

COMPANY RESULTS

Singapore Telecommunications (ST SP)

FY23: Improving Core Business Dragged By Weaker Overseas Contributions

Singtel reported higher FY23 underlying revenue (+2% yoy) and PATMI (+7% yoy), driven by NCS, higher data roaming revenue and regional associates. Singapore consumer continues to experience ARPU uplift from the ongoing recovery in international travel and ongoing 5G migration. Optus customer growth took a hit in 2HFY23 as postpaid subscribers fell while NCS continues to face compressed margins but is facing an improving outlook in FY24. Maintain BUY. Target price: S\$3.15.

FY23 RESULTS

Year to 31 Mar (\$m)	4QFY23	qoq % chg	yoy % chg	FY23	yoy % chg
Group Operating Revenue:*	3,651	(1.7)	(3.2)	14,624	(4.7)
Optus	1,821	(4.4)	(2.7)	7,569	(3.1)
Singapore Consumer	443	(10.9)	7.0	1,814	2.9
Group Enterprise	647	0.3	3.0	2,556	1.3
NCS	769	13.8	10.6	2,728	15.5
Trustwave	38	(5.0)	(53.7)	163	(55.7)
Group EBITDA:*	898	(-1.3)	5.8	3,686	(-2.3)
Optus	458	(3.4)	0.9	1,965	(4.7)
Singapore Consumer	152	(13.3)	18.5	655	12.5
Group Enterprise	271	(3.2)	2.2	1,095	0.4
NCS	94	83.3	12.7	254	(15.7)
Trustwave	(26)	19.4	14.0	(116)	(0.1)
Corporate	(51)	(82.9)	(34.7)	(147)	(4.8)
EBITDA margin (%)	24.6	0.1ppt	2.1ppt	25.2	0.6ppt
Regional Mobile Associates	554	(0.7)	(5.9)	2,267	9.7
Underlying Net Profit	489	(5.2)	4.7	2,053	6.8

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

RESULTS

• **FY23 results in line.** Singapore Telecommunications' (SingTel) FY23 overall headline group revenue (-4.7% yoy), EBITDA (-2.3% yoy) and PATMI (+18.7% yoy) were within our expectations, forming 104%, 96% and 97% of our full-year forecasts. The drop in revenue was largely due to the absences of National Broadband Network (NBN) migration revenue and contributions from Amobee, coupled with weaker overseas contributions from a strong Singapore dollar. Similarly, 4QFY23 headline revenue fell 3.2% yoy while EBITDA grew 5.8% yoy. On a constant currency basis and excluding Amobee and NBN migration contributions, SingTel's underlying operating revenue (+5.1% yoy), EBITDA (+2.8% yoy) and net profit (+11.2% yoy) would have increased for FY23, implying improving business fundamentals. SingTel proposed a final 2HFY23 ordinary dividend of 5.3 S cents (2HFY22: 4.8 S cents), taking total FY23 ordinary dividends to 9.9 S cents (FY22: 9.3 S cents). Including the additional 5.0 S cents from Singtel's asset recycling initiatives, FY23 total dividends increased 60% yoy to 14.9 S cents, with an annualised dividend yield of around 5.9%.

KEY FINANCIALS

Year to 31 Mar (\$m)	2022	2023	2024F	2025F	2026F
Net turnover	15,339	14,624	15,053	15,637	16,317
EBITDA	3,767	3,686	3,872	4,108	4,441
Operating profit	1,045	1,112	1,395	1,654	2,019
Net profit (rep./act.)	1,948	2,226	2,431	2,733	3,088
Net profit (adj.)	1,923	2,054	2,431	2,733	3,088
EPS (S\$ cent)	11.7	12.4	14.7	16.5	18.7
PE (x)	21.6	20.4	17.2	15.3	13.6
P/B (x)	1.5	1.6	1.6	1.5	1.5
EV/EBITDA (x)	13.5	13.8	13.2	12.4	11.5
Dividend yield (%)	3.7	5.9	4.0	4.7	5.5
Net margin (%)	12.7	15.2	16.2	17.5	18.9
Net debt/(cash) to equity (%)	34.6	35.5	34.0	31.9	29.1
Interest cover (x)	12.0	10.3	11.1	11.3	11.8
ROE (%)	7.1	8.2	9.2	10.1	11.1
Consensus net profit	-	-	2,591	2,991	3,151
UOBKH/Consensus (x)	-	-	0.94	0.91	0.98

