

COMPANY RESULTS

Singapore Airlines (SIA SP)

1HFY25: Earnings Miss Expectations On Slightly Higher-than-expected Costs

SIA's 2QFY25 headline net profit of S\$290m (-59% yoy, -36% qoq) came in below our guided range of S\$360m-460m, due to slightly higher-than-expected operating costs. While pax travel and cargo demand are robust, SIA's core profitability is likely to stay in an overall moderating trend in FY25-26, as pax and cargo yields remain under pressure amid an increased capacity supply. The speed of Air India's turnaround is a key wild card. Maintain SELL on SIA, with a slightly lower target price of S\$5.72.

2Q/1HFY25 RESULTS

Year to 31 Mar (\$m)	1H FY25	1H FY24	yoy % chg	2Q FY25	2Q FY24	yoy % chg	1Q FY25	hoh % chg	Prev. FY25F	Actual as % of FY25F
Revenue	9,497	9,162	+3.7	4,779	4,683	+2.0	4,718	+1.3	19,326	49%
Pax flown revenue	7,668	7,550	+1.6	3,840	3,874	-0.9	3,828	+0.3	15,526	49%
Cargo & mail revenue	1,102	1,060	+4.0	562	518	+8.4	541	+3.9	2,390	46%
Engineering & others	727	552	+31.7	378	291	+29.6	350	+7.9	1,411	52%
Non-fuel opex	5,972	5,326	+12.1	3,094	2,654	+16.6	2,878	+7.5	12,186	49%
Fuel cost	2,730	2,283	+19.6	1,360	1,230	+10.5	1,370	-0.8	5,055	54%
Operating profit	796	1,554	-48.8	325	799	-59.3	470	-30.8	2,085	38%
Core operating profit*	736	1,310	-43.8	315	700	-55.0	421	-25.3	2,035	36%
Net Profit (reported)	742	1,441	-48.5	290	707	-58.9	452	-35.7	2,991	25%
Core net profit*	669	1,135	-41.0						1,784	38%
Margins (%)										
Core operating profit*	7.8	14.3	-6.5ppt	6.6	15.0	-8.4ppt	8.9	-2.3ppt	10.5	
Core net profit*	7.0	12.4	-5.3ppt	0.0	0.0	-	0.0	-	9.2	

\* Adjusted by excluding impacts from one-offs such as fuel hedging gains and forex gains/(losses), etc  
Source: SIA, UOB Kay Hian

RESULTS

- 2Q/1HFY25 earnings missed expectations...** Singapore Airlines' (SIA) 2QFY25 headline net profit of S\$290m (-59% yoy, -36% qoq) came in below our guided range of S\$360m-460m. Excluding non-core items such as gains/losses from fuel hedge, disposals and/or forex translation, 1HFY25 core net profit fell 41% yoy to S\$669m by our estimate, forming 38% of our full-year forecast. This is deemed a miss, even though 2H could be seasonally stronger. Revenue rose 3.7% yoy to S\$9.50b in 1HFY25, with pax flown revenue, cargo revenue and engineering & other rising 1.6%, 4.0% and 31.7% yoy respectively in 1HFY25.
- ...due mainly to slightly higher-than-expected operating costs.** Non-fuel cost per available-tonne-kilometre (ATK) rose 3.5% qoq to 42.3 S cents in 2QFY25 (1QFY25: 40.9), exceeding our projected range of 40.5-41.5 S cents. Unhedged fuel cost per ATK also slightly exceeded our projection by 2.8%. The negative impacts from higher-than-expected operation costs have been amplified by SIA's high operating leverage.

KEY FINANCIALS

Year to 31 Mar (\$m)	2023	2024	2025F	2026F	2027F
Net turnover	17,775	19,013	19,441	19,137	19,971
EBITDA	4,773	4,913	4,150	3,629	3,840
Operating profit	2,692	2,728	1,783	1,217	1,355
Net profit (rep./act.)	2,157	2,675	2,717	950	1,046
Core net profit	1,722	2,124	1,539	983	1,046
EPS (S\$ cent)	58.0	71.5	51.7	33.1	35.2
PE (x)	10.9	8.8	12.2	19.0	17.9
P/B (x)	1.4	1.3	1.2	1.2	1.2
EV/EBITDA (x)	4.7	4.5	5.4	6.2	5.8
Dividend yield (%)	6.0	7.6	5.1	3.5	3.8
Net margin (%)	12.1	14.1	14.0	5.0	5.2
Net debt/(cash) to equity (%)	7.9	(2.7)	10.6	31.6	48.3
ROE (%)	10.2	14.8	17.0	6.1	6.6

