Maybank

Singapore Airlines (SIA SP)

Clearing the final hurdle

Gets FDI approval for proposed merger; keep HOLD

SIA said it has received approval from the Indian government for foreign direct investment (FDI), as part of a merger in which Vistara, its 49%-owned JV with Tata, will be absorbed into Air India. While this will help SIA to continue participating directly in the burgeoning aviation market, we think more investment may be needed to turn around the Indian carrier. Maintain HOLD and TP at SGD6.55, based on 1.25x FY25E P/B. Downside risks include more intense competition, weak cargo volume, a sharp rise in jet fuel prices and/or a non-fuel expenditure. Re-rating catalysts include higher-than-expected yields, a steep drop in jet fuel prices or less intense competition than anticipated.

Expects the deal to be completed by end-2024

The FDI approval, together with anti-trust and merger control clearances, as well as other governmental and regulatory approvals received to date will clear a significant hurdle towards the completion of the deal. The parties are in discussions to extend the Long Stop Date (previously indicated as 31 Oct 2024) to accommodate the latest expected transaction completion date. Upon completion by end-2024, the group will recognise a non-cash accounting gain of SGD1.1b from this proposed merger.

But more investment may be required

SIA will swap its 49% stake in Vistara and inject a further INR20,585m (USD247m) in return for a 25.1% direct stake in the enlarged entity. SIA and Tata Sons have also agreed to participate in an additional capital-injection exercise into the enlarged Air India after the completion of the merger, to fund the growth and operations of the enlarged Air India. The capital injections will be on a pro-rata basis. SIA's pro-rata share of 25.1% of the additional capital injection would be up to INR50,200m (USD600m), based on its current agreement with Tata Sons.

Regional competition is catching up rapidly

Notwithstanding the strong local partner and immense potential, we maintain a neutral view on the deal, at least in the short term, given India's highly competitive aviation landscape and the lack of profitability in the past. Despite robust growth in passenger traffic, SIA is also experiencing intense competition from other regional carriers, resulting in declining load factors and passenger yield, particularly for East Asia routes, due to the substantial capacity expansion in North Asia.

FYE Mar (SGD m)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue	17,775	19,013	19,444	19,215	18,941
EBITDAR	4,796	4,909	4,299	4,065	3,802
Core net profit	2,164	2,610	1,706	1,375	1,060
Core EPS (cts)	72.7	87.7	57.3	46.2	35.6
Core EPS growth (%)	nm	20.6	(34.7)	(19.4)	(22.9)
Net DPS (cts)	38.0	48.0	30.0	24.0	18.0
Core P/E (x)	7.9	7.3	11.0	13.6	17.6
P/BV (x)	0.9	1.2	1.2	1.1	1.1
Net dividend yield (%)	6.6	7.5	4.8	3.8	2.9
ROAE (%)	10.0	14.5	10.4	8.4	6.2
ROAA (%)	4.4	5.6	3.9	3.1	2.4
EV/EBITDAR (x)	3.3	4.3	5.1	5.8	6.6
Net gearing (%) (incl perps)	net cash	9.5	18.1	26.9	34.2
Consensus net profit	-	-	2,045	1,375	1,185
MIBG vs. Consensus (%)	-	-	(16.6)	0.0	(10.6)

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HOLD

Share Price SGD 6.28

12m Price Target SGD 6.55 (+4%)

Previous Price Target SGD 6.55

Company Description

Singapore Airlines Ltd. engages in the provision of passenger and cargo air transportation services.

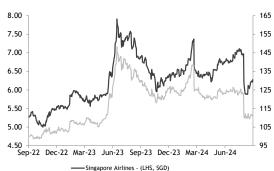
Statistics

52w high/low (SGD)	7.37/5.88
3m avg turnover (USDm)	31.0
Free float (%)	46.1
Issued shares (m)	2,978
Market capitalisation	SGD18.7B
	USD14.3B

Major shareholders:

Temasek Holdings Pte Ltd.	53.4%
The Vanguard Group, Inc.	1.7%
BlackRock Fund Advisors	0.9%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(9)	(7)	(9)
Relative to index (%)	(9)	(10)	(15)

