

SATS Ltd

Underlying operating volumes remain steady



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SINGAPORE | TRANSPORT SERVICES | FY18 RESULTS

- Revenue and reported PATMI was in line with our expectation
- Underlying profit came in 7.5% lower than expected, due to one-off surplus arising from the finalisation of valuation, in association with the acquisition of 10% stake in Evergreen Sky Catering completed in February 2017
- Positive surprise of higher final dividend of 12 cents (FY17: 11 cents)
- Upgrade to Accumulate (from Neutral); higher target price of \$5.58 (previously \$5.33)

Results at a glance

(SGD mn)	FY18	FY17	YoY	Comments
Revenue	1,725	1,729	-0.3%	Lower revenue due to deconsolidation of SATS HK on July 31, 2017; revenue would have been +1.5% excluding the effect of the deconsolidation
EBIT	226	231	-1.8%	Marginal decrease in Group opex by \$0.6mn or 0.04% failed to out-pace the lower revenue; lower operating margin of 13.1% from 13.3%
Associates/JVs	71.2	65.2	9.2%	Higher contribution from Gateway Services (+15.7% to \$45.7mn), partially offset by lower Food Solutions (-0.8% to \$25.5mn)
PATMI	262	258	1.4%	Higher Associates/JVs contribution partially offset by lower operating profit
Underlying PATMI	236	234	0.8%	Excluding one-offs associated with Evergreen Sky Catering and gain on disposal of assets held for sale

Source: Company, PSR

The Positives

- Gateway Services (GS) at the operating level and associate/JV level benefitted from higher cargo volumes and flights handled.** GS revenue was 2.9% higher YoY and GS profit from associates/JVs was 15.7% higher YoY. Notably, the cargo business has high operating leverage; thus incremental revenue would have largely flowed to the bottom line.
- Higher YoY final dividend proposed, resulting in higher full year dividend.** Management has repeatedly articulated a sustainable and progressive dividend policy. Full year dividend over the last five-years from FY14 to FY18 has progressively increased from 13 cents to 14, 15, 17 and 18 cents respectively.

The Negatives

- 7.7% YoY lower revenue for TFK Corp due to lower customer volume.** Underlying reason for the lower food volume was Vietnam Airline had switched over to the ANA kitchen following ANA's acquisition of a minority stake in the airline; and Delta Air Lines had reduced flights into Tokyo. TFK revenue contribution was also negatively impacted by JPY which was on average 4.3% weaker than SGD during FY18. (Refer to Figure 1.)
- Weaker Food Solutions (FS) at both the operating level and associate/JV level.** Management commented that pricing pressure in FS is expected to be ongoing, so the focus is to build scale to offset pricing pressure.
- 24.7% YoY higher licence fees, due to cessation of rebates at Changi Airport.** However, the higher licence fees was offset by lower staff costs, and company premise and utilities expenses as a result of the deconsolidation of SATS HK. Resulting opex was 0.04% lower YoY.
- Lower dividends from Associates/JVs.** Cash had been retained to fund expansion capex at certain associates/JVs. However, this is expected to be temporary and dividend level is expected to normalise going forward.

31 May 2018

Accumulate (Upgrade)

LAST CLOSE PRICE	SGD 5.28
FORECAST DIV	SGD 0.180
TARGET PRICE	SGD 5.58
TOTAL RETURN	9.1%

COMPANY DATA

BLOOMBERG CODE:	SATS SP
O/S SHARES (MN):	116
MARKET CAP (USD mn / SGD mn):	4392 / 5893
52 - WK HI/LO (SGD):	5.85 / 4.55
3M Average Daily T/O (mn):	154

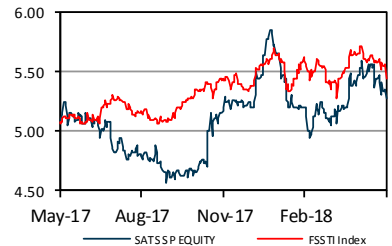
MAJOR SHAREHOLDER (%)

