

COMPANY UPDATE

Singapore Airlines (SIA SP)

Potential Merger Of Vistara Into Air India A Positive Development

We are positive towards SIA's planned merger of Vistara into Air India, which will allow SIA to strengthen its presence in the fast-growing Indian market via its 25.1% strategic stake in a stronger Air India (the surviving entity). Once completed, the effective disposal gain of SIA's stake in Vistara would allow SIA to book a one-time non-cash accounting gain of S\$1.1b, lifting SIA's FY24F book value per share by 8%. Maintain HOLD on SIA, with a slightly higher target price of S\$5.35, based on 1.06x FY24F P/B.

WHAT'S NEW

- Merging Vistara into Air India.** Singapore Airlines (SIA), a 49%-owner of Vistara, and Tata Sons (the ultimate owner of Air India and 51%-owner of Vistara) have agreed to merge Vistara into Air India, with SIA investing an additional S\$360m in Air India as part of the transaction. Post the transaction, SIA will own a 25.1% stake in an enlarged Air India Group. Besides the initial investment, SIA is also committed to make further capital injection of up to S\$880m (being SIA's share of amount based on the 25.1% stake), payable only after the merger completion and subject to Air India's requirement.
- Financing by internal cash.** With a significant cash pile of S\$17.5b as of end-1HFY23, SIA plans to finance the initial cash investment (S\$360m) and the subsequent additional capital injection (if any) with its internal cash resources.
- Expected completion date.** SIA and Tata expect the merger deal to be completed by Mar 24 (ie end of FY24), subject to a number of regulatory approvals such as anti-trust and merger control approvals in India, Singapore and other relevant jurisdictions, the approval of the Indian Civil Aviation Authority etc.
- Recap on Vistara.** Established in 2013, Vistara is a joint venture between Tata and SIA, each holding a 51% and 49% share of Vistara respectively. Vistara is a full-service carrier based in India. Over the years since its establishment, Vistara has been loss-making partly due to the lack of scale. Net losses attributable to SIA's 49% stake of Vistara were S\$178m in FY22 and S\$109m in 1HFY23.
- Introduction of Air India.** Air India is India's flag carrier and also the largest international carrier out of India with about 21% market share. It was in a deep loss-making position with FY22 net losses of over S\$2b. Tata took over Air India from the Indian government in early-22. During the year, Tata also bought out the remaining stake of AirAsia India previously owned by its partner AirAsia and had since commenced the merger of AirAsia India and Air India Express (Air India's low-cost carrier arm). In Tata's hands, Air India has been able to pare down losses by improving cost efficiencies (in the areas of fuel, insurance costs etc).

KEY FINANCIALS

Year to 31 Mar (\$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	2,486	803
EPS (\$ cent)	(162.2)	(32.4)	77.4	83.5	27.0
PE (x)	n.m.	n.m.	7.1	6.6	20.4
P/B (x)	1.3	1.3	1.2	1.1	1.1
EV/EBITDA (x)	n.m.	19.7	5.1	6.1	7.0
Dividend yield (%)	0.0	0.0	3.6	3.6	3.6
Net margin (%)	(111.9)	(12.6)	12.3	11.9	3.6
Net debt/(cash) to equity (%)	55.5	63.1	49.2	50.8	59.7
ROE (%)	n.a.	n.a.	10.8	14.1	5.3
Consensus net profit	-	-	1,689	1,198	983
UOBKH/Consensus (x)	-	-	1.36	2.08	0.82

Source: SIA, Bloomberg, UOB Kay Hian

n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

HOLD

(Maintained)

Share Price	S\$5.50
Target Price	S\$5.35
Upside	-2.8%
(Previous TP)	S\$5.18)

COMPANY DESCRIPTION

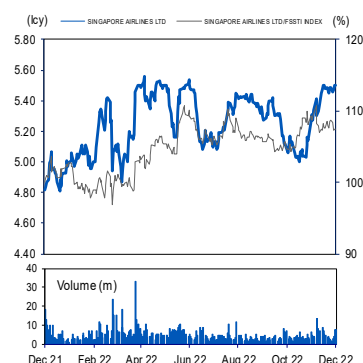
Singapore's flag carrier, flying to more than 130 destinations in over 30 countries before the pandemic. Frequently ranked as Best Airline by magazines and ranking agencies.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SIA SP
Shares issued (m):	2,970.6
Market cap (\$m):	16,338.2
Market cap (US\$m):	11,952.7
3-mth avg daily t'over (US\$m):	16.0
Price Performance (%)	
52-week high/low	S\$5.56/S\$4.81

