SECTOR UPDATE

Telecommunications – Singapore

4Q24 Results Largely In Line; Expect Continued Earnings Growth In 2025

For 4Q24, the sector's 18% yoy earnings growth was within expectations, driven by Singtel's regional associates, strong performance from the enterprise businesses and better overall cost discipline. We expect decent earnings growth for 1Q25, backed by strong earnings visibility, cost-saving initiatives and robust Enterprise business outlook. We like Singtel for its regional exposure and value-unlocking initiatives, Starhub's attractive yield and NetLink's defensive earnings. Maintain OVERWEIGHT.

WHAT'S NEW

- **Earnings grew on the back of higher overseas market contributions and cost discipline.** Broadly, 4Q24 results came in within expectations, leading to a sector underlying earnings growth of 18% yoy. Singapore Telecommunications (Singtel) and Starhub reported underlying earnings growth of 22% yoy and 2% yoy respectively, offset by NetLink which suffered a 2% yoy drop from lower prices and higher operating expenses. The sector's strong performance was driven by: a) stronger contributions from Singtel's regional associates from ongoing market repair (specifically Bharti Airtel and Advanced Info Service); b) better cost discipline from Singtel's cost out programme; c) better margins and project execution from NCS and; d) outperformance from Starhub's enterprise business.

- **1Q25: Expect decent sector earnings growth, largely led by Singtel.** Key highlights in 1H25 include: a) robust Enterprise businesses; b) potentially higher-than-expected dividend from Singtel (16.5 S cents/share guided for FY25); c) potential stake sale/divestment of Singtel's regional associates; d) upcoming 700MHz spectrum payments by Starhub and M1; and e) increased contributions from Singtel's regional associates and Optus. **Key risks** include: a) weaker-than-expected domestic market as consumers continue to trade down to lower-value plans; and b) underperformance from the enterprise business as businesses reduce spending due to an increasingly uncertain macroeconomic environment.

ACTION

- **Maintain OVERWEIGHT.** We continue to like telcos with regional exposure, given ongoing market repair across several regional markets and a persistently weak domestic market in Singapore amid stiff pricing competition. With the Monetary Authority of Singapore easing its monetary policy stance in Jan 25, a gradually depreciating Singapore dollar against regional currencies would help boost contributions from regional associates. On the domestic front, faced with stiff competition and an ongoing market shift towards lower-value plans, we continue to see downside risks to both postpaid and prepaid ARPU in 1Q25 as consumers continue to trade down.

- **Top pick: Singtel.** The telco sector is currently trading slightly below its five-year average forward EV/EBITDA, despite strong earnings visibility and attractive 5-6% dividend yields. We believe that the sector's earnings growth would continue in 2025, driven by increased contributions from the Enterprise businesses, ongoing cost saving initiatives and improving business outlooks. Our top pick is **Singtel** due to its decent 5% 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 6% dividend yield and is a key beneficiary of market consolidation in Singapore. For defensive earnings, we like **NetLink** due to its sustainable earnings and projected 2025 dividend of around 6%.

OVERWEIGHT

(Maintained)

SECTOR PICKS

Company	Ticker	Current Price (S$)	Target Price (S$)	Upside (%)
Singtel	ST SP	3.40	3.58	5.3
Starhub	STH SP	1.18	1.26	6.8
NetLink	NETLINK SP	0.87	0.98	12.6

Source: UOB Kay Hian

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PEER COMPARISON

Company	Ticker	Trading Curr (lcy)	Price @ 27-Mar-25 (lcy)	Target Price (lcy)	Upside/ (Downside) to TP (%)	Market Cap (US$m)	PE 2025 (x)	PE 2026 (x)	P/B 2025 (x)	P/B 2026 (x)	EV/EBITDA 2025 (x)	EV/EBITDA 2026 (x)	ROE 2025 (%)	Yield 2025 (%)	Net Gearing (%)
NetLink NBN Tr	NETLINK SP	SGD	0.87	0.98	12.6	2,531	32.3	30.1	1.5	1.5	13.6	13.3	4.5	6.2	26.6
SingTel	ST SP	SGD	3.4	3.58	5.3	41,888	20.3	18.5	2.2	2.3	16.5	15.5	10.6	5.2	36.7
StarHub	STH SP	SGD	1.18	1.26	6.8	1,517	13.8	12.0	3.2	3.0	6.7	6.8	23.7	5.8	94.0
Average							22.1	20.2	2.3	2.3	12.2	11.8	12.9	5.7	

Source: Bloomberg, UOB Kay Hian

- **Singtel (ST SP/BUY/S$3.58): Potential S$10b value unlocking exercise...** Singtel's value-unlocking initiatives remain on track. Management previously noted that the group identified about S$6b of capital recycling in the medium term which would likely come from paring down its stakes in its regional associates and non-core fixed assets. Specifically, we expect Singtel to pare down its 29.44% total effective stake in Bharti Airtel, equalising its total stake with the founding Mittal family (23.7% total effective stake) over the next 2-3 years. We estimate that Singtel could gain S$8b-9b in cash by selling a 5.74% stake. Also, Singtel has identified about S$1b in non-core fixed assets and S$3b in assets from Thailand to monetise, which we reckon comes from paring down its stake in NewCo. Furthermore, the group would gain roughly S$1b in cash in FY26 from the redevelopment of the Singtel Comcentre.

