Singapore Industry Focus

Singapore Aviation

Refer to important disclosures at the end of this report

DBS Group Research . Equity

14 Jan 2026

Aviation tailwinds intact, upside lies upstream

- Constructive sector stance underpinned by firm passenger and air cargo volume growth into 2026
- Passenger yield pressure is expected to linger but ease, while rising traffic volumes support aviation service providers' earnings
- Supply constraints are progressively abating but remain entrenched, limiting near-term fleet renewal and sustaining MRO demand
- Still prefer upstream names at this juncture; STE and SATS are our top picks; downgrade SIAEC to HOLD

Sector fundamentals remain favourable in 2026. Singapore's aviation sector held up well in 2025, with global passenger traffic (+5.2% y/y) and air cargo volumes (+3.1% y/y) expanding despite softer consumer sentiment, geopolitical tensions and trade uncertainty. However, APAC airlines, including SIA, underperformed due to sharper passenger yield compression amid intense regional competition. The outlook for 2026 remains constructive, with passenger traffic expected to continue outpacing GDP growth at +4.9% y/y even as the cycle matures. Supply constraints remain a key feature, with aircraft delivery delays keeping the global fleet older and more heavily utilised, supporting MRO demand, while new-generation engine durability issues and spare-parts shortages further lift maintenance intensity. Passenger yield pressure in the region is expected to persist into 2026, though at a more gradual pace than in 2025. Air cargo demand is expected to significantly outstrip global trade volumes at +2.6% y/y in 2026, supported by adaptive trade flows and robust demand for higher-value shipments such as AI-related hardware and e-commerce. Meanwhile, global defence spending has shifted onto a structurally higher trajectory as geopolitical fragmentation and security priorities increasingly dominate fiscal planning, reinforcing order and revenue visibility across the sector.

Upstream aviation and defence are still the clearer winners at this stage of the cycle. Despite solid returns in 2025, we continue to favour upstream aviation and defence over airlines, where earnings visibility and risk–reward remain superior. Airlines in APAC remain constrained by yield pressure, as elevated capacity growth continues to cap profitability. Contrarily, service providers benefit from structurally positive fundamentals tied to fleet age, utilisation and defence spending rather than fare pricing. **ST Engineering and SATS are our top picks, supported by more robust and visible earnings trajectories**. We also like **China Aviation Oil**, which offers a value-unlocking narrative with stronger capital return potential. **We downgrade SIA Engineering to HOLD** due to limited upside and execution risks around the path to profitability in its engine and components segment. We stay neutral on **Singapore Airlines**, given persistent competitive intensity in APAC and drag from Air India at the associate level.

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STOCKS

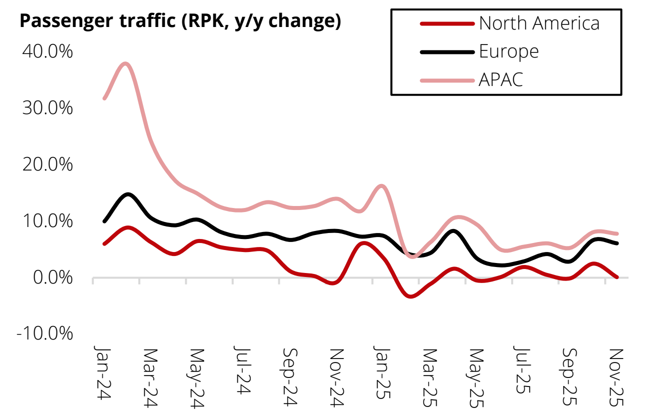
	Price SGD	Mkt Cap USDmn	12-mth Target Price SGD	Performance (%) 3 mth	12 mth	Rating
ST Engineering	9.25	22,386	10.20	9.2	100.7	BUY
SATS Ltd	3.81	4,398	4.40	9.8	6.1	BUY
SIA Engineering	3.68	3,199	4.00	4.8	57.9	HOLD
China Aviation Oil	1.74	1,163	1.75	35.9	90.2	BUY
Singapore Airlines	6.4	15,680	6.50	-2.6	1.7	HOLD

Source: DBS, Bloomberg
Closing price as of 13 Jan 2026

Global air passenger traffic continues to grow at a healthy pace, with regional divergence driven by differences in macro conditions. In 2025, global passenger traffic measured in RPK is estimated to have grown by 5.2% y/y. Asia Pacific leads growth at 8.0% y/y, supported by relatively resilient GDP growth across the region despite elevated trade tensions and policy uncertainty. Europe is expanding at a mid-single-digit pace of 5.0% y/y, constrained by weaker economic growth and tight financial conditions. North America materially underperforms, with passenger traffic up just 0.2% y/y, as softer consumer sentiment and trade-related uncertainty weigh on discretionary travel in the domestic market.

