COMPANY RESULTS

SIA Engineering (SIE SP)

FY24: Core Net Profit In Line; Expect Further Earnings Recovery In FY25

SIAEC's FY24 core net profit of S$121m (+135% yoy) was spot on against our forecast. We expect SIAEC's earnings to move close towards a full recovery in the upcoming year (FY25), driven by a further increase in business volume, although cost pressure could still be a near-term drag on margins. SIAEC's valuation is palatable, trading at 17.0x/15.1x FY25/26F PE (or 12.7x/11.4x if excluding net cash) and offering 5.2%/5.4% dividend yields by our estimates. Maintain BUY. Target: S$2.70.

FY24 RESULTS

Year to 31 Mar (S$m)	4QFY24	4QFY23	yoy % chg	3QFY24	qoq % chg	FY24	FY23	yoy % chg	Prev. FY24F	Actual as % of FY24F
Revenue	288.5	225.7	+27.8	291.7	-1.1	1094.2	796.0	+37.5	1093.5	100%
Opex	283	229	+23.7	295	-4.1	1091.9	822.3	+32.8	1089.0	100%
EBIT	5.6	-3.0	n.m.	-3.4	n.m.	2.3	-26.3	n.m.	4.5	n.m.
JVs/associates contri.	27.2	17.1	+58.9	23.8	+14.1	101.0	77.8	+29.8	100.0	101%
Net Profit	10.9	21.1	-48.5	26.9	-59.6	97.1	66.4	+46.2	121.0	80%
Core net profit	34.9	17.3	+101.9	26.9	+29.7	121.1	51.5	+135.1	121.0	100%
Margins (%)										
EBIT	1.9	-1.3	+3.3ppt	-1.2	+3.1ppt	0.2	-3.3	+3.5ppt	0.4	
Net profit	3.8	9.4	-5.6ppt	9.2	-5.5ppt	8.9	8.3	+0.5ppt	11.1	
Core net profit	12.1	7.7	+4.4ppt	9.2	+2.9ppt	11.1	6.5	+4.6ppt	11.1	

**Core net profit estimates excludes non-recurring items such as impairment losses and government support*
Source: SIAEC, UOB Kay Hian

RESULTS

- **FY24 core performance in line.** SIA Engineering's (SIAEC) FY24 headline net profit of S$97.1m (+46.2% yoy) was impacted by one-off items, including a S$25.1m write-off related to the exit from PW1500G engines Risk-Revenue Sharing Programme (RRSP), a legacy investment SIAEC entered into with engine OEM Pratt & Whiney (P&W) back in 2010. Excluding one-off items, SIAEC's core net profit of S$121m was spot on against our forecast. Revenue rose 37.5% yoy to S$1,094m, driven by revenue growth across all business units as business volume increased. Revenue from the airframe and line maintenance division rose 29.7% yoy to S$836.3m in FY24, while revenue from the engine and component division rose 70.8% yoy to S$258.0m.
- **Operating profit turned around.** FY24 ended with a slight positive operating profit of S$2.3m (FY23: S$26.3m in losses), the first annual operating profit for SIAEC since the onset of the pandemic. 4QFY24 operating profit returned to the black at S$5.6m, reversing the S$3.4m operating loss in 3QFY24.
- **JVs and associates remained key contributors.** JVs and associates turned in S$101m profit contribution in FY24, up 29.8% yoy, driven mainly by overall better performance of JVs and associates in the engine and component division.

KEY FINANCIALS

Year to 31 Mar (S$m)	2023	2024	2025F	2026F	2027F
Net turnover	796	1,094	1,240	1,291	1,344
EBITDA	38	65	107	124	129
Operating profit	(26)	2	40	55	58
Net profit (rep./act.)	66	97	155	173	182
EPS (S$ cent)	5.9	8.6	13.7	15.4	16.2
PE (x)	39.6	27.0	17.0	15.1	14.4
P/B (x)	1.6	1.5	1.5	1.5	1.4
EV/EBITDA (x)	35.7	20.6	12.6	10.9	10.4
Dividend yield (%)	2.4	3.4	5.2	5.4	5.6
Net margin (%)	8.3	8.9	12.5	13.4	13.6
Net debt/(cash) to equity (%)	(37.6)	(37.6)	(35.6)	(35.3)	(35.1)
ROE (%)	4.1	5.8	9.1	9.9	10.2

Source: SIAEC, Bloomberg, UOB Kay Hian

BUY
(Maintained)

Share Price	S$2.33
Target Price	S$2.70
Upside	+15.8%
(Previous TP	*S$2.73)*

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):	1,122.1
Market cap (S$m):	2,614.4
Market cap (US$m):	1,931.5
3-mth avg daily t'over (US$m):	0.4

