COMPANY UPDATE

Singapore Telecommunications (ST SP)

Proxy To Regional Economic Recovery And Reopening

Singtel plans to improve on its ROIC to high single digits by FY25 from 5% in FY22. Proceeds from the group's asset recycling initiative would be utilised for incremental 5G capex in Australia and current growth engines. The return of international travel has lifted international roaming revenue while both NCS and the group's data centres plan to expand and ramp up operations. Singtel's regional associates face a gradual recovery as economies reopen. Maintain BUY with a DCF-based target price of S$2.90.

WHATS NEW

- **Strategic reset with higher ROIC targets…** Singapore Telecommunications (Singtel) expects to improve its return on invested capital (ROIC) to high single digits in the next 2-3 years, up from 5% in FY22. This is predicated on: a) return of international roaming revenue, b) 5G network superiority to bundle products and differentiate services, c) absence of Amobee's losses, and soon enough, Trustwave's losses, d) fast-growing momentum from NCS, e) cost discipline and digitalisation, and f) turnaround of Bharti India.
- **…and sustainable dividends.** In addition, proceeds from asset recycling (S$5b earmarked from stake sale of Bharti, Optus tower, monetisation of Singtel HQ) would be used to cover incremental 5G capex in Australia and current growth engines (regional data centre, NCS). This protects Singtel's ability to pay sustainable dividends. With stronger core operating cashflows and an expected earnings recovery, we expect future dividends to grow in line with earnings, at 70-75% payout ratio as compared to its dividend policy of 60-80% of underlying net profit.

STOCK IMPACT

- **NCS: Future growth engine.** NCS has set a revenue target of S$5b by FY27, up ~2x from its current S$2.4b revenue. To capitalise on growing demand for digitalisation, NCS has plans to expand its workforce from 12,000 to 20,000 in 3-4 years with most of the increased headcount coming from lower-cost countries such as India and Vietnam. Consequently, EBITDA margin compression would persist in the next 1-2 years due to: a) higher opex investments, b) talent management and rising wages, and c) impact from acquisitions.
- **Regional data centres: Expansion underway.** Singtel plans to double its data centre capacity in Singapore in the next three years to around 100MW, up from its current 60MW capacity. The group's regional data centres currently contribute around S$250m in annual revenue and S$150m in EBITDA respectively. Also, through partnerships, Singtel plans to add an additional 20MW in Thailand and 100MW in Indonesia. This will create a data centre (DC) asset close to S$7b-8b within five years.

KEY FINANCIALS

Year to 31 Mar (S$m)	2021	2022	2023F	2024F	2025F
Net turnover	15,644	15,339	15,742	15,927	15,926
EBITDA	3,832	3,767	3,958	4,024	4,082
Operating profit	1,146	1,045	1,655	1,775	1,864
Net profit (rep./act.)	553	1,934	2,572	2,746	2,929
Net profit (adj.)	1,733	1,934	2,572	2,746	2,929
EPS (S$ cent)	10.6	11.8	15.8	16.8	17.9
PE (x)	25.3	22.7	17.1	16.0	15.0
P/B (x)	1.7	1.6	1.5	1.5	1.4
EV/EBITDA (x)	14.1	14.4	13.7	13.5	13.3
Dividend yield (%)	2.8	3.5	4.3	4.6	4.7
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	-	-	2,452	2,857	3,281
UOBKH/Consensus (x)	-	-	1.05	0.96	0.89

Source: Singapore Telecommunications, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S$2.69
Target Price	S$2.90
Upside	+7.8%

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):	16,507.3
Market cap (S$m):	44,404.7
Market cap (US$m):	31,506.1
3-mth avg daily t'over (US$m):	41.2

Price Performance (%)

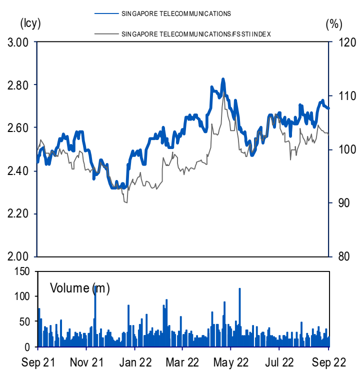
52-week high/low S$2.83/S$2.32

1mth	3mth	6mth	1yr	YTD
1.1	7.6	5.1	10.2	15.9

Major Shareholders	%
Temasek Hldgs	50.3

FY23 NAV/Share (S$)	1.77
FY23 Net Debt/Share (S$)	0.60

PRICE CHART



Source: Bloomberg

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- **Singapore consumer: Mobile recovery on track.** Singtel's Singapore Consumer segment is benefitting from the resumption of international travel. Roaming revenue has returned to ~50% of pre-COVID-19 levels and is expected to improve further. The reopening of China/Japan's international borders is a strong potential catalyst. Foreign workers, at 85% of pre-COVID-19 levels, have helped support prepaid revenue despite stiff competition. In response, Singtel launched a value-conscious (S$10/100GB) prepaid plan. 5G migration has been robust with 5G customers now at 480,000 (+180,000 qoq). 5G has now been extended to prepaid and GOMO subscribers as well. Broadband segment has seen higher take-up for its ARPU-accretive 2Gbps plans. The loss of the English Premier League (EPL) broadcasting rights will result in cost savings for the group.