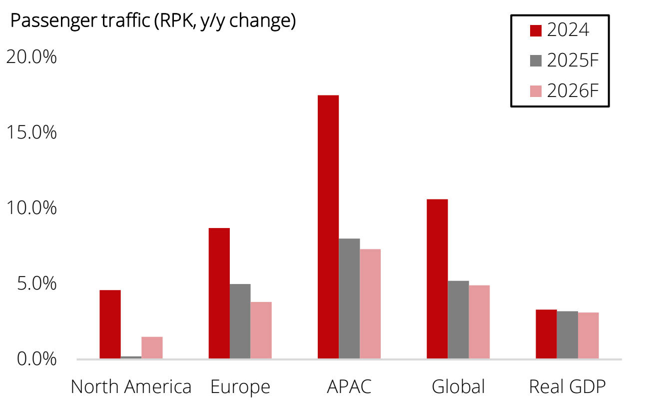
Looking ahead, consumer sentiment surveys bode well for air travel demand in 2026. A recent Skyscanner survey shows that 84% of respondents plan to travel the same or more next year. Consistent with this, global passenger traffic growth is forecast to ease slightly to 4.9% y/y in 2026, still outpacing expected global GDP growth of around 3.1% y/y. Asia Pacific is expected to remain the fastest-growing region at 7.3% y/y, while Europe slows to 3.8% y/y. Meanwhile, North America is projected to improve modestly to 1.5% y/y as domestic demand stabilises.

Diverging pax growth trends across the three regions



Source: IATA, DBS

Passenger traffic growth outlook remains upbeat, with North America rebounding in 2026



Source: IATA, DBS

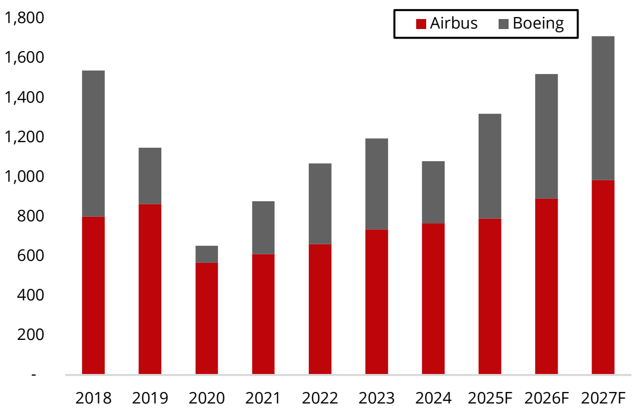
Ongoing aircraft delivery delays are driving an ageing and more intensively utilised global fleet, which is structurally positive for MRO demand but restrictive for passenger-to-freighter P2F conversions. While Boeing has made progress in improving production stability, the broader aerospace supply chain remains fragile. This is evident in Airbus cutting its 2025 delivery target to around 790 aircraft from a previous expectation of 820, underscoring that industry output remains insufficient to meet fleet replacement needs. The impact is already visible, with the global fleet now nearly two years older on average than in 2019, versus around one year had expected deliveries materialised.

Limited delivery availability has kept aircraft retirements unusually low. Airlines have responded by extending fleet service lives and maximising utilisation, with flight hours having largely normalised despite a constrained fleet. As a result, aircraft are being flown through more hours and cycles than originally planned. For MRO providers, the combination of older fleets and higher utilisation is particularly supportive, as it accelerates wear and tear, increases inspection frequency and raises the incidence of non-routine findings, translating into stronger demand for airframe checks, component repairs and engine shop visits, with maintenance activity becoming less deferrable over time.

Conversely, supply constraints are weighing on the P2F conversion market, particularly for widebody programmes. Narrowbody P2F activity has also slowed sharply, but for different reasons: narrowbody retirements remain broadly in line with pre-pandemic levels, but an oversupply of narrowbody freighters has weakened economics, prompting operators to defer or cancel conversion plans.

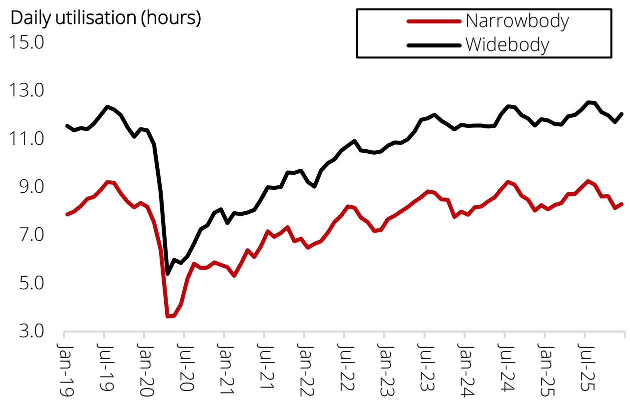
Looking ahead, even if Airbus and Boeing ramp up deliveries over 2026–2027, most new aircraft are likely to be absorbed by overdue fleet replacement. Persistent new-generation engine durability issues, spare-parts constraints and high utilisation levels should sustain elevated maintenance intensity and MRO demand over the next few years, even as the global fleet age begins to edge down.

Aircraft deliveries should continue rising in 2026, but will likely still fall short of 2018 levels



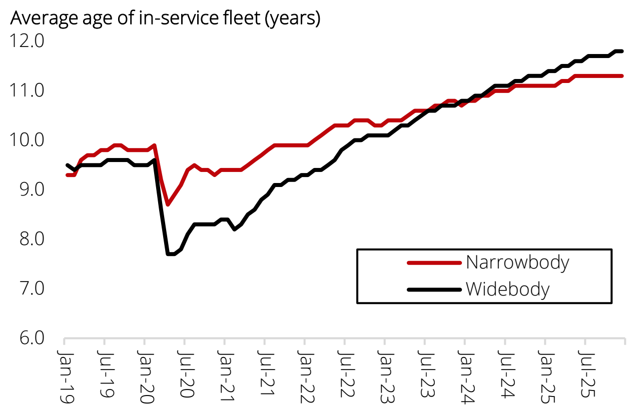
Source: Airbus, Boeing, DBS

Global aircraft utilisation is steadily climbing higher, with widebody aircraft at c.105% of 2019 levels



