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SINGAPORE AIRLINES Limited’s DIVIDENDS[[1]](#endnote-1)

Emir Hrnjić and David Reeb wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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On May 1, 2016, analyst Sofia Mudambi was considering how to interpret the dividend policy of Singapore Airlines Limited (Singapore Airlines) and how to forecast the company’s upcoming dividend. Singapore Airlines traditionally announced its dividends in the first half of May, indicating that Mudambi had only several days to work on her prediction.

Recently hired in the transportation group at Raffles Asset Management and assigned to help assess the fund’s potential investment in Singapore Airlines, Mudambi was tasked with writing a report on the firm’s dividend choices. Unfortunately, Singapore Airlines did not provide any information about how it decided on the dividends and why it sometimes paid extra dividends. While most companies maintained stable, transparent, and simple dividend policies, Singapore Airlines’ dividend history looked irregular. Mudambi decided to gather historical data about the company and its competitors to gain insights on Singapore Airlines’ dividend policy and to forecast its upcoming dividend.

SINGAPORE AIRLINES

In 2015, Singapore Airlines was the runner-up in the Skytrax “World’s Top 100 Airlines” review.[[2]](#endnote-2) Skytrax explained its choice with the following description:

Singapore Airlines is one of the most respected travel brands around the world. Flying one of the youngest aircraft fleets in the world to destinations spanning a network spread over six continents, the Singapore Girl is an internationally-recognisable icon providing the high standards of care and service that customers have come to expect of Singapore Airlines.[[3]](#endnote-3)

Interestingly, all airlines finishing in the top 10 were headquartered in the East (i.e., the Middle East, the Far East, and Australia).[[4]](#endnote-4)

Based in the Singapore Changi Airport, Singapore Airlines offered flight services to 52 destinations around the world, including long-haul flights to Los Angeles, Melbourne, and Cape Town.[[5]](#endnote-5) In 2008, the national airline of Singapore introduced its Suites Class, arguably the most luxurious flying experience in commercial aviation, with a round trip from Singapore to New York costing more than US$16,200.[[6]](#endnote-6)

Service and Innovation

Singapore Airlines routinely won awards for its hospitality and cabin service, including the *Business Traveller*’s “Best Airline in the World” and “Best Asia-Pacific Airline,” for several consecutive years. The airline also consistently won *Business Traveller*’s awards for best first class, best business class, and best economy class service.[[7]](#endnote-7) These repeated accolades in the fiercely competitive aviation industry gave the airline substantive global recognition. The Singapore Girl, a bona fide air stewardess dressed in the traditional *sarong kebaya* (a blouse-dress combination), had been the visual icon of Singapore Airlines since 1972.[[8]](#endnote-8)

According to *Harvard Business Review*, Singapore Airlines typically divided its innovation budget using the following rule: 40 per cent on training employees, 30 per cent on revising processes and procedures, and 30 per cent on creating new products and service.[[9]](#endnote-9) The airline introduced one of the earliest (and later award-winning) inflight entertainment systems, KrisWorld, and numerous innovations, such as its “Book the Cook” program for business class, allowing passengers to select and order their meal before boarding.[[10]](#endnote-10)

The Cost Leader

Singapore Airlines managed to provide its services and innovations at much lower costs than its European and American counterparts. From 2001 to 2009, Singapore Airlines’ costs per available seat kilometre amounted to only 4.58 cents. According to a 2007 International Air Transport Association study, costs for full-service European airlines were 8 to 16 cents; US airlines were 7 to 8 cents, and Asian airlines, 5 to 7 cents. Surprisingly, Singapore Airlines’ costs were lower than even most budget carriers in Europe and the United States, which ranged from 4 to 8 cents and 5 to 6 cents, respectively.[[11]](#endnote-11)

However, management experts expressed their doubts that such a dual strategy of innovation and cost effectiveness could be sustainable and profitable over the long term.[[12]](#endnote-12)

Financial Statements

At first glance, Singapore Airlines’ dividends seemed to be inconsistent (see Exhibit 1). Additionally, in 2013–14, profit for Singapore Airlines fell to $359 million, but the company paid a special dividend of $294 million. Unexpectedly, the company raised $500 million through bonds in the following year.

Mudambi knew that dividends were often related to revenues, net income, and net profit margin, as well as to cash ratio, cash plus short-term investments, and long-term liabilities. Other potential ratios to consider would be the dividends-to-earnings ratio and the dividends-to-cash flows ratio. These accounting variables and ratios seemed like natural candidates to explore with respect to Singapore Airlines’ dividend policy (see Exhibits 2–5).

