

COMPANY UPDATE

Singtel Telecommunications (ST SP)

On Stronger Footing

Singtel is set to deliver a three-year earnings CAGR (FY22-25F) of 15% vs -12% during the COVID-19 period (FY19-22). This reflects monetisation of 5G in Singapore and Australia, absence of digital losses (from Amobee), double-digit NCS growth and associates benefitting from the economic reopening. A regional data centre is shaping up as Singtel aims to add another 100MW of capacity in the next 3-5 years to build a DC portfolio worth S\$7b-8b. Maintain BUY. Target price: S\$2.90.

WHAT'S NEW

- **Setting the foundation...** In Singtel's strategic reset, management aims to monetise its 5G investments in Singapore and Australia, unlock inherent asset value (tower, Singapore HQ redevelopment) and recycle the capital into growth levers (regional data centre and enterprise business via NCS).
- **...to drive a post-COVID-19 three-year earnings CAGR of 15%.** This will pave the way for Singtel to narrow its holding company discount as the company actively reallocates capital to drive core business growth and general sustainable cashflow to enhance shareholder's value. We project a three-year earnings CAGR (FY22-25F) of 15% vs -12% during the COVID-19 period (FY19-22).

STOCK IMPACT

- **Divestment of Amobee within next 12 months...** FY23 earnings will also benefit from the absence of Amobee losses (FY22 operating loss of S\$70m). As at 31 Mar 22, Amobee was classified as a "subsidiary held for sale". The sale is expected to be completed within the next year. Net book value of Amobee is estimated at S\$220m. We also expect an announcement regarding Trustwave (North American business looking for best fit in terms of merger or divestment) in 2H22. To recap, both assets have been de-emphasized following the write-down in Dec 21 (amounting to ~S\$1b of impairment)
- **...as Singtel focuses on 5G monetisation in Singapore...** Singapore's 5G consumers are currently being offered, on a bundled basis (connectivity, entertainment, handset), the XO Plus plan. Singtel is also starting to commercialise 5G enterprise applications, particularly in advanced manufacturing processes. For example, the group is working with a key car manufacturer to offer customisable cars to suit a consumer's preference. Port management is also a target market for 5G application in the near term.

KEY FINANCIALS

Year to 31 Mar (\$m)	2021	2022	2023F	2024F	2025F
Net turnover	15,644	15,339	15,742	15,927	15,926
EBITDA	3,832	3,767	3,958	4,024	4,082
Operating profit	1,146	1,045	1,655	1,775	1,864
Net profit (rep./act.)	553	1,934	2,572	2,746	2,929
Net profit (adj.)	1,733	1,934	2,572	2,746	2,929
EPS (S\$ cent)	10.6	11.8	15.8	16.8	17.9
PE (x)	24.5	21.9	16.5	15.5	14.5
P/B (x)	1.6	1.5	1.5	1.4	1.4
EV/EBITDA (x)	13.7	14.0	13.3	13.1	12.9
Dividend yield (%)	2.9	3.6	4.4	4.8	4.8
Net margin (%)	3.5	12.6	16.3	17.2	18.4
Net debt/(cash) to equity (%)	45.7	34.6	34.2	33.3	31.5
Interest cover (x)	9.7	12.0	10.9	10.7	10.5
ROE (%)	2.1	7.1	9.0	9.4	9.8
Consensus net profit	-	-	2,460	2,871	3,311
UOBKH/Consensus (x)	-	-	1.05	0.96	0.88

Source: Singapore Telecommunications, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$2.60
Target Price	S\$2.90
Upside	+11.5%

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):	514.6
Market cap (S\$m):	42,938.1
Market cap (US\$m):	30,639.4
3-mth avg daily t'over (US\$m):	62.1

Price Performance (%)

52-week high/low S\$2.83/S\$2.23

1mth	3mth	6mth	1yr	YTD
3.2	(0.4)	6.1	13.5	12.1

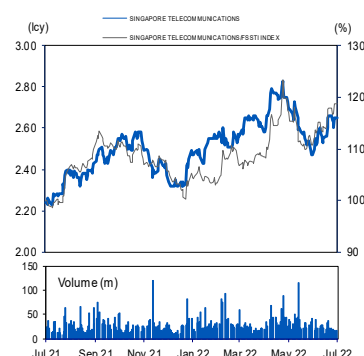
Major Shareholders

	%
Temasek Hldgs	52.2
Franklin Resources	2.1
Vanguard Group Inc	1.5

FY23 NAV/Share (S\$) 1.77

FY23 Net Debt/Share (S\$) 0.60

PRICE CHART



Source: Bloomberg

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• **...and potential price hike in Australia – positive for Optus.** While data competition remains intense, Optus recently announced a price increase of AUS\$4/month for its legacy plans (in-market prior to the May 21 AUD\$6 price hike). This is inclusive of higher data allocation of between 33-60%. The higher price was due to inflationary pressure and ongoing network expansion. In addition, Optus Sport price is also raised to AUD24.99/month from AUD14.99/month (effective 1 Aug 22) as Optus aim to monetise its products. We expect positive mobile service revenue and EBITDA margin expansion in FY23.