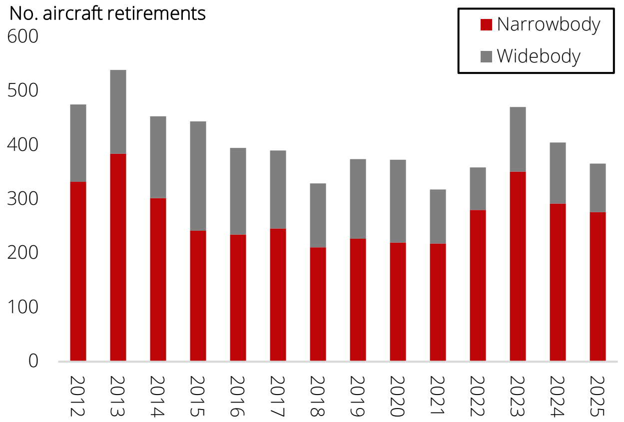
Source: Cirium, DBS

Global in-service fleet continued to age in 2025



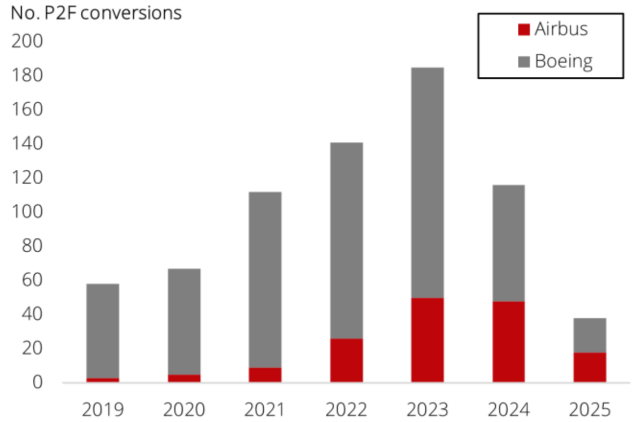
Source: Cirium, DBS

Aircraft retirements declined over 2023-2025, but are likely to pick up from 2026



Source: Cirium, DBS

Narrowbody P2F conversions plunged in 2025 amid narrowbody overcapacity



Source: Cirium, DBS

Global MRO sector enjoyed solid mid-teens revenue growth over the past few quarters

Revenue growth (y/y change)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25
Lufthansa Technik	60.0%	42.5%	38.2%	22.3%	15.9%	25.8%	18.6%	12.8%	10.9%	13.7%	9.0%	13.1%	18.4%	8.1%	5.7%
MTU Aero Engines	20.8%	32.3%	41.8%	33.0%	24.7%	18.8%	10.0%	14.9%	11.8%	9.7%	24.2%	33.3%	33.3%	9.9%	17.9%
StandardAero									7.2%	16.4%	13.2%	21.7%	16.2%	13.5%	20.4%
Air France E&M	33.6%	34.0%	17.5%	27.9%	11.4%	15.8%	27.5%	18.7%	32.1%	13.9%	17.0%	18.2%	15.4%	14.6%	10.2%
ST Engineering	22.1%	25.0%	27.8%	12.3%	29.5%	34.7%	26.5%	31.7%	32.0%	9.8%	7.3%	3.0%	0.1%	10.7%	22.0%
SIAEC	40.9%	36.9%	38.0%	48.6%	38.8%	52.7%	32.2%	40.2%	27.8%	2.6%	22.0%	11.3%	19.3%	33.4%	20.5%
HAECO	21.4%	21.4%	19.9%	19.9%	29.1%	29.1%	28.2%	28.2%	23.4%	23.4%	20.3%	20.3%	3.5%	3.5%	NA
AAR	10.2%	8.8%	-1.9%	7.6%	15.2%	16.2%	23.2%	16.1%	8.9%	18.7%	20.4%	25.8%	19.5%	14.9%	11.8%
Turkish Technic	20.0%	46.5%	39.4%	67.8%	39.5%	16.3%	24.6%	17.0%	20.5%	19.6%	6.1%	29.4%	17.9%	36.6%	25.0%
Average	**28.6%**	**30.9%**	**27.6%**	**29.9%**	**25.5%**	**26.2%**	**23.8%**	**22.4%**	**19.4%**	**14.2%**	**15.5%**	**19.6%**	**15.9%**	**16.1%**	**16.7%**

Source: Companies, DBS

Improved pricing, operating leverage and easing supply chain constraints support margin expansion

EBIT margin	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25
Lufthansa Technik	9.7%	8.9%	13.2%	8.1%	8.8%	9.8%	10.0%	9.8%	6.3%	10.9%	9.1%	7.6%	8.0%	7.6%	6.7%
MTU Aero Engines	6.5%	8.0%	7.7%	4.4%	6.9%	6.7%	7.9%	9.5%	7.7%	8.1%	9.3%	9.3%	8.2%	9.1%	7.6%
StandardAero					8.0%	8.1%	6.8%	6.9%	8.5%	7.8%	8.0%	6.7%	9.0%	8.9%	8.9%
Air France E&M	5.2%	6.3%	5.8%	1.6%	1.6%	4.4%	6.0%	2.2%	2.3%	3.2%	4.6%	3.3%	4.6%	5.1%	6.3%
ST Engineering	7.3%	7.3%	6.0%	6.0%	8.3%	8.3%	6.3%	6.3%	7.1%	7.1%	8.5%	8.5%	8.0%	8.0%	NA
SIAEC	-4.5%	-2.3%	-3.6%	-6.0%	-1.3%	0.2%	-0.1%	-1.2%	1.9%	0.4%	0.8%	1.4%	1.9%	1.4%	2.1%
HAECO	2.9%	2.9%	1.1%	1.1%	2.3%	2.3%	4.8%	4.8%	5.0%	5.0%	2.0%	2.0%	6.6%	6.6%	NA
AAR	6.9%	7.2%	7.1%	7.0%	6.9%	6.7%	6.8%	7.2%	8.0%	8.2%	6.4%	-0.5%	9.5%	11.1%	9.7%
Average	**4.9%**	**5.4%**	**5.3%**	**3.2%**	**5.2%**	**5.8%**	**6.1%**	**5.7%**	**5.9%**	**6.3%**	**6.1%**	**4.8%**	**7.0%**	**7.2%**	**6.9%**

