SATS (SATS SP)

1HFY27: Steady Headline Earnings Supported By Tax Items; Cost Pressures Peak, Margins Poised To Recover

Highlights

- SATS recorded steady headline earnings in 1HFY27, supported by one-off tax items. Excluding all one-offs, core earnings dropped 9.9% yoy in 2QFY27.
- The weaker 2QFY27 core earnings should not be a concern, as the 2QFY27 margin weakness, caused by transitory cost pressures, has been well guided.
- Management is incrementally more positive, noting that cost pressures are likely to have peaked and margins should be on a recovery trend.
- Maintain BUY with an unchanged target price of S$5.00. We like SATS for its strong business fundamentals and upbeat medium-term growth trajectory.

1HFY27/1QFY27 Results

Year to 31 Mar (S$m)	1H FY27	1H FY26	yoy % chg	2Q FY27	2Q FY26	yoy % chg	1Q FY27	qoq % chg	Prev. FY27F	1H as % of FY27F
Revenue	**3,389**	**3,079**	**+10.1**	**1,713**	**1,572**	**+8.9**	**1,676**	**+2.2**	**6,867**	**49.4%**
Food solutions	723	685	+5.5	377	357	+5.6	346	+8.8	1,431	50.5%
Aviation food	481	472	+1.8	245	239	+2.6	236	+4.0	962	50.0%
Non-aviation food	242	212	+13.8	131	118	+11.7	110	+19.1	469	51.5%
Gateway services	2,666	2,393	+11.4	1,337	1,215	+10.0	1,329	+0.5	5,435	49.0%
Cargo	1,794	1,592	+12.7	900	811	+11.0	893	+0.8	3,601	49.8%
Ground handling	872	802	+8.8	436	404	+8.0	436	-	1,833	47.6%
EBIT	**279**	**283**	**-1.2**	**145**	**157**	**-7.6**	**134**	**+8.7**	**561**	**49.8%**
- Food solutions	75	67	+12.3	39	38	+2.1	36	+8.6		
- Gateway services	231	234	-1.2	117	132	-11.1	114	+3.3		
JV/asso contrib.	53	61	-13.2	26	28	-6.5	27	-3.7	108	48.6%
Reported net profit	**156**	**150**	**+4.3**	**81**	**79**	**+2.8**	**75**	**+8.0**	**315**	**49.6%**
Core net profit	**161**	**160**	**+1.0**	**80**	**89**	**-9.9**	**81**	**-1.8**	**321**	**50.2%**

Source: SATS, UOB Kay Hian

Analysis

- **Steady headline performance supported by tax items.** SATS' headline net profit rose 4.3% yoy to S$156m in 1HFY27, helped by a 22% yoy, or S$15.4m, decline in tax expense. This reflected the reversal of prior-year tax overprovisions in 1HFY27, compared with top-up provisions for prior years in 1HFY26. Adjusting for all one-off items, including these tax provision adjustments, we estimate that SATS' core earnings rose 1.0% yoy in 1HFY27 (supported by a strong 1QFY27 core performance), but dropped 9.9% yoy in 2QFY27.

Key Financials

Year to 31 Mar (S$m)	2025	2026	2027F	2028F	2029F
Net turnover	5,821	6,346	6,965	7,497	7,974
EBITDA	1,036	1,146	1,179	1,320	1,411
Operating profit	476	543	550	654	706
Net profit (rep./act.)	244	285	303	384	428
Net profit (adj.)	260	309	308	384	428
EPS (S$ cents)	17.3	20.4	20.3	25.3	28.3
PE (x)	24.1	20.4	20.5	16.5	14.8
P/B (x)	2.4	2.2	2.1	1.9	1.8
EV/EBITDA (x)	11.0	10.0	9.8	8.6	8.1
Dividend yield (%)	1.2	1.7	2.0	2.5	2.8
Net margin (%)	4.2	4.5	4.3	5.1	5.4
Net debt/(cash) to equity (%)	66.6	55.3	47.5	36.3	26.2
ROE (%)	9.8	10.7	10.6	12.5	12.8
Consensus net profit	-	-	317	376	423
UOBKH/Consensus (x)	-	-	0.97	1.02	1.01

Source: SATS, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	S$4.17
Target Price	S$5.00
Upside	19.9%

Stock Data

Sector	Industrials
Bloomberg ticker	SATS SP
Shares issued (m)	1,484.0
Market cap (S$m)	6,188.2
Market cap (US$m)	4,816.8
3-mth avg daily t'over (US$m)	19.8

Price Performance (%)

52-week high/low				S$4.96/S$3.17
1mth	**3mth**	**6mth**	**1yr**	**YTD**
11.8	(11.5)	27.1	18.5	9.4

