

## COMPANY RESULTS

### SIA Engineering (SIE SP)

1QFY23: Results In Line; Profitable Even Without Government Support

1QFY23 marked the first quarter that SIAEC returned to positive core profitability excluding government support. 1QFY23 ex-relief core net profit of S\$4.2m is a good start and we expect SIAEC's profitability to continue to improve for the rest of FY23, driven by the rising flight activities at Changi Airport. With the positive core profitability and SIAEC's strong balance sheet, we expect a meaningful recovery in dividend payment in FY23. Maintain BUY and unchanged target price of S\$2.70.

#### 1QFY23 RESULTS

	1QFY23	4QFY22	qoq % change	1QFY22	yoy % change
Revenue	171.5	162.6	+5.5	125.3	+36.9
EBIT	-4.0	-7.4	n.m.	-2.9	n.m.
JVs / associates contribution	16.4	12.2	+35.0	14.8	+10.8
Reported net profit	12.8	9.4	+36.5	14.5	n.m.
Core net profit (excl. gov support)	4.2	-3.9	n.m.	-24.1	n.m.
Margins (%)					
EBIT	-2.3	-4.5	+2.2ppt	-2.3	-0.0ppt
Core net profit (excl. gov support)	2.4	-2.4	+4.8ppt	-19.2	+21.7ppt

Source: SIAEC, UOB Kay Hian

#### RESULTS

- Results in line.** SIA Engineering's (SIAEC) 1QFY23 headline net profit of S\$12.8m (1QFY22: S\$14.5m) was broadly in line with our expectations, at 14% of our FY23 full-year forecast of S\$92m. Revenue rose 36.9% yoy (+5.5% qoq) to S\$171.5m (about 66% of the pre-pandemic levels), driven by the increase in line maintenance revenue from higher number of flights handled. Opex rose at a similar pace to S\$175.5m, partly due to reduction in government wage support. Excluding the impact of government support, opex rose 19.3% yoy, slower than the revenue growth. Operating profit was still a tad negative at S\$4.0m in 1QFY23, but the small loss was more than covered by the S\$16.4m profit contribution from JVs/associates (mainly in the engine and component segment).
- First quarter of positive core profitability without government support since onset of pandemic.** It is particularly encouraging that SIAEC had returned to positive core profitability in 1QFY23. Taking out the government support, SIAEC recorded positive core net profit of S\$4.2m in 1QFY23, compared with a core net loss of S\$24.1m a year ago. Apart from the upbeat service volume recovery, we believe SIAEC's relatively faster return to profitability vs other aviation plays was also attributable to its high staff retention during the pandemic, which allows SIAEC to quickly ramp up its operations to meet the air travel recovery without aggressively raising headcounts.

#### KEY FINANCIALS

Year to 31 Mar (\$m)	2021	2022	2023F	2024F	2025F
Net turnover	443	566	813	973	1,121
EBITDA	46	41	81	123	155
Operating profit	(25)	(22)	16	51	70
Net profit (rep./act.)	(11)	68	92	143	188
EPS (\$ cent)	(1.0)	6.0	8.2	12.7	16.7
PE (x)	n.m.	40.5	29.7	19.1	14.6
P/B (x)	1.8	1.7	1.6	1.6	1.5
EV/EBITDA (x)	34.7	36.9	18.6	12.4	9.8
Dividend yield (%)	0.0	0.0	2.5	4.1	5.3
Net margin (%)	(2.5)	11.9	11.4	14.7	16.7
Net debt/(cash) to equity (%)	(39.2)	(38.4)	(37.1)	(34.4)	(32.9)
ROE (%)	n.a.	4.3	5.6	8.3	10.6
Consensus net profit	-	-	74	119	154
UOBKH/Consensus (x)	-	-	1.25	1.20	1.22

Source: SIAEC, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	S\$2.43
Target Price	S\$2.70
Upside	+10.9%

#### COMPANY DESCRIPTION

Aircraft maintenance, repair, and overhaul (MRO) operator, 2021 Asia-Pacific MRO of the Year Award winner by Airline Economics Magazine.

#### STOCK DATA

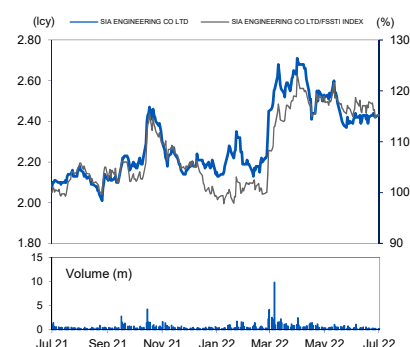
GICS sector	Industrials
Bloomberg ticker:	SIE SP
Shares issued (m):	1,123.9
Market cap (\$m):	2,731.2
Market cap (US\$m):	1,972.5
3-mth avg daily t'over (US\$m):	1.0
Price Performance (%)	

