

# Singapore Airlines (SIA SP)

## Yield recovery at hand

### 1QFY19 will be good

We estimate 1QFY19 (out 26 Jul) core net profit of SGD251m, +39% YoY. The industry is exceptionally disciplined at the moment; adding modest capacity to closely match demand. Yields should rise in our view and operating costs apart from fuel should be stable. Our earnings forecast, TP of SGD10.95 (pegged to its long-term P/BV mean of 0.93x) and HOLD are unchanged.

### Good operating statistics

Overall traffic (passenger + cargo) in 1QFY19 grew by 4.5% YoY and load factor receded by 0.4ppt YoY to 73.8%. All the passenger airlines have performed exceptionally well with record load factors. However the cargo load factor performance has receded to normal levels after a strong cyclical upturn in the past two years. We forecast overall yields grew by 5.5% YoY.

### Outlook clouded by fuel and Changi Airport charges

The rising fuel price is a major headache for the industry. We noticed this has forced the industry to be more clinical in dispersing new capacity and new route launches are increasingly a rarity. SIA has hedged 47% of its FY19 requirements at USD55/bbl (Brent) and is better positioned relative to other airlines. However, Changi Airport has raised its fees substantially since 1 Jul 2018 and this will have some negative impact on its short-haul network, in our view.

### Risks priced in, HOLD for dividends

The Company is trading at 0.90 FY19 P/BV, which is fairly close to our fair value of SGD10.95. We don't foresee any obvious catalyst to re-rate the stock in the near term and hence maintain HOLD.

FYE Mar (SGD m)	FY16A	FY17A	FY18A	FY19E	FY20E
Revenue	15,229	14,875	15,457	16,392	17,388
EBITDAR	3,182	3,114	3,339	3,502	3,782
Core net profit	561	491	608	603	702
Core EPS (cts)	48.0	41.9	52.0	51.5	60.0
Core EPS growth (%)	256.9	(12.6)	23.9	(0.8)	16.5
Net DPS (cts)	45.0	20.0	33.0	34.0	41.0
Core P/E (x)	22.9	24.8	20.6	20.8	17.9
P/BV (x)	1.0	0.9	0.9	0.9	0.8
Net dividend yield (%)	4.1	1.9	3.1	3.2	3.8
ROAE (%)	6.2	2.7	4.4	4.2	4.7
ROAA (%)	2.4	2.0	2.4	2.1	2.2
EV/EBITDAR (x)	5.5	5.3	5.9	6.5	6.9
Net gearing (%) (incl perps)	net cash	net cash	5.0	25.0	43.9
Consensus net profit	-	-	893	959	932
MKE vs. Consensus (%)	-	-	(31.4)	(37.2)	(24.5)

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# HOLD

Share Price	SGD 10.72
12m Price Target	SGD 10.95 (+2%)
Previous Price Target	SGD 10.95

### Company Description

Singapore Airlines Ltd. is a full service air transportation provider based in Singapore, offering passenger, cargo, engineering and related services.

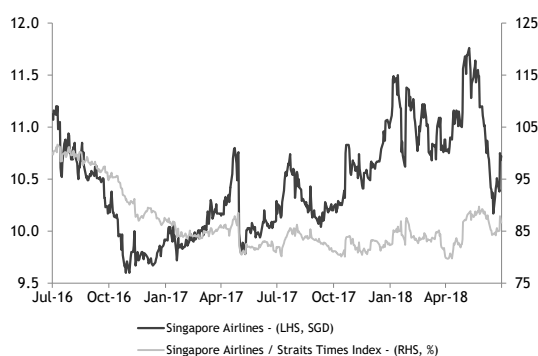
### Statistics

52w high/low (SGD)	11.76/10.04
3m avg turnover (USDm)	12.2
Free float (%)	43.5
Issued shares (m)	1,200
Market capitalisation	SGD12.9B
	USD9.4B

### Major shareholders:

Temasek Holdings Pte Ltd. (Investment Co)	54.8%
Singapore Airlines Ltd.	1.5%
BlackRock Fund Advisors	1.3%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(4)	(1)	4
Relative to index (%)	(2)	9	7

