

COMPANY UPDATE

SATS (SATS SP)

On Track To Complete The WFS Acquisition

With the receipt of shareholders' approvals, SATS is on track to complete the WFS deal in Mar/Apr 23. We estimate the financial impact of the WFS deal to be dilutive for SATS in the initial years after the transaction is completed, although this also depends on how quickly the global air cargo outlook turns around and how fast SATS can realise its forecasted synergy. Maintain BUY with a higher target price of S\$3.28 (for cum-right shares), based on 9.7x FY25 adjusted EBITDA for the combined entity.

WHAT'S NEW

- **WFS acquisition approved by shareholders.** SATS' proposed acquisition of Worldwide Flight Services (WFS) was approved by shareholders during the EGM last week. 57.6% of the total issued shares attended and voted at the EGM and among those voted, 96.8% voted in favour of the acquisition. With the receipt of shareholders' approvals, the proposed acquisition of WFS now remains subject to requisite regulatory approval. Barring unforeseen circumstances, SATS expects the transaction to be completed in Mar/Apr 23.
- **Pending rights financing.** To recap, as part of the funding plan for the acquisition, SATS intends to raise S\$800m via a rights issue. Management had previously guided that the issuance price would not be at a steep discount to its share trading price prior to the issuance. In arriving at our post-acquisition financial projection, we have tentatively factored in a rights issuance price of S\$2.60, leading to an issuance of 308m new shares.
- **Updated financial projection incorporates impact of the WFS deal.** We have updated our financial model for SATS by incorporating the impact from the acquisition of WFS, assuming the deal is completed in early Apr 23. We highlight that our current projection is based on: a) SATS' provisional purchase price allocation (PPA) related to the WFS deal, and b) SATS' (best-efforts) estimation of the reporting differences when converting WFS' current financial reporting to the SFRS(I) accounting standards, as disclosed in SATS' acquisition circular. Should SATS' estimation for these accounting items change after the transaction, our forecasts for SATS' reported financials would be adjusted accordingly.

STOCK IMPACT

- **The WFS deal is likely EPS-dilutive in the initial years...** We estimate the WFS deal to be EPS-dilutive to SATS by 50%/18%/8% in FY24/25/26 respectively, due mainly to a combination of effects from the following factors: a) the expected recovery of SATS' existing businesses helped by China's reopening; b) a slower global air cargo demand amid global macroeconomic uncertainties impacting WFS' financial performance in FY24 (expecting recovery in FY25-26); c) additional amortisation expense of new intangible assets arising from the WFS deal; d) unfavourable accounting effects from the conversion of WFS' reporting to SFRS(I); and e) higher financial costs for additional debts arising from the WFS deal, partly offset by potential interest cost savings from debt refinancing and repayment by SATS.

KEY FINANCIALS

Year to 31 Mar (\$m)	2021	2022	2023F	2024F	2025F
Net turnover	970	1,177	1,812	5,126	5,398
EBITDA	120	77	181	836	982
Operating profit	(10)	(43)	11	273	414
Net profit	(79)	20	16	98	242
EPS (S\$ cent)	(7.0)	1.8	1.4	6.8	16.8
PE (x)	n.m.	161.6	211.0	42.8	17.4
P/B (x)	2.1	2.1	2.0	1.7	1.5
EV/EBITDA (x)	85.9	51.5	22.4	11.5	8.9
Dividend yield (%)	0.0	0.0	0.0	0.9	2.3
Net margin (%)	(8.1)	1.7	0.9	1.9	4.5
Net debt/(cash) to equity (%)	(11.9)	(15.0)	(8.4)	81.9	70.2
Interest cover (x)	7.7	5.6	12.1	4.6	6.0
ROE (%)	n.a.	1.3	1.0	4.8	9.2

* Financial projections for 2024-25F have incorporated financial impacts from the acquisition of WFS and rights issuance.

Source: SATS, Bloomberg, UOB Kay Hian

n.m. : not meaningful; negative P/E reflected as "n.m."

BUY

(Maintained)

Share Price	S\$2.93
Target Price	S\$3.28
Upside	+11.8%
(Previous TP)	S\$3.10)

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):	3,293.9
Market cap (US\$m):	2,495.0
3-mth avg daily t'over (US\$m):	11.0
Price Performance (%)	

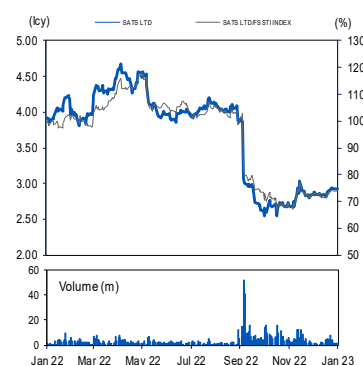
52-week high/low S\$ 4.67/S\$ 2.54

1mth	3mth	6mth	1yr	YTD
2.8	11.4	(26.6)	(26.4)	3.2

Major Shareholders

	%
Temasek Hldgs	39.7
-	-
-	-
FY23 NAV/Share (S\$)	1.44
FY23 Net Debt/Share (S\$)	0.15

