

COMPANY RESULTS

Singapore Airlines (SIA SP)

1HFY23: Results Broadly In Line; Expecting Peak Performance In The next Quarter

SIA's 1HFY23 operating profit of S\$1.23b was broadly in line at 45% of our full-year forecast, but net profit of S\$927m was slightly ahead of our projection at 50% of our full-year forecast. Advance sales as at end-1HFY23 were at 40% above pre-pandemic levels, indicating a very strong 3QFY23 financial performance. Beyond 3QFY23, we expect SIA's financial performance to start to normalise as competition catches up and drives down yields. Maintain HOLD with an unchanged target price of S\$5.18.

RESULTS

- Results broadly in line.** Singapore Airlines' (SIA) 1HFY23 (2QFY23) operating profit of S\$1.23b (S\$678m) was the highest in SIA's history. 1HFY23 operating profit was broadly in line with our expectations, at 45% of our full-year forecast. 1HFY23 net profit of S\$927m was deemed slightly ahead of our projection, at 50% of our full-year forecast, as we expect 2HFY23 to be overall stronger than 1HFY23. The surprise was mainly from the higher interest income (S\$103m, +427% yoy), due to the boost in SIA's cash balance as a result of the strong advance sales of air tickets. In 1HFY23, SIA benefitted from fuel hedge gain of S\$417m, in line with our forecast.
- Passenger business continued to recover.** Pax flown revenue rose 23.5% qoq to S\$3.3b in 2QFY23 (1QFY23: S\$2.8b), driven by a 22.0% qoq growth in pax load and a 1.2% growth in pax yields (11.9 S cents per pax-km in 2QFY23 vs 11.7 in 1QFY23). In 2QFY23, SIA's pax capacity recovered to 67.6% of pre-pandemic levels while the pax load factor was already slightly above the pre-pandemic levels, standing at 86.6% in 2QFY23.
- Cargo business showed early signs of normalisation.** Cargo revenue fell 8.5% qoq to S\$1.0b in 2QFY23 (1QFY23: S\$1.1b), on the back of lower cargo load (-2.9% qoq) and lower cargo yields (-5.7%) yoy. As of end-2QFY23, cargo load factor was 57%, already close to pre-pandemic levels, while 2QFY23 cargo yield of 75.4 S cents per tonne-km was still significantly above the 30-ish level before the pandemic.
- Strengthened balance sheet, resumption of dividend payment.** Driven by improved profitability and strong advance ticket sales, SIA's net gearing continued to come down. Even with all outstanding mandatory convertible bonds (MCB) treated as debt, SIA's net gearing was at a healthy 33.8%. SIA declared an interim DPS of 10 S cents.

STOCK IMPACT

- Advance sales indicating an exceptionally strong 3Q.** Sales in advance of carriage, a leading indicator for near-term revenue recognition, stood at S\$4.16b as at end-1HFY23; this was about 40% above the end-1HFY20 (pre-pandemic) levels, even though 3QFY23 pax load, by our estimate, would be only at about 80% of 3QFY20 (ie Oct-Dec 19) levels. This implies an exceptionally strong financial performance for the upcoming 3QFY23.
- Profitability expected to slow down after 3QFY23.** The normalisation of cargo yields has already started and is expected to accelerate in 3QFY23, though we expect the exceptional pax business performance to more than offset any weakness in the cargo performance. Looking beyond 3QFY23, we expect SIA's pax business profitability to also slow down, as competition catches up and drives down pax yields to more normalised levels.

KEY FINANCIALS

Year to 31 Mar (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	3,816	7,615	18,757	20,877	22,162
EBITDA	(371)	1,390	5,137	4,290	3,990
Operating profit	(2,513)	(610)	3,062	2,065	1,589
Net profit (rep./act.)	(4,271)	(962)	2,300	1,374	963
EPS (S\$ cent)	(162.2)	(32.4)	77.5	46.3	32.5
PE (x)	n.m.	n.m.	7.0	11.7	16.7
P/B (x)	1.3	1.3	1.2	1.2	1.1
EV/EBITDA (x)	n.m.	19.4	5.0	6.3	7.2
Dividend yield (%)	0.0	0.0	3.7	3.7	3.7
Net margin (%)	(111.9)	(12.6)	12.3	6.6	4.3
Net debt/(cash) to equity (%)	55.5	63.1	49.2	54.7	63.5
ROE (%)	n.a.	n.a.	10.8	8.1	6.8
Consensus net profit	-	-	1,201	1,071	1,161
UOBKH/Consensus (x)	-	-	1.91	1.28	0.83

