



Singapore Air Transport – Feb25

Cargo headwinds from cancellation of De Minimis

SINGAPORE | AIR TRANSPORT | UPDATE

- The aviation sector saw mixed performance in Jan25. SATS extended its losses amid concerns over the US-China tariff weighing on cargo demand. In contrast, SIA and CAO rebounded on expectations of robust results.
- SIA Group's passenger traffic grew by 8.6% YoY in Jan25, outpacing the 5.5% increase in capacity. The growth was driven by strong Chinese New Year demand. As a result, the passenger load factor improved by 2.5ppt to 87.8%, with Scoot rising by 0.9ppt as more Chinese routes were added.
- We maintain NEUTRAL on air transportation.

SIA Engineering 3Q24 updates

SIA Engineering reported a net profit of S\$38.2mn for 3Q24, reversing a loss of S\$3.4mn in the same period last year. The improvement was driven by an 8.4% YoY increase in flight handling volume in Singapore, surpassing pre-pandemic levels. However, base maintenance saw fewer aircraft checks (-26.7%YoY) due to more complex work and ongoing supply chain delays. Share of profits from associates and joint ventures also improved by 35% YoY.

We anticipate strong demand for maintenance, repair, and overhaul (MRO) services in 2025, driven by sustained travel demand and ongoing supply chain disruptions. As of Dec24, flight activity at Changi Airport had recovered to 99.6% of pre-pandemic levels, supporting MRO demand. Additionally, the global commercial aircraft fleet is projected to grow from 34,000 in 2025 to 44,600 by 2034, according to STS, with narrowbody aircraft leading this expansion. Given their high utilization rates, these aircraft require more frequent maintenance checks, fuelling long-term demand for MRO services, particularly in engine overhauls, routine maintenance, and airframe repairs.

US Tariff

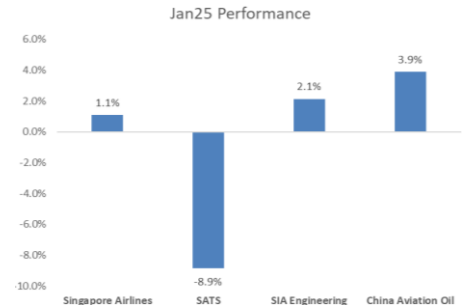
U.S. President Donald Trump has issued executive orders imposing new tariffs on imports from China, effective Feb 4th, 2025. The measures include an additional 10% tariff on Chinese goods. Additionally, the administration has decided to suspend the de minimis exemption, which previously allowed low-value goods to be shipped tax-free. This policy change is expected to have a significant impact on Chinese e-commerce platforms such as Shein and Temu, which have leveraged this exemption to expand their U.S. market presence.

Global shipping patterns are expected to shift following the implementation. Temu, for instance, has begun stocking inventory in the U.S., indicating that more e-commerce businesses are opting for ocean freight over air freight. By July 2024, approximately 20% of Temu's U.S. sales came from these sellers rather than China-based merchants, according to Marketplace Pulse. However, due to the prolonged Red Sea conflict, sea freight capacity remains constrained.

In the short term, consumers and wholesalers may struggle to find cheaper alternatives to Chinese imports. Even with the 10% tariff, Chinese goods are likely to remain competitively priced. For example, the average price of a Shein-labeled item is around \$10, with most products ranging from \$5 to \$50, reinforcing their strong value-for-money proposition for U.S. buyers.

18 February 2025

NEUTRAL (Maintained)



Singapore Airlines

REDUCE (Maintained)

BLOOMBERG CODE	SIA SP
LAST TRADED PRICE	SGD 6.42
FORECAST DIV	SGD 0.26
TARGET PRICE	SGD 5.25
DIVIDEND YIELD	4.10%
TOTAL RETURN	-14.12%

SATS Ltd.

