

COMPANY UPDATE

Singapore Airlines (SIA SP)

Weaker-than-expected Pax Load Factor A Sign Of Increased Competition

SIA's pax load factor remained below pre-pandemic levels for the second consecutive month in Aug 24, although pax capacity supply was still marginally below pre-pandemic levels. This is a confirmative sign that SIA is facing increased competition, in our view. We estimate SIA's upcoming 2QFY25 earnings at S\$360m-460m, a sizeable yoy decline from 2QFY24's S\$707m and also likely a qoq fall from 1QFY25's S\$452m. Maintain SELL with a slightly higher target price of S\$5.83.

WHAT'S NEW

- Singapore Airlines (SIA) released its Aug 24 operation data on 16 Aug 24.

AUG 24 OPERATION DATA

	Monthly comparison				
	Aug-24	Jul-24	Chg mom	Aug-23	Chg yoy
Pax operation					
Pax capacity (m seat-km)	15,051	14,812	+1.6%	13,587	+10.8%
as % of same period in 2019	99.3%	97.5%	+1.8ppt	89.6%	+9.7ppt
Pax load (m pax-km)	12,904	12,681	+1.8%	11,981	+7.7%
as % of same period in 2019	98.5%	97.3%	+1.1ppt	91.4%	+7ppt
Pax load Factor	85.7%	85.6%	+0.1ppt	88.2%	-2.5ppt
vs same period in 2019	-0.7ppt	-0.2ppt		+1.8ppt	
Cargo operation					
Cargo capacity (m tonne-km)	920	906	+1.6%	834	+10.4%
as % of same period in 2019	98.1%	96.1%	+2ppt	88.9%	+9.2ppt
Cargo load (m tonne-km)	516	520	-0.7%	427	+20.9%
as % of same period in 2019	96.5%	95.0%	+1.5ppt	79.7%	+16.7ppt
Cargo load factor	56.1%	57.4%	-1.3ppt	51.2%	+4.9ppt
vs same period in 2019	-1.0ppt	-0.7ppt		-5.9ppt	

Source: SIA, UOB Kay Hian

STOCK IMPACT

- Key highlights for Aug 24 operation data:

- Pax load factor below pre-pandemic levels for a second straight month, a sign of competition catching up. Though we have trimmed lower our pax load factor projection following its miss last month, the Aug 24 reading of pax load factor was still slightly below our expectation, standing below pre-pandemic (Aug 19) levels for a second straight month, with a 0.7ppt shortfall (Jul 24: 0.2ppt shortfall). This was despite that SIA's pax capacity supply was still marginally lower than pre-pandemic levels in Aug 24. On a yoy basis, pax load factor dipped 2.5ppt, as pax capacity supply growth outpaced pax load recovery. We believe the weaker-than-expected pax load factor in Aug 24 is a confirmative sign that competition is catching up faster than our previous expectation.

KEY FINANCIALS

Year to 31 Mar (\$m)	2023	2024	2025F	2026F	2027F
Net turnover	17,775	19,013	19,326	18,428	19,291
EBITDA	4,773	4,913	4,421	3,648	3,830
Operating profit	2,692	2,728	2,085	1,267	1,358
Net profit (rep./act.)	2,157	2,675	2,991	1,021	1,056
Net profit (adj.)	1,722	2,124	1,784	1,033	1,056
EPS (\$ cent)	58.0	71.5	60.0	34.7	35.5
PE (x)	11.2	9.1	10.8	18.7	18.3
P/B (x)	1.5	1.3	1.2	1.2	1.2
EV/EBITDA (x)	4.8	4.7	5.2	6.3	6.0
Dividend yield (%)	5.8	7.4	5.7	3.7	3.7
Net margin (%)	9.7	11.2	9.2	5.6	5.5
Net debt/(cash) to equity (%)	7.9	(2.7)	10.3	31.6	45.0
ROE (%)	10.2	14.8	18.5	6.4	6.6

Source: Singapore Airlines Limited, Bloomberg, UOB Kay Hian

SELL (Maintained)

Share Price	S\$6.50
Target Price	S\$5.83
Upside	-10.3%
(Previous TP:	S\$5.71)

