

COMPANY RESULTS

Singapore Telecommunications (ST SP)

1QFY23: Earnings In Line; Recovery On Track

For 1QFY23, Singtel reported 11% yoy higher core net earnings of S\$499m, in line with expectations. Higher roaming revenue coupled with increased take-up of higher value plans led to strong operational performances from the Singapore consumer segment and Optus. NCS' double-digit revenue growth trajectory remains intact while the group enterprise segment remains resilient. Regional mobile associates outperformed, largely led by Airtel. Maintain BUY with a DCF-based target price of S\$2.90.

1QFY23 RESULTS

Year to 31 Mar (\$m)	1QFY23	qoq % chg	yoy % chg	Comments
Group Operating Revenue:*	3,584.0	(5.0%)	(5.6%)	Divestment of Amobee.
Optus	1,944	3.8%	(4.0%)	Loss of NBN migration revenue.
Singapore Consumer	428	3.4%	3.4%	Higher roaming revenue.
Group Enterprise	613	(2.4%)	0.1%	
NCS	598	(14.0%)	13.2%	Broad-based growth.
Trustwave	44	(46.3%)	(54.7%)	
Group EBITDA:*	977.0	15.2%	(2.0%)	
Optus	531	17.0%	(2.0%)	
Singapore Consumer	166	29.7%	11.4%	
Group Enterprise	274	3.4%	1.1%	
NCS	70	(15.7%)	(16.7%)	Higher Opex investments.
Trustwave	(29)	(3.3%)	20.8%	
Corporate	(29)	(23.7%)	3.6%	
EBITDA margin (%)	27.3ppts	4.8ppts	1.0ppts	
Regional Mobile Associates	577	(2.5%)	12.3%	Driven by Airtel.
Underlying Net Profit	499	6.9%	10.6%	

Source: Singtel, UOB Kay Hian. *Including intercompany eliminations.

RESULTS

• **1QFY23: In line with expectations.** Singapore Telecommunications (Singtel) reported 1QFY23 operating revenue (-5.6% yoy, -5.0% qoq) and net profit (+41.3% yoy, +140.6% qoq) of S\$3,584m and S\$628m, forming 22.8% and 24.4% of our full-year forecasts respectively. Group EBITDA softened slightly at 2.0% yoy but grew 15.2% qoq as international borders reopened in 1QFY23. Excluding the divestment of Amobee and National Broadband Network (NBN) migration revenue, underlying revenue and EBITDA would have grown by 4.1% yoy and 5.4% respectively, backed by higher contributions from NCS and roaming revenue. Excluding non-recurring items, underlying net profit grew 10.6% yoy and formed 19.4% of our full-year forecasts, within our expectations.

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)	24.7	22.1	16.6	15.6	14.6
P/B (x)	1.6	1.5	1.5	1.4	1.4
EV/EBITDA (x)	13.8	14.1	13.4	13.2	13.0
Dividend yield (%)	2.9	3.5	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	-	-	2,471	2,880	3,314
UOBKH/Consensus (x)	-	-	1.04	0.95	0.88

Source: Singapore Telecommunications, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$2.62
Target Price	S\$2.90
Upside	+10.7%

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):	16,514.7
Market cap (S\$m):	43,268.4
Market cap (US\$m):	31,036.8
3-mth avg daily t'over (US\$m):	48.0

Price Performance (%)

52-week high/low		S\$2.83/S\$2.32		
1mth	3mth	6mth	1yr	YTD
(1.1)	(1.1)	3.6	9.6	12.9

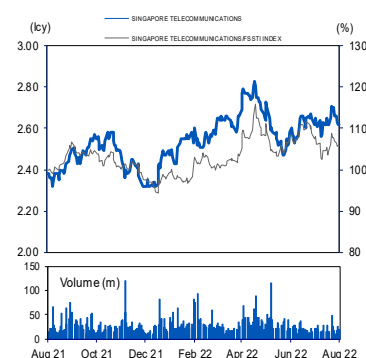
Major Shareholders

Temasek Hlds	50.3%
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FY23 NAV/Share (S\$) 1.77

