

## SATS (SATS SP)

# Average quarter; better times expected

### Core profit flattish but underlying trends positive

4Q18/FY18 core profits were flattish at -0.2%/+0.8% YoY, lower than we expected due to some pricing pressure in food solutions and slower-than-expected growth at TFK Japan. That said, volume trends and cost-control measures were positive. New ventures to drive growth over the next 3-5 years are progressing on track. We tweak FY19E/FY20E profits by -1.9%/+1.2% and correspondingly adjust TP by c1% to SGD6.15, still based on 21x FY20 EPS (equal to 1SD over 5y mean). Maintain BUY.

### Cost control worked in a challenging FY18

Management had guided at the beginning of FY18 that it would be a challenging year for costs with license fee incentives for Changi Airport expiring March 2017 along with various other Government incentives also expiring during the course of the year. These factors would result in c2.5-3% increase in cash operating costs by our estimates, *ceteris paribus*. Nonetheless, the company managed to keep FY18 operating costs flat YOY with cost rationalisation and productivity initiatives aided somewhat by softer raw material prices.

### Traffic growth good; Japan outlook should improve

Underlying operating statistics for the group remained solid. For FY18, passengers handled grew 5.4% YoY, gross meals rose 4.3% and cargo tonnage increased 6.5%. And while flights handled -decreased 3.2% YoY, it would have grown by around mid-single-digit levels if not for the deconsolidation of SATS Hong Kong last year. Growth for TFK Japan has been a problem in recent quarters, with lower flight frequency from one customer and the loss of another, but management states that a couple of new customers are on-board now and the outlook should improve.

### Multiple new contributors in the wings

We remain bullish about the growth outlook for FY19-FY21E from a number of ventures in new areas and markets in the pipeline that should start contributing (key ones detailed inside). Additionally, Changi Airport's recently opened Terminal 4 with c16m passenger capacity provides organic growth potential in SATS' home market.

FYE Mar (SGD m)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	1,729	1,725	1,828	2,140	2,337
EBITDA	304	305	332	407	458
Core net profit	249	236	272	328	371
Core EPS (cts)	22.4	21.2	24.4	29.4	33.2
Core EPS growth (%)	12.2	(5.3)	15.3	20.5	12.9
Net DPS (cts)	17.0	18.0	19.5	22.0	25.0
Core P/E (x)	23.6	24.9	21.6	17.9	15.9
P/BV (x)	3.7	3.6	3.5	3.2	3.0
Net dividend yield (%)	3.2	3.4	3.7	4.2	4.7
ROAE (%)	16.7	16.2	16.3	18.6	19.7
ROAA (%)	11.3	10.2	11.4	13.1	13.9
EV/EBITDA (x)	16.8	18.3	17.6	14.4	12.7
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	262	279	290
MKE vs. Consensus (%)	-	-	4.0	17.5	27.9

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# BUY

Share Price	SGD 5.28
12m Price Target	SGD 6.15 (+16%)
Previous Price Target	SGD 6.10

### Company Description

SATS is a Singapore-based international food solutions and gateway services provider that derives c80% of its revenues from the aviation sector.

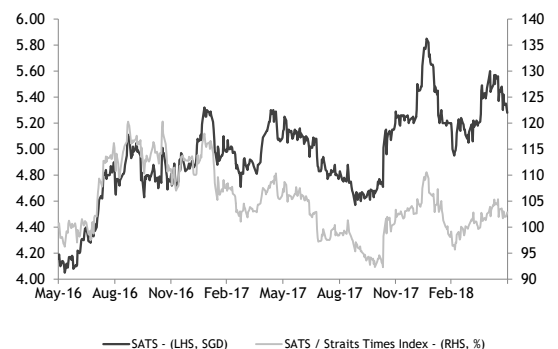
### Statistics

52w high/low (SGD)	5.85/4.57
3m avg turnover (USDm)	5.9
Free float (%)	54.9
Issued shares (m)	1,124
Market capitalisation	SGD5.9B
	USD4.4B

### Major shareholders:

Temasek Holdings Pte Ltd. (Investment Co)	42.6%
Capital Research & Management Co. (Globe)	2.2%
Aberdeen Asset Management (Asia) Ltd.	2.0%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(5)	2	4
Relative to index (%)	(2)	2	(6)

Source: FactSet

## 4Q18 / FY18 results takeaways:

- 4Q18 / FY18 reported results were in line with our forecasts but contained some one-off gains; excluding the gains, core profits were below our expectation (FY18 core profit of SGD236m vs. our forecast of SGD259m). We believe the core profit numbers was below street expectations as well given our estimates were c1-2% above consensus.
- There were three one-offs in FY18: i) SGD2.3m gain from an asset sale of a TFK subsidiary in Brazil; ii) SGD11.6m surplus from the final valuation of Evergreen Sky Catering Taiwan in 4Q18 (SGD15m in 4Q17), and iii) SGD4.5m write-back of earn-out consideration in early 2Q18.
- Operating statistics were generally healthy in line with the growth seen in the APAC aviation market.
- Singapore saw some pricing pressure in food solutions - we assume likely from some contract renewals in the quarter. Negative growth in Japan narrowed in 4Q and there are indications that new customers have been signed-on, which should see revenues on the mend in coming quarters.
- Final dividend of SGD12cts was slightly lower than our SGD13cts forecast (total for FY18 SGD18cts vs. FY17 SGD17cts). Management reiterated the aim to deliver sustainable and progressive growth in dividends.

