

Singapore Air Transport – Mar25

Uncertainty due to the US macroeconomy



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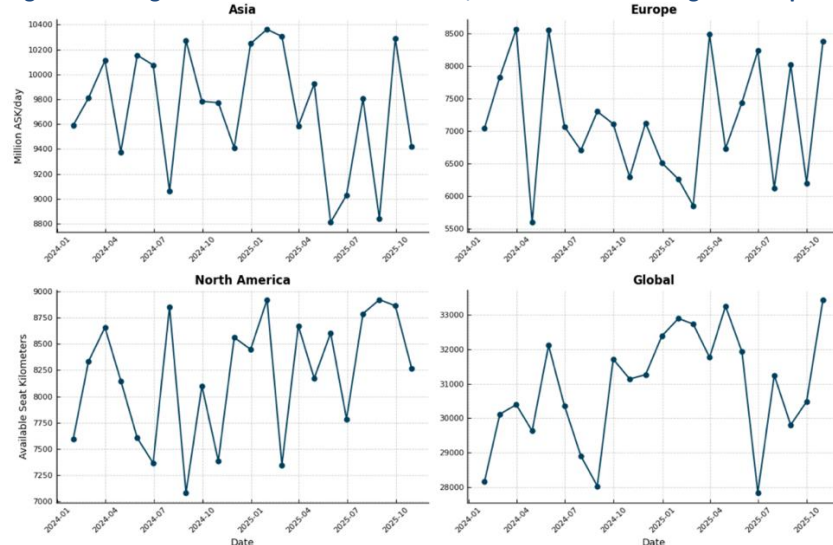
SINGAPORE | AIR TRANSPORT | UPDATE

- In February 25, the aviation industry exhibited a range of outcomes. CAO plunged by 9.1% as the gross margin for its trading business in 2H24 deteriorated, and its dividend payout ratio fell short of expectations. SATS continued its downward trajectory amid the flip-flopping tariff, while SIA extended its gain.
- Air travel demand remained resilient in Feb 25, with SIA reporting a 0.5% YoY increase in passenger traffic, surpassing the 0.2% growth in capacity. As a result, the Group achieved a passenger load factor (PLF) of 86.5% (+ 0.2 ppt YoY), continuing to outpace the pre-COVID level. Cargo load factor continued its downward trend, declining by 4.8ppt YoY, as America and Europe contracted by 11.2ppt and 13.8ppt, respectively, due to tariffs.
- We maintain NEUTRAL on air transportation.

US airlines warn softening demand

American Airlines, Delta Air Lines, Southwest Airlines, and United Airlines have highlighted a weakening in demand, driven by reduced travel from government employees and consumer uncertainty over the U.S. economic outlook. The Conference Board's closely watched U.S. consumer confidence index recorded its sharpest drop since August 2021, with consumers' short-term economic outlook falling below the threshold that typically signals a recession. This has been further validated by the Sahm Rule, which was triggered when the three-month moving average of the unemployment rate rose by at least 0.5 percentage points from its lowest level in the past 12 months. Adding to the pressure, Canadian travel to the U.S. has also sharply declined amid escalating trade tensions between Washington and Ottawa over tariffs. New bookings from Canada to the United States have dropped by approximately 20% YoY since February 25, according to flight ticketing data firm ForwardKeys, which has forced airlines to adjust their capacity due to the drop in traffic. The trend extends beyond Canada, with travellers from Denmark and Germany seeing a 27% and 15% YoY decline, respectively, while overall demand from Europe has only slightly declined by 1%. The U.S. Travel Association estimated that a 10% decrease in Canadian visitors could result in a \$2.1bn loss in spending for the United States, further adding pressure to the softening economy.

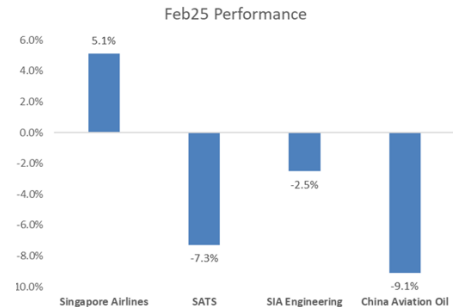
Figure 1: Changes in Available Seat Kilometres, North America cutting down capacity



Source: PSR, IATA

18 March 2025

NEUTRAL (Maintained)



NAUTRAL(Maintained)

Singapore Airlines

NEUTRAL (Upgraded)

BLOOMBERG CODE	SIA SP
LAST TRADED PRICE	SGD 6.75
FORECAST DIV	SGD 0.26
TARGET PRICE	SGD 5.74
DIVIDEND YIELD	4.10%
TOTAL RETURN	-10.86%

SATS Ltd.

