

### COMPANY RESULTS

## SingTel (ST SP)

1HFY22: Earnings Below Expectations; Recovery Continues Into 2HFY22

**Singtel delivered 1HFY22 core earnings of S\$983m, a 17% yoy growth on the back of improved Optus performance and a turnaround in associate Airtel. Accounting for 43% and 44% of house and street's estimates, the earnings were below expectations. Management alluded towards recovery thanks to the reopening of economy. First interim DPS of 4.5 S cents was declared for 1HFY22. We cut FY22 forecast by 6%, accounting for higher depreciation charges. Maintain BUY. Target price: S\$2.75.**

### 1HFY22 RESULTS

Year to 31 Mar (RMm)	2QFY22	qoq % chg	yoy % chg	1HFY22	yoy % chg
<b>Operating Revenue:</b>					
Group Consumer	2,080	(2.4)	(3.3)	4,211	1.4
Group Enterprise	1,623	5.0	0.4	3,169	1.8
Group Digital Life	142	16.4	15.4	264	66.0
Group Revenue	3,845	1.2	(1.2)	7,644	2.9
<b>EBITDA:</b>					
Group Consumer	622	(5.0)	(1.7)	1,277	6.5
Group Enterprise	342	(6.8)	(12.1)	709	(5.6)
Group Digital Life	2	(60.0)	(71.4)	7	(240.0)
Corporate	-35	20.7	52.2	(64)	56.1
Group EBITDA	931	(6.7)	(7.5)	1,929	1.3
<i>EBITDA Margin</i>	24.2%	(2.1)	(1.6)	25.2%	-0.4%
Regional Mobile Associates	476	(10.7)	10.2	1,009	21.1
Underlying PBT	736	(1.6)	2.9	1,484	16.2
Underlying Net Profit	532	18.0	8.1	983	17.4

Source: Singtel, UOB Kay Hian

### RESULTS

- **1HFY22 core earnings below expectations.** Singapore Telecommunications (Singtel) grew 2QFY22 core net profit to S\$532m (+8% yoy; +18% qoq). This brings 1HFY22 core net profit to S\$983m (+17% yoy) - below expectations as it accounts for only 43% and 44% of house and street's full-year estimates.
- **Key drivers for 1HFY22 include:** a) improved Optus performance alongside a 6% A\$ appreciation, b) higher associate contributions with the turnaround in Airtel, and c) lower finance expenses. The discrepancy on our end stemmed from lower-than-expected revenue trajectory and higher-than-expected depreciation.

### KEY FINANCIALS

Year to 31 Mar (\$m)	2020	2021	2022F	2023F	2024F
Net turnover	16,542	15,644	15,829	16,521	17,060
EBITDA	4,363	3,690	3,906	4,243	4,649
Operating profit	1,784	1,004	1,196	1,533	1,936
Net profit (rep./act.)	1,075	552	2,122	2,686	3,056
Net profit (adj.)	2,457	1,732	2,151	2,686	3,056
EPS (\$ cent)	15.0	10.6	13.2	16.4	18.7
PE (x)	17.0	24.2	19.4	15.6	13.7
P/B (x)	1.6	1.6	1.5	1.5	1.4
EV/EBITDA (x)	12.5	14.7	13.9	12.8	11.7
Dividend yield (%)	4.8	2.9	3.7	4.4	4.9
Net margin (%)	6.5	3.5	13.4	16.3	17.9
Net debt/(cash) to equity (%)	49.2	45.7	43.1	42.2	44.3
Interest cover (x)	15.5	9.3	10.3	8.0	8.1
ROE (%)	3.8	2.1	7.9	9.8	10.8
Consensus net profit	-	-	2,241	2,674	3,125
UOBKH/Consensus (x)	-	-	0.96	1.00	0.98

Source: Singapore Telecommunications, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	S\$2.56
Target Price	S\$2.75
Upside	+7.5%

### 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):	16,511.6
Market cap (S\$m):	42,269.8
Market cap (US\$m):	31,174.7
3-mth avg daily t'over (US\$m):	52.1

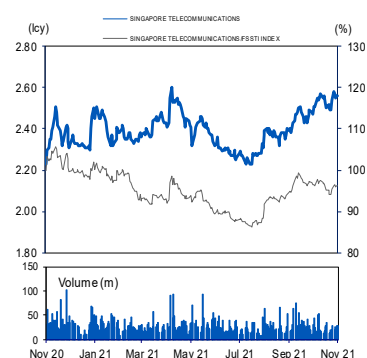
### Price Performance (%)

52-week high/low	S\$2.60/S\$2.00			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
3.2	10.8	5.8	14.8	10.8

### Major Shareholders

Shareholder	%
Temasek Hldgs	52.2
Franklin Resources	2.1
Vanguard Group Inc	1.5
FY22 NAV/Share (S\$)	1.66
FY22 Net Debt/Share (S\$)	0.71

### PRICE CHART



Source: Bloomberg

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- 1H22 DPS within expectations.** The group has declared an interim net DPS of 4.5 S cents/share. This represents 76% of 1HFY22 core PAT payout, in line with its 60-80% dividend policy. We expect full-year net DPS of 10 S cents/share.

