

## **SATS 4Q FY26 Earnings Call Transcript**

**Date:** 26 May 2026

### **Participants:**

- Kerry Mok, President and CEO
- Timothy Tang, Chief Financial Officer
- David Boey, Group Head of Strategic Communications

**David Boey:** Good morning, everyone. Welcome to the SATS fourth quarter and full year result briefing for financial year 2026. I'm David Boey, Group Head of Strategic Communications. Before we begin, I turn your attention to the forward-looking statement now on screen.

A quick safety reminder. Wherever you are joining us from, do be aware of your surroundings at all times. Please 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 Chief Financial Officer. I will hand over to Kerry to take you through the business update.

### **Business Update**

**Kerry Mok:** Thank you, David. And very good morning, everybody. Thank you for joining our call this morning. Let me just jump straight into the results. I think you have read the headline. Very good set of results for this full year.

This is actually our record revenue in our history, so 6.35 billion, up 9%. Cargo continues to be very strong. This is the 10th consecutive quarter that we have beaten the IATA's number.

Both APAC and EMEA are going well, and that's offsetting some of the softness we see in Americas. Albeit Americas is now stabilising and not deteriorating further. We still have very strong contract wins and renewals. This includes EVA Air in the US. EVA is a very important customer of ours in the Americas, and we are happy to renew them. And in Spain is Air Cargo Europa, which is also another big customer of ours in Spain.

When you go to fourth quarter metrics below, 9.8% growth on the fourth quarter. This traditionally is our softest quarter, but again, good momentum shown across both business segments. And EBITDA has grown 3.9% now to about \$267.5 million, partly also reflected

in the headwinds on Middle East, as you recall. The Middle East conflict started in March itself.

PATMI grew very well by 31%, now to 50.7 million, and we're pleased with that performance. And of course, given the growth in our profit, we are proposing a final dividend of \$0.05 per share. That's up from the \$0.035 the prior year. And on the right-hand side, you can see all metrics showing good growth across cargo, flights handled, meals, both aviation and non-aviation, showing good momentum as well.

Just some updates, key wins I mentioned earlier, EVA Air. Besides renewing, we've also added Washington Dulles International Airport into the network, and Europa is both Madrid and Barcelona, and those are very key hubs for us in European gateways.

On the M&A side, we actually completed an acquisition of Aviapartner. That's in Brussels Airport. It's given us additional 33,000 square metres of cargo terminal space. But I think importantly, this acquisition gives us a full freighter ramp handling and airside transport. This gives us the ability to then control end-to-end for our cargo business based out of Brussels.

On the food side, we've launched a World Chefs culinary training programme. We are the first caterer to do that. It's really part of our structured career pathway for our chefs. I think this is an important step because chefs are actually a key capability of ours, and we want to make sure that we are able to attract the best chefs to join us.

On awards side, we are very pleased that, I think this is for maybe the seventh time that we've won the Pax Leadership of Airline Caterer of the Year, and really just recognition of our authentic Asian cuisine that we provide.

On the technology and AI side, this is an important aspect of our business. We have completed a 15-weeks trial of a automated dimension and motion. It's actually capturing the DIM information for our cargo business. With this, it gives us ability to move much faster and capture information real-time, enabling our cargo to move much faster within our warehouse. And again, we'll share more as we develop more such programmes going forward.

People side, named top employer. This is important. We are a very people-orientated organisation. It's important that we're recognised for the people policies that we put in place to attract the best talents out there. We've also won a Gold award for operation excellence by Cathay, and that's something that is given to our team in EMEA.

## Operational Metrics

Just some high-level numbers. You can see the usual numbers. Very pleased that we've covered almost 10 million tonnes in cargo. And including the AJV side, good growth momentum also to now at about 13.2.

Again, this quarter is typically the weakest quarter, so numbers have dropped down to 3.21. But compared against last year, there's also a good growth momentum shown. Flights handled increased primarily due to a contract that we have started in Brazil. This is with Azul Air. Azul is actually the largest low-cost carrier in Brazil, and we're pleased to be performing that service for them in their hub in São Paulo.

