

Singapore Airport Terminal (SATS SP)

Neutral (Maintained)

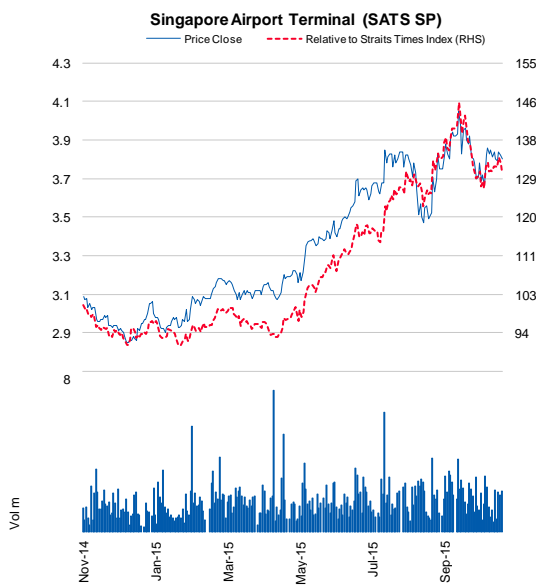
Transport - Transportation

 Target Price: **SGD3.70**

Market Cap: USD3,020m

 Price: **SGD3.80**

Improving Outlook Already Priced In

 Macro ◆◆◆
 Risks ◆◆
 Growth ◆
 Value ◆


Source: Bloomberg

Avg Turnover (SGD/USD)	6.61m/4.70m
Cons. Upside (%)	-1.8
Upside (%)	-2.6
52-wk Price low/high (SGD)	2.85 - 4.05
Free float (%)	57
Share outstanding (m)	1,111
Shareholders (%)	
Temasek Holdings	43.4
Banque De Luxembourg	2.0
Aberdeen	1.6
Share Performance (%)	
	YTD 1m 3m 6m 12m
Absolute	24.6 (4.1) 0.5 19.1 23.0
Relative	34.3 (13.0) 5.2 31.8 30.4

1HFY16's (Mar) SGD107m profit (+18% YoY) made up 48% of our old FY16 estimate, with profit growth aided by declines in all operating costs save depreciation, as revenue remained weak (-4% YoY). Stay NEUTRAL, with a higher SGD3.70 TP (from SGD3.35, 3% downside) as most of the upside from upcoming operational improvements is priced in. We lift FY16F-17F profit by 5.6-8.5% to account for the continuing margin expansion and higher contributions from its JV in FY17.

- ◆ **Strong 1HFY16.** In 1HFY16, while Singapore Airport Terminal's (SATS) revenue dipped 4.3% to SGD840m, mainly from the transfer of its food distribution business to SATS BRF Foods JV and the weakening of the JPY, profit increased 18% YoY mainly due to lower costs. Staff (-1% YoY), raw materials (-15% YoY), licensing fees (-14% YoY) and utility costs (-8% YoY) together account for 88% of total operating cost. Contribution from associates/JVs also increased 17% YoY as growth was registered both in its gateway and food businesses.
- ◆ **Margin expansion to continue.** While TFK, its Japanese subsidiary, may book higher revenue in 2HFY16 aided by contributions from its Delta Airlines contract, overall revenue growth remains uninspiring in the near term, amidst moderate traffic growth at Singapore's Changi Airport. However, management's emphasis on productivity improvement through increased automation and gradual reduction in staff costs should enable SATS to continue reporting a steady rise in margins. We expect net margin to hit 14.9% in FY17F from 13.5% in FY16F and 11.2% in FY15.
- ◆ **Raising estimates.** We increase FY16F-17F estimates by 5.6-8.5% respectively to account for: i) continuing improvement in operating margins, ii) higher revenue from TFK, and iii) higher contributions from associates and joint ventures in FY17. Amidst a lack of sufficient details on the nature of earnings contribution, we have not included the recently-announced Brahim's acquisition in our earnings estimates.
- ◆ **NEUTRAL.** SATS' share price has risen 25% YTD as: i) it continues to report operational improvements, and ii) on its inclusion in the Singapore's benchmark Straits Times Index. Our DCF-based TP rises to SGD3.70 (from SGD3.35). Stay NEUTRAL, as the stock is trading close to its historical high forward multiples.