Ownership and Holdings

Singapore’s sovereign wealth fund, Temasek Holdings Private Limited (Temasek), held 56.21 per cent of Singapore Airlines’ shares as of March 31, 2015, making Singapore Airlines a government-linked company. The second largest shareholder, BlackRock Inc., controlled only 0.83 per cent of Singapore Airlines.[[13]](#endnote-13)

Temasek had a strong international reputation with robust credit ratings of AAA and a perfect score on the Linaburg-Maduell Transparency Index for sovereign wealth funds.[[14]](#endnote-14) Reportedly, Temasek did not interfere in the daily management of the company.[[15]](#endnote-15)

While Singapore Airlines had not published its dividend policy, other select Temasek-owned companies had. For example, the public transport operator SMRT Corporation revealed that it aimed to pay dividends of 60 per cent of net profit; Singapore Telecommunications Limited (Singtel) tried to maintain a payout ratio of 60–75 per cent (see Exhibit 6).[[16]](#endnote-16)

Nevertheless, Singapore Airlines seemed committed to corporate transparency and investor relations. It was awarded the “Most Transparent Company Award 2011” by the Securities Investors Association (Singapore) (SIAS).[[17]](#endnote-17)

Singapore Airlines was the flagship airline of Singapore Airlines Group, which also wholly owned Singapore Airlines Cargo, SIA Engineering Company Limited, SilkAir Private Limited, Scoot, and Tradewinds Tours and Travel Private Limited.[[18]](#endnote-18) The airline also held significant stakes in Tiger Airways Singapore Private Limited (30.2 per cent) and Virgin Australia Airlines (22.8. per cent).[[19]](#endnote-19)

The AIRLINE INDUSTRY

In the late 1970s, the US government removed its controls over fares, routes, and the entry of new airlines. The deregulation dramatically changed the business model and led to increased competition in the industry. Competition, in turn, depressed ticket prices, which stimulated demand and increased air traffic. Open skies air transport agreements allowed airlines from over 100 countries and regions to launch from and land in the co-operating countries in a free-market environment. The resulting intensified competition in major markets, in turn, lowered customer fares further.[[20]](#endnote-20)

The International Air Transport Association (IATA) estimated that the net income of the airline industry for 2015 would amount to $33 billion, with increased profits stemming from lower fuel prices. In comparison, the net profit of the industry in 2014 totalled slightly more than $16 billion, which was a strong improvement over the prior year’s net profit of $12.9 billion. The IATA also forecasted in 2015 that the industry would achieve 8.3 per cent return on capital, and the IATA expected that to improve to 8.6 per cent in 2016.[[21]](#endnote-21)

Fuelled by plummeting oil prices in 2014–15, the profits of most airlines were expected to increase considerably over the subsequent years.[[22]](#endnote-22) However, this effect might turn out to be short-lived because airlines would likely continue to compete by reducing prices and, thus, lowering profits.

One of the world’s fastest-growing markets, South East Asia, remained very challenging due to intense competition. Despite strong growth in the industry, the competition prevented most airlines in South East Asia from earning positive profits.[[23]](#endnote-23) This, however, did not impede the rapid growth of these airlines (see Exhibit 7).

The airline industry had long struggled with limited profit margins. Yet, the more recent growth phase in most markets, coupled with evolving technology and customer preferences, offered a real opportunity. Many viewed the rise of the Chinese airlines as the next big disruption in the marketplace because China Airlines, China Eastern Airlines Corporation Limited, and China Southern Airlines Company Limited all received government support.[[24]](#endnote-24)

SINGAPORE

Singapore was well known for its conducive business environment, and various rankings typically featured it among the world’s top three countries for the ease of doing business. For example, the World Bank ranked Singapore in the top position on the “ease of doing business index” in 2016;[[25]](#endnote-25) the World Economic Forum’s global competitiveness report ranked Singapore as second in 2016.[[26]](#endnote-26) In its annual world competitiveness ranking, the Institute for Management Development ranked Singapore third in 2015.[[27]](#endnote-27) Well-known as a low-tax environment, Singapore did not tax either dividends or capital gains.

The city-state’s judicial system featured less prominently in rankings for the rule of law. For example, according to the World Justice Project’s *Rule of Law Index 2014*, Singapore ranked as high as second for order and security and as low as 26th in fundamental rights (see Exhibit 8).[[28]](#endnote-28)

Following the financial crisis of 2008–09, the interest rates and, thus, the yield on fixed-income instruments were unusually low in Singapore, as they also were in the rest of the world. The low interest rate environment suggested that institutional investors might have been looking for alternatives such as higher dividends.

EPILOGUE

The best way to deduce Singapore Airlines’ dividend decision rule was to analyze the airline’s historical track record of dividends and financial statements. With that information, Mudambi would be able to understand how Singapore Airlines choose its dividends. And with *that* information, she needed to forecast the upcoming dividend.

