

SATS LTD

Volume and prices drive earnings



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SINGAPORE | TRANSPORT SERVICE | 1H25 RESULT

- 1H25 revenue climbed 14.8% YoY to S\$2.8bn which was in line with our estimates at 51% of our FY25e forecast. Revenue growth was driven by air cargo volume increasing by 17.5%YoY, meals served rising 26.1% YoY in 1H25 and a series of contract repricings, including with key margin customer SIA.
- PATMI reversed from loss of S\$7.8mn in 1H24 to S\$134.7mn profit in 1H25 which exceeded our estimates and reached 54% of our full-year forecast. Core PATMI excluding S\$22.9mn foreign exchange losses would be S\$157.6mn which is 65% of our FY25e estimates. The strong operational performance was driven by higher business volumes and, contribution from JVs (+ 47.1%YoY to S\$65.3mn).
- We have raised our FY25e PATMI forecast by 9% on the back of the lower effective tax rate and higher contribution from JVs. We reiterate our BUY recommendation with a higher DCF-TP of S\$4.62 (prev: S\$4.37). Recovery in volumes will drive up earnings from operating and financial leverage. SATS declared interim dividend of 1.5 cents per share which implies payout ratio of 16.7%. SATS currently trading at 21x/18x FY25e/FY26e PE and our TP indicates 22x FY26e PE.

Result at a glance

| (\$ mn) | 1H25 | 1H24 | YoY (%) | Comments |
|------------------|---------|---------|---------|---|
| Revenue | 2,821.1 | 2,457.8 | 14.8% | Higher business volume and rate |
| EBITDA | 514.8 | 347.8 | 48.0% | |
| Operating profit | 240.1 | 72.0 | 233.5% | Revenue growth outpaced cost |
| SoAJV | 65.3 | 44.4 | 47.1% | Travel recovery and higher cargo volume |
| PATMI | 134.7 | (7.8) | n.m. | Higher volumes of business handled |

Source: Company, PSR

The Positives

+ Continues airline recovery tailwind. Gateway services revenue rose by 11.1%YoY to S\$2.2bn, primarily driven by a 15.7% increase in cargo tonnage across all regions, surpassing the Global Cargo Tonne-Kilometers (CTK) growth of 11.4% YoY. Routes to the Americas and Europe continue to fuel traffic growth, benefiting from strong e-commerce demand and ongoing capacity constraints in ocean shipping. SATS remains confident that e-commerce volumes, as a proportion of total air cargo, will continue to grow and serve as a key revenue catalyst for the FY25e. We expect e-commerce to account for c.20% of the air cargo volume by year-end. We anticipate air cargo volumes to maintain its momentum in the 2H25 due to the prolonged Red Sea conflict and pre-emptive inventory loading ahead of potential China-US tariffs, especially as North America contributes approximately 30% of the group's revenue. However, the growth pace is likely to be slower compared to the 1H25 due to a higher base effect in the 1H24.

+ Improving margin. PATMI margin continued its sequential growth, improving by 5.1 ppt, driven by operating leverage and increased business volume in 1H25 (Air cargo +17.5% YoY, Flights handled +5.5% YoY, Aviation meals +26.1% YoY). SATS has been scaling its operations to leverage economies of scale, such as expanding food production capacity to 108k meals per day (from 80k in Phase 1). Although the number of employees increased by 7.6% YoY to accommodate the surge in air demand in the United States, revenue per employee—an indicator of operating leverage—rose by c. 7% YoY. We believe SATS is on track to reach its PATMI margin target of 6% by year-end, which will also positively impact the group's free cash flow.

11 November 2024

BUY (Maintained)

| | |
|------------------|----------|
| LAST CLOSE PRICE | SGD 3.85 |
| FORECAST DIV | SGD 0.01 |
| TARGET PRICE | SGD 4.62 |
| TOTAL RETURN | 20.5% |

COMPANY DATA

| | |
|--------------------------------|-------------|
| BLOOMBERG CODE: | SATS SP |
| O/S SHARES (MN) : | 1,489 |
| MARKET CAP (USD mn / SGD mn) : | 4290 / 5672 |
| 52 - WK HI/LO (SGD) : | 4.08 / 2.4 |
| 3M Average Daily T/O (mn) : | 6.18 |

