

SATS LTD

Across the board tailwind



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SINGAPORE | TRANSPORT SERVICE | UPDATE

5 September 2024

- SATS has successfully repriced the contract of one of its major customers, SIA, which accounted for 17.3% of FY24 revenue. The new contract took effect in 2Q25, and we expect at least a 5% rise, generating around S\$45mn revenue. An additional S\$6mn to S\$9mn in revenue expected from the new cargo handling fee for inbound air cargo into Singapore, effective August 2024. Expect repricing to have direct benefit to earnings.
- SATS is fully capitalizing on the recovery tailwind of the airline industry and the spillover effects from the Red Sea conflicts. Cargo volume increased by 19% YoY in 1Q25, and while we expect some moderation from 2Q25 onwards, this should be partially offset by the new revenue source from partnerships in Europe, such as with SF Holding and additional warehouse in Spain. We expect that SATS will continue to outperform the industry average growth rate in FY25, with volume expected to increase by c.15% YoY.
- Upgrade to BUY with a higher DCF-TP of S\$4.37 (prev: S\$3.45). We have lowered our WACC assumption by 10% to 8.4%, driven by the improving operating leverage and reduced customer risk from the integration of WFS. There is no change to our earnings forecast.

Revenue drivers

1) Contracts repricing and increasing cargo volume. SIA contributed S\$892.9mn, accounting for 17.3% of total revenue in FY24 (Figure 1). Although this represents a lower contribution compared to 39.9% in FY23, SIA remains a crucial customer. Effective from 1st Apr24, the new contract will span the next five years. We expect at least a 5% price escalation (in-line with CPI indexation), potentially improving SATS's revenue by S\$45mn with higher margins. Additionally, SATS views contract repricing as a continuous and progressive process, with different contracts subject to varying repricing terms and tenures. We believe that the majority of contracts will be indexation-linked, and with inflation being a global issue, more repricing opportunities may arise in FY25. On the other hand, the cargo handling subsector was the key driver of the gateway services segment's performance, underpinned by a 17.2% YoY revenue growth driven by a 19.0%YoY increase in air cargo volume. We expect air cargo handling to be the primary revenue catalyst in FY25e. While we foresee cargo volumes to moderate from current highs due to elevated cargo rates, we believe SATS will still outperform the industry average forecast of c.5% volume growth. We project a growth rate of around 15% on a full-year basis. The outlook is supported by new partnerships such as SF Holding and the introduction of additional warehouses, such as Spain, designed to cater to e-commerce demand from companies like Shein. These developments are expected to provide an additional revenue source. Meanwhile, SATS is insulated from potential fluctuations in air cargo rates, as the company charges based on the cargo activities handled.

2) New cargo handling fee. Effective 1 August 24, SATS has introduced a new cargo handling fee for consignees on inbound air cargo into Singapore. We expect this will generate an additional S\$6mn to S\$9mn in annual revenue, directly contributing to EBIT without incurring additional cost. We do not expect the new pricing arrangement to impact future contract wins, as SIA's rates remain lower than those of its competitors.

BUY (Upgraded)

LAST CLOSE PRICE	SGD 3.62
FORECAST DIV	SGD 0.01
TARGET PRICE	SGD 4.37
TOTAL RETURN	21.1%

COMPANY DATA

BLOOMBERG CODE:	SATS SP
O/S SHARES (MN):	1,495
MARKET CAP (USD mn / SGD mn):	4135 / 5412
52 - WK HI/LO (SGD):	3.73 / 2.4
3M Average Daily T/O (mn):	5.87

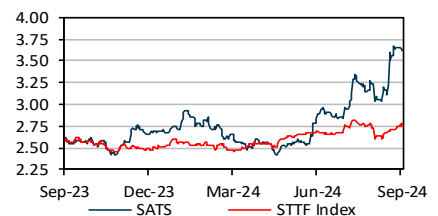
MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS	39.7%
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PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	13.0	32.3	42.0
STTF RETURN	4.1	6.0	13.1

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar (\$, 'mn)	FY23	FY24	FY25e	FY26e
Revenue	1,758	5,150	5,573	5,948
Gross Profit	77	128	781	1,015
EBIT	(43)	(48)	244	442
Net income	(27)	56	243	310
EPS	-	5.3	16.3	20.8
P/E (x)	-	67.4	21.8	17.1
ROE (%)	-1.0%	2.1%	8.6%	10.9%

