

COMPANY RESULTS

Singapore Telecommunications (ST SP)

1HFY24: Results in Line, Higher Dividend Policy

For 1HFY24, Singtel reported a higher underlying net profit of S\$1.1b (+11.6% yoy), driven by higher contributions from its growth engines and regional associates. The group's ROIC improved from 5% in FY22 to 8.3% in FY23 and is on track to hit low double-digit ROIC in the medium term, backed by the divestment of Trustwave and cost optimisation initiatives (S\$600m by FY26). Positively, Singtel has raised dividend payout to 70-90% of underlying net profit. Maintain BUY. Target price: S\$3.15.

1HFY24 RESULTS

Year to 31 Mar (S\$m)	2QFY24	qoq % chg	yoy % chg	1HFY24	yoy % chg
Group Operating Revenue:*	3,541	1.5	(3.7)	7,028	(3.2)
Optus	1,787	0.1	(5.9)	3,572	(7.1)
Singapore Consumer	957	2.1	(4.7)	1,893	(3.3)
NCS	716	5.2	4.4	1,396	8.8
Digital InfraCo	100	(2.4)	8.5	203	12.6
Group EBITDA:*	885	(1.9)	(1.7)	1,787	(4.8)
Optus	461	1.1	(8.2)	917	(11.2)
Singapore Consumer	366	(2.2)	(1.9)	741	(1.2)
NCS	62	(17.4)	55.0	136	24.1
Digital InfraCo	51	(16.1)	(2.3)	112	4.7
EBITDA margin (%)	25.0	(0.9ppt)	0.5ppt	25.4	(0.5ppt)
Regional Mobile Associates	604	3.4	4.5	1,187	2.8
Underlying Net Profit	550	(3.7)	8.7	1,121	11.6

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

RESULTS

- **Stable 1HFY24 results.** Singapore Telecommunications' (Singtel) 1HFY24 overall group revenue (-3.2% yoy), EBITDA (-4.8% yoy) and underlying net profit (+11.6% yoy) are in line with our expectations, forming 46-47% of our full-year forecasts. Excluding currency movements, operating revenue (+1.5% yoy), EBITDA (-0.5% yoy) and underlying net profit (+15.8% yoy) would have performed better, driven by higher contributions from Singtel's growth engines (NCS and Digital InfraCo), along with better contributions from regional associates. On a quarterly basis, 2QFY24 revenue (-3.7% yoy) and EBITDA (-1.7% yoy) were slightly lower yoy, dragged by weaker business sentiment and inflationary pressures. A S\$600m cost-out programme was initiated, which would help support margins till FY26.
- **Higher dividend policy.** Singtel announced a 13% yoy higher 1HFY24 interim dividend of 5.2 S cents/share (1HFY23: 4.6 S Cents/share), implying a 77% dividend payout ratio and annualised dividend yield of 4.3%. Although no special dividend was declared, the group has adjusted its dividend policy higher to 70-90% of underlying net profit (60-80% of underlying net profit previously) which could bring potentially bring its full-year FY24 dividend to around 13.0 S cents/share, implying an annualised dividend of around 5.4%. Thus, we have raised our FY24 dividend estimate from 11.5 S cents/share to 12.0 S cents/share.

KEY FINANCIALS

Year to 31 Mar (S\$m)	2021	2022	2023F	2024F	2025F
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	3,563	2,750	3,108
Net profit (adj.)	1,923	2,054	2,371	2,750	3,108
EPS (S\$ cent)	11.7	12.4	14.3	16.6	18.8
PE (x)	20.5	19.3	16.8	14.4	12.8
P/B (x)	1.4	1.5	1.4	1.4	1.4
EV/EBITDA (x)	13.0	13.3	12.6	11.9	11.0
Dividend yield (%)	3.9	6.2	5.0	5.5	6.4
Net margin (%)	12.7	15.2	23.7	17.6	19.0
Net debt/(cash) to equity (%)	34.6	35.5	29.3	28.3	27.3
Interest cover (x)	12.0	10.3	11.1	11.3	11.8
ROE (%)	7.1	8.2	13.3	9.9	10.9
Consensus net profit	-	-	2,388	2,787	3,201
UOBKH/Consensus (x)	-	-	0.99	0.99	0.97

Source: Singapore Telecommunications, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$2.40
Target Price	S\$3.15
Upside	+31.1%

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):	16,510.9
Market cap (S\$m):	39,626.2
Market cap (US\$m):	29,201.3
3-mth avg daily t'over (US\$m):	32.3

