

SIA Engineering Co. Ltd

Record high quarterly sales

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Industry: Airlines

Phillip Securities Research Pte Ltd

1 February 2012

Report type: Results

Company Overview

SIA Engineering Company (SIAEC) is a maintenance, repair & overhaul (MRO) company with a dominant market share in Changi Airport's Line Maintenance business. The Group also has significant stakes in joint ventures that contribute approximately half of the Group's profits.

- Strongest quarterly sales in recent history with strong contributions from FMP & Heavy Maintenance
- Margins declined due to higher subcontracting expense
- Joint Venture contributions continue to grow
- Maintain Buy with revised target price of S\$4.84

What is the news?

SIAEC reported the strongest quarterly sales in recent history of S\$303mn, representing a 12.6% growth y-y. However, operating profits at the company declined by 14%, largely due to higher subcontracting and other operating expenses. Profit contributions from its JVs, adj. (profits from JVs, Associates & LTI dividends), increased by 24%y-y.

Fig.1. Results Summary

Income Statement				
(Extract)	3QFY11	3QFY12	y-y (%)	Comments
(S\$'mn)				
Revenue	269.5	303.4	12.6%	Growth in FMP & AMCO
EBITDA	44.4	38.1	-14.2%	
EBIT	34.5	28.4	-17.7%	Higher subcon exp.
JVs, adj.	35.4	44.0	24.3%	
Net Income	60.3	63.5	5.3%	In line with expectations

Source: Company, PSR

*JVs, adj. includes profits from JVs & Associates and LTI div.

How do we view this?

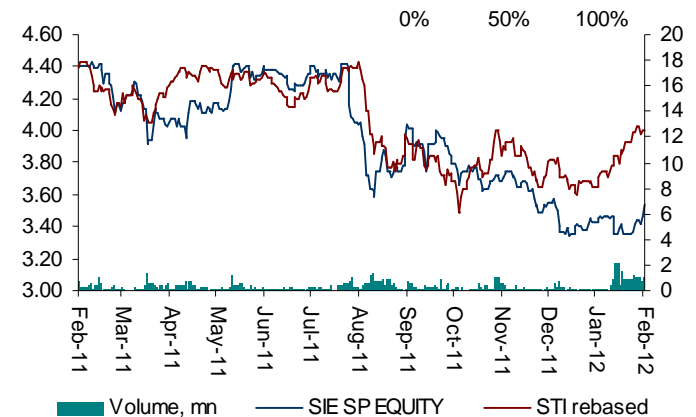
Margin pressures from higher subcontracting expense came as a surprise and could be due to the company's heavy maintenance work overseas. Overall, the 5%y-y growth in net profits to S\$63.5mn in the quarter is in line with our expectations.

Investment Actions?

Following the lower than expected margins for the quarter, we trimmed our estimates for the year by 2.6%, but kept subsequent forecasts largely unchanged. We maintained our Buy recommendation on SIAEC with a revised target price of S\$4.84. At the current price, we estimate that the stock offers a prospective yield of >7% over the next 12 months.

SIA Engineering Co. Ltd

Rating	1	Buy
- Previous Rating	1	Buy
Target Price (SGD)	4.84	
- Previous Target Price (SGD)	4.86	
Closing Price (SGD)	3.54	
Expected Capital Gains (%)	36.7%	
Expected Dividend Yield (%)	7.7%	
Expected Total Return (%)	44.5%	
Raw Beta (Past 2yrs weekly data)	0.65	
Market Cap. (USD mn)	3,094	
Enterprise Value (USD mn)	2,816	
3M Average Daily T/O (mn)	0.3	
52 w week range (SGD)	3.34 - 4.3648	
Closing Price in 52 w week range		



Major Shareholders

1. Singapore Airlines Ltd	(%)
	79.3

Key Financial Summary

FYE	03/11	03/12F	03/13F	03/14F
Revenue (SGD mn)	1,107	1,157	1,188	1,200
Net Profit, adj. (SGD mn)	259	270	275	278
EPS, adj. (SGD)	0.24	0.24	0.25	0.25
P/E (X), adj.	15.1	14.5	14.4	14.4
BVPS (SGD)	1.19	1.15	1.13	1.17
P/B (X)	3.0	3.1	3.1	3.0
DPS (SGD)	0.30	0.26	0.21	0.21
Div. Yield (%)	8.5%	7.3%	5.9%	5.9%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

DCF (WACC: 7.6%; terminal g: 2%)

