

### SECTOR UPDATE

## Telecommunications – Singapore

Postpaid Uplift To Drive Service Revenue For 2022

The sector's 2021/9MFY22 earnings came in within expectations, improving 11% yoy on the back of stronger postpaid revenue, strong Singtel associate contribution, enterprise growth at Starhub and good cost discipline. We expect 2022's earnings to grow 15% yoy amid high single-digit service revenue growth and Singtel's associate recovery. Maintain MARKET WEIGHT. We like Singtel and Netlink and for defensiveness, Netlink offers a 5% dividend yield.

### WHAT'S NEW

- 2021 characterised by encouraging postpaid revenue and cost discipline.** The telecommunications sector's 2021/9MFY22 earnings came in within expectations, recording a net profit growth of 11% yoy to S\$1,683m. This was driven by: a) postpaid revenue uplift, b) strong associates' contribution (turnaround in India) in Singtel, c) Starhub's strong enterprise revenue with better performance from Ensign and the consolidation of Strateq, d) Netlink's stronger non-building address points (NBAP) connections, and e) good cost discipline. Telcos also experienced nascent recovery in roaming revenue with the reopening of cross-border travel, especially to Malaysia. This helped to partly drive the sector's 4Q21 service revenue.
- 2022 outlook: A high single-digit revenue growth to help offset inflationary pressure.** After the results, we trim earnings by 1%. We now project net profit of S\$2,254m for full-year 2022/2023, representing a 15% yoy growth. Stepping into 2022, Singtel remains encouraged by the postpaid trajectory seen in Singapore and Optus while being cautiously optimistic about its associate investments in India, Indonesia and Thailand. Starhub guided for a robust 10% yoy service revenue growth but EBITDA will be adversely impacted by inflationary pressure (higher utility) and upfront investment for IT transformation. Starhub expects margin to recover from 2023 onwards (to at least 23% from 20%). Similarly, Netlink expects operational inflationary pressure to materialise in 2022, including higher interest rates in the rising rate environment.

### ACTION

- Maintain MARKET WEIGHT** as the sector currently trades at 12.6x EV/EBITDA 1SD below its five-year mean EV/EBITDA. Earnings recovery is more visible, given the benign competitive landscape and nationwide 5G rollout helping the incumbents sustain market share. Pronounced earnings uplift from the enterprise business may take a longer time to bear fruit as telcos continue to explore new business applications for 5G. Our top pick is Singtel as it is a proxy to: a) economic reopening in Southeast Asia, and b) monetisation of assets to narrow the valuation gap, including setting up a regional data centre and potentially, a regional digital banking outfit in Southeast Asia.
- Netlink (NETLINK SP/HOLD/S\$ 1.05): A defensive shelter.** We continue to see the stock as a good shelter amid market volatility given its strong earnings visibility, healthy balance sheet and cautious approach in terms of overseas/domestic acquisitions. Key catalysts include: a) growth in demand for NBAP connections with the rollout of 5G/Smart Nation initiatives, b) investors seeking defensive yield from Netlink's resilient, predictable, transparent and regulated cash flow, and c) earnings-accretive M&As. Key event to watch out for: regulatory review for 2023, expected to be announced by 4Q22.

### PEER COMPARISON

Company	Tickers	Rec	Share Price 8 March 22 (S\$)	Target Price (S\$)	Market Cap (S\$)	PE		EV/EBITDA		Dividend Yield	
						FY22F (x)	FY23F (x)	FY22F (x)	FY23F (x)	FY22F (%)	FY23F (%)
NetLink NBN Trust	NETLINK SP	HOLD	0.970	1.05	8.2	37.9	37.7	16.2	15.8	5.2	5.2
Singtel	ST SP	BUY	2.51	2.90	15.5	20.4	16.2	13.5	13.0	3.8	4.5
StarHub	STH SP	HOLD	1.23	1.30	5.7	15.6	12.8	5.3	4.8	4.2	4.7

Source: UOB Kay Hian

## MARKET WEIGHT (Maintained)

### SECTOR TOP PICKS

Top pick	Rec	Target Price (S\$)	EV/EBITDA (x)	Div Yield (%)
Singtel	BUY	2.90	13	4.5

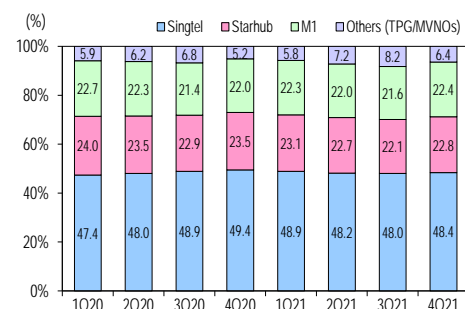
Source: Bloomberg, UOB Kay Hian

### CORE NET PROFIT (4Q21)

	9MFY21/ 2020	9MFY22/ 2021	yoy % Chg	Results
SingTel	1,314.0	1,456.0	10.8	Inline
Starhub	126.7	148.3	17.0	Inline
NetLink	69.5	78.2	12.6	Inline
Sector	1,510.2	1,682.5	11.4	Inline

