

Singapore Airlines

Yield and cost pressures



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Singapore | AVIATION | 1H25 RESULT

- 1H25 revenue met our expectations, improving by 4.7% YoY to S\$9.5bn, forming 49% of the FY25e estimates. The growth was driven by a 10.8% YoY increase in passengers carried and a 4.7 ppt uplift in cargo load factor.
- Net profit was below estimates at 42% of our full-year forecast and declined by 48.5%YoY to S\$742mn due to rising costs (fuel cost: +19.6%YoY, non-fuel cost: +12.1%YoY) and weaker yield. Passenger yield decreased by 5.6% YoY, followed by cargo yield slipping 13.4% YoY. We believe there may be further room for contraction as new capacities are entering the market with intensified competition. SIA and Scoot are still underperforming the exceptional FY24, with operating profit slide by 48%YoY and 88.35YoY, respectively, 1H25 profitability was supported by an S\$3.3mn improvement in subsidiary SIAEC.
- We lower our FY25e net profit forecast by 17% to S\$1.54bn to account for weaker yield from the cargo segment, lower load factor from the budget airline, which is trending below the breakeven levels and rising fuel and non-fuel cost. We maintain our REDUCE recommendation with a lower TP of S\$5.25 (prev: S\$5.30) due to the lower net profit forecast, measuring at 1x FY25e P/B, the historical mean level.

Result at a glance

(\$ mn)	1H25	1H24	YoY (%)	Comments
Revenue	9,497	9,162	3.7%	Passenger flown revenue up \$118mn and cargo flown
Expenditure	8,702	7,609	14.4%	19.6% increase in net fuel cost & 12.1% in non-fuel
Operating Profit	796	1,554	-48.8%	
Net Profit	742	1,441	-48.5%	Weaker operating performance, lower net interest income, loss on disposal of aircraft
Passenger load factor	86.4%	88.0%	(1.6ppt)	
Passenger yield	10.2	10.8	-5.6%	Increased competition and higher passenger capacity
Passanger carried	19,233	17,352	10.8%	Increased passenger capacity

Source: Company, PSR

The Positives

+ Higher contribution from subsidiaries, JVs, and associates. Share of profits from associates and joint ventures rose by 177% YoY in 1H25 to S\$62.9mn, as most of these associates operate in downstream segments of the airline industry, such as repair and maintenance services. The increase in contributions from associates and joint ventures was primarily driven by booming aviation demand, recent delays in Boeing deliveries, and a slower pace of new capacity additions, has stimulated maintenance workload. We believe FY25e net profit will continue to benefit from this positive momentum, with SIAEC Group as a key beneficiary, supporting revenue growth.

+ Cargo segment continues to shine. Gross capacity and load factor in 1H25 increased by 10.2% and 4.7ppt, respectively, driven by strong e-commerce demand and ongoing disruptions in sea freight. We anticipate this robust trend to continue into 3Q24, with yield remaining at the present level due to festival shopping at the year end and advance inventory bookings made to mitigate potential trade tariffs.

The Negative

- Weaker operating metrics. Top-line growth was strong, as passengers carried increased by 10.8% YoY, nearly aligning with the 11% YoY capacity growth in 1H25. However, the capacity injection over the past few months led to a compression in load factor and yield by 2.3 ppt and 7.4%, respectively. Yield remains ahead of the pre-COVID level. Based on our estimates, the average fare per passenger declined by over 10% YoY in 1H25 due to more aggressive promotional activities. The performance of budget airline Scoot lagged behind Singapore Airlines, with Scoot's load factor dropping below breakeven for the first time since 1H23 (lifting of travel restrictions in 1Q23).

12 November 2024

REDUCE (Maintained)

LAST CLOSE PRICE	SGD 6.28
FORECAST DIV	SGD 0.27
TARGET PRICE	SGD 5.25
TOTAL RETURN	-12.0%

COMPANY DATA

BLOOMBERG CODE:	SIA SP Equity
O/S SHARES (MN):	2,973
MARKET CAP (USD mn / GBP mn):	14029 / 18672
52 - WK HI/LO (GBP):	7.38 / 5.86
3M Average Daily T/O (mn):	4.63

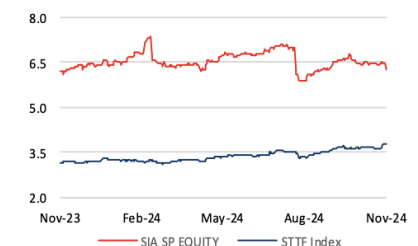
MAJOR SHAREHOLDERS

Temasek Holdings Pte Ltd	53.3%
Vanguard Group Inc	1.8%
BlackRock Inc	1.4%

TOTAL RETURN (%)

