

Singapore

ADD (no change)

Consensus ratings*: Buy 6 Hold 2 Sell 1

Current price:	S\$3.99
Target price:	S\$4.47
Previous target:	S\$4.88
Up/downside:	12.1%
CGS-CIMB / Consensus:	-5.2%
Reuters:	SATS.SI
Bloomberg:	SATS SP
Market cap:	US\$3,229m
	S\$4,485m
Average daily turnover:	US\$7.48m
	S\$10.34m
Current shares o/s:	1,121m
Free float:	59.8%

*Source: Bloomberg

Key changes in this note

- FY23F EPS decreased by 64.4%.
- FY24F EPS decreased by 14.5%.
- FY25F EPS decreased by 7.0%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0.3	-10.7	3.1
Relative (%)	-2.5	-5.3	2.4

Major shareholders	% held
Temasek Holdings	39.8

Analyst(s)

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SATS Ltd

Recovery intact; but costs hurt for now

- 1QFY3/23 core net loss of S\$22.5m missed our net profit estimate for the quarter as operating cost increases outstripped revenue recovery.
- We expect recovery of the aviation industry to gradually offset cost pressures, with return to profitability delayed till 3Q23F.
- Reiterate Add but DCF-based TP lowered to S\$4.47 (WACC: 7.0%), with short-term weakness expected before operating leverage sets in.

Operational recovery suggests robust demand

SATS's revenue grew 25.4%/36.2% qoq/yoy to S\$375.5m in 1QFY3/23 with recovery within the aviation industry underway. Revenue was in line at 20.4% of our FY23F estimates, as momentum of revenue recovery is expected to improve given more extensive border reopening only in the latter part of 2QCY23. We estimate that SATS's in-flight meals, a proxy for recovery within the aviation industry, returned to 52% of pre-Covid levels in 1Q23F (Fig 2) and will reach 83% by the end of CY23F, tracking passenger traffic forecasts by International Air Transport Association (IATA).

Cost overrun hurt pace of recovery in the near term

Opex grew 20.1%/52.6% qoq/yoy, largely due to higher staff costs, which increased 82.6% yoy. Headcount increase from 11k a year ago to 14.6k as well as lower government relief exacerbated staff cost pressures. We expect headcount to rise beyond the previous peak of c.17k during pre-Covid levels by 3QFY23F, due to the need to hire ahead of demand recovery and incremental headcount from Asia Airfreight Terminal's (AAT) acquisition. Other operating expenses climbed 21.7% qoq on higher professional fees and fuel cost and lower grant quantum. Cost of raw materials, however, declined from 45% of food solutions' revenue in 4Q22 to 40.8% in the past quarter, suggesting better cost pass-through for the segment and we expect margins to hold at c.40% moving forward.

Weaker contributions from AAT consolidation

Management shared that AAT's contribution in 1Q23 was negligible as border restrictions in Hong Kong led to a sluggish performance for the quarter while incremental costs contributed to higher staff costs, depreciation expenses and other operating expenses. There could be a revenue upside from AAT, as management shared that AAT contributed c.S\$30m of revenue in the first quarter, compared to S\$152m for the whole of FY22.

Reiterate Add with lower TP of S\$4.47 on near-term weakness

We cut our FY23F EPS by 64.4% due to the cost ramp-up in the near term. Our FY24F/25F EPS is trimmed by a lower 14.5%/7.0% as revenue momentum suggests recovery of the aviation industry is underway, even though some margin pressure could linger. We expect losses to narrow more significantly in 2Q23F and see a return to profitability in 3Q23F, supported by seasonality factors. Upside risks include an early China reopening as well as acquisitions of earnings-accretive businesses; downside risks include delayed reopening of China and potential recession woes weighing on travel demand.

