

Singapore Airlines (SIA SP)

3QFY18F looking positive, but upside capped

Strong traffic growth but fuel price is a risk

We estimate 3Q18 (out 13 Feb) core net profit of SGD259m, which would be 2% lower YoY, but in line with our estimate. We see better capacity discipline in the long-haul market as load factors have held up well and there is scope for yield improvement as the industry tries to offset the recent rise in fuel prices by raising fares. Our earnings forecasts, TP of SGD10.95 (pegged to its long-term P/BV mean of 0.93x) and HOLD are unchanged.

Good operating statistics

Management has done very well in filling up the aircraft. Overall traffic (passenger + cargo) in 3QFY18 grew by 5.9% YoY and load factor rose by 2.8ppt YoY to 73.5%. This is the best overall load factor performance since 2010. We think passenger yields will be a modest 1% decline YoY but cargo yields will be very strong with 9% YoY growth. Overall yields (passenger + cargo) should be fairly unchanged YoY.

Outlook clouded by rising fuel prices

We note that Asian carriers have been very clinical in dispersing capacity in 2017 and the outlook statements by industry executives suggest 2018 capacity output will be equally modest. Furthermore, the recent rise in fuel prices will sway airlines to push for higher ticket prices, thus potentially reversing the industry passenger yield downtrend since 2014. SIA has hedged 47% of its FY19 fuel requirements at USD55/bbl (Brent) and this will provide some cost advantage relative to competitors.

Trading at close to its long-term P/BV mean

The Company is trading at 0.92x FY18 P/BV, which is 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	FY18E	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)	22.4	25.7	20.7	20.9	17.9
P/BV (x)	1.0	1.0	0.9	0.9	0.8
Net dividend yield (%)	4.2	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	6.6	6.9
Net gearing (%) (incl perps)	net cash	net cash	5.0	25.0	43.9
Consensus net profit	-	-	652	604	671
MKE vs. Consensus (%)	-	-	(6.0)	(0.2)	4.8

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HOLD

Share Price	SGD 10.76
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.

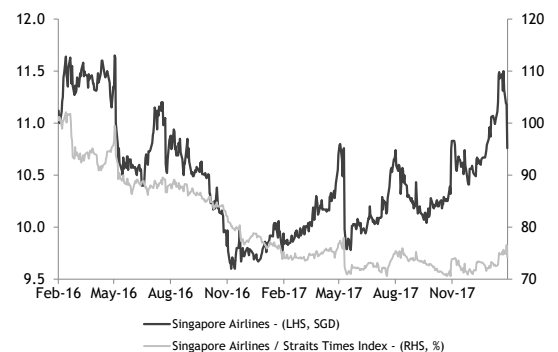
Statistics

52w high/low (SGD)	11.50/9.78
3m avg turnover (USDm)	11.8
Free float (%)	43.5
Issued shares (m)	1,200
Market capitalisation	SGD12.9B
	USD9.8B

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 (%)	(0)	4	11
Relative to index (%)	2	4	(0)

