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COMPANY UPDATE

Singapore Telecommunications (ST SP)

Determined To Drive ROIC Expansion

Singtel remains committed to its aim of driving up ROIC to double digits by FY26. The group continues to see NCS and RDC as its key growth drivers. The group's core businesses in Singapore and Australia are expected to benefit from implemented cost optimisation initiatives and market leadership position. Regional associates face favourable tailwinds in most markets which would help boost contributions to the group. Maintain BUY with an unchanged target price of S$3.15 (implied 15x EV/EBITDA).

WHAT'S NEW

- **Gameplan: Driving ROIC expansion and market value in the near term.** Singapore Telecommunications (Singtel) maintains its aim to grow overall group ROIC from 8% in FY23 to low double digits by FY26, largely driven by its regional associates and growth engines (regional data centres (RDC) and NCS). Both NCS and RDC are expected to contribute more than 20% of EBITDA by FY28, almost double FY23's 12%, and would offset declining telecom services EBITDA. While management awaits a potential IPO of its RDC and/or NCS businesses, it may consider a more immediate 20-25% regional strategic partnerships that will be beneficial to the group. We also note that Singtel's new digital businesses (Paragon and GXS) are also scaling well with GXS expected to be EBITDA breakeven by FY26. Management is re-evaluating its regional associate portfolio (valued at ~S$49b) and may continue to embark on opportunistic stake sales (albeit small bites) of its respective stakes to fund future growth initiatives.

- **Singtel Singapore.** The consolidation of the group's domestic consumer and enterprise businesses is expected to create cost-saving synergies. Although data roaming revenue is currently at 90% of pre-COVID-19 levels, there is still further potential upside given that data roaming revenue from China remains at 60% of pre-COVID-19 levels and is expected to gradually improve moving forward. Coupled with the continued strong take-up of 5G bundled plans in Singapore, we expect post-paid ARPU to continue its upward momentum in 2023, backed by rational competition from the incumbent telcos.

- **Optus: Market repair is of utmost importance.** Broadly, management aims to drive ROIC via raising prices (at the right time) and focusing on cost synergies. In the near term, competition is expected to remain stiff from Tier 2 competitors/Mobile Virtual Network Operators (MVNOs). We note that MVNOs' market share rose from 19.7% at end-19 to 25.4% at end-22 as customers traded down. Consequently, Optus will focus on value proposition amongst its customers and good customer service.

KEY FINANCIALS

Year to 31 Mar (S$m)	2022	2023	2024F	2025F	2026F
Net turnover	15,339	14,624	15,053	15,637	16,317
EBITDA	3,767	3,686	3,872	4,108	4,441
Operating profit	1,045	1,112	1,395	1,654	2,019
Net profit (rep./act.)	1,948	2,226	2,370	2,733	3,088
Net profit (adj.)	1,923	2,054	2,370	2,733	3,088
EPS (S$ cent)	11.7	12.4	14.3	16.5	18.7
PE (x)	20.1	18.9	16.4	14.2	12.6
P/B (x)	1.4	1.5	1.5	1.4	1.4
EV/EBITDA (x)	12.8	13.0	12.4	11.7	10.8
Dividend yield (%)	4.0	6.3	4.3	5.1	6.0
Net margin (%)	12.7	15.2	15.7	17.5	18.9
Net debt/(cash) to equity (%)	34.6	35.5	34.3	32.2	29.4
Interest cover (x)	12.0	10.3	11.1	11.3	11.8
ROE (%)	7.1	8.2	9.0	10.1	11.1
Consensus net profit	-	-	2,368	2,711	3,129
UOBKH/Consensus (x)	-	-	1.00	1.01	0.99

Source: Singapore Telecommunications, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S$2.35
Target Price	S$3.15
Upside	+33.9%

COMPANY DESCRIPTION

Singtel is a telecommunications company offering a diverse range of services, including fixed-line, mobile, data, internet, TV, and digital solutions. It also has operations in Australia, India, Indonesia, Thailand and the Philippines.

