

Singapore Airlines

Declining yields

SINGAPORE | AVIATION | 1H24 RESULTS

- 1H24 net earnings beat our estimates, at 82% of our FY24e forecast. It surprised us with an 18.8% YoY lower fuel bill despite the higher capacity and a S\$244mn gain from fuel hedging. We raised our FY24e estimates by 14.3% to factor in the stronger 1H earnings.
- Growth was driven by strong passenger load (+38% YoY), while yields have begun to fall (-8.5%). Cargo remains weak as volume (-6.0%) and yields (-46.2%) were lower, though yields are above pre-Covid levels.
- SIA plans to redeem 50% of the remaining Mandatory Convertible Bonds (MCB) for S\$1.71bn, bringing total redemption to S\$5.1bn for FY24e.
- We maintain a REDUCE recommendation, and lower our TP to S\$5.45 (prev. S\$6.80), at 1x FY24e P/B (prev. 1.1x). This takes into account an ex-growth operating environment with yields and loads under pressure from increased competition and the fading off of travel demand.

Results at a glance

Y/E 31 Mar (S\$mn)	1H23	1H24	% YoY	Comments
Revenue	8,417	9,162	8.9%	Record passenger load factors, offset by lower yields. Cargo loads and yields further declined.
Total expenditure	(7,182)	(7,609)	5.9%	
Net fuel expense	(2,695)	(2,283)	-15.3%	Lower fuel price, fuel hedging gain
Other non-fuel expenses	(4,487)	(5,326)	18.7%	In line with capacity increase
Operating profit	1,234	1,554	25.9%	
Net interest income/(expe)	(105)	117	n.m.	Higher cash on hand and interest rate
Net profit	927	1,441	55.5%	

Source: Company, PSR.

The Positives

+ Higher passenger load offset decline in yields. Robust demand mainly from leisure travellers lifted passenger loads by 38.0% YoY. This helps to offset the decline in passenger yield such that revenue per available seat-km (RASK) only fell 2.0% YoY to 9.6 cents.

+ Lower average jet fuel price and fuel hedging gain. Average jet fuel price before hedging achieved was 29.2% lower YoY at US\$105/barrel, and it booked a hedging gain of S\$244mn (1H23: S\$417mn). We had expected its jet fuel price to rise in 2Q in line with the market.

+ Higher net interest income. It booked net interest income of S\$117mn from higher interest rate from net cash of S\$5.2bn at end Mar 23.

The Negative

- Cargo remains a weak spot. In line with weaker trade flows globally and bigger capacity added from the return of passenger flights, cargo yield fell 46.2% to 41.8 cents/load tonne-km. This is however, still higher than pre-Covid of about 31 cents.



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9 November 2023

REDUCE (MAINTAINED)

LAST CLOSE PRICE	SGD 6.280
FORECAST DIV	SGD 0.200
TARGET PRICE	SGD 5.450
TOTAL RETURN	-10.0%

COMPANY DATA

BLOOMBERG CODE:	SIA SP
O/S SHARES (MN) :	2,974
MARKET CAP (USD mn / SGD mn) :	13768 / 18679
52 - WK HI/LO (SGD) :	8.05 / 5.25
3M Average Daily T/O (mn) :	5.94

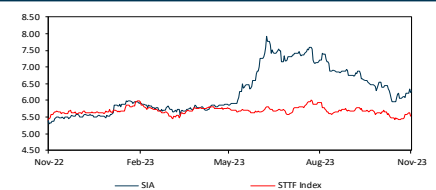
MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS	53.6%
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PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(4.7)	(13.0)	22.0
STTF RETURN	(0.3)	(3.1)	5.7

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar (S\$, 'mn)	FY22	FY23	FY24e	FY25e
Revenue	7,615	17,775	17,523	16,671
Gross Profit	(610)	2,692	2,421	1,503
EBIT	(628)	2,675	2,454	1,507
NPAT	(962)	2,157	1,999	990
P/NAV (x)	0.8	0.9	1.2	1.1
P/E (x)	(19.4)	8.7	9.3	18.9
ROE (%)	-5.0%	10.2%	11.1%	6.0%

