

Singapore Company Update

SATS

Bloomberg: SATS SP | Reuters: SATS.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

15 Nov 2023

BUY

Last Traded Price (14 Nov 2023): S\$2.66 (STI : 3,104.66)

Price Target 12-mth: S\$3.40 (28% upside) (Prev S\$3.20)

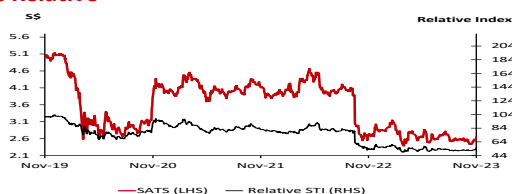
Analyst

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What's New

- 2QFY24 results in line, with significant improvement in operating margin
- Earnings momentum to accelerate from hereon on continued volume and margin recovery
- Trim FY24/25F adjusted EBITDA to factor in accounting impact from ongoing PPA adjustment
- Maintain BUY with slightly higher TP of S\$3.40

Price Relative



Forecasts and Valuation

FY Mar (S\$m)	2023A	2024F	2025F	2026F
Revenue	1,758	5,087	5,477	5,659
EBITDA	128	795	991	1,078
Pre-tax Profit	(43.8)	81.9	294	396
Net Profit	(26.5)	52.8	231	311
Net Pft (Pre Ex.)	6.00	75.8	231	311
Net Pft Gth (Pre-ex) (%)	(26.8)	1,163.1	204.3	34.7
EPS (S cts)	(2.4)	3.55	15.5	20.9
EPS Pre Ex. (S cts)	0.54	5.10	15.5	20.9
EPS Gth Pre Ex (%)	(27)	850	204	35
Diluted EPS (S cts)	(2.4)	3.55	15.5	20.9
Net DPS (S cts)	0.0	0.0	6.00	15.0
BV Per Share (S cts)	209	160	176	185
PE (X)	nm	74.9	17.2	12.7
PE Pre Ex. (X)	496.1	52.2	17.2	12.7
P/Cash Flow (X)	37.4	10.2	6.0	5.1
EV/EBITDA (X)	53.7	9.9	7.8	7.0
Net Div Yield (%)	0.0	0.0	2.3	5.6
P/Book Value (X)	1.3	1.7	1.5	1.4
Net Debt/Equity (X)	1.5	1.5	1.3	1.2
ROAE (%)	(1.3)	2.2	9.2	11.6
Earnings Rev (%):			5	-
Consensus EPS (S cts):		3.8	10.6	19.2
Other Broker Recs:		B: 6	S: 1	H: 1

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

Onto the next stage of growth

Investment Thesis:

Globally diversified aviation services and food solutions provider.

SATS is one of the world's largest ground and air cargo handlers (no.1 in cargo tonnage), with an extensive global network of over 210 ground and cargo stations in 27 countries, commanding a significant market share in multiple key airports. Additionally, SATS is also a prominent player in Asia's food solutions sector, with a strong foothold in in-flight catering. Over the years, the group has also successfully expanded its reach into non-aviation segments like retail, food services, and HoReCa (hotels, restaurants, catering).

Sustained recovery in global air passenger traffic and growth in non-travel food business to drive earnings momentum.

The global air cargo market appears to be stabilising, and we foresee the group's ground handling and in-flight catering businesses benefitting from the global recovery in air travel. Moreover, SATS's non-travel-related food business should also register healthy growth, underpinned by the group's expanding product portfolio and customer base, and increased production capacity and footprint. The acquisition of WFS should also start yielding operational and financial synergies over the next few years. We project SATS's core EPS to reach 20.6Scts in FY26F, representing 93% of FY19's level.

Successful integration and realisation of synergies from WFS are critical to drive re-rating.

SATS has completed the refinancing of WFS's costly debt, with meaningful interest savings to materialise from FY25F. More importantly, the market will be paying attention to the assimilation of WFS, and whether the group can achieve its intended operating synergies within its projected timeline, to justify the price paid for WFS.

Maintain BUY with higher TP of S\$3.40 (vs. S\$3.20 previously). We find the present risk-to-reward setup attractive and anticipate a 20%-25% upside from the current share price level. Our blended valuation framework incorporates both a forward EV/EBITDA multiple (pegged to 8.5x blended FY24/25F EBITDA) and discounted cash flow valuation.

Key Risks

Global macroeconomic instability that could delay the normalisation of air passenger traffic or negatively impact air cargo volumes. Additionally, there are potential execution risks associated with integrating WFS and achieving the anticipated synergies.

