

### COMPANY RESULTS

## SIA Engineering (SIE SP)

1QFY25: Earnings A Slight Miss, But May Catch Up In The Rest Of FY25

**SIAEC's 1QFY25 net profit of S\$33.2m (+23.0% yoy, -4.8% qoq) was slightly behind our projection, at 21.4% of our full-year forecast. 1QFY25 operating profit was weaker than expected, due to SIAEC's lumpiness in project revenue recognition and supply chain constraints. We remain hopeful that SIAEC's earnings performance may catch up in the rest of FY25. We see little share price downside given its benign valuation and proactive share buybacks. Maintain BUY. Target price: S\$2.70.**

### 1QFY25 RESULTS

Year to 31 Mar (S\$m)	1Q FY25	1Q FY24	yoy % chg	4Q FY24	qoq % chg	Prev FY25F	Note
Revenue	268.7	261.9	+2.6	288.5	-6.9	1,240.3	Slightly below expectations, at 22% of FY25
Opex	267.7	261.5	+2.4	282.9	-5.4	1,200.6	
EBIT	1.0	0.4	n.m.	5.6	n.m.	39.7	Below expectations; subdued EBIT in 1QFY25
JVs/associates contri.	28.0	21.9	+27.9	27.2	+3.1	106.9	Slightly above; at 26% of FY25
Net profit	33.2	27.0	+23.0	10.9	+205.2	154.9	
Core net profit	33.2	27.0	+23.0	34.9	-4.8	154.9	Slightly below expectations, at 21% of FY25
<b>Margins (%)</b>							
EBIT	0.4	0.2	+0.2ppt	1.9	-1.6ppt	3.2	
Net profit margin	12.4	10.3	+2.0ppt	3.8	+8.6ppt	12.5	
Core net profit	12.4	10.3	+2.0ppt	12.1	+0.3ppt	12.5	

Source: SIAEC, UOB Kay Hian

### RESULTS

- 1QFY25 net profit slightly behind our projection.** SIA Engineering's (SIAEC) 1QFY25 net profit of S\$33.2m (+23.0% yoy, -4.8% qoq) came in slightly behind our projection, at 21.4% of our full-year forecast. 1QFY25 revenue of S\$268.7m (+2.6% yoy, -6.9% qoq) formed 21.7% of our full-year forecast.
- Operating profit weaker than expected.** The slight miss in SIAEC's 1QFY25 earnings was driven by the weaker-than-expected 1QFY25 operating profit at S\$1.0m; this was compared with 4QFY24's S\$5.6m and 1QFY24's S\$0.4m. Two factors that adversely affected SIAEC's operating profit this quarter include: a) lumpy project revenue recognition – fewer maintenance, repair and overhaul (MRO) projects were completed during 1QFY25 due to heavier project contents; nevertheless, the delays in project completion and hence lesser revenue recognition in the past quarter should lead to higher revenue recognition in future quarters; and b) supply chain constraints leading to longer lead times to secure spare parts; this also stretched the duration of certain checks.
- JVs and associates remained key contributors.** JVs and associates turned in S\$28m profit in 1QFY25 (+27.9% yoy, +3.1% qoq), slightly stronger than our projection and at 26.2% of our full-year forecasts. The decent performance was mainly driven by the strength in the engine and component JV/associate entities.

### KEY FINANCIALS

Year to 31 Mar (S\$m)	2023	2024	2025F	2026F	2027F
Net turnover	796	1,094	1,216	1,265	1,317
EBITDA	38	65	94	113	121
Operating profit	(26)	2	29	46	52
Net profit (rep./act.)	66	97	156	173	182
EPS (S\$ cent)	5.9	8.6	13.8	15.4	16.2
PE (x)	38.9	26.6	16.7	14.9	14.2
P/B (x)	1.5	1.5	1.5	1.4	1.4
EV/EBITDA (x)	34.5	19.9	13.9	11.6	10.7
Dividend yield (%)	2.4	3.5	5.0	5.5	5.7
Net margin (%)	8.3	8.9	12.8	13.7	13.8
Net debt/(cash) to equity (%)	(37.6)	(37.6)	(36.1)	(35.5)	(35.2)
ROE (%)	4.1	5.8	9.1	9.9	10.2
Consensus net profit	-	-	157	175	180
UOBKH/Consensus (x)	-	-	0.99	0.99	1.01

Source: SIA Engineering, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	S\$2.29
Target Price	S\$2.70
Upside	+17.8%

### COMPANY DESCRIPTION

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

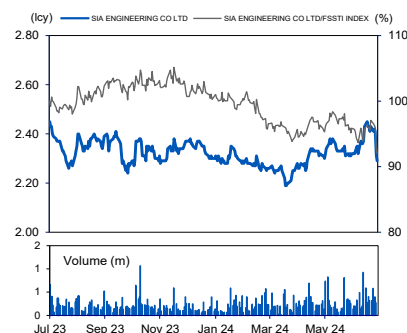
### STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SIE SP
Shares issued (m):	1,123.6
Market cap (S\$m):	2,573.1
Market cap (US\$m):	1,914.7
3-mth avg daily t'over (US\$m):	0.5

