

Singapore Company Update

Singtel

Bloomberg: ST SP | Reuters: STEL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

3 Jun 2022

BUY

Last Traded Price (2 Jun 2022): S\$2.59 (STI : 3,226.72)
Price Target 12-mth: S\$3.20 (24% upside) (Prev S\$3.13)

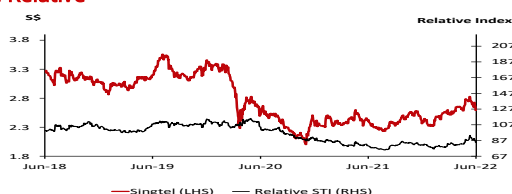
Analyst

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What's New

- Comcentre re-development to extend the life and value of the asset while freeing up cash
- Trim earnings by 2%/3% in FY23F/24F, due to a slow recovery in Singapore, bringing us 12%/13% below consensus projections
- Maintain BUY with a higher TP of S\$3.20, as we roll forward the valuation to FY23F

Price Relative



Forecasts and Valuation

FY Mar (S\$m)	2022A	2023F	2024F	2025F
Revenue	15,339	16,476	17,216	18,102
EBITDA	5,902	6,326	6,778	7,214
Pre-tax Profit	2,893	3,236	3,614	3,941
Net Profit	1,948	2,222	2,482	2,708
Net Pft (Pre Ex.)	1,923	2,222	2,482	2,708
Net Pft Gth (Pre-ex) (%)	11.0	15.5	11.7	9.1
EPS (S cts)	11.8	13.5	15.0	16.4
EPS Pre Ex. (S cts)	11.6	13.5	15.0	16.4
EPS Gth Pre Ex (%)	11	16	12	9
Diluted EPS (S cts)	11.8	13.5	15.0	16.4
Net DPS (S cts)	9.30	10.1	11.3	12.3
BV Per Share (S cts)	170	174	177	182
PE (X)	22.0	19.3	17.2	15.8
PE Pre Ex. (X)	22.2	19.3	17.2	15.8
P/Cash Flow (X)	11.6	12.6	9.8	9.4
EV/EBITDA (X)	8.9	8.2	7.5	6.9
Net Div Yield (%)	3.6	3.9	4.4	4.7
P/Book Value (X)	1.5	1.5	1.5	1.4
Net Debt/Equity (X)	0.3	0.3	0.3	0.2
ROAE (%)	7.1	7.8	8.6	9.1
Earnings Rev (%)		(2)	(3)	-
Consensus EPS (S cts):		15.6	17.7	20.0
Other Broker Recs:		B: 16	S: 0	H: 2

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

4% yield with decent growth prospects

Investment Thesis

36% holding company (HoldCo) discount should narrow, with recovery in the core business. Current HoldCo discount stands at 36% (vs. seven-year average of 24%), as Singtel's share price has lagged its associates' share price. The discount had widened sharply last year after a 42% decline in core operating profit from Singapore & Australia in FY21. We project core operating profits to recover by another 21% in FY23F after a 33% recovery in FY22 (excluding one-offs). Besides, Singtel offers ~4% yield based on 75% payout ratio.

Potential catalyst: Asset divestments. (i) Partial divestment of its stake in associates (such as Bharti) would align Singtel's share price with the market price of associates; (ii) asset divestments worth S\$3bn to fund growth across data centres & ICT over the next three years, while helping to maintain the earnings payout ratio above 75%.

Valuation:

Maintain BUY with a higher TP of S\$3.20. Our fair value for the core business in Singapore and Australia is S\$0.77 per share (prev S\$0.70) as we roll forward the valuation to FY23F. We value regional associates at S\$2.43 per share (unchanged) despite a rise in the market value of its associates, as we assume a higher HoldCo discount of 15% (prev 10%) to reflect a slower recovery in Singapore.

Where we differ:

Our revised FY23F/24F earnings are 12%/13% below consensus estimates. The difference is mainly due to slower recovery estimates in Singapore and Australia, as roaming revenue may not recover fully due to ingrained habits, while SIM-only plans may also eat into the postpaid revenue pool.