Forecasts and Valuations	Mar-13	Mar-14	Mar-15	Mar-16F	Mar-17F
Total turnover (SGDm)	1,819	1,787	1,753	1,660	1,700
Reported net profit (SGDm)	185	182	196	225	253
Recurring net profit (SGDm)	202	184	198	227	253
Recurring net profit growth (%)	18.9	(8.5)	7.2	14.8	11.6
Recurring EPS (SGD)	0.18	0.16	0.18	0.20	0.23
DPS (SGD)	0.26	0.15	0.13	0.14	0.15
Recurring P/E (x)	21.0	23.1	21.4	18.5	16.7
P/B (x)	3.02	3.01	2.91	2.80	2.65
P/CF (x)	17.2	17.2	17.9	19.7	17.1
Dividend Yield (%)	6.8	3.9	3.5	3.7	3.9
EV/EBITDA (x)	9.8	10.4	10.5	9.0	8.0
Return on average equity (%)	12.7	12.9	13.7	15.2	16.3
Net debt to equity (%)		net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)				6.7	9.6

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Source: Company data, RHB

Figure 1: 1HFY16 results review

	2QFY14	4QFY14	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	YoY %	QoQ %	1HFY15	1HFY16	YoY %
Revenue	452.1	434.6	435.2	442.2	450.7	425.1	416.9	422.7	-4%	1%	877.4	839.6	-4%
Staff costs	(197.5)	(188.9)	(203.9)	(202.2)	(200.9)	(193.6)	(200.1)	(200.8)	-1%	0%	(406.1)	(400.9)	-1%
Raw material costs	(96.4)	(91.8)	(85.3)	(90.0)	(90.0)	(84.0)	(75.9)	(72.7)	-19%	-4%	(175.3)	(148.6)	-15%
Licensing fees	(19.3)	(18.6)	(19.4)	(19.4)	(20.4)	(18.9)	(17.0)	(16.3)	-16%	-4%	(38.8)	(33.3)	-14%
Depreciation & amortisation	(19.1)	(19.1)	(16.9)	(16.9)	(17.1)	(17.3)	(17.3)	(17.0)	1%	-2%	(33.8)	(34.3)	1%
Company acco. & utilities	(32.5)	(30.9)	(30.9)	(32.2)	(31.8)	(30.1)	(29.4)	(28.5)	-11%	-3%	(63.1)	(57.9)	-8%
Other costs	(40.7)	(43.7)	(39.1)	(39.0)	(39.4)	(36.5)	(33.2)	(28.2)	-28%	-15%	(78.1)	(61.4)	-21%
Operating profit	46.6	41.6	39.7	42.5	51.1	44.7	44.0	59.2	39%	35%	82.2	103.2	26%
Interest charges	(0.7)	(1.0)	(0.4)	(0.2)	(0.4)	(0.2)	(0.2)	(0.4)	100%	100%	(0.6)	(0.6)	0%
Interest income	0.4	0.1	0.2	0.3	0.5	0.6	0.8	0.8	167%	0%	0.5	1.6	220%
Dividends received	0.6	1.3	-	-	-	0.7	-	-	0%	0%	-	-	0%
Share of associates	11.8	9.9	10.4	10.8	13.8	13.1	12.8	11.9	10%	-7%	21.2	24.7	17%
Others	0.2	(0.9)	(0.9)	0.2	(0.7)	(1.0)	2.5	-	-100%	-100%	(0.7)	2.5	-457%
PBT	58.9	51.0	49.0	53.6	64.3	57.9	59.9	71.5	33%	19%	102.6	131.4	28%
Tax	(10.0)	(7.8)	(6.7)	(7.9)	(10.6)	(8.9)	(11.3)	(12.1)	53%	7%	(14.6)	(23.4)	60%
Minority interests	(0.2)	(0.6)	1.0	1.4	-	2.6	1.0	0.3	-79%	-70%	2.4	1.3	-46%
Net profit	48.7	42.6	43.3	47.1	53.7	51.6	49.6	59.7	27%	20%	90.4	109.3	21%
Exceptionals	-	(0.7)	(0.1)	-	(0.1)	0.0	2.5	-	0%	-100%	(0.1)	2.5	-2996%
Recurring net profit	48.7	43.3	43.4	47.1	53.8	51.6	47.1	59.7	27%	27%	90.5	106.8	18%

