

SATS Ltd

Weaker quarter, but growth profile intact



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SINGAPORE | TRANSPORT SERVICES | 3Q18 RESULTS

14 February 2018

- 3Q18 revenue in line; underlying PATMI came in 3.9% lower than our estimate
- 9M18 revenue and underlying PATMI met 76% and 73% respectively of our full year estimate
- Downgrade to Neutral (from Accumulate); higher target price of \$5.33 (previously \$5.23)

Results at a glance

(SGD mn)	3Q18	3Q17	YoY	Comments
Revenue	440	441	-0.2%	2.5% lower Food Solutions, offset by 2.6% higher Gateway Services
EBIT	65.7	66.7	-1.5%	0.3% lower expenditure; lower margin of 14.9% from 51.1%
Associates/JVs	13.7	12.7	7.9%	\$1.5mn or 93.8% higher Food Solutions, \$0.5mn or 4.5% lower Gateway Services
PATMI	66.6	65.1	2.3%	3Q18 includes \$4.5mn write-back of earn-out consideration, associated with additional equity interest in MacroAsia Catering Services
Underlying PATMI	62.1	65.1	-4.6%	Excluding one-off above; lower margin of 14.1% from 14.8%

Source: Company, PSR

The Positives

+ **3.8% YoY decrease in staff costs outpaced the 0.2% YoY decrease in revenue.** Staff costs is the largest cost component (55% of opex). The decline in staff costs was largely due to the deconsolidation of SATS HK Ltd (SHK), in which 51%-stake was divested in July 2017. The lower staff costs helped to offset the increase from other cost components. However, underlying staff cost had increased.

The Negatives

- **Weaker meal volumes at TFK Corp. led to 3.5% YoY lower revenue for TFK.** The lower revenue for TFK contributed to the lower Food Solutions revenue. Nonetheless, TFK remains profitable during the quarter. Vietnam Airline had switched over to the ANA kitchen following ANA's acquisition of a minority stake in the airline; and Delta Air Lines, which is a large TFK customer, had diverted some flights to use Shanghai as a hub instead of Tokyo.
- **22.2% YoY increase in licence fees and 17.5% YoY increase in other costs.** These were due to the cessation of fee rebates and the withdrawal of incentives respectively, by Changi Airport; both effective since Apr 1, 2017. Management does not see Changi Airport reinstating either of them again soon.
- **Lower Gateway Services associate contribution.** This arises from the deconsolidation of the remaining 49%-stake in SHK to an associate. SHK was loss-making, and now half of the loss is recorded in the associate line.

Outlook

The outlook is positive. Despite the pricing pressure from airlines, we see future earnings growth for SATS, as it continues to make investments and form new partnerships in associates/JVs. SATS is leveraging on its core competencies to tap on growth in passenger and cargo traffic.

Downgrade to Neutral (from Accumulate); higher target price of \$5.33 (previously \$5.23)

We like the stock for its regional expansion story and pipeline of growth initiatives, but our rating downgrade is on the belief that the market has adequately priced in the growth prospects. Our target price gives an implied FY18e forward P/E multiple of 23.3 times. We would turn buyers of the stock on any opportunistic price weakness.

Neutral (Downgrade)

LAST CLOSE PRICE	SGD 5.25
FORECAST DIV	SGD 0.170
TARGET PRICE	SGD 5.33
TOTAL RETURN	4.8%

COMPANY DATA

BLOOMBERG CODE:	SATS SP
O/S SHARES (MN):	119
MARKET CAP (USD mn / SGD mn):	4442 / 5876
52 - WK HI/LO (SGD):	5.85 / 4.55
3M Average Daily T/O (mn):	2.21

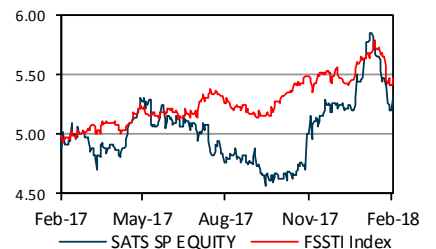
MAJOR SHAREHOLDER (%)

TEMASEK HOLDINGS PTE LTD	39.9%
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PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(6.0)	7.0	10.3
STI RETURN	(3.7)	(0.6)	12.7

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar	FY 16	FY 17	FY 18 e	FY 19 e
Revenue (SGD mn)	1,698	1,729	1,721	1,718
PATMI, adj. (SGD mn)	218	234	255	266
EPS, adj. (cents)	19.7	21.1	22.9	23.9
P/E, adj. (x)	20.6	23.3	22.9	22.0
BVPS (cents)	139	150	157	164
P/B (x)	2.9	3.3	3.3	3.2
DPS (cents)	15.0	17.0	17.0	18.0
Div. Yield (%)	3.7	3.5	3.2	3.4

Source: Company Data, PSR est.

