

COMPANY RESULTS

SIA Engineering (SIE SP)

1HFY25: Earnings A Slight Miss; Investing For Long-term Growth

SIAEC's 1HFY25 core net profit of S\$70.4m (+20.4% yoy) was a slight miss, at 45% of our full-year forecast. 1HFY25 operating profit came in weaker than expected, due to supply chain constraints and some gestation costs related to SIAEC's new business expansion initiatives. We recommend investors to stay invested as these expansion projects, though somewhat a drag to near-term earnings, would build the foundation for SIAEC's future growth. Maintain BUY. Target price: S\$2.70.

1HFY25 RESULTS

Year to 31 Mar (\$m)	1H FY25	1H FY24	yoy % chg	2Q FY25	2Q FY24	yoy % chg	Prev. FY25F	Note
Revenue	576.2	514.0	+12.1	307.5	252.1	+22.0	1,216	Slight miss, 1H at 47% of our FY25F
Opex	572.8	513.9	+11.5	305.1	252.4	+20.9	1,187	
EBIT	3.4	0.1	n.m.	2.4	-0.3	n.m.	29	
Core EBIT	4.6	-0.6	n.m.				29	Missed; 1H at 16% of our FY25
JVs/asso contrib.	58.6	50.0	+17.1	30.6	28.1	+8.8	116	In line; 1H at 51% of our FY25
Net profit	68.8	59.3	+15.9	35.6	32.3	+10.0	155	
Core net profit	70.4	58.4	+20.4				155	Slight miss; 1H at 45% of our FY25
Margins (%)								
Core EBIT	0.8	-0.1	+0.9ppt					
Core net profit	12.2	11.4	+0.8ppt					

Source: SIAEC, UOB Kay Hian

RESULTS

- 1HFY25 core earnings a slight miss...** SIA Engineering's (SIAEC) headline net profit rose 15.9% yoy to S\$68.8m in 1HFY25. Excluding one-off items such as forex losses, SIAEC's 1HFY25 core net profit of S\$70.4m (+20.4% yoy) was still slightly behind our projection, at 45% of our full-year forecast.
- ...due to subdued operating profit.** The miss was due to weaker-than-expected core operating profit, at only \$4.6m in 1HFY25; this is compared with our S\$29m forecast for the full year. The weaker-than-expected operating performance was partly attributable to the slightly slower-than-expected revenue growth (negatively affected by sector supply chain issues), whose impact was amplified by SIAEC's high operating leverage. In addition, SIAEC incurred sizeable start-up and development costs related to its new business development initiatives, including the airframe MRO facility development in Subang, Malaysia. Though the facility is expected to be ready only in 2H25, workforce recruitment has already started.
- JVs and associates remained key contributors.** Overall profit contribution from JVs and associates were in line with our expectation, at S\$58.6m in 1HFY25 (+17.1% yoy), forming 51% of our full-year forecast. The growth was broad-based across: a) engine, b) component, and c) airframe and line maintenance subdivisions.

KEY FINANCIALS

Year to 31 Mar (\$m)	2023	2024	2025F	2026F	2027F
Net turnover	796	1,094	1,204	1,254	1,305
EBITDA	38	65	77	95	107
Operating profit	(26)	2	12	28	38
Net profit (rep./act.)	66	97	144	158	168
EPS (S\$ cent)	5.9	8.6	12.8	14.0	14.9
PE (x)	41.6	28.4	19.2	17.5	16.4
P/B (x)	1.6	1.6	1.6	1.6	1.5
EV/EBITDA (x)	19.3	13.4	11.3	10.2	9.6
Dividend yield (%)	2.2	3.3	4.3	4.7	5.1
Net margin (%)	8.3	8.9	12.0	12.6	12.9
Net debt/(cash) to equity (%)	(37.6)	(37.6)	(36.4)	(35.9)	(35.8)
ROE (%)	4.1	5.8	8.4	9.0	9.4
Consensus net profit	-	-	150	165	177
UOBKH/Consensus (x)	-	-	0.96	0.96	0.95