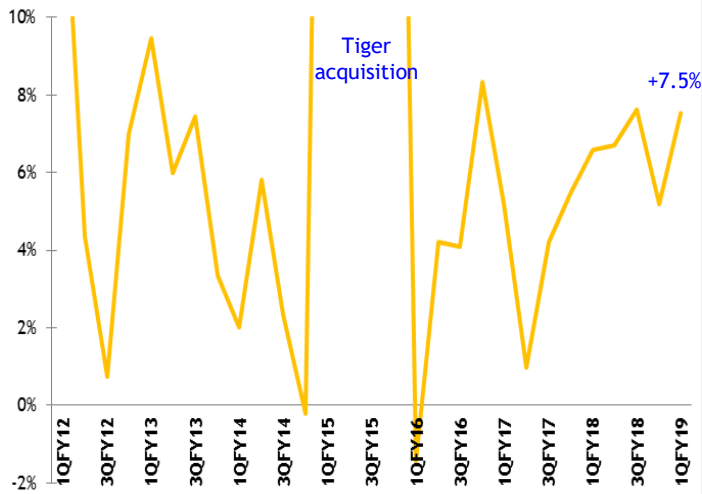
Source: FactSet

## Operating statistics

### Traffic growth was healthy

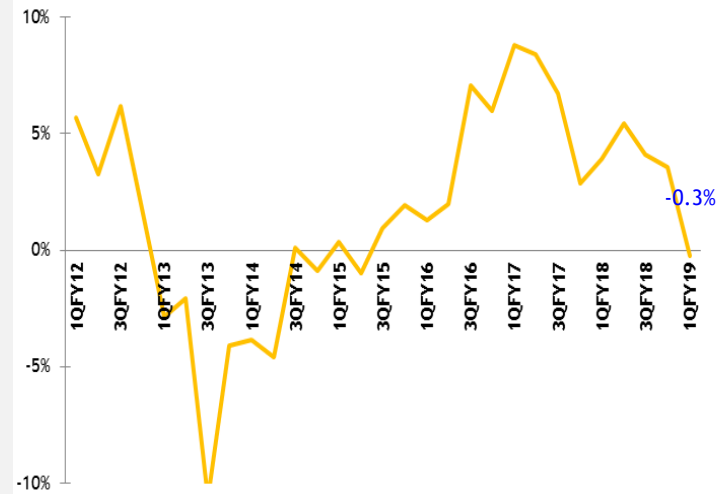
Passengers carried by the Group grew by 7.5% YoY to 8.8m in 1QFY19. This is above its long-term average of 5% growth (excluding the Tigerair acquisition YoY comparison), which suggests passenger traffic growth was very healthy. The cargo growth fell 0.3% YoY in 1QFY19.

