

### COMPANY RESULTS

#### SATS (SATS SP)

1QFY25: Results A Solid Beat; Expect Strong Earnings Momentum To Sustain

**SATS' 1QFY25 core net profit of S\$57.8m beat our expectations, at 27% of our full-year projection, despite the absence of positive impacts from the contract renewal with SIA. SATS saw broad-based profit improvement across key business segments and geographies, as well as margin expansion helped by favourable operating leverage. We have enumerated a number of factors that will sustain SATS' strong earnings momentum in the near-to-medium term. Maintain BUY. Target: S\$4.00.**

#### 1QFY25 RESULTS

Year to 31 Mar (\$m)	1QFY25	4QFY24	qoq % chg	1QFY24	yoy % chg	Prev. FY25F	1Q as % of FY25F
Revenue	1,370.4	1,337.7	+2.4	1,186.6	+15.5	5,696	24.1%
- food solutions	310.8	297.3	+4.5	240.4	+29.3	1,257	24.7%
- gateway services	1,059.5	1,040.2	+1.9	946.1	+12.0	4,439	23.9%
EBITDA	249.1	220.5	+13.0	155.0	+60.7	1,004.7	24.8%
EBIT	112.9	88.8	+27.1	7.9	+1329.1	457.9	24.7%
- food solutions	24.5	21.7	+12.9	-4.0	n.m.		
- gateway services	81.2	64.1	+26.7	34.3	+136.7		
JV/associate contribution	35.6	30.9	+15.2	21.3	+67.1	110.0	
Headline net profit	65.0	32.7	+98.8	-29.9	n.m.	215.3	
Core net profit	57.8	47.3	+22.2	-17.4	n.m.	215.3	26.9%
<b>Margins (%)</b>							
EBIT	8.2	6.6	+1.6ppt	0.7	+7.6ppt	8.0	
Core net profit	4.2	3.5	+0.7ppt	-1.5	+5.7ppt	3.8	

\*Core net profits excluded non-recurring items such as disposal gains and restructuring expenses as reported by SATS

Source: SATS, UOB Kay Hian

#### RESULTS

- 1QFY25 results beat expectations despite absence of SIA contract renewal impact.** SATS' 1QFY25 headline net profit of S\$65m represented a 99% qoq increase and a turnaround from 1QFY24's net loss of S\$29.9m. Excluding a one-off gain of S\$7.2m related to a loan settlement in Indonesia, SATS' 1QFY25 core net profit of S\$57.8m (+22.2% qoq, a turnaround yoy) came in above expectations at 26.9%/29.9% of our/consensus full-year forecasts respectively. We highlight that 1QFY25 performance is a solid beat, considering that the positive financial impact from SATS' contract renewal with its major customer Singapore Airlines (SIA) had not been reflected in SATS' 1QFY25 financial reporting, even though the price escalation from the contract renewal has been agreed to take effect retrospectively from 1 Apr 24 (ie the start of 1QFY25). Management noted that the contract renewal's positive impact for 1QFY25 will add to SATS' 2QFY25 financial reporting.
- Broad-based improvement in EBIT performance...** Food solutions EBIT rose 12.9% qoq to S\$24.5m (a turnaround yoy), driven by an increase in inflight meal volume produced (+9.5% qoq, +35.5% yoy). Gateway services EBIT rose 26.7% qoq to S\$81.2m (+136.7% yoy). Within the gateway services segment, the cargo handling subsegment saw a remarkable 17.2% yoy growth in revenue, backed by a 19.0% yoy growth in air cargo volume (beating industry-wide volume growth of low teens in the same period).

#### KEY FINANCIALS

Year to 31 Mar (\$m)	2023	2024	2025F	2026F	2027F
Net turnover	1,758	5,150	5,824	6,113	6,360
EBITDA	128	781	1,091	1,141	1,192
Operating profit	(48)	244	532	554	581
Net profit (rep./act.)	(27)	53	291	325	361
EPS (S\$ cent)	(2.2)	3.6	19.5	21.8	24.2
PE (x)	n.m.	100.6	18.4	16.5	14.8
P/B (x)	2.3	2.3	2.1	1.9	1.8
EV/EBITDA (x)	70.3	11.5	8.2	7.9	7.5
Dividend yield (%)	0.0	0.4	2.7	3.0	3.4
Net margin (%)	(1.5)	1.0	5.0	5.3	5.7
Net debt/(cash) to equity (%)	(39.8)	80.2	68.1	59.9	46.5
ROE (%)	n.a.	2.3	11.7	12.2	12.5

Source: SATS, Bloomberg, UOB Kay Hian  
n.m. : not meaningful; negative P/E reflected as "n.m."