BUY (Maintained)

BLOOMBERG CODE	SATS SP
LAST TRADED PRICE	SGD 3.63
FORECAST DIV	SGD 0.60
TARGET PRICE	SGD 4.62
DIVIDEND YIELD	1.70%
TOTAL RETURN	29.0%

China Aviation Oil

BUY (Maintained)

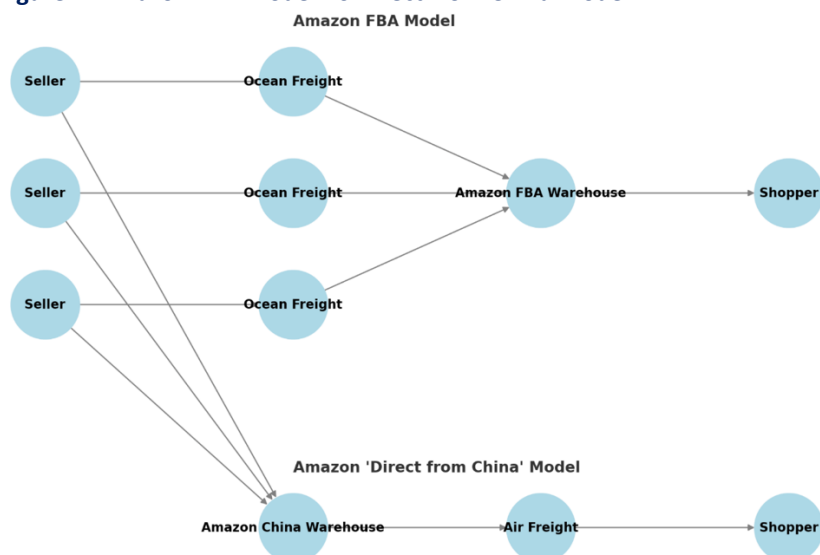
BLOOMBERG CODE	CAO SP
LAST TRADED PRICE	SGD 0.94
FORECAST DIV	SGD 0.27
TARGET PRICE	SGD 1.05
DIVIDEND YIELD	3.00%
TOTAL RETURN	14.70%

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Figure 1: Amazon FBA Model VS Direct from China Model



Source: PSR

Outlook

E-commerce is expected to remain the primary growth driver for cargo in FY25e. Qatar Airways reported that its e-commerce cargo business grew by c.25% in 2024 and is poised for double-digit expansion in 2025. Additionally, strong demand for semiconductors in major economies is expected to further support cargo growth in 2025.

Recommendation

SIA (SIA SP, REDUCE, TP S\$5.25) We anticipate a softer 4Q25 due to subdued cargo yields amid the impact of US tariffs. Additionally, seasonally weaker passenger travel demand in the January-March quarter, compared to the October-December period, coupled with rising jet fuel prices, could further pressure overall demand.

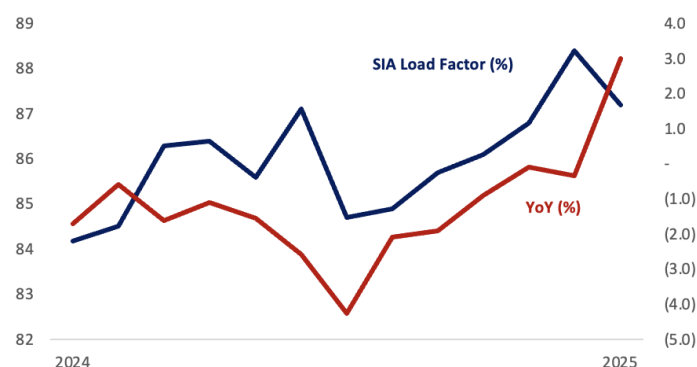
SATS (SATS SP, BUY, TP S\$4.62) US air cargo handling contributes c.25% of SATS' revenue, and we anticipate a mid-single-digit impact on FY26e revenue from the US tariffs. However, we maintain our FY25e earnings forecast unchanged as the financial year concludes in March 25.

China Aviation Oil (CAO SP, BUY, TP S\$1.05) We believe the spike in jet fuel prices could be a net positive for Shanghai Pudong International Airport, potentially enhancing margins. Furthermore, the trading business could benefit from market dislocations arising from heightened geopolitical uncertainty.

	1 Mth Perf.	3 Mth Perf.	YTD Perf.	PSR Recomm.	Target Price
Singapore Airlines	1.1%	-0.5%	-1.7%	Reduce	5.25
SATS	-8.9%	-10.4%	13.8%	Buy	4.62
SIA Engineering	2.1%	0.0%	1.7%	Non-Rated	-
China Aviation Oil	3.9%	2.7%	5.6%	Buy	1.05
	-0.4%	-1.8%	1.4%	Neutral	

