

Hold (unchanged)

Share price: SGD10.25
 Target price: SGD10.30 (from SGD10.20)

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Stock Information

Description: SIA provides air transportation, engineering and aviation-related services. The company operates under the brand names of Singapore Airlines (full-service carrier), SilkAir (regional airline), Scoot (long-haul low-cost carrier). The group also holds strategic stakes in Tiger Airways and Virgin Australia.

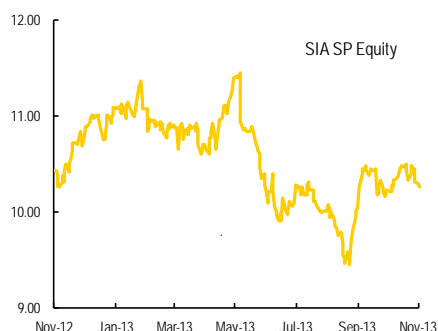
Ticker:	SIA SP
Shares Issued (m):	1,173.7
Market Cap (USD m):	9,615.2
3-mth Avg Daily Turnover (USD m):	6.9
ST Index:	3,180.25
Free float (%):	20.9

Major Shareholders:	%
Temasek Holdings	56.0

Key Indicators

ROE – annualised (%)	3.7
Net cash (SGD m):	4,264
NTA/shr (SGD):	11.1
Interest cover (x):	5.4

Historical Chart



Performance:

52-week High/Low SGD11.45 / SGD9.41

	1-mth	3-mth	6-mth	1-yr	YTD
Absolute (%)	0.3	2.5	-10.0	-1.7	-4.7
Relative (%)	0.3	4.2	-2.6	-7.1	-5.0

Singapore Airlines

Credible Results, Weak Trends Remain

Maintain HOLD, TP: SGD10.30. SIA reported a decent set of results with net income of SGD160.6m (+78 YoY, +32% QoQ). Considering the challenging operating environment, we find this performance commendable. However, 2QFY03/14 bottom-line was boosted by several one-off items, and the underlying trends remained weak. With improved profitability, the company declared marginally higher interim dividend of 10.0 cents/shr (vs FY03/13 interim: 6.0 cents). The depressed valuation reflects the tough business conditions and a meaningful near-term re-rating would be challenging. Its net cash position of SGD3.60/shr should support share price. Maintain Hold with a TP of SGD10.30, based on 0.9X FY14 BVPS.

Lifted by one-off items. The strong operating profit of SGD87m in 2QFY03/14 (1QFY03/14: SGD82m, 2QFY03/13: SGD70m), helped by fuel hedging gain of SGD52m and settlement pertaining to changes in aircraft delivery slots of SGD17m. Non-operating items of SGD9.1m for gains on aircraft and equipment sale, SGD3.4m for gain associated with sale of Virgin Atlantic and tax write-back of SGD33.1m provided further boost to its bottom-line.

Declining yield offset high load factor at parent airline. The parent airline reported a load factor of 81.1%, one of its strongest in recent quarters. While positive, this was offset by the continued decline in passenger yields to 11.0 cents (-3.5% YoY, -0.9% QoQ) due to promotional activities and relative strength of the SGD.

Smaller losses at Cargo unit; aggressive expansion weighs on loads at SilkAir. Business conditions remained challenging for the cargo operations, which chalked up their tenth consecutive quarterly loss. However, rationalization of capacity has helped to reduce the quarterly operating loss to SGD31m (1QFY03/14: -SGD40m, 2QFY03/13: -SGD50m). The aggressive expansion by SilkAir over the past year continued to weigh on its load factor, leading to operating profit of only SGD8m this quarter.

Singapore Airlines – Summary Earnings Table

Source: Maybank KE

FYE Mar (SGD m)	2012	2013	2014F	2015F	2016F
Revenue	14,858	15,098	15,477	16,851	18,013
EBITDA	1,898	1,841	2,046	2,205	2,493
Recurring Net Profit	341	399	551	691	892
Recurring EPS (cents)	28.5	33.7	46.6	58.4	75.3
EPS growth (%)	-73.6%	16.8%	38.2%	25.4%	29.0%
DPS (cents)	20.0	23.0	30.0	30.0	30.0
PER	35.3	30.2	21.9	17.4	13.5
EV/EBITDA (x)	4.3	4.4	4.0	3.7	3.3
Div Yield (%)	2.0%	2.2%	2.9%	2.9%	2.9%
P/BV(x)	0.94	0.92	0.90	0.87	0.84
Net Gearing (%)	-31.3%	-31.6%	-30.3%	-27.3%	-20.9%
ROE (%)	2.5%	2.9%	4.3%	5.1%	6.3%
ROA (%)	1.7%	2.0%	2.8%	3.3%	4.0%
Consensus Net Profit (SGD m)			541	751	957