Key Risks to Our View:

Bear case valuation of S\$2.10. If core earnings witness a decline, it will result in a 14% reduction in our valuation of the core business, paired with the regional associates experiencing a 20% drop in their market value.

At A Glance

Issued Capital (m shrs)	16,508
Mkt. Cap (S\$m/US\$m)	42,755 / 31,195
Major Shareholders (%)	
Temasek Holdings Pte Ltd	52.2
Free Float (%)	47.8
3m Avg. Daily Val (US\$m)	64.4
GIC Industry : Communication Services / Telecommunication	



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WHAT'S NEW

Asset enhancement at Comcentre & delay in Singapore recovery

Comcentre re-development to extend the life and value of the asset while freeing up cash, non-material impact on earnings. The Comcentre building was built in 1979 and needed to be rejuvenated. Through this re-development, Singtel would extend the lease to 2089 and create an asset with a recurring revenue stream. Singtel expects to re-develop its Comcentre headquarters into a S\$3bn asset, based on the gross development value upon completion, vs. the development cost of S\$2.7bn to be incurred by the joint venture company (JVCo). Singtel will also secure net cash proceeds of S\$660m-910m from the JVCo; although, the JVCo's debt will sit on Singtel's balance sheet.

Singtel and Lendlease to enter into a joint venture for the redevelopment. Lendlease will subscribe to 49% of the shares of the JVCo in 2024 and Singtel will hold 51%. The JVCo will pay S\$1.63bn to Singtel for the land cost of the development around 2024. The total cost of the redevelopment (including land cost of S\$1.63bn, construction and financing costs) is expected to be in the region of S\$2.7bn. This will be funded by a combination of debt and equity from Singtel and Lendlease.

Singtel's capital contribution for the JVCo is estimated to be between S\$420m and S\$570m, depending on the debt to be raised by the JVCo. Singtel will also be responsible for the differential premium payable (an estimated S\$300-400m) to extend the lease to 2089 and for changing the building to ensure it can be used as commercial office space. Overall, Singtel will incur S\$720m-970m in capital contributions to the JVCo and differential premiums payable, while receiving S\$1.63bn for the land. The JVCo will sit on Singtel's balance sheet with the latter having a 51% stake in the JVCo.

Long-term recurring revenue once completed in 2028. The development is expected to have a total gross floor area in excess of 110,000 square metres, comprising two 20-storey buildings of premium grade/Grade A office space with views of the CBD and surrounding Orchard precinct. At the ground level, a large, sheltered arcade and vibrant urban space will offer almost 3,000 square metres of F&B, lifestyle, and retail space, including Singtel's new flagship store. The proposed design also

includes an elevated rooftop park featuring a 300-person auditorium, a running and walking track, and an integrated wellness hub. As the anchor tenant, Singtel is expected to occupy about 30% of the total space in the new development.

Delay in Singapore recovery

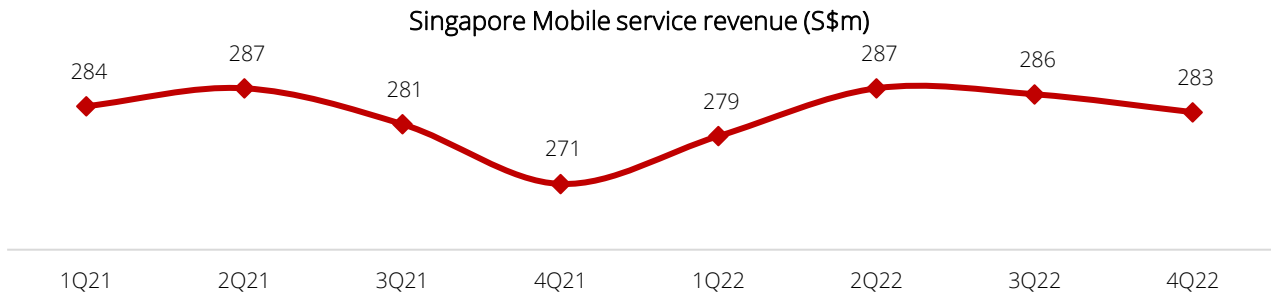
2H22 core underlying operating profit was weak due to Singapore, while Australia continued to recover. Core EBIT excludes National Broadband Network (NBN) migration revenue in Australia and job support scheme grants in Singapore, which will be largely absent going forward. 1H22 underlying core EBIT (before associates' contribution) of S\$454m rose 6% y-o-y but declined 12% compared to 1H22 – the main culprit was the Singapore consumer business. Underlying Singapore consumer EBIT declined to S\$128m (-7% y-o-y) compared to our expectations of S\$165m, mainly due to premium handset shortages, an increased shift towards SIM-only plans, and longer replacement cycles. Underlying Australia consumer EBIT of S\$122m (+100% y-o-y), compared to S\$94m in 1H22, was in line.

