



Singapore Telecommunications Ltd

Re-opening and restructuring upside

SINGAPORE | TELECOMMUNICATIONS | 2H22 RESULTS

- FY22 revenue met our expectations at 101% of FY22e estimates. EBITDA was 93% of estimates due to lower-than-expected NBN migration earnings.
- 2H22 EBITDA was down 5% YoY, the largest drag from NCS and widening losses in Trustwave. Underlying PAT in 2H22 was up 15% excluding exceptional items, NBN and job support scheme.
- We lower our FY23e forecast by a modest 2% to account for weaker enterprise earnings. Our SOTP TP is raised from S\$2.86 to \$3.05 as we roll over our EV/EBITDA into FY23e and higher associate market valuations. Earnings in FY23e are expected to recover as roaming revenue creeps up and economic conditions improve in emerging countries post lock-down. The targeted monetization of around S\$3bn assets will help narrow the valuation discounts for associates, strengthen the balance sheet and improve the capacity to raise dividends. Some of the assets identified for recycling of capital include disposal of Amobee, redevelopment of Comcentre and possibly part disposal of associate stakes. We maintain our ACCUMULATE recommendation.

Results at a glance

SGDmn	2H22	2H21	YoY	Comments
Revenue	7,686	8,219	-6%	
- Singapore consumer	896	954	-6%	Blended ARPU up 3% and subscriber flat.
- Australia consumer	3,265	3,682	-11%	Blended ARPU up 3% and subscribers up 3%.
- Group enterprise	1,865	1,913	-3%	Fixed voice revenue down 14% to S\$141mn,
EBITDA	1,839	1,928	-5%	
- Singapore consumer	285	287	-1%	
- Australia consumer	948	966	-2%	Excluding NBN, EBITDA up 8% YoY to S\$930mn.
- Group enterprise	613	638	-4%	
Regional Associates PAT	773	655	18%	
- Telkomsel	342	345	-1%	
- AIS	125	142	-12%	
- Bharti	148	-9	n.m.	Growth in subscribers and ARPU.
Exceptionals (post. tax)	54	-809	n.m.	
PATMI	954	466	105%	
Underlying PATMI	983	837	17%	
DPS (cents) - Interim	4.80	2.40	100%	80% payout ratio of underlying PAT.

Source: Company, PSR

The Positives

+ Improving earnings in Australia. Mobile service revenue rose 4% YoY to A\$1.84bn, supported by both ARPU and subscriber growth. Optus mobile plans are gaining traction with customers for their more differentiated offering in terms of 5G speed, on-demand product features and improvement in customer service levels. Total consumer revenue in Australia declined due to a drop in NBN migration revenue (-83% YoY) and slower equipment sales (-25% YoY).

+ Huge reversal in Bharti earnings. The growth in earnings was driven by a 23% rise in ARPU and a 12% increase in 4G subscribers in India. Airtel Africa also delivered a 24% improvement in EBITDA through subscribers (+9%) and ARPU growth (+11%).

30 May 2022

ACCUMULATE (Maintained)

CLOSING PRICE	SGD 2.700
FORECAST DIV	SGD 0.098
TARGET PRICE	SGD 3.050
TOTAL RETURN	16.6%

COMPANY DATA

BLOOMBERG CODE:	ST SP
O/S SHARES (MN):	16,508
MARKET CAP (USD mn / SGD mn):	32541 / 44572
52 - WK HI/LO (SGD):	2.88 / 2.21
3M Average Daily T/O (mn):	31.96

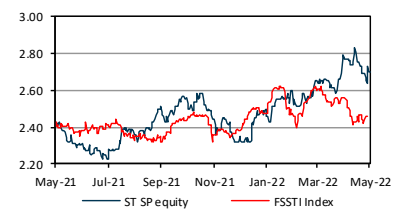
MAJOR SHAREHOLDERS

Temasek Holdings Pte Ltd	52.2%
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PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(3.2)	3.8	16.4
STI RETURN	(1.5)	(0.1)	5.5

