SECTOR UPDATE

Telecommunications – Singapore

1Q24: Results Largely In Line; Expect Continued Earnings Growth In 2Q24

For 1Q24, the sector's 16% yoy earnings growth was within expectations, driven by strong contributions from Singtel's regional associates, ongoing realisation of Starhub's DARE+ benefits and better overall cost discipline. In 2Q24, we expect a lower but decent sector earnings growth of 8% yoy, backed by Singtel's regional associates and Optus. We like Singtel's regional exposure, Starhub's attractive valuation and NetLink's defensive earnings. Maintain OVERWEIGHT.

WHAT'S NEW

- **1Q24: Stable results in line.** As a recap, 1Q24 results were largely in line as sector earnings grew 16% yoy with both Singapore Telecommunications (Singtel) and Starhub reporting core earnings growth of 8% yoy and 19% yoy respectively, offset by NetLink which suffered a 34% yoy drop largely due to one-off expenses. The sector outperformance was driven by: a) stronger contributions (+15% yoy) from Singtel's regional associates; b) turnaround in Optus' business c) ongoing realisation of DARE+ benefits (capex to opex model) from Starhub, and d) better cost discipline supporting margins.
- **2Q24: Expect lower but decent sector earnings growth of 8% yoy.** Key things to look out for are: a) muted margins for Starhub as S$85m of expected DARE+ investments still remain for 2024 (S$15m expensed in 1Q24); b) new revised interconnection prices set by Infocomm Media Development Authority (IMDA) coming into effect since 1 Apr 24, and c) better-than-expected contributions from Singtel's regional associates and Optus, driven by recent price hikes and ongoing market repair across these regional markets.
- **Key risks** include weaker-than-expected domestic market as consumers continue to trade down to lower-end plans and continued underperformance from the enterprise segment as businesses reduce spending.

ACTION

- **Maintain OVERWEIGHT. We continue to like telcos with regional exposure,** given ongoing market repair across several regional markets. With the Fed expected to start its rate cut in 2H24, a depreciating Singapore against regional currencies would boost contributions from regional associates. On the domestic front, facing stiff competition and an ongoing market shift to lower-end plans, we see potential downside risks to postpaid ARPU in 2Q24 as consumers continue to trade down. However, this would be partly offset by the take-up of 5G value plans and higher data roaming revenue driven by gradually improving outbound tourism. Prepaid ARPU is expected to stay muted from a competitive landscape in Singapore.
- **Top pick: Singtel.** The telco sector is currently trading slightly below its five-year average forward EV/EBITDA, supported by strong earnings visibility and attractive 6-7% dividend yields. We believe that the sector earnings recovery would continue, driven by more rational pricing, cost saving initiatives and improving business outlooks. Our top pick is **Singtel** given its ample 6-7% dividend yield, potential value-unlocking initiatives and ongoing market repair across its regional markets, over **StarHub** which has greater domestic exposure but offers an attractive valuation and is a key beneficiary of market consolidation in Singapore. For defensive earnings, we like **NetLink** given its sustainable earnings and projected 2024 dividend of around 7%.

OVERWEIGHT

(Maintained)

SECTOR PICKS

Company	Ticker	Current Price (S$)	Target Price (S$)	Upside (%)
Singtel	ST SP	2.90	3.05	5.2
Starhub	STH SP	1.24	1.41	13.7
NetLink	NETLINK SP	0.825	0.98	18.8

Source: UOB Kay Hian

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PEER COMPARISON

Company	Ticker	Trading Curr (lcy)	Price @ 9-Jul-24 (lcy)	Target Price (lcy)	Upside/ (Downside) to TP (%)	Market Cap (US$m)	PE 2024 (x)	PE 2025 (x)	P/B 2024 (x)	P/B 2025 (x)	EV/EBITDA 2024 (x)	EV/EBITDA 2025 (x)	ROE 2024 (%)	Yield 2024 (%)	Net Gearing (%)
NetLink NBN Tr	NETLINK SP	SGD	0.825	0.98	18.8	2,381	29.8	28.0	1.3	1.4	13.0	12.7	4.4	6.5	24.3
SingTel	ST SP	SGD	2.9	3.05	5.2	35,468	19.3	17.3	1.9	2.0	15.4	14.5	9.8	5.6	34.7
StarHub	STH SP	SGD	1.24	1.41	13.7	1,578	12.6	10.7	3.6	3.3	6.2	5.8	28.9	6.4	105.1
Average							20.5	18.6	2.3	2.2	11.5	10.9	14.4	6.2	

Source: Bloomberg, UOB Kay Hian

- **NetLink (NETLINK SP/BUY/S$0.98): Defensive shelter.** Armed with predictable revenue streams and a lush 7% dividend yield, we continue to like NetLink as a good shelter amid market volatility given its strong earnings visibility, healthy balance sheet and cautious approach in terms of overseas/domestic acquisitions. As a recap from our previous note, we see minimal earnings impact from the lower interconnection prices for FY25.

