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SATS Ltd

Long-term growth from overseas expansion

SINGAPORE | TRANSPORT SERVICES | 2QFY20 RESULTS

- 2QFY20 revenue beat our expectations, while PATMI fell short of expectations due to declining cargo revenue.
- Food Solutions and Gateway Services revenue grew 4.5% and 12% YoY, with growth showing in both aviation (+8.1%) and non-aviation (+6.5%) food industries.
- New joint venture in Daxing International Airport will expand presence for SATS in China. We estimate it to add $1.5mn to SATS' bottom line.
- Indian revenue remains subdued due to vacant slots left by Jet Airways.
- Maintain **ACCUMULATE** with a lower target price of **$5.36 (prev. S$5.47)**. Our PATMI for FY19e is cut by 2.4%.

Results at a glance

(SGD mn)	2Q20	2Q19	YoY	Comments
Revenue	**497**	**453**	**+9.8%**	**4.5% higher Food Solutions and 12% higher Gateway Services; Food Solutions enjoyed higher volumes while the higher Gateway revenue was mianly due to the GTR consolidation**
EBIT	65.0	66.0	-1.5%	Opex grew 11.7% due to the consol effect of GTR and CFPL, out-pacing revenue growth.
Associates/JVs	13.7	14.0	-2.1%	Lower Food contributions by TSAC offset by turnaround of Brahims
PATMI	**60.7**	**65.7**	**-7.6%**	**Driven by lower EBIT and lower contribution from Associates and JV**

Source: Company, PSR

The Positives

+ **Food Solutions and Gateway Services revenue grew 4.5% and 12% YoY with growth showing in both aviation (+8.1%) and non-aviation (+6.5%) food industries.** Higher Food Solutions revenue is due to increased meal volume growth in Singapore and Japan. Higher gateway services revenue is mainly due to the consolidation of GTR (AirAsia), which contributed $S22.5mn of the S$23.7mn increase. Volume growth in gateway services was offset by lower cargo revenue and lower ship calls (due to maintenance of one cruise ship).
+ **Accretive acquisitions in China making headway.** Greater China revenue has a slight increase of 0.6% YoY due to higher non-aviation food revenue from Kunshan kitchen, offset by a decrease in aviation food revenue from Hong Kong and Taiwan. Meanwhile, SATS entered into 2 joint ventures at Daxing International Airport for ground and cargo handling and inflight catering. It has also completed the acquisition of 50% interest in Nanjing Weizhou Airline Food Corp (NWA). Based on our FY20e P/E assumption of 21.4x, both deals could add S$1.5mn and S$1.3mn to SATS' bottom line.

The Negatives

- **Margin pressure from anaemic cargo volumes.** Cargos volumes continue to decline. Volumes were down 3.2% YoY in 2QFY20 due to the Sino-US trade war. Singapore cargo revenue dropped 7% while the decline in Hong Kong more severe. As cargo handling revenue has high operating leverage, PATMI was down 7.6% YoY.
- **Indian revenue remains subdued.** Indian revenue was down 10.5% YoY in 2QFY20 as the vacant slots leftover from Jet Airways have yet to be filled up. Management mentioned that it would take a few quarters before all the slots are filled. That said, the vacant slots on the Singapore side have been completely filled up by other airlines such as Vistara and Indigo Airlines.

18 November 2019

Accumulate (Maintained)

LAST CLOSE PRICE	S$ 5.05
FORECAST DIV	S$ 0.170
TARGET PRICE	S$ 5.36
TOTAL RETURN	**9.5%**

COMPANY DATA

BLOOMBERG CODE:	SATS SP
O/S SHARES (MN) :	1,114
MARKET CAP (US$ mn / S$ mn) :	4116 / 5661
52 - WK HI/LO (SGD) :	5.5 / 4.55
3M Average Daily T/O (mn) :	1.58

