SIA Engineering (SIE SP)

1QFY27: Strong Fundamentals Masked By Expansion-Related Gestation Costs; BUY For Medium-Term Growth

BUY (Maintained)	
Share Price	S$3.27
Target Price	S$3.75
Upside	14.7%
Previous TP	S$3.85

Analyst(s)
Roy Chen, CFA
roychen@uobkh.com
+65 6590 6627

Highlights

- SIAEC's 1QFY27 net profit S$40.3m (-6.1% yoy) was impacted by expansion-related gestation costs at its engine JVs, excluding which, SIAEC's earnings would have grown about 10% yoy.
- Fundamentals of all major business lines remained healthy.
- We are positive on SIAEC's recent business developments, including its new engine JV with Safran and MOU signed with Air India.
- Investors should look beyond near-term earnings volatilities from gestation cost drags and stay invested for SIAEC's medium-term growth potential.
- Maintain BUY, with a slightly lower target price of S$3.75, still based on 21.2x FY28F PE (historical mean). SIA offers a fine 3.5-4.0% yield for FY27-28.

1QFY27 Results

Year to 31 Mar (S$m)	1QFY27	1QFY26	yoy % chg	4QFY26	yoy % chg	Prev. FY27F	1Q as % of FY27F
Revenue	327.6	358.4	-8.6	340.8	-3.9	1509.0	22%
Opex	314	353	-11.0	330	-4.8	1464.7	21%
EBIT	13.2	5.1	+158.8	10.4	+26.8	44.3	30%
JVs/asso. contribution	31.0	37.8	-18.0	35.2	-11.9	148.6	21%
Net Profit	40.3	42.9	-6.1	43.7	-7.8	182.0	22%
Margins (%)							
EBIT	4.0	1.4	+2.6ppt	3.1	+1.0ppt	2.9	
Net profit	12.3	12.0	+0.3ppt	12.8	-0.5ppt	12.1	

Source: SIAEC, UOB Kay Hian

Analysis

- **Strong 1QFY27 underlying performance masked by gestation costs related to capacity expansion.** SIA Engineering's (SIAEC) 1QFY27 net profit of S$40.3m (-6.1% yoy) was slightly behind our projection, at 22% of our full-year forecast. 1QFY27 saw yoy lower earnings contribution from engine JVs/associates (down S$7.0m or 19.2% yoy), as one of its key engine MRO JVs, Singapore Aero Engine Services, incurred gestation costs for capacity expansion works. Excluding the gestation costs, SIAEC's earnings would have risen about 10% yoy, by our estimate.

Key Financials

Year to 31 Mar (S$m)	2025	2026	2027F	2028F	2029F
Net turnover	1,245	1,423	1,376	1,438	1,504
EBITDA	78	96	118	133	144
Operating profit	15	29	49	61	70
Net profit (rep./act.)	140	169	169	198	220
Net profit (adj.)	141	177	169	198	220
EPS (S$ cent)	12.5	15.8	15.1	17.6	19.6
PE (x)	26.1	20.7	21.7	18.5	16.7
P/B (x)	2.1	2.1	2.0	2.0	1.9
EV/EBITDA (x)	30.1	24.5	19.9	17.8	16.4
Dividend yield (%)	2.8	3.4	3.5	4.0	4.4
Net margin (%)	11.2	11.9	12.3	13.8	14.6
Net debt/(cash) to equity (%)	(37.8)	(31.5)	(28.7)	(28.8)	(29.2)
ROE (%)	8.2	9.7	9.5	10.8	11.6
Consensus net profit (S$m)	-	-	191	203	220
UOBKH/Consensus (x)	-	-	0.89	0.98	1.00

Source: SIAEC, Bloomberg, UOB Kay Hian

Stock Data

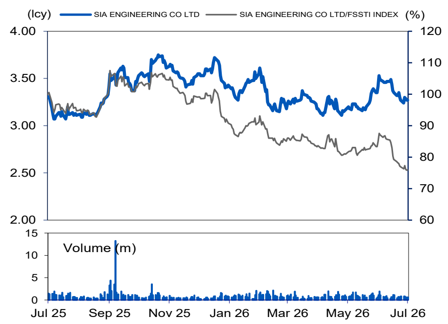
GICS sector	Industrials
Bloomberg ticker	SIE SP
Shares issued (m)	1,121.7
Market cap (S$m)	3,668.0
Market cap (US$m)	2,842.3
3-mth avg daily t'over (US$m)	2.2

Price Performance (%)

52-week high/low				S$3.81S$3.02
1mth	3mth	6mth	1yr	YTD
(2.4)	(2.8)	(4.7)	0.0	(9.2)

Major Shareholders	%
Singapore Airlines	77.7

Price Chart



Source: Bloomberg

Company Description

A leading regional aircraft maintenance, repair, and overhaul (MRO) operator controlled by Singapore Airlines, with an over 80% market share of line maintenance business at the Changi Airport.

