30 July 2010

Maintain

BUY

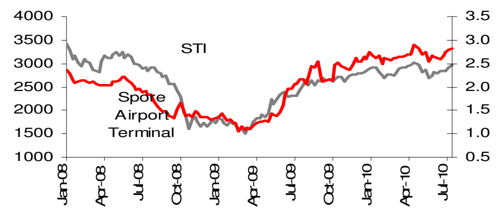
Previous Rating: BUY

Current Price: S$2.96

Fair Value: S$3.30

Singapore Airport Terminal Services Ltd

Strong execution in 1QFY11



Reuters Code	SIAT.SI
ISIN Code	S58
Bloomberg Code	SATS SP
Issued Capital (m)	1,098
Mkt Cap (Sm/USm)	3,249 / 2,382
Major Shareholders	
Temasek Holdings	43.65%
Free Float (%)	56.3%
Daily Vol 3-mth ('000)	2,363
52 Wk Range	2.010 - 2.970

(S$ m)	FY09	FY10	FY11F	FY12F
Revenue	1062.1	1538.9	1615.4	1690.6
EBIT	170.9	184.4	190.4	208.8
P/NTA (x)	3.5	3.2	3.0	2.9
EPS (cts)	13.6	16.6	18.2	20.0
PER (x)	21.8	17.9	16.2	14.8

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1QFY11 results driven by broad-based growth. SATS Limited reported its 1QFY11 results last evening. Revenue came in at S$382.1m (+8.6% YoY, -2.2% QoQ), forming 24.1% of our FY11 sales forecast (22.9% of consensus), while PATMI reached S$44.3m (+9.7% YoY, -4.7% QoQ), representing 22.8% of full-year earnings estimate (21.6% of consensus). We note that the group enjoyed broad-based growth over the quarter, with aviation revenue (+9.1% YoY) driven by higher cargo throughput and passenger traffic, and non-aviation food business (+8.4% YoY) boosted by higher drinks and fruit sales from its UK operations. Better performances were also recorded by its ground handling associates in Hong Kong and Indonesia, leading to a strong 61.5% growth in contribution from overseas associates. As such, bottomline grew at a relatively faster pace than its topline, notwithstanding the absence of S$6.1m jobs credit benefit seen in 1QFY10. Excluding this benefit, we estimate that PATMI would have grown by 29.2% YoY (vs. 9.7% YoY growth as reported).

Positive outlook. Going forward, management expects its aviation business segment to improve further, in tandem with the economic recovery in Asia. Notably, passenger traffic is anticipated to grow in the coming quarters as full-service carriers continue to improve their yields and add more flights. In addition, cargo volumes are expected to grow, albeit at slower rate, mirroring the moderating economic growth projected in 2HCY10. Despite rising costs, SATS also added that its Singapore and UK food business are expected to remain stable in 2010.

Update on Coolport. On its perishable cargo handling centre, Coolport@Changi, management updated that the facility has commenced operations since 17 Jun and that the group is now in discussion with prospective customers for business opportunities in this area. Management currently expects Coolport to breakeven in 2-3 years. However, if it manages to secure big customers (where revenue is expected to be lumpy), the facility may break even as early as end-FY11.

Maintain BUY. We continue to like SATS for its growth opportunities, consistently strong operating cashflows and generous dividend payouts. We are revising our FY11 forecasts upwards by 2.1-2.7% as we incorporate the quarterly results into our full-year projections. This raises our DCF-based fair value to S$3.30 from S$3.27 previously. Despite the share price jumping by 16.5% since our last report on 10 Jun, we continue to see an attractive upside potential of 11.5% on SATS. As such, we maintain our **BUY** rating on the stock.

