

SATS LTD

Acquisition costs weighed on 1Q24 earnings



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SINGAPORE | TRANSPORT SERVICES | 1Q24 UPDATE

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- SATS slipped into net loss in 1Q24, after booking S\$29.7mn integration costs and amortization expenses relating to the acquisition of WFS. Excluding these, net loss was S\$0.2mn, which was in line with our expectations. Operating gains were cancelled out by higher interest expense.
- SATS' core operations turned in a profit, even with the expiry of government relief, though EBIT margin of 3.4% is still a far cry from pre-COVID level of 16%-17%. WFS' volume declined in line with softer cargo demand, but yields are holding up.
- Maintain NEUTRAL recommendation and TP of \$2.51.** We lowered FY24e earnings forecast by 49% to take into account the integration costs.

NEUTRAL (MAINTAINED)

LAST CLOSE PRICE	SGD 2.540
FORECAST DIV	SGD 0.01
TARGET PRICE	SGD 2.51
TOTAL RETURN	-0.6%

COMPANY DATA

BLOOMBERG CODE:	SATS SP
O/S SHARES (MMN) :	1,491
MARKET CAP (USD mn / SGD mn) :	2790 / 3786
52 - WK HI/LO (SGD) :	4.02 / 2.36
3M Average Daily T/O (mn) :	6.39

MAJOR SHAREHOLDER (%)

Temasek	39.9%
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PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(3.7)	(0.4)	(31.9)
STTF RETURN	0.7	1.9	3.4

PRICE VS. STTF



Source: Bloomberg, PSR

Results at a glance

Y/E 31 Mar (S\$m)	1Q23	4Q23	1Q24	1Q24	Comments
					SATS only
Revenue	375.5	478.1	497.6	1,198.6	Consolidated WFS for the first time
EBITDA	13.9	58.7	62.3	179.5	WFS' rental expenses are classified as lease liabilities below EBITDA
EBITDA margin (%)	3.7	12.3	12.5	15.0	
EBIT	(27.4)	13.0	17.0	31.5	Incurred integration cost (S\$12.6mn), amortisation of intangible assets (S\$9.1mn), lease expenses (S\$7.4mn), refinancing cost of WFS' bonds (S\$0.6mn)
EBIT margin (%)	(7.3)	2.7	3.4	2.6	
PATMI	(22.5)	5.5	15.0	(29.9)	Higher interest expense
PATMI (excl acqn cost)				(0.2)	
Government relief	9.4	17.8	nil	nil	

Source: Company data, PSR # only selected financial data are provided in 1Q24 update

The Negatives

- **Acquisition-related costs weighed on earnings.** WFS was consolidated for the first time. It incurred a one-off integration cost (S\$12.6mn), amortization of intangible assets (S\$9.1mn), lease expenses (S\$7.4mn) and cost for refinancing of WFS' bonds (S\$0.6mn). The final amount of intangible assets will be determined in 2H24e. The annual amortization could change.

- **Net debt rose to S\$2.2bn (Mar 23: S\$0.77bn).** Higher interest expense cancelled out all the operating gains. Free cash flow was negative S\$10.7mn in 1Q24.

- **Volume handled by WFS has declined** in tandem with the decline in global air cargo demand. However, the industry decline is moderating (Jun 23: -3.4% YoY, YTD: -8.1%).

The Positive

+ **SATS-only operations were profitable**, though it no longer enjoy government relief.

Outlook

The outlook is mixed. Aviation-related profits could improve with 1) flight meals restoring to pre-COVID levels; 2) reduction in double-catering; and 3) increase in number of flights. On the other hand, air cargo volume might remain sluggish from lower manufacturing output and trade activities. The higher interest expense is a drag on earnings.

Maintain Neutral and unchanged TP of S\$2.51

We lowered our FY24e net earnings estimates by 49% to factor in acquisition-related costs.

KEY FINANCIALS

Y/E Mar (S\$ 'mn)	FY22	FY23	FY24e	FY25e
Revenue	1,177	1,758	3,744	3,667
EBITDA	77	128	221	265
EBIT	(43)	(48)	163	275
NPAT	20	(27)	36	139
P/NAV (x)	1.8	1.6	1.6	1.5
P/E (x)	139.7	(142.6)	104.8	27.2
ROE (%)	1.3	(1.3)	1.5	5.6

Source: Company, PSR

VALUATION METHOD

Discounted cash flow

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Financials

Income Statement

Y/E Mar, (\$'mn)	FY21	FY22	FY23	FY24e	FY25e
Revenue	970	1,177	1,758	3,744	3,667
Staff costs	382	551	892	892	892
Cost of raw materials	270	311	336	331	335
Others	328	358	578	543	515
WFS costs	-	-	-	1,815	1,651
EBIT	(10)	(43)	(48)	163	275
Net finance expenses	(16)	(14)	(9)	(127)	(150)
Share of results of associates	(48)	17	45	50	55
Others	(72)	12	(33)	-	-
Profit before tax	(146)	(27)	(44)	86	180
Taxation	36	31	5	(18)	(38)
Net profit	(109)	4	(39)	68	142
Integration costs				(30)	
Minority interests	30	16	12	(2)	(4)
Profit attributable to owners	(79)	20	(27)	36	139

Per share data (\$ cents)

