

COMPANY RESULTS

SATS (SATS SP)

2QFY23: Core Losses Narrowing; Likely To Return To Profitability Next Quarter

Excluding government reliefs, one-offs and professional fees related to the WFS deal, SATS' core net loss stood at S\$5m-10m in 2QFY23, a meaningful improvement over 1QFY23's ex-relief core net losses of S\$31.9m. We expect SATS to return to positive core profitability in the next quarter as we head into the year-end peak travel season. Management has updated its financing plan for the WFS deal to use only straight equity and more debt. Maintain BUY with an unchanged target price of S\$3.08.

RESULTS

- Meaningful improvement in core profitability.** SATS recorded headline net losses of S\$9.9m in 2QFY23 (1HFY23: S\$32.5m losses). Stripping out a one-off disposal gain of S\$1.9m and government reliefs of S\$11.4m, SATS' 2QFY23 core net loss stood at S\$21.6m in 2QFY23. 2QFY23 performance was also affected by the recognition of S\$15m expenditure of the professional fees related to the WFS acquisition. Excluding this expense item, SATS' 2QFY23 ex-relief core net losses would have been S\$5m-10m, a meaningful improvement over 1QFY23's ex-relief core net loss of S\$31.9m.
- Passenger business volume continued to recover; a slight dip in air cargo volume.** In line with the aviation sector's recovery, SATS' business volume continued to recover in 2QFY23 – the volume of flights handled, meals served and passengers handled rose 20.0%, 28.7% and 29.9% qoq respectively. Cargo tonnage handled declined 2.6% qoq, likely due to a normalisation of the air cargo business from the pandemic high and the slower near-term demand amid the weakening macroeconomic outlook. Group revenue rose 14.2% qoq to S\$429m in 2QFY23, driven by qoq higher revenue across all regions.

STOCK IMPACT

- Expecting a turnaround in 3QFY23.** We expect SATS to return into core profitability next quarter, as we head into the year-end peak travel season. In its home market Singapore (which accounted for 80% of SATS' 1HFY23 revenue), passenger volume at Changi Airport is on track to reach about 75% of pre-pandemic levels in 3QFY23 by our estimate, compared to about 57% in 2QFY23. The expected higher passenger volume, together with operating leverage (labour hiring is expected to taper off as SATS is said to have recruited enough to support the year-end peak season) should help return SATS to core profitability.
- Using rights issue and term loans to finance WFS; net gearing to hit 90% post transaction.** During the 2QFY23 analyst briefing, management updated that SATS intends to finance the S\$1.8b equity portion of the WFS deal with a rights issue not exceeding S\$800m and make up the remaining balance with internal cash (about S\$320m) and term loans (about S\$700m). Together with WFS' existing debt (S\$1.4b-1.5b) which SATS will assume, SATS' post-transaction net gearing is expect to reach around 90% by our estimate, compared with its net cash position as of end-1HFY23. Management is confident that the operating cash flow of SATS and WFS will cover the interests and principal repayment.

KEY FINANCIALS*

Year to 31 Mar (\$m)	2021	2022	2023F	2024F	2025F
Net turnover	970	1,177	1,812	2,163	2,453
EBITDA	120	77	181	309	458
Operating profit	(10)	(43)	11	139	287
Net profit (rep./act.)	(79)	20	16	154	266
EPS (\$ cent)	(7.0)	1.8	1.4	13.7	23.6
PE (x)	n.m.	150.1	195.6	19.9	11.5
P/B (x)	2.0	1.9	1.9	1.8	1.6
EV/EBITDA (x)	21.7	37.2	16.6	9.9	6.7
Dividend yield (%)	0.0	0.0	0.0	3.7	6.6
Net margin (%)	(8.1)	1.7	0.9	7.1	10.8
Net debt/(cash) to equity (%)	(11.9)	(15.0)	(6.2)	(2.1)	(0.8)
ROE (%)	n.a.	1.3	1.0	9.2	14.8

* We have yet to incorporate potential financial impacts from the acquisition of WFS.
Source: SATS, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$2.72
Target Price	S\$3.08
Upside	+13.2%

