

### COMPANY UPDATE

## Singapore Telecommunications (ST SP)

On Track To Deliver Growth For Shareholders

**9MFY22 results may mirror 1HFY22's mid-teen yoy growth. The quarter will be characterised by positive postpaid momentum in Singapore, a good run for Optus and narrowed digital losses. 3QFY22 will see the return of roaming revenue, albeit it still being early days. Separately, data centre development in Thailand is underway as Singtel aims to hold 170MW of DC capacity in the next 3-5 years (at a valuation of S\$7b-8b). Maintain BUY on share price weakness with a DCF-based target price of S\$2.75.**

### WHAT'S NEW

- On strong footing...** We expect Singapore Telecommunications (Singtel) to report a 15-20% yoy increase in 9MFY22 earnings to S\$982m, mirroring 1HFY22's 17% yoy growth in net profit. 3QFY22 will be characterised by: a) stronger postpaid revenue thanks to recovering roaming revenue and encouraging 5G take-up in Singapore, b) continuous improvement in Optus' performance, and c) better performance in the digital business portfolio. The sustainability of roaming revenue depends on the reopening of Southeast Asia's international borders.
- ...albeit sequentially weaker associate earnings.** We expect the upcoming quarterly results to be partly offset by sequentially weaker associate earnings. For 3QFY22, contribution from regional associates could be dragged down by lacklustre performance in India and the Philippines. In India, Bharti Airtel saw core earnings dropping 3% yoy and 27% qoq amid higher opex and finance cost. This was partly offset by a 6% qoq ARPU uplift after the recent tariff hike as well as stellar performance from Airtel Africa. Globe's core earnings were weak (-25% yoy, -42% qoq) amid soft service revenue growth, higher opex and depreciation. Positively, AIS in Thailand is experiencing a 10-15% ARPU uplift as 5G subscribers base grew to over 2.2m (5% of total subscribers) as of end-21.
- Cementing 5G coverage in Singapore.** We gather that Singtel currently has more than 1,000 standalone 5G sites across Singapore, and is on track to meet IMDA's target of 50% population coverage by end-22. Singtel also notes encouraging 5G adoption via bundled packages. This has led to ARPU uplift (for 5G bundles) and helped address dilution from 4G SIM-only plans. To recap, Singtel's postpaid ARPU stabilised at S\$28/month in 1HFY22 thanks to encouraging 5G bundled take-ups. Additionally, Singapore continues to exhibit rational competition within the prepaid segment with incumbent telcos gaining momentum in terms of subscriber growth. We expect GOMO to mirror GIGA's positive subscriber growth trend.

### KEY FINANCIALS

Year to 31 Mar (\$m)	2020	2021	2022F	2023F	2024F
Net turnover	16,542	15,643	16,386	16,937	17,508
EBITDA	4,542	3,831	4,010	4,188	4,419
Operating profit	1,963	1,145	1,422	1,678	1,920
Net profit (rep./act.)	1,075	594	2,121	2,608	2,884
Net profit (adj.)	2,457	1,774	2,121	2,608	2,884
EPS (S\$ cent)	15.1	10.9	13.0	16.0	17.7
PE (x)	16.9	23.5	19.6	16.0	14.4
P/B (x)	1.6	1.6	1.5	1.5	1.5
EV/EBITDA (x)	11.9	14.1	13.5	12.9	12.3
Dividend yield (%)	4.8	2.9	3.7	4.4	4.9
Net margin (%)	6.5	3.8	12.9	15.4	16.5
Net debt/(cash) to equity (%)	49.2	45.7	44.4	43.0	41.2
Interest cover (x)	16.1	9.7	10.2	10.3	10.4
ROE (%)	3.8	2.2	7.9	9.5	10.2
Consensus net profit	-	-	2,232	2,679	3,154
UOBKH/Consensus (x)	-	-	0.95	0.97	0.91

Source: Singapore Telecommunications, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	S\$2.55
Target Price	S\$2.75
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):	16,509.8
Market cap (S\$m):	42,099.9
Market cap (US\$m):	31,305.7
3-mth avg daily t'over (US\$m):	51.3

