

COMPANY UPDATE

Singapore Telecommunications (ST SP)

Striking A Deal In Regional Australia

Singtel announced an 11-year A\$1.6b network sharing deal with TPG in regional Australia, receiving around A\$900m of incremental cashflows over 11 years. However, we expect minimal near-term earnings impact for Singtel. The group also announced S\$3.1b of non-cash impairment provisions, which will result in a net loss for 2HFY24. This was largely due to a significant S\$2b impairment on Optus, dragged by the enterprise segment. Maintain BUY with the same target price of S\$2.99.

WHAT'S NEW

- **Huge impairment in 2HFY24...** Singapore Telecommunications (Singtel) announced that the group would recognise S\$3.1b of exceptional non-cash impairment in 2HFY24. This is on the back of a strategic review and assessment of Optus' enterprise fixed access network assets (S\$470m), impairment of goodwill (S\$340m) of the group's Asia Pacific cybersecurity business from general business weakness, impairment of NCS Australia (S\$280m) from higher cost of capital and most significantly, impairment on Optus (S\$2b). The impairments reflected a range of factors including weaker prospects in the enterprise market, increased cost of capital and the softer macroeconomic outlook in Australia.
- **... as the enterprise segment underperforms.** Management noted that the group does not expect any further impairments and deems the current impairments sufficient. We understand that the large S\$2b impairment on Optus was solely due to the enterprise segment and not the improving consumer segment. Due to the ongoing decline in the enterprise market in Australia, revenue and margins for the enterprise segment have underperformed, resulting in S\$2b in impairment of goodwill. After the impairment, it was noted that there is still around S\$5.9b of goodwill left for Optus.
- **Dividend policy to remain unaffected.** With these exceptional non-cash provisions, barring unforeseen circumstances, Singtel expects to report a net loss for 2HFY24. Stripping this out, FY24 underlying net profit is estimated at S\$2,228m. The group remains on track to pay at the upper end of its dividend policy at between 70% and 90% of underlying net profit, unaffected by the non-cash impairments. Based on our estimates, we still expect a FY24 dividend yield of 5.1%, implying a dividend payout ratio of around 90%.

KEY FINANCIALS

Year to 31 Mar (\$\$m)	2022	2023	2024F	2025F	2026F
Net turnover	15,339	14,624	14,513	14,845	15,062
EBITDA	3,767	3,686	3,767	4,004	4,162
Operating profit	1,045	1,112	1,278	1,506	1,652
Net profit (rep./act.)	1,948	2,226	892	2,504	2,750
Net profit (adj.)	1,923	2,054	2,228	2,504	2,750
EPS (\$\$ cent)	11.7	12.4	13.5	15.1	16.6
PE (x)	20.1	18.9	17.5	15.5	14.1
P/B (x)	1.4	1.5	1.6	1.5	1.5
EV/EBITDA (x)	13.1	13.4	13.1	12.4	11.9
Dividend yield (%)	4.0	6.3	5.1	5.7	6.4
Net margin (%)	12.7	15.2	6.1	16.9	18.3
Net debt/(cash) to equity (%)	34.6	35.5	43.1	43.5	44.1
Interest cover (x)	12.0	10.3	11.3	11.6	11.6
ROE (%)	7.1	8.2	3.5	10.0	10.9
Consensus net profit	-	-	2,340	2,642	3,019
UOBKH/Consensus (x)	-	-	0.95	0.95	0.91

Source: Singapore Telecommunications, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$2.35
Target Price	S\$2.99
Upside	+27.4%

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 (\$\$m):	38,782.9
Market cap (US\$m):	28,523.1
3-mth avg daily t'over (US\$m):	55.8

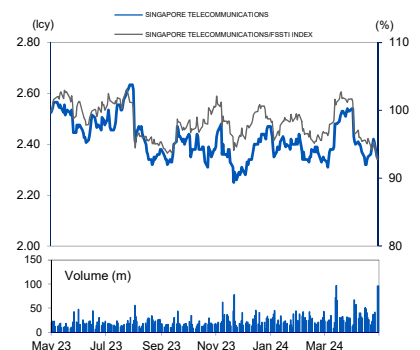
Price Performance (%)

52-week high/low				S\$2.63/S\$2.25
1mth	3mth	6mth	1yr	YTD
(7.1)	(2.1)	0.0	(6.9)	(4.9)

Major Shareholders

	%
Temasek Hlds	52.0
-	-
-	-
FY25 NAV/Share (\$\$)	1.52
FY25 Net Debt/Share (\$\$)	0.66

PRICE CHART



Source: Bloomberg

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- **Deal with TPG.** Optus announced a network sharing agreement with TPG Telecom (TPG) that will help to strengthen the regional mobile network and serve regional customers. In this deal, Optus expects to receive total service fees of around A\$1.6b over the 11-year term with incremental cash flows of approximately A\$900m over the tenure. Under the agreement, Optus will provide TPG access to its regional radio access network and will license some of TPG's spectrum for use in the network for regional Australia at a total cost of A\$420m. While TPG will gain access to 2,444 Optus mobile sites in regional Australia, Optus and TPG will operate their own core networks which will allow them to each maintain network control. Subject to regulatory approvals, the network is expected to be available to TPG and Optus customers in early-25. The deal also includes two options with the first option for TPG to extend for five years and the second option for both parties to extend for five years after.

