




April 17, 2023 03:48 PM GMT

Singapore Airlines | Asia Pacific

Mar-23: Load factors remain strong; updating model

 Stock Rating
 Overweight

 Industry View
 In-Line

 Price Target
 S\$6.25

Passenger demand remained solid in March, with group load factor at 89% (+2.4%pts m/m). Scoot PLF reached an all-time high of 92.8%. Cargo load factor was 55.1% for Mar-23, relatively stable vs. 54% in Feb-23. SIA will be hosting its F23 analyst meeting on 17 May.

WHAT'S CHANGED?

Singapore Airlines (SIAL.SI)	From:	To:
Price Target	S\$6.15	S\$6.25

Group passenger capacity (ASK) increased 11% m/m (+55% y/y) in March. Group ASK was at 79% of pre-Covid (Jan-20) levels (vs. 86% in Feb-23). SIA and Scoot carried a combined 2.7mn passengers in March (+14.1% m/m and up 3x y/y). SIA's group passenger network covered 109 destinations (SIA served 74 destinations, while Scoot served 58) as of end-March.

Group PLF improved further m/m to 89% (February 86.6%), with SIA's PLF at 87.9% and Scoot's PLF at 92.8%, the highest in company history for Scoot. Passenger demand for air travel and load factors was strong across all routes. Load factors in America, East Asia, and Europe rose 700bps, 340bps, and 230bps m/m, respectively, to 86.5%, 86.8%, and 88% in Mar-23.

Cargo operations had a load factor of 55.1% (vs. 54% in Feb-23). Loads (freight ton-kilometres) declined 13.4% y/y due to weaker demand, while capacity expanded by 14.1% as increased passenger services resulted in higher bellyhold capacity.

Model update: We mark-to market our model estimates. 9MF23 achievement was well above our estimates and, as such, we have raised our profit forecast for F23 to S\$2bn, vs. S\$1.3bn previously (SIA's 9MF23 net profit was S\$1.55bn). Elevated yields for longer than expected and continued prudence on costs drove the increase in forecasts. Although we expect F24 earnings to decline from the peak in F23 as cargo profits taper, we still expect profitability above pre-pandemic levels. For F24 and F25, our PATMI estimates rise 22% and 9%, respectively. Our P/B-based price target increases 2% to S\$6.25.

Recent reports:

[Singapore Airlines: Feb-23: Load factors remain steady \(15 Mar 2023\)](#)

[Singapore Airlines: Record quarter; beats estimates \(21 Feb 2023\)](#)

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Singapore Airlines (SIAL.SI, SIA SP)

ASEAN Transportation / Singapore

Stock Rating	Overweight
Industry View	In-Line
Price target	S\$6.25
Up/downside to price target (%)	9
Shr price, close (Apr 17, 2023)	S\$5.74
52-Week Range	S\$6.02-4.99
Sh out, dil, curr (mn)	2,965
Mkt cap, curr (mn)	S\$17,019
EV, curr (mn)	S\$25,581
Avg daily trading value (mn)	S\$23

Fiscal Year Ending	03/22	03/23e	03/24e	03/25e
ModelWare EPS (S\$)	(0.29)	0.68	0.45	0.45
EPS (S\$)§	(0.27)	0.62	0.46	0.30
Revenue, net (S\$ mn)	7,615	17,806	17,884	18,590
EBITDA (S\$ mn)	1,390	4,668	4,128	4,112
ModelWare net inc (S\$ mn)	(854)	2,023	1,343	1,321
P/E	NM	8.4	12.7	12.9
P/BV	1.3	1.2	1.1	1.1
RNOA (%)	(2.4)	10.1	8.1	7.2
ROE (%)	(6.9)	15.9	9.2	8.6
EV/EBITDA	17.9	4.9	5.7	5.9
Div yld (%)	0.0	3.6	3.2	3.1
FCF yld ratio (%)	6.3	23.5	0.9	1.9
Leverage (EOP) (%)	88.6	53.1	56.0	57.1

