

Singapore

ADD (no change)

Consensus ratings*: Buy 7 Hold 1 Sell 1

Current price:	S\$2.93
Target price:	S\$3.44
Previous target:	S\$3.00
Up/downside:	17.3%
CGS-CIMB / Consensus:	10.2%
Reuters:	SATS.SI
Bloomberg:	SATS SP
Market cap:	US\$3,277m
	S\$4,368m
Average daily turnover:	US\$6.05m
	S\$8.12m
Current shares o/s:	1,484m
Free float:	59.8%

*Source: Bloomberg

Key changes in this note

➤ No changes.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	9.3	13.1	7.6
Relative (%)	6.4	13.9	9.9

Major shareholders

	% held
Temasek Holdings	39.8

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SATS Ltd

Hopeful of improving profitability profile

- We think that SATS should see qoq revenue growth of c.7% in 3QFY3/24F to c.S\$1.37bn, driven by a recovery in cargo demand and higher IVAs.
- As such, we expect SATS to report a c.S\$28m in PATMI (+70% qoq) in 3QFY3/24F, with higher qoq revenue driving better operating leverage.
- We reiterate our Add call and lift our DCF-based TP (WACC: 9.9%) to S\$3.44 from S\$3.00 after lowering our WACC due to lower risk-free rate assumption.

Recovery of global cargo volumes accelerated in Nov 23

According to the International Air Transport Association (IATA), global air cargo demand improved 8.3% yoy to reach 22.4bn cargo tonne-kilometers (CTKs) in Nov 23 (Fig 1). This is the largest yoy increase since global air cargo demand returned to growth in Aug 23 following 17 months of yoy declines since Feb 22, even if current demand is 2.5% below the Nov 19 (pre-pandemic) level. We believe a similar growth rate is likely for Dec 23 given the gifting season, which should support revenue growth for SATS's cargo business that made up c.49% of SATS's revenue as of 1H24.

Global passenger demand almost back to pre-Covid levels

On top of the potential turnaround in cargo business, global passenger air travel demand reached 99% of the Nov 19 level in Nov 23 (Fig 2). Changi Airport saw 10.3m passenger movements in Oct-Nov 23 (67% of 3QCY23), and we expect a strong Dec 23 due to the peak travel season, to see 4QCY23F passenger movements surpass 3QCY23's. As such, SATS's ground handling and aviation food sub-segments should see revenue growth in 3Q23F on stronger seasonal travel. The latter is also likely to translate to higher qoq contributions from its associates and joint ventures in China, Japan, and Malaysia.

Operating leverage driven by expected stable cost profile

While there are likely to be some cost step-ups, especially with SATS preparing for the opening of its central kitchen operations in Bangalore, Tianjin, and Bangkok, we do not expect a drastic cost escalation, especially with manpower-intensive ground handling and cargo business likely to have been well-staffed by 1HFY3/24, ahead of the peak travel season. As such, we expect EBIT growth of 22.7% qoq to c.S\$80.5m in 3QFY3/24F.

Reiterate Add with a higher TP of S\$3.44

We keep our estimates for FY24F-26F unchanged but lift our TP to S\$3.44 due to lower WACC assumption of 9.9%, from 10.5% previously. We recognise that the low profit base could see volatility in earnings in the near term. The WACC reduction is due to a lower risk-free rate assumption of 2.5%, from 4.0%, given current SG 10-year government bond yield of 2.8% and rate cut expectations in 2H24F. Our TP implies FY3/26F P/E of 25x, 1 s.d. above its 2013-18 average, which we think is justified given its improving EBIT. Rerating catalyst is improving cashflow generation that supports resumption of dividends and paring down of debt. Downside risks: unexpected cost escalation, and impairment on WFS upon finalisation of its purchase price allocation (PPA) exercise by end-FY3/24F.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (S\$m)	1,177	1,758	5,188	5,544	5,712
Operating EBITDA (S\$m)	77.0	127.8	814.5	853.8	931.0
Net Profit (S\$m)	20.4	(26.5)	51.1	110.9	205.0
Core EPS (S\$)	(0.01)	(0.02)	0.03	0.07	0.14
Core EPS Growth	(64%)	194%		117%	85%
FD Core P/E (x)	NA	NA	85.17	39.20	21.21
DPS (S\$)	-	-	0.017	0.037	0.069
Dividend Yield	0.00%	0.00%	0.59%	1.28%	2.36%
EV/EBITDA (x)	36.95	17.96	8.05	7.05	5.87
P/FCFE (x)	NA	5.27	4.73	19.95	15.58
Net Gearing	(15%)	(40%)	110%	87%	64%
P/BV (x)	2.05	1.86	2.09	2.03	1.94
ROE	(0.54%)	(1.36%)	2.31%	5.25%	9.35%
% Change In Core EPS Estimates			0%	0%	0%
EPS/Consensus EPS (x)			0.88	0.67	0.73