- **Fundamentals remain healthy:**
  - Excluding the cost pass-through effects for raw materials, revenue rose 4.2% yoy in 1QFY27, driven by: a) stable MRO demand, and b) a 2.9% yoy growth in SIAEC's Singapore line maintenance business volume. This contrasts with yoy lower flight throughput at Changi Airport (down 1.6% yoy in Apr-May 26) due to regional carriers' flight cancellation amid the US-Iran war.
  - Base Maintenance Malaysia (BMM), which completed its first heavy check in Nov 25, officially opened in May 26. Its second hangar is on track to commence operations in 2HFY27, raising BMM's capacity to six concurrent aircraft checks.
  - Despite lower earnings contribution due to capacity expansion-related gestation costs, engine and component JVs recorded yoy higher work volume, with some areas benefitting from higher margin work and new capabilities driving revenue.
- **Strong balance sheet with sizeable net cash.** With almost no debt on its balance sheet, SIAEC's cash position expanded to S$628m as of end-1QFY27 (4QFY25: S$565m), forming about 17% of its market cap.
- **Overall sanguine outlook.** Management expressed confidence in the fundamentals of the Asia-Pacific MRO market, supported by rising passenger traffic and fleet expansion. SIAEC will remain focused on executing its strategic priorities, pushing growth through capacity, engineering capabilities and regional expansion.
- **Making positive progress in business development.** We are positive on the following business developments, seeing them as meaningful mid- to long-term growth drivers for SIA.
  - In Jun 26, SIAEC announced the formation of a new engine MRO JV with Safran to provide full MRO services for LEAP-1A and LEAP-1B engines. This positions SIAEC to capture rising MRO demand from the expanding global fleet of next-generation narrowbody aircraft. With its existing quick-turn operations to be integrated into the JV and close OEM support from Safran, we expect a shorter learning curve and faster ramp-up than a greenfield engine MRO workshop.
  - In Jul 26, SIAEC signed a non-binding MOU with Air India to explore collaboration opportunities, including the potential formation of an MRO JV in India. This brings SIAEC one step closer to entering the underserved and fast-growing Indian MRO market. With Air India as a strong prospective local partner, the proposed JV should benefit from improved market access and execution capabilities.

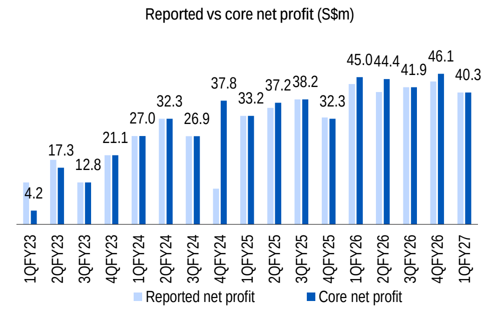
Valuation/Recommendation

- **Maintain BUY on SIAEC with a slightly lower target price of S$3.75.** Our updated target price remains based on 21.2x FY28F PE, pegged to SIAEC's historical mean. SIAEC currently trades at 18.4x FY28F PE (15.2x if excluding net cash), or 0.7SD below its historical mean, with a fine yield of 3.5-4.0% yield in FY27-28, assuming a 75% payout ratio.
- Current price of S$3.27 includes FY26 final dividend of 8.5 S cents (ex-dividend date: 29 Jul 26).

Earnings Revision/Risk

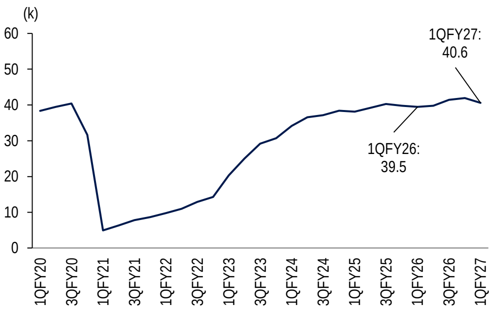
- **Trim our FY27/28 earnings forecasts by 7%/2% respectively** as we fine-tune our projection for capacity expansion-related gestation costs. FY29 earnings remain intact.
- **Key risks:** a) Margin pressure from labour and raw material cost inflation, and b) execution risks related to overseas expansion and investments.

