

Singapore Company Update

SATS

Bloomberg: SATS SP | Reuters: SATS.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

24 Feb 2022

BUY

Last Traded Price (23 Feb 2022): S\$4.18 (STI : 3,393.00)
Price Target 12-mth: S\$4.90 (17% upside)

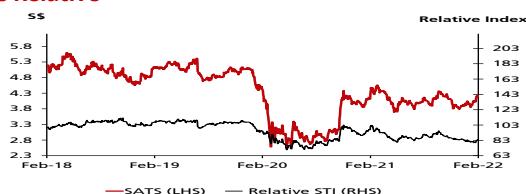
Analyst

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What's New

- 3QFY22 core PATMI broadly in line with expectations
- Broad improvement in activity levels, albeit from a low base
- Inflation pressures are manageable; operating margins to widen on greater economies of scale as volumes normalise
- Maintain BUY with unchanged TP of S\$4.90

Price Relative



Forecasts and Valuation

FY Mar (\$m)	2021A	2022F	2023F	2024F
Revenue	970	1,204	1,708	2,286
EBITDA	120	123	252	396
Pre-tax Profit	(146)	5.53	145	298
Net Profit	(78.9)	35.5	120	241
Net Pft (Pre Ex.)	(7.2)	46.2	120	241
Net Pft Gth (Pre-ex) (%)	nm	nm	158.5	101.9
EPS (S cts)	(7.1)	3.18	10.7	21.6
EPS Pre Ex. (S cts)	(0.6)	4.13	10.7	21.6
EPS Gth Pre Ex (%)	nm	nm	159	102
Diluted EPS (S cts)	(7.1)	3.18	10.7	21.6
Net DPS (S cts)	0.0	0.0	6.00	16.0
BV Per Share (S cts)	138	141	152	168
PE (X)	nm	131.7	39.1	19.4
PE Pre Ex. (X)	nm	101.2	39.1	19.4
P/Cash Flow (X)	39.7	306.2	18.8	12.7
EV/EBITDA (X)	40.1	39.1	18.4	11.1
Net Div Yield (%)	0.0	0.0	1.4	3.8
P/Book Value (X)	3.0	3.0	2.7	2.5
Net Debt/Equity (X)	CASH	0.0	CASH	CASH
ROAE (%)	(5.0)	2.3	7.3	13.5
Earnings Rev (%):		(16)	(29)	(6)
Consensus EPS (S cts):		2.80	11.5	21.8
Other Broker Recs:		B: 5	S: 1	H: 2

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Earnings inflection is right around the corner

Investment Thesis

Greater clarity on travel resumption. Over the past few months, many countries in Asia Pacific have started or shared roadmaps to fully open their borders. Singapore is also making solid progress on this front, having established vaccinated travel lanes with 25 countries as of mid-February.

Resilient cargo demand and rapid growth in non-aviation food business to propel recovery. Robust demand for air cargo, underpinned by strong e-commerce, perishables, and pharmaceutical product (including vaccines) volumes, coupled with its pivot to non-aviation food channels, should accelerate SATS's recovery. We project non-travel revenue to grow at a 10-15% CAGR over the next three years.

M&A could lead to positive earnings surprise. SATS has an enviable net cash position of S\$135m as of 3QFY22, which would enable the company to capitalise on M&A opportunities. SATS has spent S\$81m on acquisitions in the past six months and could share good news on this front soon.

Valuation:

Blended DCF and PE valuation methodology. Our TP of S\$4.90 is based on the average of: (i) discounted cash flow (DCF) valuation (6.5% weighted average cost of capital [WACC] and 3.0% terminal growth [TG]), and (ii) price-to-earnings (PE) valuation pegged to peers' at 25x FY23F PE.

Where we differ:

Our earnings projections are higher than consensus as we have pencilled in a faster pace of reopening in Asia Pacific.

Key Risks to Our View:

Resurgence of COVID-19 in the region, slower-than-anticipated vaccine rollout or international travel restrictions take longer than expected to loosen.

