

## COMPANY RESULTS

### SIA Engineering (SIE SP)

1HFY24: Results In Line; Strong Underlying Demand Driving Improving Earnings

**SIAEC's 1HFY24 net profit of S\$59m (+83% yoy) is in line with our expectation, at 49% of our full-year forecast. Underlying demand for MRO services remained strong, although earnings of the engine and component division were still somewhat hindered by supply chain issues. We expect SIAEC's earnings to continue to improve in 2HFY24 and FY25, driven by further air traffic recovery and strong MRO demand in the medium term. Maintain BUY with an unchanged target price of S\$2.67.**

#### 2Q/1HFY24 RESULTS

Year to 31 Mar (\$m)	2QFY24	2QFY23	yoy % chg	1QFY24	qoq % chg	1HFY24	Prev. FY24F	1H as Prev. FY24F
Revenue	252.1	190.7	+32.2	261.9	-3.7	514.0	1060.0	48%, in line
Opex	252	198	+27.8	262	-3.5	513.9	1029.6	
EBIT	-0.3	-6.8	n.m.	0.4	n.m.	0.1	30.4	0.4%, miss
Core EBIT (excl. gov support)	-0.3	-6.8	n.m.	0.4	n.m.	0.1	30.4	0.4%, miss
JVs / associates contribution	28.1	25.0	+12.5	21.9	+28.5	50.0	85.0	59%, beat
Net Profit	32.3	19.7	+64.2	27.0	+19.7	59.3	121.0	49%, in line
Core net profit (excl. gov support)	32.3	17.3	+86.8	27.0	+19.7	59.3	121.0	49%, in line
Margins (%)								
Core EBIT (excl. gov support)	-0.1	-3.6	+3.5ppt	0.2	-0.3ppt	0.0	2.9	
Core net profit (excl. gov support)	12.8	9.1	+3.8ppt	10.3	+2.5ppt	11.5	11.4	

\* Core profit estimates exclude government wage support and other non-core items, based on UOB Kay Hian's estimates

Source: SIAEC, UOB Kay Hian

#### RESULTS

- Bottom line in line.** SIA Engineering's (SIAEC) 1HFY24 net profit of S\$59m (+83% yoy) is in line with our expectations, forming 49% of our full-year forecast. 2QFY24 net profit of S\$32m (+64% yoy) was an improvement over 1QFY24's S\$27m. 1HFY24 revenue rose 42% yoy to S\$514m, driven by the recovery of regional flight activities and increased demand for line maintenance and MRO services.
- Operating profit behind our projections...** 1HFY24 operating profit of consolidated entities was merely a breakeven, missing our expectations. The miss was due mainly to the still loss-making position of the newly established engine and component division, whose performance: a) has yet to stabilise, and b) was adversely affected by the shortage of components related to sector-wide supply chain issues. In addition, 2QFY24 recognised an impairment loss of receivables of over S\$2m, mostly related to MYAirline, which has suspended operations since mid-Oct 23. Excluding the impairment loss, SIAEC would have recorded a small positive operating profit in 2QFY24.
- ...but the miss was offset by strong JV/associate contribution...** The miss at operating profit level has been largely made up for by the stronger-than-expected contribution of JV/associate entities (mostly from the engine and component division), which recorded share of profits at S\$50m (+21% yoy).
- ...and higher net interest income earned from its net cash position.** In 1HFY24, SIAEC recognised yoy higher net interest income of S\$10.2m (1HFY23: S\$2.1m), earned by its large net cash position (S\$589m as at end-1HFY24, equivalent to 22% of its market cap) amid the higher interest environment.