At A Glance

Issued Capital (m shrs)	1,487
Mkt. Cap (S\$m/US\$m)	3,956 / 2,933
Major Shareholders (%)	
Temasek Holdings Pte	30.1
Free Float (%)	69.9
3m Avg. Daily Val (US\$m)	5.8
GIC Industry : Industrials / Transportation	



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SATS

WHAT'S NEW

1HFY24 results in line, with encouraging signs of recovery in the cargo handling segment

2QFY24 results in line with expectations, with turnaround in cargo segment driving growth. SATS reported group (SATS + WFS) 2QFY24 EBITDA of S\$194.4m (+23% q-o-q, +460% y-o-y), with 1HFY24 EBITDA of S\$352.6m, accounting for c.45% of the street's full-year estimate. The group is tracking well against estimates, as we anticipate continued recovery throughout FY24F, especially with the peak cargo and travel (for SATS) season approaching in 2HFY24. Encouragingly, the group's bottom line also turned profitable, with it reporting a PATMI of S\$22.2m in 2QFY24, a marked S\$29.9m improvement from the previous quarter, with WFS returning into the black with a minor net profit of S\$3.3m.

Group revenue of S\$2,480.6m (+7.0% q-o-q, +198.8% y-o-y) in 1HFY24 was also aligned with our expectations, representing 48.8% of our full-year estimate. SATS's individual flight and passenger volumes remained stable at 82% and 81% of pre-pandemic levels, respectively, demonstrating consistent performance. Meal services maintained at 97% overall, with a slight improvement in aviation food to 83%. Despite a sluggish air cargo market, the group (SATS + WFS) achieved a 5.8% q-o-q increase in cargo tonnage, compensating for lower volumes from existing customers by securing new contracts and expanding market share across various stations.

Operating margins strengthened significantly on increased economies of scale and turnaround in cargo segment.

Individually, SATS and WFS experienced substantial sequential EBIT (including share of associates and JVs) growth of 100% and 277%, respectively, in 2QFY24, propelled by a significant upswing in ground handling, which saw operating margins rise to 8.0% from 1.1% in the prior quarter. SATS's food solutions also recorded a positive operating profit for the first time since the pandemic, with the absence of government subsidies.

Accounting-related matters:

- 1) **Depreciation & amortisation adjustments:** SATS saw a q-o-q decrease of S\$19.1m in its D&A expenses, primarily due to ongoing adjustments from the WFS acquisition. Of this amount, S\$8-9m was reclassified to be reflected under the share of profits from associates & JVs. Management anticipates providing a more accurate D&A run-rate starting next quarter.
- 2) **Elevated effective tax rate:** SATS experienced an unusually high effective tax rate in the first half of FY24. The tax expenses exceeded profit before tax, largely due to non-tax deductible expenditures that arose from the purchase price allocation for WFS.
- 3) **Foreign exchange gains:** The group recorded FX gains of S\$10.3m in 1HFY24, mainly from translation gains on WFS's debt in foreign currencies.

Integration of WFS is advancing smoothly. Management shared that commercial and network alignment between SATS and WFS has enabled the group to effectively engage with key customers to cross-sell services across regions. This collaboration has enhanced SATS's service offering, ensuring greater control, visibility, and efficiency throughout its global network. The group managed to secure new commercial wins across various regions, including cold chain cargo handling for Etihad Airways in the US and Copenhagen and a long-term cargo handling contract in Belgium. Additionally, the group is continuing to invest in preparing for the long term and is currently expanding capacity at key cargo stations in Chicago and Madrid.

Earnings growth to accelerate from hereon; FY24/25F EBITDA estimates revised down slightly to reflect accounting impact. We have slightly reduced our FY24/25F EBITDA projections, by 2%/4%, to reflect the abovementioned accounting adjustments. Our outlook on the group's earnings remains upbeat. Early indications of a stabilising global air cargo market and a robust recovery in global air traffic, particularly in Asia, are expected to bolster the group's ground handling and aviation food service segments. Moreover, we anticipate a continued expansion of its operating margin, supported by the positive effects of increased operational leverage from rising volumes and further cost efficiencies realised from WFS in the medium term. Our current forecasts suggest that the group's core EPS will recover to 70% and 94% of FY19's level by FY25F and FY26F, respectively, a significant increase from 20% in FY24F.

