

COMPANY RESULTS

SATS (SATS SP)

FY22: Below Expectations; Cost Pressure Weighing On Near-term Performance

SATS' FY22 revenue of S\$1,177m and core net loss of S\$8.5m were below our and consensus expectations. Core net losses excluding government reliefs widened qoq, as SATS' revenue recovery failed to keep pace with its operating cost increase. We expect cost pressure from labour and food ingredients to continue to weigh on SATS' financial performance in the near term. We cut FY23/24 core net profit forecasts by 54%/15% respectively. Maintain BUY with a lower DCF-based target price of S\$4.75.

FY22 RESULTS

Year to 31 Mar (S\$m)	4Q22	3Q22	qoq % chg	4Q21	yoy % chg	FY22	FY21	yoy % chg
Revenue	300	308	-2.7	278.5	+7.5	1,177	970	+21.3
EBIT	-37.1	-9.5	n.m.	22.5	n.m.	-42.6	-10.1	n.m.
JV/asso. contribution	4.1	12.1	-66.1	-7.3	n.m.	17.1	-48.0	n.m.
Net Profit (reported)	2.1	5.1	-58.8	0.8	+162.5	20.4	-78.9	n.m.
Core net profit	-26.8	5.1	n.m.	13.2	n.m.	-8.5	-23.9	n.m.
Core net profit excl. reliefs	-42.5	-33.0	n.m.	-33.0	n.m.	-141.1	-265.8	n.m.
Margins (%)								
EBIT	-12.4	-3.1	-9.3ppt	8.1	-20.5ppt	-3.6	-1.0	-2.6ppt
Core net profit	-8.9	1.7	-10.6ppt	4.7	-13.7ppt	-0.7	-2.5	+1.7ppt
Core net profit excl. reliefs	-14.2	-10.7	-3.5ppt	-11.8	-2.3ppt	-12.0	-27.4	+15.4ppt

Source: SATS, UOB Kay Hian

RESULTS

- Results below expectations.** SATS' FY22 revenue of S\$1,177m (+21.3% yoy) accounted for 95% of our full-year forecast. 4QFY22 revenue of S\$300m was an unexpected decline from S\$308m in 3FYQ22, due to lower contribution from SATS' non-travel related businesses. Travel-related revenue rose 5.4% qoq to S\$183m in 4QFY22 (3QFY22: S\$174m), as the aviation sector continues to recover; however, the magnitude of improvement was lower than expected and not able to fully offset the decline in non-travel revenue. Cost-wise, total operating cost rose 6% qoq to S\$334m in 4QFY22 (3QFY22: S\$317m), due mainly to higher staff costs from increasing labour headcount and reduction in government reliefs. As a result, SATS' operating losses widened qoq to S\$37.1m in 4QFY22, compared to S\$9.5m loss in 3QFY22.
- Headline net profit helped by one-off accounting gain.** SATS reported a net profit of S\$2.1m (FY22: S\$20.4m) for 4QFY22, helped by a sizeable one-off accounting gain of S\$28.9m related to the acquisition of an additional 16.4% stake in Asia Airfreight Terminal (AAT). Excluding the one-off accounting gain, SATS would have registered a core net loss of S\$26.8m in 4QFY22 (core net loss of S\$8.5m for FY22). SATS continued to receive government reliefs in 4QFY22. Excluding the positive impact of government reliefs, SATS' core net losses widened qoq to S\$42.5m in 4QFY22 from S\$33m in 3QFY22.

KEY FINANCIALS

Year to 31 Mar (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	970	1,177	1,918	2,215	2,453
EBITDA	120	77	160	300	444
Operating profit	(10)	(43)	30	165	305
Net profit (rep./act.)	(79)	20	50	154	270
EPS (S\$ cent)	(7.0)	1.8	4.4	13.7	23.9
PE (x)	n.m.	241.6	98.8	32.1	18.3
P/B (x)	3.2	3.1	3.0	2.8	2.6
EV/EBITDA (x)	37.1	61.3	30.3	15.9	10.6
Dividend yield (%)	0.0	0.0	0.7	2.3	4.3
Net margin (%)	(8.1)	1.7	2.6	6.9	11.0
Net debt/(cash) to equity (%)	(11.9)	(15.0)	(8.4)	(10.9)	(13.3)
ROE (%)	n.a.	1.3	3.1	9.1	15.0

Source: SATS, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$4.38
Target Price	S\$4.75
Upside	+8.3%
(Previous TP)	S\$4.85)

COMPANY DESCRIPTION

Asia's leading provider of food solutions and gateway services with a presence in over 55 locations across 14 countries.

