

# Singapore Air Transport – Mar24

Trickling into a seasonally lulled quarter



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## SINGAPORE | AIR TRANSPORT | UPDATE

- Another weak month for the Singapore air transport sector, as the valuation disparity has drawn investors to HK/China-listed peers. China was the last country to lift border restrictions, and HK/Chinese carriers, such as Cathay Pacific, are catching up on volume and profitability (Figure 5).
- SIA passenger load factor fell again in Feb 24 (Figure 1). Cargo volume also declined after the short spike in Jan from CNY and the Red Sea conflict (Figure 2). It was a similar trend for passenger and airfreight volume at the Changi Airport (Figure 3 & 4).
- We are **UNDERWEIGHT** on air transportation.

### Review

**Jet fuel prices climbed 12.4% YTD (Figure 6)** as demand rose in tandem with air travel recovery in Asia. The sanctions imposed on Russia by the EU and UK reduced the supply and raised the price of diesel. Complex refineries that can adjust production would prioritise diesel output over jet fuel, thus curbing jet fuel supply and lifting prices.

**The merger of Air India and Vistara received the conditional approval from the Competition and Consumer Commission of Singapore.** The two airlines undertake to maintain flight capacity at pre-pandemic levels to address concerns that the combined entity would have a dominant share of some routes between Singapore and major Indian cities. The merger still needs further regulatory and foreign direct investment clearances. SIA will own 25.1% of the combined entity in exchange for its existing 49% stake in Vistara and S\$360mn cash. SIA also commits to inject a further S\$880mn cash into the JV.

**SIA Engineering will exit and write off S\$25.1mn from its participation in Pratt & Whitney's PW1500G engine Risk-Revenue Sharing Programme (RRSP).** Participants are required to share the costs, risks, and revenues of the PW1500G geared-turbofan engine, from its design and development to production (including engine spare parts), post-certification engineering support, marketing and sales, and aftermarket services, including MRO. The exit would cut SIE's need for further capital injection into the RRSP, but could negatively impact engine capability and engine MRO jobs for 49%-owned Eagle Services Asia Pte Ltd (ESA). ESA contributed S\$17mn to SIE's FY23 pretax profit.

### Outlook

If completed, the merger of Air India and Vistara could result in a non-cash accounting gain of S\$1.1bn in SIA's book (S\$0.40/share), we estimate. This has not been included in our FY25e NAV estimate of S\$5.91.

The FAA halted the production expansion of Boeing 737 MAX aircraft on Jan 24, potentially reducing the supply of narrow-body aircraft and indirectly raising airlines' operating costs. Post-pandemic travel demand is skewed towards shorter-haul routes and quick turnarounds, which are better served by narrow-body aircraft with better seats and fuel efficiency.

### Recommendation

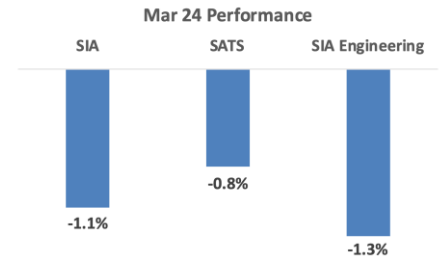
**SIA (SIA SP, REDUCE, TP S\$5.91)** Costs are expected to rise while airfares are expected to further normalise.

**SATS (SATS SP, REDUCE, TP S\$2.31):** It needs to restructure a further €580mn debt maturing in May 2024.

**SIA Engineering (SIE SP, Not Rated):** The S\$25.1mn write-off related to the RRSP could impact FY24e (Mar) net profit. The exit from the RRSP might also affect ESA's ability to scale the technology ladder for new engine types.

3 April 2024

## UNDERWEIGHT (Maintained)



### SIA

#### REDUCE (Maintained)

Bloomberg Code	SIA SP
LAST TRADED PRICE	SGD6.40
FORECAST DIV	SGD0.20
TARGET PRICE	SGD5.91
DIVIDEND YIELD	3.1%
TOTAL RETURN	-4.5%

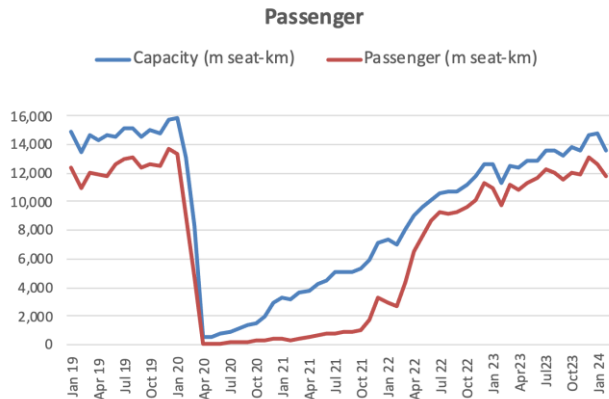
### SATS

#### REDUCE (Maintained)

Bloomberg Code	SATS SP
LAST TRADED PRICE	SGD2.60
FORECAST DIV	SGD0.007
TARGET PRICE	SGD2.31
DIVIDEND YIELD	0.3%
TOTAL RETURN	-10.9%