Source: FactSet

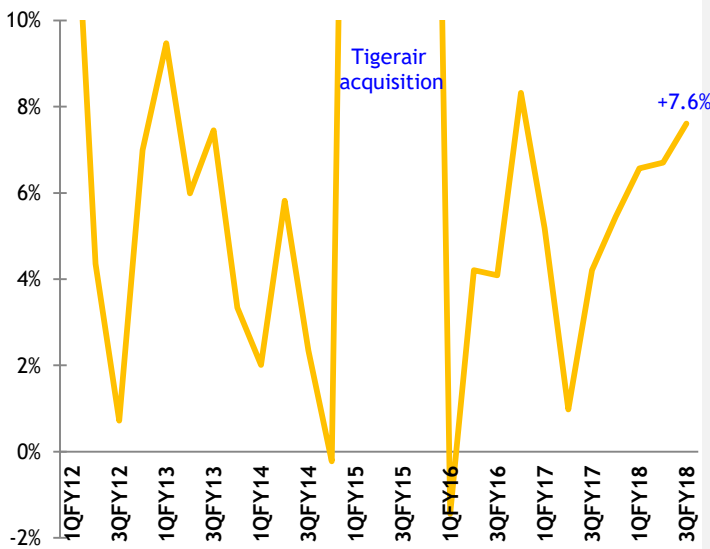
Operating statistics

Traffic growth was healthy

Passengers carried by the Group grew by 7.6% YoY to 8.7m in 3QFY18, bringing 9MFY18 passenger growth to +7.0% YoY. This is well above its long-term average of 5% growth (excluding the Tigerair acquisition YoY comparison), which suggests passenger traffic growth was very healthy.

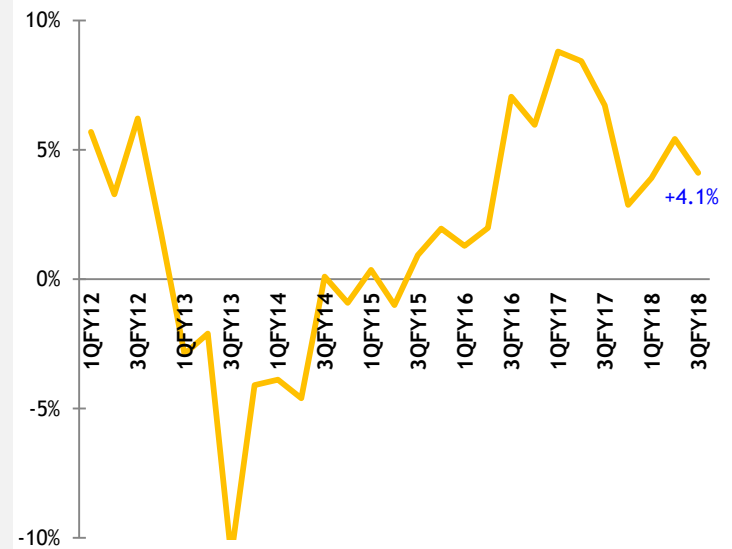
The cargo business segment was also buoyant. Freight carried grew by 4.1% YoY in 3QFY18, bringing 9MFY18 freight carried to +4.5% YoY.

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



Sources: Company, Maybank KE

Cargo carried growth



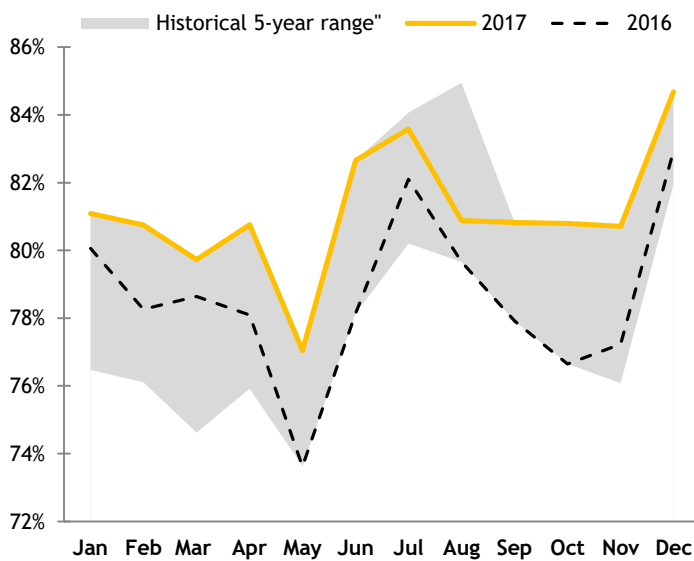
Sources: Company, Maybank KE

Load factor

The Group passenger load factor soared by 3.1ppt YoY to 82.1% in 3QFY18, bringing 9MFY18 passenger load factor to 81.4% (+2.8ppt YoY). The long-haul segment, namely SIA and Scoot, has performed exceptionally well whilst Silkair's load factor growth was more modest. The stronger load factor performance is due to better industry supply-demand dynamics whereby Asia Pacific-based carriers are disciplined in deploying capacity and have been successful in closely matching it with demand growth.