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Exhibit 1: Singapore Airlines—dividends History, 2004–2015 (in SGD)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Year** | **Share Price** | **Interim** | **Final** | **Special** | **Total** | **Dividend Yield (%)** |
| 2004 | 11.00 | – | 0.25 | – | 0.25 | 2.27 |
| 2005 | 11.90 | 0.10 | 0.30 | – | 0.40 | 3.36 |
| 2006 | 14.00 | 0.10 | 0.35 | – | 0.45 | 3.21 |
| 2007 | 16.60 | 0.15 | 0.35 | 0.50 | 1.00 | 6.02 |
| 2008 | 15.60 | 0.20 | 0.80 | – | 1.00 | 6.41 |
| 2009 | 10.00 | 0.20 | 0.20 | – | 0.40 | 4.00 |
| 2010 | 15.36 | – | 0.12 | – | 0.12 | 0.78 |
| 2011 | 13.68 | 0.20 | 0.40 | 0.80 | 1.40 | 10.23 |
| 2012 | 10.77 | 0.10 | 0.10 | – | 0.20 | 1.86 |
| 2013 | 10.87 | 0.06 | 0.17 | – | 0.23 | 2.12 |
| 2014 | 10.47 | 0.10 | 0.11 | 0.25 | 0.46 | 4.39 |
| 2015 | 11.95 | 0.05 | 0.17 | – | 0.22 | 1.84 |

Note:Share prices are shown as reported at the end of the financial year (March 31); the dividend yield is calculated as the sum of interim, final, and special dividends; SGD = S$= Singapore dollar; S$1 = US$0.744 and US$1 = S$1.344 on May 1, 2016.

Source: “Singapore Airlines,” Bloomberg Terminal, Yahoo Finance, accessed May 28, 2015.

Exhibit 2: SINGAPORE AIRLINES—Income Statement, 2010–2015 (In SGD millions, except per share)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| 12 Months Ending March 31 | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** |
| **Revenue** | **12,707.3** | **14,524.8** | **14,857.8** | **15,098.2** | **15,243.9** | **15,565.5** |
| − Operating Expenses | 12,588.9 | 13,174.3 | 14,520.8 | 14,777.3 | 14,892.1 | 15,047.1 |
| + Selling, General & Administration | 210.3 | 191.4 | 201.6 | 209.3 | 257.6 | 258.5 |
| + Depreciation & Amortization | 1,756.5 | 1,696.0 | 1,611.6 | 1,611.8 | 1,601.2 | 1,564.7 |
| + Provision for Doubtful Accounts | 0.0 | (1.5) | (0.2) | (8.8) | 1.1 | 0.7 |
| + Other Operating Expense | 10,622.1 | 11,288.4 | 12,707.8 | 12,965.0 | 13,032.2 | 13,223.2 |
| **Operating Income (Loss)** | **118.4** | **1,350.5** | **337.0** | **320.9** | **351.8** | **518.4** |
| − Non-Operating (Income) Loss | (130.9) | 25.7 | (133.8) | (94.7) | 66.1 | 150.0 |
| + Interest Expense, Net | 8.8 | 24.1 | 16.3 | (24.5) | (29.8) | (28.8) |
| *+ Interest Expense* | *59.2* | *62.2* | *67.5* | *38.7* | *33.6* | *46.9* |
| *− Interest Income* | *50.4* | *38.1* | *51.2* | *63.2* | *63.4* | *75.7* |
| + Other Investment (Income) Loss | (33.7) | (24.7) | (23.8) | (31.0) | (20.5) | (14.1) |
| + Foreign Exchange (Gain) Loss | 54.3 | 71.5 | 36.6 | 82.5 | 74.5 | 113.1 |
| + (Income) Loss from Affiliates | (149.1) | (175.1) | (126.1) | (145.3) | (48.8) | 77.1 |
| + Other Non-Op (Income) Loss | (11.2) | 129.9 | (36.8) | 23.6 | 90.7 | 2.7 |
| **Pretax Income (Loss), Adjusted** | **249.3** | **1,324.8** | **470.8** | **415.6** | **285.7** | **368.4** |
| − Abnormal Losses (Gains) | (36.2) | (94.2) | 22.6 | (54.0) | (82.2) | (74.5) |
| + Merger/Acquisition Expense | — | — | — | — | — | (119.8) |
| + Disposal of Assets | (32.3) | (104.3) | (0.4) | (56.6) | (52.9) | (54.1) |
| + Asset Writedown | 6.1 | 15.7 | 15.8 | 9.8 | 343.0 | 28.4 |
| + Gain/Loss on Sale/Acquisition | — | 0.7 | — | (8.3) | (371.7) | (13.1) |
| + Sale of Investments | (10.0) | (6.3) | 0.3 | 1.1 | (0.6) | (3.9) |
| + Unrealized Investments | — | — | — | — | — | 63.9 |
| + Other Abnormal Items | — | — | 5.6 | — | — | 24.1 |
| **Pretax Income (Loss), GAAP** | **285.5** | **1,419.0** | **448.2** | **469.6** | **367.9** | **442.9** |
| − Income Tax Expense (Benefit) | 6.0 | 270.2 | 51.4 | 28.0 | (56.5) | 36.2 |
| + Current Income Tax | (33.9) | 395.4 | 214.0 | 116.1 | 121.7 | 129.3 |
| + Deferred Income Tax | 39.9 | (125.2) | (162.6) | (88.1) | (178.2) | (93.1) |
| **Income (Loss) from Cont Ops** | **279.5** | **1,148.8** | **396.8** | **441.6** | **424.4** | **406.7** |
| − Minority Interest | 63.7 | 56.8 | 60.9 | 62.7 | 64.9 | 38.8 |
| **Net Income, GAAP** | **215.8** | **1,092.0** | **335.9** | **378.9** | **359.5** | **367.9** |
| **Net Income Avail to Common, Adj** | **185.8** | **1,013.8** | **354.7** | **334.1** | **291.3** | **306.1** |
| Net Abnormal Losses (Gains) | (30.0) | (78.2) | 18.8 | (44.8) | (68.2) | (61.8) |
| Basic Weighted Average Shares | 1,184.8 | 1,194.9 | 1,188.8 | 1,175.1 | 1,176.7 | 1,171.3 |
| **Basic EPS from Cont Ops** | **0.18** | **0.91** | **0.28** | **0.32** | **0.31** | **0.31** |
| **Basic EPS from Cont Ops, Adjusted** | **0.16** | **0.85** | **0.30** | **0.28** | **0.25** | **0.26** |
| Diluted Weighted Average Shares | 1,196.5 | 1,208.2 | 1,196.9 | 1,181.2 | 1,181.7 | 1,176.5 |
| **Diluted EPS from Cont Ops** | **0.18** | **0.90** | **0.28** | **0.32** | **0.30** | **0.31** |
| **Diluted EPS from Cont Ops, Adjusted** | **0.15** | **0.84** | **0.29** | **0.28** | **0.25** | **0.26** |

