

ASIAN GEMS CORPORATE HIGHLIGHTS

SATS (SATS SP)

Gradually Improving Outlook With Stablisng Global Air Cargo Demand

During UOB Kay Hian's Asian Gem Conference, management updated that the integration of SATS and WFS has been progressing well and the global air cargo demand appears to be stabilising. We expect SATS to show sequential earnings improvement in the next few quarters but the realisation of its full earnings potential may only happen in FY26 (2025). Maintain BUY. Target price: S\$2.99.

WHAT'S NEW

- Gradually improving outlook.** We attended an investor meeting with SATS Ltd (SATS) during our Asian Gem Conference on 13 Oct 23 with 14 institutional investors. During the meeting, management shared an update about SATS' integration with Worldwide Flight Services (WFS) and their insights about global air cargo sectors. We believe that SATS' overall outlook is gradually improving, but it may take another 1.5-2 years before SATS can realise its full earnings potential.
- Integration with WFS progressing well.** With the major acquisition of WFS (completed in early-Apr 23), SATS has since transformed itself to become the world's largest air cargo handler (leading shares of volume across major global airports). Management updated that the integration of SATS and WFS has been progressing very well. The integration efforts have been centered around enhancing productivity through operation excellence and effective cost management. Leveraging the enlarged network, SATS has also won new contracts of in excess of S\$15m p.a. and is working closely with a major global freight forwarder customer to explore cross-border services to enhance speed, streamline processes and harness the potential of multimodal logistics.
- Focusing on restoring profitability.** Management reiterated that SATS' key priority is to accelerate the synergy realisation and to return to profitability in order to be able to resume dividend payment to shareholders.
- Stablisng global cargo demand.** Management noted that although air cargo demand has been lacklustre in the past 12-15 months, the company is seeing positive signs that the contraction of cargo volume is reducing. We note that management's observation is in line with the IATA (International Air Transport Association) air cargo data. According to IATA, global air cargo volume (measured by cargo tonne-kilometers, or CTK) declined 6.0% yoy in 8M23 but on a monthly basis the yoy contraction has been narrowing for the past few months and in Aug 23 the yoy growth returned to a positive 1.5% (although Aug 23 absolute cargo volume was still 1.3% lower than the pre-pandemic 2019 levels). Management remains hopeful that cargo volume would pick up further as global economic outlook improves.
- Releasing 2QFY24 results on 10 Nov 23.** SATS is expected to release its 2Q/1HFY24 results on 10 Nov 23. Management noted that SATS' auditors have finished a preliminary review about the accounting treatment (purchase price allocation and IFRS conversion) for WFS, the impacts (non-cash) of which will be reflected in SATS' 2QFY24 results.

KEY FINANCIALS

Year to 31 Mar (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	1,177	1,758	5,165	5,469	5,664
EBITDA	77	128	783	950	981
Operating profit	(43)	(48)	208	369	395
Net profit	20	(27)	90	252	286
EPS (S\$ cent)	1.7	(2.2)	6.0	16.9	19.1
PE (x)	148.3	n.m.	43.1	15.3	13.5
P/B (x)	1.8	1.7	1.6	1.4	1.3
EV/EBITDA (x)	60.3	28.6	11.4	8.9	8.6
Dividend yield (%)	0.0	0.0	0.0	2.6	3.0
Net margin (%)	1.7	(1.5)	1.7	4.6	5.0
Net debt/(cash) to equity (%)	(15.0)	(39.8)	87.3	72.2	62.5
ROE (%)	1.3	n.a.	3.8	9.9	10.3

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

BUY

(Maintained)

