

COMPANY RESULTS

Singapore Telecommunications (ST SP)

FY22: Earnings In Line; Building Momentum Into FY23

Singtel reported 5% yoy higher 2HFY22 core earnings of S\$941m (-4% hoh), thanks to strong performances in Optus consumers and India. FY22 core earnings are in line with our estimates but below the street's forecasts. Singtel is expected to fare well in FY23 with momentum in Optus consumers, higher prepaid and roaming with border reopening, NCS's double-digit growth trajectory and smart capital recycling – S\$3b of potential asset monetisation identified in the near term. **BUY on weakness. Target price: S\$2.90.**

2HFY22 RESULTS

Year to 31 Mar (RMm)	2HFY22	hoh% chg	yoy% chg	FY22	yoy% chg
Operating Revenue					
Group Consumer	4,162	(1.2)	(10.0)	8,373	(4.6)
Group Enterprise	3,119	(1.6)	1.2	6,288	1.5
Group Digital Life	406	53.8	(20.5)	670	-
Group Revenue	7,686	0.5	(6.5)	15,339	(1.9)
EBITDA					
Group Consumer	1,232	(3.5)	(2.8)	2,509	1.7
Group Enterprise	768	8.3	1.5	1,477	(2.1)
Group Digital Life	(77)	n.m.	n.m.	(70)	n.m.
Corporate	(85)	32.8	(11.5)	(149)	8.8
Group EBITDA	1,838	(4.7)	(4.7)	3,767	(1.7)
<i>EBITDA Margin</i>	23.9%	-1.3	0.4	24.6%	0.1
Regional Mobile Associates	1,090	4.1	23.9	2,136	24.8
Underlying PBT	1,384	(6.7)	8.7	2,868	12.5
Underlying Net Profit	941	(4.4)	4.9	1,923	11.0

Source: Singtel, UOB Kay Hian

RESULTS

- FY22: In line with house, below consensus.** Singapore Telecommunications (Singtel) reported 2HFY22 core net profit of S\$941m (+5% yoy, -4% hoh) as Optus continued to report strong mobile performance especially in the postpaid segment and associate earnings jumped 24% yoy with the turnaround in Airtel. This brings FY22 core net profit to S\$1,923m (+11% yoy), in line with our expectations but 8% below street estimates.
- Sustainable dividend.** Singtel proposed a final dividend of 4.8 S cent/share. FY22 DPS of 9.3 S cent/share represents 80% of core earnings payout. This translates to a net dividend yield of 3.4%. Management reiterated its mandate to pay between 60-80% of core net profit for FY23.

KEY FINANCIALS

Year to 31 Mar (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	15,644	15,339	15,742	15,927	15,926
EBITDA	3,832	3,767	3,958	4,024	4,082
Operating profit	1,146	1,045	1,655	1,775	1,864
Net profit (rep./act.)	553	1,934	2,572	2,746	2,929
Net profit (adj.)	1,733	1,934	2,572	2,746	2,929
EPS (S\$ cent)	10.6	11.8	15.8	16.8	17.9
PE (x)	25.4	22.8	17.1	16.1	15.0
P/B (x)	1.7	1.6	1.5	1.5	1.4
EV/EBITDA (x)	14.2	14.4	13.7	13.5	13.3
Dividend yield (%)	2.8	3.4	4.3	4.6	4.7
Net margin (%)	3.5	12.6	16.3	17.2	18.4
Net debt/(cash) to equity (%)	45.7	34.6	34.2	33.3	31.5
Interest cover (x)	9.7	12.0	10.9	10.7	10.5
ROE (%)	2.1	7.1	9.0	9.4	9.8
Consensus net profit	-	-	2,630	3,049	3,306
UOBKH/Consensus (x)	-	-	0.98	0.90	0.89

Source: Singapore Telecommunications, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$2.73
Target Price	S\$2.90
Upside	+6.2%

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):	45,066.8
Market cap (US\$m):	32,811.7
3-mth avg daily t'over (US\$m):	62.2

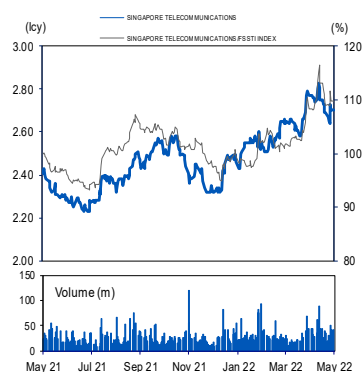
Price Performance (%)

52-week high/low	S\$2.83/S\$2.23			
1mth	3mth	6mth	1yr	YTD
(1.4)	5.0	11.9	11.0	17.7