- **… which could lead to higher dividends.** In line with Singtel's ST28 strategy, we now expect the group to pay higher value-realisation dividends (VRD) towards the tail end of its 3-6 S cents/share guidance. Based on our estimates, every S$1b in cash would lead to a 5-6 S cents/share of VRD, around an additional 1.9% dividend yield. Backed by improving business fundamentals and a cash war chest of S$12b-13b within the next 2-3 years, we opine that the group could pay 6 S cents/share or even surpass its guidance sustainably for the next 3-5 years.

- **NetLink (NETLINK SP/BUY/S$0.98): Defensive shelter.** Armed with predictable revenue streams and a lush 6% dividend yield, NetLink is a good shelter amid market volatility given its strong earnings visibility, healthy balance sheet and cautious approach in terms of overseas/domestic acquisitions. However, potential downside may come from rising operating costs and lower-than-expected non-regulated asset base revenue.

- **Starhub (STH SP/HOLD/S$1.26): Muted earnings for 2025.** Despite reaching the tail end of its DARE+ investment programme in 1Q25, we reckon that StarHub would only see better margins and significant earnings improvement from 2026, in our view, dragged by ongoing legacy costs to decommission legacy systems and higher amortisation costs from the upcoming S$282m 700MHz spectrum payment in 2Q25. With a shift to an asset-light opex model, we expect the realisation of DARE+ benefits coupled with cost optimisation efforts to improve margins and earnings only from 1Q26 onwards. Given Starhub's larger domestic exposure as compared with Singtel, key risks for Starhub include lingering weakness in the domestic consumer markets due to stiff competition.

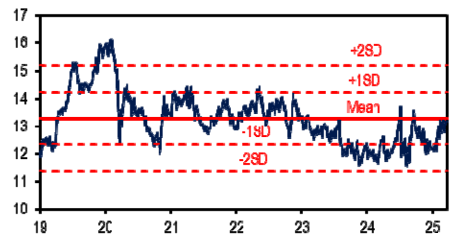
ESSENTIALS

- **Starhub to lead market consolidation.** In our view, 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 revenue market share of around 46%, we reckon that Singtel is unlikely to be part of any potential market consolidation which would likely result in regulatory issues. We reckon that Starhub would be the prime candidate to lead market consolidation with M1 as the likeliest acquisition target, given the existing capex and operating cost synergies.

- Furthermore, with the upcoming 700MHz spectrum payment deadlines approaching at end-Jun 25, it may encourage a consolidation between the two incumbents in 2Q25. 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. Potential downside risks may come from Simba Telecom (Simba, TUA AU) continuing its low-price strategy after the market consolidation, which would likely prolong pricing competition.

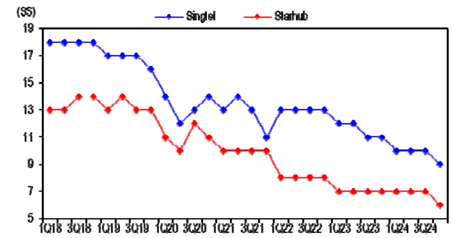
- **Stiff competition in the domestic consumer business.** With intense domestic pricing competition in Singapore, existing customers from the incumbent telcos would likely continue trading down to lower-value/SIM-only plans, in our view. Although Starhub reported postpaid net additions of 94,000 subscribers, it was largely led by a strong take-up of its lower-value sub brands (giga and Eight), with postpaid ARPU falling qoq in 4Q24. As of end-Jan 25, Simba had increased its mobile subscriber count to 1,160,000, from 487,000 at end-Jan 22. Also, driven by the strong take-up of its competitively-priced 10Gbps broadband plans, Simba's active broadband customers quadrupled hoh to 14,347 at end-Jan 25.

SECTOR FORWARD EV/EBITDA (X)



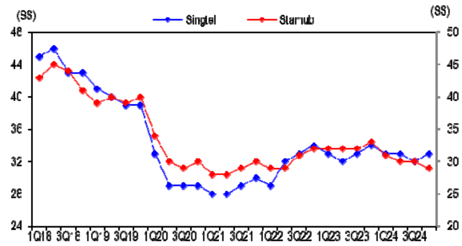
Source: Bloomberg, UOB Kay Hian

SECTOR PREPAID ARPU



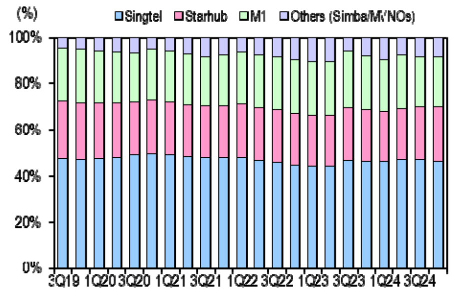
Source: Singtel, Starhub UOB Kay Hian

SECTOR POSTPAID ARPU



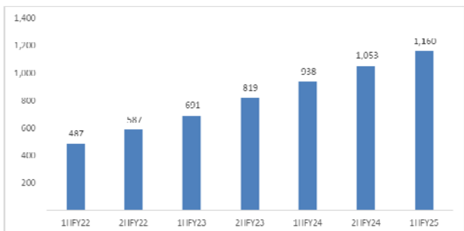
Source: Singtel, Starhub UOB Kay Hian

SINGAPORE MARKET SHARE COMPOSITION



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

SIMBA'S ACTIVE MOBILE SERVICES ('000)



Source: TUAS, UOB Kay Hian

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