Financial Summary	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (S\$m)	970	1,177	1,825	2,337	2,794
Operating EBITDA (S\$m)	120.3	77.1	195.9	370.5	450.3
Net Profit (S\$m)	(78.9)	20.4	34.3	181.3	259.5
Core EPS (S\$)	(0.02)	(0.01)	0.03	0.16	0.23
Core EPS Growth	(114%)	(65%)		429%	43%
FD Core P/E (x)	NA	NA	131.1	24.8	17.3
DPS (S\$)	0.00	0.00	0.06	0.16	0.18
Dividend Yield	0.00%	0.00%	1.50%	4.01%	4.51%
EV/EBITDA (x)	32.36	52.33	21.13	10.93	8.81
P/FCFE (x)	12.34	NA	NA	28.06	25.71
Net Gearing	(11.9%)	(15.0%)	(3.7%)	(2.6%)	(1.1%)
P/BV (x)	2.89	2.79	2.85	2.85	2.75
ROE	(1.5%)	(0.5%)	2.2%	11.5%	16.2%
% Change In Core EPS Estimates			(64.4%)	(14.5%)	(7.0%)
CGS-CIMB/Consensus EPS (x)			0.56	1.35	0.93

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Recovery intact; but costs hurt for now

Insights to operating statistics >

Flights handled: Singapore reopened its borders significantly as of end-April, which led to a 24.3% qoq increase in flights handled. Momentum is likely to continue into 2Q23, with a full quarter impact of reopening. The lack of flights to and from China, however, could limit the pace of recovery.

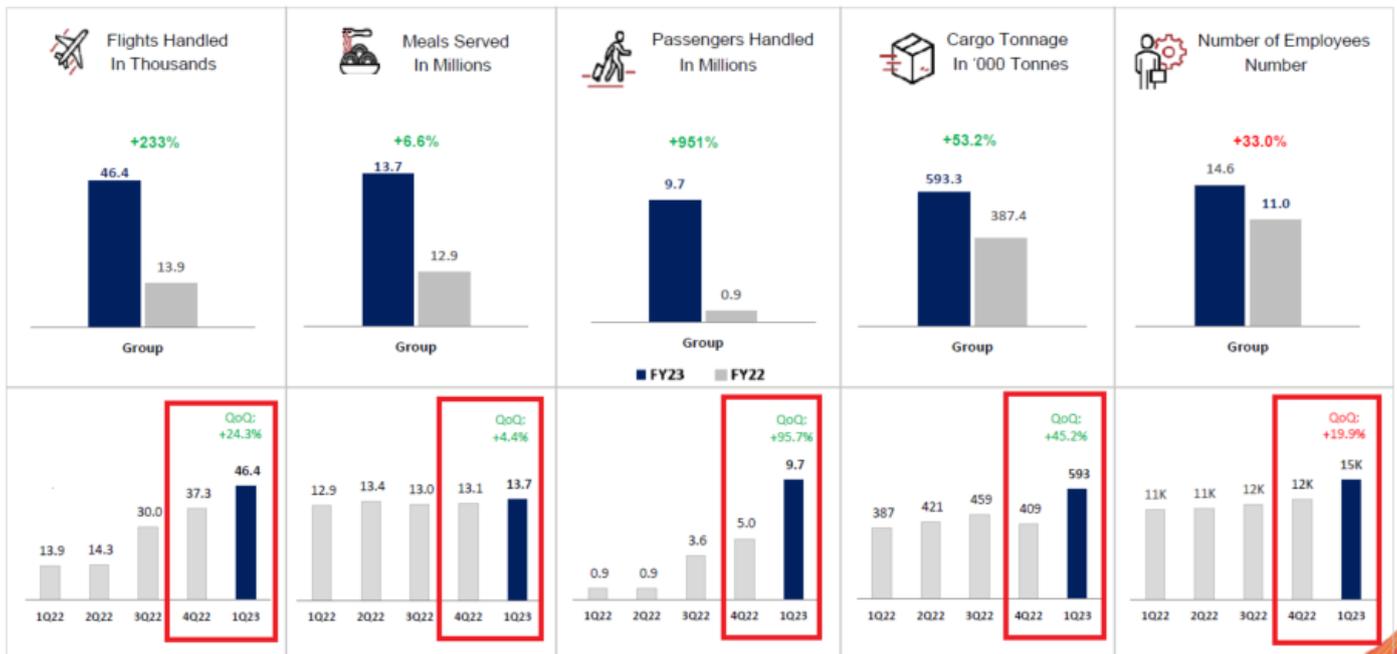
Meals served: Meals served inched up 4.4% qoq, likely due to the flow-through effect from more flights handled but persistent Covid-19 measures in North Asia likely weighed on contribution from the non-aviation industry.