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Hopeful of improving profitability profile

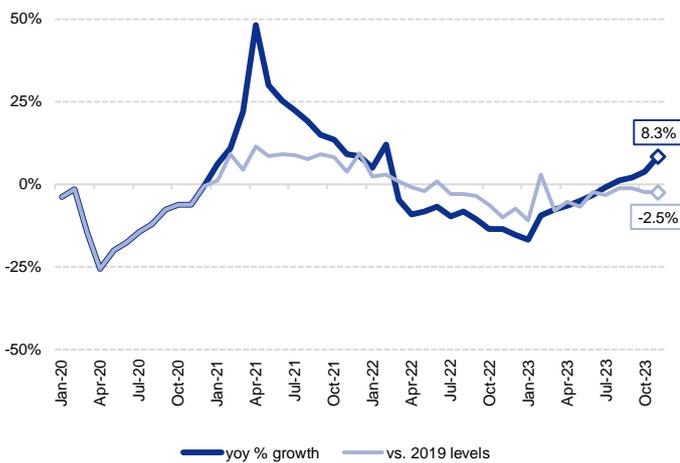
Potential for more finance cost savings in FY25F ▶

On 19 Nov 23, SATS announced the establishment of a US\$3bn multicurrency debt issuance programme which provides flexibility for SATS to optimise its borrowing costs moving forward. Given its net gearing of 0.9x (1.45x including lease liabilities), with a cash balance of S\$515.9m as of 1HFY3/24, we think that there is scope for SATS to further reduce its finance costs of c.S\$240m, based on our FY24F estimates, by paring down its debt, while potentially refinancing its outstanding loans given easing interest rates going into 2HCY24F. Currently, we estimate that SATS will pare down its debt by c.S\$300m p.a. from FY24F through FY26F without any additional savings from potential declines in interest rates.

Red Sea crisis might drive demand for airfreight in near term ▶

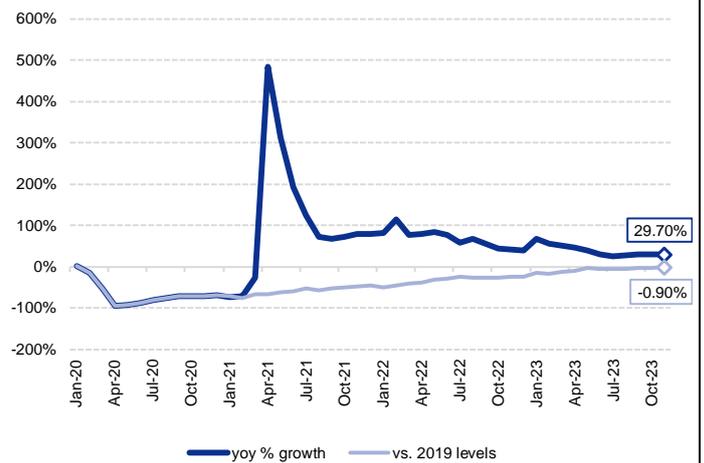
The unfolding of the Red Sea crisis could see demand for air cargo increase in the near term as maritime trade routes face disruptions resulting in shipment delays. This could further drive up SATS's cargo volumes heading into 4QFY3/24F, on top of the broad-based recovery in air cargo demand. Nevertheless, we think that the shift towards air cargo is likely to be a stop-gap measure to alleviate shipment delays as container ships get re-routed, unless a prolonged crisis results in shipments being stuck and unable to reach their destinations. As such, we do not think that the impact on underlying cargo revenues will be long lasting.

