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SATS 3Q FY26 Results Briefing Transcript

David Boey:

Good evening, everyone. Welcome to the SATS third quarter results briefing for financial year 2026.

I'm David, Group Head of Strategic Communications. Before we begin, I would like to turn your attention to the forward-looking statement now on the screen.

Now for our safety reminder: Whether you're joining us from the office, at home, or on the road, please be aware of your surroundings at all times. Do make your safety a priority before joining this call, a recording of which will be available on our website.

With me today are Kerry Mok, SATS President and CEO, and Timothy Tang, our CFO. I will hand over to Kerry to take you through the business update. Kerry, please.

Kerry Mok:

Thank you, David, and good evening, everybody. I appreciate you taking time out on Friday evening to join our earnings call.

Let me just quickly go into the third quarter performance. I'm pleased to say that the third quarter performance was really solid. We had record cargo volume driven obviously by a seasonal peak. You would recall that last quarter we did say there was some forward loading as well, and we benefited from that. But despite that, the number for this quarter was a record. In fact, in our history, this is probably the highest quarter we have ever got.

Year-on-year growth is across all lines of business. We also continued to outperform IATA's numbers for the ninth straight quarter, and that's driven a lot by APAC and EMEAA growth, which more than offset some of the de minimis impact in the Americas and tariff impact as well.
We continue to show good commercial progress. We won a new cargo and ramp contract with China Cargo in Paris and with Saudia Cargo also in the Americas, and I'll share a bit more on new wins in my updates later.

From a revenue standpoint, 8% growth against last year. Very pleasing to see the margin expansion to almost $300 million EBITDA, to 18.1% margin. And PATMI has grown 20% to $84.7 million.

And really what is pleasing for us is that the resilient network continues to capture trade flows and shifts. So all the uncertainty in the geopolitical environment and the tariff situation – so far we have been benefiting from all the different shifts, primarily because of the network that we have.
Just on the food side, aviation meals have grown 4.5% year on year, and the non-aviation meal has also shown a 7% growth to 10.5 million meals this quarter.

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Next slide.

As I mentioned, we also won two new wins. One is Allegiant Air in Sanford Airport, which is the a hub airport in the US, and Azul in Viracopos Airport, which is actually in São Paulo. Azul is actually the largest low-cost carrier in Brazil, and we are actually their hub provider for ground handling in Brazil. So that's a fantastic win for our team in Brazil as well, and we continue to grow our presence in Brazil with some of these wins that we have locked in.

On the food side, very pleasing to say we have won a multi-year in-flight catering contract with Turkish Airlines. Turkish Airlines is leveraging on halal-produced meals out of Narita and Haneda, and it's been a win. It's been a contract we've been aiming for quite some time, and very happy that our team in Japan managed to secure the contract with Turkish Airlines.

We continue to invest and reinvest in our infrastructure. We recently signed a twenty-year lease for a new warehouse at London Heathrow. This is really to grow our business at Heathrow. As you know, if you look at Heathrow Airport at the horseshoe area, many of the facilities are actually aged as well. So this will be the first new facility in Heathrow, and we believe that's going to help us gain more business in London, but at the same time allow us to put a more modern warehouse in Heathrow to support the growth of air cargo over there.

We've also expanded our e-commerce and freight forwarder handling business at Frankfurt Airport. We took a facility – an old facility previously from DHL—and we converted it for usage, and we're now starting to roll out those services for freight forwarders in Frankfurt. As you know, Frankfurt is the biggest cargo hub in Europe, so our ability to provide additional services for our targeted customers in freight forwarding is actually a very important part of our specialized services focus.

In Singapore, closer to home, we just broke ground on an extension of our maintenance center. Again, this is in preparation to put in more capacity so that we can actually service more of our ground units – GSE equipment here in Singapore. As you know, we have also announced the refreshment of our equipment here in Singapore, and therefore we need this extension to service the additional capacity that's required.

On the technology side, our investments in AI continue to reap benefits. We have launched our first AI control tower to monitor our supply chain on the food side, and this is a very important milestone for us because the system that we develop here can have different uses going forward. And a control tower using AI is going to be a big part of how we're going to run our business globally going forward.

And then on the employer side, we are pleased that we are recognized as one of the top 20% employers in the SG Opportunity Index. That's led by the Ministry of Manpower, and we've also been certified as a top employer in Singapore by the Top Employers Institute. This continues our focus on making sure that we are a great place to work for many of our employees, and we really want to make sure that this aspect is taken care of so that we can continue to attract our share of talent here in Singapore.

The next slide is just to show you all the business drivers. As you can see from a tonnage standpoint, last quarter we hit almost 3.5 million tons. That's almost 6% growth over the previous quarter. Flights handled continue to show modest growth as well, and meals are now above 50 million in terms of the meals served. Likewise, for the employee standpoint, there's a slight growth there, primarily driven by the hiring in Brazil to take care of the ground handling operation itself.