#### KEY FINANCIALS

Year to 31 Mar (\$m)	2022	2023	2024F	2025F	2026F
Net turnover	566	796	1,050	1,151	1,198
EBITDA	41	38	72	131	138
Operating profit	(22)	(26)	4	61	66
Net profit (rep./act.)	68	66	121	174	180
EPS (S\$ cent)	6.0	5.9	10.7	15.4	16.0
PE (x)	39.5	40.2	22.1	15.3	14.8
P/B (x)	1.7	1.6	1.6	1.5	1.5
EV/EBITDA (x)	35.3	38.9	21.2	11.4	10.6
Dividend yield (%)	0.0	2.3	3.6	5.1	5.1
Net margin (%)	11.9	8.3	11.5	15.1	15.0
Net debt/(cash) to equity (%)	(38.4)	(37.6)	(33.0)	(32.8)	(33.0)
ROE (%)	4.3	4.1	7.2	10.0	10.1

Source: SIAEC, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	S\$2.37
Target Price	S\$2.67
Upside	+12.5%

#### COMPANY DESCRIPTION

Aircraft maintenance, repair, and overhaul (MRO) operator, 2022 Asia-Pacific MRO of the Year Award winner by Airline Economics Magazine.

#### STOCK DATA

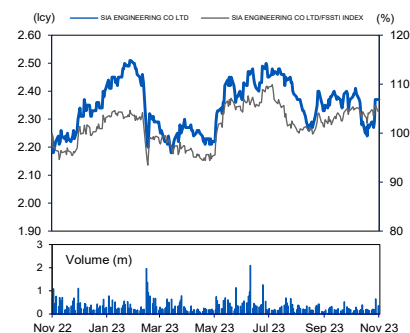
GICS sector	Industrials
Bloomberg ticker:	SIE SP
Shares issued (m):	1,123.6
Market cap (S\$m):	2,663.0
Market cap (US\$m):	1,955.8
3-mth avg daily t'over (US\$m):	0.3
Price Performance (%)	

52-week high/low S\$2.51/S\$2.18

1mth	3mth	1mth	3mth	1mth
(0.8)	(1.3)	(0.8)	(1.3)	(0.8)

Major Shareholders	%
SIA	77.5
FY24 NAV/Share (S\$)	1.52
FY24 Net Cash/Share (S\$)	0.40

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

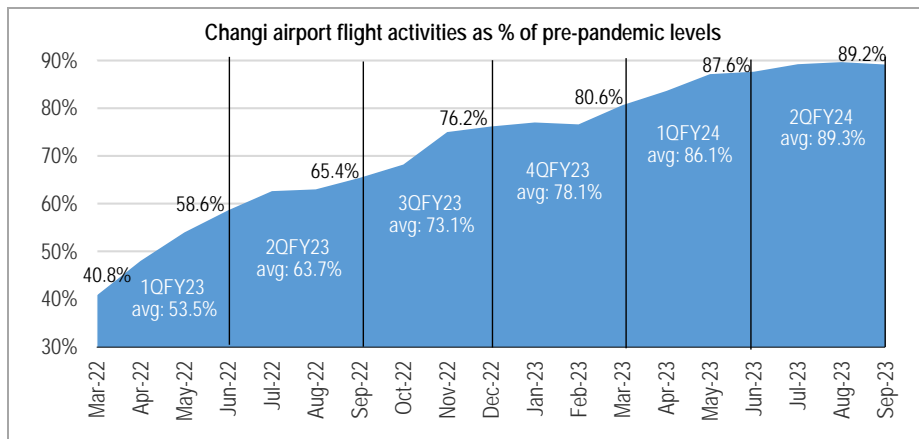
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- **Interim dividend of 2 S cents.** SIAEC resumed its interim dividend payment, declaring 2 S cents interim dividend for 1HFY24 (a 38% payout of 1HFY24 EPS of 5.3 S cents). Historically, SIAEC has had a practice of paying out smaller interim dividends but larger year-end dividends. We expect SIAEC to pay a full-year dividend of 8.5 S cents (about 79% payout), leading to a yield of 3.6% for FY24. We expect SIAEC's dividend to improve further to over 5% in FY25-26.

#### STOCK IMPACT

- **Continued recovery of flight activities at Changi Airport.** Flight activities at Changi Airport (SIAEC's home base) recovered to 89% of pre-pandemic levels in Sep 23. Based on our estimates, SIAEC commanded the lion's 85% share of line maintenance business volume at Changi Airport in 2QFY24, higher than its typical 78-80% market share before the pandemic. SIAEC's line maintenance business volume is expected to rise further in 2HFY24 and FY25, driven by increasing flight activities between Singapore and China and the rest of the world.

