

SIA Engineering Company Ltd

Not cleared for take-off

SINGAPORE | TRANSPORT SERVICES | RESULTS

- S\$264.8mn revenue missed our expectations of S\$274.0mn by 3.4%
- S\$35.5mn PATMI missed our expectations of S\$38.4mn by 7.6%
- Interim dividend of 4.0 cents, lower than previous year's 6.0 cents
- Work content expected to be low, even when work volume picks up

Results at a glance

(SGD mn)	2Q17	2Q16	yoy (%)	Comments
Revenue	264.8	266.0	↓(0.5)	Lower fleet management, mitigated by higher line maintenance
EBIT	24.5	27.0	↓(9.3)	Higher material and staff costs, offset by lower subcontract costs
Associates & JVs	17.2	18.7	↓(8.0)	Contributions from engine repair and overhaul centres was 18.8% lower
PATMI, reported	35.5	44.5	↓(20.2)	2Q16 included S\$2.8mn one-off gain from partial disposal of associate, and a S\$1.5mn dividend from HAESL which ceased upon its divestment
PATMI, adjusted	35.5	40.2	↓(11.7)	Adjusted for one-off and non-recurring

Source: Company, Phillip Securities Research (Singapore)

Restructuring of services and partnering with OEM

The amalgamation of Rolls-Royce JVs Singapore Aero Engine Services Pte Ltd (SAESL) and International Engine Component Overhaul Pte Ltd (IECO) was completed on 2 October 2016. The intent of the amalgamation is to derive better efficiencies, scale and synergies.

Heavy Maintenance Singapore Services Pte Ltd (HMS Services) had received regulatory approval on 28 October 2016. The JV with Airbus combines SIA Engineering Company's (SIAEC's) maintenance experience with the technical expertise of the airframe original equipment manufacturer (OEM) to provide airframe maintenance, cabin upgrade and modification services for Airbus A380, A350 and A330 aircraft.

The operations of Pratt & Whitney (P&W) JVs Component Aerospace Singapore Pte Ltd (CAS) and International Aerospace Tubes-Asia Pte Ltd (IAT-A) will be integrated. The integrated entity is expected to generate better efficiencies, scale and synergies.

Lower interim dividend declared; lowered our full year forecast by 0.5 cent

Interim dividend of 4.0 cents is 58.1% of 1H FY17 6.88 cents recurring EPS. This is lower than 1H FY16 interim dividend of 6.0 cents at 78.5% of 7.64 cents recurring EPS. We lowered our full year dividend assumption to 13.5 cents from 14.0 cents (due to lower revised net profit); our dividend payout assumption remains unchanged at 89%. Management remains committed to keep payout to 80%~90%, as per historical.

Divestment gains not likely to translate fully to a special dividend

While no firm decision has been made on the use of the S\$178mn gain from divestment in 1Q FY17, Management has the intent to reinvest in technology and build up capabilities. Going by past momentum and capital outlay for new ventures, we think that up to only half of the divestment gains would be paid out as special dividend, amounting to approximately 7.9 cents/share. We believe that Management would adopt a conservative approach and distribute any special dividend over more than one FY.

Maintain "Reduce" rating with lower target price of S\$3.28 (previous: S\$3.39)

While work volume is expected to pick up in 2017, we believe work content will be lower compared to historical. This is due to better technology, which has led to better airframe and engine reliability. We have lowered our FY17/FY18 recurring PATMI by 5.1%/5.9%.

3 November 2016

Reduce (Maintained)

LAST CLOSE PRICE	SGD 3.68
FORECAST DIV	SGD 0.135
TARGET PRICE	SGD 3.28
TOTAL RETURN	-7.2%

COMPANY DATA

O/S SHARES (MN) :	1,122
MARKET CAP (USD mn / SGD mn) :	2981 / 4131
52 - WK HI/LO (SGD) :	4 / 3.31
3M Average Daily T/O (mn) :	0.25

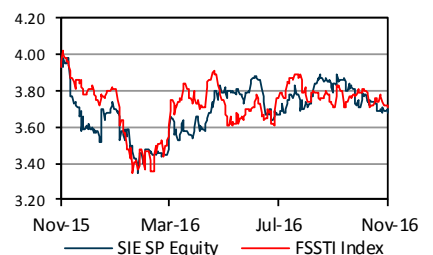
MAJOR SHAREHOLDER (%)

SINGAPORE AIRLINES LTD	77.5%
MATTHEWS INTERNATIONAL CAPITAL	14%
SEAFARER CAPITAL PARTNERS LLC	0.7%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(0.3)	(0.8)	(3.8)
STIRETURN	(19)	(12)	(2.5)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar	FY 15	FY 16	FY 17e	FY 18e
Revenue (SGD mn)	1,121	1,113	1,089	1,102
Assoc. & JVs (SGD mn)	106	94	76	92
PATMI, adj (SGD mn)	183	177	169	175
EPS, adj. (Cents)	16.36	15.74	27.70	15.57
P/E, adj. (x)	25.2	23.4	24.5	23.8
BVPS (Cents)	124.8	139.4	140.4	142.4
P/B (x)	3.3	2.6	2.6	2.6
DPS (Cents)	14.50	14.00	13.50	14.00
Div. Yield (%)	3.5	3.8	3.6	3.8

Source: Company Data, PSR est.

