

ASIAN GEMS CORPORATE HIGHLIGHTS

Singapore Telecommunications (ST SP)

On Stronger Footing As The Group Focuses On Improving ROICs

Singtel provided updates on its business segments which face favourable tailwinds in 2023. With this and price increases in Jan 23, Singapore consumer is set to experience higher data roaming revenue from China's reopening. Optus is back to customer net adds after its data security breach incident in 2022. With the worst of COVID-19 over, Singtel's regional associates have benefitted from overall price repair and rational competition. Maintain BUY with the same target price of S\$3.15.

WHAT'S NEW

- Singapore consumer: Further upside from travel boost.** We understand Singapore's data roaming revenue is currently at 70-75% of pre-COVID-19 levels. The reopening of China towards end-Dec 22 will help to further lift roaming revenue for the group. We estimate China to potentially be one of the top three contributors of data roaming revenue for the group. Historically, data roaming revenue forms around 20% of Singapore consumer's revenue and boasts EBITDA margins of about 80%. Singtel implemented a price increase in Jan 23 with competitors following suit. Coupled with the continued strong take-up of 5G bundled plans in Singapore, we expect post-paid ARPU to continue its upward momentum in 2023, backed by rational competition from incumbent telcos. Despite stiff competition from Mobile Virtual Network Operators (MVNO), prepaid ARPU is expected to remain largely stable, supported by recovering travel demand and the return of foreign workers. The loss of the English Premier League broadcasting rights would help support margins as it had been loss-making for the group.
- Optus: Recovery in subscriber base.** Postpaid ARPU is set to improve in 2023 from the overall market recovery, implemented price hikes, higher data roaming and robust uptake of Optus 5G Choice plans. February saw a peak in returning students (academic year: Jan-Dec) given that a large majority were Chinese students. Prepaid ARPU is expected to soften due to irrational and growing competition from MVNOs, although prepaid subscribers are expected to grow with the return of international tourists. After its data-breach incident, Optus's customer churn has normalised to pre-incident levels and returned to customer net adds since mid-Dec 22. However, a weakened Australian dollar may drag Optus' contribution to Singtel's overall profitability in 2HFY23.
- NCS: Gestation period.** Despite robust revenue growth, EBITDA margins are poised to soften due to opex investments, higher staff costs and post-acquisition amortisation costs. Management noted that these costs would be passed down to customers as ongoing contracts expire but would continue pressuring margins in FY23/24.

KEY FINANCIALS

Year to 31 Mar (\$m)	2021	2022	2023F	2024F	2025F
Net turnover	15,644	15,339	14,097	14,196	14,493
EBITDA	3,832	3,767	3,839	4,018	4,179
Operating profit	1,146	1,045	1,284	1,501	1,711
Net profit (rep./act.)	552	1,934	2,298	2,544	2,819
Net profit (adj.)	1,732	1,934	2,298	2,544	2,819
EPS (S\$ cent)	10.6	11.8	14.1	15.6	17.3
PE (x)	22.4	20.1	16.9	15.3	13.8
P/B (x)	1.5	1.4	1.4	1.4	1.3
EV/EBITDA (x)	12.9	13.1	12.9	12.3	11.8
Dividend yield (%)	3.2	3.9	6.1	5.3	5.1
Net margin (%)	3.5	12.6	16.3	17.9	19.5
Net debt/(cash) to equity (%)	45.7	34.6	36.3	34.7	31.6
Interest cover (x)	9.7	12.0	10.6	10.7	10.8
ROE (%)	2.1	7.1	8.2	9.0	9.7
Consensus net profit	-	-	2,244	2,610	3,009
UOBKH/Consensus (x)	-	-	1.02	0.97	0.94

Source: Singapore Telecommunications, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$2.38
Target Price	S\$3.15
Upside	+32.4%

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):	16,504.2
Market cap (S\$m):	39,279.9
Market cap (US\$m):	29,174.0
3-mth avg daily t'over (US\$m):	40.2

Price Performance (%)

52-week high/low S\$2.80/S\$2.33

1mth	3mth	6mth	1yr	YTD
(3.6)	(6.3)	(11.0)	(5.8)	(7.4)