PRICE CHART



Source: Bloomberg

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SUMMARY OF FINANCIAL IMPACT OF WFS ACQUISITION

S\$'m	FY24F	FY25F	FY26F	FY27	FY28F
Revenue					
SATS standalone	2,209	2,364	2,435	2,508	2,583
WFS	2,917	3,034	3,185	3,344	3,512
Consolidated revenue	5,126	5,398	5,620	5,852	6,095
Adjusted EBITDA (net of lease expense)					
SATS standalone	305	405	418	432	445
WFS	264	290	306	321	338
Simple sum	569	696	724	753	783
add: Additional synergy realised	0	20	25	30	30
Consolidated adjusted EBITDA	569	716	749	783	813
PATMI					
SATS standalone	154	231	240	247	255
WFS	35	55	66	78	91
Simple sum	188	286	306	326	346
adjusted for:					
Additional synergy realised	0	20	25	30	30
Provision for additional amortisation of intangible assets	-36	-36	-36	-36	-36
Unfavourable conversion of WFS reporting to SFRS(I)	-42	-42	-42	-42	-42
Interest cost of additional debt taken up by SATS	-33	-33	-33	-33	-33
Estimated interest cost saving from the WFS debt refinancing	10	21	21	40	40
Estimated interest cost saving from debt repayment	0	9	18	28	37
Tax effect of all above adjustment items	11	17	21	4	1
Consolidated PATMI	98	242	280	316	343
Dilution analysis					
EPS - SATS standalone, on existing share base of 1,124m	13.6	20.5	21.3	21.9	22.6
EPS - Consolidated with WFS, on enlarged share based of 1,432m	6.8	16.8	19.5	22.0	23.9
EPS accretion/(dilution)	-50%	-18%	-8%	0%	+5%

Source: UOB Kay Hian

- **...depending on how fast SATS can realise its estimated synergy from the deal.** SATS had previously guided a potential run-rate EBITDA-level synergy of over S\$100m p.a. over the medium term (five-year horizon) with 40% to be realised in the near term (two-year horizon). In deriving our current financial projection and the estimated dilutional effects of WFS for SATS, other than those synergies already indirectly captured by our revenue growth projection (4-5% p.a. in FY25-28), we have incorporated additional synergy realisation of S\$20m-30m p.a. for WFS at the EBITDA level in FY25-28. The WFS deal would be EPS-neutral earlier if SATS' synergy realisation is faster and/or higher than we have projected.
- **About 88% net gearing immediately after the transaction...** By our estimate, after the WFS transaction and the S\$800m rights issuance, SATS' net gearing (excluding lease liabilities under the SFRS(I) 16 lease accounting) would stand at approximately 88%, a manageable level in our view. This compares with the slight net cash position that SATS used to maintain in the recent years.
- **...which will be reduced further to 42%, driven by surplus operating cash flow.** Based on our projection, SATS (together with WFS) will be able to generate a free cash flow of S\$350m-400m p.a. in FY25-28. Besides providing for interest expense and dividend payment, we expect a major portion of the free cash flow to be utilised to pare down the debts. By our projection, SATS' net gearing will be reduced to 42% by FY28.
- **Expecting moderated dividend payout in the medium term.** Historically, SATS has paid out 75-85% of net profit as dividends. Considering the need to strengthen its balance sheet amid a rising interest rate environment, we expect SATS to moderate its dividend payment at least in the medium term. By factoring in a payout ratio of 40%, we derive DPS of 2.7/6.8/7.8 S cents for FY24/25/26, leading to a dividend yield of 0.9/2.3/2.7% respectively.

EARNINGS REVISION/RISKS

- We cut SATS' FY24-25 EPS by 50% and 18% due to the dilution impact of the WFS deal.
- **Key risks:** a) Slower-than-expected air traffic volume recovery, b) subdued global air cargo outlook, and c) execution risk of integrating WFS with SATS.

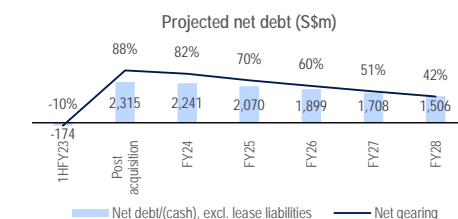
VALUATION/RECOMMENDATION

- **Maintain BUY with a higher target price of S\$3.28.** We have rolled our valuation basis to end-FY24. Our target price of S\$3.28 (for cum-right share of SATS) is conservatively derived by applying a 9.7x multiple (the same as SATS' acquisition multiple of WFS but 1.7SD below SATS' FY14-19 average EV/EBITDA of 12.8x) to FY25 adjusted EBITDA. Assuming a rights issuance price of S\$2.60, SATS' ex-rights share fair value would be S\$3.13.

