

SATS LTD

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CORPORATE
MONITOR LIMITED



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ACTIVISM+



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EXECUTIVE SUMMARY

Since the acquisition of WFS 3 years ago, SATS has delivered consecutive years of growth in revenue and earnings. In addition, margins, return on equity (ROE) and leverage have also improved. The company is making real progress in meeting or exceeding the very comprehensive set of targets it set for FY2029. Qualitatively, SATS today is a more balanced company, with Singapore accounting for less than 40% of revenue (down from 85% in FY2022).

In its [first report](#), Corporate Monitor Ltd (CML) commended SATS for its courageous decision to acquire WFS in the midst of the COVID-19 pandemic. The strategic logic was strong. In the context of the lacklustre track record of Singapore companies' foreign acquisitions, SATS has proven to be the exception. We are also impressed by SATS' consistent and transparent disclosures. In another rare act among SGX companies, SATS proactively published a set of detailed FY2029 financial targets, from revenue to earnings (broken down by business division), margin, ROE and leverage ratios etc. This was done in November 2024, when it was far from certain the WFS acquisition would succeed. We think SATS management is prepared for shareholders to scrutinise its performance and open for feedback.

It is in this spirit that CML shares the following analysis (which should not be construed as "nitpicking").

Firstly, while net profit after tax and minority interest (PATMI) has surpassed the previous peak in FY2019, SATS today has approximately 3x the revenue and assets and significantly higher debt. Its ROE will, in time, surpass the previous peak of 15%, but it is qualitatively inferior. This is because leverage is contributing to FY2026's ROE, when leverage was negligible back in FY2019. In contrast, SATS' net margin is 4.5% is a far cry from the 13.6% in FY2019. Merely achieving the same 15% ROE target for FY2029, when leverage will still be much higher than 10 years ago, will not be doing justice to shareholders.

Secondly, diluted earnings per share (EPS) is still 15% lower than the previous peak. The S\$3.1 billion acquisition could only be an unqualified success for shareholders when EPS is higher¹. The high valuation paid for WFS resulted in SATS having to assume S\$2.3 billion of debt and issue 363 million new shares. The S\$240 million of annual interest expenses and 25% equity dilution are the reasons why EPS has lagged. We recognise that this is a major acquisition that will take time to play out. SATS needs to prove that the returns on the WFS acquisition will be high enough, and the subsequent growth of EPS will be a key indication.

In conclusion, SATS deserves credit for getting many things right. The job is not finished yet. We trust that management will continue to positively surprise the shareholders.

¹ EPS should be the metric to judge if the WFS acquisition has created shareholder value. SATS decided how much to pay for WFS and the combination of debt and equity to finance it. In the end, shareholders can only see the benefits if EPS is higher than before the acquisition.

1. INTRODUCTION

Corporate Monitor Limited (CML) has a very positive view of SATS Ltd's ("SATS") acquisition of Worldwide Flight Services (WFS) in 2023. We are impressed by the way management has integrated WFS, and in the midst of growing global uncertainties, achieved consecutive years of growth in revenue and profits. SATS also generated very significant free cash flow with which to pay down debt and increase dividends. In the context of many failed acquisitions by Singapore companies, SATS' achievement is nothing short of extraordinary.

To the extent that we outline areas of improvement, it should be understood as urging management to finish the job. SATS has impressed us with transparent and consistent disclosures, setting the gold standard among SGX-listed companies. We believe management is up to the challenge and is open for shareholders' scrutiny.

2. PULLING OFF A MAJOR ACQUISITION

Every key financial metric has improved every year since the acquisition in 2023. **Exhibit 1** shows this record:

Exhibit 1: SATS' Key Metrics (FY2024² to FY2026)

S\$ Million	FY2024	FY2025	FY2026
Revenue	5,150	5,821	6,346
EBITDA (margin)	781 (15.2%)	1,036 (17.8%)	1,146 (18.1%)
EBIT (margin)	244 (4.7%)	476 (8.2%)	543 (8.6%)
PATMI (margin)	56 (1.1%)	244 (4.2%)	285 (4.5%)
ROE	2.4%	9.8%	10.7%
Gross Debt/EBITDA	3.5x	2.4x	2.1x

Source: SATS' Annual Reports

The improvement is broad-based. Not only are revenue and profits growing (FY2026's PATMI grew 17% year on year), margins, ROE and leverage ratios all improved. Gross borrowings fell S\$162.7 million. The FY2029 leverage target of below 3.5x was met four years early (in FY2025).