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework

§ = Consensus data is provided by Refinitiv Estimates

e = Morgan Stanley Research estimates

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Key Operating Stats

Exhibit 1: SIA March – Key operating stats

SIA Group	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23
RPK										
RPK, m/m	15%	7%	-1%	1%	4%	5%	12%	-3%	-11%	14%
RPK, y/y	1101%	1016%	927%	894%	809%	490%	242%	276%	259%	154%
RPK as % of pre-covid	68.9%	71.4%	70.1%	75.1%	76.6%	80.7%	82.3%	82.2%	108.0%	234.6%
Capacity (ASK)										
ASK, m/m	5%	5%	1%	-1%	5%	5%	7%	0%	-11%	11%
ASK, y/y	127%	108%	110%	112%	110%	100%	77%	73%	62%	55%
ASK as % of pre-covid	69%	70%	71%	73%	75%	80%	80%	80%	86%	79%
Passenger carried ('000)										
Passenger carried, m/m	14%	7%	0%	2%	6%	6%	12%	-2.71%	-8.82%	14.07%
Passenger carried, y/y	1362%	1281%	1240%	1237%	1096%	696%	351%	389%	338%	205%
Passenger carried as % of pre-covid	60%	63%	63%	68%	70%	74%	76%	77%	109%	248%
SIA Cargo										
Traffic, m/m	5%	-1%	-10%	1%	-2%	9%	0%	-14%	-2%	17%
Traffic, y/y	5%	-4%	-14%	-14%	-20%	-19%	-19%	-25%	0%	-13%
Capacity, m/m	7%	5%	1%	-2%	5%	2%	3%	-10%	-6%	15%
Traffic as % of pre-Covid level	89%	86%	80%	80%	74%	76%	82%	83%	80%	102%
Capacity as % of pre-Covid level	79%	83%	84%	85%	87%	86%	89%	84%	87%	126%
Load Factor (%)										
SIA Group	85.5%	87.4%	85.4%	87.0%	86.4%	85.9%	89.7%	86.9%	86.6%	89.0%
Cargo	64.6%	60.5%	54.2%	56.4%	52.6%	56.0%	54.3%	51.8%	54.0%	55.1%
SIA (Regional LF%)										
-East Asia	72.5%	72.6%	70.6%	71.6%	77.1%	80.7%	88.1%	79.7%	83.4%	86.8%
-Americas	91.8%	90.4%	86.2%	84.3%	82.6%	82.5%	86.3%	83.1%	79.5%	86.5%
-Europe	92.9%	93.9%	92.1%	94.8%	91.2%	86.2%	88.0%	86.0%	85.7%	88.0%
-South West Pacific	89.3%	90.2%	88.3%	94.8%	93.7%	94.9%	94.6%	94.8%	92.3%	93.4%
-West Asia & Africa	86.4%	85.6%	84.0%	84.5%	85.3%	86.3%	89.0%	85.8%	84.6%	83.2%

Source: Company data, Morgan Stanley Research. Note: Pre-Covid % is calculated as of January 2020.

Exhibit 2: What's changed?

