

Report type: Visit Note

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.

- New cruise centre contribution immaterial in near term
- Highly variable cost structure
- Dividend yields of 5-6% remains attractive
- Maintain Neutral with TP of S\$2.65

What is the news?

We visited the Marina Bay Cruise Centre Singapore (MBCCS) that is operated by SATS's new JV, SATS-Creuers. Salient points from the visit:

- **Infrastructure.** 80 check-in counters, max capacity of 6,800 passengers at any time, 25 coach bays, 327 carpark lots, walkway linkage to MRT station expected to be ready in 2014, minimal retail space.
- **Customers.** Royal Caribbean International, Celebrity Cruises, Holland America Lines, Princess Cruises, Silversea Cruises and Azamara Cruises. Hosted 8 vessels since opening in May 2012. Another 60 plus vessels scheduled till the end of FY13E.
- **CruiseFly.** 5 airlines (Singapore Airlines, SilkAir, Air China, China Eastern & China Southern) currently offer CruiseFly services.
- **Staff.** 12-15 permanent staff with extra workload handled by subcontractors.
- **Financials.** Not expected to reach revenue of S\$10mn in the near term, highly variable operating cost structure.

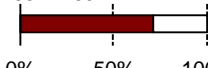
How do we view this?

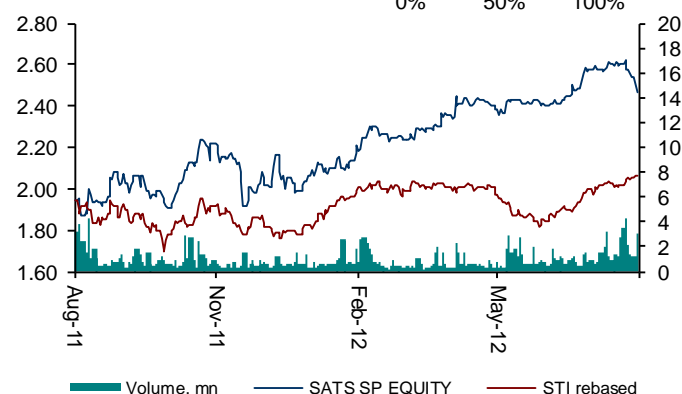
Our view remains unchanged and do not think that this new venture would have a material impact to SATS and its stock in the next 1-2 years. The ability to handle larger vessels is the only significant advantage that MBCCS has over the existing cruise terminal facility at Harbourfront Centre.

Investment Actions?

While we maintain our Neutral view on the stock, our Singapore Sector Strategist remains overweight on the Aviation Services sector for their sustainable yields. On our projections, SATS would yield 5-6% over the next 3 years.

SATS Ltd

Rating	3	Neutral
- Previous Rating	3	Neutral
Target Price (SGD)	2.65	
- Previous Target Price (SGD)	2.65	
Closing Price (SGD)	2.47	
Expected Capital Gains (%)	7.3%	
Expected Dividend Yield (%)	5.3%	
Expected Total Return (%)	12.6%	
Raw Beta (Past 2yrs weekly data)	0.74	
Market Cap. (USD mn / SGD mn)	2207 / 2740	
Enterprise Value (USD mn / SGD mn)	2019 / 2501	
3M Average Daily T/O (mn)	1.2	
52 week range (SGD)	1.93 - 2.69	
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.	15.5	15.9	15.0	14.5
BVPS (SGD)	1.36	1.25	1.28	1.31
P/B (X)	1.8	2.0	1.9	1.9
DPS (SGD)	0.26	0.13	0.14	0.14
Div. Yield (%)	10.5%	5.3%	5.7%	5.8%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

