

19 September 2013 | 8 pages

Airlines (GICS) | Airlines (Citi)
Asia | Singapore

Singapore Airlines (SIAL.SI)

Alert: India Full Service Airline JV Announced with Tata Sons

- Singapore Airlines announced that it has signed a Memorandum of Understanding (MoU) with Tata Sons to establish a new full service carrier (FSC) in India. According to the release, Tata Sons will own 51% and SIA will own 49%. The initial board composition has three members – two from Tata Sons and one from SIA, with Mr. Prasad Menon (Tata Sons' nominee) as the Chairman.
- Our understanding is that the SIA/Tata operation will be based out of Delhi and initially focus on the domestic market (with potential for international expansion following subsequent regulatory approval). At this point, Singapore Airlines is only beginning the application process for its Foreign Investment Promotion Board (FIPB) and we believe it may take between 12-24 months for the operation to realistically get off the ground (taking into account a number of hurdles and issues regarding aircraft, management, etc).
- Meanwhile, we believe Tata is still partnering with AirAsia on its India LCC venture (which has already received its FIPB and likely its AOC in the near term), which may lead to some conflicts of interest over time but remains unclear at this early stage. During its most recent earnings call, AirAsia Group CEO, Tony Fernandes, highlighted its continued interest in establishing the India entity (based out of Chennai) and growing that footprint as part of the broader group strategy.
- Directionally, we view the development as a long-term negative for the Indian market. The industry has been in consolidation mode there for the past 12 months after being oversupplied for the preceding five years. For the next 12 months, we don't expect this situation to reverse, nor do we think the industry can absorb two more airlines – especially not another full service carrier in what's essentially a low-fare (but not low cost) short-haul market.
- At present, the market share is fragmented across five carriers: Indigo (30%), Jet+JetLite (~23%), SpiceJet (20%), Indian Airlines / Air India (~17%), Go Air (~9%) and, if both airlines commence operations, market share fragmentation could continue (see the current share split below), impacting pricing and yields. We also await details on the finalization of Jet's transaction with Etihad.

Sell	3
Price (19 Sep 13)	S\$10.47
Target price	S\$9.40
Expected share price return	-10.2%
Expected dividend yield	1.9%
Expected total return	-8.3%
Market Cap	S\$12,562M
	US\$10,079M

Price Performance (RIC: SIAL.SI, BB: SIA SP)



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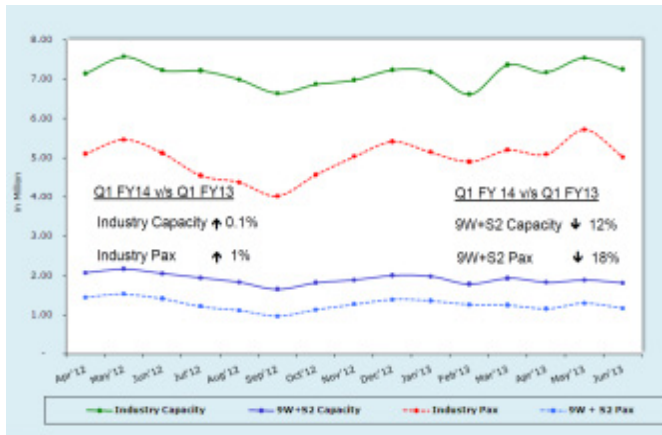
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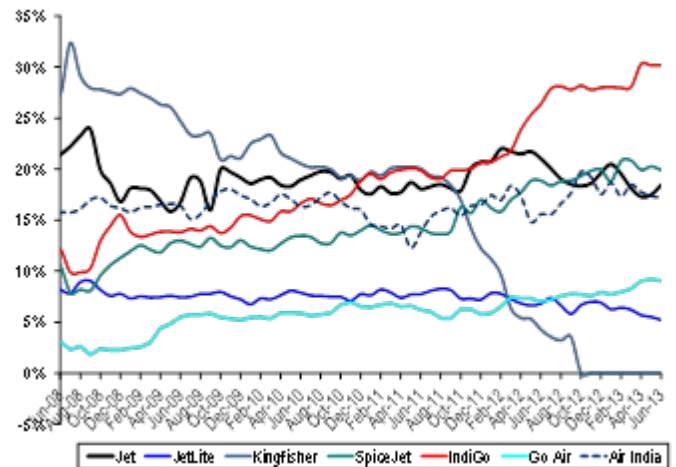
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Figure 1. Domestic Aviation Industry vs Jet Airways Capacity in 1QFY14



