

Transportation Sector

Results season takeaways

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).

- Upgraded SATS & NOL to Accumulate
- SATS could increase core dividends
- SIAEC to benefit from new orders by the SIA group
- Potential defence contract win for STE a catalyst
- Sector neutral pair-trade: long SIA, short TGR

Upgrade SATS & NOL to Accumulate

We upgraded SATS to Accumulate on better than expected earnings and opine that the current level of profitability could be maintained. The company could also increase its core dividends in the future as they gear up to an optimal capital structure. We also upgraded NOL to Accumulate, primarily due to improved competitiveness with the delivery of new vessels and streamlining efforts at the company. The planned divestment of NOL building would also release cash at a time when CAPEX needs are high for the company. Furthermore, we believe that the competitive landscape and resolute to return to profit is likely to prevent a collapse of freight rates to levels observed in 2011.

Sector Neutral Pair-Trade: Long SIA, Short TGR

We find the relative valuation between SIA and Tiger Airways as an anomaly. Following the price realization event for its Australia operations, we computed the core valuations for Tiger Airways by stripping out its Australia business. We find that Tiger Airways (ex-Australia) currently trades at a significant premium to the stock of SIA. While better growth prospects for short haul, intra-Asia routes implies that Tiger Airways should trade at a premium to SIA, we find the premium implied by market prices as too high. Hence, we suggest a **sector neutral pair trade: long SIA and short TGR** to profit from what we view as a mispricing in the market.

Transportation Sector

Company	Rating	Price (\$)	TP (\$)	Upside (%)	M.Cap. (US\$m n)
Land Transport					
SMRT Corp	Sell	1.67	1.35	-19.2%	2,072
ComfortDelGro	Buy	1.59	1.80	13.2%	2,723
Airlines					
Singapore Airlines	Buy	10.25	13.40	30.7%	9,796
Tiger Airways	Sell	0.70	0.45	-35.7%	469
Shipping					
Neptune Orient Lines	Accumulate	1.08	1.36	25.9%	2,279
Aviation Services					
SATS	Accumulate	2.84	2.94	3.5%	2,571
SIA Engineering	Buy	4.24	5.00	17.9%	3,812
ST Engineering	Accumulate	3.50	3.96	13.1%	8,784

Source: Bloomberg, PSR

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Land Transport

Results Commentary: SMRT reported a 2.2% decline in profits that was in line with our estimates. Apart from the reduction of interim dividend to 1.50cents (previous: 1.75cents), the results were largely a non-event for SMRT. CDG's performance beat our expectations with strong contributions from its Taxi business. We maintain our preference for CDG over SMRT and raised our target price for the former due to upwards revision to earnings.

Fig 1. Singapore Rail Average Daily Ridership ('k)

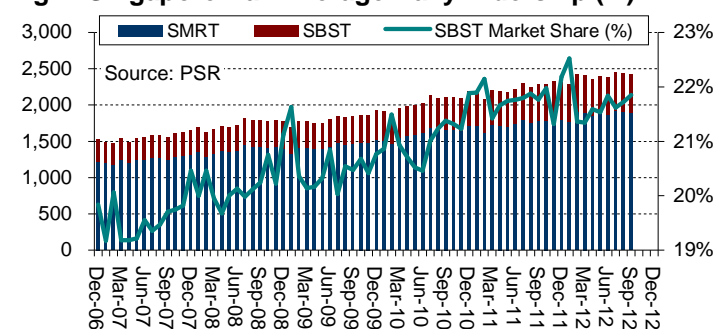
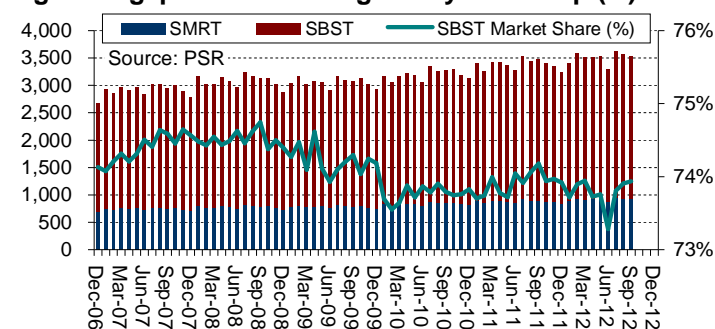