Source: SIA Engineering, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$2.45
Target Price	S\$2.70
Upside	+10.3%

COMPANY DESCRIPTION

Asia's leading service provider for aircraft maintenance, repair, and overhaul (MRO); winner of MRO Asia-Pacific Awards 2024 by Aviation Week for aftermarket services and marketing campaign

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SIE SP
Shares issued (m):	1,120.7
Market cap (S\$m):	2,745.7
Market cap (US\$m):	2,112.7
3-mth avg daily t'over (US\$m):	0.6

Price Performance (%)

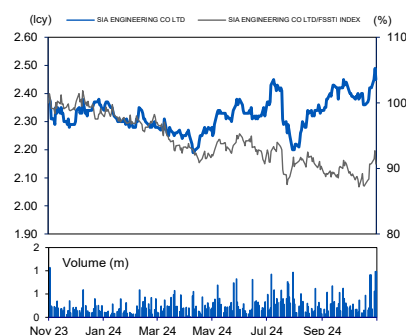
52-week high/low S\$2.45/S\$2.18

1mth	3mth	6mth	1yr	YTD
3.0	3.9	7.1	1.7	1.7

Major Shareholders

	%
SIA	77.5
-	-
FY25 NAV/Share (S\$)	1.55
FY25 Net Cash/Share (S\$)	0.48

PRICE CHART



Source: Bloomberg

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• **Net cash position.** Net cash position dropped to S\$488m as of end-1HFY25 (end-FY24: S\$641m), due to: a) the payment of FY24 final dividend, b) unfavourable forex translation, c) capex for new facility investments, and d) a temporary increase in contract assets related to unfinished/unbilled projects.

• **An interim dividend of 2 S cents** has been declared for 1HFY25, unchanged yoy.

STOCK IMPACT

• **Continued recovery of flight activities at Changi Airport.** Flight activities at SIAEC's home base Changi Airport continued to edge up during 2QFY25, reaching 96.0% of pre-pandemic levels in Sep 24. We expect SIAEC's line maintenance business volume to sustain a moderate pace of growth in the near term, as regional flight activities continue to recover.

• **Healthy demand for MRO, but supply chain issues persist in the near-to-medium term.** Management sees healthy MRO demand. However, supply chain constraints, tight manpower supply and rising cost pressure remain key challenges for the sector. To tackle these challenges, management is pushing the digitalisation of operation process to better manage inventory/spare parts, as well as the adoption of lean principles, while maintaining cost disciplines.

• **Business expansion initiatives building foundation for future growth.** The below figure provides a summary of SIAEC's business development initiatives announced in the past two years. These initiatives are expected to expand SIAEC's production capacity, engineering capabilities and/or geographical presence. We are positive on these developments, although the associated start-up and development costs are expected to somewhat drag SIAEC's financial performance in the next 2-3 years.

SUMMARY OF SIAEC'S BUSINESS EXPANSION INITIATIVES

Building Capabilities	Increasing Presence Abroad	Expanding Capacity
Line Maintenance Line Maintenance JV with Cambodia Airport Investment Co., Ltd in Cambodia	Base Maintenance Base Maintenance Malaysia (BMM) to be operational in 2H 2025	Component Services JV with Eaton to be fully operational in Shah Alam, Selangor, Malaysia by early 2026
SAESL Expansion of SAESL's facility to increase capacity for Rolls Royce's Trent engines	APACS APACS awarded repair licenses for Honeywell's Air Data Inertial Reference Unit (ADIRU) and Pre-Cooler Control Valve (PCCV)	SAESL Expansion of Eagle Services Asia's facility to increase capacity for Pratt & Whitney's GTF engines
SCOOT Expansion of the scope of the services agreement with Scoot to include the Embraer E190-E2 Fleet	SIAPP SIAPP becomes the first Embraer Authorised Service Centre in Asia-Pacific to provide MRO services for Embraer E-Jets E2 aircraft.	THALES MOU with Thales to explore business development opportunities in APAC
PAS Aviation Acquisition of 49% of Pas Aviation Engineering Services Sdn Bhd	JADE Acquisition of additional stake in JAMCO aero design & engineering (JADE)	

Source: SIAEC

EARNINGS REVISION/RISK

• **Lower our FY25-27 earnings projections.** We cut our FY25/26/27 earnings projections by 7%/9%/8% respectively to S\$144m/S\$158m/S\$168m, as we incorporate higher cost pressure related to the gestation costs of SIAEC's business expansion initiatives.