SATS

Maintain BUY with slightly higher TP as we roll forward our valuation. We lift our TP to S\$3.40 (vs. S\$3.20 previously), as we roll forward our valuation peg to 8.5x blended FY24/25F EBITDA. We continue to be optimistic on the stock, given its improving earnings momentum from hereon and undemanding valuation. Furthermore, a potential reinstatement of dividends in FY25F could catalyse a re-rating, in our view.

Company Background

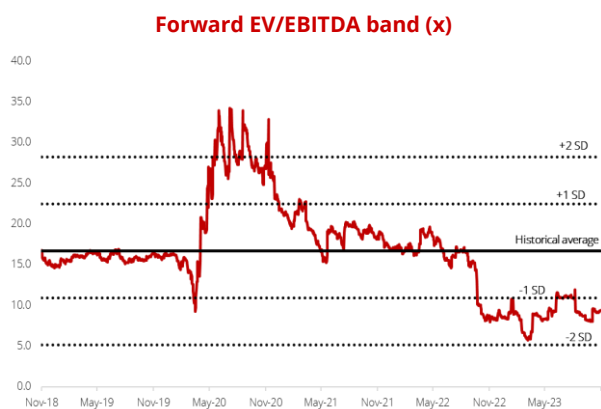
SATS, a leading provider of gateway services and food solutions in Asia, commands the largest market share in in-flight catering and ground-handling services at Singapore's Changi Airport. Its recent acquisition of Worldwide Flight Services (WFS) has catapulted the group to the position of the world's largest air cargo handler. Beyond aviation, SATS extends its catering services and food solutions to various non-aviation segments like retail, food services, and HoReCa (hotels, restaurants, and catering).

Valuation table

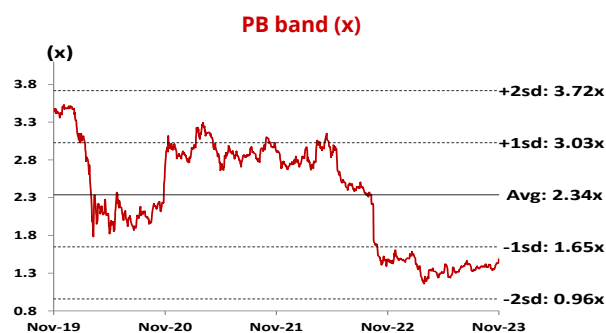
Valuation Methodology	Parameters	Price per share (S\$)
DCF	7.0% WACC, 2.0% terminal growth	3.73
EV/EBITDA	8.5x blended FY24/25F EBITDA	3.06
Average		3.40

Source: DBS Bank Bank

Historical EV/EBITDA and PB band



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



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

SATS

Segmental Breakdown

FY Mar	2022A	2023A	2024F	2025F	2026F
Revenues (\$m)					
Food solutions	641	869	1,059	1,209	1,258
Gateway services	533	889	4,026	4,266	4,400
Corporate	3.40	0.50	2.00	2.00	2.00
Total	1,177	1,758	5,087	5,477	5,659

Income Statement (\$m)

FY Mar	2022A	2023A	2024F	2025F	2026F
Revenue	1,177	1,758	5,087	5,477	5,659
Cost of Goods Sold	0.0	0.0	0.0	0.0	0.0
Gross Profit	1,177	1,758	5,087	5,477	5,659
Other Opng (Exp)/Inc	(1,219)	(1,806)	(4,827)	(5,035)	(5,141)
Operating Profit	(42.6)	(48.0)	260	443	518
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	17.1	45.4	80.0	92.5	97.5
Net Interest (Exp)/Inc	(13.8)	(8.7)	(235)	(241)	(220)
Exceptional Gain/(Loss)	12.2	(32.5)	(23.0)	0.0	0.0
Pre-tax Profit	(27.1)	(43.8)	81.9	294	396
Tax	31.4	5.20	(25.1)	(55.5)	(75.3)
Minority Interest	16.1	12.1	(4.0)	(8.0)	(10.0)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	20.4	(26.5)	52.8	231	311
Net Profit before Except.	8.20	6.00	75.8	231	311
EBITDA	77.1	128	795	991	1,078
Growth					
Revenue Gth (%)	21.3	49.4	189.3	7.7	3.3
EBITDA Gth (%)	(35.9)	65.8	522.4	24.5	8.9
Opg Profit Gth (%)	321.8	12.7	(640.7)	70.5	17.1
Net Profit Gth (Pre-ex) (%)	nm	(26.8)	1,163.1	204.3	34.7
Margins & Ratio					
Gross Margins (%)	100.0	100.0	100.0	100.0	100.0
Opg Profit Margin (%)	(3.6)	(2.7)	5.1	8.1	9.2
Net Profit Margin (%)	1.7	(1.5)	1.0	4.2	5.5
ROAE (%)	1.3	(1.3)	2.2	9.2	11.6
ROA (%)	0.6	(0.5)	0.6	2.7	3.7
ROCE (%)	(1.6)	(1.0)	2.5	4.9	5.8
Div Payout Ratio (%)	0.0	N/A	0.0	38.7	71.8
Net Interest Cover (x)	(3.1)	(5.5)	1.1	1.8	2.4