Note: SGD = S$ = Singapore dollar; S$1 = US$0.744 and US$1 = S$1.344 on May 1, 2016; GAAP = generally accepted accounting principles; Cont Ops = continuing operations; adj = adjusted; EPS = earnings per share.

Source: “Singapore Airlines,” Bloomberg Terminal, accessed March 19, 2018.

Exhibit 3: SINGAPORE AIRLINES—Balance Sheet, 2010–2015 (In SGD millions, except per share)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **12 Months Ending March 31** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** |
| **Total Assets** |  |  |  |  |  |  |
| + Cash & Cash Equivalents | 4,471.9 | 7,434.2 | 4,702.7 | 5,059.6 | 4,883.9 | 5,042.7 |
| + ST Investments | 140.6 | 397.8 | 625.1 | 349.4 | 287.4 | 168.6 |
| + Accounts & Notes Receivable | 1,347.8 | 1,402.1 | 1,290.7 | 1,501.3 | 1,517.5 | 1,384.6 |
| + Other Current Assets |  |  |  |  |  |  |
| **Total Current Assets** | **6,548.7** | **9,779.2** | **7,205.9** | **7,499.5** | **7,310.7** | **7,252.9** |
| + Property, Plant & Equipment, Net | 15,063.9 | 13,877.6 | 13,381.4 | 13,098.0 | 13,026.7 | 13,523.2 |
| + Property, Plant & Equipment | 24,609.6 | 24,225.7 | 23,435.2 | 23,522.6 | 23,808.3 | 24,915.7 |
| − Accumulated Depreciation | 9,545.7 | 10,348.1 | 10,053.8 | 10,424.6 | 10,781.6 | 11,392.5 |
| + LT Investments & Receivables | 35.3 | 35.3 | 373.7 | 706.9 | 1,125.2 | 927.6 |
| + Other LT Assets | 836.4 | 852.4 | 1,082.0 | 1,123.7 | 1,179.9 | 2,217.9 |
| **Total Noncurrent Assets** | **15,935.6** | **14,765.3** | **14,837.1** | **14,928.6** | **15,331.8** | **16,668.7** |
| **Total Assets** | **22,484.3** | **24,544.5** | **22,043.0** | **22,428.1** | **22,642.5** | **23,921.6** |
|  |  |  |  |  |  |  |
| **Liabilities & Shareholders’ Equity** |  |  |  |  |  |  |
| + Payables & Accruals | 2,619.5 | 3,301.8 | 3,129.8 | 3,215.8 | 3,179.0 | 3,068.4 |
| + ST Debt | 64.5 | 963.1 | 67.2 | 73.5 | 60.7 | 447.1 |
| + Other ST Liabilities | 1,835.6 | 1,967.4 | 2,068.0 | 2,112.3 | 2,151.7 | 3,124.9 |
| **Total Current Liabilities** | **4,519.6** | **6,232.3** | **5,265.0** | **5,401.6** | **5,391.4** | **6,640.4** |
| + LT Debt | 1,274.4 | 1,075.8 | 1,010.6 | 940.6 | 904.3 | 1,292.4 |
| + Other LT Liabilities | 2,941.0 | 2,733.6 | 2,580.0 | 2,683.8 | 2,772.2 | 3,058.7 |
| **Total Noncurrent Liabilities** | **4,215.4** | **3,809.4** | **3,590.6** | **3,624.4** | **3,676.5** | **4,351.1** |
| **Total Liabilities** | **8,735.0** | **10,041.7** | **8,855.6** | **9,026.0** | **9,067.9** | **10,991.5** |
| + Preferred Equity and Hybrid Capital | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| + Share Capital & APIC | 1,750.6 | 1,832.4 | 1,856.1 | 1,856.1 | 1,856.1 | 1,856.1 |
| − Treasury Stock | 0.9 | 43.0 | 258.4 | 269.8 | 262.2 | 326.3 |
| + Retained Earnings | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| + Other Equity | 11,719.2 | 12,415.0 | 11,295.7 | 11,503.2 | 11,643.3 | 10,933.8 |
| **Equity Before Minority Interest** | **13,468.9** | **14,204.4** | **12,893.4** | **13,089.5** | **13,237.2** | **12,463.6** |
| + Minority/Non-Controlling Interest | 280.4 | 298.4 | 294.0 | 312.6 | 337.4 | 466.5 |