COMPANY DESCRIPTION

Asia's leading provider of food solutions and gateway services with a presence in over 55 locations across 14 countries.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SATS SP
Shares issued (m):	1,124.2
Market cap (S\$ m):	3,057.8
Market cap (US\$m):	2,185.7
3-mth avg daily t'over (US\$m):	13.0

Price Performance (%)

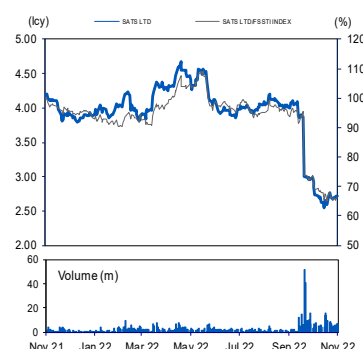
52-week high/low S\$ 4.67/S\$ 2.54

1mth	3mth	6mth	1yr	YTD
(8.1)	(32.8)	(39.1)	(36.0)	(30.1)

Major Shareholders

	%
Temasek Hldgs	40.0
FY23 NAV/Share (S\$)	1.44
FY23 Net Debt/Share (S\$)	0.19

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- Change in SATS investment thesis.** SATS used to be favoured by the market as a stable yield play (with 70-80% dividend payout ratio) backed by a strong balance sheet. After the WFS transaction, we expect SATS to become more of a balance of growth and yield. With the elevated net gearing, SATS is likely to moderate its dividend payment and utilise more of the surplus operating cash flow to pare down the debt.

EARNINGS REVISION/RISKS

- We cut our FY23 net profit estimate to S\$15.7m (from previously S\$64.5m), as we: a) fine-tune our expectations for SATS' profit recovery trajectory, and b) include S\$41m expenditure of the professional fees related to the WFS deal (S\$19m already incurred in 1HFY23). We keep FY24-25F forecasts intact.
- Key risks:** a) Deteriorating global air cargo outlook; b) air traffic recovery losing steam beyond FY23; and c) failure to pass down inflationary cost pressure to customers.

VALUATION/RECOMMENDATION

- Maintain BUY with an unchanged SOTP-based target price of S\$3.08.** We value SATS' existing businesses on a standalone basis using DCF and then incorporate the valuation impact of WFS. We conservatively value WFS at 7x EBITDA, in view of the rising interest rate environment and the uncertain global air cargo outlook in the near term.

SHARE PRICE CATALYST

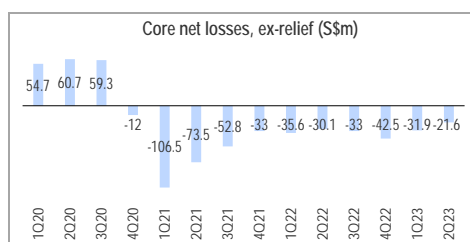
- No strong near-term catalyst.** Investors in SATS need to adopt a medium-to-long term view. Medium-term catalysts could include: a) SATS successfully integrating WFS and delivering the forecasted synergies, and b) recovery of global air cargo outlook.

SOTP VALUATION OF SATS (WITH CONSERVATIVE VALUATION FOR WFS)

DCF-based TP for SATS (standalone basis)	S\$3.82
SATS # of shares (mil)	1,122
DCF value of SATS (standalone), (a)	S\$4,286m
Conservative EV/EBITDA multiple for WFS valuation	7.0x
WFS base year EBITDA	€232m
€:S\$	1.4
UOB Kay Hian's conservative valuation for WFS EV (b)	S\$2,274m
SATS' acquisition EV for WFS (c)	S\$3,107m
Valuation difference (d) = (c) - (b)	-S\$833m
SATS with WFS acquisition obligation (a) + (d)	S\$3,453m
SATS # of shares outstanding (mil)	1,122
SATS target price (pre-rights)	S\$3.08