Source: SIA, Bloomberg, UOB Kay Hian

SELL

(Maintained)

Share Price	S\$6.29
Target Price	S\$5.72
Upside	-9.1%
(Previous TP)	S\$5.83

COMPANY DESCRIPTION

Singapore's flag carrier, flying to more than 130 destinations in over 30 countries before the pandemic. Frequently ranked as Best Airline by magazines and ranking agencies.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SIA SP
Shares issued (m):	2,973.3
Market cap (S\$m):	18,701.9
Market cap (US\$m):	14,049.9
3-mth avg daily t'over (US\$m):	23.1

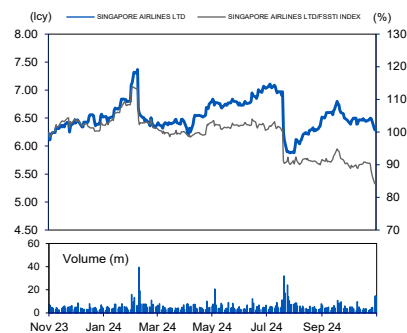
Price Performance (%)

52-week high/low	S\$7.38/S\$5.86			
1mth	3mth	6mth	1yr	YTD
(2.8)	7.0	(6.8)	1.3	(-4.1)

Major Shareholders

	%
Temasek Hldgs	53.6
FY25 NAV/Share (S\$)	5.26
FY25 Net Debt/Share (S\$)	0.57

PRICE CHART



Source: Bloomberg

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• **Yield moderation largely in line with expectations.** Pax yield and cargo yield moderated 6.7% and 7.7% yoy respectively in 2QFY25, a pace largely in line with our projections. The moderation was driven by increased capacity supply as regional competitors continue to recover/add capacity.

• **An interim dividend of 10 S cents** was declared for 1HFY25, unchanged yoy.

• **Strong balance sheet.** SIA was in a very marginal net debt position of S\$155m as of end-1HFY25 (end-FY24: S\$2.14b in net cash), translating to a net gearing of 1.1%.

### STOCK IMPACT

• **Management's outlook guidance.** Management sees robust demand for air travel in 2HFY25, while noting that the operating landscape will continue to be competitive. Air freight demand is also expected to stay healthy heading into the year-end peak. Management believes that as the aviation industry grapples with geo-political tensions, macroeconomic uncertainty, increased competition, and inflationary cost pressures, SIA remains well-positioned to navigate these from a position of strength.

• **Expect a decent 2HFY25 performance.** While pax yields are likely expected to remain under pressure in the near term due to rising competition, they are still meaningfully above pre-pandemic levels as of today. We expect SIA to achieve a satisfactory operating performance in 2HFY25, thanks to still-decent yields as well as stronger seasonality than in 1HFY25. We note that the recent decline in jet fuel prices should help bolster SIA's profitability in the upcoming 3QFY25, which is its seasonally strongest quarter.

• **Update on Air India-Vistara merger.** Management noted that the Air India and Vistara merger deal is expected to complete very shortly. Note that effective from 12 Nov 24, all Vistara flights will be renamed as Air India flights. Immediately after the merger, SIA is expected to inject S\$498m of additional capital into Air India through the subscription of Air India shares; this allows SIA to attain a 25.1% stake of the enlarged Air India. According to SIA, future capital injections will be considered based on Air India's requirements and available funding options.

• **Financial impacts from Vistara-Air India merger.** To recap, the Vistara-Air India merger is expected to result in SIA recognising a S\$1.1b accounting gain due to the deemed disposal of its Vistara stake. There is limited clarity on Air India's (a private company) financials at this juncture, but according to some Indian media, Air India was still in a loss-making position in FY24, at about Rs4,444 crore, or about S\$700m. As such, our best guess is that Air India will contribute negatively to SIA's profitability in the initial years after SIA's investment, with an annual loss run-rate of up to S\$175m, given SIA's 25.1% stake.