STOCK DATA

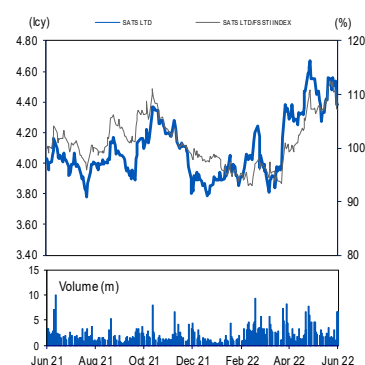
GICS sector	Industrials
Bloomberg ticker:	SATS SP
Shares issued (m):	1,122.1
Market cap (S\$m):	4,914.7
Market cap (US\$m):	3,587.1
3-mth avg daily t'over (US\$m):	8.8
Price Performance (%)	
52-week high/low	S\$ 4.67/S\$ 3.78

1mth	3mth	6mth	1yr	YTD
(3.7)	10.3	15.3	11.7	12.6

Major Shareholders	%
Temasek Hldgs	40.0

FY23 NAV/Share (S\$)	1.47
FY23 Net Debt/Share (S\$)	0.15

PRICE CHART



Source: Bloomberg

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- **Balance sheet remained healthy.** SATS maintained a net cash of position of S\$275m as at end-FY22, equivalent to 15% of its net asset base or 5.6% of its market cap.

- **No dividend declared.** This is as expected, as SATS was still in a loss-making position in FY22 without the government support.

STOCK IMPACT

- **Business volume recovery is ongoing...** We expect SATS' aviation business volume to continue to recover in FY23, fuelled by the opening of borders at its home base Singapore as well as the recent relaxation of travel restrictions in a number of SATS' key regional markets (Malaysia, India, etc). The strong Apr 22 operating statistics of Changi Airport were also encouraging – pax volume rose 69.3% mom to 1.93m or 32.4% of the pre-pandemic level (Mar 22: 19.2%), aircraft movement rose 14.4% mom to 15,100 or 45.2% of the pre-pandemic level (Mar 22: 39.5%).

- **...but cost pressure would weigh on SATS' near-term performance.** Business volume recovery aside, SATS is facing keener cost pressure in the near term, driven by higher labour costs (from headcount increase, wage inflation, training costs for new hires) as well as rising food ingredient prices. The proactive ramp-up of workforce ahead of business recovery is expected to create some mismatch between revenue and cost. Management guided that these factors would continue to weigh on SATS' financial performance in the next two quarters. As such, we expect SATS' earnings recovery to be more backend-loaded in 2HFY23.

- **Working with airline customers to pass through some raw material cost pressure.** We understand that SATS has been talking with some of its key airline customers to redesign the food menu. According to management, the menu redesign will allow SATS to pass down part of the raw material cost pressure to its end-customers (as pricing will be reviewed together with the menu redesign). While this will help relieve further margin pressure for SATS, it is unlikely to give an immediate boost to SATS' earnings.

EARNINGS REVISION

- **Cut FY23/24 core net profit estimates by 54%/15% while leaving FY25 forecast intact.** This reflects our updated expectation of keener cost pressure in the near term and hence a more backend-loaded earnings recovery. The increase in FY23-25 revenue projection is due to the financial accounting consolidation of AAT (now a 65.4% subsidiary vs previously a 49% associate).

UPDATED FINANCIAL PROJECTION

	----- Old -----			----- New -----			----- Change -----		
	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F
Revenue	1,795	2,102	2,300	1,918	2,215	2,453	+7%	+5%	+7%
EBIT	85	179	284	30	165	305	-65%	-8%	+7%
Core net profit	109	182	270	50	154	270	-54%	-15%	-

Source: UOB Kay Hian

VALUATION/RECOMMENDATION

- **Maintain BUY with a lower DCF-based target price of S\$4.75 (previously S\$4.85).** Our updated target price of S\$4.75 implies a FY25 PE of 19.8x, close to SATS' historical average forward PE in the normalised years (FY14-19). SATS' current trading price of S\$4.38 implies a FY25 PE of 18.3x, 0.5SD below its historical average.

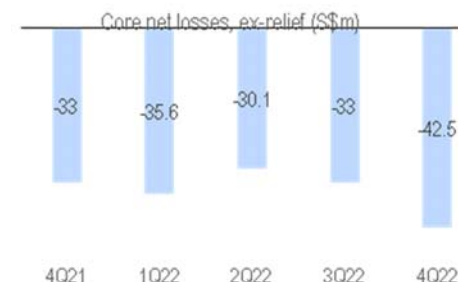
SHARE PRICE CATALYST

- Catalysts for SATS include faster-than-expected earnings recovery and relaxation of travel restrictions in key Northeast Asian markets including China and Japan.

