

Company Update

Singapore Airlines

Singapore | Industrials

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Equity Research

Rating HOLD (as at 1 August 2024)
Last Close SGD 6.97
Fair Value SGD 6.84

Dark clouds ahead, though nothing out of the blue

- **1QFY25 (financial year ending 31 Mar 2025) revenue grew 5.3% year-on-year (YoY) on capacity increase, but net profit tumbled 38.5% YoY as higher fuel costs resulted in margin erosion**
- **Passenger and cargo yields are likely to continue to moderate as capacity increases, though supply chain constraints and Red Sea tensions could result in more gradual normalisation**
- **Revise fair value (FV) estimate to SGD6.84; risk-reward is now less attractive, in our view**

Investment thesis

As Singapore's flagship carrier, Singapore Airlines (SIA) posted a record performance for FY24 on the back of robust travel demand and its sustained lead in capacity post-reopening. We think that SIA is nearing the end of the runway for exceptionalism, given that passenger yields are likely to have peaked and are on a moderating trajectory as other airlines progressively return capacity to the market, especially in the region. Nonetheless, we remain confident that SIA's brand proposition, service quality and product innovation will allow it to navigate the transition from recovery to growth going forward. In our view, SIA continues to hold long-term value in investors' portfolios, notwithstanding near-term share price volatility.

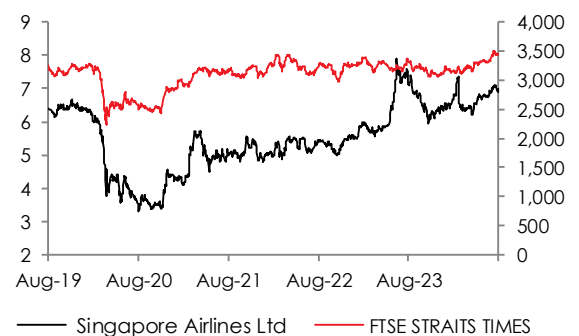
Investment summary

- **SIA reported a 5.3% YoY increase in 1QFY25 group revenue to SGD4.7b** – Passenger flown revenue rose 4.1% YoY to SGD3.8b on a 12.2% increase in capacity, notwithstanding a 4.6% decline in yields. Passenger traffic grew at a slower 9.7% YoY, translating to a 2 percentage point (ppt) drop in passenger load factor (PLF) to 86.9% during the quarter. Meanwhile, cargo flown revenue slipped 0.2% YoY to SGD541m. Increased demand for air freight from eCommerce as well as tensions in the Red Sea supported a 5.9 ppt increase in cargo load factor to 57.7%, partially

Security information

Ticker (Refinitiv / Bloomberg)	SIAL.SI / SIA.SP
Market Cap (USD b)	15.5
Daily turnover (SGD m)	38.9
Free Float	46%
Shares Outstanding (m)	2,974
Top Shareholder	Temasek Holdings Pte. Ltd. 53.5%

Price performance chart



Financial summary

SGD m	FY24	FY25E	FY26E
Revenue	19,013	19,020	19,230
EBITDA	4,913	4,192	3,993
PATMI	2,675	1,731	1,433
EPS (\$ cents)	63.3	40.9	33.9
DPS (\$ cents)	48.0	30.7	25.4

Key ratios

%	FY24	FY25E	FY26E
EBIT margin (%)	14.3	10.1	8.5
ROE (%)	14.8	10.4	8.5
Dividend yield (%)	6.9	4.4	3.6

Source: Refinitiv, Internal estimates

offsetting a 19.1% decline in cargo yields as recovery in bellyhold cargo capacity continued.

