

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.

- Margin pressures & loss on disposal of Daniels Group contributed to 25% decline in net profits
- TFK Corp in the black for the quarter
- Factored in special dividends of 20cents for FY12E
- Maintain Buy with revised TP of S\$2.76

What is the news?

SATS announced headline profit decline of 25% in 3QFY12 due to margin pressures and loss on disposal of Daniels Group of S\$5.5mn. Revenue was little changed when compared to figures prior restatement in the quarter, which removed contributions from Daniels Group in 3QFY11. The lack of contribution from Daniels Group (3QFY11: S\$107mn) was offset by contributions from TFK Corp (3QFY12: S\$82mn) and organic growth from SATS's core business. Underlying Net Profit from continuing operations disclosed by SATS declined by 8.6%y-y from S\$47.8mn to S\$43.7mn.

Fig.1. Results Summary

Income Statement				
(Extract)	3QFY11	3QFY12	y-y (%)	Comments
(S\$'mn)				
Revenue	440.9	442.3	0.3%	TFK contribute, Daniels sold
EBITDA	75.9	68.4	-9.9%	Cost pressures
EBIT	52.4	43.8	-16.4%	
Net Income	51.2	38.2	-25.4%	Loss on disposal of Daniels

Source: Company, PSR

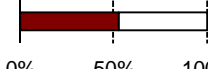
How do we view this?

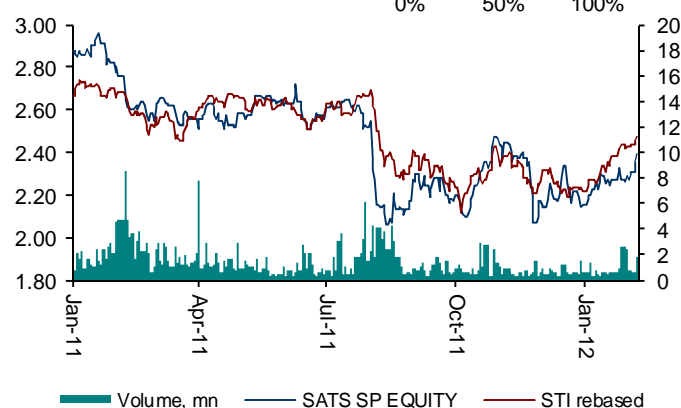
The low profit margin for the quarter is partly a result of distortions due to low profit contributions from TFK Corp that was acquired in Dec 2010. Net profit for the quarter is in line with our forecasts. In the quarter, SATS received cash from the sale of Daniels Group, which led to a cash build up. Hence, we explicitly modeled in special DPS of 20cents, on top of ordinary final DPS of 6cents that could be announced at the end of the year. We maintain our view that holding surplus cash would hurt the efficiency of SATS's balance sheet and management would likely dish out excess cash to shareholders.

Investment Actions?

We maintain our Buy recommendation on SATS with the view that earnings would likely improve meaningfully in FY13E and the likelihood of a special dividend payout will offer good share price support in the near term. Current market price translates to a forward yield of 13%.

SATS Ltd

Rating	1	Buy
- Previous Rating	1	Buy
Target Price (SGD)	2.76	
- Previous Target Price (SGD)	2.96	
Closing Price (SGD)	2.39	
Expected Capital Gains (%)	15.5%	
Expected Dividend Yield (%)	13.1%	
Expected Total Return (%)	28.5%	
Raw Beta (Past 2yrs weekly data)	0.86	
Market Cap. (USD mn / SGD mn)	2125 / 2648	
Enterprise Value (USD mn / SGD mn)	2225 / 2778	
3M Average Daily T/O (mn)	0.7	
52 w week range (SGD)	2.04 - 2.69	
Closing Price in 52 w week range		



Major Shareholders

	(%)
1. Temasek Holdings Pte Ltd	43.3
2. Capital Research Global Investor	2.6
3. First Eagle Investment Mgmt LLC	1.5