1mth	3mth	6mth	1yr	YTD
4.6	3.4	(0.7)	12.9	10.2
Major Shareholders				
				%
Temasek Hldgs				55.7
-				-
-				-
FY23 NAV/Share (\$)				4.52
FY23 Net Debt/Share (\$)				0.06

PRICE CHART



Source: Bloomberg

ANALYST(S)

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

STOCK IMPACT

- **Key merits of the proposed merger.** The deal will allow SIA to strengthen its presence in the fast-growing Indian market through its 25.1% strategic stake in a stronger and more competitive Air India.
 - **Strengthening foothold in the fast-growing Indian market.** India is currently the third largest aviation market globally and was the fastest growing large aviation market prior to the COVID-19 pandemic. The market remains underserved with low international seats per capita, indicating significant growth potential. According to Boeing, the Indian aviation market is expected to more than double in the next 10 years. The deal is also in line with SIA's multi-hub strategy, as the fast-growing India market will complement SIA's Singapore hub.
 - **Strategic stake in a strong and competitive player.** The deal will allow SIA to assume a sizeable strategic stake in a stronger and more competitive Air India, which would have become the largest international and 2nd largest domestic carrier in India, with about 23% share of international passenger traffic and 23% share of domestic passenger traffic (after market leader Indigo's 55% share of domestic passenger traffic). SIA will have Board representation in Air India and may collaborate with Air India in other areas should Air India require. The new Air India will also enjoy strong financial backing from the well-established Tata and SIA groups.
 - **Better profitability prospects of the India operations.** The proposed deal will allow SIA to immediately gain exposure to an entity that is four to five times larger in scale compared to Vistara. The larger scale means improved cost and network efficiency and hence better prospects to reach profitability.
- **Financial impacts: significant one-off accounting gain upon completion but likely higher associate-level losses in FY25.** The merger of Vistara into Air India involves an effective disposal of the 49% Vistara stake by SIA, leading to a significant one-off non-cash accounting gain of about S\$1.1b, which would lift SIA's FY24F net asset value per share by about 8%. Due to Air India's currently deeper loss-making position than Vistara, immediately after the merger, SIA's share of net losses from its 25.1% stake of the enlarged Air India is likely to be higher than its share of losses from Vistara if Vistara remained standalone. Having said that, given some gestation period of 2-3 years we believe the profitability prospects of the enlarged Air India should be much better than Vistara standing alone.

EARNINGS REVISION/RISK

- **Raise FY24 net profit forecast by 81% but lower FY25 by 17%.** The uplift in FY24 net profit forecast is due to our incorporation of the one-off accounting gain of S\$1.1b as we expect the merger deal to be completed by end-FY24. The cut in FY25 net profit is due to the higher amount of near-term losses from SIA's 25.1% stake of Air India than our previously forecasted losses for SIA's stake in Vistara standing alone. We expect Air India's performance to continue to improve beyond FY25.

VALUATION/RECOMMENDATION

- **Maintain HOLD, with a slightly higher target price of S\$5.35.** Our new target price is based on 1.06x FY24F P/B, pegged to 1SD above SIA's historical mean P/B of 0.97x. We are expecting a record level of net profit for SIA in FY23, driven by the strong passenger yields and the upbeat passenger volume recovery as the pent-up air travel demand gets fulfilled. We expect SIA's profitability to peak in the upcoming 3QFY23, a seasonally strong quarter. We expect SIA's core profitability to normalise from 4QFY23 onwards, as competition catches up and drives down pax yields. The current favourable fuel hedge position would also largely come to an end by 1QFY24.

VALUATION/RECOMMENDATION

- Positive sentiment towards a stellar upcoming 3QFY23 financial performance.
- Possible shifts in China's stance in treating COVID-19.