2H22 Singapore mobile service revenue did not see much recovery due to non-recovery of roaming revenue and consumers moving to SIM-only plans. Roaming revenue is positively correlated to rising tourists in the country, but 2H22 did not see many tourists despite the reopening of Singapore, due to the Omicron threat to some extent. Furthermore, lower equipment sales stemming from supply constraints caused by global chipset shortages and more SIM-only plans impacted the Singapore business.

2H22 associate post-tax contribution of S\$774m (+18% y-o-y, +3% h-o-h) was 8% below our expectations despite a solid Bharti. Bharti contributed S\$198m in profit in 2H22 compared to S\$50m in 1H22 and a S\$9m loss in 1H21, in line with our estimates. However, this was partially offset by (i) Globe contributing only S\$97m in profit in 2H22, compared to S\$136m in 1H22; and (ii) Telkomsel contributing S\$342m in 1H22 compared to S\$365m in 1H22.

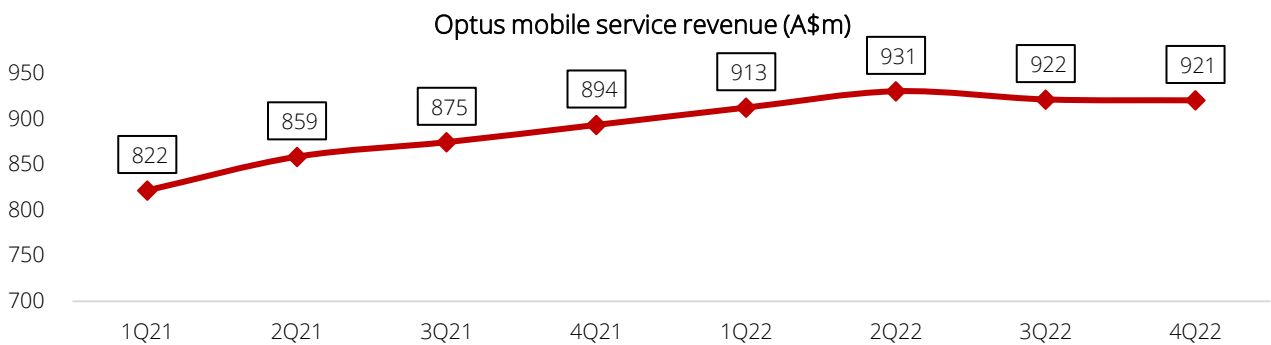
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Singapore mobile service revenue – impacted by lower roaming revenue and shift towards SIM-only plans



Source: Company, DBS Bank

Optus mobile service revenue recovery led by higher penetration of Optus Choice plans – Omicron impact in 2H22