Group (SIA, Silkair, Scoot) growth in number of passengers carried



Sources: Company, Maybank KE

Cargo carried growth

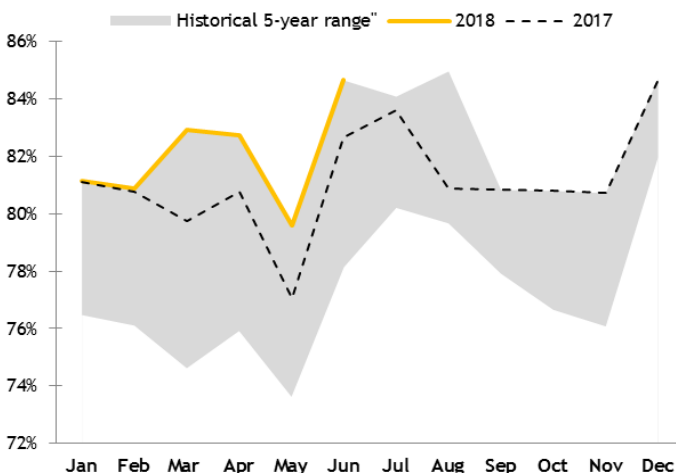


Sources: Company, Maybank KE

### Load factor

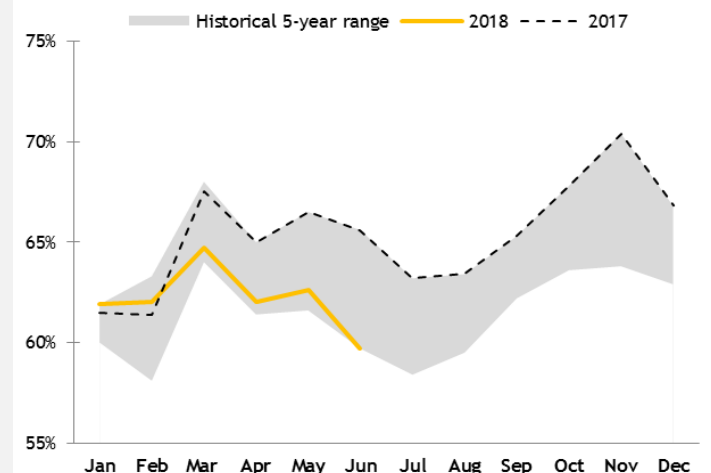
The Group passenger load factor soared by 2.2ppt YoY to 82.3% in 1QFY19. The stronger load factor performance was due to better industry supply-demand dynamics whereby Asia Pacific-based carriers were disciplined in deploying capacity and have been successful in closely matching it with demand growth. Cargo load factor fell by 4.3ppt YoY to 61.4% in 1QFY19. The air cargo industry has been performing very well in the past 2.5 years, driven by growth in the electronics segment and growth of internet retail sales.

Group (SIA, Silkair, Scoot) passenger load factor



Sources: Company, Maybank KE

SIA cargo's load factor



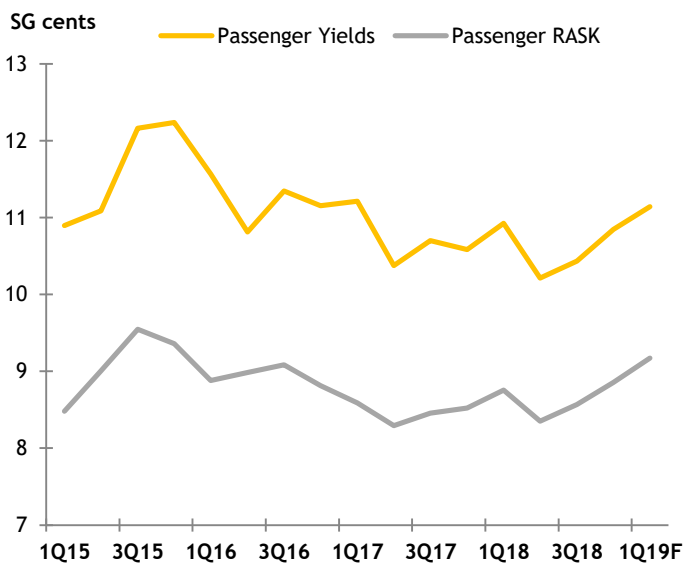
Sources: Company, Maybank KE

### Yields are showing signs of recovery

Passenger yields have been recovering since 3QFY18 as the industry managed the supply-demand better and raised ticket prices to offset the rise in crude oil prices. Passenger demand also stayed resilient, with the Asia Pacific region recording growth of 5.6% in 1H18 according to the International Air Travel Association (IATA). We forecast passenger yields grew by 2% YoY in 1QFY19.

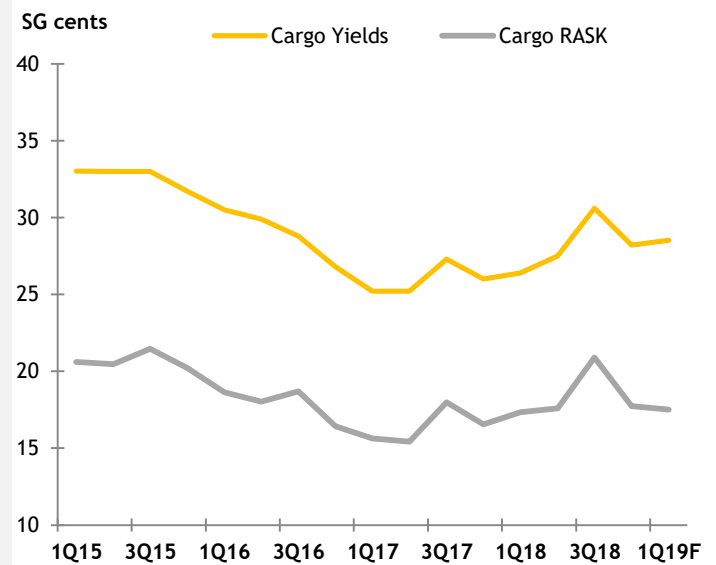
Cargo yields have been on an uptrend since 2Q17, driven mainly by the electronics sector and internet retail sales. In addition, the industry shed excess capacity in 2014-16 as the market consolidated. We forecast that cargo yields grew by 8% YoY in 1QFY19.