**Fig 1: Interim P&L summary**

FYE 31 Mar	4Q18	3Q18	4Q17		4Q18	FY18	FY17	FY18	Comments
SGDm	SGDm	SGDm	SGDm	QoQ%	YoY%	SGDm	SGDm	YoY%	
- Gateway Services	194.7	199.0	190.4	(2.2)	2.3	810.1	750.8	3.4	4Q growth c7% pre SATS HK deconsol.
- Food Solutions	228.3	240.4	233.9	(5.0)	(2.4)	913.0	973.0	(2.7)	4Q 2% decline in Japan; rest Singapore
- Corporate	0.5	0.4	1.5	25.0	(66.7)	1.5	5.6	(73.2)	
<b>Revenue</b>	<b>423.5</b>	<b>439.8</b>	<b>425.8</b>	<b>(3.7)</b>	<b>(0.5)</b>	<b>1,724.6</b>	<b>1,729.4</b>	<b>(0.3)</b>	4Q c1.5% gr. pre HK deconsolidation
Operating expenses	(356.4)	(354.6)	(360.6)	0.5	(1.2)	(1,419.7)	(1,425.3)	(0.4)	Lower staff, premise, RM costs
<b>EBITDA</b>	<b>67.1</b>	<b>85.2</b>	<b>65.2</b>	<b>(21.2)</b>	<b>2.9</b>	<b>304.9</b>	<b>304.1</b>	<b>0.3</b>	
D & A	(21.0)	(19.5)	(19.4)	7.7	8.2	(78.5)	(73.5)	6.8	From higher capex in FY17/FY18
<b>EBIT</b>	<b>46.1</b>	<b>65.7</b>	<b>45.8</b>	<b>(29.8)</b>	<b>0.7</b>	<b>226.4</b>	<b>230.6</b>	<b>(1.8)</b>	
Interest income	0.9	0.9	1.2	0.0	(25.0)	4.1	4.6	(10.9)	
Interest expense	(0.2)	(0.2)	(0.1)	0.0	100.0	(0.8)	(1.2)	(33.3)	
Other items	8.9	4.6	0.7	nm	nm	20.7	nm	nm	
Associates & JV profit	24.0	13.7	28.8	75.2	(16.7)	71.2	65.2	9.2	4Q YoY at -3% ex one off surplus gains
<b>Pre tax profit</b>	<b>79.7</b>	<b>84.7</b>	<b>76.4</b>	<b>(5.9)</b>	<b>4.3</b>	<b>321.6</b>	<b>309.1</b>	<b>4.0</b>	
Tax	(10.9)	(16.7)	(8.9)	(34.7)	22.5	(56.1)	(48.3)	16.1	
<b>Net Income</b>	<b>68.8</b>	<b>68.0</b>	<b>67.5</b>	<b>1.2</b>	<b>1.9</b>	<b>265.5</b>	<b>260.8</b>	<b>1.8</b>	Boosted by surplus gains and asset sale
MI	(3.4)	(1.4)	(0.9)	142.9	277.8	(4.0)	(2.9)	37.9	
<b>PATMI</b>	<b>65.4</b>	<b>66.6</b>	<b>66.6</b>	<b>(1.8)</b>	<b>(1.8)</b>	<b>261.5</b>	<b>257.9</b>	<b>1.4</b>	
Exceptional gains/(losses)	13.9	4.5	15.0	208.9	(7.3)	25.4	23.6	7.6	Surplus gains and asset sale
<b>Underlying core PATMI</b>	<b>51.5</b>	<b>62.1</b>	<b>51.6</b>	<b>(17.1)</b>	<b>(0.2)</b>	<b>236.1</b>	<b>234.3</b>	<b>0.8</b>	

Source: Company, Maybank Kim Eng

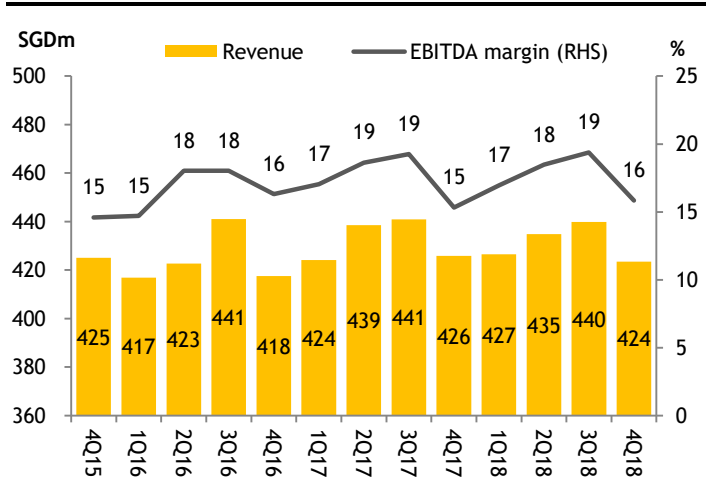
**Fig 2: SATS group operating statistics**

FYE 31 Mar	2H18	1H18	2H17	1H17		2H18	FY18		Comments
					HoH%	YoY %	YoY %		
Passengers (m)	28.3	26.0	26.4	25.2	9.2	7.6	5.4		In line with the est. c5% at Changi
Flights ('000)	80.7	85.3	87.5	83.9	(5.4)	(7.8)	(3.2)		From deconsolidation of SATS HK
Cargo ('000 tonnes)	924.0	904.9	876.8	840.6	2.1	5.4	6.5		
Gross meals (m)	35.6	34.9	33.4	34.2	2.0	6.6	4.3		Driven by non-aviation food growth
Ship calls (m)	156.0	33.0	125.0	22.0	372.7	24.8	28.6		Strong sequential and annual growth

