

# SATS Ltd

## Fair Valuations

Bloomberg | Reuters | POEMS  
SATS SP | SIAT.SI | SATS.SG  
Industry: Misc. Transportation

Phillip Securities Research Pte Ltd

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### Report type: Results

#### Company Overview

SATS Ltd is a provider of Airport Services & Food Solutions with a dominant presence in Singapore's Changi Airport. The Group also has a network of JVs across Asia and holds a majority stake in TFK Corp, an inflight catering business based in Japan.

- 3.8% growth in underlying net profit
- Higher than expected revenue growth
- Staff cost surprised on the upside
- Margin pressures at the core business
- Downgrade to Neutral with TP of S\$2.65

#### What is the news?

SATS announced a 3.8%y-y increase in underlying net profits on revenue growth of 13.6%. TFK's revenue surged by 40% as the inflight catering arm benefitted from the low base effects off the Japan Earthquake in 1QFY12. The company's balance sheet remains healthy with low gearing and strong cash balance of S\$532mn.

Fig 1. Results Summary

Income Statement				
(Extract)	1QFY12	1QFY13	y-y (%)	Comments
<b>(S\$'mn)</b>				
Revenue	385.6	437.9	13.6%	
EBITDA	55.2	62.5	13.2%	Higher than expected labour exp
EBIT	31.9	39.3	23.2%	
Net Income	42.5	41.3	-2.8%	
Net Income, adj.	39.8	41.3	3.8%	Underlying Net Profits

Source: Company, PSR

#### How do we view this?

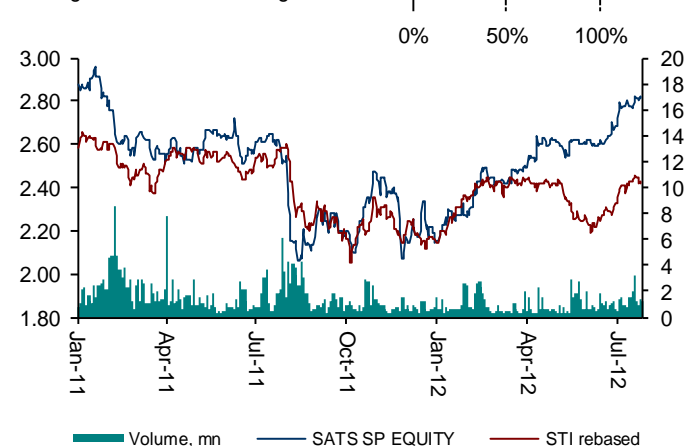
While SATS's revenue performed better than expected, cost pressures from rising staff cost led to margin compression at the core business. The Group's high labour expense of S\$194mn led to the weakest profit margins at the core business in 2 years. As staff expenses are usually sticky in nature, we doubt profitability could improve meaningfully in the near term.

#### Investment Actions?

We downgrade our recommendation to Neutral. As we expect the company's earnings recovery to be a year away, the stock's potential upside could be limited. Following a surge in its stock price in anticipation of the special dividend payout, current valuation seems fair. SATS would go XD on 31<sup>st</sup> July with its dividend payout of 21cents per share.

#### SATS Ltd

<b>Rating</b>	<b>3</b>	<b>Neutral</b>
- Previous Rating	1	Buy
<b>Target Price (SGD)</b>	<b>2.65</b>	
- Previous Target Price (SGD)	2.80	
Closing Price (SGD)	2.81	
Expected Capital Gains (%)	-5.7%	
Expected Dividend Yield (%)	9.4%	
<b>Expected Total Return (%)</b>	<b>3.7%</b>	
Raw Beta (Past 2yrs weekly data)	0.78	
Market Cap. (USD mn / SGD mn)	2481 / 3117	
Enterprise Value (USD mn / SGD mn)	2316 / 2910	
3M Average Daily T/O (mn)	1.0	
52 week range (SGD)	2.04 - 2.82	
Closing Price in 52 week range		