Group (SIA, Silkair, Scoot) passenger RASK and yield



Sources: Company, Maybank KE

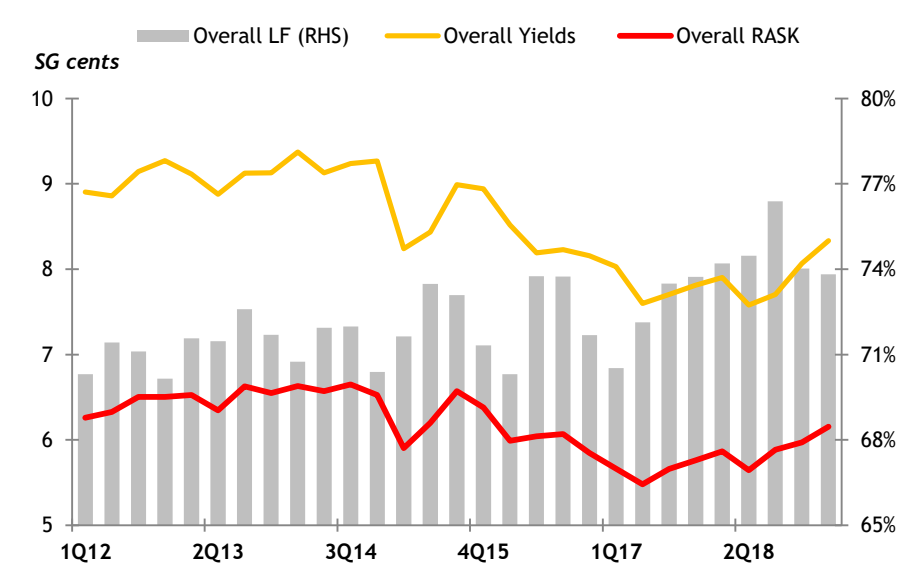
SIA cargo's load factor



Sources: Company, Maybank KE

From an overall basis (passengers + cargo), load factor receded by 0.4ppt YoY to 73.8%. We forecast overall yields grew by 5.5% YoY underpinned by strong performance of the cargo business.