• **A green regional data centre with S\$8b valuation.** FY23 should see detailed announcement on Singtel's data centre (DC) partnership in both Thailand and Indonesia. Currently, Singtel has 7 DCs in Singapore with 70MW capacity. The goal is add another 100MW of capacity to Singtel's DC portfolio over next 3-5 years. This will create a DC asset close to S\$7-8b within five years. Singtel recently announced that they are building a 30MW integrated cable landing station and DC in Singapore with funding being currently worked out with potential investors.

a) **Thailand** – Singtel may identify suitable sites to develop data centres in Thailand. Gulf Energy will provide the energy while Singtel will step in with operational expertise. AIS will complete the offer with connectivity services.

b) **Indonesia** – Telkomsel and Singtel plan to form a JV company to develop DC catering to the regional market. The JV can either acquire existing DCs or develop greenfield projects for DC facilities. If the project is located in Indonesia, Telkomsel will own a higher stake, and if the project is in Singapore, Singtel will be the majority shareholder.

OUTLOOK FOR REGIONAL ASSOCIATES

Segment	Key Highlights
Telkomsel (Indonesia)	<ul style="list-style-type: none"> - More rationale price competition. Telkomsel recently adjusted its data package prices by an average of 10% in stages across products. Moving in the same direction, competitor XL Axiata (EXCL) also increased prices by 3% and applied fair usage policy (FUP) in the unlimited package, while Indosat Ooredoo Hutchinson (IOH) increased their data package price by ~9%. - Inflationary risk: We think inflation might hit the purchasing power of lower-income customers who might potentially switch to other operators. Telkomsel's strategy is to offer lower denomination data packages and bundle services to retain lower income customers.
AIS (Thailand)	<ul style="list-style-type: none"> - AIS will benefit from the improved competitive landscape both in the FBB business (after the TTTBB/JASIF deal is completed) and in the mobile business (after TRUE and DTAC complete their merger). - We expect AIS's 2Q22 net profit to increase qoq, mainly due to higher service revenue from the positive Mobile Expo activities while overall cost is expected to decline slightly qoq. We expect a positive on the potential improved competitive landscape both in the FBB and mobile businesses.
Bharti Airtel (India)	<ul style="list-style-type: none"> - As India prepares to roll out the next generation of 5G services through an auction exercise, Bharti Airtel will face heightened competition from the likes of Adani. Adani Group confirmed its entry into the race to acquire telecom spectrum. The spectrum will be used to create a private network to support its businesses from airports to power as well as data centres. - We expect Bharti Airtel to continue its growth momentum with the tariff hike. Strong turnaround in Airtel is expected to lift associates' contributions, led by robust operating improvements in India and Africa.
Globe (Philippines)	<ul style="list-style-type: none"> - The media reported that Globe has entered exclusive talks with bidders for its telco tower portfolio in a deal that could be worth as much as US\$1.5b. This is sale of Globe's 6,000 towers. - Globe has over 2m devices on its 5G network as of 1Q22 and is already ahead of its target. At least 96% of the National Capital Region (NCR) and 85% of key cities in Visayas and Mindanao now have Globe 5G outdoor coverage.

Source: Respective Companies, UOB Kay Hian.

EARNINGS REVISION/RISK

• None.

VALUATION/RECOMMENDATION

• **Maintain BUY with a DCF-based target price of S\$2.90** (discount rate: 7%, growth rate: 1.5%) as we roll over our valuation window to FY23. At our target price, the stock will trade at 13x FY23 EV/EBITDA (its five-year mean EV/EBITDA).

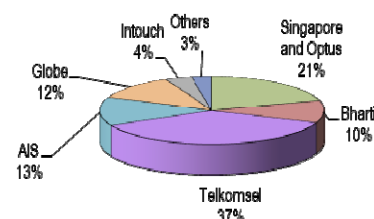
• **Key re-rating catalysts include:** a) successful monetisation of 5G, b) monetisation of data centres and/or NCS, and c) market repair in Singapore and resumption of regional roaming revenue.