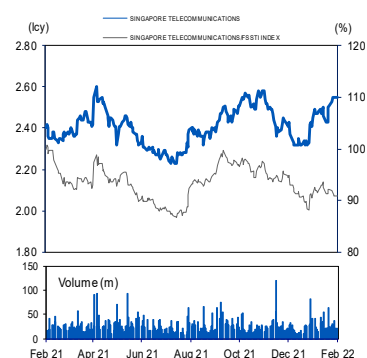
### Price Performance (%)

52-week high/low	S\$2.60/S\$2.23			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
5.4	(0.4)	10.4	7.1	9.9

### Major Shareholders

	%
Temasek Hldgs	52.2
Franklin Resources	2.1
Vanguard Group Inc	1.5
FY22 NAV/Share (S\$)	1.66
FY22 Net Debt/Share (S\$)	0.74

### PRICE CHART



Source: Bloomberg

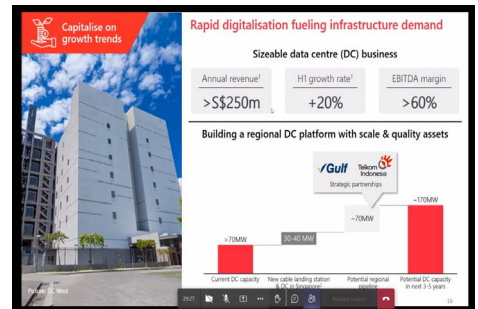
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- On track to develop DCs in Thailand via partnership.** On 3 Feb 22, Singtel executed a joint development agreement (JDA) with Gulf Energy and AIS to jointly develop and operate data centre(s) (DC) in Thailand. While the actual DC capacity remains in discussion, we note that Singtel aims to grow its regional DC capacity by ~70MW to reach a total capacity of ~170MW (in Singapore and the region) within the next 3-5 years (see RHS chart). The partnership with Gulf is seen as complementary to Singtel given Gulf's power asset business (security of power supply being an integral part of data centre) and influence in the society.
- Regional DC capacity of 170MW with S\$8b valuation.** Currently, Singtel has seven data centres in Singapore with 70MW capacity. It aims to add another 100MW of capacity to Singtel's DC portfolio over next 3-5 years. This will create a DC asset value of S\$7b-8b within five years. Singtel recently announced that they are building a 30MW integrated cable landing station and data centre in Singapore, with funding being currently worked out with potential investors.
- Seeking "best solution" for Amobee and Trustwave.** We understand that the Trustwave business in North America is currently carved out and management is looking to divest it. Both assets have been de-emphasised following the write-down in Dec 21 (amounting to ~S\$1b of impairment)

### SIZEABLE DC BUSINESS



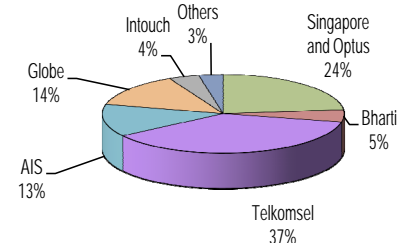
Source: Singtel, UOB Kay Hian

### DRIVE MONETISATION AND VALUE CRYSTALLISATION

<b>OPTUS</b>	~A\$1.9b	proceeds from divesting 70% stake in Australia Tower Network in Oct 21
<b>Telkomsel</b>	~S\$200m	proceeds from divesting 4,000 towers to Mitratel in Sep 21
<b>airtel money</b>	~US\$2.6b	valuation based on US\$500m raised from strategic investors <sup>1</sup>
<b>Globe mynt</b>	~US\$2b	valuation in latest round of funding <sup>2</sup>