Figure 1: Results Summary

FYE Mar (SGD'm)	2QFY14	1QFY14	2QFY13	% QoQ	% YoY	MBKE FY2014F	YTD as % of Remarks FY forecast
Sales	3,901	3,840	3,794	2%	3%	15,477	50% Boosted by aircraft delivery settlement gain of SGD17m
EBITDA	493	492	460	0%	7%	2,046	48%
D&A	(406)	(410)	(389)	-1%	4%	(1,575)	52%
Operating income	87	82	70	6%	23%	471	36% Earnings beat expectations on fuel hedging gain of SGD52m.
JV & Associates	63	27	35	138%	83%	183	49%
Pretax profit	169	153	116	11%	46%	726	44%
Taxation	8	(14)	(10)	-158%	-182%	(89)	7%
Minorities	(17)	(17)	(16)	3%	10%	(64)	53%
Net income	161	122	90	32%	78%	573	49% Above expectations on the back of several one-off items.
EPS	0.14	0.10	0.08	31%	77%	0.49	49%
EBITDA margin	12.6%	12.8%	12.1%			13.2%	
EBIT margin	2.2%	2.1%	1.9%			3.0%	
Net margin	4.6%	3.6%	2.8%			4.1%	

Source: Company, Maybank KE

Figure 2: Detailed breakdown

SIA results break	2QFY13	3QFY13	4QFY13	1QFY14	2QFY14
Revenue	3,794	3,860	3,667	3,840	3,901
Yield					
SIA (Scents/RPK)	11.4	11.4	11.2	11.1	11.0
SIA Cargo (Scents/FTK)	32.7	33.5	33.0	32.7	32.1
SilkAir (Scents/RPK)	13.6	14.6	14.7	14.1	13.9
Change y-y (%)					
SIA	-2.6%	-5.8%	-4.3%	-2.6%	-3.5%
SIA Cargo	-4.1%	-3.5%	-6.3%	-5.5%	-1.8%
SilkAir	-2.9%	0.0%	-1.3%	3.7%	2.2%
EBITDA	460	556	365	492	493
EBITDA margin (%)	12.1%	14.4%	10.0%	12.8%	12.6%
EBIT	70	131	(44)	82	87
EBITDA margin (%)	1.9%	3.4%	-1.2%	2.1%	2.2%
Operating Profit by key units					
SIA Parent Airline	84	87	(69)	89	97
SIA Cargo	(50)	(29)	(39)	(40)	(31)
SIAEC	32	31	31	28	28
SilkAir	19	34	26	14	8

Source: SIA, Maybank KE

PROFIT AND LOSS (SGD m)

FYE Mar	2012	2013	2014F	2015F	2016F
Revenue	14,858	15,098	15,477	16,851	18,013
EBITDAR	2,471	2,395	2,666	2,854	3,142
Depreciation & Amortisation	(1,612)	(1,612)	(1,575)	(1,578)	(1,633)
Operating profit	286	229	471	627	861
Interest (Exp)/Inc	(6)	47	50	49	44
Associates	126	158	183	195	207
Exceptional items	(5)	(20)	22	0	0
Other items	47	68	0	0	0
Pretax profit	448	482	726	871	1,112
Income taxes	(51)	(40)	(89)	(115)	(154)
Minority interests	(61)	(63)	(64)	(65)	(66)
Reported Net Profit	336	379	573	691	892
Core Net Profit	341	399	551	691	892
EBITDA	1,898	1,841	2,046	2,205	2,493
Revenue Growth (%)	2.3%	1.6%	2.5%	8.9%	6.9%
EBITDAR Growth (%)	-30.4%	-3.1%	11.3%	7.1%	10.1%
EBIT Growth (%)	-77.5%	-19.8%	105.5%	33.2%	37.2%
Net Profit Growth (%)	-69.2%	12.8%	51.3%	20.6%	29.0%
Recurring Net Profit Growth (%)	-73.6%	16.8%	38.2%	25.4%	29.0%
Tax Rate (%)	11.5%	8.4%	12.2%	13.2%	13.8%

BALANCE SHEET (SGD m)

