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Singapore Air Transport – Aug25

Mixed performance, supported by EQDP

SINGAPORE | AIR TRANSPORT | UPDATE

18 August 2025

- In July 2025, the aviation sector delivered a mixed performance, with small- to mid-cap counters supported by the positive momentum of the Equity Market Development Programme (EQDP). China Aviation Oil (CAO) was the top gainer, surging 26.2% on the back of strong 1H25 results, while SATS edged up 0.9%. Conversely, Singapore Airlines (SIA) and SIA Engineering (SIE) entered a correction phase, plunging 10.5% and 6.0%, respectively, amid fading recovery tailwinds.
- In July25, SIA recorded strong passenger demand across both airlines and all route regions, supported by the summer peak season. Group passenger traffic rose 6.2% YoY, outpacing the 2.8%YoY increase in capacity. Consequently, passenger load factor (PLF) improved 2.9ppts YoY to 88.5%. Amid tariff-related uncertainty, cargo demand remained strong supported by front-loading activity, albeit at a slower pace than in previous months. Cargo loads rose 2.1% YoY, slightly lagging the 2.7%YoY increase in capacity, resulting in a 0.3ppt YoY decline in cargo load factor to 57.1%.
- We maintain a NEUTRAL stance on air transportation. Passenger traffic remains strong despite the global economy's resilient growth beginning to lose momentum, particularly following policy changes under the new US administration. While these factors are expected to dampen growth in the air transport sector, we do not foresee a significant industry-wide decline in passenger traffic at this stage.

Outlook

IATA projects passenger traffic growth to ease to 5.8% YoY in 2025 (-4.8ppts YoY). Beyond broader macroeconomic challenges, persistent supply chain disruptions are expected to cap airlines' growth potential. Global air cargo growth is forecast to slow more sharply to 0.7% YoY, weighed down by tariffs and the removal of the de minimis exemption, which previously allowed parcels under USD800 to enter the US without customs clearance. Lower ocean freight rates have also eroded air cargo's relative competitiveness. Despite these headwinds, airline industry profits are likely to remain resilient in 2025, supported by lower fuel prices and higher load factors due to capacity constraints from ongoing supply chain bottlenecks.

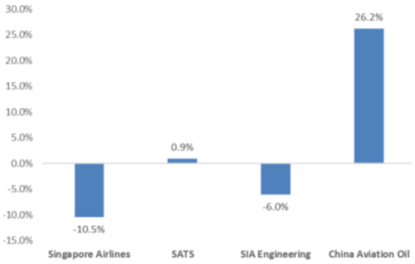
Recommendation

SIA (SIA SP, REDUCE, TP S$5.94) Forward bookings remain healthy for 2Q25, with less front-loading activity on the cargo front. SIA intends to deploy its fleet of seven freighters to manage any sudden shifts in market demand in response to developments from the U.S. SIA noted that while the closure of Jetstar Asia may appear beneficial for Scoot, the overall impact at the Group level remains marginal. We maintain our REDUCE call with TP of S$5.94, based on 1.1x FY25e P/B.

SATS (SATS SP, BUY, TP S$3.58) We expect PATMI in 1Q26 to remain resilient, driven by front-loaded demand. SATS has also benefited from rerouted orders originally destined for China, which are now fulfilled through alternative channels. However, global air cargo growth is set to decelerate sharply in 2025, with demand pressured by the removal of the de minimis exemption in the U.S. and the relative cost advantage of ocean freight as shipping rates decline.

China Aviation Oil (CAO SP, BUY, TP S$1.50) We expect full-year contribution from SPIA to reach USD50.84mn, which is 77% of the FY19 level and contributing to 59% of the FY25e PATMI. CAO remains in a net cash position of US$515mn, c.66% of its total market cap. Downside risks include inefficient deployment of cash and lower trading volumes in 2H25.

NEUTRAL (Maintained)



Singapore Airlines

REDUCE (Maintained)

BLOOMBERG CODE	SIA SP
LAST TRADED PRICE	SGD 6.59
FORECAST DIV	SGD 0.30
TARGET PRICE	SGD 5.94
DIVIDEND YIELD	4.55%
TOTAL RETURN	-5.31%

SATS Ltd.

BUY (Maintained)

BLOOMBERG CODE	SATS SP
LAST TRADED PRICE	SGD 3.27
FORECAST DIV	SGD 0.06
TARGET PRICE	SGD 3.58
DIVIDEND YIELD	1.71%
TOTAL RETURN	11.2%

China Aviation Oil

BUY (Maintained)

BLOOMBERG CODE	CAO SP
LAST TRADED PRICE	SGD 1.23
FORECAST DIV	SGD 0.04
TARGET PRICE	SGD 1.50
DIVIDEND YIELD	3.25%
TOTAL RETURN	25.20%