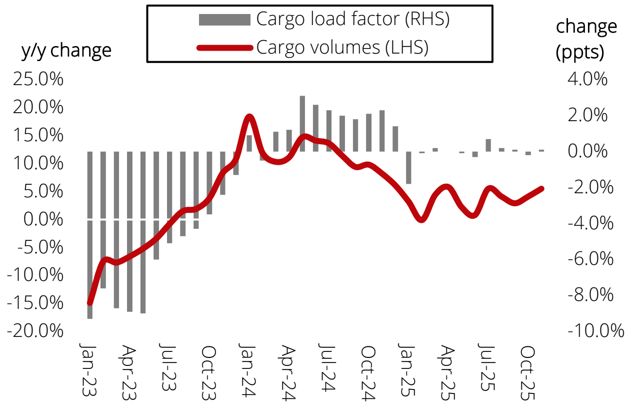
Source: Companies, DBS

Note: HAECO and ST Engineering report operating profit on a semi-annual basis. Turkish Technic is omitted from the margin analysis table as its operating margins are highly volatile, driven primarily by FX movements.

Global air cargo demand has remained resilient despite elevated trade tensions and policy uncertainty, providing a solid base for steady growth into 2026 even as global trade decelerates. In 2025, global air cargo volumes measured in CTK surprised on the upside, and is expected to grow by 3.1% y/y despite the removal of the US de minimis trade exemption and heightened trade uncertainty. While part of this strength reflected trade front-loading ahead of policy changes, flows proved highly fluid, with effective rerouting and diversion limiting disruption. Importantly, concerns around a subsequent inventory correction in the US appear overblown. The US inventory-to-sales ratio has generally remained stable since Jan-25, suggesting consumption has largely kept pace with front-loaded imports and reducing the risk of a broad destocking cycle weighing on air cargo demand.

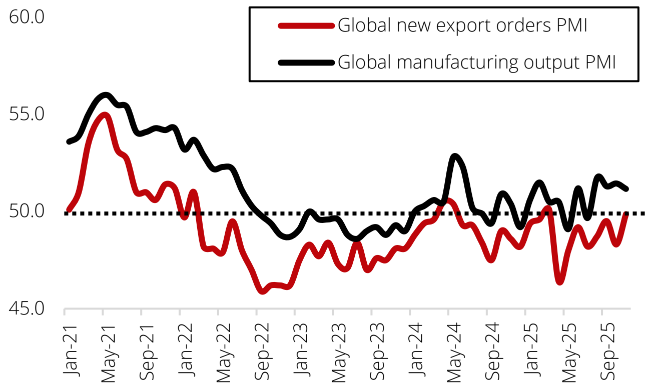
Looking ahead, IATA projects global air cargo volumes to grow around 2.6% y/y in 2026, materially outpacing forecast world merchandise trade growth of just 0.5% y/y, even as the delayed impact of front-loading continues to unwind. Some modal reversion from air to sea is possible as Red Sea disruptions ease and sea freight rates remain low. However, this is expected to be offset by structurally supportive demand from key verticals, including AI-related hardware such as semiconductors and data centre servers, as well as cross-border e-commerce. In addition, manufacturing diversification beyond China is lengthening supply chains, increasing average haul lengths and supporting air cargo demand. While the EU de minimis exemption is under review, any changes enacted in 2026 are likely to be less onerous than the US framework and should have a limited impact on e-commerce volumes into Europe.

Global air cargo volumes held steady in 2025



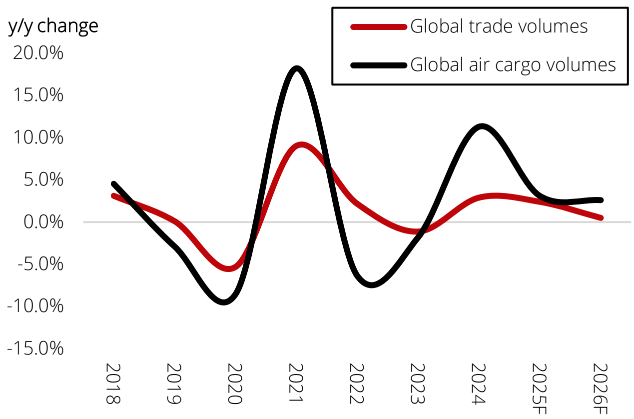
Source: IATA, DBS

Global manufacturing PMI holding above 50; new export orders PMI gradually trending higher from April-25



Source: S&P Global, DBS

Global air cargo volumes to grow at a considerably faster rate vs global trade in 2026