Overall group yields, RASK and load factor



Sources: Company, Maybank KE

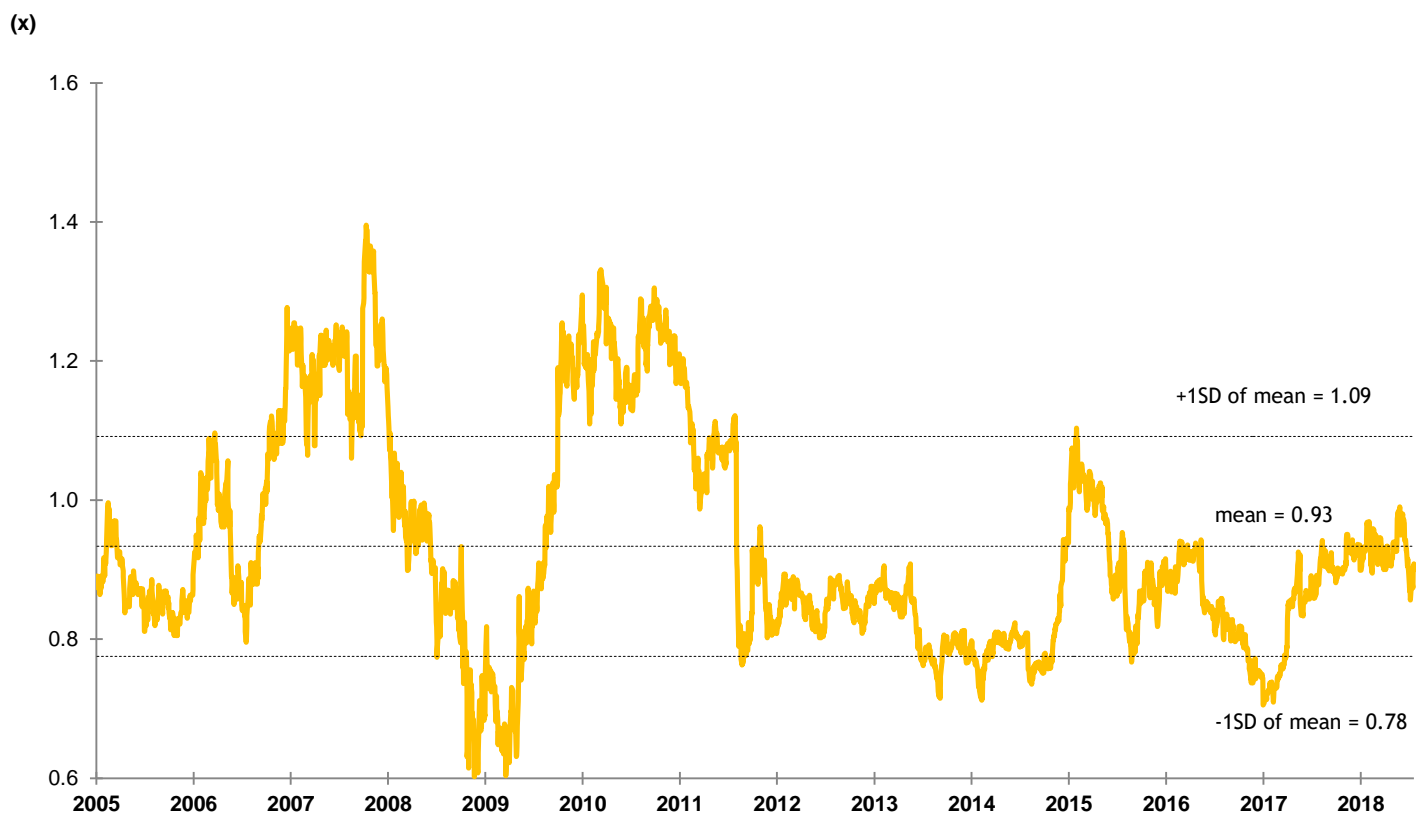
## Valuation and recommendation

### Fair value of SGD10.95

The share price has been trading close to 1SD below its P/BV mean for the past two years. We believe SIA should trade at least at its mean of 0.93x P/BV as its business risks have significantly been reduced thanks to lower fuel prices, fuel hedges at attractive levels and a positive turn around in its cargo business.

Based on 0.93x FY18 P/BV, we derive a fair value of SGD10.95. There is not much upside from the current share price and therefore we maintain HOLD.

### SIA's 1-year forward P/BV

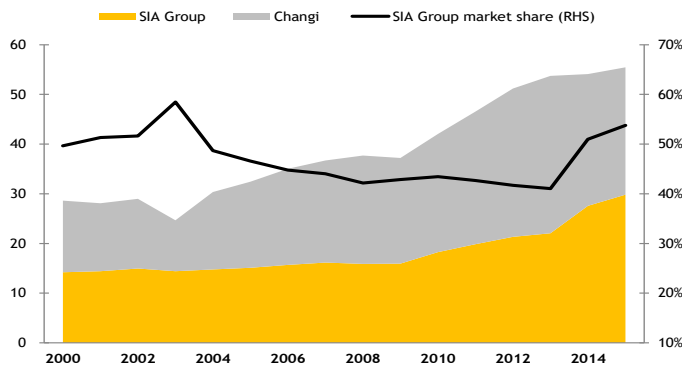


Sources: Bloomberg, Maybank KE

## Value Proposition

- Full value chain proposition (full service, regional, budget and long-haul budget).
- The dominant airline in Singapore with roughly 54% market share and has the majority of the prime landing slots.
- Singaporean air travel market has consolidated and there are high barriers to entry.
- Highly structured organisation and is the industry's benchmark for a premium carrier.
- SIA is an integral part of Singapore's drive to become the business and tourist centre of Southeast Asia.

