

COMPANY UPDATE

Singapore Telecommunications (ST SP)

Early Progress In Driving Shareholder Value And Its Growth Engines.

In line with its Singtel28 growth plan, Singtel made several announcements that are set to drive shareholder value, and also doubled down on its future growth drivers such as its data centres. Management also noted that the group's core businesses are on a stronger footing moving into 1QFY25. In view of a decent dividend yield of 5.5% and improving outlook, we maintain BUY but with a higher target price of S\$3.58.

WHAT'S NEW

- Intouch associate: Simpler and leaner.** Singapore Telecommunications (Singtel) announced that the group's associate, Intouch Holdings (Intouch), is set to enter an amalgamation agreement with Intouch's largest shareholder, Gulf Energy Development (GULF) which would result in a new public company (NewCo). Singtel's current 24.99% ownership of Intouch implies that Singtel is set to own 9.08% of NewCo post amalgamation, receive a special dividend of S\$135m and book an exceptional gain of S\$400m in FY25. In addition, Intouch, GULF and GULF's largest shareholder would conduct a conditional voluntary tender offer (VTO) for all the shares in Singtel's regional associate, Advanced Info Service Company (AIS), amounting to 36.25% of AIS' total shares. Singtel already owns 23.3% of AIS, and intends to participate in the VTO as an offeror. Based on the agreement, the first 5% of tender shares would be allocated to Singtel, the subsequent two 5% portions to Intouch and GULF respectively and the remaining 21% to be equally split amongst the three parties with Singtel not acquiring more than 10%. The amalgamation is expected to be completed in 2Q25 (1QFY26) and management noted that this deal would not have any impact on dividend policy. The group also intends to fund the VTO with internal cash and loans which would amount to S\$2.4b for 10% of AIS shares.
- A positive deal.** In line with the group's Singtel28 strategy, we reckon that this deal is positive for Singtel as the group: a) is able to increase its direct stake in AIS which has an improving outlook and growth potential; b) can swap out its stake in Intouch at a 4% premium which has historically traded at a discount; c) will own a stake in new industries with secular tailwinds such as renewable energy and digital infrastructure, and d) has greater optionality to manage capital and create shareholder value due to greater trading liquidity from NewCo. However, for now, we expect Singtel to retain its 23.3% direct stake of AIS as our base case given that the current market price of AIS is higher than the tender offer price of Bt216.30/share. Based on our estimates for our base case, we expect insignificant earnings impact to our FY26-27 earnings estimates as any potential earnings dilution from the drop in Singtel's indirect stake of 10.1% to 3.67% in AIS would be offset by growing contributions from NewCo's other businesses. Assuming AIS' market price falls below Bt216.30/share and Singtel increases its direct stake by 5% to 28.3%, we expect minimal negative earnings impact (0-1%) for FY26-27 due to higher interest costs to fund the deal.

KEY FINANCIALS

Year to 31 Mar (\$m)	2022	2023	2024F	2025F	2026F
Net turnover	14,624	14,128	14,527	14,920	15,154
EBITDA	3,686	3,597	3,713	3,961	4,200
Operating profit	1,112	1,153	1,352	1,613	1,870
Net profit (rep./act.)	2,226	795	3,001	2,777	3,048
Net profit (adj.)	2,054	2,261	2,601	2,777	3,048
EPS (\$ cent)	12.4	13.7	15.7	16.8	18.4
PE (x)	24.3	22.1	19.2	18.0	16.4
P/B (x)	1.9	2.0	2.0	2.0	2.0
EV/EBITDA (x)	15.5	15.9	15.4	14.4	13.6
Dividend yield (%)	4.9	5.0	5.5	5.8	6.3
Net margin (%)	15.2	5.6	20.7	18.6	20.1
Net debt/(cash) to equity (%)	35.5	29.3	30.2	33.7	37.3
Interest cover (x)	10.3	11.9	12.3	12.6	12.9
ROE (%)	8.2	3.1	12.0	11.0	12.2
Consensus net profit	-	-	2,614	3,161	3,373
UOBKH/Consensus (x)	-	-	0.99	0.88	0.90