The next slide shows you the like-for-like tonnage growth versus non-like-for-like. Again, a growth of about 7.3% over last year. And the pleasing thing is the non-like-for-like growth where we're showing additional new wins of 7.1% is continuing to power our growth in air cargo.

Next slide, please. So maybe I'll hand it over to Tim to take you through the financial summary.

Timothy Tang:

Yeah, thanks Kerry, and good evening, everyone as well. Great to be here to announce our results again.

Let me add a bit more colour to the high level that Kerry's obviously covered. Obviously, I'm very pleased with the overall results as well, as Kerry's already noted. Primarily, I would say the main themes are that actually both year-on-year growth in revenue and earnings have been actually very, very consistent and directionally very consistent with the year to date, our first half results.
What's pleasing of course is that we do know that disruptions are taking place in particular with trade flows around the world, but our network is definitely very resilient in capturing that rerouting, and that continues along with obviously the capturing of the new customers as well.

We have seen the results in particular from a margin standpoint normalise in Q3, in particular versus Q2. I think many of you on the call would have remembered that we did say that our Q2 results benefited from pulled forward volume, which actually went ahead of our cost structure. Some of that cost structure definitely was not sustainable in order for us to fully serve our customers in the right way as we continue to develop our relationship with them.

So the Q3 results are a normalisation into our – what a peak cost structure should look like. And I think we're very pleased to see that on a year-on-year basis in particular. You can see the continued growth of our business, both in top line and bottom line, along with margins.
If I dive into the details of the next slide, on slide eight there. More colour than, as you can see then along all the lines of the business.

So cargo—very, very quick step-by-step on the businesses. Obviously, cargo continues to be driven by both organic and inorganic growth. In particular, it continues to be very, very strong in Europe and Asia Pacific. Weaker in the Americas, but we are seeing that business supported by our service to Amazon in that market, which we've talked about in the past—that we are the largest third-party contractor for Amazon across nearly thirteen stations in the US. And that business actually has continued to grow as Amazon activity continues to grow as well.

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Our ground business is obviously moving along very, very well. Still a lot of contribution there obviously from our Singapore market. So a little bit more stable. Obviously with the - in particular – the results are aligned with a lot of our main customers, or our major customer in Singapore.
That is likewise the case for aviation – on our aviation food solutions. I think many of you would have seen that our main customer in Singapore had their passenger growth outside of Scoot at roughly around 2% to 3%. So it's very indicative of some of the trends that drive our aviation food as well.

And non-aviation is obviously – continues to be a focus obviously of ours to fill the capacity. But we are obviously looking at that – as a sub-segment that supports our overall results from a group perspective.

Next slide please. So diving into a bit more on the year-on-year result, which is the one that shows the real trend of the business. On a year-on-year basis, as I've noted, obviously revenue-wise, outgrowing our operating costs. So we are getting that margin expansion, given that the peak is really comparative on a year-on-year standpoint. We saw great growth around the world that supports that third quarter peak.

When I say that our results were brought forward in Q2, we do see that. On a quarter-on-quarter basis from second quarter to third quarter, the growth was definitely more muted versus prior years. That was – so that was the benefit of then that cost structure in Q2. But having normalised down now, you will all observe that our third quarter margin is actually very similar to our first quarter margin. And obviously both quarters are showing that positive year-on-year growth, which represents the business model working and obviously leveraging on our overall scale.

Moving down the page, obviously there is a normalisation also on our SoAJV. You would all recall that in the last quarter, we also noted there was some upfront cost impact on our SoAJV, where some additional costs that we invested into, in particular in picking up and starting new customers in our SoAJV. So suffice to say that that's normalised out also in Q3, and our results show a strong year-on-year growth there in the third quarter, which I think we do see that third quarter performance will obviously continue from here on from a seasonal basis.

And then lastly then on the bottom line, once again, I would remind everyone that we did say the last quarter we had a one-off adjustment on our tax line in the Q2 results. So once again, as you look at the third quarter results, that in itself has also normalised. And overall then, if you put all that into play, obviously we're getting the natural margin accretion obviously on a year-on-year basis and the results are showing good momentum. Obviously heading into our fourth quarter, which is traditionally our lower quarter of the year, which we'll touch on in a minute as well with Kerry to finish up.

Next slide, please. Diving into a few more metrics, and I will leave the cash flow a little bit to the next slide. But I'll highlight a little bit of context. I think there are no major surprises now. I think most of the metrics on the left-hand side there are just consistent with the announcement of the results. And I think we would all agree that it's a good set of numbers to see the business deliver.

