

Report type: Results

Company Overview

The Singapore Airlines (SIA) Group comprises 3 main business segments: passenger, cargo and aviation MRO services. The parent company, SIA, operates more than 100 aircrafts to a global network of destinations.

- Sharp fall in profits on stable revenue
- We expected worse results
- Operating environment remains challenging
- Upgrade to Accumulate with revised TP of S\$11.30

What is the news?

SIA announced a significant decline in profits for 3QFY12 to S\$135.2mn. Revenue was stable, but intense cost pressures resulted in a sharp decline in operating profits. The profit decline could have been worse, if adjusted for one off payment of cargo fines worth S\$199.1mn in the corresponding quarter last year. SIA's outlook statement indicated signs of weakness in 4QFY12E, due to uncertainty in the economic environment. Passenger yields are expected to remain under pressure, while cargo yields are expected to continue to decline.

Fig.1. Results Summary

Income Statement				
(Extract)	3QFY11	3QFY12	y-y (%)	Comments
(S\$'mn)				
Revenue	3,841.0	3,875.4	0.9%	Strong passenger yield
EBITDA	934.7	543.9	-41.8%	
EBIT	509.3	157.2	-69.1%	
Net Income	288.3	135.2	-53.1%	Above expectations

Source: Company, PSR

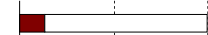
How do we view this?

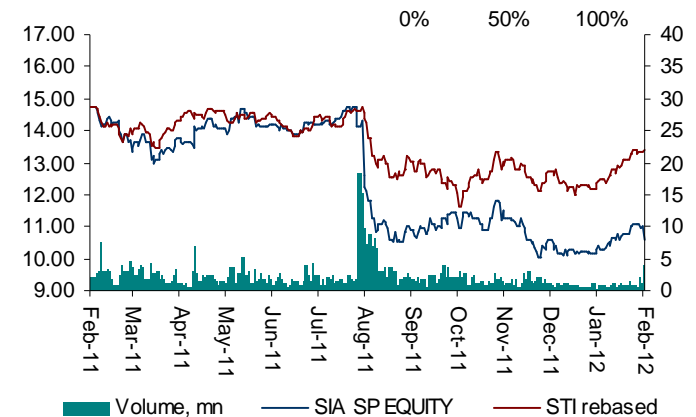
The magnitude of profit decline was lower than expected, largely due to better than expected passenger yield levels for the quarter. Control for non-fuel expenses was tight, resulting in a 9% decline in passenger unit cost for the parent airline. Overall, the results are above our expectations.

Investment Actions?

After making adjustments to our overly bearish yield assumptions and lowering estimates for various non-fuel operating expenses, we lifted our estimates for FY12E by 64%. Consequently, we tweaked our target price up to S\$11.30. While we have little conviction in a near term re-rating, there is also little downside for the stock price at such depressed valuations. Hence, we upgrade our recommendation on SIA to Accumulate.

SIA Ltd

Rating	2	Accumulate
- Previous Rating	3	Neutral
Target Price (SGD)	11.30	
- Previous Target Price (SGD)	11.25	
Closing Price (SGD)	10.61	
Expected Capital Gains (%)	6.5%	
Expected Dividend Yield (%)	2.8%	
Expected Total Return (%)	9.3%	
Raw Beta (Past 2yrs weekly data)	0.88	
Market Cap. (USD mn)	10,026	
Enterprise Value (USD mn)	6,995	
3M Average Daily T/O (mn)	1.1	
52 w week range (SGD)	10.05 - 14.0625	
Closing Price in 52 w week range		



