

SATS Ltd

Cost control measures effective; pipeline of opportunities

SINGAPORE | TRANSPORT SERVICES | RESULTS

- 1HFY16 revenue of S\$839.6 mn met 45.9% of our full year forecast, distortion due to transfer of Food Solutions revenue to SATS BRF Food Pte Ltd JV.
- 1HFY16 PATMI of S\$109.3 mn met 50.1% of our full year forecast, but we now expect a stronger 2HFY16.
- 5.0 Cents interim dividend declared, expect higher full year dividend.

What is the news?

Results at a glance

(SGD mn)	2Q16	2Q15	y-y (%)	Comments
Food Solutions	243.0	267.7	↓ (9.2)	Transfer of S\$29 mn to SBRF JV, S\$5 mn weaker JPY from TFK, less S\$2 mn due to divestment of Urangan Fisheries
Gateway Services	178.5	173.4	↑ 2.9	
Corporate	1.2	1.1	↑ 9.1	
Revenue	422.7	442.2	↓ (4.4)	Lower Food Solutions, higher Gateway Services
EBITDA	76.2	59.4	↑ 28.3	
EBIT	59.2	42.5	↑ 39.3	Cost control and productivity improvement measures
Associates & JVs	11.9	10.8	↑ 10.2	Growth in both Gateway and Food Associates & JVs
PATMI, adj	59.7	47.1	↑ 26.8	

Source: Company, Phillip Securities Research (Singapore)

- Lower Food Solutions revenue, as food distribution business from SFI was transferred to the SATS BRF Food Pte Ltd (SBRF) JV.** As this food distribution business from SFI was Non-Aviation, a larger proportion of Group revenue will come from Aviation Industry going forward (84.9% in 2QFY16 vs. 80.2% in 2QFY15). Consequently, Group revenue could become more cyclical. Recall that acquisition of SFI by SATS was to gain exposure to Non-Aviation food, which is less cyclical compared to Aviation Food segment. We understand that SBRF is breaking even at the moment, and we are optimistic of it contributing positively to Group PATMI.
- Management highlighted some details and rationale for the Brahim's Airline Catering Holdings Sdn Bhd (BACH) acquisition.** BACH has strong market share at Kuala Lumpur International Airport (KLIA) with MAS being the base customer. As the leading flight caterer at KLIA, Management expects further growth for BACH. BACH also has the potential to expand to Non-Aviation catering. In line with having a 49% stake in BACH, SATS will have "significant management representation" in BACH.
- Growth momentum in flights handled by SATS at Changi.** Previous four consecutive quarters saw negative growth in flights handled by SATS, exacerbated by the loss of the Jetstar Asia account in Oct-14 (3QFY15). The account was regained in Jul-15 (2QFY16), and we expect to see high single-digit %y-o-y growth in flights handled by SATS in the next three consecutive quarters of 3QFY16e, 4QFY16e and 1QFY17e. The growth is due to the combination of flight volume picking up at Changi Airport and reversal effect of regaining the Jetstar Asia account.

Investment Actions

We see better earnings for SATS driven by: (1) higher Aviation revenue coming out of Changi Airport, due to growth in flights and passengers handled, (2) improved profit margin coming from successful implementation of cost control and productivity improvement measures, (3) acquisition pipeline of businesses to leverage on SATS' core competency. We upgrade SATS to "Accumulate" rating, with new higher target price of S\$4.05. (Previous: S\$3.36) We also anticipate higher full year dividends of 17.0 Cents being declared for FY16e, vs. 14.0 Cents in FY15.

5 November 2015

Accumulate (Upgraded)

CLOSING PRICE	SGD 3.80
FORECAST DIV	SGD 0.170
TARGET PRICE	SGD 4.05
TOTAL RETURN	11.1%

COMPANY DATA

O/S SHARES (MN) :	1,111
MARKET CAP (USD mn / SGD mn) :	3020 / 4221
52 - WK HI/LO (SGD) :	4.05 / 2.83
3M Average Daily T/O (mn) :	185

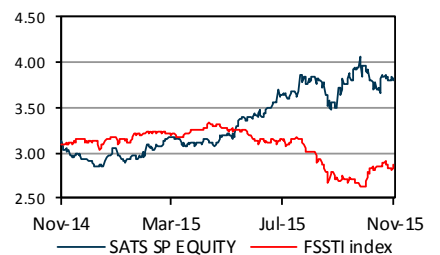
MAJOR SHAREHOLDER (%)