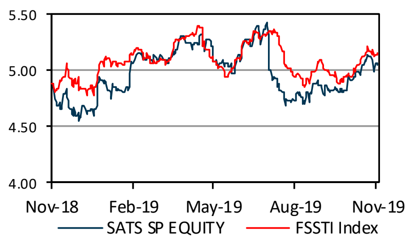
MAJOR SHAREHOLDER (%)

TEMASEK HOLDINGS PTE LTD	41.83
BLACKROCK INC	5.01

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(0.6)	3.2	0.7
STI RETURN	(1.6)	1.4	(4.8)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar	FY17	FY18	FY19e	FY20e
Revenue (S$ mn)	#####	#####	#####	#####
PATMI, adj. (S$ mn)	234	236	241	264
EPS, adj. (cents)	21.1	21.1	21.6	23.6
P/E, adj. (x)	23.2	24.3	23.3	21.4
BVPS (cents)	150	157	162	170
P/B (x)	3.2	3.3	3.1	3.0
DPS (cents)	17.0	18.0	17.0	18.0
Div. Yield (%)	3.5	3.5	3.4	3.6

Source: Company Data, PSR est.

VALUATION METHOD

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

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Outlook

Passenger traffic growth is likely to drive volume growth for Gateway Services revenue. However, we do not expect a significant pickup in cargo volumes in the near term. Due to the strong operating leverage of cargo revenue, the bottom line for SATS would be affected in the near term.

However, we expect volume growth to offset cargo revenue as SATS pursue growth opportunities in China via acquisitions and joint ventures. Investments in the central kitchen would improve SATS' non-aviation food services revenue by fulfilling demand for fast-casual restaurant chains in key cities. Acquisitions in NWA and joint ventures at Daxing International Airport will expand SATS presence in China.

The focus on digitalisation of its supply chain via COSYS+ and the partnership between SATS and DHL will improve efficiency and productivity to cope with pricing pressures for food.

Maintain ACCUMULATE; Lower target price of $5.36

We like the stock for its regional expansion story and growth initiatives. The strong cash flow generation will help sustain the 3.4% dividend yield. We maintained **ACCUMULATE** with a lower target price of $5.36 due to slower cargo business. Our target price gives an implied FY19e forward P/E multiple of 23.3 times.

Financials

Income Statement

Y/E Mar, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Revenue	**1,698**	**1,729**	**1,725**	**1,828**	**1,869**
EBITDA	**285**	**304**	**305**	**332**	**352**
Depreciation & Amortisation	(70)	(74)	(79)	(82)	(83)
EBIT	**215**	**231**	**226**	**250**	**269**
Net Finance (Expense)/Inc	2.4	3.4	3.3	2.5	2.6
Other items	2.2	9.9	20.7	(1.5)	(0.4)
Associates & JVs	48	65	71	59	64
Exceptional items	(2.1)	-	-	-	-
Profit Before Tax	**265**	**309**	**322**	**310**	**335**
Taxation	(47)	(48)	(56)	(52)	(60)
Profit After Tax	**218**	**261**	**266**	**259**	**275**
- Non-controlling interest	(2.2)	2.9	4.0	10.3	11.0
PATMI, reported	**221**	**258**	**262**	**248**	**264**
Underlying net profit	**218**	**234**	**236**	**241**	**264**

Per share data (cents)

Y/E Mar	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	19.9	23.2	23.4	22.3	23.6
EPS, adj.	19.7	21.1	21.1	21.6	23.6
DPS	15.0	17.0	18.0	17.0	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	310	335
Adjustments	28	5	1	20	17
WC changes	17	38	(25)	12	(6)
Cash generated from ops	310	352	298	342	346
Others	(37)	(43)	(53)	(52)	(61)
Cashflow from ops	**273**	**309**	**246**	**290**	**285**
CFI					
CAPEX, net	(49)	(86)	(98)	(85)	(85)
Divd from associates & JVs	34	42	25	39	41
Others	(41)	(75)	(109)	(37)	(37)
Cashflow from investments	**(56)**	**(120)**	**(182)**	**(83)**	**(80)**
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)	(190)
Others	0.5	8.7	8.8	-	-
Cashflow from financing	**(157)**	**(173)**	**(197)**	**(211)**	**(200)**
Net change in cash	**60**	**17**	**(134)**	**(4)**	**5**
Effects of exchange rates	0.6	2.0	(1.6)	-	-
CCE, end	**490**	**508**	**373**	**369**	**374**