### SIA's market share at Changi Airport

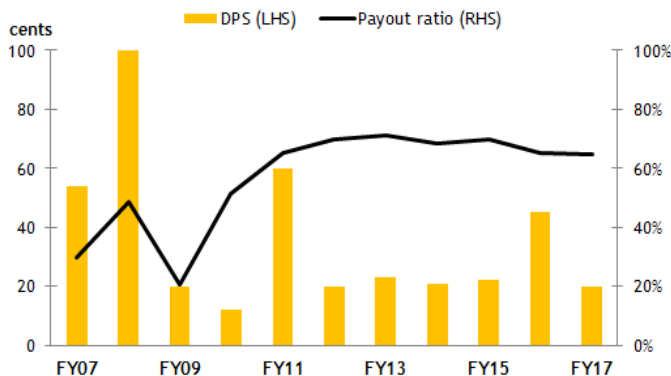


Source: Company

## Financial Metrics

- Modest dividend yield (>3%) with 65-70% payout ratio.
- Assume 4% capacity growth in FY19 based on current fleet deployment schedule. Management is focused on optimising load factor and yields. Sturdy balance sheet and robust cash flow ensures consistent dividend payout to shareholders.

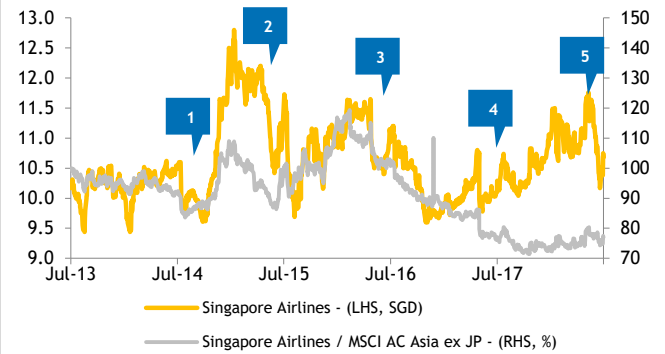
### Consistent shareholder returns



Source: Company

## Price Drivers

### Singapore Airlines share price movement



Source: Bloomberg, Maybank Kim Eng

1. Sector re-rating on lower fuel price.
2. Chinese Yuan devaluation has triggered selloff for the aviation sector.
3. Financial performance below market expectations.
4. Outlook improving on strong cargo market and prospect of yield recovery.
5. Changi Airport will increase its charges by 39% for outbound passengers and 50% for transit passengers.

## Swing Factors

### Upside

- Yield is the most important earnings driver, and the trend has been negative for the past four years.
- Low fuel price is providing significant cost reduction and bottom-line boost.
- Strong demand and supply scarcity in the region should drive up loads and yields in the medium term.

### Downside

- The low cost business unit is saturated with rising competitive pressures.
- FX volatility of SGD against destination countries and the USD will have an adverse effect on yields.
- Fuel price volatility will impact on operating cost.

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FYE 31 Mar	FY16A	FY17A	FY18A	FY19E	FY20E
<b>Key Metrics</b>					
P/E (reported) (x)	16.0	33.5	20.5	20.8	17.8
Core P/E (x)	22.9	24.8	20.6	20.8	17.9
P/BV (x)	1.0	0.9	0.9	0.9	0.8
P/NTA (x)	1.1	1.0	0.9	0.9	0.9
Net dividend yield (%)	4.1	1.9	3.1	3.2	3.8
FCF yield (%)	0.7	nm	nm	nm	nm
EV/EBITDAR (x)	5.5	5.3	5.9	6.5	6.9
EV/EBIT (x)	25.5	26.4	27.2	31.2	30.2

