

COMPANY UPDATE

Singapore Telecommunications (ST SP)

On Track To Continue Driving Shareholder Value

In line with Singtel's ST28 growth plan, its value-unlocking initiatives remain on track which we reckon would come from paring down stakes in its regional associates and non-core fixed assets, likely leading to higher VRDs in the next 3-5 years. The group continues to improve its ROIC through better core operational performance while also doubling down on its future growth drivers, NCS and Nxera. In view of a decent dividend yield of 5.2%, we maintain BUY with the same target price of S\$3.58.

WHAT'S NEW

- **Improved ROIC to low double digits in the near term.** Singapore Telecommunications (Singtel) has improved its ROIC from 8.3% in FY24 to around 9% currently, higher than its WACC of around 7%. Management expects ROIC to continue its upward momentum towards its medium-term goal of low double-digit percentage in three years' time, largely driven by improved profitability from its core businesses (Singapore and Optus), its ongoing cost-out programme, better contributions from its regional associates and strong revenue growth from NCS and Nxera (infrastructure company).
- **Potential S\$10b value unlocking exercise...** Singtel's value-unlocking initiatives remain on track. As a recap, management previously noted that the group identified about S\$6b of capital recycling in the medium term which we reckoned 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 its regional associate, Bharti Airtel (Bharti), equalising its total stake with the founding Mittal family (23.7% total effective stake) over the next two-three years. Given that Bharti's share price has risen to all-time highs, 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. Therefore, we estimate that the group now has S\$12b-13b in monetisable assets that could be returned to shareholders.
- **...for higher value-realisation 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 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 likely pay 6 S cents/share or even surpass its guidance sustainably for the next three-five years. For FY25, we now expect a total dividend (including VRD) of 16.5 S cents/share, implying a dividend yield of around 5.2%.

KEY FINANCIALS

Year to 31 Mar (S\$m)	2023	2024	2025F	2026F	2027F
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 (S\$ cent)	12.4	13.7	15.7	16.8	18.4
PE (x)	25.4	23.1	20.0	18.8	17.1
P/B (x)	2.0	2.1	2.1	2.1	2.1
EV/EBITDA (x)	16.2	16.6	16.1	15.1	14.2
Dividend yield (%)	4.7	4.8	5.2	5.6	6.1
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	-	-	2,572	2,827	3,183
UOBKH/Consensus (x)	-	-	1.01	0.98	0.96

Source: Singapore Telecommunications, Bloomberg, UOB Kay Hian

BUY
(Maintained)

Share Price	S\$3.15
Target Price	S\$3.58
Upside	+13.7%

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):	16,501.3
Market cap (S\$m):	51,979.1
Market cap (US\$m):	38,085.5
3-mth avg daily t'over (US\$m):	45.9

Price Performance (%)

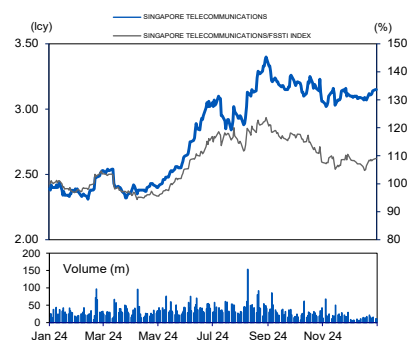
52-week high/low S\$3.41/S\$2.29

1mth	3mth	6mth	1yr	YTD
1.0	(3.4)	4.3	31.3	2.3

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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• **Potential spin-offs.** While we do not rule out a listing of Optus in the near term, management believes that the group will want to focus on operational performance and driving ARPU higher amid an ongoing market repair. Separately, Singtel's growth engine ie NCS and Nxera will continue to focus on driving earnings given ample growth opportunities in the near term. As such, we do not expect any near-term spin offs. Nxera will likely embark on capital raising exercises to expand its regional data centres through strategic partnerships, similar to the recent deal with Kohlberg Kravis Roberts & Co. (KKR). To recap, Singtel reached a definitive agreement with KKR, for a 20% stake sale in the groups regional data centre business, committing up to S\$1.1b over three years.

