

SATS Ltd

Eyes set on growth abroad



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SINGAPORE | TRANSPORT SERVICES | FY19 RESULTS

- FY19 net income was in line with our expectations.
- Food Solutions and Gateway Services revenue grew 4.4% and 7.9% YoY, with growth showing in both Aviation (+11.7%) and Non-Aviation (+8.8%) industries.
- Deepening presence in China through accretive acquisitions
- Food and cargo volumes at Brahims and PT CAS remain flat.
- Maintain ACCUMULATE; unchanged target price of \$5.47.

Results at a glance

(SGD mn)	4Q19	4Q18	YoY	FY19	FY18	YoY	Comments
Food Solutions	245	228	7.5%	988	947	4.4%	Due to growth across all core catering subsidiaries
Gateway Services	225	195	15.7%	838	777	7.9%	4Q19 grew +15.7% due to increased contributions from Marina Bay Cruise Centre SG, S\$21.3mn was attributed to the consolidation of Ground Team Red (GTR) in 4Q19 (prev JV)
Corporate	0.8	0.5	60.0%	2.0	1.5	33.3%	
Revenue	472	424	11.3%	1828	1725	6.0%	4Q19 revenue +11.3%, 44.3% of increase is attributed to the consolidation of GTR (prev JV), without which revenue grew 6.3%
EBIT	51	46	10.2%	247	226	9.1%	Compression of EBIT margin due to increase in costs, largely driven by volume and revenue growth and consolidation of GTR, lower employment credits, higher fuel costs, IT expenses and professional fees relating to new projects. EBIT grew S\$1.9mn due to consolidation of GTR.
Associates/JVs	9	24	-62.9%	59	71	-17.3%	Revenue from associates/JVs fell 62.9% due to lower contributions from both Gateway Services and Food Solutions. Excluding a S\$3.3mn provision for doubtful debts and write-back of S\$1.2mn tax provisions in relation to non-taxable gains of S\$5.8mn recognised in 3Q19 on disposal of DFASS-SATS, profit from JV/associates would be S\$11mn.
PATMI	50	65	-23.7%	248	262	-5.0%	
Underlying PATMI	49	52	-5.4%	241	236	2.2%	

Source: Company, PSR

The Positives

- Food Solutions and Gateway Services revenue grew 4.4% and 7.9% YoY with growth showing in both Aviation (+11.7%) and Non-Aviation (+8.8%) industries.** Higher food revenue due to increased meal volumes across all core catering subsidiaries while Changi Airport Terminal 4 operations and cruise terminal operations at Marina Bay Cruise Centre Singapore (MBCCS) increased gateway services revenue.
- Deepening presence in China through accretive acquisitions.** Acquisition of 50% stake in Nanjing Weizhou Airline Food Corp (NWA) for S\$31.2mn. Located in Jiangsu Province near Shanghai, NWA operates on the same strategy as STAS, using central kitchen to supplement flight kitchens. NWA has a network of 12 cold storage facilities/distribution channels; enabling it to serve 80 airports domestically. Using our FY20e P/E assumption of 24x, the deal could add c.S\$1.3mn to SATS' bottom line.

21 May 2019

Accumulate (Maintained)

LAST CLOSE PRICE	SGD 5.08
FORECAST DIV	SGD 0.160
TARGET PRICE	SGD 5.47
TOTAL RETURN	10.8%

COMPANY DATA

BLOOMBERG CODE:	SATS:SP
O/S SHARES (Mn)	1,114
MARKET CAP (USD mn) / (SGD mn)	4116 / 5661
52 WK HI / LO (SGD)	5.57 / 4.55
3M Average Daily / OI (mn)	1.58

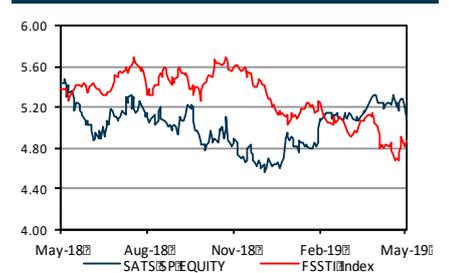
MAJOR SHAREHOLDER (%)

TEMASEK HOLDINGS PTE LTD	41.83
BLACKROCK INC	18.01

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	FY18	FY19	FY20e	FY21e
Revenue (SGD mn)	1725	1828	1932	2042
PATMI (adj) (SGD mn)	236	241	236	256
EPS (adj) (cents)	21.1	22.2	21.1	23.0
P/E (adj) (x)	24.3	23.0	24.0	22.1
BVPS (cents)	156.9	161.3	164.3	172.0
P/B (x)	3.3	3.2	3.1	3.0
DPS (cents)	18.0	19.0	16.0	17.0
Div. Yield (%)	3.5	3.7	3.1	3.3

Source: Company Data, PSR est.