Fig 2. Singapore Bus Average Daily Ridership ('k)



Airlines

Results Commentary: SIA's results were marginally above our expectations at S\$90.1mn (-54%y-y). Despite the ongoing promotional activities, SIA's passenger yields remained stable on a sequential basis. SIA Cargo is responding to the weak air freight market by planning to ground one of its 13 freighters. Tiger Airways reported a larger than expected loss of S\$18mn in the quarter.

New aircraft orders: The SIA group announced significant orders for new aircrafts. Following the announcement, SIA would have orders for 14X A330, 8X B777, 40X A350 & 5X A380s for deliveries beyond FY13E (FY13E fleet: 102 aircrafts). In line with plans to grow its regional presence, SilkAir would have orders for 2X A320 & 54X B737 for deliveries beyond FY13E (FY13E fleet: 22 aircrafts). Scoot, the newest addition to the SIA group of airlines, placed orders for 20X B787 (FY13E fleet: 4 aircrafts).

The interlocking web of acquisitions: On 30th Oct, Tiger Airways, SIA and Virgin Australia announced a series of acquisitions. At the centre of the interlocking web of deals, Virgin Australia announced plans to acquire 60% of Tiger Australia (c.A\$35mn) and 100% Skywest (c.A\$47mn).

These acquisitions would be funded by a 10% share placement to SIA for A\$105mn.

As Virgin Australia & SIA already have a deep level of cooperation, we do not see significant operational impact for SIA. However, we view these deals as a strategic move by SIA to strengthen its presence in Australia, by indirectly funding its key partner's growth in the battle against the Qantas group.

The stock of Tiger Airways is still too expensive, in our view: With the price realization event for Tiger Australia, we worked back the market implied valuation for its core operations and assumed zero value for the Tiger cubs, Mandala and SEAIR. We find that Tiger Airways (ex-Australia) currently trades at a significant premium to the stock of SIA. While better growth prospects for short haul, intra-Asia routes implies that Tiger Airways should trade at a premium to SIA, we find the premium implied by market prices as too high. Hence, we suggest a **sector neutral pair trade: long SIA and short TGR** to profit from what we view as a mispricing in the market.

Fig 3. Tiger trading at a rich premium to SIA

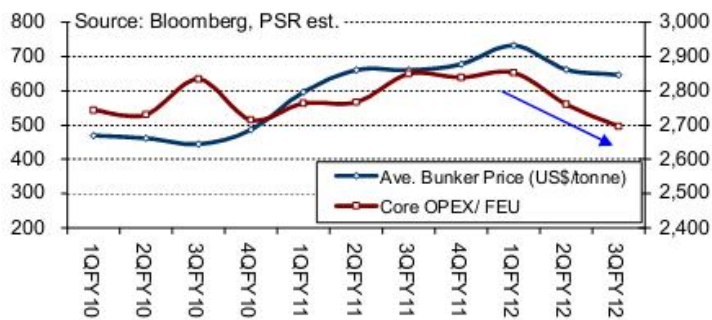
Relative Valuation of SIA & Tiger	FY11	FY12	FY13E
Tiger Airways (Ex-Australia), EV			
Implied EBITDAR Multiple (X)	10.0	16.8	8.7
EBITDAR, est.	90	53	103
Implied EBITDA Multiple (X)	13.0	36.0	11.9
EBITDA, est.	69	25	75
Implied EBIT Multiple (X)	15.9	(135.8)	23.4
EBIT, est.	56	(7)	38
Market Value per share (S\$)			0.70
SIA Group, EV (S\$m)			
Implied EBITDAR Multiple (X)	2.4	3.5	3.2
EBITDAR, est.	3,549	2,471	2,660
Implied EBITDA Multiple (X)	2.9	4.6	4.1
EBITDA, est.	2,967	1,898	2,103
Implied EBIT Multiple (X)	6.8	30.2	16.1
EBIT, est.	1,271	286	537
Market Value per share (S\$)			10.28
Premium, TGR (Ex-Australia) vs SIA (%)			
EBITDAR	310%	379%	167%
EBITDA	346%	691%	190%
EBIT	135%	n.m.	45%

Source: PSR est.