**INCOME STATEMENT (SGD m)**

Revenue	15,228.5	14,874.5	15,456.7	16,391.6	17,387.8
EBITDAR	3,181.6	3,113.5	3,339.2	3,501.7	3,782.3
Depreciation	(1,543.0)	(1,552.1)	(1,650.5)	(1,775.8)	(1,895.0)
Amortisation	(32.7)	(39.8)	(39.8)	(39.8)	(39.8)
EBIT	681.2	625.7	724.7	733.7	867.1
Net interest income / (exp)	20.4	27.8	27.8	27.8	27.8
Associates & JV	11.7	(42.1)	(42.1)	(42.1)	(42.1)
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	259.1	(89.9)	62.2	45.0	45.0
Pretax profit	972.4	521.5	772.6	764.4	897.8
Income tax	(120.6)	(76.7)	(113.6)	(112.4)	(132.0)
Minorities	(47.4)	(81.5)	(46.3)	(49.2)	(62.5)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	804.4	363.3	612.7	602.8	703.2
Non-cash & non-recurring items	(201.2)	91.6	0.0	0.0	0.0
Core net profit	561.1	490.5	607.6	602.8	702.2
Preferred Dividends	0.0	0.0	0.0	0.0	0.0

**BALANCE SHEET (SGD m)**

Cash & Short Term Investments	3,972.4	3,380.5	2,625.1	1,627.2	1,557.1
Accounts receivable	1,336.6	1,272.0	1,304.2	1,376.1	1,452.8
Inventory	181.9	178.4	180.9	180.9	180.9
Property, Plant & Equip (net)	10,510.7	12,412.9	15,817.1	19,619.0	23,504.7
Intangible assets	515.8	423.5	428.7	428.7	428.7
Investment in Associates & JVs	1,058.2	1,217.1	1,175.0	1,132.9	1,090.8
Other assets	6,194.1	5,835.6	5,232.1	5,232.1	5,232.1
<b>Total assets</b>	<b>23,769.7</b>	<b>24,720.0</b>	<b>26,763.1</b>	<b>29,597.0</b>	<b>33,447.2</b>
ST interest bearing debt	211.9	42.0	33.3	33.3	33.3
Accounts payable	2,899.0	3,296.1	3,425.1	3,632.3	3,853.0
LT interest bearing debt	1,283.4	1,794.7	3,294.7	5,294.7	8,294.7
Other liabilities	6,243.0	6,117.0	5,867.0	5,858.0	5,835.0
<b>Total Liabilities</b>	<b>10,636.8</b>	<b>11,249.8</b>	<b>12,620.6</b>	<b>14,818.0</b>	<b>18,016.2</b>
Shareholders Equity	12,754.7	13,083.0	13,746.3	14,373.8	15,016.7
Minority Interest	378.2	387.2	396.2	405.2	414.2
<b>Total shareholder equity</b>	<b>13,132.9</b>	<b>13,470.2</b>	<b>14,142.5</b>	<b>14,779.0</b>	<b>15,430.9</b>
Perpetual securities	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities and equity</b>	<b>23,769.7</b>	<b>24,720.0</b>	<b>26,763.1</b>	<b>29,597.0</b>	<b>33,447.1</b>

**CASH FLOW (SGD m)**

Pretax profit	972.4	521.5	772.6	764.4	897.8
Depreciation & amortisation	1,575.7	1,591.9	1,690.3	1,815.6	1,934.8
Adj net interest (income)/exp	(20.4)	(27.8)	(27.8)	(27.8)	(27.8)
Change in working capital	402.7	96.8	219.1	381.8	406.9
Cash taxes paid	(40.9)	(50.5)	(113.6)	(112.4)	(132.0)
Other operating cash flow	(0.5)	403.9	(20.1)	(2.9)	(2.9)
Cash flow from operations	3,005.5	2,535.8	2,520.4	2,818.7	3,076.7
Capex	(2,909.0)	(3,944.7)	(5,480.0)	(6,000.0)	(6,200.0)
Free cash flow	96.5	(1,408.9)	(2,959.6)	(3,181.3)	(3,123.3)
Dividends paid	(359.0)	(558.9)	(423.5)	(435.2)	(517.0)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	(473.0)	341.4	1,491.3	2,000.0	3,000.0
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(389.2)	(525.9)	549.6	537.9	534.8
Effect of exch rate changes	(54.7)	43.3	0.0	0.0	0.0
<b>Net cash flow</b>	<b>(1,179.4)</b>	<b>(2,109.0)</b>	<b>(1,342.2)</b>	<b>(1,078.6)</b>	<b>(105.5)</b>