AIR INDIA AND VISTARA'S FLEET, NETWORK AND MARKET SHARE INFORMATION AS AT SEP 22

	Vistara	Air India	Enlarged Air India
Fleet size	53	165	218
Destinations			
- Domestic	31	51	52
- International	10	38	38
Market share (%)			
- Domestic	9	14	23
- International	2	21	23

Source: SIA

CHANGE IN NET PROFIT FORECASTS

S\$m	FY23F	FY24F	FY25F
Previous	2,300	1,374	963
Updated	2,300	2,486	803
% Change	-	+81%	-17%

Source: UOB Kay Hian

TARGET PRICE REFERENCE TABLE

		FY23F	FY24F	FY25F
BVPS, adj*		S\$4.52	S\$5.06	S\$5.13
P/B peg		Target price		
+2.0SD	1.15x	S\$5.19	S\$5.81	S\$5.89
+1.5SD	1.10x	S\$4.98	S\$5.58	S\$5.65
+1.0SD	1.06x	S\$4.78	S\$5.35	S\$5.42
+0.5SD	1.01x	S\$4.57	S\$5.12	S\$5.19
Mean	0.97x	S\$4.37	S\$4.89	S\$4.96

* BVPS figure is calculated on the basis that outstanding Mandatory Convertible Bonds (MCB) are fully redeemed.

Source: 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	1,116.0	4.0
Associate contributions	(116.1)	(117.6)	(59.0)	(135.0)
Net interest income/(expense)	(345.7)	(255.2)	(318.8)	(425.5)
Pre-tax profit	(1,090.0)	2,704.9	2,803.2	1,032.2
Tax	141.9	(392.9)	(296.8)	(197.7)
Minorities	(13.9)	(12.0)	(20.6)	(31.2)
Net profit	(962.0)	2,300.0	2,485.7	803.2

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	4,057.6	3,922.6
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	43,725.0	45,118.0
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	11,252.2	11,780.2
Other LT liabilities	6,596.5	6,443.1	6,398.4	6,398.4
Shareholders' equity	22,411.9	20,090.8	15,060.0	15,267.7
Minority interest	388.5	399.1	418.3	448.1
Total liabilities & equity	48,671.0	41,730.5	43,725.0	45,118.0

CASH FLOW

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Operating	3,041.5	7,050.8	4,287.2	4,357.4
Pre-tax profit	(1,090.0)	2,704.9	2,803.2	1,032.2
Tax	(8.3)	(392.9)	(296.8)	(197.7)
Deprec. & amort.	1,999.6	2,075.0	2,225.0	2,401.8
Associates	(175.7)	(191.6)	(139.0)	(225.0)
Working capital changes	1,518.7	2,307.8	294.1	564.6
Non-cash items	141.2	(0.6)	0.0	0.0
Other operating cashflows	656.0	548.2	(599.2)	781.5
Investing	(2,246.6)	(4,280.9)	(3,773.0)	(4,293.0)
Capex (growth)	(1,440.6)	(2,750.0)	(1,985.0)	(2,290.5)
Capex (maintenance)	(1,682.5)	(1,725.0)	(1,890.0)	(2,084.5)
Investments	(266.4)	0.0	0.0	0.0
Proceeds from sale of assets	1,064.5	0.0	0.0	0.0
Others	78.4	194.1	102.0	82.0
Financing	5,159.7	(11,939.1)	(1,514.2)	(1,064.4)
Dividend payments	0.0	(296.7)	(595.5)	(595.5)
Issue of shares	6,195.1	0.0	0.0	0.0
Proceeds from borrowings	(79.6)	(6,847.3)	6,694.0	528.0
Others/interest paid	(955.8)	(4,795.0)	(7,612.6)	(996.9)
Net cash inflow (outflow)	5,954.6	(9,169.1)	(1,000.0)	(1,000.0)
Beginning cash & cash equivalent	7,783.0	13,762.7	4,593.6	3,593.6
Changes due to forex impact	25.1	0.0	0.0	0.0
Ending cash & cash equivalent	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	13.4	4.7
Net margin	(12.6)	12.3	11.9	3.6
ROA	n.a.	5.1	5.8	1.8
ROE	n.a.	10.8	14.1	5.3
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.	3.6	(63.2)
Net profit	n.a.	n.a.	8.1	(67.7)
EPS	n.a.	n.a.	7.9	(67.7)
Leverage				
Debt to total capital	34.5	20.1	43.4	44.1
Debt to equity	175.0	85.3	76.6	78.8
Net debt/(cash) to equity	63.1	49.2	50.8	59.7

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