	New			Previous			% change		
	2023e	2024e	2025e	2023e	2024e	2025e	2023e	2024e	2025e
Key financials (in S\$ mn)									
Revenue	17,806	17,884	18,590	16,466	17,254	18,448	8%	4%	1%
EBIT	2,597	1,975	1,900	1,843	1,618	1,720	41%	22%	10%
PATMI	2,023	1,343	1,321	1,308	1,064	1,216	55%	26%	9%
Adj PATMI	2,023	1,343	1,321	1,308	1,064	1,216	55%	26%	9%
EPS	0.68	0.45	0.45	0.44	0.36	0.41	55%	26%	9%
Operating metrics									
Passenger yield (\$\$ cents)									
Singapore airlines	12.7	12.7	12.7	12.3	12.3	12.3	3.0%	3.0%	3.0%
Budget aviation	8.3	7.3	7.5	7.6	6.4	6.6	10.3%	14.2%	14.2%
Total	11.8	11.5	11.5	11.5	11.2	11.1	2.9%	3.2%	3.7%
ASK (mn km)									
Singapore airlines	106,099	118,831	128,338	104,077	122,811	132,635	1.9%	-3.2%	-3.2%
Budget aviation	26,932	30,972	34,069	23,391	29,940	34,431	15.1%	3.4%	-1.1%
Total	133,032	149,803	162,407	127,468	152,751	167,067	4.4%	-1.9%	-2.8%
Load factor									
Singapore airlines	85.8%	82.0%	80.0%	83.5%	80.0%	80.0%	227 bps	200 bps	0 bps
Budget aviation	83.9%	86.0%	86.0%	78.0%	78.0%	80.0%	592 bps	800 bps	600 bps
Total	85.4%	82.8%	81.3%	82.5%	79.6%	80.0%	291 bps	322 bps	126 bps

Source: Morgan Stanley Research (e) estimates; Note: years mentioned above are fiscal years.

Risk Reward – Singapore Airlines (SIAL.SI)

Gaining altitude in recovery

PRICE TARGET S\$6.25

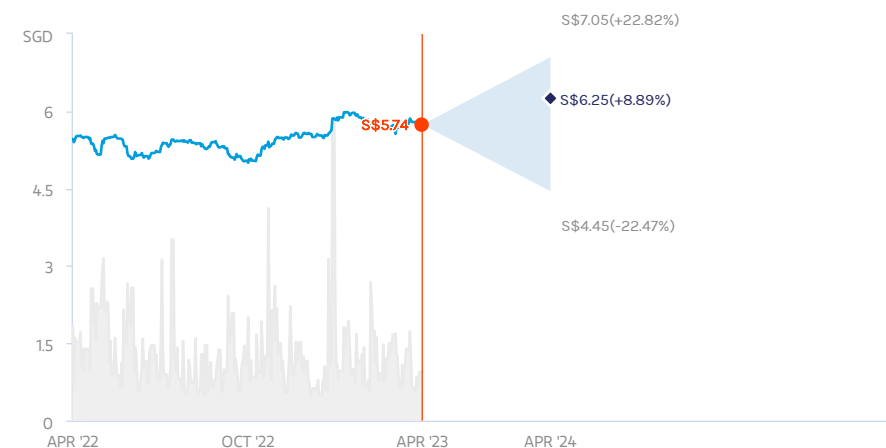
P/B, probability-weighted. Skew reflects return to more normalized travel, post-COVID.

- Base (80% weight): 1.3x F23e BVPS, in line with MSCI World Airlines P/B, pre-COVID-19
- Bear (10%): 0.9x F23e BVPS, SIA's five-year average multiple
- Bull (10%): 1.4x F23e BVPS, 10-year average of MSCI World Airlines Index

Consensus Price Target Distribution



RISK REWARD CHART



Source: Refinitiv, Morgan Stanley Research

BULL CASE

S\$7.05

1.45x F23e BVPS

Peak profitability comes sooner: Demand outstrips capacity increase, supporting yields, while costs remain sticky. Profitability back to peak levels in F23, driving re-rating.

BASE CASE

S\$6.35

1.3x F23e BVPS

Profitability recovers swiftly to pre-pandemic levels in F23: We assume capacity reaches ~80% of pre-Covid levels in F23 and ~90% in F24, while yields remain 20-25% higher than pre-Covid levels in both years thanks to strong demand and market share.

BEAR CASE

S\$4.45

0.9x F23e BVPS

Yields taper amid slowing demand and rising competition; costs increase due to inflation pressure: In such a scenario we assume the stock de-rates back to its long-term average P/B.