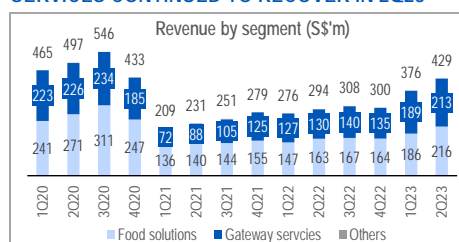
Source: UOB Kay Hian

IMPROVEMENT IN CORE NET PROFIT QOQ



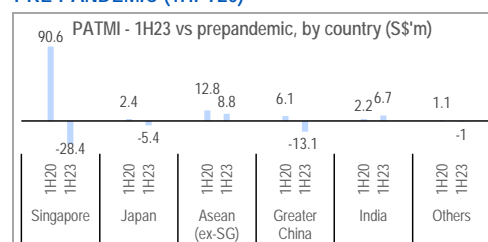
Source: SATS, UOB Kay Hian

REVENUE OF FOOD SOLUTIONS AND GATEWAY SERVICES CONTINUED TO RECOVER IN 2Q23



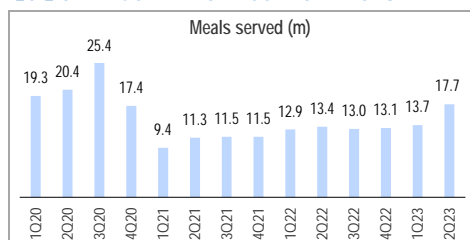
Source: SATS, UOB Kay Hian

PROFIT CONTRIBUTION BY GEOGRAPHY, 1HFY23 VS PRE-PANDEMIC (1HFY20)



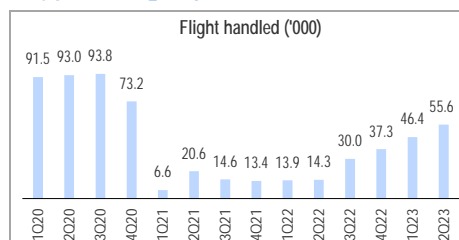
Source: SATS, UOB Kay Hian

NUMBER OF MEALS SERVED SLOWLY SURGED QOQ ON RECOVERING PASSENGER VOLUME



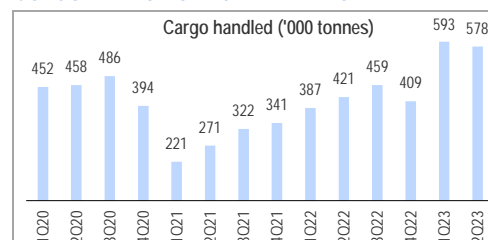
Source: SATS, UOB Kay Hian

NUMBER OF FLIGHTS HANDLED CONTINUED TO RECOVER IN 2QFY23



Source: SATS, UOB Kay Hian

CARGO VOLUME BOOST SINCE 1Q23 DUE TO THE CONSOLIDATION OF ASIA AIR FREIGHT TERMINAL



Source: SATS, UOB Kay Hian

1H / 2QFY23 RESULTS

Year to 31 Mar (S\$m)	2Q23	1Q23	qoq % change	2Q22	yoy % change	1H23	yoy % change	Prev. FY23F	Note
Revenue	429.0	375.5	+14.2	293.9	+46.0	805	+41.3	1,812	1H broadly in line, at 44% of our full-year forecast
- food solutions	216.4	186.2	+16.2	163.0	+32.8	403	+29.7	964	1H broadly in line, at 42% of our full-year forecast
- gateway services	212.6	189.3	+12.3	130.3	+63.2	402	+56.2	845	1H broadly in line, at 47% of our full-year forecast
EBIT	-8.0	-34.3	n.m.	0.5	n.m.	-42.3	n.m.	25.2	Slightly behind our projection due to faster cost ramp-up
JV/associate contribution	10.7	6.9	+55.1	2.1	+409.5	17.6	+1855.6	23.5	1H above expectations due to better performance in India
Net Profit (reported)	-10.0	-22.5	n.m.	6.8	n.m.	-32.5	n.m.	64.5	1H below, due to S\$19m professional fees related to the WFS deal
Core net profit	-11.8	-22.5	n.m.	6.8	n.m.	-34.4	n.m.	46.1	1H below expectations, partially due to WFS professional fees
Core net profit excl. reliefs	-21.6	-31.9	n.m.	-30.1	n.m.	-53.5	n.m.	28.1	1H below expectations, partially due to WFS professional fees
Margins (%)									
EBIT	-1.9	-9.1	+7.3ppt	0.2	-2.0ppt	-5.3	-6.0ppt	1.4	
Core net profit	-2.8	-6.0	+3.2ppt	2.3	-5.1ppt	-4.3	-6.6ppt	2.5	
Core net profit excl. reliefs	-5.0	-8.5	+3.5ppt	-10.2	+5.2ppt	-6.7	+4.9ppt	1.5	