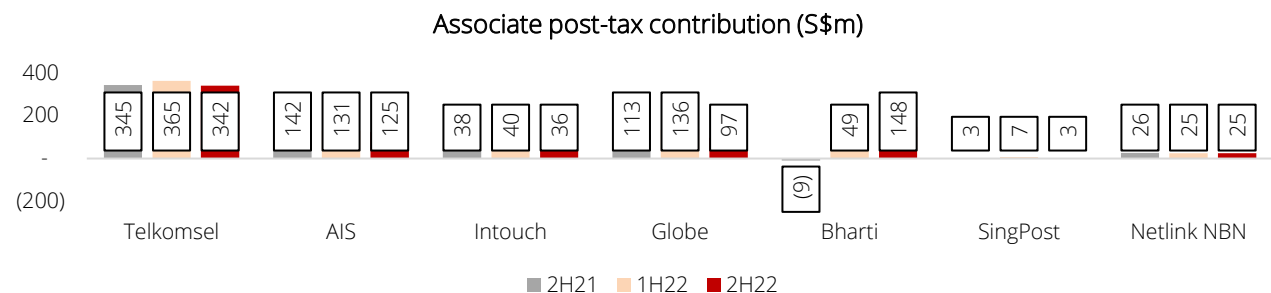


Source: Company, DBS Bank

Optus to see healthy growth in FY23F led by recovery in average revenue per user (ARPU). In May 2021, Optus had raised the prices across its postpaid plans by A\$6 per month, translating into an effective increase of 8%-15%. Telstra also increased its postpaid mobile plan prices by between \$5 and \$15 per month over the same

period. Optus is also benefiting from the rising penetration of its premium Optus Choice plans with bundled 5G benefits, helping uplift its ARPU. However, we like to remind our readers that the National Broadband Network (NBN) migration revenue of A\$69m in FY22 would be absent in FY23F.

Bharti's contribution is expected to rise following a tariff hike-led increase in ARPU in India



Source: Company, DBS Bank

We lower our FY23F core EBITDA (before associates' contribution) by 3% on the slower-than-expected Singapore consumer business. Mobile service revenue is not recovering as expected in Singapore, while the Australia business is recording improved mobile service revenue, largely led by higher postpaid revenue from increased penetration of Optus Choice plans, as well as half a year's contribution from amaysim. The Singapore consumer business could be impacted by a slower recovery in the postpaid segment. Hence, we lower Singapore EBITDA by 6%/3%.

Australia is recovering relatively well, and Bharti Airtel is expected to grow its earnings by 60% in FY23F, supported by its rising ARPU. Additionally, the Indonesian telco industry is experiencing stability following the ceasing of unlimited plans coupled with the industry consolidation. We have factored in FY23F capex of S\$2.6bn, of which Optus is expected to incur A\$1.7bn. Overall, the net profit estimate has been lowered by 2%/3% in FY23F/24F, because of the above adjustments to our forecast.

Core EBITDA to recover in Singapore and Australia; NBN migration revenue would be absent in FY23F

	2022A	2023F	2024F
Singapore EBITDA (S\$m)	1,704	1,752 (Prev 1855)	1,789 (Prev 1848)
Australia EBITDA (S\$m)	2,062	2,170 (Prev 2176)	2,344 (Prev 2285)
Core EBITDA (S\$m)	3,766	3,923 (Prev 4031)	4,133 (Prev 4133)

Source: Company, DBS Bank

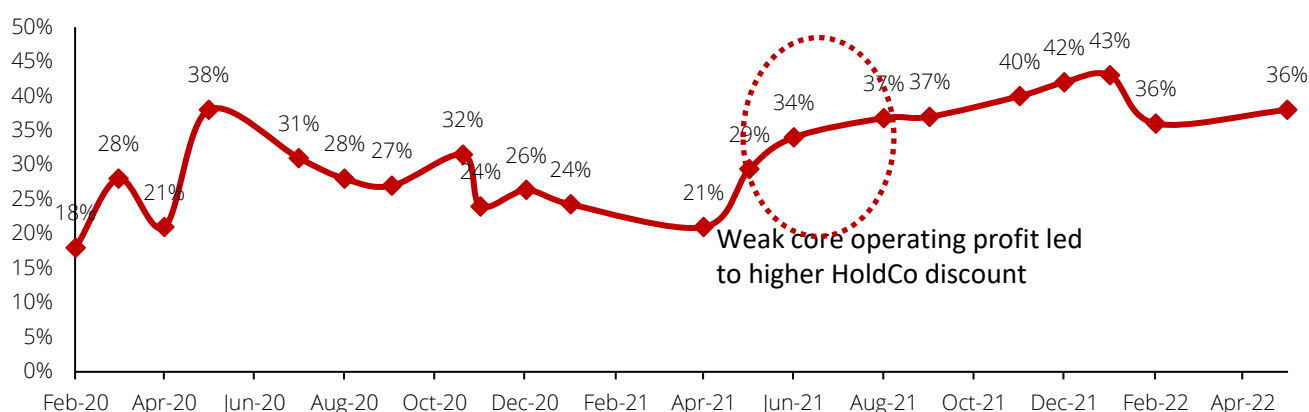
Associate pre-tax contributions in FY23F/24F are expected to grow by 12%/10%, driven by Bharti Airtel

