Initiation	Aerospace & Defence ▪ Singapore

SIA Engineering Co. Ltd.

(SIE SP/ S59.SI)

Capturing the resurgence of flight activities

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- **Flight recovery to boost MRO services and activities.** Global air travel has been rebounding, approaching pre-pandemic levels as restrictions ease, with flight activities surging to around 78% of pre-pandemic levels. Geopolitical uncertainties have also boosted air freight demand. The aviation industry is expected to continue growing in 2024, leading to an increased demand for SIA Engineering's (SIAEC) Maintenance, Repair, and Overhaul (MRO) services.
- **Strong operating statistics on track to surpass pre-pandemic levels.** In 3Q24, SIAEC witnessed a significant rise in flights managed at Changi Airport through line maintenance, a primary revenue stream for the company. This growth in MRO services correlates with the rebound in flight operations, highlighting SIAEC's adeptness in capitalizing on increased demand following the recovery of flights, establishing its dominance as a market leader in MRO services in Singapore. For 9M24, the number of flights managed through Line Maintenance surpassed FY23 levels and reached 72% of FY20 levels, signaling a trajectory towards pre-pandemic levels by FY24's end. Additionally, both light checks and overall operations at SIAEC's Singapore base have surpassed pre-pandemic levels, showcasing the company's capability to meet the heightened demand for MRO services amid the resurgence of flight activities at Changi Airport.
- **Strong Cash position and drive growth.** SIAEC currently holds an impressive cash position (cash and bank balance & short-term deposits) of S$578.9 million, showcasing strong financial health. The company's cash ratio of 2.38x also ensures it can clear debt, finance growth, and avoid extra borrowing or equity issuance. This solid financial position enhances investor confidence, attracting potential partners, investors, and lenders. We initiate with an **OUTPERFORM** recommendation and a 12M target price of **S$2.59.**

Financials & Key Operating Statistics

YE Mar (S$'Millions)	2022	2023	2024F	2025F	2026F
Revenue	566.1	796.0	1,067.0	1,280.4	1,472.5
PATMI	67.8	66.5	119.9	125.5	145.1
EPS (cents)	6.0	5.9	10.7	11.2	12.9
EPS growth (%)	NA	-1.8%	80.2%	4.7%	15.6%
DPS (Sing cents)	0.0	7.5	7.5	8.3	9.1
Div Yield (Y%)	NA	3.3%	3.3%	3.6%	4.0%
Net Profit Margin (%)	12.0%	8.4%	11.2%	9.8%	9.9%
Net Debt/ (Net Cash) Gearing (%)	(31.5%)	(32.9%)	(28.2%)	(25.2%)	(23.1%)
ROA (%)	3.7%	3.4%	6.0%	6.0%	6.8%
ROE (%)	4.2%	4.0%	7.0%	7.2%	8.1%

Source: KGI Research

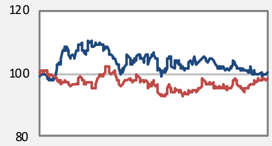
Outperform - Initiation

Price as of 12 Apr 24 (SGD)	2.25
12M TP ($)	2.59
Previous TP ($)	-
Upside, incl div (%)	18.4%

Performance (Absolute)	
1 Month (%)	-1.3
3 Month (%)	-4.2
12 Month (%)	2.7

Trading data	
Mkt Cap ($mn)	2,525
Issued Shares (mn)	1,122
Vol - 3M Daily avg (mn)	0.2
Val - 3M Daily avg ($mn)	0.5
Free Float (%)	22.40%

Perf. vs STI Index (Red)



Major Shareholders	
Temasek Holdings Pte. Ltd.	77.5%
Vanguard Group Inc.	0.7%
BlackRock Inc.	0.6%

Previous Recommendations

Valuation & Action: We initiate with an **OUTPERFORM** recommendation and a TP of **S$2.59,** based on a Discounted Cash Flow (DCF) valuation, with a terminal growth rate of 2.5% and a WACC of 9.2%. SIAEC's strong cash position sheet, with a low gearing ratio, put the company at a competitive advantage against its competitors. The company would be able to use its strong financial position to drive more growth in its current B2B business globally, and at the same time keep a lookout for potential acquisition opportunities. We derive a TP at S$2.59 with a 15.0% upside as we emphasize its strong financial position and business model that would allow the company to capture its recovery momentum effectively to further grow and expand its market presence.

Risks: SIAEC's primary risk is associated with global flight activities, a key revenue driver for SIAEC. The resurgence of a pandemic, the emergence of a new pandemic, natural disasters, or ongoing geopolitical tensions could significantly impact and reduce flight activities, thereby dampening SIAEC's revenue.

With business operations located across different markets, SIAEC is bound to transact business in different kinds of currencies. Businesses with SIAEC's customers are denominated in a foreign currency. As such, the company is exposed to translation risk resulting from transactions denominated in foreign currencies.

Contents

Business at a Glance

SIAEC is Asia's foremost MRO provider, with a portfolio spanning globally. Certified by over 20 airworthiness authorities, SIAEC's MRO network, including 6 hangars in Singapore, 3 in Clark, Philippines, and 2 in Subang, Malaysia, delivers turnkey integrated solutions to a large client base of international airlines and aerospace companies.

Collaborations with leading OEMs and strategic partners in airframe, component, engine, and modification complement and strengthen SIAEC's core competencies and market reach. The company's 23 subsidiaries and JVs with original equipment manufacturers and strategic partners in Singapore, Hong Kong, Indonesia, Japan, Malaysia, the Philippines, the United States of America, and Vietnam enhance the depth and breadth of its service offerings. SIAEC holds approvals from 29 national aviation regulatory authorities, allowing it to provide MRO services for aircraft registered in the United States of America, Europe, China, and other countries.

Figure 1: SIAEC's Core Businesses

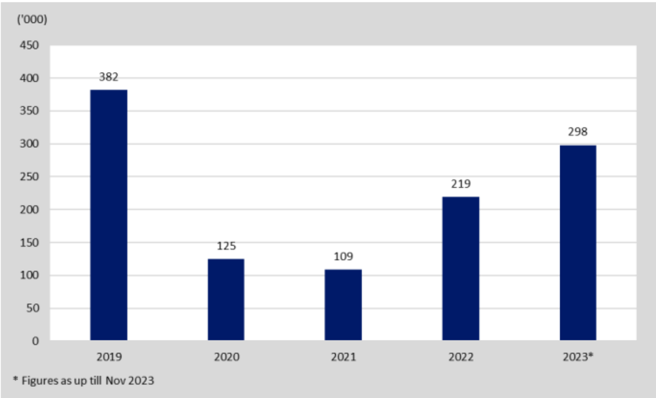
Source: Company

Investment Thesis

Flight recovery to boost business activities

Air travel is displaying signs of recovery, approaching pre-pandemic levels as global pandemic restrictions ease. In Singapore, flight activities have notably increased, reaching approximately 298,000 flight movements in the 11 months from January to November 2023, accounting for about 78% of pre-pandemic levels. Looking ahead, the anticipation is for travel demand to surge in 2024, driven by expectations of declining interest rates from their peak in that year. Projections suggest that air travel demand will return to pre-COVID levels in 2024, with the International Air Travel Association (IATA) forecasting around 4.7 billion people traveling by air, marking a 4% increase compared to pre-pandemic levels.

