

COMPANY UPDATE

Singapore Telecommunications (ST SP)

Repositioning NCS For Regional Growth

We came away from a recent NCS meeting more sanguine on its near-term prospects. We expect NCS to deliver double-digit revenue growth as it focuses on driving digital services within the government and telecommunications sector. Its recent acquisition in Australia paves the way for NCS to enter Asia Pacific's third-largest ICT market, after Japan and China. It is still too early to monetise NCS as it is on the cusp of ramping up its business. Maintain BUY. Target price: S\$2.90.

WHAT'S NEW

- Smart capital recycling, capitalising on digital growth via NCS.** In aligning Singtel's strategic roadmap, NCS has been identified as a pillar of growth where its ROIC is expected to exceed the company's cost of capital via robust top-line growth and a focus on government, enterprise and telco sector jobs (leveraging on Singtel's expertise and associates' relationships in the region). In tandem with smart capital recycling, Singtel has recently monetised a 1.6% stake in Airtel Africa for S\$150m to support the future of NCS and regional data centres.
- Transform NCS into an Asian B2B digital services champion...** We came away from a recent meeting with NCS more sanguine on its near term prospects. For a start, NCS's CEO continues to see strong demand for digital (ie data analytics, artificial intelligence), cloud, platform (IoT) and cyber services. This is expected to drive high double-digit revenue growth for FY23, aided by the consolidation of Dialog and ARQ group in Australia. NCS booked S\$1,692m of orders and registered segment revenue and digital revenue of 8% yoy and 27% yoy respectively in 9MFY22.
- ...by cementing its presence in Southeast Asia, Australia and Greater China.** In essence, NCS's growth will come from: a) organic – digital services are trending well with reasonably strong underlying demand from the enterprise segment, b) inorganic – the acquisition of Dialog and ARQ in Australia is important as it allows NCS to compete in the Tier 1 league for Australia, and c) synergies in terms of cross-selling, upselling and cost optimisation. We note that the recent acquisitions were priced within industry range of mid-teens EV/EBITDA (see table overleaf) with reputable clients. NCS is also currently assessing synergistic opportunities with Optus enterprise. Key focus markets for NCS are: a) Australia – being the third largest ICT market in Asia Pacific after Japan and China, b) Greater China – fastest growing country with good demand, and c) Southeast Asia – leveraging on associates' links and NCS's Singapore presence.

KEY FINANCIALS

Year to 31 Mar (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	16,542	15,643	16,239	16,660	17,169
EBITDA	4,542	3,831	3,966	4,105	4,318
Operating profit	1,963	1,145	1,282	1,606	1,836
Net profit (rep./act.)	1,075	594	2,005	2,532	2,801
Net profit (adj.)	2,457	1,774	2,005	2,532	2,801
EPS (S\$ cent)	15.1	10.9	12.3	15.5	17.2
PE (x)	17.5	24.3	21.5	17.0	15.4
P/B (x)	1.6	1.6	1.6	1.6	1.5
EV/EBITDA (x)	12.3	14.5	14.0	13.6	12.9
Dividend yield (%)	4.6	2.8	3.6	4.3	4.7
Net margin (%)	6.5	3.8	12.3	15.2	16.3
Net debt/(cash) to equity (%)	49.2	45.7	44.9	43.7	42.2
Interest cover (x)	16.1	9.7	10.1	10.1	10.2
ROE (%)	3.8	2.2	7.5	9.3	10.0
Consensus net profit	-	-	2,197	2,641	2,984
UOBKH/Consensus (x)	-	-	0.91	0.96	0.94

Source: Singapore Telecommunications, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$2.64
Target Price	S\$2.90
Upside	+9.8%

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):	16,508.0
Market cap (S\$m):	43,581.1
Market cap (US\$m):	32,115.8
3-mth avg daily t'over (US\$m):	60.5

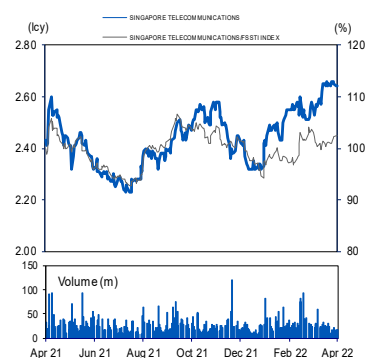
Price Performance (%)

52-week high/low	S\$2.66/S\$2.23			
1mth	3mth	6mth	1yr	YTD
5.2	12.8	7.3	8.2	13.8

Major Shareholders

	%
Temasek Hldgs	52.2
Franklin Resources	2.1
Vanguard Group Inc	1.5
FY23 NAV/Share (S\$)	1.69
FY23 Net Debt/Share (S\$)	0.74

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Monetisation – Still early days.** Management believes it is likely too early to monetise NCS as it is currently on the cusp of earnings ramp-up against a backdrop of: a) recent acquisitions in Australia, and b) strong underlying demand for digital services. We do not discount the potential monetisation/listing of NCS, albeit beyond the next two years.
- Key focus in the near term includes talent acquisition.** Management shared that talent is an important success factor for NCS. The acquisition of Dialog and ARQ will add 1,900 skilled talents to NCS. In this context, ARQ has an academy with a very good track record in acquiring and retaining talent/human capital. NCS hopes to benefit from this. Additionally, NCS is currently looking to ramp up headcount in India as its offshore delivery centre. At this juncture, there are about 300-400 staff in India but this number will grow to 1,000 in the next three months.