Container Shipping

Results Commentary: NOL's performance met our expectations with net income of US\$50mn and reported its first profitable quarter since 4QFY10. The company also announced the sale of NOL building for S\$380mn and expects to complete the divestment by Feb 2013. As part of its streamlining exercise, NOL reported that the company managed to book US\$360mn in savings for 9MFY12. We also observed a marked reduction in average slot cost for the Liner business in this quarter, which we attribute to the company's streamlining efforts and economies of scale achieved with the addition of larger vessels to its fleet.

Fig 4. Improving average cost for Liner business



Upgraded NOL to Accumulate: We upgraded our rating on NOL to Accumulate for 3 reasons. Firstly, the latest results suggest that efforts to streamline the business have paid off and average operating costs for the Liner business have declined. With the planned delivery of newer and larger vessels, we expect unit slot cost to decline further over the next few years. Secondly, the divestment of NOL building releases cash at a time when CAPEX needs are high. Therefore, proceeds from the sale of its building would ease financial leverage on the group's balance sheet, which is a key source of concern for investors. Thirdly, the competitive landscape and resolute to return to profit is likely to prevent a collapse of freight rates to levels observed in 2011.

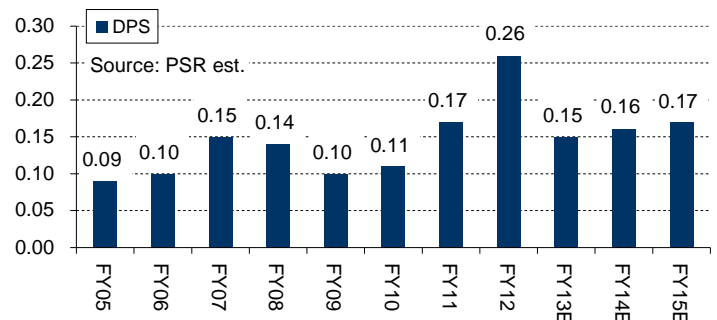
Aviation Services

Results Commentary: SIAEC reported first half profits that met our expectations. The company also raised their interim dividend in an attempt "to achieve a better balance between the interim and final dividends". SATS beat our estimates largely due to higher sales achieved on better profit margins. STE turned in a strong 9.5% growth in third quarter profits and maintained its positive guidance for the year.

SIAEC to benefit from new orders placed by SIA: We believe that SIAEC would benefit from the expected increase in capacity for the SIA group (see: new aircraft orders above). Apart from the aircrafts ordered, SIA also placed orders for US\$2.6bn of Trent XWB & Trent 900 engines from Rolls Royce. We reiterate our long held view that SAESL, SIAEC's 50% JV, would benefit from the increase in Trent engines in SIA's fleet.

SATS could grow core dividends, in our view: During the results conference call, SATS reiterated their long term target for an optimal capital structure with net debt to equity of 0.3X. Considering the company's current net cash position, we opine that the company has the ability to pay out significantly higher level of core dividends to shareholders over the next few years. Incorporating a payout ratio of 90% in our forecast years and assuming that SATS achieves the target gearing level in 3yrs time, we estimate that SATS would still have substantial cash surplus of c.S\$650mn (59cents/shr) to fund any potential acquisitions.

Fig 5. Core DPS could increase over the next few years



Concerns over Qantas's decision to shift its European hub from Singapore to Dubai: We acknowledge concerns that SIAEC and SATS could lose some work with Qantas's decision to shift its European hub from Singapore to Dubai, as part of a new partnership with Emirates. However, we see minimal near term impact as we estimate that the flights shifted accounted for less than 2% of volume by flights for both companies. Some of our clients even speculated that the companies could lose their work from Qantas to dnata Singapore, which is part of the Emirates group. While this is a long term possibility, we believe that there is no near term impact as both companies had recently renewed their contracts with Qantas (SATS: 1QFY13, SIAEC: 2QFY13).