Figure 2: Changi Airport's Yearly Commercial Aircraft Movements



Source: Changi Airport Group, KGI Research

Similarly, Singapore has witnessed a rise in tourist arrivals, reaching approximately 80% of pre-pandemic levels, with 1,436,404 arrivals in January 2024. This figure is poised to further escalate as travel demand continues its recovery in 2024. The Philippines also witnessed an increase in tourist arrivals with a total of 574,439 visitor arrivals in January 2024, reaching around 73% of pre-pandemic levels. Similarly, Malaysia saw an increase in visitor arrival at 2,323,378 visitor arrivals in Dec 2023, representing around 96% of pre-pandemic levels.

Moreover, recent geopolitical uncertainties affecting sea carriers due to ship attacks in the Red Sea have led to delivery delays and increased freight costs. Consequently, air freight has become a more attractive option than sea freight, driving up demand for cargo to be transported by air. This heightened demand is expected to contribute to an increase in flight activities across various key markets.

The aviation industry is anticipated to experience continued growth in 2024, with the IATA projecting a net profit of US$25.7 billion for the industry as it rebounds from substantial losses incurred during the pandemic. The elevated level of travel demand is likely to translate into increased demand for MRO services for SIAEC.

A leader with strong brand partnerships

SIAEC diligently focuses on securing new customer contracts with various stakeholders within the airline industry while concurrently nurturing positive and ongoing relationships with existing clients. This collaborative approach with leading aircraft manufacturers and airlines provides SIAEC access to cutting-edge technology and opens doors to new market opportunities.

Currently, SIAEC Group is involved in contracts with over 80 airline companies and aerospace equipment manufacturers, spanning durations from one to five years. In the fiscal year 2023/2024, SIAEC inked several new contracts with prominent airline companies like Jetstar (Australia), Xiamen Air, and Starlux Airlines. Additionally, the company successfully renewed or extended existing contracts with major players such as China Southern Airlines and United Airlines. Notably, comprehensive services agreements were signed with Scoot and Singapore Airlines, both spanning a two-year term from April 1, 2023, with an option to extend for an additional year.

Furthermore, SIAEC holds a dominant position in Singapore, commanding over 80% of the market share for Line Maintenance at Changi Airport in Certification & Defect Rectification. The remaining 20% is shared among competitors like AFI-KLM Engineering & Maintenance and ST Engineering Aerospace. SIAEC also boasts a market share of close to 50% for technical ramp handling. Given its strength and significant presence in Singapore and the regional markets, these airlines are likely to remain loyal clients of SIAEC, particularly in the Singaporean landscape.

Figure 3: SIAEC's 1H FY2023/2024 Key Customer Contracts

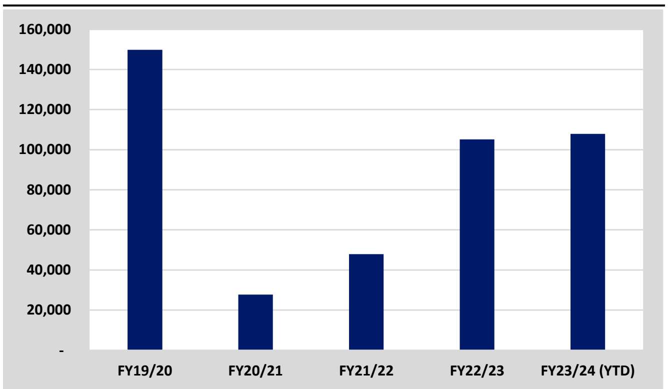
Source: Company

Strong recovery momentum underpinned by strong operating statistics

As of 3Q24, SIAEC experienced a notable uptick in flights managed at Changi Airport through line maintenance, which served as the primary revenue generator for the company. The number of flights handled at Changi Airport through line maintenance surged to 37,154 in 3Q24, compared to 29,181 in 3Q23. Additionally, the volume of light checks conducted at the Singapore base increased from 151 in the third quarter of 2023 to 199 in the corresponding period of 2024. This growth in MRO services aligns with the rebound in flight operations, underscoring SIAEC's ability to capitalize on heightened demand resulting from the recovery of flights, positioning the company as a market leader in MRO services within the Singapore market.

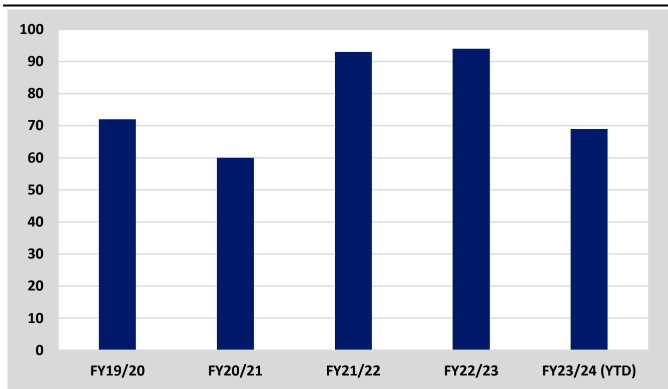
For 9M24, the number of flights managed at Changi Airport through Line Maintenance has already surpassed the levels recorded in the entirety of the fiscal year 2023 and currently stands at 72% of the levels seen in FY20, indicating a trajectory towards approaching pre-pandemic levels by the end of FY24. Furthermore, the count of light checks conducted at SIAEC's Singapore base, and the overall operations have exceeded pre-pandemic levels, underscoring the company's ability to meet the demand for MRO services resulting from the resurgence of in-flight activities at Changi Airport.

Figure 4: Flights handled at Changi Airport by line maintenance



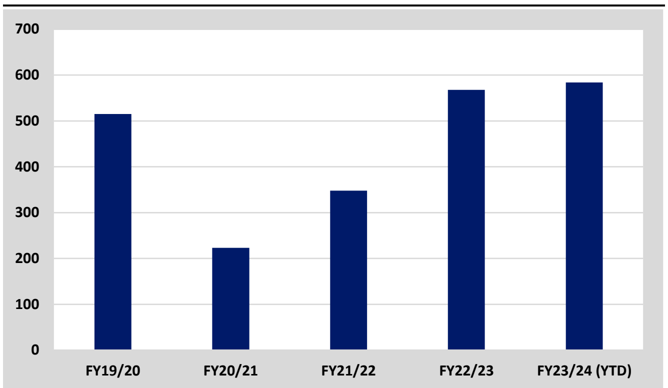
Source: Company, KGI Research

Figure 5: Number of heavy checks performed at Singapore base



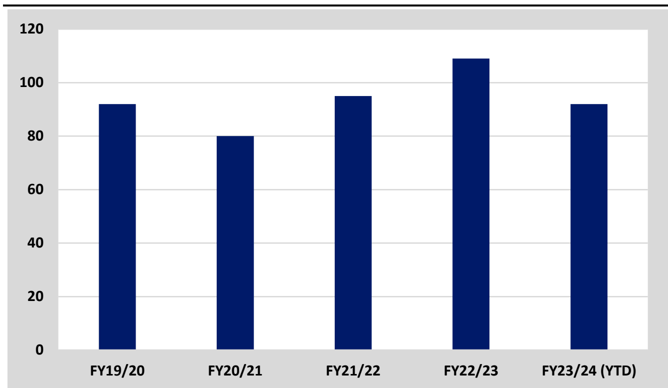
Source: Company, KGI Research

Figure 6: Number of light checks performed at the Singapore base



Source: Company, KGI Research

Figure 7: Fleet size managed by inventory technical management business



Source: Company, KGI Research

Outlook

The MRO services industry is expected to see steady growth in the coming years, fuelled by a rebound in global travel and air cargo. Emerging markets offer particular promise, but a full recovery will likely be gradual due to various economic and geopolitical headwinds. Despite these challenges, long-term prospects remain bright due to factors like rising incomes, an aging aircraft fleet, and increasing travel demand.

