

SIA Engineering Company Ltd

Engine problems, but Line Maintenance improves

SINGAPORE | TRANSPORT SERVICES | RESULTS

4 November 2015

- Top-line negatively impacted by less component overhaul work content, but partially offset by improvement of Line Maintenance revenue.
- Weak contributions from Associates and JVs continue to hurt bottom line.
- 6.0 Cents interim dividend declared, likely to be lower for full year.

What is the news?

SIA Engineering Company Ltd (SIAEC) announced its 2Q FY16 (Y/E Mar) results on 2 November after trading hours.

Results at a glance

(\$GD mn)	2Q16	2Q15	y-y (%)	Comments
Revenue	266.0	285.2	↓ (6.7)	Lower airframe & component overhaul and fleet management; mitigated by higher line maintenance
EBITDA	37.8	26.6	↑ 42.1	
EBIT	27.0	15.9	↑ 69.8	Decrease in subcontract, staff and material costs
Associates & JVs	18.7	29.1	↓ (35.7)	Decrease in engine repair and overhaul
PATMI, adj.	44.5	42.1	↑ 5.7	

Source: Company, Phillip Securities Research (Singapore)

- Line Maintenance segment to stabilise Group revenue**, accounted of 41.8% in 1HFY16. Management briefed that there is a trend towards less overhaul work scope being carried out in the hangar, but on the apron-side instead (Airframe & Component segment has been negatively impacted). Hence, we believe there will be a shift in revenue mix, with a higher contribution from the Line Maintenance segment. In the near term, there was a 4.7% y-o-y growth in flight movements at Changi Airport in 3QCY15, with a corresponding 1.9% y-o-y growth in flights handled by SIAEC. In the longer term, Changi Airport's aircraft handling will further expand capacity when Terminal 4 completed in 2017. There is also the possibility of airlines capitalising on the prolonged lower oil price to expand their fleet.
- JV with Boeing will act as a gateway for Overhaul and Maintenance work.** Boeing Asia Pacific Aviation Services Pte Ltd (BAPAS), which was incorporated on 5 October 2015. SIAEC holds a 49% stake in the JV. The JV will support customers' Boeing fleet with customised and integrated fleet management services. This would in turn channel work to SIAEC's other associates & JVs.
- Engine maintenance cycle extended as engine reliability improves, but maintenance cycle likely to start coming in during FY17e.** After eight consecutive quarters of lower contribution to the associates & JVs line, we view the possibility of this bottoming out sometime in FY17e. We are forecasting for the engine jobs to start coming in during FY17e and continue to ramp up to a steady state into FY18e, which is lower than historical.
- Lowered CapEx estimates.** We have lowered our FY16 and FY17 CapEx assumptions by c.20%, as recent CapEx was primarily due to the third hangar at Clarke in the Philippines, and we do not see much expansion opportunities in the near term. Our CapEx assumption is now in line with annual depreciation expense.

Investment Actions

"Reduce" rating on SIAEC maintained, with slightly higher target price of S\$3.46. (Previous: S\$3.43) We also see the possibility of lower FY16e dividend of 14.0 Cents, vs. 14.5 Cents in FY15, making 3.5% forward dividend-yield unattractive.

Reduce (Maintained)

CLOSING PRICE	SGD 3.98
FORECAST DIV	SGD 0.140
TARGET PRICE	SGD 3.46
TOTAL RETURN	-9.5%

COMPANY DATA

O/S SHARES (MN) :	1,123
MARKET CAP (USD mn / SGD mn) :	3195 / 4471
52 - WK HI/LO (SGD) :	4.8 / 3.2
3M Average Daily T/O (mn) :	0.32

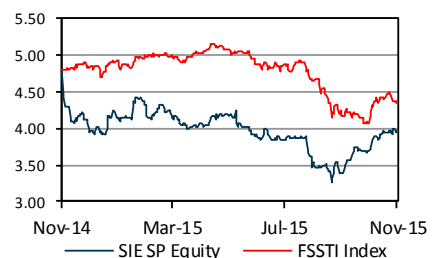
MAJOR SHAREHOLDERS (%)

SINGAPORE AIRLINES LTD	77.5%
MATTHEWS INTERNATIONAL CAPITAL	19%
BANK OF MONTREAL CANADA	0.5%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	6.2	8.9	(14.3)
STIRETURN	6.6	(6.3)	(6.1)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar	FY 14	FY 15	FY 16e	FY 17e
Revenue (SGD mn)	1,178	1,121	1,085	1,118
PATMI, adj (SGD mn)	266	183	178	199
EPS, adj. (Cents)	23.88	16.36	15.89	17.76
P/E, adj. (x)	20.5	25.2	25.0	22.4
BVPS (Cents)	128.3	124.8	126.3	130.0
P/B (x)	3.8	3.3	3.2	3.1
DPS (Cents)	25.00	14.50	14.00	16.00
Div. Yield (%)	5.1	3.5	3.5	4.0

Source: Company Data, PSR est.