VALUATION METHOD

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

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The Negatives

- **Food and cargo volumes at Brahims and PT Cas remain flat.** Cargo volumes were dampened by the ongoing trade tensions. Management commented that they have managed to pass on most of the concession and price increases and rationalisation efforts have yielded improvements in efficiency.

Outlook

The outlook is positive. Passenger traffic growth is expected to drive volume growth while digitalisation efforts will provide efficiency and productivity gains to cope with pricing pressure from airlines. Renewal of contract with SIA on 5+5 years terms covers the majority of the revenues from SIA and will provide more certainty of margins and pricings moving forward.

SATS' continues to pursue growth opportunities in China. Investments in the central kitchen allow them to fulfil the demand from fast casual restaurant chains in key cities while supplementing shortfalls in-flight kitchen. The expectation of volume growth is driven by aviation demand and demand for quality food.

Potential risk factors include challenges arising from trade tensions impacting cargo volumes and airline pressure from fuel costs.

Maintain Accumulate; unchanged target price of \$5.47

We like the stock for its regional expansion story and growth initiatives. The strong cash flow generating business makes the 3.1% dividend yield sustainable. Our target price gives an implied FY19e forward P/E multiple of 24.0 times.

Financials

Income Statement

Y/E Mar, SGD Mn	FY17	FY18	FY19	FY20e	FY21e
Revenue	1,729	1,725	1,828	1,932	2,042
EBITDA	804	805	832	834	853
Depreciation & Amortisation	(74)	(79)	(85)	(91)	(94)
EBIT	31	26	47	43	59
Net Finance (Expense)/Inc	4	3	3	7	4
Other Items	9	0.7	(1.5)		
Associates & IVs	5	1	9	1	6
Exceptional Items					
Profit Before Tax	809	822	808	896	918
Taxation	(48)	(56)	(52)	(52)	(52)
Profit After Tax	261	266	256	245	266
- Non-controlling Interest	9	0	8	0	8
PATMI, Reported	258	262	248	236	256
Underlying Net Profit	234	236	241	236	256

Per Share Data (cents)

Y/E Mar	FY17	FY18	FY19	FY20e	FY21e
EPS, Reported	3.2	3.4	2.3	1.1	3.0
EPS, Adj.	1.1	1.1	2.2	1.1	3.0
DPS	7.0	8.0	9.0	6.0	7.0
BVPS	50	57	61	64	72

Cash Flow

Y/E Mar, SGD Mn	FY17	FY18	FY19	FY20e	FY21e
CFO					
PBT	809	822	808	896	918
Adjustments					
WC changes	8	(25)			(6)
Cash generated from ops	52	98	44	41	48
Others	(43)	(53)	(49)	(52)	(53)
Cashflow from ops	809	846	896	889	995
CFI					
CAPEX, Net	(86)	(98)	(86)	(85)	(80)
Divd from associates & IVs	2	25	9	3	9
Others	(75)	(109)	(25)	(57)	(57)
Cashflow from investments	(120)	(182)	(72)	(109)	(98)
CFF					
Share issuance, Net	3	(13.4)	(28.0)		
Loans, Net of repayments	(6.7)	(0.6)	(0.0)	(0.0)	(0.0)
Dividends	(179)	(192)	(201)	(12)	(178)
Others	7	8	(6.0)		
Cashflow from financing	(173)	(197)	(245)	(222)	(188)
Net change in cash	7	(134)	(22)	(42)	
Effects of exchange rates	0	(1.6)	(1.8)		
CCE, End	308	173	150	108	117

