

# Transportation Sector

## Qantas-Emirates tie-up

### Report type: Update

#### Sector Overview

The Transportation Sector under our coverage consists of Airlines (SIA, Tiger Airways), Shipping (NOL), Land Transport (SMRT, ComfortDelGro) & Aviation Services (SIA Engineering, ST Engineering, SATS).

- Qantas is shifting its European hub from Singapore to Dubai
- A mix bag for SIA
- Mildly negative in the near term for SIAEC & SATS
- We caution against overreacting to the news

#### What is the news?

Qantas announced a strategic 10yrs partnership with Emirates that would see the Australian carrier shift its European hub from Singapore to Dubai. Consequently, Qantas would terminate their 17yrs long business alliance with British Airways. Qantas would also withdraw its Singapore to Frankfurt route that had been underperforming.

#### A mix bag for SIA

Strategically, this implies that competition for traffic between Europe and Australia would be stiffer with the new alliance between two of its major competitors. However, we opine that it also implies less competition for European customers travelling to Singapore. Hence, we see this development as a mix bag for SIA.

#### Minimal near term impact for SATS & SIAEC

This move by Qantas has tactical and strategic implications for the aviation service providers, SIAEC & SATS, under our coverage. We see this as mildly negative for the aviation service providers as the termination of flight services would result in lower work volume for both companies. However, we estimate that the shifting of flights to Dubai would account for less than 2% of flight traffic at Changi Airport and caution against overreacting to the news.

The Qantas Group is the 2<sup>nd</sup> largest user of Changi Airport, after the SIA Group, but only after including significant traffic from Jetstar Asia. We believe that Asia remains an important market for the Qantas Group and would continue to be an important part of their growth strategy. In fact, Alan Joyce, Qantas's CEO, mentioned "Qantas will increase dedicated capacity to Singapore and re-time flights to Singapore and Hong Kong to enable many more 'same day' connections across Asia." Bloomberg news subsequently reported this capacity growth to Changi Airport at 25%. Hence, this expected increase in traffic growth at Changi could actually be positive for the aviation service providers!

#### Transportation Sector

Company	Rating	Price (\$)	TP (\$)	Upside (%)	M.Cap. (US\$m n)
<b>Land Transport</b>					
SMRT Corp	Sell	1.67	1.35	-18.9%	2,042
ComfortDelGro	Buy	1.68	1.78	6.0%	2,840
<b>Airlines</b>					
Singapore Airlines	Buy	10.51	13.30	26.5%	9,932
Tiger Airways	Reduce	0.73	0.55	-24.7%	483
<b>Shipping</b>					
Neptune Orient Lines	Neutral	1.11	1.14	2.7%	2,315
<b>Aviation Services</b>					
SATS	Neutral	2.64	2.65	0.4%	2,362
SIA Engineering	Buy	4.19	5.00	19.3%	3,723
ST Engineering	Accumulate	3.43	3.40	-0.9%	8,503

Source: Bloomberg, PSR

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### Strategic implications for SIAEC & SATS

There are also concerns over a potential loss of contracts with Qantas, as the second largest service provider at Changi Airport, dnata Singapore, is part of the Emirates Group. We acknowledge this as a longer term risk, but opine that near term effects are limited. In particular, we see little risk in the near term for SATS as the company had recently renewed their contract (inflight catering, laundry services, ground and cargo handling) with Qantas in 1QFY13. Contract information for SIAEC is not available.

**Fig 1. Analysis of flight traffic affect**

Weekly frequency for Qantas	
<b>SIN-SYD</b>	<b>14</b>
QF0002	7
QF0006	7
<b>SIN-MEL</b>	<b>7</b>
QF0010	7
<b>SIN-FRA</b>	<b>7</b>
QF0005	7
<b>SIN-LHR</b>	<b>14</b>
QF0009	7
QF0001	7
<b>SYD-SIN</b>	<b>14</b>
QF0005	7
QF0001	7
<b>MEL-SIN</b>	<b>7</b>
QF0009	7
<b>LHR-SIN</b>	<b>14</b>
QF0002	7
QF0010	7
<b>FRA-SIN</b>	<b>7</b>
QF0006	7

Source: Qantas (based on schedule after 19Sep12)

Estimated traffic at stake	
<b>Total weekly movement frequency at stake (a)</b>	<b>84</b>
Changi Airport's weekly movement frequency	6,200
Percentage at stake (%)	1.4%
<b>Total weekly handling frequency at stake (0.5X)</b>	<b>42</b>
SATS's weekly flights handled	2,253
Percentage at stake (%)	1.9%
SIAEC's weekly flights handled	2,158
Percentage at stake (%)	1.9%

Source: PSR est.

