

Singapore Airlines (SIA SP)

2QFY19 challenges in the price

Double whammy in the price; U/G to HOLD

We estimate a 2QFY19 (out 13 Nov) core net profit of SGD118m (-38% YoY, -16% QoQ). We think yield attrition and higher jet fuel prices will weigh on its bottom line. Otherwise, the company has done a good job of raising overall loads by 1.7ppts YoY to 73.3%, a record since 2010. We raise FY19-21E earnings by 3.9-5.5% to factor in higher load factors, its latest traffic-growth plans and new USD/SGD estimates. Our TP climbs to SGD9.80, still at FY20E P/BV of 0.82x, 1SD below its 10-year mean. SIA's share price has declined by 13% in the last quarter. As we believe this has priced in its near-term challenges, upgrade to **HOLD**.

Best operating statistics dating back to 2010

Overall traffic (passenger + cargo) in 2QFY19 grew 2.9% YoY. Load factor went up by 1.7% YoY to 73.3%. This was the group's highest load factor since 2010. Changi Airport has slapped a SGD13.30 or 39% increase in passenger tariffs beginning Jul 2018. We also notice that published ticket fares are on the low side and factor in an 8% yield decline for 2QFY19 (8% decline in 1QFY19).

Outlook challenging on fuel price volatility

The fuel market is exceptionally volatile due to the US-China trade war and US embargo on Iran. As SIA has hedged 47% of its FY19 requirements at USD65/bbl (Brent), it should be better positioned than the other airlines.

Let the dust settle before stepping in

SIA's 2QFY19 will be saddled with big losses from its 20% associate, Virgin Australia (VAH AU, Not Rated), which reported a net loss of AUD603.5m in its 2H18 results. SIA's share of losses could be SGD50-60m in 2QFY19 but we deem this non-core as the bulk is accounting in nature. We also believe we have adequately factored in its near-term risks.

FYE Mar (SGD m)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	14,869	15,806	15,688	16,455	17,218
EBITDAR	3,111	3,546	2,805	2,961	3,243
Core net profit	462	787	631	636	742
Core EPS (cts)	39.5	66.5	53.4	53.8	62.7
Core EPS growth (%)	(17.6)	68.3	(19.8)	0.7	16.6
Net DPS (cts)	20.0	43.0	36.0	37.0	44.0
Core P/E (x)	25.5	16.3	18.1	17.9	15.4
P/BV (x)	0.9	1.0	0.8	0.8	0.8
Net dividend yield (%)	2.0	4.0	3.7	3.8	4.6
ROAE (%)	2.7	6.7	4.7	4.5	5.0
ROAA (%)	1.9	3.0	2.1	1.9	1.9
EV/EBITDAR (x)	5.3	5.4	8.6	9.5	9.9
Net gearing (%) (incl perps)	net cash	4.9	54.1	78.7	99.0
Consensus net profit	-	-	725	763	831
MKE vs. Consensus (%)	-	-	(12.9)	(16.7)	(10.7)

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HOLD

[Prior:SELL]

Share Price SGD 9.65
 12m Price Target SGD 9.80 (+2%)
 Previous Price Target SGD 9.65

Company Description

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

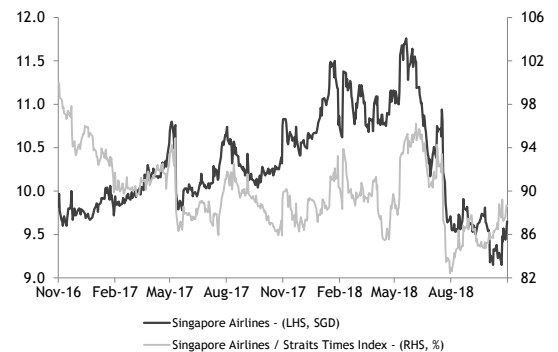
Statistics

52w high/low (SGD)	11.76/9.15
3m avg turnover (USDm)	9.9
Free float (%)	43.5
Issued shares (m)	1,200
Market capitalisation	SGD11.6B
	USD8.4B

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 (%)	1	(1)	(10)
Relative to index (%)	5	8	0