- Group expenditure outpaced revenue growth during the period, up 14% YoY to SGD4.2b** – Non-fuel expenses were manageable, expanding 7.7% YoY as compared to the overall 11.6% increase in capacity (passenger: +12.2%; cargo: +10.7%), even after taking into account new rates from a freshly inked contract with SATS. Fuel costs, however, rose 30.1% YoY due to higher volume uplift, higher fuel prices, and lower hedging gains – and was the main detractor of margin performance this quarter, in our view. Consequently, operating profit and net profit moderated 37.7% and 38.5% YoY to SGD470.2m and SGD451.7m, respectively. SIA's 1QFY25 revenue and PATMI came in at 24.8% and 26% of our initial full year forecast, respectively.
- Revise FV estimate to SGD6.84** – SIA's share price came under pressure on 1 Aug 2024 after its 1QFY25 results missed consensus expectations and its shares also started to trade ex-dividend. Although management guided that travel demand is expected to remain healthy in the upcoming months, it continues to caution that passenger yields will moderate as more capacity enters the market, notwithstanding delays in aircraft delivery and longer maintenance turn times due to supply chain disruptions. On the cargo front, yields will continue their downward trajectory albeit at a potentially gradual pace as geopolitical tensions support demand for air freight. All things considered, we make some minor adjustments to our forecasts. We also lower our target price-to-book (P/B) ratio to 1.2x, in line with half a standard deviation (s.d.) above the rolling 5-year historical average at the time of writing. As a result, our FV estimate slips from SGD7.53 to SGD6.81.

Results highlights

SGD m	1QFY24	1QFY25	%chg
Revenue	4,479.4	4,718.4	5.3%
Expenditure	3,724.9	4,248.2	14.0%
Operating profit	754.5	470.2	-37.7%
PATMI	734.0	451.7	-38.5%
EPS (Singapore cents) - Basic	14.3	12.8	-10.5%
EPS (Singapore cents) - Diluted	14.0	12.4	-11.4%

Source: Company, Internal estimates

ESG Updates

- SIA scores better than its global peers in terms of social issues due to its robust compensation practices, higher customer satisfaction, and on-time performance metrics. It is also on par with peers in terms of corporate governance practices, including staff training on business ethics standards and a detailed anti-corruption policy. In particular, SIA has adopted industry best practices in data security to mitigate regulatory risks in the event of a breach of customer data.

Potential catalysts

- Stronger-than-expected recovery in capacity
- Rapid network growth to capture demand, especially in Asia Pacific
- Favourable fluctuations in oil prices

Investment risks

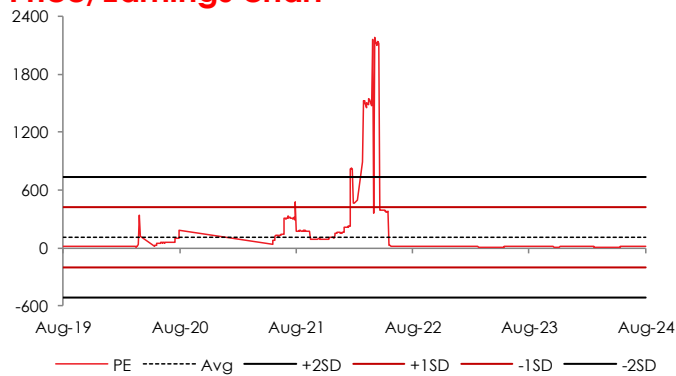
- Significant further weakening in cargo demand
- Increased competition as other airlines ramp up on international capacity
- Steep moderation in air travel demand and prices

Valuation analysis

	Price/Earnings		Price/Book		EV/EBITDA		Dividend Yield (%)		ROE (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
SINGAPORE AIRLINES LTD (SIAL.SI)	9.8	13.9	1.3	1.3	5.0	5.6	4.9	3.7	13.4	9.5
CAPITAL A BERHAD (CAPI.KL)	6.7	5.2	-	-	7.1	7.4	0.0	0.0	(10.1)	(154.4)
THAI AIRWAYS INTERNATIONAL PCL (THAI.BK)	-	-	-	-	-	-	-	-	-	-
CATHAY PACIFIC AIRWAYS LTD (0293.HK)	7.2	7.1	0.9	0.8	4.4	4.7	4.8	5.9	13.3	12.6
ANA HOLDINGS INC (9202.T)	11.0	10.3	1.2	1.1	4.5	4.3	2.1	2.3	11.1	11.1

