



Singapore Air Transport – Feb24

Industry-wide cost pressure

SINGAPORE | AIR TRANSPORT | UPDATE

- All three aviation-related counters fell after reporting lacklustre Dec quarter business updates. SIA's operating profit fell 19.3% YoY; SATS' EBIT margin of 8.8% was below the mid-teens level pre-pandemic; and SIA Engineering incurred a S\$3.4mn operating loss.
- SIA passenger load factor fell for a second month in Jan 24 (Figure 1), though passenger volume surpassed pre-Covid level by 1.5% (Figure 2). Cargo volume surged 19.7% in Jan 24 (Figure 3), a combination of low base in Jan 23, pre-CNY seasonal lift, and tighter sea freight capacity caused by the Red Sea conflict. But volume has eased from Feb.
- We are **UNDERWEIGHT** on air transportation.

Review

3Q earnings reports disappointed. Higher costs, particularly manpower costs, weighed on an otherwise seasonally strong quarter. SIA's 3Q24 operating profit fell 19.3% YoY, as yield decline and cost pressure offset strong passenger traffic and cargo load. SATS' wage bill rose 21% YoY in 9M24, due to the consolidation of WFS' operations. SIA Engineering was still loss-making at the operating level.

Chinese passenger airlines are allowed to boost their weekly round-trip US flights to 50 from 31 Mar, up from the current 35, according to the US Transportation Department. This would return the market to about one-third of pre-pandemic levels. China was among the last countries to reopen its border. FY23 passenger volume was only about 38% of that in FY19 (Figure 6). An increase in capacity by the Chinese carriers would raise competitive pressure on fares and costs.

Singapore requires flights to use 1% sustainable aviation fuel (SAF) in 2026, possibly rising to 3-5% in 2030. Travellers departing Singapore will have to pay a levy such as S\$3 for a flight to Bangkok or S\$16 for one to London. SIA and Scoot target using SAF for 5% of the total fuel requirement by 2030. SAF is currently 3 to 5 times more costly than conventional jet fuel. We estimate fuel cost could rise by 20% (assume 5% SAF usage). The levy might not be sufficient to cover the higher fuel costs, unless the cost of SAF falls or levy is raised. But a higher levy could impact the propensity to travel.

Outlook

SIA's passenger load factors are expected to ease as competing airlines restore flights. For instance, Cathay Pacific added 64% passenger capacity in Jan 24 YoY. Available passenger capacity is now 61.5% of Jan 19's level, compared with 37% in Jan 23. We also expect lower air cargo volume sequentially as maritime capacity constraints have eased, with more liners resuming the Red Sea route and 3.2mn TEUs new container capacity in 2024 (2023: 2mn TEUs).

Recommendation

SIA (SIA SP, REDUCE, TP S\$5.91) Yields are expected to come under pressure as load factor is prioritized to cope with rising costs. The price of jet fuel has risen by 8.9% YTD.

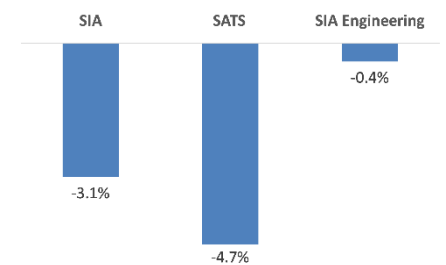
SATS (SATS SP, REDUCE, TP S\$2.31): SATS' operations are at 94-99% of their pre-pandemic level, while flights handled reached 86%. Hence, growth is expected to slow down going forward. It has a further €580mn debt maturing in May 2024 that needs to be refinanced.

SIA Engineering (SIE SP, Not Rated) SIE has signed a lease for 2 hangars at Subang Airport to expand its hangar capacity and lower operating costs. The MRO industry could see a structural shift, with greater deployment of narrow-body aircraft, a higher share of low-cost carriers operating short-haul routes, and faster turnaround demands.