Passengers handled: Passengers handled in the quarter almost doubled, suggesting robust demand for travel, likely boosted by seasonality factors due to the school holidays in Singapore.

Cargo tonnage: Cargo tonnage improved 45.2% qoq, likely predominantly due to consolidation of AAT's operations. However, management noted business momentum in Hong Kong was sluggish due to Covid-19 measures.

Number of employees: Number of employees jumped 19.9% qoq, a quicker pace than expected, contributing to the significantly higher staff costs given reduced lower government relief. Our staff cost estimations suggest staff count could continue to increase to c.18k by end of FY23F, partially contributed by incremental staff count from AAT.

Figure 1: Improvement in operating statistics suggests recovery of travel industry underway



*All statistics refer to Group (SATS and subsidiaries) unless indicated otherwise

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Pace of recovery for in-flight meals

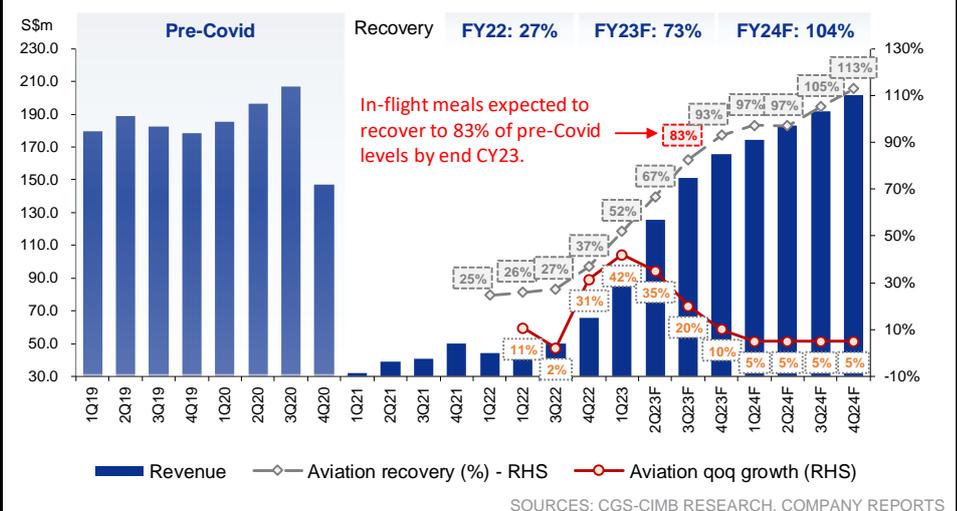
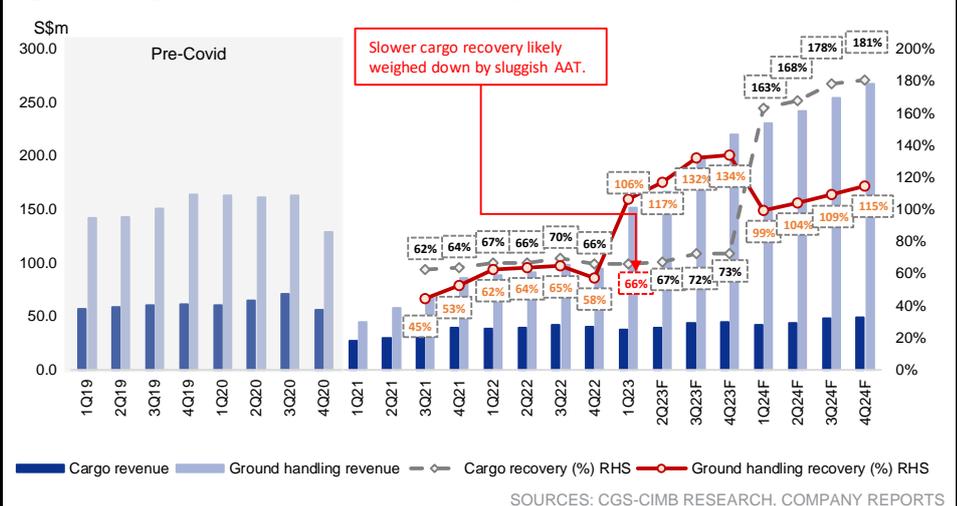