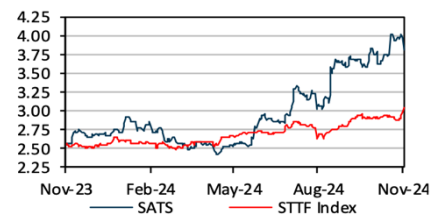
MAJOR SHAREHOLDERS (%)

| | |
|------------------|-------|
| TEMASEK HOLDINGS | 39.7% |
|------------------|-------|

TOTAL RETURN (%)

| | 1MTH | 3MTH | 1YR |
|-------------|------|------|------|
| COMPANY | 5.9 | 28.8 | 55.0 |
| STTF RETURN | 2.2 | 15.0 | 22.2 |

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 | 1,071 |
| EBIT | (43) | (48) | 244 | 498 |
| Net income | (27) | 56 | 272 | 320 |
| EPS | - | 5.3 | 18.1 | 21.3 |
| P/E (x) | - | 73.1 | 21.2 | 18.1 |
| ROE (%) | -1.0% | 2.1% | 9.6% | 11.3% |

Source: Company, PSR

VALUATION METHOD

Discounted cash flow

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The Negative

- Finance expense spike up.

Finance costs rose by 11% YoY to S\$133.6mn. However, SATS is actively working to reduce its debt burden. Total debt declined by 3.3% QoQ, amounting to a S\$132mn reduction and marking 66% progress toward its FY25 goal of cutting debt by S\$200mn. We expect free cash flow to improve by approximately S\$9mn upon successful debt reduction.

Outlook

We believe SATS is on track to achieve its FY25e targets of improving EBITDA margin to approximately 20% (1H25: 18.3%) and EBIT margin to c.10% (1H25: 8.8%). Management considers these targets achievable yet not overly conservative (1H25 adjusted EBIT margin: 9.3%) amid intensified industry competition.

Currently, SATS holds around 16% of the market share in the food solutions industry, and its partnership with Mitsui is expected to further drive revenue growth in the non-aviation meal sector. With this strong market leadership, SATS gains bargaining power to set higher rates, as food solutions consistently achieve better margins compared to other segments. Although demand for international flights in China has not yet returned to pre-COVID levels, domestic travel remains highly favoured by Chinese customers, driving a surge in domestic aviation meal volume. SATS also expects that demand growth for frozen fresh meat will continue to exceed supply, serving as a catalyst for PATMI growth in FY25e.

Despite an improvement of S\$142.1mn in free cash flow, 1H25 remains negative at S\$69.3mn. This is due to year-end bonus distributions and increased trade receivables, as SATS is currently finalizing a contract with one of its key customers. SATS is confident that FCF will turn positive from 3Q25 onwards.

During its Capital Markets Day, SATS set ambitious targets, including achieving S\$8bn in revenue, a 20% EBITDA margin, a 15% ROE, and a share of SoAJV profit of S\$150mn. For capital management, SATS aims to continue deleveraging, targeting a Gross Debt/EBITDA ratio below 3.5 and an operating cash flow exceeding S\$750mn. SATS also plans to enhance cost discipline, keeping maintenance costs under 3% of total revenue and capital expenditures for growth below 2% of total revenue, excluding mergers and acquisitions.

Maintain BUY with a higher TP of S\$4.62 (prev: S\$4.37)

We have increased our FY25e PATMI estimates by 9%, driven by the lower effective tax rate and higher contribution from JVs. Successful repricings, strengthened operating leverage, sustained recovery tailwind in the aviation industry and increasing fresh frozen meal demand will be the key share price catalyst. SATS currently trading at 21x/18x FY25e/FY26e PE and our TP indicates 20x FY26e PE.

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 | 4,502 | 4,899 |
| EBITDA | 77 | 128 | 781 | 1,071 | 1,048 |
| EBIT | (43) | (48) | 244 | 498 | 541 |
| Interest exp | (17) | (19) | (258) | (196) | (175) |
| JV | 17 | 45 | 110 | 140 | 140 |
| Other income | 12 | (33) | (1) | (23) | (23) |
| Profit before tax | (27) | (44) | 116 | 444 | 507 |
| Net Profit | 20 | (27) | 56 | 272 | 320 |
| Adjusted net profit | (23) | (51) | 79 | 272 | 320 |

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 | 8.2 | 10.7 |
| EPS | (1.9) | (4.3) | 5.3 | 18.1 | 21.3 |