| **Total Equity** | **13,749.3** | **14,502.8** | **13,187.4** | **13,402.1** | **13,574.6** | **12,930.1** |
| **Total Liabilities & Equity** | **22,484.3** | **24,544.5** | **22,043.0** | **22,428.1** | **22,642.5** | **23,921.6** |

Note: SGD = S$ = Singapore dollars; S$1 = US$0.744 and US$1 = S$1.344 on May 1, 2016; ST = short term; LT = long term; APIC = additional paid in capital.

Source: “Singapore Airlines,” Bloomberg Terminal, accessed March 19, 2018.

Exhibit 4: SINGAPORE AIRLINES—Cash Flow Statement, 2010–2015 (In SGD millions, except per share)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **12 Months Ending March 31** | **2010** | **2011** | **2012** | **2013** | | **2014** | **2015** |
| **Cash from Operating Activities** |  |  |  | |  |  |  |
| + Net Income | 215.8 | 1,092.0 | 335.9 | | 378.9 | 359.5 | 367.9 |
| + Depreciation & Amortization | 1,756.5 | 1,696.0 | 1,611.6 | | 1,611.8 | 1,601.2 | 1,564.7 |
| + Non-Cash Items | (134.5) | 74.6 | (315.2) | | 27.5 | 165.1 | 393.4 |
| + Change in Non-Cash Work Capital | 290.2 | 567.3 | 180.5 | | 16.4 | 178.1 | (117.0) |
| + Net Cash from Discontinued Operations | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | 0.0 |
| **Cash from Operating Activities** | **2,128.0** | **3,429.9** | **1,812.8** | | **2,034.6** | **2,303.9** | **2,209.0** |
|  |  |  |  | |  |  |  |
| **Cash from Investing Activities** |  |  |  | |  |  |  |
| + Change in Fixed & Intangible | (1,425.6) | (522.0) | (1,202.2) | | (1,311.3) | (1,795.6) | (1,633.3) |
| + Net Change in LT Investment | 0.0 | 0.0 | (339.0) | | (364.4) | (538.2) | (580.8) |
| + Net Cash from Acquisitions & Divestitures | (302.9) | 1.0 | (54.6) | | 4.6 | 179.4 | 97.5 |
| + Other Investing Activities | 537.9 | (259.6) | (181.5) | | 310.5 | 89.5 | 120.1 |
| + Net Cash from Disc Ops | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | 0.0 |
| **Cash from Investing Activities** | **(1,190.6)** | **(780.6)** | **(1,777.3)** | | **(1,360.6)** | **(2,064.9)** | **(1,996.5)** |
|  |  |  |  | |  |  |  |
| **Cash from Financing Activities** |  |  |  | |  |  |  |
| + Dividends Paid | (236.9) | (382.7) | (1,557.2) | | (188.0) | (317.8) | (481.2) |
| + Cash From (Repayment) Debt | (89.8) | 737.4 | (960.5) | | (60.6) | (51.6) | 418.3 |
| + Cash (Repurchase) of Equity | 105.7 | 44.9 | (206.4) | | 0.6 | 27.4 | (61.2) |
| + Other Financing Activities | (48.4) | (46.1) | (73.3) | | (56.4) | (57.4) | 25.1 |
| + Net Cash from Discontinued Operations | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | 0.0 |
| **Cash from Financing Activities** | **(269.4)** | **353.5** | **(2,797.4)** | | **(304.4)** | **(399.4)** | **(99.0)** |
|  |  |  |  | |  |  |  |
| Effect of Foreign Exchange Rates | (34.8) | (40.5) | 30.4 | | (12.7) | (15.3) | 45.3 |
|  |  |  |  | |  |  |  |
| **Net Changes in Cash** | **633.2** | **2,962.3** | **(2,731.5)** | | **356.9** | **(175.7)** | **158.8** |
|  |  |  |  | |  |  |  |
| **Cash Paid for Taxes** | **125.0** | **60.5** | **394.9** | | **192.7** | **65.2** | **116.3** |
| **Cash Paid for Interest** | **66.2** | **69.3** | **86.9** | | **34.2** | **36.4** | **41.5** |