### EARNINGS REVISION/RISKS

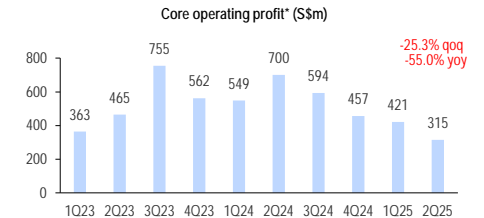
• **Cut FY25/26/27 earnings forecasts by 9%/7%/1%.** We reduce our net profit forecasts for SIA by 9%/7%/1% to S\$2.72b/S\$0.95b/S\$1.05b in FY25/FY26/FY27 respectively, to reflect the 1HFY25 results miss and our updated operational cost projection. Note that our S\$2.72b net profit estimate for FY25 includes an extraordinary gain of S\$1.11b from the Air India-Vistara merger, excluding which our FY25 earnings forecast would have been S\$1.61b.

• **Key risks:** a) Weaker-than-expected macroeconomic environment dampening air travel demand, b) air cargo demand affected by a tariff hike by the US, and c) competition catching up faster than expected.

### VALUATION/RECOMMENDATION

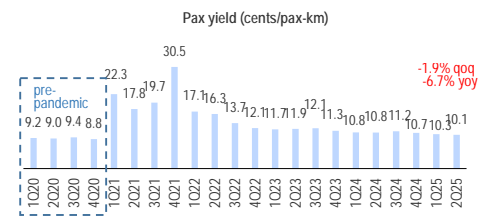
• **Maintain SELL on SIA with a slightly lower target price of S\$5.72.** Our target price for has been rolled over to end-FY26, and is now based on 1.09x FY26F P/B, pegged to SIA's long-term historical mean. SIA currently trades at 1.20x FY26F P/B, 0.5SD above its historical mean. We believe SIA is due for further earnings moderation in FY26, as pax and cargo yields are likely to remain under pressure. With the overall weakening earnings profile in the medium term, we think investors can wait for a more compelling valuation to re-enter SIA. Key upside risks to our call include a faster-than-expected turnaround of Air India after SIA's investment.

### CORE OPERATING PROFIT DROPPED 55% YOY IN 2QFY25...



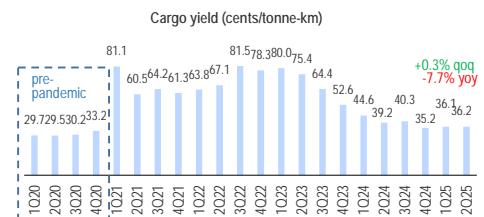
Source: SIA, UOB Kay Hian

### ...DRIVEN BY MODERATED PAX YIELDS...



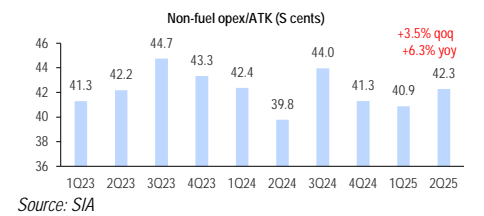
Source: SIA

### ...AND CARGO YIELDS



Source: SIA

### NON-FUEL OPEX PER ATK ROSE 3.5% QOQ



Source: SIA

### TARGET PRICE REFERENCE TABLE

		FY25F	FY26F	FY27F
Adjusted BVPS*		S\$5.24	S\$5.23	S\$5.39
P/B peg		Target price		
+1.0SD	1.28x	S\$6.70	S\$6.69	S\$6.90
+0.5SD	1.19x	S\$6.22	S\$6.21	S\$6.40
Mean	1.09x	S\$5.74	<b>S\$5.72</b>	S\$5.90
-0.5SD	1.00x	S\$5.25	S\$5.24	S\$5.41
-1SD	0.91x	S\$4.77	S\$4.76	S\$4.91

\*Adjusted BVPS has factored in the full conversion of outstanding convertible bonds

Source: UOB Kay Hian

### PROFIT & LOSS

Year to 31 Mar (\$m)	2024	2025F	2026F	2027F
Net turnover	19,012.7	19,440.6	19,136.6	19,971.4
EBITDA	4,913.3	4,149.6	3,628.8	3,840.1
Deprec. & amort.	2,185.8	2,366.8	2,412.3	2,484.8
EBIT	2,727.5	1,782.8	1,216.5	1,355.2
Total other non-operating income	28.7	1,116.9	0.0	0.0
Associate contributions	73.7	61.0	54.3	137.4
Net interest income/(expense)	207.2	99.4	(93.7)	(216.4)
<b>Pre-tax profit</b>	<b>3,037.1</b>	<b>3,060.1</b>	<b>1,177.1</b>	<b>1,276.3</b>
Tax	(342.0)	(308.1)	(190.9)	(193.6)
Minorities	(20.3)	(35.0)	(36.1)	(37.1)
<b>Net profit</b>	<b>2,674.8</b>	<b>2,717.0</b>	<b>950.2</b>	<b>1,045.5</b>
Core net profit	2,124.3	1,538.8	983.4	1,045.5

