

Sabre

Realistic outlook as Q4 disappoints

Reiterate Rating: NEUTRAL | PO: 4.50 USD | Price: 3.42 USD

Q4 disappoints but FY24/25 outlook undemanding

Q4 revenue was 2.8% below cons and at the lower end of the FY guidance. Bookings decline 3.4pp QoQ to 58% of 2019, while rev per booking growth remain resilient at 11% yoy. Management noted group bookings pulled back in Q4, leading to lower bookings and higher rev per booking; though it has since recovered in Q1. In our view, this is also driven by weaker corporate bookings in Q4 and US carrier disintermediation. **FY24** revenue guidance of >\$3bn is c7% below cons of \$3.2b, while EBITDA of >\$500m is c. 21% below cons of \$633m. However, this is based on flat GDS growth, which we find conservative. Reiterate Neutral as we continue to see a somewhat balanced risk reward near term. PO to \$4.5 (from \$5) as we trim GDS volume growth in outer years.

The volume debate: is flat growth reasonable?

Sabre expected c1.5pp growth QoQ back in Q1'23 but has underperformed in subsequent quarters, with Q2 +0.9pp, Q3 -0.3pp and Q4 -3.4pp, as a percentage of 2019 levels. Consequently, Sabre now expects flat GDS volume growth (with 4% upside annually) and uses this assumption as the basis for FY24 and FY25 guidance. Overall, we find this rather conservative, as we model 3pp volume growth for SABR in FY24 and FY25, as corporate and international continues to recover. In fact, corporate travel has improved by 5 to 10pp in Q1-to-date compared to Q4. APAC recovery should also still be a tailwind in FY24 though we believe the upside in India will likely be limited as SABR historically has a much smaller market share in the region.

Revenue per booking offsets volume loss

In our view, disintermediation continues to be the biggest risk to distribution volume growth in the next few years. American Airlines and United have aggressively pushed for NDC and direct bookings, which we believe has led to weaker growth in H2'23. However, we argue that these carriers likely have a substantially lower revenue per booking compared to the average fee of c \$6. This means disintermediation from large US carriers will have a smaller impact on revenue as the volume loss would imply, as growth in average revenue per booking will partially offset the loss. Secondly, we believe other smaller carriers, whilst also increasingly adopting NDC, are more likely to continue to work closely with GDS and travel sellers, particularly for airlines in other regions where the markets are less consolidated and more competitive.

Estimates (Dec) (USD)	2022A	2023A	2024E	2025E	2026E
EPS (NA)	(1.14)	(0.52)	0.29	0.62	0.79
EPS Change (YoY)	48.4%	54.4%	NM	113.8%	27.4%
Dividend / Share	0	0	0	0	0
Valuation (Dec)					
P/E	NM	NM	11.8x	5.52x	4.33x
EV / EBITDA*	68.8x	13.3x	7.60x	6.11x	5.79x
Free Cash Flow Yield*	-30.5%	-2.75%	2.59%	16.9%	23.0%

* For full definitions of *IQmethod*SM measures, see page 6.

16 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	5.00	4.50
2024E Rev (m)	3,220.2	3,186.7
2025E Rev (m)	3,399.8	3,374.8
2026E Rev (m)	3,549.6	3,492.5
2024E EPS	0.15	0.29
2025E EPS	0.55	0.62

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Stock Data

Price	3.42 USD
Price Objective	4.50 USD
Date Established	16-Feb-2024
Investment Opinion	C-2-9
52-Week Range	2.99 USD-5.86 USD
Mrkt Val / Shares Out (mn)	1,135 USD / 332.0
Average Daily Value (mn)	14.19 USD
Free Float	97.8%
BofA Ticker / Exchange	SABR / NAS
Bloomberg / Reuters	SABR US / SABR.OQ
ROE (2024E)	NA
Net Dbt to Eqty (Dec2023A)	NA

GDS = global distribution system

NDC = new distribution capability

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iQprofileSM Sabre

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-0.2%	6.2%	11.0%	14.4%	17.8%
Return on Equity	NM	NM	NM	NM	NM
Operating Margin	94.8%	96.3%	96.7%	97.1%	97.3%
Free Cash Flow	(346)	(31)	29	192	261