At A Glance

Issued Capital (m shrs)	1,122
Mkt. Cap (S\$m/US\$m)	4,690 / 3,486
Major Shareholders (%)	
Temasek Holdings Pte Ltd	39.9
BlackRock Inc	5.0
Free Float (%)	55.1
3m Avg. Daily Val (US\$m)	5.8
GIC Industry :	Industrials / Transportation



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WHAT'S NEW

3QFY22 in line; earnings poised to rebound in FY22F

3QFY22 core PATMI met our expectations. SATS reported core PATMI (including government reliefs) of S\$5.1m (-25.0% q-o-q, -37.8% y-o-y), bringing 9MFY22 core PATMI to S\$18.3m. Barring a one-time account receivables impairment of S\$10.7m during the quarter, core PATMI would have amounted to S\$29.0m, forming 73%/81% of DBS/consensus' full-year projection.

SATS booked an operating loss of S\$9.5m in 3QFY22, primarily due to a lower quantum of government reliefs, and a S\$10.7m write-down on receivables due from Genting Hong Kong following the cruise line's bankruptcy. Meanwhile, contribution from its associates and JVs grew substantially to S\$12.1m (+476% q-o-q) led by continued strength among its cargo associates amid a vibrant air freight environment.

Revenue was up by 4.7% q-o-q and 22.6% y-o-y in 3QFY22, mainly driven by an improvement in travel revenue (+11.6% q-o-q) but weighed by non-travel revenue (-3.3% q-o-q). SATS reported improvements in most operating metrics, with the number of flights and passengers handled surging by 109.7% q-o-q and 301.1% q-o-q respectively, while cargo throughput also rose by 9.0% during the quarter. However, the number of gross meals produced during the period dipped by 3.4% sequentially despite an increase in aviation meals due to a decline in non-aviation meals owing to sporadic COVID-19 flare-ups in China. Gateway services revenue growth (+7.7% q-o-q) was disproportionately lower than activity levels because of a less favourable revenue mix (marked increase in domestic flights handled) and license fee rebate adjustments during the quarter (no impact to bottom line due to a reduction in both revenue and license fee expense).

Acquisition of 16.4% stake in associate, Asia Airfreight Terminal (AAT) for S\$59.6m. Following its acquisition of Food City in July-21, SATS announced that it was acquiring an additional stake in AAT, which is a cargo terminal operator operating in the Hong Kong International Airport. The purchase of the additional stake brings SATS's total ownership of the company to 65.4%, hence the company will become a subsidiary of the Group. The purchase price appears to be fairly attractive - AAT reported revenues of S\$116.3m and a net profit of S\$16.1m in 9MFY22, implying that the transaction was completed at an implied trailing P/E of 16.6x, which is markedly below SATS's current forward P/E. Looking ahead, we can expect SATS to capitalise on its robust balance sheet (net cash position of

S\$135m) to undertake more acquisitions to drive inorganic earnings growth.

Cut FY23F earnings by 29%; FY24F projection largely intact. We are reducing our FY23F net profit estimate to account for a less favourable revenue mix (recovery in domestic and intra-region flights to outpace inter-region flights), and wage and general inflation pressure. Nonetheless, we still anticipate SATS to report significant earnings growth in FY23F despite the absence of government support and rising inflation as normalisation of activity levels will drive economies of scale. Meanwhile, we are trimming our FY24F net profit estimate by 7%. Our revised estimates still point to SATS's earnings reaching around 90-95% of pre-pandemic levels in FY24F. Of course, we could see earnings upside if SATS executes more earnings accretive acquisitions.

Maintain BUY with unchanged TP of S\$4.90. Our TP on SATS remains unchanged despite our negative earnings revision as we raise our PE peg to 35.0x FY23F net earnings (up from 25.0x before) to reflect multiple expansion in the sector. The imminent easing of travel restrictions in Singapore, coupled with the reopening of other key markets in the region bodes well for SATS Ltd. Given its strong recovery prospects, current valuation levels are still constructive, and we foresee further momentum on the reopening front catalysing a re-rating for the stock.

Company Background

SATS is a leading provider of gateway services and food solutions in the region with the biggest market share in in-flight catering and ground-handling services at Singapore's Changi Airport. The company also provides aviation security, airline laundry, and airport cargo delivery management services. Additionally, it also offers catering services and food solutions to non-aviation sectors and manages a cruise centre.

