

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.

- Stronger than expected end to the year
- B/S still below optimal capital structure, paving the way for higher dividend distributions in the future
- Final & Special DPS of 21.0cents
- Maintain Buy with revised TP of S\$2.80

What is the news?

SATS announced a 10.7% decline in net income for the year, mainly due to the lack of contributions from Daniels Group that was divested in the year. After adjusting for the effects of one off items, underlying profits from continuing operations declined by 4.3%. EBITDA margin declined by 2.3ppt as a result of slight margin compression at its core business in Singapore and lower profitability at TFK Corp. SATS announced special dividend of 15.0cents and final dividend of 6.0cents, taking full year payout to 26.0cents per share.

Fig 1. Results Summary

Income Statement				
(Extract)	FY11	FY12	y-y (%)	Comments
(S\$m)				
Revenue	1,357.8	1,685.4	24.1%	Full year of TFK
EBITDA	246.3	266.4	8.2%	Margin compression
EBIT	169.0	169.0	0.0%	
Net Income	191.4	170.9	-10.7%	
Net Income, adj.	185.4	177.5	-4.3%	Underlying Net Profits

Source: Company, PSR

*Restated to remove Daniels Group

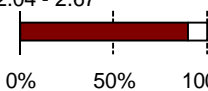
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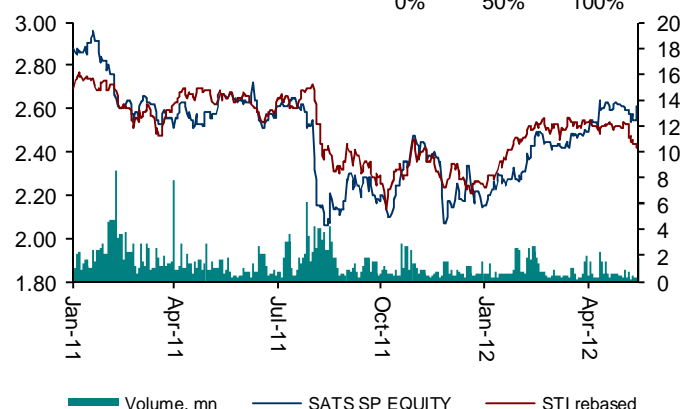
SATS's result for FY12 was stronger than our expectations, mainly due to lower than expected staff cost incurred in 4QFY12. Even after accounting for the special dividend payout, SATS is still expected to have a healthy balance sheet with a net cash position. The company's capital structure would also be significantly below management's long term net gearing target of 30%. Hence, we believe that SATS have the capacity to pay and would likely increase its long term dividend payouts, in the absence of suitable M&A opportunities.

Investment Actions?

We maintain our Buy recommendation on SATS and revised our target price to S\$2.80 as we roll forward our valuation basis and account for the special dividend payout. At the current price, SATS offers a yield of >10% over the next 12 months.

SATS Ltd

Rating	1	Buy
- Previous Rating	1	Buy
Target Price (SGD)	2.80	
- Previous Target Price (SGD)	2.76	
Closing Price (SGD)	2.61	
Expected Capital Gains (%)	7.3%	
Expected Dividend Yield (%)	10.3%	
Expected Total Return (%)	17.6%	
Raw Beta (Past 2yrs weekly data)	0.86	
Market Cap. (USD mn / SGD mn)	2302 / 2892	
Enterprise Value (USD mn / SGD mn)	2195 / 2754	
3M Average Daily T/O (mn)	0.7	
52 w eek range (SGD)	2.04 - 2.67	
Closing Price in 52 w eek 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	03/12	03/13F	03/14F
Revenue (SGD mn)	1,358	1,685	1,717	1,746
Net Profit, adj. (SGD mn)	185	178	189	193
EPS, adj. (SGD)	0.17	0.16	0.17	0.17
P/E (X),adj.	15.6	16.4	15.3	15.0
BVPS (SGD)	1.37	1.36	1.26	1.29
P/B (X)	1.9	1.9	2.1	2.0
DPS (SGD)	0.17	0.26	0.14	0.15
Div. Yield (%)	6.5%	10.0%	5.5%	5.7%

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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TFK reports strongest profit till date

Following weak traffic demand post the Japan Earthquake in Mar 2011, TFK Corp's utilization continues to improve with meal volumes increasing by 3% q-q in 4QFY12. TFK Corp also recorded the strongest quarterly operating profits till date of S\$3.4mn. We believe that TFK is on track to improve its utilization and could be a meaningful profit contributor in FY13E as volumes build towards an optimal level. On year improvements are likely in the next few quarters as TFK benefits from the low base effects in the prior year.

