SATS Ltd
Eyes set on growth abroad

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

<table>
<thead>
<tr>
<th>(SGD mn)</th>
<th>4Q19</th>
<th>4Q18</th>
<th>YoY</th>
<th>FY19</th>
<th>FY18</th>
<th>YoY</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food Solutions</td>
<td>245</td>
<td>228</td>
<td>7.5%</td>
<td>988</td>
<td>947</td>
<td>4.4%</td>
<td>Due to growth across all core catering subsidiaries</td>
</tr>
<tr>
<td>Gateway Services</td>
<td>226</td>
<td>195</td>
<td>15.7%</td>
<td>838</td>
<td>777</td>
<td>7.9%</td>
<td>4Q19 grew +5.7% due to increased contributions from Marina Bay Cruise Centre SG, $521.3mn was attributed to the consolidation of Ground Team Red (GTR) in 4Q19 (prev JV)</td>
</tr>
<tr>
<td>Corporate</td>
<td>0.8</td>
<td>0.5</td>
<td>60.0%</td>
<td>2.0</td>
<td>1.5</td>
<td>33.3%</td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>472</td>
<td>424</td>
<td>11.3%</td>
<td>1828</td>
<td>1725</td>
<td>6.0%</td>
<td></td>
</tr>
<tr>
<td>EBIT</td>
<td>51</td>
<td>46</td>
<td>10.2%</td>
<td>247</td>
<td>226</td>
<td>9.1%</td>
<td>Compression of EBIT margin due to Increase in costs, largely driven by volume and revenue growth and consolidation of GTR (prev JV)</td>
</tr>
<tr>
<td>Associates/JVs</td>
<td>9</td>
<td>24</td>
<td>-62.9%</td>
<td>59</td>
<td>71</td>
<td>-17.3%</td>
<td>Revenue from associates/JVs fell 62.9% due to lower contributions from both Gateway Services and Food Solutions. Excluding a $5.3mn provision for doubtful debts and write-back of $5.1mn tax provisions in relation to non-taxable gains of $5.8mn recognised in 3Q19 on disposal of DFASS-SATS, profit from JV/associates would be $11mn.</td>
</tr>
</tbody>
</table>

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 $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.
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

<table>
<thead>
<tr>
<th>Y/E Mar, SGD mn</th>
<th>FY17</th>
<th>FY18</th>
<th>FY19</th>
<th>FY20e</th>
<th>FY21e</th>
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</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>1,729</td>
<td>1,725</td>
<td>1,828</td>
<td>1,932</td>
<td>2,042</td>
</tr>
<tr>
<td>EBITDA</td>
<td>304</td>
<td>305</td>
<td>332</td>
<td>334</td>
<td>353</td>
</tr>
<tr>
<td>Depreciation &amp; Amortisation</td>
<td>(74)</td>
<td>(79)</td>
<td>(85)</td>
<td>(91)</td>
<td>(94)</td>
</tr>
<tr>
<td>EBIT</td>
<td>231</td>
<td>226</td>
<td>247</td>
<td>243</td>
<td>259</td>
</tr>
<tr>
<td>Net Finance (Expense)/Inc</td>
<td>3.4</td>
<td>3.3</td>
<td>3.3</td>
<td>2.7</td>
<td>2.4</td>
</tr>
<tr>
<td>Other items</td>
<td>9.9</td>
<td>20.7</td>
<td>1.5</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Associates &amp; JV</td>
<td>65</td>
<td>71</td>
<td>59</td>
<td>51</td>
<td>56</td>
</tr>
<tr>
<td>Exceptional items</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Profit Before Tax</td>
<td>309</td>
<td>322</td>
<td>308</td>
<td>296</td>
<td>318</td>
</tr>
<tr>
<td>Taxation</td>
<td>(48)</td>
<td>(56)</td>
<td>(52)</td>
<td>(52)</td>
<td>(52)</td>
</tr>
<tr>
<td>Profit After Tax</td>
<td>261</td>
<td>266</td>
<td>256</td>
<td>245</td>
<td>266</td>
</tr>
<tr>
<td>- Non-controlling interest</td>
<td>2.9</td>
<td>4.0</td>
<td>7.8</td>
<td>9.0</td>
<td>9.8</td>
</tr>
<tr>
<td>PATM, reported</td>
<td>258</td>
<td>262</td>
<td>248</td>
<td>236</td>
<td>256</td>
</tr>
<tr>
<td>Underlying net profit</td>
<td>234</td>
<td>236</td>
<td>241</td>
<td>236</td>
<td>256</td>
</tr>
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</table>