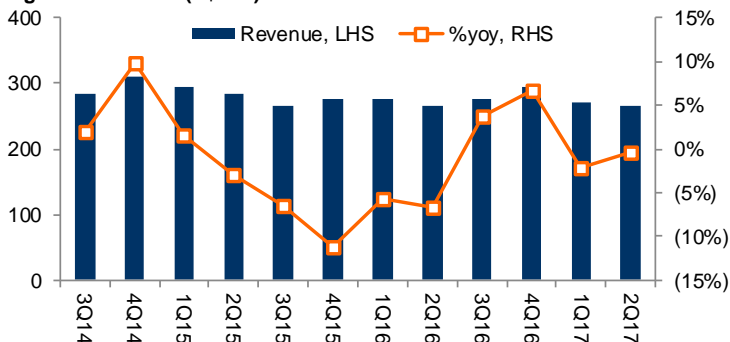
VALUATION METHOD

DCF (WACC: 7.6%; Terminal g: 15%)

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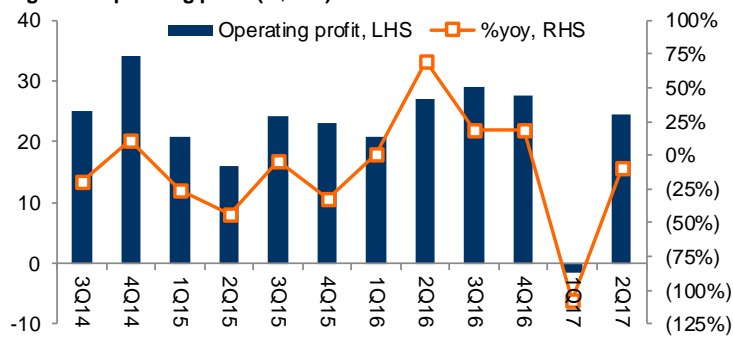
Quarterly Revenue and Profitability data

Figure 1. Revenue (S\$ mn)



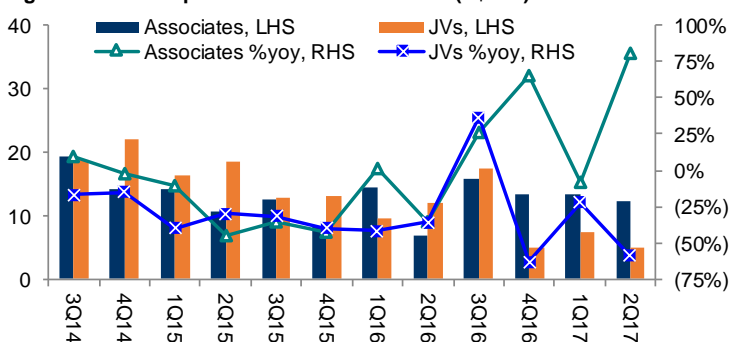
Source: Company, Phillip Securities Research (Singapore)

Figure 2. Operating profit (S\$ mn)



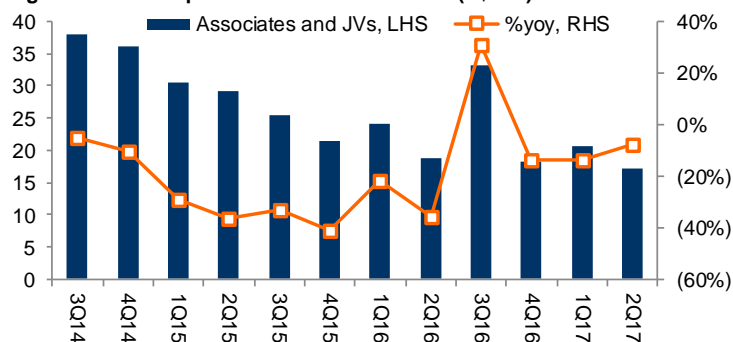
Source: Company, Phillip Securities Research (Singapore)

Figure 3. Share of profits of Associates & JVs (S\$ mn)