Source: Company

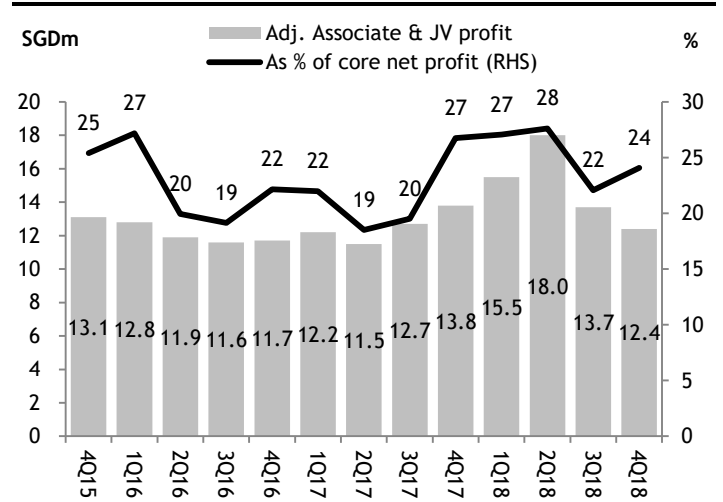
May 31, 2018

Fig 3: Quarterly revenue & EBITDA margin



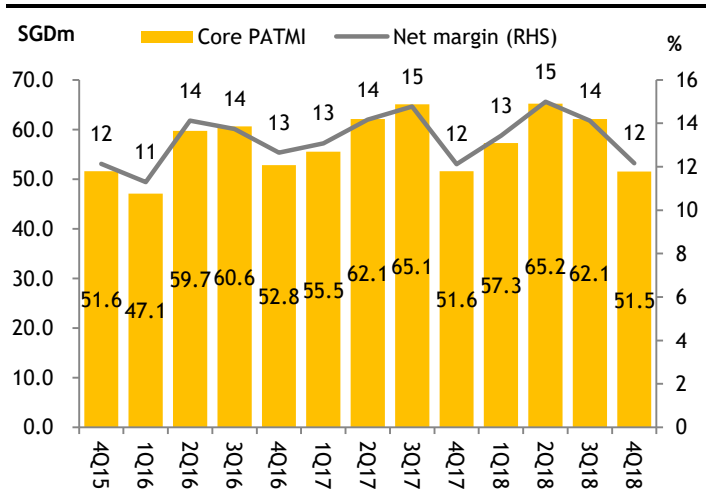
Source: Company

Fig 4: Quarterly adj. associate & JV profit



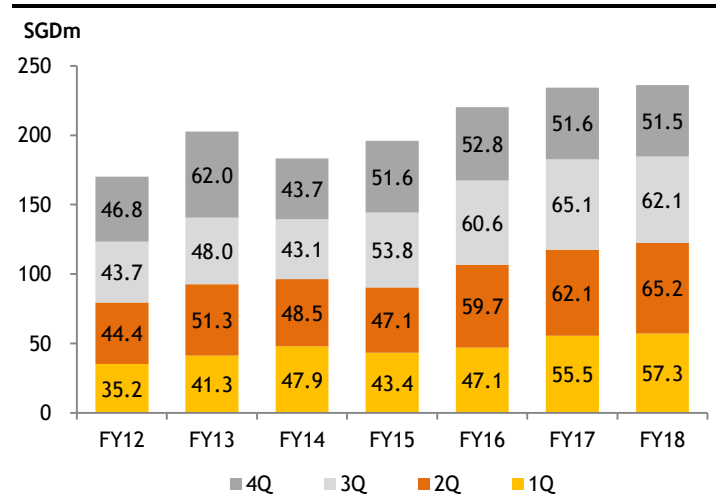
Source: Company

Fig 5: Quarterly core PATMI & net margin



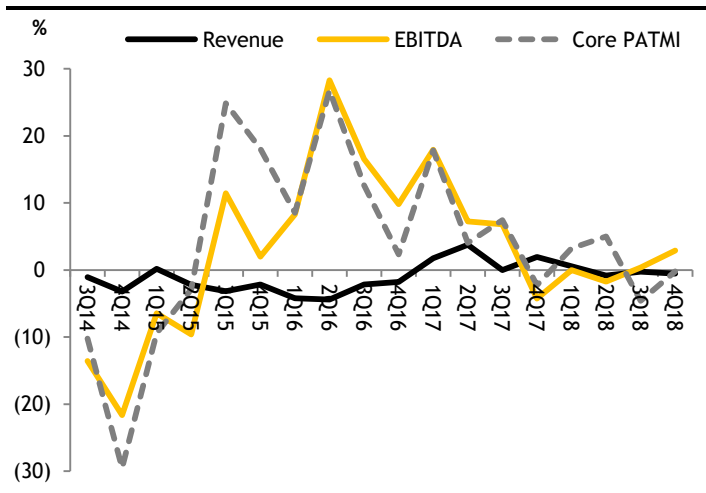
Source: Company

Fig 6: Core PATMI by quarter



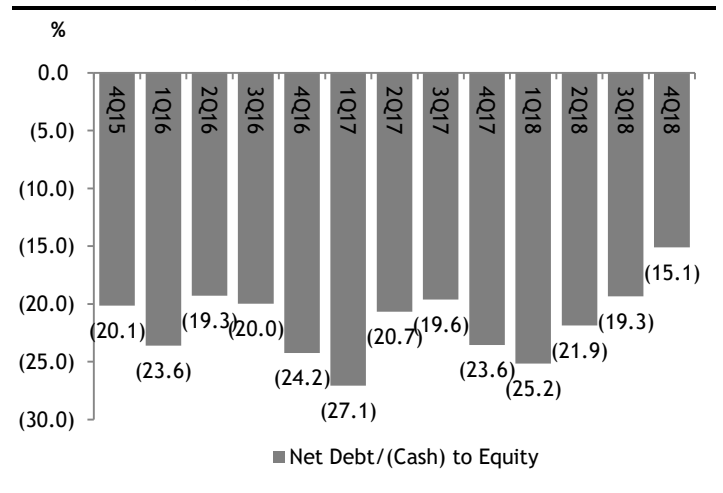
Source: Company

Fig 7: YoY revenue, EBITDA and core PATMI growth



Source: Company

Fig 8: Net debt (cash) to equity



Source: Company

## Minor forecast changes post FY18 results

On the back of FY18 full-year results and various insights from the management briefing, we have made some adjustments to our FY19E and FY20E profit forecasts that result in relatively minor changes to a decline of 1.9% and an increase of 1.2% increase, respectively to core profit. The key adjustments are:

- Expectation of lower growth in food solutions on the back of management indicating an increase in pricing pressure from customers.
- Higher level of productivity gains and cost rationalisation as FY18 operating cost numbers surprised modestly on the upside.
- We factored in slightly higher capex and investment in associates. The former translates into small increases to our earlier estimates for depreciation and amortisation.
- We raised our cost of debt funding by c30bps over the two years (in addition to our earlier expectation of a c40bps average increase) given the recent rise in SIBOR rates.
- We factored in a modest improvement in SATS' Hong Kong operations (now an associate) based on indications from management that performance of the entity was improving post the deconsolidation due to Hong Kong Airlines taking a majority stake.

**Fig 9: Summary of FY19E / FY20E forecast changes**

FYE 31 Mar SGDm	New		Old		Change %		Comments
	2019e	2020e	2019e	2020e	2019e	2020e	
Revenue	1,828.1	2,140.3	1,890.2	2,218.2	(3.3)	(3.5)	Lower food solutions growth from higher pricing pressure
COGS	(1,496.5)	(1,733.4)	(1,549.1)	(1,814.1)	(3.4)	(4.4)	Higher savings from cost control and productivity
EBITDA	331.5	406.9	341.1	404.1	(2.8)	0.7	
D&A	(78.4)	(82.8)	(77.5)	(82.0)	1.2	1.0	Slightly higher capex expectation
EBIT	253.1	324.0	263.6	322.1	(4.0)	0.6	
Net interest inc / (exp)	2.0	0.8	1.8	1.3	10.3	nm	Factored c30bps increase in cost of debt
Associates & JVs	71.2	74.3	69.5	72.6	2.5	2.5	Improvement in SATS HK associate
Pretax profit	326.3	399.1	335.0	396.0	(2.6)	0.8	
Income tax	(51.3)	(66.5)	(53.9)	(66.6)	(4.8)	(0.1)	
Minorities	(2.6)	(4.4)	(3.3)	(5.0)	nm	nm	
Reported net income	272.5	328.3	277.8	324.4	(1.9)	1.2	
<b>Core net income</b>	<b>272.5</b>	<b>328.3</b>	<b>277.8</b>	<b>324.4</b>	<b>(1.9)</b>	<b>1.2</b>	

Source: Maybank Kim Eng

## Multiple new contributors in the wings

SATS has a number of relatively new ventures, many of which are in investment-gestation stages that we expect will start contributing to profit growth over the coming two years. In addition, there are existing operations that should see tailwinds of organic growth from various market developments. We highlight below the various incremental growth drivers that we anticipate.