-Singapore Airlines / Straits Times Index - (RHS, %)

Source: FactSet



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Value Proposition

- SIA is a world-leading air transportation provider with its product leadership, service excellence and strong network connectivity.
- The group aims to capture value and create opportunities to expand its revenue beyond flying by investing in digital capabilities and establishing commercial partnership with other airlines.
- Even as other competitors recover post-pandemic, SIA retains its first-mover advantage. This allowed the group to achieve record financial performance, thus demonstrating resilience and agility in meeting the surge in international air travel demand.
- With its modern, fuel-efficient fleet and enhanced connectivity, SIA looks well-positioned for future growth despite intense competition within the industry.

Diversifying revenue beyond flying



Price Drivers

Historical share price trend



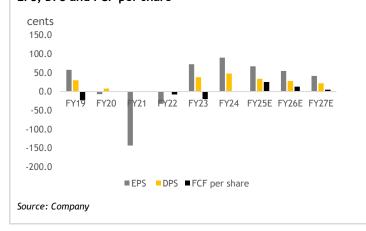
Source: Company, Maybank IBG Research

- 1. In Sep 2020, SIA cut around 4,300 positions across its airlines amid the impact of the Covid-19 pandemic.
- 2. In Mar 2022, DHL and SIA agreed to deploy five Boeing 777 freighters to meet growing demand in international express shipping markets.
- 3. In Nov 2022, SIA and Tata Sons agreed to merge Air India and Vistara, which would give SIA a 25.1% stake in an enlarged entity.
- 4. In May 2023, SIA said it will redeem 50% of its mandatory convertible bonds (MCBs) that were issued in Jun 2021.
- 5. In May 2024, SIA signed an agreement with Neste to purchase 1,000 tonnes of neat Neste MY Sustainable Aviation Fuel.

Financial Metrics

- SIA posted record Group revenue and net profit for FY24 on the back of robust passenger performance, but partially offset by lower cargo contribution.
- Both SIA and Scoot achieved record load factors even as capacity nears pre-pandemic levels.
- Healthy balance sheet with the full redemption of the remaining 25% of MCBs (issued in Jun'21) in June 2024.
- Strong operating cash flow to support its fleet expansion plans and dividend payouts.

EPS, DPS and FCF per share



Swing Factors

Upside

- Higher-than-expected passenger load factor due to continued robust air travel demand.
- Better-than-expected yields for both its passenger and cargo businesses due to capacity constraints.
- Successful completion of Air India and Vistara merger, thus boosting its presence in India's huge and growing aviation market.

Downside

- Increased competition from other airlines, especially within the Asia-Pacific region.
- Weaker-than-expected passenger/cargo demand amid geopolitical tensions, macro uncertainties, etc.
- Rising opex and/or jet fuel prices to exert further pressure on operating margins.

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Singapore Airlines





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Risk Rating & Score ¹	28.3 (Medium)
Score Momentum ²	-0.0/+0.0
Last Updated	23 May 2024
Controversy Score ³	2.0 (Moderate)

Business Model & Industry Issues

- Aviation industry profitability is highly seasonal and cyclical in nature as passenger and cargo air transportation drive the bulk
 of the revenue.
- As air travel demand rebounds back to pre-Covid levels, total fuel consumption and emissions has been rising along with higher volumes uplift.
- SIA has ramped up its decarbonisation efforts by operating new-generation aircraft models and gradual adoption of Sustainable Aviation Fuels (SAF) to achieve net zero carbon emissions by 2050.
- SIA's global transport network exposes it to corporate governance and business-ethics risks. SIA has put in place processes to ensure impartiality, checks and balances.
- As part of its sustainability goals, the group is focusing on decarbonisation, waste management, as well as making a positive impact on society.

Material E issues

- Emissions, water and electricity consumption are on an upward trend due to the resumption of aviation activities following the lifting of Covid-related restrictions.
- Considerations on future resource management such as increased reliance on solar energy and water recycling is crucial to ensure environmental sustainability as air travel increases.
- Hybrid vehicles that have lower petrol use and higher fuel efficiency are being adopted to carry out engineeringrelated services.
- The Group continues to strive for Building and construction Authority (BCA) accreditation for SIA-owned buildings in Singapore.

