

COMPANY RESULTS

Singapore Telecommunications (ST SP)

1HFY23: Results In Line, Special Dividend Declared

For 1HFY23, Singtel reported 2.3% yoy higher underlying PATMI of S\$1b. Higher roaming revenue, coupled with increased take-up of higher-value 5G plans, led to strong operational performances from the Singapore consumer segment and Optus. Despite higher opex costs, NCS' double-digit revenue growth trajectory remained intact while the group enterprise segment remained resilient. Regional mobile associates outperformed, largely led by Airtel. Maintain BUY with a higher target price of S\$3.15.

1HFY23 RESULTS

Year to 31 Mar (\$m)	2QFY23	qoq % chg	yoy % chg	1HFY23	yoy % chg
Group Operating Revenue:*	3,675	2.5%	-4.7%	7,259	(5.1)
Optus	1,899	(2.3%)	(2.0%)	3,843	(3.0)
Singapore Consumer	446	4.1%	(1.6%)	874	0.8
Group Enterprise	651	6.2%	2.9%	1,264	1.6
NCS	685	14.7%	18.3%	1,283	15.9
Trustwave	41	(8.3%)	(59.7%)	85	(57.3)
Group EBITDA:*	900	(7.9%)	(3.4%)	1,878	(2.6)
Optus	502	(5.4%)	(1.0%)	1,033	(1.5)
Singapore Consumer	162	(2.5%)	8.6%	328	10.2
Group Enterprise	270	(1.4%)	(0.4%)	544	0.3
NCS	40	(43.2%)	(37.0%)	110	(25.6)
Trustwave	(29)	1.4%	11.5%	(58)	14.3
Corporate	(39)	32.0%	13.1%	(68)	8.9
EBITDA margin (%)	24.5ppt	(2.8ppt)	0.04ppt	25.9ppt	0.07ppt
Regional Mobile Associates	578	0.2%	17.0%	1,155	14.5
Underlying Net Profit	506	1.4%	(4.9%)	1,005	2.3

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

RESULTS

• **1HFY23 results in line.** Singapore Telecommunications' (Singtel) 1HFY23 overall group revenue (-5.1% yoy) and headline PATMI (+22.6% yoy) were in line with our expectations, forming 46% and 46% of our full-year forecasts. The drop in revenue was largely due to the deconsolidation of Amobee. Excluding Amobee's and NBN migration revenue, underlying operating revenue would have grown +4.3% yoy, driven by a regional economic recovery. Although group EBITDA fell 2.6% yoy, underlying EBITDA would have grown +2.8% yoy in line with higher revenue, coupled with higher roaming revenue. Excluding one-off gains, underlying PATMI would have grown +2.3% yoy.

• **Special dividend.** A 4.6 S cents (1HFY22: 4.5 S cents) interim dividend was declared, implying a 76% payout ratio and in line with our expectations. A special dividend of 5.0 S cents was also declared, payable in two tranches of 2.5 S cents each in Dec 22 and Aug 23. Totalling 7.1 S cents for 1HFY23, this implies an annualised dividend yield of around 5.5%.

KEY FINANCIALS

Year to 31 Mar (\$m)	2021	2022	2023F	2024F	2025F
Net turnover	15,644	15,339	14,606	14,504	14,422
EBITDA	3,832	3,767	3,981	4,104	4,160
Operating profit	1,146	1,045	1,413	1,569	1,679
Net profit (rep./act.)	552	1,934	2,393	2,594	2,794
Net profit (adj.)	1,732	1,934	2,393	2,594	2,794
EPS (\$ cent)	10.6	11.8	14.7	15.9	17.1
PE (x)	24.8	22.2	17.9	16.5	15.4
P/B (x)	1.6	1.5	1.5	1.5	1.5
EV/EBITDA (x)	13.9	14.1	13.3	12.9	12.8
Dividend yield (%)	2.9	3.5	5.5	4.8	4.6
Net margin (%)	3.5	12.6	16.4	17.9	19.4
Net debt/(cash) to equity (%)	45.7	34.6	36.1	34.4	31.2
Interest cover (x)	9.7	12.0	11.0	10.9	10.7
ROE (%)	2.1	7.1	8.5	9.1	9.6
Consensus net profit	-	-	2,455	2,837	3,271
UOBKH/Consensus (x)	-	-	0.97	0.91	0.85