VALUATION METHOD

DCF (WACC: 7.3%; Terminal g: 15%)

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Potential positive catalyst

We currently believe that when engine jobs do come back, contribution from JVs will still be lower than historical, due to the extended maintenance cycle. The potential positive catalyst is that fleet size expansion increases sufficiently to offset the less frequent engine shop visits.

Changi Airport operating data

Figure 1. Commercial Aircraft Movements ('000), quarterly

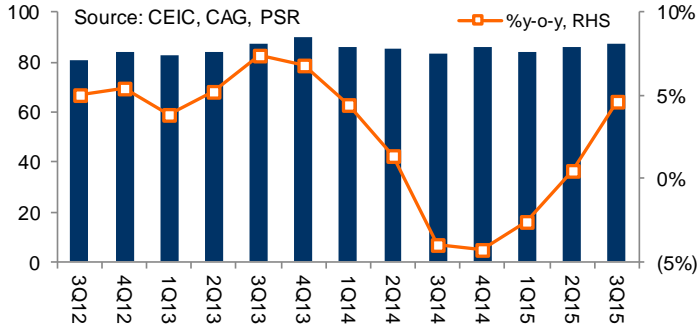
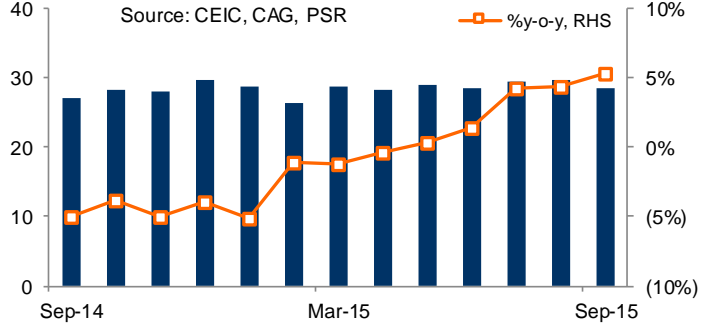
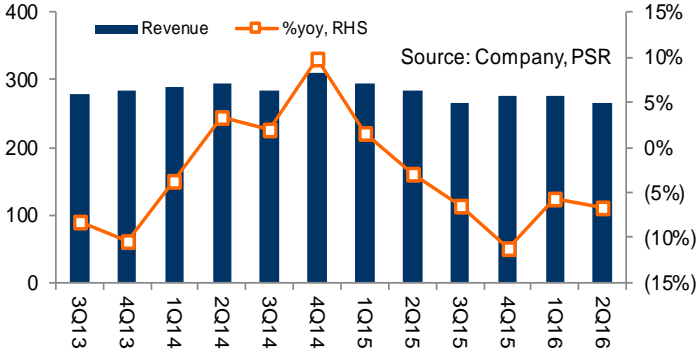


Figure 2. Commercial Aircraft Movements ('000), monthly



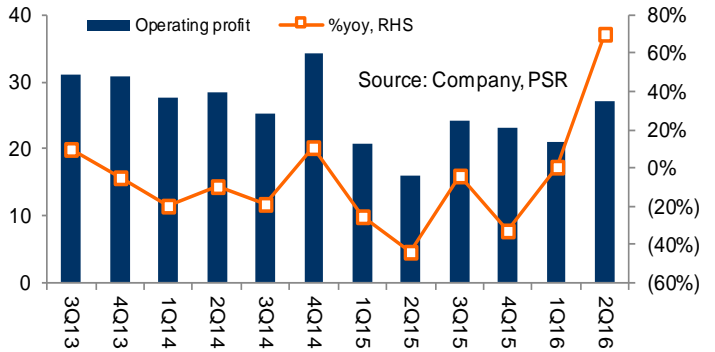
Quarterly Revenue and Profitability data

Figure 3. Revenue (\$\$ mn)



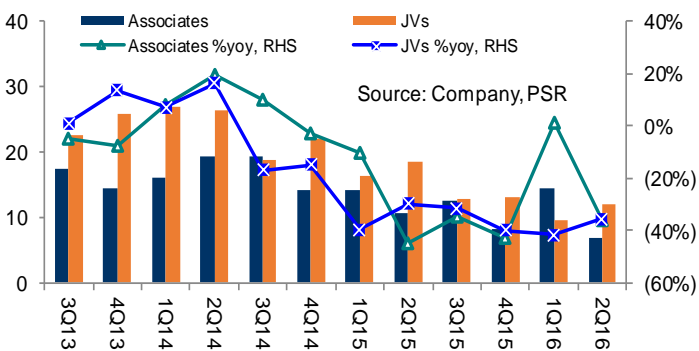
Remarks: Revenue down 6.7% yoy.