Source: Company data, RHB

Valuation And Target Price

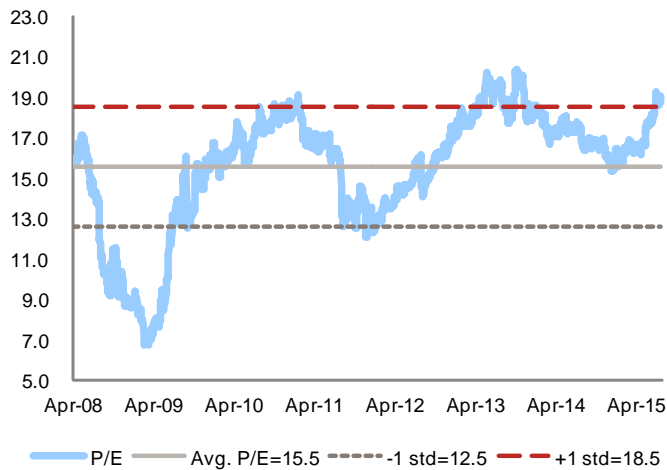
Given the high cash flow-generating nature of SATS' business model, we use DCF to value the company. Our new DCF-based TP of SGD3.70 (from SGD3.35) is based on a WACC of 7.1% (risk-free rate of 2.5%, risk premium of 8.0% and LT growth of 1.2%).

Figure 2: SATS' DCF valuation

Year ended 31 Mar (SGD m)	2016F	2017F	2018F	2019F	2020F
Free cash flow	176.8	198.9	188.1	177.8	168.1
Terminal value					
Total PV	3,829.7				
Net cash / debt	366.6				
Minority	73.2				
NPV	4,123.1				
No. of shares (m)	1,110.5				
Value per share (SGD)	3.71				
Target price	3.70				

