

SIA Engineering Company Ltd

Muted outlook with absence of near-term catalyst



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SINGAPORE | TRANSPORT SERVICES | 2Q18 RESULTS

6 November 2017

- 2Q18 revenue in line with our estimate
- 2Q18 EBIT, Associates/JVs and PATMI came in lower than our estimates by 16.3%, 14.5% and 15.9% respectively
- 1H18 revenue, EBIT and PATMI met 48.4%, 40.9% and 44.8%, respectively of consensus full year expectation
- Strong contribution from Associates offsetting weaker EBIT to lift PATMI
- 4 cents interim dividend declared, unchanged from previous year

Results at a glance

(SGD mn)	2Q18	2Q17	YoY	Comments
Revenue	274.7	264.8	3.7%	Higher airframe and component overhaul and line maintenance, partially offset by lower fleet management
EBIT	19.5	24.5	-20.4%	OpEx \$14.9 mn or 6.2% higher
Associates & JV	22.9	17.2	33.1%	Associates S\$5.9 mn or 48% higher, JV \$0.2 mn or 4.1% lower
PATMI	38.1	35.5	7.3%	

Source: Company, PSR

The positives

- YoY higher profit from associates: This was mainly from Eagle Services Asia (ESA) with the same reason as previous quarters – heavier work content from the PW4000 engine, as operators delayed retirement of classic B747 fleet due to low fuel prices. Contribution from ESA is expected to sustain at this level, until the PW4000 gets phased out and work content transitions to the PW1100G (installed on A320neo).
- Market share of flights handled at Changi Airport remains largely intact: Operationally, SIAEC handled 3.8% YoY more flights for 1H18, which was in line with the 4.1% YoY growth at Changi Airport for the same period.

The negatives

- Staff costs and subcontract costs dragged EBIT lower YoY: Staff costs (largest cost component) was 5.3% YoY higher, outpacing revenue growth. Higher subcontract costs (third-largest cost component) was due to outsourcing of aircraft painting to a specialist since January 2017. Consequently, subcontract costs grew 7.5% YoY and also took up a bigger chunk of revenue, from 12.1% in 2Q17 to 12.5% in 2Q18.
- YoY lower profit from JV: Two factors have contributed to the persistent weakness from Singapore Aero Engine Services (SAESL). Higher engine reliability has resulted in lower work content and supply chain issues on spares has impacted throughput. Quarterly JV profit from historical high of high-\$20 mn range has been decimated to mid-single-digit mn in recent quarters.

Outlook

The outlook remains challenging. Despite the YoY higher 2Q18 PATMI, margins continue to compress, and PATMI came in lower than our expectation. Absence of strong catalyst will keep the share price muted, in our view. However, SIAEC has a strong balance sheet with a net cash position, which it is utilising to start new ventures.

Upgrade to Neutral (from Reduce); lower target price of S\$3.35 (previously S\$3.70)

We have incorporated 1H18 results into our FY18e estimate, and made some adjustments to our margin assumptions and profit contribution from associates/JVs. Our FY18e/FY19e PATMI is now 8.6%/14.9% lower than previous estimates. We have also lowered our FY18e/FY19e ordinary dividend forecast to 12.0/12.5 cents from 13.0/14.5 cents previously. Our target price gives an implied FY18e forward P/E multiple of 24.6x. This compares against the STI next 12-months forward P/E multiple of 15.0x.

Neutral (Upgrade)

LAST CLOSE PRICE	SGD 3.26
FORECAST DIV	SGD 0.120
TARGET PRICE	SGD 3.35
TOTAL RETURN	6.4%

COMPANY DATA

BLOOMBERG CODE:	SIE SP
O/S SHARES (MN) :	1.118
MARKET CAP (USD mn / SGD mn) :	2681/ 3646
52 - WK HI/LO (SGD) :	4.16 / 3.15
3M Average Daily T/O (mn) :	0.92

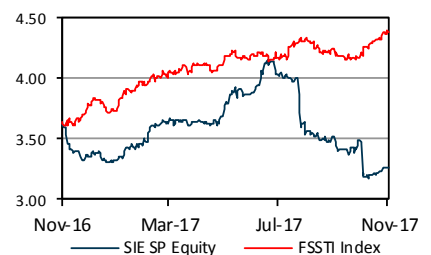
MAJOR SHAREHOLDER (%)

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

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(6.3)	(8.4)	(7.2)
STIRETURN	3.7	19	24.4

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar	FY 16	FY 17	FY 18e	FY 19e
Revenue (SGD mn)	1113	1104	1122	1135
Assoc. & JVs (SGD mn)	94.2	96.5	90.3	91.3
PATMI, adj (SGD mn)	172.3	172.0	152.7	156.5
EPS, adj. (cents)	15.4	15.3	13.6	14.0
P/E, adj. (x)	24.0	24.0	23.9	23.4
BVPS (cents)	134.6	141.8	137.3	139.2
P/B (x)	2.7	2.6	2.4	2.3
DPS (cents)	14.0	13.0	12.0	12.5
Div. Yield (%)	3.8	3.5	3.7	3.8

Source: Company Data, PSR est.