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From a cash flow perspective, the third quarter year-on-year is impacted by significant timing, different timing in working capital that actually occurred last year. So I would recommend that we look at the year-to-date cash flow as a true representation of where we are at the moment, which I'll touch on in the next slide.
I think beyond that, obviously the organisation continues to address our debt and we continue to pay down the borrowings. And we do see that number – we do see that number progressing towards a target that we believe will probably end up in the full year at around this sort of $160-odd million range. Ultimately, we do believe that our debt level is now at a level that's much more manageable. And we see good opportunity for us to redeploy that capital into Capex. Obviously, there's the dividend conversation coming up at the end of the year and any excess cash returning to the shareholders, which we can certainly address in more details later on.

Overall, I think on the right-hand side then, no major callouts here. I think all of the metrics then are obviously moving in the right direction, given the set of operational and financial results that we're seeing across the business. Outside of the cash conversion on the bottom right there, primarily driven by higher Capex on a year-on-year basis. And if you look at that cash conversion on a like for like comparison with the same Capex as last year, we are up just a little bit above 70% on that metric if you normalise it out.

So if I move to then my last slide here on the cash flow. So let's take a look at that on a year-to-date basis. So overall, I think operational cash flow, year-on-year, is obviously positive given our overall results.

That number is impacted – is actually negatively impacted by two areas. Number one, there is a timing [issue] on working capital, and obviously the team and I continue to manage that. And we believe that we do see that timing coming back to us as we work through that in Q4. But there is another impact there in the sense that there is a higher tax component for cash basis this year versus prior year, mainly because last year's tax benefited from some COVID-related carry forward losses still, which then have—were fully utilised in FY2025. So therefore once again, I would say that FY2026 is the clean number. And we do see that obviously that delta then contributes to the overall year-on-year cash flow from operations there.

But beyond that, it's really down to higher lease payments, and obviously – related to our new facilities both in Amsterdam at the Menzies facility and our new warehouse in particular in London and a few other small ones. And beyond that then you can see that the Capex is also certainly a significant increase on a year on year basis.

The primary components of some of that Capex are because of our food facility in Thailand, and also the finishing up of our Singapore cruise terminal, of which that's largely been completed. Beyond that, it is as expected our Capex. We are still traveling at around this 4.5% of revenue range, which is obviously within our guidance that we have talked about in the past, sort of between this 4% to 6%.

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So overall then, given the Capex profile, that is obviously what's driving our overall free cash flow to be lower in particular at the very bottom of the page.

I'll hand it back over to Kerry to finish up on the outlook.

Kerry Mok:

Thank you, Tim. Let me just go quickly through the outlook. I think we'll break it down into the three areas of cargo, ground and food.

Cargo – as we have said previously, in the fourth quarter we expect our demand to moderate. It's our traditionally weakest quarter for the whole year. So we're expecting the same momentum as well. But I think overall cargo trends remain very resilient. There's still a lot of support for high-value, time-sensitive cargo and e-commerce shipments as well, especially with Asia-Pac leading that in terms of the exports. Semiconductor and AI-related cargo in tech products are still very much in play as well. And we do have a healthy pipeline of growth opportunities with our customers, and we believe that's going to help us sustain our above-market growth.

IATA has predicted a growth forecast of 2.6%. We believe we can beat that number as well this year. So we are actually quite optimistic about cargo for the whole year ahead. But yeah, fourth quarter, we'll see some traditional slowdown. Chinese New Year—freighters were not flying as well. So those are numbers that we expect to have an impact on the fourth quarter.

On the passenger service side, I think APAC is going to be the leading light, and it continues to show growth of over 7%. And we're well-placed in APAC with many of our ground handling stations and key hubs performing well. So we expect that to continue. The US domestic market remains very soft, and that's what we are seeing it in our current estimates as well, which is in line with what's happening overall in the US market. But we are making good progress with our units in Brazil, and I think the wins with Azul and all that will continue to be a big focus. We are looking to try and win more share of wallet with our existing customers to help mitigate some of the flattish numbers that we're seeing in the US.

On the food side, again, the fourth quarter is also typically softness as well after Chinese New Year. But we believe international travel will support a lot of demand, particularly out of Singapore. Our central kitchen network is getting traction. In China, we've onboarded a large customer in our Tianjin facility that – I think whilst it's still in the initial stage in terms of the volume – but the momentum in developing products and all that in serving the Chinese market is going well and we hope to ride out the momentum to do more with the customer there in China.

And with that, maybe I will add just one last bit to just showcase where we're progressing in terms of our FY2029 ambition. I think you can see from across all metrics, I believe we are progressing well. EBITDA margin is now year to date 18.6%. Our EBIT margin is 9.2%. SoAJV run rate is now $114 million, and I think our PATMI margin is now coming at 5%. Clearly, we're not going to stop here. We continue to drive more improvements, and we believe that there are still improvements coming in

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our margins that we can show going forward. Q4 will dampen the margin a little bit, but, longer term, we believe we are still some ways to go to drive some synergies and cost down effect as well.

ROE has made an improvement. It's 10.4%. So we hope to still make improvements in this area. And from a debt perspective and cash flow perspective, again, progressing well against all the targets that we set for ourselves.

So with that, I end our presentation.

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