Source: SIA, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$5.41
Target Price	S\$5.18
Upside	-4.2%

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):	2,970.6
Market cap (S\$m):	16,070.8
Market cap (US\$m):	11,446.5
3-mth avg daily t'over (US\$m):	13.5

Price Performance (%)

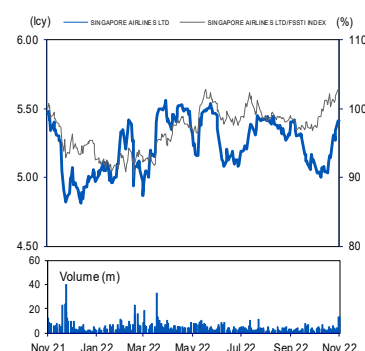
52-week high/low S\$5.56/S\$4.81

1mth	3mth	6mth	1yr	YTD
5.5	(0.2)	0.7	2.5	8.4

Major Shareholders

	%
Temasek Hldgs	55.7
FY23 NAV/Share (S\$)	4.53
FY23 Net Debt/Share (S\$)	0.06

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- Update on fuel hedge position.** SIA has entered into a new fuel hedge position, hedging up to 10% of the projected fuel consumption on declining wedge profile between 2Q-4QFY24 at an average price US\$80 per barrel (based on Brent crude oil price). This adds to SIA's existing position of hedging 40% of its projected fuel consumption till 1QFY24 (at Brent crude oil price of US\$60 per barrel). We note that the new hedging contracts are already in the money today, given that Brent crude oil currently stands at about US\$98 dollar per barrel.

EARNINGS REVISION/RISKS

- We raise our FY23 earnings forecast by 24.2% to S\$2.30b from previously S\$1.85b as we expect an exceptionally strong 3QFY23. We keep our FY24-25 forecasts intact.
- Key risks:** a) Air traffic recovery losing steam beyond FY23, b) a possible recession impacting air travel demand, and c) increasing competition from competitors adding capacities.

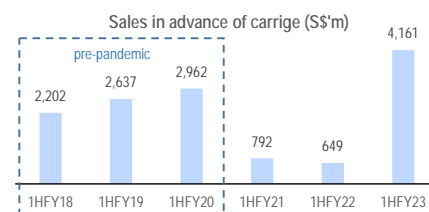
VALUATION/RECOMMENDATION

- Valuation is stretched; maintain HOLD with an unchanged target price of S\$5.18.** Our target price is now based on 1.10x FY24F P/B which is 1.5SD above SIA's historical average of 0.97x in pre-pandemic years. SIA's current price of S\$5.41 implies a 1.15x FY24 P/B or 2.0SD above historical average.

SHARE PRICE CATALYST

- High sentiment in anticipation of a stellar 3QFY23 financial performance. Possible shifts in China's stance in treating COVID-19.

SALES IN ADVANCE OF CARRIAGE AS AT END-1HFY23 IS >40% HIGHER THAN THE PRE-PANDEMIC LEVELS



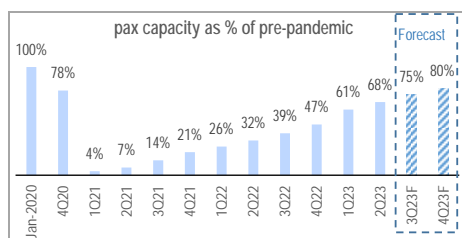
Source: SIA

TARGET PRICE REFERENCE TABLE

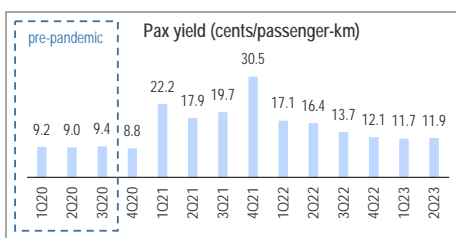
		FY23F	FY24F	FY25F
BVPS, adj		S\$4.53	S\$4.70	S\$4.83
P/B peg			Target price	
+2.0SD	1.15x	S\$5.20	S\$5.40	S\$5.54
+1.5SD	1.10x	S\$5.00	S\$5.18	S\$5.32
+1.0SD	1.06x	S\$4.79	S\$4.97	S\$5.10
+5SD	1.01x	S\$4.59	S\$4.76	S\$4.88
Mean	0.97x	S\$4.38	S\$4.54	S\$4.66