Fig 2. TFK margins

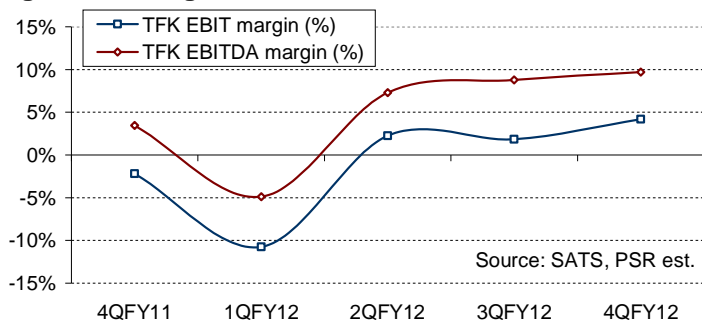
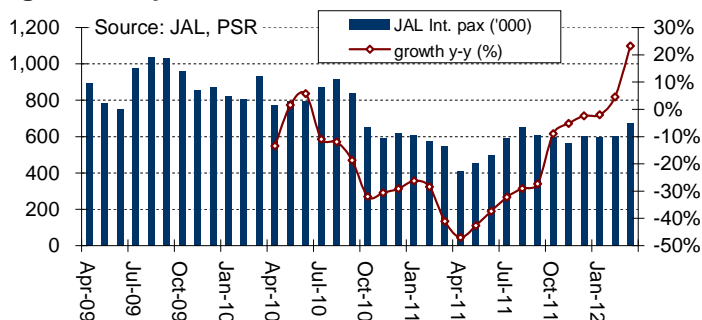


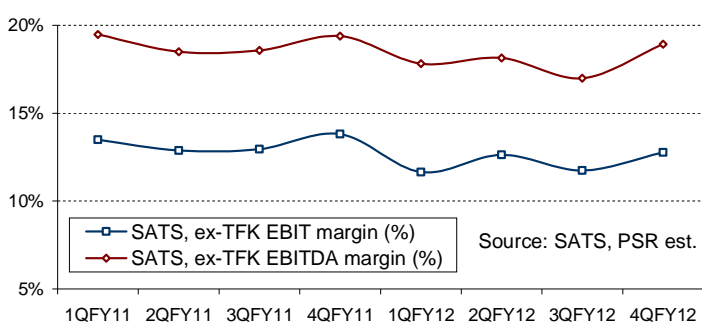
Fig 3. JAL Operational Statistics



Margins remain stable at core business

Removing the distortions caused by lower profitability at TFK, SATS's core business recorded relatively stable margins despite various cost pressures. By analyzing its segmental revenue, we reckon that SATS was able to protect its margins by lifting average selling price for its inflight catering meals.

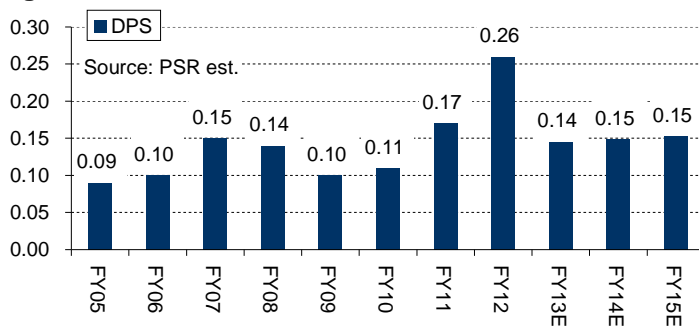
Fig 4. Stable margins excluding TFK



Dividends sustainable at >14cents/shr

With SATS below its optimal level of gearing (target net gearing: c.30%), we think that SATS would likely increase its payout ratio over the next few years to gradually gear up its balance sheet. With strong CFO of >S\$200mn, dividend contributions from associates of S\$20-40mn in a year and relatively low CAPEX requirements of S\$60-70mn, the company would still maintain its net cash position with a payout ratio of 85%.