NCS RECENT ACQUISITION IN AUSTRALIA

Acquisition Date	Acquirees	Price (A\$m)	Comment
7 Mar 2022	The Dialog Group (IT service company)	325 (\$S\$29m)	<ul style="list-style-type: none"> The Dialog Group has a team of 1000 IT experts. The acquisition is expected to be completed by Jun 22.
27 Mar 2022	ARQ Group (digital consultancy firm)	290 (\$S\$297m)	<ul style="list-style-type: none"> ARQ has a team of 560 IT experts. The acquisition of ARQ implies 15.7x EV/EBITDA. NCS expects ARQ's revenue to increase 38% yoy to A\$118m by end-22, and EBITDA to A\$18.4m. The acquisition is expected to be completed by May 22.

Source: Respective companies, UOB Kay Hian.

OUTLOOK FOR REGIONAL ASSOCIATES

Segment	Key Highlights
AIS (Thailand)	<ul style="list-style-type: none"> Our analyst expects 1Q22 net profit to slightly decrease qoq due to lower service revenue and higher opex. As of end-21, 5G subscriber base reached over 2.2m (higher than its target of 2.0m). Our Thai analyst expects 5G net adds to soften qoq with chip shortage limiting 5G smartphone supplies. TRUE and DTAC merger talk is deemed positive to AIS with less competition (from three key players to two key players).
Bharti Airtel (India)	<ul style="list-style-type: none"> Airtel has hiked tariffs of its prepaid plans by around 20% in Nov 22. This is expected to contribute a stronger revenue growth with higher ARPU in 4QFY22 despite slower 4G net adds. Airtel Africa to see continuous stellar performance (3QFY22 revenue up 19% and core earnings up >100%) on regional growth and improved margin. Airtel may look to monetise its stake in tower, payments bank and fibre assets for future 5G capex.
Globe (Philippines)	<ul style="list-style-type: none"> Market share losses (aggressive price cut by third telco player) is expected to stabilise in the coming quarters. 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.
Telkomsel (Indonesia)	<ul style="list-style-type: none"> 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. Mobile competition remains intense but is not worsening. Competition has shifted towards delivering quality products and services rather than offering low priced packages. Telkomsel is expected to benefit from its dominant position especially in ex-Java region, and favorable regulatory environment.

Source: Respective companies, UOB Kay Hian.

EARNINGS REVISION/RISK

- None.
- Management expects 2HFY22 dividend to be at the upper range of its 60-80% dividend payout policy, mirroring the absolute dividend amount of 1HFY22. We have forecasted DPS of 9.5 S cents/share for FY22. This will translate to a dividend yield of 3.6%.

VALUATION/RECOMMENDATION

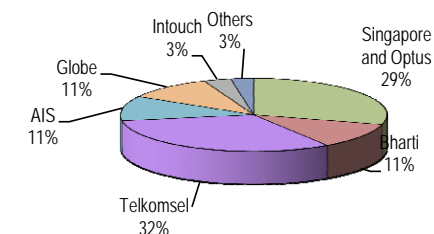
- Maintain BUY with an unchanged DCF-based target price of S\$2.90 (discount rate: 7%, growth rate: 1.5%).** At our target price, the stock will trade at 13x FY23 EV/EBITDA (its 5-year mean EV/EBITDA).
- Key re-rating catalysts include:** a) successful monetisation of 5G, b) faster-than-expected recovery in Optus' consumer and enterprise businesses, and c) market repair in Singapore and resumption of regional roaming revenue.

