

### ASEAN GEMS CORPORATE HIGHLIGHTS

#### SATS (SATS SP)

More Attractive Risk-reward Profile After Share Price Decline, Time To Buy

At the recent ASEAN Gems Conference held on 7-8 Mar 23, SATS' management shared the company's outlook and clarified investors' queries about the WFS deal. With the recent share price decline, SATS' risk-reward profile is more attractive and now is a good entry point, in our view. Maintain BUY on SATS with an unchanged target price (for ex-rights shares) of S\$3.02 based on a 9.7x FY25F EV/EBITDA.

#### WHAT'S NEW

- **Management sharing about SATS and WFS at our Taipei Conference.** We recently hosted SATS at our ASEAN Gem Conference on 7-8 Mar 23. A total of 10 institutional investors attended meetings with SATS. During the meetings, management shared the company outlook and addressed queries about the Worldwide Flight Services (WFS) deal. Management noted that SATS' share price is undervalued with the overhang of rights issue.
- **Overhang on SATS valuation from rights issuance.** To recap, SATS is in the process of raising about S\$800m in new equity via a rights issuance to partially finance the acquisition of 100% of WFS' equity priced at about S\$1.8b (total enterprise value would be about S\$3.2b as SATS would assume the existing debts of about S\$1.4b on WFS' balance sheet. The rights share issuance price has been fixed at S\$2.20. SATS shares have gone ex-rights on 1 Mar 23 and the rights are currently trading on SGX (code: SATS R1) between 7 Mar 23 and 15 Mar 23. We note that the activities of some investors selling off rights during this period have depressed SATS shares' trading price (so that there would be no arbitrage opportunity), and likely this pressure would be eased after the rights trading ends on 15 Mar 23.

#### STOCK IMPACT

- **More attractive risk-reward profile to invest now.** Based on its closing price of S\$2.42 on 10 Mar 23, SATS is currently trading at a 8.5x FY25F (normalised year) adjusted EBITDA by our estimate, below its peers' private market transaction multiple ranging at 10-11x in the past few years, despite that SATS (cum WFS), as a to-be globally leading air handler with top market share, has a stronger business profile than those peers. The 8.5x EV/EBITDA is also 2.4SD below SATS historical mean EV/EBITDA of 12.8x in 2014-19. As such, although we have previously numerated a number of uncertainties and risks related to the WFS deal, we believe that they should have been more than priced in at SATS' current price level. Our ex-rights target price of S\$3.02 is based on a relatively conservative 9.7x EV/EBITDA multiple over FY25F adjusted EBITDA, pegged to SATS' reported acquisition multiple for WFS.

#### KEY FINANCIALS

Year to 31 Mar (S\$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./fact.)	(79)	20	(20)	98	242
EPS (S\$ cent)	(7.0)	1.8	(1.8)	6.6	16.2
PE (x)	n.m.	133.5	n.m.	36.8	14.9
P/B (x)	1.8	1.7	1.7	1.5	1.3
EV/adjusted EBITDA (x)	94.0	56.3	33.0	10.5	8.5
Dividend yield (%)	0.0	0.0	0.0	1.1	2.7
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	77.3
ROE (%)	n.a.	1.3	n.a.	4.8	9.4
Consensus net profit	-	-	(10)	188	285
UOBKH/Consensus (x)	-	-	1.99	0.52	0.85

\* Financial projections for 2024-25F have incorporated impacts from the WFS acquisition and the rights issue.

