SATS 1Q FY2027 Earnings Call Transcript

Date: 20 August 2026

Participants:

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

David Boey: Good morning, everyone. Welcome to SATS' first quarter results briefing for financial year 2027. This is David Boey, Group Head of Strategic Comms at SATS. With me today are Kerry Mok, SATS President and CEO, and Timothy Tang, CFO. Before we begin, I'll turn your attention to the forward-looking statement now on screen.

Quick safety reminder: whether you're joining us from the office, at home, or the outdoors, be aware of your surroundings at all times. Please make safety your priority before joining this call. A recording will be available on our website in due course.

I'll now hand over to Kerry to take you through the business update. Kerry, please.

Business Update

Kerry Mok: Thank you, David, and good morning, everybody. Thank you for joining us for this Q1 FY27 results review. Let me go straight to the deck.

A couple of things I want to highlight. This quarter has been fantastic in terms of revenue growth. At the end of March, we were all thinking about the Middle East situation, but I'm glad to say that the network we have has allowed us to capture quite a lot of the rerouting flow, that resulted in our cargo tonnage being a record quarter again.

This is something we are very positive and happy about. Revenue grew 11.3%. Food has also done fairly well, with some new additional wins that help us with our capacity in our overseas kitchens. Unfortunately, EBITDA only grew about 6%, but when you balance that against some of the challenges we are faced with – in particular, when you have rerouting, you will have manpower that's probably in excess in one location, while in the location where the rerouting is directed, we have put in more resources to capture those additional volumes. And of course, as we mentioned last quarter, we're expecting to see input cost increases start to funnel through our P&L.

PATMI grew 4.3 million year-on-year to now $75.1 million. That's also benefited from some lower taxes. When you look at the segment performances – cargo, flights handled, aviation meals, and non-aviation meals – you can see all segments are showing positive growth. I'll move on to the next slide.

Some key wins. We continue to secure more wins, and large deals are a result of good performances from our guys on the ground, which gives customers confidence to continue to work with us.

Qatar Airways is actually a win we secured last year, and this is the implementation of the Qatar win. You'll start to see volumes going through Europe through the Qatar implementation. In fact, next quarter in Q2, you'll see another Qatar implementation, which is in Amsterdam.

We've also renewed our contracts with China Airlines across our North American station markets, growing our market share there. China Airlines is important for Asian exports into the Americas, and they are an important customer in that region.

On the M&A side, we have completed the acquisition of an additional 40% stake, so we now hold 90% of Nanjing Weizhou Airline Food Corporation, which is the largest frozen meal manufacturer for domestic China flights. We can see the trend of Chinese carriers shifting towards frozen meals as their main product, as opposed to in the past when it was more of a "just in case" and filler product. We believe this is a major trend, and one that puts us in a good position to continue capturing those volumes as they grow in China.

On the food side, we began catering operations in Noida. As you know, Noida is the airport just outside Delhi. We also have our cargo operations there through AISATS. Food has also done well. We renewed several key customer contracts with British Airways, Air France, and KLM in Singapore. We have also started working with Temasek Life Sciences Laboratory to look at how we can utilise some of their produce through unique, sustainable food farming technologies – we are seeing how we can advance our food security and sustainable product offerings to our customers.

On people and awards, we continue to win recognition from the industry. One I wanted to highlight is the Red Dot Design Award. Both our Global Innovation Hub and our Marina Bay Cruise Centre Singapore teams have won awards for design concepts and innovation, which is something we're very proud of because it really separates us from our competitors where we are very focused on innovation and design thinking and we are glad to see the team being given the award for recognition of the work done. Global Air Cargo named SATS Asian Cargo Handler of the Year at the Air World Air Cargo Awards as Best Air Cargo Terminal Operator. ANA also gave us the International Caterer Award for Medium Haul.

Next slide. Against all business drivers, you can see it's all growth. Cargo, as I mentioned, 2.59 million tons, that's a 8.6% year-on-year growth. Flights handled have grown as well, primarily driven by the win we had in Brazil. Of course, this is mitigated against some of the flight cancellations we saw, particularly with a lot of the low-cost carriers.