Source: Company, PSR

VALUATION METHOD

P/B Multiple @ 1x FY24e

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Outlook

Heightened competition from restoring capacity mainly from the North Asian airlines and a fading off of leisure travel will put pressure on yields. Jet fuel price is trending higher along with higher crude oil prices. We expect capex spending to rise in 2H to meet its target of S\$2.3bn for FY24e (1H24: S\$648mn). It would also incur cash outlay of S\$5.1bn in FY24e for the redemption of MCBs and S\$600mn for convertible loan. This would lower interest income in 2H.

Maintain REDUCE and lower TP to S\$5.45, from S\$6.80 previously, which is based on 1x FY24e book value (prev. 1.1x). We have raised our FY24e net profit estimates by 14.3% to factor in the strong 1H.

Financials

Income Statement

Y/E Mar, (\$'mn)	FY21	FY22	FY23	FY24e	FY25e
Revenue	3,816	7,615	17,775	17,523	16,671
Cost of sales	(6,314)	(8,225)	(15,083)	(15,102)	(15,168)
Gross Profit	(2,498)	(610)	2,692	2,421	1,503
Dividend income	8	4	4	4	4
Other non-operating expenses	(128)	(50)	(58)	-	-
Impairments	(1,995)	27	38	29	-
EBIT	(4,612)	(628)	2,675	2,454	1,507
Net finance expenses	(233)	(346)	(7)	(53)	(300)
Share of results of associates an	(113)	(116)	(31)	47	10
Profit before tax	(4,957)	(1,090)	2,637	2,448	1,217
Taxation	674	142	(474)	(416)	(207)
Net Profit	(4,283)	(948)	2,163	2,032	1,010
Minority interests	13	(14)	(7)	(33)	(20)
Profit attributable to owners	(4,271)	(962)	2,157	1,999	990

Per share data (\$ cents)

Y/E Mar	FY21	FY22	FY23	FY24e	FY25e
BVPS	536.0	755.2	668.5	544.6	565.9
DPS	-	-	38.0	20.0	12.0
EPS	(143.4)	(32.4)	72.6	67.2	33.3