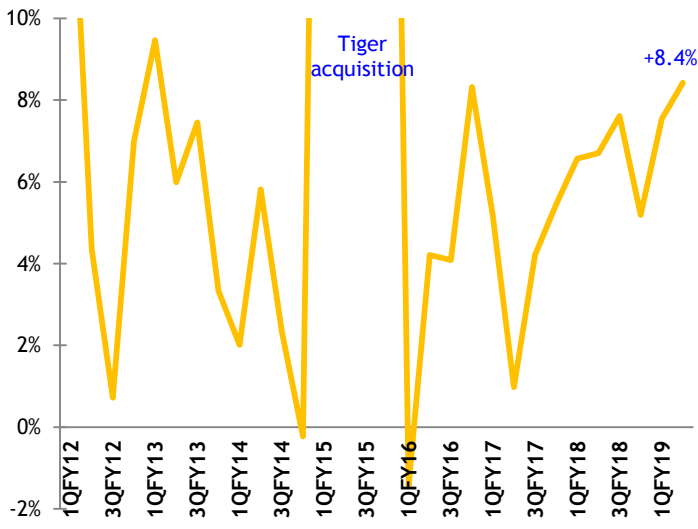
Source: FactSet

Operating statistics

Traffic growth healthy

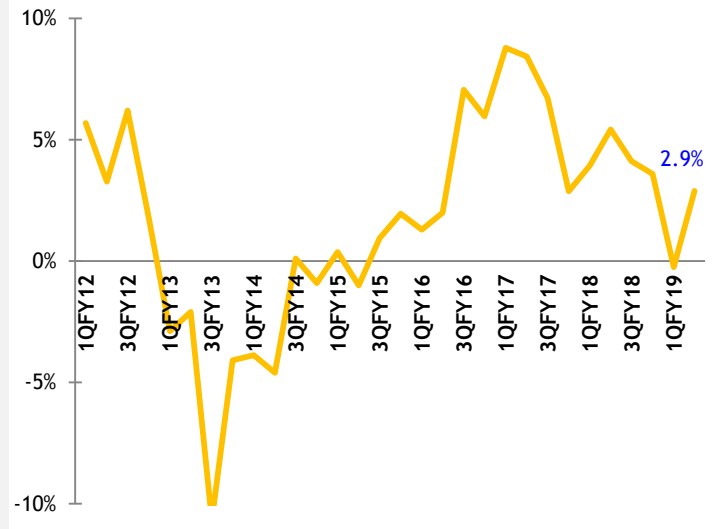
Passengers carried by the group grew 8.4% YoY to 9.1m in 2QFY19. This was above its long-term average of 5% growth (excluding its Tigerair acquisition), which suggests healthy passenger traffic growth. Cargo growth was equally healthy at 2.9% YoY in 2QFY19.