#### FLIGHT ACTIVITIES AT CHANGI AIRPORT RECOVERED TO 89% OF PRE-PANDEMIC LEVELS IN SEP 23



- **Strong MRO demand.** We expect underlying demand for MRO services to remain strong in the medium term, driven by: a) the robust post-pandemic recovery of flight activities, and b) airlines potentially keeping their older fleets (which require more MRO work) for longer due to expected delays in new aircraft deliveries by Airbus and Boeing as a result of supply chain issues including raw material and labour shortage.
- **49%-owned ESA to benefit from P&W's accelerated inspection of GTF engines.** Engine OEM P&W has recently announced the recall of about 3,000 geared turbofan (GTF) engines installed in Airbus A320neo aircraft for earlier-than-expected inspections for possible defects caused by contaminated metal powder used in the manufacturing process. This is estimated to drive 600-700 excess shop visits for the affected GTF engines in 2024-26, creating more work for P&W's MRO network. Eagle Service Asia (ESA), a 51-49 JV between P&W and SIAEC (contributing 25% of SIAEC's FY23 net profit) and one of the 13 existing GTF MRO engine centres globally, is set to benefit from increased engine inspection demand, although we are lacking details to assess the potential financial impacts.

#### EARNINGS REVISION/RISK

- No change.
- **Key risks:** a) margin pressure from labour and raw material cost inflation, and b) delay in project deliveries due to supply chain issues.

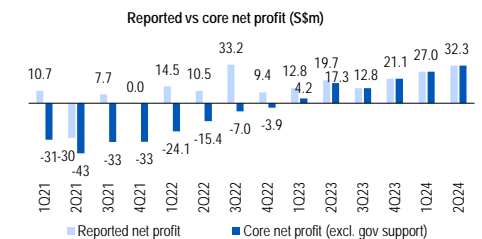
#### VALUATION/RECOMMENDATION

- **Maintain BUY and target price of S\$2.67.** Our DCF-based target price is based on a WACC of 8.5% and a terminal growth rate of 2.5%. SIAEC is currently trading at 15.3x FY25F (normalised year) PE (or 11.9x if ex-net-cash).

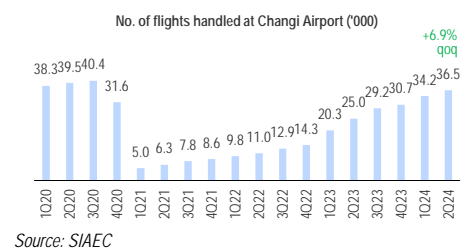
#### SHARE PRICE CATALYST

- **Re-rating catalysts for SIAEC** include: a) continued recovery of earnings and dividend, and b) value-unlocking events that make better utilisation of its large cash pile, such as earnings-accretive acquisitions.

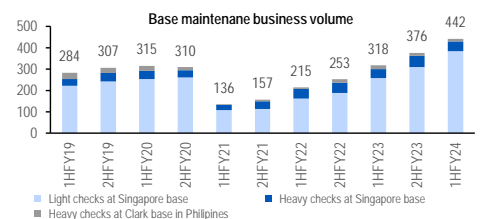
#### CONTINUOUSLY IMPROVING CORE EARNINGS



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



#### SIAEC'S BASE MAINTENANCE BUSINESS VOLUME



### PROFIT & LOSS

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Net turnover	796.0	1,050.5	1,150.9	1,198.0
EBITDA	37.7	71.7	131.2	137.8
Deprec. & amort.	64.0	67.2	70.2	72.2
EBIT	(26.3)	4.5	61.0	65.5
Total other non-operating income	3.7	0.2	0.0	0.0
Associate contributions	77.8	100.0	109.9	112.1
Net interest income/(expense)	10.3	20.0	19.1	19.1
<b>Pre-tax profit</b>	<b>65.5</b>	<b>124.7</b>	<b>189.9</b>	<b>196.7</b>
Tax	1.0	(3.7)	(16.0)	(16.9)
Minorities	(0.1)	0.0	0.0	0.0
<b>Net profit</b>	<b>66.4</b>	<b>121.0</b>	<b>173.9</b>	<b>179.8</b>

