

# Singapore Airlines (SIAL.SI)

## Alert: November Passenger Traffic Declines on Difficult Comps

**November Traffic Trends** – During November, SQ's mainline operation recorded a 0.4% YoY decline in Passenger RPKs (on a difficult year-ago comp), while capacity increased 0.7% YoY. Passenger load factors along the Americas & European routes improved 160bp and 70bp YoY respectively, but were more than offset by weaker performance across the other regions, leading to a 70bp deterioration YoY overall (see below). During November, SQ's cargo load factor declined 230bp YoY as demand (FTKs) declined 2.1% YoY vs capacity additions of 1.4% YoY. That said, total passengers and cargo carried in the month of November actually improved 0.7% and 1.8% YoY respectively, implying a shorter average length of haul.

Meanwhile at SilkAir, capacity rose 13.1%, far outpacing traffic demand (+4.5%, with passengers carrier +3.2% YoY), driving the load factor down 560bp YoY to 68.8% (with West Asia down 950bp and East Asia and Pacific down 410bp YoY, respectively).

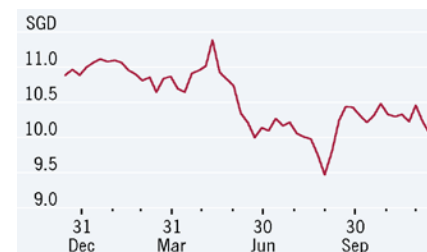
**Prefer CX Over SQ** – As highlighted in our recent report, entitled [Upgrade CX to Buy on Disciplined Capacity Management; Maintain Sell on SQ](#) (dated 14 Nov 2013), CX has been one of the only airlines in Asia to reduce its passenger capacity this year in light of the weakened demand environment (vs an estimated 4% growth at SQ in F14), which may allow the carrier to raise pax yields in 2H and into 2014 (building upon +4%YoY in 1H, vs -2% at SQ's Parent Airline, which was -3.5% YoY in the Sept quarter). In fact, CX could begin reporting yields above those at SQ (vs an average 8% discount in the past six years, not adjusted for the SilkAir mix impact). SQ is also more impacted by the weaker currency trends in ASEAN (which generates 50%+ pax revenue from points of sale in East Asia) relative to CX.

Our recently revised TP for SQ of S\$9.60 (up from S\$9.40) is also based on the 10-year average forward P/E of 16.4x (see below), applied to our revised EPS estimate of S\$0.59 (now just below FY15 cons vs 5% below three weeks ago) and below its 10-year average earnings of S\$0.84.

**Scoot and Nok Sign MoU for LCC JV in Thailand** – On a separate note, earlier today, SQ subsidiary Scoot announced a that it had signed a memorandum of understanding (MoU) with Nok Airlines PCL (NOK.BK; Bt20.90; Not Rated) for a LCC JV in Thailand (to be based out of Bangkok's Don Mueang International Airport).Nok will have up to 51% and Scoot will have 49% of NokScoot (the initial investment is stated to be THB2bn or ~SG\$80m). The establishment of the new airline is subject to regulatory approvals. Details about its fleet, products and route network will be announced at a later date. Recall, SQ also recently announced it had signed a [MoU with Tata Sons to establish a news full service carrier \(FSC\) in India](#).

Sell	3
Price (16 Dec 13)	S\$10.14
Target price	S\$9.60
Expected share price return	-5.3%
Expected dividend yield	2.3%
Expected total return	-3.0%
Market Cap	S\$12,166M
	US\$9,693M

### Price Performance (RIC: SIAL.SI, BB: SIA SP)



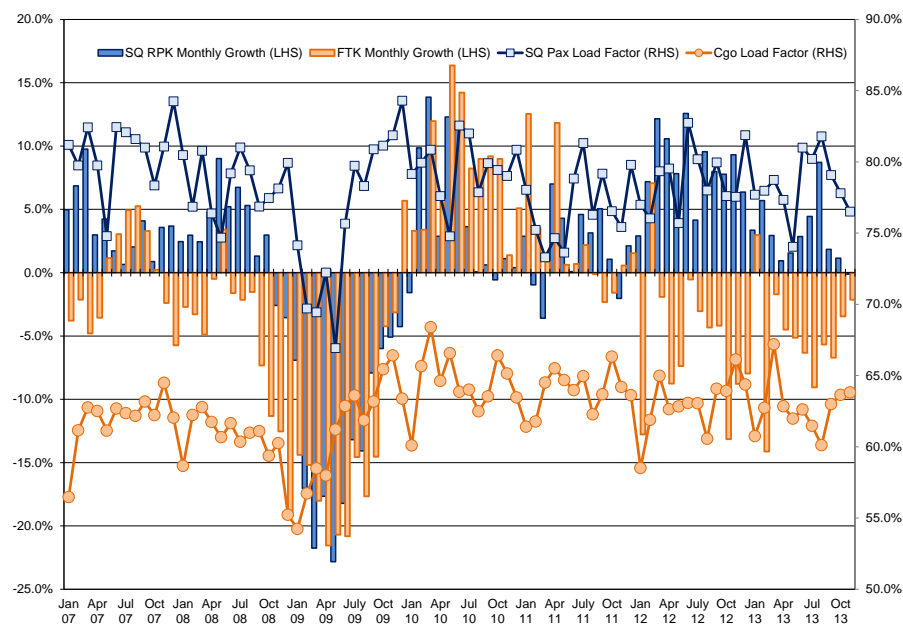
Michael Beer  
+852-2501-2431  
michael.beer@citi.com