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E	Mar	SGDmn	FY21	FY22	FY23e	FY24e
Revenue			15,644	15,339	16,224	16,826
EBITDA			3,832	3,767	4,131	4,348
Net Profit			1,733	1,924	2,045	2,330
DPS (SGD cents)			7.5	9.3	9.8	11.0
EPS-adj. (SGD cents)			10.6	11.7	12.4	14.1
Dividend Yield			2.8%	3.4%	3.6%	4.1%
ROE			6.5%	7.0%	7.2%	8.1%
ROA			3.6%	4.0%	4.1%	4.6%

Source: Company, PSR

VALUATION METHOD

Sum Of Parts - 7x EV/EBITDA; 20% disc. on associates

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The Negative

- **Sluggish enterprise and NCS earnings.** EBITDA fell 4%, dragged down by a 14% drop in fixed voice revenue and 3% fall in leased circuits and broadband. Excluding JSS, NCS recorded a 4% rise in EBITDA. Margins were softer due to a 19% YoY rise in staff costs.

Outlook

Key drivers to earnings recovery in FY23e are 1) Roaming revenue in Singapore consumer and enterprise; 2) Organic and inorganic growth in NCS; 3) Economic recovery post-lockdown in emerging markets of Thailand, Philippines and Indonesia; 4) Improving ARPU in India and rising data traffic.

Figure 1: Singtel guidance for FY23e vs PSR

	FY23e	PSR
Regional associates	~S\$1.1bn dividends	S\$1.1bn
Capex	~S\$2.6bn	S\$2.5bn
Dividend policy	60-80% underlying PAT	78.0%

Source: Company, PSR

Maintain ACCUMULATE with a higher TP of S\$3.05 (prev. S\$2.86)

Our SOTP valuation is based on 7x EV/EBITDA for Singtel's core Singapore and Australia businesses, at S\$1.15/share. Associates are marked to market at S\$1.90/share after a 20% discount to reflect volatility in their share prices.

Financials

Income Statement

Y/E Mar, SGD 'Mn	FY20	FY21	FY22	FY23e	FY24e
Revenue	16,542	15,644	15,339	16,224	16,826
Operating Profit	4,363	3,690	3,614	3,981	4,198
EBITDA	4,541	3,832	3,767	4,131	4,348
Depreciation & Amortisation	(2,580)	(2,685)	(2,723)	(2,973)	(3,098)
EBIT	1,961	1,147	1,045	1,158	1,250
Net Finance Inc/(Exp)	(462)	(398)	(404)	(463)	(445)
Associates	1,743	607	1,653	1,765	2,001
Profit before tax	2,040	754	2,621	2,508	2,856
Taxation	(988)	(194)	(662)	(452)	(514)
Non-controlling interest	22	(6)	(11)	(12)	(12)
Net profit, reported	1,075	554	1,949	2,045	2,330
Exceptional	(1,382)	(1,179)	25	-	-
Net profit, adjusted	2,457	1,733	1,924	2,045	2,330

Per share data (SGD Cents)

Y/E Mar	FY20	FY21	FY22	FY23e	FY24e
EPS, reported	6.6	3.4	11.8	12.4	14.1
EPS, adjusted	15.0	10.6	11.7	12.4	14.1
DPS	12.3	7.5	9.3	9.8	11.0
BVPS	163.9	161.9	170.4	173.2	177.3

Cash Flow

Y/E Mar, SGD 'Mn	FY20	FY21	FY22	FY23e	FY24e
CFQ					
Profit before tax	2,040	754	2,621	2,508	2,856
Adjustments	2,941	3,002	1,136	1,622	1,492
WC changes	364	584	270	(568)	(18)
Cash generated from ops	4,871	4,340	4,027	3,563	4,330
Tax paid	(492)	(164)	(352)	(452)	(514)
Cashflow from ops	5,817	5,609	5,298	4,253	5,017
CFI					
CAPEX & IA, net	(2,037)	(2,214)	(2,217)	(2,500)	(2,500)
Others	(534)	(238)	1,850	49	50
Cashflow from investments	(2,921)	(2,666)	(644)	(2,451)	(2,450)
CFE					
Share issuance, net	-	-	-	-	-
Loans, net of repayments	17	(1,067)	(1,650)	1,000	(500)
Dividends	(2,857)	(1,273)	(1,139)	(1,585)	(1,651)
Others	383	(850)	(477)	(463)	(445)
Cashflow from financing	(2,457)	(3,190)	(3,266)	(1,048)	(2,596)
Net change in cash	440	(247)	1,387	753	(28)
CCE, end	990	741	2,149	2,902	2,874