Source: WTO, IATA, DBS

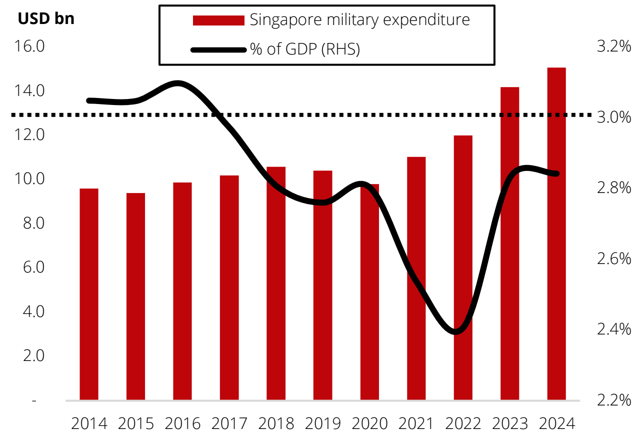
Global defence spending is shifting structurally higher as the post-Cold War security order continues to unravel. Over the past few years, this shift has been laid bare by Russia's invasion of Ukraine, chronic instability across the Middle East, rising cross-strait tensions in Asia, and the erosion of trade and economic interdependence as credible deterrents. Recent US actions, including the controversial seizure of Venezuela's leadership and renewed rhetoric around asserting control over Greenland, a NATO-linked territory, are likely to materially fan the flames.

President Trump proposed raising US defence spending to as much as USD1.5tn by 2027, implying a roughly 50% increase from current levels. While the feasibility of an increase of this magnitude within two years remains uncertain given fiscal constraints and the limited contribution of tariff revenues, the proposal nevertheless reflects a renewed emphasis on military primacy and deterrence in US policy thinking. Even if headline spending ultimately falls short of this target, the direction of travel points to sustained upward pressure on defence outlays, reinforcing the broader global shift toward structurally higher defence spending.

In Singapore, defence spending is rising, but in a controlled and deliberate manner anchored to long-term fiscal discipline. FY25 marks a temporary step-up, with defence expenditure projected to increase 12.4% y/y to around SGD23.4bn, reflecting the catch-up of projects deferred by COVID-19 and supply chain disruptions. From FY26 onwards, spending growth is expected to taper, with defence outlays targeted to remain broadly within 3% of GDP over the next decade, vs c.2.8% in 2024. This implies low to mid-single-digit growth over the medium term, while preserving flexibility to scale up if the external security environment deteriorates.

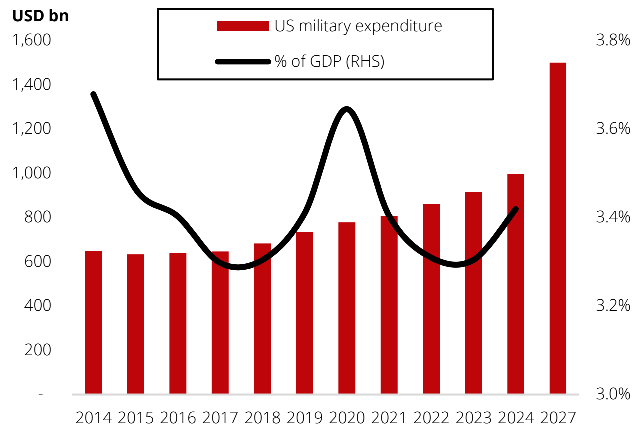
Europe remains the most important source of incremental momentum globally. Governments across the region are now working towards materially higher defence spending thresholds, including allocating up to 3.5% of GDP to core military requirements, up from 2.0% in 2024, reflecting heightened threat perceptions, diminished confidence in external security guarantees, and the need to modernise forces and rebuild depleted inventories. However, Europe's ability to scale domestic defence production rapidly is constrained by fragmented supply chains, labour shortages, regulatory complexity and long lead times for complex systems. As a result, the region is likely to remain reliant on imports over the medium term, while actively broadening its supplier base beyond traditional US primes amid concerns over policy unpredictability, creating opportunities for defence manufacturers across a wider group of allied countries.

Singapore retains some headroom within defence spending cap



Source: SIPRI, DBS

Proposed 50% increase in US defence spending would lift outlays to 4.5–5% of GDP, highest level since the 1990s



Source: SIPRI, DBS

Growing reliance on US arms highlights supply concentration risk

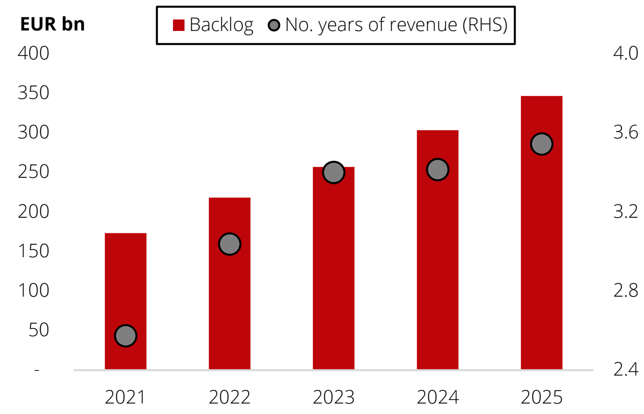
Exporter	Share of global arms exports	
	2015-2019	2020-2024
United States	35.0%	43.0%
France	8.6%	9.6%
Russia	21.0%	7.8%
China	6.2%	5.9%
Germany	5.7%	5.6%
Italy	2.0%	4.8%
United Kingdom	3.6%	3.6%
Israel	3.2%	3.1%
Spain	2.3%	3.0%
South Korea	2.1%	2.2%