STOCK DATA

GICS sector	Communication Services
Bloomberg ticker:	ST SP
Shares issued (m):	16,510.8
Market cap (S$m):	38,800.5
Market cap (US$m):	28,500.4
3-mth avg daily t'over (US$m):	35.4

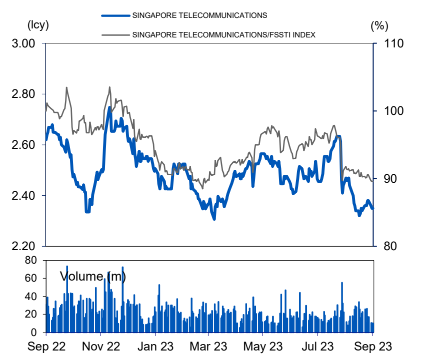
Price Performance (%)

52-week high/low S$2.75/S$2.31

1mth	3mth	6mth	1yr	YTD
(3.7)	(4.3)	0.1	(8.9)	(7.7)

Major Shareholders	%
Temasek Hldgs	52.0
-	-
-	-
FY24 NAV/Share (S$)	1.60
FY24 Net Debt/Share (S$)	0.55

PRICE CHART



Source: Bloomberg

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- **NCS.** Backed by growing digitalisation from enterprise projects and overseas clients, management continues to see NCS as its growth driver, aiming to grow its revenue from S$2.7b in FY23 to S$5.0b in FY26. Overseas revenue now contributes 15% of overall revenue in FY23, up 10ppt since FY19, while enterprise revenue has grown from 25% in FY19 to 33% in FY23. Despite increased wage costs in FY23, management expects to deliver EBITDA growth moving forward, given several executed cost management initiatives and wage costs starting to stabilise. For the remainder of FY24 however, revenue growth is expected to be partly offset by enterprise margin compression from high wages.

- **Digital InfraCo.** Singtel plans to double its data centre capacity in Singapore in the next three years to about 120MW, up from 62MW currently. Through partnerships with AIS/Gulf and Telkom, Singtel also plans to add another 40MW in Thailand and 51MW in Indonesia respectively, taking the combined total to 211MW within the next three years. The group is also looking at regional opportunities in Vietnam and Malaysia through suitable and strategic partnerships. Customer contracts are typically 10 years, which create customer stickiness, while its customers comprise hyperscalers and enterprises. Annual contractual price escalation and uplift are built into the contracts to ensure revenue growth while most utilities costs are also passed through to customers, supporting margins. In 1QFY24, RDC contributed S$72m (+14% yoy) in annual revenue and S$44m in EBITDA (stable yoy).

- **Potentially S$7b-8b in valuation.** The goal is to add another 150MW of capacity to Singtel's DC portfolio over the next 3-5 years. This will create a DC asset close to S$7b-8b within five years.

STOCK IMPACT

- **Bharti Airtel: Expect ARPU to trend higher.** Management noted several factors that would drive ARPU increases: a) migration to smartphones would raise ARPU by 50%; b) shift from prepaid to postpaid would increase ARPU by 60%, c) increase focus on family plans; d) data monetisation, and e) higher tariffs, especially after the elections. Management also sees strong potential in its broadband business which has low 14-15% market penetration and high margins.

- **Globe: Benign and rational mobile competition.** Market repair is ongoing with two rounds of price increases with further price increases expected. That said, this needs to be balanced by consumer wallet, which may see some softness given ongoing inflationary pressure on daily routines.

- **AIS: Favourable tailwinds.** Management expects ARPU to improve in 2H23, given ongoing 5G adoption, upselling value-added services and an improving economy. The incoming government is also positive for AIS as short-term incentives such as cash handouts are expected, which will drive consumer mobile spending.

- **Telkomsel: Fixed broadband to drive growth.** The group led market repair with price increases, with competitors following suit. Post-consolidation, management plans to upsell Indihome's broadband services to 6.5m of Telkomsel mobile customers to drive revenue growth, given that domestic fixed broadband penetration is only at 15-17%. Management expects new contributions from IndiHome to offset the loss in legacy revenue coupled with cost optimisation.