	1MTH	3MTH	YTD
COMPANY	(0.8)	9.7	4.3
STTF RETURN	4.2	15.5	20.0

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar (mn,\$\$)	FY23	FY24	FY25E	FY26E
Gross Rev	17,775	19,013	19,374	19,876
Gross profit	2,692	2,728	1,634	1,719
EBITDA	4,773	4,913	3,756	3,893
NPAT	2,163	2,695	1,561	1,609
P/E(x)	8.6	6.9	12.1	11.7
ROE	16.5%	19.0%	10.3%	10.3%
Dividend yield	6.1%	7.6%	4.1%	4.3%

Source: Company, PSR

VALUATION METHOD

P/B Multiple@1x FY25e

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We expect yields to moderate further in 2H24 as airlines inject more capacity and intensify customer acquisition efforts. However, full-year PATMI should be supported by a seasonally strong Q3, especially from long-haul flights to regions like Europe and the U.S.

+ Rising cost. Operating profit declined by 48.8% YoY to S\$796mn, primarily due to a 19.6% increase in fuel costs, as low-cost hedges obtained during COVID are gradually phasing out, leaving only two positions totalling S\$16.4mn in hedging gains to be closed. Non-fuel expenditures rose by 12.1% YoY, largely driven by a 10.6% increase in overall capacity. At the same time, inflationary pressures, such as higher ground handling costs (with SATS contract repricing now in effect), continued to impact profitability. Operating margin compressed by 8.6 ppt to 8.4% in 1H25, which we believe will be a fair benchmark for the remainder of FY25e.

Outlook

Due to delays in Boeing deliveries expected in 2025, SIA has indicated it will operate with five fewer aircraft than initially planned. Consequently, CAPEX is expected to decrease to S\$2,900mn in FY25, 59% below SIA's FY26 projection. We believe this better-than-expected cash flow position will support maintaining a payout ratio of 50%. SIA announced interim DPS of 10 cents in 1H25, which indicates payout ratio of 44%.

SIA continues its efforts to increase capacity, and we forecast ASK to grow by at least 10% on a full-year basis, even as declining yields have become an industry-wide phenomenon affecting both business and economy classes. As corporations budget more cautiously amid geopolitical and macroeconomic uncertainties, we anticipate yield moderation extending beyond 4Q25.

SIA is on track to complete the merger with Air India which is expected to recognize a non-cash gain of c.SGD1.1bn with likelihood of making an additional capital injection of INR31,945mn (c.S\$504mn) to maintain its 25.1% stake in the Indian airline. We expect no material impact on PATMI in the near term.

Maintain REDUCE with a lower TP of S\$5.25 (prev: S\$5.30)

We lower our FY25e net profit forecast by 17% to account for weaker yield from the cargo segment and lower load factor from the budget airline, which is trending below the breakeven threshold. Due to the lower net profit forecast, we also maintain our REDUCE recommendation with a lower TP of S\$5.25 (prev: S\$5.30), measuring at 1x FY25e P/B, the historical mean level.

Financials

Income Statement

Y/E Mar, (\$\$mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	7,615	17,775	19,013	19,374	19,876
Operating expenses	8,225	15,083	16,285	17,740	18,157
EBIT	(610)	2,692	2,728	1,634	1,719
EBITDA	1,390	4,773	4,913	3,756	3,893
Interest Expense	(392)	(420)	-425	(447)	(389)
Interest Income	46	413	632	517	417
Aircraft Sales & Spare Sale	86	(7)	65	-	-
Dividend from investment	4	4	0	-	-
Other non-operating items	(50)	(58)	-50	-	-
Income from associates	-116	-31	74	113	124.19
PBT	(1,090)	2,637	3,037	1,816	1,871
Tax	142	(474)	-342	(256)	(262)
PAT	(948)	2,163	2,695	1,561	1,609
Minority interest	14	7	20	20	16
EBIT	(962)	2,157	2,675	1,541	1,593
One-offs	(108)	(14)	-26	-	-
Net profits	(962)	2,157	2,675	1,541	1,593

Per unit data

Y/E Mar, (\$\$mn)	FY22	FY23	FY24	FY25E	FY26E
EPS (cents)	(29)	73	91	52	54
DPS (cents)	-	38	48	26	27
BVPS (cents)	768	682	564	523	551

