

## COMPANY RESULTS

### SATS (SATS SP)

1QFY24: Core Performance In Line; Focusing On Integration And Synergy Delivery

**Excluding accounting treatment difference and one-off integration expenses, SATS' 1QFY24 core net loss of S\$17.4m was in line with our expectations. Core earnings of SATS' original businesses achieved a turnaround in 1QFY24 while WFS' performance was still affected by the subdued near-term global trade outlook. Management is committed to accelerating the integration of WFS and driving synergy realisation. Maintain BUY and target price of S\$2.99.**

#### RESULTS

- Core performance in line with our expectations.** SATS' headline net loss of S\$29.9m in 1QFY24 came in better than our previously guided net loss of S\$57m-83m, only due to the change in accounting treatment towards: a) the S\$40m early redemption cost for Worldwide Flight Services' (WFS) bonds/notes redemption, and b) WFS' previously capitalised interest cost of S\$20m. Previously, we were expecting this S\$60m accounting impact to be charged through SATS' P/L in 1Q as per SATS' previous guidance. However, after a review with its financial advisers, SATS has decided to account for these items through balance sheet (giving rise to higher acquisition goodwill), instead of expensing them through P/L. Excluding this S\$60m accounting difference and the impact of one-off integration expense of S\$12.6m, the Group's 1QFY24 core net loss of S\$17.4m is deemed in line with our expectations.
- SATS' original businesses turned around.** SATS' original businesses (ie excluding WFS) turned around in 1QFY24, registering a core net profit S\$15m from our estimated S\$5m core net loss in 4QFY23. The turnaround was driven by the improving regional air traffic as well as higher air cargo volume which had bottomed out from the exceptionally weak 4QFY23. The S\$15m core net profit fell within our expected range of S\$0-20m.
- WFS contributed negatively to the group's 1QFY24 core earnings, as expected.** WFS contributed a core net loss of S\$32.4m (including attributable acquisition financing cost) to SATS in 1QFY24. The negative contribution by WFS fell closer to the higher end of our expected range of S\$7m-33m in net loss. The weak performance of WFS was mainly attributed to the weak global air cargo demand amid macro uncertainties. Note that the S\$32.4m core net loss of WFS included S\$16.5m in non-cash accounting expenses related to: a) amortisation of intangible assets arising from the WFS acquisition, and b) conversion of WFS' accounting to SFRS. Excluding these non-cash costs, WFS' cash-earnings contribution to SATS would have been a loss of S\$15.9m.
- Net gearing stood at 90%, in line with our estimate.** Given the largely asset-light nature and cash generating capability of SATS, we deem the 90% net gearing (excluding lease liabilities) healthy and expect SATS to pare it down further to about 60% by FY26.

#### STOCK IMPACT

- Expecting further recovery of SATS' original businesses.** We project earnings of SATS' original businesses to recover to 65% and 95% of the pre-pandemic levels in FY24 and FY25, driven by further recovery in regional air traffic.

#### KEY FINANCIALS

Year to 31 Mar (\$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 (rep./act.)	20	(27)	90	252	286
EPS (\$ cent)	1.7	(2.2)	6.0	16.9	19.1
PE (x)	150.1	n.m.	43.6	15.5	13.7
P/B (x)	1.8	1.7	1.6	1.5	1.4
EV/adj. EBITDA (x)	61.0	29.1	11.5	8.9	8.6
Dividend yield (%)	0.0	0.0	0.0	2.6	2.9
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
Consensus net profit	-	-	109	237	303
UOBKH/Consensus (x)	-	-	0.82	1.06	0.94

Source: SATS, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	S\$2.62
Target Price	S\$2.99
Upside	+14.0%

#### 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 (\$m):	3,905.5
Market cap (US\$m):	2,879.5
3-mth avg daily t'over (US\$m):	12.6

#### Price Performance (%)

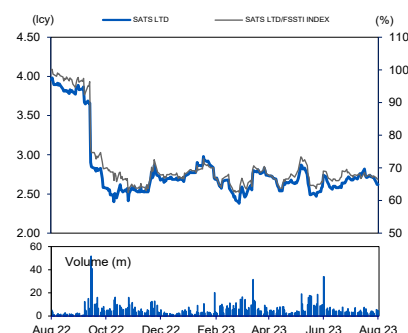
52-week high/low S\$ 3.98/S\$ 2.38

1mth	3mth	6mth	1yr	YTD
(3.7)	(0.4)	(2.4)	(31.9)	(2.4)

