

COMPANY RESULTS

Singapore Airlines (SIA SP)

FY23: Results In Line; Strong Final Dividend A Key Surprise

SIA's FY23 core net profit was in line with our expectations at 99% of our forecast. The final dividend of 28 S cents was a positive surprise, leading to a 6.3% full-year yield for FY23. SIA's core profitability has peaked and is likely to moderate in FY24-25, driven by normalising pax and cargo yields, but SIA may still sustain a decent yield of 5.8% in FY24 (before moderating to 3.7% in FY25) if it lifts the payout ratio to 70%, backed by its strong balance sheet. Upgrade SIA to HOLD with a higher target price of S\$5.75.

FY23 RESULTS

Year to 31 Mar (\$m)	4Q23	3Q23	qoq % chg	4Q22	yoy % chg	FY23	yoy % chg	Prev. FY23F
Revenue	4,512	4,846	-6.9	2,472	+82.5	17,775	+133.4	18,092
Pax flown revenue	3,620	3,767	-3.9	1,220	+196.6	13,366	+376.3	13,584
Cargo & mail revenue	643	862	-25.4	1,114	-42.3	3,604	-16.9	3,707
EBIT (reported)	703	755	-6.9	-67	n.m.	2,692	n.m.	2,834
Fuel hedge gains/(losses)	136	196	-30.8	112	+21.3	749	+152.0	743
Core EBIT*	562	755	-25.5	-178	n.m.	2,146	n.m.	2,298
JV/associates contribution						-31		-103
Net interest inc/(exp)						-7		-64
Net Profit (reported)	602	628	-4.2	-210	n.m.	2,157	n.m.	2,200
Core net profit*	518	661	-21.7	-303	n.m.	1,758	n.m.	1,779
Margins (%)								
Core EBIT*	12.5	15.6	-3.1ppt	-7.2	+19.7ppt	12.1	+24.0ppt	12.7
Core net profit*	11.5	13.6	-2.2ppt	-11.5ppt	+11.5ppt	9.9	+25.5ppt	

* Adjusted by excluding impacts from one-offs such as fuel hedging gains and forex losses

Source: SIA, UOB Kay Hian

RESULTS

- Results in line.** FY23 reported net profit of S\$2.16b was in line at 98% of our forecast. Adjusted for one-off items such as fuel hedge gains and forex losses, FY23 core net profit of S\$1.76b was at 99% of our forecast. Core EBIT was below our projection at 93.4% of our forecast, but the shortfall was made up for by better-than-expected JVs/associates contribution (thanks to lower losses of Vistara) and lower-than-expected net interest cost.
- Core profitability has peaked.** Core net profit declined 21.7% to S\$518m in 4QFY23 by our estimate (3QFY23: S\$661m), on the back of lower core EBIT (-25.5% qoq). Other than some seasonality factors, the qoq profit decline was also attributable to: a) normalising pax yields, b) declining cargo yields, and c) slower cargo volume. Group revenue declined 6.9% qoq in 4Q23, driven by lower revenue of both pax and cargo operations. Pax revenue declined 3.9% qoq, driven by normalising pax yields (-6.3% qoq), despite pax volume continuing to improve (+2.5% qoq). Cargo revenue declined 42.3% yoy (25.4% qoq), driven by both weaker air cargo demand and fast moderating yields.
- Positive surprise from a final dividend of 28 S cents.** Singapore Airlines (SIA) declared a final DPS of 28 S cents, raising the full-year payout to 38 S cents. This translates to a 52% payout ratio and a respectable 6.3% yield for FY23 based on SIA's current price.

KEY FINANCIALS

Year to 31 Mar (\$m)	2022	2023	2024F	2025F	2026F
Net turnover	7,615	17,775	17,892	19,155	19,808
EBITDA	1,390	4,773	3,919	3,675	3,769
Operating profit	(610)	2,692	1,691	1,324	1,328
Reported net profit	(962)	2,157	2,600	945	950
Core net profit	(1,187)	1,758	1,417	945	950
EPS (S\$ cent)	(32.4)	72.6	87.5	31.8	32.0
PE (x)	n.m.	8.3	6.9	18.9	18.8
P/B (x)	1.5	1.4	1.2	1.3	1.2
EV/EBITDA (x)	20.7	4.7	5.7	6.7	7.3
Dividend yield (%)	0.0	6.3	5.8	3.7	3.7
Net margin (%)	(12.6)	12.1	14.5	4.9	4.8
Net debt/(cash) to equity (%)	63.1	7.9	15.2	30.5	49.8
ROE (%)	n.a.	10.2	15.2	6.6	6.6

