

SIA Engineering Company Ltd

Earnings hit by higher operating costs



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SINGAPORE | TRANSPORT SERVICES | 1Q18 RESULTS

26 July 2017

- 1Q18 revenue in line with our forecast
- 1Q18 associates/JVs in line with our forecast
- 1Q18 recurring PATMI exceeded our forecast by 21%
- Higher reported EBIT YoY and materially lower reported PATMI YoY are due to one-offs last year

Results at a glance

(SGD mn)	1Q18	1Q17	YoY	Comments
Revenue	272.8	271.6	0.4%	
EBIT, before divestment	18.1	19.7	-8.1%	
EBIT, after divestment	18.1	(1.6)	N.M.	1Q17 includes one-off S\$21.3 mn provision for staff costs arising from divestment gain
Associates & JVs	21.1	20.7	1.9%	Associates S\$3.5 mn or 26% higher, JVs \$3.1 mn or 42% lower
PATMI, reported	36.2	198.4	-82%	1Q17 includes one-off divestment gain of S\$141.6 mn and special dividend of \$36.4 mn
PATMI, recurring	36.2	38.0	-4.7%	Adjusted for one-offs above

Source: Company, PSR

The positives

- + YoY higher profit from associates: Contribution from Eagle Services Asia (Pratt & Whitney engine shop) and other associated companies. Operators have been encouraged by the low fuel prices to delay retirement of classic fleets such as B747, which is powered by the PW4000 engine. Strong performance from Eagle Service is not expected to be sustainable as the PW4000 is a mature market which will eventually be phased out.
- + Adding GE engines to its stable: SIA Engineering Company ("SIAEC") announced during the quarter that it would be entering into a JV with GE Aviation to overhaul engines in Singapore.

The negatives

- YoY lower recurring EBIT: Reported EBIT was materially higher YoY, which was due to one-off provision in 1Q17. On a recurring basis, operating expenses are 1.1% higher YoY instead of lower as reported, mainly driven by a 5.9% YoY increase in staff costs (47% of revenue) which outpaced revenue growth.
- YoY lower profit from JVs: Contribution from Singapore Aero Engine Services (Rolls Royce engine shop) have been weak due to higher engine reliability which requires less maintenance.

Outlook

The outlook remains challenging. Improvement in technology and design has led to better airframe and engine reliability, resulting in the structural issue of lower work content. SIAEC has a strong balance sheet with a net cash position. It has the financial flexibility to mitigate the challenges through entering into new ventures with the OEMs.

Downgrade to Reduce (from Neutral) with unchanged target price of S\$3.70

We do not make any adjustments to our full year forecast for FY18e. The 3.3% forecasted dividend yield does not adequately compensate for the downside risk in price. There is scope for FY18e earnings and dividend forecast to be cut, if work content does not pick up in the remaining quarters.

Our target price gives an implied FY18e forward P/E multiple of 24.9x. This compares against the STI next 12-months forward P/E multiple of 14.9x.

Reduce (Downgraded)

LAST CLOSE PRICE	SGD 3.87
FORECAST DIV	SGD 0.130
TARGET PRICE	SGD 3.70
TOTAL RETURN	-1.0%

COMPANY DATA

BLOOMBERG CODE:	SIE SP
O/S SHARES (MN) :	1,120
MARKET CAP (USD mn / SGD mn) :	3184 / 4333
52 - WK HI/LO (SGD) :	4.21 / 3.35
3M Average Daily T/O (mn) :	0.35

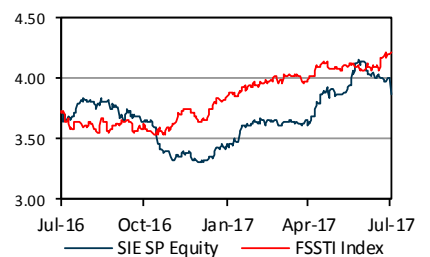
MAJOR SHAREHOLDER (%)