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Operational Statistics

	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22
Passengers Handled (m)	22.5	23.2	23.7	15.2	0.2	1.8	1.1	1.0	0.9	0.9	3.6
Flights Handled ('000)	91.5	92.9	93.9	73.2	6.55	20.5	14.6	13.4	13.9	14.3	30.0
Cargo ('000 tonnes)	452	459	486.0	394.0	221	270.8	322.1	341.0	387.4	421.0	458.9
Gross Meals Produced (m)	19.3	20.4	25.4	17.4	9.4	11.3	11.5	11.5	12.9	13.4	13.0

Source: Company, DBS Bank Ltd

Peer comparison table (Airport Operators and Gateway Services)

Company	Market cap (US\$m)	P/E		EV-to-EBITDA		P/BV		ROE (%)		Div Yield (%)	
		CY22F	CY23F	CY22F	CY23F	CY22F	CY23F	CY22F	CY23F	CY22F	CY23F
Airports of Thailand	28,435	nm	72.9x	614.6x	32.0x	8.7x	7.9x	-7.1%	11.2%	0.0%	0.7%
Shanghai International Airport	16,570	178.6x	36.5x	78.4x	22.5x	3.6x	3.4x	2.1%	8.6%	0.1%	0.8%
Sydney Airport Limited	17,042	323.0x	63.6x	35.8x	24.5x	46.6x	189.6x	22.4%	129.3%	1.8%	3.7%
Auckland International Airport	7,109	59.8x	37.3x	28.2x	20.9x	1.3x	1.3x	2.0%	3.3%	1.5%	2.6%
Airports Corp of Vietnam	9,011	92.5x	40.0x	30.9x	19.4x	4.9x	4.4x	6.6%	13.5%	0.7%	0.7%
Guangzhou Baiyun Airport	4,783	77.3x	26.1x	14.4x	10.1x	1.6x	1.5x	2.0%	5.6%	0.5%	1.0%
Japan Airport Terminal	4,371	nm	41.7x	22.9x	11.8x	3.2x	2.8x	3.5%	8.4%	0.2%	0.7%
SATS Ltd	3,484	36.3x	19.2x	16.6x	10.7x	2.8x	2.6x	7.6%	14.4%	1.9%	3.0%
Beijing Capital International Airport	3,051	nm	26.1x	20.6x	8.6x	0.9x	0.9x	-0.4%	3.1%	0.2%	1.9%
Hainan Meilian International Airport	1,397	16.5x	9.3x	9.6x	6.7x	1.7x	1.5x	12.7%	16.2%	1.6%	2.4%
Malaysia Airport Holdings	2,525	nm	27.0x	13.2x	7.6x	1.6x	1.6x	-3.7%	5.6%	0.2%	1.3%
Xiamen International Airport	815	11.9x	11.8x	5.0x	4.8x	1.2x	1.3x	10.8%	11.0%	4.2%	6.4%
Sector average		99.5x	34.3x	74.2x	15.0x	2.3x	18.2x	4.9%	19.2%	1.1%	2.1%

Source: Bloomberg Finance L.P, DBS Bank Ltd

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Peer comparison table (Food Services)

Company	Market cap (US\$m)	P/E		EV-to-EBITDA		P/BV		ROE (%)		Div Yield (%)	
		CY22F	CY23F	CY22F	CY23F	CY22F	CY23F	CY22F	CY23F	CY22F	CY23F
Compass Group	41,342	30.1x	22.7x	15.4x	12.4x	5.7x	5.2x	18.9%	23.7%	1.6%	2.2%
Sodexo	13,034	18.1x	15.0x	8.8x	7.6x	3.2x	3.0x	19.2%	20.9%	2.8%	3.4%
Aramark	9,594	28.7x	17.9x	12.7x	10.1x	3.2x	2.9x	11.3%	15.5%	1.2%	1.2%
SATS Ltd	3,484	36.3x	19.2x	16.6x	10.7x	2.8x	2.6x	7.6%	14.4%	1.9%	3.0%
Autogrill	2,982	622.5x	32.0x	7.2x	6.0x	3.1x	2.3x	-0.7%	9.6%	0.2%	0.7%
SSP Group	3,010	nm	25.1x	21.3x	7.0x	10.6x	6.7x	-24.4%	47.7%	0.0%	1.6%
Saudi Airlines Catering	1,923	27.4x	18.2x	17.1x	12.2x	9.1x	8.2x	30.7%	47.9%	3.6%	4.8%
Elior	837	69.2x	10.5x	7.4x	5.1x	0.7x	0.7x	-0.4%	5.9%	0.3%	4.0%
Do & Co	982	20.8x	14.6x	8.0x	6.8x	6.3x	4.6x	27.0%	34.6%	1.1%	2.0%
Sector average		29.4x	18.2x	12.7x	7.6x	3.2x	3.0x	11.3%	20.9%	1.2%	2.2%