#### Major Shareholders

	(%)
1. Temasek Holdings Pte Ltd	43.2
2. Capital Research Global Investor	2.6
3. First Eagle Investment Mgmt LLC	1.5

#### Key Financial Summary

FYE	03/12	03/13F	03/14F	03/15F
Revenue (SGD mn)	1,685	1,754	1,775	1,796
Net Profit, adj. (SGD mn)	178	172	183	188
EPS, adj. (SGD)	0.16	0.15	0.16	0.17
P/E (X),adj.	17.6	18.1	17.1	16.6
BVPS (SGD)	1.36	1.25	1.28	1.31
P/B (X)	2.1	2.2	2.2	2.1
DPS (SGD)	0.26	0.13	0.14	0.14
Div. Yield (%)	9.3%	4.7%	5.0%	5.1%

Source: Bloomberg, PSR est.

\*All multiples & yields based on current market price

#### Valuation Method

DCF (WACC: 8.6%, terminal g: 1%)

#### Analyst

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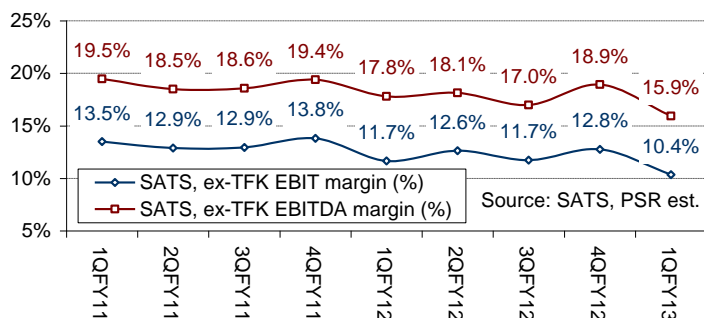
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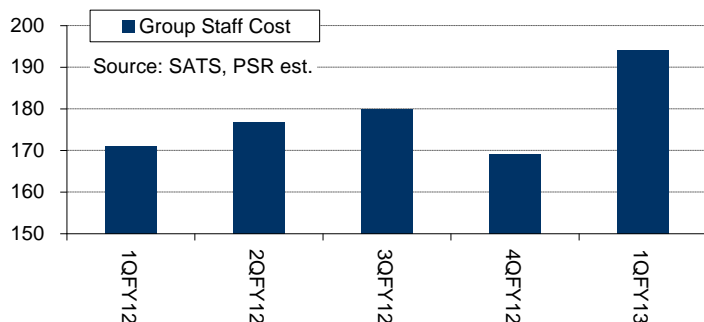
### Rising staff cost hurts profitability

High labour expenses of S\$194mn surprised on the upside. Stripping out numbers due to TFK, SATS's core business experienced the lowest level of profitability in 2 years as EBITDA margin declined to a low of 15.9%, on our estimates. Management attributed higher labour expenses to 1) increase in headcount to meet higher business volume at SATS HK and Singapore's Gateway business, 2) Statutory levies from higher CPF contributions and foreign worker levies and 3) increase in overtime in Singapore due to congestions at the Airport. While efforts by management to increase productivity could see staff cost moderate over the next few quarters, we see limited scope for a meaningful decline. Business volumes are expected to increase at Changi Airport and headcounts could be increased further to meet manpower requirements at the new International Cruise Terminal. Consequently, we expect margins to remain depressed and SATS's earnings recovery to be a year away.