Material S issues

- In 2023, the Group reported 163 recordable work-related injuries with overall work-related injuries rate increasing to 8.1.
- Additional precautionary measures such as promotion of safe work practices, reminders to workers to be mindful of their work environment, and initiatives to raise awareness of workplace injuries prevention.
- Females account for 49.6% of the group's staff while 17.8% of employees are over the age of 50.
- Announced the launching of Singapore Airlines Foundation, dedicating SGD30m to support individuals and communities in need.
- Leverages on AI in the form of HR chatbots to assist employees with HR-related matters.

Key G metrics and issues

- The board has 11 members, of which one is the executive officer (CEO), the remaining are non-executive & independent directors (including the chairman). 18% are female directors.
- The remuneration committee is chaired by independent directors with the exception of Mr Hsieh Tsun-Yan.
- Key management/directors' compensation accounted for 0.4%/0.2% of the Group's net profits.
- The group's auditor KPMG LLP has not been changed since 2015.
- Regulatory risks: the group's strategy calls for overseas expansion of its global routes. Its wide global footprint may expose the group to regulatory, bribery and corruption and compliance risks.
- SIA has a whistle-blowing programme where reports are investigated independently by Internal Audit, with the Audit Committee reviewing the results at their quarterly meetings.
- Regulatory risks: in 2022, an SIA staff was investigated and charged with corruption and money laundering for receiving gratification from an external party.
- To minimise the chance of developing vested interest in sensitive roles, all employee roles up to the Vice President level are assessed for sensitivity risks on a biennial basis as part of SIA's Rotation of Sensitive Positions framework.
- No corruption cases were reported for the past year.

<u>Raisk Rating & Score</u> - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <u>2Score Momentum</u> - indicates changes to the company's score since the last update - a <u>negative</u> integer indicates a company's improving risk score; a <u>positive</u> integer indicates a deterioration. <u>3Controversy Score</u> - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).



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	Particulars	Unit	FY22	FY23	FY24	293 HK (2023)
	Scope 1 GHG emissions	M tCO2e	7.8	12.7	15.0	11.6
	Scope 2 GHG emissions	M tCO2e	0.0	0.1	0.1	0.1
	Total	M tCO2e	7.8	12.8	15.1	11.7
	Scope 3 GHG emissions	M tCO2e	N/A	3.0	3.8	5.9
	Total	M tCO2e	8.8	15.8	18.9	17.6
	GHG intensity (Scope 1 + Scope 2)	tCO2e/m2	0.98	0.8	0.78	N/A
Ε	Fuel consumption	M AG	827	1,353	1,595	1,690
	Fuel productivity	LTK/AG	9.6	11.8	12.06	N/A
	Renewable energy consumption	TJ	17.0	15.9	19.4	12.3
	Electricity Consumption	GWh	21.1	24.7	26.3	N/A
	Electricity intensity	kWh/m2	N/A	124	137	N/A
	% of waste diverted/waste generated	%	13.7	13.1%	16.6%	10.9%
	Cases of environmental non-compliance	%	0	0	0	0
	% of women in workforce	%	48.6%	49.6%	49.6%	49%
_	% of women in management roles	%	33.2%	32.8%	32.8%	27%
S	Lost time injury frequency (LTIF) rate	number	N/A	N/A	N/A	N/A
	Monetary contribution for CSR (SGD)	million	N/A	N/A	2.6	N/A
	MD/CEO salary as % of reported net profit	%	NM	0.31%	0.3%	0.11%
G	Board salary as % of reported net profit	%	NM	0.09%	0.09%	0.51%
	Independent directors on the Board	%	73%	73%	73%	24%
	Female directors on the Board	%	18%	18%	18%	12%

Qualitative Parameters (Score: 100)

a) Is there an ESG policy in place and is there a standalone ESG committee or is it part of the risk committee?

Yes. The Sustainability Steering Committee is chaired by the Chief Sustainability Officer, Ms Lee Wen Fen, to lead and spearhead SIA's sustainability pursuits.

b) Is the senior management salary linked to fulfilling ESG targets?