FYE 31 Mar	FY16A	FY17A	FY18A	FY19E	FY20E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(2.2)	(2.3)	3.9	6.0	6.1
EBITDAR growth	13.1	(2.1)	7.2	4.9	8.0
EBIT growth	66.4	(8.1)	15.8	1.2	18.2
Pretax growth	119.6	(46.4)	48.1	(1.1)	17.4
Reported net profit growth	118.6	(54.8)	68.6	(1.6)	16.7
Core net profit growth	256.9	(12.6)	23.9	(0.8)	16.5
<b>Profitability ratios (%)</b>					
EBITDAR margin	20.9	20.9	21.6	21.4	21.8
EBIT margin	4.5	4.2	4.7	4.5	5.0
Pretax profit margin	6.4	3.5	5.0	4.7	5.2
Payout ratio	65.4	64.4	63.0	66.0	68.2
<b>DuPont analysis</b>					
Net profit margin (%)	5.3	2.4	4.0	3.7	4.0
Revenue/Assets (x)	0.6	0.6	0.6	0.6	0.5
Assets/Equity (x)	1.9	1.9	1.9	2.1	2.2
ROAE (%)	6.2	2.7	4.4	4.2	4.7
ROAA (%)	2.4	2.0	2.4	2.1	2.2
<b>Liquidity &amp; Efficiency</b>					
Dividend cover (x)	1.5	1.6	1.6	1.5	1.5
Current ratio (x)	1.1	0.9	0.7	0.6	0.6
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.2	2.2	2.1	2.0	1.9
Net gearing (%) (incl perps)	net cash	net cash	5.0	25.0	43.9
Net gearing (%) (excl. perps)	net cash	net cash	5.0	25.0	43.9
Net interest cover (x)	na	na	na	na	na
Debt/EBITDAR (x)	0.5	0.6	1.0	1.5	2.2
Capex/revenue (%)	19.1	26.5	35.5	36.6	35.7
Net debt/ (net cash)	(2,477.1)	(1,543.8)	702.9	3,700.8	6,770.9

Source: Company; Maybank

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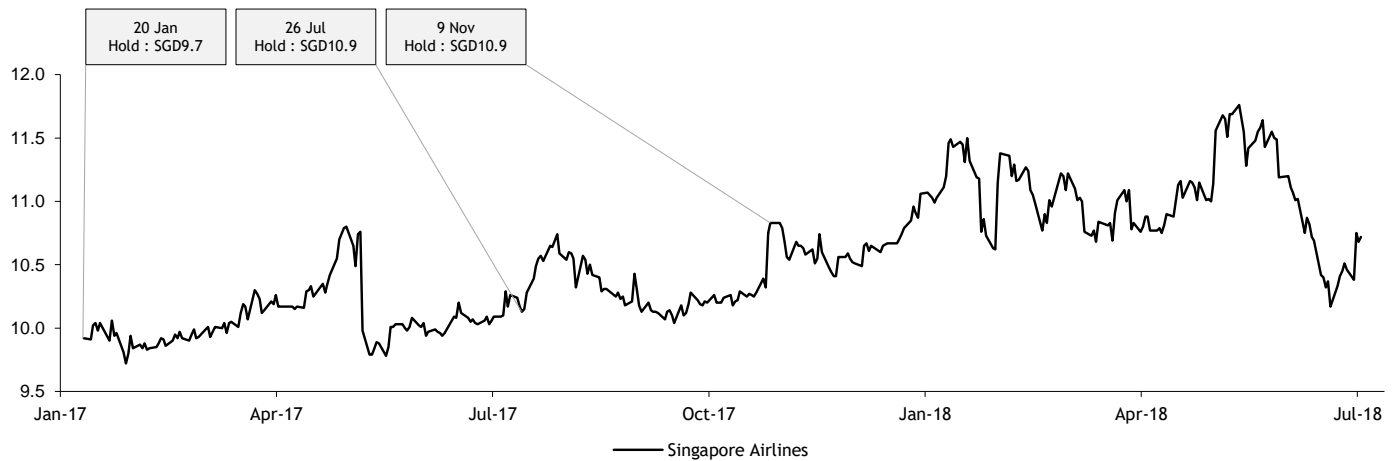
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