**Fig 2. Margins compression at core business**



**Fig 3. Rising staff cost above expectations**

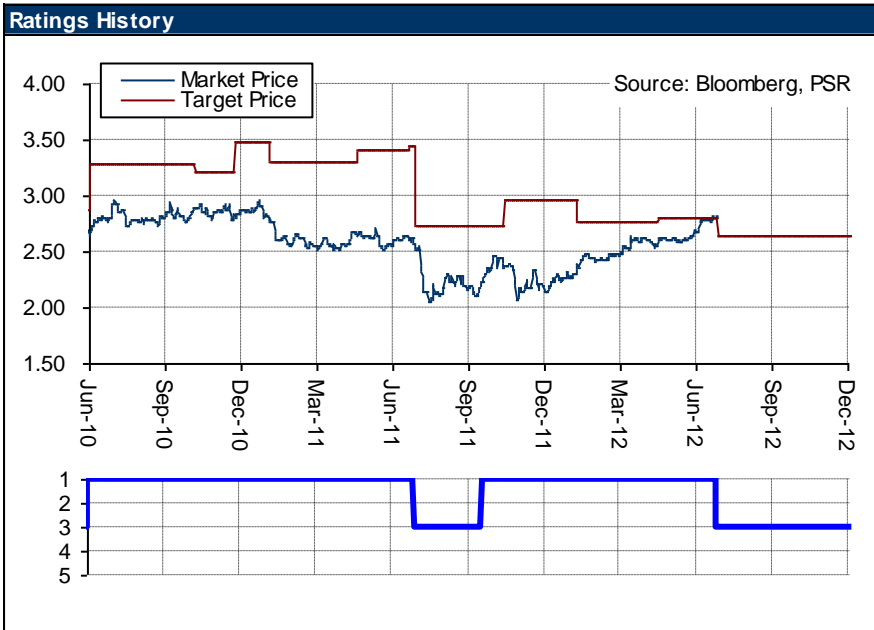


FYE Mar	FY11	FY12	FY13F	FY14F	FY15F
<b>Valuation Ratios</b>					
P/E (X), adj.	16.8	17.6	18.1	17.1	16.6
P/B (X)	2.0	2.1	2.2	2.2	2.1
EV/EBITDA (X), adj.	11.8	10.9	11.1	10.6	10.5
Dividend Yield (%)	6.0%	9.3%	4.7%	5.0%	5.1%
<b>Per share data (SGD)</b>					
EPS, reported	0.17	0.15	0.15	0.16	0.17
EPS, adj.	0.17	0.16	0.15	0.16	0.17
DPS	0.17	0.26	0.13	0.14	0.14
BVPS	1.37	1.36	1.25	1.28	1.31
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	-11.8%	24.1%	4.1%	1.2%	1.2%
EBITDA	-10.5%	8.2%	-1.6%	4.6%	1.0%
EBIT	-8.8%	0.0%	-0.2%	8.4%	2.6%
Net Income, adj.	2.3%	-4.3%	-3.1%	6.1%	3.1%
<b>Margins</b>					
EBITDA margin	18.1%	15.8%	14.9%	15.4%	15.4%
EBIT margin	12.4%	10.0%	9.6%	10.3%	10.5%
Net Profit Margin	14.1%	10.4%	9.9%	10.5%	10.8%
<b>Key Ratios</b>					
ROE (%)	12.7%	11.3%	11.9%	13.0%	13.1%
ROA (%)	9.1%	7.7%	8.3%	8.9%	9.0%
Net Debt/(Cash)	(119)	(314)	(242)	(287)	(329)
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
<b>Income Statement (SGD mn)</b>					
<b>Revenue</b>	<b>1,358</b>	<b>1,685</b>	<b>1,754</b>	<b>1,775</b>	<b>1,796</b>
<b>EBITDA</b>	<b>246</b>	<b>266</b>	<b>262</b>	<b>274</b>	<b>277</b>
Depreciation & Amortisation	(77)	(97)	(93)	(91)	(89)
<b>EBIT</b>	<b>169</b>	<b>169</b>	<b>169</b>	<b>183</b>	<b>188</b>
Net Finance (Expense)/Income	(0)	(0)	2	1	1
Other items	1	12	0	0	0
Associates & JVs	47	41	40	42	44
<b>Profit Before Tax</b>	<b>217</b>	<b>222</b>	<b>210</b>	<b>226</b>	<b>233</b>
Taxation	(37)	(37)	(37)	(39)	(40)
Discontinued operations	12	(10)	0	0	0
<b>Profit After Tax</b>	<b>192</b>	<b>175</b>	<b>173</b>	<b>187</b>	<b>193</b>
Non-controlling Interest	0	4	1	5	5
<b>Net Income, reported</b>	<b>191</b>	<b>171</b>	<b>172</b>	<b>183</b>	<b>188</b>
<b>Net Income, adj.</b>	<b>185</b>	<b>178</b>	<b>172</b>	<b>183</b>	<b>188</b>

