

COMPANY UPDATE

Singapore Telecommunications (ST SP)

Illuminating Value In Optus

Responding to *The Australian Financial Review* article on the potential sale of Optus for A\$16b, Singtel stated that there is no impending deal at this juncture. That said, management is regularly reviewing its underlying assets. We believe this news helped illuminate value of its underlying asset as Singtel's current market capitalisation reflects little value of its Singapore consumer business and Optus asset. Operationally, Optus' operating trend is on an uptrend. Maintain BUY. Target price: S\$2.99.

WHAT'S NEW

- **No impending deal to offload Optus....** The *Australian Financial Review* reported that Singapore Telecommunications (Singtel) is in advanced discussions to sell Optus to Toronto-headquartered private equity fund Brookfield for A\$16b-18b (S\$14b-16b). In response to the article (which led to a ~4% run-up in Singtel's share price), management stated that there is no impending deal to offload wholly-owned Optus, as the second largest telco in Australia remains an integral and strategic part of the enlarged Singtel group. Furthermore, Singtel reiterated that its current focus is to improve network resilience and conduct a CEO search for Optus.
- **....but regularly reviews its asset holdings.** That said, Singtel regularly conducts strategic reviews of its portfolio to optimise the value of the underlying assets and maximise shareholders' value. While we do not expect Singtel to sell a substantial stake in Optus, we also do not discount a potential stake sale in Optus should a strategic partner emerge. Optus generated 9MFY24 EBITDA and EBIT of S\$1.4b and S\$190m respectively. At A\$16-18b enterprise value, Optus would be valued at 7.5-8.5x EV/EBITDA.
- **Value illumination.** A potential stake sale could help to drive operational synergies and earnings while serving to 'illuminate' value in Optus. Based on Singtel's current market capitalisation of S\$41b, its associate stake alone is worth an estimated S\$49b. Even with a 20% holding company discount, the Singapore consumer business and Optus Australia comes for free. As such, any potential monetisation exercise of Singtel's assets is deemed positive. We estimate that the Singapore consumer business and Optus account for 20-25% of group PBT.

KEY FINANCIALS

Year to 31 Mar (\$m)	2022	2023	2024F	2025F	2026F
Net turnover	15,339	14,624	14,513	14,733	14,946
EBITDA	3,767	3,686	3,767	3,908	4,066
Operating profit	1,045	1,112	1,304	1,485	1,698
Net profit (rep./act.)	1,948	2,226	3,138	2,491	2,742
Net profit (adj.)	1,923	2,054	2,217	2,491	2,742
EPS (S\$ cent)	11.7	12.4	13.4	15.0	16.6
PE (x)	21.2	20.0	18.5	16.5	15.0
P/B (x)	1.5	1.6	1.5	1.5	1.5
EV/EBITDA (x)	13.0	13.3	13.0	12.6	12.1
Dividend yield (%)	3.8	6.0	4.4	5.0	5.4
Net margin (%)	12.7	15.2	21.6	16.9	18.3
Net debt/(cash) to equity (%)	34.6	35.5	30.0	28.8	27.3
Interest cover (x)	12.0	10.3	11.3	11.3	11.4
ROE (%)	7.1	8.2	11.8	9.0	9.8
Consensus net profit	-	-	2,322	2,676	3,028
UOBKH/Consensus (x)	-	-	0.95	0.93	0.91

Source: Singapore Telecommunications, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$2.48
Target Price	S\$2.99
Upside	+20.7%

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):	16,503.4
Market cap (S\$m):	40,928.3
Market cap (US\$m):	30,701.6
3-mth avg daily t'over (US\$m):	43.9

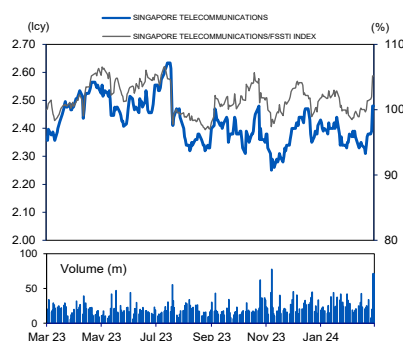
Price Performance (%)

52-week high/low	S\$2.63/S\$2.25			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
6.4	4.2	6.4	7.5	0.4