Source: Company, PSR

VALUATION METHOD

DCF (WACC: 8.4%)

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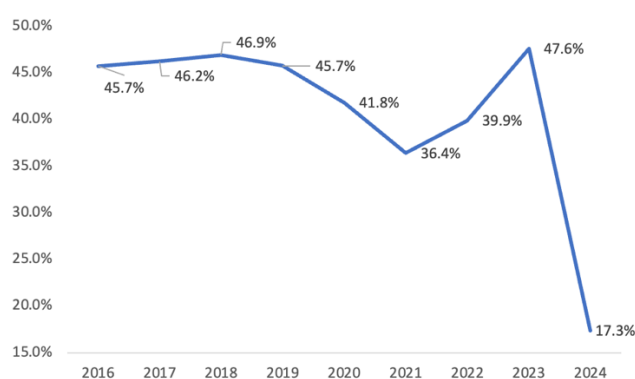
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3) Operating leverage improves. SATS has demonstrated improved cost management and operating leverage, following an initial aggressive expansion post pandemic. -Markets like China and Japan took longer than expected to recover, leading to a 38% YoY decline in contribution per employee to S\$54k in FY23, SATS has improved its revenue generation per employee following the acquisition of WFS. Revenue per employee has nearly doubled to S\$104k in FY24 (Figure 2). We believe that revenue growth will continue to outpace cost growth, allowing SATS to benefit from economies of scale.

Upgrade to BUY with an increased TP of S\$4.37 (pre: S\$3.45)

Due to the successful integration of WFS, we have reduced our WACC assumption by 10% to 8.4%. SATS has achieved 51% of its 5-year EBITDA target through interest savings and new contract wins. With all segments showing positive momentum from the airline industry's recovery and benefiting from favorable operating leverage, we anticipate a strong performance from SATS in 2Q25.

Figure 1: Revenue contribution from SIA as a percentage of total revenue



Source: Company, Phillip Securities Research

Figure 2: Revenue per employee has improved since the integration of WFS and return of traffic in FY24.

	2018	2019	2020	2021	2022	2023	2024
Staff costs	833.3	874.0	879.5	382.3	550.6	891.8	2,939.3
(% YoY)			0.6%	-56.5%	44.0%	62.0%	229.6%
Average headcount		14,306	17,155	12,977	11,345	15,691	49,218
Revenue per employee		116,207	128,846	79,763	87,054	54,177	104,056
Cost as a percentage of revenue		47.8%	45.3%	39.4%	46.8%	50.7%	57.1%

Source: Company, Phillip Securities Research

Financials

Income Statement

Y/E Mar, (\$'mn)	FY22	FY23	FY24	FY25e	FY26e
Revenue	1,177	1,758	5,150	5,573	5,948
Opex	1,100	1,631	4,369	4,558	4,911
EBITDA	77	128	781	1,015	1,036
EBIT	(43)	(48)	244	442	529
Interest exp	(17)	(19)	(258)	(184)	(175)
JV	17	45	110	140	140
Other income	12	(33)	(1)	(23)	(23)
Profit before tax	(27)	(44)	116	401	495
Net Profit	20	(27)	56	243	310
Adjusted net profit	(23)	(51)	79	243	310

Per share data (\$\$ cents)

Y/E Mar	FY22	FY23	FY24	FY25e	FY26e
BVPS	1.5	2.1	1.7	1.8	2.0
DPS	-	-	1.5	6.5	8.3
EPS	(1.9)	(4.3)	5.3	16.3	20.8

Cash Flow

Y/E Mar, (\$'mn)	FY22	FY23	FY24	FY25e	FY26e
CFO					
Net income	(23)	(51)	79	243	310
WC changes	50	(14)	198	(281)	(170)
Other items	(155)	(1,765)	955	-	-
Cash generated from ops	70	(1,705)	1,771	560	678
CFI					
CAPEX, net	(78)	(119)	(186)	(300)	(325)
Associates	124	10	(340)	-	-
Cashflow from investments	31	(1,832)	68	(300)	(325)
CFF					
Change in short term debt	(16)	(89)	1,301	(66)	(66)
Change in long term debt	(19)	730	1,313	(134)	(134)
Interest paid	-	-	(22)	(97)	(124)
Cashflow from financing	(36)	1,426	2,600	(297)	(324)
Net change in cash	66	(2,110)	4,439	(37)	30
Cash at the start of the period	880	786	374	659	622
Ending cash	945	(1,324)	4,813	622	651