### The five most important new ventures (in our view):

- **Exclusive in-flight catering for Turkish Airlines (THY; Unlisted) international flights and others at the Istanbul New Airport:** An MOA has been signed and details are being ironed out; we expect the company to be in a position to divulge more information in the next 1-2 quarters. In our view, this is potentially the venture with the largest growth potential. The airport is under construction and reportedly expected to be inaugurated in late 2018 with the first phase expected to have a passenger capacity of 90m, and when fully completed around 2030 is expected to be the largest in the world with a capacity of around 150m. For reported FYE 2016, THY carried 35.5m international passengers (to put that in perspective, it is ~12% more than Singapore Airlines for FYE Mar-2017) (SIA SP; SGD11.55; TP SGD10.95; Hold).
- **JV with Air AirAsia (AIRA MK; MYR3.08; TP MYR3.70; Buy):** The ground handling joint venture has commenced operations and should start contributing from the current quarter. Passenger traffic in Malaysia has been growing in the high single to low double digit level since 2011 and for SATS the immediate opportunity lies in airports, like KLIA, Penang, Kuching and Kota Kinabalu that have both high traffic throughput and where AIRA is amongst the leading operators in terms of flight frequency. The JV can also competitively target the customers of other airlines that lack adequate economies of scale at these airports. Over the longer term it plans to explore gateway services opportunities in other several regional markets.
- **Cargo facilities in the Kingdom of Saudi Arabia:** SATS is building a greenfield cargo terminal in Dammam and is the first foreign firm to enter the market. Dammam is a fairly busy airport in the Middle East and, according to industry periodicals, handled around 9.4m passengers and 95,000 tonnes of cargo in 2015. Management indicated that while the new facilities will take some two years to build, SATS has already been able to secure temporary cargo facilities and sign on a large airline customer, ahead of plan. It is in discussions with other potential new customers as well.
- **JV for Mumbai Airport Cargo concession:** SATS has a 49% stake in the JV and the concession, which runs for 18 years starting April-2018; the JV will manage the international cargo facilities at Mumbai's international airport, amongst the country's busiest..
- **SATS Yihai Kerry JV:** A key non-aviation initiative to start and operate a large-scale commercial kitchen in China. Its first kitchen is reportedly ramping up well with c18-20 customers already on board since commencing operations mid-2017. Management indicated that the performance is ahead of plan based on their initial expectations of around three years gestation to profitability. Construction for the second is in the planning stage.