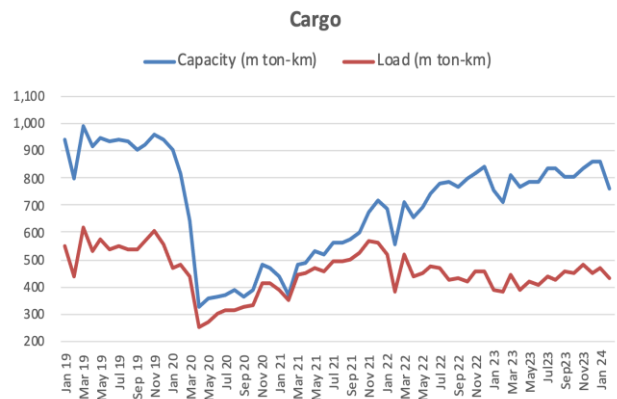
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**Figure 1: Another decline in passenger load factor in Feb. 10<sup>th</sup> consecutive month of YoY decline on European route.**



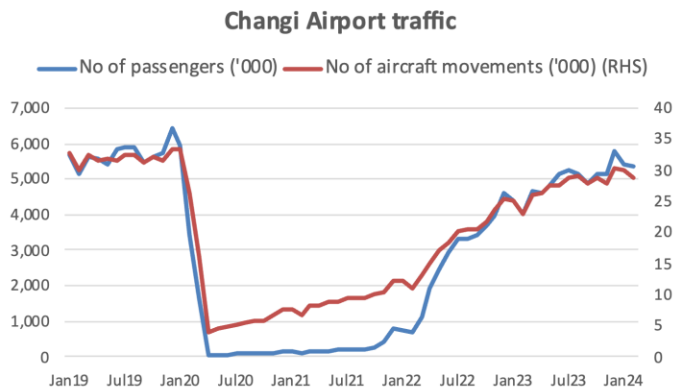
Source: PSR, SIA

**Figure 2: Cargo recovery remained sluggish**



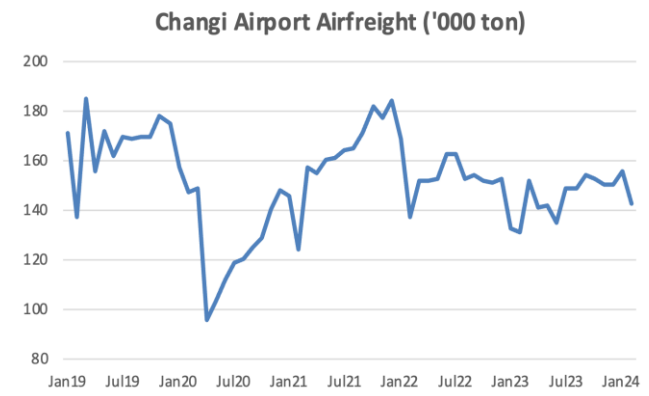
Source: PSR, SIA

**Figure 3: Softer passenger volume in Jan-Feb in Singapore**



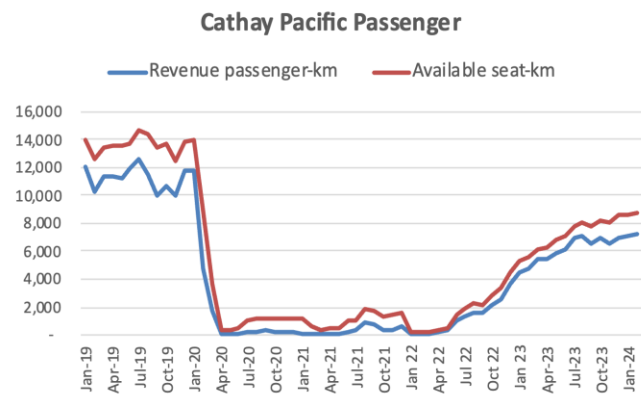
Source: PSR, Changi Airport Group

**Figure 4: Airfreight volume eased after temporary spike in Jan from Red Sea conflict**

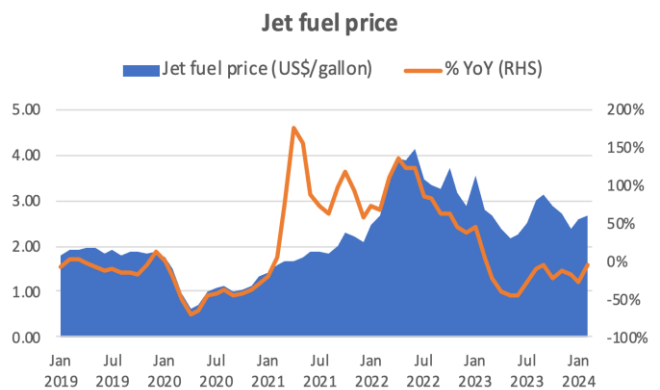


Source: PSR, Changi Airport Group

**Figure 5: Cathay Pacific playing catch-up with capacity at 62% of Figure 1: Higher fuel prices, hovering above pre-Covid level**



Source: PSR, Cathay Pacific



Source: EIA

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