SIA Engineering (SIE SP)

1HFY27: Results In Line; Steady Earnings Despite Expansion-related Gestation Costs

Highlights

- 1HFY27 net profit of S$81.9m (-1.7% yoy) is in line with our expectations, forming 48% of our full-year forecast.
- Underlying earnings growth was masked by higher gestation costs at its engine JV SAESL. Excluding the gestation costs for SAESL, we estimate that SIAEC's earnings would have improved by close to 20% yoy.
- SIAEC continues to push capacity and regional expansion, which come with near-term gestation pains. That said, gestation costs are expected to peak in FY27 and taper from FY28 onwards, driving a medium-term earnings growth.
- Maintain BUY, with a slightly lower target price of S$3.60, based on 21.3x FY28F PE (pegged to its historical mean).

1HFY27 Results

Year to 31 Mar (S$m)	1H FY27	1H FY26	yoy % chg	2Q FY27	2Q FY26	yoy % chg	Prev. FY27F	1H as % of FY27F
Revenue	658.6	729.0	-9.7	331.0	370.6	-10.7	1,375.9	48%
Opex	632.9	716.0	-11.6	318.5	362.7	-12.2	1,327.0	48%
EBIT	25.7	13.0	+97.8	12.5	7.9	+58.3	48.8	53%
JVs/asso. contribution	63.7	71.3	-10.7	32.7	33.5	-2.5	133.6	48%
Net profit	81.9	83.3	-1.7	41.6	40.4	+3.0	169.2	48%
Margins (%)								
EBIT	3.9	1.8	+2.1ppt	3.8	2.1	+1.6ppt	3.5	
Net profit	12.4	11.4	+1.0ppt	12.6	10.9	+1.7ppt	12.3	

Source: SIAEC, UOB Kay Hian

Analysis

- **Results in line.** SIA Engineering's (SIAEC) 1HFY27 results are in line with our expectations, with reported net profit of S$81.9m (-1.7% yoy), forming 48% of our full-year forecast. Operating profit almost doubled yoy to S$25.7m, driven by healthy business volumes and lower gestation losses related to expansion. However, the improvement in operating performance was offset by weaker contributions from JVs and associates (S$63.7m in 1HFY27, down 10.7% yoy), lower net interest income and higher tax expenses. SIAEC maintained its interim dividend at 2.5 S cents per share for 1HFY27.

Key Financials

Year to 31 Mar (S$m)	2025	2026	2027F	2028F	2029F
Net turnover	1,245	1,423	1,330	1,384	1,440
EBITDA	78	96	127	143	151
Operating profit	15	29	52	66	71
Net profit (rep./act.)	140	169	169	189	211
Net profit (adj.)	141	177	169	189	211
EPS (x)	12.5	15.8	15.0	16.8	18.8
PE (x)	23.3	18.5	19.4	17.3	15.5
P/B (x)	1.9	1.9	1.8	1.8	1.7
EV/EBITDA (x)	16.5	13.1	12.4	11.1	10.1
Dividend yield (%)	3.1	3.8	3.8	4.3	4.8
Net margin (%)	11.2	11.9	12.7	13.7	14.7
Net debt/(cash) to equity (%)	(37.8)	(31.5)	(28.3)	(28.2)	(28.5)
ROE (%)	8.2	9.7	9.5	10.3	11.1

Source: SIAEC, Bloomberg, UOB Kay Hian

Analyst(s)

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BUY (Maintained)

Share Price	S$2.92
Target Price	S$3.60
Upside	23.3%
Previous TP	S$3.75

Stock Data

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$3.81/S$2.86
1mth	3mth	6mth	1yr	YTD
(2.4)	(2.8)	(4.7)	0.0	(9.2)

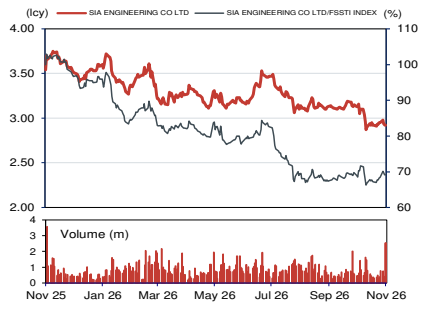
Major Shareholders (%)

Singapore Airlines	77.7

Balance Sheet Metrics

FY27 NAV/Share (S$)	1.61}
FY27 Net Cash/Share (S$)	0.46

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.