	2022A	2023F	2024F
Telkomsel (S\$m)	915	915	915
Bharti Airtel (S\$m)	432	691	933
AIS (S\$m)	314	314	314
InTouch (S\$m)	95	95	95
Globe (S\$m)	311	317	317
NetLink (S\$m)	54	55	55
Others including SingPost (S\$m)	16	16	16
Total	2,137	2,404	2,645
Growth	19%	12%	10%

Source: Company, DBS Bank

Holding company discount is at 36% (vs. 7-year historical average of 24%), record high of 43% discount in Jan 2022

Singtel-HoldCo Discount



Source: Company, DBS Bank

Singtel

Sum-of-the-parts (SOTP) of Singtel and its associates

Value of the core business in Singapore & Australia is S\$0.77 per share, benefitting from reduction in net debt

	FY23F EBITDA (\$m)	EV/EBITDA	Ownership	Value (\$m)	Per Share (\$)	Previous
Singapore telco	1,653	5.0	1.0	8,263	0.50	0.50
Optus telco	2,070	5.0	1.0	10,352	0.66	0.70
Data centre	100	18.0	1.0	1,800	0.11	0.11
Digital business				1,193	0.07	0.07
Debt				(9,370)	(0.57)	(0.68)
Equity value of the core business				13,548	0.77	0.70

Regional associates are worth S\$2.43 per share based on their market values (only Telkomsel is valued at a fair value)

	Share Price	Exchange Rates	Stake	Value (\$m)	Per share (\$)	Previous
Bharti Airtel	700.00	57.00	32%	21,369	1.29	1.20
AIS	217.00	25.00	23%	6,015	0.36	0.31
InTouch	71.50	25.00	21%	1,944	0.12	0.11
Globe	2,588.00	39.00	47%	4,169	0.25	0.25
SingPost	0.69	1.00	22%	340	0.02	0.02
NetLink NBN Trust	0.97	1.00	25%	940	0.06	0.06

Regional Associates	FY23F (March YE) PER	Exchange Rates	Stake	Value (\$m)	Per share (\$)	Previous
Telkomsel	14	10,700	35%	12,503	0.76	0.75

	Value (\$m)	Per share (\$)	Previous
Associate Valuation (pre-HoldCo discount)	47,279	2.86	2.70
Hold co discount (15%)	(7,092)	(0.43)	(0.27)
Associate Valuation	42,551	2.43	2.43

Source: Reuters, Company, DBS Bank

Maintain BUY with a higher TP of S\$3.20. Our fair value for the company's core business is S\$0.77 per share (prev S\$0.70), as we use 5x FY23F EV/EBITDA (FY22 earlier) and our valuation also benefits from the ~S\$2bn decline in net debt. We value regional associates at S\$2.43 per share (unchanged) as a higher value is negated by our higher HoldCo discount of 15% from 10% to reflect slower recovery in the core business.

Company Background

Singtel is the largest telecom operator in Singapore and its Australian subsidiary Optus is the second-largest operator in Australia. Singtel also has substantial stakes in various telcos in the region – Telkomsel in Indonesia, Bharti Airtel (Bharti) in India, AIS in Thailand, and Globe in the Philippines.