Source: Singapore Telecommunications, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$3.02
Target Price	S\$3.58
Upside	+18.6%
(Previous TP)	S\$3.05

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):	16,513.2
Market cap (\$m):	49,869.8
Market cap (US\$m):	37,224.6
3-mth avg daily t'over (US\$m):	69.1

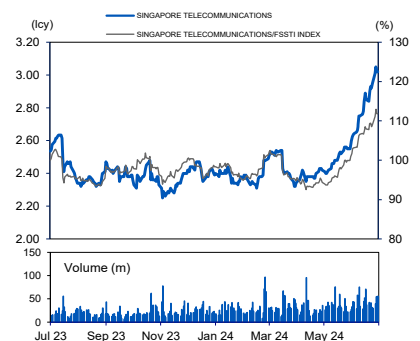
Price Performance (%)

52-week high/low	S\$3.05/S\$2.25
1mth	18.4
3mth	30.2
6mth	25.8
1yr	18.2
YTD	22.3

Major Shareholders

Temasek Hldgs	50.3
-	-
FY25 NAV/Share (S\$)	1.52
FY25 Net Debt/Share (S\$)	0.46

PRICE CHART



Source: Bloomberg

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- Renewed focus on data centres.** Singtel recently announced two announcements regarding its regional data centre unit, Nxera. Firstly, Telekom Malaysia (TM) (51% stake) is partnering Nxera (49% stake) to develop data centres in Malaysia starting with an AI-ready DC campus in Johor. The initial phase of the DC is planned for 64MW and can be scaled up to 200MW. Secondly, Singtel is set to invest up to S\$684m into ST Telemedia Global Data Centres (STT GDC) via S\$400m in redeemable preference shares (RPS) which will accrue annual dividends at 6.5% and S\$284m in detachable warrants, holding a 4.2% share. We opine that these investments are positive for Singtel, given the larger global exposure and potential monetisation benefits.
- Positive earnings impact.** As a recap from our previous note, we estimate that the overall EBITDA impact from the TM deal is minimal for 64MW, although at the Nxera level, earnings impact will be more meaningful (EBITDA is expected to rise 21% from FY23's base EBITDA of S\$172m). Equity accretion is between S\$0.06/share (64MW, our base case) and our blue-sky scenario at S\$0.17/share (200MW). Also, management noted that the group expects mid-teens returns from its STT GDC investment, which we estimate would likely boost our FY25-27 PATMI by 1-2%.
- Longer-term impact on Singtel – potential regional DC monetisation exercise.** As Singtel continues to expand its DC footprint in the region, we expect an eventual monetisation exercise for the group. To recap, Singtel sold a 20% equity stake in Nxera to KKR, with a growth plan to expand into a regional DC portfolio of at least 200MW. Nxera is developing three new AI-ready data centres in the region in addition to 62MW of existing capacity in Singapore. This includes a new 58MW data centre in Tuas, Singapore and data centres with partners in Indonesia (51MW) and Thailand (40MW). Nxera's total pipeline capacity is set to increase from its current operational capacity of 62MW to more than 250MW in the region in the next three years with the addition of the Johor DC. Moving forward, we expect Singtel to double down on data centres and reckon that any upcoming positive newsflow for data centres would likely drive share price performance.

STOCK IMPACT

- Stiff competition to persist.** With intense domestic pricing competition, coupled with inflationary pressures, we reckon that existing customers from the incumbent telcos would continue to trade down to lower-value/SIM-only plans, resulting in the incumbents ceding market share. As of end-1Q24, Simba and mobile virtual network operators (MVNOs) currently commanded around 9.5% of Singapore's market, increasing gradually since their entrance into the domestic market in 2018.
- Beneficiary of market consolidation.** We opine that Singapore's telco industry is ripe for market consolidation in the short to medium term, given industry-wide falling mobile service revenue and sliding ARPUs. With a commanding domestic market share of 46.4%, we reckon that Singtel is unlikely to be part of any potential market consolidation which would likely result in regulatory issues. Instead, in our view, Starhub would be the prime candidate to lead market consolidation with M1 as the likeliest acquisition target, given existing capex and operating cost synergies. In the event of a Starhub-M1 merger, we reckon that this would likely lead to rational pricing and eventual market repair given the 90% combined market share with Singtel, which will benefit Singtel.

