SIA ENGINEERING COMPANY

3rd November 2020

SIA ENGINEERING GROUP POSTS LOSS OF $19M FOR 1st HALF FY2020-21

- **Sluggish recovery in number of flights handled**
- **$35 million non-cash impairment loss on base maintenance unit's assets due to prolonged downturn of aviation industry**

HIGHLIGHTS OF THE GROUP'S PERFORMANCE

	Apr - Sep 2020	Apr - Sep 2019	Year-on-Year Change	
	$'M	$'M	$'M	%
• Revenue	223.0	512.7	-289.7	-56.5
• Operating (loss)/profit	(27.2)	37.3	-64.5	n.m.
• Share of profits of associated and joint venture companies, net of tax	28.4	53.4	-25.0	-46.8
• (Loss)/profit attributable to owners of the parent	(19.0)	87.6	-106.6	n.m.
• Basic (loss)/earnings per share (cts)	(1.69)	7.82	-9.51	n.m.

n.m. – not meaningful

GROUP EARNINGS

First Half FY2020-21

The Group recorded a revenue of $223.0 million for the first half ended 30 September 2020, a decrease of $289.7 million (-56.5%) compared to the same period last year due to a reduction in the Group's business activities as a result of low flight activities and massive grounding of aircraft.

With cost measures implemented and grants from government support schemes, the Group expenditure was also down but at a lower rate. Group expenditure at $250.2 million, was down $225.2 million (-47.4%) with reduction mainly in manpower costs and subcontract costs. Reduction in manpower costs was mainly through a set of staff measures that included salary cuts, furlough, voluntary no pay leave, release of contract staff as well as voluntary Special Early Retirement Scheme.

Consequently, the Group incurred an operating loss of $27.2 million compared to an operating profit of $37.3 million in the same period last year.

Note 1: The SIAEC Group's unaudited financial results for the half year ended 30 September 2020 were announced on 3 November 2020. A summary of the financial statistics is shown in Annex A. All monetary figures are in Singapore Dollars. The Group comprises the Company and its subsidiary, associated and joint venture companies.

Share of profits of associated and joint venture companies at $28.4 million was $25.0 million (-46.8%) lower year-on-year, with a profit of $37.9 million from the engine and component segment and a loss of $9.5 million from the airframe and line maintenance segment. Contributions from associated and joint venture companies continued to be impacted by reduction in flying hours and extended maintenance intervals, partially offset by cost saving measures and government support. Some of the group companies also incurred one-time staff redundancy costs during the period.

Due to significant decline in hangar revenue projections brought about by lower flight hours; large number of aircraft taken out of operations and parked; and the likelihood that some of the parked older generation aircraft will not return to operation, the Group recognised a non-cash impairment loss on its base maintenance unit's assets of $35.0 million. As the recovery outlook remains uncertain, we will continue to monitor the situation closely and make additional impairment if required.

Group recorded a net loss of $19.0 million for the first half ended 30 September 2020, a decline of $106.6 million year-on-year.

The adverse impact of COVID-19 on the Group's financial performance for the first half 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 $114.6 million.

Basic loss per share was 1.69 cents for the current period.

GROUP FINANCIAL POSITION

As at 30 September 2020, equity attributable to owners of the parent was $1,537.9 million, a decrease of $90.9 million (-5.6%) compared to 31 March 2020, due to the payment of the final dividend in respect of FY2019-20, a loss in the foreign currency translation reserve due to the weakening of the US dollar and losses incurred for the period.

Total assets stood at $1,881.0 million as of 30 September 2020, a decrease of $124.5 million (-6.2%), due mainly to a reduction in the contract assets balance and the impairment loss on base maintenance unit's assets.

The Group had a cash balance of $514.9 million as of 30 September 2020, a decrease of $4.8 million (-0.9%), and low borrowings.

Net asset value per share as at 30 September 2020 was 137.1 cents.

DIVIDEND

In view of the weak performance and the need to conserve cash to sustain the business, the Company will not declare any interim dividends.

IMPACT OF COVID-19

All segments of the Group's businesses were severely impacted by the COVID-19 pandemic during the first half of the financial year as significantly lower flight activities resulted in low work volume.

The number of flights handled by our Line Maintenance unit in Singapore was only 14% of the number handled in the same 6-month period last year. At our overseas Line Maintenance stations, business was similarly affected by the reduced number of flights handled. The number of hangar checks performed was also lower as demand for airframe maintenance weakened with the low flight activities and grounding of aircraft.

The number of flights handled in the second quarter was 16% of the same period last year, which was only three percentage points higher than the first quarter, indicating a continued slow recovery rate. For hangar checks, while we were able to bring forward some aircraft maintenance checks to utilise our hangar capacity in the first quarter, such opportunities were more limited in the second quarter, hence fewer checks were performed.