Meals served have also gone up well. From an associate standpoint, that reflects some of the flight cancellations, which is why you can see a bit of a downtrend from the associate side. Again this is the meals served for non-aviation, you can see a huge jump; 20%, reflecting the additional wins that we have both in China and India. On headcount, it's more or less balanced. The increase is really due to the acquisition in Brussels of Aviapartners which is being integrated now.

Next slide. On cargo performance, you can see we continue to outgrow IATA numbers. This is something we track a lot. Our presence and network have allowed us to continue reaping those benefits, coupled with new wins we have been implementing across the region.

With that, I'll hand over to Tim to run through the financial summary.

Financial Summary

Timothy Tang: Thank you, Kerry. Good morning to everyone, and once again, thank you for joining us in our Q1 FY27 update. Starting from slide seven, I'll give you as much additional colour as I can.

Translating the overall results into our numbers starting with the group results. As Kerry has noted, we are extremely pleased with the way the business has been very resilient, leveraging our global network. The obvious translation of the higher growth, in particular in cargo volume, which has been especially resilient given the geopolitical volatility is 11% year-on-year revenue growth.

There is no doubt that margins are impacted due to operational inefficiencies, specifically the diversion of labour that Kerry noted. Beyond that, input costs have also impacted our Q1 results, albeit that as previously guided, the overall impact has not been fully felt in Q1. We do see some lag in the contractual arrangements of food pricing. We see that pressure continuing into Q2, and it is still likely to go on depending on the outcome of the conflict in the Middle East.

Beneath the operations, we continue to invest in our infrastructure and IT. There are additional costs in addressing some of our M&A activity as well, along with some AI investments we have noted. All of that contributes towards the overall EBIT year-on-year growth being lower than last year. But primarily, it is the operational inefficiency driving that number.

The share of associates and joint ventures being lower than last year is a reflection of the Middle East conflict as well. One of the factors is that low-cost carriers are particularly impacted given the higher fuel input costs. Cancellations have been more pronounced on the low-cost carrier side, which is impacting their operations. The direct translation of that into our business is that yes, while it is part of the core business, it is more heavily weighted into the share of associates and joint ventures results.

Barring that, the results still held up, given that we continue to have growth in a number of areas. The delta versus last year reflects us taking provisions around the performance of some of our JVs impacted by low-cost carriers' performance in particular. Excluding that one-off impact, the share of associates and joint ventures would have been very close to flat on a year-on-year basis. If you normalise for that onto our overall earnings, we would have been closer to $80 million PATMI.

If you dig into the Gateway and Food P&L, ultimately gateway is a function of cargo. We had positive growth in ground handling too but ultimately, if you rewind the three months into Q1, we did have some upside that came through early in the quarter from rerouting, but a lot of that rerouting normalised throughout the quarter. Towards the end of Q1, we were starting to see some of that reshape back to what it was pre-conflict.

We are very pleased with the food results – both with the margins and growth in the portfolio. The overall margin improvement is a function of a few factors: continued scale-up of facilities, particularly in Tianjin and India that Kerry mentioned. Ultimately it is a scale business and the increase in activities in those facilities have improved our overall results. We expect that the utilisation will continue to trend positively. Last year we ended the quarter in low-to-mid single-digit utilisation and we are up above 30% now in Tianjin and north of 20% in our China facility. That is a significant year-on-year increase, and we see that path continuing as we see the pipeline of our business development.

There is no doubt the rerouting benefited the mix and overall results on the food side. Not to mention that the input costs we expected to rise have not yet been fully baked in. So there is a combination of factors that really did drive our overall food performance to perhaps a slight outperformance relative to what we see in the market.

Moving to slide eight – looking at the business-by-business lines, you can see the translation of volume into the core parts of our business. Cargo revenue has been very consistent. You can refer to the appendix. We saw operating volume growth in the 9% to 10% range across the world. That is particularly positive in our US market, which had been softer prior to the Middle East conflict, following the post-Liberation Day tariff impacts, and de minimis impact from last financial year.

There was the one-off from the charters we mentioned previously, from the US into the Middle East market, that propped up volume. But that goes back to the reflection of our global network that allows us to continue serving customers well and leveraging our global network on the cargo side.