Global flight recovery

Since the onset of 2023, global travel activities have witnessed a resurgence, particularly as an increasing number of countries work towards fully reopening their borders. Singapore, in particular, experienced a noteworthy surge in international visitor arrivals throughout 2023, surpassing 1.0 million tourist arrivals per month from March 2023 onwards. The peak occurred in July 2023, with a staggering 1.42 million tourist arrivals, reaching approximately 78% of pre-pandemic levels. Asia Pacific travel recovery accelerating towards the year's end and is expected to reach back to pre-pandemic levels in 2019 by the end of 2024.

Major clients of SIAEC, including SIA, United Airlines, China Southern Airlines, and others, demonstrated an uptick in flight capacity and frequency worldwide. Especially during the holiday season of 2023. This trend was observed as travel demand rebounded following the relaxation of COVID-19 restrictions. The increased demand for travel and capacity is expected to fuel the need for MRO services for aircraft. This demand stems from the imperative need to maintain safety standards and ensure proper upkeep, thereby keeping the aircraft operational and in compliance with regulatory requirements.

Furthermore, with business operations in several key markets across the world, it puts SIAEC in an optimal position to capture the higher demand for MRO services across these regions and create more opportunities for JVs and partnerships.

The beginning of rate cuts

While being more sticky than expected, inflation has already shown signs of cooling down amidst a high-interest rate environment, with the U.S. annual inflation rate slowing down to its current level of around 3.5% in January 2023. Interest rates have peaked at 5.50% and the majority of Fed Officials see rate cuts starting in mid-2024, with possibly a total of 3 rate cuts throughout 2024. This is in line with the Federal Reserve’s long-term goal to bring the inflation rate down moderately to a target of 2%, without any drastic impact on the financial markets.

Expectations towards rate cuts would likely drive more demand for travel as businesses seek to expand their business overseas and consumers take the opportunity to travel amidst lowering rates.

Geopolitical tensions

The world currently grapples with ongoing uncertainties, notably geopolitical tensions like the Ukraine-Russian War and the recent Israel–Hamas conflict. These geopolitical issues pose challenges for pilots navigating through conflict zones, raising safety concerns and leading to a more cautious approach among consumers, thereby dampening travel demand in affected regions.

Furthermore, recent attacks on ships in the Red Sea have disrupted the air freight industry. The resulting operational challenges have increased costs for shipping companies, translating into surcharges and higher freight rates for consumers. The heightened risk of attacks has also driven up war risk insurance premiums for ships traversing the Red Sea. Consequently, these additional costs are factored into increased freight rates, fostering a surge in demand for air freight as an alternative means of delivering goods.

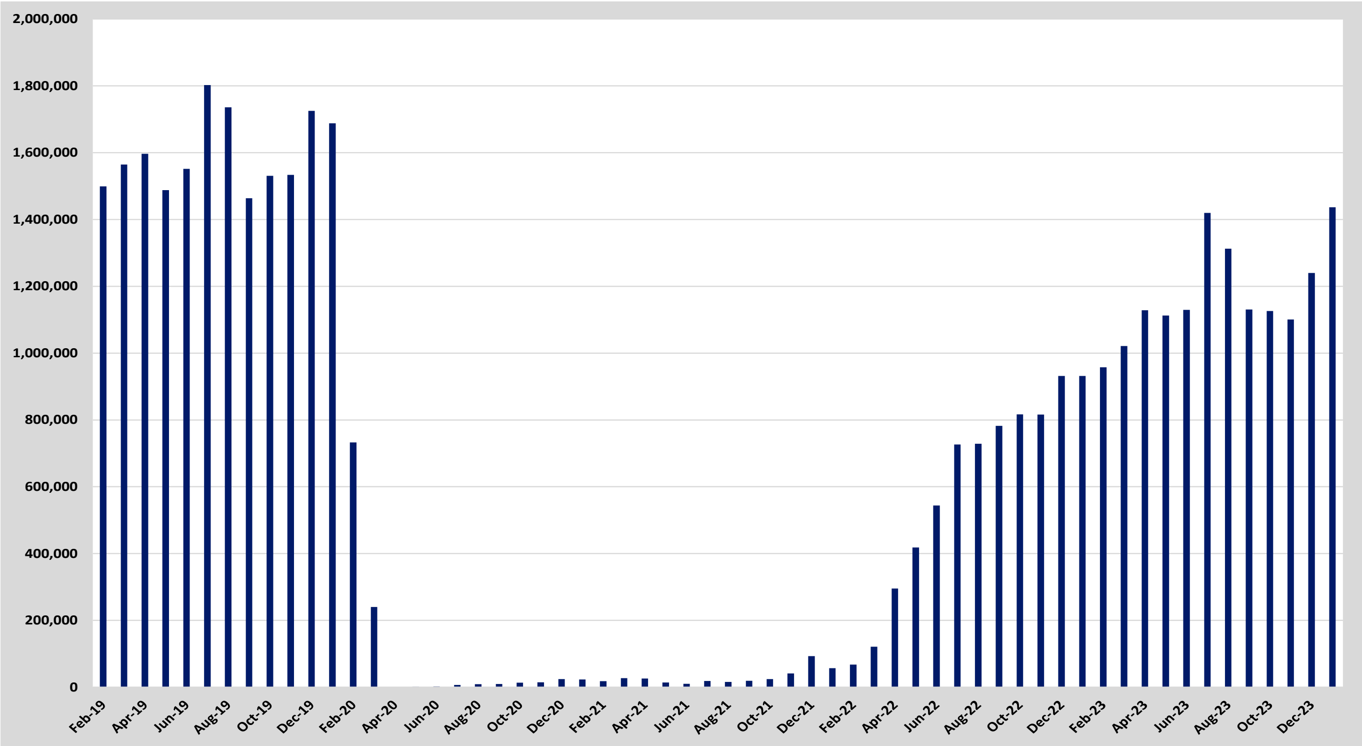
Aging Global Aircraft fleet

Although newer aircraft models are renowned for their fuel efficiency and operational cost savings, the substantial upfront investment needed for their purchase often deters companies. Many businesses opt to service and maintain their existing aircraft to extend their operational lifespan, given the significant financial commitment required to acquire new aircraft. Despite approximately 60% of the global fleet is younger than the average, with the Asia Pacific and the Middle East boasting the youngest fleets, the considerable investment burden associated with newer aircraft may contribute to an aging global aircraft fleet in the future. This, in turn, is expected to drive an increased demand for MRO services.