### The other new ventures in the line-up:

- **JV with DFASS tapping on travel retail spend:** This venture with Singapore's Duty Free licensee allows SATS to tap into the growth potential for inflight duty-free and duty-paid sales, mail order service,

and ground-based duty free and duty-paid retail sales in Singapore. Importantly, it leverages on SATS' existing capabilities and assets in providing inflight services that involve bar-cart packing, warehousing and cabin loading, and entails minimum new investments in capex and capabilities.

- **Brahims Airline Catering investment:** While this late-2015 investment had a slow start in generating returns given its largest customer, Malaysian Airlines (MAS; Unlisted) was undergoing financial restructuring, management indicated that the venture has been profitable for the past few quarters and, importantly, the outlook for inflight meal volumes is looking up.
- **SATS Hong Kong:** The restructuring of SATS Hong Kong in mid-2017 with the entry of Hong Kong Airlines as a majority strategic shareholder with a 51% stake is a key development towards a turnaround in profitability. The key structural challenge faced by the entity was being the newest entrant at Hong Kong International Airport without an airline affiliation to provide base load volumes, a problem that was effectively addressed by the ownership restructuring last year, in our view. We expect losses to decline and the entity to be profitable in FY20.

### Organic drivers at home base:

- **Changi Airport Terminal 4 capacity addition:** SATS has already incurred the start-up costs for Terminal 4, which commenced operations in the fourth quarter of 2017. The terminal, which adds around 16m in passenger capacity (Changi Airport's current total capacity is c82m passengers), will expectedly ramp up its capacity utilisation over the coming couple of years. This should allow SATS to benefit from economies of scale and operating leverage.
- **Qantas (QAN AU; Not-Rated) moving its connecting hub for UK flights back to Singapore:** After a hiatus of five years, Qantas, an existing customer, moved its hub for UK-bound flights back from the Middle East to Singapore starting in Mar-2018. This should be incrementally positive for SATS ground handling and in-flight catering volumes.

## Valuation and risks

### TP marginally raised to SGD6.15 from SGD6.10

We raise our P/E-based target price marginally by c1% to SGD6.15 from SGD6.10 due to the minor changes to earnings forecasts discussed earlier. Our TP basis is unchanged at a P/E of 21x FY20 EPS (equal to 1SD over its 5-year mean).

We believe the current 1SD premium over the mean will be sustained and justified over the coming 12-18 months due our expectation of higher growth in FY19E-FY21E compared to the past couple of years, driving an ROE expansion of 250-300bps back to pre-GFC levels.

On a calendarised basis, SATS trades at a 2018 P/E of 21.8, which is roughly a 15% discount to the Singapore industrials stocks basket and at par with a basket of international airport and aviation services companies.

### Peer valuations

Fig 10: Singapore industrials and international aviation services valuation summary

Factset Code	Company	Price		3M ADV USDm	Rec	TP			P/E (x)			DY (%)		ND/E (x)	ROE (%)		FYE
		L.C.	USDb			L.C.	Act	FY1	FY2	FY3	FY1	FY2	FY1		FY2	FY1	
<b>Singapore industrials</b>																	
S58-SG	SATS	5.28	4.41	5.8	Buy	6.15	22.8	21.2	18.1	-	3.8	4.4	(0.1)	16.3	18.0	Mar	
S59-SG	SIA Eng.	3.26	2.72	1.0	Hold	3.50	22.3	19.5	17.9	-	5.2	5.2	(0.4)	12.4	13.4	Mar	
S63-SG	ST Eng.	3.44	7.94	12.1	Buy	4.15	20.4	19.0	16.4	14.8	4.7	5.2	0.1	21.9	24.4	Dec	
C52-SG	Comfortdelgro	2.41	3.87	13.7	Buy	2.65	17.3	17.3	16.3	16.1	4.3	4.6	(0.2)	9.6	9.9	Dec	
S08-SG	Singapore Post	1.35	2.28	5.2	Buy	1.50	33.8	23.7	21.1	17.5	3.0	3.3	(0.0)	8.8	9.7	Mar	
BS6-SG	Yangzijiang	0.93	2.73	16.1	NR	-	5.9	7.4	7.5	7.4	4.6	4.6	(0.1)	8.5	7.8	Dec	
F83-SG	COSCO SG	0.43	0.71	5.9	NR	-	-	83.5	59.5	55.1	0.0	0.0	23.9	2.2	3.1	Dec	
S51-SG	Sembcorp Marine	2.13	3.30	14.1	NR	-	317.9	118.9	45.7	30.6	0.9	0.9	1.1	1.4	3.7	Dec	
U96-SG	Sembcorp Ind.	2.94	3.90	8.4	NR	-	23.0	13.8	11.1	9.6	2.7	2.7	1.0	5.2	6.3	Dec	
BN4-SG	Keppel Corp.	7.76	10.48	23.8	NR	-	16.9	14.0	12.7	10.7	3.3	3.3	0.4	8.6	8.6	Dec	
<b>Average</b>						<b>42.5</b>	<b>25.8</b>	<b>18.0</b>	<b>12.5</b>	<b>3.6</b>	<b>3.8</b>	<b>0.7</b>	<b>11.2</b>	<b>12.3</b>			
<b>International airport and aviation services</b>																	
S58-SG	SATS	5.28	4.41	5.8	Buy	6.15	22.8	21.2	18.1	-	3.8	4.4	(0.1)	16.3	18.0	Mar	
5014-MY	MAHB	8.30	3.46	5.7	Hold	8.52	89.2	31.6	27.1	22.1	1.1	1.4	0.3	4.7	5.4	Dec	
BBA-GB	BBA Aviation	3.30	4.52	9.6	NR	-	16.0	17.0	15.9	14.9	3.3	3.3	0.3	13.5	14.0	Dec	
DOC-AT	DO & CO	47.50	0.54	0.8	NR	-	20.4	16.8	14.4	18.6	1.7	1.7	0.3	11.1	11.5	Mar	
CASS-ID	PT Cardig	695	0.10	0.0	NR	-	-	-	-	-	-	-	-	-	-	Dec	
MAC-PH	MacroAsia	26.35	0.61	1.2	NR	-	33.8	27.1	22.1	-	0.5	0.5	-	-	-	Dec	
694-HK	Beijing CIA	11.00	2.63	7.3	NR	-	14.7	12.0	11.5	13.8	3.4	3.4	0.1	13.8	13.3	Dec	
9706-JP	Japan Airport TS	5,060	3.93	8.4	NR	-	34.9	16.9	41.1	27.1	0.8	0.8	0.8	15.7	6.1	Mar	
005430-KR	Korea AirportSvc	42,000	0.12	0.2	NR	-	6.4	6.3	6.2	-	1.2	1.2	(0.3)	6.5	6.3	Dec	
AENA-ES	Aena SME	164.40	28.52	141.3	NR	-	20.1	19.3	18.3	17.9	3.8	3.8	1.1	21.1	20.7	Dec	
FRA-DE	Fraport AG	80.26	8.58	15.2	NR	-	22.4	19.3	17.7	16.4	2.2	2.2	0.9	9.3	9.5	Dec	
MNZZ-GB	John Menzies	6.32	0.70	0.7	NR	-	11.1	10.7	9.9	9.3	3.5	3.5	4.0	78.1	77.7	Dec	
ADP-FR	Aeroports Paris	178.50	20.43	15.1	NR	-	30.9	30.1	27.5	23.6	2.0	2.0	0.8	11.0	11.6	Dec	
<b>Average</b>						<b>23.8</b>	<b>21.8</b>	<b>21.6</b>	<b>19.2</b>	<b>2.8</b>	<b>2.8</b>	<b>0.9</b>	<b>15.9</b>	<b>15.5</b>			