OVERWEIGHT THESIS

- We expect strong earnings momentum to be sustained in the next 1-2 quarters, driven by elevated yields amid demand/supply mismatches and benefits of cost structure transformation.
- Yields are likely to remain above pre-pandemic levels given strong recovery in corporate travel and demand for premium classes. Although tapering in cargo profits should drive a decline in F24 earnings vs. the F23 peak, we expect profitability to remain well above F19 levels.
- SIA's balance sheet remains strong which should support valuation.

Consensus Rating Distribution



MS Rating

Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Self-help: *Positive*

View descriptions of Risk Rewards Themes [here](#)

Risk Reward – Singapore Airlines (SIAL.SI)

KEY EARNINGS INPUTS

Drivers	2022	2023e	2024e	2025e
Passenger yield, yoy chg (%)	(42.6)	(13.0)	(2.4)	(0.1)
Available seats kilometer, yoy chg (%)	215.7	94.0	12.6	8.4
Passenger load factor (%)	30.1	85.4	82.8	81.3
Fuel unit costs, yoy chg (%)	6.3	52.8	(5.9)	0.1
Total unit costs, yoy chg (%)	(35.9)	15.3	(7.9)	(2.0)

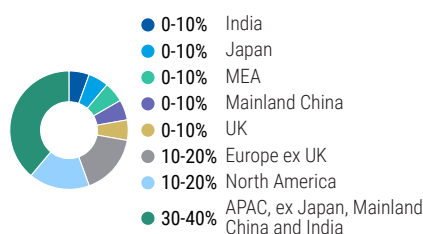
CATALYST CALENDAR

Date	Event	Source: Refinitiv, Morgan Stanley
16 May 2023	Full Year 2023 Singapore Airlines Ltd Earnings Release	
26 Jul 2023 - 30 Jul 2023	Singapore Airlines Ltd Annual Shareholders Meeting	

INVESTMENT DRIVERS

- Passenger and cargo yield
- Capacity growth and load factor
- Unit costs, both fuel and non-fuel

GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies [here](#)

MS ALPHA MODELS

2/5
MOST

3 Month
Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

SUSTAINABILITY & ESG

Indicator of Change	0.50	+1.0	-1.0
Disclosure Rate	67%		

RISKS TO PT/RATING

RISKS TO UPSIDE

- Higher passenger and cargo yields for longer
- Better-than-expected cost controls
- Favourable jet fuel prices

RISKS TO DOWNSIDE

- Economic slowdown, curbing demand for travel
- Rising jet fuel prices
- Aggressive ramp-up in operations by competition
- Lower-than-expected yields in passenger and cargo

OWNERSHIP POSITIONING

Inst. Owners, % Active 93.5%

Source: Refinitiv, Morgan Stanley Research

MS ESTIMATES VS. CONSENSUS

FY Mar 2023e

Sales / Revenue (S\$, mn) 15,607 17,806 18,352
17,274

EBIT (S\$, mn) 1,843 2,597 3,075
2,589

Net income (S\$, mn) 1,308 2,023 2,200
1,844

EPS (S\$) 0.44 0.68 0.74
0.62

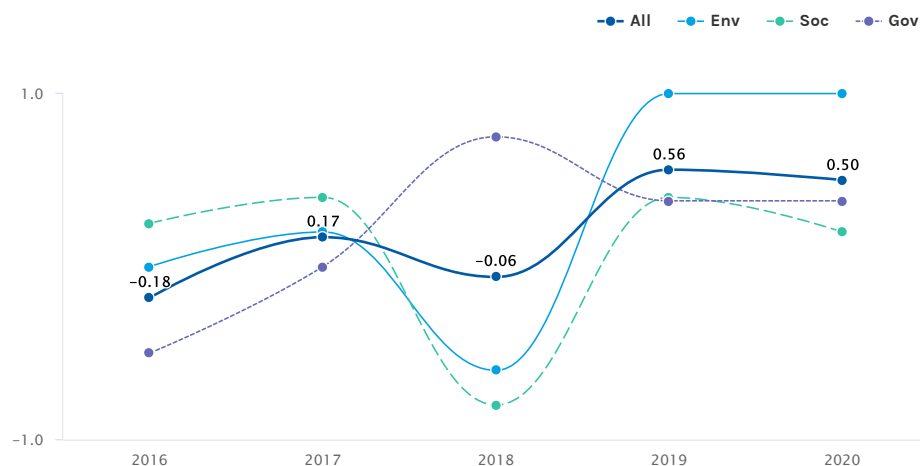
◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