Beyond that, ground and non-aviation really drove what I've already spoken about. You can see the broad-based growth by region which speaks to the overall resilience of the network. We were pleasantly surprised by Singapore performance, always our home market, which continues to justify investment in innovation and technology locally. Changi had a very good quarter serving customers on both ground and cargo sides. Some of the highest growth rates seen in some time, above normal cadence, driven mainly by rerouting, reflecting Singapore's position as a global hub.

On to the next slide, number nine – nothing surprising given what I've already highlighted. You can see that the share of associates and joint ventures was down after translation into

PATMI. Cash flow will be covered in the next slide, but if you look across the ratios, it is as expected; slightly softer margins due to the inefficiency of the business. But looking at the underlying structure of the business, outside of the inefficiencies driven by the Middle East, we are very pleased with the structural integrity of the business. As things normalise, our scale and breadth will continue to drive margins towards our FY29 targets.

Lastly, on slide ten on cash flow, it is Q1, from a year-on-year and cashflow phasing standpoint, the impact is really driven by timing. Our receivables grew significantly above our payable's growth on a quarter-by-quarter basis. That timing is driving the negative cash flow in Q1. It is very similar to the timing issues we experienced in the first quarter of 2026. We expect that to normalise over the year, given our normal cadence of cash flow we produce on a quarter on quarter basis, given our business run rate.

With that, I'll hand back to Kerry to talk about the FY29 targets and our outlook.

FY29 Targets and Outlook

Kerry Mok: Thank you, Tim. Just on this one page, some progress on where we are relative to our FY29 ambition. Clearly, this is first quarter, and the margin number has dropped. But we remain on track on the FY29 target. We are confident that as we continue to grow our business and as costs start to normalise, we will have the levers to continue this margin growth path that we have set for ourselves. ROE has improved slightly to 10.8%. The rest is pretty much as Tim has already said. Overall, we want to reiterate: we are confident of the FY29 target. As we navigate through these challenges, we will have levers to make adjustments. It is important that as the environment settles down, we will have a much clearer move forward to readjust our cost base in line with the expected volume we will serve at each station.

On the outlook, I am pleased to say cargo continues to show good growth. The rerouting, and the closure of some airports and flights, has certainly affected some cargo flows, but we continue to see good volume in our facilities, and we expect that to continue growing.

Rerouting will not be as large a contributor in subsequent quarters, because as supply chains start to normalise, we will see volumes normalising as well. But with the disruption, especially in ocean freight, we are seeing good momentum, particularly in some of the multimodal solutions that we are putting in place.

In Europe, the de minimis has already been settled. It will take some time for e-commerce players to reroute their products, but with a settled regulatory regime in place, most e-commerce players will fall back to the original flows that we saw previously. We think that will normalise by year-end.

Cost pressure is something we continue to focus on. We are working on productivity measures, including technology investments that will drive productivity gains. Some of these investments will start to be implemented towards the second half of the year, which should allow us to mitigate some of the cost increases that we see coming.

Ground handling continues to be something we monitor closely. Low-cost carrier cancellations have affected us, but that is being countered by additional long-haul flights out of Singapore and elsewhere. Long-haul flights carry higher revenue for us. Importantly, we continue to win new customers to prop up the business. But operational complexity remains because flight cancellations can be rather last-minute. We are working on tools to enable better manpower management.

On the food side, aviation demand will be affected, but we are primarily in Asia, and Asia traffic continues to grow, so we are in a better position than others. Our focus on non-aviation food will continue to sustain growth. Our focus on China and India to drive utilisation is important, and the team is making good progress. The inflation, as Tim mentioned will continue to be a headwind, but we are pursuing productivity initiatives to manage it. As utilisation in the central kitchens increase, we get productivity gains there as well.

Expanding our network is important. As we have more demand endpoints, it will continue to feed into our three-tier approach, reinforcing the central kitchen approach that will allow us to increase production volume and driving margin improvement, at the same time giving us more demand channels to serve our customers.

All in all, we are in a good spot. We have levers to manage costs. We have continued growth initiatives with key customers, and we are using this opportunity to create a more sticky relationship with them particularly when the world is uncertain and disruptive. Having a closer relationship with key customers makes a lot of sense as we help navigate these ups and downs together. That will put us in an even better position to continue growing with key customers on a global basis.

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