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Mar, SGD Mn	FY17	FY18	FY19	FY20e	FY21e
ASSETS					
PPE	39	60	79	80	74
Intangibles	58	58	51	44	35
Associates & IVs	71	49	24	02	78
Others	6	7	5	5	5
Total Non-current Assets	423	613	698	770	833
Inventories	2	3	4	5	7
Accounts Receivables	71	99	101	26	40
Cash	06	73	50	08	17
Others	0	5	6	6	6
Total Current Assets	39	19	91	76	101
Total Assets	262	332	389	446	534
LIABILITIES					
Short-term loans	0	0	0	0	0
Accounts Payables	31	32	23	56	68
Others	9	1	7	7	7
Total Current Liabilities	10	33	39	23	35
Long-term loans	8	6	6	6	6
Others	0	3	6	6	6
Total Non-current Liabilities	78	79	92	92	92
Total Liabilities	88	82	91	15	17
EQUITY					
Non-controlling Interest	8	33	68	77	87
Shareholder Equity	586	618	630	654	730

Valuation Ratios

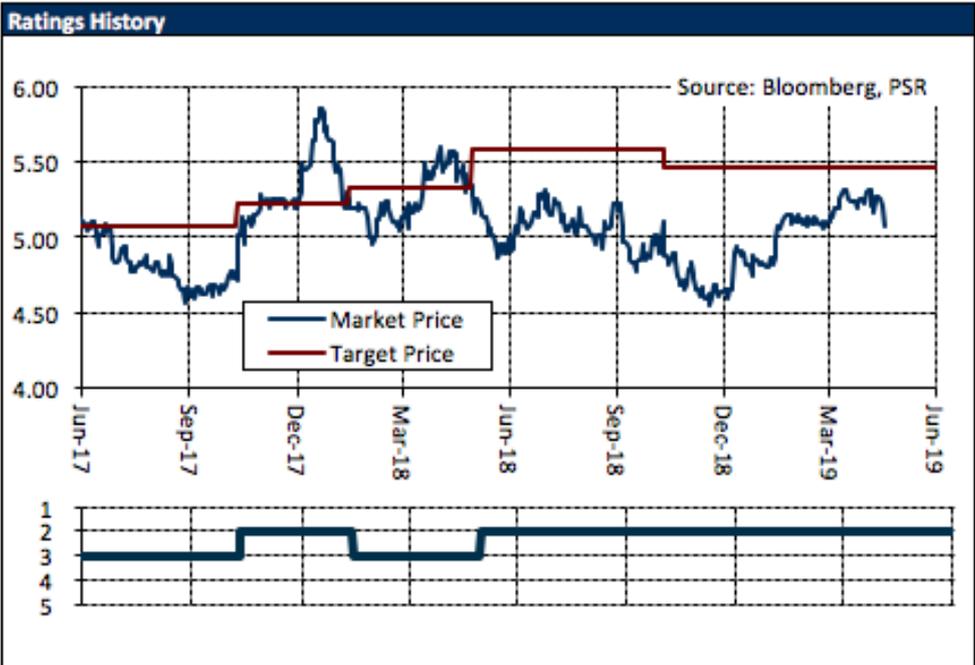
Y/E Mar	FY17	FY18	FY19	FY20e	FY21e
P/E(x), Adj.	23.2	24.3	23.0	24.0	22.1
P/B(x)	3.2	3.3	3.2	3.1	3.0
EV/EBITDA(x), Adj.	16.6	17.9	16.4	16.3	15.3
Dividend Yield	3.3%	3.5%	3.7%	3.1%	3.3%

Growth & Margins

	FY17	FY18	FY19	FY20e	FY21e
Growth					
Revenue	(9.0)	-0.3%	6.0%	5.7%	5.7%
EBITDA	23.5%	0.3%	8.9%	0.6%	5.8%
EBIT	29.6%	-1.8%	9.1%	-1.7%	6.7%
Net Income, Adj.	19.7%	0.8%	2.2%	-2.4%	8.6%
Margins					
EBITDA margin	17.6%	17.7%	18.2%	17.3%	17.3%
EBIT margin	13.3%	13.1%	13.5%	12.6%	12.7%
Net Profit Margin	13.5%	13.7%	13.2%	12.2%	12.5%

Key Ratios

	FY17	FY18	FY19	FY20e	FY21e
ROE	15.6%	14.7%	14.9%	14.4%	15.1%
ROA	11.0%	10.3%	10.2%	9.7%	10.3%
Net Debt to (Net) Cash	(97)	(267)	(254)	(222)	(241)
Net Gearing (x)	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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