EARNINGS REVISION/RISK

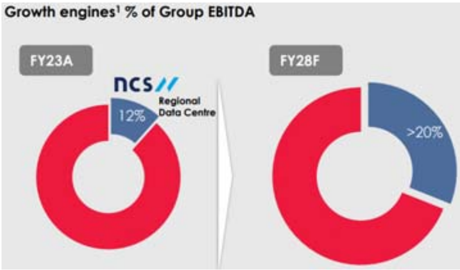
- We make no changes to our FY24-26 PATMI estimates.

VALUATION/RECOMMENDATION

- **Maintain BUY with a DCF-based target price of S$3.15** (discount rate: 7%, growth rate: 2.0%). At our target price, the stock will trade at 15x FY24 EV/EBITDA. In our view, Singtel remains an attractive play against elevated market volatility, underpinned by improving business fundamentals.

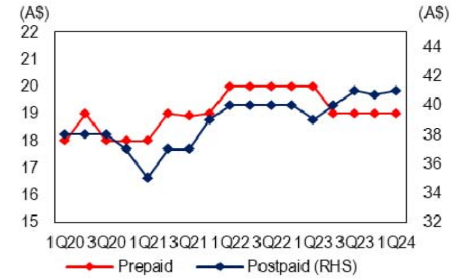
- **Key re-rating catalysts include:** a) successful monetisation of 5G, b) monetisation of data centres and/or NCS, and c) market repair in Singapore and resumption of regional roaming revenue.

SINGTEL'S GROWTH ENGINES



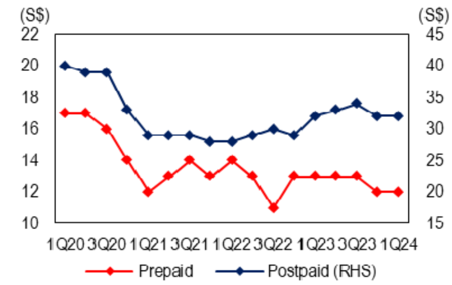
Source: Singtel, UOB Kay Hian

AUSTRALIA CONSUMER ARPU TREND (A$)



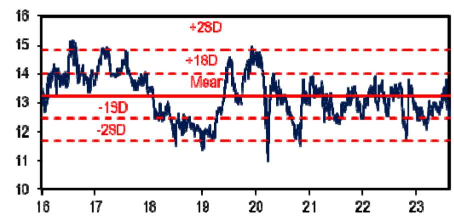
Source: Singtel, UOB Kay Hian

SINGAPORE CONSUMER ARPU TREND (S$)



Source: Singtel, UOB Kay Hian

FORWARD EV/EBITDA (X)



Source: Bloomberg, UOB Kay Hian

KEY DRIVERS OF ROIC

ROIC > WACC	Regional Associates	• Capture fixed opportunity • Focus on market repair & cost management
	Singtel Singapore	• Accelerate 5G monetisation • Capitalise on enterprise digital transformation • Integration of consumer & enterprise to drive growth & cost synergies
	NCS	• Grow international & enterprise business • Cost-to-serve optimisation • End-to-end digital proposition
ROIC < WACC	Optus	• Build on rational market competition & customer gains • Scale integrated consumer & enterprise business to drive growth • Focus on cost management to mitigate inflation pressures
Negative ROIC	Trustwave	• Complete strategic review • Continued focus on cost efficiencies

Source: Singtel, UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (S$m)	2023	2024F	2025F	2026F
Net turnover	14,624.4	15,052.5	15,637.0	16,317.2
EBITDA	3,685.9	3,871.9	4,108.1	4,441.2
Deprec. & amort.	2,574.1	2,476.6	2,453.8	2,422.0
EBIT	1,111.8	1,395.2	1,654.3	2,019.2
Associate contributions	2,287.0	2,450.6	2,637.9	2,796.5
Net interest income/(expense)	(358.9)	(350.2)	(363.2)	(375.8)
Pre-tax profit	3,211.9	3,407.7	3,929.0	4,439.8
Tax	(978.0)	(1,037.6)	(1,196.4)	(1,351.9)
Minorities	(8.4)	0.0	0.0	0.0
Net profit	2,225.5	2,370.0	2,732.6	3,087.9
Net profit (adj.)	2,053.5	2,370.0	2,732.6	3,087.9