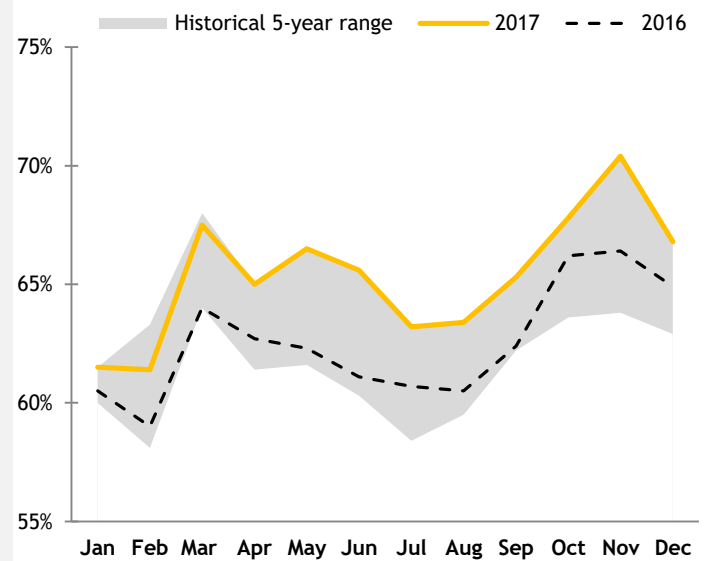
Cargo load factor has improved by 2.4ppt YoY to 68.3% in 3QFY18, bringing 9MFY18 cargo load factor to 66.0% (+3.0ppt YoY). This is the highest recorded load factor since 2010, which attest that the segment is performing very well. The air cargo industry has been performing very well in the past two years, driven by growth in the electronics segment, rise of internet retail sales and the fact that many carriers have fundamentally reduced their excess cargo capacity.

Group (SIA, Silkair, Scoot) passenger load factor



Sources: Company, Maybank KE

SIA cargo's load factor



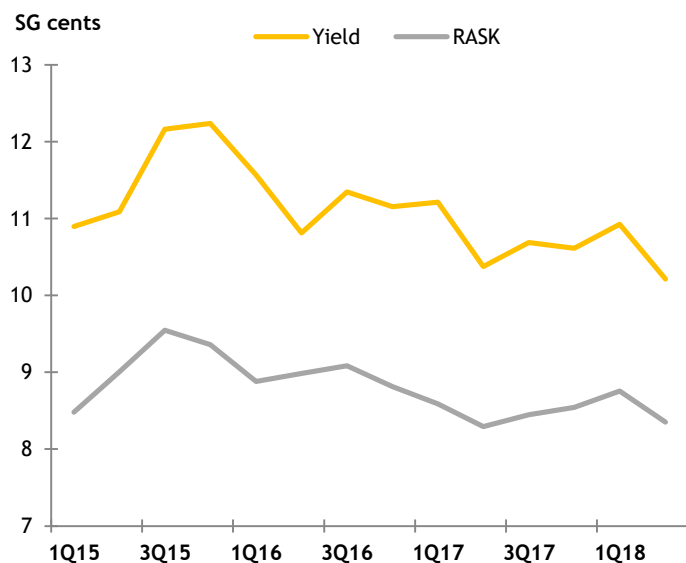
Sources: Company, Maybank KE

Yields are showing signs of recovery

Passenger yields have been on a downward trend since late 2014 when crude oil prices retracted. The industry has shared part of the savings from lower fuel prices in terms of lower ticket prices. Going into 3QFY18 onwards, we think there is scope for yields to trend upwards as carriers are trying to raise ticket prices to offset the rise in crude oil prices since Oct 2017. We have observed that many airlines including SIA Group have raised their published fares. As passenger demand and load factors have held up strongly in 3QFY18, this should give rise to growth in yields.