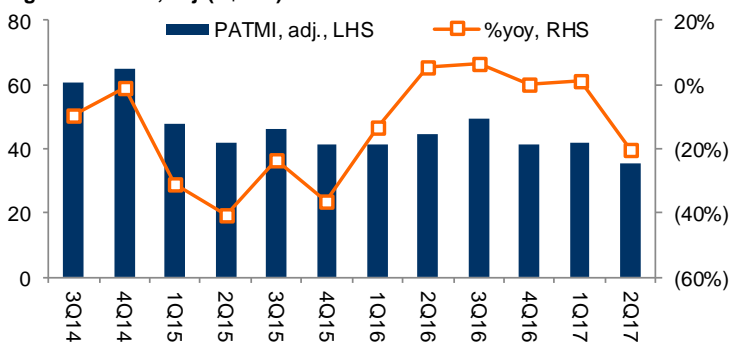
Source: Company, Phillip Securities Research (Singapore)

Figure 4. Share of profits of Associates & JVs (S\$ mn)



Source: Company, Phillip Securities Research (Singapore)

Figure 5. PATMI, adj. (S\$ mn)



Source: Company, Phillip Securities Research (Singapore)

Results at a glance

(SGD mn)	1H17	1H16	yoy (%)	Comments
Airframe & Component Overhaul	218.6	219.3	↓(0.3)	
Fleet Management	72.2	96.7	↓(25.3)	Loss of Tigerair contract
Line Maintenance	245.6	227.3	↑8.1	
Revenue	536.4	543.3	↓(1.3)	Lower fleet management, mitigated by higher line maintenance
EBIT, reported	22.9	47.9	↓(52.2)	1H17 includes S\$21.3mn one-off provision for profit-linked component of staff remuneration
EBIT, adjusted	44.2	47.9	↓(7.7)	Adjusted for one-off provision above
Associates & JVs	37.9	42.7	↓(11.2)	Contributions from engine repair and overhaul centres was 5.2% lower
PATMI, reported	233.9	85.8	N.M.	1H17 includes one-off gains of S\$178mn from divestment of HAESL and S\$21.3mn provision for profit-linked component of staff remuneration 1H16 included S\$2.8mn one-off gain from partial disposal of associate, and a S\$1.5mn dividend from HAESL which ceased upon its divestment
PATMI, adjusted	77.2	81.5	↓(5.3)	Adjusted for one-offs and non-recurring

Source: Company, Phillip Securities Research (Singapore)

Financials

Income Statement

Y/E Mar, SGD mn	FY14	FY15	FY16	FY17e	FY18e
Revenue	1,178	1,121	1,113	1,089	1,102
EBITDA	153	127	148	122	147
Depreciation & Amortisation	37	43	44	49	48
EBIT	116	84	104	73	99
Net Finance (Expense)/Inc	1.3	1.1	1.7	1.1	1.8
Other items	15	14	2	40	-
Associates & JVs	163	106	94	76	92
Exceptional items	-	-	-	142	-
Profit Before Tax	294	205	202	331	193
Taxation	(23)	(20)	(21)	(14)	(15)
Profit After Tax	271	185	181	317	178
- Non-controlling interest	5.3	2.1	4.6	5.9	3.3
PATMI, reported	266	183	177	311	175
PATMI, adj.	266	183	177	169	175

Per share data (Cents)

Y/E Mar	FY14	FY15	FY16	FY17e	FY18e
EPS, reported	23.88	16.36	15.74	27.70	15.57
EPS, adj.	23.88	16.36	15.74	15.08	15.57
DPS	25.00	14.50	14.00	13.50	14.00
BVPS	128.3	124.8	139.4	140.4	142.4

Cash Flow

Y/E Mar, SGD mn	FY14	FY15	FY16	FY17e	FY18e
CFO					
PBT	294	205	202	331	193
Adjustments	(137)	(81)	(40)	(209)	(46)
WC changes	(20.6)	(5.1)	(65.9)	36.4	(18.2)
Cash generated from ops	137	119	96	158	129
Others	(24)	(23)	(19)	(14)	(15)
Cashflow from ops	113	96	77	144	114
CFI					
CAPEX, net	(67)	(49)	(41)	(41)	(43)
Divd from associates & JVs	157	112	79	61	69
Others	11.0	14.6	(16.0)	193.1	(2.3)
Cashflow from investments	101	78	22	213	23
CFF					
Share issuance, net	30.3	17.2	5.8	-	-
Loans, net of repayments	16.1	8.8	0.8	-	-
Dividends	(248)	(273)	(167)	(164)	(155)
Others	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)
Cashflow from financing	(202)	(248)	(161)	(164)	(156)
Net change in cash	13	(74)	(62)	193	(18)
Effects of exchange rates	-	5.1	(1.1)	-	-
CCE, end	536	464	394	587	569