Major Shareholders

	%
Temasek Hlds	52.2
Franklin Resources	2.1
Vanguard Group Inc	1.5
FY23 NAV/Share (S\$)	1.69
FY23 Net Debt/Share (S\$)	0.73

PRICE CHART



Source: Bloomberg

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- **Positive outlook.** Building momentum into FY23 via: a) consumer business – strong performance in Australia (ARPU-accretive Optus Choice Plans) and higher roaming from border reopening; b) enterprise – ongoing digitalization to drive double-digit revenue growth for NCS; and c) smart capital recycling – Singtel have identified around S\$3b of potential asset monetization in the near term. The cashflow from asset monetization will be channeled towards advancing 5G advantages, data centre, Digibank and NCS.
- **Inflationary pressure – Mindful of the risk.** Singtel remains cognisant of higher opex and will look towards cost discipline. In particular, energy rates are hedged and data centre utility cost is being passed through. In addition, there is an ongoing workforce optimization and the group is locking in network maintenance contracts

STOCK IMPACT

- **Consumer.** In Australia, mobile service revenue rose 4% yoy in 2HFY22 as a result of higher penetration of Optus Choice plans. This led to higher EBITDA (+11% yoy) and doubled the EBIT for 2HFY22. 2HFY22 subscribers: +273,000; ARPU: +3% yoy to A\$31/month.
- In Singapore, 2HFY22 mobile service revenue rose 2% yoy with the return of roaming (+30% yoy). Postpaid ARPU increased by S\$1/month yoy to S\$31/month, while Singtel maintained subscribers this quarter, thanks to the rollout of 5G services.
- **Enterprise.** 2HFY22 revenue dropped 3% yoy on lower legacy carriage revenue, information and communication technologies (ICT) revenue was stable.
- NCS experienced a 9% yoy increase in revenue with bookings amounting to S\$1.4b. EBIT and EBITDA (excluding Job Support Scheme) was down 2% respectively on the back of staff costs due to scaling up of digital talent to support business growth.

FY22 REGIONAL ASSOCIATES PRE-TAX CONTRIBUTION

Associates (\$m)	FY22	FY21	yoy % chg	Comments
Telkomsel (Indonesia)	915	921	(0.7)	- Stable profit but market share is expected to continue declining amid intense competition in ex-Java region.
AIS (Thailand)	314	334	(6.0)	- Mobile revenue impacted by data price competition. - Profits affected by higher amortization from its new 5G spectrum. - As of end-Mar 22, 5G coverage reached 78% of population and 2.8m subscribers are on 5G (6% of total subscribers).
Bharti Airtel (India)	432	23	1778.3	- Strong turnaround in Airtel lifted associates' contributions, led by robust operating improvements in India and Africa. - In India, Airtel garnered highest ARPU for the industry at Rs178. Last quarter was Rs145.
Globe (Philippines)	311	346	(10.1)	- Affected by rebates given due to Typhoon Odette. This has improved since Mar with reopening of economic activities.
Intouch (Thailand)	95	94	1.1	
Others	70	86	(18.6)	
Total	2,136.0	1,804.0	18.4	

Source: Singtel, UOB Kay Hian

EARNINGS REVISION/RISK

- None.

VALUATION/RECOMMENDATION

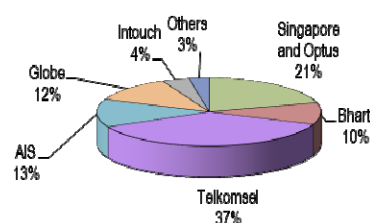
- **Maintain BUY with a DCF-based target price of S\$2.90** (discount rate: 7%, growth rate: 1.5%) as we roll over our valuation window to FY23. At our target price, the stock will trade at 13x FY23 EV/EBITDA (its five-year mean EV/EBITDA).
- **Key re-rating catalysts include:** a) successful monetisation of 5G, b) monetisation of data centres and/or NCS, and c) market repair in Singapore and resumption of regional roaming revenue.

