

Singapore Company Update

SATS

Bloomberg: SATS SP | Reuters: SATS.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

1 Jun 2022

HOLD (Downgrade from BUY)

Last Traded Price (31 May 2022): S\$4.38 (STI : 3,232.49)

Price Target 12-mth: S\$4.50 (3% upside) (Prev S\$4.90)

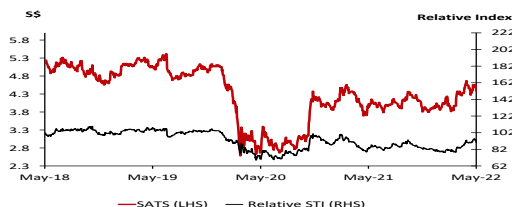
Analyst

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What's New

- Downgrade to HOLD with lower TP of S\$4.50
- 4QFY22 results were below expectations
- Cost pressures will weigh on earnings in FY23F; FY24F earnings outlook still largely intact
- Valuation is largely aligned with fundamentals at this juncture; accumulate on share price weakness

Price Relative



Forecasts and Valuation

FY Mar (S\$m)	2021A	2022A	2023F	2024F
Revenue	970	1,176	1,657	2,218
EBITDA	120	76.7	184	371
Pre-tax Profit	(146)	(27.5)	69.5	270
Net Profit	(78.9)	20.0	56.4	218
Net Pft (Pre Ex.)	(7.2)	7.80	56.4	218
Net Pft Gth (Pre-ex) (%)	nm	nm	623.0	286.1
EPS (S cts)	(7.1)	1.79	5.04	19.5
EPS Pre Ex. (S cts)	(0.6)	0.70	5.04	19.5
EPS Gth Pre Ex (%)	nm	nm	623	286
Diluted EPS (S cts)	(7.1)	1.79	5.04	19.5
Net DPS (S cts)	0.0	0.0	0.0	15.0
BV Per Share (S cts)	138	143	148	168
PE (X)	nm	245.1	86.9	22.5
PE Pre Ex. (X)	nm	628.4	86.9	22.5
P/Cash Flow (X)	41.6	78.7	40.9	17.9
EV/EBITDA (X)	42.0	67.6	27.8	13.3
Net Div Yield (%)	0.0	0.0	0.0	3.4
P/Book Value (X)	3.2	3.1	3.0	2.6
Net Debt/Equity (X)	CASH	0.0	CASH	CASH
ROAE (%)	(5.0)	1.3	3.5	12.3
Earnings Rev (%):			(53)	(10)
Consensus EPS (S cts):			10.8	21.8
Other Broker Recs:		B: 6	S: 1	H: 1

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

Taking a breather for now

Investment Thesis

Greater clarity on recovery trajectory for travel segment.

Singapore's new Vaccinated Travel Framework and the harmonised reopening of countries in the region will drive a meaningful rebound in travel-related revenue for the group from 1QFY23F onwards.

Resilient cargo demand and rapid growth in non-aviation food business to propel recovery.

Robust demand for air cargo, underpinned by strong e-commerce volumes and prolonged widespread supply chain disruptions, coupled with its pivot to non-aviation food channels, should accelerate SATS's recovery.

However, cost pressures will weigh on operating margins in the near term; valuation seems fair at current price levels.

Costs are likely to increase at a faster rate than revenue over the next few quarters due to multiple cost headwinds like front-loaded employee headcount additions, absence of government grants, wage inflation, and rising food costs. Hence, we believe that the company's recovery prospects are aptly baked into its share price.

Valuation:

Blended DCF and PE valuation methodology. Our TP of S\$4.50 is based on the average of a: (i) Discounted cash flow valuation (6.5% weighted average cost of capital and 3.0% terminal growth) and (ii) price-to-earnings (PE) valuation pegged to peers, at 30x FY23/24F PE.

Where we differ:

Our earnings projections are lower than the consensus, as we are more conservative on our operating cost assumptions.