Major Shareholders

1. Temasek Holdings Pte Ltd	(%)
	55.7

Key Financial Summary

FYE	03/10	03/11	03/12F	03/13F
Revenue (SGD mn)	12,707	14,525	14,897	15,323
Net Profit, adj. (SGD mn)	216	1,294	524	387
EPS, adj. (SGD)	0.18	1.07	0.43	0.32
P/E (X),adj.	58.8	9.9	24.6	33.4
BVPS (SGD)	11.30	11.86	10.83	10.69
P/B (X)	0.9	0.9	1.0	1.0
DPS (SGD)	0.12	1.40	0.30	0.30
Div. Yield (%)	1.1%	13.2%	2.8%	2.8%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

P/B (1.05X FY12/13E)

Analyst

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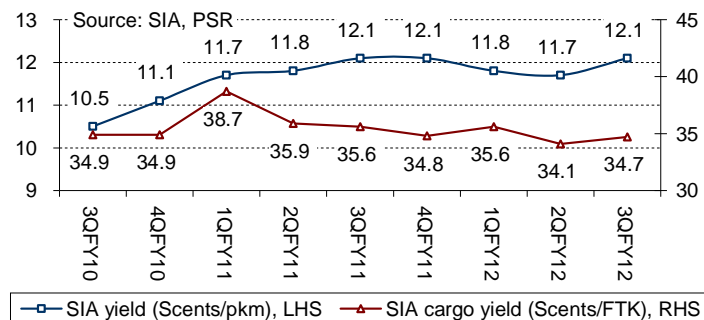
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Stronger than expected passenger yields

The parent airline's passenger yield for the quarter was stronger than expected largely due to seasonal factors. The sequential uptick in yields of 0.4cents led to stable yield levels as compared to the same period last year. Despite our view of slowing growth in premium class travel, management guided that there was no material difference in product mix between cabin classes. Cargo yields remained weak and declined as compared to the same period last year.

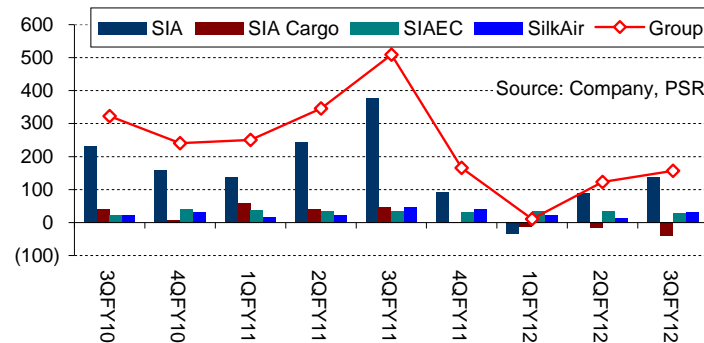
Fig.2. Passenger & Cargo Yield



Segmental profits

With the weak cargo yields, SIA Cargo reported its 3rd consecutive quarterly loss and we do not expect the cargo arm to be profitable for the year. The parent airline reported credible operating profits of S\$137mn. Segmental contributions from SIAEC & SilkAir declined marginally.

Fig.3. Segmental profits



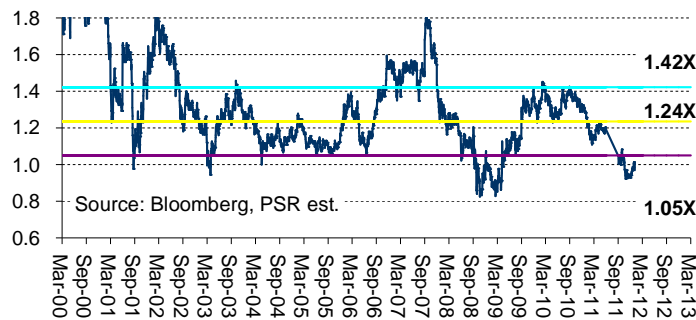
Weak forward bookings, cargo growth will not be met

While forward bookings remain weak, management advised that they have yet to observe a sharp fall in demand for the passenger business. SIA's earlier guidance of 5%y-y growth in passenger capacity remains on track. However, cargo capacity growth target of 8-9% for the year will probably not be met, as capacity injections for the 9 months merely increased by 1.5%.