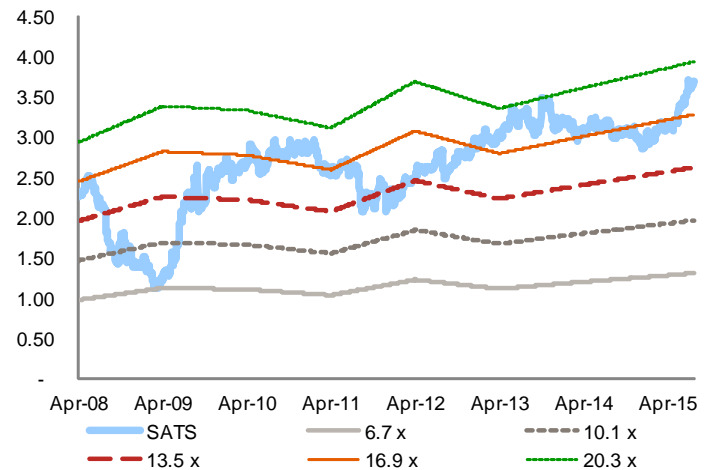
Source: RHB

Figure 3: SATS' 1-year forward P/E based on core earnings



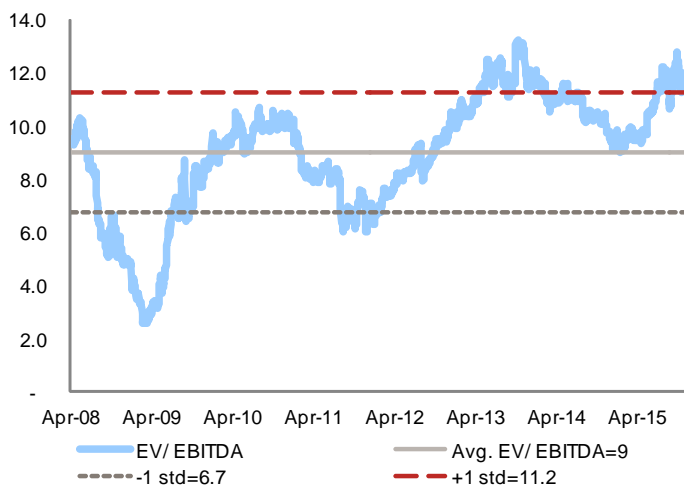
Source: Bloomberg, Company data, RHB

Figure 4: SATS' P/E band chart based on 1-year forward core earnings



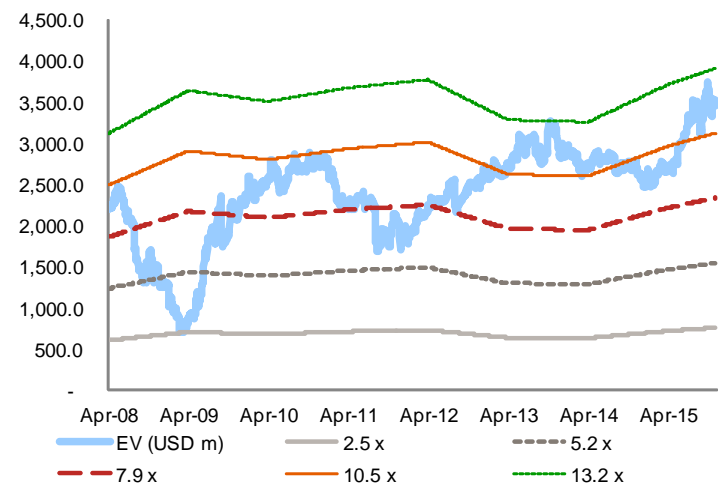
Source: Bloomberg, Company data, RHB

Figure 5: SATS' 1-year forward EV/EBITDA



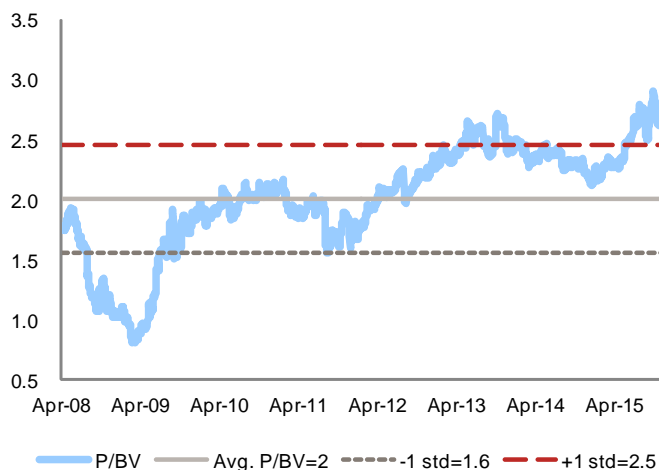
Source: Bloomberg, Company data, RHB

Figure 6: SATS' EV/EBITDA band chart based on 1-year forward EBITDA



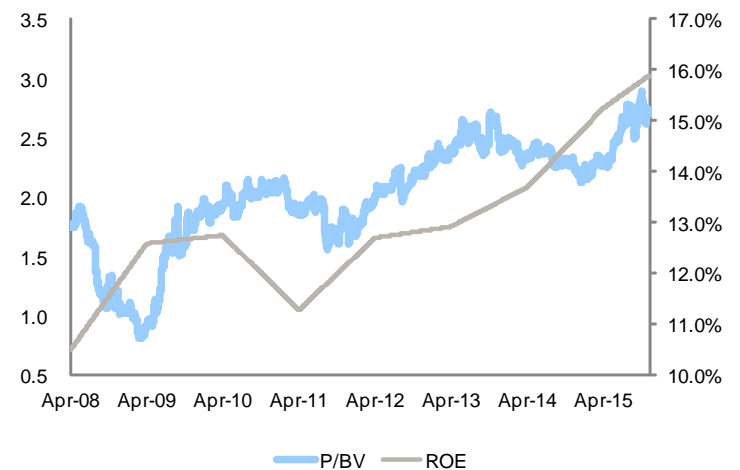
Source: Bloomberg, Company data, RHB

Figure 7: SATS' 1-year forward P/BV



Source: Bloomberg, Company data, RHB

Figure 8: SATS' 1-year forward P/BV vs ROE



Source: Bloomberg, Company data, RHB

Financial Exhibits

Profit & Loss (SGDm)	Mar-13	Mar-14	Mar-15	Mar-16F	Mar-17F
Total turnover	1,819	1,787	1,753	1,660	1,700
Gross profit	1,819	1,787	1,753	1,660	1,700
Gen & admin expenses	(1,459)	(1,447)	(1,421)	(1,323)	(1,343)
Other operating costs	(168)	(169)	(154)	(125)	(119)
Operating profit	192	171	178	212	238
Operating EBITDA	285	248	246	281	306
Depreciation of fixed assets	(93)	(77)	(68)	(68)	(68)
Operating EBIT	192	171	178	212	238
Net income from investments	54	49	49	53	59
Interest income	1	1	2	2	2
Interest expense	(3)	(3)	(1)	(1)	(1)