### STOCK IMPACT

- Consumer: A nice 1HFY22 for Australia.** In Australia, mobile service revenue rose 10% yoy as a result of higher penetration of Optus Choice plans. This led to a 12% yoy increase in ARPU for Optus postpaid to A\$40/month (stable qoq) and a net addition of 34,000 postpaid subscribers. Prepaid ARPU was stable at A\$20/month with 10,000 prepaid subscribers net additions this quarter. The higher revenue base, mobile package repricing and good cost control led to 1HFY22 EBITDA margin expansion of 2ppt to 29.3%.
- In Singapore, 1HFY22 mobile service revenue was flat** but equipment sales fell 8% yoy. Postpaid ARPU was stable yoy but rose S\$1/month qoq to S\$28/month, while Singtel added 20,000 postpaid subscribers this quarter – thanks to the rollout of 5G services. Prepaid ARPU was stable yoy but eroded S\$1/month qoq to S\$13/month. Prepaid subscribers fell by 2,000 qoq.
- Enterprise: ICT revenue rose 10% yoy.** Enterprise revenue was flat yoy. A 10% yoy growth in ICT revenue (mainly driven by higher demand for data centres and cyber security services) was partly offset by a 16% yoy decline in fixed voice revenue. EBITDA fell 1.3% yoy due to tapering of JSS credits. NCS experienced a 5% increase in revenue in 1HFY22 but EBITDA fell 21% due to JSS distortion. Underlying EBITDA would have grown 5% yoy.
- Digital: Amobee registered a 19% yoy increase in revenue** due to higher advertising revenue vs last year when customers cut back on advertising dollar due to the pandemic. Consequently, EBITDA was US\$5m vs EBITDA loss of US\$4m in 1HFY21.

### 1HFY21 REGIONAL ASSOCIATES PRE-TAX CONTRIBUTION

Associates (\$m)	1HFY22	1HFY21	yoy % chg	Comments
Telkomsel (Indonesia)	472	467	1.1	- Stable profit but market share is expected to continue declining amid intense competition in ex-Java region.
AIS (Thailand)	160	166	(3.6)	- Growth in home broadband & enterprise services, offset by increased D&A on network & spectrum investments
Intouch (Thailand)	49	49	1.0	
Bharti Airtel (India)	147	(30)	n.m.	- Strong turnaround in Airtel lifted associates' contributions, led by robust operating improvements in India.
Globe (Philippines)	181	182	(0.2)	
Others	37	53	(30.1)	
<b>Total</b>	<b>1484</b>	<b>885</b>	<b>18.2</b>	

Source: Singtel, UOB Kay Hian

### EARNINGS REVISION/RISK

- Trim FY22 net profit by 6%** to account for higher depreciation. We expect a recovery in 2HFY22 with the reopening of the economy in the region.
- Management expects to pay out dividends at the higher end of the 60-80% payout range. Associate earnings are expected to be no less than S\$1.3b for FY22.

### VALUATION/RECOMMENDATION

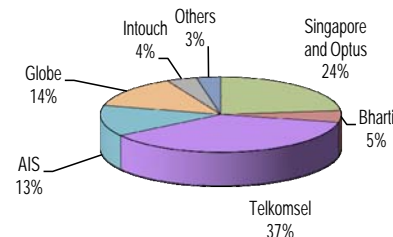
- Accumulate on share price weakness with a DCF-based target price of S\$2.75** (discount rate: 7%, growth rate: 1.5%). At our target price, the stock will trade at 14.5x FY22F EV/EBITDA (slightly above its 5-year mean EV/EBITDA). The stock currently trades at its 5-year mean EV/EBITDA of 13x.
- Key re-rating catalysts include:** a) successful monetisation of 5G, b) faster-than-expected recovery in Optus' consumer and enterprise businesses, and c) market repair in Singapore.