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

Analyst

Derrick Heng

derrickhengch@phillip.com.sg

+65 6531 1221

Fig 1. External view of MBCCS



Source: PSR

Fig 2. Currently, only 5 airlines offers CruiseFly services



Source: PSR

Fig 3. Large terminal space



Source: PSR

Fig 4. Viewing area at Mezzanine floor



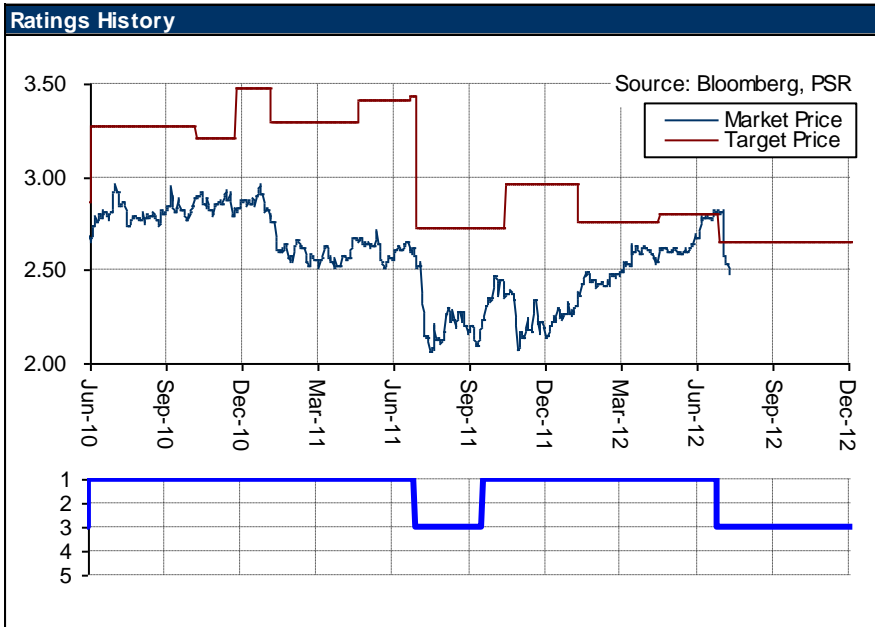
Source: PSR

FYE Mar	FY11	FY12	FY13F	FY14F	FY15F
Valuation Ratios					
P/E (X), adj.	14.7	15.5	15.9	15.0	14.5
P/B (X)	1.8	1.8	2.0	1.9	1.9
EV/EBITDA (X), adj.	10.2	9.4	9.5	9.1	9.0
Dividend Yield (%)	6.9%	10.5%	5.3%	5.7%	5.8%
Per share data (SGD)					
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
Growth & Margins (%)					
Growth					
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%
Margins					
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%
Key Ratios					
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
Income Statement (SGD mn)					
Revenue	1,358	1,685	1,754	1,775	1,796
EBITDA	246	266	262	274	277
Depreciation & Amortisation	(77)	(97)	(93)	(91)	(89)
EBIT	169	169	169	183	188
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	210	226	233
Taxation	(37)	(37)	(37)	(39)	(40)
Discontinued operations	12	(10)	0	0	0
Profit After Tax	192	175	173	187	193
Non-controlling Interest	0	4	1	5	5
Net Income, reported	191	171	172	183	188
Net Income, adj.	185	178	172	183	188

Source: PSR

FYE Mar	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	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
Total current assets	688	831	761	809	856
Total Assets	2,320	2,123	2,038	2,077	2,115
Short term loans	164	27	27	27	27
Accounts Payables	286	203	239	240	242
Others	44	42	42	42	42
Total current liabilities	494	272	308	309	311
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	108	113	118
Shareholder Equity	1,521	1,509	1,388	1,421	1,452
Cashflow Statements (SGD mn)					
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)
Cashflow from ops	200	168	258	230	234
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)	(293)	(150)	(157)
Others	0	(16)	0	0	0
Cashflow from financing	(2)	(216)	(293)	(150)	(157)
Net change in cash	104	177	(72)	45	42
Effects of exchange rates	(3)	(3)	0	0	0
CCE, end	296	470	399	443	485