Cash Flow

| Y/E Mar, (\$'mn) | FY22 | FY23 | FY24 | FY25e | FY26e |
|---------------------------------|-------|---------|-------|-------|-------|
| CFO | | | | | |
| Net income | (23) | (51) | 79 | 272 | 320 |
| WC changes | 50 | (14) | 198 | (281) | (170) |
| Other items | (155) | (1,765) | 955 | - | - |
| Cash generated from ops | 70 | (1,705) | 1,771 | 591 | 689 |
| 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) | (122) | (160) |
| Cashflow from financing | (36) | 1,426 | 2,600 | (322) | (360) |
| Net change in cash | 66 | (2,110) | 4,439 | (31) | 4 |
| Cash at the start of the period | 880 | 786 | 374 | 659 | 628 |
| Ending cash | 945 | (1,324) | 4,813 | 628 | 632 |

*nm - not meaningful

Balance Sheet

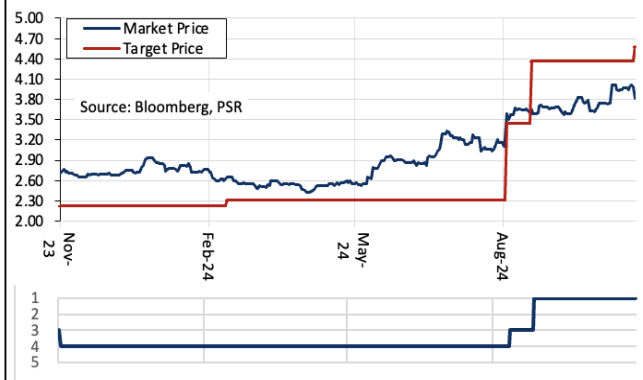
| Y/E Mar, (\$'mn) | FY22 | FY23 | FY24 | FY25e | FY26e |
|--------------------------------|-------|-------|-------|-------|-------|
| ASSETS | | | | | |
| PPE & Investment Properties | 590 | 579 | 796 | 881 | 1,056 |
| Intangibles | 553 | 527 | 3,511 | 3,154 | 2,796 |
| Investments in associates & JV | 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 | 628 | 632 |
| 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 | 2,390 | 2,751 |
| Total Assets | 3,292 | 4,674 | 8,480 | 8,647 | 8,827 |
| 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 | 1,363 | 1,523 |
| Minority interest | 231 | 181 | 185 | 212 | 244 |
| Total equity | 1,834 | 2,515 | 2,560 | 2,737 | 2,929 |
| Total equity and liabilities | 3,292 | 4,674 | 8,480 | 8,647 | 8,827 |

Valuation Ratios

| Y/E Mar | FY22 | FY23 | FY24 | FY25e | FY26e |
|---------------------------------|-------|---------|---------|--------|-------|
| P/E (x) | - | - | 73.1 | 21.2 | 18.1 |
| P/B (x) | 248.9 | 182.6 | 223.7 | 210.4 | 197.3 |
| EV/EBITDA (x) | 90.0 | 54.3 | 8.9 | 6.5 | 6.6 |
| Dividend yield (%) | 0.0% | 0.0% | 0.4% | 2.1% | 2.8% |
| Growth & Margins (%) | | | | | |
| Growth | | | | | |
| Revenue | | 49.4% | 192.9% | 8.2% | 6.7% |
| EBITDA | | 65.8% | 510.8% | 37.1% | -2.1% |
| EBIT | | -12.7% | 608.7% | 104.0% | 8.6% |
| PBT | | -229.9% | -312.8% | 382.0% | 17.8% |
| Margins | | | | | |
| Gross profit margin | 93.4% | 92.7% | 84.8% | 80.8% | 82.4% |
| EBIT margin | -2.4% | -0.9% | 4.4% | 8.4% | 8.6% |
| Net profit margin | 1.7% | -1.5% | 1.1% | 4.9% | 5.4% |
| Key Ratios | | | | | |
| ROE | 0.9% | -1.0% | 2.1% | 9.6% | 11.3% |
| ROA | 0.5% | -0.4% | 0.7% | 3.1% | 3.7% |
| Net Gearing (%) | 25.5% | 31.6% | 48.3% | 45.0% | 41.8% |

Source: Company, Phillip Securities Research (Singapore) Estimates

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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