Supply chain challenges

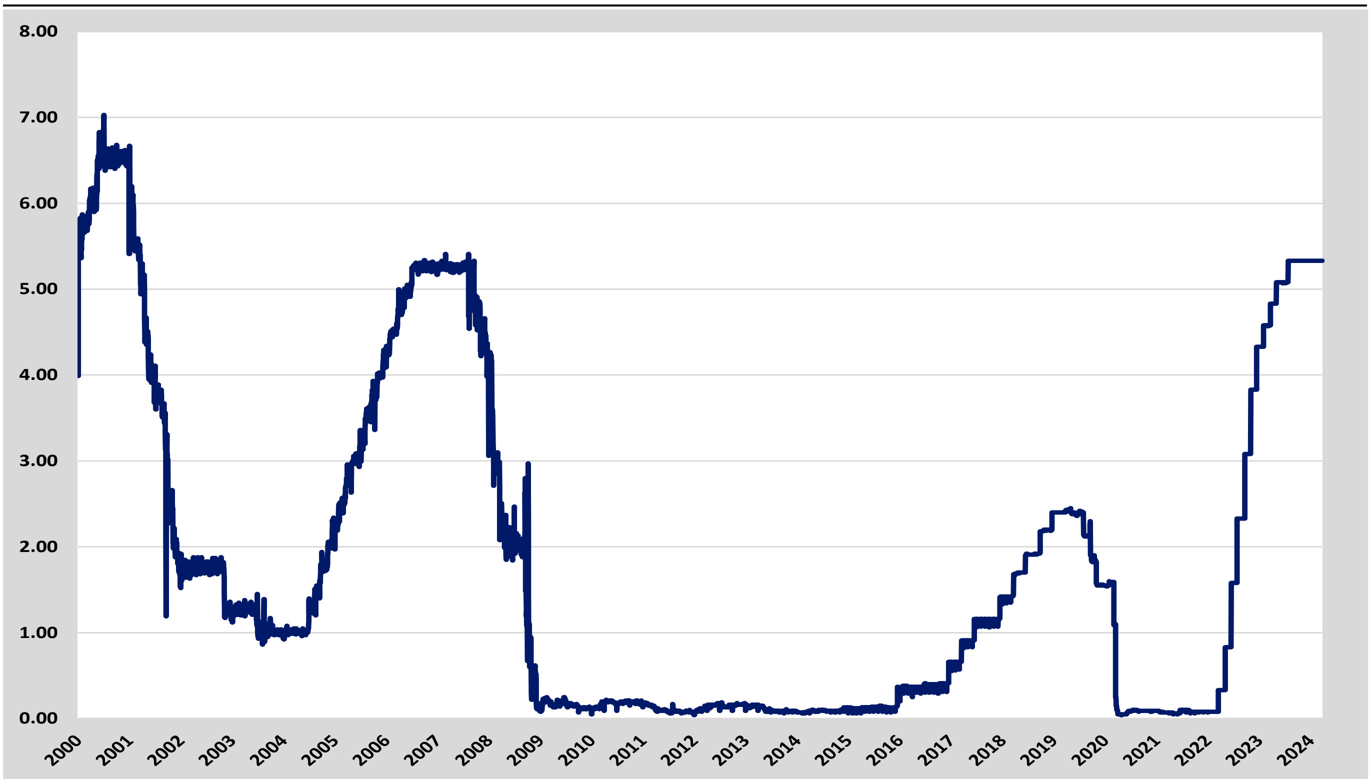
The MRO services industry continues to face supply chain challenges amidst the harsh macroeconomic environment. The supply of materials required for MRO services remains limited across the industry, affecting turnaround times and output rates for many companies. The high shipping costs to obtain these materials and equipment also add to the total expenses of the company. A high interest and inflation rate environment has also led to higher labor costs amidst a limited supply of skilled and specialized aerospace engineers. These challenges add more costs for many companies across the industry.

Figure 8: 5 Years Singapore Tourist Arrivals (Feb 2019 – Jan 2024)



Source: Singstats, KGI Research

Figure 9: Effective Fed Fund Rate since 2000



Source: KGI Research

Future Plans

Expanding and Increasing presence

SIAEC is constantly keeping a lookout for opportunities to grow its business as well as increase its market presence in the MRO services industry globally. The group aims to establish more hangars regionally and expand its Line Maintenance International (LMI) network, as well as set up component capabilities in a lower operating cost environment.

In December 2023, Base Maintenance Malaysia Sdn. Bhd. (BMM), a wholly owned subsidiary under SIAEC signed a lease agreement for Hangar facilities in Subang, Malaysia. This adds 2 more hangar facilities with a combined capacity of six simultaneous aircraft checks with a lease term of 15 years to SIAEC's portfolio. These hangars are currently undergoing refurbishment work, undertaken by the lessor before it starts its operation. This expansion showcases SIAEC's drive to expand its presence in regional markets.

Investing in new capabilities

SIAEC is also focused on investing in new capabilities on new-generation aircraft platforms. The group plans to deepen its collaboration with SIA Group Airlines to secure more OEM partnership opportunities, as well as develop and acquire new capabilities across the group and JV network, through continued investments and partnerships with OEMs.

SIAEC recently signed a non-binding Memorandum of Understanding (MOU) with Thales Solutions Asia Private Limited (Thales) to explore business development and collaboration opportunities in the Asia-Pacific region. This potential collaboration could expand SIAEC's component repair capabilities, network, and service offerings to our airline customers for Thales' components. This MOU complements SIAEC's overall strategic plan to grow its component repair and overhaul services network.

New Joint Venture Agreements

SIAEC recently announced the signing of a JV agreement for a 51%-owned line maintenance JV with Cambodia Airport Investment Co., Ltd at the new Techo Takhmao International Airport in Phnom Penh. The JV will establish line maintenance services at the new international airport and will complement SIAEC's existing network of LMI stations.

SIAEC also announced the signing of a JV agreement for a 49%-owned component MRO JV with Eaton in Malaysia to form a component MRO JV. The JV will inspect, test, repair, maintain, modify, and overhaul Eaton-manufactured aircraft components installed on airframe and engine fuel systems and hydraulics systems. The JV builds presence and service capacity for Eaton and SIAEC customers in the Asia Pacific region.

Figure 10: Signing of JV Agreement with Eaton

Source: Company

Financial Analysis & Valuations

Business Updates

SIAEC reported a strong 3Q24 result on higher revenues over the quarter. Revenue rose by 40.2% YoY to S$291.7mn, compared to S$208.1mn in revenue in 3Q24, as global flight activities moved steadily closer to pre-pandemic levels. Group expenditure rose at a lower rate of 33.8% to $295.1mn mainly due to an increase in manpower costs and material costs. Operating loss also decreased YoY to S$3.4mn in 3Q24 compared to a net loss of S$12.5mn in 3Q23, as the revenue growth was higher than the rise in expenditure.