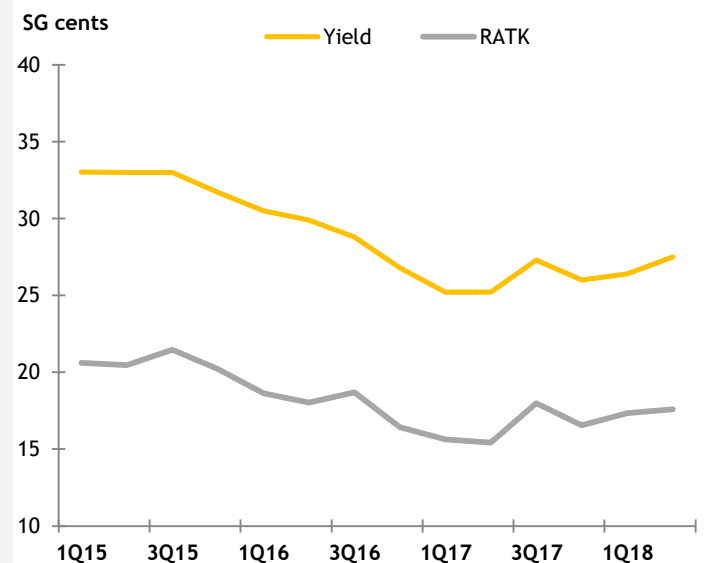
Cargo yields have been on an uptrend since 2Q17, driven mainly by the electronics sector and internet retail sales. In addition, the industry had shed excess capacity in 2014-16 and consolidated the market.