*nm - not meaningful

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Mar, (\$'mn)	FY22	FY23	FY24	FY25e	FY26e
ASSETS					
PPE & Investment Properties	590	579	796	881	1,056
Intangibles	553	527	3,511	3,154	2,796
Investments in associates & JV	454	444	784	784	784
Other Long Term Assets	385	386	1,439	1,439	1,439
Total non-current assets	1,996	1,951	6,530	6,258	6,075
Cash and cash equivalents	786	374	659	622	651
Inventories	83	69	73	155	247
Trade and other receivables	388	481	1,138	1,527	1,792
Others	39	1,799	79	79	79
Total current assets	1,296	2,723	1,950	2,383	2,770
Total Assets	3,292	4,674	8,480	8,641	8,846
LIABILITIES					
Trade and other payables	458	522	1,382	1,572	1,760
ST borrowings	143	54	1,355	1,289	1,223
Others	30	30	53	53	53
Total current liabilities	631	606	2,791	2,915	3,036
LT borrowings	695	1,424	2,737	2,603	2,469
Others	133	128	393	393	393
Total non-current liabilities	828	1,553	3,130	2,996	2,862
Total liabilities	1,459	2,159	5,921	5,910	5,898
EQUITY					
Share Capital	368	1,154	1,162	1,162	1,162
Reserves	1,235	1,180	1,213	1,359	1,545
Minority interest	231	181	185	210	241
Total equity	1,834	2,515	2,560	2,731	2,948
Total equity and liabilities	3,292	4,674	8,480	8,641	8,846

Valuation Ratios

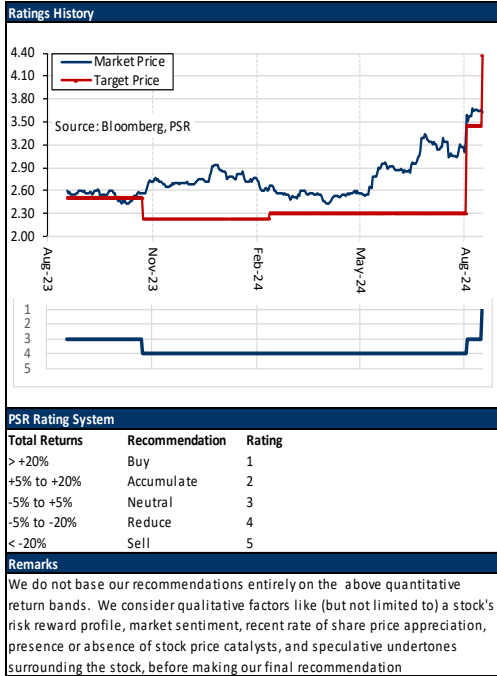
Y/E Mar	FY22	FY23	FY24	FY25e	FY26e
P/E (x)	-	-	67.4	21.8	17.1
P/B (x)	229.5	168.4	206.3	193.8	179.5
EV/EBITDA (x)	84.5	51.0	8.3	6.4	6.3
Dividend yield (%)	0.0%	0.0%	0.4%	1.8%	2.3%

Growth & Margins (%)

Growth					
Revenue		49.4%	192.9%	8.2%	6.7%
EBITDA		65.8%	510.8%	30.0%	2.1%
EBIT		-12.7%	608.7%	81.1%	19.6%
PBT		-229.9%	-312.8%	331.6%	27.5%
Margins					
Gross profit margin	93.4%	92.7%	84.8%	81.8%	82.6%
EBIT margin	-2.4%	-0.9%	4.4%	7.4%	8.4%
Net profit margin	1.7%	-1.5%	1.1%	4.4%	5.2%

Key Ratios

ROE	0.9%	-1.0%	2.1%	8.6%	10.9%
ROA	0.5%	-0.4%	0.7%	2.8%	3.6%
Net Gearing (%)	25.5%	31.6%	48.3%	45.0%	41.7%



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