² SATS has a 31 March fiscal year-end. "FY2024" thus refers to the fiscal year ending 31 March 2024.

2.1 A More Balanced Company

The WFS acquisition has reduced SATS's dependence on Singapore's small home market. Singapore accounted for approximately 85% of revenue before the acquisition (FY2022). In 4Q FY2026, revenue is much more diversified, with Singapore contributing approximately 37%, the Americas at ~33%, EMEA³ at ~19% and the rest of Asia-Pacific at ~11%. Diversification helped to buffer against macroeconomic shocks. Tariff-related weakness in the Americas was offset by Asia-Pacific and EMEA cargo growth in FY2026.

The group now runs on two engines of meaningful scale: Gateway Services (S\$4.95 billion revenue, 78% of group) and Food Solutions (S\$1.39 billion, 22%).

2.2 Net Profit Surpassed its Previous Peak

FY2026 PATMI of S\$285.2 million exceeds the FY2019 peak of S\$248.4 million for the first time. This milestone took seven years and should be acknowledged.

That said, SATS today is a much bigger and more leveraged company. FY2019's S\$248.4m of profits was earned on S\$1.9 billion of revenue, a S\$2.5 billion asset base and low debt (~S\$95 million). FY2026's profit of S\$285.2 million (14.8% higher) was earned on S\$6.3 billion of revenue (3.3x), S\$9.1 billion of assets (3.6x) and S\$2.4 billion of borrowings.

PATMI margin at 4.5% is much lower than the 13.6% in FY2019.

An analysis of SATS' diluted EPS and ROE will tell a more complete story.

3. ACQUISITION FINANCING DEPRESSED SATS' EPS

While SATS deserves the praises, it has yet to earn the ultimate prize: a higher EPS. Shareholders only benefit from the acquisition when EPS grows past the pre-acquisition level. The diluted EPS of S\$0.188 remained 15.3% below the FY2019 level of S\$0.222, even though net profit is now higher. The causes are the price paid for WFS and how this acquisition was funded.

The price was high. CML estimates SATS paid approximately 14.3x EV/EBITDA on a normalised basis, against the company's stated 9.7x, which was flattered by COVID-era government support and a temporary cargo windfall in WFS's earnings.

This high acquisition valuation resulted in a large fundraising exercise involving both debt and equity. The debt that SATS took up raised annual interest expense from just S\$0.8 million (FY2019)

³ EMEA stands for "Europe, Middle East and Africa"

to S\$258 million (FY2024). The 363.1 million share rights issue enlarged the share base by roughly a quarter. The dilution is permanent. Both interest expense and earnings dilution explain why EPS still lags even though net profit has recovered. EPS grew 16% year on year in FY2026, so on the current trajectory, EPS may take 1 to 2 years to exceed the peak of S\$0.222 — but it has not yet been reached.

4. THE 15% ROE TARGET SHOULD BE RAISED

Leverage is now doing the work for SATS' ROE that operating performance used to do. The DuPont decomposition is shown in **Exhibit 2** below:

Exhibit 2: DuPont Decomposition for SATS' ROE

DuPont Component	FY2019 (Actual)	FY2026 (Actual)	FY2029 (implied by targets)
Net profit margin	13.6%	4.5%	>5%
Asset turnover	0.76x	0.70x	~0.80x
Leverage (assets/equity)	1.47x	3.4x	~2.9x
ROE	15.1%	10.7%	>15%

Source: SATS' Annual Reports and Capital Markets Day Presentation

FY2019's 15.1% ROE was earned with virtually no debt, and came from margin and asset productivity. The FY2026 ROE is lower at 10.7% but also qualitatively inferior. Net margin is almost 9 percentage points lower, and leverage has more than doubled.