Share Price	S\$ 2.59
Target Price	S\$ 2.99
Upside	+15.3%

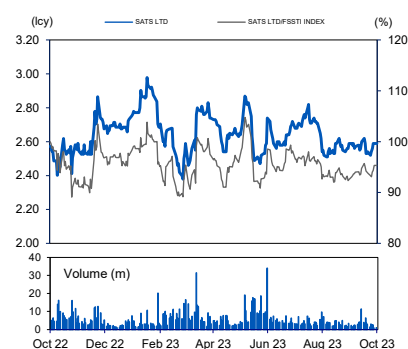
COMPANY DESCRIPTION

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):	3,860.7			
Market cap (US\$m):	2,820.3			
3-mth avg daily t'over (US\$m):	6.8			
Price Performance (%)				
52-week high/low	S\$ 2.98/S\$ 2.38			
1mth	3mth	6mth	1yr	YTD
1.2	(4.1)	(5.5)	0.3	(3.6)
Major Shareholders				
				%
Temasek Hldgs				39.7
-				-
-				-
FY24 NAV/Share (S\$)				1.63
FY24 Net Debt/Share (S\$)				2.47

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Not fully out of the woods yet, more patience needed.** We expect the profitability of SATS' food division to continue to recover in the next few quarters, driven by the continued recovery of regional air traffic. As for SAT's air cargo business, despite the recent stabilisation of air cargo volume, a number of leading economic indicators for global trade still indicate a largely cautious near-term outlook. Global manufacturing PMI new export order sub-index of 47.7 in Sep 23 was still in contractionary territory. The inventory destocking process in the US took longer than expected with retail and wholesale inventory to sales ratios still on the high side. EU retail confidence has been weak in recent months, with more retailers indicating they have sufficient inventory stocks on hand hence the less urgent need to place new orders with their suppliers. As such, while we still expect air cargo demand to firm up in the seasonally strong Oct-Nov period this year, we think more meaningful air cargo recovery may only be seen in FY25 (2024). We expect SATS to only realise its full-earnings potential in FY26 (2025).
- 2QFY24 results preview.** Factoring in a moderate qoq operating improvement of SATS and WFS in 2QFY24, our best guesstimate is that SATS' core earnings could break even in 2QFY24, with a tolerance of \pm \$10m. This is compared to S\$17.4m core net loss in 1QFY24 and S\$6.0m core net loss in 2QFY23.

EARNINGS REVISION/RISK

- No change.** Given the gradually improving but still-lacklustre air cargo outlook to date, our FY24 net profit forecast of S\$90m could be on the optimistic side. We will do a holistic review pending more clarity from SATS' 2Q/1HFY24 results.

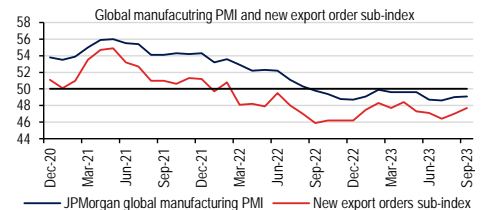
VALUATION/RECOMMENDATION

- Maintain BUY with an unchanged target price of S\$2.99.** Our target price remains based on 9.7x FY25F EV/adjusted EBITDA (same as SATS' acquisition multiple for WFS). The 9.7x multiple applied is at 1.7SD below SATS FY14-19 mean EV/EBITDA of 12.8x. SATS' current price implies an undemanding FY25F EV/adjusted EBITDA multiple of 8.9x, 2.1SD below its historical mean.

SHARE PRICE CATALYST

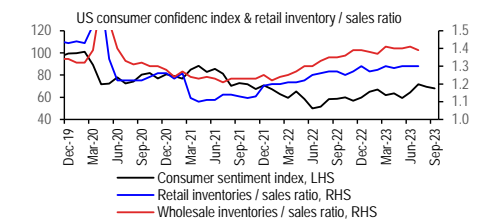
- Key re-rating catalysts include:** a) sequential earnings improvement as regional air traffic recovers further and global air cargo outlook improves and b) delivery of SATS' forecasted synergies for the WFS consolidation.