Estimated traffic at stake	
Total weekly movement frequency at stake (a)	84
Changi Airport's weekly movement frequency	6,200
Percentage at stake (%)	1.4%
Total weekly handling frequency at stake (0.5X)	42
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.

Catalyst for STE to come from huge defence contracts: STE is one of four defence contractors (Lockheed Martin, BAE Systems & General Dynamics) selected for the US MPC contract for the production of up to 700 vehicles. According to a report by The Straits Times on 7th Nov 12, this contract could be worth approximately US\$3bn. We believe that this major US defence contract win could be a major catalyst in the year ahead.

Links to our latest results update

- [SMRT Corp. Ltd, 1 November 2012](#)
- [ComfortDelGro Ltd, 14 November 2012](#)
- [Singapore Airlines Ltd, 6 November 2012](#)
- [Tiger Airways Holdings Ltd, 31 October 2012](#)
- [Neptune Orient Lines Ltd, 29 October 2012](#)
- [SATS Ltd, 7 November 2012](#)
- [ST Engineering Ltd, 8 November 2012](#)
- [SIA Engineering Co. Ltd, 1 November 2012](#)

Historical Valuation charts

Fig 6. SMRT P/E price range

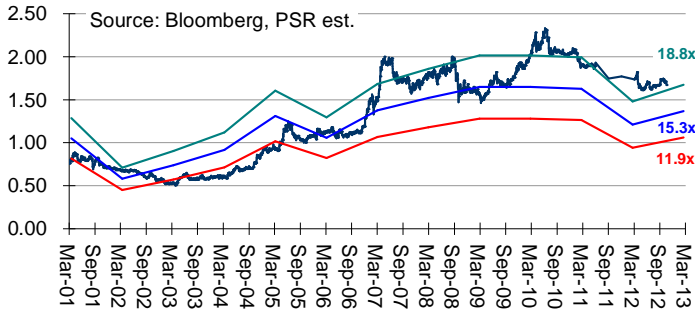


Fig 7. CDG P/E price range

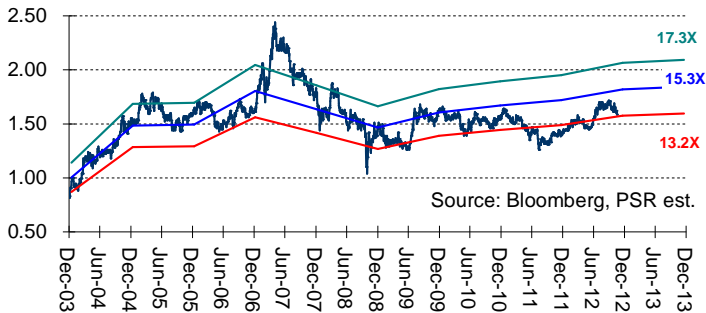


Fig 8. SIAEC P/E price range

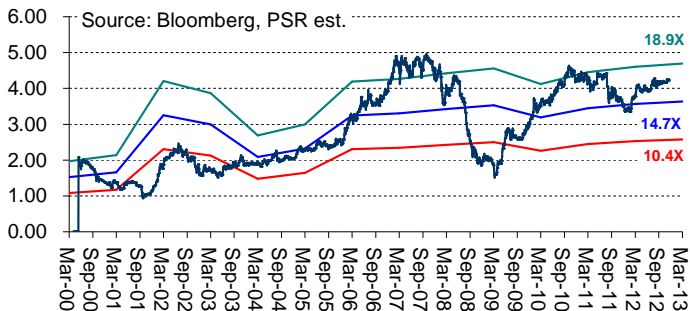


Fig 9. STE P/E price range

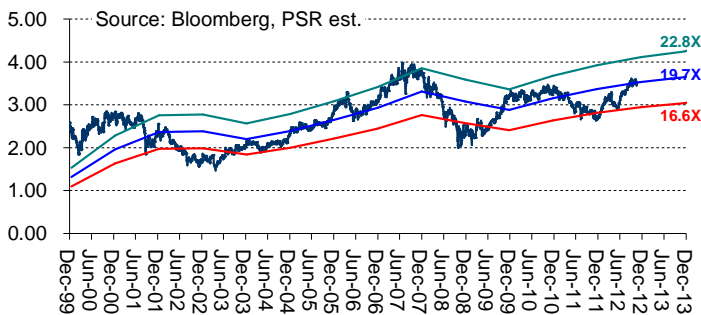


Fig 10. SATS P/E price range

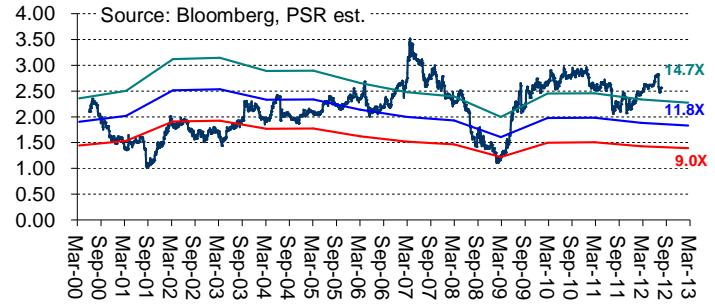


Fig 11. SIA P/B (X)



Fig 12. NOL P/B (X)



* Chart for Tiger Airways omitted, as its short trading history makes historical analysis less meaningful.

Airline Sector Comparables