Source: SATS, UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Net turnover	1,176.8	1,812.1	2,163.3	2,453.2
EBITDA	77.1	181.1	308.5	458.3
Deprec. & amort.	119.7	170.0	170.0	171.7
EBIT	(42.6)	11.1	138.5	286.5
Total other non-operating income	12.2	(37.9)	0.0	0.0
Associate contributions	17.1	36.8	42.0	49.0
Net interest income/(expense)	(13.8)	(14.0)	(11.0)	(11.0)
Pre-tax profit	(27.1)	(4.0)	169.5	324.5
Tax	31.4	4.6	(25.5)	(55.1)
Minorities	16.1	15.1	9.9	(3.8)
Net profit	20.4	15.7	153.9	265.6

BALANCE SHEET

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Fixed assets	902.4	999.9	1,097.5	1,195.4
Other LT assets	1,093.9	1,090.0	1,087.9	1,088.1
Cash/ST investment	786.0	514.4	441.7	415.7
Other current assets	510.0	580.8	682.6	759.6
Total assets	3,292.3	3,185.2	3,309.6	3,458.7
ST debt	143.1	101.4	101.4	101.4
Other current liabilities	487.5	490.6	504.7	530.3
LT debt	694.8	625.7	625.7	625.7
Other LT liabilities	133.2	133.2	133.2	133.2
Shareholders' equity	1,602.6	1,618.3	1,738.5	1,858.3
Minority interest	231.1	216.0	206.1	209.9
Total liabilities & equity	3,292.3	3,185.2	3,309.6	3,458.7

CASH FLOW

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Operating	62.3	59.7	177.3	333.6
Pre-tax profit	(27.1)	(4.0)	169.5	324.5
Tax	(17.0)	4.6	(25.5)	(55.1)
Deprec. & amort.	119.7	170.0	170.0	171.7
Associates	(17.1)	(36.8)	(42.0)	(49.0)
Working capital changes	(0.3)	(67.7)	(87.7)	(51.5)
Non-cash items	19.5	(37.9)	0.0	0.0
Other operating cashflows	(15.4)	31.4	(7.0)	(7.0)
Investing	31.1	(193.1)	(189.1)	(186.5)
Capex (maintenance)	(77.9)	(224.2)	(224.2)	(226.3)
Investments	80.6	0.0	0.0	0.0
Proceeds from sale of assets	0.7	0.0	0.0	0.0
Others	27.7	31.1	35.1	39.8
Financing	(189.3)	(138.1)	(61.0)	(173.2)
Dividend payments	0.0	0.0	(33.7)	(145.9)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	21.1	0.0	0.0	0.0
Loan repayment	(182.0)	(110.8)	0.0	0.0
Others/interest paid	(28.4)	(27.3)	(27.3)	(27.3)
Net cash inflow (outflow)	(95.9)	(271.6)	(72.7)	(26.0)
Beginning cash & cash equivalent	879.8	786.0	514.4	441.7
Changes due to forex impact	2.1	0.0	0.0	0.0
Ending cash & cash equivalent	786.0	514.4	441.7	415.7

KEY METRICS

Year to 31 Mar (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	6.5	10.0	14.3	18.7
Pre-tax margin	(2.3)	(0.2)	7.8	13.2
Net margin	1.7	0.9	7.1	10.8
ROA	0.6	0.5	4.7	7.8
ROE	1.3	1.0	9.2	14.8
Growth				
Turnover	21.3	54.0	19.4	13.4
EBITDA	(36.0)	135.0	70.3	48.5
Pre-tax profit	n.a.	n.a.	n.a.	91.5
Net profit	n.a.	(23.2)	882.5	72.6
EPS	n.a.	(23.3)	882.5	72.6
Leverage				
Debt to total capital	31.4	28.4	27.2	26.0
Debt to equity	27.9	21.8	20.6	19.3
Net debt/(cash) to equity	(15.0)	(6.2)	(2.1)	(0.8)

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