VALUATION METHOD

DCF (WACC: 7.0%, Terminal g: 2.0%)

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Key Takeaways

Management shared updates to some of the overseas ventures.

Gateway Services JV with AirAsia

- Operations had commenced on Nov 1, 2017 and final documentation had closed on Jan 4, 2018.
- A fair bit of start-up costs have been incurred.
- Management will provide more details at the end of 4Q FY17/18, after the JV has practically made a full quarter contribution.

Food Solutions JV with Turkish Airlines (THY) at Istanbul New Airport

- Following the signing of the [Memorandum of agreement](#) (announced on Oct 18, 2018), negotiations are still in progress; a meaningful announcement could be made in a couple of months
- This is the largest JV announced to date as it involves what could possibly be the largest flight kitchen in the world. For context, Istanbul New Airport is slated to become the biggest airport in the world. The First Stage will be able to handle 90 million passengers, and eventually 150 million passengers when completed.
- Management expects a construction time of two years for the kitchen. The building will be owned by the airport, and SATS will lease the building. Capex will only be for the equipment in the kitchen.

Cargo concession at Mumbai Airport

- SATS had announced on Dec 29, 2017 that it had [won a cargo handling concession](#) in Chhatrapati Shivaji International Airport (CSIA) in Mumbai, India, through a joint bid with Cargo Service Centre India Private Limited (CSC).
- Mumbai is an important hub in India which handles 900 tonnes of cargo/year
- The opportunity for SATS is to redevelop the cargo facility at the airport.

Financials

Income Statement

Y/E Mar, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	1,753	1,698	1,729	1,721	1,718
EBITDA	246	285	304	313	314
Depreciation & Amortisation	(68)	(70)	(74)	(76)	(79)
EBIT	178	215	231	237	235
Net Finance (Expense)/Inc	0.4	2.4	3.4	3.2	2.9
Other items	(1.6)	2.2	9.9	-	-
Associates & JVs	48	48	65	70	81
Exceptional items	(0.1)	(2.1)	-	11.5	-
Profit Before Tax	225	265	309	322	320
Taxation	(34)	(47)	(48)	(58)	(54)
Profit After Tax	191	218	261	264	265
- Non-controlling interest	(5.0)	(2.2)	2.9	(2.2)	(0.7)
PATMI, reported	196	221	258	267	266
Underlying PATMI	196	218	234	255	266

Per share data (cents)

Y/E Mar	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	17.5	19.9	23.2	23.9	23.9
EPS, adj.	17.5	19.7	21.1	22.9	23.9
DPS	14.0	15.0	17.0	17.0	18.0
BVPS	136	139	150	157	164

Cash Flow

Y/E Mar, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
PBT	225	265	309	322	320
Adjustments	27	28	70	3	(6)
WC changes	21	17	38	(17)	8
Cash generated from ops	273	310	417	308	322
Others	(36)	(37)	(43)	(59)	(55)
Cashflow from ops	236	273	374	249	267
CFI					
CAPEX, net	(61)	(49)	(86)	(85)	(85)
Divd from associates & JVs	89	34	42	46	53
Others	30	(41)	(75)	(76)	(76)
Cashflow from investments	58	(56)	(120)	(115)	(108)
CFF					
Share issuance, net	(49.1)	(1.7)	4.3	-	-
Loans, net of repayments	(0.5)	0.4	(6.7)	(10.4)	(20.0)
Dividends	(146)	(156)	(179)	(189)	(189)
Others	(4.4)	0.5	8.7	-	-
Cashflow from financing	(200)	(157)	(173)	(200)	(209)
Net change in cash	95	60	82	(66)	(51)
Effects of exchange rates	(4.8)	0.6	2.0	-	-
CCE, end	430	490	574	508	457