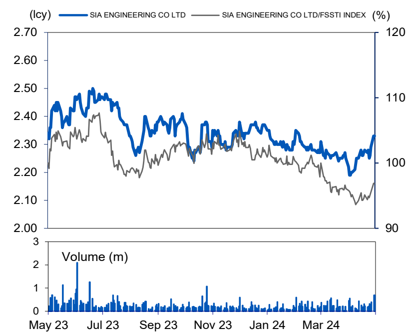
Price Performance (%)

52-week high/low S$2.50/S$2.19

1mth	3mth	6mth	1yr	YTD
3.6	0.9	0.9	0.0	(1.7)

Major Shareholders	%
SIA	77.5
FY25 NAV/Share (S$)	1.54
FY25 Net Cash/Share (S$)	0.46

PRICE CHART



Source: Bloomberg

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- **Declared 6 S cents final DPS.** SIAEC declared a 6 S cents final dividend for FY24, raising full-year DPS to 8 S cents, compared with FY23 full-year DPS of 5.5 S cents. This leads to FY24 yield of 3.5% based on current price.
- **Strong balance sheet with S$641m in net cash.** SIAEC's net cash position stood at S$641m as at end-FY24 (end-FY23: S$631m), equivalent to 25% of SIAEC's market cap.

STOCK IMPACT

- **Continued recovery of flight activities at Changi Airport.** Flight activities at Changi Airport recovered to 93.9% of pre-pandemic levels in Mar 24. SIAEC's line maintenance business volume at Changi Airport recovered slightly faster, having reached 94.4% of pre-pandemic levels. We note that SIAEC has managed to gain market share over the past years, with its share of line maintenance business volume at Changi Airport rising to 85.2% in FY24, compared with <80% before the pandemic.
- **Key business developments.** SIAEC announced several major business developments, including securing a 12-year contract to provide component support to Air India's A320 fleet (started in Mar 24), as well as expanding engine service capacity under its major JV/associate Singapore Aero Engine Services (SAESL) and Eagle Services Asia (ESA). SIAEC has also entered an agreement to lease two hangers in Subang Airport, Malaysia. Currently under refurbishment, the two hangers will add to SIAEC's base maintenance capacity once they become operational in 2025.

  Over the weekend, SIAEC announced a strategic partnership with Air India to jointly develop Air India's base maintenance facilities in Bangalore, which is expected to be ready in 2026. It is still early to incorporate any financial impact, as the development is still in the conceptualisation stage. However, SIAEC believes the impact of this partnership to be potentially significant in the long run. We are positive on this development as it may open up opportunities for SIAEC to establish presence in the large India market with a strong local partner and bring good investment opportunities for SIAEC to deploy its sizeable net cash position.
- **FY25 outlook: Business volume recovery continues, while margin pressure also remains.** Management sees healthy demand for MRO services as global air travel and flight activities edge closer to pre-pandemic levels. We expect the increase in business volume to continue to drive SIAEC's revenue/profitability recovery in FY25. On the other hand, management cautioned that a tight labour market, supply chain issues and inflation may continue to weigh on SIAEC's operating margins in the near term.

EARNINGS REVISION/RISK

- **Cut FY25/26 earnings forecasts by 10.9%/3.6% respectively** as we factor in higher margin pressure in the near term.
- **Key risks:** a) Margin pressure from labour and raw material cost inflation, and b) delay in project deliveries due to supply chain issues.

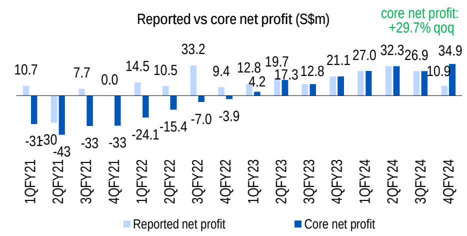
VALUATION/RECOMMENDATION

- **Maintain BUY with a slightly lower DCF-based target price of S$2.70.** SIAEC currently trades at 15.1x FY26F PE (or 11.4x if ex-net-cash), or 2.1SD below its pre-pandemic historical mean of 23.2x. SIAEC offers 5.2%/5.4% dividend yields in FY25/26, by our estimate.

SHARE PRICE CATALYST

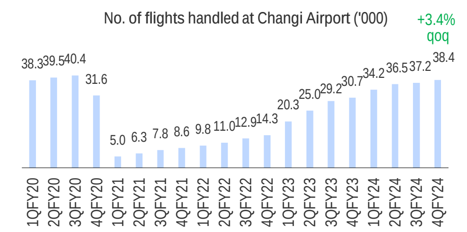
- **Re-rating catalysts** include: a) continued recovery of earnings and dividend, and b) value-unlocking events that better utilise its large cash pile, such as earnings-accretive acquisitions.

