

COMPANY RESULTS

SATS (SATS SP)

FY24: Results Beat Expectations; Earnings Recovery To Accelerate In FY25

SATS' FY24 net profit of S\$56.4m beat our forecast of S\$41.4m, due to slightly better-than-expected margins and higher-than-expected JV/associate contribution in 4QFY24. SATS declared a final dividend of 1.5 S cents for FY24. We raise our FY25 net profit forecast by 36% to S\$215m while maintaining FY26 forecast unchanged at S\$285m. In its strategy update, management announced an aggressive target revenue of S\$8b by 2028 with a 15% ROE. Maintain BUY and target price of S\$3.22.

FY24 RESULTS

Year to 31 Mar (\$m)	4QFY24	3QFY24	qoq % chg	4QFY23	yoy % chg	FY24	FY23	yoy % chg
Revenue	1,337.7	1,354.1	-1.2	478.1	+179.8	5,150	1,758	+192.9
- food solutions	297.3	294.5	+1.0	233.8	+27.2	1,108	869	+27.4
- gateway services	1,040.2	1,059.6	-1.8	243.9	+326.5	4,041	889	+354.8
Total operating cost	1,248.9	1,270.7	-1.7	482.7	+158.7	4,905	1,806	+171.6
EBIT	88.8	83.4	+6.5	-4.6	n.m.	244.2	-48.0	n.m.
- food solutions	21.7	6.7	+223.9	-1.3	n.m.	27.5	-33.8	n.m.
- gateway services	64.1	97.3	-34.1	9.1	+604.4	249.0	-2.0	n.m.
JV/associate contribution	30.9	34.6	-10.7	17.6	+75.6	110.0	45.4	+142.3
Net Profit (reported)	32.7	31.5	+3.8	5.5	+494.5	56.4	-26.5	n.m.
Core net profit	47.3	31.8	+48.7	21.9	+116.0	78.5	-26.7	n.m.
Core net profit excl. reliefs	47.3	31.8	+48.7	4.1	+1053.7	78.5	-77.8	n.m.

*Core net profits are based on SATS' adjustment

Source: SATS, UOB Kay Hian

RESULTS

- FY24 results beat expectations.** SATS' FY24 headline net profit came in above our expectations at S\$56.4m (FY23: loss of S\$26.5m), compared with our full-year forecast of S\$41.4m. The beat was mainly attributable to: a) slightly better-than-expected operating margins, and b) higher-than-expected contribution from JVs and associates. Despite overall weaker seasonality, SATS managed to achieve qoq higher net profit in 4QFY24 at S\$32.7m (3QFY24: S\$31.5m). The qoq increase was driven by better performance in APAC under SATS' original businesses which benefitted from better operating leverage. On the other hand, WFS posted qoq lower operating profit of S\$38.7m in 4QFY24 (3QFY24: S\$67.5m), in line with the weaker seasonality. Note that SATS' 4QFY24 headline net profit was adversely impacted by several one-off items, such as integration expenses and impairments of some legacy investments. Excluding these one-off items, SATS' 4QFY24 and FY24 core earnings stood at S\$47.3m and S\$78.5m, respectively.
- Resumes dividend payment.** SATS resumed dividend payment with a final dividend of 1.5 S cents declared for FY24.
- Net gearing remained adequate.** SATS' net gearing stood at 80.2% as at end-FY24, a moderate improvement from the 90% level immediately after the WFS acquisition.

KEY FINANCIALS

Year to 31 Mar (\$m)	2023	2024	2025F	2026F	2027F
Net turnover	1,758	5,150	5,696	6,027	6,270
Adj. EBITDA	128	781	1,005	1,122	1,152
Operating profit	(48)	244	458	544	556
Net profit (rep./act.)	(27)	53	215	285	310
EPS (\$ cent)	(2.2)	3.6	14.4	19.1	20.8
PE (x)	n.m.	78.2	19.3	14.6	13.4
P/B (x)	1.8	1.8	1.6	1.5	1.4
EV/adj. EBITDA (x)	57.8	13.9	9.5	8.2	8.0
Dividend yield (%)	0.0	0.5	2.6	3.4	3.7
Net margin (%)	(1.5)	1.0	3.8	4.7	4.9
Net debt/(cash) to equity (%)	(39.8)	80.2	72.3	64.4	52.4
ROE (%)	n.a.	2.3	8.8	10.9	11.1
Consensus net profit	-	-	156	223	260
UOBKH/Consensus (x)	-	-	1.38	1.28	1.19