Aviation meals, you can see good growth momentum as well. In fact, over the last few quarters, it's been now up to about 40 million. So that overall is a good number in terms of growth, and really down to travel peak increase in China domestic. One of this is also driven by our acquisition also of Nanjing Weizhou that's doing very well in China itself.

Non-aviation meals this quarter, again solid momentum, just maintaining those levels that we have been performing those last few quarters. And on the headcount side, again, it's driven by the Brazil setup and the new operations that we have acquired out of Belgium. But we are maintaining numbers fairly solidly as well.

## Consecutive Growth Performance

Now, this chart just shows the consecutive quarters. Albeit it's narrowed a little bit. We hope to be able to push more, but this is again, a pleasing quarter that we are still showing good growth momentum, even though, year on year it's been good growth from previous years.

So this plus this year, 4.7, is even better. Like for like, it's about a small 0.3% in like-for-like growth. So that part there is something that we're watching out to see how we continue to make progress. But the non-like for like is 4.4%, and this really reflects the new wins that we had across our network. So that momentum is something that's important, and we continue to place a lot of emphasis through our commercial team.

We are present in, again, 14 out of the top 30 air cargo stations, with direct access to airside, putting us in a very good momentum to work with our customers.

## Business Model Resilience

Now, what I want to highlight in this page is our business model, I think over the last few years has proven to be very resilient. Despite whatever challenges that has been thrown at us, whether it's tariff tension, Red Sea issue, or now the current Middle East conflict, I think we have been able to show growth momentum. This is important. It means that with the network that we have, with a key emphasis on working with customers, we are able to continue this growth trajectory, importantly, also improving our margins.

This is an important part of our FY29 target. And as we say, as long as we continue to grow our profitability, we will increase the dividend payout. So very pleasing to note that this year the payout is increased by 40% to now \$0.07. And again, cargo tonnage continues to grow nicely. It's now 9.7 million tonnes. Hopefully, momentum will carry us to double-digit volumes this coming year.

And we've also strengthened our capability. We're not stopping here. We continue to look for areas where there's white space in both network as well as capability. It's important that we continue to drive extension of adjacency. We talked about specialised services in the past. This is an important aspect and no matter what the macroeconomic situation is, we do have the ability to focus on additional value services that hopefully will drive our revenue stream even though volumes may taper off in the short term due to various reasons. This really shows our ability to absorb some of these challenges, and we have enough growth opportunity and paths for us to manage both the top line as well as the bottom line.

With that, I'll hand over to Tim, who will take you through the financial summary. Thank you.

## Financial Summary

**Timothy Tang:** Thanks, Kerry, I think, and welcome everyone. Good to be here again on our earnings announcements. I think as Kerry said, maybe just to sum it up from my perspective, of course, we're pleased with the results, in particular, given the overall volatility in the market. And obviously delivered record revenue, as Kerry noted, in spite of the Middle East conflict that we're experiencing here. I will try to attempt to give a bit more colour in terms of the impact of the Middle East conflict, because I assume that there will be lots of questions on that one in any case. So as I go through, let me see if I can just add a little bit more colour to the overall numbers there.

## Revenue and Segment Performance

To begin with, I think as Kerry has noted also, overall organisational growth, business group revenue, and across both segments, we're seeing in particular strong performance on our gateway side of things. But obviously the food cycle continues to be very, very resilient as well. Both markets are absolutely impacted by the Middle East conflict in March in both top line, but actually more importantly, throughout the cost structure, mainly because March is a typically a higher month out of the three quarters. And the organisation was structured and geared up that way to service the March volume before the conflict started.

I think if you look at the EBIT number, obviously that number is impacted primarily due to the conflict given the weighting of March. If you look within January and February, actually, in terms of run rate, I would say that you can sort of guide that number more towards the year-to-date growth, because that is effectively the trajectory of the business. So what we can say is outside of the Middle East conflict, then the business actually was running very, very strong and very much in line with our year-to-date expectations and numbers from a year-on-year growth perspective, along with margin accretion as well.

### **Joint Ventures and PATMI**

Going a little bit further down the page here on the SOAJV. So once again, it is the Middle East conflict that impacts the SOAJVs. A lot of them do service the Middle East. And we'll talk a little bit more details around how we're seeing the market later on in terms of the overall trend coming out and as we move through the conflict. But nonetheless, it was impacted our JVs.