BALANCE SHEET

Year to 31 Mar (S$m)	2023	2024F	2025F	2026F
Fixed assets	10,384.6	10,327.4	10,218.5	10,066.7
Other LT assets	27,562.6	27,985.7	28,464.9	28,991.8
Cash/ST investment	1,667.9	2,210.4	2,935.3	3,809.4
Other current assets	5,428.4	5,581.0	5,791.4	6,035.3
Total assets	46,530.0	47,591.0	48,896.6	50,389.6
ST debt	982.7	982.7	982.7	982.7
Other current liabilities	7,316.4	7,406.9	7,559.8	7,725.3
LT debt	9,910.6	10,332.1	10,738.6	11,130.2
Other LT liabilities	2,306.0	2,306.0	2,306.0	2,306.0
Shareholders' equity	26,004.9	26,554.0	27,300.1	28,235.9
Minority interest	9.4	9.4	9.4	9.4
Total liabilities & equity	46,530.0	47,591.0	48,896.6	50,389.6

CASH FLOW

Year to 31 Mar (S$m)	2023	2024F	2025F	2026F
Operating	4,775.8	5,134.7	5,492.3	5,807.4
Pre-tax profit	3,211.9	3,407.7	3,929.0	4,439.8
Tax	(978.0)	(1,037.6)	(1,196.4)	(1,351.9)
Deprec. & amort.	2,574.1	2,476.6	2,453.8	2,422.0
Associates	(172.0)	0.0	0.0	0.0
Working capital changes	(130.1)	(62.2)	(57.4)	(78.4)
Non-cash items	358.9	350.2	363.2	375.8
Other operating cashflows	(89.0)	0.0	0.0	0.0
Investing	(2,301.7)	(2,842.5)	(2,824.2)	(2,797.0)
Capex (maintenance)	(2,162.4)	(2,107.4)	(2,032.8)	(1,958.1)
Proceeds from sale of assets	(679.2)	(735.2)	(791.4)	(838.9)
Others	539.9	0.0	0.0	0.0
Financing	(2,941.2)	(1,749.7)	(1,943.2)	(2,136.3)
Dividend payments	(1,964.3)	(1,821.0)	(1,986.5)	(2,152.1)
Issue of shares	0.1	0.0	0.0	0.0
Proceeds from borrowings	(974.7)	421.5	406.6	391.6
Others/interest paid	(2.3)	(350.2)	(363.2)	(375.8)
Net cash inflow (outflow)	(467.1)	542.5	724.9	874.1
Beginning cash & cash equivalent	2,130.0	1,667.9	2,210.4	2,935.3
Changes due to forex impact	5.0	0.0	(0.1)	(0.1)
Ending cash & cash equivalent	1,667.9	2,210.4	2,935.2	3,809.3

KEY METRICS

Year to 31 Mar (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	25.2	25.7	26.3	27.2
Pre-tax margin	22.0	22.6	25.1	27.2
Net margin	15.2	15.7	17.5	18.9
ROA	4.7	5.0	5.7	6.2
ROE	8.2	9.0	10.1	11.1
Growth				
Turnover	(4.7)	2.9	3.9	4.3
EBITDA	(2.1)	5.0	6.1	8.1
Pre-tax profit	11.0	6.1	15.3	13.0
Net profit	14.3	6.5	15.3	13.0
Net profit (adj.)	6.8	15.4	15.3	13.0
EPS	6.1	15.4	15.3	13.0
Leverage				
Debt to total capital	29.5	29.9	30.0	30.0
Debt to equity	41.9	42.6	42.9	42.9
Net debt/(cash) to equity	35.5	34.3	32.2	29.4
Interest cover (x)	10.3	11.1	11.3	11.8

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