TEMA SEK HOLDINGS PTE LTD	43.1%
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PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(3.5)	0.0	29.5
STI RETURN	7.5	(5.3)	(5.8)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar	FY 14	FY 15	FY 16 e	FY 17 e
Revenue (SGD mn)	1,787	1,753	1,708	1,733
PATMI, adj. (SGD mn)	183	196	235	232
EPS, adj. (Cents)	16.10	17.50	21.22	20.97
P/E, adj. (x)	19.2	17.8	17.9	18.1
BVPS (Cents)	135.3	137.3	144.7	148.7
P/B (x)	2.3	2.3	2.6	2.6
DPS (Cents)	13.00	14.00	17.00	16.80
Div. Yield (%)	4.2	4.5	4.5	4.4

Source: Company Data, PSR est.

VALUATION METHOD

DCF (WACC: 6.1%, Terminal g: 2.0%)

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Potential positive catalyst

Multi-year TFK Corp (TFK) catering contract with Delta Air Lines (Delta) commences in 3QFY16 this year. Catering services to Delta will be at both Narita and Haneda International Airports in Tokyo. Positive catalyst is higher than forecasted revenue coming from the TFK subsidiary.

Downside risk to our view

We are optimistic on the sustained growth in flights and passengers handled at Changi Airport. Key downside risk to our valuation is that the anticipated growth is not sustainable and does not materialise.

Operating Statistics for Singapore Aviation Business

Y/E Mar	2Q16	2Q15	y-y (%)	Comments
Unit Services ('000)	29.2	28.0	↑ 4.4	Driven by both full-service and LCC
Flights Handled ('000)	33.3	32.3	↑ 3.0	Driven by both full-service and LCC
Cargo ('000 tonnes)	389.1	393.1	↓ (1.0)	In line with Changi; retained market share
Passengers Handled (mn)	11.3	10.8	↑ 4.5	Driven by both full-service and LCC
Unit Meals Produced (mn)	5.6	5.3	↑ 5.5	
Gross Meals Produced (mn)	7.2	6.8	↑ 6.1	Market share gain from Jetstar

Source: Company, Phillip Securities Research (Singapore)

Operating Statistics for Singapore Aviation Business

Y/E Mar	1H16	1H15	y-y (%)	Comments
Unit Services ('000)	56.3	56.3	↑ 0.0	
Flights Handled ('000)	63.4	65.5	↓ (3.1)	Loss of Jetstar Asia account in Oct-14, regained in Jul-15
Cargo ('000 tonnes)	779.2	781.5	↓ (0.3)	
Passengers Handled (mn)	21.3	21.5	↓ (0.7)	Loss of Jetstar Asia account in Oct-14, regained in Jul-15
Unit Meals Produced (mn)	10.8	10.4	↑ 4.0	
Gross Meals Produced (mn)	13.8	13.2	↑ 4.5	

Source: Company, Phillip Securities Research (Singapore)

Operating Statistics for Changi Airport Group

Y/E Dec	3Q15	3Q14	y-y (%)	Comments
Commercial Aircraft Movements ('000)	87.5	83.6	↑ 4.7	
Passenger Movements (million)	14.3	13.5	↑ 5.8	Boost in passengers travelling on LCC
Air Freight Movements ('000 tonnes)	454	459	↓ (1.0)	

Source: Changi Airport Group, Phillip Securities Research (Singapore)

Quarterly Operating Statistics for Singapore Aviation Business

Figure 1. Passengers Handled (mn)

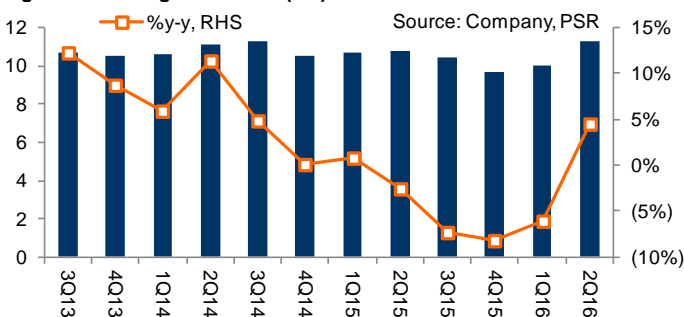


Figure 2. Flights Handled and Unit Services ('000)