Figure 3: Cargo revenue and expected recovery



Biting the bullet for future growth ➤

Challenging cost conditions are likely to extend into 2Q23F but we anticipate narrowing losses as the recovery of the aviation industry is well underway. The improving operating conditions will also boost operating leverage, especially for SATS's food solutions segment, which we believe is currently not operating with sufficient scale as one of its central kitchens in Changi was unopened and China remained in lockdown over the past quarter, affecting ready-to-eat meals serving the non-aviation industry.

Management of SATS also said it expected the aviation industry to display robust recovery to beyond pre-Covid levels in CY24 and investments into capabilities in the meantime are essential to capture the growing demand. Its new central kitchen is expected to open in 1QCY23 and it will be able to support both aviation and non-aviation customers, such as quick-service restaurants.

Figure 4: Results comparison

FYE Mar (S\$m)	1QFY23	1QFY22	yoy % chg	4QFY22	qoq % chg	Prev. FY23F	Comments
Revenue	375.5	275.6	36.2%	299.5	25.4%	1,837.4	Came in at 20%/21.3% of our/consensus' estimates but is in line due to expected improvement in upcoming quarters due to more extensive border reopening.
Operating costs	(368.5)	(241.5)	52.6%	(306.8)	20.1%	(1,581.1)	Opex increase outpaced revenue recovery as SATS moved to hire in advance to cope with full recovery in aviation sector expected for FY24F. Incremental opex also weighed down by consolidation of AAT as business momentum in Hong Kong slowed over the past quarter due to border restrictions.
EBITDA	7.0	34.1	n.m.	(7.3)	n.m.	256.3	
<i>EBITDA margin (%)</i>	1.9%	12.4%	-10.5% pts	-2.4%	4.3% pts	13.9%	
Deprn & amort	(41.3)	(30.6)	35.0%	(29.8)	38.6%	(131.7)	Incremental depreciation attributed to AAT's acquisition.
EBIT	(34.3)	3.5	n.m.	(37.1)	n.m.	124.6	Continue to lack operating leverage especially within food solutions business.
Associates' contrib	6.9	(1.2)	n.m.	4.1	68.3%	20.0	
Exceptionals	0.0	0.0	#DIV/0!	28.9	n.m.	0.0	
Pretax profit	(31.2)	(1.5)	n.m.	(17.1)	82.5%	132.6	
Net profit	(22.5)	6.4	n.m.	2.1	n.m.	96.5	
Core net profit	(22.5)	6.4	n.m.	(26.8)	n.m.	96.5	Core net losses narrowed qoq, with more significant narrowing expecting in upcoming quarter. We expect profitability delayed to 3Q23F.
EPS (Scts)	(2.00)	0.60	n.m.	0.10	n.m.	8.6	
Core EPS (Scts)	(2.00)	0.60	n.m.	(2.46)	n.m.	8.6	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

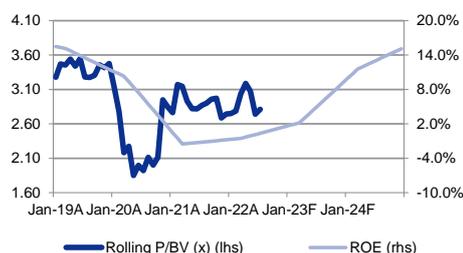
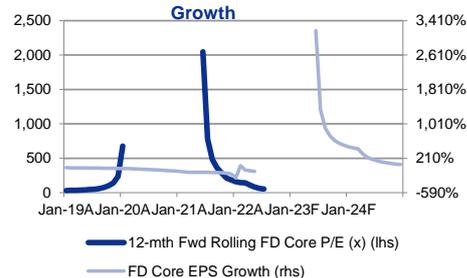
Figure 5: Earnings revision