52-week high/low S\$2.71/S\$2.01

1mth	3mth	6mth	1yr	YTD
1.2	(7.6)	13.6	16.8	11.5

Major Shareholders	%
SIA	77.6
-	-
-	-
FY23 NAV/Share (\$)	1.52
FY23 Net Cash/Share (\$)	0.51

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

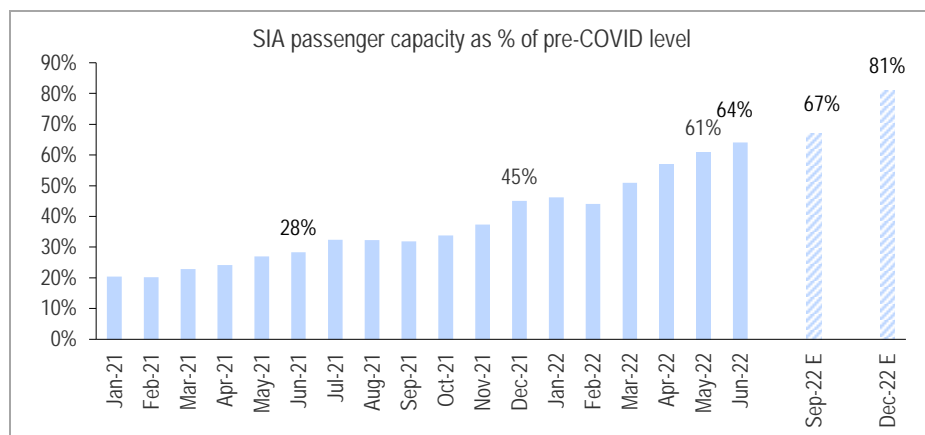
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- **Rock solid balance sheet.** As of end-1QFY23, SIAEC had a considerable cash balance of S\$603m with little debt. We estimate SIAEC's net cash position is equivalent to over 20% of its market cap.

### STOCK IMPACT

- **Good visibility of business recovery.** 1QFY23 marked a good start for the year and we expect SIAEC's core profitability to continue to improve for the rest of FY23, driven by the increasing flight activities at Changi Airport. As of Jun 22, the number of flights handled by SIAEC had recovered to about 55% of pre-pandemic levels and we expect this figure to rise further to about 80% by Dec 22, noting that SIAEC's parent company Singapore Airlines (SIA) has a plan to recover its passenger capacity to 81% by Dec 22 (about 70% of SIAEC's revenue was derived from SIA in FY21-22; this was compared with the 40-45% level before the pandemic).

### SIA GUIDED FOR ITS PAX CAPACITY TO RISE TO 81% OF THE PRE-PANDEMIC LEVELS BY DEC 22



Source: SIA

- **Expecting a meaningful recovery in dividend this year.** Being a know-how-based and largely asset-light business without heavy capex, SIAEC used to pay out 75-80% of its net profit as dividend. The company ceased paying dividend in FY21-22 when it was loss-making without government support. Now that the company has returned to profitability without government support, we believe SIAEC is likely to resume dividend payment within FY23. We are forecasting a dividend of 6 S cents per share by applying a 75% payout ratio to our FY23 EPS forecast of about 8 S cents, while not ruling out the possibility of a special payout, considering that SIAEC's net cash position had in fact strengthened during the pandemic years and that its parent company SIA has cash needs to retire its Mandatory Convertible Bonds.

### EARNINGS REVISION/RISK

- No change.
- Key risks for SIAEC include: a) increasing competition for manpower (higher retention cost for engineers), b) failure to pass down rising costs in an inflationary environment.

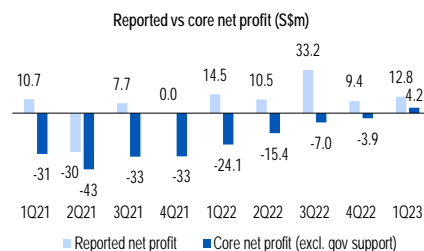
### VALUATION/RECOMMENDATION

- **Maintain BUY and a DCF-based target price of S\$2.70.** SIAEC is our top pick among the Singapore aviation plays. We like SIAEC for: a) the good visibility of its business recovery, b) its local market leadership (78% market share of Changi Airport line maintenance business volume), and c) still cheap valuation - SIAEC is currently trading at 14.6x FY25 (normalised year) PE (about 11.5x if ex-net-cash), 2.3SD below its FY14-19 (pre-COVID-19 years) average PE of 23.2x.

### SHARE PRICE CATALYST

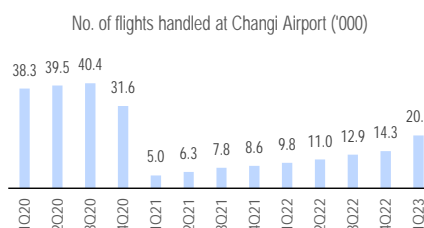
- We believe market should turn more positive towards SIAEC with the core profitability recovery. Re-rating catalysts for SIAEC include: a) further core earnings improvement and dividend resumption, and b) SIAEC making good utilisation of its big cash pile for some sizeable acquisition or paying special dividend.