STOCK IMPACT

- **Higher return on assets and cost synergies...** With the network sharing agreement, besides the A\$1.6b in service fees from TPG, some other targeted benefits for Optus include higher return on underutilised assets in regional Australia, accelerating the group's regional 5G rollout by two years, lower annual capex spending and operating costs efficiencies from expected synergies. With the services fees, Optus also plans to accelerate its 5G rollout, fast-tracking the number of 5G sites in the agreement from the current 200 to 1,500 sites by 2028 and 2,444 sites by the end of 2030. Furthermore, Optus would also have access to additional valuable spectrum licensed to TPG for use regionally.
- **... but with minimal near-term earnings impact.** The A\$1.6b of service fees is broken down into a A\$900m fixed fee component (we understand that it is not a straight-line allocation) and a A\$700m variable fee component which both are dependent on the progress of Optus' 5G rollout in regional Australia. This implies that Optus would only likely see a ramp-up in fees and incremental cash flows in the medium to long term as Optus expedites its 5G rollout progressively. Although the network sharing agreement is expected to generate A\$200m-300m in capex savings in the medium to long term, management also noted that most of the capex required for the 5G rollout would be frontloaded in the near term, implying that any short-term incremental earnings would be offset by the higher capex, resulting in minimal earnings impact for FY25-26.
- **Focus on long-term benefits.** Although the network sharing agreement is in line with Singtel's goal to boost Optus' ROIC, we opine that the agreement is overall neutral for the group. We understand that Telstra, the number one player in regional Australia, has a dominant and established market share of 70-80% in regional Australia. Given that now TPG, the third largest competitor, has greater coverage across regional Australia via Optus' mobile network, this may lead to increased competition in an already competitive market, potentially leading to market share loss which may offset any benefits from service fees and incremental cashflows. However, as Optus' 5G rollout ramps up, we expect significant positive earnings contributions from the A\$200m-300m in annual capex savings and the service fees in the medium to long term moving forward.

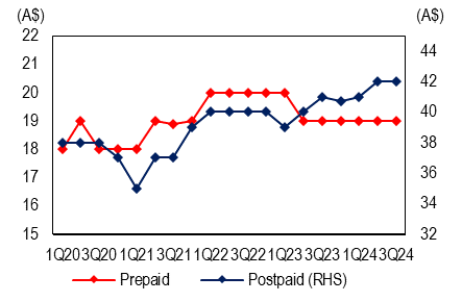
EARNINGS REVISION/RISK

- We keep our FY24-26 underlying PATMI estimates relatively unchanged.

VALUATION/RECOMMENDATION

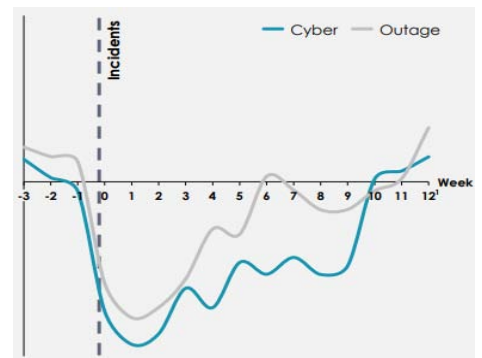
- **Maintain BUY with the same DCF-based target price of S\$2.99** (discount rate: 7%, growth rate: 2.0%). At our target price, the stock will trade at 15x FY25 EV/EBITDA. In our view, Singtel remains an attractive play against elevated market volatility, backed by favourable tailwinds and a decent 5.1% 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 resumption of regional roaming revenue.

AUSTRALIA CONSUMER ARPU TREND



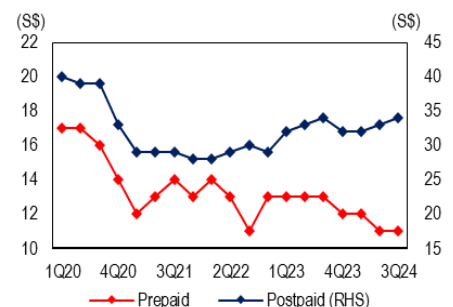
Source: Singtel, UOB Kay Hian

OPTUS WEEKLY POSTPAID NET CONNECTIONS



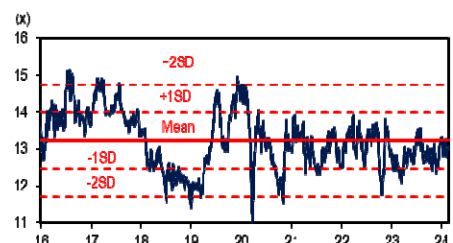
Source: Singtel, UOB Kay Hian

SINGAPORE CONSUMER ARPU TREND



Source: Singtel, UOB Kay Hian

FORWARD EV/EBITDA (X)