### BUY

(Maintained)

Share Price	S\$3.59
Target Price	S\$4.00
Upside	+11.4%
(Previous TP)	S\$3.22)

#### COMPANY DESCRIPTION

A leading food solutions provider in Asia and a global leader in aviation gateway services.

#### STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SATS SP
Shares issued (m):	1,495.0
Market cap (S\$ m):	5,367.2
Market cap (US\$m):	4,104.6
3-mth avg daily t'over (US\$m):	12.7

#### Price Performance (%)

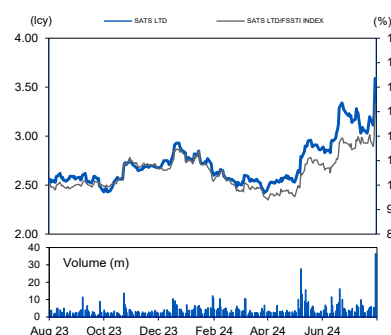
52-week high/low S\$ 3.59/S\$ 2.42

1mth	3mth	6mth	1yr	YTD
10.8	41.3	36.0	43.0	30.5

#### Major Shareholders

	%
Temasek Hldgs	40.0
FY25 NAV/Share (S\$)	1.73
FY25 Net Debt/Share (S\$)	2.20

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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- ...helped by favourable operating leverage. The faster growth in core net profit (+22.2% qoq) and EBIT (+27.1% qoq) than revenue growth (+2.4% qoq) in 1QFY25 is a reflection of favourable operating leverage. With higher business volume and revenue scale qoq and yoy, SATS' group-level EBIT margin increased 1.6ppt qoq and 7.6ppt yoy.

- Net gearing improved qoq. SATS continued to pare down its net gearing with positive free cash flow of S\$36.7m in 1QFY25. Its net gearing (excluding lease liabilities) stood at 74.5% at end-1QFY25, a moderate improvement from the 80.2% level as at end-FY24. SATS' net gearing is expected to continue declining in the next few years as the company is committed to bringing down debt levels.

### STOCK IMPACT

- Synergy realisation with WFS. Management updated that it has achieved an annualised EBITDA synergy of over S\$51m out of its S\$100m medium-term target.

- Numerous positive factors that will drive SATS' earnings improvement in the near-to-medium term include:

- Contract renewal with SIA. Management shared that the terms of the renewed contract have been concluded, including price escalation against the older contracts as well as cost indexation moving forward. Note that SIA contributed S\$893m or 17.3% of SATS' total revenue in FY24. Due to commercial sensitivity, SATS did not disclose the size of price escalation; hypothetically, an average 5% price escalation could lead to up to S\$45m additional operating profit for SATS, by our estimate.

- Strong momentum in wining new global contracts. SATS' enlarged cargo operation scale/network after the WFS integration has put SATS in an advantageous position vs peers in negotiation with customers. This is evidenced by: a) SATS's 19% cargo volume growth in 1QFY25, faster than the industry's low-teen growth, and b) fruitful business development, including the expanded collaboration with SF Holding and Kuehne+Nagel, two leading global logistics service providers, in supply chain optimisation.

- Targeting further margin improvement. SATS believes that there is scope for further margin improvement and has set a target EBITDA margin of 20% in the medium term (1QFY25: 18.2%), driven by better cost efficiency and favourable operating leverage.

- New cargo handling fee in Singapore. SATS is on track to implement a new cargo handling fee on consignees/freight forwarders/cargo agents for inbound air cargo into Singapore, effective from 1 Aug 24. Management estimates that the positive impact on SATS' revenue/EBIT would be in the range of S\$6m-9m p.a..

- Interest cost saving from refinancing. SATS has over S\$1b debt due for refinancing in 2025, including over S\$700m worth of euro-denominated bridging loan bearing an interest cost of over 4.5% p.a.. Given the expected rate cuts by the Fed, SATS may potentially refinance the bridging loan at a lower interest rate environment, leading to some interest cost savings from FY26 onwards.

- Tax restructuring. There is room for SATS to meaningfully bring down its effective tax rates through tax restructuring. SATS has a dedicated team working on this, which we believe will lead to positive outcome within the next 1-2 years.