The FY2029 target is the same 15% with roughly double the leverage and a third of the old margin. A leverage-driven 15% is worth less to shareholders than an unlevered 15%: they carry the interest cost, refinancing risk and covenant constraints of S\$2.4 billion of debt obligations.

CML's recommendation is that the Board raise the ROE target to a level consistent with the leverage employed. This means the Group needs to improve its net margin and asset turnover.

5. FOOD SOLUTIONS DIVISION IS LAGGING ITS TARGETS

The acquired business (of gateway services) is now outperforming the legacy one. **Exhibit 3** shows FY2026 segment figures:

Exhibit 3: SATS' Divisional Breakdown

FY2026	Gateway Services	Food Solutions
Revenue (year-on-year change)	S\$4.9 billion (+10.8%)	S\$1.4 billion (+2.9%)
EBITDA margin	20.1%	12.2%
EBIT ⁴ margin	9.1%	8.5%
FY2029 targets (EBITDA / EBIT margin)	22% / 10%	17% / 13%

Source: SATS' Annual Reports and Capital Markets Day Presentation

Unlike the Gateway Services division, the Food Solutions division is far from its FY2029 targets and moving away from them: 4Q FY2026's EBITDA fell 13.7% year on year, and EBIT fell 20.4% year on year, and full-year EBITDA of S\$170.3 million was below the prior year despite higher revenue. Management attributes this to ramp-up costs at new facilities (Bangalore, Tianjin, Thailand) and elevated input costs.

The FY2029 plan requires Food Solutions' EBITDA margin to rise from 12.2% to 17% in three years while revenue grows from S\$1.4 billion towards S\$2 billion. The gaps for Food Solution business are wide. By contrast, Gateway Services division is on the cusp of reaching its targets.

Management should address the issues upfront. Shareholders deserve to know if this is just a temporary setback.

6. THE DIVIDEND IS PRUDENT, FOR NOW

The FY2026 corporate finance decision was balanced. SATS repaid S\$139.6 million of debt net, raised the final dividend 43% to S\$0.05 per share, and bought back S\$56.5 million of shares, all in the same fiscal year:

The dividend is well covered. Cash dividends of S\$82.1 million represent around 29% of PATMI and are covered 2.6x by free cash flow even in a year when free cash flow declined. The increase did not come at the balance sheet's expense: leverage still fell to 2.1x. In fact, net debt to EBITDA improved from 1.8x to 1.4x. SATS' leverage target has already been achieved ahead of time.

We note that SATS has not published an explicit dividend policy since the acquisition. The Board should formalise one — a payout range tied to underlying PATMI or free cash flow — and apply the same policy framing to the buyback, which at S\$56.5 million is too large to remain a discretionary annual decision.

⁴ EBIT stands for Earnings before Interest and Taxes, also known as "Operating Profit".

7. CONSISTENT AND TRANSPARENT DISCLOSURES

SATS's financial reporting deserves praise. Three practices stand out.

Consistent presentation has the same segment P&L, quarterly trends, target scorecard and cash flow bridge have appeared in the same format every quarter since the FY2029 targets were set. When 4Q FY2026 margins deteriorated because of the Middle East conflict, the numbers appeared in the same format accompanied by an explanation. Instead of changing its presentations to bury weak figures; SATS chooses to confront them.

The "OCF after lease payment" disclosure headlines a lower cash flow figure than the statutory one, quarter after quarter, because it is the more meaningful number. Management also discloses the free cash flow after deducting capex, and the figures tie exactly to the audited financial statements.

The FY2029 target framework, with group and segment-level targets published in advance and scored quarterly, is a fixed yardstick management cannot quietly move. These medium-term targets are uncommon among SGX-listed companies, and they are what makes a report like this possible.

Despite the extensive disclosures, CML's governance recommendations from March 2025 remain outstanding. A Board refresh with global cargo and logistics expertise, geographic diversity reflecting where revenue and employees now sit, and KPI-linked remuneration disclosure showed no visible progress in the FY2026 disclosures. We reiterate these recommendations, and will continue to monitor if SATS implements them.