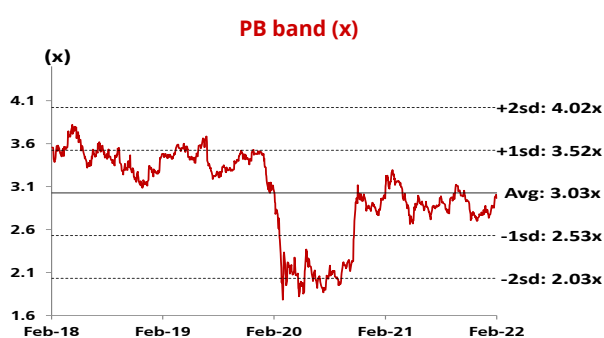
Source: Bloomberg Finance L.P., DBS Bank Ltd

Valuation table

Valuation methodology	Market value (S\$m)	S\$/share	Remarks
PER	4,183	3.74	35x on FY23F earnings
DCF	6,759	6.04	WACC 6.5%, terminal growth 3%
Target price	5,471	4.90	

Source: DBS Bank Ltd

Historical PB band



Source: Bloomberg Finance L.P., DBS Bank estimates

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Key Assumptions

FY Mar	2020A	2021A	2022F	2023F	2024F
Passengers Handled (m)	84.6	4.12	8.24	41.2	78.3
Cargo ('000 tonnes)	1,791	1,155	1,674	1,925	2,041
Gross Meals Produced	82.5	43.7	54.6	79.1	107
Average no of employees	17,155	12,500	12,875	14,163	15,579

Segmental Breakdown

FY Mar	2020A	2021A	2022F	2023F	2024F
Revenues (\$m)					
Food solutions	1,070	574	652	860	1,213
Gateway services	869	390	551	846	1,072
Corporate	1.90	6.60	2.00	2.00	2.00
Total revenues	1,941	970	1,204	1,708	2,286
Operating profit (\$m)					
Food solutions	136	(46.9)	(52.2)	51.6	160
Gateway services	101	39.0	55.1	72.5	105
Corporate	(11.0)	(2.2)	(2.2)	(2.2)	(2.2)
Total operating profit	226	(10.1)	0.67	122	262
Operating profit margin					
Food solutions	12.7	(8.2)	(8.0)	6.0	13.2
Gateway services	11.6	10.0	10.0	8.6	9.8
Corporate	(578.9)	(33.3)	(110.0)	(110.0)	(110.0)
Blended operating margin	11.7	(1.0)	0.1	7.1	11.5

Income Statement (\$m)

FY Mar	2020A	2021A	2022F	2023F	2024F
Revenue	1,941	970	1,204	1,708	2,286
Other Opng (Exp)/Inc	(1,715)	(980)	(1,204)	(1,586)	(2,024)
Operating Profit	226	(10.1)	0.67	122	262
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	11.8	(48.0)	28.0	37.4	50.7
Net Interest (Exp)/Inc	(3.7)	(15.7)	(12.4)	(14.6)	(14.6)
Exceptional Gain/(Loss)	(20.4)	(71.7)	(10.7)	0.0	0.0
Pre-tax Profit	214	(146)	5.53	145	298
Tax	(38.3)	36.2	15.0	(23.2)	(50.7)
Minority Interest	(7.2)	30.4	15.0	(2.0)	(6.0)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	168	(78.9)	35.5	120	241
Net Profit before Except.	189	(7.2)	46.2	120	241
EBITDA	344	120	123	252	396
Growth					
Revenue Gth (%)	6.2	(50.0)	24.2	41.8	33.8
EBITDA Gth (%)	3.6	(65.0)	2.4	104.3	57.1
Opg Profit Gth (%)	(8.4)	(104.5)	(106.6)	18,137.6	114.8
Net Profit Gth (Pre-ex) (%)	(24.4)	nm	nm	158.5	101.9
Margins & Ratio					
Opg Profit Margin (%)	11.7	(1.0)	0.1	7.1	11.5
Net Profit Margin (%)	8.7	(8.1)	3.0	7.0	10.6
ROAE (%)	10.3	(5.0)	2.3	7.3	13.5
ROA (%)	6.2	(2.6)	1.2	4.1	7.7
ROCE (%)	8.1	(0.4)	0.0	4.0	8.0
Div Payout Ratio (%)	39.8	N/A	0.0	56.2	74.2
Net Interest Cover (x)	61.1	(0.6)	0.1	8.4	17.9