Y/E Mar, (\$\$mn)	FY22	FY23	FY24	FY25E	FY26E
CFO					
Pretax profit	(1,090)	2,637	3,037	1,816	1,871
Adjustments	2,621	2,462	2,004	1,864	1,946
WC Change	1,510	4,031	14	(161)	(189)
Net cash from Ops	3,042	9,130	5,055	3,519	3,627
CFI					
CAPEX, net	(3,049)	(1,602)	(1,231)	(3,000)	(4,500)
Others	802	1,468	(205)	(8)	55
Net cash from investing	(2,247)	(134)	(1,436)	(3,008)	(4,445)
CFF					
Dividend paid to owner	-	(297)	(1,130)	(1,229)	(778)
Proceeding from borrowing	8	6	418	(1,000)	(500)
Net cash from financing	5,160	(6,213)	(8,779)	(3,707)	(1,251)
Net Cash Flow	5,980	2,565	(5,059)	(3,196)	(2,068)
Beginning Cash	7,783	13,763	16,328	11,269	8,073
Ending Cash	13,763	16,328	11,269	8,073	6,005

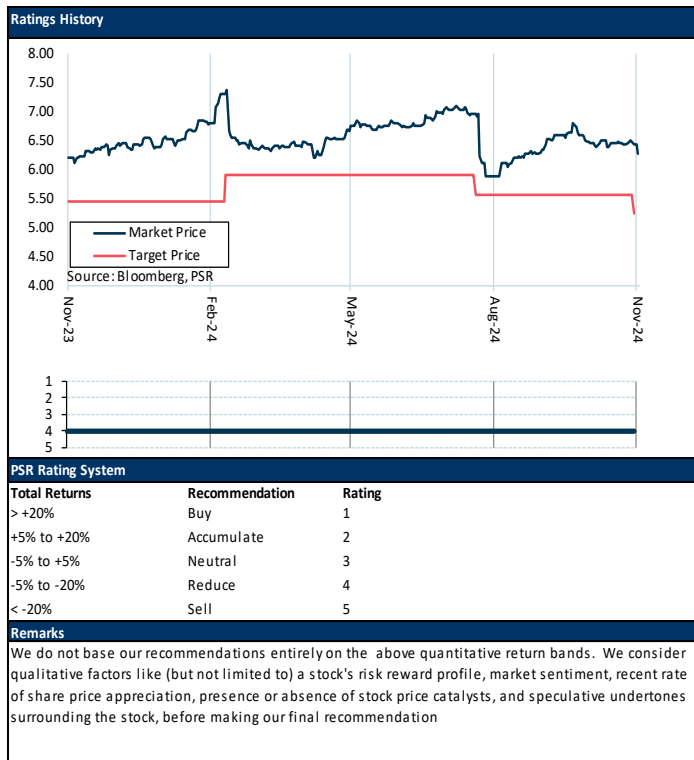
Y/E Mar, (\$\$mn)	FY22	FY23	FY24	FY25E	FY26E
Net fixed assets	24,571	23,833	23,436	24,398	26,745
Long-term investments	43	39	39	39	39
Intangible assets	303	298	305	305	305
Other non-current assets	6,067	5,633	4,844	4,957	5,081
Total Non-Curr Assets	30,983	29,802	28,623	29,698	32,170
Cash & other liq assets	14,169	16,732	11,789	8,593	6,525
Other liquid assets	1,956	1,704	2,039	2,028	2,070
Non-cash assets	1,563	864	1,814	1,814	1,814
Total Current Assets	17,688	19,299	15,642	12,435	10,410
Current borrowings	1175	3165	1528	1528	1528
Other current liabilities	6,694	10,506	11,143	11,227	11,342
Total Curr Liabilities	7,869	13,671	12,672	12,755	12,871
Long-term debt	12,483	8,996	8,848	7,848	7,348
Other long-term liabilities	5,519	6,185	6,001	6,001	6,001
Total Non-Curr Liabilities	18,002	15,181	14,848	13,848	13,348
Shareholders equity	22,412	19,858	16,338	15,102	15,916
Minority interests	389	392	407	427	443

Valuation ratios

Y/E Mar	FY22	FY23	FY24	FY25E	FY26E
P/E (x)	(21.8)	8.6	6.9	12.1	11.7
P/B (x)	0.8	0.9	1.1	1.2	1.1
Dividend yield	-	6.1%	7.6%	4.1%	4.3%

Margins					
EBIT	-8.0%	15.1%	14.3%	8.4%	8.6%
EBITDA	18.3%	26.9%	25.8%	19.4%	19.6%
PATMI	-12.6%	12.1%	14.1%	8.0%	8.0%
Adj PATMI	-11.2%	12.2%	14.2%	8.0%	8.0%
Key Ratios					
ROE	-6.8%	16.5%	19.0%	10.3%	10.3%
ROA	-2.0%	4.4%	5.8%	3.6%	3.8%
ROCE	-2.6%	12.5%	14.6%	8.6%	8.3%
Debt / Equity	70.0%	77.2%	82.3%	82.4%	75.1%
Net Debt / Equity	8.6%	-5.0%	13.3%	29.0%	37.3%
Debt / EBITDA	11.3x	3.2x	2.7x	3.3x	3.1x

Source: Company, Phillip Securities Research (Singapore) Estimates



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