Earnings revision	New			Old			% change		
	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY24F
Revenue	1,824.9	2,337.4	2,793.7	1,837.4	2,361.6	2,806.9	-0.7%	-1.0%	-0.5%
Operating EBIT	30.7	202.0	301.1	124.6	251.0	336.1	-75.4%	-19.5%	-10.4%
Associates contribution	22.9	40.0	40.0	20.0	40.0	40.0	14.5%	0.0%	0.0%
Core profit	34.3	181.3	259.5	96.5	212.0	279.0	-64.4%	-14.5%	-7.0%
Core EPS (Scts)	3.1	16.2	23.2	8.6	18.9	24.9	-64.4%	-14.5%	-7.0%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Refinitiv ESG Scores	
	
     	
<p>ESG in a nutshell</p> <p>SATS was rated a B in its ESG combined score by Refinitiv in FY2021 — Environmental: C+ (weightage 29.11%); Social: B+ (weightage 42.72%); and Governance: B (weightage 28.17%). We think SATS’s continued commitment to sustainability, especially in developing smart infrastructure, reduction of food and packaging waste as well as nurturing skills for the future, has streamlined the group’s ESG efforts to form closer collaborations with its customers, business partners and the community. As a result, SATS improved its combined ESG score from a B in FY2019 to a B+ in FY2020. Moving forward, SATS will continue to work at the industry level to enable greater use of renewable energy, electric vehicles, sustainable packaging, alternative proteins and skill upgrading.</p>	
<p>Keep your eye on</p> <p>We think SATS’s improvement in its ESG combined score was predominantly driven by its heavy emphasis on its Environmental pillar. In FY2020, SATS partnered with Sembcorp Industries to expand its rooftop solar panels to cover a total of 51,100 sq m. It is the first in Singapore to install solar thermal hybrid panels that convert solar energy into electricity and heat water concurrently. SATS expects the expansion of solar installations to yield 6k MW/h in renewable energy p.a. It also saw a 39% reduction in carbon footprint for FY20-21 (vs. FY18-19). In addition, the company plans to electrify all of its ground-handling fleet over the next 9 years to achieve 100% electrification. SATS stepped up environmental innovation in 1QFY22 with the implementation of an AI-enabled food waste tracking system, as well as the deployment of an on-site biodigester that converts waste to energy.</p>	<p>Implications</p> <p>The group’s environmental efforts are reflected in a leap in its emissions score, from a C in FY2019 to a B in FY2020. We believe its environmental initiatives will benefit its operations moving forward. Fundamentally, energy savings efforts could lead to margin expansion over time.</p>
<p>ESG highlights</p> <p>According to Refinitiv, SATS is ahead of its peers in the E, S and G pillars. In particular, SATS takes the lead in the social aspect through employee training, where 11,000 employees in its aviation transport training programme clocked 3.8m learning hours across the group. In 1QFY22, SATS further strengthened its Social standing, with 24% female representation among VPs and above. In addition, a total of 5,688 staff volunteer hours were devoted across 133,732 beneficiaries.</p>	<p>Implications</p> <p>The group’s workforce score recorded an increase from a B+ in FY2019 to an A- in FY2020, making it one of the top three highest scoring categories within the company’s Social pillar that year. We believe the group stands to gain from its employee training efforts through improved workforce productivity and satisfaction.</p>
<p>Trends</p> <p>SATS improved its Governance pillar score from a B in FY2019 to a B+ in FY2020. This was led by an increase in its shareholders score, from a C- in FY2019 to a B in FY2020, a direct result of its shareholder rights, equal voting rights, and shareholder engagement policies. According to Refinitiv, SATS also improved its stance on shareholders’ vote on executive pay.</p>	<p>Implications</p> <p>We believe SATS’s ramp-up in its shareholder aspect under the Governance pillar will instil greater shareholder confidence and satisfaction in the group.</p>