Major Shareholders

	%
Temasek Hldgs	52.0
FY24 NAV/Share (S\$)	1.65
FY24 Net Debt/Share (S\$)	0.50

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Optus: On the road to recovery; focusing on cost discipline.** Optus' consumer net promoter score continues to improve 10 weeks after the Nov 23 nationwide outage that affected 10m customers. We gather that customer net add trends have been positive following the improvement in brand perspective, while Optus' postpaid ARPUs remain stable qoq. This provides room for ARPU uplifts, as its current price point is 30% lower than the market leader. Its key focuses in the next 12 months include cost management.
- A recap on Optus's 3QFY24 performance.** Despite a network outage incident in Nov 23, 3QFY24 mobile service revenue (+3.4% yoy) and overall EBITDA grew (+1.7% yoy) on a constant currency basis, driven by sustained customer growth post-incident along with lower operating expenses. **Postpaid ARPU** was stable at A\$42/month, supported by higher prices and an ongoing data roaming recovery. Although the number of postpaid subscribers decreased 28,000 qoq, management noted that customer churn has stabilised and has returned to net adds in early-4QFY24. **Prepaid ARPU** was stable qoq while the number of subscribers grew 23,000 qoq. The group recognised a S\$54m provision for the network outage in 3QFY24.
- Driving higher ROIC.** Singtel expects to lift return on invested capital (ROIC) from 8% in FY23 to low double digits by FY26. This is based on: a) market repair and cost management in core business, b) monetisation of 5G, c) an absence of Amobee's and Trustwave's losses; d) fast-growing momentum of NCS, e) cost discipline and digitalisation, and f) monetisation of regional data centres.
- Unlocking shareholder value.** In addition, management has reiterated its discipline towards capital recycling initiative to fund future growth and reward shareholders. Including a 3.9% direct stake sale of Airtel Africa in 3QFY24, the group has about S\$4b of capital recycling which we reckon would likely come from paring down its stakes in its regional associates (valued at around S\$49b as of end-1QFY24). Singtel currently has S\$2b (or 11 Scents/share) of excess cash after accounting for growth initiatives and 5G capex. We opine that the excess cash may lead to larger dividends towards the higher end of the group's new 70-90% of underlying PATMI dividend policy in 2HFY24.
- Regional data centres: Robust expansion pipeline.** Singtel plans to more than double its data centre (DC) capacity in Southeast Asia over the next three years to 250MW (from 99MW currently underway). In FY23, its DCs contributed S\$273m in annual revenue and S\$172m in EBITDA. Through partnerships with AIS and Telkom, Singtel plans to add another 40MW in Thailand and 51MW in Indonesia.
- Potential S\$7b-8b in valuation.** With another 150MW of capacity expected to be added to Singtel's DC portfolio over the next 3-5 years, it will create a DC asset close to S\$7b-8b.

EARNINGS REVISION/RISK

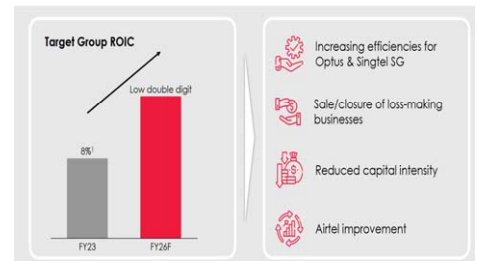
- No change to earnings.

VALUATION/RECOMMENDATION

- Maintain BUY with a DCF-based target price of S\$2.99** (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 and a decent 4-5% dividend yield.
- 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 Australia.