Source: Jet Airways; Citi Research

Figure 2. Market Share Trend of India Domestic Airline Operators



Source: DGCA; Citi Research

Singapore Airlines

Valuation

Our target price for SIA is S\$9.40, based on 0.85x FY13E P/B. We expect SIA shares to break the 1x P/B support level and de-rate as the market realizes the severity of the challenges SIA is facing, which may lead to ROE entering a structurally lower tier. Our target multiple of 0.85x is 0.75x s.d. below the mean to reflect SIA's challenges and low ROE. Our valuation discount of 0.75x s.d. below the mean for SIA is wider than that for Cathay Pacific (we are valuing CX at 0.5x s.d. below the mean) due to stronger headwinds affecting SIA compared to CX.

Risks

Key downside and upside risks that could impede the stock from achieving our target price include: 1) A sharp increase (correction) in jet fuel prices would be negative (positive) for operating costs; 2) Travel demand - changes in traffic and yield outlook impacts revenues and earnings; 3) Competition; 4) Currency exposures; 5) Capital management/dividend policy; 6) Divestment of SIA Engineering (management currently deems this unlikely); 7) M&A (may or may not prove value accretive and could impact SIA's strategic position); and 8) Market liquidity and investor risk appetite.

Appendix A-1

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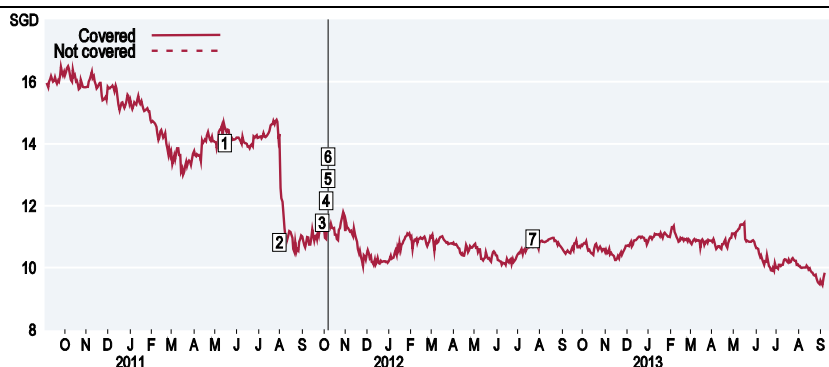
Singapore Airlines (SIAL.SI)

Ratings and Target Price History

Fundamental Research

Analyst: Vivian Tao

Covered since March 15 2013



	Date	Rating	Target Price	Closing Price
1	15-May-11	*3L	*13.90	14.66
2	1-Aug-11	3L	*12.00	14.32
3	29-Sep-11	3L	*10.70	11.42

* Indicates change

	Date	Rating	Target Price	Closing Price
4	5-Oct-11	3L	*10.40	10.93
5	7-Oct-11	Stock rating system changed		
6	7-Oct-11	*3	10.40	11.45

	Date	Rating	Target Price	Closing Price
7	23-Jul-12	3	*9.40	10.80

Rating/target price changes above reflect Eastern Standard Time

Singapore Airlines (SIAL.SI)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Vivian Tao

Covered since March 15 2013



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Data current as of 30 Jun 2013

	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
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% of companies in each rating category that are investment banking clients	53%	50%	45%	58%	51%	49%

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