SINGAPORE AIRLINES LTD	77.7%
MATTHEWS INTERNATIONAL CAPITAL	14%
SEAFARER CAPITAL PARTNERS LLC	0.9%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(3.3)	10.7	10.7
STIRETURN	3.2	6.5	16.6

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar	FY 16	FY 17	FY 18e	FY 19e
Revenue (SGD mn)	1,113	1,104	1,117	1,131
Assoc. & JVs (SGD mn)	94.2	96.5	105.5	118.9
PATMI, adj (SGD mn)	172.3	172.0	166.7	184.1
EPS, adj. (cents)	15.4	15.3	14.9	16.4
P/E, adj. (x)	24.0	24.0	26.9	24.4
BVPS (cents)	139.4	146.3	142.8	145.8
P/B (x)	2.6	2.5	2.8	2.7
DPS (cents)	14.0	13.0	13.0	14.5
Div. Yield (%)	3.8	3.5	3.3	3.6

Source: Company Data, PSR est.

VALUATION METHOD

DCF (WACC: 7.0%; Terminal g: 2.0%)

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Financials

Income Statement

Y/E Mar, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	1,121	1,113	1,104	1,117	1,131
EBITDA	127	148	125	127	133
Depreciation & Amortisation	43	44	53	51	51
EBIT	84	104	72	76	82
Net Finance (Expense)/Inc	1	2	3	3	3
Other items	14	2	183	-	-
Associates & JVs	106	94	97	105	119
Profit Before Tax	205	202	355	184	204
Taxation	(20)	(21)	(18)	(15)	(16)
Profit After Tax	185	181	337	170	188
- Non-controlling interest	2	5	5	3	4
PATMI, reported	183	177	332	167	184
Exceptional items	-	(4)	(160)	-	-
PATMI, adj.	183	172	172	167	184

Per share data (cents)

Y/E Mar	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	16.36	15.74	29.63	14.86	16.41
EPS, adj.	16.36	15.36	15.33	14.86	16.41
DPS, ordinary	14.50	14.00	13.00	13.00	14.50
DPS, special	-	-	5.00	-	-
BVPS	124.8	139.4	146.3	142.8	145.8

Cash Flow

Y/E Mar, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
PBT	205	202	355	184	204
Adjustments	(81)	(40)	(233)	(57)	(70)
WC changes	(5.1)	(65.9)	29.7	(15.2)	5.4
Cash generated from ops	119	96	152	112	139
Others	(23)	(19)	(20)	(15)	(16)
Cashflow from ops	96	77	132	97	123
CFI					
CAPEX, net	(49)	(41)	(37)	(43)	(43)
Divd from associates & JVs	112	79	62	74	83
Others	14.6	(16.0)	198.0	(1.8)	(2.0)
Cashflow from investments	78	22	224	29	38
CCF					
Share issuance, net	17.2	5.8	19.9	-	-
Loans, net of repayments	8.8	0.8	(8.7)	(4.0)	(4.0)
Dividends	(273)	(167)	(141)	(206)	(150)
Others	(0.3)	(0.3)	(0.7)	(0.3)	(0.3)
Cashflow from financing	(248)	(161)	(130)	(210)	(154)
Net change in cash	(74)	(62)	225	(85)	7
Effects of exchange rates	5.1	(1.1)	2.3	-	-
CCE, end	464	394	602	517	524

Source: Company, Phillip Securities Research (Singapore) Estimates

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

Balance Sheet

Y/E Mar, SGD mn	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
PPE	344	341	332	329	326
Intangibles	62	63	65	65	65
Associates & JVs	464	492	542	574	610
Investments	15	-	-	-	-
Others	-	-	-	-	-
Total non-current assets	884	896	939	968	1,000
Inventories	38	41	37	39	39
Accounts Receivables	83	77	88	83	87
Prepayments	13	14	15	15	15
Cash	464	394	602	517	524
Others	176	401	238	243	245
Total current assets	773	926	979	897	910
Total Assets	1,657	1,822	1,918	1,865	1,910