Source: Company, DBS Bank

SATS**Balance Sheet (\$m)**

FY Mar	2020A	2021A	2022F	2023F	2024F
Net Fixed Assets	602	520	483	457	441
Invts in Associates & JVs	689	578	576	579	589
Other LT Assets	691	671	645	621	604
Cash & ST Invts	549	880	665	869	1,109
Inventory	67.4	130	120	85.4	114
Debtors	386	292	301	380	416
Other Current Assets	25.8	21.4	21.4	21.4	21.4
Total Assets	3,011	3,092	2,813	3,013	3,294
ST Debt	132	159	159	159	159
Creditor	373	359	301	342	416
Other Current Liab	56.9	47.4	5.00	43.2	70.7
LT Debt	493	714	514	514	514
Other LT Liabilities	151	114	114	114	114
Shareholder's Equity	1,618	1,546	1,582	1,701	1,875
Minority Interests	188	153	138	140	146
Total Cap. & Liab.	3,011	3,092	2,813	3,013	3,294
Non-Cash Wkg. Capital	49.8	37.0	137	102	65.0
Net Cash/(Debt)	(75.3)	6.45	(8.3)	196	436
Debtors Turn (avg days)	64.6	127.5	89.8	72.7	63.5
Creditors Turn (avg days)	79.4	157.0	111.3	80.5	73.1
Inventory Turn (avg days)	10.5	42.4	42.3	25.8	19.3
Asset Turnover (x)	0.7	0.3	0.4	0.6	0.7
Current Ratio (x)	1.8	2.3	2.4	2.5	2.6
Quick Ratio (x)	1.7	2.1	2.1	2.3	2.4
Net Debt/Equity (X)	0.0	CASH	0.0	CASH	CASH
Net Debt/Equity ex MI (X)	0.0	CASH	0.0	CASH	CASH
Capex to Debt (%)	12.1	6.9	8.9	11.9	14.9
Z-Score (X)	3.3	2.8	3.1	1.6	NA

Source: Company, DBS Bank

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Cash Flow Statement (\$m)

FY Mar	2020A	2021A	2022F	2023F	2024F
Pre-Tax Profit	214	(146)	5.53	145	298
Dep. & Amort.	118	130	123	130	134
Tax Paid	(52.9)	(21.2)	(36.0)	15.0	(23.2)
Assoc. & JV Inc/(loss)	(11.8)	48.0	(28.0)	(37.4)	(50.7)
Chg in Wkg.Cap.	(48.9)	6.70	(48.8)	(2.9)	9.05
Other Operating CF	26.2	99.3	0.0	0.0	0.0
Net Operating CF	244	118	15.3	249	367
Capital Exp.(net)	(75.7)	(60.2)	(60.0)	(80.0)	(100.0)
Other Invs.(net)	3.40	0.30	0.0	0.0	0.0
Invs in Assoc. & JV	(23.4)	0.0	0.0	0.0	0.0
Div from Assoc & JV	32.9	26.8	30.0	35.0	40.0
Other Investing CF	(54.6)	4.80	0.0	0.0	0.0
Net Investing CF	(117)	(28.3)	(30.0)	(45.0)	(60.0)
Div Paid	(212)	0.0	0.0	0.0	(67.2)
Chg in Gross Debt	301	245	(200)	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(23.3)	(5.0)	0.0	0.0	0.0
Net Financing CF	66.4	240	(200)	0.0	(67.2)
Currency Adjustments	6.20	1.70	0.0	0.0	0.0
Chg in Cash	199	331	(215)	204	240
Opg CFPS (S cts)	26.2	9.92	5.73	22.5	32.0
Free CFPS (S cts)	15.1	5.14	(4.0)	15.1	23.9

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	28 May 21	3.97	4.50	BUY
2:	23 Jul 21	3.87	4.50	BUY
3:	16 Nov 21	4.12	4.90	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Jason SUM, CFA

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DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

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

Completed Date: 24 Feb 2022 06:58:08 (SGT)

Dissemination Date: 24 Feb 2022 08:32:04 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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