

COMPANY UPDATE

SATS (SATS SP)

Earnings Recovery To Gain Traction In 2024; Red Sea Crisis To Benefit Air Cargo

We expect SATS' earnings recovery to gain traction in 2024, driven by the continued air traffic recovery and growth in global air cargo demand. The ongoing Red Sea crisis, which has led to more time-sensitive cargo being diverted from ocean freight to air freight, should also benefit SATS given WFS' strong presence in Europe. We expect SATS to turn in a decent qoq earnings improvement in 3QFY24, driven by a business recovery as well as strong seasonality. Maintain BUY. Target: S\$3.22.

WHAT'S NEW

- Expecting SATS' earnings recovery to gain traction in 2024.
- The Red Sea crisis may provide further tailwinds to air cargo volume growth.
- 3QFY24 (Oct-Dec 23) results preview with key highlights on Oct-Dec 23 air cargo volume.

STOCK IMPACT

- **Earnings recovery to gain traction in 2024.** SATS has been a laggard in terms of earnings recovery compared with other Singapore aviation plays. However, we expect its recovery momentum to gain speed in 2024, as: a) its inflight catering and passenger/flight handling businesses are poised to benefit from the continued recovery of regional air traffic/flight activities (the new visa-free arrangement of China with Singapore, Malaysia and Thailand may usher the return of Chinese tourist traffic to the region), and b) its air cargo handling businesses should benefit from a potential reacceleration of air cargo growth, with IATA forecasting a 4.5% yoy growth for global air cargo demand in 2024. In addition, with an already more or less stabilised headcount ramp-up, operating leverage should also kick in and help SATS' earnings recovery. We forecast SATS' FY25 (Apr 24 – Mar 25) net profit at S\$158m, a 283% yoy growth from FY24's low base of S\$41m, and project SATS' earnings to rise further to S\$285m (more normalised state of earnings) in FY26.
- **The Red Sea crisis may provide tailwinds to air cargo demand, benefitting SATS.** The Red Sea/Suez Canal forms a critical part of the sea trade lane between Asia and Europe. About 12% of global trade and 30% of global container traffic pass through the Red Sea. The ongoing crisis and related safety concerns have driven most of the major global shipping companies to suspend their Red Sea sailing and instead to take a longer route via the Cape of Good Hope to transport cargo between Asia and Europe. The rerouting adds 3,000-3,500 nautical miles and at least 10 days of transit time to the journey. According to Air Cargo News, major freight forwarders like Bollore Logistics have already seen a rise in demand for air freight due to the diversion of more time-sensitive cargo from ocean transportation to air transportation. Given SATS' large air cargo handling business presence in Europe via Worldwide Flight Services (WFS), we reckon that SATS is likely a beneficiary from the increasing demand for air cargo.

KEY FINANCIALS

Year to 31 Mar (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	1,177	1,758	5,089	5,518	5,906
EBITDA	77	128	769	930	1,094
Operating profit	(43)	(48)	215	359	506
Net profit (rep./act.)	20	(27)	41	158	285
EPS (S\$ cent)	1.7	(2.2)	2.7	10.6	19.1
PE (x)	162.1	n.m.	103.1	26.6	14.8
P/B (x)	2.0	1.8	1.8	1.7	1.5
EV/EBITDA (x)	66.5	32.3	12.3	9.6	7.8
Dividend yield (%)	0.0	0.0	0.0	1.9	3.4
Net margin (%)	1.7	(1.5)	0.8	2.9	4.8
Net debt/(cash) to equity (%)	(15.0)	(39.8)	84.3	76.2	66.0
Interest cover (x)	5.6	14.7	3.5	4.6	6.0
ROE (%)	1.3	n.a.	1.7	6.5	10.8
Consensus net profit	-	-	83	194	264

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

BUY

(Maintained)

Share Price	S\$2.83
Target Price	S\$3.22
Upside	+13.9%

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):	4,218.5
Market cap (US\$m):	3,172.5
3-mth avg daily t'over (US\$m):	5.8

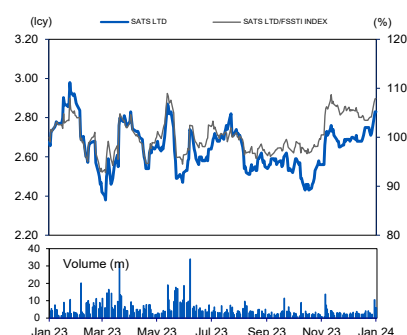
Price Performance (%)

52-week high/low	S\$2.98/S\$2.38				
1mth	3mth	6mth	1yr	YTD	
5.2	12.3	7.2	5.4	2.9	