Source: SATS, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$2.79
Target Price	S\$3.22
Upside	+15.5%

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):	1,490.6
Market cap (S\$ m):	4,158.9
Market cap (US\$m):	3,076.3
3-mth avg daily t'over (US\$m):	6.8

Price Performance (%)

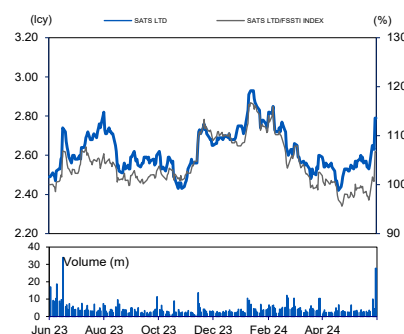
52-week high/low S\$ 2.93/S\$ 2.42

1mth	3mth	6mth	1yr	YTD
10.7	6.5	5.3	6.1	1.5

Major Shareholders

	%
Temasek Hldgs	40.0
FY25 NAV/Share (S\$)	1.69
FY25 Net Debt/Share (S\$)	2.25

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Expect SATS' earnings recovery to gain traction in FY25.** We expect SATS' earnings recovery should accelerate in FY25, driven by the following positive factors: a) SATS' contract renewal with its major customer Singapore Airlines (the terms are currently being finalised, with renewed rates to be applied retrospectively from 1 Apr 24), which should allow SATS to pass down some inflationary cost pressure, b) SATS' plans to impose a new cargo handling fee of S\$0.04 per kilogram on some imported air cargo, effective from 1 Aug 24, c) further potential interest cost savings from the refinancing of SATS' remaining € bridging loan (about S\$800m worth) related to the WFS acquisition, to be completed by Nov 24, d) continued recovery/growth of global air cargo and inflight catering demand and favourable operating leverage. We have lifted our FY25 earnings forecast for SATS to S\$215m, to reflect the results beat and the abovementioned positive factors.
- **Ambitious target of S\$8b revenue by 2028 with 15% ROE.** Together with the results release, SATS provided a strategy update, establishing aspirational targets for S\$8b revenue by 2028 (FY24: S\$5.15b) with a 15% ROE (benchmarked to SATS' historical ROE levels before the pandemic and the WFS acquisition).
 - **Revenue target:** Management expects the revenue mix by 2028 to not deviate much from SATS' current revenue mix (FY24: 49% from cargo, 29% from ground handling, 21% from food solutions), and shared that key means to achieving the revenue target may include organic growth, bolt-on acquisitions and possible consolidation of some JV/associate entities by acquiring additional stakes.
 - **ROE target:** The 15% ROE target (implying FY28 net profit of S\$450m, compared with our current FY28F net profit projection of S\$325m or ROE of about 11%), is a challenging but not an impossible target, hinging on the following key factors, including: a) SATS successfully integrating WFS, realising (or possibly overachieving) its synergy target of S\$100m p.a. at EBITDA levels; b) tight cost control; c) normal air cargo market with reasonably strong growth in the next few years; d) SATS achieving optimal capacity utilisation and operation scale, which will allow it to enjoy favourable operating leverage, and e) SATS optimising its capital structure by maintaining an adequate net gearing. We think SATS' 2028 targets should be deemed a blue-sky scenario at this juncture.

EARNINGS REVISION/RISKS

- **Raise FY25 earnings forecast by 36% to S\$215m,** to reflect the results beat and a stronger earnings recovery momentum. We keep our FY26 earnings forecast at S\$285m.
- **Key risks:** a) macroeconomic headwinds and/or geopolitical tensions dampening global air cargo volume, and b) slower-than-expected regional air travel recovery.