VALUATION METHOD

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

Richard Leow, CFTe, FRM (+65 6212 1848)
richardleowwt@phillip.com.sg

Financials

Income Statement

Y/E Mar, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	1,121	1,113	1,104	1,122	1,135
EBITDA	127	148	125	137	140
Depreciation & Amortisation	43	44	53	55	54
EBIT	84	104	72	82	86
Net Finance (Expense)/Inc	1	2	3	3	3
Other items	14	2	183	-	-
Associates & JVs	106	94	97	90	91
Profit Before Tax	205	202	355	175	180
Taxation	(20)	(21)	(18)	(20)	(20)
Profit After Tax	185	181	337	155	160
- Non-controlling interest	2	5	5	3	3
PATMI, reported	183	177	332	153	157
Exceptional items	-	(4)	(160)	-	-
PATMI, adj.	183	172	172	153	157

Per share data (cents)

Y/E Mar	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	16.36	15.74	29.63	13.61	13.95
EPS, adj.	16.36	15.36	15.33	13.61	13.95
DPS, ordinary	14.50	14.00	13.00	12.00	12.50
DPS, special	-	-	5.00	-	-
BVPS	120.3	134.6	141.8	137.3	139.2

Cash Flow

Y/E Mar, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
PBT	205	202	355	175	180
Adjustments	(81)	(40)	(233)	(38)	(40)
WC changes	(5.1)	(65.9)	29.7	(15.8)	5.4
Cash generated from ops	119	96	152	121	145
Others	(23)	(19)	(20)	(20)	(20)
Cashflow from ops	96	77	132	102	125
CFI					
CAPEX, net	(49)	(41)	(37)	(43)	(42)
Divd from associates & JVs	112	79	62	63	64
Others	14.6	(16.0)	198.0	(1.8)	(2.0)
Cashflow from investments	78	22	224	18	20
CFF					
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)	(205)	(138)
Others	(0.3)	(0.3)	(0.7)	(0.3)	(0.3)
Cashflow from financing	(248)	(161)	(130)	(210)	(142)
Net change in cash	(74)	(62)	225	(90)	2
Effects of exchange rates	5.1	(1.1)	2.3	-	-
CCE, end	464	394	602	512	514

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	FY14	FY15	FY16	FY17	FY18e	FY19e
ASSETS						
PPE	337	344	341	332	325	318
Intangibles	54	62	63	65	65	65
Associates & JVs	436	464	492	542	569	597
Investments	15	15	-	-	-	-
Others	-	-	-	-	-	-
Total non-current assets	842	884	896	939	959	980
Inventories	44	38	41	37	39	39
Accounts Receivables	97	83	77	88	83	87
Prepayments	19	13	14	15	15	15
Cash	536	464	394	602	512	514
Others	169	176	401	238	244	246
Total current assets	865	773	926	979	893	901
Total Assets	1,707	1,657	1,822	1,918	1,852	1,881
LIABILITIES						
Short term loans	8	9.3	8.8	4.0	4.0	4.0
Accounts Payables	246	230	229	260	248	259
Others	22	17	18	16	16	16
Total current liabilities	276	257	256	279	267	278
Long term loans	14	24	25	22	18	14
Others	27	27	30	29	29	29
Total non-current liabilities	40	51	54	51	47	43
Total Liabilities	317	307	310	330	314	321
EQUITY						
Non-controlling interests	30	25	26	34	33	33
Shareholder Equity	1,361	1,325	1,486	1,554	1,505	1,527