And if you look at within the underlying trends, once again, trying to normalise out a little bit of the Middle East conflict impact then the year-on-year growth actually in Q3 was probably more indicative of where our numbers were tracking prior to the impact. So whilst still modest growth, the underlying rate is actually stronger than that on an SoAJV standpoint.

And lastly, on the PATMI, there is certainly some one-off impact here, as we've also highlighted on the page. Firstly, the PATMI number is impacted negatively by an impairment charge. We did go through some cleaning up of assets in our non-core portfolio that negatively impacted that number.

But on the flip side, we did have some upside in tax, the tax line. Obviously, timing was in 4Q, but actually if you look at the effective tax rate for the full years, a better guide. We generally have been guiding around this 27% to 27.5%. We were tracking at 27.5% in FY25, and I think that's the best place to start.

So we did have some benefit overall for the full year that then offset it partially or most of the impairment charge then, if you will, for 4Q. But looking at the full-year number, I think it's a better guide on the effective tax rates.

## **Segment Details**

I'll take them to the next slide. A little bit more colour then into the segments. Ultimately, I think Kerry has highlighted the IATA comparatives, and we obviously continue to deliver 10 consecutive quarters of beating the IATA number. It is worth noting, before I jump into revenue, if you look at that metric, a lot of that adjustment factor for contractual change will now move towards the product line, I think, as we move forward, because obviously that impact annualises. So the gap, whilst it is closing against the IATA number, we do know that it will track now to a more favourable comparison because that underlying business volume obviously continues to be there.

I think if you look at the revenue across both segments, suffice to say, very similar line, excluding the impact of the Middle East. Jan/Feb, by the way, was very close to year-to-date run rate.

Diving a little bit further into maybe perhaps the ground number. So we do have the ground number growing significantly higher than prior year in this quarter. That is due to a business that we acquired and started, Azul, in Brazil. And that directly impacts the ground revenue number. Excluding that, the ground revenue number is low single digits, travelling, once again, very similar to year-to-date numbers. So far on a full operating base now. This is a new base for the ground operations.

Lastly, I think if you look at food, then once again, that is also impacted by the Middle East conflict. But ultimately, I think the aviation number continues to be very, very steady whilst the non-aviation is being improved or contributed by some of the overseas facilities that we continue to ramp up.

## **Cash Flow and Balance Sheet**

I think I've covered most of the top left-hand side, so maybe just a few more notes. Operating cash flow, we did benefit from some working capital timing. We noted that in Q3. And we did get the other side of that in Q4. I think I'll talk more about the cash flow in the next slide, looking at a full year, which is fairly indicative of the overall performance. But just a few more notes on this slide.

Number one, we obviously continue to be very diligent in how we pay down our debt. Overall borrowings, roughly \$160 million of reduction in borrowings. We do see that as a fundamental portion of our capital allocation strategy. But continue to make very good progress, and we'll continue to see that opportunity and evaluate those as we move forward. Obviously, within our framework of looking at Capex and returning dividends to the shareholders as well.

Lease liabilities grew on the other side. That generally, whilst from a metric standpoint, it may be a negative on some metrics, I think we see these generally as positive because they are as a result of us securing and getting into new facilities in most cases.

I think lastly then, if you look at that net current liabilities line, obviously, we'll continue to manage that number. Significant improvement versus last year just from a balance sheet management standpoint, primarily due to a lot of successful refinancing of facilities moving to a better timeline from a maturity standpoint.

I think the last thing I would like to highlight on the right-hand side is obviously the margins component are all looking at going the wrong direction, more for Q4. And once again, I want to just make sure I reflect that is a direct result of the Middle East conflict. As I've noted already, if you look within the underlying performance in Jan/Feb before the conflict, we did see margin accretion across the business.

### **Full Year Cash Flow**

Okay, so lastly, on the cash flow, I think taking all that into consideration, the full-year cash flow obviously reflects the operation performance, and it's been a strong operating performance reflecting in an overall cash flow performance. And working capital-wise, if you look at our net DSO and DPO days, we've increased that by two days. So there is definitely some positive working capital that's been achieved by the team in terms of the overall working capital management. But ultimately, I think the results speak for itself.