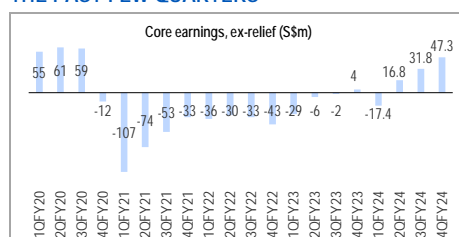
VALUATION/RECOMMENDATION

- **Maintain BUY and target price of S\$3.22.** Our target price remains based on a 16.8x FY26F PE, 1SD below SATS' historical mean PE of 19.9x. The -1SD PE peg takes into account today's higher interest rate environment than the historical reference timeframe as well as SATS's net gearing position vs historical net cash position.

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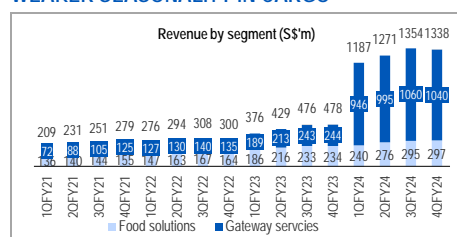
- SATS delivering strong earnings growth and realising forecasted synergy.

SEQUENTIAL CORE EARNINGS IMPROVEMENT IN THE PAST FEW QUARTERS



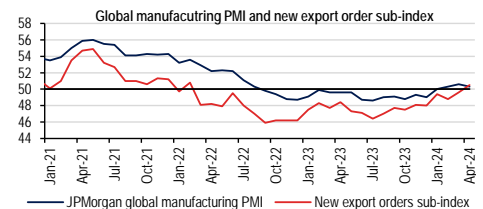
Source: SATS, UOB Kay Hian

4QFY24 REVENUE DIPPED 1.2% QOQ DUE TO WEAKER SEASONALITY IN CARGO



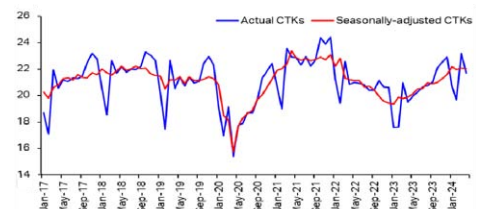
Source: SATS, UOB Kay Hian

GLOBAL MANUFACTURING PMI AND NEW EXPORT ORDER SUB INDEX BOTH STOOD ABOVE 50 LEVELS IN APR 24, INDICATING AN IMPROVING GLOBAL TRADE OUTLOOK



Source: JP Morgan, S&P Global

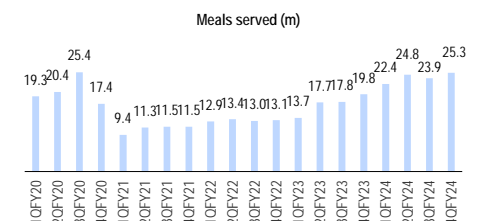
GLOBAL AIR CARGO VOLUME ACHIEVED DOUBLE-DIGIT GROWTH IN 4M24



*CTK: Cargo-Tonne-Kilometre, a measure of cargo load

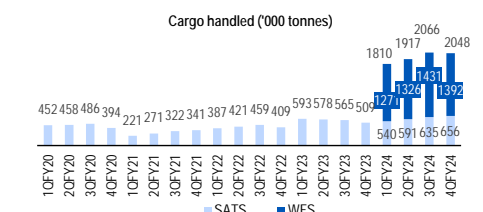
Source: IATA

MEALS SERVED BY SATS ROSE 5.8% QOQ DUE TO MORE AVIATION MEALS PRODUCED



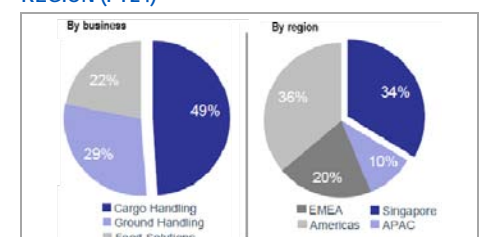
Source: SATS

CARGO VOLUME HANDLED DIPPED 0.9% QOQ IN 4QFY24 DUE TO WEAKER SEASONALITY



Source: SATS

REVENUE BREAKDOWN BY BUSINESS AND REGION (FY24)