Source: Singapore Telecommunications, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$2.53
Target Price	S\$3.15
Upside	+24.5%

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):	16,504.5
Market cap (S\$m):	41,756.3
Market cap (US\$m):	30,878.0
3-mth avg daily t'over (US\$m):	35.8

Price Performance (%)

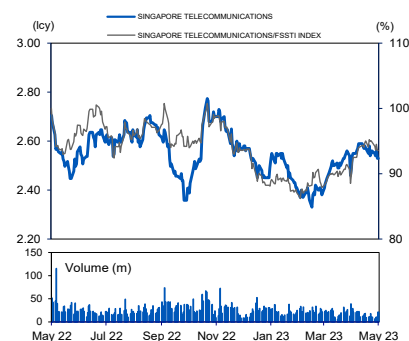
52-week high/low S\$2.77/S\$2.33

1mth	3mth	6mth	1yr	YTD
2.8	5.0	(6.3)	(3.3)	(1.6)

Major Shareholders

	%
Temasek Hldgs	52.0
FY24 NAV/Share (S\$)	1.61
FY24 Net Debt/Share (S\$)	0.55

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Singapore.** FY23 mobile service revenue (+11.2% yoy) and segmental EBITDA (+12.5% yoy) surged, driven by better cost management, higher data roaming and increased 5G adoption. 4QFY23 revenue (+7.0% yoy) and EBITDA (+18.5% yoy) also grew, on the back of higher roaming revenue and management noted that there is still further upside to data roaming recovery, currently at 60-70% of pre-pandemic levels. Postpaid subscribers at end-4QFY23 rose by 15,000 qoq and 58,000 yoy, driven by increasing take-up of 5G bundled plans with postpaid ARPU increasing 12.5% yoy to S\$33/month. Prepaid ARPU was largely stable yoy at S\$13/month but saw prepaid subscribers surge 21,000 qoq and 122,000 yoy, driven by the gradual return of international tourists. FY23 mobile customer market share fell 2.4ppt yoy to 45.6% as the group shifted focus to higher-value customers. However, management noted that the group's domestic revenue market share remains stable.
- Optus.** Excluding NBN migration revenue, FY23 underlying operating revenue increased 3.7% yoy as mobile service revenue grew 3.0% yoy, backed by price increases and stronger data roaming recovery. 4QFY23 mobile service revenue grew 3.4% yoy from the return of international students. FY23 EBITDA expanded 4.4% yoy while EBIT doubled to A\$286m, backed by better cost management and higher revenue. Due to the cyberattack in early-2HFY23, postpaid subscribers at end-4QFY23 dropped by 57,000 qoq and 8,000 yoy, stalling customer growth. Furthermore, despite a price increase in 1HFY23, postpaid ARPU was largely stable qoq at A\$41/month and only went up 1.8% yoy. We reckon that Optus may have lost market share to competitors after the cyberattack incident. On the other hand, prepaid subscribers surged by 36,000 qoq and 272,000 yoy, driven by the return of international students and tourists. Prepaid ARPU was steady qoq but dipped slightly yoy to A\$19/month due to a greater mix of lower-value customers. Management noted that Optus plans to raise prices for its prepaid plans in FY24 given ongoing market repair in Australia.
- Group enterprise.** FY23 revenue (+1.3% yoy) and EBITDA (+0.4% yoy) inched slightly higher, backed by an increase in demand for mobile and ICT services but offset by lower mobile equipment sales and voice revenue.
- NCS.** Reported robust revenue growth of 17.6% yoy, driven by a sharp increase in applications (+56.6% yoy) and cyber revenues (+59.3% yoy). However, EBITDA dropped by 15.7% yoy as higher staff costs and post-acquisition costs compressed margins. Excluding the one-off post-acquisition costs, EBITDA would have dropped by about 14%. Given the slowdown in tech, we expect margins to improve moving forward as staff costs stabilise. 4QFY23 revenue (+10.6% yoy) and EBITDA (+12.7% yoy) improved from a better sales mix. Bookings for 4QFY23 were S\$1.5b, a sharp qoq increase from S\$442m in 3QFY23.