Y/E Mar	FY21	FY22	FY23	FY24e	FY25e
BVPS	137.7	142.8	156.9	158.6	165.1
DPS	-	-	-	0.7	2.8
EPS	1.8	(2.2)	2.4	9.3	10.6

Cash Flow

Y/E Mar, (\$'mn)	FY21	FY22	FY23	FY24e	FY25e
CFO					
Pretax profit	(146)	(27)	(44)	86	180
Adjustments	298	124	138	251	268
WC changes	7	(0)	8	(37)	15
Cash generated from ops	159	96	102	300	463
Others	(10)	(4)	11	(121)	(143)
Cashflow from ops	149	92	113	179	320
CFI					
CAPEX, net	(62)	(78)	(119)	-	-
Others	2	79	(1,746)	(1,395)	-
Cashflow from investments	(60)	1	(1,865)	(1,395)	-
CFF					
Dividends paid to owners	(3)	(2)	(36)	(11)	(42)
Proceeds from borrowings, net	245	(187)	586	1,349	-
Others	(2)	-	790	-	-
Cashflow from financing	240	(189)	1,340	1,338	(42)
Net change in cash	329	(96)	(412)	122	278
Cash at the start of the period	549	880	786	374	497
Currency translation	2	2	1	-	-
Others	-	-	-	-	-
Ending cash	880	786	374	497	775

Balance Sheet

Y/E Mar, (\$'mn)	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
PPE & Investment Properties	708	902	900	727	554
Others	1,061	1,094	1,051	4,215	4,245
Total non-current assets	1,769	1,996	1,951	4,942	4,799
Cash and cash equivalents	880	786	374	497	775
Inventories	130	83	69	88	66
Trade and other receivables	292	388	481	413	490
Others	21	39	1,799	25	25
Total current assets	1,323	1,296	2,723	1,023	1,356
Total Assets	3,092	3,292	4,674	5,965	6,155
LIABILITIES					
Trade and other payables	359	458	522	438	507
ST borrowings	143	102	13	13	13
Others	64	71	71	71	91
Total current liabilities	565	631	606	521	611
LT borrowings	535	409	1,134	2,483	2,483
Others	293	419	419	419	419
Total non-current liabilities	828	828	1,553	2,902	2,902
Total liabilities	1,393	1,459	2,159	3,423	3,512
EQUITY					
Share Capital	368	368	1,154	1,154	1,154
Retained profits	1,349	1,369	1,343	1,368	1,465
Others	(18)	97	19	21	24
Total equity	1,699	1,834	2,515	2,542	2,643
Total equity and liabilities	3,092	3,292	4,674	5,965	6,155

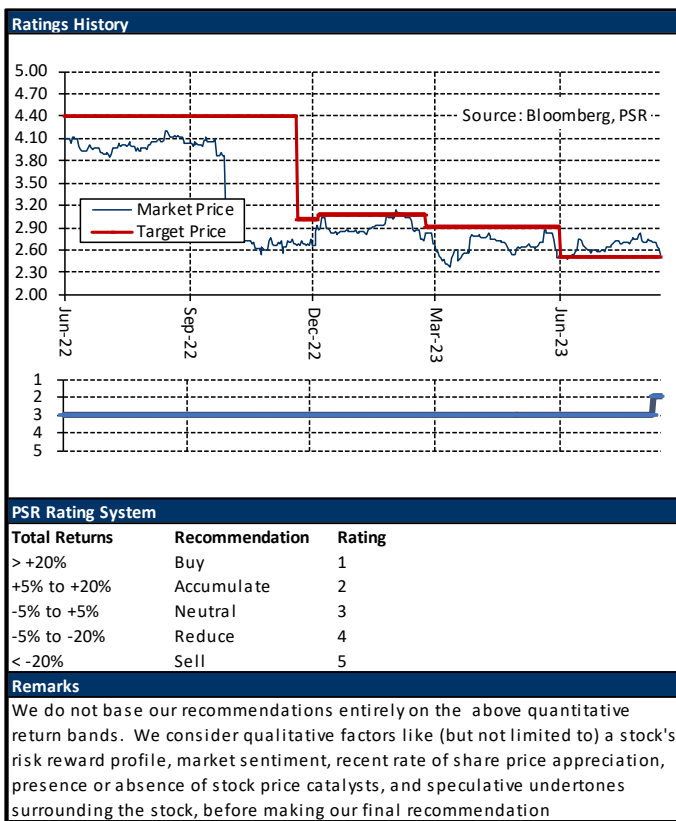
Valuation Ratios

Y/E Mar	FY21	FY22	FY23	FY24e	FY25e
P/E (x)	-36.2	139.7	-142.6	104.8	27.2
P/B (x)	1.8	1.8	1.6	1.6	1.5
EV/EBITDA (x)	22.0	33.4	35.6	26.2	20.8
Dividend yield (%)	0.0	0.0	0.0	0.3	1.1

Growth & Margins (%)

Growth					
Revenue	-50.0%	21.3%	49.4%	113.0%	-2.1%
Operating	-104.5%	321.8%	12.7%	n.m.	68.3%
EBIT	-157.7%	-90.1%	158.4%	n.m.	54.7%
PBT	-168.0%	-81.4%	61.6%	n.m.	109.9%
Margins					
Operating margin	-1.0%	-3.6%	-2.7%	4.4%	7.5%
EBIT margin	-14.1%	-1.2%	-2.0%	5.7%	9.0%
Net profit margin	-8.1%	1.7%	-1.5%	1.0%	3.8%
Key Ratios					
ROE	-5.0%	1.3%	-1.3%	1.5%	5.6%
ROA	-2.6%	0.6%	-0.7%	0.7%	2.3%
Net Gearing	0.0%	0.0%	33.1%	84.7%	70.1%

Source: Company, Phillip Securities Research (Singapore) Estimates



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