Exceptional income - net	(20)	(0)	(2)	(3)	-
Other non-recurring income	(1)	(3)	(0)	-	-
Pre-tax profit	225	215	225	264	297
Taxation	(40)	(33)	(34)	(45)	(51)
Minority interests	-	-	5	6	6
Profit after tax & minorities	185	182	196	225	253
Reported net profit	185	182	196	225	253
Recurring net profit	202	184	198	227	253

Source: Company data, RHB

Cash flow (SGDm)	Mar-13	Mar-14	Mar-15	Mar-16F	Mar-17F
Operating profit	192	171	178	212	238
Depreciation & amortisation	93	77	68	68	68
Other operating cash flow	(34)	11	(65)	(41)	(10)
Operating cash flow	251	259	181	240	296
Interest received	0	1	2	2	2
Interest paid	(2)	(3)	(1)	(1)	(1)
Dividends received	26	28	90	18	-
Tax paid	(29)	(38)	(35)	(45)	(51)
Cash flow from operations	246	247	236	213	246
Capex	(38)	(57)	(61)	(70)	(70)
Other investing cash flow	21	(89)	119	20	2
Cash flow from investing activities	(17)	(146)	58	(50)	(68)
Dividends paid	(289)	(168)	(146)	(155)	(167)
Shares repurchased	(3)	(17)	(55)	(3)	-
Proceeds from issue of shares	-	-	(6)	-	-
Increase in debt	(5)	(5)	(1)	(0)	-
Other financing cash flow	10	28	7	0	-
Cash flow from financing activities	(286)	(163)	(200)	(158)	(167)
Cash at beginning of period	472	406	341	411	416
Total cash generated	(57)	(62)	95	5	12
Forex effects	(9)	(3)	(24)	-	-
Implied cash at end of period	406	341	412	416	428