STOCK IMPACT

• **Expectation of a stronger 3QFY25...** For 3QFY25, we expect revenue to grow by around 2% yoy, largely driven by increased contributions from Optus on the back of price uplifts coming through in the quarter. Backed by stronger profitability from Optus, higher contributions from regional associates and better margins from the group's growth engines, we expect 3QFY25 underlying net profit to grow by 9-10% yoy.

• **...despite stiff competition from Singapore SIM-only plans.** With intense domestic pricing competition, coupled with longer phone upgrade cycles, we reckon that existing customers from incumbent telcos would continue to trade down to lower-value/SIM-only plans, resulting in the incumbents ceding market share. Singtel which specifically targets the higher-value market, is expected to continue ceding market share to lower-priced competitors such as Simba and mobile virtual network operators. These competitors commanded 8-9% of market share in Singapore as of 3Q24, increasing gradually since their entry into the domestic market in 2018. Armed with its low-price strategy, Simba doubled its subscriber growth from 487,000 in Feb 23 to 1,053,000 as of Jul 24. In the absence of market consolidation, we expect this trend to continue moving into 2025.

• **Beneficiary of market consolidation.** We maintain our expectation 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 around 46%, 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, benefitting Singtel. Potential downside risks may come from Simba continuing its low-price strategy after market consolidation, which would likely prolong the intense pricing competition.

EARNINGS REVISION/RISK

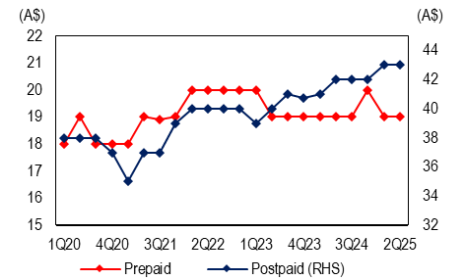
• **No changes to our earnings estimates.**

VALUATION/RECOMMENDATION

• **Maintain BUY with the same DCF-based target price of S\$3.58**, (discount rate: 7%, growth rate: 2.5%). In our view, Singtel remains an attractive play against elevated market volatility, underpinned by improving business fundamentals and a decent FY25 5.2% dividend yield.

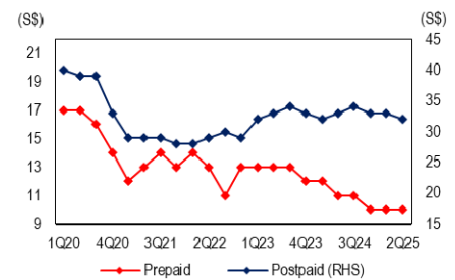
• **Key re-rating catalysts** include: a) successful monetisation of 5G, b) monetisation of data centres and/or NCS, and c) market repair in Singapore.

AUSTRALIA CONSUMER ARPU TREND



Source: Singtel, UOB Kay Hian

SINGAPORE CONSUMER ARPU TREND



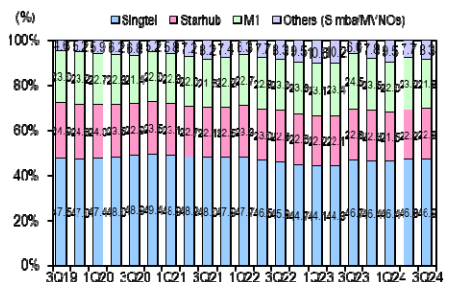
Source: Singtel, UOB Kay Hian

1HFY25 PERFORMANCE VS FY25 OUTLOOK

FY25 outlook		H1FY25
EBIT growth rate (Ex assoc contributions)	High single digit to low double digits ¹ → Low double digits ¹	▲ 27%
Cost savings ² (Singtel SG & Optus)	S\$0.2B ¹	On track
Regional Associates' dividend	S\$1.1B	Met: S\$1.1B in H1
Value realisation dividend	3-ccts/share	1.4cts (Interim)

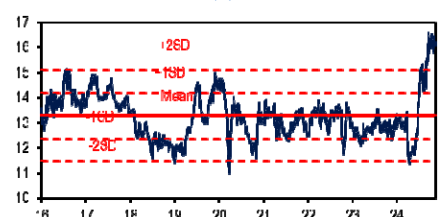
Source: Singtel, UOB Kay Hian

SINGAPORE MARKET SHARE COMPOSITION



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

FORWARD EV/EBITDA (X)



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (S\$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 (S\$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 (S\$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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