

# Singapore Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

29 Jul 2019

## SIA Engineering (SIE SP) : **BUY**

**Mkt. Cap:** US\$2,165m | **3m Avg. Daily Val:** US\$1.6m

**Last Traded Price ( 26 Jul 2019):** S\$2.65

**Price Target 12-mth:** S\$3.01 (14% upside)

### Analyst

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### Encouraging margin trends

- 1QFY20 earnings in line with expectations
- Core EBIT margins holding up better than expected, could prompt earnings upgrades if sustained
- Privatisation prospects back in focus recently, should support share price momentum
- Maintain BUY with TP of S\$3.01

#### Forecasts and Valuation

FY Mar (S\$m)	2018A	2019A	2020F	2021F
Revenue	1,095	1,021	1,010	1,029
EBITDA	245	244	246	252
Pre-tax Profit	209	179	199	205
Net Profit	187	161	178	183
Net Pft (Pre Ex.)	170	180	178	183
Net Pft Gth (Pre-ex) (%)	(1.8)	5.5	(0.9)	2.6
EPS (S cts)	16.6	14.3	15.9	16.3
EPS Pre Ex. (S cts)	15.2	16.0	15.9	16.3
EPS Gth Pre Ex (%)	(2)	6	(1)	3
Diluted EPS (S cts)	16.5	14.2	15.7	16.1
Net DPS (S cts)	13.0	11.0	12.0	13.0
BV Per Share (S cts)	132	136	141	145
PE (X)	16.0	18.5	16.7	16.3
PE Pre Ex. (X)	17.5	16.6	16.7	16.3
P/Cash Flow (X)	54.9	39.5	42.4	30.6
EV/EBITDA (X)	10.3	10.3	10.2	9.8
Net Div Yield (%)	4.9	4.2	4.5	4.9
P/Book Value (X)	2.0	1.9	1.9	1.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	12.3	10.7	11.5	11.4

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

### Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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### What's New

**Net profit in line.** 1QFY20 net profit of S\$41.6m (+2.7% y-o-y) was largely in line, forming 23% of our full-year estimate, as higher core operating profits tempered lower than expected contributions from its associates and JVs. Group revenue of S\$258.1m (flat y-o-y) was also in line with our expectation, forming 25.5% of our full-year estimate.

**EBIT margins holding up.** Interestingly, SIE's core EBIT surpassed our expectation, at S\$17.7m (+74% y-o-y), driven by healthy EBIT margin of 6.9% (vs 4.0% in 1Q19). This marks the third consecutive quarter of SIE's core EBIT margin swinging back to its historical 6-8% range (vs 4-5% in 1HFY19), suggesting that the group's cost cutting and productivity initiatives are starting to bear fruit. However, sustainability is key.

**One-off costs affected assoc/ JV contributions.** Associate and JV profits disappointingly fell to S\$26.0m (-20% y-o-y and q-o-q) in 1Q2FY20, owing to upgrading expenses incurred by an engine centre (likely Eagle Services Asia) to gear up for new engine capabilities (new Pratt & Whitney Turbofan engines). Barring the one-time expenses, SIE's contributions from associates and JVs would have been on-par y-o-y. Going forward, we anticipate associate/JV contributions to remain robust, underpinned by a recovery in the engine MRO cycle, and commencement of support for new engine types.



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**Balance sheet remains strong.** Operating cash flows of S\$58.6m was on par with the previous year, while the SIE's net cash position improved to S\$576m as at end 1Q20 from S\$502m as at end 4Q19.

**We maintain our BUY call on SIA Engineering** with a TP of S\$3.01, after factoring in privatisation premium. We have highlighted the privatisation prospects in our recent report

on the Singapore Airlines Group, "[No smoke without fire](#)". While potential privatisation by parent SIA remains a key catalyst for the SIE stock, sustained improvement in operating performance will also help boost investor confidence. Valuations are still close to historical lows, at <17x forward PE, with an attractive dividend yield of about 4.5%, hence downside risks are limited.

### Quarterly / Interim Income Statement (\$m)

FY Mar	1Q2019	4Q2019	1Q2020	% chg yoy	% chg qoq
Revenue	258	256	258	0.2	0.8
Cost of Goods Sold	(248)	(237)	(240)	(2.9)	1.6
<b>Gross Profit</b>	<b>10.2</b>	<b>19.4</b>	<b>17.7</b>	<b>73.5</b>	<b>(8.8)</b>
Other Oper. (Exp)/Inc	0.0	0.0	0.0	-	-
<b>Operating Profit</b>	<b>10.2</b>	<b>19.4</b>	<b>17.7</b>	<b>73.5</b>	<b>(8.8)</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	32.4	32.3	26.0	(19.8)	(19.5)
Net Interest (Exp)/Inc	1.50	2.00	1.90	26.7	(5.0)
Exceptional Gain/(Loss)	0.0	(0.1)	0.10	nm	nm
<b>Pre-tax Profit</b>	<b>44.1</b>	<b>53.6</b>	<b>45.7</b>	<b>3.6</b>	<b>(14.7)</b>
Tax	(3.5)	(5.1)	(4.5)	28.6	(11.8)
Minority Interest	(0.1)	0.80	0.40	nm	(50.0)
<b>Net Profit</b>	<b>40.5</b>	<b>49.3</b>	<b>41.6</b>	<b>2.7</b>	<b>(15.6)</b>
Net profit bef Except.	40.5	49.4	41.5	2.5	(16.0)
EBITDA	56.3	64.8	62.2	10.5	(4.0)
<b>Margins (%)</b>					
Gross Margins	4.0	7.6	6.9		
Opg Profit Margins	4.0	7.6	6.9		
Net Profit Margins	15.7	19.3	16.1		

Source of all data: Company, DBS Bank

## Flash Note

### Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1	12 Nov 18	2.81	2.94	HOLD
2	11 Feb 19	2.39	2.70	HOLD
3	14 May 19	2.42	2.60	HOLD
4	25 May 19	2.41	2.60	HOLD
5	05 Jul 19	2.72	3.01	BUY

**Note :** Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Suvro Sarkar

Singapore Research Team

**Flash Note**

DBS Bank recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*\*Share price appreciation + dividends*

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