TEMASEK HOLDINGS PTE LTD	40.0%
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PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(2.2)	2.9	9.4
STI RETURN	(0.7)	1.6	13.1

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar	FY 17	FY 18	FY 19 e	FY 20 e
Revenue (SGD mn)	1729	1725	1712	1746
PATMI, adj. (SGD mn)	234	236	253	271
EPS, adj. (cents)	211	211	22.6	24.3
P/E, adj. (x)	23.3	25.1	23.3	21.7
BVPS (cents)	150	157	162	170
P/B (x)	3.3	3.4	3.3	3.1
DPS (cents)	17.0	18.0	18.0	18.0
Div. Yield (%)	3.5	3.4	3.4	3.4

Source: Company Data, PSR est.

VALUATION METHOD

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

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Outlook

The outlook is positive. With investments in new ventures and partnerships, we expect inorganic growth at the associate/JV level. As such, we expect associates/JVs to contribute an increasing proportion to Group earnings. The Group continues to grow its footprint across Asia and is leveraging on technology to improve productivity as volumes increase.

Upgrade to Accumulate (from Neutral); higher target price of \$5.58 (previously \$5.33)

We like the stock for its regional expansion story and pipeline of growth initiatives. Our target price gives an implied FY19e forward P/E multiple of 26.4 times.

Key Takeaways

Management shared updates to some of the overseas ventures and update to strategy.

Gateway Services JV with AirAsia

- The Malaysia operations is currently in Phase 1, which is to improve service levels
- Phase 2 will introduce technology into the workflow and on-board third-party customers (current customer is exclusively AirAsia)
- Future expansion to other geographies include Thailand, Indonesia and the Philippines

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

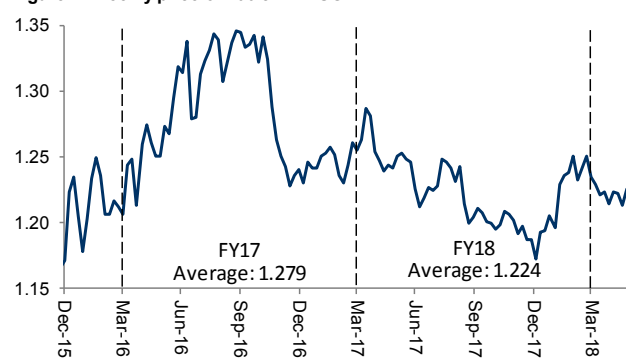
- Following the initial signing of the [Memorandum of agreement](#) (MOA) (announced on Oct. 18, 2018), the MOA has subsequently been [extended](#) (announced April 16, 2018)
- In respect of currency risk, the Turkish Lira (TRY) has been depreciating (Refer to Figure 2.) and management is structuring the deal to have protection from currency risk
- On the capital management front, any debt taken on for the deal will be in TRY, so as to achieve a natural hedge

Levering the balance sheet

- Management expects to move towards a leverage position over time, as capital is deployed into key markets and achieving a natural hedge
- This will have the effect of lowering the weighted average cost of debt and improving return on equity (ROE)
- Management does not expect gearing to go beyond 30% debt-to-equity

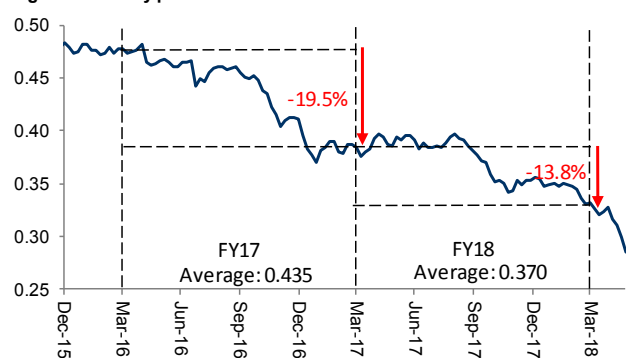
Appendix

Figure 1. Weekly price of 100 JPY in SGD



Source: Bloomberg, PSR

Figure 2. Weekly price of TRY in SGD



Source: Bloomberg, PSR

- Revenue for TFK Corp was lower largely due to lower food volume, and to a lesser extent the weaker JPY relative to SGD
- Average JPY was 4.3% lower relative to SGD in FY18, compared to FY17