Key Financial Summary

FYE	03/11	03/12F	03/13F	03/14F
Revenue (SGD mn)	1,729	1,674	1,740	1,770
Net Profit, adj. (SGD mn)	191	156	192	204
EPS, adj. (SGD)	0.17	0.14	0.17	0.18
P/E (X), adj.	13.8	17.1	13.8	13.0
BVPS (SGD)	1.37	1.34	1.21	1.26
P/B (X)	1.7	1.8	2.0	1.9
DPS (SGD)	0.17	0.31	0.13	0.14
Div. Yield (%)	7.1%	13.0%	5.4%	5.8%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

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

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Operating Statistics

In line with record numbers clocked at Changi Airport, SATS's operating statistics improved in 3QFY12. LCC continued to lead growth, accounting for 28.6% of flight movements at the airport in 2011. However, we caution that the strong growth rate observed for 2011 is not expected to be repeated next year, as the aviation industry faces near term headwinds from weaker consumer confidence and uncertainty over global economic conditions.

Fig.2. Operating Statistics at Changi Airport

	3QFY11	2QFY12	3QFY12	y-y %	q-q %
SATS Operating Stats					
Unit Services Handled ('k)	21.26	22.93	23.50	10.5%	2.5%
Flights Handled ('k)	26.12	28.63	29.59	13.3%	3.4%
Cargo/Mail ('k tonnes)	389.40	378.93	395.71	1.6%	4.4%
Passengers Handled ('M)	9.07	9.49	9.56	5.4%	0.7%
Unit Meals Produced ('M)	5.12	5.16	5.28	3.1%	2.3%
Gross Meals Produced ('M)	6.44	6.68	6.71	4.2%	0.4%

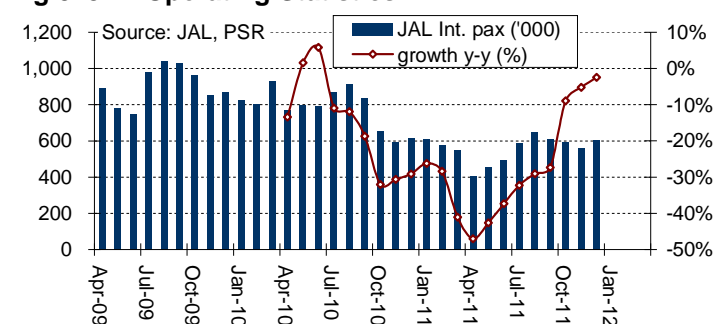
Source: SATS, PSR

TFK continues to recover

Using JAL's international passenger statistics as a proxy to TFK's operating performance, volume throughput probably declined marginally as Japan's aviation industry continue to recover after the Earthquake in Mar 2011. Revenue contribution to the Group was flat sequentially (3QFY12: S\$82.0mn, 2QFY12: S\$79.6mn), helped by a stronger JPY against SGD (+5.6%q-q), offset by a likely seasonal decline in volume. TFK Corp contributed operating profit of S\$1.5mn for the quarter, showing improvement over losses in the first quarter.

(TFK Op. Profit: 1QFY12: -\$6.4mn; 2QFY12: +\$1.8mn)

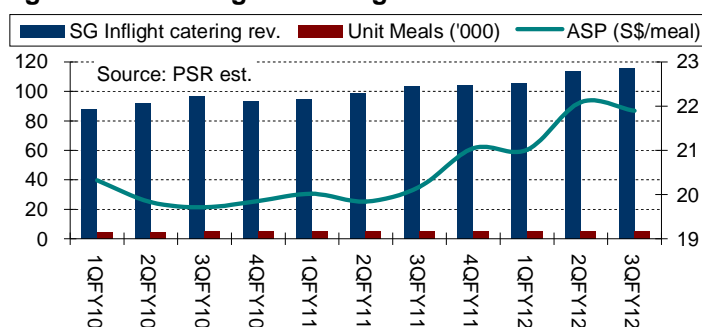
Fig.3. JAL Operating Statistics



Inflight Catering ASP maintained

While SATS does not explicitly disclose their Inflight Catering sales out of Changi Airport, we estimate that ASP for the quarter was likely stable sequentially and probably improved as compared to the same period last year. We attribute the improvement to re-pricing of contracts and better product mix, which would help the company cope with inflationary pressures from rising staff cost and food prices.