Source: FactSet, Maybank Kim Eng

### Key risks

The key downside risks to our positive outlook thesis and forecasts are:

- A material deterioration in airline industry fundamentals that will translate into pricing pressure and increasing competition among the aviation services providers;

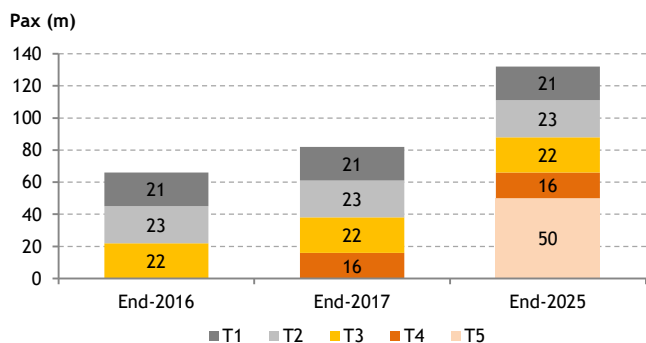
- Execution and market risk in SATS' various new ventures and investments. While the progress has been encouraging for a number of these ventures, payback periods are long for most and poor execution could translate to a drag on profits from current businesses;
- Risks specific to the proposed new venture with THY, which includes: i) greenfield execution risk in a new market; and ii) the outside chance that the venture does not go through at all for whatever reason after the six-month MOU period is over;
- Market risks for TFK Japan where performance has been disappointing in the past few quarters and the market remains in overcapacity and highly competitive;
- Currency risk as SATS derives c20% of revenues from overseas markets and this proportion is expected to grow in the coming years. That said, this is predominantly limited to translation risk for SGD group reporting as overseas operating entities' revenues and costs are largely matched on the functional currencies of the respective entities.



## Value Proposition

- Leading gateway and food solutions provider in Changi Airport, SATS also has equity interests in several similar Asian companies. It is a beneficiary of regional air traffic growth spurred by the proliferation of low cost airlines and a growing middle-class.
- Longer term growth in home market Singapore is supported by Changi Airport's plan to double annual terminal handling capacity to 135m passengers by 2025 and add a third runway around 2020.
- Armed with a strong balance sheet, SATS is on an investment trail to drive inorganic growth.
- Stable business, net cash in balance sheet and largely cash generative, SATS offers sustainable dividend yield of 3-4%.

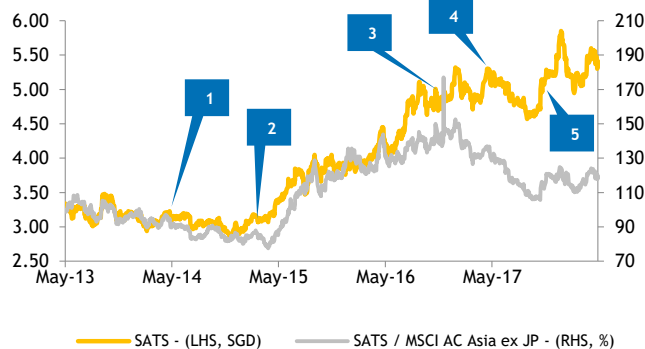
### Capacity expansion at Changi Airport