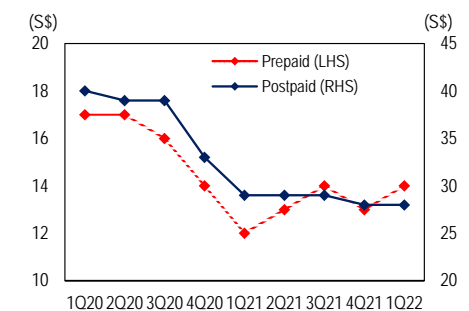
Source: Singtel, UOB Kay Hian

### PBT BY BUSINESS UNIT (1HFY22)



Source: Singtel, UOB Kay Hian

### SINGAPORE CONSUMER ARPU TREND



Source: Singtel, UOB Kay Hian

### STOCK IMPACT

#### OUTLOOK FOR REGIONAL ASSOCIATES

Segment	Key Highlights
<b>AIS (Thailand)</b>	<ul style="list-style-type: none"> <li>4Q21 core net profit up dropped 4% yoy but rose 8% qoq. Qoq improvement was attributable to 2% increase in service revenue.</li> <li>As of end-21, 5G subscriber base reached over 2.2m (higher than its target of 2.0m). This was driven by ADVANC's strong acquisition strategy and demand for larger data volume.</li> <li>AIS continued to see an ARPU uplift of c.10-15% for its 5G subs, with 5G offering additional services such as AR/VR services, and 5G cloud games.</li> <li>TRUE and DTAC merger talk is deemed positive to AIS with less competition (from 3 key players to 2 key players).</li> </ul>
<b>Bharti Airtel (India)</b>	<ul style="list-style-type: none"> <li>Excluding the net exceptional charge (gain on tower sales), 3QFY22 core net profit at INR 8.3b (-3% yoy, -27% qoq) on higher opex and finance cost.</li> <li>3QFY22 revenue rose 13% yoy and 5% qoq, with mobile ARPU up 6% qoq from INR153 to INR163 in following the 20-25% tariff hike of its prepaid plans. Airtel guided that the full impact of revised mobile tariffs will be visible in 4QFY22.</li> <li>Airtel Africa to see continuous stellar performance (3QFY22 revenue up 19% and core earnings up &gt;100%) on regional growth and improved margin.</li> <li>Google's recent investment of US\$1b is a strong validation of Airtel's role in being a leading pioneer of India's digital revolution.</li> </ul>
<b>Globe (Philippines)</b>	<ul style="list-style-type: none"> <li>4Q21 core net profit dropped 25% yoy and 42% qoq amid flat service revenue growth, higher opex and depreciation.</li> <li>Service revenue growth was slowed due to soft data demand amid typhoon that affected many subscribers in the region.</li> <li>Globe is in advanced discussions with ST Telemedia Global Data Centres (the fastest growing DC solutions providers) to form a JV to accelerate DC growth and market position in Philippines.</li> </ul>
<b>Telkomsel (Indonesia)</b>	<ul style="list-style-type: none"> <li>Telkomsel targets low single-digit revenue growth (2020: 1% yoy) and a stable EBITDA margin (2020:52.8%) for 2021. Our Indonesian analyst expects a 9% yoy net profit growth for 2021.</li> <li>Mobile competition remains intense but is not worsening. Competition has shifted towards delivering quality products and services rather than offering low priced packages</li> <li>Telkomsel is expected to benefit from its dominant position especially in ex-Java region, and favorable regulatory environment.</li> <li>4Q21 results have yet to be released.</li> </ul>

Source: Respective companies, UOB Kay Hian.

### EARNINGS REVISION/RISK

- None.

### VALUATION/RECOMMENDATION

- Maintain Buy with a DCF-based target price of S\$2.75** (discount rate: 7%, growth rate: 1.5%). At our target price, the stock will trade at 14.5x FY22F EV/EBITDA (slightly above its 5-year mean EV/EBITDA). The stock currently trades at its 5-year mean EV/EBITDA of 13x.
- Key re-rating catalysts include:** a) successful monetisation of 5G, b) faster-than-expected recovery in Optus' consumer and enterprise businesses, and c) market repair in Singapore and resumption of regional roaming revenue.