- **Strong underlying earnings growth masked by gestation costs.** SIAEC's 1HFY27 financial performance was weighed by higher gestation costs, particularly at the JV and associate level. Profit contribution from Singapore Aero Engine Services Private Limited (SAESL) fell to S$1.0m in 1HFY27, from S$18.7m in 1HFY26. Excluding the gestation costs related to SAESL's capacity expansion, we estimate that SIAEC's earnings would have improved by close to 20% yoy.
- **Net cash position weakened slightly.** Net cash declined to S$490m as at end-1HFY27, from S$559m at end-FY26, due to dividend payments, lower payables partly reflecting the timing of staff bonus payments, and the acquisition of an associate, Arport Aircraft Maintenance & Engineering (Arport AME), in China.
- **Management's outlook guidance.** Management remains confident in the fundamentals of the Asia-Pacific MRO market, noting that demand for SIAEC's MRO services continues to be underpinned by air travel growth, particularly in the Asia-Pacific region, as well as the deferred retirement of legacy aircraft amid delays in new aircraft deliveries. SIAEC will remain focused on expanding regionally, scaling capacity and strengthening capabilities for next-generation aircraft.
- **Maintaining a strong momentum of business development.** Some key highlights include:
  - In Singapore, the establishment of a full-service MRO JV with Safran for LEAP engines remains on track. Development of the new full-fledged LEAP engine workshop is expected to take a few years, during which the JV entity can continue to perform quick-turn operations in the existing facility while building new capabilities.
  - Facility development work for SAESL's capacity expansion is slated for completion by end-FY28, raising SAESL's engine output by about 40%.
  - In Malaysia, SIAEC officially opened its first hangar at Subang Airport in May 26 and has seen a healthy ramp-up in business volume. The second hangar is expected to come on-stream by end-FY27.
  - In Aug 26, SIAEC completed the acquisition of a 30% stake in Arport AME, a line-maintenance and ground-services provider in Fujian, China. Arport AME currently serves four Fujian airports and will provide line and base maintenance services at the upcoming Xiamen Xiang'an International Airport from end-26. This marks SIAEC's first foray into China.
  - 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. Discussions between SIAEC and Air India remain ongoing, with no further update at this juncture.
- **Gestation costs to taper from FY28.** Most of the above-mentioned capacity expansion initiatives are important medium- to long-term growth drivers for SIAEC, but will weigh on near-term earnings during the ramp-up phase. That said, barring any major investment in the Indian MRO market, which is currently not reflected in our forecasts, we expect overall gestation costs from SIAEC's existing expansion projects to start tapering from FY28 as the expanded capacities gradually come online.

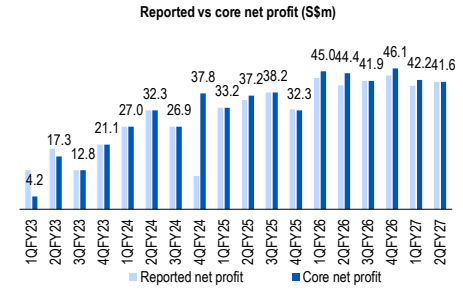
Valuation/Recommendation

- **Maintain BUY on SIAEC with a slightly lower target price of S$3.60.** Our updated target price remains based on 21.3x FY28F PE, pegged to SIAEC's historical mean PE. SIAEC currently trades at 17.3x FY28F PE (14.5x if excluding net cash), or 1SD below its historical mean.

Earnings Revision/Risk

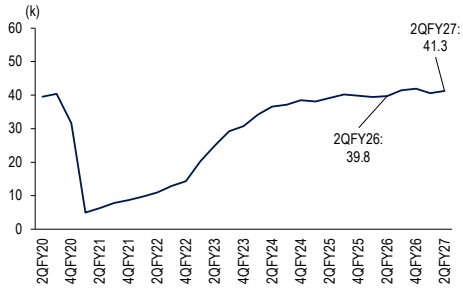
- We keep our FY27 earnings forecast but cut FY28-29 estimates by 4% as we fine-tune our projection for capacity expansion gestation costs.
- **Key risks:** a) Margin pressure from labour cost inflation, and b) execution risks related to overseas expansion and investment.