Source: Singapore Telecommunications, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$2.63
Target Price	S\$3.15
Upside	+19.6%
(Previous TP:	S\$2.90)

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):	16,507.4
Market cap (\$m):	43,414.5
Market cap (US\$m):	30,935.2
3-mth avg daily t'over (US\$m):	50.5

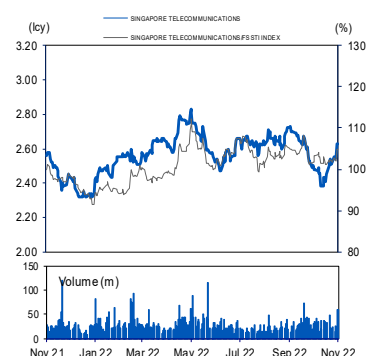
Price Performance (%)

52-week high/low		S\$2.83/S\$2.32		
1mth	3mth	6mth	1yr	YTD
5.6	(0.8)	(6.1)	3.1	13.4

Major Shareholders

	%
Temasek Hldgs	50.3
FY23 NAV/Share (\$)	1.72
FY23 Net Debt/Share (\$)	0.62

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Optus:** 1HFY23 operating revenue (-3.0% yoy) and EBITDA (-1.5% yoy) softened, largely due to a weakening Australian dollar. On a constant currency basis, operating revenue and EBITDA increased 1.0% yoy and 2.5% yoy respectively, on the back of higher mobile service revenue (+2.0% yoy) from higher prices and stronger roaming revenue. Excluding NBN migration revenue, revenue and EBITDA would have increased 2.3% yoy and 7.8% yoy respectively. Postpaid ARPU increased 3% qoq due to implemented price uplifts and robust uptake of Optus Choice plans, with subscribers increasing 37,000 qoq. However, prepaid ARPU fell by 5% although subscribers grew 98,000 qoq with the return of international tourists. A A\$140m provision was made to account for the expected replacement costs related to the Optus data breach, lower than our forecasted A\$240m.
- **Singapore.** 1HFY23 mobile service revenue (+10.5% yoy) and overall EBITDA (+10.2% yoy) surged, largely from the reopening of international borders and 5G migration. Roaming revenue is currently at 60% of pre-COVID-19 levels, with much more upside in our view. Led by increasing take-up of 5G bundled plans, postpaid ARPU continued to increase qoq to S\$33/month (1QFY23: S\$32/month), while postpaid subscribers increased 24,000 qoq respectively. Despite strong competition, prepaid ARPU was largely stable at S\$13/month qoq while subscribers surged by 84,000 qoq as travel demand recovers.
- **Enterprise.** 1HFY23 revenue (+1.6% yoy) and EBITDA (+0.3% yoy) remained resilient despite higher operating costs, driven by higher ICT revenues (+18.1% yoy) from data centre and cybersecurity services, but dragged by lower carriage revenue (-3.0% yoy).
- **NCS.** Reported robust revenue growth of 15.9% yoy, supported by growth across all business segments. However, EBITDA was down 25.6% yoy due to Opex investments, higher staff costs and amortization costs post-acquisitions. Management expects to pass these costs down to customers as ongoing contracts expire. Bookings for 1HFY23 amounted to S\$1.3b (1QFY23: S\$600m), driven by a significant win in the enterprise sector.

