

COMPANY RESULTS

SATS (SATS SP)

3QFY23: Core Profitability A Slight Miss; Awaiting Completion Of WFS Deal

Excluding government relief and one-off acquisition-related expenses, SATS' 3QFY23 core net losses stood at S\$2m-4m in 2QFY23. Despite some qoq improvement, 3QFY23 core profitability was still slightly behind our projection, due to faster-than-expected cost ramp-up in preparation of the traffic volume recovery from China. Results aside, the market is awaiting SATS' closure of the WFS acquisition, which is on track to be completed by Mar/Apr 23. Maintain BUY with a target price of S\$3.28.

RESULTS

- **Despite qoq improvement, 3QFY23 core profitability was a slight miss...** SATS recorded a slight headline net profit of S\$0.5m in 3QFY23 (3QFY22: S\$5.1m), thanks to government reliefs of S\$16.7m, but partly offset by one-off acquisition expense of S\$11.7m related to the Worldwide Flight Services (WFS) deal. Stripping out government reliefs and the acquisition-related expenditure, SATS' 3QFY23 core net loss was S\$2m-4m by our estimate. While this was a moderate improvement over 2QFY23's S\$5m-10m core losses, it was still a slight miss vs our projection as we were expecting SATS' core profitability to have returned to positive territory in 3QFY23. Revenue rose 10.9% qoq (+54.5% yoy) to S\$476m in 3QFY23, on the back of higher food solutions (+7.6% qoq) and gateway services (+14.2% qoq) revenue.
- **...due to faster-than-expected cost ramp-up in preparation of return of air traffic from China.** The slight miss of SATS' core profitability was mainly due to the faster-than-expected growth of operating costs, as during the quarter SATS continued to proactively ramp up the workforce strength in preparation of the recovery of air traffic from China. According to management, SATS' workforce has today recovered to almost 100% of the pre-pandemic level, making SATS well-positioned to support and capture the regional air traffic recovery with China's reopening.
- **Passenger businesses continued to recover, but air cargo volume contracted for the second quarter.** In line with regional air travel recovery, SATS' passenger-related operating statistics improved in 3QFY23 – the number of flights handled and passengers handled rose 11.5% and 16.0% qoq respectively. The number of meals served increased by 0.7% qoq. In 3QFY23, the number of flights handled, passenger volume handled and aviation meals served by SATS stood at 71%, 72% and 65% of the pre-pandemic levels, respectively. Amid slower global trades, cargo tonnage handled by SATS contracted for the second consecutive quarter in 3QFY23 by 2.2% qoq, after the 2.6% qoq decline in 2QFY23, despite the fact that 3Q is usually a seasonally strong quarter for air cargo.

STOCK IMPACT

- **Expecting positive core profitability in 4QFY23.** Given that SATS has completed workforce ramp-up in the past quarter and taking into the account further regional air traffic recovery with China's reopening (China used to contribute to about 20% of SATS' total business volume), we expect SATS' core profitability to return in to the black in 4QFY23.

KEY FINANCIALS

Year to 31 Mar (\$m)	2021	2022	2023F	2024F	2025F
Net turnover	970	1,177	1,778	5,126	5,398
EBITDA	120	77	141	845	989
Operating profit	(10)	(43)	(35)	269	409
Net profit (rep./act.)	(79)	20	(20)	98	242
EPS (\$ cent)	(7.0)	1.8	(1.8)	6.8	16.9
PE (x)	n.m.	165.5	n.m.	43.9	17.8
P/B (x)	2.2	2.1	2.1	1.7	1.6
EV/adj. EBITDA (x)	88.0	52.7	31.0	11.5	9.0
Dividend yield (%)	0.0	0.0	0.0	0.9	2.3
Net margin (%)	(8.1)	1.7	(1.1)	1.9	4.5
Net debt/(cash) to equity (%)	(11.9)	(15.0)	(8.2)	83.3	71.5
ROE (%)	n.a.	1.3	n.a.	4.8	9.4
Consensus net profit	-	-	19	175	274
UOBKH/Consensus (x)	-	-	n.m.	0.56	0.88