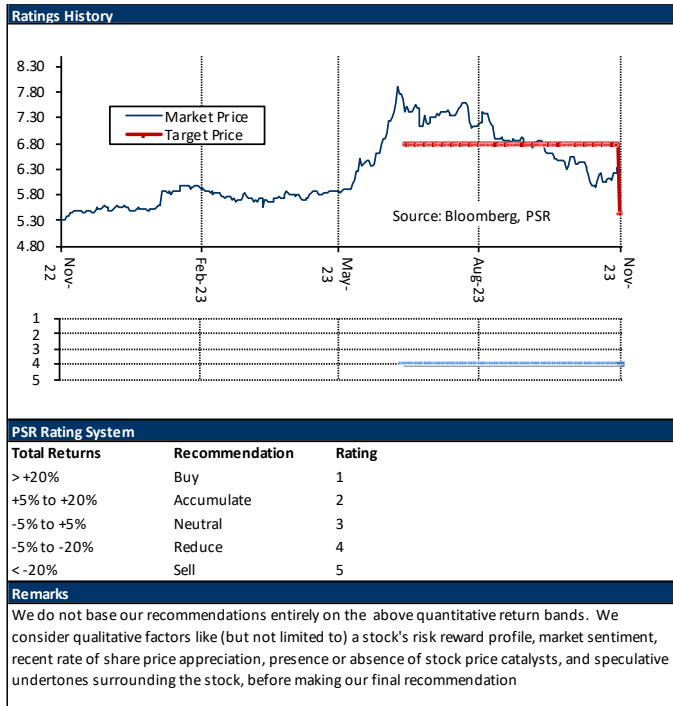
Cash Flow

Y/E Mar, (\$'mn)	FY21	FY22	FY23	FY24e	FY25e
CFO					
Pretax profit	(4,957)	(1,090)	2,637	2,448	1,217
Adjustments	5,172	2,621	2,462	2,522	2,692
WC changes	(3,424)	1,519	4,037	(4,160)	2,494
Cash generated from ops	(3,209)	3,050	9,135	811	6,402
Others	(177)	(220)	14	(530)	(756)
Cashflow from ops	(3,386)	2,830	9,150	281	5,646
CFI					
CAPEX, net	(2,696)	(3,049)	(1,602)	(3,700)	(4,400)
Others	1,308	737	1,116	-	-
Cashflow from investments	(1,388)	(2,312)	(486)	(3,700)	(4,400)
CFF					
Dividends paid to owners	(14)	(1)	(299)	(595)	(357)
Proceeds from borrowings, net	1,168	(757)	(1,722)	(1,300)	(500)
Others	8,816	6,195	(3,860)	(5,064)	-
Cashflow from financing	9,969	5,437	(5,881)	(6,959)	(857)
Net change in cash	5,196	5,955	2,783	(10,378)	389
Cash at the start of the period	2,805	7,969	13,763	16,328	5,949
Currency translation	(33)	25	(218)	-	-
Ending cash	7,969	13,948	16,328	5,949	6,338

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Mar, (\$'mn)	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
PPE & Investment Properties	23,483	24,571	23,833	24,925	27,038
Others	4,426	6,412	5,969	6,457	6,393
Total non-current assets	27,909	30,983	29,802	31,382	33,430
Cash and cash equivalents	7,783	13,763	16,328	5,949	6,338
Inventories	195	187	227	187	229
Trade and other receivables	940	1,566	1,193	1,688	1,053
Others	755	2,172	1,552	1,552	1,552
Total current assets	9,672	17,688	19,299	9,376	9,172
Total Assets	37,581	48,671	49,101	40,758	42,602
LIABILITIES					
Trade and other payables	2,117	2,733	4,040	2,166	4,067
ST borrowings	907	607	2,548	1,248	1,248
Others	2,689	4,529	7,083	5,540	5,331
Total current liabilities	5,713	7,869	13,671	8,954	10,645
LT borrowings	10,565	11,406	8,614	8,614	8,114
Others	5,025	6,597	6,567	6,567	6,567
Total non-current liabilities	15,590	18,002	15,181	15,181	14,681
Total liabilities	21,303	25,871	28,851	24,135	25,326
EQUITY					
Share Capital	7,180	7,180	7,180	7,180	7,180
Retained profits	5,363	5,647	6,557	7,544	8,177
Others	3,363	9,585	6,121	1,475	1,475
Total equity	15,906	22,412	19,858	16,199	16,832
Minority interests	372	389	392	425	445
Total equity and liabilities	37,581	48,671	49,101	40,758	42,602
Valuation Ratios					
Y/E Mar	FY21	FY22	FY23	FY24e	FY25e
P/E (x)	-4.4	-19.4	8.7	9.3	18.9
P/B (x)	1.2	0.8	0.9	1.2	1.1
EV/EBITDA (x)	-8.7	13.5	2.9	4.8	5.5
Dividend yield (%)	0.0%	0.0%	6.1%	3.2%	1.9%
Growth & Margins (%)					
Growth					
Revenue	-76.1%	99.6%	133.4%	-1.4%	-4.9%
Gross profit	-1944.8%	-75.6%	-541.5%	-10.1%	-37.9%
EBIT	-12300.8%	-86.4%	-525.8%	-8.3%	-38.6%
PBT	2156.3%	-78.0%	-341.9%	-7.2%	-50.3%
Margins					
Gross profit margin	-65.5%	-8.0%	15.1%	13.8%	9.0%
EBIT margin	-120.9%	-8.2%	15.0%	14.0%	9.0%
Net profit margin	-111.9%	-12.6%	12.1%	11.4%	5.9%
Key Ratios					
ROE	-33.9%	-5.0%	10.2%	11.1%	6.0%
ROA	-12.0%	-2.2%	4.4%	4.4%	2.4%
Net Gearing (%)	22.7%	-7.7%	-25.5%	23.5%	17.5%



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