Analyst

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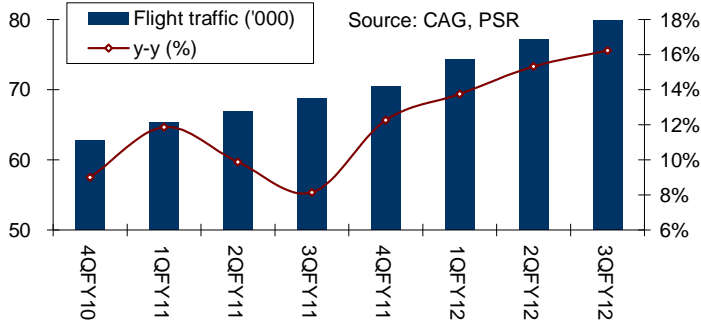
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Heavy maintenance work leads revenue growth

SIAEC has a dominant presence in Changi Airport, where flight traffic increased by >16%y-y in the quarter. However, with outsourcing of some work to its JVs, Line maintenance revenue probably stagnated. Hence, the source of the record revenue booked for the quarter is likely due to Heavy Maintenance work.

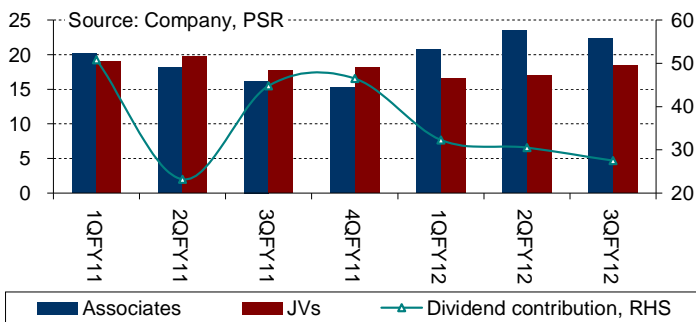
Fig.2. Flight traffic grew by >16% in the quarter



Contributions from Associates & Joint Ventures

SIAEC's contribution from Associates grew by 38%y-y, while performance from the Joint Ventures was stable. However, their dividend contributions were slightly lower than expected.

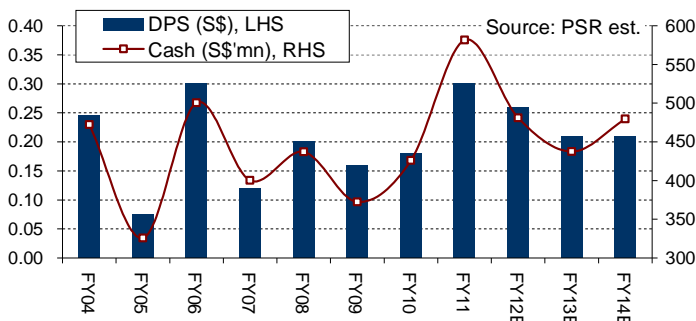
Fig.3. Associates contributions increased



Cash levels lower than expected

We had expected cash levels to build up sequentially to >S\$500mn by the end of the year. However, cash levels remained flattish in the quarter with higher receivables and lower dividend contributions from JVs. We made adjustments to our cash flow estimates, but still expect SIAEC to pay a dividend at the end of FY12E (c. 20cents/shr).

