

# SATS LTD

## Further funding clarity to reduce overhang

### SINGAPORE | TRANSPORT SERVICES | UPDATE

- SATS has provided more clarity on its funding structure for the Worldwide Flight Services (WFS) acquisition. We believe the added clarity will further reduce the overhang on the stock.
- With access to an acquisition bridge facility and the rights issue underwritten, we do not expect the discount for the rights to be steep.
- Downgrade to NEUTRAL from recent run-up in price with higher target price of \$3.08 (prev. \$3.02). Our valuation is still pegged to 18.5x FY24e. Risks to our view include 1) Integration challenges for WFS; and 2) revenue growth continuing to lag behind expenses growth.

#### The news

SATS provided more details on its funding plan for the proposed acquisition of WFS.

The \$700mn in term loan will comprise a 3-year Euro-denominated term loan with an all-in cost of 4-4.5% per annum based on prevailing Euribor.

The proposed rights issue is expected to be launched in 1Q23, subject to shareholders' approval of the proposed acquisition at an EGM.

#### The Positives

**+ Less concerned on discount of rights.** With access to an acquisition bridge facility and the rights issue underwritten, we do not expect the discount for the rights to be steep. SATS had previously obtained an acquisition bridge facility of up to €1,200 million (approximately S\$1,657mn) to fund and complete the proposed acquisition.

**+ \$700mn Euro term loan at 4-4.5% lower than our 5.5% forecast.** We view the term loan positively, as it provides a natural currency hedge, and is also lower than we previously modelled. We tweaked our model slightly, taking the mid-point of the Euro term loan at 4.25% to lower our FY24e interest cost by approximately ~\$7mn. The interest rates are also lower than the average 8-9% cost of debt currently borne by WFS.

#### Outlook

We are positive on the outlook for SATS. We see SATS as a prime beneficiary of the recovery in aviation travel. With the added clarity on its funding for WFS, we believe SATS will see a further re-rating. Post-consolidation of WFS, with gearing at ~58%, we believe SATS will embark on a deleveraging cycle of its balance sheet in order to be more aligned to its optimal capital structure of under 50%.

#### Downgrade to NEUTRAL from ACCUMULATE but with higher target price of \$3.08.

We downgrade to NEUTRAL from the recent run-up in price, which has moved it closer to our target price, but we move our target price higher to \$3.08 (prev. \$3.02) as we lower funding costs for WFS. We peg SATS to a PE of 18.5x FY24e, which is -1sd below its historical average. We view SATS as best in class with a defensive business model and superior growth profile due to its overseas expansion plans and the expansion of new concepts. We believe SATS is at an inflection point and model the Group reaching breakeven point by 2H23e. We expect the Group to resume the payout of dividends by FY24e as the Group reverses back into profitability.



7 December 2022

#### NEUTRAL (Downgraded)

LAST CLOSE PRICE	SGD 2.940
FORECAST DIV	SGD 0.000
TARGET PRICE	SGD 3.080
TOTAL RETURN	4.8%

#### COMPANY DATA

BLOOMBERG CODE:	SATS SP
O/S SHARES (MN) :	1,124
MARKET CAP (USD mn / SGD mn) :	2436 / 3305
52 - WK HI/LO (SGD) :	4.7 / 2.49
3M Average Daily T/O (mn) :	7.00

#### MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS	39.8%
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#### PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	6.4	(29.0)	(27.6)
STI RETURN	4.8	2.1	9.8

#### PRICE VS. STI



Source: Bloomberg, PSR

#### KEY FINANCIALS

V/E Mar (\$\$, 'mn)	FY21	FY22	FY23e	FY24e
Revenue	970	1,177	1,587	4,035
EBITDA	120	77	85	690
NPAT	(109)	4	(34)	245
Dividend yield	0.0%	0.0%	0.0%	0.7%
P/NAV (x)	1.9	1.8	1.3	1.5
P/E (x)	NA	163.3	NA	29.5
ROE (%)	-6.2%	0.2%	-1.5%	9.1%