Balance Sheet

Y/E Mar, SGD mn	FY14	FY15	FY16	FY17e	FY18e
ASSETS					
PPE	337	344	341	337	337
Intangibles	54	62	63	63	63
Associates & JVs	436	464	492	506	530
Investments	15	15	-	-	-
Others	-	-	-	-	-
Total non-current assets	842	884	896	907	930
Inventories	44	38	41	38	39
Accounts Receivables	97	83	77	78	77
Prepayments	19	13	14	13	14
Investments	-	-	-	-	-
Cash	536	464	394	587	569
Others	169	176	401	205	225
Total current assets	865	773	926	921	924
Total Assets	1,707	1,657	1,822	1,828	1,854

LIABILITIES

Short term loans	8.2	9.3	8.8	8.8	8.8
Accounts Payables	246	230	229	224	227
Others	22	17	18	18	18
Total current liabilities	276	257	256	251	254
Long term loans	14	24	25	25	25
Others	27	27	30	30	30
Total non-current liabilities	40	51	54	54	54
Total Liabilities	317	307	310	305	308

EQUITY

Non-controlling interests	30	25	26	26	25
Shareholder Equity	1,361	1,325	1,486	1,498	1,521

Valuation Ratios

Y/E Mar	FY14	FY15	FY16	FY17e	FY18e
P/E (X), adj.	20.5	25.2	23.4	24.5	23.8
P/B (X)	3.8	3.3	2.6	2.6	2.6
EV/EBITDA (X), adj.	32.6	33.2	25.7	29.8	24.8
Dividend Yield (%)	5.1%	3.5%	3.8%	3.6%	3.8%

Growth & Margins (%)

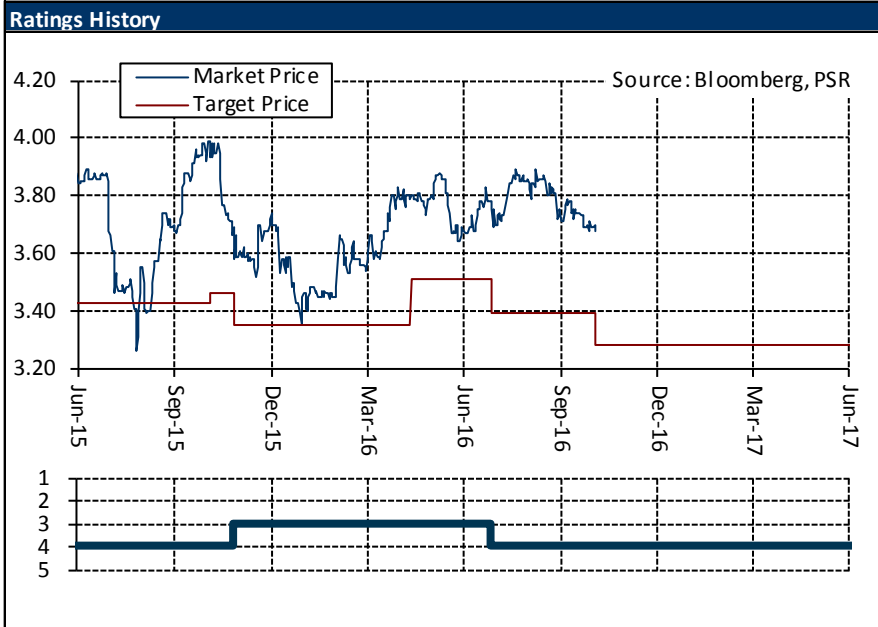
Growth					
Revenue	2.7%	-4.9%	-0.7%	-2.1%	1.2%
EBITDA	-6.4%	-16.9%	17.0%	-17.8%	20.8%
EBIT	-9.8%	-27.3%	24.3%	-29.9%	35.0%
Net Income, adj.	-1.6%	-31.0%	-3.7%	-4.2%	3.3%
Margins					
EBITDA margin	13.0%	11.3%	13.3%	11.2%	13.4%
EBIT margin	9.8%	7.5%	9.4%	6.7%	9.0%
Net Profit Margin	23.0%	16.5%	16.3%	29.1%	16.2%

Key Ratios

ROE (%)	20.0%	13.6%	12.6%	11.3%	11.6%
ROA (%)	15.9%	10.9%	10.2%	9.3%	9.5%
Net Debt or (Net Cash)	(514)	(431)	(361)	(554)	(536)
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company, Phillip Securities Research (Singapore) Estimates

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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