FY23 Net Debt/Share (S\$) 0.60

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Optus.** 1QFY23 mobile service revenue rose 2.4% yoy from higher penetration of ARPU-accretive Optus Choice plans, growing prepaid (+187,000 yoy, +84,000 qoq) and postpaid subscribers (+155,000 yoy, +38,000 qoq) and higher roaming revenue. Although total number of mobile customers went up 3.8% yoy, blended ARPU softened slightly at -0.9% yoy, indicating price competition in Australia. Excluding NBN migration revenue, Optus revenue and EBITDA increased 2% yoy and 11% yoy respectively.
- **Singapore.** Mobile service revenue rose 10.6% yoy with the reopening of international borders. Postpaid ARPU increased by about S\$3/month qoq to S\$32/month while postpaid subscribers increased 11,000 qoq respectively. Prepaid ARPU was largely stable at S\$13/month qoq while subscribers rose by 17,000 qoq. Key drivers were: a) higher international roaming revenue; and b) encouraging take-up for 5G bundled plans. Segmental revenue and EBITDA expanded 3.4% yoy and 11.7% yoy respectively.
- **Enterprise.** 1QFY23 revenue (flat yoy) and EBITDA (+1.0% yoy) remained resilient despite increased utilities costs, driven by higher roaming and ICT revenues from data centre/cybersecurity services.
- **NCS.** Reported robust revenue growth of 13% yoy, supported by growth across all lines of businesses. Consisting of 48% of overall segmental revenue, digital, cloud, platforms and cyber revenue rose 23% yoy. However, EBITDA was down 17% yoy due to Opex investments, higher staff costs and write-back of project losses in 1QFY22. Bookings for 1QFY23 amounted to S\$600m which came from various sectors.
- **Trustwave.** After the divestment of Amobee, we understand that Trustwave – a North American business – is currently carved out and management is looking for the best fit, be it in terms of merger or divestment. To recap, both assets (Amobee and Trustwave) have been de-emphasised following the write-down in Dec 21 (amounting to around S\$1b of impairment).

1QFY23 REGIONAL ASSOCIATES PRE-TAX CONTRIBUTION

Associates (\$m)	1QFY23	qoq % chg	yoy % chg	Comments
Telkomsel (Indonesia)	228	0.4%	(5.4%)	- Despite higher revenue from increased prices, affected by higher Opex and depreciation/interest charges
AIS (Thailand)	73	(2.7%)	(15.0%)	- Mobile service revenue increased 1.3% qoq in 2Q22 with higher subscriber base. - 5G subscriber base increased to 3.9m in 2Q22 from 2.8m in 1Q22. - Higher expenses from 5G network rollout, new 700MHz licence and marketing costs.
Intouch (Thailand)	25	8.7%	(3.1%)	- Benefitted from the relaxation of COVID-19 measures.
Globe (Philippines)	95	17.3%	(3.3%)	- Profit eroded by 6% depreciation of the Philippine Peso.
Bharti Airtel (India)	156	(14.8%)	145.6%	- Higher ARPU from tariff hikes and robust 4G customer additions. - Announced the sale of 198m shares (3.3% stake) for S\$2.25b.
Total	577	(2.0%)	12.2	

Source: Singtel, UOB Kay Hian

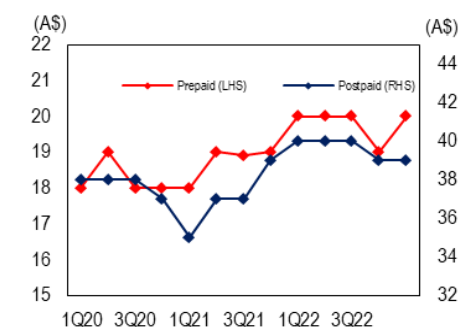
EARNINGS REVISION/RISK

- None.

VALUATION/RECOMMENDATION

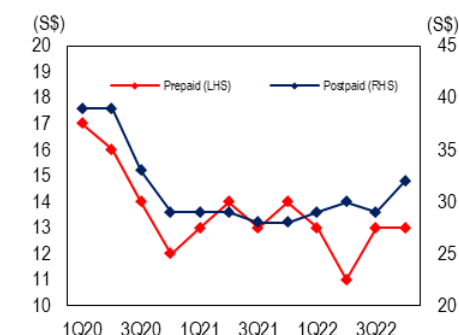
- **Maintain BUY with the same DCF-based target price of S\$2.90** (discount rate: 7%, growth rate: 1.5%). At our target price, the stock will trade at 13x FY23 EV/EBITDA (its five-year mean EV/EBITDA).
- **Key re-rating catalysts include:** a) successful monetisation of 5G, b) monetisation of data centres and/or NCS, and c) market repair in Singapore and resumption of regional roaming revenue.