Source: Company data, RHB

Financial Exhibits

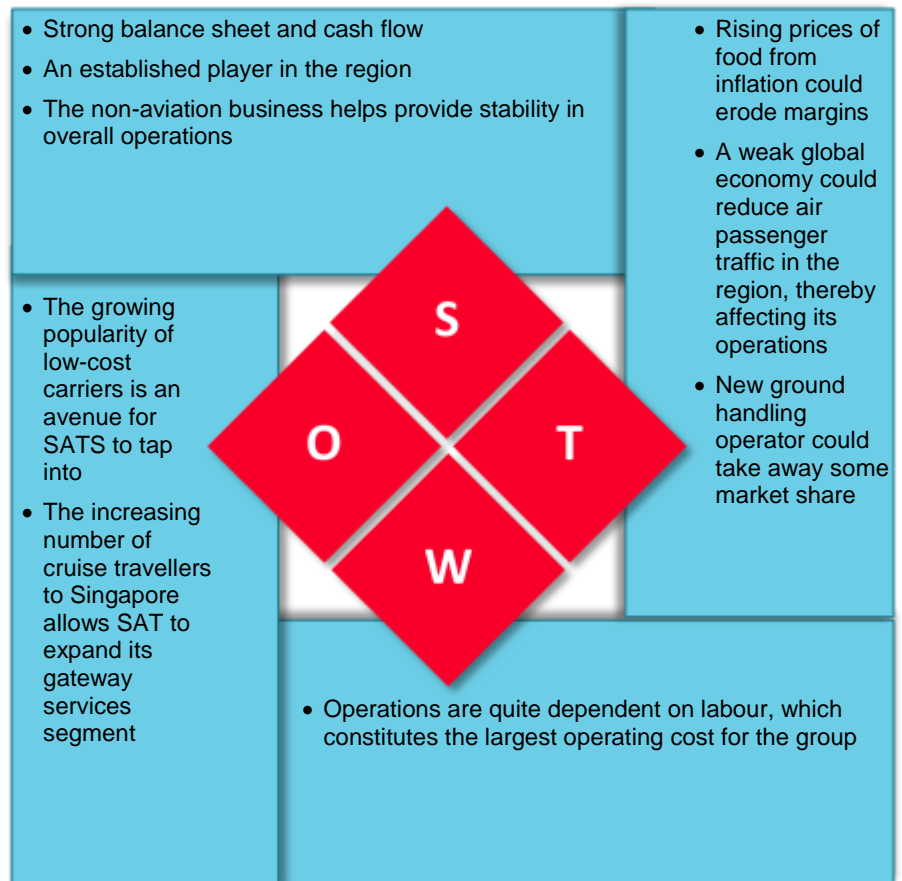
Balance Sheet (SGDm)	Mar-13	Mar-14	Mar-15	Mar-16F	Mar-17F
Total cash and equivalents	406	341	411	416	428
Inventories	53	46	19	25	32
Accounts receivable	315	301	300	299	306
Other current assets	7	36	63	63	63
Total current assets	780	725	793	803	830
Total investments	410	512	480	516	575
Tangible fixed assets	592	568	552	554	556
Intangible assets	193	185	166	166	166
Total other assets	30	30	30	30	30
Total non-current assets	1,225	1,295	1,227	1,265	1,325
Total assets	2,005	2,020	2,020	2,068	2,155
Short-term debt	23	18	16	-	-
Accounts payable	237	267	287	274	281
Other current liabilities	50	45	43	43	43
Total current liabilities	310	330	346	317	323
Total long-term debt	109	97	90	105	105
Other liabilities	90	79	67	67	67
Total non-current liabilities	198	176	156	172	172
Total liabilities	509	505	502	489	495
Share capital	338	368	312	309	309
Retained earnings reserve	1,063	1,049	1,130	1,200	1,286
Shareholders' equity	1,401	1,417	1,441	1,509	1,595
Minority interests	95	98	77	71	64
Total equity	1,497	1,514	1,518	1,579	1,660
Total liabilities & equity	2,005	2,020	2,020	2,068	2,155