FY22 OUTLOOK

Regional associates	Capital expenditure	Dividend policy
~S\$1.1b	~S\$2.6b	60-80%
of dividends	comprising ~A\$1.7b in AU ~S\$0.9b for rest of the Group	of underlying net profit

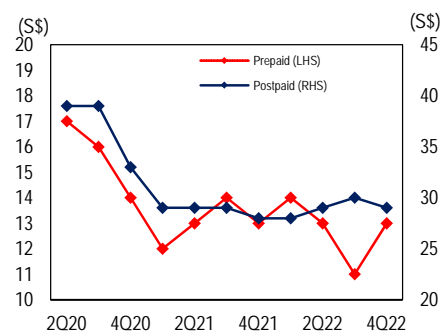
Source: Singtel, UOB Kay Hian

CORE EARNINGS BY BUSINESS UNIT (FY22)



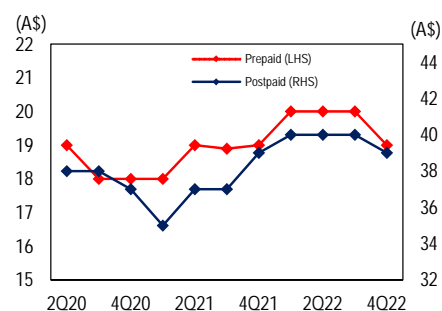
Source: Singtel, UOB Kay Hian

SINGAPORE CONSUMER ARPU TREND



Source: Singtel, UOB Kay Hian

AUSTRALIA CONSUMER ARPU TREND



Source: Singtel, UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Net turnover	15,339	15,742	15,927	15,926
EBITDA	3,767	3,958	4,024	4,082
Deprec. & amort.	2,722	2,303	2,249	2,219
EBIT	1,045	1,655	1,775	1,864
Associate contributions	2,136	2,184	2,312	2,484
Net interest income/(expense)	(313)	(363)	(377)	(390)
Pre-tax profit	2,879	3,476	3,710	3,958
Tax	(934)	(904)	(965)	(1,029)
Minorities	(11)	0	0	0
Net profit	1,934	2,572	2,746	2,929
Net profit (adj.)	1,934	2,572	2,746	2,929

BALANCE SHEET

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Fixed assets	10,892	11,000	10,981	10,832
Other LT assets	30,109	30,764	31,458	32,203
Cash/ST investment	2,130	2,493	2,961	3,617
Other current assets	6,000	6,143	6,209	6,206
Total assets	49,131	50,400	51,608	52,859
ST debt	1,614	1,614	1,614	1,614
Other current liabilities	7,441	7,543	7,600	7,558
LT debt	10,254	10,726	11,172	11,586
Other LT liabilities	1,713	1,713	1,713	1,713
Shareholders' equity	28,124	28,819	29,524	30,403
Minority interest	(15)	(15)	(15)	(15)
Total liabilities & equity	49,131	50,400	51,608	52,859

CASH FLOW

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Operating	5,298	5,148	5,362	5,498
Pre-tax profit	2,879	3,476	3,710	3,958
Tax	(934)	(904)	(965)	(1,029)
Deprec. & amort.	2,378	2,253	2,249	2,219
Associates	(11)	0	0	0
Working capital changes	(180)	(40)	(9)	(39)
Non-cash items	313	363	377	390
Other operating cashflows	853	0	0	0
Investing	(644)	(3,016)	(2,923)	(2,816)
Capex (maintenance)	(2,217)	(2,361)	(2,230)	(2,070)
Proceeds from sale of assets	(207)	(655)	(694)	(745)
Others	1,780	0	0	0
Financing	(3,266)	(1,768)	(1,972)	(2,026)
Dividend payments	(1,139)	(1,877)	(2,041)	(2,050)
Issue of shares	(1)	0	0	0
Proceeds from borrowings	(991)	472	446	414
Others/interest paid	(1,135)	(363)	(377)	(390)
Net cash inflow (outflow)	1,388	363	468	657
Beginning cash & cash equivalent	755	2,130	2,493	2,961
Changes due to forex impact	(13)	0	0	0
Ending cash & cash equivalent	2,130	2,493	2,961	3,617

KEY METRICS

Year to 31 Mar (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	24.6	25.1	25.3	25.6
Pre-tax margin	18.8	22.1	23.3	24.9
Net margin	12.6	16.3	17.2	18.4
ROA	4.0	5.2	5.4	5.6
ROE	7.1	9.0	9.4	9.8
Growth				
Turnover	(1.9)	2.6	1.2	0.0
EBITDA	(1.7)	5.1	1.7	1.5
Pre-tax profit	110.1	20.7	6.7	6.7
Net profit	249.8	33.0	6.7	6.7
Net profit (adj.)	11.6	33.0	6.7	6.7
EPS	11.6	33.0	6.7	6.7
Leverage				
Debt to total capital	29.7	30.0	30.2	30.3
Debt to equity	42.2	42.8	43.3	43.4
Net debt/(cash) to equity	34.6	34.2	33.3	31.5
Interest cover (x)	12.0	10.9	10.7	10.5

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