AUSTRALIA CONSUMER ARPU TREND



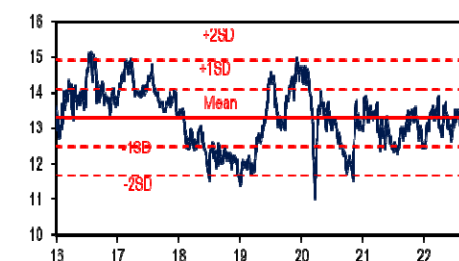
Source: Singtel, UOB Kay Hian

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)	2022	2023F	2024F	2025F
Net turnover	15,339.0	15,741.7	15,926.9	15,925.6
EBITDA	3,767.0	3,958.2	4,024.1	4,082.5
Deprec. & amort.	2,722.0	2,303.1	2,249.1	2,218.7
EBIT	1,045.0	1,655.1	1,775.0	1,863.8
Associate contributions	2,136.0	2,183.8	2,312.3	2,484.4
Net interest income/(expense)	(313.0)	(363.1)	(376.9)	(389.8)
Pre-tax profit	2,879.0	3,475.8	3,710.3	3,958.4
Tax	(934.0)	(903.7)	(964.7)	(1,029.2)
Minorities	(11.0)	0.0	0.0	0.0
Net profit	1,934.0	2,572.1	2,745.6	2,929.2
Net profit (adj.)	1,934.0	2,572.1	2,745.6	2,929.2

BALANCE SHEET

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Fixed assets	10,892.0	11,000.2	10,980.9	10,832.5
Other LT assets	30,558.0	31,213.1	31,906.8	32,652.1
Cash/ST investment	2,130.0	2,493.3	2,960.8	3,617.4
Other current assets	5,551.0	5,693.6	5,759.7	5,757.2
Total assets	49,131.0	50,400.2	51,608.2	52,859.3
ST debt	1,614.0	1,614.0	1,614.0	1,614.0
Other current liabilities	7,441.0	7,543.2	7,600.2	7,558.5
LT debt	10,254.0	10,726.2	11,172.2	11,586.3
Other LT liabilities	1,713.0	1,713.0	1,713.0	1,713.0
Shareholders' equity	28,124.0	28,818.8	29,523.8	30,402.6
Minority interest	(15.0)	(15.0)	(15.0)	(15.0)
Total liabilities & equity	49,131.0	50,400.2	51,608.2	52,859.3

CASH FLOW

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Operating	5,298.0	5,147.9	5,362.5	5,498.4
Pre-tax profit	2,879.0	3,475.8	3,710.3	3,958.4
Tax	(934.0)	(903.7)	(964.7)	(1,029.2)
Deprec. & amort.	2,378.0	2,253.1	2,249.1	2,218.7
Associates	(11.0)	0.0	0.0	0.0
Working capital changes	(180.0)	(40.4)	(9.1)	(39.3)
Non-cash items	313.0	363.1	376.9	389.8
Other operating cashflows	853.0	0.0	0.0	0.0
Investing	(644.0)	(3,016.4)	(2,923.4)	(2,815.6)
Capex (maintenance)	(2,217.0)	(2,361.2)	(2,229.8)	(2,070.3)
Proceeds from sale of assets	(207.0)	(655.1)	(693.7)	(745.3)
Others	1,780.0	0.0	0.0	0.0
Financing	(3,266.0)	(1,768.2)	(1,971.5)	(2,026.2)
Dividend payments	(1,139.0)	(1,877.3)	(2,040.6)	(2,050.4)
Issue of shares	(1.0)	0.0	0.0	0.0
Proceeds from borrowings	(991.0)	472.2	446.0	414.1
Others/interest paid	(1,135.0)	(363.1)	(376.9)	(389.8)
Net cash inflow (outflow)	1,388.0	363.3	467.5	656.6
Beginning cash & cash equivalent	755.0	2,130.0	2,493.3	2,960.8
Changes due to forex impact	(13.1)	(0.1)	(0.1)	(0.1)
Ending cash & cash equivalent	2,129.9	2,493.2	2,960.7	3,617.3

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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