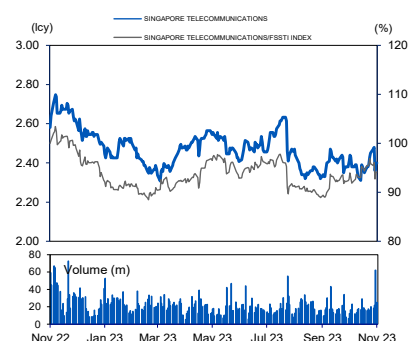
Price Performance (%)

52-week high/low			S\$2.75/S\$2.31	
1mth	3mth	6mth	1yr	YTD
0.8	(2.4)	(6.1)	(4.1)	(5.7)

Major Shareholders

	%
Temasek Hldgs	52.0
FY24 NAV/Share (S\$)	1.67
FY24 Net Debt/Share (S\$)	0.49

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Optus: Rising costs.** On a constant currency basis, 1HFY24 operating revenue increased 1.4% yoy on the back of increased mobile service revenue (+3.4% yoy), driven by higher postpaid ARPU, prepaid customer growth and robust content revenue from Optus Sport. However, faced with higher operating costs coupled with lower margins from the Enterprise Fixed business, EBITDA fell 3.2% yoy. Postpaid ARPU increased to A\$42/month (1QFY24: A\$41/month) due to implemented price uplifts with subscribers also increasing 31,000 qoq. Prepaid ARPU was stable qoq while subscribers grew 52,000 qoq. Management noted that an increasing number of customers have started to trade down to lower tier plans due to inflationary pressures. Although tier 2 mobile data providers have started to raise prices, the price gap between tier 1 and tier 2 providers remains too wide, resulting in a market shift to lower-priced plans. Regarding the recent network outage, it was noted that it was too early to notice any significant changes to customer churn. In our view, Optus would likely face increased customer churn in 2HFY24, similar to the data security breach incident in FY23.
- Singapore: Stable results.** Despite 1HFY24 mobile service revenue increasing 2.3% yoy, overall operating revenue (-3.3% yoy) and EBITDA (-1.2% yoy) fell, dragged by a sharp decline in ICT revenue amid weak business sentiment. As global travel recovers, outbound roaming revenue is currently at 90% of pre-COVID-19 levels. On the back of the ongoing roaming recovery, postpaid ARPU improved qoq to S\$33/month (1QFY24: S\$32/month), while postpaid subscribers increased 34,000 qoq respectively. Due to stiff competition and ongoing promotions, prepaid ARPU dropped to S\$11/month qoq (1QFY24: S\$12/month) while subscribers was lifted by 22,000 qoq. Mobile customer market share fell to 44.9% (1QFY24: 45.4%, 2QFY23: 46.6%) due to a market shift to lower-end plans.
- NCS: Expanding margins.** Driven by broad-based growth across all business groups, NCS reported robust 1HFY24 revenue and EBITDA growth of 8.8% yoy and 24.1% respectively. The better-than-expected margins were supported by a strong 2QFY24 whereby EBITDA surged 55% yoy while EBITDA margin expanded by 2.9ppt yoy. We reckon that this was driven by realised operational cost efficiencies and the absence of post-acquisition losses. 1HFY24 orderbook amounted to S\$1.4b (1QFY24: S\$691m), driven by new contract wins and contract renewals across various sectors.
- Digital InfraCo: Investing for the future.** Both revenue (+8.7% yoy) and EBITDA (+4.7% yoy) grew in 1HFY24, backed by higher contributions from both regional data centres (RDC) and satellite services. Although the RDC segment reported higher revenue (+9% yoy) from price uplifts, EBITDA fell 4% yoy due to a ramp-up in investment costs. With upcoming new additional capacity from DC Tuas, Batam and Thailand, we expect these investment costs to continue moving forward and would likely weigh on margins till FY25-26.
- Unlocking shareholder value.** Management noted that the group has about S\$4b of capital recycling post-stake sale of its RDC business which we reckon would likely come from paring down its stakes in its regional associates (valued at around S\$49b as of end-1QFY24). Furthermore, with additional proceeds from the RDC stake sale, Singtel currently has S\$2b-3b of excess cash after accounting for current growth initiatives and 5G capex. We opine that the excess cash may lead to larger dividends towards the higher end of the group's new 70-90% of underlying PATMI dividend policy in 2HFY24.

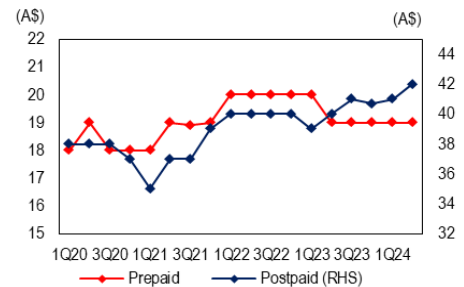
EARNINGS REVISION/RISK

- We fine-tune our FY24-26 underlying net profit estimates slightly higher by 0-1%.