FY22 OUTLOOK

FY22 highlights & guidance	
Core operations	<ul style="list-style-type: none"> ▲ S\$0.2b H1FY22 free cash flow¹ Continued focus on profitable growth
Regional associates' dividends	At least S\$1.3b
Capex	~ S\$2.4b
Dividends	<ul style="list-style-type: none"> 4.5c interim dividend 76% Dividend payout FY22 dividend expected to be at upper half of 60-80%² dividend policy range

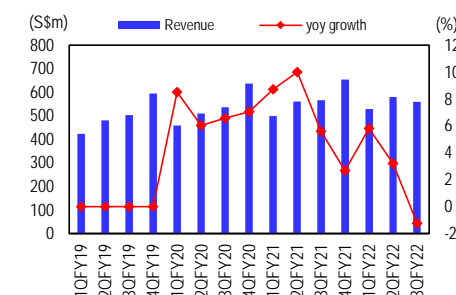
Source: Singtel, UOB Kay Hian

PBT BY BUSINESS UNIT (1HFY22)



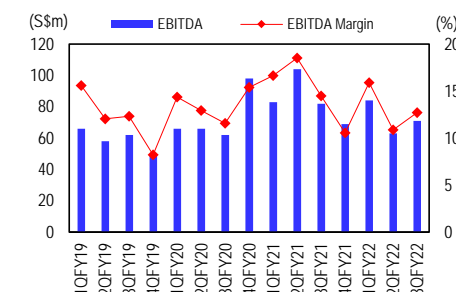
Source: Singtel, UOB Kay Hian

NCS REVENUE AND YOY GROWTH TREND



Source: Singtel, UOB Kay Hian

NCS EBITDA AND EBITDA MARGIN TREND



Source: Singtel, UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (\$m)	2021	2022F	2023F	2024F
Net turnover	15,643	16,239	16,660	17,169
EBITDA	3,831	3,966	4,105	4,318
Deprec. & amort.	2,686	2,684	2,499	2,482
EBIT	1,145	1,282	1,606	1,836
Associate contributions	1,841	2,070	2,224	2,371
Net interest income/(expense)	(395)	(393)	(408)	(423)
Pre-tax profit	1,412	2,959	3,422	3,784
Tax	(811)	(947)	(890)	(984)
Minorities	(7)	(7)	0	0
Net profit	594	2,005	2,532	2,801
Net profit (adj.)	1,774	2,005	2,532	2,801

BALANCE SHEET

Year to 31 Mar (\$m)	2021	2022F	2023F	2024F
Fixed assets	11,534	11,385	11,385	11,307
Other LT assets	29,933	30,554	31,221	31,932
Cash/ST investment	755	1,252	1,769	2,341
Other current assets	5,778	5,996	6,149	6,333
Total assets	48,000	49,188	50,525	51,913
ST debt	2,034	2,034	2,034	2,034
Other current liabilities	7,104	7,344	7,485	7,633
LT debt	10,825	11,312	11,812	12,293
Other LT liabilities	1,525	1,525	1,525	1,525
Shareholders' equity	26,486	26,941	27,636	28,396
Minority interest	26	33	33	33
Total liabilities & equity	48,000	49,188	50,525	51,913

CASH FLOW

Year to 31 Mar (\$m)	2021	2022F	2023F	2024F
Operating	5,609	5,011	5,427	5,669
Pre-tax profit	1,412	2,959	3,422	3,784
Tax	(811)	(947)	(890)	(984)
Deprec. & amort.	2,325	2,584	2,499	2,482
Associates	1,180	0	0	0
Working capital changes	459	22	(12)	(36)
Non-cash items	395	393	408	423
Other operating cashflows	649	0	0	0
Investing	(2,666)	(3,057)	(3,166)	(3,115)
Capex (maintenance)	(2,214)	(2,436)	(2,499)	(2,404)
Proceeds from sale of assets	(4)	(621)	(667)	(711)
Others	(448)	0	0	0
Financing	(3,190)	(1,457)	(1,745)	(1,982)
Dividend payments	(1,273)	(1,551)	(1,837)	(2,041)
Issue of shares	447	0	0	0
Proceeds from borrowings	(1,313)	487	500	481
Others/interest paid	(1,051)	(393)	(408)	(423)
Net cash inflow (outflow)	(247)	497	517	572
Beginning cash & cash equivalent	1,000	755	1,252	1,769
Changes due to forex impact	2	0	0	0
Ending cash & cash equivalent	755	1,252	1,769	2,341

KEY METRICS

Year to 31 Mar (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	24.5	24.4	24.6	25.2
Pre-tax margin	9.0	18.2	20.5	22.0
Net margin	3.8	12.3	15.2	16.3
ROA	1.2	4.1	5.1	5.5
ROE	2.2	7.5	9.3	10.0
Growth				
Turnover	(5.4)	3.8	2.6	3.1
EBITDA	(15.6)	3.5	3.5	5.2
Pre-tax profit	(30.8)	109.6	15.7	10.6
Net profit	(44.7)	237.6	26.3	10.6
Net profit (adj.)	(27.8)	13.0	26.3	10.6
EPS	(27.8)	13.0	26.3	10.6
Leverage				
Debt to total capital	32.7	33.1	33.4	33.5
Debt to equity	48.6	49.5	50.1	50.5
Net debt/(cash) to equity	45.7	44.9	43.7	42.2
Interest cover (x)	9.7	10.1	10.1	10.2

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