COMPANY DESCRIPTION

Singapore Airlines Limited provides air transportation, engineering, pilot training, air charter, and tour wholesaling services. The Company's airline operation covers Asia, Europe, the Americas, South West Pacific, and Africa.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SIA SP
Shares issued (m):	2,973.3
Market cap (\$m):	19,326.3
Market cap (US\$m):	14,921.5
3-mth avg daily t'over (US\$m):	29.8

Price Performance (%)

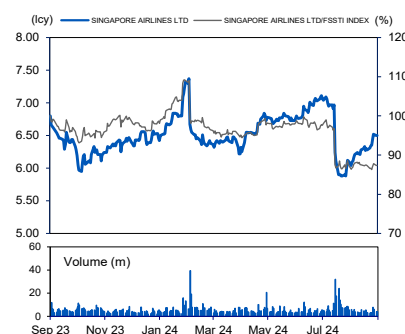
52-week high/low S\$7.38/S\$5.86

1mth	3mth	6mth	1yr	YTD
6.4	(3.4)	1.9	(5.4)	(0.9)

Major Shareholders

	%
Temasek Hldgs	53.6
FY25 NAV/Share (\$)	5.35
FY25 Net Debt/Share (\$)	0.57

PRICE CHART



Source: Bloomberg

ANALYST(S)

Roy Chen, CFA
+65 6590 6627
roychen@uobkayhian.com

- **Cargo data recovery continued, but at a moderate pace.** In Aug 24, cargo load stood at 96.5% of pre-pandemic (Aug 19) levels, broadly in line with our projection. The cargo load recovery has continued in the past few months at a moderate pace, despite being supported by upbeat e-commerce flow as well as some demand spillover from disruptions to sea freight. We believe the still not-fully-recovered cargo load is due to: a) SIA's reduced network coverage post-pandemic vs pre-pandemic; and b) a different composition of SIA's fleet today vs pre-pandemic, with a number of B777 and A380 aircraft (of larger cargo capacity) being replaced by B787 and A350 aircraft (of smaller cargo capacity).

- **Network recovery:** As of end-Aug 24, SIA's pax network covered 125 destinations (no change in the past two months) in 36 countries and territories.

• **Pax yield likely to remain under pressure in the medium term.** Given the weaker-than-expected pax load factors, we expect SIA's pax yield, which is the most important earnings driver, to remain under pressure in the medium term. According to an article from Nikkei Asia in mid-Aug 24, various airlines operating Asia-Europe routes have reported meaningful declines in airfare levels in the past few months, and attributed the declines in airfare to increasing competition from Chinese airlines, who have been aggressively ramping up their international capacity.

• **Recent drop in jet fuel prices providing some near-term earnings support.** Global jet fuel prices saw some sharp drop in recent weeks, and have cumulatively declined about 20% since end-Jun 24. We expect the recent drop in jet fuel cost to provide some support to SIA's 2Q-3QFY25 earnings. However, fuel cost savings beyond 3QFY25 are likely to be largely passed through to airlines' end customers, driven by competition.

• **2QFY25 earnings preview: Likely to post yoy and qoq declines.** Taking all the above factors into consideration, we estimate SIA's upcoming 2QFY25 earnings at S\$360m-460m, with the mid-point of S\$410m representing a 9% qoq decline from 1QFY25's S\$452m, and a 42% yoy decline from 2QFY24's S\$707m.

• **Vistara-Air India deal on track to complete by end-24.** SIA has recently received FDI approval for the deal from the India government, and guided for the deal to be completed by end-24. While we like SIA's strategic goals behind the Vistara-Air India merger, we note that both Air India and Vistara were both loss-making in FY24. Our best guess is that after the merger it may still take another 1-2 years for the enlarged Air India (in which SIA will own a 25.1% stake) to integrate the two sides and make a turnaround.