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



Sources: Company, Maybank KE

SIA cargo's load factor



Sources: Company, Maybank KE

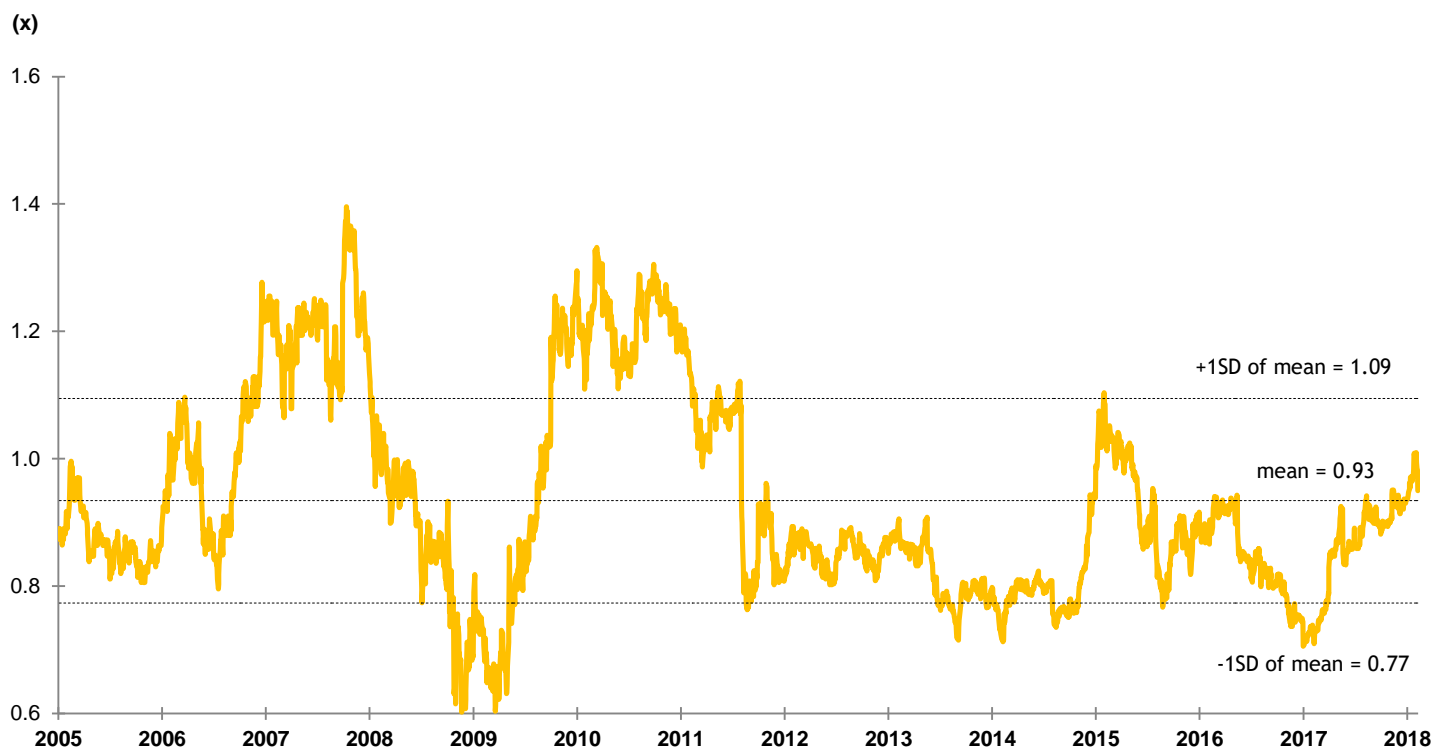
Valuation and recommendation

Fair value of SGD10.95

The share price has been trading close to its historical one standard deviation 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 as the cargo business unit has turned around.

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 maintain HOLD.

SIA's 1-year forward P/BV

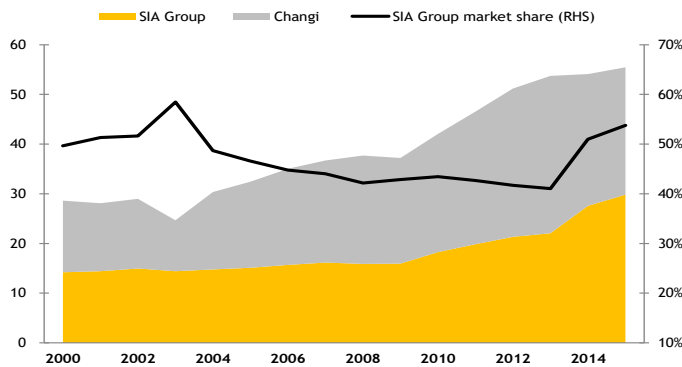


Sources: Bloomberg, Maybank KE

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

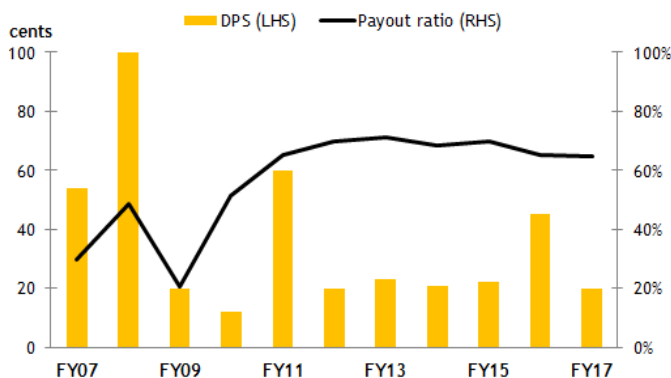


Source: Company

Financial Metrics

- Attractive shareholder returns 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.

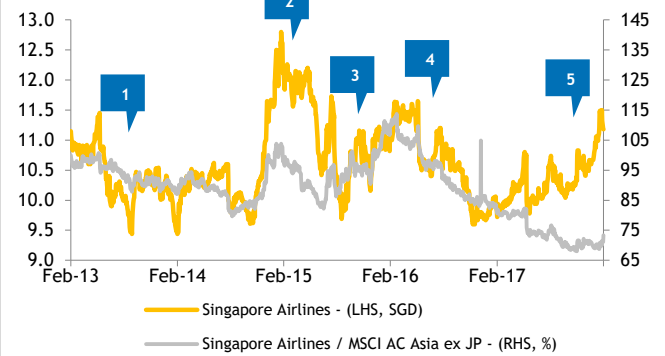
Consistent shareholder returns



Source: Company

Price Drivers

Singapore Airlines share price movement



Source: Bloomberg, Maybank Kim Eng

1. Middle Eastern and regional carriers have launched many long-haul flights in direct competition with SIA.
2. Sector re-rating on lower fuel price.
3. Chinese Yuan devaluation has triggered selloff for the aviation sector.
4. Outlook challenging given the very competitive long-haul segment.
5. Share price rise in tandem with the market movement.