Yes. ESG metrics set out in the group's Key Value Drivers are included in the Individual Performance Scorecards.

- c) Does the company follow the task force of climate-related disclosures framework for ESG reporting?
- e) Does the company have a mechanism to capture Scope 3 emissions which parameters are captured?

Yes. Parameters captured include purchased goods and services, upstream transportation and distribution, waste generated in operations, business travel, and employee commuting.

f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?

To reduce carbon emissions, SAF is being tested for its operation ability. Solar panels have been installed on buildings to help the Group transition to renewable energy, and rainwater is harvested for flushing purposes and washing of the external landscape.

g) Does carbon offset form part of the net zero/carbon neutrality target of the company?

Yes. The Group is part of the Carbon Offset and Reduction Scheme for International Aviation.

Target (Score: 60)		
Particulars	Target	Achieved
Net zero carbon emissions by 2050		On Track
Reduce energy consumption in SIA-owned buildings by 10% form FY2019/20 levels	-10%	4.21%
100% renewable energy by 2026 of which at least 50% is self-generated from rooftop solar panels	50%	25%
BCA Green Mark accreditation for SIA-owned buildings in Singapore by FY2026/27	100%	On Track
Reduce potable water consumption in SIA-owned buildings by 10% from FY2019/20	-10%	On Track
Target at least 30% female representation in the Board	30%	18%
Net zero carbon emissions by 2050		On Track
Impact		
NA		
Overall Score: 75		
As per our ESG matrix, SIA Group (SIA SP) has an overall score of 75.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	70	35
Qualitative	25%	100	25
Target	25%	60	15
Total			75

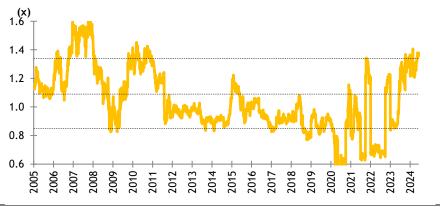
As per our ESG assessment, SIA has an established framework, internal policies, and tangible medium/long-term targets but needs to make headway in improving its quantitative "E" metrics YoY. SIA's overall ESG score is 75, which makes its ESG rating above average in our view (average ESG rating = 50).

Fig 1: Peer comparison

Company	BBG Code	MBIG Rec	MBIG TP (LC)	Price (LC)	FYE mm/dd	Market Cap USDm	Actual	P/I (x) FY+1		FY+3	EV/EBITDA (x) Actual	P/B (x) Actual	ROE (%) Actual
Singapore Airlines Ltd.	SIA SP	Hold	6.55	6.25	03/31	18,610	7.3	10.9	13.5	17.5	6.4	1.2	14.8%
Regional peers													
STARLUX AIRLINES CO.	2646 TT	NR	NA	27.70	12/31	2,862	376.9	-	-	-	14.3	3.7	1.8%
Air New Zealand Limited	AIR NZ	NR	NA	0.58	06/30	1,552	5.1	12.3	19.1	9.7	2.7	1.0	21.9%
PAL Holdings, Inc. China Southern Airlines	PAL PM	NR	NA	5.25	12/31	3,230	3.6	-	-	-	2.8	2.8	170.3%
Company Limited	1055 HK	NR	NA	2.87	12/31	17,049	-	12.7	5.7	4.3	8.1	1.3	-10.5%
China Eastern Airlines Corporation Limited	670 HK 601111	NR	NA	2.04	12/31	10,081	-	14.6	6.4	5.0	9.9	1.0	-21.9%
Air China Limited	CH	NR	NA	7.29	12/31	18,706	-	23.1	15.2	10.0	9.4	3.2	-
ANA Holdings Inc.	9202 JP	NR	NA	2,876.50	03/31	12,384	8.6	10.9	10.2	9.4	4.5	1.3	16.5%
Cathay Pacific Airways	293 HK	NR	NA	8.16	12/31	8,995	6.5	7.3	7.2	6.9	4.5	0.9	15.9%
Eva Airways Corporation	2618 TT	NR	NA	34.45	12/31	7,571	8.6	9.4	11.3	22.3	2.7	1.9	22.2%
Asiana Airlines Inc. Qantas Airways Limited	020560 KS QAN AU	NR NR	NA NA	9,980.0 6.46	12/31 06/30	722 9,730	25.9 6.7	10.6 7.4	23.9 6.6	15.9 6.1	3.8 3.6	1.5 7.1	4.2%
China Airlines Ltd.	2610 TT	NR	NA	22.95	12/31	5,652	20.3	11.7	18.6	39.5	4.7	1.8	9.4%
Korean Air Lines Co., Ltd.	003490 KS	NR	NA	21,250.0	12/31	7,627	7.2	6.4	6.5	6.2	3.6	0.8	11.4%
AVERAGE							40.5	12.7	12.4	11.6	6.5	2.2	15.1