### CASH FLOW

Year to 31 Mar (\$m)	2024	2025F	2026F	2027F
<b>Operating</b>	<b>5,054.9</b>	<b>2,765.8</b>	<b>2,909.1</b>	<b>3,430.6</b>
Pre-tax profit	3,037.1	3,060.1	1,177.1	1,276.3
Tax	(10.7)	(308.1)	(190.9)	(193.6)
Deprec. & amort.	2,185.8	2,366.8	2,412.3	2,484.8
Associates	8.1	(25.0)	(34.3)	46.2
Working capital changes	49.9	(1,078.4)	(528.8)	(215.9)
Non-cash items	127.8	2.6	0.0	(0.0)
Other operating cashflows	(343.1)	(1,252.3)	73.7	32.8
<b>Investing</b>	<b>(1,436.2)</b>	<b>(2,469.9)</b>	<b>(4,352.0)</b>	<b>(4,622.0)</b>
Capex (maintenance)	(1,795.3)	(2,001.5)	(2,040.5)	(2,120.3)
Investments	(92.9)	0.0	0.0	0.0
Proceeds from sale of assets	125.9	0.0	0.0	0.0
Others	326.1	(468.4)	(2,311.5)	(2,501.7)
<b>Financing</b>	<b>(8,779.1)</b>	<b>(5,186.1)</b>	<b>(36.0)</b>	<b>(191.3)</b>
Dividend payments	(1,130.2)	(1,427.4)	(951.6)	(654.2)
Issue of shares	0	0	0	0
Proceeds from borrowings	(1,531.6)	(1,052.8)	1,900.0	1,500.0
Others/interest paid	(6,117.3)	(2,705.9)	(984.4)	(1,037.1)
<b>Net cash inflow (outflow)</b>	<b>(5,160.4)</b>	<b>(4,890.2)</b>	<b>(1,478.9)</b>	<b>(1,382.7)</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>16,327.6</b>	<b>11,268.8</b>	<b>6,378.6</b>	<b>4,899.7</b>
Changes due to forex impact	101.6	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>11,268.8</b>	<b>6,378.6</b>	<b>4,899.7</b>	<b>3,517.0</b>

### BALANCE SHEET

Year to 31 Mar (\$m)	2024	2025F	2026F	2027F
Fixed assets	26,806.8	27,952.0	30,761.7	33,698.8
Other LT assets	1,816.2	2,989.2	3,043.5	3,180.9
Cash/ST investment	11,788.5	6,898.3	5,419.4	4,036.7
Other current assets	3,853.2	3,786.1	3,766.9	3,851.6
<b>Total assets</b>	<b>44,264.7</b>	<b>41,625.6</b>	<b>42,991.5</b>	<b>44,768.0</b>
ST debt	915.4	915.4	915.4	915.4
Other current liabilities	11,756.3	10,890.6	10,342.5	10,211.3
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	15,650.6	15,649.1	16,040.4
Minority interest	406.7	421.0	436.4	452.8
<b>Total liabilities &amp; equity</b>	<b>44,264.7</b>	<b>41,625.6</b>	<b>42,991.5</b>	<b>44,768.0</b>

### KEY METRICS

Year to 31 Mar (%)	2024	2025F	2026F	2027F
<b>Profitability</b>				
EBITDA margin	25.8	21.3	19.0	19.2
Pre-tax margin	16.0	15.7	6.2	6.4
Net margin	14.1	14.0	5.0	5.2
ROA	5.7	6.3	2.2	2.4
ROE	14.8	17.0	6.1	6.6
<b>Growth</b>				
Turnover	7.0	2.3	(1.6)	4.4
EBITDA	2.9	(15.5)	(12.5)	5.8
Pre-tax profit	15.2	0.8	(61.5)	8.4
Net profit	24.0	1.6	(65.0)	10.0
Core net profit	23.3	(27.6)	(36.1)	6.3
Core EPS	23.3	(27.6)	(36.1)	6.3
<b>Leverage</b>				
Debt to total capital	34.9	39.5	42.1	43.5
Debt to equity	75.8	53.5	65.3	72.8
Net debt/(cash) to equity	(2.7)	10.6	31.6	48.3

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