The company's net profit of $26.9mn in 3Q24 also saw an improvement of $14.1mn YoY, compared to S$12.8mn in 3Q23. 9M24 Net Profit Margin (NPM) rose by 2.8pp YoY to 10.7%, compared to 7.9% in 3Q23 as a result of better flight activities, as well as a higher share of profits from associates and JV companies. The company's NPM still stands at a strong level of 10.7% compared to its peers within the industry, showcasing the strength of the company business strategy.

Under the company's segmental revenue, the engine and component segment recorded an improvement of $5.2mn, mainly due to an increase in workload and work content. The airframe and line maintenance segment registered lower profits YoY, largely due to a one-time adjustment in the same period last year; excluding this adjustment, the share of profits increased by $0.6 million YoY. This re-emphasizes the strength and resilience of SIAEC's business strategy which has enabled them to recapture the demand for MRO services as global flight activities recover and remain on track to surpass pre-pandemic levels in 2024.

Peer comparison

Table 1: SIAEC's Peer Comparison

Company Name	Region	Last Price (local $)	Currency Adj. Market Cap (US$ m)	Dividend Yield (%)		Net Gearing (%)	P/E (x)		P/B (x)		Gross Profit margin (%)	Net Profit Margin (%)	ROA (%)	ROE (%)
				FY23F	FY24F		FY23F	FY24F	FY23F	FY24F				
Company														
SIA ENGINEERING CO LTD	Singapore	SGD 2.25	1,860	3.2	3.3	-32.9	21.1	20.1	1.5	1.5	19.8%	8.4%	3.4%	4.0%
Singapore														
SINGAPORE TECH ENGINEERING	Singapore	SGD 3.98	9,149.7	5.1	4.0	209.1	21.1	18.2	4.9	4.7	18.8%	5.6%	4.2%	22.2%
SATS LTD	Singapore	SGD 2.54	2,789.9	0.0	0.2	43.9	126.8	79.4	1.8	1.6	NA	0.7%	-1.3%	-0.7%
International														
AIR FRANCE-KLM	Paris	EUR 9.87	2772.0	0.0	0.0	1,221.2	8.3	2.6	NA	NA	NA	3.1%	2.3%	NA
MTU AERO ENGINES AG	Germany	EUR 215.10	12372.0	1.0	1.3	10.2	NA	17.5	3.7	3.4	17.5%	7.6%	3.8%	11.6%
SAFRAN SA	Paris	EUR 205.40	93780.0	1.4	1.3	-4.6	24.9	29.7	5.7	6.7	NA	-10.9%	-5.6%	-21.2%
DEUTSCHE LUFTHANSA-REG	Germany	EUR 7.03	8987.0	3.7	4.6	58.3	4.4	4.8	1.0	0.8	NA	3.4%	1.8%	12.3%

Source: Bloomberg, KGI Research

Strong Cash position to drive growth and returns

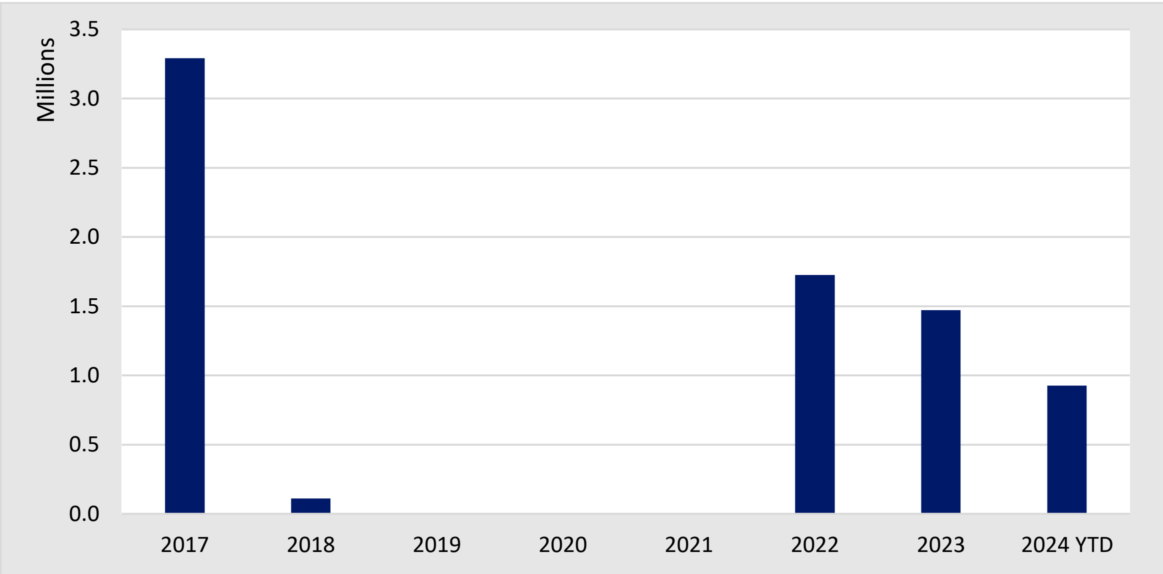
As of 3Q24, SIAEC currently holds an impressive cash position (cash and bank balance & short-term deposits) of S$578.9mn and reported a total debt of S$114.5mn in 1H24. The company c This substantial cash reserve showcases the company's ability to generate and retain a significant amount of cash from its operations or other sources. The company also has a cash ratio of 2.44x, indicating that the company has a high level of liquidity to clear off its debt, as well as provide a high level of financing to grow its current business. Further, its strong cash position also means that the company can avoid taking on additional debt or diluting shareholder equity through issuing more shares.

The company's very strong cash position of S$578.9mn in 1H24 and a cash ratio of 2.38x are positive indicators of its financial strength and liquidity. It reflects the company's ability to manage its finances efficiently, meet its short-term obligations comfortably, and seize growth opportunities without being burdened by excessive debt. These factors contribute to enhancing investor confidence and may lead to increased interest from potential investors, partners, and lenders.

Resuming Share buybacks

SIAEC was hit hard by the COVID-19 pandemic, with little flight activities as many countries restricted their border to manage the spread of the pandemic, and saw challenges in providing MRO services across their different hangars. With flight activities recovering to close to 90% of pre-pandemic levels as the world moves on from the COVID-19 pandemic, SIAEC has been able to tap into this recovery to generate more revenue from an increased level of MRO services. This has allowed the company to resume its share buyback efforts to provide investors with more value in their investment and has resumed its share buyback efforts for its investors since 2022 after the COVID-19 pandemic. YTD, SIAEC has repurchased 926,500 shares from the market.

Figure 11: SIAEC's historical Share Buybacks



Source: KGI Research

Valuations

SIAEC's strong cash position sheet, with a low gearing ratio, put the company at a competitive advantage against its competitors. The company would be able to use its strong financial position to drive more growth in its current B2B business globally, and at the same time keep a lookout for potential acquisition opportunities. We conducted a valuation analysis using Discounted Cash Flows (DCF) over a period of 5 years using a Terminal Growth Rate of 2.5% and a WACC of 9.2%, to derive a 12M target price of S$2.59 with a 15.0% upside.