EARNINGS REVISION/RISK

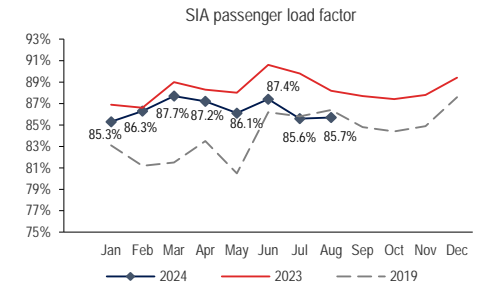
• **Raise FY25 earnings estimate on favourable fuel cost movement.** We raise our FY25 earnings estimates for SIA by 13% to S\$2.99b, to reflect the recent decline in jet fuel prices. Excluding an accounting gain of S\$1.11b from the Vistara stake disposal related to the Vistara-Air India deal, our FY25 earnings forecast would have been S\$1.88b, a 30% yoy decline from SIA's FY24 headline net profit of S\$2.67b. Our FY26-27 earnings forecasts remain intact.

• **Key risks:** a) Weaker-than-expected macroeconomic environment dampening air travel and air cargo demand, and b) stiffer-than-expected competition driving faster pax yield moderation.

VALUATION/RECOMMENDATION

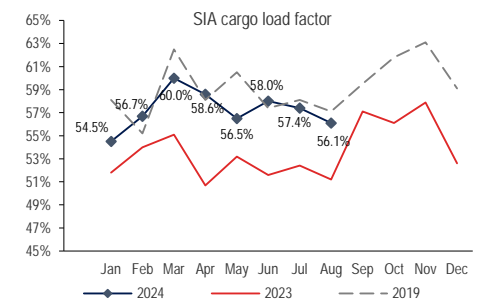
• **Maintain SELL with a slightly higher target price of S\$5.83.** Still based on 1.09x FY25F P/B (pegged to SIA's long-term historical mean), our target price for SIA is raised to S\$5.83, due to slightly higher end-FY25 book value per share estimate after our FY25 earnings forecast adjustment. SIA currently trades at 1.21x FY25F P/B, 0.6SD above the long-term historical mean. Though we like SIA for its outstanding management and operation track record, we think SIA lacks near-term re-rating catalysts given the expected declining earnings profile. We recommend investors to take profit on SIA for now and wait for more compelling valuation.

PAX LOAD FACTOR STOOD BELOW PRE-PANDEMIC LEVELS FOR A SECOND CONSECUTIVE MONTH IN AUG 24



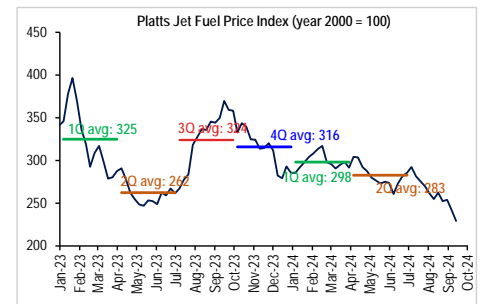
Source: SIA

CARGO LOAD FACTOR ALSO BELOW PRE-PANDEMIC LEVELS IN AUG 24 DESPITE CARGO CAPACITY STILL NOT BEING FULLY RECOVERED



Source: SIA

JET FUEL PRICES SAW SOME SHARP DROPS IN THE PAST FEW WEEKS



Source: S&P Global Platts

TARGET PRICE REFERENCE TABLE

		FY24	FY25F	FY26F
Adjusted BVPS		S\$4.93	S\$5.33	S\$5.29
P/B peg		Target price		
+1.0SD	1.28x	S\$6.31	S\$6.81	S\$6.76
+0.5SD	1.19x	S\$5.85	S\$6.32	S\$6.28
Mean	1.09x	S\$5.40	S\$5.83	S\$5.79
-0.5SD	1.00x	S\$4.94	S\$5.34	S\$5.30
-1SD	0.91x	S\$4.49	S\$4.85	S\$4.82

*Adjusted BVPS has factored in full redemption of convertible bonds
Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (\$m)	2024	2025F	2026F	2027F
Net turnover	19,012.7	19,326.4	18,428.1	19,291.5
EBITDA	4,913.3	4,421.2	3,647.5	3,829.7
Deprec. & amort.	2,185.8	2,335.8	2,380.7	2,472.0
EBIT	2,727.5	2,085.4	1,266.8	1,357.7
Total other non-operating income	28.7	1,112.0	0.0	0.0
Associate contributions	73.7	53.0	89.1	153.4
Net interest income/(expense)	207.2	86.5	(107.0)	(231.4)
Pre-tax profit	3,037.1	3,336.9	1,248.8	1,279.6
Tax	(342.0)	(315.9)	(197.2)	(191.5)
Minorities	(20.3)	(30.0)	(31.0)	(32.0)
Net profit	2,674.8	2,991.0	1,020.7	1,056.2
Net profit (adj.)	2,124.3	1,783.9	1,033.4	1,056.2