### Price Performance (%)

52-week high/low	S\$2.45/S\$2.19			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(1.3)	1.8	(0.4)	(6.5)	(3.4)
<b>Major Shareholders</b>				
SIA	77.5			
-	-			
FY25 NAV/Share (S\$)	1.55			
FY25 Net Cash/Share (S\$)	0.47			

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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### STOCK IMPACT

• **Continued recovery of flight activities at Changi Airport.** Flight activities at Changi Airport recovered to 95.6% of pre-pandemic levels in Jun 24. According to SIAEC, the number of flights handled by its line maintenance entity in Singapore rose 11.5% yoy in 1QFY25. Flight recovery at the end of Jun 24 was approximately 95% of pre-pandemic levels, compared with 84% a year ago. We expect the regional flight activities to continue to edge up towards pre-pandemic levels in the rest of FY25.

• **Healthy demand for MRO to be met by expanding capacity.** According to Oliver Wyman, global MRO demand/revenue is projected to rise 3% yoy in 2024, with a 2.4% CAGR in 2024-29. SIAEC is set to meet the rising demand with expanding capacities:

a) In Feb 24, Eagle Services Asia, a 49%-owned JV between SIAEC and Engine OEM Pratt & Whitney, added a new facility to boost its geared turbofan engine overhaul capacity by 67%.

b) SIAEC's third base maintenance hub in Subang, Malaysia, with two hangers and a combined capacity of six concurrent aircraft checks, is expected to be operational by late-25.

c) Singapore Aero Engine Services (SAESL), a 50%-owned JV between SIAEC and Rolls-Royce, is also investing to expand its engine overhaul capacity in Singapore. Expected to be completed progressively from 2026, the investment is expected to increase SAESL's engine MRO capacity by 40%.

• **Possible investment opportunity with Air India.** In May 24, SIAEC announced a strategic partnership with Air India to jointly develop Air India's base maintenance facilities in Bangalore. SIAEC will be involved in the planning, construction, development and operationalisation of this facility, which is expected to be ready in 2026. We note that the partnership with Air India may open up opportunities for SIAEC to establish presence in the large India market with a strong local partner and bring good investment opportunities for SIAEC to deploy its sizeable net cash position (\$\$641m at end-FY24).

• **Management's outlook guidance.** According to SIAEC, demand for MRO services continues to look healthy as the level of flight activity remains on an upward trajectory. On the other hand, concerns over a tight labour market, supply chain issues and elevated costs still persist in the industry.

### EARNINGS REVISION/RISK

• **No change.** Despite slightly weaker-than-expected 1QFY25 earnings, we remain hopeful that SIAEC's earnings performance may catch up in the rest of the year, supported by delayed project revenue recognition and strength in the engine and component JVs/associates entities.

• **Key risks:** a) Margin pressure from labour and raw material cost inflation, and b) delay in project deliveries due to prolonged supply chain issues.

### VALUATION/RECOMMENDATION

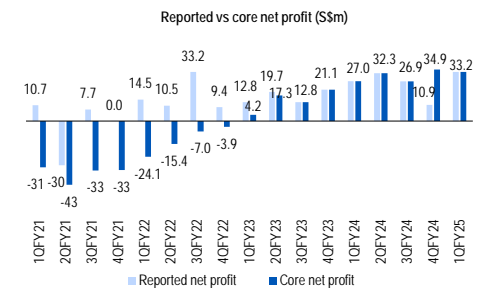
• **Maintain BUY and DCF-based target price of S\$2.70.** SIAEC currently trades at 14.9x FY26F PE (or 11.1x if ex-net-cash) or 2.2SD below its pre-pandemic historical mean of 23.2x. SIAEC offers 5.0%/5.5% dividend yields in FY25/26, by our estimate.

• **Proactive share buybacks.** We see little share price downside given SIAEC's very proactive share buybacks. The latest purchase on 28 Jun 24 (just before the recent earnings blackout) was done at S\$2.33; this was higher than SIAEC's last close price of S\$2.29.

### SHARE PRICE CATALYST

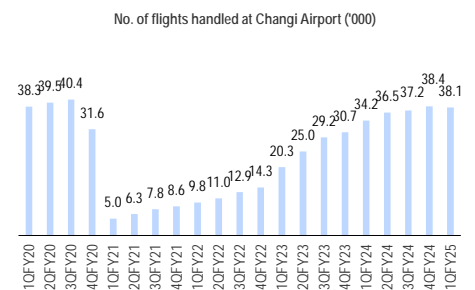
• **Re-rating catalysts** include: a) continued recovery of earnings and dividend, and b) more earnings-accretive investments.