SATS' Key Financial Data

SATS Results Year Ended 31 Mar (S$ m)	1Q10 (S$m)	1Q11 (S$m)	% Chg (YoY)	4Q10 (S$m)	% Chg (QoQ)
Revenue	351.7	382.1	8.6%	390.6	-2.2%
EBITDA	66.6	63.5	-4.7%	63.0	0.8%
Depreciation & amortisation	-22.9	-22.3	-2.6%	-22.7	-1.8%
Operating profit	43.7	41.2	-5.7%	40.3	2.2%
Finance costs	-1.9	-1.0	-47.4%	-0.6	66.7%
Interest and investment income	0.9	0.3	-66.7%	0.1	200.0%
Associates	9.1	14.7	61.5%	13.0	13.1%
Profit before exceptional item	51.8	55.2	6.6%	52.8	4.5%
Exceptional item	0.0	0.0	nm	0.0	nm
Pre-tax profit	51.8	55.2	6.6%	52.8	4.5%
Tax	-10.9	-10.9	0.0%	-6.2	75.8%
Minority interests	-0.5	0.0	-100.0%	-0.1	nm
Net profit	40.4	44.3	9.7%	46.5	-4.7%
Net Margin	11.5%	11.6%		11.9%	

SATS' Key Financial Data

EARNINGS FORECAST Year Ended 31 Mar (S$m)	FY09	FY10	FY11F	FY12F
Revenue	1,062.1	1,538.9	1,615.4	1,690.6
EBITDA	235.5	275.2	281.9	306.8
Depreciation & amortization	-64.6	-90.8	-91.5	-98.1
EBIT	170.9	184.4	190.4	208.8
Net interest	-9.6	-3.3	-3.2	-1.7
Associates	22.2	41.9	60.6	64.2
Exceptional items	0.0	0.0	0.0	0.0
Profit before tax	183.5	223.0	247.8	271.3
Income tax expense	-35.1	-40.9	-47.5	-51.6
PATMI	146.7	181.2	199.8	219.2

BALANCE SHEET As at 31 Mar (S$m)	FY09	FY10	FY11F	FY12F
Bank and cash balances	53.4	63.8	159.0	247.6
Other current assets	546.9	421.9	418.0	431.2
Property, plant, and equipment	608.4	594.4	562.4	524.2
Total assets	2,050.3	1,909.1	1,948.9	1,992.7
Debt	251.4	24.1	22.9	22.9
Current liabilities excluding debt	258.2	263.2	278.1	289.0
Total liabilities	634.0	409.0	421.3	430.8
Shareholders equity	1,398.0	1,481.8	1,508.8	1,542.5
Minority interests	18.3	18.3	18.8	19.4
Total equity and liabilities	2,050.3	1,909.1	1,948.9	1,992.7

CASH FLOW Year Ended 31 Mar (S$m)	FY09	FY10	FY11F	FY12F
Op profit before working cap. chg.	237.2	279.8	281.0	306.5
Working cap, taxes and int	-46.6	-24.8	-32.3	-57.3
Net cash from operations	190.6	255.0	248.6	249.2
Purchase of PP&E	-28.1	-64.1	-40.0	-40.0
Other investing flows	-421.3	48.6	30.3	32.8
Investing cash flow	-449.4	-15.5	-9.7	-7.2
Financing cash flow	-166.8	-318.1	-143.7	-153.4
Net cash flow	-425.6	-78.6	95.2	88.5
Cash at beginning of year	700.3	275.7	195.8	291.0
Cash at end of year	53.4	63.8	159.0	247.6

KEY RATES & RATIOS	FY09	FY10	FY11F	FY12F
EPS (SG cents)	13.6	16.6	18.2	20.0
NTA per share (SG cents)	85.5	93.3	97.3	102.2
EBIT margin (%)	16.1%	12.0%	11.8%	12.4%
Net profit margin (%)	13.8%	11.8%	12.4%	13.0%
PER (x)	21.8	17.9	16.2	14.8
Price/NTA (x)	3.5	3.2	3.0	2.9
EV/EBITDA (x)	14.7	11.7	11.1	9.9
Dividend yield (%)	3.4%	4.4%	4.7%	5.1%
ROE (%)	10.6%	12.5%	13.2%	14.2%
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company data, OIR estimates

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