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS
P/BV vs ROE

12-mth Fwd FD Core P/E vs FD Core EPS Growth

Profit & Loss

(\$m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	970.0	1,176.8	1,824.9	2,337.4	2,793.7
Gross Profit	317.9	315.1	530.0	789.0	965.4
Operating EBITDA	120.3	77.1	195.9	370.5	450.3
Depreciation And Amortisation	(130.4)	(119.7)	(165.2)	(168.5)	(149.2)
Operating EBIT	(10.1)	(42.6)	30.7	202.0	301.1
Financial Income/(Expense)	(15.7)	(13.8)	(12.9)	(12.0)	(12.0)
Pretax Income/(Loss) from Assoc.	(48.0)	17.1	22.9	40.0	40.0
Non-Operating Income/(Expense)	(71.7)	12.2	0.1	0.0	0.0
Profit Before Tax (pre-EI)	(145.4)	(27.1)	40.8	230.0	329.1
Exceptional Items					
Pre-tax Profit	(145.4)	(27.1)	40.8	230.0	329.1
Taxation	36.2	31.4	(7.4)	(39.1)	(56.0)
Exceptional Income - post-tax					
Profit After Tax	(109.3)	4.3	33.3	190.9	273.2
Minority Interests	30.4	16.1	0.9	(9.5)	(13.7)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	(78.9)	20.4	34.3	181.3	259.5
Recurring Net Profit	(23.9)	(8.5)	34.3	181.3	259.5
Fully Diluted Recurring Net Profit	(23.9)	(8.5)	34.3	181.3	259.5

Cash Flow

(\$m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	120.3	77.1	195.9	370.5	450.3
Cash Flow from Invt. & Assoc.	48.0	(17.1)	(22.9)	(40.0)	(40.0)
Change In Working Capital	6.7	(0.3)	(156.4)	0.7	(47.7)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(15.6)	33.4	23.0	40.0	40.0
Net Interest (Paid)/Received	(20.5)	(13.8)	(12.9)	(12.0)	(12.0)
Tax Paid	(21.2)	(17.0)	(7.4)	(39.1)	(56.0)
Cashflow From Operations	117.8	62.3	19.3	320.1	334.7
Capex	(61.5)	(77.9)	(80.0)	(80.0)	(80.0)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	0.0	80.6	(80.0)	(80.0)	(80.0)
Other Investing Cashflow	33.2	28.4	0.0	0.0	0.0
Cash Flow From Investing	(28.4)	31.1	(160.0)	(160.0)	(160.0)
Debt Raised/(repaid)	273.6	(160.9)	(84.9)	0.0	0.0
Proceeds From Issue Of Shares					
Shares Repurchased	(1.6)	0.0	0.0	0.0	0.0
Dividends Paid	0.0	0.0	(67.3)	(179.4)	(201.8)
Preferred Dividends					
Other Financing Cashflow	(32.5)	(28.4)	0.0	0.0	0.0
Cash Flow From Financing	239.5	(189.3)	(152.1)	(179.4)	(201.8)
Total Cash Generated	328.9	(95.9)	(292.9)	(19.3)	(27.1)
Free Cashflow To Equity	363.0	(67.5)	(225.6)	160.1	174.7
Free Cashflow To Firm	109.9	107.2	(127.8)	172.1	186.7