Source: Company, PSR

#### VALUATION METHOD

SOTP valuation

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## Financials

### Income Statement

Y/E Dec, (\$'mn)	FY20	FY21	FY22	FY23e	FY24e
<b>Revenue</b>	<b>1,941</b>	<b>970</b>	<b>1,177</b>	<b>1,587</b>	<b>4,035</b>
Staff costs	(879)	(382)	(551)	(850)	(914)
Cost of raw materials	(346)	(270)	(311)	(358)	(411)
Others	(489)	(328)	(358)	(413)	(551)
WFS costs	-	-	-	-	(1,587)
<b>EBIT</b>	<b>226</b>	<b>(10)</b>	<b>(43)</b>	<b>(34)</b>	<b>571</b>
Net finance expenses	(4)	(16)	(14)	(35)	(60)
Share of results of associates	12	(48)	17	44	53
Others	(20)	(72)	12	(16)	-
<b>Profit before tax</b>	<b>214</b>	<b>(145)</b>	<b>(27)</b>	<b>(41)</b>	<b>564</b>
Taxation	(38)	36	31	7	(319)
<b>Net Profit</b>	<b>176</b>	<b>(109)</b>	<b>4</b>	<b>(34)</b>	<b>245</b>
<b>Core PATMI (ex.reliefs)</b>	<b>-</b>	<b>(266)</b>	<b>(141)</b>	<b>(54)</b>	<b>245</b>
<b>Profit attributable to owners</b>	<b>168</b>	<b>(79)</b>	<b>20</b>	<b>(33)</b>	<b>240</b>

### Per share data (\$)

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
BVPS	1.61	1.51	1.63	2.28	1.91
DPS	0.06	-	-	-	0.02
EPS	0.15	(0.07)	0.02	(0.03)	0.10

### Cash Flow

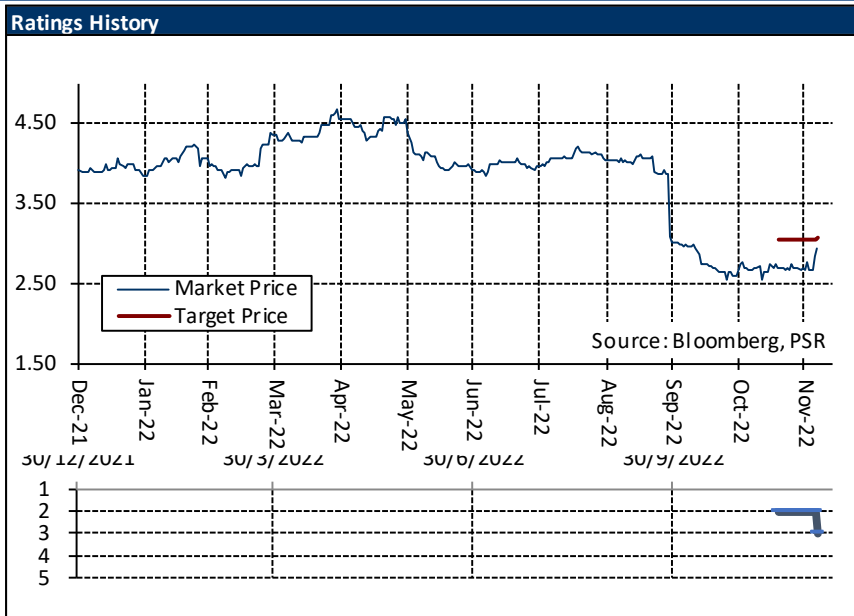
Y/E Dec, (\$'mn)	FY20	FY21	FY22	FY23e	FY24e
<b>CFO</b>					
<b>Profit before tax</b>	<b>214</b>	<b>(145)</b>	<b>(27)</b>	<b>(41)</b>	<b>177</b>
Adjustments	140	302	124	116	135
WC changes	(49)	3	(0)	2	13
<b>Cash generated from ops</b>	<b>305</b>	<b>159</b>	<b>96</b>	<b>77</b>	<b>325</b>
Others	(61)	(42)	(34)	(40)	(64)
<b>Cashflow from ops</b>	<b>244</b>	<b>118</b>	<b>62</b>	<b>37</b>	<b>261</b>
<b>CFI</b>					
CAPEX, net	(76)	(62)	(78)	(105)	(103)
Others	(42)	33	109	(1,613)	26
<b>Cashflow from investments</b>	<b>(117)</b>	<b>(28)</b>	<b>31</b>	<b>(1,718)</b>	<b>(77)</b>
<b>CFF</b>					
Dividends paid to owners	(212)	-	-	-	(15)
Proceeds from borrowings, net	284	244	(187)	668	(219)
Proceeds from equity issuance	-	-	-	800	-
Others	(5)	(5)	(2)	(19)	(0)
<b>Cashflow from financing</b>	<b>67</b>	<b>240</b>	<b>(189)</b>	<b>1,450</b>	<b>(234)</b>
<b>Net change in cash</b>	<b>193</b>	<b>329</b>	<b>(96)</b>	<b>(232)</b>	<b>(49)</b>
Cash at the start of the period	350	549	880	786	557
Currency translation	6	2	2	2	-
Others	-	-	-	-	-
<b>Ending cash</b>	<b>549</b>	<b>880</b>	<b>786</b>	<b>557</b>	<b>507</b>