Table 2: SIAEC's Free Cashflow Calculation

Free Cash Flow Calculation (S$'000)	2022	2023	2024E	2025E	2026E	2027E	2028E
Earnings before Income Tax	49,160.0	65,549.0	136,280.8	151,238.4	174,878.4	190,196.5	207,224.6
Add: Interest	2,633.0	1,949.0	3,259.6	2,171.5	1,582.0	1,083.5	676.0
Operating Profit (EBIT)	51,793.0	67,498.0	139,540.4	153,410.0	176,460.4	191,279.9	207,900.6
Less: Tax	- 18,611.0	- 996.0	16,353.7	25,710.5	29,729.3	32,333.4	35,228.2
Add: Depreciation & Amortisation	63,334.0	63,952.0	70,785.6	78,847.9	77,947.0	83,621.3	90,226.3
Less: Changes in working capital	- 9,046.0	21,508.0	- 82,173.6	- 41,798.9	- 37,619.0	- 31,495.5	- 35,043.2
Less: Capital Expenditures	23,289.0	59,633.0	68,141.5	81,769.8	79,310.6	87,971.5	97,608.1
FCFF	119,495.0	51,305.0	208,004.4	166,576.5	182,986.5	186,091.9	200,334.0
Terminal Value	-	-	-	-	-	-	3,058,046.8
Total FCFF	119,495.0	51,305.0	208,004.4	166,576.5	182,986.5	186,091.9	3,258,380.8
Period	-	-	-	1.0	2.0	3.0	4.0
Discount Factor	-	-	1.00	0.92	0.84	0.77	0.70
PV FCFF	-	-	208,004.4	152,521.9	153,410.8	142,850.8	2,290,211.3

Source: KGI Research

Table 3: SIAEC's Valuations and Target Price

Valuations (S$'000)	
Discounted Cash Flow (DCF)	
Perpetual Growth Rate	2.5%
Expected Returns/WACC	9.2%
Sum of PV FCFF	2,946,999.2
Plus: Net Debt	- 33,704.8
Less: Interest*(1-Tax)	- 3,650.8
Implied Equity Value	2,909,643.7
Diluted Shares	1,124,116,360
Implied 12M-TP (S$)	2.59

Source: KGI Research

Key Risks

Economic risk. Economic events such as recessions, inflation, and deflation can impact the financial performance of companies and investments. The current high inflation and high interest rates may result in a fall in demand for MRO services, as flight activities are reduced to save costs amidst consumers' unwillingness to spend.

Translation risk. Currency fluctuations can impact the value of investments made in foreign currencies, as well as affect the competitiveness of exports and imports. The company has its business operations across different regional markets with its respective functional currency, which may be different from SIAEC. Payments made to external vendors may also be made in a different currency. Hence, the company is subjected to translation risk between the US and the local currency in each market.

Commodity price risk. Higher oil prices may translate to higher flight ticket prices, which would discourage consumers from traveling to save costs. This may lead to fewer flight activities globally which results in lesser demand for MRO services from companies like SIAEC.

Foreign exchange risk. The depreciation of currencies can also diminish the revenue and profits of SIAEC. Being located in several countries such as Singapore, Malaysia, the Philippines, the United States, as well as Europe, SIAEC is subjected to the fluctuation of these currencies against the SGD, as the company's revenue and profits are being reported in SGD.

Geo-political risk. Political events such as elections, policy changes, and international conflicts can impact the financial performance of companies and investments. Furthermore, geo-political risk may dampen the demand for traveling as consumers are less willing to travel during uncertain periods. This would directly impact SIAEC, whose business is highly dependent on flight activities across the world.

Supply chain risks. SIAEC should assess its supply chain risk constantly as its business operations are located broadly in different markets. Furthermore, the cost of sourcing materials is not cheap in the MRO services industry. Hence, SIAEC needs to work closely with the proper manufacturers to ensure that quality is being delivered to their portfolio of customers.

Regulatory risk. Changes in laws and regulations might affect the cost of production, and hence net profit for SIAEC. These can come in the form of tax policy reform, tariffs minimum wage laws, etc. As SIAEC operates in different markets globally, the company should assess these risks accordingly to reduce its exposure to these risks.

Natural disasters. The aftermaths of natural disasters such as hurricanes, typhoons, and tsunamis, may dampen consumers' demand for traveling. As a result, airline companies would reduce their flight activities and this translates to a lower demand for MRO services for SIAEC.

Pandemic risk. The resurgence of Covid-19 cases, as well as the recent rise in respiratory illness, could impact the demand for traveling by flight, or even create another lockdown. This would lower flight activities and as a result, indirectly impact the demand for SIAEC's business.

Financial Summary

FYE March ('$Millions)

Income Statement	2022	2023	2024F	2025F	2026F
Revenues	**566.1**	**796.0**	**1,067.0**	**1,280.4**	**1,472.5**
Cost Of Goods Sold	417.0	638.3	814.1	977.0	1,123.5
Gross Profit	**149.1**	**157.7**	**252.9**	**303.5**	**349.0**
Depreciation & Amortisation	63.3	64.0	70.8	78.8	77.9
Other Operating Expenditures	107.7	120.0	132.3	158.8	182.6
Operating Income	**(21.9)**	**(26.3)**	**49.8**	**65.8**	**88.4**
Interest Income and Others	(8.1)	14.0	7.1	4.4	3.9
Share of profits of associated companies, net of tax	49.7	48.5	49.5	50.5	51.5
Share of profits of a joint venture company, net of tax	29.4	29.3	29.9	30.5	31.1
Profit Before Income Tax	**49.2**	**65.5**	**136.3**	**151.2**	**174.9**
Income Tax Expense	18.6	1.0	(16.4)	(25.7)	(29.7)
Net Income	**67.8**	**66.5**	**119.9**	**125.5**	**145.1**