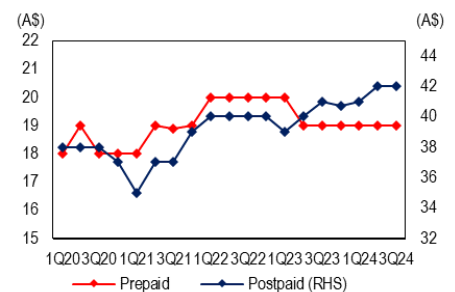
IMPROVING ROIC IN SINGTEL

Low double digit ROIC<sup>1</sup> by FY26



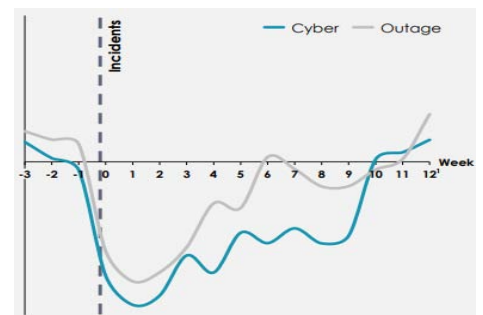
Source: Singtel, UOB Kay Hian

AUSTRALIA CONSUMER ARPU TREND



Source: Singtel, UOB Kay Hian

OPTUS WEEKLY POSTPAID NET CONNECTIONS



Source: Singtel, UOB Kay Hian

ASSOCIATES VALUED AT ~S\$49B



Source: Singtel, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Net turnover	14,624	14,513	14,733	14,946
EBITDA	3,686	3,767	3,908	4,066
Deprec. & amort.	2,574	2,464	2,423	2,368
EBIT	1,112	1,304	1,485	1,698
Associate contributions	2,287	2,237	2,319	2,465
Net interest income/(expense)	(359)	(333)	(345)	(356)
Pre-tax profit	3,212	4,129	3,459	3,808
Tax	(978)	(991)	(969)	(1,066)
Minorities	(8)	0	0	0
Net profit	2,226	3,138	2,491	2,742
Net profit (adj.)	2,054	2,217	2,491	2,742

### CASH FLOW

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Operating	4,776	5,887	5,218	5,417
Pre-tax profit	3,212	4,129	3,459	3,808
Tax	(978)	(991)	(969)	(1,066)
Deprec. & amort.	2,574	2,464	2,423	2,368
Associates	(172)	0	0	0
Working capital changes	(130)	(48)	(40)	(48)
Non-cash items	359	333	345	356
Other operating cashflows	(89)	0	0	0
Investing	(2,302)	(2,703)	(2,611)	(2,533)
Capex (maintenance)	(2,162)	(2,032)	(1,915)	(1,793)
Proceeds from sale of assets	(679)	(671)	(696)	(740)
Others	540	0	0	0
Financing	(2,941)	(1,748)	(2,031)	(2,232)
Dividend payments	(1,964)	(1,821)	(2,069)	(2,235)
Issue of shares	0	0	0	0
Proceeds from borrowings	(975)	406	383	359
Others/interest paid	(2)	(333)	(345)	(356)
Net cash inflow (outflow)	(467)	1,436	576	652
Beginning cash & cash equivalent	2,130	1,668	3,104	3,680
Changes due to forex impact	5	0	0	0
Ending cash & cash equivalent	1,668	3,104	3,680	4,332

### BALANCE SHEET

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Fixed assets	10,385	10,265	10,070	9,808
Other LT assets	27,563	27,922	28,305	28,733
Cash/ST investment	1,668	3,104	3,680	4,332
Other current assets	5,428	5,384	5,462	5,537
<b>Total assets</b>	<b>46,530</b>	<b>48,161</b>	<b>49,003</b>	<b>49,895</b>
ST debt	983	983	983	983
Other current liabilities	7,316	7,224	7,262	7,288
LT debt	9,911	10,317	10,700	11,059
Other LT liabilities	2,306	2,306	2,306	2,306
Shareholders' equity	26,005	27,322	27,743	28,250
Minority interest	9	9	9	9
<b>Total liabilities &amp; equity</b>	<b>46,530</b>	<b>48,161</b>	<b>49,003</b>	<b>49,895</b>

### KEY METRICS

Year to 31 Mar (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	25.2	26.0	26.5	27.2
Pre-tax margin	22.0	28.4	23.5	25.5
Net margin	15.2	21.6	16.9	18.3
ROA	4.7	6.6	5.1	5.5
ROE	8.2	11.8	9.0	9.8
<b>Growth</b>				
Turnover	(4.7)	(0.8)	1.5	1.4
EBITDA	(2.1)	2.2	3.7	4.0
Pre-tax profit	11.0	28.5	(16.2)	10.1
Net profit	14.3	41.0	(20.6)	10.1
Net profit (adj.)	6.8	8.0	12.3	10.1
EPS	6.1	8.0	12.3	10.1
<b>Leverage</b>				
Debt to total capital	29.5	29.3	29.6	29.9
Debt to equity	41.9	41.4	42.1	42.6
Net debt/(cash) to equity	35.5	30.0	28.8	27.3
Interest cover (x)	10.3	11.3	11.3	11.4

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