CASH FLOW

Year to 31 Mar (\$m)	2024	2025F	2026F	2027F
Operating	5,054.9	2,909.4	2,890.7	3,448.4
Profit for the year	3,037.1	3,336.9	1,248.8	1,279.6
Tax	(342.0)	(315.9)	(197.2)	(191.5)
Deprec. & amort.	2,185.8	2,335.8	2,380.7	2,472.0
Associates	(73.7)	(53.0)	(89.1)	(153.4)
Working capital changes	49.9	(1,195.8)	(559.6)	(189.8)
Non-cash items	127.8	(0.2)	0.0	0.0
Other operating cashflows	70.0	(1,198.5)	107.0	231.4
Investing	(1,436.2)	(2,572.0)	(4,252.0)	(4,022.0)
Capex (growth)	468.0	(1,123.6)	(2,574.3)	(2,173.8)
Investment	38.9	38.9	38.9	38.9
Others	(2,069.0)	(1,487.3)	(1,716.6)	(1,887.1)
Financing	(8,779.1)	(5,209.0)	(198.1)	(265.9)
Dividend payments	(1,130.2)	(1,427.4)	(1,100.3)	(713.7)
Proceeds from borrowings	(1,531.6)	(1,052.8)	1,900.0	1,500.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(6,117.3)	(2,728.8)	(997.7)	(1,052.1)
Net cash inflow (outflow)	(5,160.4)	(4,871.7)	(1,559.3)	(839.4)
Beginning cash & cash equivalent	16,327.6	11,268.8	6,397.1	4,837.8
Changes due to forex impact	101.6	0.0	0.0	0.0
Ending cash & cash equivalent	11,268.8	6,397.1	4,837.8	3,998.4

BALANCE SHEET

Year to 31 Mar (\$m)	2024	2025F	2026F	2027F
Fixed assets	26,806.8	28,093.0	30,834.3	33,184.3
Other LT assets	1,816.2	2,981.2	3,070.3	3,223.7
Cash/ST investment	11,788.5	6,916.8	5,357.5	4,518.1
Other current assets	3,853.2	3,808.6	3,751.6	3,842.0
Total assets	44,264.7	41,799.6	43,013.6	44,768.0
ST debt	915.4	915.4	915.4	915.4
Other current liabilities	11,756.3	10,795.6	10,179.0	10,079.6
LT debt	8,737.4	7,684.6	9,584.6	11,084.6
Other LT liabilities	6,111.0	6,063.5	6,063.5	6,063.5
Shareholders' equity	16,337.9	15,924.5	15,844.9	16,187.4
Minority interest	406.7	416.0	426.3	437.6
Total liabilities & equity	44,264.7	41,799.6	43,013.6	44,768.0

KEY METRICS

Year to 31 Mar (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	25.8	22.9	19.8	19.9
Pre-tax margin	16.0	17.3	6.8	6.6
Net margin	14.1	15.5	5.5	5.5
ROA	5.7	7.0	2.4	2.4
ROE	14.8	18.5	6.4	6.6
Growth				
Turnover	7.0	1.6	(4.6)	4.7
EBITDA	2.9	(10.0)	(17.5)	5.0
Pre-tax profit	15.2	9.9	(62.6)	2.5
Net profit	24.0	11.8	(65.9)	3.5
Net profit (adj.)	23.3	(16.0)	(42.1)	2.2
EPS	23.3	(16.1)	(42.1)	2.2
Leverage				
Debt to total capital	34.5	39.2	41.9	43.2
Debt to equity	75.8	52.6	64.5	72.2
Net debt/(cash) to equity	(2.7)	10.3	31.6	45.0

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries or jurisdictions by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2024, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W