Source: Refinitiv

Price/Earnings chart



Source: Refinitiv

Price/Book chart



Source: Refinitiv

Company overview (as of 29 July 2024)

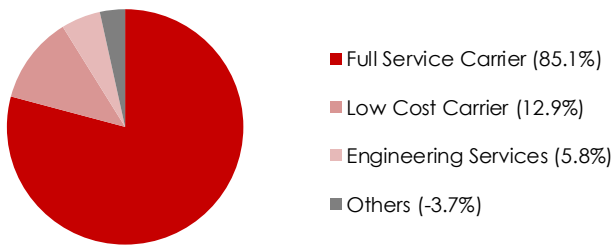
Company description

The Singapore Airlines Group's history dates back to 1947 with the maiden flight of Malayan Airways Limited. The airline was later renamed Malaysian Airways Limited, and then Malaysia-Singapore Airlines. In 1972, Malaysia-Singapore Airlines split into Singapore Airlines (SIA) and Malaysian Airline System.

Initially operating a modest fleet of 10 aircraft to 22 cities in 18 countries, SIA has grown from strength to strength, and now distinguishes itself as an international airline group with a fleet comprising of more than 180 aircraft. It currently operates three main business segments. Its Full-Service Carrier segment provides passenger and cargo air transportation under the Singapore Airlines brand, while its Low-Cost Carrier segment provides passenger air transportation under the Scoot brand. Its Engineering Services segment manufactures aircraft cabin equipment, and provides airframe maintenance and overhaul services, technical ground handling services, and fleet management services.

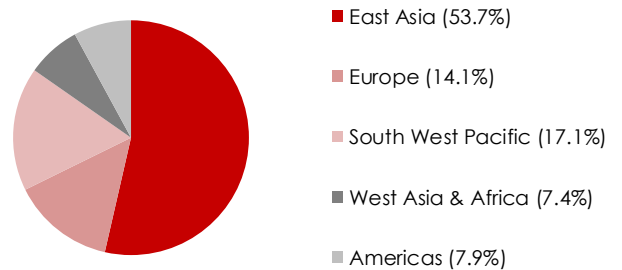
SIA employs a multi-hub strategy, with a presence in India through Vistara and Thailand through NokScoot. These investments in airlines outside of Singapore allow SIA to create new markets and tap into new traffic flows.

FY24 Revenue breakdown



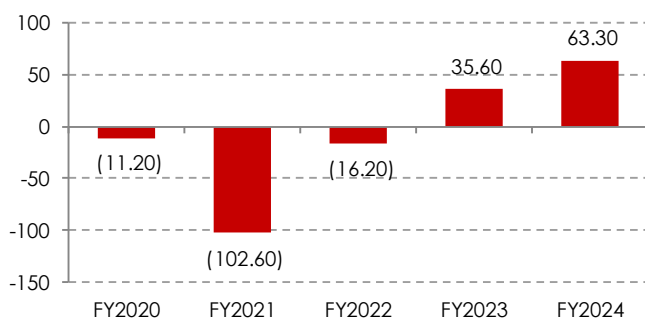
Source: Company

FY24 Airline operations revenue breakdown



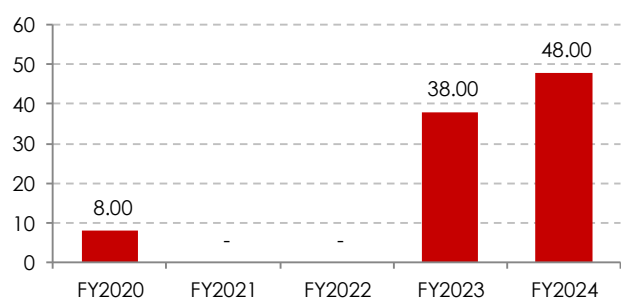
Source: Company

Basic earnings per share (\$ cents)



Source: Company

Dividends per share (\$ cents)



