17th July 2020

SIA ENGINEERING GROUP BUSINESS UPDATES FOR 1ST QUARTER FY2020/21

BUSINESS UPDATES

The impact of the COVID-19 pandemic on the aviation industry was severely felt in this quarter when flight frequencies handled by the Group hit a historical low.

As most border controls and travel restrictions around the world stayed in force, international air travel came virtually to a standstill with many aircraft fleets still grounded. The impact was felt across all our business segments. At our Singapore base, the number of flights handled in the quarter was only about 13% of what we used to handle pre-COVID-19. Our base maintenance unit had fewer airframe overhaul checks while airline customers under our fleet management business saw significant reduction in flying hours. Work volume at our engine and component joint venture companies also slowed as decreased flying hours resulted in extension of maintenance intervals.

Financially, the impact of the pandemic has been cushioned by the government's wage support under the Job Support Scheme (JSS), which has been increased to 75% in May 2020 for the aerospace MRO operators.

Steps have been taken to safe-guard the long-term sustainability of the Group's businesses during and post-COVID-19. During the Circuit Breaker period imposed by the Singapore government in April and May 2020, the Group's businesses in Singapore continued to operate as essential service providers to support our airline customers. To ensure the safety and health of our staff as well as customers, we rolled out comprehensive safe management measures at the workplace in compliance with advisories from various government ministries. Digital solutions and the necessary IT support have empowered most of our support staff to remain connected and provide full support to operations while telecommuting. Robust cyber security and data protection measures have been continually updated to protect our IT systems.

The Group continued to proactively monitor the situation and stay nimble to adjust our response to the evolving situation. Staff were redeployed to areas with work demand, such as aircraft disinfection and preservation maintenance to ensure that airline customers' cabin products are maintained in top condition and the aircraft remain airworthy. We actively engaged our airline customers to bring forward some maintenance checks.

Measures taken in previous months have continued, including Management pay cuts, a 25% reduction in Board of Directors' fees, voluntary and compulsory no-pay leave, and furlough for staff on re-employment contracts. Given the severity of the Covid-19 impact, the Group will further tighten cost management. We will stay disciplined in reducing operating costs and deferring non-critical capital expenditure to conserve cash and maintain liquidity. Plant shutdown was also implemented at some of the engine and component joint ventures on specific days, in response to slow work volume, to reduce operating cost.

While flight activities have started to pick up in June, the increase was not material. With no clear signs of stronger pickup in flight frequencies, the outlook for our MRO business will be challenging.

Notwithstanding the immediate challenges, we will continue to press on with our transformation efforts, with focus on pervasive use of digital technology, continuous improvement in processes and capability expansion. The close monitoring and review of our portfolio of joint ventures will continue under the current environment to ensure long-term sustainability of our portfolio. At the same time, with our relatively healthy balance sheet and low borrowing, we will continue to seek out new opportunities that will strengthen the Group's capabilities and competitiveness.

GROUP FINANCIAL PERFORMANCE

The Group recorded a revenue of $118.5 million for the first quarter of FY2020/21, $139.6 million lower year-on-year (-54.1%). With cost measures implemented and grants from government support schemes, the Group expenditure was down $113.3 million (-47.1%). Consequently, the Group incurred an operating loss of $8.6 million compared to an operating profit of $17.7 million in the same quarter last year.

Share of profits of associated and joint venture companies was $13.7 million, a reduction of $12.3 million (-47.3%) year-on-year. Contributions from associated and joint venture companies were similarly impacted by reduction in flying hours and extended maintenance intervals, partially offset by cost saving measures and government support.

Net profit was $10.7 million for the quarter ended 30 June 2020, 74.3% lower than the same quarter last year.

The adverse impact of COVID-19 on the Group's financial performance for the first quarter was cushioned by grants from government support schemes; most significantly, the Jobs Support Scheme (JSS). Without this support, the Group would have recorded a loss of $36.7 million. Under the Fortitude Budget, JSS has been increased to 75% for the aerospace MRO operators. We have applied the guidance by the Institute of Singapore Chartered Accountants on the accounting recognition of the JSS government grants to accrue JSS grants over the period of March 2020 to December 2020.

As at 30 June 2020, equity attributable to owners of the parent was $1,630.0 million, comparable to 31 March 2020.

Total assets stood at $2,018.7 million as of 30 June 2020, an increase of $13.2 million. The Group maintains a strong cash balance of $562.6 million with low borrowings. The Group will continue to monitor the situation closely and practice prudence in our cash management.

Basic earnings per share and net asset value per share as at 30 June 2020 was 0.96 cents and 145.5 cents respectively.

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GROUP FINANCIAL STATISTICS

	1Q20/21 ($'M)	1Q19/20 ($'M)	Change (%)
Financial Results			
Revenue	118.5	258.1	-54.1
Operating (loss)/profit	(8.6)	17.7	n.m.
Share of profits of associated and joint venture companies, net of tax	13.7	26.0	-47.3
Net profit	10.7	41.6	-74.3
Per Share Data			
Earnings after tax (cents) - basic [R1]	0.96	3.72	-74.2
- diluted [R2]	0.95	3.71	-74.4

n.m. – not meaningful

	As at 30 Jun 2020 ($'M)	As at 31 Mar 2020 ($'M)	Change (%)
Financial Position			
Share capital	420.0	420.0	-
Treasury shares	(13.7)	(13.7)	-
Capital reserve	2.8	2.8	-
Share-based compensation reserve	6.4	5.4	+18.5
Foreign currency translation reserve	2.4	16.0	-85.0
Fair value reserve	(5.6)	(8.7)	-35.6
Equity transaction reserve	(4.5)	(4.5)	-
General reserve	1,222.2	1,211.5	+0.9
Equity attributable to owners of the parent	1,630.0	1,628.8	+0.1
Cash and bank balances	562.6	519.7	+8.3
Receivables [R3]	394.6	400.1	-1.4
Total assets	2,018.7	2,005.5	+0.7
Total liabilities	361.1	344.5	+4.8
Net asset value per share (cents) [R4]	145.5	145.4	+0.1
Return on equity holders' funds (%) [R5]	10.2%	12.3%	-2.1 ppt

COMPANY OPERATING STATISTICS AT SINGAPORE BASE

	1Q20/21	1Q19/20	Change (%)
Flights handled at Changi Airport by line maintenance	4,952	38,319	-87.1
Number of heavy checks performed at Singapore base	15	20	-25.0
Number of light checks performed at Singapore base	54	121	-55.4
Fleet size managed by fleet management business	86	84	+2.4

R1 Earnings after tax per share (basic) is computed by dividing profit attributable to owners of the parent by the weighted average number of ordinary shares in issue less treasury shares.

R2 Earnings after tax per share (diluted) is computed by dividing profit attributable to owners of the parent by the weighted average number of ordinary shares in issue less treasury shares, after adjusting for the dilutive effect on the vesting of all outstanding performance shares, restricted shares and deferred shares granted to employees.

R3 Receivables comprises trade debtors, contract assets, amount owing by immediate holding company and amounts owing by related parties.

R4 Net asset value per share is computed by dividing equity attributable to owners of the parent by the number of ordinary shares in issue less treasury shares.

R5 Return of equity holders' funds is profit attributable to the Company expressed as a percentage of the average equity holders' funds.