

Singapore Air Transport – Apr25

Broad-based tariff headwind



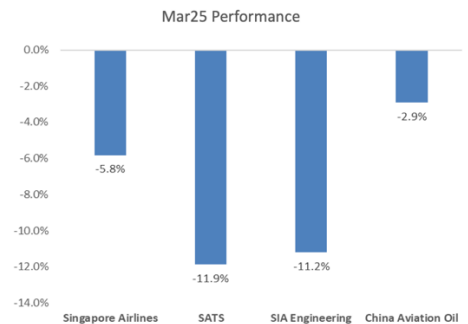
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SINGAPORE | AIR TRANSPORT | UPDATE

16 April 2025

- In Mar 25, the aviation industry experienced a broad-based sell-off due to uncertainties brought about by the evolving US tariff landscape. SATS and SIE were the hardest hit, with share prices plunging by 11.9% and 11.2%, respectively, due to a gloomy air cargo outlook and potential supply chain disruptions for MRO services under the universal tariff. The impact on SIA and CAO is secondary, mainly driven by weaker consumer confidence. Although cargo flown revenue contributed c.33% of 3Q25 revenue for SIA, growth is less reliant on e-commerce.
- SIA's passenger traffic fell by 0.8% in Mar25, partly due to the shift in the Easter holiday from March in 2024 to April in 2025. This lagged the 2.7% YoY increase in passenger capacity. Cargo carriage rose 7.6% YoY, supported by front-loading activity ahead of increasing global trade uncertainties, especially in East Asia, where load factors improved by 4.4ppts. However, softer cargo demand in the Americas and Europe capped the overall cargo load growth at 2.0%. This fell short of the 7.7% capacity increase, leading to a 3.1ppts drop in cargo load factor to 56.9%.
- We maintain NEUTRAL on air transportation.

NEUTRAL (Maintained)



Air cargo rate bounce in the view of US tariff

In addition to the newly imposed tariffs, the United States has announced that the de minimis exemption—which allows duty-free entry for small shipments valued at up to US\$800 from China and Hong Kong—will be discontinued effective 2 May 2025.

According to the latest data from Xeneta, the cost of air freight from China to the United States on short notice rose by 37% between early and late March, reaching US\$4.14 per kilogram. This increase follows a consistent decline since the peak of the Christmas shopping season. Similarly, average air cargo rates from Europe to the United States rose 7% over the same period, reaching US\$2.61 per kilogram. In the lead-up to the policy announcement, many companies accelerated their use of air freight to expedite shipments, particularly over the past three weeks. This surge was driven mainly by manufacturers of high-value goods, including European pharmaceutical companies and Asian producers of data centre equipment, seeking to move more significant volumes of inventory than usual.

Outlook

We expect a temporary uptick in urgent air cargo orders in the first quarter of fiscal year 2026, ahead of removing the “de minimis” exemption on 2 May 2025. Nevertheless, we have already factored in a 20% decline in air cargo demand for 2026. Given that the US cargo handling business contributes c.25% of SATS' group revenue, we believe the overall impact at the group level can be contained within the mid-single-digit range.

The direct impact of tariffs on CAO is expected to be limited, apart from secondary effects such as weaker consumer sentiment and reduced purchasing power. With exports accounting for c.19.8% of China's GDP in 2024, this could dampen discretionary spending, particularly on outbound and inbound international travel. SIA may face similar headwinds, as companies are likely to tighten corporate travel budgets, and growth in cargo deliveries to North America and Europe may no longer be supported by strong e-commerce demand. Additionally, Asia-based airlines capacity may grow slower as companies delay their CAPEX plans for new aircraft orders due to the straining supply chain. According to Donald Trump's latest proposals, imports into the US from countries excluding China will face a 10% tariff. In addition, the aerospace industry is impacted by existing duties of 25% on essential raw materials such as steel and aluminium.

NEUTRAL (Maintained)

Singapore Airlines

NEUTRAL (Maintained)

BLOOMBERG CODE	SIA SP
LAST TRADED PRICE	SGD 6.30
FORECAST DIV	SGD 0.26
TARGET PRICE	SGD 5.74
DIVIDEND YIELD	4.13%
TOTAL RETURN	-4.76%

SATS Ltd.