Figure 4. Operating profit (\$\$ mn)



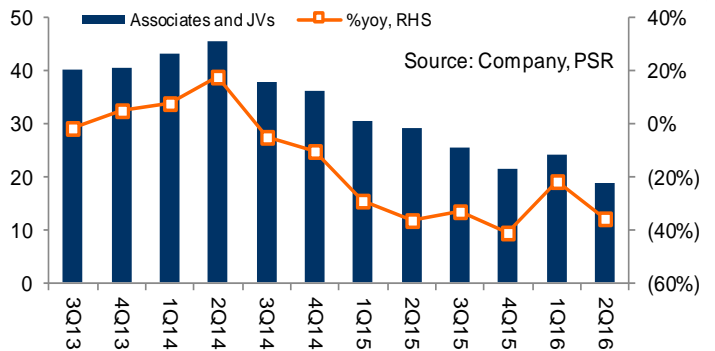
Remarks: Operating profit up 69.8% yoy.

Figure 5. Share of profits of Associates & JVs (\$\$ mn)



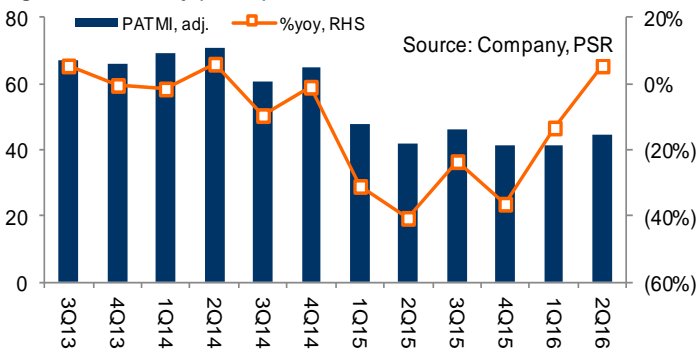
Remarks: Both Associates and JVs are down yoy.

Figure 6. Share of profits of Associates & JVs (\$\$ mn)



Remarks: Share of profits down 35.7% yoy.

Figure 7. PATMI, adj. (\$\$ mn)



Financials

Income Statement

Y/E Mar, SGD mn	FY13	FY14	FY15	FY16e	FY17e
Revenue	1,147	1,178	1,121	1,085	1,118
EBITDA	163	153	127	155	151
Depreciation & Amortisation	35	37	43	43	44
EBIT	128	116	84	112	108
Net Finance (Expense)/Inc	1.3	1.3	1.1	1.0	1.0
Other items	18	15	14	8	9
Associates & JVs	159	163	106	84	107
Exceptional items	-	-	-	-	-
Profit Before Tax	306	294	205	205	225
Taxation	(32)	(23)	(20)	(24)	(23)
Profit After Tax	274	271	185	181	202
- Non-controlling interest	4.1	5.3	2.1	2.8	3.1
Net profit, reported	270	266	183	178	199
Net profit, adj.	270	266	183	178	199

Per share data (Cents)

Y/E Mar	FY13	FY14	FY15	FY16e	FY17e
EPS, reported	24.51	23.88	16.36	15.89	17.76
EPS, adj.	24.51	23.88	16.36	15.89	17.76
DPS	22.00	25.00	14.50	14.00	16.00
BVPS	122.4	128.3	124.8	126.3	130.0

Cash Flow

Y/E Mar, SGD mn	FY13	FY14	FY15	FY16e	FY17e
CFO					
PBT	306	294	205	205	225
Adjustments	(142)	(137)	(81)	(50)	(73)
WC changes	(4.0)	(20.6)	(5.1)	2.5	(2.3)
Cash generated from ops	160	137	119	157	149
Others	(27)	(24)	(23)	(24)	(23)
Cashflow from ops	134	113	96	134	127
CFI					
CAPEX, net	(32)	(67)	(49)	(43)	(43)
Divd from associates & JVs	138	157	112	71	90
Others	4.6	11.0	14.6	9.4	10.1
Cashflow from investments	111	101	78	38	57
CFF					
Share issuance, net	22.6	30.3	17.2	-	-
Loans, net of repayments	3.2	16.1	8.8	-	-
Dividends	(245)	(248)	(273)	(165)	(160)
Others	(0.1)	(0.2)	(0.3)	(0.3)	(0.3)
Cashflow from financing	(219)	(202)	(248)	(165)	(161)
Net change in cash	25	13	(74)	6	23
Effects of exchange rates	(0.1)	-	5.1	-	-
CCE, end	523	536	464	470	493