### QUARTERLY EARNINGS TREND



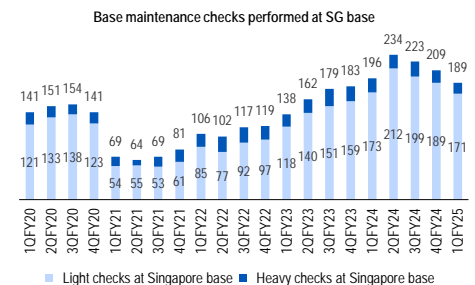
Source: SIAEC, UOB Kay Hian

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



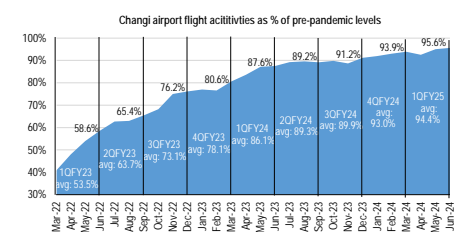
Source: SIAEC

### BASE MAINTENANCE BUSINESS VOLUME



Source: SIAEC

### FLIGHT ACTIVITIES AT CHANGI AIRPORT RECOVERED TO 95.6% OF PRE-PANDEMIC LEVELS IN JUN 24



Source: Changi Airport

### PROFIT & LOSS

Year to 31 Mar (\$m)	2024	2025F	2026F	2027F
Net turnover	1,094.2	1,215.7	1,265.2	1,316.9
EBITDA	65.4	93.6	112.6	121.2
Deprec. & amort.	63.1	65.1	66.9	68.8
EBIT	2.3	28.5	45.7	52.4
Total other non-operating income	(24.0)	0.0	0.0	0.0
Associate contributions	101.0	115.6	120.2	123.7
Net interest income/(expense)	20.0	20.6	20.7	20.7
Pre-tax profit	99.3	164.7	186.6	196.8
Tax	(2.2)	(9.8)	(13.3)	(14.6)
Minorities	0.0	0.0	0.0	0.0
Net profit	97.1	155.6	173.3	182.2

### CASH FLOW

Year to 31 Mar (\$m)	2024	2025F	2026F	2027F
Operating	100.4	49.2	95.7	102.5
Pre-tax profit	99.3	165.4	186.6	196.8
Tax	(0.8)	(9.8)	(13.3)	(14.6)
Deprec. & amort.	63.1	65.1	66.9	68.8
Associates	(40.4)	(42.4)	(44.2)	(44.9)
Working capital changes	25.9	(34.6)	(3.6)	(4.1)
Non-cash items	9.9	0.0	0.0	0.0
Other operating cashflows	(56.6)	(94.5)	(96.7)	(99.6)
Investing	30.8	77.5	79.9	81.3
Capex (maintenance)	(48.7)	(45.1)	(46.7)	(48.3)
Investments	15.7	0.0	0.0	0.0
Proceeds from sale of assets	14.0	0.0	0.0	0.0
Others	49.8	122.7	126.6	129.6
Financing	(117.7)	(138.9)	(173.5)	(174.1)
Dividend payments	(84.3)	(101.0)	(140.3)	(140.3)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	2.7	0.0	0.0	0.0
Loan repayment	0.0	(5.1)	0.0	0.0
Others/interest paid	(36.1)	(32.8)	(33.3)	(33.9)
Net cash inflow (outflow)	13.5	(12.1)	2.1	9.6
Beginning cash & cash equivalent	633.0	646.0	633.9	635.9
Changes due to forex impact	(0.5)	0.0	0.0	0.0
Ending cash & cash equivalent	646.0	633.9	635.9	645.6

### BALANCE SHEET

Year to 31 Mar (\$m)	2024	2025F	2026F	2027F
Fixed assets	288.6	296.2	304.1	312.3
Other LT assets	798.8	817.6	837.0	857.0
Cash/ST investment	646.0	633.9	635.9	645.6
Other current assets	354.9	412.5	424.8	437.2
Total assets	2,088.3	2,160.2	2,201.8	2,252.1
ST debt	27.9	25.2	25.2	25.2
Other current liabilities	273.9	296.9	305.6	313.9
LT debt	82.5	80.1	80.1	80.1
Other LT liabilities	0.7	0.7	0.7	0.7
Shareholders' equity	1,687.1	1,741.0	1,774.1	1,816.0
Minority interest	16.2	16.2	16.2	16.2
Total liabilities & equity	2,088.3	2,160.2	2,201.8	2,252.1

### KEY METRICS

Year to 31 Mar (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	6.0	7.7	8.9	9.2
Pre-tax margin	9.1	13.6	14.7	14.9
Net margin	8.9	12.8	13.7	13.8
ROA	4.8	7.3	7.9	8.2
ROE	5.8	9.1	9.9	10.2
Growth				
Turnover	37.5	11.1	4.1	4.1
EBITDA	73.5	43.1	20.3	7.6
Pre-tax profit	51.6	65.9	13.3	5.5
Net profit	46.2	60.2	11.4	5.1
EPS	46.2	59.5	11.9	5.1
Leverage				
Debt to total capital	6.1	5.7	5.6	5.4
Debt to equity	6.5	6.0	5.9	5.8
Net debt/(cash) to equity	(37.6)	(36.1)	(35.5)	(35.2)

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