QUARTERLY EARNINGS TREND



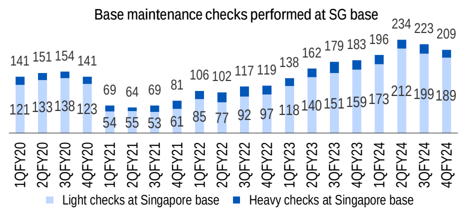
Source: SIAEC, UOB Kay Hian

NUMBER OF FLIGHTS HANDLED BY SIAEC AT CHANGI AIRPORT



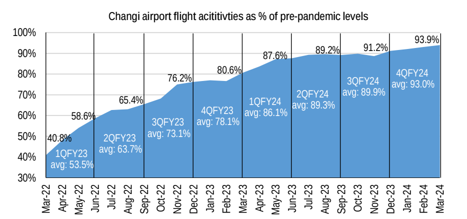
Source: SIAEC

SIAEC'S BASE MAINTENANCE BUSINESS VOLUME



Source: SIAEC

FLIGHT ACTIVITIES AT CHANGI AIRPORT RECOVERED TO 94% OF PRE-PANDEMIC LEVELS IN MAR 24



Source: Changi Airport

PROFIT & LOSS

Year to 31 Mar (S$m)	2024	2025F	2026F	2027F
Net turnover	1,094.2	1,240.3	1,290.8	1,343.5
EBITDA	65.4	106.7	123.9	129.0
Deprec. & amort.	63.1	66.9	68.8	70.8
EBIT	2.3	39.7	55.1	58.2
Total other non-operating income	(24.0)	0.0	0.0	0.0
Associate contributions	101.0	106.9	113.0	119.4
Net interest income/(expense)	20.0	20.2	20.3	20.3
Pre-tax profit	99.3	166.8	188.4	197.9
Tax	(2.2)	(12.0)	(15.1)	(15.7)
Minorities	0.0	0.0	0.0	0.0
Net profit	97.1	154.9	173.3	182.2

BALANCE SHEET

Year to 31 Mar (S$m)	2024	2025F	2026F	2027F
Fixed assets	288.6	296.7	305.1	313.8
Other LT assets	798.8	816.3	834.6	854.0
Cash/ST investment	646.0	621.1	629.8	640.3
Other current assets	354.9	414.2	427.3	440.9
Total assets	2,088.3	2,148.2	2,196.7	2,249.0
ST debt	27.9	25.2	25.2	25.2
Other current liabilities	273.9	296.3	306.2	316.5
LT debt	82.5	80.1	80.1	80.1
Other LT liabilities	0.7	0.7	0.7	0.7
Shareholders' equity	1,687.1	1,729.7	1,768.4	1,810.3
Minority interest	16.2	16.2	16.2	16.2
Total liabilities & equity	2,088.3	2,148.2	2,196.7	2,249.0

CASH FLOW

Year to 31 Mar (S$m)	2024	2025F	2026F	2027F
Operating	100.4	57.8	105.6	109.9
Pre-tax profit	99.3	166.8	188.4	197.9
Tax	(0.8)	(12.0)	(15.1)	(15.7)
Deprec. & amort.	63.1	66.9	68.8	70.8
Associates	(40.4)	(38.9)	(39.0)	(40.6)
Working capital changes	25.9	(36.9)	(3.2)	(3.4)
Non-cash items	9.9	0.0	0.0	0.0
Other operating cashflows	(56.6)	(88.2)	(94.3)	(99.2)
Investing	30.8	67.4	71.0	74.7
Capex (maintenance)	(48.7)	(47.4)	(49.1)	(50.8)
Investments	15.7	0.0	0.0	0.0
Proceeds from sale of assets	14.0	0.0	0.0	0.0
Others	49.8	114.9	120.1	125.5
Financing	(117.7)	(150.1)	(167.9)	(174.1)
Dividend payments	(84.3)	(112.2)	(134.7)	(140.3)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	2.7	0.0	0.0	0.0
Loan repayment	0.0	(5.1)	0.0	0.0
Others/interest paid	(36.1)	(32.8)	(33.3)	(33.9)
Net cash inflow (outflow)	13.5	(24.9)	8.7	10.5
Beginning cash & cash equivalent	633.0	646.0	621.1	629.8
Changes due to forex impact	(0.5)	0.0	0.0	0.0
Ending cash & cash equivalent	646.0	621.1	629.8	640.3

KEY METRICS

Year to 31 Mar (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	6.0	8.6	9.6	9.6
Pre-tax margin	9.1	13.5	14.6	14.7
Net margin	8.9	12.5	13.4	13.6
ROA	4.8	7.3	8.0	8.2
ROE	5.8	9.1	9.9	10.2
Growth				
Turnover	37.5	13.4	4.1	4.1
EBITDA	73.5	63.1	16.2	4.1
Pre-tax profit	51.6	68.0	12.9	5.1
Net profit	46.2	59.5	11.9	5.1
EPS	46.2	59.5	11.9	5.1
Leverage				
Debt to total capital	6.1	5.7	5.6	5.5
Debt to equity	6.5	6.1	6.0	5.8
Net debt/(cash) to equity	(37.6)	(35.6)	(35.3)	(35.1)

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