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

Important Information

This publication is prepared by Phillip Securities Research Pte Ltd., 250 North Bridge Road, #06-00, Raffles City Tower, Singapore 179101 (Registration Number: 198803136N), which is regulated by the Monetary Authority of Singapore ("Phillip Securities Research"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this document by mistake, please delete or destroy it, and notify the sender immediately. Phillip Securities Research shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources, which Phillip Securities Research has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this publication are based on such information and are expressions of belief of the individual author or the indicated source (as applicable) only. Phillip Securities Research has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete, appropriate or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, (i) be liable in any manner whatsoever for any consequences (including but not limited to any special, direct, indirect, incidental or consequential losses, loss of profits and damages) of any reliance or usage of this publication or (ii) accept any legal responsibility from any person who receives this publication, even if it has been advised of the possibility of such damages. You must make the final investment decision and accept all responsibility for your investment decision, including, but not limited to your reliance on the information, data and/or other materials presented in this publication.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

Past performance of any product referred to in this publication is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This publication should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this research should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this publication, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the

preparation or issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as may be mentioned in this publication.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold an interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this publication. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, which is not reflected in this material, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this material.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Section 27 of the Financial Advisers Act (Cap. 110) of Singapore and the MAS Notice on Recommendations on Investment Products (FAA-N01) do not apply in respect of this publication.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

Please contact Phillip Securities Research at [65 65311240] in respect of any matters arising from, or in connection with, this document.

This report is only for the purpose of distribution in Singapore.

Contact Information (Singapore Research Team)

Chan Wai Chee
CEO, Research
Special Opportunities
+65 6531 1231
yebo@phillip.com.sg

Lee Kok Joo, CFA
Head of Research
S-Chips, Strategy
+65 6531 1685
leekj@phillip.com.sg

Joshua Tan
Macro Strategist
Global Macro, Asset Strategy
+65 6531 1249
joshuatan@phillip.com.sg

Magdalene Choong, CFA
Investment Analyst
Gaming, US
+65 6531 1791
magdalenechoongss@phillip.com.sg

Go Choon Koay, Bryan
Investment Analyst
Property
+65 6531 1792
gock@phillip.com.sg

Derrick Heng
Investment Analyst
Transportation, Telecom.
+65 6531 1221
derrickhengch@phillip.com.sg

Ken Ang
Investment Analyst
Financials
+65 6531 1793
kenangwy@phillip.com.sg

Travis Seah
Investment Analyst
REITS
+65 6531 1229
travisseahhk@phillip.com.sg

Research Assistant
General Enquiries
+65 6531 1240 (Phone)
+65 6336 7607 (Fax)
research@phillip.com.sg

Ng Weiwen
Macro Analyst
Global Macro, Asset Strategy
+65 6531 1735
ngww@phillip.com.sg

Roy Chen
Macro Analyst
Global Macro, Asset Strategy
+65 6531 1535
roychencz@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel : (65) 6533 6001
Fax : (65) 6535 6631
Website: www.poems.com.sg

HONG KONG

Phillip Securities (HK) Ltd
Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel (852) 22776600
Fax (852) 28685307
Websites: www.phillip.com.hk

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel (62-21) 57900800
Fax (62-21) 57900809
Website: www.phillip.co.id

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel (66-2) 6351700 / 22680999
Fax (66-2) 22680921
Website www.phillip.co.th

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel (44-20) 7426 5950
Fax (44-20) 7626 1757
Website: www.kingandshaxson.com

AUSTRALIA

Octa Phillip Securities Ltd
Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel (03) 9629 8288
Fax (03) 9629 8882
Website: www.octaphillip.com

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel (603) 21628841
Fax (603) 21665099
Website: www.poems.com.my

JAPAN

Phillip Securities Japan, Ltd.
4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel: (81-3) 3666-2101
Fax: (81-3) 3666-6090
Website: www.phillip.co.jp

CHINA

Phillip Financial Advisory (Shanghai) Co. Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel (86-21) 51699200
Fax (86-21) 63512940
Website: www.phillip.com.cn

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel (33-1) 45633100
Fax (33-1) 45636017
Website: www.kingandshaxson.com

UNITED STATES

Phillip Futures Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1.312.356.9000
Fax +1.312.356.9005