### CONSISTENTLY IMPROVING CORE EARNINGS



Source: SIAEC, UOB Kay Hian

### NUMBER OF FLIGHTS HANDLED BY SIAEC AT CHANGI AIRPORT



Source: SIAEC, UOB Kay Hian

### HISTORICAL PE BAND (FY15-19)



Source: Bloomberg, UOB Kay Hian

**PROFIT & LOSS**

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Net turnover	566.1	813.0	973.1	1,121.2
EBITDA	41.5	80.9	123.0	154.7
Deprec. & amort.	63.3	64.8	71.7	84.5
EBIT	(21.9)	16.1	51.3	70.2
Total other non-operating income	(7.2)	0.0	0.0	0.0
Associate contributions	79.1	75.0	100.0	129.0
Net interest income/(expense)	(0.8)	2.6	3.6	4.0
<b>Pre-tax profit</b>	<b>49.2</b>	<b>93.7</b>	<b>155.0</b>	<b>203.2</b>
Tax	18.6	(1.4)	(11.5)	(15.6)
Minorities	(0.2)	0.0	0.0	0.0
<b>Net profit</b>	<b>67.6</b>	<b>92.3</b>	<b>143.4</b>	<b>187.6</b>
Year to 31 Mar (\$m)	2022	2023F	2024F	2025F

**BALANCE SHEET**

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Fixed assets	219.9	228.2	238.1	251.3
Other LT assets	705.5	717.6	733.5	753.7
Cash/ST investment	625.5	636.5	604.4	598.0
Other current assets	287.3	387.5	446.2	497.1
<b>Total assets</b>	<b>1,838.2</b>	<b>1,969.8</b>	<b>2,022.2</b>	<b>2,100.1</b>
ST debt	31.3	28.5	28.5	28.5
Other current liabilities	146.5	188.6	198.6	212.3
LT debt	38.4	38.4	38.4	38.4
Other LT liabilities	0.5	0.5	0.5	0.5
Shareholders' equity	1,610.8	1,703.1	1,745.5	1,809.6
Minority interest	10.6	10.6	10.6	10.6
<b>Total liabilities &amp; equity</b>	<b>1,838.2</b>	<b>1,969.8</b>	<b>2,022.2</b>	<b>2,100.1</b>

**CASH FLOW**

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>29.2</b>	<b>21.4</b>	<b>62.8</b>	<b>102.0</b>
Pre-tax profit	49.2	93.7	155.0	203.2
Tax	(4.7)	(1.4)	(11.5)	(15.6)
Deprec. & amort.	63.3	64.8	71.7	84.5
Associates	(20.3)	(35.0)	(40.0)	(39.0)
Working capital changes	(9.1)	(58.1)	(48.7)	(37.2)
Non-cash items	1.5	0.0	0.0	0.0
Other operating cashflows	(50.7)	(42.6)	(63.6)	(94.0)
<b>Investing</b>	<b>15.7</b>	<b>22.9</b>	<b>36.5</b>	<b>45.5</b>
Capex (maintenance)	(23.3)	(45.5)	(54.1)	(70.1)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	5.4	0.0	0.0	0.0
Others	33.7	68.4	90.6	115.7
<b>Financing</b>	<b>(35.7)</b>	<b>(33.3)</b>	<b>(131.4)</b>	<b>(153.9)</b>
Dividend payments	0.0	0.0	(101.0)	(123.5)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	(7.1)	(2.8)	0.0	0.0
Others/interest paid	(28.6)	(30.4)	(30.4)	(30.4)
<b>Net cash inflow (outflow)</b>	<b>9.2</b>	<b>11.1</b>	<b>(32.1)</b>	<b>(6.4)</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>616.0</b>	<b>625.5</b>	<b>636.5</b>	<b>604.4</b>
Changes due to forex impact	0.3	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>625.5</b>	<b>636.5</b>	<b>604.4</b>	<b>598.0</b>

**KEY METRICS**

Year to 31 Mar (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	7.3	9.9	12.6	13.8
Pre-tax margin	8.7	11.5	15.9	18.1
Net margin	11.9	11.4	14.7	16.7
ROA	3.7	4.8	7.2	9.1
ROE	4.3	5.6	8.3	10.6
<b>Growth</b>				
Turnover	27.8	43.6	19.7	15.2
EBITDA	(10.3)	95.1	52.1	25.8
Pre-tax profit	n.a.	90.6	65.4	31.1
Net profit	n.a.	36.5	55.4	30.8
EPS	n.a.	36.5	55.4	30.8
<b>Leverage</b>				
Debt to total capital	4.1	3.8	3.7	3.5
Debt to equity	4.3	3.9	3.8	3.7
Net debt/(cash) to equity	(38.4)	(37.1)	(34.4)	(32.9)

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