GLOBAL MANUFACTURING PMI NEW EXPORT ORDERS INDEX IMPROVED TO 47.7 IN SEP 23



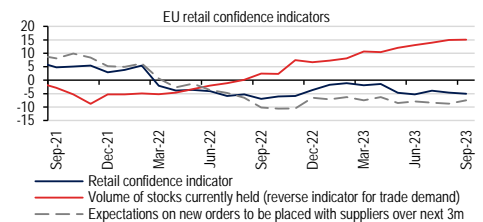
Source: JP Morgan, S&P Global

US INVENTORY DESTOCKING STILL ONGOING WITH WHOLESALE AND RETAIL INVENTORY TO SALES LEVELS ON THE HIGH SIDE



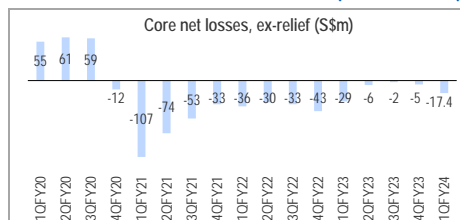
Source: US Census Bureau, University of Michigan

EU RETAIL CONFIDENCE STILL WEAK IN SEP 23 WITH RISING INVENTORY STOCK



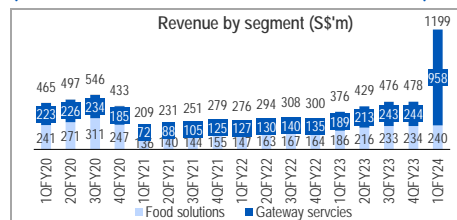
Source: Eurostat

SATS' EX-RELIEF CORE EARNINGS (QUARTERLY)



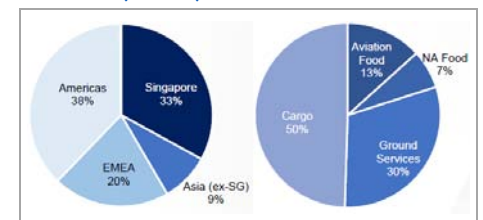
Source: SATS, UOB Kay Hian

SATS' QUARTERLY REVENUE PERFORMANCE (1QFY24 BOOSTED BY WFS CONSOLIDATION)



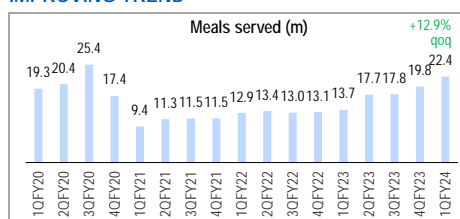
Source: SATS, UOB Kay Hian

REVENUE BREAKDOWN BY GEOGRAPHY AND BUSINESS (1QFY24)



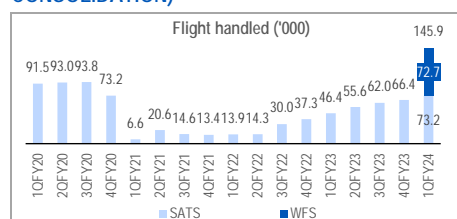
Source: SATS, UOB Kay Hian

QUARTERLY NUMBER OF MEALS SERVED ON AN IMPROVING TREND



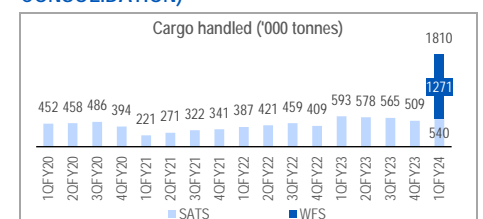
Source: SATS, UOB Kay Hian

SATS' QUARTERLY NUMBER OF FLIGHTS HANDLED (1QFY24 BOOSTED BY WFS CONSOLIDATION)



Source: SATS, UOB Kay Hian

SATS' QUARTERLY CARGO VOLUME HANDLED (1Q24 FIGURE BOOSTED BY WFS CONSOLIDATION)