Source: Respective Companies, UOB Kay Hian

### MARKET SHARE BY SUBSCRIBERS (3Q21)



Source: IMDA, Respective companies

### SECTOR 5 YEAR EV/EBITDA



Source: Bloomberg, UOB Kay Hian

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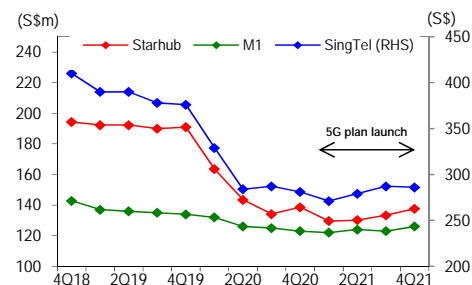
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- Singtel (ST SP/BUY/Target: S\$2.90): Value creation via strategic reset...** At our target price, the stock will trade at 14.5x FY23F EV/EBITDA (slightly above its five-year mean EV/EBITDA). The stock currently trades at -1SD below its five-year mean EV/EBITDA of 13x. Singtel is on track to deliver growth for shareholders via its strategic reset. The focus will include: a) capitalising the digital/IT growth trend via strategic partnerships, b) leveraging its infrastructure assets (data centres, towers and fibre) to unlock value, c) sweating its key assets, and d) investing in 5G for network superiority and future monetisation. This is expected to help Singtel bridge the current market valuation gap as a conglomerate.
- ...on track to shape a green regional data centre with S\$8b valuation.** To capitalise on the accelerating data centre growth trend (five-year CAGR of 18% over 2020-25), Singtel entered into MOUs with Thailand Gulf Energy and Indonesia's PT Telkom to develop data centres in Southeast Asia. Currently, Singtel has seven data centres in Singapore with 70MW capacity. The goal is to add another 100MW of capacity to Singtel's data centre portfolio over next 3-5 years. This will create a DC asset close to S\$7-8b within five years. Debt will remain well capped, based on management's guidance of S\$10m/MW capex requirement. 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. 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.

### ESSENTIALS

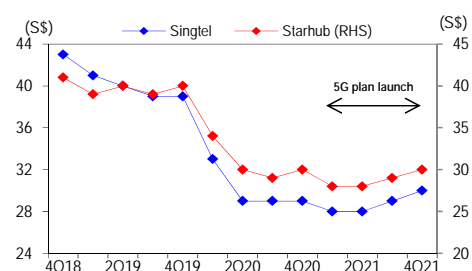
- 5G ARPU uplift lifted postpaid service revenue...** Notably, we continue to see stable mobile service revenue among the incumbents' telcos (Singtel, Starhub, M1) (RHS chart), where 5G handset-bundle plans were first rolled out in Dec 20. Telcos have been reporting good take-up rates, as smartphone users are embracing 5G to improve user experience with mobile applications. This was evidenced in the higher postpaid average revenue per user (ARPU) trend in both Singtel and Starhub (RHS chart), which offset the dilution from SIM-only plans. In 4Q21, postpaid revenue rose 5% yoy and 4% qoq thanks to a 5% yoy increase in postpaid subscribers and a 2% yoy increase in ARPU.
- ...while competition remains benign with 5G product differentiation.** Meanwhile, we believe the competitive landscape in the Singapore market will remain rational into 1H22. We note that incumbent telcos have remained unfazed by price competition in the past two quarters. Based on the SIM-only price plans we tracked, Mobile Virtual Network Operators' (MVNO) have not been aggressive in cutting prices or hiking data quotas for free in the past quarters (see RHS). This suggests incumbents': a) own MVNO offerings, ie GIGA and GOMO are defending their market share in Singapore, and b) ability to differentiate the premium product via availability of 5G services. We expect GOMO to mirror GIGA's positive subscriber growth trend.
- 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 the regulator's target of 50% population coverage by end-22. This is also mirrored by Starhub.
- Key risk to TPG as Singapore's third 5G provider.** Naturally, if TPG decides to roll out its own 5G SA network in Singapore, we expect to see heightened competition. This outcome may see continuous erosion of ARPU and return on invested capital (ROIC) for the incumbents. This will displace our expectation of a market repair for the Singapore market, as competition has been rather benign in the past seven months in Singapore. At this juncture, we see Singtel and Starhub reporting encouraging 5G plan take-ups. This helps to offset ARPU dilution from SIM-only plans.

### STABILISATION IN MOBILE SERVICE REVENUE...



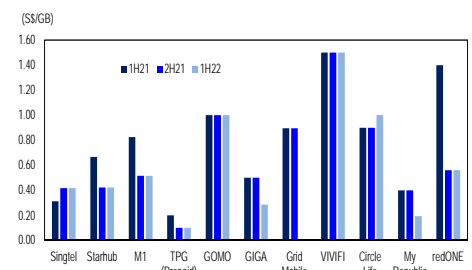
Source: Respective Companies, UOB Kay Hian

### ...WITH UPLIFT IN POSTPAID ARPU



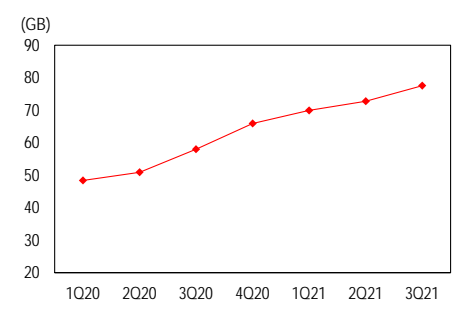
Source: Respective Companies, UOB Kay Hian

### MVNO PRICE/GB TREND (HALF YEARLY)



Source: Respective companies, UOB Kay Hian

### DATA USAGE PER USER



Source: IMDA, UOB Kay Hian

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