Figure 1: Global cargo demand by Cargo Tonne-Kilometre (CTK)



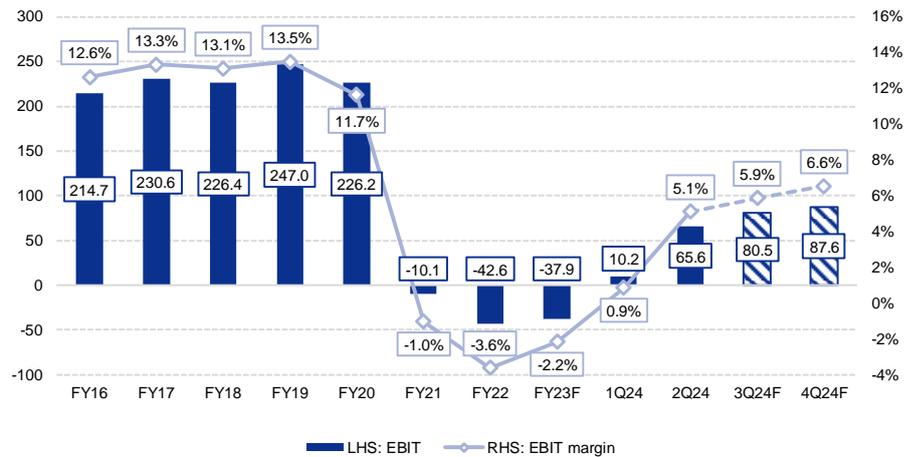
SOURCES: CGS-CIMB RESEARCH, IATA

Figure 2: Global travel demand by Revenue Passenger-Kilometre (RPK)



SOURCES: CGS-CIMB RESEARCH, IATA

Figure 3: Sustainable EBIT turnaround



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 4: DCF for SATS

S\$m	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F
Free cash flow to firm	342.0	712.0	732.3	742.4	752.5	762.6	772.7	782.7	792.6	802.4
Present value of free cash flow	342.0	647.6	605.8	558.6	515.0	474.7	437.5	403.1	371.3	341.9

Risk-free rate	2.5%
Market risk premium	7.0%
Beta	1.3
Cost of equity	11.6%
Cost of debt	4.0%
After-tax cost of debt	3.3%
Target debt/equity ratio	20%
WACC	9.94%

Terminal FCFF	828.4
Terminal growth rate	2.0%
Terminal value	10,427.4
PV of terminal value	4,040.7
PV of FCFF	5,012.2
Total PV of FCFF	9,053.0
Less: net debt/cash	(3,953.3)
Equity value	5,099.6
No. of outstanding shares (m)	1,484.2
Equity value per share (S\$)	3.44

SOURCES: CGS-CIMB RESEARCH ESTIMATES

Figure 5: SATS Ltd's 12-month forward P/E (x)