Risk Reward – Singapore Airlines (SIAL.SI)

SUSTAINABILITY AND ESG

INDICATOR OF CHANGE OVER TIME



Environment	Unit	Mar '19	Mar '20	Mar '21
Avg fleet age	Months	6.42	5.92	5.83
CO2 emissions (Scope 1 and 2)	kilo tonnes CO2 equivalent	16,500	16,313	3,966
Carbon emission per ATK	tonnes / '000 ATK	0.58	0.58	0.56
Fuel consumption	Million gallons	1,748	1,729	420
Fuel usage per ATK	gallons per ATK	0.06	0.06	0.06
Social				
Avg training hrs per employee	Hours	33.60	71.20	63.20
Employee turnover	Percentage	10.52%	8.00%	6.57%
Flight incident report rate	Per 1,000 flights	1.19	-	-
Lost time injury rate	Injuries per 1,000,000 man hours worked	13.60	35.10	4.30
Unionized employees	Percentage	98%	98%	97%
Governance				
Avg tenure of the board	Years	4.11	4.56	5.56
Female board members	Percentage	11.11%	11.11%	11.11%
Independent board members	Percentage	88.89%	88.89%	88.89%
Shares owned by board members	Percentage	0.08%	0.10%	0.11%

Indicator of change chart is plotted using the fiscal aligned methodology. View explanation of 'Indicator of Change' methodology [here](#)

Source: Company Data, Morgan Stanley Research

SUMMARY

In F2020, SIA had an ESG Indicator of Change of 0.50, which signals that the majority of its ESG data points in our database improved YoY. Its ESG disclosure rate was 61% in F2020, which is also higher than peers'. Key ESG metrics that improved in F2020 include the reduction in CO2 emissions and fuel consumption. Independent directors made up 89% of SIA's board and women account for 11% of its board.

HERS VS. SECTOR PEERS

Bottom Tertile for workforce gender diversity relative to regional sector peers

View explanation of HERS methodology [here](#)

Financial Summary

Exhibit 3: Consolidated Financials

Income Statement	FY22	FY23E	FY24E	FY25E
Revenue	7,615	17,806	17,884	18,590
-- Passenger	2,810	13,439	14,323	15,225
-- Cargo	4,337	3,632	2,682	2,394
-- Others	468	736	879	971
Operating expenses	8,225	15,210	15,909	16,690
-- Labor	1,474	3,014	3,089	3,195
-- Fuel	2,189	5,365	5,735	6,143
-- Depreciation	2,000	2,071	2,153	2,212
-- Others	2,562	4,759	4,932	5,140
EBIT	(610)	2,597	1,975	1,900
EBITDA	1,390	4,668	4,128	4,112
Interest Expense	(392)	(423)	(476)	(401)
Interest Income	46	275	250	200
Aircraft Sales & Spare Sale	86	5	0	0
Dividend from LT investment	4	8	0	0
Other non-operating items	(50)	19	19	19
Income from associates / JVs	(116)	(75)	(72)	(53)
PBT	(1,090)	2,406	1,696	1,666
Tax	142	(344)	(283)	(275)
PAT	(948)	2,062	1,413	1,391
Minority interest	14	40	71	70
PATMI	(962)	2,023	1,343	1,321
1x items	(108)	-	-	-
Adj PATMI	(854)	2,023	1,343	1,321
Adj EPS (\$\$)	(0.29)	0.68	0.45	0.45