Key Risks to Our View:

Travel activity rebounding more sharply than anticipated, SATS demonstrating stronger-than-expected cost control, and surprise M&A activity.

At A Glance

Issued Capital (m shrs)	1,122
Mkt. Cap (S\$m/US\$m)	4,915 / 3,595
Major Shareholders (%)	
Temasek Holdings Pte Ltd	39.8
BlackRock Inc	5.0
Free Float (%)	55.2
3m Avg. Daily Val (US\$m)	9.1
GIC Industry : Industrials / Transportation	



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WHAT'S NEW

4QFY22 results below expectations; downgrade to HOLD

4QFY22 results were below expectations. SATS returned into the red again in 4QFY22, with a core net loss (excluding revaluation gains and PPE impairment losses) of around S\$10.6m (vs. core net profit of S\$5.1m in 3QFY22 and S\$13.2m in 4QFY21). Full-year core PATMI amounted to S\$18.4m, missing the street's projection of S\$34.4m.

Operating losses widened in 4QFY22. SATS booked an operating loss of S\$37.1m for the quarter, as compared to an operating loss of S\$9.5m in the previous quarter. This was primarily attributable to a steep increase in staff costs (+19.3% q-o-q), driven by an increase in the employee headcount and fading wage subsidies. Other cost components were still fairly stable during the quarter, rising in tandem with revenue.

Revenue was up 7.5% y-o-y, but down 2.7% q-o-q to S\$299.5m in 4QFY22. Weaker sequential top-line performance in the period was led by a decline across both the food solutions (-1.4% q-o-q) and gateway services (-3.8% q-o-q) segments, as the group saw a decline in cargo volumes (-10.9% q-o-q) and softer non-aviation meal volumes. Travel-related revenue grew 5.4% q-o-q, as travel activity gained momentum during the quarter, with the number of flights and passengers handled climbing by 24.4% and 37.7% q-o-q. Meanwhile, the number of gross meals (+1.5% q-o-q), which encompasses both aviation and non-aviation meals, did not grow in tandem with passengers handled due to drag from lockdowns in China and relatively stronger momentum in Malaysia (larger proportion of domestic flights and SATS does not have an aviation catering subsidiary in Malaysia).

Operating costs will likely grow faster than revenue over the next few quarters. While SATS's revenue will likely stage a solid rebound from 1QFY23, with Singapore's new Vaccinated Travel Framework and the synchronised reopening of countries in the region, costs could outstrip revenue growth for a while due to several reasons. Firstly, staff costs will increase significantly because SATS has to restore manpower supply prior to the return of demand due to time required for training new

employees (typically three to six months), wage inflation pressures (due to a tight labour market), and the absence of wage subsidies (S\$145.6m in FY22). Secondly, the group will have to deal with higher food costs, which have risen by 20%-30% this year. While SATS has multiple levers to control its raw material costs, we believe that the group may have difficulties passing on any increased costs to its consumers. Consequently, the management has guided that operating costs will likely outpace revenue growth over the next two quarters at least, before reversing this trend towards 4QFY23F.

Negative earnings revisions; downgrade to HOLD with lower TP of S\$4.50. We are slashing our FY23/24F net profit estimates by 53% and 10%, respectively, to reflect the abovementioned cost headwinds. Consequently, we are lowering and rolling forward our P/E peg to 30x blended FY23/24F net profit (from 35x FY23F net profit previously) to arrive at a lower TP of S\$4.50. SATS has outperformed most other aviation plays this year, notching a YTD gain of 12.6%, despite the retreat in its share price post its results, and we believe that the stock is now fairly priced at 22-24x FY24F earnings. Furthermore, dividends will likely only be reinstated in FY24F, which is when we anticipate the company to convincingly return into the black. Accordingly, we are downgrading our recommendation to HOLD, and would recommend investors accumulate on dips or rotate into other reopening plays that are better positioned to deal with rising inflation like Singapore Airlines and ST Engineering.