Source: SATS, UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (\$m)	2024	2025F	2026F	2027F
Net turnover	5,149.6	5,696.2	6,026.6	6,270.0
EBITDA	780.6	1,004.7	1,122.2	1,152.0
Deprec. & amort.	536.4	546.8	578.5	595.7
EBIT	244.2	457.9	543.7	556.4
Total other non-operating income	(1.2)	4.0	0.0	0.0
Associate contributions	110.0	110.0	112.2	114.4
Net interest income/(expense)	(236.7)	(235.0)	(227.7)	(214.9)
Pre-tax profit	116.3	336.9	428.2	455.9
Tax	(55.8)	(104.6)	(124.2)	(127.1)
Minorities	(7.3)	(17.0)	(18.7)	(19.3)
Net profit	53.2	215.3	285.3	309.5

CASH FLOW

Year to 31 Mar (\$m)	2024	2025F	2026F	2027F
Operating	512.1	633.7	744.6	783.9
Pre-tax profit	116.3	336.9	428.2	455.9
Tax	(27.6)	(104.6)	(124.2)	(127.1)
Deprec. & amort.	536.4	546.8	578.5	595.7
Associates	(110.0)	(110.0)	(112.2)	(114.4)
Working capital changes	(89.4)	(10.4)	(10.8)	(11.1)
Non-cash items	2.5	4.0	0.0	0.0
Other operating cashflows	83.9	(29.0)	(15.0)	(15.0)
Investing	(1,706.0)	(212.8)	(222.1)	(162.0)
Capex (maintenance)	(185.6)	(311.5)	(312.3)	(253.7)
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	98.7	90.2	91.7
Financing	(292.0)	(537.5)	(625.0)	(600.4)
Dividend payments	0.0	(65.5)	(121.9)	(85.8)
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)	(272.0)	(303.1)	(314.6)
Net cash inflow (outflow)	(1,485.9)	(116.7)	(102.5)	21.5
Beginning cash & cash equivalent	2,148.4	659.0	542.3	439.8
Changes due to forex impact	(3.5)	0.0	0.0	0.0
Ending cash & cash equivalent	659.0	542.3	439.8	461.3

BALANCE SHEET

Year to 31 Mar (\$m)	2024	2025F	2026F	2027F
Fixed assets	2,123.0	2,220.2	2,317.4	2,350.5
Other LT assets	4,407.3	4,383.2	4,359.7	4,337.1
Cash/ST investment	659.0	542.3	439.8	461.3
Other current assets	1,290.7	1,314.9	1,339.6	1,364.8
Total assets	8,480.0	8,460.6	8,456.6	8,513.7
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	2,524.8	2,688.1	2,911.9
Minority interest	184.5	201.5	220.2	239.5
Total liabilities & equity	8,480.0	8,460.6	8,456.6	8,513.7

KEY METRICS

Year to 31 Mar (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	15.2	17.6	18.6	18.4
Pre-tax margin	2.3	5.9	7.1	7.3
Net margin	1.0	3.8	4.7	4.9
ROA	0.8	2.5	3.4	3.6
ROE	2.3	8.8	10.9	11.1
Growth				
Turnover	192.9	10.6	5.8	4.0
EBITDA	510.8	28.7	11.7	2.7
Pre-tax profit	n.a.	189.7	27.1	6.5
Net profit	n.a.	304.6	32.5	8.5
EPS	n.a.	304.6	32.5	8.5
Leverage				
Debt to total capital	61.5	58.8	55.9	52.6
Debt to equity	106.0	92.1	79.5	67.0
Net debt/(cash) to equity	80.2	72.3	64.4	52.4

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