Balance Sheet	FY22	FY23E	FY24E	FY25E
Net fixed assets	24,571	26,360	27,626	29,210
Long-term investments	43	43	43	43
Intangible assets	303	303	303	303
Other non-current assets	6,067	5,390	5,318	5,265
Total Non-Curr Assets	30,983	32,096	33,289	34,820
Cash & other liq assets	14,169	13,835	10,987	8,363
Other liquid assets	1,956	2,348	2,358	2,443
Non-cash assets	1,563	1,004	1,004	1,004
Total Current Assets	17,688	17,187	14,348	11,809
Current borrowings	1,175	2,242	2,242	2,242
Other current liabilities	6,694	9,917	9,444	9,579
Total Curr Liabilities	7,869	12,158	11,686	11,821
Long-term debt	12,483	10,785	8,785	6,785
Other long-term liabilities	5,519	5,519	5,519	5,519
Total Non-Curr Liabilities	18,002	16,304	14,304	12,304
Shareholders equity	22,412	20,392	21,149	21,936
Minority interests	389	428	499	568

Source: Company data, Morgan Stanley Research (E) estimates

Ratios	FY22	FY23E	FY24E	FY25E
Growth				
Revenue	99.6%	133.8%	0.4%	3.9%
-- Passenger	310.1%	378.3%	6.6%	6.3%
-- Cargo	60.0%	-16.3%	-26.2%	-10.8%
-- Others	11.2%	57.1%	19.5%	10.4%
EBIT	-75.7%	NM	NM	NM
EBITDA	-474.8%	235.9%	-11.6%	-0.4%
PATMI	NM	NM	NM	NM
Adj PATMI	-77.3%	NM	NM	NM
Margins				
EBIT	-8.0%	14.6%	11.0%	10.2%
EBITDA	18.3%	26.2%	23.1%	22.1%
PATMI	-12.6%	11.4%	7.5%	7.1%
Adj PATMI	-11.2%	11.4%	7.5%	7.1%
Returns				
ROE	-6.8%	14.8%	9.0%	8.4%
ROA	-2.0%	4.1%	2.8%	2.8%
ROCE	-2.6%	11.1%	8.4%	7.6%
Leverage				
Debt / Equity	70%	77%	65%	53%
Net Debt / Equity	9%	11%	15%	17%
Debt / EBITDA	11.3x	3.4x	3.3x	2.8x

Op. Metrics	FY22	FY23E	FY24E	FY25E
Singapore Airlines - Passenger				
RPK (in mil-km)	19,178	91,026	97,442	102,670
Pax Yield (cents / pax-km)	13.1	12.7	12.7	12.7
ASK (in mil-km)	58,748	106,099	118,831	128,338
Load Factor	32.6%	85.8%	82.0%	80.0%
Singapore Airlines - Cargo				
Cargo load (in mil tonne-kn)	5,941	5,260	5,797	6,087
Cargo Yield (cents / tonne-l)	73.0	69.0	46.3	39.3
Gross Capacity (in mil tonn)	7,195	9,166	10,540	11,067
Load Factor	82.6%	57.4%	55.0%	55.0%
Budget Aviation				
RPK (in mil-km)	1,487	22,603	26,636	29,300
Pax Yield (cents / pax-km)	20.0	8.3	7.3	7.5
ASK (in mil-km)	9,822	26,932	30,972	34,069
Load Factor	15.1%	83.9%	86.0%	86.0%

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Global Stock Ratings Distribution

(as of March 31, 2023)

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STOCK RATING CATEGORY	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MSC
Overweight/Buy	1354	37%	279	42%	21%	591	38%
Equal-weight/Hold	1651	45%	302	46%	18%	722	47%
Not-Rated/Hold	5	0%	1	0%	20%	1	0%
Underweight/Sell	646	18%	79	12%	12%	229	15%
TOTAL	3,656		661			1543	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