Company	Rating	Price (LC)	TP	Upside (%)	Market Cap. (US\$'mn)	Ent. Value (US\$'mn)	Equity Multiple (X) Net Income			Equity Multiple (X) Book Value			Dividend yield (%)		
							11	12E	13E	11	12E	13E	11	12E	13E
							Market price as of: 19-Nov-12								
SIA	Buy	10.25	13.40	30.7%	9,796	6,676	35.2	22.7	15.5	0.9	0.9	0.9	2.0%	1.6%	2.9%
Tiger Airways	Sell	0.70	0.45	-35.7%	469	788	(5.8)	(18.1)	29.2	2.3	2.6	2.4	0.0%	0.0%	0.0%
Cathay Pacific		13.56			6,881	11,496	9.5	46.9	16.0	0.9	0.9	0.9	3.9%	0.9%	2.2%
Air China		5.06			9,149	18,891	8.0	12.8	9.3	1.3	1.0	0.9	2.5%	1.5%	1.9%
China Eastern		2.68			5,127	11,103	5.5	8.5	6.4	1.3	1.1	0.9	0.0%	0.0%	0.0%
China Southern		3.42			5,006	12,688	6.1	11.0	8.1	1.0	0.8	0.7	6.3%	2.0%	2.6%
China Airlines		11.35			2,021	5,282	n.m.	42.0	9.0	1.3	1.1	1.0	0.0%	0.4%	1.3%
EVA Air		16.85			1,880	3,163	320.0	26.0	13.1	1.7	1.3	1.2	0.0%	0.5%	1.2%
Asiana		6,220			1,116	3,351	70.9	14.4	6.8	1.5	1.1	0.9	0.0%	0.2%	0.4%
Korean Air		45,100			2,984	14,456	n.m.	15.4	7.9	1.3	1.1	1.0	0.0%	0.5%	0.6%
All Nippon Airways		169			7,294	13,079	26.7	13.6	11.1	1.2	0.8	0.8	0.8%	2.4%	2.6%
Japan Airlines		3,790			8,436	6,541	n.m.	4.4	4.5	n.m.	1.3	1.1	n.a.	2.8%	3.5%
Qantas		1.26			3,034	6,263	16.7	13.1	7.6	0.7	0.5	0.4	0.0%	0.5%	1.8%
Malaysian Airlines		1.01			1,101	3,043	n.m.	n.m.	n.m.	4.2	1.8	1.7	0.0%	0.0%	0.0%
Air Asia		2.91			2,639	4,461	18.9	8.1	8.2	2.6	1.5	1.3	1.3%	1.4%	1.3%
Thai Airways		21.20			1,506	5,543	n.m.	11.0	9.2	0.7	0.7	0.6	0.0%	2.2%	2.5%
Cebu Pacific		61.10			896	1,144	10.9	10.3	9.1	2.0	1.6	1.4	4.6%	2.9%	2.9%
Virgin Australia		0.50			1,134	2,356	n.m.	12.4	8.4	0.7	1.1	1.0	0.0%	0.8%	2.8%
Sector average					3,915	7,240	43.5	15.0	10.6	1.5	1.2	1.1	1.3%	1.2%	1.7%

