

COMPANY RESULTS

SIA Engineering (SIE SP)

2QFY23: Results In Line; Recovery Gaining Traction But Cost Pressure Remains

SIAEC's core net profit continued to improve, reaching S\$17.3m in 2QFY23 (1QFY23: S\$4.2m). While the business recovery is taking good shape, cost pressure from workforce ramp-up and material prices was slightly higher than our expectations. Overall, we expect SIAEC's profitability to increase further in 2HFY23 as business recovery continues. We trim our FY23-25 EPS forecasts by 7.3-9.0% to reflect the higher cost pressure. Maintain BUY with a slightly lower target price of S\$2.60.

2QFY23 RESULTS

Year to 31 Mar (\$m)	1H23	1H22	yoy % chg	2QFY23	1QFY23	qoq % chg	2QFY22	yoy % chg
Revenue	362.2	263.5	+37.4	190.7	171.5	+11.2	138.2	+38.0
EBIT	-10.8	-6.7	n.m.	-6.8	-4.0	n.m.	-3.8	n.m.
Core EBIT (excl. gov support)	-21.9	-53.4	n.m.	-9.3	-12.6	n.m.	-24.4	n.m.
JVs / associates contribution	41.4	26.8	+54.3	25.0	16.4	+52.5	12.0	+108.4
Reported net profit	32.5	25.0	+29.8	19.7	12.8	+53.8	10.5	+87.5
Core net profit (excl. gov support)	21.4	-39.3	n.m.	17.3	4.2	n.m.	-15.4	n.m.
Margins (%)								
Core EBIT (excl. gov support)	-6.0	-20.3	+14.2ppt	-4.9	-7.3	+2.5ppt	-17.7	+12.8ppt
Core net profit (excl. gov support)	5.9	-14.9	+20.8ppt	9.1	2.4	+6.6ppt	-11.1	+20.2ppt

Source: SIAEC, UOB Kay Hian

RESULTS

- Results broadly in line.** SIA Engineering's (SIAEC) 2QFY23 headline net profit rose 53.8% qoq (+87.5% yoy) to S\$19.5m in 2QFY23. 1HFY23 headline net profit of S\$32.5m (+29.8% yoy) accounted for 35.4% of our full-year forecast. Revenue rose 37.4% yoy to S\$362.2m, driven by higher line maintenance and base maintenance volume. However, opex rose slightly faster by 38.0% yoy, due to: a) a ramp-up of its workforce, b) reduction in government wage support, and c) higher material prices. As a result, SIAEC ended up with an operating loss of S\$10.8m in 1HFY23, though this was more than offset by strong profit contribution from JVs/associates (mainly in the engine and component segment) at S\$41.4m (+54.3% yoy).
- Core net profit improved for the sixth consecutive quarter.** Excluding the government wage support, core net profit has been on a consistent recovery track. After returning into the black in 1QFY23 (at S\$4.2m), SIAEC's core net profit continued to widen in 2QFY23, reaching S\$17.3m. The recovery trend should continue for the rest of FY23.
- Rock-solid balance sheet.** As of end-2QFY23, SIAEC had a sizeable net cash balance of S\$606m, equivalent to about 24% of its market cap. No dividend was declared for 1HFY23.

KEY FINANCIALS

Year to 31 Mar (\$m)	2021	2022	2023F	2024F	2025F
Net turnover	443	566	806	970	1,112
EBITDA	46	41	58	110	143
Operating profit	(25)	(22)	(8)	35	60
Net profit	(11)	68	84	131	174
EPS (S\$ cent)	(1.0)	6.0	7.5	11.6	15.4
PE (x)	n.m.	36.1	29.1	18.7	14.1
P/B (x)	1.6	1.5	1.4	1.4	1.4
EV/EBITDA (x)	28.4	29.9	21.1	11.4	8.6
Dividend yield (%)	0.0	0.0	2.8	4.1	5.5
Net margin (%)	(2.5)	11.9	10.4	13.5	15.6
Net debt/(cash) to equity (%)	(39.2)	(38.4)	(36.8)	(33.8)	(32.4)
ROE (%)	n.a.	4.3	5.1	7.6	9.9
Consensus net profit	-	-	72	118	149
UOBKH/Consensus (x)	-	-	1.16	1.11	1.17

Source: SIAEC, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$2.17
Target Price	S\$2.60
Upside	+19.6%
(Previous TP)	S\$2.70)