### EARNINGS REVISION/RISKS

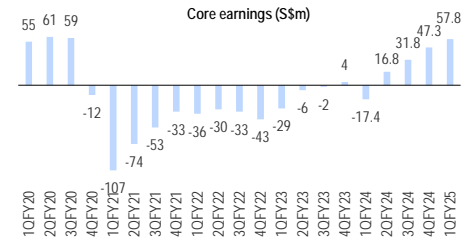
- Raise FY25/26/27 earnings forecasts by 35%/14%/17% to S\$291m/S\$325m/S\$361m respectively, to reflect the positive impacts from the abovementioned positive factors.

- Key risks: a) macroeconomic headwinds and/or geopolitical tensions dampening global air cargo volume, and b) normalisation of the Red Sea situation.

### VALUATION/RECOMMENDATION

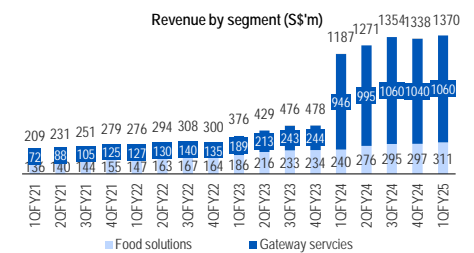
- Maintain BUY with a higher target price of S\$4.00. We have raised our target price multiple to 18.4x FY26F PE (0.5SD below historical mean), from previously 16.8x (1SD below historical mean). The increase in PE peg takes into account better earnings visibility in FY26 and a more convincing earnings growth outlook; on the other hand, the -0.5SD peg takes into account SATS' net gearing position today (vs historically net cash) and its higher exposure to global trade cycle (than before the WFS integration). Organic earnings growth and net gearing pare-down are key catalysts for SATS.

### SATS' CORE EARNINGS ON AN IMPROVING TREND, RISING 22.2% QOQ IN 1QFY25



Source: SATS, UOB Kay Hian

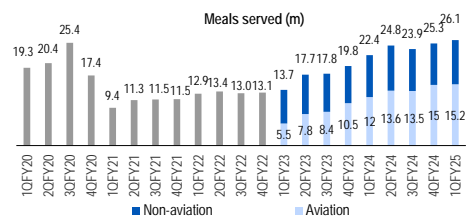
### REVENUE ROSE 15.5% YOY (+2.4% QOQ) IN 1QFY25 DRIVEN BY BROAD-BASED GROWTH



\*WFS consolidated since 1QFY24

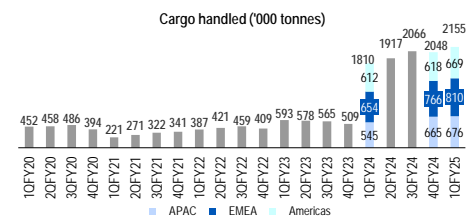
Source: SATS, UOB Kay Hian

### MEALS SERVED ROSE 16.5% YOY (+3.2% QOQ) IN 1QFY25 DRIVEN BY AVIATION MEAL DEMAND



Source: SATS

### CARGO VOLUME HANDLED ROSE 19.0% YOY (+5.2% QOQ) IN 1QFY25 DRIVEN BY DEMAND GROWTH ACROSS REGIONS



Source: SATS

### PE-BASED VALUATION REFERENCE TABLE

	FY25F	FY26F	FY27F
EPS (\$S)	0.195	0.218	0.242
PE peg	Valuation		
mean	19.9x	S\$3.88	S\$4.33
-0.5SD	18.4x	S\$3.59	S\$4.00
-1.0SD	16.8x	S\$3.29	S\$3.67
-1.5SD	15.3x	S\$3.00	S\$3.34
-2.0SD	13.8x	S\$2.70	S\$3.01

Source: SATS, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Mar (\$m)	2024	2025F	2026F	2027F
Net turnover	5,149.6	5,824.0	6,113.2	6,360.1
EBITDA	780.6	1,090.7	1,141.3	1,191.9
Deprec. & amort.	536.4	559.1	586.9	610.6
EBIT	244.2	531.6	554.5	581.3
Total other non-operating income	(1.2)	3.0	0.0	0.0
Associate contributions	110.0	129.2	127.5	130.1
Net interest income/(expense)	(236.7)	(235.0)	(226.2)	(213.4)
<b>Pre-tax profit</b>	<b>116.3</b>	<b>428.8</b>	<b>455.8</b>	<b>498.0</b>
Tax	(55.8)	(121.5)	(114.0)	(119.6)
Minorities	(7.3)	(16.0)	(16.8)	(17.5)
<b>Net profit</b>	<b>53.2</b>	<b>291.4</b>	<b>325.0</b>	<b>361.0</b>