SHARE PRICE CATALYST

- a) Profitability recovery on improving air travel volume, b) an eventual turnaround of global air cargo outlook, c) successful integration of WFS and delivery the forecasted synergies.

SATS' NET GEARING TO HIT 88% POST TRANSACTION AND GRADUALLY REDUCE TO 42% BY FY28



Source: SATS, UOB Kay Hian

HISTORICAL EV/EBITDA BAND OF SATS



Source: SATS, UOB Kay Hian, Bloomberg

VALUATION

As of end-FY24	Value (\$m)	Note
Enterprise value	6,944	based on 9.7x FY25 adj. EBITDA
less: Net debt	2,241	
less: MI	219	
Total equity fair value with rights	4,484	
less: rights amount to be raised	800	
Fair value of existing share base	3,684	
Existing share base (m)	1,124.2	
Cum-right share fair value	S\$3.28	cum-right share TP
Rights issue price	S\$2.60	assumed
New rights share issued (m)	308	
Enlarged share base (m)	1,431.9	
Ex-right share fair value	S\$3.13	ex-right share TP; dependent on actual rights issue price

Source: SATS, UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Net turnover	1,176.8	1,812.1	5,125.5	5,397.6
EBITDA	77.1	181.1	835.9	982.3
Deprec. & amort.	119.7	170.0	563.2	568.6
EBIT	(42.6)	11.1	272.7	413.7
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)	(15.0)	(183.6)	(163.9)
Pre-tax profit	(27.1)	(5.0)	131.1	298.8
Tax	31.4	4.8	(28.9)	(47.8)
Minorities	16.1	15.9	(4.0)	(9.0)
Net profit	20.4	15.7	98.2	242.0

BALANCE SHEET

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Fixed assets	902.4	967.4	2,382.3	2,447.3
Other LT assets	1,093.9	1,090.0	4,036.1	4,000.1
Cash/ST investment	786.0	664.1	367.3	338.1
Other current assets	510.0	573.7	1,140.1	1,162.1
Total assets	3,292.3	3,295.2	7,925.7	7,947.5
ST debt	143.1	101.4	101.4	101.4
Other current liabilities	487.5	490.6	1,048.3	1,058.5
LT debt	694.8	736.5	3,907.1	3,707.1
Other LT liabilities	133.2	133.2	133.2	133.2
Shareholders' equity	1,602.6	1,618.3	2,516.5	2,719.2
Minority interest	231.1	215.2	219.2	228.2
Total liabilities & equity	3,292.3	3,295.2	7,925.7	7,947.5

CASH FLOW

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Operating	62.3	66.0	615.8	752.7
Pre-tax profit	(27.1)	(5.0)	131.1	298.8
Tax	(17.0)	4.8	(28.9)	(47.8)
Deprec. & amort.	119.7	170.0	563.2	568.6
Associates	(17.1)	(36.8)	(42.0)	(49.0)
Working capital changes	(0.3)	(60.6)	(1.6)	(11.8)
Non-cash items	19.5	(37.9)	0.0	0.0
Other operating cashflows	(15.4)	31.4	(6.0)	(6.0)
Investing	31.1	(137.9)	(2,142.8)	(247.9)
Capex (maintenance)	(77.9)	(169.0)	(286.2)	(286.8)
Investments	80.6	0.0	(1,890.7)	0.0
Proceeds from sale of assets	0.7	0.0	0.0	0.0
Others	27.7	31.1	34.1	38.8
Financing	(189.3)	(50.0)	1,230.1	(533.9)
Dividend payments	0.0	0.0	0.0	(39.3)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	21.1	0.0	720.0	0.0
Loan repayment	(182.0)	0.0	0.0	(200.0)
Others/interest paid	(28.4)	(50.0)	510.1	(294.6)
Net cash inflow (outflow)	(95.9)	(121.9)	(296.8)	(29.2)
Beginning cash & cash equivalent	879.8	786.0	664.1	367.3
Changes due to forex impact	2.1	0.0	0.0	0.0
Ending cash & cash equivalent	786.0	664.1	367.3	338.1

KEY METRICS

Year to 31 Mar (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	6.5	10.0	16.3	18.2
Pre-tax margin	(2.3)	(0.3)	2.6	5.5
Net margin	1.7	0.9	1.9	4.5
ROA	0.6	0.5	1.8	3.0
ROE	1.3	1.0	4.8	9.2
Growth				
Turnover	21.3	54.0	182.9	5.3
EBITDA	(36.0)	135.0	361.5	17.5
Pre-tax profit	n.a.	n.a.	n.a.	127.9
Net profit	n.a.	(23.2)	527.3	146.3
EPS	n.a.	(23.4)	392.5	146.3
Leverage				
Debt to total capital	31.4	31.4	59.4	56.4
Debt to equity	27.9	27.9	95.3	81.7
Net debt/(cash) to equity	(15.0)	(8.4)	81.9	70.2
Interest cover (x)	5.6	12.1	4.6	6.0

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