Balance Sheet	2022	2023	2024F	2025F	2026F
Cash and cash equivalents	625.5	633.0	555.4	503.4	466.4
Inventories	33.0	43.4	42.4	50.9	58.6
Trade Debtors	35.4	34.2	46.6	55.9	64.3
Contract Assets	124.6	160.3	190.9	229.1	263.5
Other current assets	94.4	81.4	118.1	141.4	162.4
Total current assets	**912.8**	**952.2**	**953.4**	**980.8**	**1,015.2**
Property, plant and equipment	156.9	175.1	193.8	217.1	238.2
Right-of-use Assets	32.8	40.8	49.3	59.5	71.3
Associate and Joint Venture Companies	651.2	685.3	685.3	685.3	685.3
Other non-current assets	84.5	129.9	131.0	132.4	130.5
Total non-current assets	**925.4**	**1,031.1**	**1,059.4**	**1,094.4**	**1,125.2**
Total assets	**1,838.2**	**1,983.4**	**2,012.9**	**2,075.1**	**2,140.4**
Trade and other creditors	127.9	162.0	161.2	193.4	222.4
Contract Liabilities	12.7	21.5	19.0	22.8	26.2
Bank Borrowings & Lease Liabilities	31.3	24.6	19.4	19.8	18.9
Other current liabilities	5.9	7.4	7.4	8.9	10.2
Total current liabilities	**177.8**	**215.5**	**207.0**	**244.8**	**277.7**
Bank Borrowings & Lease Liabilities	38.4	90.6	93.0	84.6	73.8
Other non-current liabilities	0.5	0.5	0.5	0.5	0.5
Total non-current liabilities	**39.0**	**91.1**	**93.6**	**85.2**	**74.3**
Total liabilities	**216.8**	**306.6**	**300.5**	**330.0**	**352.1**
Share capital	420.0	420.0	420.0	420.0	420.0
Treasury Shares	(5.8)	(5.0)	(5.0)	(5.0)	(5.0)
Other Reserves	(15.3)	(27.8)	(27.8)	(27.8)	(27.8)
Retained Earnings	1,211.8	1,278.8	1,314.5	1,347.3	1,390.4
Equity Attributable to owners of the Company	**1,610.8**	**1,666.2**	**1,701.8**	**1,734.6**	**1,777.7**
Non-Controlling Interest	10.6	10.6	10.6	10.6	10.6
Total Equity	**1,621.4**	**1,676.7**	**1,712.4**	**1,745.1**	**1,788.3**
Total Liabilities and Equity	**1,838.2**	**1,983.4**	**2,012.9**	**2,075.1**	**2,140.4**

Cash Flow	2022	2023	2024F	2025F	2026F
Profit Before Income Tax	**49.2**	**65.5**	**136.3**	**151.2**	**174.9**
Depreciation & Amort.	63.3	64.0	70.8	78.8	77.9
Other Operating Cash Flows Adjustments	9.6	(11.6)	(7.1)	(4.4)	(3.9)
Share of profits of associated and joint venture companies, net of tax	(79.1)	(77.8)	(79.4)	(81.0)	(82.6)
Operating cash flows before WC changes	**43.0**	**40.1**	**120.6**	**144.7**	**166.4**
Change in working capital	(9.0)	21.5	(82.2)	(41.8)	(37.6)
Cash Generated from Operations	**33.9**	**61.6**	**38.4**	**102.9**	**128.8**
Income tax paid	(4.7)	3.0	(16.4)	(25.7)	(29.7)
Cash flows from operations	**29.2**	**64.6**	**22.0**	**77.2**	**99.0**
Capital expenditure	(23.3)	(59.6)	(68.1)	(81.8)	(79.3)
Interest Received	1.8	7.5	10.4	6.6	5.4
Other investing cashflow	37.3	32.6	48.4	48.9	53.1
Cash flows from investing	**15.7**	**(19.5)**	**(9.3)**	**(26.2)**	**(20.7)**
Repayment of bank borrowings	(7.1)	(3.6)	(2.1)	(0.1)	(0.1)
Repayment of lease liabilities	(28.1)	(30.4)	(0.6)	(7.9)	(11.6)
Interest paid	(0.3)	(0.1)	(3.3)	(2.2)	(1.6)
Dividends paid	–	–	(84.3)	(92.7)	(102.0)
Other financing cashflow	(0.2)	(3.0)	–	–	–
Cash flows from financing	**(35.7)**	**(37.1)**	**(90.3)**	**(102.9)**	**(115.3)**
Net increase in cash	**9.2**	**8.0**	**(77.6)**	**(52.0)**	**(37.0)**
Effect of Exchange Rate Changes	**0.3**	**(0.5)**	**–**	**–**	**–**
Cash and Cash Balance BOP	616.0	625.5	633.0	555.4	503.4
Cash and Cash Balance EOP	**625.5**	**633.0**	**555.4**	**503.4**	**466.4**

KEY RATIOS	2022	2023	2024F	2025F	2026F
DPS (SGD cents)	–	7.50	7.50	8.25	9.08
Dividend yield (%)	0.0%	3.3%	3.3%	3.6%	4.0%
NAV per share (S$)	1.4	1.5	1.5	1.6	1.6
Price/NAV (x)	1.6	1.5	1.5	1.5	1.4
Profitability					
EBITDA Margin (%)	20.0%	15.0%	18.7%	17.6%	16.9%
Gross Profit Margin (%)	26.3%	19.8%	23.7%	23.7%	23.7%
Net Profit Margin (%)	12.0%	8.4%	11.2%	9.8%	9.9%
ROE (%)	4.2%	4.0%	7.0%	7.2%	8.1%
ROA (%)	3.7%	3.4%	6.0%	6.0%	6.8%
Financial Structure					
Net Debt/ (Net Cash) Gearing Ratio (%)	(31.5%)	(32.9%)	(28.2%)	(25.2%)	(23.1%)

Appendix

Appendix A – SIAEC's Core Business

Line Maintenance

As the primary provider of line maintenance services and the exclusive operator for aircraft recovery at Singapore Changi Airport, SIAEC boasts an extensive track record of delivering comprehensive line maintenance support. With a workforce comprising over 2,000 technicians and 800 engineers, they possess the capability to offer engineering support and certification for a wide range of aircraft types. Additionally, SIAEC oversees its Line Maintenance services in 36 airports spread across 8 different countries.

The company's line maintenance business has experienced notable growth alongside the resurgence of flight activities. In the first half of fiscal year 2023/24, the volume of handled flights surged by 56% compared to the preceding year. By the close of 1H FY23/24, flight recovery reached 89%, marking a noteworthy improvement of 10 percentage points over the initial half-year period.

During the recent quarter, SIAEC concentrated on fortifying its global LMI network. This effort included the successful acquisition of a 49% stake in Pos Aviation Engineering Services, enhancing their line maintenance operations in Malaysia. Additionally, the company entered into a JV Agreement for a 51%-owned JV with Cambodia Airport Investment Co., Ltd., focusing on operations at the newly established Techo Takhmao International Airport in Phnom Penh.

Base Maintenance

Spanning three key locations, SIAEC has established an expansive network comprising 11 base maintenance hangars: six in Singapore, three in Clark, Philippines, and two in Subang, Malaysia. These facilities, encompassing a specialized paint hangar in Singapore, collectively offer 11 bays and over 56,000 square meters of floor space. Designed to accommodate both narrow-body and wide-body aircraft, this network caters to a growing clientele of third-party customers and airlines within the Singapore Airlines Group.

Figure 12: SIAEC's Hangars

Source: Company

The company has experienced sustained robust demand for hangar checks, driven by the uptick in flight activities and the recovery of numerous international airlines. In its Singapore base, a strategic focus on adopting lean practices has been undertaken to create additional capacity, aligning with the heightened demand for hangar checks. Simultaneously, SIAEC is pursuing expansion through the establishment of a wholly-owned subsidiary, BMM, dedicated to providing MRO services in Malaysia.

Furthermore, the Clark Base in the Philippines has secured a maintenance agreement for A321neo aircraft with Hawaiian Airlines Inc. Additionally, the company has entered into a non-binding MoU with Embraer to explore potential collaborations, including base maintenance services for Embraer's EJets E2 family of aircraft.