Source: FactSet, Bloomberg

Fig 2: Historical P/B valuation band



Source: Bloomberg, FactSet

September 1, 2024 5

FYE 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
Key Metrics					
P/E (reported) (x)	7.5	7.3	11.0	13.6	17.6
Core P/E (x)	7.9	7.3	11.0	13.6	17.6
P/BV (x)	0.9	1.2	1.2	1.1	1.1
P/NTA (x)	0.9	1.2	1.2	1.2	1.1
Net dividend yield (%)	6.6	7.5	4.8	3.8	2.9
FCF yield (%)	44.1	20.1	7.2	nm	nm
EV/EBITDAR (x)	3.3	4.3	5.1	5.8	6.6
EV/EBIT (x)	5.9	7.7	11.1	14.4	19.2
INCOME STATEMENT (SGD m)					
Revenue	17,774.8	19,012.7	19,443.6	19,214.8	18,941.4
EBITDAR	4,796.3	4,909.4	4,299.0	4,065.2	3,801.9
Depreciation	(2,004.9)	(2,109.6)	(2,227.2)	(2,346.2)	(2,420.2)
Amortisation	(75.6)	(76.2)	(79.7)	(78.8)	(78.6)
EBIT	2,692.1	2,727.5	1,992.1	1,640.2	1,303.1
Net interest income /(exp)	(7.3)	207.2	20.0	(15.0)	(50.0)
Associates & JV	(31.2)	73.7	71.8	73.8	75.8
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	(16.8)	28.7	(50.0)	(50.0)	(50.0)
Pretax profit	2,636.8	3,037.1	2,033.9	1,649.0	1,278.9
Income tax	(473.5)	(342.0)	(315.2)	(263.8)	(211.0)
Minorities	(6.5)	(20.3)	(13.0)	(10.6)	(8.2)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	2,156.8	2,674.8	1,705.6	1,374.5	1,059.6
Non-cash & non-recurring items	0.0	0.0	0.0	0.0	0.0
Core net profit	2,164.1	2,610.1	1,705.6	1,374.5	1,059.6
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	16,327.6	11,268.8	10,028.2	8,525.4	7,236.3
Accounts receivable	1,476.7	1,770.9	1,821.0	1,813.7	1,802.8
Inventory	227.0	268.0	268.0	268.0	268.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	0.0	0.0	0.0	0.0	0.0
Intangible assets	297.5	304.5	304.5	304.5	304.5
Investment in Associates & JVs	1,022.3	1,077.6	1,149.4	1,223.2	1,299.0
Other assets	29,750.1	29,574.9	30,347.7	32,501.5	34,281.2
Total assets	49,101.2	44,264.7	43,918.9	44,636.3	45,191.9
ST interest bearing debt	2,598.7	940.0	940.0	940.0	940.0
Accounts payable	4,039.8	4,383.8	4,569.3	4,563.5	4,545.9
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	12,174.3	11,919.6	11,982.2	12,082.2	12,182.2
Other liabilities	10,039.0	10,277.0	10,405.0	10,358.0	10,299.0
Total Liabilities	28,851.4	27,520.1	27,896.4	27,943.3	27,967.0
Shareholders Equity	19,858.3	16,337.9	15,602.7	16,262.6	16,786.3
Minority Interest	391.5	406.7	419.7	430.3	438.6
Total shareholder equity	20,249.8	16,744.6	16,022.5	16,693.0	17,224.9
Total liabilities and equity	49,101.2	44,264.7	43,918.9	44,636.3	45,191.9
CASH FLOW (SGD m)					
Pretax profit	2,636.8	3,037.1	2,033.9	1,649.0	1,278.9
Depreciation & amortisation	2,080.5	2,185.8	2,306.9	2,425.0	2,498.8
Adj net interest (income)/exp	7.3	(207.2)	(20.0)	15.0	50.0
Change in working capital	4,036.6	49.9	363.8	(60.4)	(87.2)
Cash taxes paid	(5.2)	(10.7)	(315.2)	(263.8)	(211.0)
Other operating cash flow	374.1	25.4	(16.8)	(17.8)	(18.8)
Cash flow from operations	9,130.1	5,054.9	4,352.6	3,746.9	3,510.6
Capex	(1,601.8)	(1,231.3)	(3,000.0)	(4,500.0)	(4,200.0)
Free cash flow	7,528.3	3,823.6	1,352.6	(753.1)	(689.4)
Dividends paid	(298.7)	(1,150.9)	(906.3)	(725.2)	(544.2)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(370.0)	(1,913.4)	62.6	100.0	100.0
Other invest/financing cash flow	(4,105.7)	(5,102.2)	(1,749.4)	(124.5)	(155.6)
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Effect of exch rate changes	(217.8)	101.6	0.0	0.0	0.0