COMPANY DESCRIPTION

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

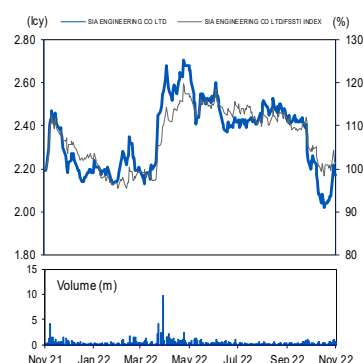
STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SIE SP
Shares issued (m):	1,123.7
Market cap (S\$m):	2438.4
Market cap (US\$m):	1729.2
3-mth avg daily t'over (US\$m):	0.6
Price Performance (%)	

52-week high/low S\$2.71/S\$2.02

1mth	3mth	6mth	1yr	YTD
(0.9)	(9.8)	(17.2)	0.0	1.8
Major Shareholders				
SIA				77.5
-				-
-				-
FY23 NAV/Share (S\$)				1.51
FY23 Net Cash/Share (S\$)				0.50

PRICE CHART



Source: Bloomberg

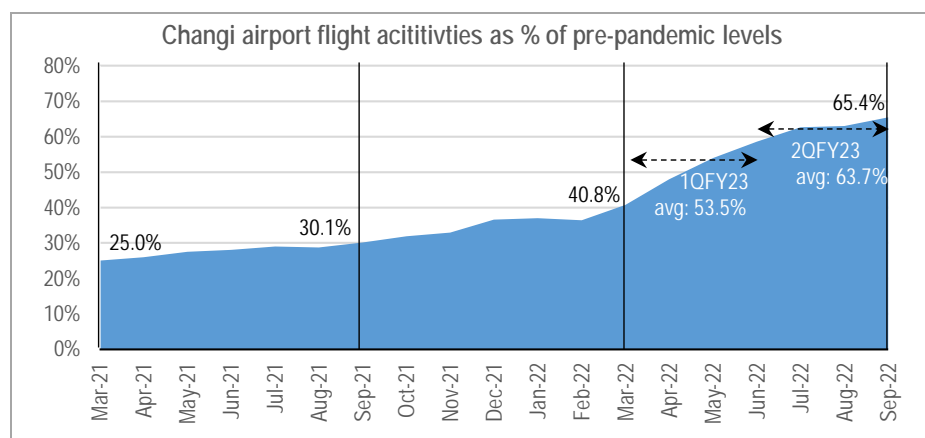
ANALYST(S)

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

STOCK IMPACT

- **Benefitting from the recovery of flight activities at Changi Airport.** With about 80% share of Changi Airport's line maintenance business volume, SIAEC is a key beneficiary of the rising flight activities at Changi Airport, which is on track to recover to about 80% of the pre-pandemic levels by the end of 2023 (Changi Airport's estimate). This compares with the current recovery level at 63.7% as of 2QFY23. Changi Airport's projection is largely in line with SIAEC's parent company Singapore Airlines' estimate, which previously guided a plan for its passenger capacity to recover to 81% by Dec 22. These projections have provided good visibility to SIAEC's business recovery.

FLIGHT ACTIVITIES AT CHANGI AIRPORT ON TRACK TO RECOVER TO ABOUT 80% OF PRE-PANDEMIC LEVELS



Source: SIAEC

- **Cost pressure adding some drag to profitability recovery.** The upbeat near-term business recovery aside, management highlighted the increasing risk of recession and that high inflation, which impacts labour cost and material prices, is adding some cost pressure. We note that the cost pressure has led to a flatter-than-expected curve of the profitability recovery for SIAEC's consolidated entities. Despite the meaningful service volume recovery during 2QFY23 (flights handled by SIAEC rose 23.2% qoq to about 63% of the pre-pandemic levels), SIAEC was still in a loss-making position at the operating profit level in 2QFY23 (although the loss narrowed qoq). We now push back our expectation for operating profit breakeven to sometime between 3Q-4QFY23, from the previously expected 2Q-3QFY23. As the consolidated entities push towards breakeven, SIAEC's group-level core net profit will remain bolstered by the faster profit recovery of engine and component JVs and associates.

EARNINGS REVISION/RISK

- **We lower our FY23-25 EPS estimates by 7.3-9.0% to reflect the higher cost pressure.**
- **Key risks for SIAEC include:** a) steeper-than-expected cost ramp-up; b) sector recovery losing steam beyond FY24 (if China does not re-open).

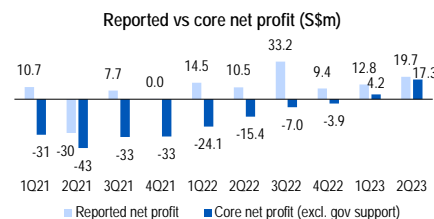
VALUATION/RECOMMENDATION

- **Maintain BUY with a slightly lower DCF-based target price of S\$2.60.** 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 (it holds a market share of around 80% of Changi Airport's line maintenance business volume), and c) undemanding valuation - SIAEC is currently trading at 14.3x FY25 (normalised year) PE (or 10.7x if ex-net-cash), 2.4SD below its FY14-19 (pre-COVID-19 years) average PE of 23.2x.