6 March 2024

UNDERWEIGHT (Maintained)

Feb 24 Performance



SIA

REDUCE (Maintained)

BLOOMBERG CODE	SIA SP
LAST TRADED PRICE	SGD6.41
FORECAST DIV	SGD0.20
TARGET PRICE	SGD5.91
DIVIDEND YIELD	3.1%
TOTAL RETURN	-10.6%

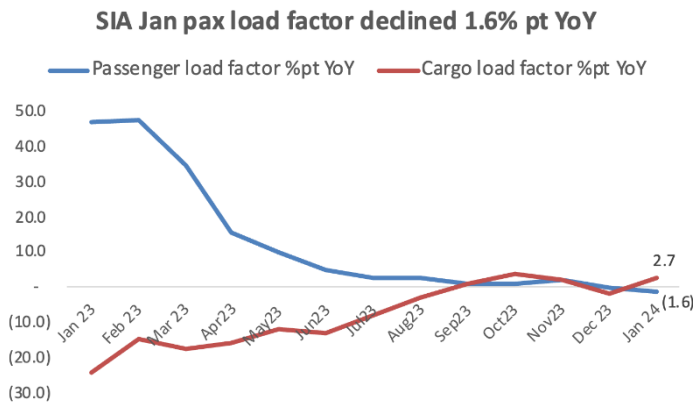
SATS

REDUCE (Maintained)

BLOOMBERG CODE	SATS SP
LAST TRADED PRICE	SGD2.65
FORECAST DIV	SGD0.007
TARGET PRICE	SGD2.31
DIVIDEND YIELD	0.3%
TOTAL RETURN	-13.1%

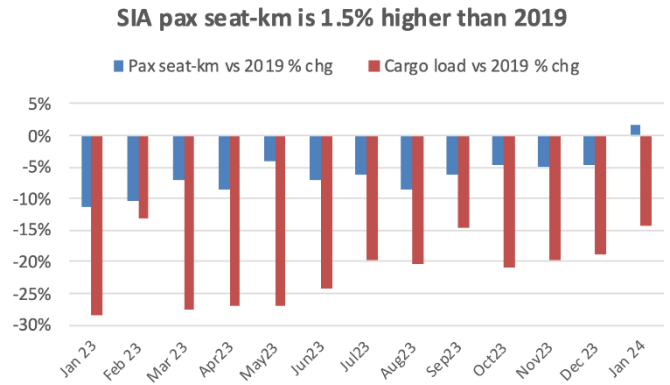
Peggy Mak (+65 6212 1852)
 Research Manager
 peggyamak@phillip.com.sg