FYE 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
Key Ratios					
Growth ratios (%)					
Revenue growth	133.4	7.0	2.3	(1.2)	(1.4)
EBITDAR growth	240.9	2.4	(12.4)	(5.4)	(6.5)
EBIT growth	nm	1.3	(27.0)	(17.7)	(20.6)
Pretax growth	nm	15.2	(33.0)	(18.9)	(22.4)
Reported net profit growth	nm	24.0	(36.2)	(19.4)	(22.9)
Core net profit growth	nm	20.6	(34.7)	(19.4)	(22.9)
Profitability ratios (%)					
EBITDAR margin	27.0	25.8	22.1	21.2	20.1
EBIT margin	15.1	14.3	10.2	8.5	6.9
Pretax profit margin	14.8	16.0	10.5	8.6	6.8
Payout ratio	52.5	53.4	52.4	52.0	50.6
DuPont analysis					
Net profit margin (%)	12.1	14.1	8.8	7.2	5.6
Revenue/Assets (x)	0.4	0.4	0.4	0.4	0.4
Assets/Equity (x)	2.5	2.7	2.8	2.7	2.7
ROAE (%)	10.0	14.5	10.4	8.4	6.2
ROAA (%)	4.4	5.6	3.9	3.1	2.4
Liquidity & Efficiency					
Dividend cover (x)	1.9	1.9	1.9	1.9	2.0
Current ratio (x)	1.4	1.2	1.1	1.0	0.9
Leverage & Expense Analysis					
Asset/Liability (x)	1.7	1.6	1.6	1.6	1.6
Net gearing (%) (incl perps)	net cash	9.5	18.1	26.9	34.2
Net gearing (%) (excl. perps)	net cash	9.5	18.1	26.9	34.2
Net interest cover (x)	nm	na	na	109.3	26.1
Debt/EBITDAR (x)	3.1	2.6	3.0	3.2	3.5
Capex/revenue (%)	9.0	6.5	15.4	23.4	22.2
Net debt/ (net cash)	(1,554.6)	1,590.8	2,894.0	4,496.8	5,885.9

Source: Company; Maybank IBG Research



Research Offices

ECONOMICS

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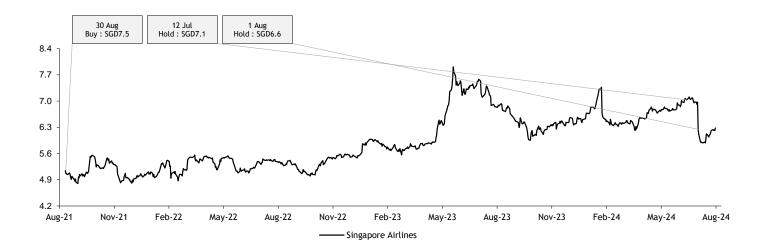
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