Fig.4. ASP for Inflight Catering stable



ICT not earnings accretive in 1st year of operations

In Dec 2011, SATS won a bid to operate the new Singapore International Cruise Terminal (ICT) through a 60:40 JV with Creuers del Port de Barcelona S.A. (Creuers). Profit outlook is not clear at the moment, as it largely depends on the JV's ability to gain sufficient volume. Management guided that this project is not expected to be earnings accretive in its first year of operations as it is still in start up phase. We have not included contributions from this JV at the moment, but do not expect them to have a material impact on the Group's profits in the near term.

Cash Surplus, Special Dividend likely

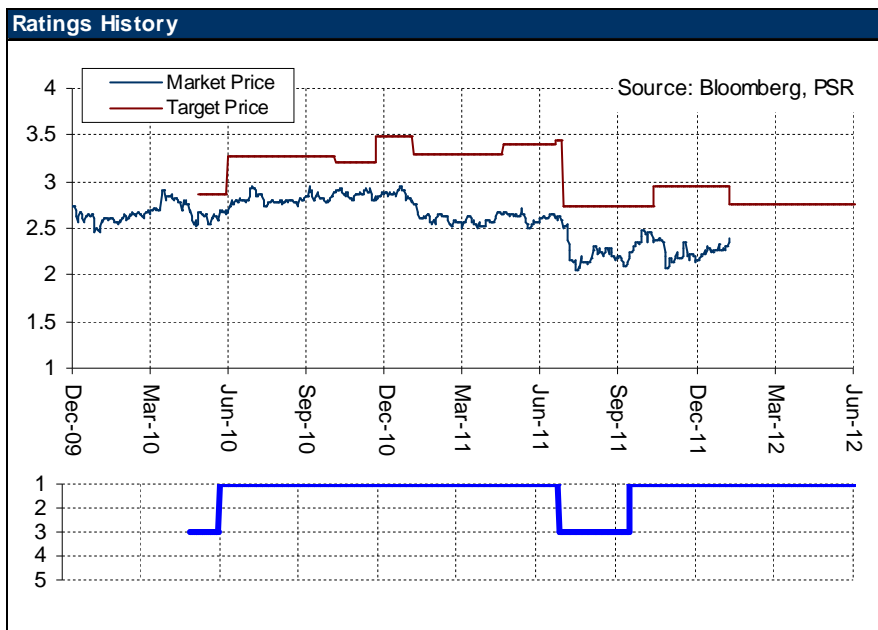
In the quarter, SATS received c.S\$284mn of cash from the sales of Daniels Group, which led to a cash build up despite paying out interim dividends of S\$55mn. We estimate that SATS's cash balance would increase to c.S\$480mn by the end of FY12E, which we view as excessive. Hence, we explicitly modeled in special DPS of 20cents, on top of ordinary final DPS of 6cents that could be announced at the end of the year. At current market price, our forecasted dividends for the next 12months would translate to a yield of 13%.