RISKS

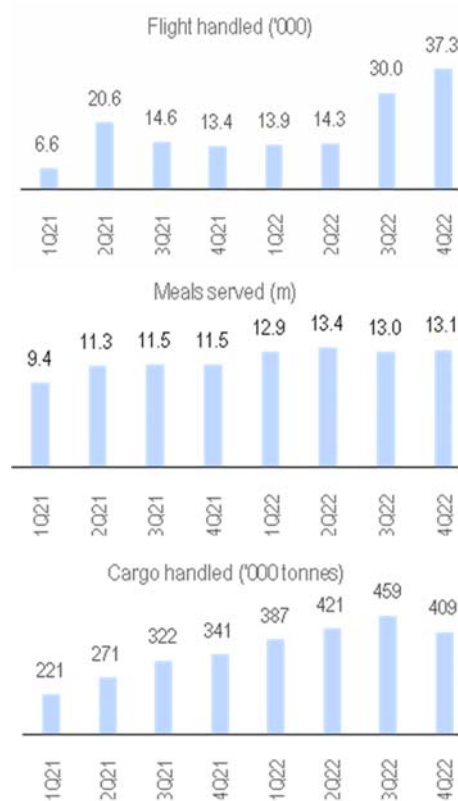
- Key risks for SATS include any event that disrupts the aviation sector recovery as well as failure to pass down cost pressures.

EX-RELIEF CORE NET LOSSES WIDENED QOQ



Source: SATS

OPERATING STATISTICS



Source: SATS

HISTORICAL PE BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Net turnover	1,176.8	1,918.4	2,215.2	2,453.2
EBITDA	77.1	159.6	300.1	443.8
Deprec. & amort.	119.7	130.0	135.0	139.1
EBIT	(42.6)	29.6	165.1	304.7
Total other non-operating income	12.2	0.0	0.0	0.0
Associate contributions	17.1	21.4	31.5	38.2
Net interest income/(expense)	(13.8)	(8.4)	(6.5)	(4.2)
Pre-tax profit	(27.1)	42.6	190.1	338.8
Tax	31.4	1.8	(31.7)	(60.1)
Minorities	16.1	5.6	(4.5)	(9.0)
Net profit	20.4	49.9	153.9	269.7

BALANCE SHEET

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Fixed assets	902.4	973.4	1,044.4	1,115.4
Other LT assets	1,093.9	1,084.9	1,079.3	1,076.0
Cash/ST investment	786.0	558.0	574.8	520.3
Other current assets	510.0	637.5	619.4	629.0
Total assets	3,292.3	3,253.9	3,318.0	3,340.7
ST debt	143.1	101.4	101.4	101.4
Other current liabilities	487.5	515.6	528.6	538.5
LT debt	694.8	625.7	585.7	465.7
Other LT liabilities	133.2	133.2	133.2	133.2
Shareholders' equity	1,602.6	1,652.5	1,739.2	1,862.9
Minority interest	231.1	225.5	229.9	238.9
Total liabilities & equity	3,292.3	3,253.9	3,318.0	3,340.7

CASH FLOW

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Operating	62.3	50.5	290.0	376.5
Pre-tax profit	(27.1)	42.6	190.1	338.8
Tax	(17.0)	1.8	(31.7)	(60.1)
Deprec. & amort.	119.7	130.0	135.0	139.1
Associates	(17.1)	(21.4)	(31.5)	(38.2)
Working capital changes	(0.3)	(99.4)	31.1	0.3
Non-cash items	19.5	0.0	0.0	0.0
Other operating cashflows	(15.4)	(3.0)	(3.0)	(3.4)
Investing	31.1	(140.4)	(138.6)	(137.8)
Capex (maintenance)	(77.9)	(157.7)	(162.7)	(166.8)
Investments	80.6	0.0	0.0	0.0
Proceeds from sale of assets	0.7	0.0	0.0	0.0
Others	27.7	17.3	24.1	29.0
Financing	(189.3)	(138.1)	(134.6)	(293.2)
Dividend payments	0.0	0.0	(67.3)	(145.9)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	21.1	0.0	0.0	0.0
Loan repayment	(182.0)	(110.8)	(40.0)	(120.0)
Others/interest paid	(28.4)	(27.3)	(27.3)	(27.3)
Net cash inflow (outflow)	(95.9)	(228.0)	16.8	(54.5)
Beginning cash & cash equivalent	879.8	786.0	558.0	574.8
Changes due to forex impact	2.1	0.0	0.0	0.0
Ending cash & cash equivalent	786.0	558.0	574.8	520.3

KEY METRICS

Year to 31 Mar (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	6.6	8.3	13.5	18.1
Pre-tax margin	(2.3)	2.2	8.6	13.8
Net margin	1.7	2.6	6.9	11.0
ROA	0.6	1.5	4.7	8.1
ROE	1.3	3.1	9.1	15.0
Growth				
Turnover	21.3	63.0	15.5	10.7
EBITDA	(35.9)	107.0	88.1	47.9
Pre-tax profit	n.a.	n.a.	346.7	78.2
Net profit	n.a.	144.8	208.2	75.2
EPS	n.a.	144.6	208.2	75.2
Leverage				
Debt to total capital	31.4	27.9	25.9	21.2
Debt to equity	52.3	44.0	39.5	30.4
Net debt/(cash) to equity	(15.0)	(8.4)	(10.9)	(13.3)

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