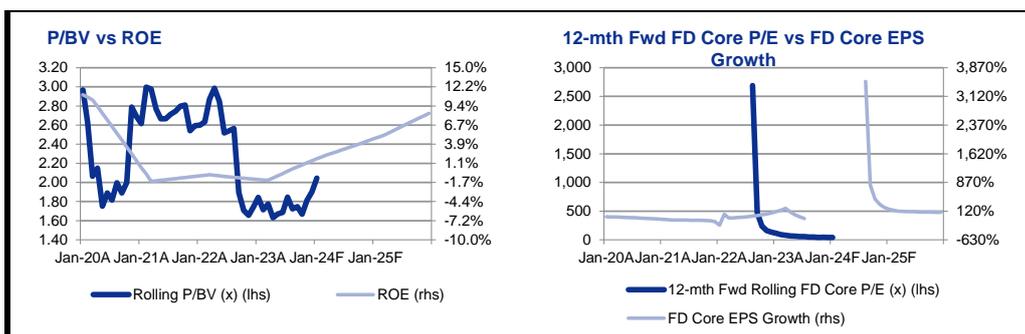


SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

		Refinitiv ESG Scores					
ESG in a nutshell		B ESG Score	B+ ESG Controversies Score	B ESG Combined Score	C+ ESG Environment Pillar Score	B- ESG Social Pillar Score	A- ESG Government Pillar Score
<p>SATS was rated a B for its ESG combined score by Refinitiv in 2022: Environmental: B (weightage 29.11%); Social: B+ (weightage 42.72%); and Governance: A- (weightage 28.17%). We think that 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 community. 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 that SATS’s improvement in its ESG combined score was predominantly driven by its heavy emphasis on its Environmental pillar. In FY20, SATS partnered Sembcorp Industries to expand its rooftop solar panels to cover a total of 51,100 sq m. It was the first company 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 convert all its ground handling fleet over the next nine years to achieve 100% electrification. SATS stepped up environmental innovation in 1QFY22 with the implementation of an artificial intelligence- (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 have been reflected in improvements in its emissions score, from a B in FY20 to an A- in FY22. We believe its environmental initiatives would benefit its operations moving forward. Fundamentally, energy-saving 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 over 11,000 employees in its aviation transport training programme clocked 3.8m learning hours in FY21. 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 stood at B as of FY22, a slight decline from B+ in FY21 as a result of higher turnover and lower employee satisfaction. However, we believe that the group will benefit from its employee training efforts through improved workforce productivity and satisfaction moving forward.</p>						
<p>Trends</p> <p>SATS improved its Governance pillar score from a B in FY19 to a A- in FY22. This was led by an increase in its shareholders score, from a C- in FY19 to a B in FY22, 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. There was also an improvement from A- to A in Management score.</p>	<p>Implications</p> <p>We believe that 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



Profit & Loss

(\$m)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	1,177	1,758	5,188	5,544	5,712
Gross Profit	315	530	1,847	1,813	1,862
Operating EBITDA	77	128	814	854	931
Depreciation And Amortisation	(120)	(176)	(571)	(599)	(605)
Operating EBIT	(43)	(48)	244	255	326
Financial Income/(Expense)	(14)	(9)	(223)	(204)	(163)
Pretax Income/(Loss) from Assoc.	17	45	90	95	100
Non-Operating Income/(Expense)	12	(33)	0	0	0
Profit Before Tax (pre-EI)	(27)	(44)	111	146	262
Exceptional Items					
Pre-tax Profit	(27)	(44)	111	146	262
Taxation	31	5	(56)	(25)	(45)
Exceptional Income - post-tax			0		
Profit After Tax	4	(39)	56	121	218
Minority Interests	16	12	(5)	(10)	(13)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	20	(26)	51	111	205
Recurring Net Profit	(9)	(27)	51	111	205
Fully Diluted Recurring Net Profit	(9)	(27)	51	111	205

Cash Flow

(\$m)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	77.0	127.8	814.5	853.8	931.0
Cash Flow from Invt. & Assoc.	(17.2)	(45.4)	(90.0)	(95.0)	(100.0)
Change In Working Capital	(0.3)	8.0	(286.9)	23.1	(4.1)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	36.7	10.5	107.3	95.0	100.0
Net Interest (Paid)/Received	(17.1)	(18.6)	(240.0)	(204.0)	(163.2)
Tax Paid	(17.0)	(2.7)	(55.6)	(24.8)	(44.6)
Cashflow From Operations	62.2	79.6	249.3	648.0	719.1
Capex	(77.9)	(119.4)	(130.0)	(130.0)	(140.0)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	80.6	(0.1)	0.0	0.0	0.0
Other Investing Cashflow	28.4	58.5	0.0	0.0	0.0
Cash Flow From Investing	31.1	(61.0)	(130.0)	(130.0)	(140.0)
Debt Raised/(repaid)	(160.9)	646.5	800.0	(300.0)	(300.0)
Proceeds From Issue Of Shares					
Shares Repurchased	0.0	0.0	0.0	0.0	0.0
Dividends Paid	0.0	0.0	(25.5)	(55.5)	(102.5)
Preferred Dividends					
Other Financing Cashflow	(28.4)	(96.2)	(923.4)	0.0	0.0
Cash Flow From Financing	(189.3)	550.3	(148.9)	(355.5)	(402.5)
Total Cash Generated	(96.0)	568.9	(29.6)	162.5	176.6
Free Cashflow To Equity	(67.6)	665.1	919.3	218.0	279.1
Free Cashflow To Firm	110.4	37.2	359.3	722.0	742.3