Source: UOB Kay Hian

PAX CAPCITY – TO RECOVER TO 80% BY DEC 22 PAX YIELDS – HOLDING FIRM IN 2QFY23

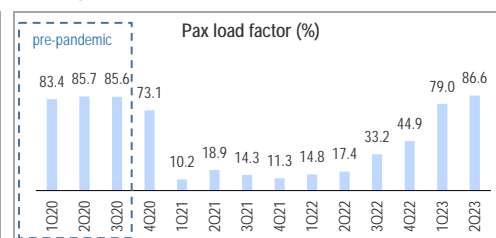


Source: SIA, UOB Kay Hian



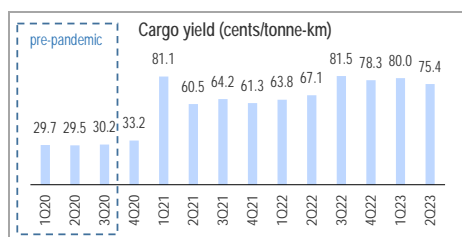
Source: SIA, UOB Kay Hian

PAX LOAD FACTOR – ABOVE PRE-PANDEMIC LEVELS



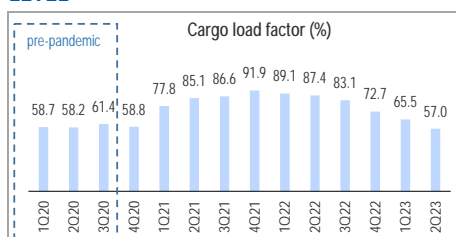
Source: SIA, UOB Kay Hian

CARGO YIELDS – STARTED TO NORMALISE



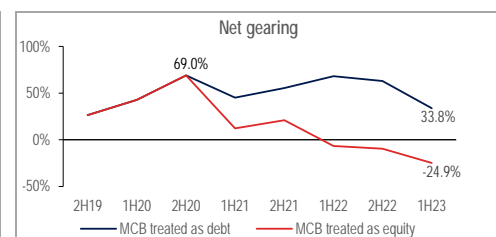
Source: SIA, UOB Kay Hian

CARGO LOAD FACTOR – NEAR PRE-PANDEMIC LEVEL



Source: SIA, UOB Kay Hian

IMPROVING NET GEARING



Source: SIA, UOB Kay Hian

1H/2QFY23 RESULTS

Year to 31 Mar (\$'m)	2Q23	1Q23	qoq % change	2Q22	yoy % change	1H23	yoy % change	Prev. FY23F	
Revenue	4,488	3,928	+14.3	1,533	+192.9	8,417	+197.7	18,425	Broadly in line, 1H at 45.7% of FY23
EBIT (reported)	678	556	+21.9	-345	n.m.	1,234	n.m.	2,735	Broadly in line, 1H at 45.1% of FY23
Fuel hedge gains/(losses)	215	203	+6.1	46	+365.6	418	+219.9	910	
EBIT (adjusted)*	463	354	+30.9	-391	n.m.	817	n.m.	1,825	Broadly in line, 1H at 44.8% of FY23
Net Profit (reported)	557	370	+50.2	-428	n.m.	926.9	n.m.	1,852.2	Slightly above, 1H at 50.0% of FY23
Net profit (adjusted)*	366	202	+80.9	-466	n.m.	568	n.m.	1,097	Slightly above, 1H at 51.8% of FY23
Margins (%)									
EBIT (reported)	15.1	14.2	+0.9ppt	-22.5	+37.6ppt	14.7	+36.6ppt	14.8	
EBIT (adjusted)	10.3	9.0	+1.3ppt	-25.5	+35.8ppt	9.7	+36.2ppt	9.9	
Net profit (adjusted)	8.1	5.1	+3.0ppt	-30.4	+38.6ppt	6.7	+38.4ppt	6.0	