Source: SATS, Bloomberg, UOB Kay Hian

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

#### BUY (Maintained)

Share Price	S\$ 2.42
Target Price	S\$ 3.02
Upside	+24.7%

#### 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):	2,802.2
Market cap (US\$m):	2,066.7
3-mth avg daily t'over (US\$m):	9.2

#### Price Performance (%)

52-week high/low S\$ 4.42/S\$ 2.40

1mth	3mth	6mth	1yr	YTD
(15.5)	(15.5)	(36.3)	(34.4)	(9.9)

#### Major Shareholders

	%
Temasek Hldgs	39.7
FY23 NAV/Share (S\$)	1.41
FY23 Net Debt/Share (S\$)	0.16

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

**Roy Chen, CFA**

+65 6590 6627

roychen@uobkayhian.com

• **An alternative way to confirm SATS' undervaluation.** Assuming SATS' existing business is still worth the value as it was on a standalone basis at S\$4.35b (based on SATS' S\$3.87 share price on 27 Sep 22, ie before the official announcement about the deal), with SATS' additional S\$800m equity, SATS's market cap would have been S\$5.15b. In contrast, current price implies SATS post-acquisition market cap at only S\$3.60b. Assuming the S\$1.55b valuation difference is all from the WFS deal, it is effectively saying that the market is valuing the WFS deal EV at S\$1.65b (S\$1.55b lesser than SATS' acquisition EV at about S\$3.2b); this translates to a 5.8x multiple over WFS' adjusted/normalised EBITDA of €199m in 12 months ending Dec 22. For a globally leading air cargo handler (with decent cashflow generating capability) like WFS, we deem the 5.8x EV/adjusted EBITDA overly cheap.

• **Air cargo (global trade) may see improving outlook in 2H23.** We note that there are some nascent signs from positive economic data that point to a potential global trade recovery in 2H23, including: a) in its World Economic Outlook update dated 30 Jan 23, IMF raised its 2023 global GDP growth forecast to 2.9%, up from its 2.7% forecast in Oct 22, b) China official manufacturing PMI staying in the expansionary territory for a second consecutive month in Feb 23, with its new export order sub-index for the first time returning to over 50 points level after over 20 months, and c) the current inventory de-stocking process in the US and EU are progressing well with improving retail and consumer sentiment data and may come to an end by around mid-23.

• **Some other uncertainties we cautioned about...** Global trade outlook aside, some other uncertainties we are cautious about (as highlighted in our previous reports) could arise from SATS' accounting treatment for WFS going forward, including: a) how SATS handles purchase price allocation (PPA) of its acquisition consideration of WFS between goodwill (subject to annual impairment test) and intangible assets (subject to periodical amortisation expense), and b) unfavourable accounting impact from converting WFS' current accounting standards (under French and Dutch GAAPs) to SFRS. We highlighted that although the impacts from these are non-cash and do not affect the company's fundamental value, they would depress SATS' reported earnings, which may be unfavourably interpreted by the market. Based on our best-efforts earnings projection (adopting SATS' guidance on preliminary PPA and SFRS accounting conversion), SATS is currently trading at 14.9x FY25F reported earnings but 13.0x cash earnings.

• **...can be managed if SATS offers sufficient disclosure.** We believe it makes sense for SATS to provide clarity on: a) the non-cash accounting expense items, and b) guide on cash EBITDA (being reported EBITDA under SFRS (I) 16 less lease payments) and cash earnings going forward. This will help the market better appreciate SATS' true worth.

### EARNINGS REVISION/RISK

- **No change.**
- **Key risks** include: a) a prolonged sluggish global trade outlook, b) integration risks between SATS and WFS, and c) interest rate (borrowing costs) rising faster than expected eroding the scope of interest cost saving from SATS' refinancing of WFS debts.

### VALUATION/RECOMMENDATION

• **Maintain BUY with an unchanged target price of S\$3.02**, based on a 9.7x FY25F (normalised year) EV/adjusted EBITDA, pegging SATS' reported acquisition multiple of WFS and equivalent to 1.7SD below SATS' historical mean EV/EBITDA of 12.8x in 2014-19. We highlight that now is likely a good entry point as SATS share price is currently depressed by the overhang from the rights trading (ending 15 Mar 23).