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(S\$m)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	786	2,148	345	497	664
Total Debtors	388	481	1,137	1,215	1,252
Inventories	83	69	75	78	79
Total Other Current Assets	39	23	131	131	131
Total Current Assets	1,296	2,721	1,687	1,921	2,125
Fixed Assets	590	579	737	618	505
Total Investments	469	459	900	995	1,095
Intangible Assets	553	527	2,991	2,651	2,309
Total Other Non-Current Assets	383	386	1,459	1,459	1,459
Total Non-current Assets	1,994	1,951	6,087	5,723	5,368
Short-term Debt	102	13	13	13	13
Current Portion of Long-Term Debt					
Total Creditors	458	522	1,049	1,154	1,187
Other Current Liabilities	71	71	204	204	204
Total Current Liabilities	631	606	1,266	1,371	1,405
Total Long-term Debt	409	1,134	2,820	2,520	2,220
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	419	419	1,419	1,419	1,419
Total Non-current Liabilities	828	1,553	4,239	3,939	3,639
Total Provisions	0	0	0	0	0
Total Liabilities	1,459	2,159	5,505	5,310	5,043
Shareholders' Equity	1,603	2,334	2,085	2,141	2,243
Minority Interests	231	181	186	196	209
Total Equity	1,834	2,515	2,271	2,337	2,452

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	21%	49%	195%	7%	3%
Operating EBITDA Growth	(36%)	66%	537%	5%	9%
Operating EBITDA Margin	6.5%	7.3%	15.7%	15.4%	16.3%
Net Cash Per Share (S\$)	0.25	0.68	(1.68)	(1.37)	(1.06)
BVPS (S\$)	1.43	1.57	1.40	1.44	1.51
Gross Interest Cover	(2.50)	(2.58)	1.02	1.25	1.99
Effective Tax Rate	0.0%	0.0%	50.0%	17.0%	17.0%
Net Dividend Payout Ratio	NA	NA	50.0%	50.0%	50.0%
Accounts Receivables Days	105.4	90.2	57.1	77.4	78.8
Inventory Days	45.17	22.57	7.85	7.47	7.46
Accounts Payables Days	172.9	145.7	86.1	107.7	111.0
ROIC (%)	0.6%	(2.8%)	13.8%	4.0%	5.6%
ROCE (%)	(1.67%)	(1.27%)	5.91%	5.11%	6.82%
Return On Average Assets	0.07%	(0.78%)	3.88%	3.77%	4.67%

Key Drivers

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue growth (%)	21.3%	49.4%	195.1%	6.9%	0.0%
Operating margin (%)	-3.6%	-2.7%	4.7%	4.6%	5.7%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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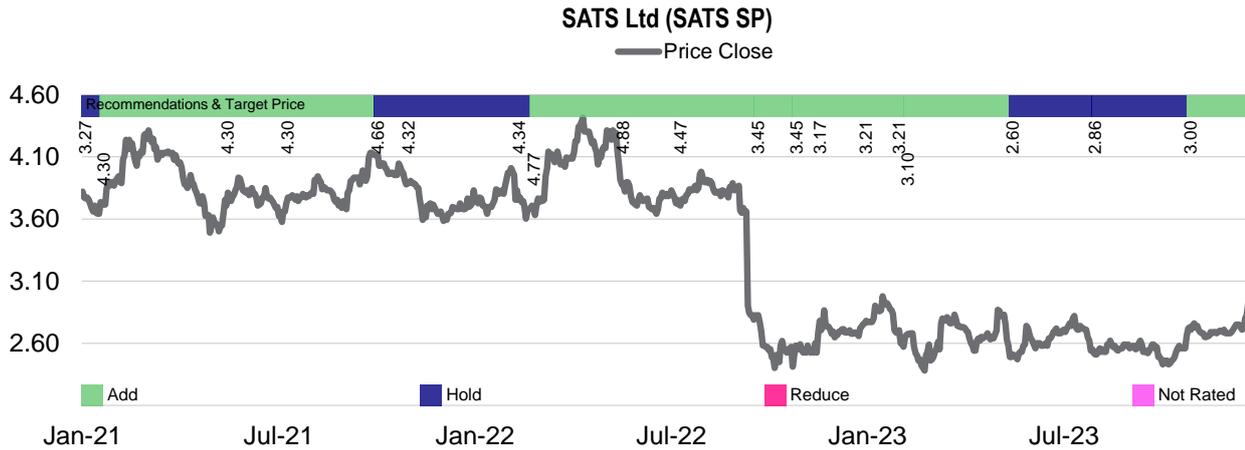
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	Rating Distribution (%)	Investment Banking clients (%)
Add	67.5%	1.3%
Hold	22.5%	0.0%
Reduce	10.1%	0.2%

Spitzer Chart for stock being researched (2 year data)



Recommendation Framework	
Stock Ratings	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.
<i>The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.</i>	
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