Major Shareholders

	%
Temasek Hldgs	39.7
FY24 NAV/Share (S\$)	1.60
FY24 Net Debt/Share (S\$)	2.39

PRICE CHART

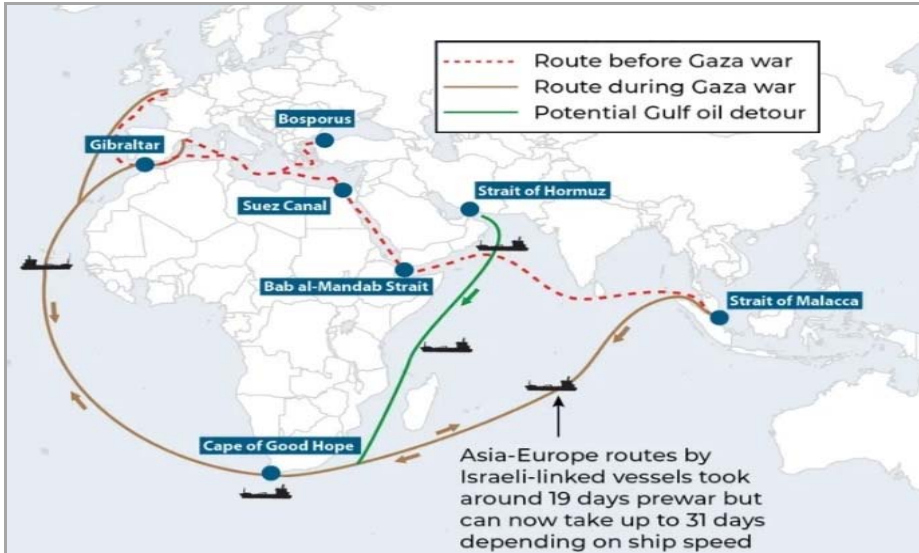


Source: Bloomberg

ANALYST(S)

Roy Chen, CFA
+65 6590 6627
roychen@uobkayhian.com

MAJOR CONTAINER SHIPPING COMPANIES HAVE SUSPENDED RED SEA SAILING; REROUTING VIA CAPE OF GOOD HOPE ADDS AT LEAST 10 DAYS OF TRANSIT TIME TO THE JOURNEY



Source: The Washington Institute For Near East Policy

- **Expect meaningful qoq improvement for upcoming 3QFY24 results, helped by strong seasonality for air traffic...** We forecast SATS's 3QFY24 net profit (expected in Feb 24) at S\$25m-35m, a meaningful qoq improvement from 2QFY24's headline net profit of S\$22.1m (2QFY24 core net profit at S\$6m) or 3QFY23's thin profit of S\$0.5m. We expect qoq earnings improvement to be partly driven by better business volume, which is helped by the strong seasonality (due to the year-end holiday travels).
- **...and accelerated recovery/growth in global air cargo volume.** Our expectation of an improvement in SATS' earnings in 3QFY24 is also supported by the reported improvement in global air cargo demand in the past few months. According to IATA, after 19 consecutive months of yoy declines, global air cargo demand finally returned to the positive territory in Aug 23 with a yoy growth of 1.5%. The yoy growth accelerated in Sep and Oct 23, ending at +1.9% and +3.8%, respectively. IATA has not published the Nov and Dec 23 growth data yet, but according to logistics data vendor Xeneta, yoy growth rates for global air cargo demand have continued to pick up, rising 5% yoy and 9% yoy in Nov and Dec 23, respectively.
- **Hong Kong International Airport's (HKIA) air cargo volume rose 10.0%, 12.1% and 17.8% yoy in Sep, Oct and Nov 23 respectively.** Note that SATS has presence in HKIA via its 65.4% subsidiary Asia Airfreight Terminal (AAT), which handles about 20-30% of HKIA's cargo throughput. In FY23 (ie before consolidation of WFS), AAT contributed S\$119.2m revenue to SATS (FY23 was one of the worst-performing years for AAT; normal year revenue of AAT is about S\$150m by our estimate), forming about 37% of SATS's cargo revenue.

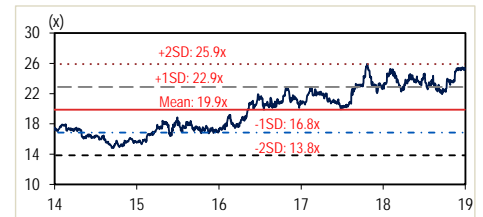
EARNINGS REVISION/RISKS

- **No change.** We note that it is hard to accurately estimate the quantum of the positive impact of the Red Sea crisis on SATS's cargo performance, as the Red Sea situation is still fluid (and hence is hard to predict when the situation may stabilise or even escalate). Our base case assumption is that it should at least provide support to SATS' cargo performance in the seasonally quieter 4QFY24 (Jan-Mar 24).
- **Key risks:** a) slower-than-projected earnings recovery trajectory, and b) integration risks between SATS and WFS.