BUY (Maintained)

BLOOMBERG CODE	SATS SP
LAST TRADED PRICE	SGD 3.05
FORECAST DIV	SGD 0.60
TARGET PRICE	SGD 4.34
DIVIDEND YIELD	1.70%
TOTAL RETURN	44.0%

China Aviation Oil

NEUTRAL (Downgraded)

BLOOMBERG CODE	CAO SP
LAST TRADED PRICE	SGD 0.85
FORECAST DIV	SGD 0.27
TARGET PRICE	SGD 0.85
DIVIDEND YIELD	3.00%
TOTAL RETURN	3.00%

Liu Miaomiao (+65 6212 1852)

Research Analyst

Liumm@phillip.com.sg

Outlook

We do not expect the spillover effect to significantly impact SIA, as the U.S. accounts for only 7% of total revenue in FY24. However, the broader economic impact from the U.S. may influence business sentiment, which could, in turn, affect corporate travel budgets for Asian companies. We expect yields to continue trending downward due to several factors. On the demand side, we observe a softening macroeconomy, which tends to hinder discretionary spending growth. According to IATA, 70% of passengers prefer to pay the lowest fare and customize additional services as needed. On the supply side, Asian airlines had the most aggressive capacity expansion plans, achieving a 16.5% YoY increase, while other regions, such as Europe and North America, expanded by 6.2% YoY and 0.6% YoY, respectively.

Recommendation

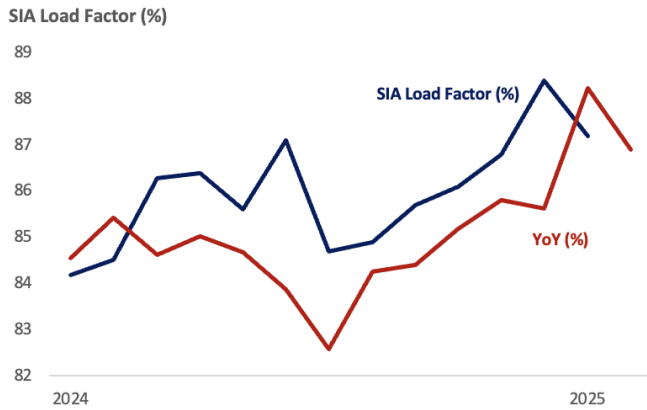
SIA (SIA SP, NEUTRAL, TP S\$5.74) While passenger and cargo yields in 4Q25 may continue to decline, the extent of the drop is expected to be less severe than in 1H25, as airlines are increasing capacity at a slower pace. We upgraded SIA to NEUTRAL with a higher TP of S\$5.74 (prev: S\$5.25), based on a 1.1x FY25e P/B ratio. This upgrade is driven by: 1) SIA's normalized ROE of 13.8%, significantly surpassing its 10-year average of 5.2% and pre-COVID level of 5.5%. 2) A higher anticipated dividend payout ratio of 54% for FY25e, amounting to 28 cents, following SIA's FY23-24 DPS range of S\$0.38–0.48 and a payout ratio of 52–53%. This is supported by its strong cash position of S\$8.3bn and a delay in its CAPEX schedule.

SATS (SATS SP, BUY, TP S\$4.34) SATS highlighted that 4Q is typically a seasonally weaker period due to factory closures in China for the Chinese New Year celebrations. Some Asian customers have considered potential contract cancellations, but none have been finalised yet. SATS has seen a rise in cargo shipments to the Middle East, particularly Saudi Arabia. Additionally, Europe may experience higher volumes as U.S. air cargo demand is expected to decline in 4Q25.

China Aviation Oil (CAO SP, NEUTRAL, TP S\$0.85) We expect increasing contributions from Shanghai Pudong International Airport (SPIA) in FY25e, supported by the ongoing recovery in international air traffic to c.90% of pre-pandemic levels (Dec24: c.84% of pre-COVID levels). We downgrade CAO to NEUTRAL from BUY with a lower DCF-TP of S\$0.85. A 15% discount has been applied due to underutilised cash reserves (US\$500mn, c.89% of market cap), as CAO appears reluctant to raise its payout ratio or return more capital to shareholders.

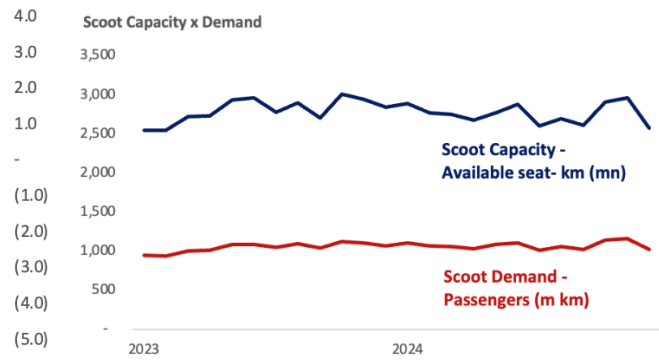
	1 Mth Perf.	3 Mth Perf.	YTD Perf.	PSR Recomm.	Target Price
Singapore Airlines	5.1%	6.3%	5.8%	Neutral	5.74
SATS	-7.3%	-15.5%	19.6%	Buy	4.34
SIA Engineering	-2.5%	-0.4%	0.9%	Non-Rated	-
China Aviation Oil	-9.1%	-5.6%	-6.6%	Neutral	0.85
	1.8%	1.6%	6.3%	Neutral	