FY23 OUTLOOK

Regional associates	Capital expenditure	Dividend policy
~S\$1.1b	~S\$2.6b	60-80%
of dividends	comprising ~A\$1.7b in AU ~S\$0.9b for rest of the Group	of underlying net profit

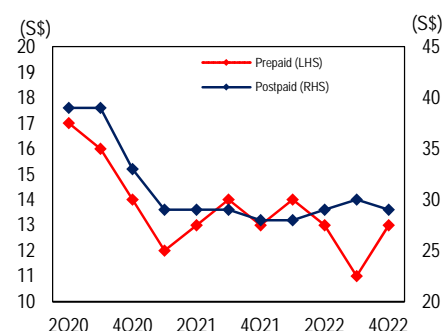
Source: Singtel, UOB Kay Hian

CORE EARNINGS BY BUSINESS UNIT (FY22)



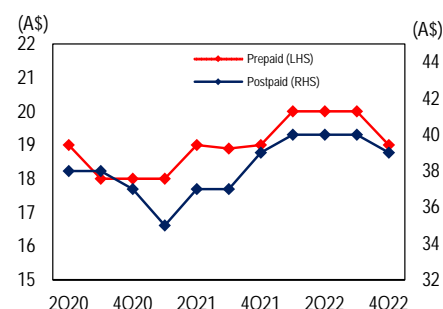
Source: Singtel, UOB Kay Hian

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)	2022	2023F	2024F	2025F
Net turnover	15,339	15,742	15,927	15,926
EBITDA	3,767	3,958	4,024	4,082
Deprec. & amort.	2,722	2,303	2,249	2,219
EBIT	1,045	1,655	1,775	1,864
Associate contributions	2,136	2,184	2,312	2,484
Net interest income/(expense)	(313)	(363)	(377)	(390)
Pre-tax profit	2,879	3,476	3,710	3,958
Tax	(934)	(904)	(965)	(1,029)
Minorities	(11)	0	0	0
Net profit	1,934	2,572	2,746	2,929
Net profit (adj.)	1,934	2,572	2,746	2,929

BALANCE SHEET

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Fixed assets	10,892	11,000	10,981	10,832
Other LT assets	30,109	30,764	31,458	32,203
Cash/ST investment	2,130	2,493	2,961	3,617
Other current assets	6,000	6,143	6,209	6,206
Total assets	49,131	50,400	51,608	52,859
ST debt	1,614	1,614	1,614	1,614
Other current liabilities	7,441	7,543	7,600	7,558
LT debt	10,254	10,726	11,172	11,586
Other LT liabilities	1,713	1,713	1,713	1,713
Shareholders' equity	28,124	28,819	29,524	30,403
Minority interest	(15)	(15)	(15)	(15)
Total liabilities & equity	49,131	50,400	51,608	52,859

CASH FLOW

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Operating	5,298	5,148	5,362	5,498
Pre-tax profit	2,879	3,476	3,710	3,958
Tax	(934)	(904)	(965)	(1,029)
Deprec. & amort.	2,378	2,253	2,249	2,219
Associates	(11)	0	0	0
Working capital changes	(180)	(40)	(9)	(39)
Non-cash items	313	363	377	390
Other operating cashflows	853	0	0	0
Investing	(644)	(3,016)	(2,923)	(2,816)
Capex (maintenance)	(2,217)	(2,361)	(2,230)	(2,070)
Proceeds from sale of assets	(207)	(655)	(694)	(745)
Others	1,780	0	0	0
Financing	(3,266)	(1,768)	(1,972)	(2,026)
Dividend payments	(1,139)	(1,877)	(2,041)	(2,050)
Issue of shares	(1)	0	0	0
Proceeds from borrowings	(991)	472	446	414
Others/interest paid	(1,135)	(363)	(377)	(390)
Net cash inflow (outflow)	1,388	363	468	657
Beginning cash & cash equivalent	755	2,130	2,493	2,961
Changes due to forex impact	(13)	0	0	0
Ending cash & cash equivalent	2,130	2,493	2,961	3,617

KEY METRICS

Year to 31 Mar (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	24.6	25.1	25.3	25.6
Pre-tax margin	18.8	22.1	23.3	24.9
Net margin	12.6	16.3	17.2	18.4
ROA	4.0	5.2	5.4	5.6
ROE	7.1	9.0	9.4	9.8
Growth				
Turnover	(1.9)	2.6	1.2	0.0
EBITDA	(1.7)	5.1	1.7	1.5
Pre-tax profit	110.1	20.7	6.7	6.7
Net profit	249.8	33.0	6.7	6.7
Net profit (adj.)	11.6	33.0	6.7	6.7
EPS	11.6	33.0	6.7	6.7
Leverage				
Debt to total capital	29.7	30.0	30.2	30.3
Debt to equity	42.2	42.8	43.3	43.4
Net debt/(cash) to equity	34.6	34.2	33.3	31.5
Interest cover (x)	12.0	10.9	10.7	10.5

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