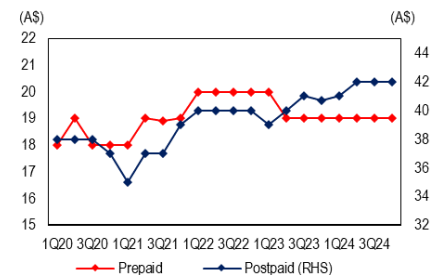
EARNINGS REVISION/RISK

- We increase our FY25-27 underlying PATMI estimates slightly by 1-2%,** on the back of the STT GDC deal and the upcoming S\$135m special dividend from Intouch.

VALUATION/RECOMMENDATION

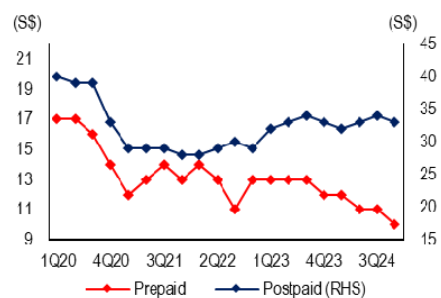
- Maintain BUY with a higher DCF-based target price of S\$3.58 (S\$3.05 previously)** discount rate: 7% previously, growth rate: 2.5% (2.0% previously). We increase our growth rate assumption due to Singtel's improving business fundamentals.
- In our view,** Singtel remains an attractive play against elevated market volatility, backed by favourable tailwinds and a decent 5.5% dividend yield.

AUSTRALIA CONSUMER ARPU TREND



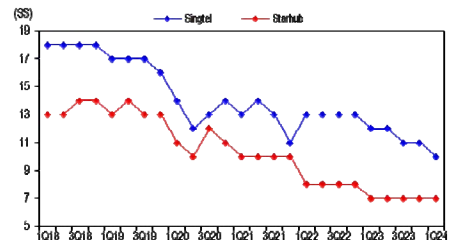
Source: Singtel, UOB Kay Hian

SINGAPORE CONSUMER ARPU TREND



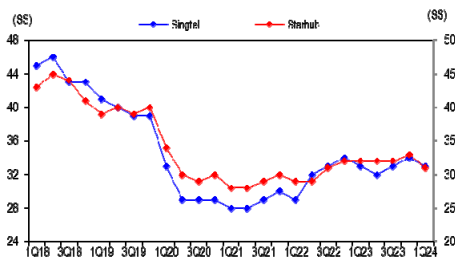
Source: Singtel, UOB Kay Hian

SECTOR PREPAID ARPU



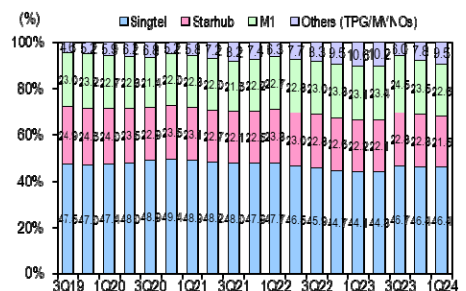
Source: Singtel, Starhub UOB Kay Hian

SECTOR POSTPAID ARPU



Source: Singtel, Starhub UOB Kay Hian

SINGAPORE MARKET SHARE COMPOSITION



Source: IMDA, Singtel, M1, Starhub, UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (\$m)	2024	2025F	2026F	2027F
Net turnover	14,127.5	14,527.2	14,919.8	15,154.4
EBITDA	3,596.9	3,712.7	3,960.9	4,199.8
Deprec. & amort.	2,444.0	2,360.8	2,347.7	2,329.9
EBIT	1,152.9	1,351.9	1,613.2	1,869.8
Associate contributions	2,338.0	2,552.6	2,514.6	2,642.3
Net interest income/(expense)	(302.9)	(302.9)	(313.9)	(324.9)
Pre-tax profit	1,722.5	4,001.6	3,813.9	4,187.2
Tax	(919.0)	(1,000.4)	(1,037.4)	(1,138.9)
Minorities	(8.5)	0.0	0.0	0.0
Net profit	795.0	3,001.2	2,776.5	3,048.3
Net profit (adj.)	2,260.5	2,601.2	2,776.5	3,048.3