Source: PSR, Bloomberg consensus

Container Shipping Sector Comparables

Company	Rating	Price (LC)	TP	Upside (%)	Market Cap. (US\$'mn)	Ent. Value (US\$'mn)	Equity Multiple (X) Net Income			Equity Multiple (X) Book Value			Dividend yield (%)		
							11	12E	13E	11	12E	13E	11	12E	13E
							Market price as of: 19-Nov-12								
NOL	Accumulate	1.08	1.36	25.9%	2,279	5,152	(4.8)	(7.8)	8.7	0.9	1.0	0.8	0.0%	0.0%	3.7%
AP Moller Maersk		40,080			29,392	47,693	11.0	9.5	8.4	0.9	0.8	0.8	2.6%	2.6%	2.7%
China COSCO Holdings		3.49			6,060	15,241	n.m.	n.m.	n.m.	0.9	1.0	1.1	0.0%	0.0%	0.2%
Nippon Yusen KK		160			3,339	16,205	7.0	28.1	9.4	0.8	0.5	0.4	3.4%	2.2%	3.0%
Mitsui OSK Lines Ltd		195			2,887	15,345	9.8	n.m.	24.2	0.9	0.4	0.4	2.1%	1.4%	1.8%
Hyundai Merchant Marine		24,000			3,404	8,395	n.m.	n.m.	132.3	2.2	4.1	3.4	n.a.	0.0%	0.3%
Orient Overseas Int.		47.90			3,867	4,378	26.4	13.8	11.4	0.9	0.9	0.8	1.2%	1.7%	2.3%
Evergreen Marine Corp		15.70			1,868	2,446	n.m.	26.7	13.3	0.9	0.9	0.8	0.0%	0.8%	1.0%
Yang Ming Marine		11.40			1,100	2,589	n.m.	n.m.	19.2	1.2	1.1	1.1	0.0%	0.1%	1.2%
Wan Hai Lines		13.95			1,060	781	1,465.0	21.2	14.5	1.1	1.0	0.9	0.0%	0.7%	1.4%
Hanjin Shipping Holdings		5,050			203	343	n.m.	n.m.	2.3	0.5	n.m.	n.m.	0.0%	n.a.	9.9%
Sector average					5,042	10,779	252.4	15.2	24.4	1.0	1.2	1.0	0.9%	1.0%	2.5%

