

## Sabre

# Upgrade to Neutral: more balanced risk reward

Rating Change: NEUTRAL | PO: 5.00 USD | Price: 4.35 USD

## Near term risks somewhat eased; upgrade to Neutral

We upgrade Sabre to Neutral from Underperform as we believe near-term risks have somewhat eased: 1/ on air bookings, management is no longer assuming 1.5pp recovery per quarter, a target which investors have been increasingly questioning in the last few months. 2/ Sabre has largely been successful in realising the \$200m annualised cost savings laid out in Q1'23 and is now more likely to de-lever the balance sheet sooner than previously expected. 3/ Near term liquidity and refinancing concerns have subsided as interest rates have likely peaked while Sabre has also managed to extend most of the FY25 debt beyond FY27.

## Long term concerns still persist

However, in our view, long term risks continue to persist. 1/ We question Sabre's ability to invest adequately to remain competitive long term across all segments amid deeper cost cuts and on-going migration away from mainframe. 2/ We believe adequate investment is more important than any prior years at a time when airlines are going through a generational technological change in both air distribution and airline IT. 3/ We believe Sabre continues to lag behind, leading NDC players (Amadeus included) on NDC adoption. With a number of Tier 1 airlines now pushing faster on NDC adoption, Sabre faces a higher risk of disintermediation vs peers.

## PO to \$5 (from \$3.5) on lower WACC

Overall, we view risk/reward as more balanced from here. We continue to use a DCF approach to better reflect the multi-year recovery and growth profile. PO to \$5 (from \$3.5) as we model marginally higher growth in outer years along with a lower WACC of 10.3% (prev. 11%).

Estimates (Dec) (USD)	2021A	2022A	2023E	2024E	2025E
EPS (NA)	(2.21)	(1.14)	(0.65)	0.15	0.55
EPS Change (YoY)	30.5%	48.4%	43.0%	NM	266.7%
Dividend / Share	0	0	0	0	0
Valuation (Dec)					
P/E	NM	NM	NM	29.0x	7.91x
EV / EBITDA*	NM	73.6x	15.6x	7.78x	6.32x
Free Cash Flow Yield*	-32.5%	-24.0%	1.78%	5.78%	14.8%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

08 January 2024

## Equity

### Key Changes

(US\$)	Previous	Current
Inv. Opinion	C-3-9	C-2-9
Inv. Rating	UNDERPERFORM	NEUTRAL
Price Obj.	3.50	5.00
2024E Rev (m)	3,209.5	3,220.2
2025E Rev (m)	3,348.8	3,399.8
2024E EPS	0.13	0.15
2025E EPS	0.49	0.55

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## Stock Data

Price	4.35 USD
Price Objective	5.00 USD
Date Established	08-Jan-2024
Investment Opinion	C-2-9
52-Week Range	2.99 USD-7.92 USD
Mrkt Val / Shares Out (mn)	1,444 USD / 332.0
Average Daily Value (mn)	19.42 USD
Free Float	97.8%
BofA Ticker / Exchange	SABR / NAS
Bloomberg / Reuters	SABR US / SABROQ
ROE (2023E)	NA
Net Dbt to Eqty (Dec2022A)	NA

NDC: New Distribution Capability

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Timestamp: 08 January 2024 01:58AM EST

# iQprofile<sup>SM</sup> Sabre

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	-6.9%	-0.2%	4.8%	10.9%	12.9%
Return on Equity	NM	NM	NM	NM	NM
Operating Margin	88.3%	94.8%	95.4%	95.9%	96.2%
Free Cash Flow	(469)	(346)	26	84	214

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	NM	NM	3.7x	1.7x
Asset Replacement Ratio	0.3x	0.5x	0.6x	0.7x	0.8x
Tax Rate	1.5%	NM	20.6%	20.6%	26.9%
Net Debt-to-Equity Ratio	NM	NM	NM	NM	NM
Interest Cover	-1.8x	-0.2x	0.4x	1.1x	1.6x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	1,689	2,537	2,902	3,219	3,399
% Change	26.6%	50.2%	14.4%	10.9%	5.6%
Gross Profit	1,044	1,545	2,903	3,220	3,400
% Change	16.8%	48.0%	87.9%	10.9%	5.6%
EBITDA	(261)	65	309	618	760
% Change	29.9%	NM	372.8%	100.0%	23.0%
Net Interest & Other Income	(258)	(296)	(442)	(422)	(393)
<b>Net Income (Adjusted)</b>	<b>(709)</b>	<b>(371)</b>	<b>(214)</b>	<b>49</b>	<b>183</b>
<b>% Change</b>	<b>23.1%</b>	<b>47.7%</b>	<b>42.4%</b>	<b>NM</b>	<b>275.7%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(924)	(432)	(372)	(98)	48
Depreciation & Amortization	198	133	135	134	131
Change in Working Capital	NA	NA	NA	NA	NA
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	311	22	350	144	136
Capital Expenditure	(54)	(69)	(87)	(97)	(102)
<b>Free Cash Flow</b>	<b>-469</b>	<b>-346</b>	<b>26</b>	<b>84</b>	<b>214</b>
<b>% Change</b>	<b>43.9%</b>	<b>26.2%</b>	<b>NM</b>	<b>224.5%</b>	<b>155.8%</b>
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(1,073)	(1,856)	(1,502)	0	(250)