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	910	972
Others	50	56	47	47	47
Total non-current assets	**1,276**	**1,423**	**1,613**	**1,677**	**1,741**
Inventories	22	22	23	23	24
Accounts Receivables	277	271	299	302	316
Cash	490	506	373	369	374
Others	22	40	25	26	25
Total current assets	**811**	**839**	**719**	**720**	**740**
Total Assets	**2,087**	**2,262**	**2,332**	**2,397**	**2,481**
LIABILITIES					
Short term loans	110	10	10	10	10
Accounts Payables	309	331	332	351	359
Others	51	69	61	61	61
Total current liabilities	**470**	**410**	**403**	**422**	**430**
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**	**591**	**589**
EQUITY					
Non-controlling interest	74	88	133	143	154
Shareholder Equity	**1,472**	**1,586**	**1,618**	**1,664**	**1,738**

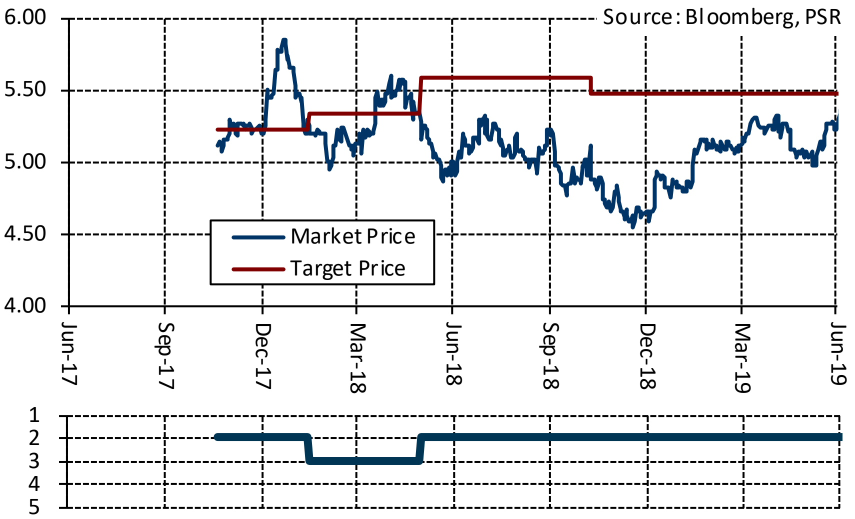
Valuation Ratios

Y/E Mar	FY16	FY17	FY18	FY19e	FY20e
P/E (x), adj.	20.1	23.2	24.3	23.3	21.4
P/B (x)	2.8	3.2	3.3	3.1	3.0
EV/EBITDA (x), adj.	14.0	16.6	17.9	16.2	15.2
Dividend Yield (%)	3.8%	3.5%	3.5%	3.4%	3.6%
Growth & Margins (%)					
Growth					
Revenue	-3.1%	1.8%	-0.3%	6.0%	2.2%
EBITDA	15.8%	6.7%	0.3%	8.9%	6.2%
EBIT	20.6%	7.4%	-1.8%	10.3%	7.7%
Net Income, adj.	11.4%	7.4%	0.8%	2.2%	9.3%
Margins					
EBITDA margin	16.8%	17.6%	17.7%	18.2%	18.9%
EBIT margin	12.6%	13.3%	13.1%	13.7%	14.4%
Net Profit Margin	12.8%	13.5%	13.7%	13.2%	14.1%
Key Ratios					
ROE (%)	15.1%	15.3%	14.7%	14.7%	15.5%
ROA (%)	10.7%	10.8%	10.3%	10.2%	10.8%
Net Debt or (Net Cash)	(379)	(397)	(267)	(273)	(288)
Net Gearing (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company, Phillip Securities Research (Singapore) Estimates

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

Ratings History



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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