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(S\$m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	880	786	493	474	447
Total Debtors	292	388	365	397	483
Inventories	130	83	196	229	272
Total Other Current Assets	21	39	39	39	39
Total Current Assets	1,323	1,296	1,093	1,139	1,241
Fixed Assets	520	590	504	416	347
Total Investments	593	469	572	692	812
Intangible Assets	411	553	553	553	553
Total Other Non-Current Assets	245	385	385	385	385
Total Non-current Assets	1,769	1,996	2,014	2,045	2,096
Short-term Debt	143	102	102	102	102
Current Portion of Long-Term Debt					
Total Creditors	359	458	391	457	539
Other Current Liabilities	63	71	71	71	71
Total Current Liabilities	565	631	564	630	711
Total Long-term Debt	535	409	324	324	324
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	293	419	419	419	419
Total Non-current Liabilities	828	828	743	743	743
Total Provisions	0	0	0	0	0
Total Liabilities	1,393	1,459	1,307	1,373	1,454
Shareholders' Equity	1,546	1,603	1,570	1,572	1,629
Minority Interests	152	231	230	240	253
Total Equity	1,699	1,834	1,800	1,811	1,883

Key Ratios

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	(50.0%)	21.3%	55.1%	28.1%	19.5%
Operating EBITDA Growth	(65%)	(36%)	154%	89%	22%
Operating EBITDA Margin	12.4%	6.6%	10.7%	15.8%	16.1%
Net Cash Per Share (S\$)	0.18	0.25	0.06	0.04	0.02
BVPS (S\$)	1.38	1.43	1.40	1.40	1.45
Gross Interest Cover	(0.49)	(3.09)	2.38	16.83	25.09
Effective Tax Rate	0.0%	0.0%	18.2%	17.0%	17.0%
Net Dividend Payout Ratio	NA	NA	196%	99%	78%
Accounts Receivables Days	127.5	105.3	75.3	59.7	57.5
Inventory Days	55.26	45.17	39.29	50.14	50.01
Accounts Payables Days	204.6	172.9	119.7	100.3	99.4
ROIC (%)	(0.6%)	0.6%	1.7%	10.6%	16.8%
ROCE (%)	(0.2%)	(1.8%)	1.3%	9.1%	13.2%
Return On Average Assets	(3.20%)	0.07%	1.37%	6.38%	8.68%

Key Drivers

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue growth (%)	-50.0%	21.3%	55.1%	28.1%	19.5%
Operating margin (%)	-1.0%	-3.6%	1.7%	8.6%	10.8%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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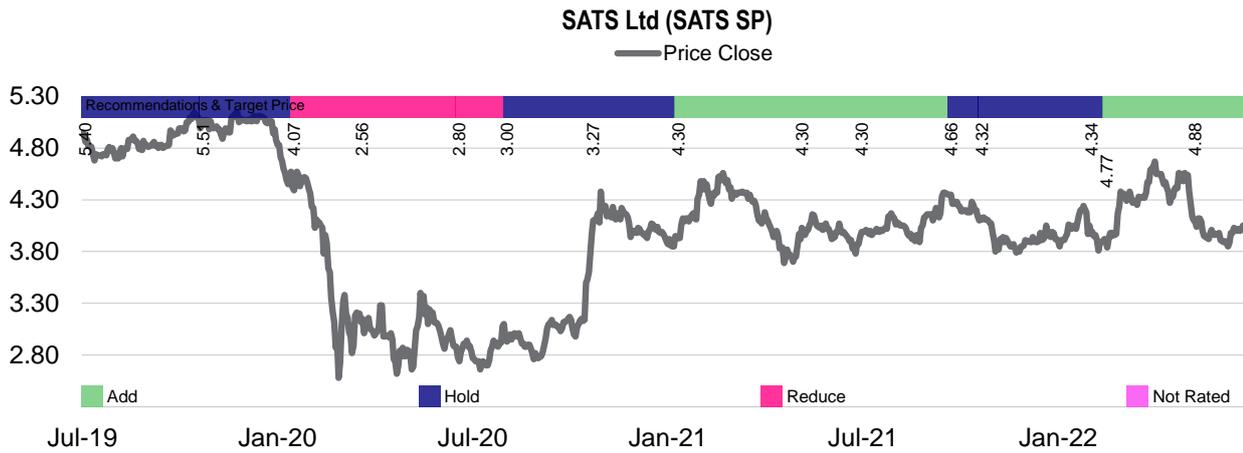
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	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

Spitzer Chart for stock being researched (2 year data)



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Add The stock's total return is expected to exceed 10% over the next 12 months.

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