Source: PSR, Bloomberg consensus

Aviation Services 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
Market price as of: 19-Nov-12															
SATS	Accumulate	2.84	2.94	3.5%	2,571	2,542	17.8	16.7	15.9	2.1	2.2	2.2	9.2%	5.3%	5.7%
SIA Engineering	Buy	4.24	5.00	17.9%	3,812	3,483	17.4	16.9	16.0	3.7	3.6	3.4	5.0%	5.2%	5.2%
ST Engineering	Accumulate	3.50	3.96	13.1%	8,784	8,333	20.4	19.4	18.7	6.1	5.7	5.4	4.4%	4.6%	4.8%
HAECO		104.00			2,231	2,446	20.2	19.7	18.6	2.7	2.9	2.7	2.6%	3.0%	3.2%
Beijing Int. Airport-H		5.21			2,911	5,236	12.2	14.1	11.3	0.9	1.2	1.1	2.4%	2.4%	2.9%
Shanghai Int. Airport-A		10.90			3,368	3,262	15.7	12.7	11.0	1.5	1.3	1.2	4.9%	3.2%	3.2%
Guangzhou Baiyun Int. Airport-A		6.43			1,186	1,236	10.1	9.4	8.4	1.0	1.0	1.0	5.7%	4.7%	4.7%
Shenzhen Airport Co-A		3.58			970	1,077	10.7	8.8	12.3	1.0	n.m.	n.m.	1.3%	n.a.	n.a.
Malaysia Airports Holdings Bhd		5.83			2,301	2,947	15.9	15.7	17.7	1.8	1.7	1.6	2.9%	3.2%	3.0%
Airports of Thailand		86.25			4,010	4,888	22.3	19.8	16.1	0.8	1.6	1.5	2.0%	2.1%	2.6%
Auckland Int. Airport		2.66			2,861	3,715	29.1	24.2	22.0	1.2	1.4	1.4	3.9%	4.1%	4.5%
Sydney Airport		3.35			6,460	12,643	40.7	34.2	31.0	2.2	2.9	3.3	7.9%	6.3%	6.6%
Sector average					3,456	4,317	19.4	17.6	16.6	2.1	2.3	2.3	4.4%	4.0%	4.2%

Source: PSR, Bloomberg consensus

Land Transport 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
Market price as of: 19-Nov-12															
SMRT	Sell	1.67	1.35	-19.2%	2,072	2,095	21.2	18.8	18.5	3.2	3.1	3.0	4.5%	4.2%	4.5%
ComfortDelGro	Buy	1.59	1.80	13.2%	2,723	3,326	14.2	13.4	13.2	1.8	1.7	1.6	3.8%	4.1%	4.2%
MTR Corp		29.70			22,184	23,959	9.9	19.0	19.0	1.1	1.3	1.2	3.0%	2.6%	2.7%
Sector average					8,993	9,793	15.1	17.1	16.9	2.0	2.0	1.9	3.8%	3.6%	3.8%

Source: PSR, Bloomberg consensus

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
Market price as of: 19-Nov-12																
Land Transport																
SMRT Corp	Sell	Mar	1.67	1.35	-19.2%	2,072	2,095	21.2	18.8	18.5	3.2	3.1	3.0	4.5%	4.2%	4.5%
ComfortDelGro	Buy	Dec	1.59	1.80	13.2%	2,723	3,326	14.2	13.4	13.2	1.8	1.7	1.6	3.8%	4.1%	4.2%
Airlines																
Singapore Airlines	Buy	Mar	10.25	13.40	30.7%	9,796	6,676	35.2	22.7	15.5	0.9	0.9	0.9	2.0%	1.6%	2.9%
Tiger Airways	Sell	Mar	0.70	0.45	-35.7%	469	788	(5.8)	(18.1)	29.2	2.3	2.6	2.4	0.0%	0.0%	0.0%
Shipping																
Neptune Orient Lines	Accumulate	Dec	1.08	1.36	25.9%	2,279	5,152	(4.8)	(7.8)	8.7	0.9	1.0	0.8	0.0%	0.0%	3.7%
Aviation Services																
SATS	Accumulate	Mar	2.84	2.94	3.5%	2,571	2,542	17.8	16.7	15.9	2.1	2.2	2.2	9.2%	5.3%	5.7%
SIA Engineering	Buy	Mar	4.24	5.00	17.9%	3,812	3,483	17.4	16.9	16.0	3.7	3.6	3.4	5.0%	5.2%	5.2%
ST Engineering	Accumulate	Dec	3.50	3.96	13.1%	8,784	8,333	20.4	19.4	18.7	6.1	5.7	5.4	4.4%	4.6%	4.8%

Source: PSR est.

*12E refers to FYE Dec 2012, FYE Mar 2013, FYE Jun 2013

Important Information

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