Source: SIPRI, DBS

In the Middle East, defence spending growth continues to be driven primarily by enduring security challenges rather than episodic conflict escalation. The regional security environment remains shaped by overlapping state and non-state threats, unresolved rivalries and persistent spill-over risks, keeping defence budgets firmly oriented towards readiness and long-term capability sustainment. Alongside this, localisation is also an important second-order theme, with governments embedding defence spending into broader industrial and economic strategies. This is most explicit in Saudi Arabia, where localisation targets have been formalized (50% by 2030, up from 25% in 2024), but similar dynamics are evident across the region, including in the UAE and Qatar, where procurement frameworks increasingly prioritise in-country manufacturing, sustainment and industrial participation.

As a result, defence spending has moved onto a structurally higher path, as the global security environment has fundamentally worsened and sustained military preparedness is now viewed as a permanent requirement rather than a temporary response to conflict.

European defence contractors' backlog continues to rise



Source: Companies, DBS
Note: Based on the seven largest European defence contractors; constant FX rate assumed for backlog aggregation; 2025 figures reflect latest available company disclosures.

Raising military spending to 2.5% by 2027 would imply a low-teens CAGR over 2024-2027F in Europe

Country	Military spending in USD bn (2024)	% of GDP	Share of govt spending	Military spending in USD bn (2027)	% of GDP	Three-year CAGR
Belgium	8.6	1.3%	2.4%			
Bulgaria	2.3	2.1%	5.5%			
Croatia	1.6	1.8%	3.8%			
Czechia	6.5	1.9%	4.3%			
Denmark	10.0	2.4%	5.1%			
Estonia	1.4	3.4%	7.5%			
Finland	7.0	2.3%	4.1%			
France	64.7	2.1%	3.6%			
Germany	88.5	1.9%	3.9%			
Greece	8.0	3.1%	6.6%			
Hungary	4.7	2.2%	4.4%			
Italy	38.0	1.6%	3.2%			
Latvia	1.4	3.3%	7.5%			
Lithuania	2.6	3.1%	7.9%			
Luxembourg	0.9	1.0%	2.0%			
Netherlands	23.2	1.9%	4.3%			
Poland	38.0	4.2%	8.5%			
Portugal	4.6	1.5%	3.6%			
Romania	8.7	2.3%	5.9%			
Slovakia	2.8	2.0%	4.3%			
Slovenia	1.0	1.3%	2.7%			
Spain	24.6	1.4%	3.2%			
Sweden	12.0	2.0%	4.1%			
Subtotal EU NATO	361.2	2.0%		501.3	2.5%	11.5%
Albania	0.5	2.0%	6.6%			
Iceland						
North Macedonia	0.4	2.1%	5.5%			
Norway	10.4	2.1%	4.5%			
Montenegro	0.2	1.8%	4.2%			
United Kingdom	81.8	2.3%	5.3%			
Subtotal European NATO	454.4	2.0%		616.0	2.5%	10.7%

Source: SIPRI, IMF, DBS

Valuation and stock picks

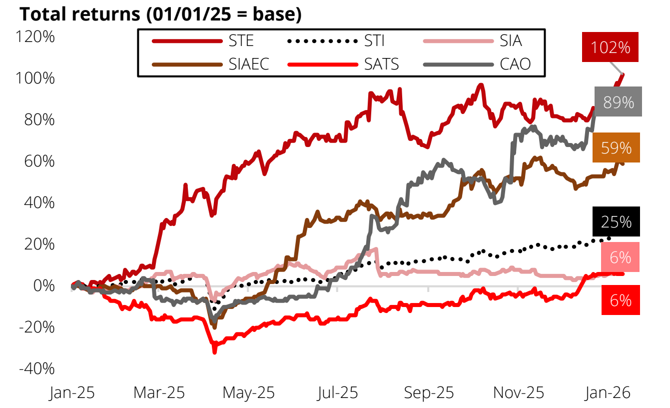
We continue to prefer upstream names and aviation service providers over airlines at this stage of the cycle, as earnings visibility and risk–reward remain more favourable. While passenger demand is healthy, airlines continue to face yield pressure, particularly in APAC where capacity growth remains elevated relative to Europe and North America, where airlines have shown greater discipline. This imbalance keeps competitive intensity high and limits margin upside for carriers in the region. By contrast, upstream players such as MROs and aviation service providers like SATS are primarily driven by traffic volumes rather than fare pricing, and benefit from structural tailwinds that are less sensitive to airline competition. Our current pecking order is STE > SATS > CAO; downgrade SIAEC to HOLD, remain neutral on SIA.

ST Engineering (BUY, TP: SGD10.20): Despite the share price rally post-upgrade, STE remains our top pick, with earnings growth set to accelerate in 2026. Key drivers include robust commercial aerospace demand, rising LEAP engine MRO activity, margin-accretive capacity redeployment toward airframe MRO, and the removal of the satcom drag. Upside risk remains from potential international defence contract wins in 2026, supported by structurally higher defence spending and a record order backlog. We raise our TP to SGD10.20 from SGD9.40 on sector multiple expansion and updated DCF assumptions.