Component Services

SIAEC's workshops feature a diverse range of capabilities for the overhaul and repair of components for both Airbus and Boeing aircraft, encompassing the latest models like the A350 and 787. Their proficiency extends to intricate repairs, including composite structures, ensuring that airlines receive comprehensive support for all their component requirements. The company has established a resilient network of 19 in-house workshops exclusively dedicated to the testing, repairing, and overhauling of aircraft components.

Within the framework of the company's Component Services business, SIAEC presently manages 104 aircraft from 8 different airlines under Inventory Technical Management, as compared to 99 aircraft a year ago. Additionally, the business operates 6 component support shops. This sector experienced a consistent increase in workload attributed to heightened flight activities.

SIAEC strategically prioritized the expansion of its component repair and overhaul capabilities through its network of workshops and collaborations, such as the Aircraft Parts and Component Solutions (APACS), which boasts capabilities for more than 750 part numbers.

Figure 13: SIAEC's clients

Source: Company

Engine Services

Leveraging its extensive history of partnerships with engine manufacturers and a proven track record in MRO services, SIAEC's Engine Services Division (ESD) has emerged as a key player in the engine MRO value chain. This strategic positioning combines SIAEC's proficiency in both aircraft and engine maintenance with collaborative ventures with industry leaders such as Rolls-Royce, Pratt & Whitney, and GE. The result is a comprehensive suite of integrated service offerings for aircraft, complemented by the inclusion of an engine test cell facility.

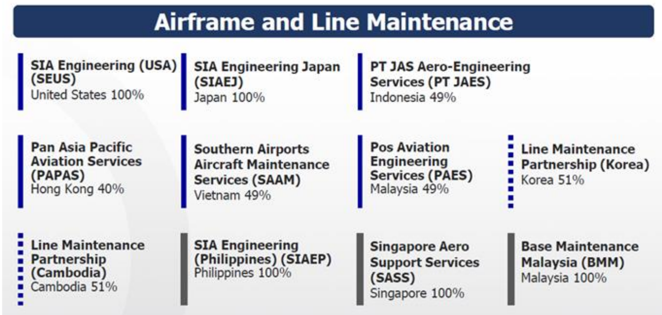
The Engine Services business has witnessed consistent growth and an expansion of capabilities driven by increased flight activities. It remains dedicated to enhancing its on-wing services, with a particular focus on augmenting its Aircraft Engine Services facility. Additionally, there is a concerted effort to broaden the capabilities of its Engine Test Facility, encompassing tests for the LEAP-1B engine and further enhancing its overall service portfolio.

Appendix B – Diversified Revenue and Presence

SIAEC's business model encompasses four distinct yet crucial operations: line maintenance, base maintenance, component services, and engine services. These diverse business segments enable SIAEC to generate multiple revenue streams, offering a strategic advantage by mitigating risks and enhancing revenue stability. The company's extensive presence includes a total of 11 hangars across three key markets, with six in Singapore, three in Clark, Philippines, and two in Subang, Malaysia. SIAEC provides services for various aircraft types, such as Airbus A320, A330, A350, A380, Boeing 747, and Boeing 777, among others, facilitating an expanded customer base across these markets.

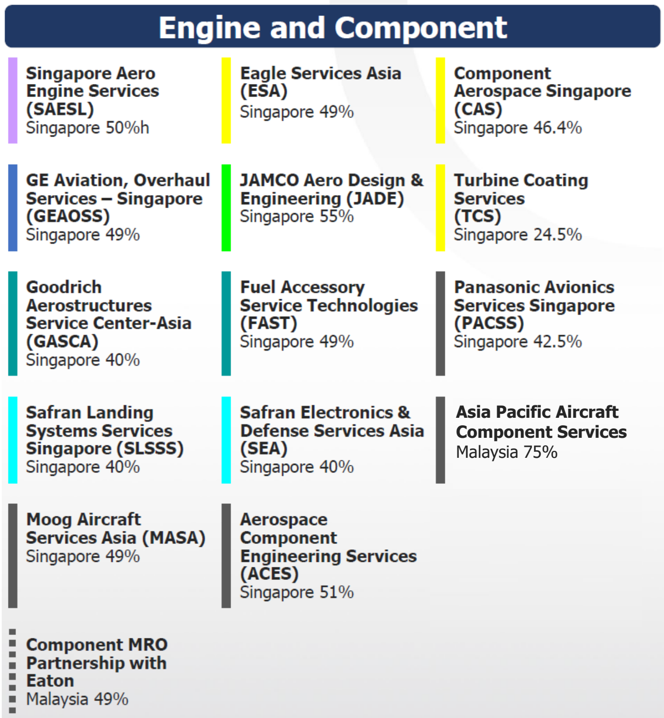
In addition to its operational diversification, SIAEC owns 23 subsidiaries and JVs in eight countries, contributing to a total revenue of S$3.7 billion in the first half of fiscal year 2023/24. Share of profit from JVs and associated companies also contributed significantly to the SIAEC's net profit. These subsidiaries and JVs operate in key markets such as the United States, Japan, Korea, Hong Kong, and Vietnam, among others. This extensive network not only reinforces SIAEC's presence in foreign markets but also strengthens its collaborative efforts with renowned partners like Pratt & Whitney, Rolls-Royce, General Electric, and other industry leaders.

Figure 14: SIAEC's Strategic Partnerships Portfolio



Source: Company

Figure 15: SIAEC's Strategic Partnerships Portfolio



Source: Company

Appendix C – Environmental, Social, & Governance (ESG)

As SIAEC focused on business recovery and ramping up operations to capture the demand of flight recovery, the Company also paid equal attention to sustainability and remained steadfast in advancing its ESG agendas.

Reducing carbon emission

One of SIAEC's key sustainability targets is to halve its Scope 1 and 2 carbon emissions by 2030, which also allows the company to be on track to reach its net-zero emission targets by 2050. To ensure that the group achieves these targets, the group has developed a decarbonisation framework with levers and enablers to guide efforts toward meeting their goals. This also includes the group's plan to install additional solar panels to conserve electricity, achieve the PUB Water Efficient Building certification for its hangars, as well as increase its recycling rate.

Emission reducing initiatives

As a global leader in MRO services, SIAEC plays a pivotal role in enabling a more sustainable aviation landscape. Their comprehensive portfolio includes extending aircraft component lifetimes and deploying cutting-edge emission-reduction solutions like blended Sustainable Aviation Fuel testing in dedicated facilities, along with Ground Support Assisted Transit and Ground-Powered Towing (GPT) options that effectively curtail auxiliary power unit utilization during ground movements.

GPT is one of the emissions-reducing initiatives being explored by SIAEC. An aircraft tow tractor and tow bar have been retrofitted to allow a ground power unit (GPU) to be mounted. The GPU supplies power to the aircraft during towing. This will reduce the usage of the aircraft's auxiliary power unit (APU), which consumes jet fuel at a higher rate than the amount of diesel used by the GPU.

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Rating	Definition
Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Neutral (N)	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
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