Major Shareholders

	%
Temasek Hldgs	52.0
FY23 NAV/Share (S\$)	1.72
FY23 Net Debt/Share (S\$)	0.62

PRICE CHART



Source: Bloomberg

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- **Enterprise: Stable contribution amid good cost control.** Continued demand for data, information and cyber security services, along with post-COVID-19 growth momentum in roaming, would help support revenue growth for the enterprise segment. Despite facing inflationary pressures, margins would likely remain stable given the efficient cost controls implemented.
- **Regional data centres: Robust expansion pipeline...** Singtel plans to double its data centre (DC) capacity (essentially an integrated cable landing station and data centre facility) in Singapore in the next three years to about 120MW, up from 60MW currently. In 1H FY23, its regional DCs contributed S\$132m in annual revenue and S\$86m in EBITDA. Through partnerships with AIS and Telkom, Singtel plans to add another 20MW in Thailand and 51MW in Indonesia.
- **...with potentially S\$7b-8b in valuation.** The goal is to add another 100MW of capacity to Singtel's DC portfolio over the next 3-5 years. This will create a DC asset close to S\$7-8b within five years.

STOCK IMPACT

- **Higher expected ROIC.** Singtel expects to lift return on invested capital (ROIC) to high-single-digits in the next 2-3 years, up from 5% in FY22. This is based on: a) return of international roaming revenue, b) 5G network superiority with which to bundle products and differentiate services, c) absence of Amobee's and Trustwave's (in short time) losses; d) fast-growing momentum of NCS, e) cost discipline and digitalisation, and f) turnaround of Bharti India.
- **Regional associates: Robust underlying fundamentals.** Excluding weaker regional currencies, Singtel's regional associates are expected to experience growth in 2023, supported by a ramp-up in regional economic activity. Backed by price uplifts, Telkomsel is seeing sturdy pricing momentum and is now looking to increase market share for its home/fixed broadband business. For AIS, the domestic market is expected to face overall market repair with the merger of its closest competitors True and DTAC. Similarly in the Philippines, stiff pricing competition is expected to cool off with pricing discipline expected to return. With increasing market share among active 4G subscribers and upcoming additional tariff hikes, contributions from Airtel is set to grow in 2023.

EARNINGS REVISION/RISK

- No changes to our revenue and PATMI estimates.

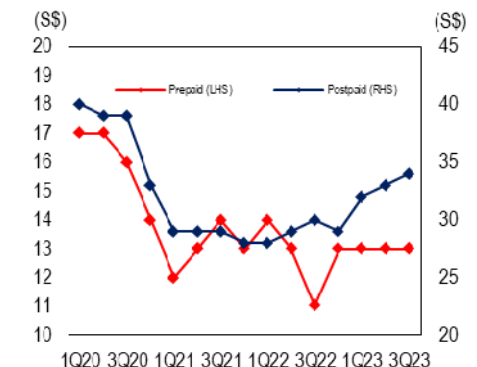
VALUATION/RECOMMENDATION

- **Maintain BUY with a target price of S\$3.15**, based on a 10-year DCF valuation (discount rate: 7%, growth rate: 2.0%), underpinned by improving fundamentals and a decent 6.1% FY23 dividend yield.

SHARE PRICE CATALYST

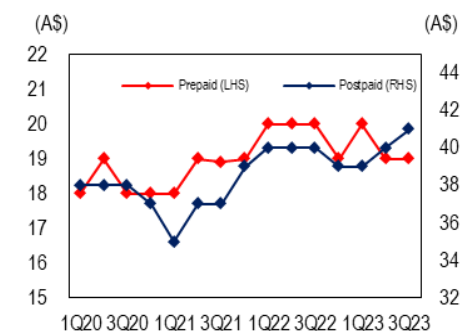
- **Key re-rating catalysts include:** a) successful monetisation of 5G, b) monetisation of data centres and/or NCS, and c) market repair in Singapore and resumption of regional roaming revenue.

SINGAPORE CONSUMER ARPU TREND



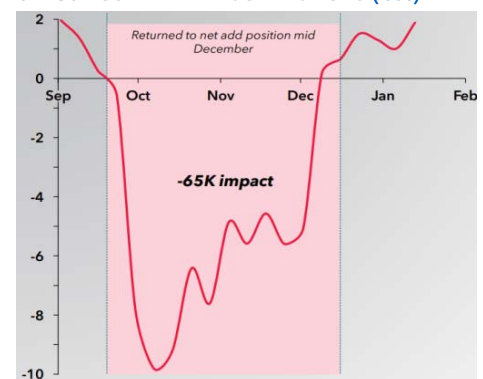
Source: Singtel, UOB Kay Hian

AUSTRALIA CONSUMER ARPU TREND



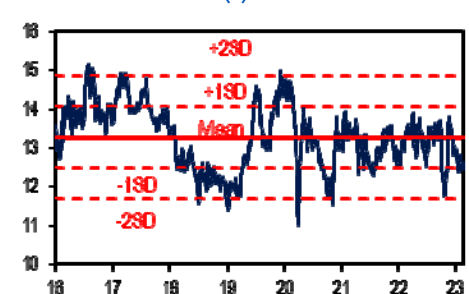
Source: Singtel, UOB Kay Hian

OPTUS POSTPAID NET CONNECTIONS ('000)