Source: Company

Company financials

Income Statement

In Millions of SGD except Per Share	FY2020	FY2021	FY2022	FY2023	FY2024
12 Months Ending	31/03/2020	31/03/2021	31/03/2022	31/03/2023	31/03/2024
Revenue	15,975.9	3,815.9	7,614.8	17,774.8	19,012.7
- Cost of Revenue	9,153.3	2,163.7	4,113.7	8,576.0	9,296.7
Gross Profit	6,822.6	1,652.2	3,501.1	9,198.8	9,716.0
+ Other Operating Income	--	--	--	--	--
- Operating Expenses	6,772.6	6,171.3	4,175.5	6,463.3	6,998.1
Operating Income or Losses	50.0	-4,519.1	-674.4	2,735.5	2,717.9
- Interest Expense	218.6	264.7	386.8	416.2	418.1
- Foreign Exchange Losses (Gains)	--	--	--	--	--
- Net Non-Operating Losses (Gains)	51.6	173.4	28.8	-317.5	-737.3
Pretax Income	-220.2	-4,957.2	-1,090.0	2,636.8	3,037.1
- Income Tax Expense (Benefit)	-50.8	-673.8	-141.9	473.5	342.0
Income Before XO Items	-169.4	-4,283.4	-948.1	2,163.3	2,695.1
- Extraordinary Loss Net of Tax	--	--	--	--	--
- Minority/Non Controlling Interests (Credits)	42.6	-12.7	13.9	6.5	20.3
Net Income/Net Profit (Losses)	-212.0	-4,270.7	-962.0	2,156.8	2,674.8
Net Inc Avail to Common Shareholders	-212.0	-4,270.7	-962.0	2,156.8	2,674.8
Abnormal Losses (Gains)	--	--	--	--	--
Tax Effect on Abnormal Items	--	--	--	--	--
Normalized Income	-160.4	-2,957.1	-962.1	2,134.0	2,646.2
Basic Earnings per Share	-0.1	-1.4	-0.3	0.7	0.6
Basic Weighted Avg Shares	1,681.5	2,965.0	2,967.5	2,977.5	4,225.6
Diluted EPS Before Abnormal Items	-0.1	-1.4	-0.3	0.7	0.6
Diluted EPS Before XO Items	-0.1	-1.4	-0.3	0.7	0.6
Diluted EPS	-0.1	-1.4	-0.3	0.7	0.6
Diluted Weighted Avg Shares	1,681.5	2,965.0	2,967.5	2,977.5	4,356.4

Profitability Ratios

	FY2020	FY2021	FY2022	FY2023	FY2024
12 Months Ending	31/03/2020	31/03/2021	31/03/2022	31/03/2023	31/03/2024
Returns					
Return on Common Equity	-1.88	-33.87	-5.02	10.20	14.78
Return on Assets	-0.53	-12.02	-2.20	4.43	5.77
Return on Capital	12.88	10.34	7.80	7.28	8.19
Return on Invested Capital	-	-	-	9.87	12.57
Margins					
Operating Margin	0.31	-118.43	-8.86	15.39	14.30
Incremental Operating Margin	0.05	-378.40	0.07	-1.74	0.93
Pretax Margin	-1.38	-129.91	-14.31	14.83	15.97
Income before XO Margin	-1.33	-111.92	-12.63	12.13	14.07
Net Income Margin	-1.33	-111.92	-12.63	12.13	14.07
Net Income to Common Margin	-1.33	-111.92	-12.63	12.13	14.07
Additional					
Effective Tax Rate	-	-	-	17.96	11.26
Dvd Payout Ratio	-44.71	-	-	52.46	78.18
Sustainable Growth Rate	-1.88	-	-	10.15	14.66

Credit Ratios

	FY2020	FY2021	FY2022	FY2023	FY2024
12 Months Ending	31/03/2020	31/03/2021	31/03/2022	31/03/2023	31/03/2024
Total Debt/EBIT	15.05	-6.24	-22.82	5.70	4.93
Net Debt/EBIT	11.08	-2.74	-2.22	-0.52	0.61
EBIT to Interest Expense	3.58	-8.68	-1.78	6.47	6.52
Long-Term Debt/Total Assets	25.60	34.43	29.83	24.79	26.93
Net Debt/Equity	0.98	0.42	0.09	-0.05	0.13

Source: Refinitiv

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