### FY22 OUTLOOK



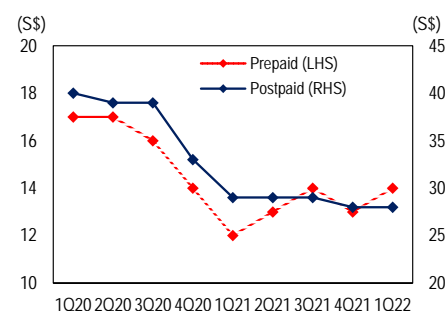
Source: Singtel, UOB Kay Hian

### PBT BY BUSINESS UNIT (1HFY22)



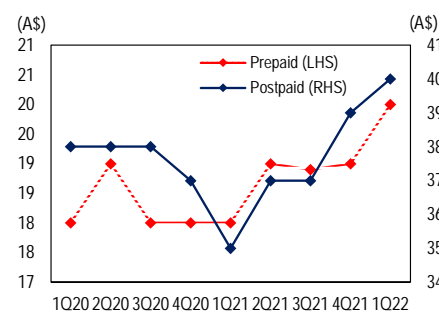
Source: Singtel, UOB Kay Hian

### SINGAPORE CONSUMER ARPU TREND



Source: Singtel, UOB Kay Hian

### AUSTRALIA CONSUMER ARPU TREND



Source: Singtel, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Mar (\$m)	2021	2022F	2023F	2024F
Net turnover	15,644	15,829	16,521	17,060
EBITDA	3,690	3,906	4,243	4,649
Deprec. & amort.	2,686	2,710	2,710	2,712
EBIT	1,004	1,196	1,533	1,936
Total other non-operating income	142	166	160	160
Associate contributions	1,798	2,147	2,571	2,719
Net interest income/(expense)	(395)	(378)	(533)	(571)
<b>Pre-tax profit</b>	<b>1,369</b>	<b>3,102</b>	<b>3,731</b>	<b>4,245</b>
Tax	(811)	(974)	(1,045)	(1,188)
Minorities	(7)	(6)	0	0
<b>Net profit</b>	<b>552</b>	<b>2,122</b>	<b>2,686</b>	<b>3,056</b>
Net profit (adj.)	1,732	2,151	2,686	3,056

### CASH FLOW

Year to 31 Mar (\$m)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>5,609</b>	<b>4,945</b>	<b>4,940</b>	<b>5,246</b>
Pre-tax profit	1,369	3,102	3,731	4,245
Tax	(164)	(974)	(1,045)	(1,188)
Deprec. & amort.	2,686	2,710	2,710	2,712
Associates	(1,798)	(2,147)	(2,571)	(2,719)
Working capital changes	584	24	512	400
Other operating cashflows	2,932	2,230	1,603	1,797
<b>Investing</b>	<b>(2,666)</b>	<b>(2,554)</b>	<b>(2,661)</b>	<b>(2,559)</b>
Capex (growth)	(2,302)	(2,554)	(2,661)	(2,559)
Investments	(4)	0	0	0
Proceeds from sale of assets	31	0	0	0
Others	(391)	0	0	0
<b>Financing</b>	<b>(3,190)</b>	<b>(1,308)</b>	<b>(1,087)</b>	<b>(2,677)</b>
Dividend payments	(1,273)	(1,569)	(1,858)	(2,064)
Issue of shares	0	0	0	0
Proceeds from borrowings	(1,693)	638	1,304	1,049
Loan repayment	0	0	0	0
Others/interest paid	(224)	(378)	(533)	(1,662)
<b>Net cash inflow (outflow)</b>	<b>(247)</b>	<b>1,083</b>	<b>1,192</b>	<b>10</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>1,000</b>	<b>755</b>	<b>1,838</b>	<b>3,030</b>
Changes due to forex impact	2	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>755</b>	<b>1,838</b>	<b>3,030</b>	<b>3,040</b>

### BALANCE SHEET

Year to 31 Mar (\$m)	2021	2022F	2023F	2024F
Fixed assets	13,590	13,501	13,351	13,198
Other LT assets	27,877	28,487	29,660	31,924
Cash/ST investment	755	1,838	3,030	3,040
Other current assets	5,778	5,621	5,864	6,053
<b>Total assets</b>	<b>48,000</b>	<b>49,447</b>	<b>51,905</b>	<b>54,215</b>
ST debt	2,034	2,034	2,034	2,034
Other current liabilities	7,104	7,313	7,610	7,849
LT debt	10,825	11,463	12,767	13,816
Other LT liabilities	1,525	1,559	1,567	1,573
Shareholders' equity	26,486	27,058	27,907	28,923
Minority interest	26	20	20	20
<b>Total liabilities &amp; equity</b>	<b>48,000</b>	<b>49,447</b>	<b>51,905</b>	<b>54,215</b>

### KEY METRICS

Year to 31 Mar (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	23.6	24.7	25.7	27.2
Pre-tax margin	8.8	19.6	22.6	24.9
Net margin	3.5	13.4	16.3	17.9
ROA	1.1	4.4	5.3	5.8
ROE	2.1	7.9	9.8	10.8
<b>Growth</b>				
Turnover	(5.4)	1.2	4.4	3.3
EBITDA	(15.4)	5.8	8.6	9.6
Pre-tax profit	(32.9)	126.6	20.3	13.8
Net profit	(48.7)	284.8	26.6	13.8
Net profit (adj.)	(29.5)	24.3	24.9	13.8
EPS	(29.5)	24.3	24.9	13.8
<b>Leverage</b>				
Debt to total capital	32.7	33.3	34.6	35.4
Debt to equity	48.6	49.9	53.0	54.8
Net debt/(cash) to equity	45.7	43.1	42.2	44.3
Interest cover (x)	9.3	10.3	8.0	8.1

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