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	NM	1.2x	1.4x	1.3x
Asset Replacement Ratio	0.5x	0.8x	0.9x	1.0x	1.0x
Tax Rate	NM	NM	26.1%	23.2%	NM
Net Debt-to-Equity Ratio	NM	NM	NM	NM	NM
Interest Cover	-0.2x	0.5x	1.4x	1.8x	2.1x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	2,537	2,908	3,185	3,373	3,490
% Change	50.2%	14.6%	9.5%	5.9%	3.5%
Gross Profit	1,545	2,910	3,187	3,375	3,493
% Change	48.0%	88.4%	9.5%	5.9%	3.5%
EBITDA	65	337	592	737	777
% Change	NM	416.0%	75.6%	24.4%	5.5%
Net Interest & Other Income	(296)	(450)	(356)	(359)	(323)
Net Income (Adjusted)	(371)	(180)	102	215	277
% Change	47.7%	51.6%	NM	111.6%	28.8%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(432)	(528)	(13)	116	(430)
Depreciation & Amortization	133	108	108	101	98
Change in Working Capital	NA	NA	NA	NA	NA
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	22	476	27	74	695
Capital Expenditure	(69)	(87)	(94)	(99)	(102)
Free Cash Flow	-346	-31	29	192	261
% Change	26.2%	91.0%	NM	552.8%	35.6%
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(1,856)	(1,733)	0	(250)	(250)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	795	648	678	620	631
Trade Receivables	354	343	401	462	478
Other Current Assets	213	167	222	223	234
Property, Plant & Equipment	229	234	225	232	238
Other Non-Current Assets	3,372	3,280	3,250	3,207	3,168
Total Assets	4,963	4,672	4,776	4,744	4,748
Short-Term Debt	23	4	4	4	4
Other Current Liabilities	792	911	943	979	989
Long-Term Debt	4,717	4,829	4,829	4,579	4,329
Other Non-Current Liabilities	303	289	289	289	289
Total Liabilities	5,836	6,034	6,066	5,852	5,612
Total Equity	(873)	(1,361)	(1,290)	(1,108)	(864)
Total Equity & Liabilities	4,963	4,672	4,776	4,744	4,748

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Server & Enterprise Software

Company Description

Sabre provides a technology platform that connects hundreds of airlines to thousands of travel agencies who wish to make seat reservations (70% of sales). It also offers numerous software solutions that allow airlines and hotel chains to make reservations and price inventory (30% of sales).

Investment Rationale

We see Sabre as one of the beneficiaries of a more resilient GDS model and more outsourced IT spend in airlines and hotels. However, we find it increasingly difficult to overlook the cost cutting and high interest expenses when airlines are going through a generational transformation. The technological gap vs Amadeus might also widen as Sabre is likely to be more selective on investments.

Stock Data

Price to Book Value

NA

Changes to estimates

Exhibit 1: Changes to our estimates

We tweaked topline growth lower whilst cutting interest expenses in outer years

US\$m (except per share values)	New estimates			Old estimates			Delta (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue	3,185	3,373	3,490	3,219	3,399	3,549	-1.1%	-0.8%	-1.7%
% YoY growth	9.5%	5.9%	3.5%	10.9%	5.6%	4.4%			
Adjusted EBITDA	592	737	777	618	760	810	-4.2%	-3.1%	-4.1%
Adjusted EBIT	484	635	679	484	629	684	-0.1%	1.0%	-0.7%
% margin	15.2%	18.8%	19.5%	15.0%	18.5%	19.3%			
Adjusted EPS	0.29	0.62	0.79	0.15	0.55	0.79	98.5%	11.8%	0.4%
% YoY growth	-156.3%	110.8%	28.3%	-122.7%	274.2%	42.9%			
Reported EPS	-0.04	0.33	0.49	-0.30	0.14	0.35	N.M.	141.8%	40.7%
% YoY growth	-97.7%	-1038.8%	48.4%	-73.6%	-145.2%	155.0%			
Reported FCF	4	192	261	59	214	272	-92.4%	-10.0%	-4.3%

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH

BofA vs Consensus

Exhibit 2: BofA vs Consensus

We are below consensus on FY24 but remains substantially above an undemanding guidance

In US\$mn (except per share values)	Q1'24E			Δ (%)			2024E			Δ (%)		
	BofA	Cons.	Guidance	BofA vs. Cons.	BofA vs. Guidance	Cons. vs. Guidance	BofA	Cons.	Guidance	BofA vs. Cons.	BofA vs. Guidance	Cons. vs. Guidance
Travel Solutions	760	752		1.1%			2,882	2,903		-0.7%		
Hospitality Solutions	83	79		4.8%			341	350		-2.8%		
Revenue	833	821	750	1.5%	11.1%	9.5%	3,185	3,216	3,000	-1.0%	6.2%	7.2%
% YoY growth	12.2%	10.6%	1.0%	164 bps	1123 bps	960 bps	9.5%	10.6%	3.2%	-108 bps	635 bps	742 bps
Adjusted EBITDA	165	176	115	-6.2%	43.5%	52.9%	592	633	500	-6.4%	18.4%	26.5%
Adj. EBITDA margin	19.8%	21.4%	15.3%	-161 bps	447 bps	608 bps	18.6%	19.7%	16.7%	-108 bps	192 bps	301 bps
Adjusted EBIT	137	146		-6.6%			484	521		-7.2%		
Adj. EBIT margin	16.4%	17.8%		-141 bps			15.2%	16.2%		-101 bps		
Adjusted net income	35	30		17.8%			102	66		54.5%		
Adjusted diluted EPS	0.11	0.08		33.1%			0.29	0.17		67.3%		
GAAP Net Income	1	-2		N.M.			-13	-44		N.M.		
GAAP diluted EPS	0.00	-0.01		N.M.			-0.04	-0.13		N.M.		