Translating to free cash flow then ultimately is really just a Capex story. We've guided in the past that we really work within the 4% to 6% range, 4% to 6% of revenue range from a Capex standpoint. We've ended the year, you'll see on here, roughly at around 5.4%. And so translating that to free cash flow, obviously slightly lower, but with 123 million more Capex from a cash flow perspective.

So, we've invested and continue to do that in a very targeted way. We do believe we have areas that we do want to continue to invest in, both for growth and obviously also for our

enhanced competitiveness in the Singapore hub as we continue to invest in our home market and the test bed for a lot of innovation. So that's really contributing towards that uplift. But beyond that, I think if you look within the Capex number, it is on projects that I think the market is aware of, which is the finalisation of our Thailand facilities on the food side, in particular also our finalisation of the cruise terminal in Singapore as well, along with other facilities around the world that's contributing to the high number.

I think that is all for me. What I'll do is now I'll pass it back over to Kerry to sum it all up for us.

### **FY29 Targets and Outlook**

**Kerry Mok:** Thank you, Tim. I think the slide just showcase where we are in terms of our FY29 ambition. Fair to say, I think we are, as a company, we're progressing well towards our stated target. Clearly, there are some short-term challenges that we need to navigate. But on the whole, I think we are pointing in the right direction, and the numbers speak for itself.

Continue to show a margin improvement against the target we set. And this is something that is a big focus for us, even with all the challenging macroeconomic situation that we are facing. A big improvement also has been the ROE. We're now into the double-digit side. We're pleased with the 10.7% performance in ROE. Clearly, still some way to go in our FY29 target of 15%.

Again, the gross debt EBITDA, we've shown good momentum in bringing that down. We are in a comfortable position in there, and I think Tim alluded earlier with our capital allocation plan, we have the ability to manage that much better now. Cash flow, again, due to the strong operating performance, we have now increased it by 110 million, getting much closer to the 750 that we set for ourselves. So all in all, good progress shown, and we're confident that we can continue this path going forward.

### **Market Outlook**

Let me jump straight into the outlook, and I'll cover that in the three different segments.

**Cargo:** On the cargo side, demand did fall by 4.8, partly also because a lot of supply disruption as well. But we have seen other carriers using other locations to move things through, and we are seeing good growth as well in parts of our network that's driven by the rerouting of cargo itself.

We continue to have new wins in the non-like-for-like will be area that we will be focusing on to drive more of our growth. Adding on to our network is where we continue to get our focus on. There are still a lot of areas that we're not present, so the team will continue to see where it adds on to our network and gives us that synergy. We will focus on those.

E-commerce volume is still growing. Interestingly, and I alluded last quarter around the EU fee implementation, that will shift things around in terms of the freighters, but the network that we have in Europe position us very well to continue to get those flows. In particular, Liège is a big freighter hub airport, and we are seeing good growth momentum in Liège itself.

And beyond e-commerce, we still have growth in the tech products, whether is it semiconductor, capital equipment, that's still showing good growth momentum in the commodity that we are carrying.

**Ground Services:** On the ground side, obviously Asia Pacific is driving that, and a lot of the rerouting is also benefiting Asia. Singapore, Thailand are all airports where a lot of re-routings are going and increasing long-haul flights from Asia to Europe to cover up for the Middle East. Clearly, it's actually helping our ground business as well.

We have very limited exposure. In fact, I said the last time, both in Saudi and Oman are benefiting now from some of the rerouting, and we are well-placed there to continue to serve our customers in those hubs itself.

The one thing that we need to be mindful of are the LCCs. Because of the fuel cost, their business models cannot afford the high fuel prices. And frankly, quite a lot of flight cancelations are all related to LCC flights. And that's having an impact on some of our ground business as well. But with that, it's new services and new capacities are coming up to cover for those cancelled flights.

So, if again, if you have those network, you'll continue to benefit. And we're pleased that the wins in Azul and Allegiant Air will continue to drive our year-on-year non-like-for-like growth. These two new wins are very important for us in Americas and will strengthen our ground handling business this coming year itself.