Historically cheap valuations limits downside

SIA's stock price is at a valuation level that is comparable to multiples reached in major industry crisis during 911 (Sep 2001) & SARS (Mar 2003) and only marginally above historical trough of 0.83X reached during the global financial crisis. While we have little conviction in a near term re-rating, there is also little downside for the stock price at such depressed valuations. Hence, we upgrade our recommendation on SIA to Accumulate.

Fig.4. Historical P/B (X)

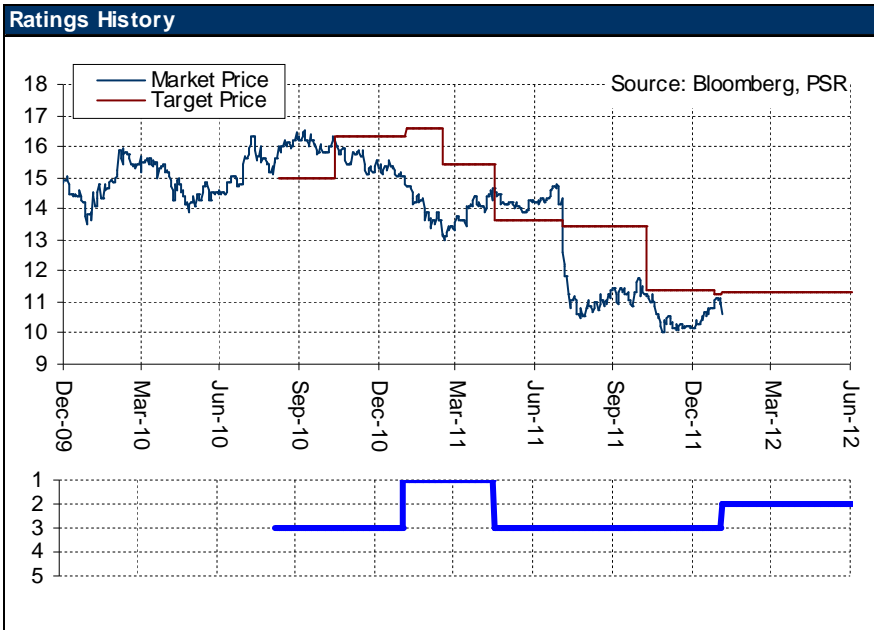


FYEMar	FY09	FY10	FY11	FY12F	FY13F
Valuation Ratios					
P/E (X), adj.	11.9	58.8	9.9	24.6	33.4
P/B (X)	0.9	0.9	0.9	1.0	1.0
EV/EBITDA (X), adj.	3.3	4.7	2.9	4.2	4.3
Dividend Yield (%)	3.8%	1.1%	13.2%	2.8%	2.8%
Per share data (SGD)					
EPS, reported	0.90	0.18	0.91	0.44	0.32
EPS, adj.	0.89	0.18	1.07	0.43	0.32
DPS	0.40	0.12	1.40	0.30	0.30
BVPS	11.74	11.30	11.86	10.83	10.69
Growth & Margins (%)					
Growth					
Revenue	0.1%	-20.6%	14.3%	2.6%	2.9%
EBITDA	-28.9%	-30.0%	63.1%	-31.8%	-1.0%
EBIT	-57.5%	-93.0%	1911.6%	-68.7%	-21.2%
Net Income, adj.	-48.2%	-79.7%	499.5%	-59.5%	-26.1%
Margins					
EBITDA margin	16.2%	14.3%	20.4%	13.6%	13.1%
EBIT margin	5.6%	0.5%	8.8%	2.7%	2.0%
Net Profit Margin	7.2%	2.2%	7.9%	3.9%	2.6%
Key Ratios					
ROE (%)	7.3%	1.6%	7.9%	3.8%	3.0%
ROA (%)	4.1%	0.9%	4.6%	2.2%	1.8%
Net Debt/(Cash)	(2,026)	(2,969)	(5,392)	(3,369)	(3,732)
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Income Statement (SGD mn)					
Revenue	15,996	12,707	14,525	14,897	15,323
EBITDA	2,599	1,820	2,967	2,023	2,002
Depreciation & Amortisation	(1,695)	(1,757)	(1,696)	(1,625)	(1,688)
EBIT	904	63	1,271	398	314
Net Finance (Expense)/Income	30	14	(9)	(2)	1
Other items	90	60	(18)	153	90
Associates & JVs	175	149	175	122	75
Profit Before Tax	1,199	286	1,419	672	480
Taxation	(52)	(6)	(270)	(90)	(77)
Profit After Tax	1,147	280	1,149	582	403
Non-controlling Interest	85	64	57	59	16
Net Income, reported	1,062	216	1,092	522	387
Net Income, adj.	1,062	216	1,294	524	387