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	978	795	938	1,022	986
Trade Receivables	260	354	398	406	466
Other Current Assets	143	213	218	224	225
Property, Plant & Equipment	250	229	210	204	212
Other Non-Current Assets	3,639	3,372	3,335	3,291	3,228
<b>Total Assets</b>	<b>5,270</b>	<b>4,963</b>	<b>5,100</b>	<b>5,146</b>	<b>5,116</b>
Short-Term Debt	29	23	23	23	23
Other Current Liabilities	666	792	1,041	1,059	1,121
Long-Term Debt	4,724	4,717	4,832	4,832	4,582
Other Non-Current Liabilities	335	303	301	301	301
<b>Total Liabilities</b>	<b>5,754</b>	<b>5,836</b>	<b>6,197</b>	<b>6,216</b>	<b>6,027</b>
<b>Total Equity</b>	<b>(500)</b>	<b>(873)</b>	<b>(1,097)</b>	<b>(1,069)</b>	<b>(911)</b>
<b>Total Equity &amp; Liabilities</b>	<b>5,255</b>	<b>4,963</b>	<b>5,100</b>	<b>5,146</b>	<b>5,116</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## 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

## Quarterly Earnings Estimates

	2022	2023
Q1	-0.29A	-0.18A
Q2	-0.25A	-0.17A
Q3	-0.24A	-0.06A
Q4	-0.36A	-0.25E

# Changes to estimates

## Exhibit 1: Changes to our estimates

We tweaked revenue marginally higher on all outer years driven by stronger air distribution performance

US\$m (except per share values)	New estimates			Old estimates			Delta (%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Revenue	2,902	3,219	3,399	2,902	3,209	3,348	0.0%	0.3%	1.5%
% YoY growth	14.4%	10.9%	5.6%	14.4%	10.6%	4.3%			
Adjusted EBITDA	309	618	760	309	612	732	0.0%	1.0%	3.9%
Adjusted EBIT	174	484	629	174	478	602	0.0%	1.2%	4.4%
% margin	6.0%	15.0%	18.5%	6.0%	14.9%	18.0%			
Adjusted EPS	-0.65	0.15	0.55	-0.65	0.13	0.49	N.M.	9.6%	13.1%
% YoY growth	-42.9%	-122.7%	274.2%	-42.9%	-120.7%	262.5%			
Reported EPS	-1.15	-0.30	0.14	-1.15	-0.32	0.07	N.M.	N.M.	86.0%
% YoY growth	-17.5%	-73.6%	-145.2%	-17.5%	-72.5%	-123.3%			
Reported FCF	-24	59	214	-24	55	193	N.M.	7.0%	10.4%

Source: BofA Global Research estimates

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## Price objective basis & risk

### Sabre (SABR)

We value Sabre at a PO of \$5 per share using a DCF approach. Key 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.

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<b>BUY</b>				
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	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
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	Temenos AG	TMSNY	TMSNY US	Frederic Boulan, CFA
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	Worldline	WWLNF	WLN FP	Frederic Boulan, CFA
	Worldline	WRDLY	WRDLY US	Frederic Boulan, CFA
<b>NEUTRAL</b>				
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	Dassault Systemes	DASTY	DASTY US	Frederic Boulan, CFA
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	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

## **IQmethod<sup>SM</sup> 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**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + 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  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +  
Other LT Liabilities  
Enterprise Value

### **Denominator**

Total Assets – Current Liabilities + ST Debt + 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  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization

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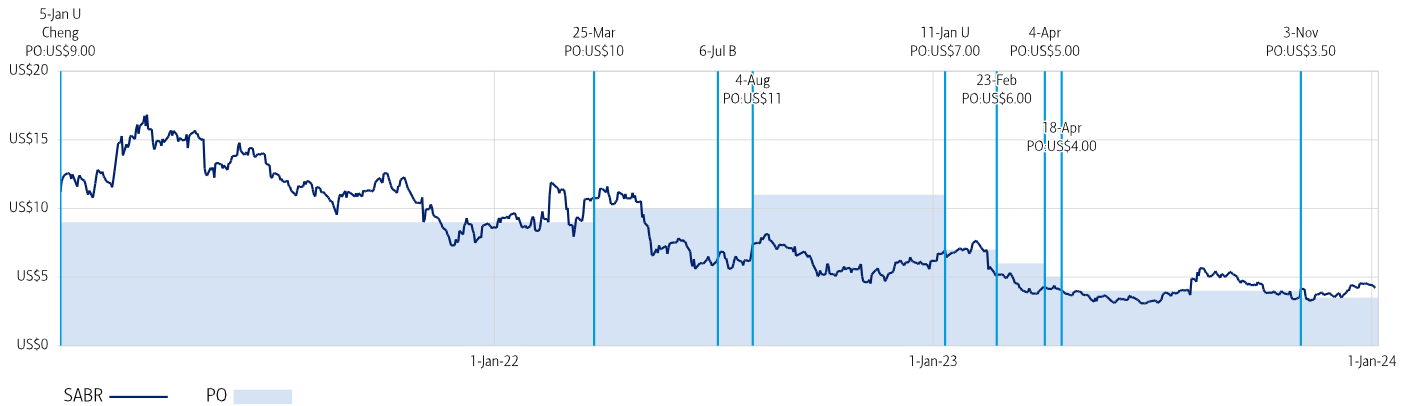
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### Sabre (SABR) Price Chart



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.

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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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