Source: SATS, UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (S\$m)	2023	2024F	2025F	2026F
Net turnover	1,758.3	5,165.3	5,468.5	5,663.5
EBITDA	127.8	783.5	949.9	980.9
Deprec. & amort.	175.8	575.6	580.4	586.0
EBIT	(48.0)	207.9	369.5	395.0
Total other non-operating income	(32.5)	(12.6)	0.0	0.0
Associate contributions	45.4	83.5	85.2	86.9
Net interest income/(expense)	(8.7)	(158.0)	(148.5)	(139.3)
Pre-tax profit	(43.8)	120.8	306.2	342.6
Tax	5.2	(28.1)	(46.9)	(48.9)
Minorities	12.1	(3.1)	(7.2)	(8.1)
Net profit	(26.5)	89.6	252.1	285.6

CASH FLOW

Year to 31 Mar (S\$m)	2023	2024F	2025F	2026F
Operating	79.6	517.4	737.0	774.9
Pre-tax profit	(43.8)	120.8	306.2	342.6
Tax	(2.7)	(28.1)	(46.9)	(48.9)
Deprec. & amort.	175.8	575.6	580.4	586.0
Associates	(45.4)	(83.5)	(85.2)	(86.9)
Working capital changes	8.0	(1.4)	(11.5)	(11.9)
Non-cash items	(33.9)	(72.6)	0.0	0.0
Other operating cashflows	21.6	6.6	(6.0)	(6.0)
Investing	(57.9)	(2,127.4)	(235.5)	(216.9)
Capex (maintenance)	(119.4)	(298.6)	(298.6)	(281.1)
Investments	(0.1)	(1,890.7)	0.0	0.0
Proceeds from sale of assets	28.6	0.0	0.0	0.0
Others	33.0	61.9	63.1	64.2
Financing	1,340.0	(205.6)	(494.6)	(600.3)
Dividend payments	0.0	0.0	0.0	(100.8)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	752.9	720.0	0.0	0.0
Loan repayment	(106.4)	(635.7)	(200.0)	(200.0)
Others/interest paid	693.5	(289.9)	(294.6)	(299.5)
Net cash inflow (outflow)	1,361.7	(1,815.5)	6.8	(42.3)
Beginning cash & cash equivalent	786.0	2,148.4	332.9	339.7
Changes due to forex impact	0.7	0.0	0.0	0.0
Ending cash & cash equivalent	2,148.4	332.9	339.7	297.4

BALANCE SHEET

Year to 31 Mar (S\$m)	2023	2024F	2025F	2026F
Fixed assets	900.2	2,315.1	2,380.1	2,426.9
Other LT assets	1,050.7	4,070.4	4,046.4	4,022.9
Cash/ST investment	2,148.4	332.9	339.7	297.4
Other current assets	574.4	1,140.5	1,162.8	1,185.6
Total assets	4,673.7	7,858.9	7,929.0	7,932.8
ST debt	54.1	101.1	101.1	101.1
Other current liabilities	552.3	1,109.9	1,120.7	1,131.6
LT debt	1,424.3	3,912.2	3,712.2	3,512.2
Other LT liabilities	128.2	128.2	128.2	128.2
Shareholders' equity	2,333.6	2,423.2	2,675.3	2,860.1
Minority interest	181.2	184.3	191.5	199.6
Total liabilities & equity	4,673.7	7,858.9	7,929.0	7,932.8

KEY METRICS

Year to 31 Mar (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	7.3	15.2	17.4	17.3
Pre-tax margin	(2.5)	2.3	5.6	6.0
Net margin	(1.5)	1.7	4.6	5.0
ROA	n.a.	1.4	3.2	3.6
ROE	n.a.	3.8	9.9	10.3
Growth				
Turnover	49.4	193.8	5.9	3.6
EBITDA	65.8	513.1	21.2	3.3
Pre-tax profit	n.a.	n.a.	153.4	11.9
Net profit	(229.9)	n.a.	181.4	13.3
EPS	(226.8)	n.a.	181.4	13.3
Leverage				
Debt to total capital	31.4	27.8	26.9	25.7
Debt to equity	45.6	100.0	84.0	72.2
Net debt/(cash) to equity	(39.8)	87.3	72.2	62.5

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