* Adjusted by excluding impacts from one-off items, comprising mainly fuel hedging gains/(losses) and impairment charges
Source: SIA, UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Net turnover	7,614.8	18,757.2	20,876.6	22,162.5
EBITDA	1,389.9	5,136.5	4,290.0	3,990.5
Deprec. & amort.	1,999.6	2,075.0	2,225.0	2,401.8
EBIT	(609.7)	3,061.5	2,065.0	1,588.7
Total other non-operating income	(18.5)	16.2	4.0	4.0
Associate contributions	(116.1)	(117.6)	(59.0)	25.0
Net interest income/(expense)	(345.7)	(255.2)	(318.8)	(425.4)
Pre-tax profit	(1,090.0)	2,704.9	1,691.2	1,192.2
Tax	141.9	(392.9)	(296.8)	(197.8)
Minorities	(13.9)	(12.0)	(20.6)	(31.2)
Net profit	(962.0)	2,300.0	1,373.7	963.3

BALANCE SHEET

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Fixed assets	27,860.7	30,708.0	32,850.0	35,315.2
Other LT assets	3,122.2	3,004.6	2,945.6	2,970.6
Cash/ST investment	14,169.1	5,000.0	4,000.0	3,000.0
Other current assets	3,519.0	3,017.9	2,817.4	2,880.2
Total assets	48,671.0	41,730.5	42,613.0	44,166.0
ST debt	606.8	606.8	606.8	606.8
Other current liabilities	7,261.8	9,632.5	9,989.3	10,616.8
LT debt	11,405.5	4,558.2	11,250.2	11,776.2
Other LT liabilities	6,596.5	6,443.1	6,398.4	6,398.4
Shareholders' equity	22,411.9	20,090.8	13,950.0	14,319.8
Minority interest	388.5	399.1	418.3	448.1
Total liabilities & equity	48,671.0	41,730.5	42,613.0	44,166.0

CASH FLOW

Operating	3,041.5	5,653.5	4,765.5	4,493.7
Pre-tax profit	3,041.5	7,050.8	4,287.2	4,357.3
Tax	(1,090.0)	2,704.9	1,691.2	1,192.2
Deprec. & amort.	(8.3)	(392.9)	(296.8)	(197.8)
Associates	1,999.6	2,075.0	2,225.0	2,401.8
Working capital changes	(175.7)	(191.6)	(139.0)	(65.0)
Non-cash items	1,518.7	2,307.8	294.1	564.6
Other operating cashflows	141.2	(0.6)	0.0	0.0
Investing	656.0	548.2	512.8	461.4
Capex (growth)	(2,246.6)	(4,280.9)	(3,773.0)	(4,293.0)
Capex (maintenance)	(1,440.6)	(2,750.0)	(1,985.0)	(2,290.5)
Investments	(1,682.5)	(1,725.0)	(1,890.0)	(2,084.5)
Proceeds from sale of assets	(266.4)	0.0	0.0	0.0
Others	1,064.5	0.0	0.0	0.0
Financing	78.4	194.1	102.0	82.0
Dividend payments	5,159.7	(11,939.1)	(1,514.2)	(1,064.3)
Issue of shares	0.0	(296.7)	(593.5)	(593.5)
Proceeds from borrowings	6,195.1	0.0	0.0	0.0
Others/interest paid	(79.6)	(6,847.3)	6,692.0	526.0
Net cash inflow (outflow)	(955.8)	(4,795.0)	(7,612.6)	(996.8)
Beginning cash & cash equivalent	5,954.6	(9,169.1)	(1,000.0)	(1,000.0)
Changes due to forex impact	7,783.0	13,762.7	4,593.6	3,593.6
Ending cash & cash equivalent	25.1	0.0	0.0	0.0
Operating	13,762.7	4,593.6	3,593.6	2,593.6

KEY METRICS

Year to 31 Mar (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	18.3	27.4	20.5	18.0
Pre-tax margin	(14.3)	14.4	8.1	5.4
Net margin	(12.6)	12.3	6.6	4.3
ROA	n.a.	5.1	3.3	2.2
ROE	n.a.	10.8	8.1	6.8
Growth				
Turnover	99.6	146.3	11.3	6.2
EBITDA	n.a.	269.6	(16.5)	(7.0)
Pre-tax profit	n.a.	n.a.	(37.5)	(29.5)
Net profit	n.a.	n.a.	(40.3)	(29.9)
EPS	n.a.	n.a.	(40.3)	(29.9)
Leverage				
Debt to total capital	46.0	45.2	45.6	47.0
Debt to equity	175.0	85.3	82.5	83.9
Net debt/(cash) to equity	63.1	49.2	54.7	63.5

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