Quarterly Profit Trend



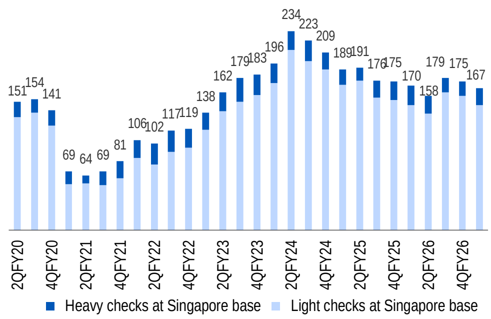
Source: SIAEC, UOB Kay Hian

Line Maintenance Business Volume At Changi Airport



Source: SIAEC

Base Maintenance Business Volume Performed In Singapore



Source: SIAEC

Historical PE Band

Source: Bloomberg

Profit & Loss

Year to 31 Mar (S$m)	2026	2027F	2028F	2029F
Net turnover	1,423	1,376	1,438	1,504
EBITDA	96	118	133	144
Deprec. & amort.	67	70	72	74
EBIT	29	49	61	70
Total other non-operating income	(2)	0	0	0
Associate contributions	145	134	153	168
Net interest income/(expense)	7	2	3	3
Pre-tax profit	179	185	217	241
Tax	(8)	(13)	(16)	(18)
Minorities	(3)	(3)	(3)	(3)
Net profit	169	169	198	220
Net profit (adj.)	177	169	198	220

Balance Sheet

Year to 31 Mar (S$m)	2026	2027F	2028F	2029F
Fixed assets	363	381	398	413
Other LT assets	943	965	990	1,018
Cash/ST investment	565	522	546	576
Other current assets	400	404	418	431
Total assets	2,271	2,272	2,352	2,438
ST debt	33	30	30	30
Other current liabilities	331	295	301	310
LT debt	129	126	126	126
Other LT liabilities	1	1	1	1
Shareholders' equity	1,755	1,796	1,866	1,940
Minority interest	23	25	28	31
Total liabilities & equity	2,271	2,272	2,352	2,438

Cash Flow

Year to 31 Mar (S$m)	2026	2027F	2028F	2029F
Operating	26	65	110	121
Pre-tax profit	179	185	217	241
Tax	(2)	(13)	(16)	(18)
Deprec. & amort.	67	70	72	74
Associates	(79)	(104)	(89)	(79)
Working capital changes	(79)	(40)	(6)	(5)
Non-cash items	11	(0)	(0)	0
Other operating cashflows	(71)	(32)	(67)	(93)
Investing	15	63	80	93
Capex	(48)	(60)	(60)	(60)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	63	123	140	153
Financing	(139)	(171)	(166)	(184)
Dividend payments	(107)	(129)	(129)	(145)
Proceeds from borrowings	2	0	0	0
Loan repayment	(1)	(5)	0	0
Others/interest paid	(34)	(37)	(37)	(38)
Net cash inflow (outflow)	(98)	(43)	24	30
Beginning cash & cash equivalent	663	565	522	546
Changes due to forex impact	(1)	0	0	0
Ending cash & cash equivalent	565	522	546	576

Key Metrics

Year to 31 Mar (%)	2026	2027F	2028F	2029F
Profitability				
EBITDA margin	6.8	8.6	9.2	9.6
Pre-tax margin	12.6	13.4	15.1	16.0
Net margin	11.9	12.3	13.8	14.6
ROA	7.7	7.4	8.6	9.2
ROE	9.7	9.5	10.8	11.6
Growth				
Turnover	14.3	(3.3)	4.5	4.5
EBITDA	23.1	22.8	12.1	8.5
Pre-tax profit	21.7	3.0	17.6	11.0
Net profit	21.0	0.2	17.2	10.9
Net profit (adj.)	25.9	(4.6)	17.2	10.9
EPS	26.0	(4.6)	17.2	10.9
Leverage				
Debt to total capital	8.3	7.9	7.6	7.3
Debt to equity	9.1	8.6	8.2	7.9
Net debt/(cash) to equity	(31.5)	(28.7)	(28.8)	(29.2)