Figure 1: Passenger load factor fell for a second month YoY



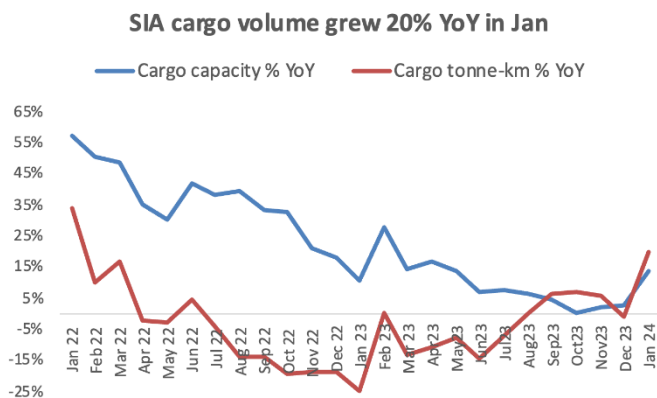
Source: PSR, SIA

Figure 2: Though volume surpassed Jan 19 by 1.5%



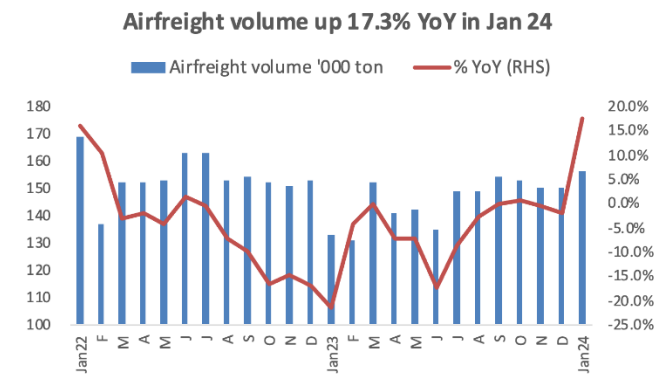
Source: PSR, SIA

Figure 3: Strong growth in cargo



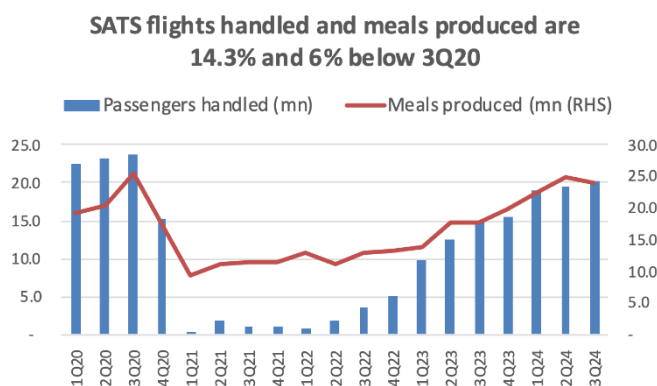
Source: PSR, SIA

Figure 4: Mirrors higher airfreight volume at Changi Airport



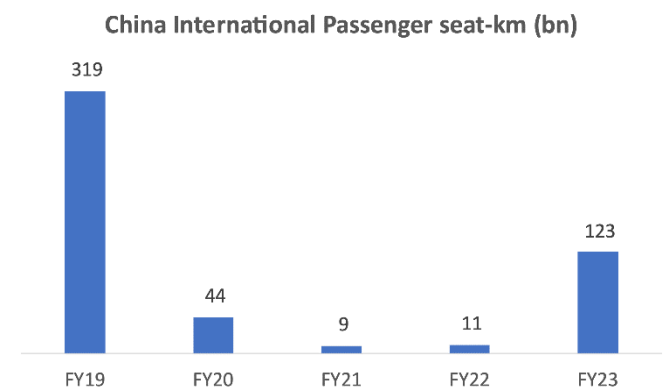
Source: PSR, CAG

Figure 5: SATS volume lags pre-Covid level



Source: PSR, SATS

Figure 1: China international travel is only 38% of FY19's level



Source: PSR, CAAC

Contact Information (Singapore Research Team)
Head of Research

 Paul Chew – paulchewkl@phillip.com.sg
Research Admin

 Qystina Azli - qystina@phillip.com.sg
Technical Analyst

 Zane Aw – zaneawyx@phillip.com.sg
Property | REITs

 Darren Chan – darrenchanrx@phillip.com.sg
Banking & Finance

 Glenn Thum – glenthumjc@phillip.com.sg
Credit Analyst

 Shawn Sng – shawnsngkh@phillip.com.sg
Property | REITs

 Liu Miaomiao – liumm@phillip.com.sg
Conglomerate | Transport

 Peggy Mak – peggymak@phillip.com.sg
US Tech Analyst (Software/Services)

 Ambrish Shah – amshah@phillipventuresifsc.in
US Tech Analyst (Digital Entertainment/Semiconductors)

 Jonathan Woo – jonathannwookj@phillip.com.sg
US Tech Analyst (Hardware/E-commerce/ETF)

 Helena Wang – helenawang@phillip.com.sg
Contact Information (Regional Member Companies)
SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

HONG KONG

Phillip Securities (HK) Ltd
11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

JAPAN

Phillip Securities Japan, Ltd.
4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

UNITED STATES

Phillip Capital Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

AUSTRALIA

Phillip Capital Limited
Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 8633 9803
Fax +61-03 8633 9899
Website: www.phillipcapital.com.au

CAMBODIA

Phillip Bank Plc
Ground Floor of B-Office Centre, #61-64,
Norodom Blvd Corner Street 306, Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

INDIA

PhillipCapital (India) Private Limited
No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

TURKEY

PhillipCapital Menkul Degerler
Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

DUBAI

Phillip Futures DMCC
Member of the Dubai Gold and
Commodities Exchange (DGCX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

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