SHARE PRICE CATALYST

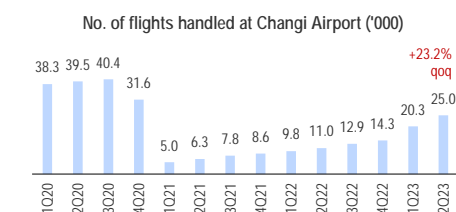
- **Re-rating catalysts for SIAEC include:** a) organic earnings recovery and b) events that can unlock the value of its significant cash pile, including earnings-accretive acquisitions or special dividend payment.

CONSISTENTLY IMPROVING CORE EARNINGS



Source: SIAEC, UOB Kay Hian

NUMBER OF FLIGHTS HANDLED BY SIAEC AT CHANGI AIRPORT - REACHING 63% OF THE PRE-PANDEMIC LEVELS IN SEP 22



Source: SIAEC

SIAEC'S 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	806.1	970.0	1,111.8
EBITDA	41.5	58.0	109.8	143.4
Deprec. & amort.	63.3	66.0	74.7	83.0
EBIT	(21.9)	(8.0)	35.1	60.4
Total other non-operating income	(7.2)	0.0	0.0	0.0
Associate contributions	79.1	86.0	100.0	123.0
Net interest income/(expense)	(0.8)	2.6	3.6	4.0
Pre-tax profit	49.2	80.6	138.7	187.4
Tax	18.6	3.5	(8.1)	(13.5)
Minorities	(0.2)	(0.1)	0.0	0.0
Net profit	67.6	84.0	130.6	173.9

BALANCE SHEET

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Fixed assets	219.9	228.2	238.6	251.1
Other LT assets	705.5	719.6	735.7	755.3
Cash/ST investment	625.5	628.5	586.6	581.6
Other current assets	287.3	385.4	445.2	494.2
Total assets	1,838.2	1,961.6	2,006.1	2,082.1
ST debt	31.3	28.5	28.5	28.5
Other current liabilities	146.5	188.6	203.6	218.0
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	1,694.8	1,724.3	1,785.9
Minority interest	10.6	10.7	10.7	10.7
Total liabilities & equity	1,838.2	1,969.8	2,022.2	2,100.1

CASH FLOW

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Operating	29.2	5.4	56.8	95.3
Pre-tax profit	49.2	80.6	138.7	187.4
Tax	(4.7)	3.5	(8.1)	(13.5)
Deprec. & amort.	63.3	66.0	74.7	83.0
Associates	(20.3)	(16.0)	(22.0)	(33.0)
Working capital changes	(9.1)	(56.0)	(44.8)	(34.6)
Non-cash items	1.5	0.0	0.0	0.0
Other operating cashflows	(50.7)	(72.6)	(81.6)	(94.0)
Investing	15.7	30.8	32.8	42.3
Capex (maintenance)	(23.3)	(47.0)	(57.9)	(68.3)
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	77.8	90.6	110.6
Financing	(35.7)	(33.3)	(131.4)	(142.7)
Dividend payments	0.0	0.0	(101.0)	(112.3)
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)
Net cash inflow (outflow)	9.2	3.0	(41.8)	(5.1)
Beginning cash & cash equivalent	616.0	625.5	628.5	586.6
Changes due to forex impact	0.3	0.0	0.0	0.0
Ending cash & cash equivalent	625.5	628.5	586.6	581.6

KEY METRICS

Year to 31 Mar (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	7.3	7.2	11.3	12.9
Pre-tax margin	8.7	10.0	14.3	16.9
Net margin	11.9	10.4	13.5	15.6
ROA	3.7	4.4	6.6	8.5
ROE	4.3	5.1	7.6	9.9
Growth				
Turnover	27.8	42.4	20.3	14.6
EBITDA	(10.3)	39.8	89.4	30.6
Pre-tax profit	n.a.	64.0	72.1	35.1
Net profit	n.a.	24.2	55.5	33.1
EPS	n.a.	24.1	55.5	33.1
Leverage				
Debt to total capital	4.1	3.8	3.7	3.6
Debt to equity	4.3	3.9	3.9	3.7
Net debt/(cash) to equity	(38.4)	(36.8)	(33.8)	(32.4)

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 2022, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W