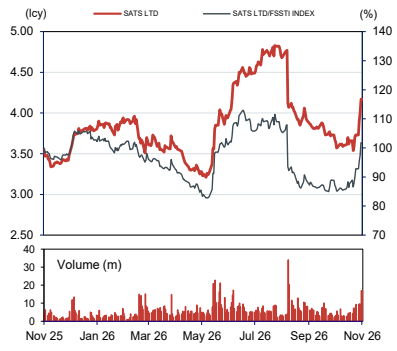
Major Shareholders (%)

Temasek Hldgs	40.33

Balance Sheet Metrics

FY27 NAV/Share (S$)	2.00
FY27 Net Debt/(Cash)/Share (S$)	1.02

Price Chart



Source: Bloomberg

Company Description

A global leader in aviation gateway services and Asia's leading food solutions provider.

- **2QFY27 margin pressure well flagged; yoy dip but qoq improvement.** Operating margin declined 1.5ppt yoy to 8.5% in 2QFY27, reflecting temporary cost pressures that management had previously flagged. Encouragingly, margin improved 0.5ppt qoq, reinforcing our view that cost pressures have likely peaked and margins are beginning to recover.
- **Business fundamentals remain strong.** Despite temporary margin pressures, SATS delivered healthy volume growth across all business lines, driving a 9.0% yoy increase in revenue in 2QFY27.
- Within the gateway services division, cargo volume grew a solid 8.0% yoy, outperforming the IATA industry benchmark for the 12th consecutive quarter. Notably, EMEA cargo volume still edged up 0.1% yoy despite the full-quarter impact of the EU's new charges on e-commerce parcels, supported by stronger general cargo and AI-related shipments. The only soft spot was APAC flight-handling volume, which was affected by reduced airline schedules amid elevated fuel prices. However, this was more than offset by strong growth in EMEA and the Americas.
- Food solutions also recorded robust meal-volume growth of 7.8% yoy, with aviation and non-aviation meals increasing 8.3% and 7.1%, respectively.
- **Interim dividend of 2 S cents remained unchanged yoy for 1HFY27.**
- **Management turns incrementally more positive on the outlook.** For cargo, despite near-term volatility arising from changes to the EU's de minimis rules, SATS expects volumes over the next 12 months to benefit from new contract wins and network expansion. Additional capacity in Europe and AI-enabled planning tools should support further growth.
- Aviation food demand remains affected by disruptions in the Middle East, although new contract wins should help mitigate the impact. Non-aviation food is expected to maintain its positive momentum as kitchen utilisation increases. Input costs will likely remain elevated in the near term, but their impact on margins should moderate progressively as contractual repricing takes effect.
- Management reiterated that the near-term cost pressures are transitory, while also confirming our view that cost pressures are likely to have peaked in 2QFY27. Barring further disruptions, margins should be on a recovery trajectory.
- Overall, **management expects a solid performance in the seasonally stronger 3QFY27**, with margins moving closer towards prior-year levels. with margins moving closer to prior-year levels despite some additional gestation costs associated with the start-up of its central kitchen in Thailand.

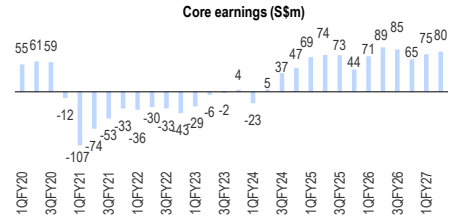
Earnings Revision/Risk

- **We trim our FY27 earnings estimate by 4%** as we finetune our cost projections for 2HFY27. Our FY28-29 earnings estimates remain intact.
- **Key risks:** a) slower-than-expected margin recovery; b) execution risks of expansion in new markets; and c) expansion-related gestation costs.

Valuation/Recommendation

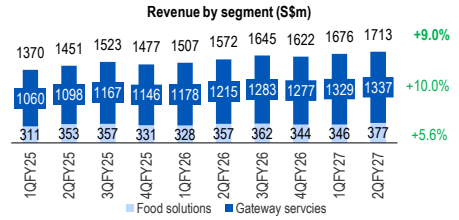
- **Maintain BUY on SATS, with an unchanged target price of S$5.00.** Our target price remains based on 19.7x FY28 PE, pegged to SATS' historical mean PE. We continue to like SATS for its upbeat medium-term growth trajectory and recommend investors to focus on SATS' strong business fundamentals and look beyond temporary margin pressures.