### CASH FLOW

Year to 31 Mar (\$m)	2024	2025F	2026F	2027F
<b>Operating</b>	<b>512.1</b>	<b>701.9</b>	<b>773.9</b>	<b>831.4</b>
Pre-tax profit	116.3	428.8	455.8	498.0
Tax	(27.6)	(121.5)	(114.0)	(119.6)
Deprec. & amort.	536.4	559.1	586.9	610.6
Associates	(110.0)	(129.2)	(127.5)	(130.1)
Working capital changes	(89.4)	(10.4)	(10.8)	(11.1)
Non-cash items	2.5	3.0	0.0	0.0
Other operating cashflows	83.9	(28.0)	(16.5)	(16.5)
<b>Investing</b>	<b>(1,706.0)</b>	<b>(136.5)</b>	<b>(178.1)</b>	<b>(138.6)</b>
Capex (maintenance)	(185.6)	(248.1)	(280.0)	(242.3)
Investments	(1,647.6)	0.0	0.0	0.0
Proceeds from sale of assets	60.8	0.0	0.0	0.0
Others	66.4	111.6	101.9	103.6
<b>Financing</b>	<b>(292.0)</b>	<b>(608.7)</b>	<b>(680.6)</b>	<b>(625.6)</b>
Dividend payments	0.0	(80.8)	(152.7)	(97.7)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	2,333.2	0.0	0.0	0.0
Loan repayment	(2,237.1)	(200.0)	(200.0)	(200.0)
Others/interest paid	(388.1)	(327.9)	(327.9)	(327.9)
<b>Net cash inflow (outflow)</b>	<b>(1,485.9)</b>	<b>(43.3)</b>	<b>(84.9)</b>	<b>67.1</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>2,148.4</b>	<b>659.0</b>	<b>615.7</b>	<b>530.8</b>
Changes due to forex impact	(3.5)	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>659.0</b>	<b>615.7</b>	<b>530.8</b>	<b>597.9</b>

### BALANCE SHEET

Year to 31 Mar (\$m)	2024	2025F	2026F	2027F
Fixed assets	2,123.0	2,211.9	2,304.9	2,336.5
Other LT assets	4,407.3	4,377.9	4,348.0	4,318.9
Cash/ST investment	659.0	615.7	530.8	597.9
Other current assets	1,290.7	1,314.9	1,339.6	1,364.8
<b>Total assets</b>	<b>8,480.0</b>	<b>8,520.4</b>	<b>8,523.4</b>	<b>8,618.2</b>
ST debt	1,355.2	1,355.2	1,355.2	1,355.2
Other current liabilities	1,435.8	1,449.6	1,463.6	1,477.7
LT debt	2,736.9	2,536.9	2,336.9	2,136.9
Other LT liabilities	392.6	392.6	392.6	392.6
Shareholders' equity	2,375.0	2,585.6	2,757.8	3,021.1
Minority interest	184.5	200.5	217.3	234.8
<b>Total liabilities &amp; equity</b>	<b>8,480.0</b>	<b>8,520.4</b>	<b>8,523.4</b>	<b>8,618.2</b>

### KEY METRICS

Year to 31 Mar (%)	2024	2025F	2026F	2027F
<b>Profitability</b>				
EBITDA margin	15.2	18.7	18.7	18.7
Pre-tax margin	2.3	7.4	7.5	7.8
Net margin	1.0	5.0	5.3	5.7
ROA	0.8	3.4	3.8	4.2
ROE	2.3	11.7	12.2	12.5
<b>Growth</b>				
Turnover	192.9	13.1	5.0	4.0
EBITDA	510.8	39.7	4.6	4.4
Pre-tax profit	n.a.	268.7	6.3	9.3
Net profit	n.a.	447.7	11.5	11.1
EPS	n.a.	447.7	11.5	11.1
<b>Leverage</b>				
Debt to total capital	61.5	58.3	55.4	51.8
Debt to equity	106.0	90.2	77.7	64.9
Net debt/(cash) to equity	80.2	68.1	59.9	46.5

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