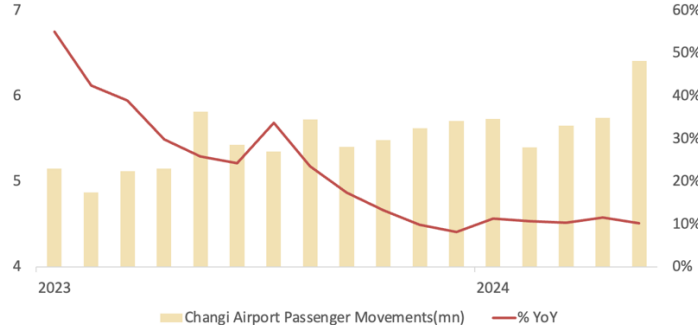
Figure 1: Passenger load factor improved by 2.7ppt YoY in Jan25 **Figure 2: Passenger traffic grew by 8.6% in Jan25**

SIA Load Factor (%)



Source: PSR, SIA

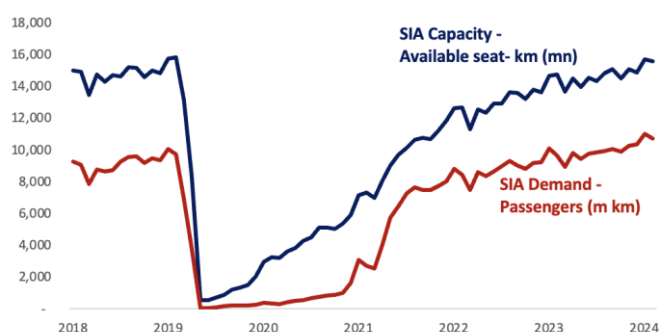
Changi Airport: Passenger Movements (mn person)



Source: PSR, SIA

Figure 3: Capacity continues outpacing demand

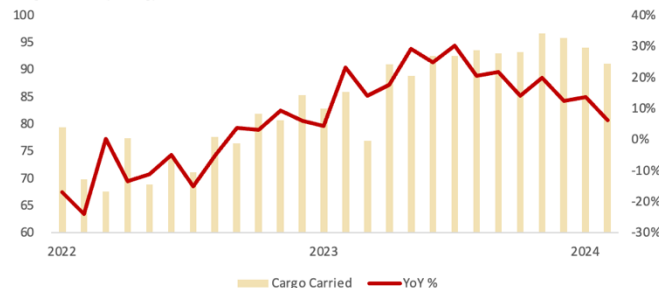
SIA Capacity - Available seat-km (mn)



Source: PSR, SIA,

Figure 4: Cargo volume sustained but growth rate is trending down

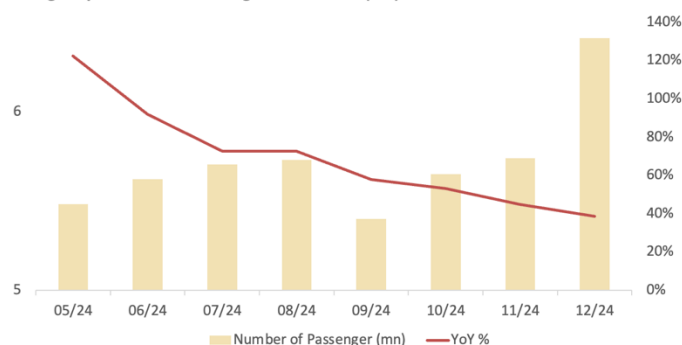
Cargo Carried (mn-kg)



Source: PSR, SIA

Figure 5: Number of Chinese travellers + 39%YoY in Dec24, fully recovered back to pre-COVID level

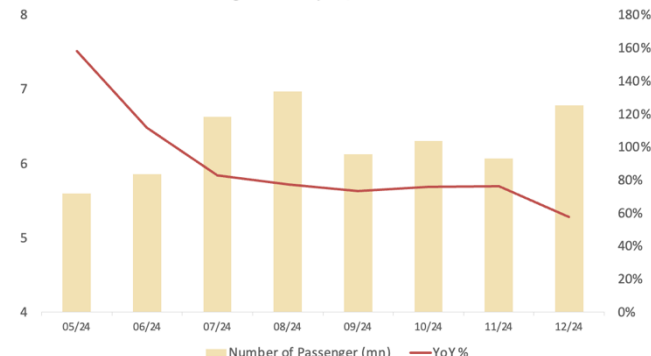
Changi Airport: Chinese Passenger Movements (mn)



Source: PSR, CEIC

Figure 6: China international air traffic +58%YoY in Dec24, 100% of pre-COVID level

China International Passenger Traffic (mn)



Source: PSR, CEIC

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