VALUATION/RECOMMENDATION

- **Maintain BUY and target price of S\$3.22.** Our updated target price of S\$3.22 is based on a 16.8x FY26F PE, 1SD below SATS' historical mean PE of 19.9x. The -1SD PE peg takes into account the likely higher margin of error for our FY26 (normalised year) earnings forecast. In the near term, SATS' share price should be supported by the expectations of upbeat 3QFY24 results. Organic earnings recovery aside, signs of further escalation of the Red Sea situation and possibly worsening/prolonged inaccessibility of the Red Sea may also be a catalyst to SATS' share price.

SATS HISTORICAL PE BAND



Source: Bloomberg

SATS PE VALUATION REFERENCE TABLE

	PE peg	FY26F EPS	Valuation
mean	19.9x		S\$3.80
-0.5SD	18.4x		S\$3.51
-1.0SD	16.8x	S\$0.191	S\$3.22
-1.5SD	15.3x		S\$2.94
-2.0SD	13.8x		S\$2.65

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Net turnover	1,758.3	5,088.6	5,518.4	5,905.8
EBITDA	127.8	768.6	929.9	1,093.9
Deprec. & amort.	175.8	553.8	570.4	587.5
EBIT	(48.0)	214.8	359.5	506.4
Total other non-operating income	(32.5)	2.3	0.0	0.0
Associate contributions	45.4	90.0	91.8	93.6
Net interest income/(expense)	(8.7)	(218.0)	(200.2)	(183.1)
Pre-tax profit	(43.8)	89.1	251.1	416.9
Tax	5.2	(49.4)	(82.6)	(116.4)
Minorities	12.1	1.2	(10.0)	(15.0)
Net profit	(26.5)	41.0	158.5	285.5
Net profit (adj.)	(26.5)	41.0	158.5	285.5

CASH FLOW

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Operating	79.6	532.8	623.6	770.5
Pre-tax profit	(43.8)	89.5	251.1	416.9
Tax	(2.7)	(49.4)	(82.6)	(116.4)
Deprec. & amort.	175.8	553.8	570.4	587.5
Associates	(45.4)	(90.0)	(91.8)	(93.6)
Working capital changes	8.0	100.8	(11.5)	(11.8)
Non-cash items	(33.9)	(57.3)	0.0	0.0
Other operating cashflows	21.6	(14.7)	(12.0)	(12.0)
Investing	(57.9)	(2,032.8)	(248.7)	(248.3)
Capex (maintenance)	(119.4)	(214.4)	(322.3)	(323.0)
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	72.3	73.5	74.7
Financing	1,340.0	(194.7)	(295.6)	(591.3)
Dividend payments	0.0	0.0	0.0	(79.2)
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)	0.0	(200.0)
Others/interest paid	693.5	(279.0)	(295.6)	(312.1)
Net cash inflow (outflow)	1,361.7	(1,694.7)	79.3	(69.1)
Beginning cash & cash equivalent	786.0	2,148.4	453.7	533.0
Changes due to forex impact	0.7	0.0	0.0	0.0
Ending cash & cash equivalent	2,148.4	453.7	533.0	463.9

BALANCE SHEET

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Fixed assets	900.2	2,239.7	2,347.5	2,455.6
Other LT assets	1,050.7	4,064.3	4,034.2	4,004.6
Cash/ST investment	2,148.4	453.7	533.0	463.9
Other current assets	574.4	1,239.5	1,263.8	1,288.6
Total assets	4,673.7	7,997.2	8,178.5	8,212.6
ST debt	54.1	321.7	321.7	321.7
Other current liabilities	552.3	1,311.1	1,323.9	1,336.9
LT debt	1,424.3	3,681.2	3,681.2	3,481.2
Other LT liabilities	128.2	128.2	128.2	128.2
Shareholders' equity	2,333.6	2,375.0	2,533.4	2,739.7
Minority interest	181.2	180.0	190.0	205.0
Total liabilities & equity	4,673.7	7,997.2	8,178.5	8,212.6

KEY METRICS

Year to 31 Mar (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	7.3	15.1	16.9	18.5
Pre-tax margin	(2.5)	1.8	4.6	7.1
Net margin	(1.5)	0.8	2.9	4.8
ROA	n.a.	0.6	2.0	3.5
ROE	n.a.	1.7	6.5	10.8
Growth				
Turnover	49.4	189.4	8.4	7.0
EBITDA	65.8	501.4	21.0	17.6
Pre-tax profit	n.a.	n.a.	181.7	66.0
Net profit	(229.9)	n.a.	287.0	80.1
Net profit (adj.)	(229.9)	n.a.	287.0	80.1
EPS	(226.8)	n.a.	287.0	80.1
Leverage				
Debt to total capital	37.0	61.0	59.5	56.4
Debt to equity	63.4	168.5	158.0	138.8
Net debt/(cash) to equity	(28.7)	149.4	137.0	121.9

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