Figure 2: Passenger load factor improved by 0.2ppt YoY in Feb25



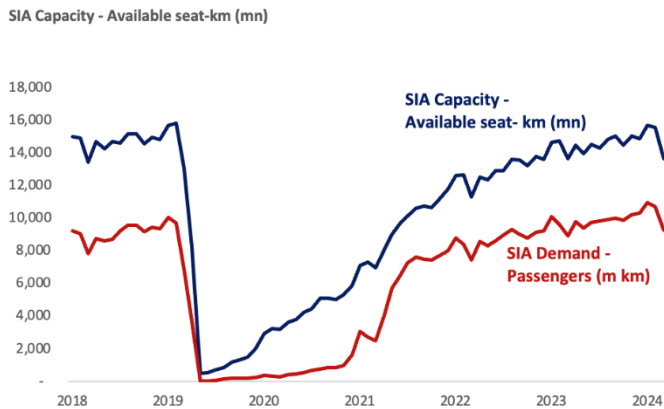
Source: PSR, SIA

Figure 3: Scoot capacity decreased due to grounding of six A320s



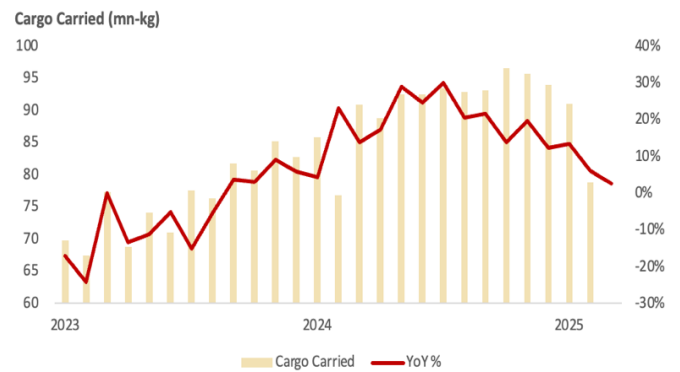
Source: PSR, SIA

Figure 4: The pace of capacity growth is slowing



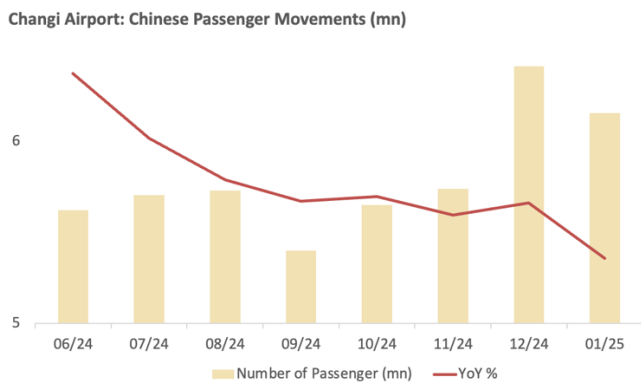
Source: PSR, SIA

Figure 5: Cargo volume is declining



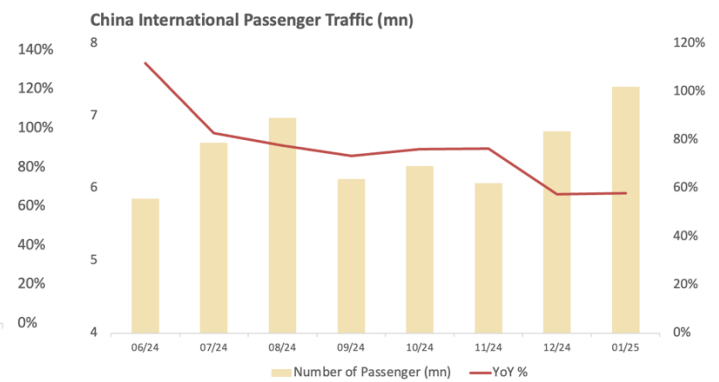
Source: PSR, SIA

Figure 6: Number of Chinese travellers + 33%YoY in Jan25, but trend lower MoM due to seasonality



Source: PSR, CEIC

Figure 7: China international air traffic +58%YoY in Jan25, though growth momentum is slowing



Source: PSR, CEIC

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
Property | REITs

 Liu Miaomiao – liumm@phillip.com.sg
Banking & Finance

 Glenn Thum – glenthumjc@phillip.com.sg
US Tech Analyst (Hardware & E-commerce/ETF)

 Helena Wang – helenawang@phillip.com.sg
Construction & Semiconductor

 Yik Ban Chong (Ben) – chongyb@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

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

THAILAND

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

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

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

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

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

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

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

TURKEY

PhillipCapital Menkul Degerler
Esentepe Mah. Harman 1 Sk.
Nida Kule Kat 3-12 Levent-Şişli
34394, İstanbul Turkey
Tel: +90 (212) 239 10 00
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

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

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

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

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

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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