**Food Services:** On the food side, we believe it's going to be stable. Partly also because although the flights cancelled to the Middle East still remains, but carriers such as Singapore Airlines and others are adding on more flights from Asia to Europe. And in fact, those are long-haul flights, which has additional catering requirements. So again, we'll drive some of the volumes that we'll see in the coming months ahead.

The non-aviation side remains very resilient. Our Bangalore and Tianjin kitchen are now starting to make meaningful progress, albeit still not where we want it to be. But we're showing good growth momentum for Bangalore and Tianjin, and we believe that will still continue as we develop more products for the market itself.

We need to watch out for input costs for food. Clearly, with the increase in energy cost, it will impact our food prices in the near term. And it's something that the commercial team will have to work on with our customers to see how we can mitigate some of the costs. But we do have contracts in place, and as the contracts run out, we will be facing some increase in food costs.

In NWWA, which is Nanjing Weizhou, we have actually increased our shareholding by another 40%. That brings us to 90% of Nanjing Weizhou. We are actually commencing our integration of Nanjing Weizhou with our SATS China operation. We believe that will drive synergy for us. The growth of Nanjing Weizhou in aviation frozen meals are doing very well, and in fact, they're running out of capacity in the existing site.

So integrating them with our operations will mean that we can balance off the production load with our existing facilities. So it will help us to drive more synergies within China. But importantly, it will set us up nicely for a lot of our Chinese clients in China itself.

### **Middle East Conflict Impact**

The Middle East conflict, I thought I'd just give you a few pointers from our perspective, how we are seeing it. So when it happened, the immediate impact was clearly both Saudi and Oman was also disrupted at onset. Again, that was just a quick immediate reaction. But I think quickly, and of course, Gulf carriers cancelled their flights, and also cargo flows kind of stopped for a while. But it's mostly basically a belly space or passenger flights.

Freighter flight continues even though what they've done is they've rerouted their freighters. Instead of flying back to Middle East, they are flying point to point. So that actually helped us to mitigate those volume drop as well. And clearly, the surge in energy prices is affecting a lot of our input costs, particularly our utilities, as we use some of our locations where we still have diesel equipment. Those input costs are being felt in the immediate term.

Currently, it is now feeding through some inflations through utilities, ingredients, and packaging. And that's why I think Tim has highlighted that March itself, we have seen some of the cost increase as well, and we will continue to see that coming in, depending on how long this conflict will last.

Jet fuel shortage and delivery price increase as well. Again, flight cancellation, flight new routes. Again, something that we have to continue to deal with, and this is frankly the norm now in all the stations that we are managing. So our team is quite well-placed to manage the ups and down that's coming our way on a daily basis.

But the good news is our network is allowing us to capture some of the rerouting opportunities, and we're seeing that in our business already. Both Singapore and Bangkok have seen volume growth that reflects in the rerouting of the cargo itself. And the good news is with some reconstruction, regional construction happening, it is generating increased air cargo demand for industrial supplies and equipment. This, again, will help us in our cargo flows and where we're present, we can actually upload a lot of these supplies on the charter planes back to the Middle East.

Just going forward, depending on how long this will last, if it lasts longer, clearly there will be impact on our operating costs as the greater inflationary pressure will also pose a risk to the global economy. So, something we're watching out for. We're very careful. We need to manage the issues. And the worst thing we want is a stagflation that will hit us going forward. And that will then mean globally the economy will be affected.

But we do see increased demand and usage of air cargo, especially in times of disruption. This continues. We have seen that even with the recent Middle East conflict, where goods has to get there on time, and air charter is the only way to make it happen. Post-conflict recovery will also drive some uplift, especially in regional trade volume. Again, this will create opportunity for us in air cargo itself.

And obviously, with this geopolitical uncertainty, it really helps us to strengthen our relationships with our key clients. We are working with our key clients in a far more collaborative way and more strategic way as well, understanding where they're going and allowing us to make adjustments to our network and business to support them. I think by doing this, we believe we can create more stickiness and better relationship with our key clients.

And of course, last but not least, our network and our service excellence in both businesses, I believe will continue to position us well to work closely with our customers and hopefully allowing us to gain more market share going forward.

End