- **Starhub (STH SP/BUY/S$1.41): Upcoming inflection point in 2025.** As it reaches the tail end of its DARE+ investment programme, StarHub is poised to see better margins and earnings from 4Q24, in our view, driven by realisation of DARE+ benefits coupled with cost optimisation efforts. With a shift to an asset-light opex model, the group is expected to greatly reduce existing (business-as-usual) BAU capex while also reducing operating costs as the group shifts its legacy systems to its new Cloud platforms. Driven by this ongoing capex-to-opex substitution, we expect a net profit CAGR of 15% and dividend yields of 6-7% for 2024-26F. Key risks include lingering weakness in the domestic consumer markets, given Starhub's large domestic exposure as compared to Singtel. For 1Q24, Starhub saw yoy revenue declines across all of its consumer businesses.

- **Singtel (ST SP/BUY/S$3.05): Renewed focus on data centres.** Singtel recently announced two announcements regarding its regional data centre unit, Nxera. Firstly, Telekom Malaysia (TM) (49% stake) is partnering Nxera (51% 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, holding a 4.2% share. We reckon that these investments are positive for Singtel, given larger global exposure and potential eventual monetisation benefits. Moving forward, we expect Singtel to double down on data centres which has been earmarked as the group's next growth driver and reckon that any upcoming positive news flow for data centres would likely drive share price performance.

- **Unlocking shareholder value and potentially higher dividend yield.** As of end-4QFY24, the group had about S$6b of capital recycling which we reckon would likely come from paring down its stakes in its regional associates and non-core fixed assets. We estimate that Singtel currently has S$2b-3b of excess cash after accounting for current growth initiatives which may lead to larger VRDs towards the higher end of the group's 3.0-6.0 S cents VRD policy, in our view. Including the VRD, we expect Singtel to pay around 16-19 S cents for FY25-27, implying dividend yields of around 6-7%.

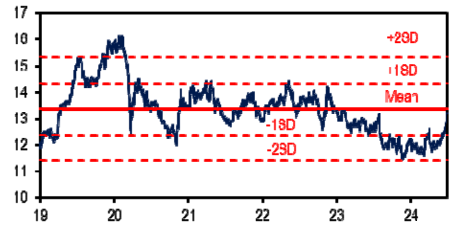
ESSENTIALS

- **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 command around 9.5% of market share in Singapore, increasing gradually since their entry into the domestic market in 2018.

- **Starhub to lead market consolidation.** In our view, 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. Backed by a strong balance sheet, we reckon that Starhub would be the prime candidate to lead market consolidation with M1 as the likeliest acquisition target, given existing capex and operating cost synergies. Starhub's management has noted that the group remains "ready and able" to consolidate with other local players. 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.

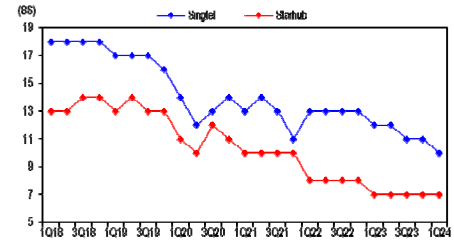
- **Lower ARPU uplift from data roaming.** Despite Singapore's outbound tourism improving gradually, we expect data roaming revenue growth to plateau from 2Q24 onwards on the back of: a) data roaming dilution from MVNOs, b) lower outbound tourism yoy growth in 2024 versus 2023, and c) increasing popularity for data roaming e-sims. To recap, Starhub's 1Q24 postpaid ARPU was lower qoq with lower data roaming revenue partly contributing to the fall.

SECTOR FORWARD EV/EBITDA (X)



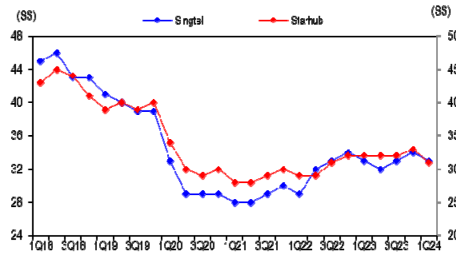
Source: Bloomberg, UOB Kay Hian

SECTOR PREPAID ARPU



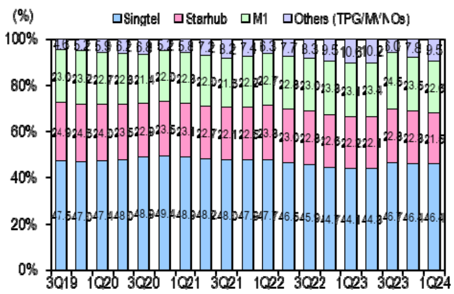
Source: Singtel, Starhub UOB Kay Hian

SECTOR POSTPAID ARPU



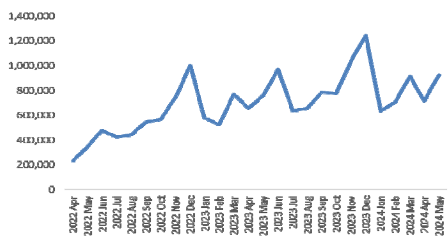
Source: Singtel, Starhub UOB Kay Hian

SINGAPORE MARKET SHARE COMPOSITION



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

SINGAPORE'S OUTBOUND DEPARTURES



Source: Singstat, UOB Kay Hian

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