### SHARE PRICE CATALYST

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

### SATS' CURRENT PRICE IMPLIED EV/EBITDA OF 5.8X FOR WFS APPEARS OVERLY CHEAP TO US

SATS last trading price on 29 Sep 22, before the announcement of WFS deal	S\$3.87
SATS share base before rights issue	1,124.2m
Value of SATS existing businesses - standalone basis (a)	S\$4.35b
Equity raised from rights issue (b)	S\$800m
SATS standalone value + new equity, (c) = (a)+(b)	S\$5.15b
SATS current price	S\$2.42
Enlarged share base with rights issue	1,487.3m
Current price implied SATS valuation post the acquisition of WFS (d)	S\$3.60b
Valuation difference, (e) = (d) - (c)	-S\$1.55b
SATS acquisition EV for WFS (f)	S\$3.2b
Implied value of WFS by SATS current price, (g) = (e)+(f)	S\$1.65b
WFS 12m adjusted EBITDA ending Dec-22, (h)	€199m
€:S\$ exchange rate, (i)	1.44
Implied EV/EBITDA multiple for WFS implied by SATS current price, (j) = (g) / (h) / (i)	5.8x
Peer transaction EV/EBITDA multiple range	10-11x

Source: UOB Kay Hian

### EV/EBITDA VALUATION FOR SATS

As of end-FY24	Value (S\$m)	Note
Enterprise value	S\$6,957m	based on 9.7x FY25 adj. EBITDA
less: Net debt	S\$2,248m	
less: MI	S\$218m	
Equity fair value	S\$4,490m	
Share base before rights issue	1,124.2m	
New rights share issued	363.1m	
Enlarged share base	1,487.3m	
Ex-right share target price	<b>S\$3.02</b>	

Source: UOB Kay Hian

### HISTORICAL EV/EBITDA BAND OF SATS



Source: SATS, UOB Kay Hian, Bloomberg

### PROFIT & LOSS

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
<b>Net turnover</b>	<b>1,176.8</b>	<b>1,777.9</b>	<b>5,125.5</b>	<b>5,397.6</b>
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)
<b>Pre-tax profit</b>	<b>(27.1)</b>	<b>(50.0)</b>	<b>129.5</b>	<b>296.5</b>
Tax	31.4	14.0	(28.1)	(46.9)
Minorities	16.1	16.0	(3.1)	(7.6)
<b>Net profit</b>	<b>20.4</b>	<b>(20.0)</b>	<b>98.2</b>	<b>242.0</b>

### BALANCE SHEET

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
<b>Fixed assets</b>	<b>902.4</b>	<b>967.4</b>	<b>2,382.3</b>	<b>2,447.3</b>
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
<b>Total assets</b>	<b>3,292.3</b>	<b>3,276.8</b>	<b>7,906.4</b>	<b>7,927.1</b>
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
<b>Total liabilities &amp; equity</b>	<b>3,292.3</b>	<b>3,276.8</b>	<b>7,906.4</b>	<b>7,927.1</b>

### CASH FLOW

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>62.3</b>	<b>65.7</b>	<b>625.3</b>	<b>761.2</b>
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)
<b>Investing</b>	<b>31.1</b>	<b>(143.4)</b>	<b>(2,153.8)</b>	<b>(258.1)</b>
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
<b>Financing</b>	<b>(189.3)</b>	<b>(50.0)</b>	<b>1,230.1</b>	<b>(533.9)</b>
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)
<b>Net cash inflow (outflow)</b>	<b>(95.9)</b>	<b>(127.7)</b>	<b>(298.3)</b>	<b>(30.9)</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>879.8</b>	<b>786.0</b>	<b>658.3</b>	<b>360.0</b>
Changes due to forex impact	2.1	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>786.0</b>	<b>658.3</b>	<b>360.0</b>	<b>329.1</b>

### KEY METRICS

Year to 31 Mar (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
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
<b>Growth</b>				
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
<b>Leverage</b>				
Debt to total capital	27.9	28.4	96.6	82.8
Debt to equity	(15.0)	(8.2)	83.3	77.3
Net debt/(cash) to equity	3.2	11.3	147.1	129.7

## Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

**This report is prepared for general circulation.** It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

**IMPORTANT DISCLOSURES FOR U.S. PERSONS**

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2023, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W