CASH FLOW

Year to 31 Mar (\$m)	2024	2025F	2026F	2027F
Operating	4,718.0	5,658.1	5,367.6	5,618.0
Pre-tax profit	1,722.5	4,001.6	3,813.9	4,187.2
Tax	(919.0)	(1,000.4)	(1,037.4)	(1,138.9)
Deprec. & amort.	2,444.0	2,360.8	2,347.7	2,329.9
Associates	1,465.5	0.0	0.0	0.0
Working capital changes	148.2	(6.8)	(70.5)	(85.1)
Non-cash items	302.9	302.9	313.9	324.9
Other operating cashflows	(446.1)	0.0	0.0	0.0
Investing	247.3	(2,944.9)	(2,962.5)	(2,990.1)
Capex (maintenance)	(2,149.5)	(2,179.1)	(2,208.1)	(2,197.4)
Proceeds from sale of assets	(265.9)	(765.8)	(754.4)	(792.7)
Others	2,662.7	0.0	0.0	0.0
Financing	(1,992.7)	(2,598.9)	(2,786.2)	(3,047.7)
Dividend payments	(2,146.1)	(2,731.8)	(2,913.9)	(3,162.2)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	1,006.3	435.8	441.6	439.5
Others/interest paid	(852.9)	(302.9)	(313.9)	(324.9)
Net cash inflow (outflow)	2,972.6	114.4	(381.1)	(419.8)
Beginning cash & cash equivalent	1,667.9	4,605.2	4,719.6	4,338.5
Changes due to forex impact	(35.3)	0.0	0.0	0.0
Ending cash & cash equivalent	4,605.2	4,719.6	4,338.5	3,918.7

BALANCE SHEET

Year to 31 Mar (\$m)	2024	2025F	2026F	2027F
Fixed assets	10,046.5	10,115.8	10,197.2	10,255.7
Other LT assets	25,791.9	26,306.7	26,840.1	27,441.8
Cash/ST investment	4,605.2	4,719.6	4,338.5	3,918.7
Other current assets	5,336.3	5,485.9	5,629.0	5,712.1
Total assets	46,198.5	47,046.6	47,423.4	47,746.8
ST debt	569.7	569.7	569.7	569.7
Other current liabilities	7,079.7	7,222.5	7,295.1	7,293.0
LT debt	11,329.9	11,765.7	12,207.3	12,646.8
Other LT liabilities	2,254.5	2,254.5	2,254.5	2,254.5
Shareholders' equity	24,927.7	25,197.1	25,059.8	24,945.8
Minority interest	37.0	37.0	37.0	37.0
Total liabilities & equity	46,198.5	47,046.6	47,423.4	47,746.8

KEY METRICS

Year to 31 Mar (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	25.5	25.6	26.5	27.7
Pre-tax margin	12.2	27.5	25.6	27.6
Net margin	5.6	20.7	18.6	20.1
ROA	1.7	6.4	5.9	6.4
ROE	3.1	12.0	11.0	12.2
Growth				
Turnover	(3.4)	2.8	2.7	1.6
EBITDA	(2.4)	3.2	6.7	6.0
Pre-tax profit	(46.4)	132.3	(4.7)	9.8
Net profit	(64.3)	277.5	(7.5)	9.8
Net profit (adj.)	10.1	15.1	6.7	9.8
EPS	10.1	15.1	6.7	9.8
Leverage				
Debt to total capital	32.3	32.8	33.7	34.6
Debt to equity	47.7	49.0	51.0	53.0
Net debt/(cash) to equity	29.3	30.2	33.7	37.3
Interest cover (x)	11.9	12.3	12.6	12.9

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