Valuation Ratios

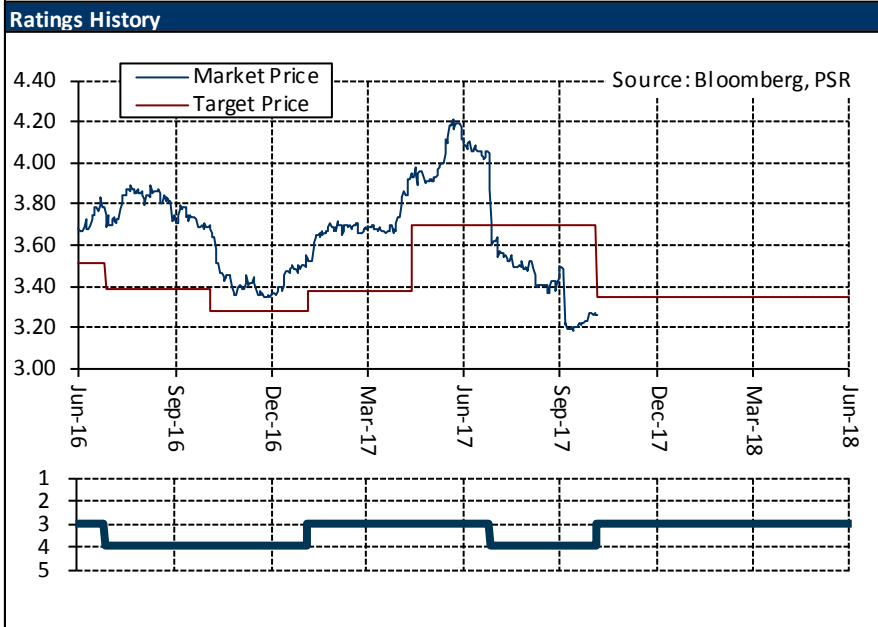
Y/E Mar	FY15	FY16	FY17	FY18e	FY19e
P/E (X), adj.	25.2	24.0	24.0	23.9	23.4
P/B (X)	3.4	2.7	2.6	2.4	2.3
EV/EBITDA (X), adj.	33.2	25.7	28.7	23.3	22.8
Dividend Yield (%)	3.5	3.8	3.5	3.7	3.8

Growth & Margins (%)

Growth					
Revenue	-4.9%	-0.7%	-0.8%	1.6%	1.2%
EBITDA	-16.9%	17.0%	-15.8%	9.7%	2.2%
EBIT	-27.3%	24.3%	-31.0%	13.7%	5.0%
Net Income, adj.	-31.0%	-6.0%	-0.2%	-11.2%	2.5%
Margins					
EBITDA margin	11.3%	13.3%	11.3%	12.2%	12.3%
EBIT margin	7.5%	9.4%	6.5%	7.3%	7.6%
Net Profit Margin	16.5%	16.3%	30.5%	13.8%	14.0%

Key Ratios

ROE	13.6%	12.3%	11.3%	10.0%	10.3%
ROA	10.9%	9.9%	9.2%	8.1%	8.4%
Dividend payout, ordinary	88.6%	91.2%	84.8%	88.2%	89.6%
Net Debt or (Net Cash)	(431)	(361)	(576)	(490)	(496)
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

Contact Information (Singapore Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Operations Officer

Mohamed Amiruddin – amiruddin@phillip.com.sg

Consumer | Healthcare

Soh Lin Sin – sohls@phillip.com.sg

Oil & Gas | Energy

Chen Guangzhi – chengz@phillip.com.sg

Macro

Pei Sai Teng – peist@phillip.com.sg

Transport | REITs (Industrial)

Richard Leow, CFTe, FRM –
richardleowwt@phillip.com.sg

REITs (Commercial, Retail, Healthcare) | Property

Dehong Tan – tandh@phillip.com.sg

Technical Analysis

Jeremy Ng – jeremyngch@phillip.com.sg

Banking and Finance

Jeremy Teong – jeremyteongfh@phillip.com.sg

US Equity

Ho Kang Wei – hokw@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd

Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

MALAYSIA

Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

HONG KONG

Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

JAPAN

Phillip Securities Japan, Ltd.

4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

INDONESIA

PT Phillip Securities Indonesia

ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd

No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

THAILAND

Phillip Securities (Thailand) Public Co. Ltd

15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

FRANCE

King & Shaxson Capital Limited

3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

UNITED KINGDOM

King & Shaxson Capital Limited

6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

UNITED STATES

Phillip Capital Inc

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

AUSTRALIA

Phillip Capital Limited

Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 9629 8288
Fax +61-03 9629 8882
Website: www.phillipcapital.com.au

SRI LANKA

Asha Phillip Securities Limited

2nd Floor, Lakshmans Building,
No. 321, Galle Road,
Colombo 03, Sri Lanka
Tel: (94) 11 2429 100
Fax: (94) 11 2429 199
Website: www.ashaphillip.net

INDIA

PhillipCapital (India) Private Limited

No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

TURKEY

PhillipCapital Menkul Degerler

Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

DUBAI

Phillip Futures DMCC

Member of the Dubai Gold and
Commodities Exchange (DGCX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

CAMBODIA

Phillip Bank Plc

Ground Floor of B-Office Centre,#61-64,
Norodom Blvd Corner Street 306,Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

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