Fig 1: Group (SIA, Silkair, Scoot) growth in number of passengers carried



Sources: Company, Maybank KE

Fig 2: Cargo carried growth

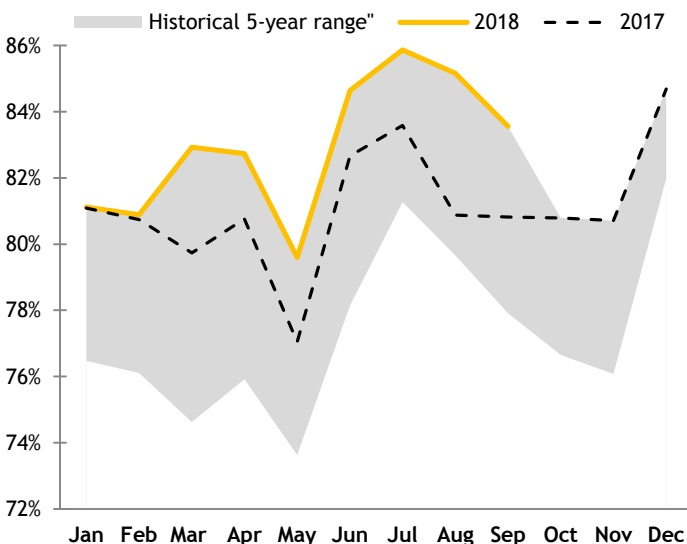


Sources: Company, Maybank KE

Load factor

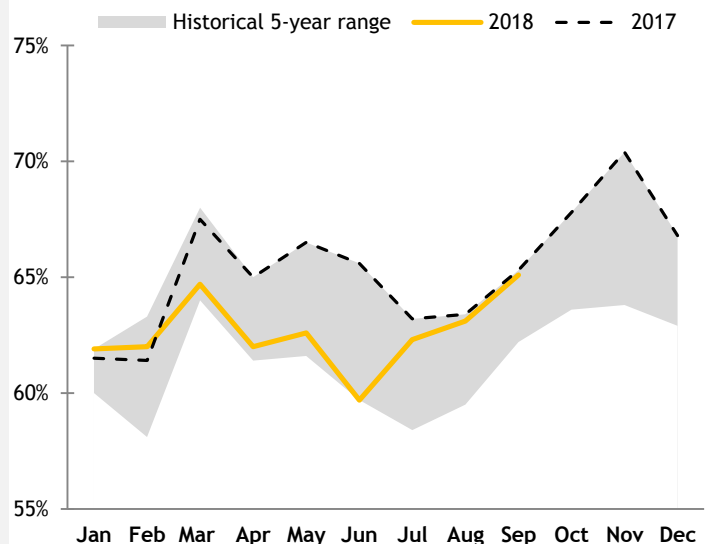
Group passenger load factor soared by 3.1ppts YoY to 84.9% in 2QFY19. We think yields were dropped in order to promote loads. Cargo load factor was slightly down by 0.5ppt YoY to 63.5%. The air cargo industry has been performing very well in the past 2.5 years, driven by growth in the electronics segment and Internet retail sales.

Fig 3: Group (SIA, Silkair, Scoot) passenger load factor



Sources: Company, Maybank KE

Fig 4: SIA cargo's load factor



Sources: Company, Maybank KE

Valuation and recommendation

New fair value of SGD9.80

SIA has been trading range-bound, close to 1SD below its P/BV mean, in the past two years. We believe 1SD below mean is an apt valuation, given that its short-term outlook is clouded by volatile fuel prices, higher Changi Airport charges and huge one-off losses from Virgin Australia. Using a one-year forward P/BV of 0.82x, we derive a TP of SGD9.80 after our earnings revisions, up from SGD9.65.

SIA's share price has declined by 13% in the last three months. As we believe this has priced in its near-term challenges, upgrade to **HOLD** from **SELL**.

Fig 5: SIA's one-year forward P/BV

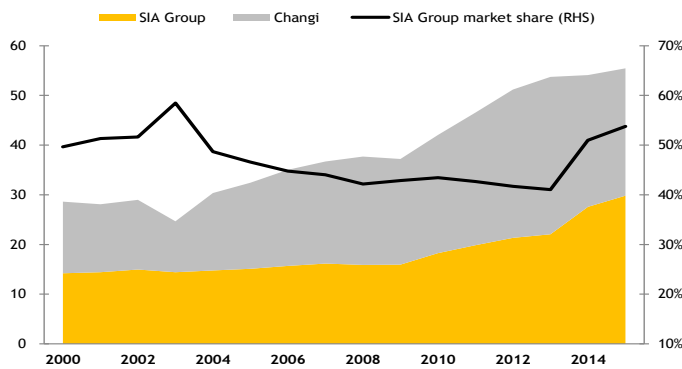


Sources: Bloomberg, Maybank KE

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.
- Regional competition is rising and this is forcing SIA to reduce its yields in order to maintain market share.
- People are increasingly by-passing Singapore as a transit hub as there are more point-to-point routes available nowadays.

SIA's market share at Changi Airport

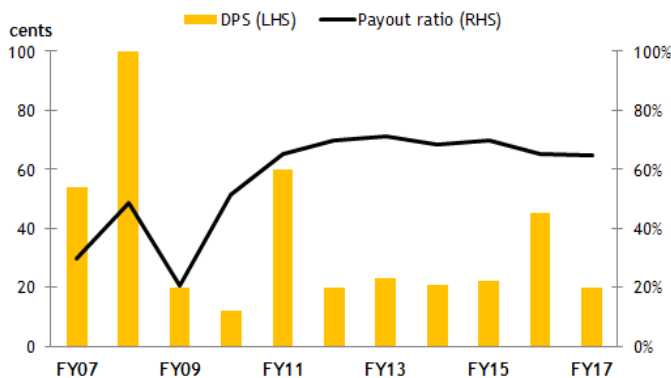


Source: Company

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.

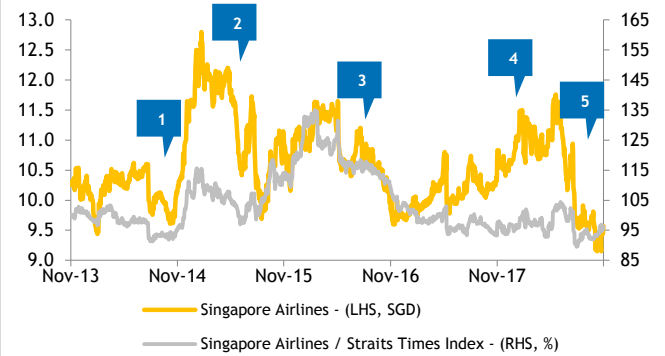
Consistent shareholder returns



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.
- Disciplined industry supply-demand could potentially provide pricing power back to airlines.