Fig 5. Dividend forecasts

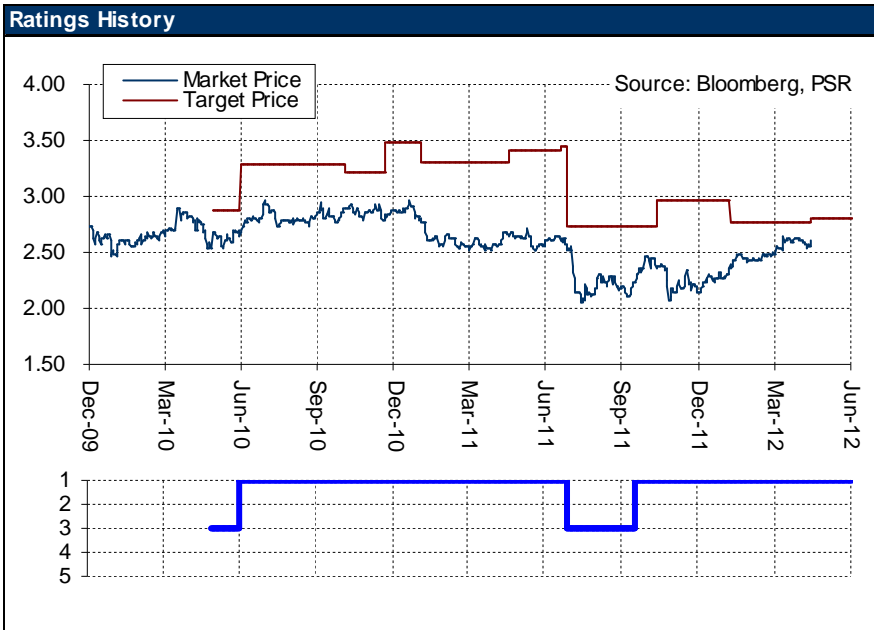


FYE Mar	FY11	FY12	FY13F	FY14F	FY15F
Valuation Ratios					
P/E (X), adj.	15.6	16.4	15.3	15.0	14.5
P/B (X)	1.9	1.9	2.1	2.0	2.0
EV/EBITDA (X), adj.	11.2	10.3	9.7	9.6	9.5
Dividend Yield (%)	6.5%	10.0%	5.5%	5.7%	5.8%
Per share data (SGD)					
EPS, reported	0.17	0.15	0.17	0.17	0.18
EPS, adj.	0.17	0.16	0.17	0.17	0.18
DPS	0.17	0.26	0.14	0.15	0.15
BVPS	1.37	1.36	1.26	1.29	1.32
Growth & Margins (%)					
Growth					
Revenue	-11.8%	24.1%	1.9%	1.7%	1.2%
EBITDA	-10.5%	8.2%	7.0%	1.1%	1.0%
EBIT	-8.8%	0.0%	13.4%	2.8%	2.5%
Net Income, adj.	2.3%	-4.3%	6.4%	2.4%	3.0%
Margins					
EBITDA margin	18.1%	15.8%	16.6%	16.5%	16.5%
EBIT margin	12.4%	10.0%	11.2%	11.3%	11.4%
Net Profit Margin	14.1%	10.4%	11.2%	11.4%	11.6%
Key Ratios					
ROE (%)	12.7%	11.3%	13.0%	13.7%	13.8%
ROA (%)	9.1%	7.7%	9.1%	9.4%	9.5%
Net Debt/(Cash)	(119)	(314)	(251)	(295)	(339)
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Income Statement (SGD mn)					
Revenue	1,358	1,685	1,717	1,746	1,767
EBITDA	246	266	285	288	291
Depreciation & Amortisation	(77)	(97)	(93)	(91)	(89)
EBIT	169	169	192	197	202
Net Finance (Expense)/Income	(0)	(0)	2	1	1
Other items	1	12	0	0	0
Associates & JVs	47	41	40	42	44
Profit Before Tax	217	222	233	240	247
Taxation	(37)	(37)	(41)	(42)	(43)
Discontinued operations	12	(10)	0	0	0
Profit After Tax	192	175	193	198	204
Non-controlling Interest	0	4	4	5	5
Net Income, reported	191	171	189	193	199
Net Income, adj.	185	178	189	193	199

Source: PSR

FYEMar	FY11	FY12	FY13F	FY14F	FY15F
Balance Sheet (SGD mn)					
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
Total non-current assets	1,632	1,291	1,278	1,267	1,260
Inventories	59	44	42	43	44
Accounts Receivables	303	294	292	297	300
Investments	0	0	0	0	0
Cash	304	472	409	453	497
Others	21	22	22	22	22
Total current assets	688	831	765	815	863
Total Assets	2,320	2,123	2,043	2,083	2,123
Short term loans	164	27	27	27	27
Accounts Payables	286	203	230	233	236
Others	44	42	42	42	42
Total current liabilities	494	272	299	303	305
Long term loans	21	131	131	131	131
Others	186	103	103	103	103
Total non-current liabilities	207	234	234	234	234
Non-controlling interest	99	107	111	116	121
Shareholder Equity	1,521	1,509	1,399	1,431	1,463
Cashflow Statements (SGD mn)					
CFO					
PBT	231	213	233	240	247
Adjustments	51	66	52	48	44
Cash from ops before WC changes	282	279	285	288	291
WC changes	(32)	(68)	30	(2)	(2)
Cash generated from ops	250	211	315	286	289
Taxes paid, net	(47)	(40)	(41)	(42)	(43)
Interest paid	(3)	(2)	(2)	(2)	(2)
Cashflow from ops	200	168	273	242	245
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
Cashflow from investments	(95)	225	(36)	(36)	(34)
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)	(299)	(162)	(166)
Others	0	(16)	0	0	0
Cashflow from financing	(2)	(216)	(299)	(162)	(166)
Net change in cash	104	177	(63)	45	44
Effects of exchange rates	(3)	(3)	0	0	0
CCE, end	296	470	407	452	496

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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