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

Source: SATS, Bloomberg, UOB Kay Hian

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

BUY

(Maintained)

Share Price	S\$3.00
Target Price	S\$3.28
Upside	+9.4%

COMPANY DESCRIPTION

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

STOCK DATA

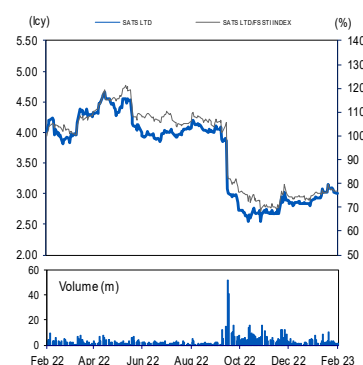
GICS sector	Industrials
Bloomberg ticker:	SATS SP
Shares issued (m):	1,124.2
Market cap (\$m):	3,372.6
Market cap (US\$m):	2,531.4
3-mth avg daily t'over (US\$m):	9.5
Price Performance (%)	

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

1mth	3mth	6mth	1yr	YTD
3.8	13.2	(25.9)	(25.9)	5.6

Major Shareholders	%
Temasek Hlds	39.7
-	-
-	-
FY23 NAV/Share (\$)	1.41
FY23 Net Debt/Share (\$)	0.16

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **Awaiting completion of WFS acquisition.** According to management, the acquisition of WFS remains on track to be completed in late-Mar/early-Apr 23. While we are waiting for more details (including the exact timeline and the rights issue price) related to the pending S\$800m rights issuance for the financing of this deal, we believe the rights issue price would not be a steep discount to SATS' recent transaction price.

EARNINGS REVISION/RISKS

- We cut our FY23F net profit estimate to negative S\$20m (from previously positive S\$15.7m), to reflect the faster-than-expected cost ramp-up, while keeping FY24-25 estimates intact.
- **Key risks:** a) Slower-than-expected air traffic recovery, b) a prolonged subdued air cargo outlook (IATA forecasts global air cargo demand to contract about 4% yoy in 2023), c) execution risks of integrating WFS with SATS, and d) purchase price allocation (accounting treatment) different from expectation, leading to different amortisation expense estimates.

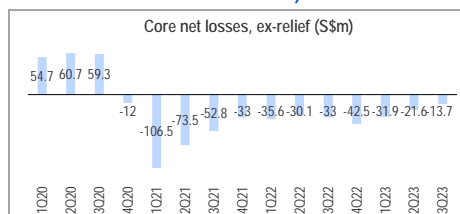
VALUATION/RECOMMENDATION

- **Maintain BUY with an unchanged target price of S\$3.28.** 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 SATS' FY25 adjusted EBITDA. For illustration purpose, assuming a rights issuance price of S\$2.60, SATS' ex-rights share fair value would be S\$3.14.

SHARE PRICE CATALYST

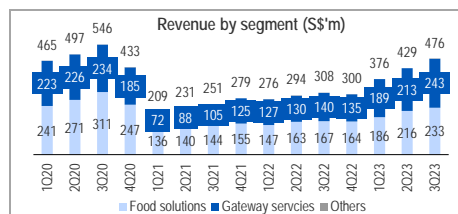
- a) Profitability recovery of SATS' passenger-related businesses on improving regional air traffic volume, b) a possible turnaround of global air cargo outlook in 2H23, c) successful integration of the WFS deal and delivery of the forecasted synergy.