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	FY18E	FY19E	FY20E
Key Metrics					
P/E (reported) (x)	16.0	33.5	20.5	20.9	17.9
Core P/E (x)	22.4	25.7	20.7	20.9	17.9
P/BV (x)	1.0	1.0	0.9	0.9	0.8
P/NTA (x)	1.0	1.0	0.9	0.9	0.9
Net dividend yield (%)	4.2	1.9	3.1	3.2	3.8
FCF yield (%)	0.8	nm	nm	nm	nm
EV/EBITDAR (x)	5.5	5.3	5.9	6.6	6.9
EV/EBIT (x)	25.5	26.4	27.3	31.3	30.3
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
Total assets	23,769.7	24,720.0	26,763.1	29,597.0	33,447.2
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
Total Liabilities	10,636.8	11,249.8	12,620.6	14,818.0	18,016.2
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
Total shareholder equity	13,132.9	13,470.2	14,142.5	14,779.0	15,430.9
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	23,769.7	24,720.0	26,763.1	29,597.0	33,447.1
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
Net cash flow	(1,179.4)	(2,109.0)	(1,342.2)	(1,078.6)	(105.5)

FYE 31 Mar	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth ratios (%)					
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
Profitability ratios (%)					
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
DuPont analysis					
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
Liquidity & Efficiency					
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
Leverage & Expense Analysis					
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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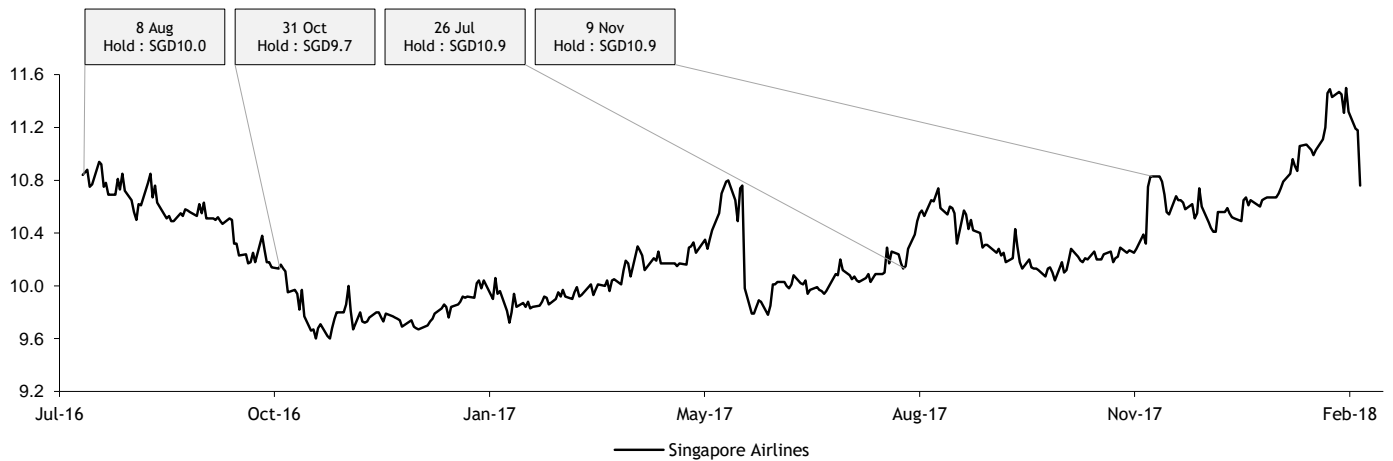
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