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	15,338.8	14,097.0	14,196.2	14,492.6
EBITDA	3,766.8	3,838.9	4,017.9	4,179.3
Deprec. & amort.	2,722.0	2,555.1	2,517.1	2,468.0
EBIT	1,044.8	1,283.8	1,500.8	1,711.4
Associate contributions	2,136.0	2,183.8	2,312.3	2,484.4
Net interest income/(expense)	(313.0)	(362.4)	(374.7)	(386.3)
Pre-tax profit	2,878.8	3,105.2	3,438.3	3,809.5
Tax	(934.0)	(807.3)	(894.0)	(990.5)
Minorities	(11.0)	0.0	0.0	0.0
Net profit	1,933.8	2,297.8	2,544.4	2,819.0
Net profit (adj.)	1,933.8	2,297.8	2,544.4	2,819.0

CASH FLOW

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Operating	5,298.0	5,044.4	5,366.0	5,620.6
Pre-tax profit	2,878.8	3,105.2	3,438.3	3,809.5
Tax	(934.0)	(807.3)	(894.0)	(990.5)
Deprec. & amort.	2,378.0	2,555.1	2,517.1	2,468.0
Associates	(11.0)	0.0	0.0	0.0
Working capital changes	(180.0)	(171.0)	(70.2)	(52.6)
Non-cash items	313.0	362.4	374.7	386.3
Other operating cashflows	853.2	0.0	0.0	0.0
Investing	(644.0)	(2,769.7)	(2,681.1)	(2,629.4)
Capex (maintenance)	(2,217.0)	(2,114.5)	(1,987.5)	(1,884.0)
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)	(2,306.5)	(2,017.8)	(1,982.8)
Dividend payments	(1,139.0)	(2,367.1)	(2,040.6)	(1,973.3)
Issue of shares	(1.0)	0.0	0.0	0.0
Proceeds from borrowings	(991.0)	422.9	397.5	376.8
Others/interest paid	(1,135.0)	(362.4)	(374.7)	(386.3)
Net cash inflow (outflow)	1,388.0	(31.9)	667.1	1,008.5
Beginning cash & cash equivalent	755.0	2,130.0	2,098.1	2,765.2
Changes due to forex impact	(13.1)	(0.1)	(0.1)	(0.1)
Ending cash & cash equivalent	2,129.9	2,098.0	2,765.1	3,773.6

BALANCE SHEET

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Fixed assets	10,892.0	10,795.4	10,609.8	10,369.9
Other LT assets	30,558.0	30,869.1	31,218.8	31,620.1
Cash/ST investment	2,130.0	2,098.1	2,765.2	3,773.7
Other current assets	5,551.0	5,096.2	5,128.3	5,232.1
Total assets	49,131.0	48,858.9	49,722.1	50,995.8
ST debt	1,614.0	1,614.0	1,614.0	1,614.0
Other current liabilities	7,441.0	6,815.2	6,777.1	6,828.3
LT debt	10,254.0	10,676.9	11,074.4	11,451.2
Other LT liabilities	1,713.0	1,713.0	1,713.0	1,713.0
Shareholders' equity	28,124.0	28,054.8	28,558.6	29,404.3
Minority interest	(15.0)	(15.0)	(15.0)	(15.0)
Total liabilities & equity	49,131.0	48,858.9	49,722.1	50,995.8

KEY METRICS

Year to 31 Mar (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	24.6	27.2	28.3	28.8
Pre-tax margin	18.8	22.0	24.2	26.3
Net margin	12.6	16.3	17.9	19.5
ROA	4.0	4.7	5.2	5.6
ROE	7.1	8.2	9.0	9.7
Growth				
Turnover	(1.9)	(8.1)	0.7	2.1
EBITDA	(1.7)	1.9	4.7	4.0
Pre-tax profit	110.1	7.9	10.7	10.8
Net profit	250.0	18.8	10.7	10.8
Net profit (adj.)	11.6	18.8	10.7	10.8
EPS	11.6	18.8	10.7	10.8
Leverage				
Debt to total capital	29.7	30.5	30.8	30.8
Debt to equity	42.2	43.8	44.4	44.4
Net debt/(cash) to equity	34.6	36.3	34.7	31.6
Interest cover (x)	12.0	10.6	10.7	10.8

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