2QFY23 REGIONAL ASSOCIATES PRE-TAX CONTRIBUTION

Associates (\$m)	2QFY23	qoq % chg	yoy % chg	Comments
Telkomsel (Indonesia)	228	0.0%	(1.3%)	- Stiff prepaid competition, loss of lower income mobile customers as prices rose.
AIS (Thailand)	66	(9.6%)	(12.0%)	- 7% depreciation of the Thai Baht, dragged by higher electrical costs and economic slowdown.
Intouch (Thailand)	27	8.0%	17.4%	
Globe (Philippines)	77	(18.9%)	(6.1%)	- Strong operational performance, growth offset by 8% depreciation of Philippine Peso.
Bharti Airtel (India)	180	15.4%	116.9%	- Outperformance by Airtel, led by ARPU increase and its Enterprise & Homes business.
Total	578	0.2%	17.0%	

Source: Singtel, UOB Kay Hian

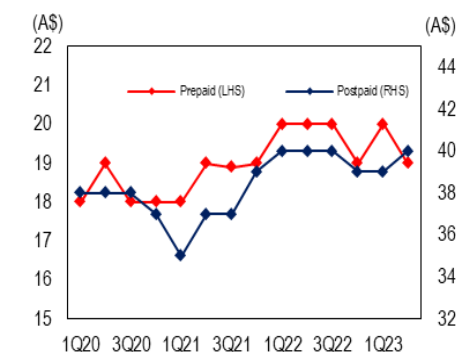
EARNINGS REVISION/RISK

- **We fine-tune and decrease our FY23-25 PATMI earnings slightly by 4-6%,** accounting for the strong appreciation of the Singapore Dollar and the A\$140m provision made for the Optus data breach. We now estimate FY23/24/25 PATMI at S\$2,393m (S\$2,572m previously), S\$2,594m (S\$2,746m previously) and S\$2,794m (S\$2,929m previously).

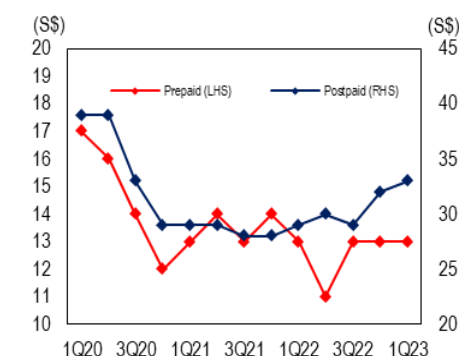
VALUATION/RECOMMENDATION

- **Maintain BUY with a higher DCF-based target price of S\$3.15 (S\$2.90 previously)** (discount rate: 7%, growth rate: 2.0% (1.5% previously)). At our target price, the stock will trade at 14x FY23 EV/EBITDA (+1.0SD of its five-year mean EV/EBITDA). We have raised our risk-free rate along with our terminal growth rate assumptions as we opine Singtel has the ability to chase higher ROIC in the current macroenvironment, backed by favourable tailwinds. With a decent yield of 5.5% for FY23, Singtel remains an attractive play against elevated market volatility, underpinned by improving near- to medium-term fundamentals.
- **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.

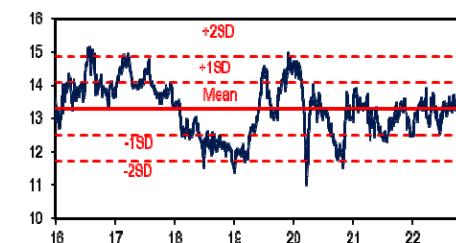
AUSTRALIA CONSUMER ARPU TREND



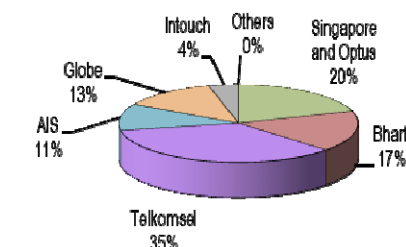
SINGAPORE CONSUMER ARPU TREND



FORWARD EV/EBITDA (X)