Source: Company, DBS Bank

SATS

Balance Sheet (\$m)

FY Mar	2022A	2023A	2024F	2025F	2026F
Net Fixed Assets	902	2,086	2,115	2,142	2,157
Invts in Associates & JVs	454	784	829	877	914
Other LT Assets	640	1,900	3,589	3,504	3,435
Cash & ST Invts	786	604	547	558	510
Inventory	83.2	73.6	101	122	127
Debtors	388	1,002	1,128	1,177	1,217
Other Current Assets	39.0	1,820	46.0	46.0	46.0
Total Assets	3,292	8,270	8,355	8,426	8,406
ST Debt	143	13.0	13.0	13.0	13.0
Creditor	458	730	776	818	850
Other Current Liab	29.5	338	321	311	311
LT Debt	695	4,301	4,301	4,101	3,901
Other LT Liabilities	133	373	373	373	373
Shareholder's Equity	1,603	2,334	2,386	2,617	2,755
Minority Interests	231	181	185	193	203
Total Cap. & Liab.	3,292	8,270	8,355	8,426	8,406
Non-Cash Wkg. Capital	22.5	1,827	178	216	229
Net Cash/(Debt)	(51.9)	(3,710)	(3,767)	(3,557)	(3,405)
Debtors Turn (avg days)	105.3	144.3	76.4	76.8	77.2
Creditors Turn (avg days)	135.5	133.0	64.0	64.8	66.4
Inventory Turn (avg days)	35.4	17.5	7.4	9.1	9.9
Asset Turnover (x)	0.4	0.3	0.6	0.7	0.7
Current Ratio (x)	2.1	3.2	1.6	1.7	1.6
Quick Ratio (x)	1.9	1.5	1.5	1.5	1.5
Net Debt/Equity (X)	0.0	1.5	1.5	1.3	1.2
Net Debt/Equity ex MI (X)	0.0	1.6	1.6	1.4	1.2
Capex to Debt (%)	9.2	2.2	5.6	6.1	6.4

Cash Flow Statement (\$m)

FY Mar	2022A	2023A	2024F	2025F	2026F
Pre-Tax Profit	(27.1)	(43.8)	81.9	294	396
Dep. & Amort.	120	176	536	548	560
Tax Paid	(17.0)	(2.7)	(25.1)	(55.5)	(75.3)
Assoc. & JV Inc/(loss)	(17.1)	(45.4)	(80.0)	(92.5)	(97.5)
Chg in Wkg.Cap.	(0.3)	8.00	(12.5)	(38.3)	(12.9)
Other Operating CF	4.10	(12.3)	0.0	0.0	0.0
Net Operating CF	62.3	79.6	388	656	771
Capital Exp.(net)	(77.5)	(93.9)	(240)	(250)	(250)
Other Invts.(net)	0.0	(1,774)	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	26.6	23.5	35.0	45.0	50.0
Other Investing CF	82.0	240	0.0	0.0	0.0
Net Investing CF	31.1	(1,604)	(205)	(205)	(200)
Div Paid	0.0	0.0	0.0	0.0	(178)
Chg in Gross Debt	(187)	586	0.0	(200)	(200)
Capital Issues	0.0	790	0.0	0.0	0.0
Other Financing CF	(2.4)	(36.1)	(240)	(240)	(240)
Net Financing CF	(189)	1,340	(240)	(440)	(618)
Currency Adjustments	2.05	0.70	0.0	0.0	0.0
Chg in Cash	(93.9)	(184)	(57.4)	10.8	(47.9)
Opg CFPS (S cts)	5.59	6.40	34.5	46.7	52.7
Free CFPS (S cts)	(1.4)	(1.3)	9.92	27.3	35.0

Source: Company, DBS Bank

SATS

Target Price & Ratings 12-mth History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	19 May 23	2.70	3.40	BUY
2:	31 May 23	2.58	3.20	BUY
3:	16 Aug 23	2.54	3.20	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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