Source: Company, Phillip Securities Research (Singapore) Estimates

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Mar, SGD mn	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
PPE	552	517	539	551	560
Intangibles	166	164	158	155	152
Associates & JVs	465	546	671	775	884
Others	45	50	56	56	56
Total non-current assets	1,227	1,276	1,423	1,536	1,651
Inventories	19	22	22	22	22
Accounts Receivables	283	277	271	275	272
Cash	411	490	506	440	390
Others	63	22	40	42	41
Total current assets	776	811	839	780	725
Total Assets	2,003	2,087	2,262	2,316	2,376
LIABILITIES					
Short term loans	16	110	10	20	20
Accounts Payables	287	309	331	321	325
Others	43	51	69	69	69
Total current liabilities	346	470	410	410	413
Long term loans	90	1	98	78	58
Others	67	70	80	80	80
Total non-current liabilities	156	70	178	158	138
Total Liabilities	502	541	588	568	552
EQUITY					
Non-controlling interest	77	74	88	85	85
Shareholder Equity	1,424	1,472	1,586	1,663	1,739

Valuation Ratios

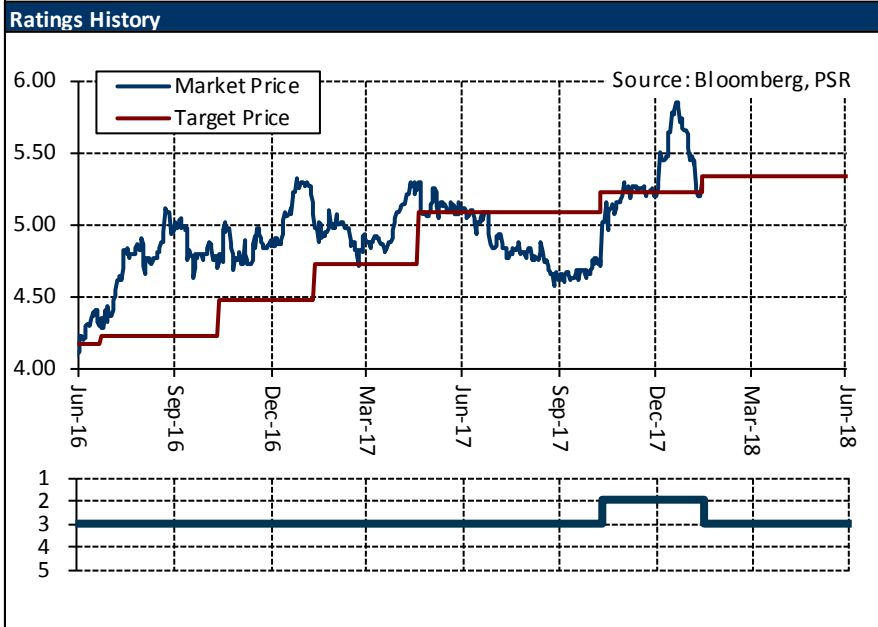
Y/E Mar	FY15	FY16	FY17	FY18e	FY19e
P/E (x), adj.	17.8	20.6	23.3	22.9	22.0
P/B (x)	2.3	2.9	3.3	3.3	3.2
EV/EBITDA (x), adj.	12.8	14.4	16.7	17.6	17.6
Dividend Yield (%)	4.5%	3.7%	3.5%	3.2%	3.4%

Growth & Margins (%)

Growth					
Revenue	-1.9%	-3.1%	1.8%	-0.5%	-0.1%
EBITDA	-0.8%	15.8%	6.7%	3.1%	0.2%
EBIT	4.1%	20.6%	7.4%	2.9%	-0.8%
Net Income, adj.	7.0%	11.4%	7.4%	8.9%	4.2%
Margins					
EBITDA margin	14.0%	16.8%	17.6%	18.2%	18.3%
EBIT margin	10.2%	12.6%	13.3%	13.8%	13.7%
Net Profit Margin	11.2%	12.8%	13.5%	14.8%	15.5%

Key Ratios

ROE (%)	13.9%	15.1%	15.3%	15.7%	15.6%
ROA (%)	9.8%	10.7%	10.8%	11.1%	11.3%
Net Debt or (Net Cash)	(306)	(379)	(397)	(342)	(311)
Net Gearing (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



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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