Quarterly Profit Trend



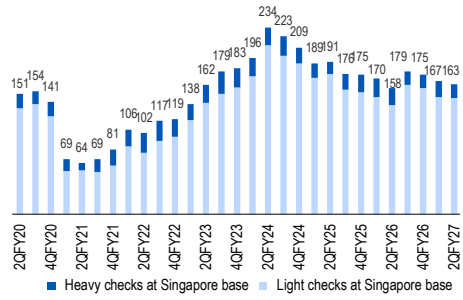
Source: SIAEC, UOB Kay Hian

Line Maintenance Business Volume At Changi Airport



Source: SIAEC

Base Maintenance Business Volume Performed In Singapore



Source: SIAEC

PE-based Valuation



Source: Bloomberg

Profit & loss

Year to 31 Mar (S$m)	2026	2027F	2028F	2029F
Net turnover	1,423	1,330	1,384	1,440
EBITDA	96	127	143	151
Deprec. & amort.	67	75	77	79
EBIT	29	52	66	71
Total other non-op. income	(2)	(0)	(0)	(0)
Associate contributions	145	132	144	162
Net interest income/(expense)	7	1	(1)	(1)
Pre-tax profit	179	185	209	232
Tax	(8)	(13)	(16)	(18)
Minorities	(3)	(3)	(3)	(3)
Net profit	169	169	189	211
Net profit (adj.)	177	169	189	211

Balance Sheet

Year to 31 Mar (S$m)	2026	2027F	2028F	2029F
Fixed assets	363	446	464	481
Other LT assets	943	965	989	1,016
Cash/ST investment	565	518	532	560
Other current assets	400	390	401	413
Total assets	2,271	2,320	2,387	2,470
ST debt	33	30	30	30
Other current liabilities	331	272	276	284
LT debt	129	190	190	190
Other LT liabilities	1	1	1	1
Shareholders' equity	1,755	1,801	1,862	1,933
Minority interest	23	26	29	32
Total liabilities & equity	2,271	2,320	2,387	2,470

Cash flow

Year to 31 Mar (S$m)	2026	2027F	2028F	2029F
Operating	26	64	119	129
Pre-tax profit	179	185	209	232
Tax	(2)	(13)	(16)	(18)
Deprec. & amort.	67	75	77	79
Associates	(79)	(120)	(114)	(101)
Working capital changes	(79)	(49)	(7)	(4)
Non-cash items	11	0	0	0
Other operating cashflows	(71)	(13)	(29)	(60)
Investing	15	60	69	85
Capex	0	0	0	0
Investment	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	15	60	69	85
Financing	(139)	(171)	(174)	(187)
Dividend payments	(107)	(123)	(129)	(140)
Proceeds from borrowings	2	0	0	0
Loan repayment	(1)	(5)	0	0
Others/interest paid	(34)	(42)	(46)	(47)
Net cash inflow (outflow)	(98)	(47)	14	27
Beginning cash & cash equiv.	663	565	518	532
Changes due to forex impact	(1)	0	0	0
Ending cash & cash equiv.	565	518	532	560

Key Metric

Year to 31 Mar (S$m)	2026	2027F	2028F	2029F
Profitability				
EBITDA margin	6.8	9.5	10.3	10.5
Pre-tax margin	12.6	13.9	15.1	16.1
Net margin	11.9	12.7	13.7	14.7
ROA	7.7	7.4	8.0	8.7
ROE	9.7	9.5	10.3	11.1
Growth (% yoy)				
Turnover	14.3	(6.5)	4.0	4.0
EBITDA	23.1	31.3	13.0	5.3
Pre-tax profit	21.7	3.3	12.7	11.1
Net profit	21.0	(0.0)	12.1	11.5
Net profit (adj.)	25.9	(4.8)	12.1	11.5
EPS	26.0	(4.8)	12.1	11.5
Leverage				
Debt to total capital	8.3	10.7	10.4	10.1
Debt to equity	9.1	12.0	11.6	11.2
Net debt/(cash) to equity	(31.5)	(28.3)	(28.2)	(28.5)

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