- **Optus: Strong rebound amid stiff competition.** The return of international travel has helped roaming revenue, which is currently at ~40% of pre-COVID-19 levels. Inbound roaming is expected to recover further when Chinese and international students return. Optus currently has 33% mobile market share in Australia, the second largest, but is facing strong pricing competition from Mobile Virtual Network Operators (MVNOS). Postpaid pricing has increased from A$55 for 80GB to A$59 for 100GB. Management reckons that the market is due for another round of price repair. The Telstra/TPG acquisition is seen as anti-competitive as Australian consumers would have lesser choices and face higher prices. Telstra is also able to acquire more spectrum than the cap implemented during the auctioning process.

- **Telkomsel: Healthier market conditions.** Telkomsel did two rounds of prices increases in 1H22 which led to overall market repair in Indonesia. The group has a 56% revenue domestic market share with high value customers contributing 50% of overall revenue. There are plans to cater its portfolio to the lower-value segment as this segment has become more price sensitive due to rising inflation. 5G adoption has grown in the high-mid tier areas with more use cases.

- **Bharti: Affected by inflation.** To increase the current 1QFY23 ROIC of around 8% to 12-13%, Bharti has to raise ARPU by 30-40 rupees to 300 rupees. Bharti has ~35% share of India's mobile market. Rising inflation has affected the lower-end customers as they become more price-sensitive. The 5G smartphone upgrade cycle has been postponed as the ongoing shortage of 5G smartphones has led to higher phone prices, affecting customers' plans to upgrade to higher plans and depressing ARPU. Around 12% of smartphones in India are 5G devices and management noted that this is expected to grow to about 30% by 1Q24.

- **Advanced Info Services (AIS): Tourism and economic rebound.** International roaming and IDD revenue has improved due to the reopening of borders, and still has room to recover further. AIS maintains its leadership position in Thailand's mobile market. Although prepaid customer net additions grew in 2Q22, AIS faced ongoing price competition in the prepaid segment, which led to lower overall prepaid ARPUs. Postpaid ARPU was supported by a 15% uplift in 5G ARPU. Postpaid revenue accounted for 56% of overall revenue in 1H22 (1H21: 52%), driven by customer migration from prepaid to postpaid. AIS is expected to increase marketing activities to drive 5G adoption, which may compress margins.

- **Globe: Gradual recovery.** In the Philippines, 97% of the mobile market is prepaid while 5G take-up is low due to lack of use cases in the country. The reopening of the economy and schools are strong tailwinds. The Philippines is still a two-player oligopoly mobile market with the third player providing little competition.

EARNINGS REVISION/RISK

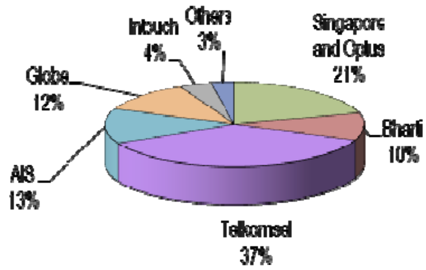
- **None.**

VALUATION/RECOMMENDATION

- **Maintain BUY with 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 FY23F EV/EBITDA (its five-year mean EV/EBITDA).

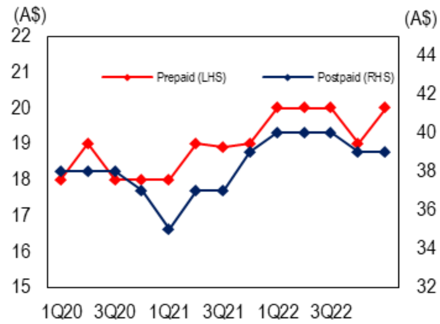
- **Key re-rating catalysts include:** a) successful monetisation of 5G, b) monetisation of data centres and/or NCS, and c) market repair in Singapore and resumption of regional roaming revenue.

CORE EARNINGS BY BUSINESS UNIT (FY22)



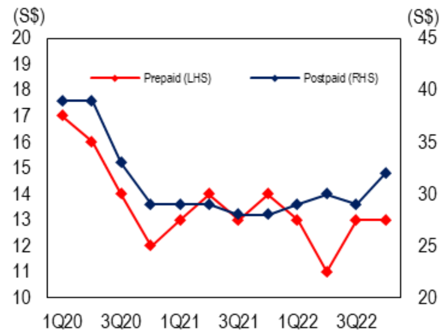
Source: Singtel, UOB Kay Hian

AUSTRALIA CONSUMER ARPU TREND



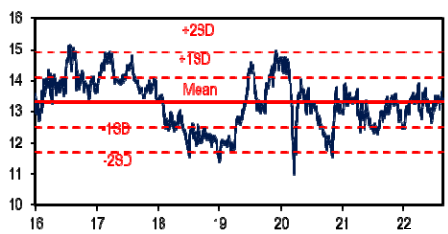
Source: Singtel, UOB Kay Hian

SINGAPORE CONSUMER ARPU TREND



Source: Singtel, UOB Kay Hian

FORWARD EV/EBITDA (X)



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

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