Source: Changi Airport Group, CAAS

## Price Drivers

### Historical share price trend



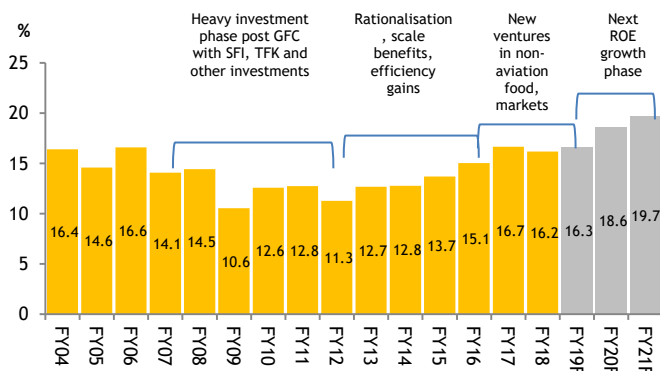
Source: Company, FactSet, Maybank Kim Eng

1. Earnings miss in May 2014. DPS cut.
2. Three positive events: a) Changi Airport announced reduction in airport charges (Apr 2015); b) ASIG, third ground handler, terminated contract with Jetstar, its only airline client (Jun 2015), TFK; c) SATS's Japan catering unit signed on major customer Delta Air (Jun 2015).
3. Temasek sold 23m shares at SGD4.75 in Oct 16.
4. FY17 missed market expectation; broker reports guiding for moderating growth.
5. Earnings beat; news on Turkish Air and AirAsia deals.

## Financial Metrics

- FY17-20E EPS CAGR expected to moderate somewhat to high single digits after the strong c13% delivered in the previous three years.
- Margin expansion seen in FY16/FY17 from deconsolidation of low-margin food distribution and positive operating leverage from higher air traffic. Margins gains in the near term limited until non-aviation revenues achieve scale.
- FCF should support consistent and growing dividends.

### ROE expected to surpass pre-GFC levels



Source: Company, Maybank Kim Eng

## Swing Factors

### Upside

- Higher-than-expected growth in air traffic.
- Inorganic growth from acquisitions. The company is looking to grow in new geographies in Asia and the Middle East as well as adjacent businesses that can leverage on its aviation services expertise.
- Higher dividends. Payout ratio had been capped at 80% despite large cash hoard. Upside to payout is possible to drive efficient use of capital.

### Downside

- Stagnant or contraction in air traffic.
- Poor execution from new acquisitions and ventures such as Brahim's inflight catering, SATS Yihai Kerry, JV with Air Asia, Cargo operations in the Middle-East, Food Solutions expansion in Turkey etc that may result in earnings drag.
- P/E valuation multiples at a premium to history which could present risk from earnings disappointment but the outlook for improving ROE should limit material downside.

FYE 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Key Metrics</b>					
P/E (reported) (x)	20.1	21.6	21.6	17.9	15.9
Core P/E (x)	23.6	24.9	21.6	17.9	15.9
P/BV (x)	3.7	3.6	3.5	3.2	3.0
P/NTA (x)	4.1	4.0	3.8	3.6	3.3
Net dividend yield (%)	3.2	3.4	3.7	4.2	4.7
FCF yield (%)	4.5	2.9	3.4	4.9	5.8
EV/EBITDA (x)	16.8	18.3	17.6	14.4	12.7
EV/EBIT (x)	22.2	24.7	23.1	18.1	15.6

**INCOME STATEMENT (SGD m)**

Revenue	1,729.4	1,724.6	1,828.1	2,140.3	2,337.4
EBITDA	304.1	304.9	331.5	406.9	458.4
Depreciation	(73.5)	(78.5)	(78.4)	(82.8)	(83.8)
EBIT	230.6	226.4	253.1	324.0	374.5
Net interest income / (exp)	3.4	3.3	2.0	0.8	0.7
Associates & JV	65.2	71.2	71.2	74.3	79.1
Exceptionals	9.3	25.4	0.0	0.0	0.0
Other pretax income	0.6	(4.7)	0.0	0.0	0.0
Pretax profit	309.1	321.6	326.3	399.1	454.3
Income tax	(48.3)	(56.1)	(51.3)	(66.5)	(77.6)
Minorities	(2.9)	(4.0)	(2.6)	(4.4)	(6.0)
Reported net profit	257.9	261.5	272.5	328.3	370.8
Core net profit	248.6	236.1	272.5	328.3	370.8
Preferred Dividends	0.0	0.0	0.0	0.0	0.0

**BALANCE SHEET (SGD m)**

Cash & Short Term Investments	505.8	373.3	294.8	283.7	297.4
Accounts receivable	271.2	298.5	300.5	351.8	384.2
Inventory	21.9	22.5	24.6	28.5	30.9
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	538.7	560.1	591.7	598.8	595.0
Intangible assets	157.9	157.5	157.5	157.5	157.5
Investment in Associates & JVs	670.8	848.8	960.8	1,074.3	1,189.9
Other assets	113.1	87.6	87.6	87.6	87.6
<b>Total assets</b>	<b>2,279.4</b>	<b>2,348.3</b>	<b>2,417.5</b>	<b>2,582.3</b>	<b>2,742.5</b>
ST interest bearing debt	10.4	10.1	10.1	10.1	10.1
Accounts payable	330.9	331.7	328.0	379.9	411.8
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	98.2	96.3	96.3	96.3	96.3
Other liabilities	149.0	144.0	144.0	144.0	144.0
<b>Total Liabilities</b>	<b>588.2</b>	<b>581.7</b>	<b>578.0</b>	<b>629.9</b>	<b>661.8</b>
Shareholders Equity	1,603.5	1,634.1	1,705.7	1,816.4	1,941.7
Minority Interest	87.7	132.5	133.8	136.0	139.0
<b>Total shareholder equity</b>	<b>1,691.2</b>	<b>1,766.6</b>	<b>1,839.5</b>	<b>1,952.4</b>	<b>2,080.6</b>
Perpetual securities	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities and equity</b>	<b>2,279.4</b>	<b>2,348.3</b>	<b>2,417.5</b>	<b>2,582.3</b>	<b>2,742.5</b>