\*nm - not meaningful

### Balance Sheet

Y/E Dec, (\$'mn)	FY20	FY21	FY22	FY23e	FY24e
<b>ASSETS</b>					
PPE & Investment Properties	603	520	590	2,205	2,215
Others	1,379	1,249	1,407	1,465	1,553
<b>Total non-current assets</b>	<b>1,982</b>	<b>1,769</b>	<b>1,996</b>	<b>3,669</b>	<b>3,768</b>
Cash and cash equivalents	549	880	786	557	507
Trade and other receivables	386	292	388	476	516
Inventories	67	130	83	82	95
Others	26	21	39	45	46
<b>Total current assets</b>	<b>1,028</b>	<b>1,323</b>	<b>1,296</b>	<b>1,160</b>	<b>1,164</b>
<b>Total Assets</b>	<b>3,011</b>	<b>3,092</b>	<b>3,292</b>	<b>4,829</b>	<b>4,932</b>
<b>LIABILITIES</b>					
Trade and other payables	372	359	458	556	622
ST borrowings	132	159	143	146	146
Others	57	47	30	31	31
<b>Total current liabilities</b>	<b>561</b>	<b>565</b>	<b>631</b>	<b>732</b>	<b>798</b>
LT borrowings	493	714	695	1,402	1,183
Others	151	114	133	126	126
<b>Total non-current liabilities</b>	<b>644</b>	<b>828</b>	<b>828</b>	<b>1,528</b>	<b>1,309</b>
<b>Total liabilities</b>	<b>1,205</b>	<b>1,393</b>	<b>1,459</b>	<b>2,260</b>	<b>2,107</b>
<b>EQUITY</b>					
Share Capital	368	368	368	1,168	1,168
Retained profits	1,426	1,349	1,369	1,335	1,580
Others	11	(18)	97	67	77
<b>Total equity</b>	<b>1,806</b>	<b>1,699</b>	<b>1,834</b>	<b>2,570</b>	<b>2,825</b>
<b>Total equity and liabilities</b>	<b>3,011</b>	<b>3,092</b>	<b>3,292</b>	<b>4,829</b>	<b>4,932</b>
<b>Valuation Ratios</b>					
Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	19.5	-41.4	163.3	-97.6	29.5
P/B (x)	1.8	1.9	1.8	1.3	1.5
EV/EBITDA (x)	12.5	35.8	55.9	50.5	6.2
Dividend yield (%)	2.0%	0.0%	0.0%	0.0%	0.7%
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	6.2%	-50.0%	21.3%	34.8%	154.3%
EBIT	-8.4%	-104.5%	321.6%	-20.5%	nm
PBT	-30.5%	-168.0%	nm	50.4%	nm
<b>Margins</b>					
EBITDA margin	17.7%	12.4%	6.5%	5.4%	17.1%
EBIT margin	11.7%	-1.0%	-3.6%	-2.1%	14.2%
Net profit margin	9.0%	-11.3%	0.4%	-2.1%	6.1%
<b>Key Ratios</b>					
ROE	9.7%	-6.2%	0.2%	-1.5%	9.1%
ROA	6.5%	-3.6%	0.1%	-1.3%	5.0%
Net Gearing (%)	4.2%	-0.4%	2.8%	38.5%	29.1%

Source: Company, Phillip Securities Research (Singapore) Estimates



### 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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