Quarterly Earnings Trend



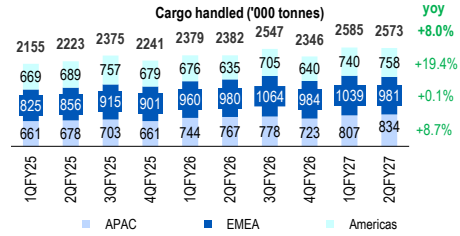
Source: SATS

Quarterly Revenue Trend



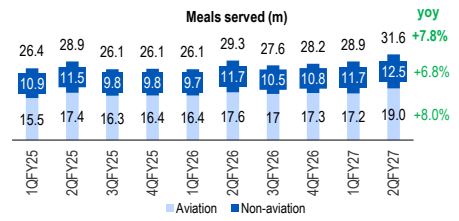
Source: SATS

Quarterly Cargo Volume Handled



Source: SATS

Quarterly Meal Volume Produced



Source: SATS

PE-based Valuation

		FY27F	FY28F	FY29F
EPS		S$0.200	S$0.253	S$0.283
PE peg		----------	**Target Price**	----------
+1.0SD	22.3x	S$4.47	S$5.66	S$6.31
+0.5SD	21.0x	S$4.21	S$5.33	S$5.94
mean	**19.7x**	S$3.95	**S$5.00**	S$5.57
-0.5SD	18.4x	S$3.69	S$4.67	S$5.20
-1.0SD	17.1x	S$3.42	S$4.34	S$4.84

Source: UOB Kay Hian

Profit & loss

Year to 31 Mar (S$m)	2026	2027F	2028F	2029F
Net turnover	**6,346**	**6,965**	**7,497**	**7,974**
EBITDA	1,146	1,179	1,320	1,411
Deprec. & amort.	603	630	666	706
EBIT	543	550	654	706
Total other non-op. income	(13)	0	0	0
Associate contributions	115	105	110	113
Net interest income/(expense)	(228)	(224)	(207)	(193)
Pre-tax profit	**416**	**432**	**557**	**625**
Tax	(111)	(107)	(151)	(173)
Minorities	(20)	(22)	(23)	(25)
Net profit	**285**	**303**	**384**	**428**
Net profit (adj.)	309	308	384	428

Balance Sheet

Year to 31 Mar (S$m)	2026	2027F	2028F	2029F
Fixed assets	2,633	2,769	2,819	2,877
Other LT assets	4,371	4,339	4,309	4,279
Cash/ST investment	753	674	680	699
Other current assets	1,317	1,342	1,368	1,394
Total assets	**9,074**	**9,125**	**9,176**	**9,250**
ST debt	553	553	553	553
Other current liabilities	1,589	1,619	1,649	1,679
LT debt	3,583	3,383	3,133	2,883
Other LT liabilities	412	412	412	412
Shareholders' equity	2,750	2,950	3,198	3,466
Minority interest	186	208	232	257
Total liabilities & equity	**9,074**	**9,125**	**9,176**	**9,250**

Cash flow

Year to 31 Mar (S$m)	2026	2027F	2028F	2029F
Operating	**1,030**	**843**	**956**	**1,040**
Pre-tax profit	416	432	557	625
Tax	(83)	(107)	(151)	(173)
Deprec. & amort.	603	630	666	706
Associates	(115)	(105)	(110)	(113)
Working capital changes	25	4	4	4
Non-cash items	71	0	0	0
Other operating cashflows	112	(11)	(10)	(10)
Investing	**(231)**	**(269)**	**(216)**	**(263)**
Capex	(345)	(350)	(300)	(348)
Investment	(10)	0	0	0
Proceeds from sale of assets	11	0	0	0
Others	114	81	84	85
Financing	**(741)**	**(652)**	**(734)**	**(759)**
Dividend payments	(82)	(103)	(135)	(160)
Proceeds from borrowings	1,236	0	0	0
Loan repayment	(1,376)	(200)	(250)	(250)
Others/interest paid	(519)	(349)	(349)	(349)
Net cash inflow (outflow)	**59**	**(78)**	**6**	**19**
Beginning cash & cash equiv.	**694**	**753**	**674**	**680**
Changes due to forex impact	(1)	0	0	0
Ending cash & cash equiv.	**753**	**674**	**680**	**699**

Key Metric

Year to 31 Mar	2026	2027F	2028F	2029F
Profitability				
EBITDA margin	18.1	16.9	17.6	17.7
Pre-tax margin	6.6	6.2	7.4	7.8
Net margin	4.5	4.3	5.1	5.4
ROA	3.2	3.3	4.2	4.6
ROE	10.7	10.6	12.5	12.8
Growth (% yoy)				
Turnover	9.0	9.8	7.6	6.4
EBITDA	10.6	2.9	11.9	6.9
Pre-tax profit	15.7	3.7	29.1	12.2
Net profit	17.0	6.1	26.7	11.5
Net profit (adj.)	18.9	(0.5)	24.7	11.5
EPS	18.2	(0.5)	24.7	11.5
Leverage				
Debt to total capital	44.7	40.8	36.0	31.0
Debt to equity	80.9	68.9	56.1	45.0
Net debt/(cash) to equity	55.3	47.5	36.3	26.2

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