• **Key risks.** a) Margin pressure from labour and raw material cost inflation, and b) delay in project deliveries due to prolonged supply chain issues.

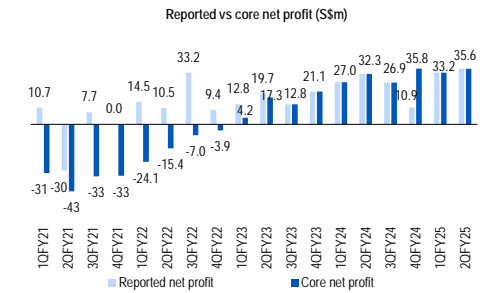
VALUATION/RECOMMENDATION

• **Maintain BUY and target price of S\$2.70 (rolled over).** Despite the cut in earnings forecasts, we have maintained our DCF-based target price of S\$2.70 as we roll over SIAEC's valuation basis to end-FY26. SIAEC currently trades at 17.5x FY26F PE (or 13.4x if ex-net-cash) or 1.5SD below its pre-pandemic historical mean of 23.2x. SIAEC offers 4.3%/4.7% dividend yields in FY25/26 respectively, by our estimate.

• **Proactive share buybacks.** SIAEC's share price downside should be provided by its proactive share buybacks. The latest purchase was done on 4 Oct 24 (just before the recent earnings blackout), at S\$2.44, very close to its current price.

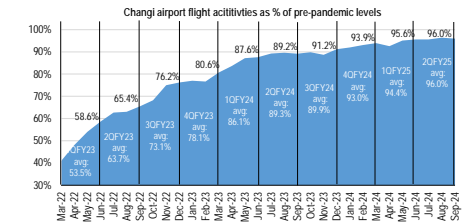
• **Re-rating catalysts** include: a) further earnings recovery, and b) earnings-accretive investments.