#### Major Shareholders

	%
Temasek Hldgs	39.7
FY24 NAV/Share (\$)	1.63
FY24 Net Debt/Share (\$)	2.47

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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- **Subdued near-term air cargo outlook.** The new export orders sub-index of global manufacturing PMI tracking 29 manufacturing economies dipped mom to 46.4 in Jul 23 from 47.1 in Jun 23, indicating a further deceleration of global trade demand in the near term. Management noted that it may take 6-9 months for air cargo growth outlook to turn around.
- **Accelerating integration and focusing on restoring profitability.** Management noted that SATS is accelerating integration of WFS, and has initiated measures to pursue commercial and operating synergies. The key focuses are on restoring profitability and generation of positive free cash flow through yield management and costs rationalisation measures.

#### EARNINGS REVISION/RISKS

- **We raise our FY24 earnings forecast from S\$22m to S\$90m**, mainly due to the change in accounting treatment towards the early redemption cost of WFS' bonds/notes and WFS' previously capitalised interest costs. Our FY25-26 earnings forecasts have been kept intact.
- **Key risks:** a) a prolonged sluggish global trade outlook, and b) integration risks between SATS and WFS.

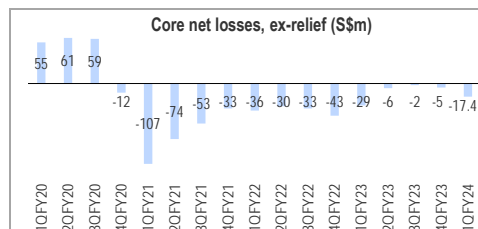
#### VALUATION/RECOMMENDATION

- **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

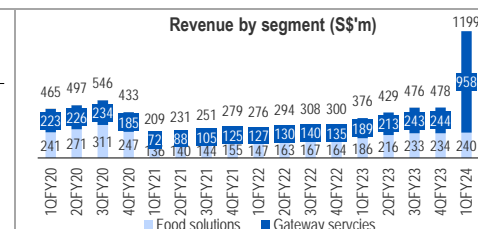
- Successful integration of WFS; delivery of earnings improvement and forecasted synergy.

#### CORE EARNINGS SUNK TO THE RED DUE TO NEGATIVE CONTRIBUTION OF WFS



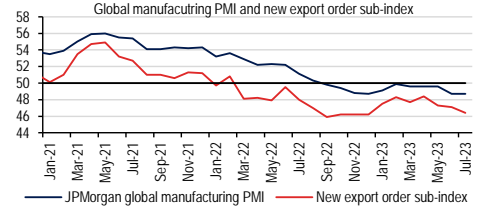
Source: SATS, UOB Kay Hian

#### 1QFY24 REVENUE BOOSTED BY FRESH CONTRIBUTION FROM WFS



Source: SATS, UOB Kay Hian

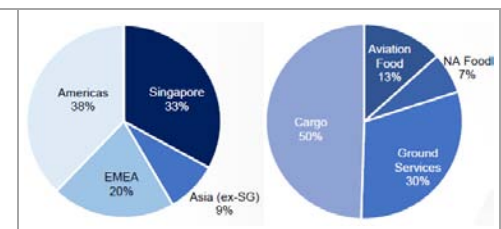
#### GLOBAL MANUFACTURING PMI NEW EXPORT ORDERS INDEX DECLINED TO 46.4 IN JUL 23