### PROFIT & LOSS

Year to 31 Mar (\$m)	2021	2022F	2023F	2024F
<b>Net turnover</b>	<b>15,643</b>	<b>16,386</b>	<b>16,937</b>	<b>17,508</b>
EBITDA	3,831	4,010	4,188	4,419
Deprec. & amort.	2,686	2,588	2,510	2,499
EBIT	1,145	1,422	1,678	1,920
Associate contributions	1,841	2,100	2,253	2,400
Net interest income/(expense)	(395)	(393)	(408)	(423)
<b>Pre-tax profit</b>	<b>1,412</b>	<b>3,129</b>	<b>3,524</b>	<b>3,897</b>
Tax	(811)	(1,001)	(916)	(1,013)
Minorities	(7)	(7)	0	0
<b>Net profit</b>	<b>594</b>	<b>2,121</b>	<b>2,608</b>	<b>2,884</b>
Net profit (adj.)	1,774	2,121	2,608	2,884

### BALANCE SHEET

Year to 31 Mar (\$m)	2021	2022F	2023F	2024F
<b>Fixed assets</b>	<b>11,534</b>	<b>11,403</b>	<b>11,434</b>	<b>11,386</b>
Other LT assets	29,933	30,563	31,239	31,959
Cash/ST investment	755	1,343	1,902	2,527
Other current assets	5,778	6,050	6,250	6,456
<b>Total assets</b>	<b>48,000</b>	<b>49,359</b>	<b>50,825</b>	<b>52,329</b>
ST debt	2,034	2,034	2,034	2,034
Other current liabilities	7,104	7,395	7,582	7,752
LT debt	10,825	11,317	11,825	12,315
Other LT liabilities	1,525	1,525	1,525	1,525
Shareholders' equity	26,486	27,056	27,827	28,670
Minority interest	26	33	33	33
<b>Total liabilities &amp; equity</b>	<b>48,000</b>	<b>49,359</b>	<b>50,825</b>	<b>52,329</b>

### CASH FLOW

Year to 31 Mar (\$m)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>5,609</b>	<b>5,129</b>	<b>5,512</b>	<b>5,770</b>
Pre-tax profit	1,412	3,129	3,524	3,897
Tax	(811)	(1,001)	(916)	(1,013)
Deprec. & amort.	2,325	2,588	2,510	2,499
Associates	1,180	0	0	0
Working capital changes	459	20	(14)	(36)
Non-cash items	395	393	408	423
Other operating cashflows	649	0	0	0
<b>Investing</b>	<b>(2,666)</b>	<b>(3,088)</b>	<b>(3,217)</b>	<b>(3,171)</b>
Capex (maintenance)	(2,214)	(2,458)	(2,541)	(2,451)
Proceeds from sale of assets	(4)	(630)	(676)	(720)
Others	(448)	0	0	0
<b>Financing</b>	<b>(3,190)</b>	<b>(1,452)</b>	<b>(1,737)</b>	<b>(1,973)</b>
Dividend payments	(1,273)	(1,551)	(1,837)	(2,041)
Issue of shares	447	0	0	0
Proceeds from borrowings	(1,313)	492	508	490
Others/interest paid	(1,051)	(393)	(408)	(423)
<b>Net cash inflow (outflow)</b>	<b>(247)</b>	<b>588</b>	<b>559</b>	<b>625</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>1,000</b>	<b>755</b>	<b>1,343</b>	<b>1,902</b>
Changes due to forex impact	2	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>755</b>	<b>1,343</b>	<b>1,902</b>	<b>2,527</b>

### KEY METRICS

Year to 31 Mar (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	24.5	24.5	24.7	25.2
Pre-tax margin	9.0	19.1	20.8	22.3
Net margin	3.8	12.9	15.4	16.5
ROA	1.2	4.4	5.2	5.6
ROE	2.2	7.9	9.5	10.2
<b>Growth</b>				
Turnover	(5.4)	4.7	3.4	3.4
EBITDA	(15.6)	4.7	4.4	5.5
Pre-tax profit	(30.8)	121.6	12.6	10.6
Net profit	(44.7)	257.0	22.9	10.6
Net profit (adj.)	(27.8)	19.6	22.9	10.6
EPS	(27.8)	19.6	22.9	10.6
<b>Leverage</b>				
Debt to total capital	32.7	33.0	33.2	33.3
Debt to equity	48.6	49.3	49.8	50.0
Net debt/(cash) to equity	45.7	44.4	43.0	41.2
Interest cover (x)	9.7	10.2	10.3	10.4

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