Vivian Tao  
vivian.tao@citi.com

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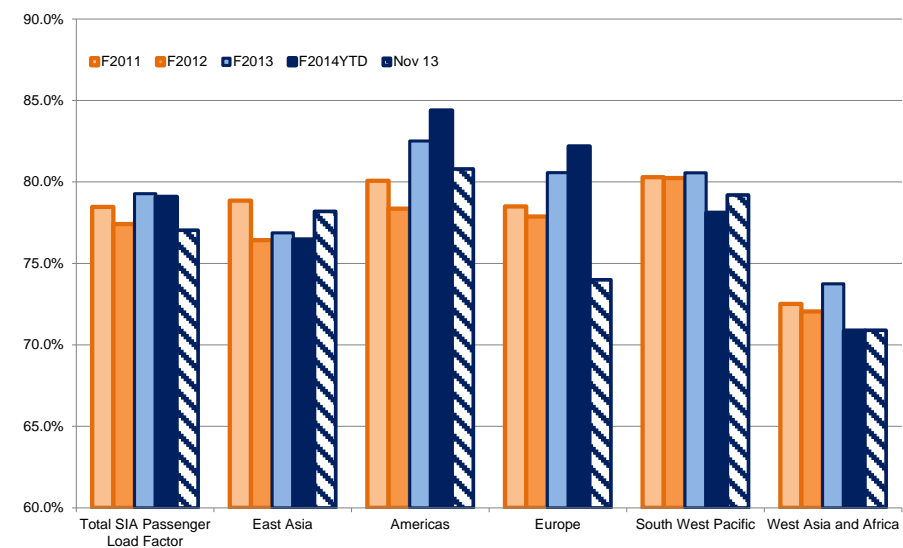
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Figure 1. Singapore Airlines (and SilkAir) Passenger Traffic (RPKs) and Cargo Trends (FTKs)



Source: Company reports; Citi Research

Figure 2. Singapore Airlines Passenger Load Factor by Region



Source: Company reports; Citi Research

# Singapore Airlines

## Valuation

Our TP for SQ of S\$9.60 is based on the 10-year average forward P/E of 16.4x, applied to our EPS estimate of S\$0.59, which is 6% below FY15 Cons (year ending March) and well below its 10-year average EPS of S\$0.84.

## Risks

Key downside and upside risks that could impede the stock from achieving our target price include: 1) A sharp increase (correction) in jet fuel prices would be negative (positive) for operating costs; 2) Travel demand - changes in traffic and yield outlook impact revenues and earnings; 3) Competition; 4) Currency exposures; 5) Capital management/dividend policy; 6) Divestment of SIA Engineering (management currently deems this unlikely); 7) M&A (may or may not prove value accretive and could impact SIA's strategic position); and 8) Market liquidity and investor risk appetite.

## Appendix A-1

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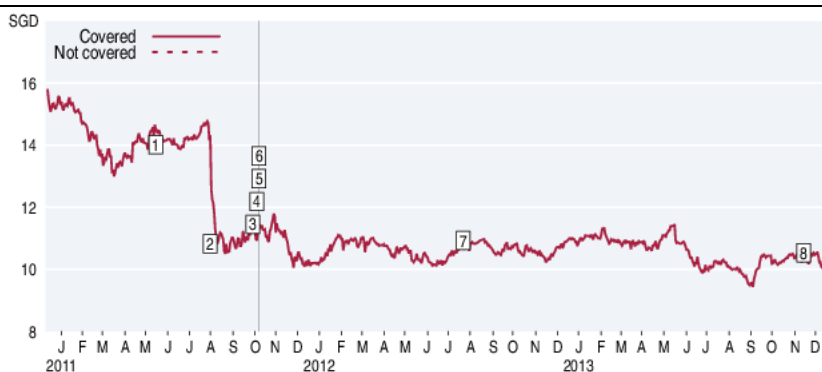
#### Singapore Airlines (SIAL.SI)

#### Ratings and Target Price History

#### Fundamental Research

Analyst: Michael Beer

Covered since November 14 2013



	Date	Rating	Target Price	Closing Price
1	15-May-11	*3L	*13.90	14.66
2	1-Aug-11	3L	*12.00	14.32
3	29-Sep-11	3L	*10.70	11.42

\* Indicates change

	Date	Rating	Target Price	Closing Price
4	5-Oct-11	3L	*10.40	10.93
5	7-Oct-11	Stock rating system changed		
6	7-Oct-11	*3	10.40	11.45

	Date	Rating	Target Price	Closing Price
7	23-Jul-12	3	*9.40	10.80
8	14-Nov-13	3	*9.60	10.31

Rating/target price changes above reflect Eastern Standard Time

## Singapore Airlines (SIAL.SI)

### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: Michael Beer

Covered since November 14 2013



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48%	40%	12%	6%	87%	6%
55%	50%	43%	64%	51%	48%

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