FYE Mar	2012	2013	2014F	2015F	2016F
Total assets	22,043	22,428	22,689	23,320	24,076
Current assets	7,206	7,500	7,329	7,155	6,504
Cash & ST investment	5,328	5,409	5,345	5,021	4,226
Inventories	306	275	275	290	319
Accounts receivable	1,402	1,633	1,527	1,662	1,777
Others	7,802	7,611	8,214	9,191	11,250
Other assets	14,837	14,929	15,360	16,164	17,572
LT investments	374	707	707	707	707
Net fixed assets	13,381	13,098	13,082	13,833	15,182
Others	1,082	1,124	1,571	1,624	1,683
Total liabilities	8,856	9,011	8,898	9,184	9,395
Current liabilities	5,265	5,547	5,435	5,720	5,931
Accounts payable	2,885	3,201	3,089	3,374	3,585
ST borrowings	181	219	219	219	219
Others	2,198	2,127	2,127	2,127	2,127
Long-term liabilities	3,591	3,464	3,464	3,464	3,464
Long-term debts	1,019	945	945	945	945
Others	2,572	2,519	2,519	2,519	2,519
Shareholder's equity	12,893	13,105	13,471	13,810	14,349
Minority interests	294	313	319	326	332

CASH FLOW (SGD m)

FYE Mar	2012	2013	2014F	2015F	2016F
Operating cash flow	1,703	1,854	1,952	2,225	2,407
Operating profit	286	229	471	627	861
Depreciation & amortisation	1,612	1,612	1,575	1,578	1,633
Change in working capital	181	16	(5)	135	68
Others	(375)	(3)	(89)	(115)	(154)
Investment cash flow	(1,580)	(1,146)	(1,599)	(2,096)	(2,748)
Net capex	(1,202)	(1,311)	(1,900)	(2,350)	(3,000)
Change in LT investment	(7)	5	56	0	0
Other investment CF	(372)	161	245	254	252
Cash flow after invt.	122	708	353	129	(340)
Financing cash flow	(2,884)	(339)	(417)	(453)	(454)
Change in share capital	66	38	0	0	0
Net change in debt	(961)	(61)	0	0	0
Dividends to shareholders	(1,557)	(188)	(317)	(353)	(353)
Change in other LT liab.	(432)	(128)	(99)	(100)	(101)
Net cash flow	(2,762)	370	(64)	(324)	(794)

KEY RATIOS

FYE Mar	2012	2013	2014F	2015F	2016F
Growth (% YoY)					
Sales	2.3%	1.6%	2.5%	8.9%	6.9%
Operating profit	-77.5%	-19.8%	105.5%	33.2%	37.2%
EBITDA	-36.1%	-3.0%	11.1%	7.8%	13.1%
Net profit	-73.6%	16.8%	38.2%	25.4%	29.0%
EPS	-73.6%	16.8%	38.2%	25.4%	29.0%
Profitability (%)					
EBITDAR margin	16.6%	15.9%	17.2%	16.9%	17.4%
Operating margin	1.9%	1.5%	3.0%	3.7%	4.8%
EBITDA margin	12.8%	12.2%	13.2%	13.1%	13.8%
Net margin	2.7%	2.9%	4.1%	4.5%	5.3%
ROA	1.7%	2.0%	2.8%	3.3%	4.0%
ROE	2.5%	2.9%	4.3%	5.1%	6.3%
Stability					
Gross debt/equity (%)	9.1%	8.7%	8.4%	8.2%	7.9%
Net debt/equity (%)	-31.3%	-31.6%	-30.3%	-27.3%	-20.9%
Int. coverage (X)	3.8	5.4	11.2	15.0	20.5
Int. & ST debt coverage (X)	1.1	0.9	1.8	2.4	3.3
Cash flow int. coverage (X)	22.9	43.4	46.6	53.1	57.5
Cash flow int. & ST debt (X)	6.7	7.1	7.5	8.5	9.2
Current ratio (X)	1.4	1.4	1.3	1.3	1.1
Quick ratio (X)	1.3	1.3	1.3	1.2	1.0
Net cash/(debt) (SGD m)	4,128	4,246	4,182	3,857	3,063
Per share data (SGD)					
EPS	0.29	0.34	0.47	0.58	0.75
CFPS	(2.35)	0.31	(0.05)	(0.28)	(0.68)
BVPS	10.97	11.15	11.46	11.75	12.21
SPS	12.65	12.84	13.17	14.33	15.32
EBITDA/share	1.62	1.57	1.74	1.88	2.12
DPS	0.20	0.23	0.30	0.30	0.30

Source: Company, Maybank KE

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CY = Calendar Year	MoM = Month-On-Month	ROA = Return On Asset
DCF = Discounted Cashflow	NAV = Net Asset Value	ROE = Return On Equity
DPS = Dividend Per Share	NTA = Net Tangible Asset	ROSF = Return On Shareholders' Funds
EBIT = Earnings Before Interest And Tax	P = Price	WACC = Weighted Average Cost Of Capital
EBITDA = EBIT, Depreciation And Amortisation	P.A. = Per Annum	YoY = Year-On-Year
EPS = Earnings Per Share	PAT = Profit After Tax	YTD = Year-To-Date
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