- Turkish Lira (TRY) had depreciated 19.5% relative to SGD during FY17
- TRY had continued to depreciate a further 13.8% relative to SGD during FY18
- Average TRY was 14.9% lower relative to SGD in FY18, compared to FY17

Figure 3. Operating Statistics for SATS Group

	2H FY17/18	2H FY16/17	Change (%)	FY17/18	FY16/17	Change (%)
Passengers Handled ('M)	28.34	26.35	7.6	54.30	51.53	5.4
Flights Handled ('000)	80.66	87.50	(7.8)	165.94	171.38	(3.2)
Cargo/Mail Processed ('000 tonne	923.97	876.78	5.4	1,828.85	1,717.42	6.5
Gross Meals Produced ('M)	35.61	33.40	6.6	70.51	67.61	4.3
Ship Calls Handled	156	125	24.8	189	147	28.6

Source: Company FY17/18 Presentation, 30 May 2018

- Robust underlying operating volumes
- Lower flights handled, due to deconsolidation of SATS HK

Financials

Income Statement

Y/E Mar, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Revenue	1,698	1,729	1,725	1,712	1,746
EBITDA	285	304	305	307	324
Depreciation & Amortisation	(70)	(74)	(79)	(82)	(83)
EBIT	215	231	226	225	240
Net Finance (Expense)/Inc	2.4	3.4	3.3	2.5	2.2
Other items	2.2	9.9	20.7	-	-
Associates & JVs	48	65	71	85	93
Exceptional items	(2.1)	-	-	-	-
Profit Before Tax	265	309	322	313	335
Taxation	(47)	(48)	(56)	(50)	(53)
Profit After Tax	218	261	266	263	283
- Non-controlling interest	(2.2)	2.9	4.0	10.5	11.3
PATMI, reported	221	258	262	253	271
Underlying PATMI	218	234	236	253	271

Per share data (cents)

Y/E Mar	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	19.9	23.2	23.4	22.6	24.3
EPS, adj.	19.7	21.1	21.1	22.6	24.3
DPS	15.0	17.0	18.0	18.0	18.0
BVPS	139	150	157	162	170

Cash Flow

Y/E Mar, SGD mn	FY16	FY17	FY18	FY19e	FY20e
CFO					
PBT	265	309	322	313	335
Adjustments	28	5	1	(6)	(12)
WC changes	17	38	(25)	12	(6)
Cash generated from ops	310	352	298	319	318
Others	(37)	(43)	(53)	(51)	(54)
Cashflow from ops	273	309	246	269	264
CFI					
CAPEX, net	(49)	(86)	(98)	(85)	(85)
Divd from associates & JVs	34	42	25	55	60
Others	(41)	(75)	(109)	(77)	(77)
Cashflow from investments	(56)	(120)	(182)	(106)	(102)
CFF					
Share issuance, net	(1.7)	4.3	(13.4)	-	-
Loans, net of repayments	0.4	(6.7)	(0.6)	(10.0)	(10.0)
Dividends	(156)	(179)	(192)	(201)	(201)
Others	0.5	8.7	8.8	-	-
Cashflow from financing	(157)	(173)	(197)	(211)	(211)
Net change in cash	60	17	(134)	(49)	(48)
Effects of exchange rates	0.6	2.0	(1.6)	-	-
CCE, end	490	508	373	325	277