Downside

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

FYE 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
Key Metrics					
P/E (reported) (x)	33.8	13.9	18.1	17.9	15.4
Core P/E (x)	25.5	16.3	18.1	17.9	15.4
P/BV (x)	0.9	1.0	0.8	0.8	0.8
P/NTA (x)	0.9	1.0	0.9	0.8	0.8
Net dividend yield (%)	2.0	4.0	3.7	3.8	4.6
FCF yield (%)	nm	nm	nm	nm	nm
EV/EBITDAR (x)	5.3	5.4	8.6	9.5	9.9
EV/EBIT (x)	26.5	18.1	31.0	35.8	34.7
INCOME STATEMENT (SGD m)					
Revenue	14,868.5	15,806.1	15,687.9	16,454.7	17,217.6
EBITDAR	3,110.6	3,546.2	2,805.1	2,961.1	3,243.2
Depreciation	(1,552.1)	(1,639.6)	(1,228.4)	(1,349.8)	(1,471.2)
Amortisation	(39.8)	(44.4)	(53.9)	(53.9)	(53.9)
EBIT	622.8	1,057.3	781.2	788.9	922.6
Net interest income / (exp)	27.8	(28.9)	(38.6)	(38.6)	(38.6)
Associates & JV	(42.1)	31.7	31.7	31.7	31.7
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	(89.9)	40.9	6.2	6.2	6.2
Pretax profit	518.6	1,101.0	780.5	788.2	921.9
Income tax	(76.7)	(164.2)	(116.4)	(117.6)	(137.5)
Minorities	(81.5)	(43.9)	(32.7)	(34.7)	(42.8)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	360.4	892.9	631.5	636.0	741.7
Non-cash & non-recurring items	103.2	(18.6)	0.0	0.0	0.0
Core net profit	462.4	786.9	631.5	636.0	741.7
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	3,380.5	2,568.3	769.9	1,877.5	2,308.5
Accounts receivable	1,272.0	1,488.7	1,488.6	1,556.6	1,624.2
Inventory	178.4	179.3	191.7	191.7	191.7
Property, Plant & Equip (net)	12,412.9	19,824.6	24,389.2	28,935.5	33,160.4
Intangible assets	423.5	435.3	435.3	435.3	435.3
Investment in Associates & JVs	1,217.1	1,199.4	1,231.1	1,262.8	1,294.5
Other assets	5,835.6	1,852.3	2,757.9	2,757.9	2,757.9
Total assets	24,720.0	27,547.9	31,263.7	37,017.3	41,772.5
ST interest bearing debt	42.0	20.6	69.5	69.5	69.5
Accounts payable	3,296.1	2,817.0	2,795.9	2,932.6	3,068.6
LT interest bearing debt	1,794.7	3,199.8	8,199.8	13,199.8	17,199.8
Other liabilities	6,117.0	6,627.0	6,344.0	6,345.0	6,325.0
Total Liabilities	11,249.8	12,664.1	17,409.0	22,546.5	26,662.9
Shareholders Equity	13,083.0	12,860.3	13,473.0	14,075.4	14,700.7
Minority Interest	387.2	368.1	381.7	395.3	408.9
Total shareholder equity	13,470.2	13,228.4	13,854.7	14,470.7	15,109.6
Total liabilities and equity	24,720.0	25,892.5	31,263.7	37,017.2	41,772.5
CASH FLOW (SGD m)					
Pretax profit	518.6	1,101.0	780.5	788.2	921.9
Depreciation & amortisation	1,591.9	1,684.0	1,282.3	1,403.7	1,525.1
Adj net interest (income)/exp	(27.8)	28.9	38.6	38.6	38.6
Change in working capital	96.8	(262.9)	(64.3)	323.1	321.5
Cash taxes paid	(50.5)	4.3	(116.4)	(117.6)	(137.5)
Other operating cash flow	403.9	275.9	(37.9)	(37.9)	(36.9)
Cash flow from operations	2,532.9	2,692.2	1,882.8	2,398.2	2,632.7
Capex	(3,944.7)	(5,209.5)	(6,200.0)	(6,300.0)	(6,100.0)
Free cash flow	(1,411.8)	(2,517.3)	(4,317.2)	(3,901.8)	(3,467.3)
Dividends paid	(558.9)	(298.4)	(475.8)	(487.6)	(570.4)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	341.4	1,383.7	5,048.9	5,000.0	4,000.0
Other invest/financing cash flow	(525.9)	(416.9)	447.5	493.3	493.3
Effect of exch rate changes	43.3	(29.7)	0.0	0.0	0.0
Net cash flow	(2,111.9)	(1,878.6)	703.4	1,103.8	455.6