Source: Company, Phillip Securities Research (Singapore) Estimates

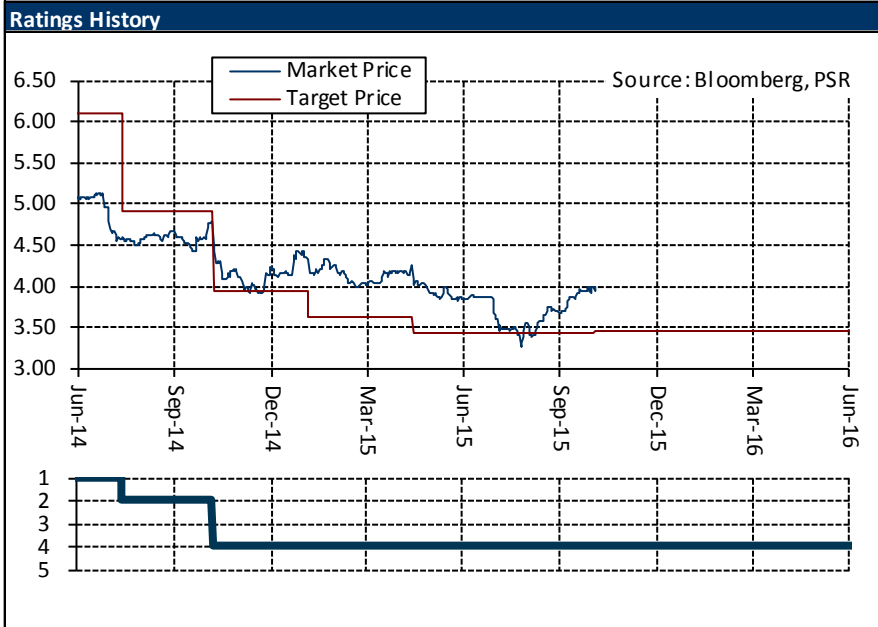
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Mar, SGD mn	FY13	FY14	FY15	FY16e	FY17e
ASSETS					
PPE	306	337	344	346	346
Intangibles	49	54	62	60	59
Associates & JVs	427	436	464	476	493
Investments	15	15	15	15	15
Others	-	-	-	-	-
Total non-current assets	796	842	884	897	913
Inventories	51	44	38	36	37
Accounts Receivables	71	97	83	80	83
Prepayments	16	19	13	12	13
Investments	-	-	-	-	-
Cash	523	536	464	470	493
Others	176	169	176	170	175
Total current assets	837	865	773	769	801
Total Assets	1,633	1,707	1,657	1,665	1,714
LIABILITIES					
Short term loans	5.7	8.2	9.3	9.3	9.3
Accounts Payables	249	246	230	222	229
Others	24	22	17	17	17
Total current liabilities	278	276	257	249	256
Long term loans	-	14	24	24	24
Others	25	27	27	27	27
Total non-current liabilities	25	40	51	51	51
Total Liabilities	304	317	307	300	306
EQUITY					
Non-controlling interests	27	30	25	25	25
Shareholder Equity	1,302	1,361	1,325	1,341	1,383

Valuation Ratios

Y/E Mar	FY13	FY14	FY15	FY16e	FY17e
P/E (X), adj.	20.0	20.5	25.2	25.0	22.4
P/B (X)	4.0	3.8	3.3	3.2	3.1
EV/EBITDA (X), adj.	30.3	32.6	33.2	26.1	26.6
Dividend Yield (%)	4.5%	5.1%	3.5%	3.5%	4.0%
Growth & Margins (%)					
Growth					
Revenue	-2.0%	2.7%	-4.9%	-3.2%	3.1%
EBITDA	-3.6%	-6.4%	-16.9%	22.2%	-2.3%
EBIT	-1.2%	-9.8%	-27.3%	33.3%	-3.8%
Net Income, adj.	0.4%	-1.6%	-31.0%	-2.8%	11.7%
Margins					
EBITDA margin	14.2%	13.0%	11.3%	14.3%	13.5%
EBIT margin	11.2%	9.8%	7.5%	10.3%	9.6%
Net Profit Margin	23.9%	23.0%	16.5%	16.7%	18.1%
Key Ratios					
ROE (%)	21.1%	20.0%	13.6%	13.4%	14.6%
ROA (%)	16.7%	15.9%	10.9%	10.7%	11.8%
Net Debt or (Net Cash)	(517)	(514)	(431)	(437)	(460)
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



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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