Note: SGD = S$ = Singapore dollars; S$1 = US$0.744 and US$1 = S$1.344 on May 1, 2016; LT = long term; Disc Ops = discontinued operations.

Source: “Singapore Airlines,” Bloomberg Terminal, accessed March 19, 2018.

Exhibit 5: SINGAPORE AIRLINES—KEY STATISTICS AND RATIOS, 2010–2015 (In SGD millions, except per share)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **12 Months Ending March 31** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** |
| **Market Capitalization** | **18,111.3** | **16,345.8** | **12,673.8** | **12,777.6** | **12,313.4** | **13,974.2** |
| − Cash & Equivalents | 4,612.5 | 7,832.0 | 5,327.8 | 5,409.0 | 5,171.3 | 5,211.3 |
| + Preferred & Other | 280.4 | 298.4 | 294.0 | 312.6 | 337.4 | 466.5 |
| + Total Debt | 1,338.9 | 2,038.9 | 1,077.8 | 1,014.1 | 965.0 | 1,739.5 |
| **Enterprise Value** | **15,118.1** | **10,851.1** | **8,717.8** | **8,695.3** | **8,444.5** | **10,968.9** |
|  |  |  |  |  |  |  |
| **Revenue, Adjusted** | **12,707.3** | **14,524.8** | **14,857.8** | **15,098.2** | **15,243.9** | **15,565.5** |
| Growth, YoY (%) | (20.6) | 14.3 | 2.3 | 1.6 | 1.0 | 2.1 |
| **Gross Profit, Adjusted** | – | – | – | – | – | – |
| Margin (%) | – | – | – | – | – | – |
| **EBITDA, Adjusted** | **1,874.9** | **3,046.5** | **1,948.6** | **1,932.7** | **1,953.0** | **2,083.1** |
| Margin (%) | 14.8 | 21.0 | 13.1 | 12.8 | 12.8 | 13.4 |
| **Net Income, Adjusted** | **185.8** | **1,013.8** | **354.7** | **334.1** | **291.3** | **306.1** |
| Margin (%) | 1.5 | 7.0 | 2.4 | 2.2 | 1.9 | 2.0 |
| **EPS, Adjusted (SGD)** | **0.15** | **0.84** | **0.29** | **0.28** | **0.25** | **0.26** |
| Growth, YoY (%) | (82.5) | 440.6 | (64.8) | (4.6) | (12.7) | 5.8 |
|  |  |  |  |  |  |  |
| **Cash from Operations** | **2,128.0** | **3,429.9** | **1,812.8** | **2,034.6** | **2,303.9** | **2,209.0** |
| **Capital Expenditures** | **(1,560.3)** | **(1,223.8)** | **(1,641.2)** | **(1,875.4)** | **(2,574.6)** | **(2,600.2)** |
| **Free Cash Flow** | **567.7** | **2,206.1** | **171.6** | **159.2** | **(270.7)** | **(391.2)** |
|  |  |  |  |  |  |  |
| **Returns** |  |  |  |  |  |  |
| Return on Common Equity | 1.58 | 7.89 | 2.48 | 2.92 | 2.73 | 2.86 |
| Return on Assets | 0.91 | 4.64 | 1.44 | 1.70 | 1.60 | 1.58 |
| Return on Capital | 2.16 | 7.58 | 2.96 | 3.33 | 3.12 | 3.08 |
| Return on Invested Capital | 0.63 | 5.91 | 1.59 | 1.71 | 2.40 | 2.91 |
| **Margins** |  |  |  |  |  |  |
| EBITDA Margin | 14.73 | 20.91 | 13.01 | 12.73 | 12.68 | 13.40 |
| Operating Margin | 0.91 | 9.23 | 2.16 | 2.05 | 2.18 | 3.35 |
| Incremental Operating Margin | (21.91) | 67.41 | – | – | 15.24 | 58.64 |
| Pretax Margin | 2.25 | 9.77 | 3.02 | 3.11 | 2.41 | 2.85 |
| Income Before XO Margin | 2.20 | 7.91 | 2.67 | 2.92 | 2.78 | 2.61 |
| Net Income Margin | 1.70 | 7.52 | 2.26 | 2.51 | 2.36 | 2.36 |
| Net Income to Common Margin | 1.70 | 7.52 | 2.26 | 2.51 | 2.36 | 2.36 |