POST-TAX CONTRIBUTION



PROFIT & LOSS

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Net turnover	15,338.8	14,606.3	14,503.8	14,421.6
EBITDA	3,766.8	3,981.4	4,103.9	4,160.0
Deprec. & amort.	2,722.0	2,568.1	2,535.2	2,481.4
EBIT	1,044.8	1,413.3	1,568.7	1,678.6
Associate contributions	2,136.0	2,183.8	2,312.3	2,484.4
Net interest income/(expense)	(313.0)	(362.6)	(375.3)	(387.0)
Pre-tax profit	2,878.8	3,234.4	3,505.7	3,776.0
Tax	(934.0)	(841.0)	(911.5)	(981.7)
Minorities	(11.0)	0.0	0.0	0.0
Net profit	1,933.8	2,393.5	2,594.2	2,794.2
Net profit (adj.)	1,933.8	2,393.5	2,594.2	2,794.2

BALANCE SHEET

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Fixed assets	10,892.0	10,858.8	10,698.2	10,435.6
Other LT assets	30,558.0	30,869.1	31,218.8	31,620.1
Cash/ST investment	2,130.0	2,138.1	2,841.7	3,868.9
Other current assets	5,551.0	5,278.8	5,238.5	5,206.6
Total assets	49,131.0	49,144.9	49,997.3	51,131.3
ST debt	1,614.0	1,614.0	1,614.0	1,614.0
Other current liabilities	7,441.0	6,990.3	6,882.9	6,803.7
LT debt	10,254.0	10,692.2	11,098.3	11,473.3
Other LT liabilities	1,713.0	1,713.0	1,713.0	1,713.0
Shareholders' equity	28,124.0	28,150.4	28,704.1	29,542.4
Minority interest	(15.0)	(15.0)	(15.0)	(15.0)
Total liabilities & equity	49,131.0	49,144.9	49,997.3	51,131.3

CASH FLOW

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Operating	5,298.0	5,145.7	5,437.5	5,615.3
Pre-tax profit	2,878.8	3,234.4	3,505.7	3,776.0
Tax	(934.0)	(841.0)	(911.5)	(981.7)
Deprec. & amort.	2,378.0	2,568.1	2,535.2	2,481.4
Associates	(11.0)	0.0	0.0	0.0
Working capital changes	(180.0)	(178.5)	(67.2)	(47.3)
Non-cash items	313.0	362.6	375.3	387.0
Other operating cashflows	853.2	0.0	0.0	0.0
Investing	(644.0)	(2,846.1)	(2,724.2)	(2,620.1)
Capex (maintenance)	(2,217.0)	(2,190.9)	(2,030.5)	(1,874.8)
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)	(2,291.5)	(2,009.7)	(1,968.0)
Dividend payments	(1,139.0)	(2,367.1)	(2,040.6)	(1,955.9)
Issue of shares	(1.0)	0.0	0.0	0.0
Proceeds from borrowings	(991.0)	438.2	406.1	375.0
Others/interest paid	(1,135.0)	(362.6)	(375.3)	(387.0)
Net cash inflow (outflow)	1,388.0	8.1	703.6	1,027.2
Beginning cash & cash equivalent	755.0	2,130.0	2,138.1	2,841.7
Changes due to forex impact	(13.1)	(0.1)	(0.1)	(0.1)
Ending cash & cash equivalent	2,129.9	2,138.0	2,841.6	3,868.8

KEY METRICS

Year to 31 Mar (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	24.6	27.3	28.3	28.8
Pre-tax margin	18.8	22.1	24.2	26.2
Net margin	12.6	16.4	17.9	19.4
ROA	4.0	4.9	5.2	5.5
ROE	7.1	8.5	9.1	9.6
Growth				
Turnover	(1.9)	(4.8)	(0.7)	(0.6)
EBITDA	(1.7)	5.7	3.1	1.4
Pre-tax profit	110.1	12.4	8.4	7.7
Net profit	250.0	23.8	8.4	7.7
Net profit (adj.)	11.6	23.8	8.4	7.7
EPS	11.6	23.8	8.4	7.7
Leverage				
Debt to total capital	29.7	30.4	30.7	30.7
Debt to equity	42.2	43.7	44.3	44.3
Net debt/(cash) to equity	34.6	36.1	34.4	31.2
Interest cover (x)	12.0	11.0	10.9	10.7

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