Source: PSR

FYE Mar	FY11	FY12	FY13F	FY14F	FY15F
<b>Balance Sheet (SGD mn)</b>					
PPE	742	654	635	619	605
Intangibles	487	213	202	191	180
Associates & JVs	335	368	384	401	419
Investments	25	22	22	22	22
Others	44	34	34	34	34
<b>Total non-current assets</b>	<b>1,632</b>	<b>1,291</b>	<b>1,278</b>	<b>1,267</b>	<b>1,260</b>
Inventories	59	44	40	41	42
Accounts Receivables	303	294	298	301	305
Investments	0	0	0	0	0
Cash	304	472	400	445	487
Others	21	22	22	22	22
<b>Total current assets</b>	<b>688</b>	<b>831</b>	<b>761</b>	<b>809</b>	<b>856</b>
<b>Total Assets</b>	<b>2,320</b>	<b>2,123</b>	<b>2,038</b>	<b>2,077</b>	<b>2,115</b>
Short term loans	164	27	27	27	27
Accounts Payables	286	203	239	240	242
Others	44	42	42	42	42
<b>Total current liabilities</b>	<b>494</b>	<b>272</b>	<b>308</b>	<b>309</b>	<b>311</b>
Long term loans	21	131	131	131	131
Others	186	103	103	103	103
<b>Total non-current liabilities</b>	<b>207</b>	<b>234</b>	<b>234</b>	<b>234</b>	<b>234</b>
Non-controlling interest	99	107	108	113	118
<b>Shareholder Equity</b>	<b>1,521</b>	<b>1,509</b>	<b>1,388</b>	<b>1,421</b>	<b>1,452</b>
<b>Cashflow Statements (SGD mn)</b>					
CFO					
PBT	231	213	210	226	233
Adjustments	51	66	52	48	44
Cash from ops before WC changes	282	279	262	274	277
WC changes	(32)	(68)	35	(3)	(2)
Cash generated from ops	250	211	297	271	275
Taxes paid, net	(47)	(40)	(37)	(39)	(40)
Interest paid	(3)	(2)	(2)	(2)	(2)
<b>Cashflow from ops</b>	<b>200</b>	<b>168</b>	<b>258</b>	<b>230</b>	<b>234</b>
CFI					
CAPEX, net	(68)	(64)	(64)	(64)	(64)
Dividends from associates & JVs	40	23	24	25	26
Dividends/Interest from Investments	2	2	4	3	3
Purchase/sale of investments	0	0	0	0	0
Investments in subs & associates	(69)	263	0	0	0
Others	1	0	0	0	0
<b>Cashflow from investments</b>	<b>(95)</b>	<b>225</b>	<b>(36)</b>	<b>(36)</b>	<b>(34)</b>
CFF					
Share issuance	31	1	0	0	0
Purchase of treasury shares	(1)	(1)	0	0	0
Loans, net of repayments	112	(12)	0	0	0
Dividends to minority interests	0	0	0	0	0
Dividends to shareholders & capital reduction	(144)	(188)	(293)	(150)	(157)
Others	0	(16)	0	0	0
<b>Cashflow from financing</b>	<b>(2)</b>	<b>(216)</b>	<b>(293)</b>	<b>(150)</b>	<b>(157)</b>
<b>Net change in cash</b>	<b>104</b>	<b>177</b>	<b>(72)</b>	<b>45</b>	<b>42</b>
Effects of exchange rates	(3)	(3)	0	0	0
<b>CCE, end</b>	<b>296</b>	<b>470</b>	<b>399</b>	<b>443</b>	<b>485</b>

Source: PSR



**PSR Rating System**

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

**Remarks**

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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