FYEMar	FY10	FY11	FY12F	FY13F	FY14F
Valuation Ratios					
P/E (X), adj.	14.3	13.8	17.1	13.8	13.0
P/B (X)	1.8	1.7	1.8	2.0	1.9
EV/EBITDA (X), adj.	10.1	9.9	11.0	9.8	9.7
Dividend Yield (%)	4.6%	7.1%	13.0%	5.4%	5.8%
Per share data (SGD)					
EPS, reported	0.17	0.17	0.14	0.17	0.18
EPS, adj.	0.17	0.17	0.14	0.17	0.18
DPS	0.11	0.17	0.31	0.13	0.14
BVPS	1.36	1.37	1.34	1.21	1.26
Growth & Margins (%)					
Growth					
Revenue	44.9%	12.4%	-3.2%	3.9%	1.7%
EBITDA	16.9%	2.0%	-10.4%	12.9%	1.1%
EBIT	8.8%	0.0%	-15.9%	20.1%	3.1%
Net Income, adj.	23.4%	5.6%	-18.7%	23.3%	6.1%
Margins					
EBITDA margin	17.9%	16.2%	15.0%	16.3%	16.2%
EBIT margin	12.0%	10.7%	9.3%	10.8%	10.9%
Net Profit Margin	11.8%	11.1%	9.7%	11.3%	11.8%
Key Ratios					
ROE (%)	12.6%	12.7%	10.5%	13.6%	14.9%
ROA (%)	9.2%	9.1%	6.9%	8.9%	9.6%
Net Debt/(Cash)	(172)	(119)	(304)	(216)	(270)
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Income Statement (SGD mn)					
Revenue	1,539	1,729	1,674	1,740	1,770
EBITDA	275	281	251	284	287
Depreciation & Amortisation	(90)	(95)	(96)	(97)	(94)
EBIT	185	185	156	187	193
Net Finance (Expense)/Income	(5)	(1)	0	1	1
Other items	1	0	(3)	0	0
Associates & JVs	42	61	55	62	72
Profit Before Tax	223	245	209	251	265
Taxation	(41)	(54)	(47)	(55)	(56)
Profit After Tax	182	192	162	196	209
Non-controlling Interest	1	0	4	4	5
Net Income, reported	181	191	158	192	204
Net Income, adj.	181	191	156	192	204

Source: PSR

FYEMar	FY10	FY11	FY12F	FY13F	FY14F
Balance Sheet (SGD mn)					
PPE	594	732	680	659	640
Intangibles	462	489	223	212	201
Associates & JVs	335	328	380	412	447
Investments	14	24	24	24	24
Others	18	47	47	47	47
Total non-current assets	1,423	1,621	1,355	1,354	1,359
Inventories	43	59	49	44	45
Accounts Receivables	236	303	321	272	276
Investments	0	0	0	0	0
Cash	196	304	488	400	455
Others	10	21	21	21	21
Total current assets	486	688	880	737	797
Total Assets	1,909	2,308	2,235	2,090	2,156
Short term loans	14	164	164	164	164
Accounts Payables	219	286	250	255	259
Others	44	44	44	44	44
Total current liabilities	277	494	457	463	467
Long term loans	10	21	21	21	21
Others	122	177	167	167	167
Total non-current liabilities	132	198	188	188	188
Non-controlling interest	18	95	99	103	108
Shareholder Equity	1,482	1,521	1,491	1,337	1,393
Cashflow Statements (SGD mn)					
CFO					
PBT	223	245	209	251	265
Adjustments	57	38	30	33	22
Cash from ops before WC changes	280	284	239	284	287
WC changes	24	(33)	(44)	61	(2)
Cash generated from ops	304	250	195	344	285
Taxes paid, net	(45)	(47)	(47)	(55)	(56)
Interest paid	(5)	(3)	(2)	(2)	(2)
Cashflow from ops	254	200	145	287	227
CFI					
CAPEX, net	(61)	(68)	(64)	(64)	(64)
Dividends from associates & JVs	24	39	27	31	36
Dividends/Interest from Investments	1	1	3	3	3
Purchase/sale of investments	20	0	0	0	0
Investments in subs & associates	0	(69)	261	0	0
Others	1	1	0	0	0
Cashflow from investments	(15)	(95)	228	(29)	(25)
CFF					
Share issuance	28	31	0	0	0
Purchase of treasury shares	0	(1)	0	0	0
Loans, net of repayments	(226)	112	0	0	0
Dividends to minority interests	0	0	0	0	0
Dividends to shareholders & capital reduction	(119)	(143)	(188)	(346)	(148)
Others	(1)	0	0	0	0
Cashflow from financing	(318)	(2)	(188)	(346)	(148)
Net change in cash	(79)	104	184	(88)	54
Effects of exchange rates	(1)	(3)	0	0	0
CCE, end	196	296	481	393	447

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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