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Net turnover	14,624.4	14,512.5	14,844.9	15,062.3
EBITDA	3,685.9	3,767.1	4,003.8	4,162.2
Deprec. & amort.	2,574.1	2,488.7	2,497.4	2,510.2
EBIT	1,111.8	1,278.4	1,506.4	1,652.0
Associate contributions	2,287.0	2,237.1	2,318.5	2,465.4
Net interest income/(expense)	(358.9)	(333.3)	(346.5)	(360.0)
Pre-tax profit	3,211.9	1,274.2	3,478.3	3,757.4
Tax	(978.0)	(382.3)	(973.9)	(1,007.0)
Minorities	(8.4)	0.0	0.0	0.0
Net profit	2,225.5	891.9	2,504.4	2,750.4
Net profit (adj.)	2,053.5	2,227.5	2,504.4	2,750.4

CASH FLOW

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Operating	4,775.8	3,666.2	5,277.1	5,572.4
Pre-tax profit	3,211.9	1,274.2	3,478.3	3,757.4
Tax	(978.0)	(382.3)	(973.9)	(1,007.0)
Deprec. & amort.	2,574.1	2,488.7	2,497.4	2,510.2
Associates	(172.0)	0.0	0.0	0.0
Working capital changes	(130.1)	(47.7)	(71.2)	(48.2)
Non-cash items	358.9	333.3	346.5	360.0
Other operating cashflows	(89.0)	0.0	0.0	0.0
Investing	(2,301.7)	(2,848.0)	(2,922.3)	(2,999.0)
Capex (maintenance)	(2,162.4)	(2,176.9)	(2,226.7)	(2,259.3)
Proceeds from sale of assets	(679.2)	(671.1)	(695.6)	(739.6)
Others	539.9	0.0	0.0	0.0
Financing	(2,941.2)	(1,884.5)	(2,136.0)	(2,391.3)
Dividend payments	(1,964.3)	(1,986.5)	(2,234.8)	(2,483.2)
Issue of shares	0.1	0.0	0.0	0.0
Proceeds from borrowings	(974.7)	435.4	445.3	451.9
Others/interest paid	(2.3)	(333.3)	(346.5)	(360.0)
Net cash inflow (outflow)	(467.1)	(1,066.3)	218.8	182.2
Beginning cash & cash equivalent	2,130.0	1,667.9	601.6	820.4
Changes due to forex impact	5.0	0.0	(0.1)	(0.1)
Ending cash & cash equivalent	1,667.9	601.6	820.3	1,002.4

BALANCE SHEET

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Fixed assets	10,384.6	10,384.9	10,426.3	10,487.6
Other LT assets	27,562.6	27,921.6	28,305.1	28,732.6
Cash/ST investment	1,667.9	601.6	820.4	1,002.5
Other current assets	5,428.4	5,384.0	5,501.0	5,577.3
Total assets	46,530.0	45,778.7	46,539.3	47,286.5
ST debt	982.7	982.7	982.7	982.7
Other current liabilities	7,316.4	7,224.3	7,270.0	7,298.1
LT debt	9,910.6	10,346.0	10,791.3	11,243.2
Other LT liabilities	2,306.0	2,306.0	2,306.0	2,306.0
Shareholders' equity	26,004.9	24,910.3	25,179.9	25,447.2
Minority interest	9.4	9.4	9.4	9.4
Total liabilities & equity	46,530.0	45,778.7	46,539.3	47,286.5

KEY METRICS

Year to 31 Mar (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	25.2	26.0	27.0	27.6
Pre-tax margin	22.0	8.8	23.4	24.9
Net margin	15.2	6.1	16.9	18.3
ROA	4.7	1.9	5.4	5.9
ROE	8.2	3.5	10.0	10.9
Growth				
Turnover	(4.7)	(0.8)	2.3	1.5
EBITDA	(2.1)	2.2	6.3	4.0
Pre-tax profit	11.0	(60.3)	173.0	8.0
Net profit	14.3	(59.9)	180.8	9.8
Net profit (adj.)	6.8	8.5	12.4	9.8
EPS	6.1	8.5	12.4	9.8
Leverage				
Debt to total capital	29.5	31.3	31.9	32.4
Debt to equity	41.9	45.5	46.8	48.0
Net debt/(cash) to equity	35.5	43.1	43.5	44.1
Interest cover (x)	10.3	11.3	11.6	11.6

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