## Balance Sheet

<table>
<thead>
<tr>
<th>Y/E Mar, SGD mn</th>
<th>FY17</th>
<th>FY18</th>
<th>FY19</th>
<th>FY20e</th>
<th>FY21e</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASSETS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PPE</td>
<td>539</td>
<td>560</td>
<td>579</td>
<td>580</td>
<td>574</td>
</tr>
<tr>
<td>Intangible</td>
<td>158</td>
<td>158</td>
<td>351</td>
<td>344</td>
<td>335</td>
</tr>
<tr>
<td>Associates &amp; JV</td>
<td>671</td>
<td>849</td>
<td>724</td>
<td>802</td>
<td>878</td>
</tr>
<tr>
<td>Others</td>
<td>56</td>
<td>47</td>
<td>45</td>
<td>45</td>
<td>45</td>
</tr>
<tr>
<td>Total non-current assets</td>
<td>1,423</td>
<td>1,613</td>
<td>1,698</td>
<td>1,770</td>
<td>1,833</td>
</tr>
<tr>
<td>Inventories</td>
<td>22</td>
<td>23</td>
<td>24</td>
<td>25</td>
<td>27</td>
</tr>
<tr>
<td>Accounts Receivables</td>
<td>271</td>
<td>299</td>
<td>301</td>
<td>326</td>
<td>340</td>
</tr>
<tr>
<td>Cash</td>
<td>506</td>
<td>373</td>
<td>350</td>
<td>308</td>
<td>317</td>
</tr>
<tr>
<td>Others</td>
<td>40</td>
<td>25</td>
<td>16</td>
<td>16</td>
<td>16</td>
</tr>
<tr>
<td>Total current assets</td>
<td>839</td>
<td>719</td>
<td>691</td>
<td>676</td>
<td>701</td>
</tr>
<tr>
<td>Total Assets</td>
<td>2,262</td>
<td>2,332</td>
<td>2,389</td>
<td>2,446</td>
<td>2,534</td>
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## Valuation Ratios

<table>
<thead>
<tr>
<th>Y/E Mar</th>
<th>FY17</th>
<th>FY18</th>
<th>FY19</th>
<th>FY20e</th>
<th>FY21e</th>
</tr>
</thead>
<tbody>
<tr>
<td>P/E (x)</td>
<td>23.2</td>
<td>24.3</td>
<td>23.0</td>
<td>24.0</td>
<td>22.1</td>
</tr>
<tr>
<td>P/B (x)</td>
<td>3.2</td>
<td>3.3</td>
<td>3.2</td>
<td>3.1</td>
<td>3.0</td>
</tr>
<tr>
<td>EV/EBITDA (x)</td>
<td>16.6</td>
<td>17.9</td>
<td>16.4</td>
<td>16.3</td>
<td>15.3</td>
</tr>
<tr>
<td>Dividend Yield</td>
<td>3.3%</td>
<td>3.5%</td>
<td>3.7%</td>
<td>3.1%</td>
<td>3.3%</td>
</tr>
</tbody>
</table>

## Cash Flow

<table>
<thead>
<tr>
<th>Y/E Mar, SGD mn</th>
<th>FY17</th>
<th>FY18</th>
<th>FY19</th>
<th>FY20e</th>
<th>FY21e</th>
</tr>
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<tbody>
<tr>
<td>CFO</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PBT</td>
<td>309</td>
<td>322</td>
<td>308</td>
<td>296</td>
<td>318</td>
</tr>
<tr>
<td>Adjustments</td>
<td>5</td>
<td>1</td>
<td>29</td>
<td>38</td>
<td>36</td>
</tr>
<tr>
<td>WC changes</td>
<td>38</td>
<td>(25)</td>
<td>8</td>
<td>7</td>
<td>(6)</td>
</tr>
<tr>
<td>Cash generated from ops</td>
<td>352</td>
<td>298</td>
<td>344</td>
<td>341</td>
<td>348</td>
</tr>
<tr>
<td>Others</td>
<td>(43)</td>
<td>(53)</td>
<td>(49)</td>
<td>(52)</td>
<td>(53)</td>
</tr>
<tr>
<td>Cashflow from ops</td>
<td>309</td>
<td>246</td>
<td>296</td>
<td>289</td>
<td>295</td>
</tr>
</tbody>
</table>

## Per share data (cents)

<table>
<thead>
<tr>
<th>Y/E Mar</th>
<th>FY17</th>
<th>FY18</th>
<th>FY19</th>
<th>FY20e</th>
<th>FY21e</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS, reported</td>
<td>23.2</td>
<td>23.4</td>
<td>22.3</td>
<td>21.1</td>
<td>23.0</td>
</tr>
<tr>
<td>EPS, adj.</td>
<td>21.1</td>
<td>21.1</td>
<td>21.2</td>
<td>21.1</td>
<td>23.0</td>
</tr>
<tr>
<td>DPS</td>
<td>17.0</td>
<td>18.0</td>
<td>19.0</td>
<td>16.0</td>
<td>17.0</td>
</tr>
<tr>
<td>BVPS</td>
<td>150</td>
<td>157</td>
<td>161</td>
<td>164</td>
<td>172</td>
</tr>
</tbody>
</table>

## EQUITY

| Non-controlling interest | 88    |
| Shareholder Equity       | 1,586 |

Source: Company, Phillip Securities Research (Singapore) Estimates
**Ratings History**

Source: Bloomberg, PSR

**PSR Rating System**

<table>
<thead>
<tr>
<th>Total Returns</th>
<th>Recommendation</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; +20%</td>
<td>Buy</td>
<td>1</td>
</tr>
<tr>
<td>+5% to +20%</td>
<td>Accumulate</td>
<td>2</td>
</tr>
<tr>
<td>-5% to +5%</td>
<td>Neutral</td>
<td>3</td>
</tr>
<tr>
<td>-5% to -20%</td>
<td>Reduce</td>
<td>4</td>
</tr>
<tr>
<td>&lt; -20%</td>
<td>Sell</td>
<td>5</td>
</tr>
</tbody>
</table>

**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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