QUARTERLY EARNINGS TREND



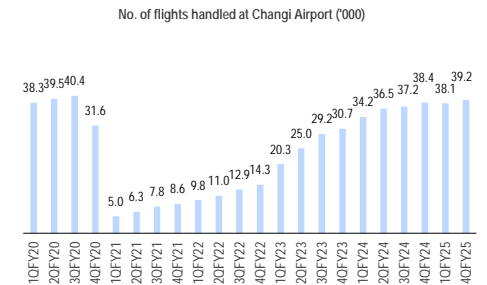
Source: SIAEC, UOB Kay Hian

FLIGHT ACTIVITIES AT CHANGI AIRPORT RECOVERED TO 96.0% OF PRE-PANDEMIC LEVELS IN SEP 24



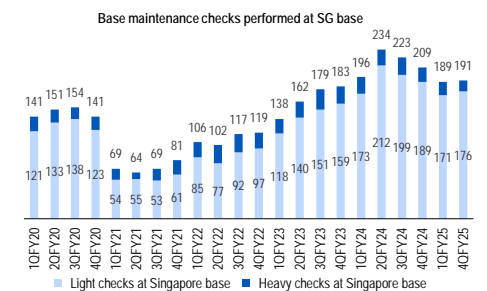
Source: Changi Airport

NUMBER OF FLIGHTS HANDLED BY SIAEC AT CHANGI AIRPORT



Source: SIAEC

BASE MAINTENANCE BUSINESS VOLUME



Source: SIAEC

PROFIT & LOSS

Year to 31 Mar (\$m)	2024	2025F	2026F	2027F
Net turnover	1,094.2	1,203.6	1,254.2	1,305.3
EBITDA	65.4	77.0	95.3	107.0
Deprec. & amort.	63.1	65.1	66.9	68.8
EBIT	2.3	11.9	28.4	38.2
Total other non-operating income	(24.0)	0.1	0.0	0.0
Associate contributions	101.0	121.0	123.4	125.9
Net interest income/(expense)	20.0	19.7	20.6	20.6
Pre-tax profit	99.3	152.8	172.4	184.7
Tax	(2.2)	(3.7)	(9.8)	(11.8)
Minorities	0.0	(4.8)	(4.9)	(5.0)
Net profit	97.1	144.3	157.7	167.9

CASH FLOW

Year to 31 Mar (\$m)	2024	2025F	2026F	2027F
Operating	100.4	55.0	93.5	92.2
Pre-tax profit	99.3	152.8	172.4	184.7
Tax	(0.8)	(3.7)	(9.8)	(11.8)
Deprec. & amort.	63.1	65.1	66.9	68.8
Associates	(40.4)	(37.0)	(37.7)	(38.5)
Working capital changes	25.9	(18.0)	8.0	(3.1)
Non-cash items	9.9	(0.4)	0.0	0.0
Other operating cashflows	(56.6)	(103.9)	(106.3)	(108.0)
Investing	30.8	69.0	71.8	84.7
Capex (maintenance)	(48.7)	(57.5)	(57.5)	(46.7)
Investments	15.7	0.0	0.0	0.0
Proceeds from sale of assets	14.0	0.0	0.0	0.0
Others	49.8	126.5	129.3	131.4
Financing	(117.7)	(127.8)	(162.4)	(163.0)
Dividend payments	(84.3)	(89.8)	(129.1)	(129.1)
Issue of shares	2.7	0.0	0.0	0.0
Proceeds from borrowings	0.0	(5.1)	0.0	0.0
Loan repayment	(36.1)	(32.9)	(33.4)	(34.0)
Others/interest paid	13.5	(3.8)	2.9	13.9
Net cash inflow (outflow)	633.0	646.0	642.2	645.1
Beginning cash & cash equivalent	(0.5)	0.0	0.0	0.0
Changes due to forex impact	646.0	642.2	645.1	659.0
Ending cash & cash equivalent	100.4	55.0	93.5	92.2

BALANCE SHEET

Year to 31 Mar (\$m)	2024	2025F	2026F	2027F
Fixed assets	288.6	308.5	327.2	333.7
Other LT assets	798.8	818.5	838.5	858.8
Cash/ST investment	646.0	642.2	645.1	659.0
Other current assets	354.9	409.4	406.3	418.1
Total assets	2,088.3	2,178.5	2,217.1	2,269.6
ST debt	27.9	25.2	25.2	25.2
Other current liabilities	273.9	310.4	315.4	324.0
LT debt	82.5	80.1	80.1	80.1
Other LT liabilities	0.7	0.7	0.7	0.7
Shareholders' equity	1,687.1	1,741.1	1,769.7	1,808.6
Minority interest	16.2	21.0	26.0	31.0
Total liabilities & equity	2,088.3	2,178.5	2,217.1	2,269.6

KEY METRICS

Year to 31 Mar (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	6.0	6.4	7.6	8.2
Pre-tax margin	9.1	12.7	13.7	14.2
Net margin	8.9	12.0	12.6	12.9
ROA	4.8	6.8	7.2	7.5
ROE	5.8	8.4	9.0	9.4
Growth				
Turnover	37.5	10.0	4.2	4.1
EBITDA	73.5	17.8	23.7	12.3
Pre-tax profit	51.6	53.9	12.8	7.1
Net profit	46.2	48.6	9.3	6.5
EPS	46.2	48.1	9.7	6.5
Leverage				
Debt to total capital	6.1	5.7	5.6	5.4
Debt to equity	6.9	6.5	6.0	5.9
Net debt/(cash) to equity	(37.6)	(37.6)	(36.4)	(35.9)

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