**Airline Sector Comparables**

Company	Rating	Price (LC)	TP	Upside (%)	Market Cap. (US\$'mn)	Ent. Value (US\$'mn)	Equity Multiple (X)			Equity Multiple (X)			Dividend yield (%)					
							Net Income			Book Value			11	12E	13E	11	12E	13E
							11	12E	13E	11	12E	13E	11	12E	13E			
Tiger Airways	Reduce	0.73	0.55	-24.7%	483	825	(6.1)	34.6	11.1	2.4	2.3	1.9	0.0%	0.0%	0.0%			
Singapore Airlines	Buy	10.51	13.30	26.5%	9,932	6,699	36.1	26.9	22.0	1.0	0.9	0.9	1.9%	2.9%	2.9%			
Cathay Pacific		12.50			6,340	10,955	9.5	39.2	14.6	0.9	0.9	0.8	3.9%	1.1%	2.5%			
Air China		4.71			9,296	22,339	8.0	12.5	9.2	1.3	1.0	0.9	2.5%	1.4%	1.9%			
China Eastern		2.32			5,081	15,035	5.5	7.6	5.8	1.3	0.9	0.8	0.0%	0.0%	0.0%			
China Southern		3.40			5,177	15,005	6.1	11.4	8.5	1.0	0.8	0.7	6.3%	1.9%	2.6%			
China Airlines		11.55			2,019	5,272	n.m.	13.0	9.1	1.3	1.1	1.0	n.m.	0.3%	0.8%			
EVA Air		16.90			1,851	3,543	320.0	24.1	12.1	1.7	1.3	1.2	n.m.	0.6%	1.8%			
Asiana		7.47			1,290	3,526	70.9	11.1	7.1	1.5	1.4	1.1	0.0%	0.0%	0.2%			
Korean Air		49.30			3,141	14,579	n.m.	13.8	7.3	1.3	1.3	1.1	0.0%	0.4%	0.5%			
All Nippon Airways		176			7,841	16,365	26.7	12.8	10.6	1.2	0.8	0.8	0.8%	2.3%	2.3%			
Qantas		1.26			2,950	6,179	16.7	11.5	7.0	0.7	0.5	0.4	0.0%	0.6%	2.2%			
Malaysian Airlines		1.03			1,106	3,049	n.m.	n.m.	n.m.	4.2	1.5	1.3	0.0%	0.0%	0.0%			
Air Asia		3.39			3,028	4,850	18.9	9.6	9.1	2.6	1.8	1.5	1.3%	1.2%	1.2%			
Thai Airways		20.50			1,433	5,268	n.m.	10.3	7.2	0.7	0.7	0.6	0.0%	2.9%	3.5%			
Cebu Pacific		59.50			865	1,080	10.9	9.1	7.5	2.0	1.5	1.3	4.6%	3.4%	3.4%			
Virgin Australia		0.43			971	1,863	n.m.	10.4	7.1	0.7	1.0	0.9	0.0%	0.9%	3.3%			
<b>Sector average</b>					<b>3,694</b>	<b>8,025</b>	<b>43.6</b>	<b>16.1</b>	<b>9.7</b>	<b>1.5</b>	<b>1.2</b>	<b>1.0</b>	<b>1.4%</b>	<b>1.2%</b>	<b>1.7%</b>			

Source: PSR, Bloomberg consensus

\*Korean listed in thousand KRW

**Airline Sector Comparables**

Company	Rating	Price (LC)	TP	Upside (%)	Market Cap. (US\$'mn)	Ent. Value (US\$'mn)	Equity Multiple (X)			Equity Multiple (X)			Dividend yield (%)					
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							11	12E	13E	11	12E	13E	11	12E	13E			
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All Nippon Airways		176			7,841	16,365	26.7	12.8	10.6	1.2	0.8	0.8	0.8%	2.3%	2.3%			
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Air Asia		3.39			3,028	4,850	18.9	9.6	9.1	2.6	1.8	1.5	1.3%	1.2%	1.2%			
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Virgin Australia		0.43			971	1,863	n.m.	10.4	7.1	0.7	1.0	0.9	0.0%	0.9%	3.3%			
<b>Sector average</b>					<b>3,694</b>	<b>8,025</b>	<b>43.6</b>	<b>16.1</b>	<b>9.7</b>	<b>1.5</b>	<b>1.2</b>	<b>1.0</b>	<b>1.4%</b>	<b>1.2%</b>	<b>1.7%</b>			

Source: PSR, Bloomberg consensus

\*Korean listed in thousand KRW

Transportation Sector Comparables

Company	Rating	FYE	Price	TP	Upside (%)	Market Cap. (US\$'mn)	Ent. Value (US\$'mn)	Equity Multiple (X)						Dividend Yield (%)			
								Net Income			Book Value			11	12E	13E	11
Market price as of:								11	12E	13E	11	12E	13E	11	12E	13E	
7-Sep-12																	
<b>Land Transport</b>																	
SMRT Corp	Sell	Mar	1.67	1.35	-18.9%	2,042	2,014	21.1	18.7	18.2	3.2	3.1	3.0	4.5%	4.5%	4.5%	
ComfomDelGro	Buy	Dec	1.68	1.78	6.0%	2,840	3,377	14.9	14.6	13.8	1.9	1.8	1.7	3.6%	3.8%	4.0%	
<b>Airlines</b>																	
Singapore Airlines	Buy	Mar	10.51	13.30	26.5%	9,932	6,699	36.1	26.9	22.0	1.0	0.9	0.9	1.9%	2.9%	2.9%	
Tiger Airways	Reduce	Mar	0.73	0.55	-24.7%	483	825	(6.1)	34.6	11.1	2.4	2.3	1.9	0.0%	0.0%	0.0%	
<b>Shipping</b>																	
Neptune Orient Lines	Neutral	Dec	1.11	1.14	2.7%	2,315	5,217	(4.8)	(9.8)	8.0	0.9	1.0	0.9	0.0%	0.0%	5.4%	
<b>Aviation Services</b>																	
SATS	Neutral	Mar	2.64	2.65	0.4%	2,362	2,174	16.5	17.0	16.0	1.9	2.1	2.1	9.8%	5.0%	5.3%	
SIA Engineering	Buy	Mar	4.19	5.00	19.3%	3,723	3,291	17.2	16.6	16.0	3.7	3.5	3.4	5.0%	5.3%	5.3%	
ST Engineering	Accumulate	Dec	3.43	3.40	-0.9%	8,503	8,098	20.0	19.1	19.1	6.0	5.6	5.4	4.5%	4.7%	4.7%	

Source: PSR est.

\*12E refers to FY ending March 2013 for FYE Mar.

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