SATS Ltd (BUY, TP: SGD4.40): We raise our FY27/28F earnings estimates by 5–6% on a more constructive air cargo outlook and lift our TP to SGD4.40, factoring our positive earnings revisions and a higher multiple. Despite the recent strong share price performance, risk–reward remains attractive, as valuation at -1SD is still undemanding relative to the group's earnings trajectory. We believe consensus continues to underestimate earnings into FY27F, particularly the scale of cargo tonnage growth over the next two years and the resulting margin expansion as volumes scale, assuming no material macroeconomic deterioration.

China Aviation Oil (BUY, TP: SGD1.75): CAO's earnings outlook remains constructive, driven by healthy China airline international capacity growth, narrowing crude oil backwardation and wide regional product price differentials. However, following the strong share price performance since our Oct-25 initiation, further upside is increasingly execution-driven, with a clearer shift in capital allocation the key swing factor. Valuation remains undemanding at 6.4x forward ex-cash P/E, which should limit downside.

Upstream names largely outperformed the STI in 2025



Source: Bloomberg, DBS

We expect STE and SATS to outgrow peers over 2026-2027

Company	2025 EPS (Scts)	2026 EPS (Scts)	2027 EPS (Scts)	2025-2027 CAGR	2026 P/E	2026 PEG
STE	27.5	33.5	38.7	18.6%	28.8x	1.3x
SATS*	19.4	22.9	26.6	17.1%	18.5x	1.0x
SIAEC*	15.7	17.5	20.3	13.5%	22.5x	2.0x
CAO	11.2	12.5	13.3	8.7%	11.3x	1.0x
SIA*	23.1	35.6	42.8	7.9%^	19.0x	2.4x^

*Note: * denotes FY26–28F for March year-end companies; ^ denotes EBIT CAGR instead of core EPS CAGR, as EPS growth is skewed by expectations of narrower losses at Air India, which carry elevated execution risk, PEG calculated using EBIT growth.*
Source: Bloomberg, DBS

Brent backwardation is narrowing, jet fuel spreads remain volatile amid wide regional price gaps

	3M Futures vs Spot (+ve = contango, -ve = backwardation)		Regional jet fuel price differential	
	Brent crude oil	Asia Jet Fuel	Europe vs Asia	US vs Asia
Mar-22	-4.1	-6.7	16.9	9.8
Jun-22	-4.2	-9.7	30.7	21.3
Sep-22	-4.1	-6.7	21.6	10.7
Dec-22	-1.7	-5.5	20.5	16.4
Mar-23	-0.5	-5.1	16.8	14.6
Jun-23	-0.4	0.2	11.1	3.4
Sep-23	-1.3	-5.4	17.2	7.4
Dec-23	-1.0	-3.6	16.2	3.5
Mar-24	-1.1	-1.8	18.1	9.2
Jun-24	-1.3	0.1	13.7	4.3
Sep-24	-1.3	0.0	12.0	0.8
Dec-24	-0.8	-0.8	9.4	-1.4
Mar-25	-1.2	-1.7	10.7	3.9
Jun-25	-1.5	-0.9	12.0	3.3
Sep-25	-1.3	-1.3	12.7	2.9
Dec-25	-0.7	-4.3	11.8	0.7

Source: Bloomberg, DBS

SIA Engineering (HOLD, downgrade from BUY, TP: SGD4.0): We turn neutral on SIAEC, given limited upside from current share price levels and a higher degree of execution risk. Uncertainty around the path to sustainable profitability in the engine and component segments by FY27F, alongside potential cost overruns from ongoing group-wide capacity expansion, could cause earnings to undershoot expectations. With valuation now broadly aligned with fundamentals, we downgrade the stock to HOLD.

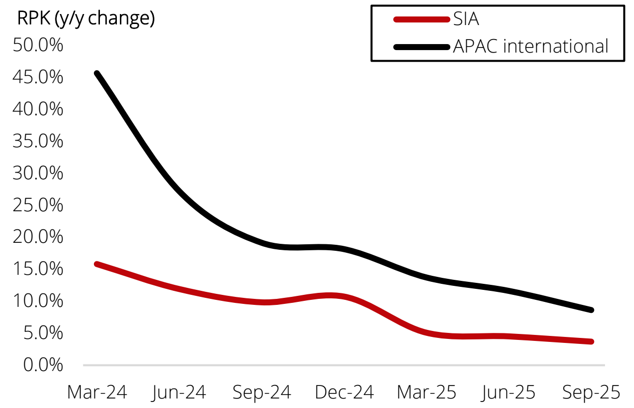
Singapore Airlines (HOLD, TP: SGD6.50): Competitive pressures are likely to continue weighing on SIA's yields in 2026, even as the pace of deterioration moderates. Capacity expansion across Southeast Asia, intensifying sixth-freedom competition from Middle Eastern carriers, and ultra-long-haul services from Qantas that bypass Singapore continue to dilute hub traffic, while air cargo yields remain capped as capacity outpaces demand. Although tighter capacity discipline at IndiGo has improved the competitive backdrop for Air India, its recovery remains uncertain amid execution and pricing risks, limiting earnings visibility.