REGIONAL ASSOCIATES PRE-TAX CONTRIBUTIONS (FY23)

Associates (\$m)	FY23	FY22	yoy % chg	Comments
Telkomsel (Indonesia)	862	915	(5.8)	- Dragged by Indonesian rupiah depreciating 8%, along with declining legacy services.
AIS (Thailand)	297	314	(5.6)	- 5% depreciation of the Thai baht.
Intouch (Thailand)	113	95	19.3	- Higher yoy equity interest.
Globe (Philippines)	301	311	(3.2)	- 10% depreciation of the Philippine peso.
Bharti Airtel (India)	694	432	60.7	- Higher revenue growth from tariff revisions and strong 4G customer additions.
Total	2,267	2,067	9.7	- On a constant currency basis, contributions would have increased 15% yoy.

Source: Singtel, UOB Kay Hian

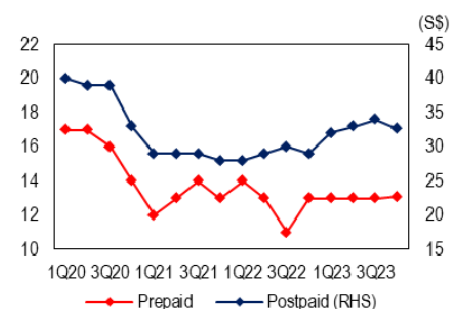
EARNINGS REVISION/RISK

- We decrease our FY24-25 PATMI estimates slightly by 3-4%,** on the back of a stronger Singapore dollar and weaker overseas contributions.

VALUATION/RECOMMENDATION

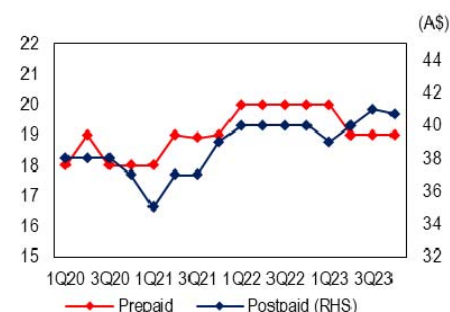
- Maintain BUY with the same DCF-based target price of S\$3.15** (discount rate: 7%, growth rate: 2.0%). At our target price, the stock will trade at 14x FY23 EV/EBITDA (+1.0SD of its five-year mean EV/EBITDA). In our view, Singtel remains an attractive play against elevated market volatility, underpinned by improving business 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.

SINGAPORE CONSUMER ARPU TREND



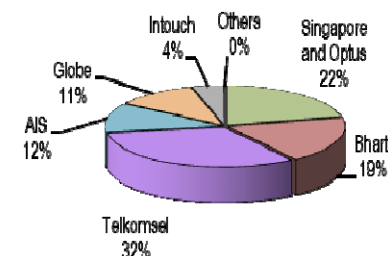
Source: Singtel, UOB Kay Hian

AUSTRALIA CONSUMER ARPU TREND



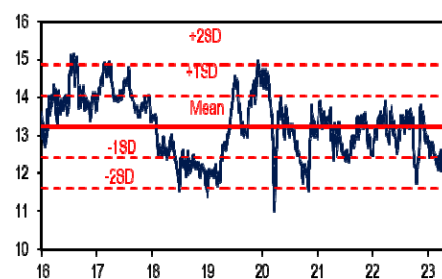
Source: Singtel, UOB Kay Hian

SEGMENTAL POST-TAX CONTRIBUTIONS (FY23)



Source: Singtel, UOB Kay Hian

FORWARD EV/EBITDA (X)



