	11,756.3	11,264.6	10,666.7	10,509.1
LT debt	8,737.4	7,684.6	9,584.6	11,084.6
Other LT liabilities	6,111.0	6,063.5	6,063.5	6,063.5
Shareholders' equity	16,337.9	16,125.0	16,286.4	16,616.8
Minority interest	406.7	416.0	435.3	459.6
Total liabilities & equity	44,264.7	42,469.1	43,951.8	45,648.9

KEY METRICS

Year to 31 Mar (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	25.8	23.3	20.6	20.1
Pre-tax margin	16.0	17.6	8.3	7.5
Net margin	14.1	15.7	6.8	6.1
ROA	5.7	7.4	3.2	2.9
ROE	14.8	19.7	8.5	7.8
Growth				
Turnover	7.0	6.6	(0.4)	3.9
EBITDA	2.9	(3.9)	(12.1)	1.5
Pre-tax profit	15.2	17.4	(52.8)	(7.1)
Net profit	24.0	19.3	(56.7)	(7.1)
Net profit (adj.)	23.3	(10.6)	(28.2)	(5.9)
EPS	23.3	(10.7)	(28.2)	(5.9)
Leverage				
Debt to total capital	34.2	38.6	41.3	42.6
Debt to equity	75.8	52.0	62.8	70.3
Net debt/(cash) to equity	(2.7)	6.5	25.8	39.0

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