LIABILITIES

Short term loans	9.3	8.8	4.0	4.0	4.0
Accounts Payables	230	229	260	247	258
Others	17	18	16	16	16
Total current liabilities	257	256	279	266	277
Long term loans	24	25	22	18	14
Others	27	30	29	29	29
Total non-current liabilities	51	54	51	47	43
Total Liabilities	307	310	330	313	320

EQUITY

Non-controlling interests	25	26	34	33	33
Shareholder Equity	1,325	1,486	1,554	1,519	1,557

Valuation Ratios

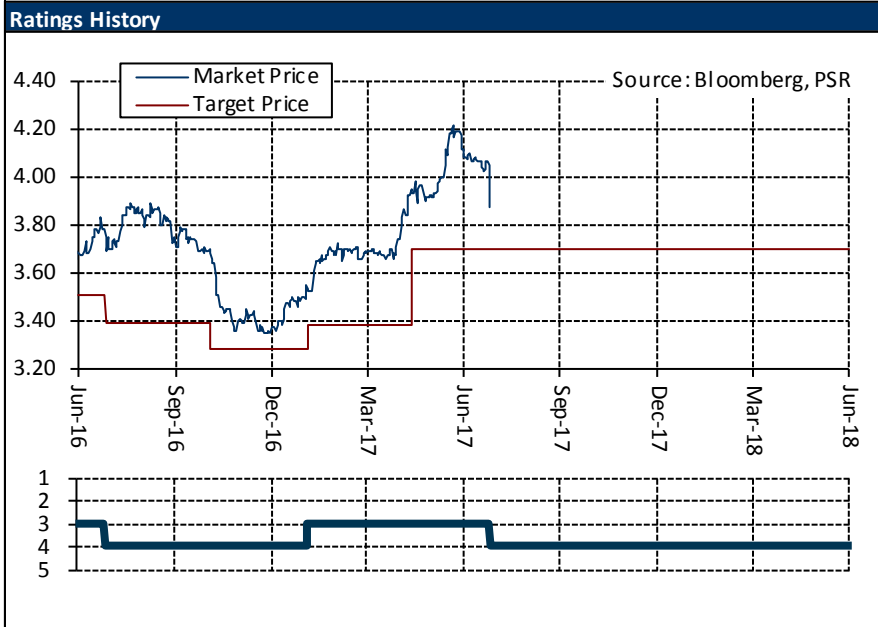
Y/E Mar	FY15	FY16	FY17	FY18e	FY19e
P/E (X), adj.	25.2	24.0	24.0	26.9	24.4
P/B (X)	3.3	2.6	2.5	2.8	2.7
EV/EBITDA (X), adj.	33.2	25.7	28.7	31.6	30.1
Dividend Yield (%)	3.5	3.8	3.5	3.3	3.6

Growth & Margins (%)

Growth					
Revenue	-4.9%	-0.7%	-0.8%	1.2%	1.2%
EBITDA	-16.9%	17.0%	-15.8%	1.7%	4.9%
EBIT	-27.3%	24.3%	-31.0%	5.9%	7.5%
Net Income, adj.	-31.0%	-6.0%	-0.2%	-3.1%	10.5%
Margins					
EBITDA margin	11.3%	13.3%	11.3%	11.4%	11.8%
EBIT margin	7.5%	9.4%	6.5%	6.8%	7.2%
Net Profit Margin	16.5%	16.3%	30.5%	15.2%	16.6%

Key Ratios

ROE	13.6%	12.3%	11.3%	10.8%	12.0%
ROA	10.9%	9.9%	9.2%	8.8%	9.8%
Dividend payout, ordinary	88.6%	91.2%	84.8%	87.5%	88.3%
Net Debt or (Net Cash)	(431)	(361)	(576)	(495)	(506)
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



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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