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	4Q22
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	5.0
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	37.3
Cargo ('000 tonnes)	452	459	486.0	394.0	221	270.8	322.1	341.0	387.4	421.0	458.9	408.7
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	13.1

Source: Company, DBS Bank

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	29,063	nm	86.9x	nm	38.9x	9.5x	8.8x	-8.1%	10.1%	0.0%	0.6%
Shanghai International Airport	14,586	nm	57.7x	595.8x	22.9x	3.7x	3.5x	-5.0%	7.1%	0.0%	0.7%
Auckland International Airport	7,177	74.1x	38.4x	32.4x	21.7x	1.4x	1.4x	1.8%	3.5%	1.0%	2.5%
Airports Corp of Vietnam	8,158	58.3x	35.3x	36.7x	18.4x	4.7x	4.2x	8.6%	13.1%	0.6%	0.6%
Guangzhou Baiyun Airport	4,510	nm	50.0x	22.1x	11.2x	1.7x	1.6x	-1.1%	3.6%	0.1%	0.8%
Japan Airport Terminal	3,855	nm	48.5x	23.4x	12.4x	3.1x	2.8x	1.9%	6.8%	0.1%	0.6%
SATS Ltd	3,584	46.1x	21.2x	19.1x	11.7x	3.0x	2.8x	6.3%	12.8%	1.5%	2.7%
Beijing Capital International Airport	2,684	nm	nm	nm	13.7x	0.9x	0.9x	-7.0%	1.8%	0.0%	0.7%
Malaysia Airport Holdings	2,491	nm	25.8x	12.7x	7.3x	1.6x	1.5x	-2.8%	6.1%	0.1%	1.5%
Hainan Meilan International Airport	960	23.5x	9.9x	10.2x	7.0x	1.5x	1.2x	5.7%	12.8%	0.5%	1.3%
Xiamen International Airport	689	13.9x	9.2x	nm	nm	1.1x	1.0x	8.3%	11.5%	2.1%	3.2%
Sector average		43.2x	38.3x	94.1x	16.5x	1.7x	2.7x	0.8%	8.1%	0.6%	1.4%

Source: Bloomberg Finance L.P., DBS Bank

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	39,926	30.3x	22.6x	15.8x	12.6x	6.3x	5.6x	20.4%	25.9%	1.6%	2.2%
Sodexo	11,087	16.2x	13.6x	8.1x	6.9x	2.9x	2.6x	19.0%	20.2%	3.1%	3.8%
Aramark	8,859	29.9x	17.4x	12.7x	9.9x	2.9x	2.7x	9.9%	14.7%	1.3%	1.3%
SATS Ltd	3,584	46.1x	21.2x	19.1x	11.7x	3.0x	2.8x	6.3%	12.8%	1.5%	2.7%
Autogrill	2,892	334.2x	27.8x	6.5x	5.2x	2.6x	2.3x	-0.1%	9.3%	0.1%	1.0%
SSP Group	2,741	nm	24.4x	13.7x	7.4x	10.4x	7.3x	-16.1%	44.2%	0.0%	1.5%
Saudi Airlines Catering	1,771	22.4x	15.8x	14.4x	11.0x	6.4x	5.6x	31.1%	37.9%	3.2%	4.4%
Elior	515	nm	11.4x	9.2x	5.4x	0.5x	0.5x	-8.9%	3.9%	0.0%	2.2%
Do & Co	907	26.9x	14.5x	8.7x	6.0x	6.2x	4.6x	26.3%	34.6%	1.2%	2.2%
Sector average		29.9x	17.4x	12.7x	7.4x	3.0x	2.8x	9.9%	20.2%	1.3%	2.2%