Source: SIA, Bloomberg, UOB Kay Hian

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

HOLD

(Upgraded)

Share Price	S\$6.01
Target Price	S\$5.75
Upside	-4.4%
(Previous TP)	S\$5.35

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

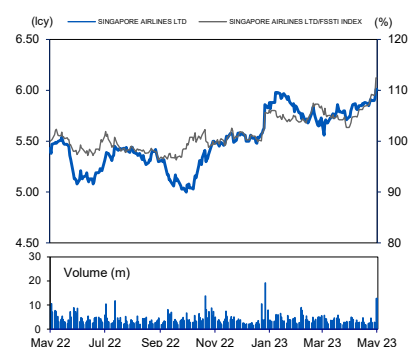
GICS sector	Industrials
Bloomberg ticker:	SIA SP
Shares issued (m):	2,970.6
Market cap (\$m):	17,853.2
Market cap (US\$m):	13,293.5
3-mth avg daily t'over (US\$m):	15.4
Price Performance (%)	

52-week high/low S\$6.01/S\$5.00

1mth	3mth	6mth	1yr	YTD
4.7	2.9	9.3	12.8	8.7

Major Shareholders	%
Temasek Hldgs	55.7
-	-
-	-
FY24 NAV/Share (S\$)	4.83
FY24 Net Debt/Share (S\$)	0.75

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **Balance sheet already stronger than before the pandemic.** Thanks to the upbeat advanced ticket sales (end-FY32: S\$4.6b, +11.3% hoh) and the delays in capex, SIA's balance sheet today is already stronger than it was pre-pandemic, with a net gearing of merely 8% as at end-FY23 (treating all outstanding Mandatory Convertible Bonds (MCBs) as debt). This was already lower compared to the 26% net gearing as at end-FY19.

STOCK IMPACT

- **Recovery continues, but momentum moderating.** SIA guided for its pax capacity to recover to around 83% in 1HFY24 and 90% by end-FY24, compared to 77% in 4QFY23. A full recovery is only expected in FY25.
- **Normalising core profitability.** We expect SIA's core net profit to moderate from FY23 record-high levels, down 19.4% yoy and 29.8% yoy in FY24 and FY25 respectively, driven mainly by normalising pax and cargo yields (as the competition catches up), coupled with SIA's high operating leverage.
- **Adjusted capex plan further enhancing balance sheet strength.** Due to delays in Boeing 777-9s and 787s deliveries, SIA has adjusted its capex projection guidance. Roughly speaking, the previously guided multi-year capex projection has been shifted backwards by one year and FY24 planned capex outlay has been reduced to a more benign level of S\$2.3b vs the previously guided S\$4.4b. The delayed outlays would provide SIA an additional one-year window to further strengthen its balance sheet.
- **Dividend outlook.** FY23 was a spectacular year with record-high earnings, resulting in the strong dividend. We expect the dividend to moderate going forward with SIA's profitability normalisation. Having said that, with SIA's strong balance sheet, we believe it can sustain a 70% payout ratio, in line with the 65-70% payout ratio SIA used to maintain before the pandemic. The 70% payout ratio would lead to a yearly dividend of 35/22 S cents or 5.8%/3.7% yield in FY24/25 based our profit projections.
- **Vistara-Air India merger on track.** SIA updated that the Vistara-Air India merger deal is on track to be completed by 4QFY24, subject to regulatory approvals. Note that our FY24 headline net profit has included a one-off accounting gain of S\$1.1b from this deal.

EARNINGS REVISION/RISKS

- We keep our FY24 net profit forecast but raise FY25 forecast to S\$945m (previously S\$821m) as we finetune our net interest cost projection reflecting delayed capex plan.
- **Key risks:** a) Weaker-than-expected macroeconomic environment dampening air travel and air cargo demand, and b) competition catching up faster than expected.