QOQ IMPROVEMENT IN CORE NET PROFIT (INCL. ACQUISITION-RELATED COSTS)



Source: SATS, UOB Kay Hian

FOOD SOLUTIONS AND GATEWAY SERVICES REVENUE CONTINUED TO RECOVER IN 3QFY23



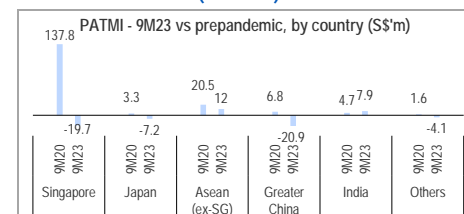
Source: SATS, UOB Kay Hian

EV/EBITDA-BASED VALUATION

As of end-FY24	Value (\$m)	Note
Enterprise value	S\$6,957m	based on 9.7x FY25 adj. EBITDA
less: Net debt	S\$2,248m	
less: MI	S\$218m	
Total equity fair value with rights	S\$4,490m	
less: rights amount to be raised	S\$800m	
Fair value of existing share base	S\$3,690m	
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\$3.14	ex-right share TP; dependent on actual rights issue price

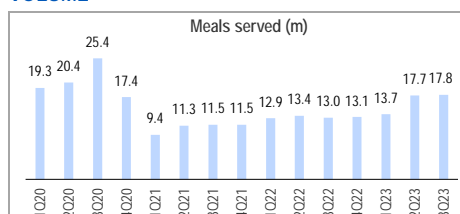
Source: UOB Kay Hian

PROFIT CONTRIBUTION BY GEOGRAPHY, 9MFY23 VS PRE-PANDEMIC (9MFY20)



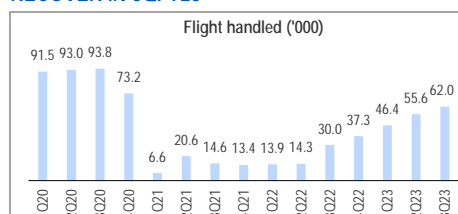
Source: SATS, UOB Kay Hian

NUMBER OF MEALS SERVED SLIGHTLY IMPROVED QOQ ON RECOVERING PASSENGER VOLUME



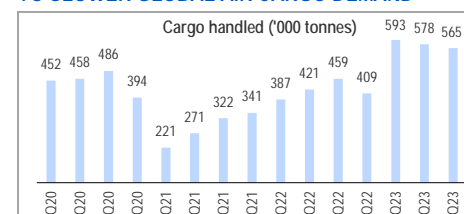
Source: SATS, UOB Kay Hian

NUMBER OF FLIGHTS HANDLED CONTINUED TO RECOVER IN 3QFY23



Source: SATS, UOB Kay Hian

CARGO VOLUME DECLINED QOQ IN 3QFY23 DUE TO SLOWER GLOBAL AIR CARGO DEMAND



Source: SATS, UOB Kay Hian

3Q / 9MFY23 RESULTS

Year to 31 Mar (\$m)	3Q23	2023	qoq % chg	3Q22	yoy % chg	9M23	yoy % chg	Prev. FY23F	Note
Revenue	475.7	429.0	+10.9	307.8	+54.5	1,280	+45.9	1,812	9MFY23 broadly in line with expectations, at 71% of FY23F
- food solutions	232.9	216.4	+7.6	166.5	+39.9	636	+33.3	964	9MFY23 a slight miss, at 66% of FY23F
- gateway services	242.7	212.6	+14.2	140.3	+73.0	645	+62.1	845	9MFY23 a slight beat, at 76% of FY23F
EBIT	-1.1	-8.0	n.m.	-9.5	n.m.	-43.4	n.m.	11.1	9MFY23 a miss due to faster-than-expected cost ramp-up
JV/associate contribution	10.2	10.7	-4.7	12.1	-15.7	27.8	+113.8	36.8	9MFY23 in line
Net Profit (reported)	0.5	-10.0	n.m.	5.1	-90.2	-32.0	n.m.	15.7	9MFY23 a miss due to faster-than-expected cost ramp-up
Core net profit	0.5	-11.8	n.m.	5.1	-90.2	-33.9	n.m.	53.6	9MFY23 a miss due to faster-than-expected cost ramp-up
Core net profit excl. reliefs	-13.7	-21.6	n.m.	-33.0	n.m.	-67.3	n.m.	35.6	9MFY23 a miss due to faster-than-expected cost ramp-up
Margins (%)									
EBIT	-0.2	-1.9	+1.6ppt	-3.1	+2.9ppt	-3.4	-2.8ppt	0.6	
Core net profit	0.1	-2.8	+2.9ppt	1.7	-1.6ppt	-2.6	-4.7ppt	3.0	
Core net profit excl. reliefs	-2.9	-5.0	+2.2ppt	-10.7	+7.8ppt	-5.3	+6.0ppt	2.0	