Source: Bloomberg Finance L.P., DBS Bank

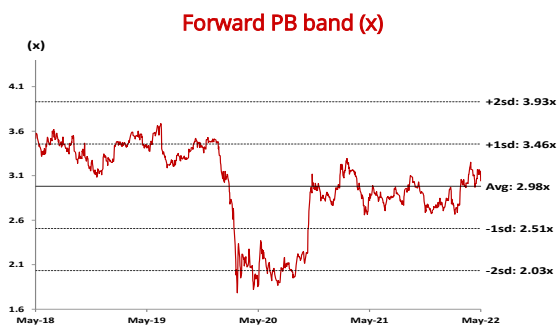
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Valuation table

Valuation methodology	Market value (S\$m)	S\$/share	Remarks
PER	4,112	3.67	30x on FY23/24F earnings
DCF	6,030	5.39	WACC 6.5%, terminal growth 3%
Target price		4.50	

Source: DBS Bank

Historical PB band



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

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Key Assumptions

FY Mar	2020A	2021A	2022A	2023F	2024F
Flights Handled ('000)	351	55.1	95.5	201	321
Cargo ('000 tonnes)	1,791	1,155	1,676	1,760	1,865
Gross Meals Produced (m)	82.5	43.7	52.4	65.5	88.4
Average no of employees	17,155	12,500	11,800	12,980	14,278

Segmental Breakdown

FY Mar	2020A	2021A	2022A	2023F	2024F
Revenues (\$ m)					
Food solutions	1,070	574	641	829	1,173
Gateway services	869	390	533	826	1,043
Corporate	2	7	3	2	2
Total	1,941	970	1,176	1,657	2,218
Operating profit (\$ m)					
Food solutions	136	(47)	(44)	(24)	126
Gateway services	101	39	7	87	120
Corporate	(11)	(2)	(5)	(5)	(5)
Total	226	(10)	(43)	58	240
Operating profit					
Food solutions	12.7	(8.2)	(6.9)	(2.9)	10.7
Gateway services	11.6	10.0	1.3	10.5	11.5
Total	11.7	(1.0)	(3.6)	3.5	10.8

Income Statement (\$ m)

FY Mar	2020A	2021A	2022A	2023F	2024F
Revenue	1,941	970	1,176	1,657	2,218
Cost of Goods Sold	0	0	0	0	0
Gross Profit	1,941	970	1,176	1,657	2,218
Other Opng (Exp)/Inc	(1,715)	(980)	(1,219)	(1,599)	(1,977)
Operating Profit	226	(10)	(43)	58	240
Other Non Opng (Exp)/Inc	0	0	0	0	0
Associates & IV Inc	12	(48)	17	27	49
Net Interest (Exp)/Inc	(4)	(16)	(14)	(15)	(20)
Exceptional Gain/(Loss)	(20)	(72)	12	0	0
Pre-tax Profit	214	(146)	(28)	70	270
Tax	(38)	36	31	(11)	(46)
Minority Interest	(7)	30	16	(2)	(6)
Preference Dividend	0	0	0	0	0
Net Profit	168	(79)	20	56	218
Net Profit before Except.	189	(7)	8	56	218
Net Pft (ex. BA gains)	N/A	N/A	N/A	N/A	N/A
EBITDA	344	120	77	184	371
Growth					
Revenue Gth (%)	6.2	(50.0)	21.3	40.9	33.8
EBITDA Gth (%)	3.6	(65.0)	(36.2)	140.5	101.2
Opg Profit Gth (%)	(8.4)	(104.5)	325.7	(233.9)	317.6
Net Profit Gth (%)	(32.2)	nm	nm	182.0	286.1
Margins & Ratio					
Gross Margins (%)	100.0	100.0	100.0	100.0	100.0
Opg Profit Margin (%)	11.7	(1.0)	(3.7)	3.5	10.8
Net Profit Margin (%)	8.7	(8.1)	1.7	3.4	9.8
ROAE (%)	10.3	(5.0)	1.3	3.5	12.3
ROA (%)	6.2	(2.6)	0.6	1.7	6.3
ROCE (%)	8.1	(0.4)	(1.6)	1.7	6.7
Div Payout Ratio (%)	39.8	N/A	0.0	0.0	77.1
Net Interest Cover (x)	61.1	(0.6)	(3.1)	3.8	12.2