Analyst Stock Ratings

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

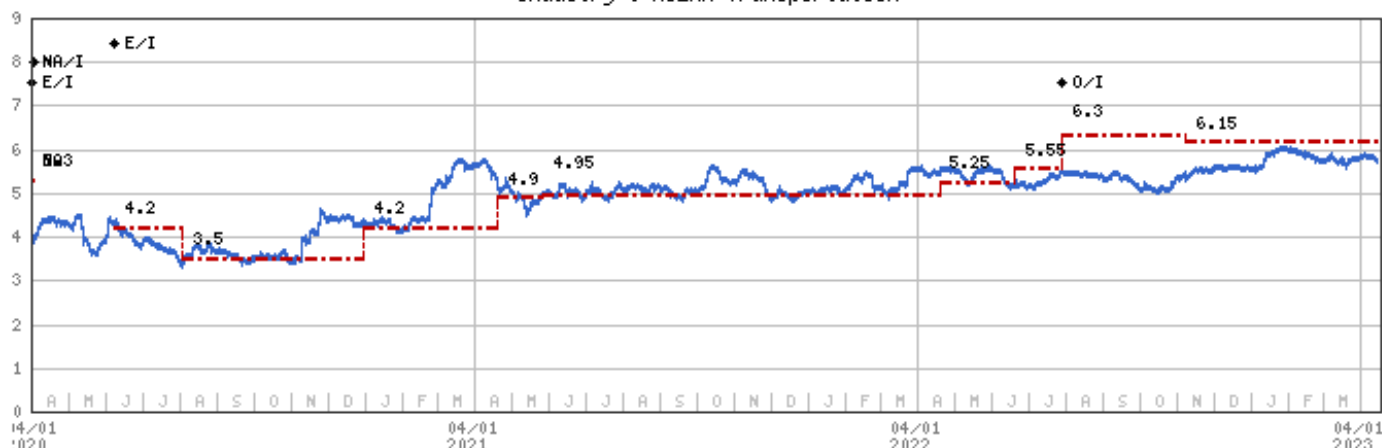
Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

Stock Price, Price Target and Rating History (See Rating Definitions)

Singapore Airlines (SIAL.SI) - As of 4/16/23 in SGD
Industry : ASEAN Transportation

Stock Rating History: 4/1/18 : O/I; 6/29/18 : E/I; 9/26/18 : O/I; 8/8/19 : E/I; 4/2/20 : NA/I; 6/8/20 : E/I; 7/29/22 : O/I

Price Target History: 2/15/18 : 12.11; 6/29/18 : 11.01; 9/26/18 : 11.29; 11/14/18 : 11.22; 2/18/19 : 12.16; 5/24/19 : 10.47; 8/8/19 : 9.88; 11/7/19 : 9.9; 2/11/20 : 9.3; 3/30/20 : 5.3; 4/2/20 : NA; 6/8/20 : 4.2; 8/3/20 : 3.5; 12/31/20 : 4.2; 4/20/21 : 4.9; 5/27/21 : 4.95; 4/19/22 : 5.25; 6/20/22 : 5.55; 7/29/22 : 6.3; 11/8/22 : 6.15

Source: Morgan Stanley Research Date Format: MM/DD/YY Price Target -- No Price Target Assigned (NA)

Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —

Stock and Industry Ratings (abbreviations below) appear as + Stock Rating/Industry View

Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)

Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

Effective January 13, 2014, the stocks covered by Morgan Stanley Asia Pacific will be rated relative to the analyst's industry (or industry team's) coverage.

Effective January 13, 2014, the industry view benchmarks for Morgan Stanley Asia Pacific are as follows: relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

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INDUSTRY COVERAGE: ASEAN Transportation

COMPANY (TICKER)	RATING (AS OF)	PRICE* (04/17/2023)
Divya Gangahar Kothiyal		
Singapore Airlines (SIAL.SI)	O (07/29/2022)	S\$5.74

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* Historical prices are not split adjusted.