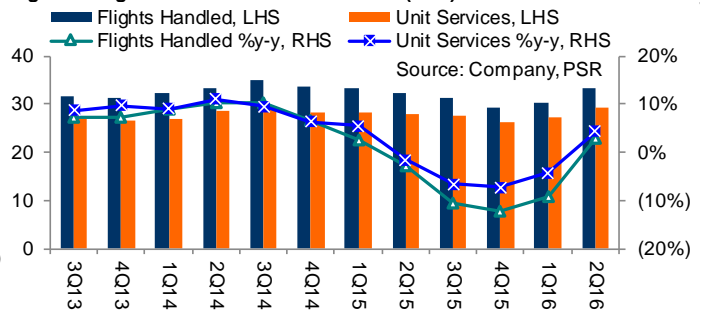


Figure 3. Cargo handled ('000 tonnes)

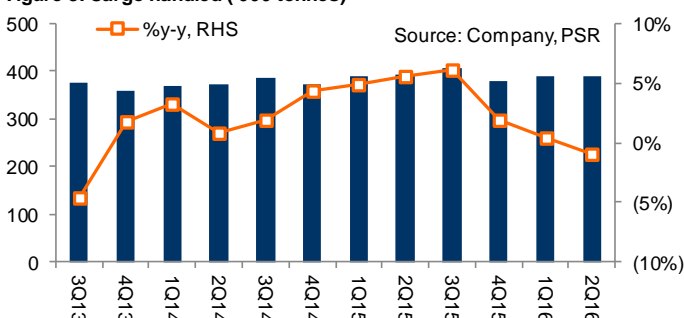
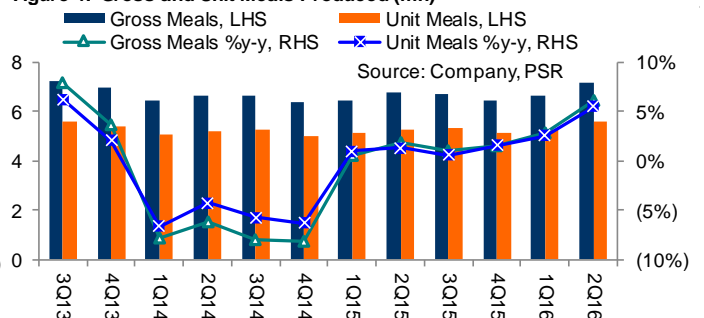


Figure 4. Gross and Unit Meals Produced (mn)



Financials

Income Statement

Y/E Mar, SGD mn	FY13	FY14	FY15	FY16e	FY17e
Revenue	1,819	1,787	1,753	1,708	1,733
EBITDA	285	248	246	292	284
Depreciation & Amortisation	(93)	(77)	(68)	(71)	(70)
EBIT	192	171	178	221	214
Net Finance (Expense)/Inc	(1.5)	(1.8)	0.4	(0.1)	(0.1)
Other items	(2.2)	1.7	(1.6)	1.9	1.9
Associates & JVs	53	47	48	56	59
Exceptional items	(16.8)	(2.6)	(0.1)	-	-
Profit Before Tax	225	216	225	279	274
Taxation	(40)	(33)	(34)	(43)	(42)
Profit After Tax	185	182	191	236	233
- Non-controlling interest	-	1.7	(5.0)	1.2	1.2
PATMI, reported	185	180	196	235	232
PATMI, adj.	202	183	196	235	232

Per share data (Cents)

Y/E Mar	FY13	FY14	FY15	FY16e	FY17e
EPS, reported	16.60	16.10	17.50	21.22	20.97
EPS, adj.	16.60	16.10	17.50	21.22	20.97
DPS	15.00	13.00	14.00	17.00	16.80
BVPS	134.7	135.3	137.3	144.7	148.7

Cash Flow

Y/E Mar, SGD mn	FY13	FY14	FY15	FY16e	FY17e
CFO					
PBT	225	216	225	279	274
Adjustments	64	38	27	15	11
WC changes	(11)	35	21	1	(0)
Cash generated from ops	278	288	273	295	285
Others	(32)	(41)	(36)	(44)	(43)
Cashflow from ops	246	247	236	250	242
CFI					
CAPEX, net	(37)	(57)	(61)	(63)	(66)
Divd from associates & JVs	25	27	89	30	32
Others	(4)	(117)	30	1	1
Cashflow from investments	(17)	(146)	58	(32)	(33)
CFF					
Share issuance, net	8	6	(49)	-	-
Loans, net of repayments	(5)	(5)	(1)	-	-
Dividends	(289)	(168)	(146)	(155)	(188)
Others	-	5	(4)	-	-
Cashflow from financing	(286)	(163)	(200)	(155)	(188)
Net change in cash	(57)	(62)	95	64	21
Effects of exchange rates	(9)	(3)	(5)	-	-
CCE, end	404	340	430	493	515