Source: Company data, RHB

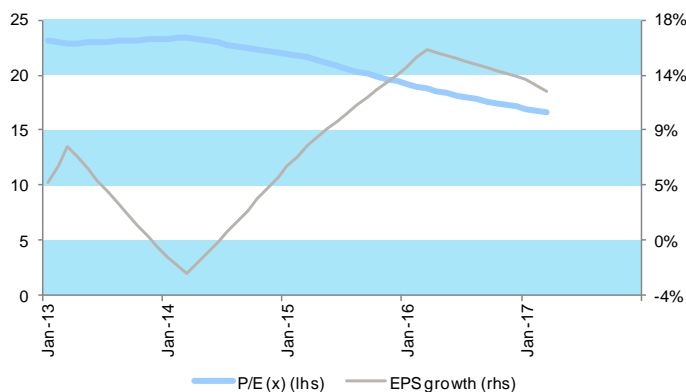
Key Ratios (SGD)	Mar-13	Mar-14	Mar-15	Mar-16F	Mar-17F
Revenue growth (%)	7.9	(1.8)	(1.9)	(5.3)	2.4
Operating profit growth (%)	13.8	(11.1)	4.1	19.4	12.0
Net profit growth (%)	8.1	(1.5)	7.5	14.9	12.6
EPS growth (%)	7.9	(2.2)	8.0	15.6	12.3
BVPS growth (%)	(7.7)	0.2	3.5	4.2	5.7
Operating margin (%)	10.6	9.6	10.2	12.8	14.0
Net profit margin (%)	10.2	10.2	11.2	13.5	14.9
Return on average assets (%)	9.0	9.0	9.7	11.0	12.0
Return on average equity (%)	12.7	12.9	13.7	15.2	16.3
Net debt to equity (%)	(18.3)	(15.0)	(20.1)	(19.7)	(19.4)
DPS	0.26	0.15	0.13	0.14	0.15
Recurrent cash flow per share	0.22	0.22	0.21	0.19	0.22

Source: Company data, RHB

SWOT Analysis

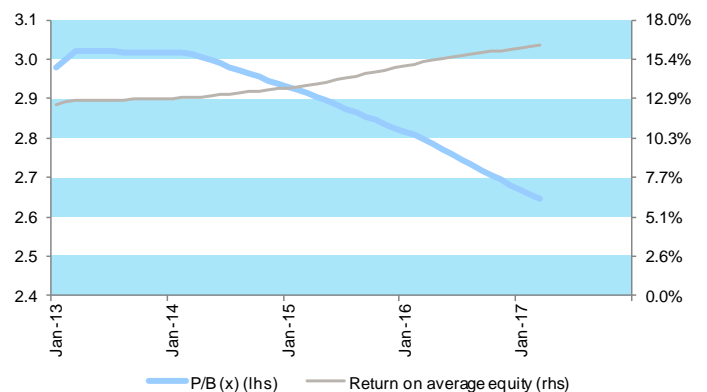


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE

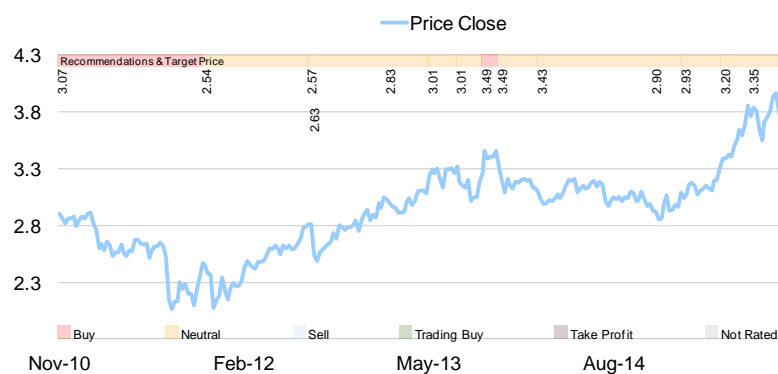


Source: Company data, RHB

Company Profile

Singapore Airport Terminal's (SATS) aviation business provides integrated ground handling and in-flight catering services. It has a 80-85% market share in Changi Airport. Its non-aviation business involves providing food solutions to the Singapore Armed Forces, supermarkets and other major events in Singapore, via subsidiary Singapore Food Industries. It also provides handling services for cruise passengers in Singapore, through its operations at the International Cruise Terminal.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-07-24	Neutral	3.35	3.85
2015-05-15	Neutral	3.20	3.30
2015-02-05	Neutral	2.93	3.02
2014-11-24	Neutral	2.90	2.98
2014-02-12	Neutral	3.43	3.07
2013-11-06	Neutral	3.49	3.36
2013-09-27	Buy	3.49	3.26
2013-07-26	Neutral	3.01	3.32
2013-05-16	Neutral	3.01	3.20
2013-01-31	Neutral	2.83	3.05

Source : RHB, Bloomberg

RHB Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

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