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Net turnover	14,624.4	15,052.5	15,637.0	16,317.2
EBITDA	3,685.9	3,871.9	4,108.1	4,441.2
Deprec. & amort.	2,574.1	2,476.6	2,453.8	2,422.0
EBIT	1,111.8	1,395.2	1,654.3	2,019.2
Associate contributions	2,287.0	2,450.6	2,637.9	2,796.5
Net interest income/(expense)	(358.9)	(350.2)	(363.2)	(375.8)
Pre-tax profit	3,211.9	3,495.7	3,929.0	4,439.8
Tax	(978.0)	(1,064.4)	(1,196.4)	(1,351.9)
Minorities	(8.4)	0.0	0.0	0.0
Net profit	2,225.5	2,431.3	2,732.6	3,087.9
Net profit (adj.)	2,053.5	2,431.3	2,732.6	3,087.9

CASH FLOW

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Operating	4,775.8	5,195.9	5,492.3	5,807.4
Pre-tax profit	3,211.9	3,495.7	3,929.0	4,439.8
Tax	(978.0)	(1,064.4)	(1,196.4)	(1,351.9)
Deprec. & amort.	2,574.1	2,476.6	2,453.8	2,422.0
Associates	(172.0)	0.0	0.0	0.0
Working capital changes	(130.1)	(62.2)	(57.4)	(78.4)
Non-cash items	358.9	350.2	363.2	375.8
Other operating cashflows	(89.0)	0.0	0.0	0.0
Investing	(2,301.7)	(2,842.5)	(2,824.2)	(2,797.0)
Capex (maintenance)	(2,162.4)	(2,107.4)	(2,032.8)	(1,958.1)
Proceeds from sale of assets	(679.2)	(735.2)	(791.4)	(838.9)
Others	539.9	0.0	0.0	0.0
Financing	(2,941.2)	(1,749.7)	(1,943.2)	(2,136.3)
Dividend payments	(1,964.3)	(1,821.0)	(1,986.5)	(2,152.1)
Issue of shares	0.1	0.0	0.0	0.0
Proceeds from borrowings	(974.7)	421.5	406.6	391.6
Others/interest paid	(2.3)	(350.2)	(363.2)	(375.8)
Net cash inflow (outflow)	(467.1)	603.7	724.9	874.1
Beginning cash & cash equivalent	2,130.0	1,667.9	2,271.6	2,996.5
Changes due to forex impact	5.0	0.0	(0.1)	(0.1)
Ending cash & cash equivalent	1,667.9	2,271.6	2,996.4	3,870.5

BALANCE SHEET

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Fixed assets	10,384.6	10,327.4	10,218.5	10,066.7
Other LT assets	27,562.6	27,985.7	28,464.9	28,991.8
Cash/ST investment	1,667.9	2,271.6	2,996.5	3,870.6
Other current assets	5,428.4	5,581.0	5,791.4	6,035.3
Total assets	46,530.0	47,652.2	48,957.8	50,450.8
ST debt	982.7	982.7	982.7	982.7
Other current liabilities	7,316.4	7,406.9	7,559.8	7,725.3
LT debt	9,910.6	10,332.1	10,738.6	11,130.2
Other LT liabilities	2,306.0	2,306.0	2,306.0	2,306.0
Shareholders' equity	26,004.9	26,615.2	27,361.3	28,297.1
Minority interest	9.4	9.4	9.4	9.4
Total liabilities & equity	46,530.0	47,652.2	48,957.8	50,450.8

KEY METRICS

Year to 31 Mar (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	25.2	25.7	26.3	27.2
Pre-tax margin	22.0	23.2	25.1	27.2
Net margin	15.2	16.2	17.5	18.9
ROA	4.7	5.2	5.7	6.2
ROE	8.2	9.2	10.1	11.1
Growth				
Turnover	(4.7)	2.9	3.9	4.3
EBITDA	(2.1)	5.0	6.1	8.1
Pre-tax profit	11.0	8.8	12.4	13.0
Net profit	14.3	9.2	12.4	13.0
Net profit (adj.)	6.8	18.4	12.4	13.0
EPS	6.1	18.4	12.4	13.0
Leverage				
Debt to total capital	29.5	29.8	30.0	30.0
Debt to equity	41.9	42.5	42.8	42.8
Net debt/(cash) to equity	35.5	34.0	31.9	29.1
Interest cover (x)	10.3	11.1	11.3	11.8

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