Source: Company, Phillip Securities Research (Singapore) Estimates

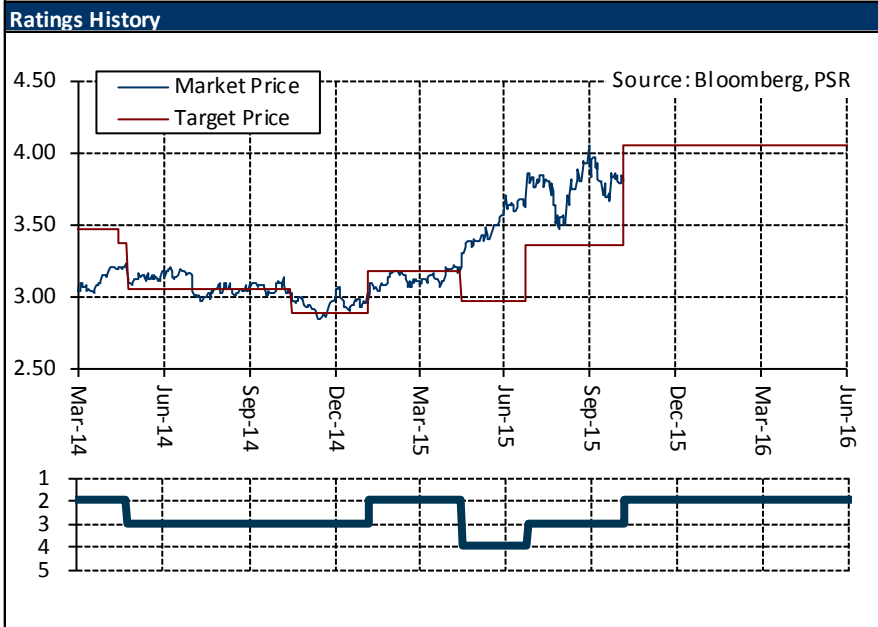
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Mar, SGD mn	FY13	FY14	FY15	FY16e	FY17e
ASSETS					
PPE	592	568	552	547	547
Intangibles	193	185	166	162	159
Associates & JVs	390	495	465	491	518
Investments	20	18	15	15	15
Others	28	30	30	30	30
Total non-current assets	1,223	1,295	1,227	1,245	1,269
Inventories	53	46	19	18	18
Accounts Receivables	301	288	283	275	279
Prepayments	14	14	17	17	17
Investments	-	-	-	-	-
Cash	406	341	411	475	496
Others	7	36	63	63	63
Total current assets	780	725	793	848	874
Total Assets	2,003	2,020	2,020	2,093	2,142
LIABILITIES					
Short term loans	23	18	16	16	16
Accounts Payables	237	267	287	280	284
Others	51	45	43	43	43
Total current liabilities	310	330	346	338	343
Long term loans	109	97	90	90	90
Others	84	79	67	67	67
Total non-current liabilities	193	176	156	156	156
Total Liabilities	503	505	502	495	499
EQUITY					
Non-controlling interest	97	98	77	78	79
Shareholder Equity	1,403	1,417	1,441	1,521	1,565

Valuation Ratios

Y/E Mar	FY13	FY14	FY15	FY16e	FY17e
P/E (X), adj.	18.4	19.2	17.8	17.9	18.1
P/B (X)	2.3	2.3	2.3	2.6	2.6
EV/EBITDA (X), adj.	11.0	13.0	12.8	13.1	13.4
Dividend Yield (%)	4.9%	4.2%	4.5%	4.5%	4.4%
Growth & Margins (%)					
Growth					
Revenue	7.9%	-1.8%	-1.9%	-2.6%	1.5%
EBITDA	7.1%	-13.0%	-0.8%	18.6%	-2.8%
EBIT	13.8%	-11.1%	4.1%	24.3%	-3.4%
Net Income, adj.	11.4%	-9.2%	7.0%	19.8%	-1.2%
Margins					
EBITDA margin	15.7%	13.9%	14.0%	17.1%	16.4%
EBIT margin	10.6%	9.6%	10.2%	13.0%	12.3%
Net Profit Margin	11.1%	10.2%	11.2%	13.7%	13.4%
Key Ratios					
ROE (%)	13.8%	13.0%	13.7%	15.8%	15.0%
ROA (%)	9.8%	9.1%	9.7%	11.4%	10.9%
Net Debt or (Net Cash)	(274)	(227)	(306)	(369)	(390)
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



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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