VALUATION/RECOMMENDATION

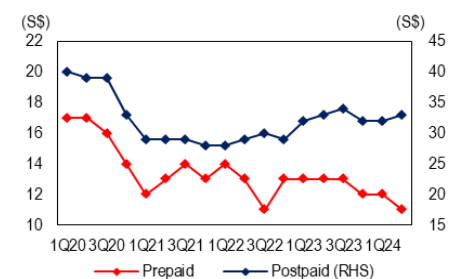
- Maintain BUY with an unchanged DCF-based target price of S\$3.15** (discount rate: 7%, growth rate: 2.0%). At our target price, the stock will trade at 15x FY24 EV/EBITDA. In our view, Singtel remains an attractive play against elevated market volatility, underpinned by improving business fundamentals.
- Key re-rating catalysts include:** a) successful monetisation of 5G, b) monetisation of data centres and/or NCS, and c) market repair in Singapore.

AUSTRALIA CONSUMER ARPU TREND



Source: Singtel, UOB Kay Hian

SINGAPORE CONSUMER ARPU TREND



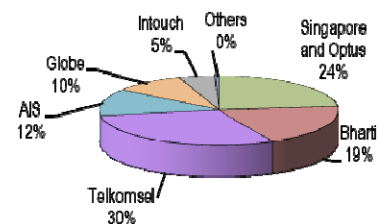
Source: Singtel, UOB Kay Hian

FORWARD EV/EBITDA (X)



Source: Bloomberg, UOB Kay Hian

1HFY24 POST-TAX CONTRIBUTION



Source: Singtel, UOB Kay Hian

PRE-TAX CONTRIBUTION

Associates (S\$m)	2QFY24	qoq % chg	yoy % chg
Telkomsel (Indonesia)	212	(3.2)	(7.0)
AIS (Thailand)	90	11.1	36.4
Intouch (Thailand)	36	12.5	33.3
Globe (Philippines)	71	1.4	(7.8)
Bharti Airtel (India)	195	7.1	8.3
Total	578	3.4%	4.5%

Source: Singtel, UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
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	4,687.8	3,929.0	4,439.8
Tax	(978.0)	(1,125.1)	(1,178.7)	(1,331.9)
Minorities	(8.4)	0.0	0.0	0.0
Net profit	2,225.5	3,562.7	2,750.3	3,107.9
Net profit (adj.)	2,053.5	2,370.6	2,750.3	3,107.9

CASH FLOW

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Operating	4,775.8	6,327.3	5,509.9	5,827.3
Pre-tax profit	3,211.9	4,687.8	3,929.0	4,439.8
Tax	(978.0)	(1,125.1)	(1,178.7)	(1,331.9)
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)	(1,915.2)	(2,158.4)	(2,517.0)
Dividend payments	(1,964.3)	(1,986.5)	(2,201.7)	(2,532.8)
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)	1,569.6	527.3	513.3
Beginning cash & cash equivalent	2,130.0	1,667.9	3,237.5	3,764.8
Changes due to forex impact	5.0	0.0	(0.1)	(0.1)
Ending cash & cash equivalent	1,667.9	3,237.5	3,764.7	4,278.0

BALANCE SHEET

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
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	3,237.5	3,764.8	4,278.1
Other current assets	5,428.4	5,581.0	5,791.4	6,035.3
Total assets	46,530.0	48,618.1	49,726.1	50,858.4
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	27,581.1	28,129.6	28,704.7
Minority interest	9.4	9.4	9.4	9.4
Total liabilities & equity	46,530.0	48,618.1	49,726.1	50,858.4

KEY METRICS

Year to 31 Mar (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	25.2	25.7	26.3	27.2
Pre-tax margin	22.0	31.1	25.1	27.2
Net margin	15.2	23.7	17.6	19.0
ROA	4.7	7.5	5.6	6.2
ROE	8.2	13.3	9.9	10.9
Growth				
Turnover	(4.7)	2.9	3.9	4.3
EBITDA	(2.1)	5.0	6.1	8.1
Pre-tax profit	11.0	45.9	(16.2)	13.0
Net profit	14.3	60.1	(22.8)	13.0
Net profit (adj.)	6.8	15.4	16.0	13.0
EPS	6.1	15.4	16.0	13.0
Leverage				
Debt to total capital	29.5	29.1	29.4	29.7
Debt to equity	41.9	41.0	41.7	42.2
Net debt/(cash) to equity	35.5	29.3	28.3	27.3
Interest cover (x)	10.3	11.1	11.3	11.8

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