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Mar, SGD 'Mn	FY20	FY21	FY22	FY23e	FY24e
ASSETS					
Accounts receivables	5,559	5,444	5,245	5,354	5,553
Cash	1,000	755	2,130	2,883	2,855
Inventories	280	272	270	324	337
Others	337	62	485	485	485
Total current assets	7,176	6,532	8,130	9,047	9,230
PPE & IA	24,100	24,663	22,870	22,397	21,799
Others	17,679	16,803	18,131	18,755	19,554
Total non-current assets	41,779	41,466	41,001	41,152	41,352
Total Assets	48,955	47,998	49,131	50,199	50,582
LIABILITIES					
Accounts payables	5,641	5,977	5,596	5,192	5,384
Short term loans	3,788	1,880	1,841	1,841	1,841
Tax payable	199	268	769	769	769
Total current liabilities	10,579	9,137	9,055	8,651	8,844
Long term loans	10,202	10,826	10,254	11,254	10,754
Deferred tax liabilities	526	499	499	499	499
Others	835	1,026	1,213	1,213	1,213
Total non-current liabilities	11,562	12,350	11,967	12,967	12,467
Total Liabilities	22,141	21,487	21,022	21,618	21,310
EQUITY					
Non-controlling interests	25	26	(15)	(3)	9
Shareholder Equity	26,789	26,486	28,124	28,584	29,263

Valuation Ratios

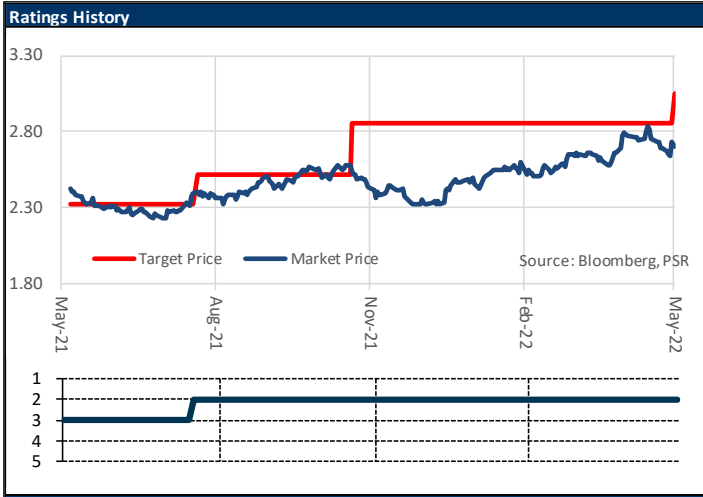
Y/E Mar	FY20	FY21	FY22	FY23e	FY24e
P/E (X)-adj.	41.1	79.8	22.9	21.8	19.1
P/B (X)	1.6	1.7	1.6	1.6	1.5
EV/EBITDA (X)	12.6	14.6	14.3	13.1	12.4

Growth & Margins

Growth					
Revenue	-4.8%	-5.4%	-1.9%	5.8%	3.7%
EBITDA	-3.2%	-15.6%	-1.7%	9.6%	5.2%
EBIT	-20.6%	-41.5%	-8.9%	10.8%	7.9%
Net profit, adj.	-13.0%	-29.5%	11.0%	6.3%	14.0%
Margins					
Gross margin	26.4%	23.6%	23.6%	24.5%	24.9%
EBITDA margin	27.5%	24.5%	24.6%	25.5%	25.8%
EBIT margin	11.9%	7.3%	6.8%	7.1%	7.4%
Net profit margin	14.9%	11.1%	12.5%	12.6%	13.8%

Key Ratios

ROE	8.7%	6.5%	7.0%	7.2%	8.1%
ROA	5.0%	3.6%	4.0%	4.1%	4.6%
Dividend Payout	186.4%	70.8%	79.8%	79.1%	77.9%
Dividend Yield	4.5%	2.8%	3.4%	3.6%	4.1%



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks
 We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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