Fig.4. Healthy Dividends with strong cashflows



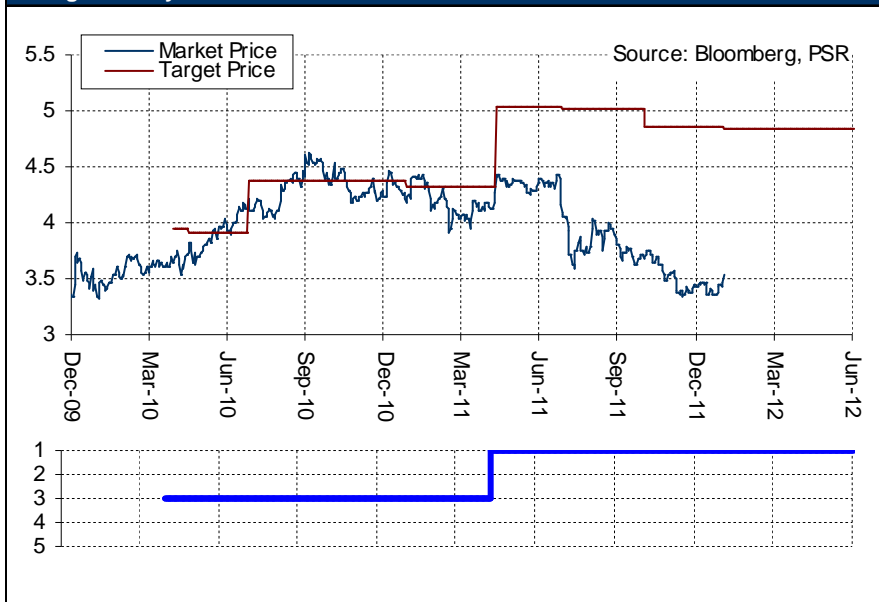
FYEMar	FY10	FY11	FY12F	FY13F	FY14F
Valuation Ratios					
P/E (X), adj.	16.3	15.1	14.5	14.4	14.4
P/B (X)	3.0	3.0	3.1	3.1	3.0
EV/EBITDA (X), adj.	23.6	20.1	20.6	19.0	18.9
Dividend Yield (%)	5.1%	8.5%	7.3%	5.9%	5.9%
Per share data (SGD)					
EPS, reported	0.22	0.24	0.25	0.25	0.25
EPS, adj.	0.22	0.24	0.24	0.25	0.25
DPS	0.18	0.30	0.26	0.21	0.21
BVPS	1.17	1.19	1.15	1.13	1.17
Growth & Margins (%)					
Growth					
Revenue	-3.7%	10.0%	4.5%	2.7%	1.0%
EBITDA	-4.0%	17.5%	-2.4%	8.4%	0.7%
EBIT	-1.9%	22.9%	-3.4%	8.1%	-1.1%
Net Income, adj.	-9.4%	9.5%	4.4%	2.0%	1.0%
Margins					
EBITDA margin	14.8%	15.8%	14.8%	15.6%	15.5%
EBIT margin	11.0%	12.3%	11.3%	11.9%	11.7%
Net Profit Margin	23.7%	23.6%	23.8%	23.6%	23.6%
Key Ratios					
ROE (%)	18.9%	20.1%	21.0%	21.9%	21.6%
ROA (%)	15.4%	16.2%	16.7%	17.3%	17.2%
Net Debt/(Cash)	(426)	(580)	(479)	(436)	(478)
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Income Statement (SGD mn)					
Revenue	1,006	1,107	1,157	1,188	1,200
EBITDA	149	175	171	185	186
Depreciation & Amortisation	(39)	(39)	(40)	(43)	(46)
EBIT	110	136	131	142	140
Net Finance (Expense)/Income	1	1	2	1	1
Other items	6	2	0	0	0
Associates & JVs	145	157	175	173	178
Profit Before Tax	263	296	308	317	319
Taxation	(24)	(35)	(32)	(36)	(35)
Profit After Tax	238	261	275	281	284
Non-controlling Interest	2	3	6	6	6
Net Income, reported	236	259	270	275	278
Net Income, adj.	236	259	270	275	278

Source: PSR

FYEMar	FY10	FY11	FY12E	FY13E	FY14E
Balance Sheet (SGD mn)					
PPE	315	319	311	321	328
Intangibles	17	25	38	40	42
Associates & JVs	471	399	423	439	455
Investments	15	15	15	15	15
Others	0	0	0	0	0
Total non-current assets	818	757	787	814	840
Inventories	49	53	59	69	69
Accounts Receivables	224	176	212	199	200
Investments	0	0	0	0	0
Cash	426	581	481	438	480
Others	44	54	65	65	65
Total current assets	743	864	817	770	814
Total Assets	1,561	1,622	1,604	1,585	1,654
Short term loans	0	2	2	2	2
Accounts Payables	217	235	257	245	247
Others	24	25	25	25	25
Total current liabilities	241	262	283	271	274
Long term loans	0	0	0	0	0
Others	28	31	31	31	31
Total non-current liabilities	28	31	31	31	31
Non-controlling interest	27	25	26	27	28
Shareholder Equity	1,265	1,303	1,263	1,255	1,321
Cashflow Statements (SGD mn)					
CFO					
PBT	263	296	308	317	319
Adjustments	(99)	(112)	(137)	(132)	(133)
Cash from ops before WC changes	164	185	171	185	186
WC changes	(40)	56	(32)	(8)	1
Cash generated from ops	123	240	139	177	187
Taxes paid, net	(13)	(21)	(32)	(36)	(35)
Interest paid	(0)	(0)	0	0	0
Cashflow from ops	110	219	107	141	152
CFI					
CAPEX, net	(54)	(56)	(45)	(55)	(55)
Dividends from associates & JVs	169	178	150	157	161
Dividends/Interest from Investments	1	1	2	1	1
Purchase/sale of investments	0	0	0	0	0
Investments in subs & associates	(1)	(1)	0	0	0
Others	0	0	0	0	0
Cashflow from investments	115	121	107	104	108
CFF					
Share issuance	7	26	19	22	22
Purchase of treasury shares	0	0	0	0	0
Loans, net of repayments	(1)	2	0	0	0
Dividends to minority interests	(1)	(2)	(5)	(5)	(5)
Dividends to shareholders & capital reduction	(173)	(207)	(329)	(305)	(235)
Others	0	0	0	0	0
Cashflow from financing	(168)	(181)	(314)	(288)	(217)
Net change in cash	58	160	(100)	(43)	42
Effects of exchange rates	(4)	(4)	0	0	0
CCE, end	426	581	481	438	480

Source: PSR

Ratings History



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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