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	FY16	FY17	FY18	FY19e	FY20e
ASSETS					
PPE	517	539	560	566	571
Intangibles	164	158	158	154	151
Associates & JVs	546	671	849	959	1,071
Others	50	56	47	47	47
Total non-current assets	1,276	1,423	1,613	1,726	1,840
Inventories	22	22	23	22	23
Accounts Receivables	277	271	299	282	295
Cash	490	506	373	325	277
Others	22	40	25	25	25
Total current assets	811	839	719	655	619
Total Assets	2,087	2,262	2,332	2,381	2,459
LIABILITIES					
Short term loans	110	10	10	10	10
Accounts Payables	309	331	332	328	335
Others	51	69	61	61	61
Total current liabilities	470	410	403	399	406
Long term loans	1	98	96	86	76
Others	70	80	83	83	83
Total non-current liabilities	70	178	179	169	159
Total Liabilities	541	588	582	568	565
EQUITY					
Non-controlling interest	74	88	133	143	154
Shareholder Equity	1,472	1,586	1,618	1,669	1,740

Valuation Ratios

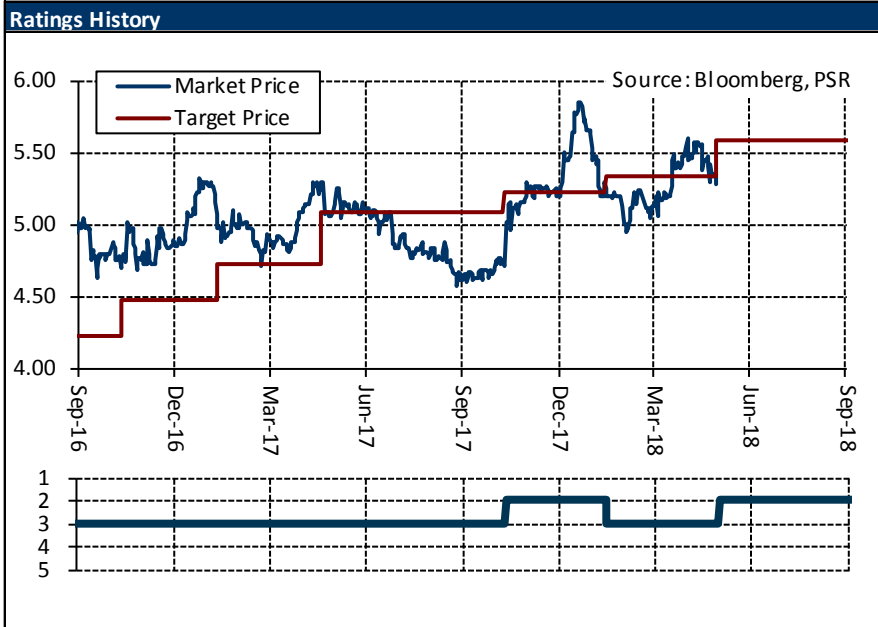
Y/E Mar	FY16	FY17	FY18	FY19e	FY20e
P/E (x), adj.	20.6	23.3	25.1	23.3	21.7
P/B (x)	2.9	3.3	3.4	3.3	3.1
EV/EBITDA (x), adj.	14.4	16.7	18.5	18.4	17.6
Dividend Yield (%)	3.7%	3.5%	3.4%	3.4%	3.4%

Growth & Margins (%)

Growth					
Revenue	-3.1%	1.8%	-0.3%	-0.8%	2.0%
EBITDA	15.8%	6.7%	0.3%	0.8%	5.3%
EBIT	20.6%	7.4%	-1.8%	-0.5%	6.6%
Net Income, adj.	11.4%	7.4%	0.8%	7.0%	7.4%
Margins					
EBITDA margin	16.8%	17.6%	17.7%	18.0%	18.5%
EBIT margin	12.6%	13.3%	13.1%	13.2%	13.8%
Net Profit Margin	12.8%	13.5%	13.7%	14.8%	15.5%

Key Ratios

ROE (%)	15.1%	15.3%	14.7%	15.4%	15.9%
ROA (%)	10.7%	10.8%	10.3%	10.7%	11.2%
Net Debt or (Net Cash)	(379)	(397)	(267)	(228)	(190)
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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