Note: SGD = S$ = Singapore dollars; S$1 = US$0.744 and US$1 = S$1.344 on May 1, 2016; YoY = year over year; EBITDA = earnings before interest, taxes, depreciation, and amortization; EPS = earnings per share; XO = extraordinary.

Source: “Singapore Airlines,” Bloomberg Terminal, accessed March 19, 2018.

Exhibit 6: Dividends of SELECTED COMPANIES MAJORITY OWNED BY TEMASEK (in SGD)

DBS Bank

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Year** | **Price** | **1st Q** | **Interim** | **3rd Q** | **Final** | **Special** | **Total** |
| 2006 | 16.50 | 0.14 | 0.14 | 0.14 | 0.17 | 0.04 | 0.63 |
| 2007 | 22.60 | 0.17 | 0.17 | 0.17 | 0.17 | – | 0.68 |
| 2008 | 20.70 | 0.17 | 0.17 | 0.17 | 0.14 | – | 0.65 |
| 2009 | 8.42 | 0.14 | 0.14 | 0.14 | 0.14 | – | 0.56 |
| 2010 | 15.20 | 0.14 | 0.14 | – | 0.28 | – | 0.56 |
| 2011 | 14.42 | – | 0.28 | – | 0.28 | – | 0.56 |
| 2012 | 11.57 | – | 0.28 | – | 0.28 | – | 0.56 |
| 2013 | 14.84 | – | 0.28 | – | 0.30 | – | 0.58 |
| 2014 | 17.10 | – | 0.28 | – | 0.30 | – | 0.58 |
| 2015 | 20.60 | – | 0.30 | – | 0.30 | – | 0.60 |

SMRT Corporation (year ending March 31)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Year** | **Price** |  | **Interim** |  | **Final** | **Special** | **Total** |
| 2007 | 1.19 |  | 0.0150 |  | 0.0575 |  | 0.0725 |
| 2008 | 1.68 |  | 0.0175 |  | 0.0600 |  | 0.0775 |
| 2009 | 1.65 |  | 0.0175 |  | 0.0600 |  | 0.0775 |
| 2010 | 1.91 |  | 0.0175 |  | 0.0675 |  | 0.0850 |
| 2011 | 2.03 |  | 0.0175 |  | 0.0570 |  | 0.0745 |
| 2012 | 1.76 |  | 0.0150 |  | 0.0100 |  | 0.0250 |
| 2013 | 1.68 |  | 0.0100 |  | 0.0120 |  | 0.0220 |
| 2014 | 1.16 |  | 0.0150 |  | 0.0175 |  | 0.0325 |
| 2015 | 1.58 |  | 0.0150 |  | 0.0175 |  | 0.0325 |
| 2016 | 1.50 |  | 0.0150 |  | 0.0250 |  | 0.0400 |

Singapore Telecommunications Limited (year ending March 31)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Year** | **Price** |  | **Interim** |  | **Final** | **Special** | **Total** |
| 2007 | 3.36 |  | 0.045 |  | 0.065 | 0.095 | 0.205 |
| 2008 | 3.98 |  | 0.056 |  | 0.069 | – | 0.125 |
| 2009 | 2.55 |  | 0.056 |  | 0.069 | – | 0.125 |
| 2010 | 3.00 |  | 0.062 |  | 0.080 | – | 0.142 |
| 2011 | 3.07 |  | 0.068 |  | 0.090 | 0.10 | 0.258 |
| 2012 | 3.10 |  | 0.068 |  | 0.090 | – | 0.158 |
| 2013 | 3.30 |  | 0.068 |  | 0.100 | – | 0.168 |
| 2014 | 3.66 |  | 0.068 |  | 0.100 | – | 0.168 |
| 2015 | 3.90 |  | 0.068 |  | 0.107 | – | 0.175 |
| 2016 | 3.67 |  | 0.068 |  | 0.107 | – | 0.175 |

Note: SGD = S$ = Singapore dollar; S$1 = US$0.744 and US$1 = S$1.344 on May 1, 2016; Q = quarter; Price is the opening price of the year.