Updated target prices and recommendations

Company	TP (Prev)	Rating (Prev)	TP (New)	Rating (New)
STE	9.4	BUY	10.2	BUY
SATS	4.0	BUY	4.4	BUY
SIAEC	4.0	BUY	4.0	HOLD
CAO	1.75	BUY	1.75	BUY
SIA	6.5	HOLD	6.5	HOLD

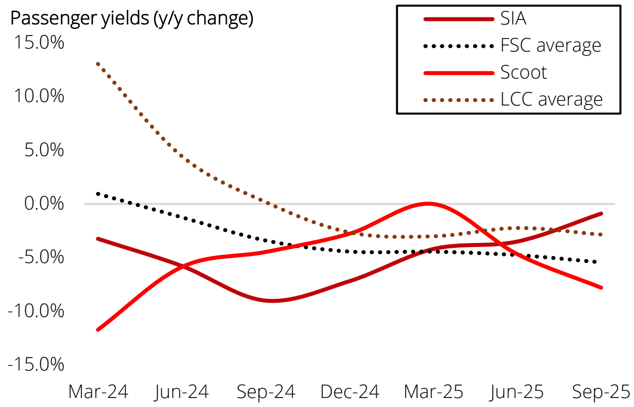
Source: DBS

SIA has been ceding market share to peers from 2023



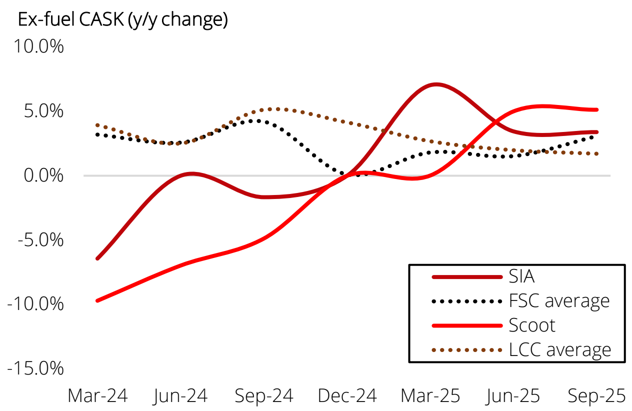
Source: Company, IATA, DBS

Pax yields continue to trend lower amid aggressive competition in APAC



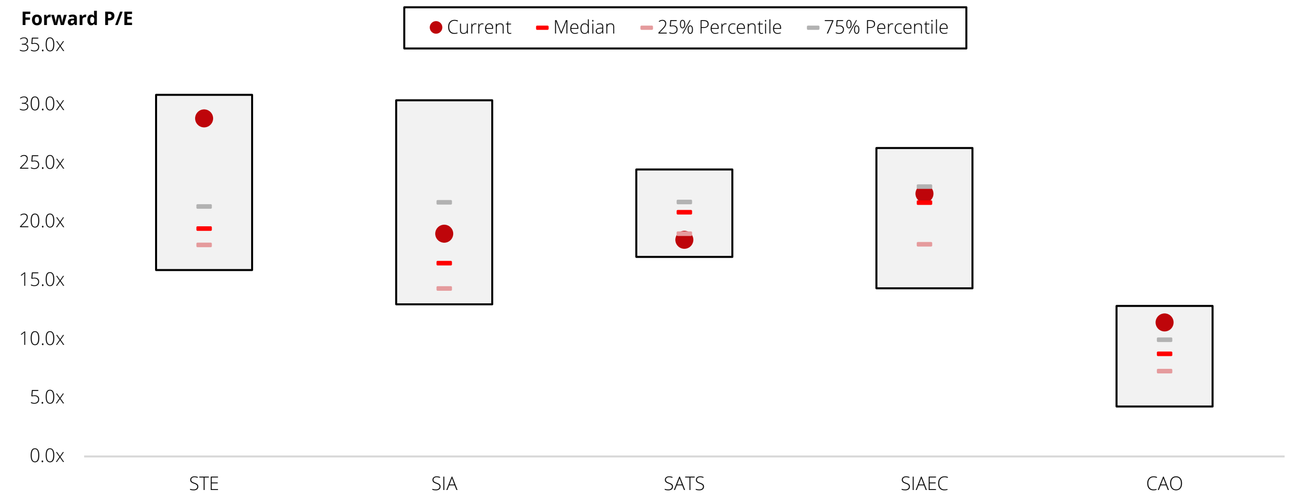
Source: Company, DBS

Unit costs rise amid inflation and weaker operating leverage gains



Source: Company, DBS

SG Aviation stocks historical five-year forward P/E band



Note: Five-year pre-pandemic trading ranges used for SIA, SATS, SIAEC and CAO
Source: Bloomberg, DBS

SG Aviation stocks valuation peer comparison

Company	Market cap (USD mn)	P/E		EV-to-EBITDA		P/BV		ROE (%)		Div Yield (%)	
		CY26F	CY27F	CY26F	CY27F	CY26F	CY27F	CY26F	CY27F	CY26F	CY27F
ST Engineering	22,338	29.1x	25.5x	17.4x	15.7x	8.9x	7.7x	32.4%	32.5%	2.2%	2.3%
Singapore Airlines	15,697	18.4x	18.3x	6.5x	6.6x	1.2x	1.2x	6.3%	6.0%	3.5%	3.7%
SATS Ltd	4,380	18.0x	15.4x	7.7x	6.8x	1.9x	1.7x	11.8%	11.8%	1.9%	2.2%
SIA Engineering	3,220	22.0x	20.2x	29.6x	26.3x	2.2x	2.2x	10.3%	11.0%	3.2%	3.5%
China Aviation Oil	1,124	12.4x	10.9x	12.3x	11.0x	1.0x	1.0x	9.0%	9.7%	4.0%	4.9%
	Sector average	20.0x	18.1x	14.7x	13.3x	3.0x	2.8x	13.9%	14.2%	3.0%	3.3%

Source: Bloomberg, DBS

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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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