**CASH FLOW (SGD m)**

Pretax profit	309.1	321.6	326.3	399.1	454.3
Depreciation & amortisation	73.5	78.5	78.4	82.8	83.8
Adj net interest (income)/exp	(3.4)	(3.3)	(2.0)	(0.8)	(0.7)
Change in working capital	38.2	(24.8)	(7.8)	(3.3)	(2.9)
Cash taxes paid	(41.3)	(51.3)	(51.3)	(66.5)	(77.6)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	310.5	247.0	272.4	337.0	377.9
Capex	(88.1)	(99.2)	(110.0)	(90.0)	(80.0)
Free cash flow	264.0	173.0	201.6	287.9	341.4
Dividends paid	(178.2)	(190.3)	(200.9)	(217.6)	(245.5)
Equity raised / (purchased)	4.3	(13.4)	0.0	0.0	0.0
Change in Debt	(6.7)	(0.6)	0.0	0.0	0.0
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(0.8)	(80.9)	(40.1)	(40.5)	(38.8)
Effect of exch rate changes	2.0	(1.6)	0.0	0.0	0.0
Net cash flow	16.5	(133.5)	(78.5)	(11.1)	13.6

FYE 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	1.8	(0.3)	6.0	17.1	9.2
EBITDA growth	6.7	0.3	8.7	22.7	12.7
EBIT growth	7.4	(1.8)	11.8	28.0	15.6
Pretax growth	16.6	4.0	1.5	22.3	13.8
Reported net profit growth	16.9	1.4	4.2	20.5	12.9
Core net profit growth	12.7	(5.0)	15.4	20.5	12.9
<b>Profitability ratios (%)</b>					
EBITDA margin	17.6	17.7	18.1	19.0	19.6
EBIT margin	13.3	13.1	13.8	15.1	16.0
Pretax profit margin	17.9	18.6	17.9	18.6	19.4
Payout ratio	73.3	76.8	79.9	74.8	75.2
<b>DuPont analysis</b>					
Net profit margin (%)	14.9	15.2	14.9	15.3	15.9
Revenue/Assets (x)	0.8	0.7	0.8	0.8	0.9
Assets/Equity (x)	1.4	1.4	1.4	1.4	1.4
ROAE (%)	16.7	16.2	16.3	18.6	19.7
ROAA (%)	11.3	10.2	11.4	13.1	13.9
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	57.1	59.5	59.0	54.9	56.7
Days inventory outstanding	108.5	101.8	108.1	115.4	127.5
Days payables outstanding	nm	nm	nm	nm	nm
Dividend cover (x)	1.4	1.3	1.3	1.3	1.3
Current ratio (x)	2.1	1.8	1.7	1.6	1.6
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	3.9	4.0	4.2	4.1	4.1
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.4	0.3	0.3	0.3	0.2
Capex/revenue (%)	5.1	5.8	6.0	4.2	3.4
Net debt/ (net cash)	(397.2)	(266.9)	(188.4)	(177.3)	(191.0)

Source: Company; Maybank

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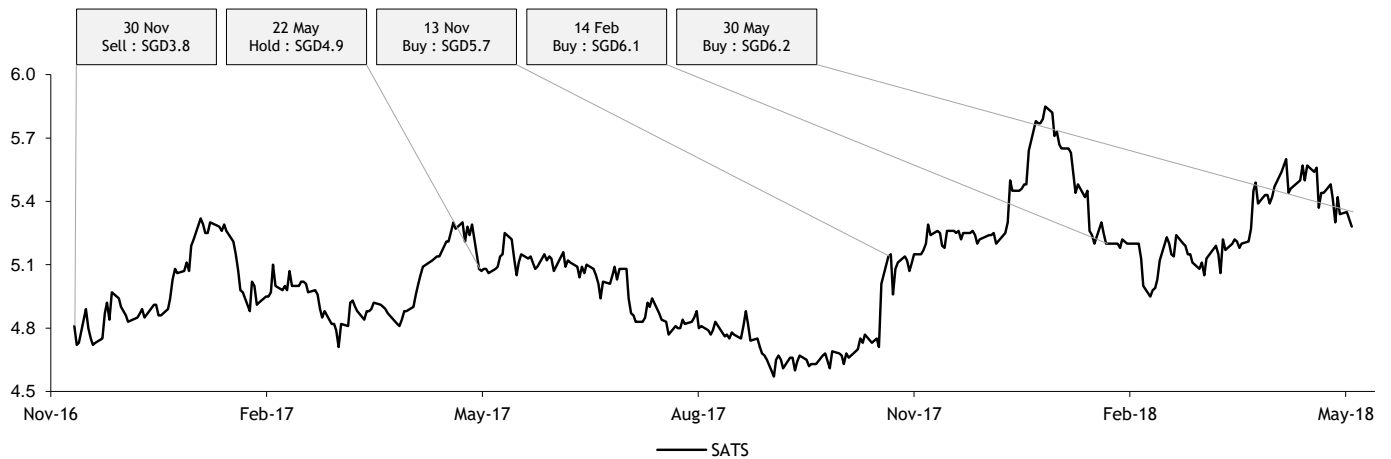
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