Source: PSR

FYEMar	FY09	FY10	FY11	FY12F	FY13F
Balance Sheet (SGD mn)					
PPE	15,992	15,064	13,878	13,806	13,127
Intangibles	553	81	125	152	173
Associates & JVs	983	641	608	634	649
Investments	43	35	35	336	336
Others	411	114	120	120	120
Total non-current assets	17,982	15,936	14,765	15,047	14,404
Inventories	503	430	390	411	426
Accounts Receivables	1,727	1,414	1,454	1,276	1,521
Investments	656	141	398	768	768
Cash	3,848	4,472	7,434	4,511	4,874
Others	102	93	104	104	104
Total current assets	6,837	6,549	9,779	7,070	7,693
Total Assets	24,819	22,484	24,545	22,117	22,096
Short term loans	309	65	963	63	63
Accounts Payables	3,582	2,499	2,862	3,099	3,211
Others	2,028	1,956	2,408	2,248	2,248
Total current liabilities	5,919	4,520	6,232	5,410	5,522
Long term loans	1,514	1,438	1,079	1,079	1,079
Others	2,896	2,777	2,730	2,320	2,320
Total non-current liabilities	4,409	4,215	3,809	3,399	3,399
Non-controlling interest	560	280	298	310	313
Shareholder Equity	13,931	13,469	14,204	12,998	12,862
Cashflow Statements (SGD mn)					
CFO					
PBT	1,199	286	1,419	672	480
Adjustments	1,429	1,516	1,359	1,370	1,522
Cash from ops before WC changes	2,628	1,801	2,778	2,042	2,002
WC changes	(882)	290	567	234	(147)
Cash generated from ops	1,745	2,091	3,346	2,276	1,855
Taxes paid, net	(300)	(125)	(61)	(500)	(77)
Interest paid	(70)	(66)	(69)	(83)	(54)
Cashflow from ops	1,376	1,900	3,216	1,693	1,724
CFI					
CAPEX, net	(1,159)	(1,426)	(522)	(1,535)	(978)
Dividends from associates & JVs	134	164	165	103	60
Dividends/Interest from Investments	119	64	49	81	55
Purchase/sale of investments	10	533	(260)	(581)	38
Investments in subs & associates	(458)	(303)	1	(7)	0
Others	8	5	0	0	0
Cashflow from investments	(1,347)	(963)	(567)	(1,939)	(825)
CFF					
Share issuance	51	106	89	36	29
Purchase of treasury shares	(64)	0	(45)	(208)	0
Loans, net of repayments	(68)	(90)	737	(900)	0
Dividends to minority interests	(74)	(49)	(46)	(48)	(13)
Dividends to shareholders & capital reduction	(1,186)	(237)	(383)	(1,557)	(552)
Others	9	1	0	0	0
Cashflow from financing	(1,333)	(269)	354	(2,677)	(536)
Net change in cash	(1,304)	668	3,003	(2,923)	363
Effects of exchange rates	24	(35)	(41)	0	0
CCE, end	3,839	4,472	7,434	4,511	4,874

Source: PSR



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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