With the weaker recovery outlook, deeper salary cuts were implemented in addition to the other cost management measures such as furlough, voluntary no pay leave, voluntary early retirement, release of contract staff and scheduled shutdown of maintenance shops.

The volume of work at our joint venture and associated companies has similarly declined due to the low flight activities and grounding of aircraft. Similar cost management initiatives were implemented by these companies. Some of our partners and joint venture companies also had to reduce manpower in response to the sustained reduction in demand.

As part of the review of our investment portfolio, we restructured our investments in The Philippines as well as Heavy Maintenance Singapore Services, and proceeded with the dissolution of our joint venture, Line Maintenance Partnership (Thailand), in the quarter.

The adverse impact on the Group's financial performance has been cushioned by the government's wage support under the JSS, which has been extended by another seven months. The support for aerospace MRO operators is for 10 months at 75% of capped monthly wage and seven months at 50% of capped monthly wage. 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 from March 2020 to July 2021.

With changing rules and regulations on maintaining safe operations, the Company closely monitors and adapt to these requirements to ensure compliance and the safe and effective continuation of operations at the workplace.

OUTLOOK

Recovery of our MRO business is contingent on the recovery of the aviation industry, which continues to remain uncertain. The current forecast by the International Air Transport Association for full recovery to pre-pandemic levels is not expected till 2024, one year later than its previous forecast. We are encouraged by the efforts of Singapore and various countries to revive air travel through the establishment of green lanes and air travel bubbles and hope that this would stimulate travel and higher flight frequencies into Singapore.

We will stay flexible and nimble to adapt to the changing market environment while continuing to manage our expenditure and cashflow with prudence. Our strong balance sheet with low borrowings provides support for eventual recovery as well as our search for opportunities to strengthen existing or bring new capabilities to the Group.

We are working closely with our joint venture companies to ensure that they overcome their operating challenges for sustained growth. At the same time, we are also looking out for new opportunities to strengthen our portfolio.

To emerge stronger in the post-COVID future, we are deepening and broadening the scope of our Transformation efforts, which have yielded positive results thus far. Under Phase 2, we have developed a pipeline of Transformation initiatives in digitalisation, automation and continuous improvement programmes like 'Lean'. Beyond operational efficiency and productivity, these initiatives aim to improve staff expertise, increase value for customers, develop capabilities and promote the culture of continuous improvement and collaboration.

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(For the complete first half FY2020-21 financial statements, please refer to our SGXNET Filing or the Investor Relations page of our website at www.siaec.com.sg.)

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GROUP FINANCIAL STATISTICS

	1H20/21 ($'M)	1H19/20 ($'M)	Change (%)
Financial Results			
Total revenue	223.0	512.7	-56.5
Total expenditure	250.2	475.4	-47.4
Operating (loss)/profit	(27.2)	37.3	n.m.
Share of profits of associated and joint venture companies, net of tax	28.4	53.4	-46.8
(Loss)/profit attributable to owners of the parent	(19.0)	87.6	n.m.
Per Share Data			
(Loss)/earnings after tax (cents) - basic [R1]	(1.69)	7.82	n.m.
- diluted [R2]	(1.69)	7.80	n.m.

	As at 30 Sep 2020 ($'M)	As at 31 Mar 2020 ($'M)	Change (%)
Financial Position			
Share capital	420.0	420.0	-
Treasury shares	(9.8)	(13.7)	-28.5
Capital reserve	2.7	2.8	-3.6
Share-based compensation reserve	3.2	5.4	-40.7
Foreign currency translation reserve	(10.9)	16.0	n.m.
Fair value reserve	(3.1)	(8.7)	-64.4
Equity transaction reserve	(0.6)	(4.5)	-86.7
General reserve	1,136.4	1,211.5	-6.2
Equity attributable to owners of the parent	1,537.9	1,628.8	-5.6
Cash and bank balances	514.9	519.7	-0.9
Receivables [R3]	353.9	400.1	-11.5
Total assets	1,881.0	2,005.5	-6.2
Total liabilities	316.8	344.5	-8.0
Net asset value per share (cents) [R4]	137.1	145.4	-5.7
Return on equity holders' funds (%) [R5]	5.7	12.3	-6.6ppt

COMPANY OPERATING STATISTICS AT SINGAPORE BASE

	1H20/21	1H19/20	Change (%)
Flights handled at Changi Airport by line maintenance	11,272	77,797	-85.5
Number of heavy checks performed at Singapore base	24	38	-36.8
Number of light checks performed at Singapore base	109	254	-57.1
Fleet size managed by fleet management business	82	75	+9.3

n.m. – not meaningful

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

R2 (Loss)/earnings after tax per share (diluted) is computed by dividing (loss)/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.