BUY (Maintained)

BLOOMBERG CODE	SATS SP
LAST TRADED PRICE	SGD 2.67
FORECAST DIV	SGD 0.06
TARGET PRICE	SGD 4.34
DIVIDEND YIELD	2.10%
TOTAL RETURN	64.6%

China Aviation Oil

NEUTRAL (Maintained)

BLOOMBERG CODE	CAO SP
LAST TRADED PRICE	SGD 0.83
FORECAST DIV	SGD 0.04
TARGET PRICE	SGD 0.85
DIVIDEND YIELD	4.82%
TOTAL RETURN	7.23%

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Recommendation

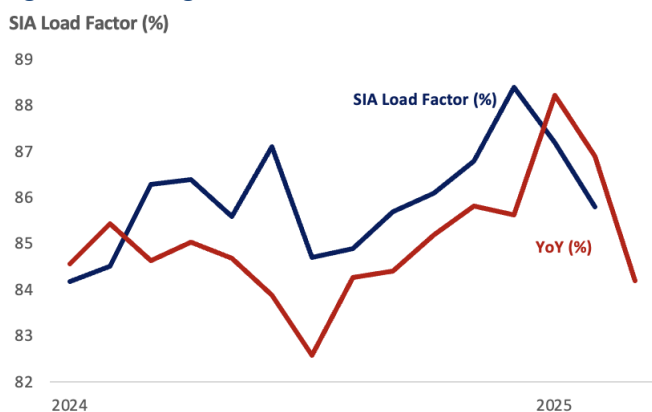
SIA (SIA SP, NEUTRAL, TP S\$5.74) We expect revenue to moderate further in FY26, as cargo flown revenue, which accounted for c.33% of SIA's 3Q25 revenue, may be adversely impacted by the US tariffs. Passenger yields could also be pressured by more cautious consumer spending and tighter corporate budgeting. That said, SIA's cash position will likely remain strong, supported by potential delays in capital expenditure plans amid supply chain disruptions triggered by the tariffs.

SATS (SATS SP, BUY, TP S\$4.34) 1Q25 profit is likely to be temporarily supported by a surge in urgent cargo delivery orders following the implementation of US tariffs. However, FY25 earnings may no longer be fuelled by e-commerce demand from North America. In contrast, Europe may continue to benefit from positive momentum, particularly as Shein sees a potential London IPO, which could further solidify its regional presence.

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 (Dec 2024: c.84% of pre-COVID levels). However, consumer confidence and discretionary spending, such as overseas holidays, may be weighed down by the US tariffs. Growth momentum is expected to weaken significantly from 2Q25 onwards, as the likelihood of near-term bilateral talks to avert the planned 125% tariff escalation remains low.

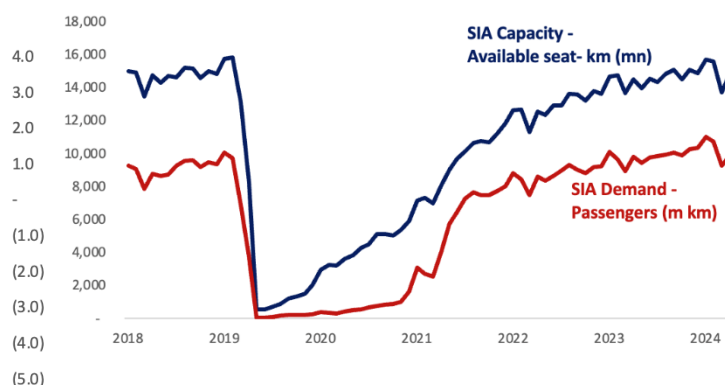
	1 Mth Perf.	3 Mth Perf.	YTD Perf.	P/BV Yr0	Divd Yield	PSR Recomm.	Target Price
Singapore Airlines	-5.8%	0.5%	-0.3%	1.20	4.1%	Reduce	5.74
SATS	-11.9%	-26.2%	6.0%	1.57	1.7%	Buy	4.34
SIA Engineering	-11.2%	-12.0%	-7.2%	1.38	3.5%	Non-Rated	-
China Aviation Oil	-2.9%	-7.3%	-10.3%	0.54	3.0%	Neutral	0.85
	-6.1%	-4.2%	-0.2%	1.21	3.1%	Neutral	