Source: Created by the case authors based on information from DBS, “Dividend Information,” accessed August 3, 2018, www.dbs.com/investor/dividend-information.html; Singtel Telecommunications Limited, “Dividends,” accessed July 9, 2018, www.singtel.com/about-Us/investor-relations/dividends; SMRT *Twin Tracks to Performance and Growth,* 2016, accessed August 3, 2018, www.smrt.com.sg/Portals/0/InvestorRelations/Annual%20Report/2016/SMRT%20Annual%20Report%202016\_LR.pdf.

Exhibit 7: Singapore Airlines—Competitors’ dividends

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Year** | **Price** | **Interim** | **Final** | **Special** | **Total** |
| **Japan Airlines Co., Ltd.** | (JPY) |  |  |  |  |
| 03/2013 | 2,185 | – | 190 | – | 190 |
| 03/2014 | 2,540 | ­– | 160 | – | 160 |
| 03/2015 | 3,620 | – | 104 | – | 104 |
| 03/2016 | 4,356 | – | 120 | – | 120 |
|  |  |  |  |  |  |
| **Cathay Pacific Airways Limited** | (HKD) |  |  |  |  |
| 2006 | 19.18 | 0.20 | 0.32 | 0.32 | 0.84 |
| 2007 | 20.40 | 0.25 | 0.59 | – | 0.84 |
| 2008 | 8.72 | 0.03 | – | – | 0.03 |
| 2009 | 14.48 | – | 0.10 | – | 0.10 |
| 2010 | 21.45 | 0.33 | 0.78 | – | 1.11 |
| 2011 | 13.32 | 0.18 | 0.34 | – | 0.52 |
| 2012 | 14.22 | – | 0.08 | – | 0.08 |
| 2013 | 16.40 | 0.06 | 0.16 | – | 0.22 |
| 2014 | 16.90 | 0.10 | 0.26 | – | 0.36 |
| 2015 | 13.42 | 0.26 | 0.27 | – | 0.53 |
|  |  |  |  |  |  |
| **Air China Limited** | (CNY) |  |  |  |  |
| 2006 | 5.15 | – | 0.04428 | – | 0.04428 |
| 2007 | 27.44 | – | 0.06156 | – | 0.06156 |
| 2008 | 4.10 | – | – | – | – |
| 2009 | 9.71 | – | – | – | – |
| 2010 | 13.68 | – | 0.10638 | – | 0.10638 |
| 2011 | 6.37 | – | 0.1062 | – | 0.1062 |
| 2012 | 6.00 | – | 0.05935 | – | 0.05935 |
| 2013 | 3.95 | – | 0.04531 | – | 0.04531 |
| 2014 | 7.84 | – | 0.05223 | – | 0.05223 |
| 2015 | 8.58 | – | 0.10700 | – | 0.10700 |

Note: The price shown is the opening price of the year; JPY = Japanese yen; HKD = Hong Kong dollar; CNY = Chinese yuan.

Source: Created by authors based on information from Japan Airlines, “Dividend Policy,” accessed August, 3, 2018, www.jal.com/en/investor/issue/dividend/; Cathay Pacific, “Dividend History,” accessed August 3, 2018, www.cathaypacific.com/cx/fr\_FR/about-us/investor-relations/dividend-history.html; Air China, “Dividend Information,” accessed August 3, www.airchina.cn/en/investor\_relations/stock/dividend/index.shtml.

EXHIBIT 8: SINGAPORE’s RANKINGS IN the RULE OF LAW index

|  |  |  |
| --- | --- | --- |
| **Factor** | **Description** | **Ranking** |
| Factor 1 | Constraints on Government Powers | 21 |
| Factor 2 | Absence of Corruption | 5 |
| Factor 3 | Open Government | 21 |
| Factor 4 | Fundamental Rights | 26 |
| Factor 5 | Order & Security | 2 |
| Factor 6 | Regulatory Enforcement | 8 |
| Factor 7 | Civil Justice | 6 |
| Factor 8 | Criminal Justice | 2 |

Source: The World Justice Project, *Rule of Law Index 2014*, 14–28, accessed December 20, 2016, http://worldjusticeproject.org/sites/default/files/files/wjp\_rule\_of\_law\_index\_2014\_report.pdf.

Endnotes

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11. Heracleous and Wirtz, op. cit. [↑](#endnote-ref-11)
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    files/files/wjp\_rule\_of\_law\_index\_2014\_report.pdf. [↑](#endnote-ref-28)