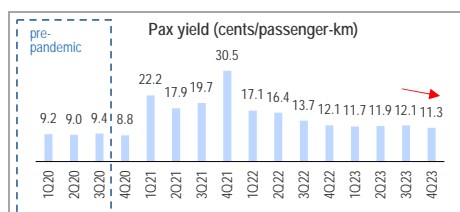
VALUATION/RECOMMENDATION

- **Upgrade to HOLD with a higher target price of S\$5.75.** On account of the decent dividend yields in FY23/24, we upgrade SIA to HOLD. Our new target price is based on 1.19x FY24F P/B, 1SD above SIA's historical mean P/B of 1.03x since 2010.

SHARE PRICE CATALYST

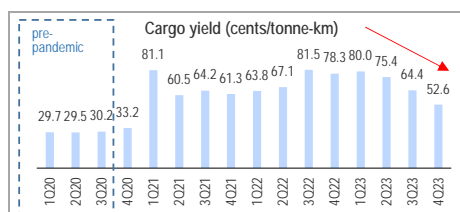
- Possibly slower-than-expected pax yield normalisation sustaining the strong earnings longer.

PAX YIELDS NORMALISED QOQ IN 4QFY23



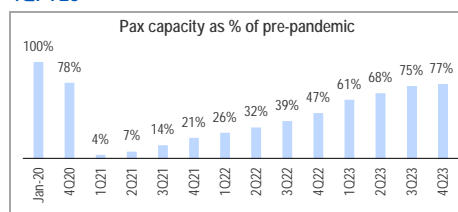
Source: SIA, UOB Kay Hian

CARGO YIELDS DECLINING SHARPLY



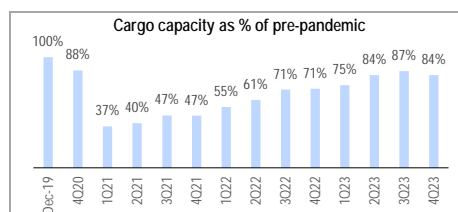
Source: SIA, UOB Kay Hian

PAX CAPACITY CONTINUED TO RECOVER IN 4QFY23



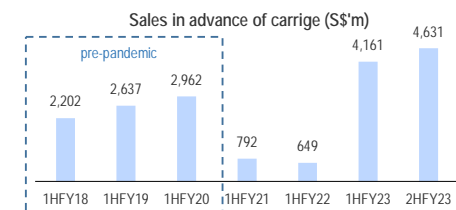
Source: SIA, UOB Kay Hian

CARGO CAPACITY STILL ON RECOVERY TREND



Source: SIA, UOB Kay Hian

SALES IN ADVANCE OF CARRIAGE



Source: SIA

SIA HISTORICAL P/B BAND (SINCE 2010)



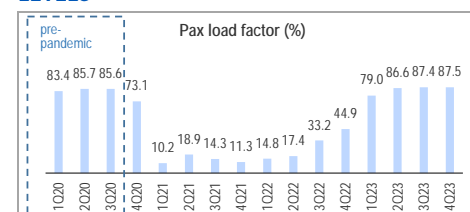
Source: Bloomberg, UOB Kay Hian

TARGET PRICE REFERENCE TABLE

	FY23F	FY24F	FY25F
BVPS, adj	S\$4.45	S\$4.83	S\$4.80
P/B peg	Target price		
+2.0SD	S\$6.00	S\$6.51	S\$6.47
+1.5SD	S\$5.65	S\$6.13	S\$6.09
+1.0SD	S\$5.30	S\$5.75	S\$5.71
+0.5SD	S\$4.94	S\$5.37	S\$5.33
Mean	S\$4.59	S\$4.98	S\$4.95