### BALANCE SHEET

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Fixed assets	287.5	293.8	300.7	307.9
Other LT assets	743.6	757.0	771.6	786.5
Cash/ST investment	633.0	565.2	579.8	598.0
Other current assets	319.1	439.5	470.1	483.0
<b>Total assets</b>	<b>1,983.2</b>	<b>2,055.5</b>	<b>2,122.3</b>	<b>2,175.4</b>
ST debt	24.6	22.6	22.6	22.6
Other current liabilities	190.8	228.8	239.4	247.4
LT debt	90.6	90.1	90.1	90.1
Other LT liabilities	0.5	0.5	0.5	0.5
Shareholders' equity	1,666.1	1,702.9	1,759.0	1,804.2
Minority interest	10.6	10.6	10.6	10.6
<b>Total liabilities &amp; equity</b>	<b>1,983.2</b>	<b>2,055.5</b>	<b>2,122.3</b>	<b>2,175.4</b>

### CASH FLOW

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
<b>Operating</b>	<b>64.6</b>	<b>(14.2)</b>	<b>95.2</b>	<b>116.0</b>
Pre-tax profit	65.5	124.7	189.9	196.7
Tax	3.0	(3.7)	(16.0)	(16.9)
Deprec. & amort.	64.0	67.2	70.2	72.2
Associates	(19.2)	(30.0)	(35.9)	(36.6)
Working capital changes	21.5	(82.4)	(20.0)	(4.8)
Non-cash items	2.4	0.2	0.0	0.0
Other operating cashflows	(72.6)	(90.2)	(93.1)	(94.5)
<b>Investing</b>	<b>(19.4)</b>	<b>67.1</b>	<b>71.2</b>	<b>71.4</b>
Capex (maintenance)	(59.6)	(44.9)	(48.6)	(50.3)
Investments	(4.6)	0.0	0.0	0.0
Proceeds from sale of assets	0.6	0.0	0.0	0.0
Others	44.2	112.0	119.7	121.6
<b>Financing</b>	<b>(37.1)</b>	<b>(120.6)</b>	<b>(151.8)</b>	<b>(169.2)</b>
Dividend payments	0.0	(84.1)	(117.8)	(134.6)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	3.2	0.0	0.0	0.0
Loan repayment	(3.6)	(2.5)	0.0	0.0
Others/interest paid	(36.7)	(34.0)	(33.9)	(34.5)
<b>Net cash inflow (outflow)</b>	<b>8.1</b>	<b>(67.8)</b>	<b>14.6</b>	<b>18.2</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>625.5</b>	<b>633.0</b>	<b>565.2</b>	<b>579.8</b>
Changes due to forex impact	(0.6)	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>633.0</b>	<b>565.2</b>	<b>579.8</b>	<b>598.0</b>

### KEY METRICS

Year to 31 Mar (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	4.7	6.8	11.4	11.5
Pre-tax margin	8.2	11.9	16.5	16.4
Net margin	8.3	11.5	15.1	15.0
ROA	3.5	6.0	8.3	8.4
ROE	4.1	7.2	10.0	10.1
<b>Growth</b>				
Turnover	40.6	32.0	9.6	4.1
EBITDA	(9.1)	90.2	83.0	5.0
Pre-tax profit	33.2	90.4	52.3	3.6
Net profit	(1.8)	82.2	43.8	3.4
EPS	(1.8)	82.2	43.8	3.4
<b>Leverage</b>				
Debt to total capital	6.4	6.2	6.0	5.8
Debt to equity	6.9	6.6	6.4	6.2
Net debt/(cash) to equity	(37.6)	(33.0)	(32.8)	(33.0)

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