Source: BofA Global Research estimates, Company, Visible Alpha consensus

BofA GLOBAL RESEARCH

Price objective basis & risk

Sabre (SABR)

We value Sabre at a PO of \$4.5 per share using a DCF approach. Assumptions in our DCF model are 1) WACC of 10.3%, 2) long-term revenue growth of 1% and 3) 25% in terminal EBITDA margin.

Upside risks are (1) better macro/faster recovery from COVID-19 that drives up bookings volumes, and (2) further potential new wins with hospitality groups and/or airlines for the reservations IT platform.

Downside risks are (1) weak demand for corporate travel due to a secular shift to video calls, (2) market share loss in distribution and IT solutions.

Analyst Certification

I, Victor Cheng, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

EMEA - Technology Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Adyen	ADYEY	ADYEY US	Frederic Boulan, CFA
	Adyen N.V.	ADYYF	ADYEN NA	Frederic Boulan, CFA
	Alten	ABLGF	ATE FP	Aditya Buddhavarapu, CFA
	Amadeus	AMADF	AMS SQ	Victor Cheng, CFA
	Amadeus	AMADY	AMADY US	Victor Cheng, CFA
	Capgemini	CAPMF	CAP FP	Frederic Boulan, CFA
	Capgemini	CGEMY	CGEMY US	Frederic Boulan, CFA
	Nexi SpA	NEXPF	NEXI IM	Aditya Buddhavarapu, CFA
	PROS	PRO	PRO US	Victor Cheng, CFA
	Sage	SGGEF	SGE LN	Frederic Boulan, CFA
	SAP SE	SAPGF	SAP GY	Frederic Boulan, CFA
	SAP SE	SAP	SAP US	Frederic Boulan, CFA
	Sopra Steria	SPSAF	SOP FP	Aditya Buddhavarapu, CFA
	Temenos AG	TMNSF	TEMN SW	Frederic Boulan, CFA
	Temenos AG	TMSNY	TMSNY US	Frederic Boulan, CFA
	Wise	WPLCF	WISE LN	Aditya Buddhavarapu, CFA
	Worldline	WWLNF	WLN FP	Frederic Boulan, CFA
	Worldline	WRDLY	WRDLY US	Frederic Boulan, CFA
NEUTRAL				
	Dassault Systemes	DASTF	DSY FP	Frederic Boulan, CFA
	Dassault Systemes	DASTY	DASTY US	Frederic Boulan, CFA
	Netcompany	NTCYF	NETC DC	Aditya Buddhavarapu, CFA
	Sabre	SABR	SABR US	Victor Cheng, CFA
	TietoEVRY	TCYBF	TIETO FH	Aditya Buddhavarapu, CFA
UNDERPERFORM				
	Atos	AEXAF	ATO FP	Frederic Boulan, CFA
	Bechtle Ag	BHTLF	BC8 GY	Aditya Buddhavarapu, CFA
	Darktrace	DRKTF	DARK LN	Victor Cheng, CFA
	Kainos	KNNNF	KNOS LN	Aditya Buddhavarapu, CFA
	Nemetschek	NEMTF	NEM GY	Victor Cheng, CFA
	Paysafe	PSFE	PSFE US	Aditya Buddhavarapu, CFA
	Sinch	CLCMF	SINCH SS	James Pavey, CFA
	TeamViewer	TMVWF	TMV GY	Victor Cheng, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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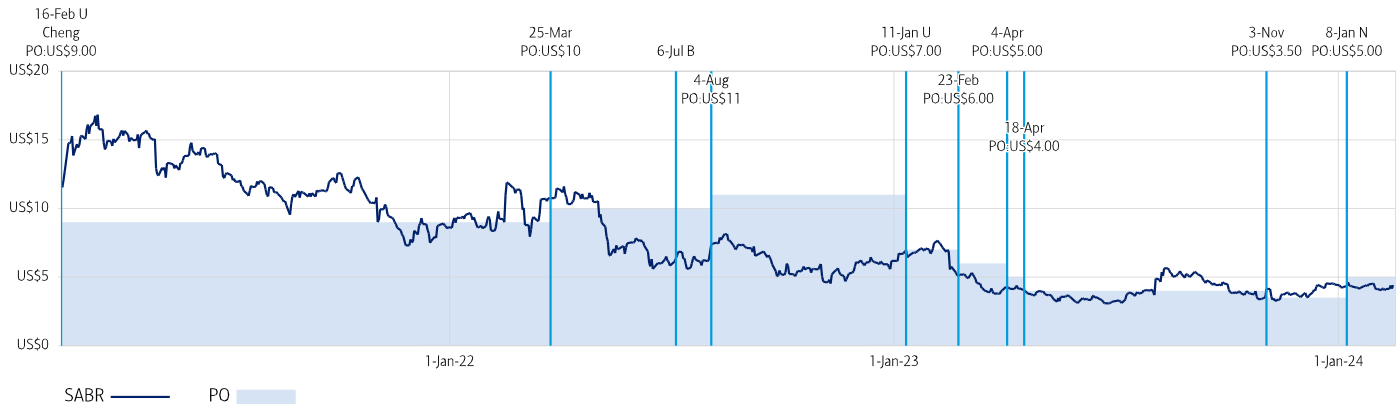
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Sabre (SABR) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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