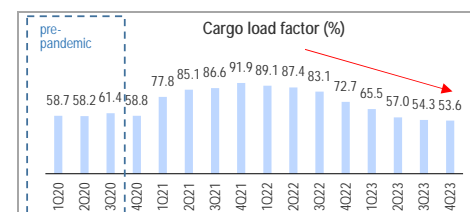
Source: UOB Kay Hian

STRONG PAX LF AT ABOVE PRE-PANDEMIC LEVELS



Source: SIA, UOB Kay Hian

CARGO LF DECLINED ON SLOWER GLOBAL TRADE



Source: SIA, UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Net turnover	17,774.8	17,892.4	19,155.1	19,808.3
EBITDA	4,772.6	3,918.8	3,675.2	3,768.7
Deprec. & amort.	2,080.5	2,228.0	2,350.9	2,440.6
EBIT	2,692.1	1,690.8	1,324.2	1,328.1
Total other non-operating income	(16.8)	1,116.0	4.0	4.0
Associate contributions	(31.2)	104.0	60.0	110.0
Net interest income/(expense)	(7.3)	(1.0)	(214.6)	(266.7)
Pre-tax profit	2,636.8	2,909.8	1,173.6	1,175.5
Tax	(473.5)	(287.3)	(188.6)	(180.4)
Minorities	(6.5)	(23.0)	(40.0)	(45.0)
Net profit	2,156.8	2,599.5	945.0	950.0

BALANCE SHEET

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Fixed assets	27,687.0	28,379.0	30,048.1	32,527.5
Other LT assets	2,114.9	3,330.9	3,390.9	3,500.9
Cash/ST investment	16,731.5	4,760.2	4,014.5	3,010.5
Other current assets	2,567.8	2,581.6	2,859.1	3,004.5
Total assets	49,101.2	39,051.7	40,312.6	42,043.3
ST debt	2,547.7	2,547.7	2,547.7	2,547.7
Other current liabilities	11,123.2	10,775.5	10,592.7	9,983.6
LT debt	8,613.7	4,452.3	5,952.3	7,952.3
Other LT liabilities	6,566.8	6,522.0	6,522.0	6,522.0
Shareholders' equity	19,858.3	14,341.3	14,246.6	14,543.1
Minority interest	391.5	412.9	451.3	494.7
Total liabilities & equity	49,101.2	39,051.7	40,312.6	42,043.3

CASH FLOW

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Operating	9,130.1	3,006.3	3,026.2	2,833.8
Pre-tax profit	2,636.8	2,909.8	1,173.6	1,175.5
Tax	(5.2)	(287.3)	(188.6)	(180.4)
Deprec. & amort.	2,080.5	2,228.0	2,350.9	2,440.6
Associates	(94.8)	16.0	(40.0)	10.0
Working capital changes	4,036.6	(625.2)	(460.3)	(754.5)
Non-cash items	326.1	0.0	0.0	0.0
Other operating cashflows	150.1	(1,235.0)	190.6	142.7
Investing	(134.0)	(1,982.5)	(3,334.7)	(4,265.0)
Capex (growth)	31.5	(540.0)	(1,504.8)	(2,306.1)
Capex (maintenance)	(1,715.5)	(1,838.0)	(1,973.2)	(2,071.9)
Investments	(35.1)	0.0	0.0	0.0
Proceeds from sale of assets	1,219.8	0.0	0.0	0.0
Others	365.3	395.5	143.3	113.0
Financing	(6,213.4)	(12,995.1)	(437.2)	427.2
Dividend payments	(297.1)	(1,128.8)	(1,039.7)	(653.5)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	(981.8)	(4,161.4)	1,500.0	2,000.0
Others/interest paid	(4,934.5)	(7,704.9)	(897.5)	(919.3)
Net cash inflow (outflow)	2,782.7	(11,971.3)	(745.7)	(1,004.0)
Beginning cash & cash equivalent	13,762.7	16,327.6	4,356.3	3,610.6
Changes due to forex impact	(217.8)	0.0	0.0	0.0
Ending cash & cash equivalent	16,327.6	4,356.3	3,610.6	2,606.6

KEY METRICS

Year to 31 Mar (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	26.9	21.9	19.2	19.0
Pre-tax margin	14.8	16.3	6.1	5.9
Net margin	12.1	14.5	4.9	4.8
ROA	4.4	5.9	2.4	2.3
ROE	10.2	15.2	6.6	6.6
Growth				
Turnover	133.4	0.7	7.1	3.4
EBITDA	243.4	(17.9)	(6.2)	2.5
Pre-tax profit	n.a.	10.4	(59.7)	0.2
Net profit	n.a.	20.5	(63.6)	0.5
Core net profit	n.a.	(19.4)	(33.3)	0.5
Core EPS	n.a.	(19.4)	(33.3)	0.5
Leverage				
Debt to total capital	35.5	32.2	36.6	41.1
Debt to equity	130.8	47.4	57.8	69.8
Net debt/(cash) to equity	63.1	7.9	15.2	30.5

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