#### HISTORICAL EV/EBITDA BAND OF SATS

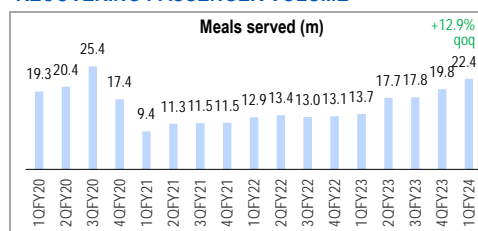


#### 1QFY24 REVENUE BREAKDOWN BY GEOGRAPHY AND BUSINESS



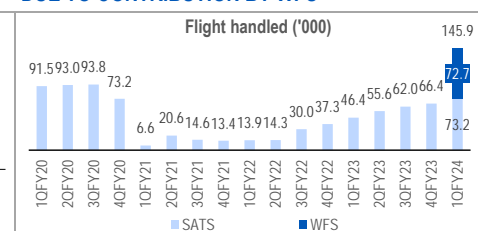
Source: SATS, UOB Kay Hian

#### NUMBER OF MEALS SERVED IMPROVED QOQ ON RECOVERING PASSENGER VOLUME



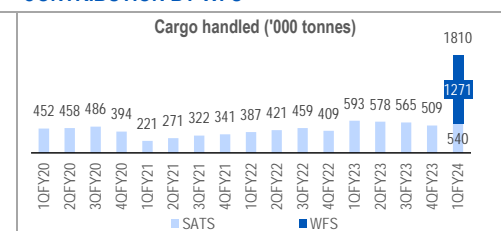
Source: SATS, UOB Kay Hian

#### NUMBER OF FLIGHTS HANDLED SURGED QOQ DUE TO CONTRIBUTION BY WFS



Source: SATS, UOB Kay Hian

#### CARGO VOLUME SURGED QOQ DUE TO CONTRIBUTION BY WFS



Source: SATS, UOB Kay Hian

#### 1QFY24 RESULTS SUMMARY

Year to 31 Mar (\$m)	1QFY24	4QFY23	qoq % change	1QFY23	yoy % change	Prev. FY24F	Note
Revenue	1,198.6	478.1	+150.7	375.5	+219.2	5,165	In line, 1Q at 23% of FY24F full-year projection
- food solutions	240.4	233.8	+2.8	186.2	+29.1	1,218	In line, 1Q at 20% of FY24F full-year projection
- gateway services	958.4	243.9	+292.9	189.3	+406.3	3,948	In line, 1Q at 24% of FY24F full-year projection
Reported EBITDA	179.5	58.7	+205.8	13.9	+1191	847	In line, 1Q at 21% of FY24F full-year projection
EBIT	10.2	-4.6	n.m.	-34.3	n.m.	227.0	
EBIT ex gov. reliefs & one-offs	23.5	-24.3	n.m.	-45.6	n.m.	227.0	In line; expect improving performance in remaining FY24F
JV/associate contribution	21.3	17.6	+21.0	6.9	+208.7	44.1	Above expectations
Net Profit (reported)	-29.9	5.5	n.m.	-22.5	n.m.	21.9	1Q: absence of S\$60m accounting expenses previously guided
Core net profit excl. reliefs	-17.4	-5.2	n.m.	-28.9	n.m.		Broadly in line

Source: SATS, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
<b>Net turnover</b>	<b>1,758.3</b>	<b>5,165.3</b>	<b>5,468.5</b>	<b>5,663.5</b>
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)
<b>Pre-tax profit</b>	<b>(43.8)</b>	<b>120.8</b>	<b>306.2</b>	<b>342.6</b>
Tax	5.2	(28.1)	(46.9)	(48.9)
Minorities	12.1	(3.1)	(7.2)	(8.1)
<b>Net profit</b>	<b>(26.5)</b>	<b>89.6</b>	<b>252.1</b>	<b>285.6</b>

### BALANCE SHEET

Year to 31 Mar (\$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
<b>Total assets</b>	<b>4,673.7</b>	<b>7,858.9</b>	<b>7,929.0</b>	<b>7,932.8</b>
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
<b>Total liabilities &amp; equity</b>	<b>4,673.7</b>	<b>7,858.9</b>	<b>7,929.0</b>	<b>7,932.8</b>

### CASH FLOW

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
<b>Operating</b>	<b>79.6</b>	<b>517.4</b>	<b>737.0</b>	<b>774.9</b>
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)
<b>Investing</b>	<b>(57.9)</b>	<b>(2,127.4)</b>	<b>(235.5)</b>	<b>(216.9)</b>
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
<b>Financing</b>	<b>1,340.0</b>	<b>(205.6)</b>	<b>(494.6)</b>	<b>(600.3)</b>
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)
<b>Net cash inflow (outflow)</b>	<b>1,361.7</b>	<b>(1,815.5)</b>	<b>6.8</b>	<b>(42.3)</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>786.0</b>	<b>2,148.4</b>	<b>332.9</b>	<b>339.7</b>
Changes due to forex impact	0.7	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>2,148.4</b>	<b>332.9</b>	<b>339.7</b>	<b>297.4</b>

### KEY METRICS

Year to 31 Mar (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
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
<b>Growth</b>				
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
<b>Leverage</b>				
Debt to total capital	37.0	60.6	57.1	54.1
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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