FYE 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
Key Ratios					
Growth ratios (%)					
Revenue growth	(2.4)	6.3	(0.7)	4.9	4.6
EBITDAR growth	(2.2)	14.0	(20.9)	5.6	9.5
EBIT growth	(8.6)	69.8	(26.1)	1.0	17.0
Pretax growth	(46.7)	112.3	(29.1)	1.0	17.0
Reported net profit growth	(55.2)	147.8	(29.3)	0.7	16.6
Core net profit growth	(17.6)	70.2	(19.8)	0.7	16.6
Profitability ratios (%)					
EBITDAR margin	20.9	22.4	17.9	18.0	18.8
EBIT margin	4.2	6.7	5.0	4.8	5.4
Pretax profit margin	3.5	7.0	5.0	4.8	5.4
Payout ratio	64.9	56.9	67.4	68.8	70.2
DuPont analysis					
Net profit margin (%)	2.4	5.6	4.0	3.9	4.3
Revenue/Assets (x)	0.6	0.6	0.5	0.4	0.4
Assets/Equity (x)	1.9	2.1	2.3	2.6	2.8
ROAE (%)	2.7	6.7	4.7	4.5	5.0
ROAA (%)	1.9	3.0	2.1	1.9	1.9
Liquidity & Efficiency					
Dividend cover (x)	1.5	1.8	1.5	1.5	1.4
Current ratio (x)	0.9	0.8	0.5	0.7	0.7
Leverage & Expense Analysis					
Asset/Liability (x)	2.2	2.2	1.8	1.6	1.6
Net gearing (%) (incl perps)	net cash	4.9	54.1	78.7	99.0
Net gearing (%) (excl. perps)	net cash	4.9	54.1	78.7	99.0
Net interest cover (x)	na	36.6	20.2	20.4	23.9
Debt/EBITDAR (x)	0.6	0.9	2.9	4.5	5.3
Capex/revenue (%)	26.5	33.0	39.5	38.3	35.4
Net debt/ (net cash)	(1,543.8)	652.1	7,499.4	11,391.8	14,960.8

Source: Company; Maybank

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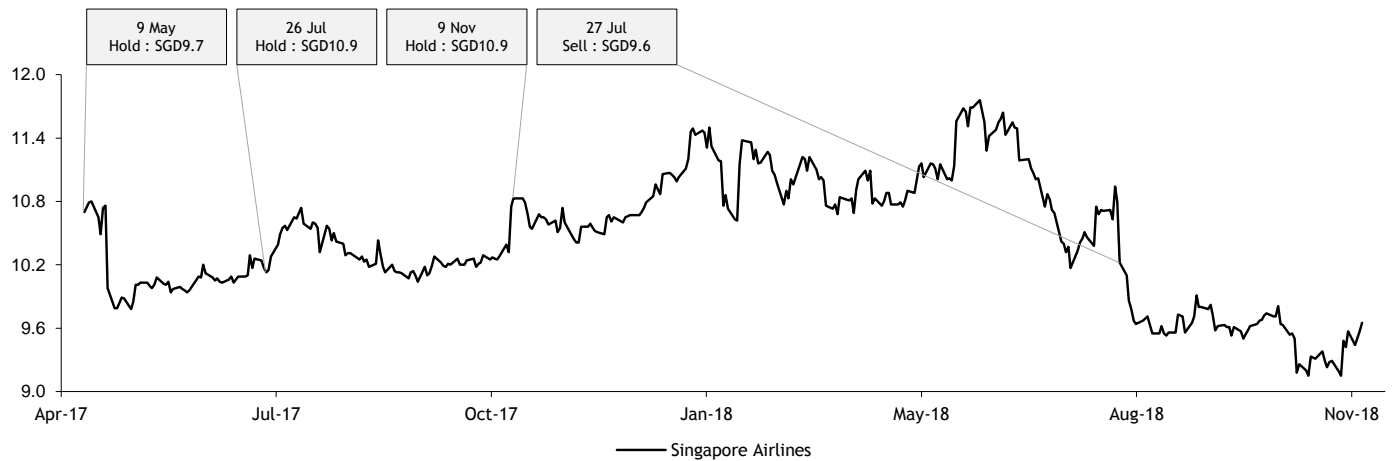
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