Source: Company, DBS Bank

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Balance Sheet (\$ m)

FY Mar	2020A	2021A	2022A	2023F	2024F
Net Fixed Assets	602	707	902	896	880
Invt in Associates & JVs	689	578	454	446	455
Other LT Assets	691	484	640	619	605
Cash & ST Invt	549	880	786	841	1,055
Inventory	67	130	83	104	111
Debtors	386	292	388	414	444
Other Current Assets	26	21	39	39	39
Total Assets	3,011	3,092	3,292	3,359	3,588
ST Debt	132	159	143	143	143
Creditor	373	359	458	473	444
Other Current Liab	57	47	30	23	57
LT Debt	493	714	695	695	695
Other LT Liabilities	151	114	133	133	133
Shareholder's Equity	1,618	1,546	1,603	1,659	1,877
Minority Interests	188	153	231	233	239
Put Equity Reserve	N/A	N/A	N/A	N/A	N/A
Total Cap. & Liab.	3,011	3,092	3,292	3,359	3,588
Non-Cash Wkg. Capital	50	37	23	61	93
Net Cash/(Debt)	(75)	6	(52)	3	217
Debtors Turn (avg days)	64.6	127.5	105.4	88.3	70.6
Creditors Turn (avg days)	79.4	157.0	135.5	115.4	90.6
Inventory Turn (avg days)	10.5	42.4	35.4	23.1	21.2
Asset Turnover (x)	0.7	0.3	0.4	0.5	0.6
Current Ratio (x)	1.8	2.3	2.1	2.2	2.6
Quick Ratio (x)	1.7	2.1	1.9	2.0	2.3
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	9.2	11.9	11.9
Z-Score (X)	3.3	2.8	3.1	1.6	1.6

Source: Company, DBS Bank

Cash Flow Statement (\$ m)

FY Mar	2020A	2021A	2022A	2023F	2024F
Pre-Tax Profit	214	(146)	(28)	70	270
Dep. & Amort.	118	130	120	127	131
Tax Paid	(53)	(21)	(17)	(18)	(11)
Assoc. & JV Inc/(loss)	(12)	48	(17)	(27)	(49)
Chg in Wkg.Cap.	(49)	7	0	(31)	(66)
Other Operating CF	26	99	5	0	0
Net Operating CF	244	118	62	120	274
Capital Exp.(net)	(76)	(60)	(78)	(100)	(100)
Other Invt.(net)	3	0	0	0	0
Invt in Assoc. & JV	(23)	0	0	0	0
Div from Assoc & JV	33	27	27	35	40
Other Investing CF	(55)	5	82	0	0
Net Investing CF	(117)	(28)	31	(65)	(60)
Div Paid	(212)	0	0	0	0
Chg in Gross Debt	301	245	(187)	0	0
Capital Issues	0	0	0	0	0
Other Financing CF	(23)	(5)	(2)	0	0
Net Financing CF	66	240	(189)	0	0
Currency Adjustments	6	2	2	0	0
Chg in Cash	199	331	(94)	55	214
Opg CFPS (S cts)	26.2	9.9	5.6	13.5	30.4
Free CFPS (S cts)	15.1	5.1	(1.4)	1.8	15.5

Source: Company, DBS Bank

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Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	23 Jul 21	3.87	4.50	BUY
2:	16 Nov 21	4.12	4.90	BUY
3:	24 Feb 22	3.97	4.90	BUY
4:	26 Feb 22	4.05	4.90	BUY

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

Source: DBS Bank

Analyst: Jason SUM, CFA

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

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Dissemination Date: 1 Jun 2022 09:02:26 (SGT)

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

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