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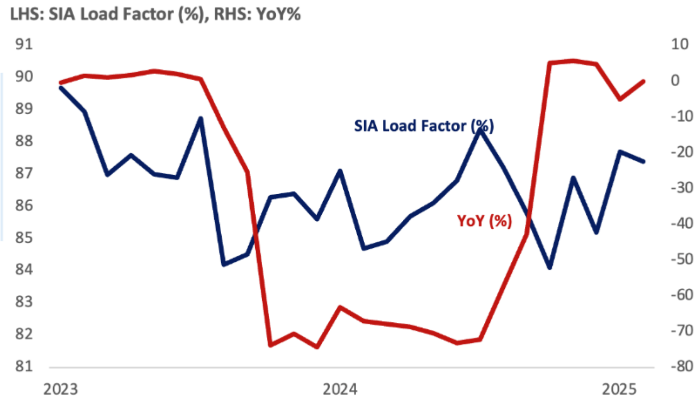
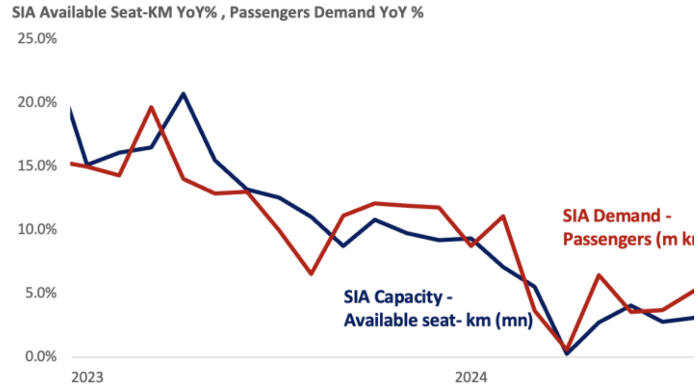
	1 Mth Perf.	3 Mth Perf.	YTD Perf.	P/BV Yr0	Divd Yield	PSR Recomm.	Target Price
Singapore Airlines	-10.5%	-4.2%	7.7%	0.74	3.5%	Reduce	5.94
SATS	7.7%	3.4%	8.5%	0.27	0.2%	Buy	3.58
SIA Engineering	0.9%	10.1%	2.2%	0.21	0.3%	Non-Rated	-
China Aviation Oil	26.2%	49.1%	43.0%	0.03	0.1%	Buy	1.50
	-6.0%	29.5%	37.4%	1.24	4.2%	Neutral	

Figure 1: Passenger load factor +2.9ppt YoY



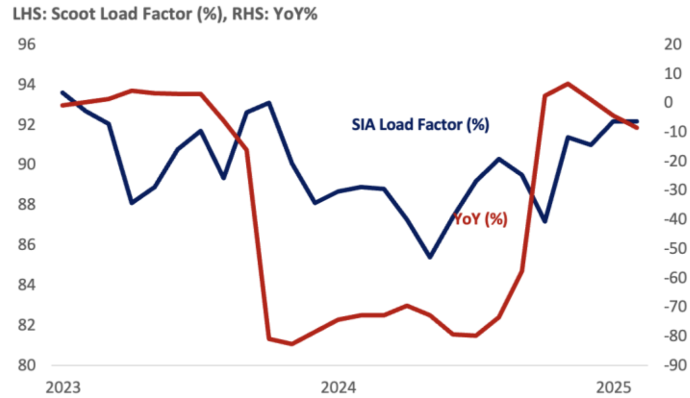
Source: PSR, SIA

Figure 2: Growth in traffic outpaced supply by 3.4ppts



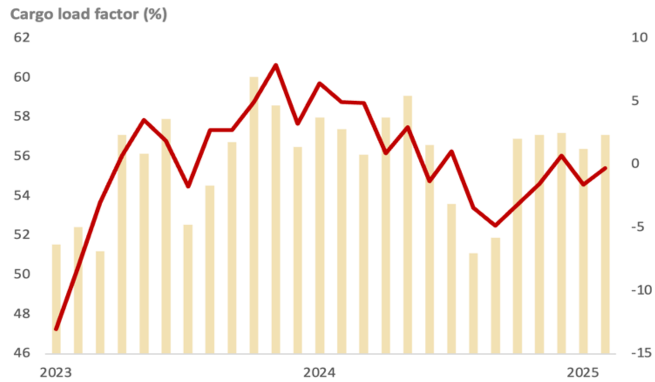
Source: PSR, SIA

Figure 3: Scoot's load factor exceed breakeven of 90%



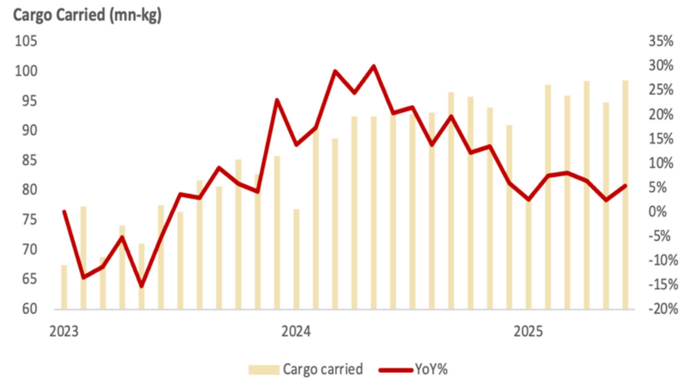
Source: PSR, SIA

Figure 4: Cargo load factor decreased by 0.3ppts MoM



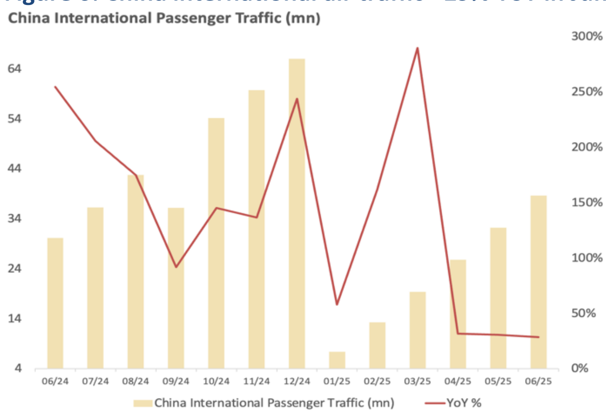
Source: PSR, SIA

Figure 5: Cargo carried +5.5% YoY in July25



Source: PSR, CEIC

Figure 6: China international air traffic +29% YoY in Jun25



Source: PSR, CEIC

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