Source: SATS, UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Net turnover	1,176.8	1,777.9	5,125.5	5,397.6
EBITDA	77.1	141.3	844.6	989.4
Deprec. & amort.	119.7	176.2	575.6	580.4
EBIT	(42.6)	(34.9)	269.0	409.0
Total other non-operating income	12.2	(37.9)	0.0	0.0
Associate contributions	17.1	37.8	44.1	51.5
Net interest income/(expense)	(13.8)	(15.0)	(183.6)	(163.9)
Pre-tax profit	(27.1)	(50.0)	129.5	296.5
Tax	31.4	14.0	(28.1)	(46.9)
Minorities	16.1	16.0	(3.1)	(7.6)
Net profit	20.4	(20.0)	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	1,090.4	4,037.1	4,001.9
Cash/ST investment	786.0	658.3	360.0	329.1
Other current assets	510.0	560.8	1,127.0	1,148.8
Total assets	3,292.3	3,276.8	7,906.4	7,927.1
ST debt	143.1	101.4	101.4	101.4
Other current liabilities	487.5	508.1	1,065.7	1,076.0
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	1,582.6	2,480.8	2,683.6
Minority interest	231.1	215.1	218.2	225.8
Total liabilities & equity	3,292.3	3,276.8	7,906.4	7,927.1

CASH FLOW

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Operating	62.3	65.7	625.3	761.2
Pre-tax profit	(27.1)	(50.0)	129.5	296.5
Tax	(17.0)	14.0	(28.1)	(46.9)
Deprec. & amort.	119.7	176.2	575.6	580.4
Associates	(17.1)	(37.8)	(44.1)	(51.5)
Working capital changes	(0.3)	(30.2)	(1.5)	(11.4)
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	(143.4)	(2,153.8)	(258.1)
Capex (maintenance)	(77.9)	(175.2)	(298.6)	(298.6)
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	31.8	35.5	40.5
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)	(127.7)	(298.3)	(30.9)
Beginning cash & cash equivalent	879.8	786.0	658.3	360.0
Changes due to forex impact	2.1	0.0	0.0	0.0
Ending cash & cash equivalent	786.0	658.3	360.0	329.1

KEY METRICS

Year to 31 Mar (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	6.5	7.9	16.5	18.3
Pre-tax margin	(2.3)	(2.8)	2.5	5.5
Net margin	1.7	(1.1)	1.9	4.5
ROA	0.6	n.a.	1.8	3.1
ROE	1.3	n.a.	4.8	9.4
Growth				
Turnover	21.3	51.1	188.3	5.3
EBITDA	(36.0)	83.4	497.7	17.1
Pre-tax profit	n.a.	n.a.	n.a.	129.0
Net profit	n.a.	(198.1)	n.a.	146.4
EPS	n.a.	(197.9)	n.a.	146.4
Leverage				
Debt to total capital	31.4	28.4	27.2	26.0
Debt to equity	27.9	28.4	96.6	82.8
Net debt/(cash) to equity	(15.0)	(8.2)	83.3	71.5
Net debt/(cash) to equity			(82.4)	(87.6)
Interest cover (x)			44.0	91.1

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