Figure 2: Passenger load factor declined due to shift in the Easter



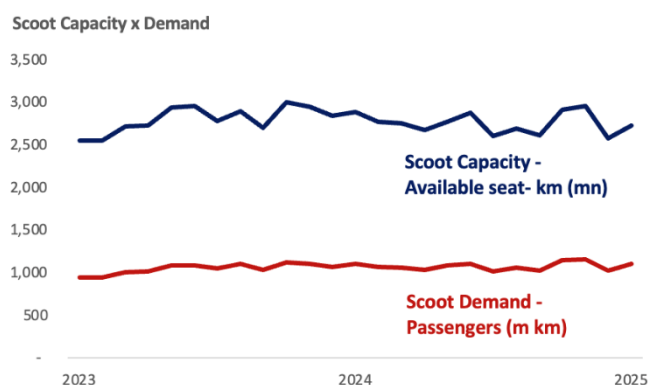
Source: PSR, SIA

Figure 3: Capacity increased at a more measured pace



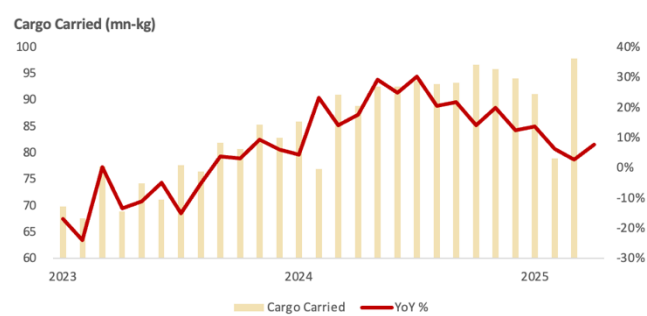
Source: PSR, SIA

Figure 4: Demand dropped YoY in March as Scoot suspended services to Berlin due to network review



Source: PSR, SIA

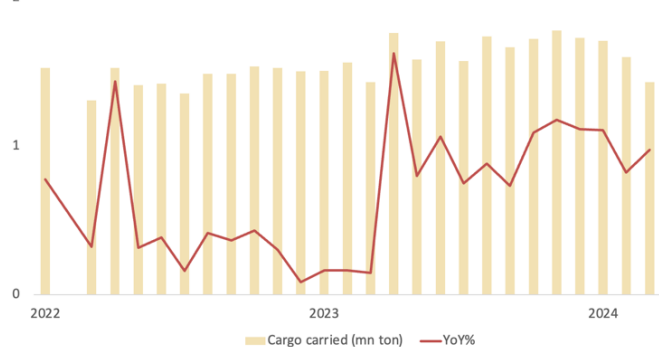
Figure 5: Cargo volume rebounded due to inventory loading



Source: PSR, SIA

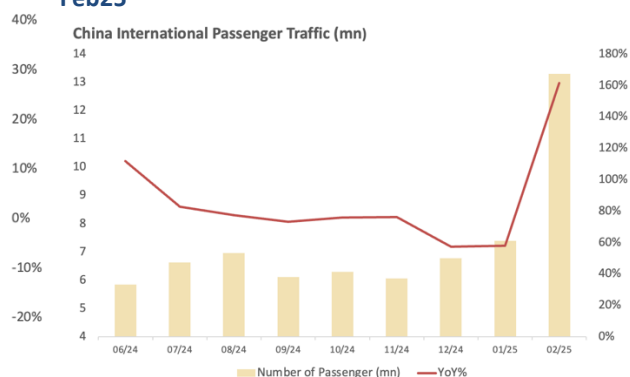
Figure 6: Cargo carried in Feb25 dropped by 10%MoM

Changi Airport: Air Freight Movements



Source: PSR, CEIC

Figure 7: China international air traffic +162% YoY in Feb25



Source: PSR, CEIC

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