Interim Income Statement (S\$m)

FY Mar	2H2021	1H2022	2H2022	% chg yoy	% chg hoh
Revenue	8,219	7,653	7,687	(6.5)	0.4
Cost of Goods Sold	(6,360)	(5,810)	(5,915)	(7.0)	1.8
Gross Profit	1,859	1,843	1,772	(4.7)	(3.9)
Other Oper. (Exp)/Inc	(1,308)	(1,270)	(1,300)	(0.6)	2.4
Operating Profit	551	573	472	(14.3)	(17.6)
Other Non Opg (Exp)/Inc	0	0	0	-	-
Associates & JV Inc	913	1,047	1,090	19.4	4.1
Net Interest (Exp)/Inc	(191)	(135)	(178)	6.8	(31.9)
Exceptional Gain/(Loss)	(809)	(29)	54	nm	nm
Pre-tax Profit	464	1,456	1,438	209.9	(1.2)
Tax	(373)	(496)	(438)	nm	Nm
Minority Interest	(4)	(6)	(5)	(25.0)	(16.7)
Net Profit	87	954	995	1,043.7	4.3
Net profit bef Except.	896	983	941	5.0	(4.3)
EBITDA	1,464	1,620	1,562	6.7	(3.6)
Margins (%)					
Gross Margins	22.6	24.1	23.1		
Opg Profit Margins	6.7	7.5	6.1		
Net Profit Margins	1.1	12.5	12.9		

Source of all data: Company, DBS Bank

Historical PE and PB band [Pls always check if PE/ PB band is correctly represented]



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

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Key Assumptions

FY Mar	2021A	2022A	2023F	2024F	2025F
Singapore Revenue	7,481	7,524	7,617	7,649	7,770
Singapore EBITDA	25.0	22.7	23.0	23.4	23.5
Optus Revenue (A\$m)	8,321	7,836	9,325	10,071	10,876
Optus EBITDA Margin (%)	24.0	24.7	24.5	24.5	24.5
Associate pre-tax	1,798	2,136	2,404	2,645	2,857

Income Statement (\$m)

FY Mar	2021A	2022A	2023F	2024F	2025F
Revenue	15,644	15,339	16,476	17,216	18,102
Cost of Goods Sold	(11,954)	(11,725)	(12,706)	(13,236)	(13,898)
Gross Profit	3,690	3,614	3,769	3,980	4,204
Other Opng (Exp)/Inc	(2,543)	(2,570)	(2,592)	(2,675)	(2,806)
Operating Profit	1,147	1,044	1,177	1,305	1,398
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	1,798	2,136	2,404	2,645	2,857
Net Interest (Exp)/Inc	(396)	(312)	(345)	(337)	(314)
Exceptional Gain/(Loss)	(1,179)	25.0	0.0	0.0	0.0
Pre-tax Profit	1,371	2,893	3,236	3,614	3,941
Tax	(811)	(934)	(1,003)	(1,120)	(1,222)
Minority Interest	(6.0)	(11.0)	(11.0)	(11.0)	(11.0)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	554	1,948	2,222	2,482	2,708
Net Profit before Except.	1,733	1,923	2,222	2,482	2,708
EBITDA	5,630	5,902	6,326	6,778	7,214
Growth					
Revenue Gth (%)	(5.4)	(1.9)	7.4	4.5	5.1
EBITDA Gth (%)	(10.4)	4.8	7.2	7.2	6.4
Opg Profit Gth (%)	(41.5)	(9.0)	12.7	10.9	7.1
Net Profit Gth (Pre-ex) (%)	(29.5)	11.0	15.5	11.7	9.1
Margins & Ratio					
Gross Margins (%)	23.6	23.6	22.9	23.1	23.2
Opg Profit Margin (%)	7.3	6.8	7.1	7.6	7.7
Net Profit Margin (%)	3.5	12.7	13.5	14.4	15.0
ROAE (%)	2.1	7.1	7.8	8.6	9.1
ROA (%)	1.1	4.0	4.5	5.0	5.3
ROCE (%)	1.1	1.7	1.9	2.1	2.2
Div Payout Ratio (%)	223.6	78.8	75.0	75.0	75.0
Net Interest Cover (x)	2.9	3.3	3.4	3.9	4.5

Source: Company, DBS Bank

Interim Income Statement (\$\$m)

FY Mar	1H2021	2H2021	1H2022	2H2022
Revenue	7,425	8,219	7,653	7,687
Cost of Goods Sold	(5,594)	(6,360)	(5,810)	(5,915)
Gross Profit	1,831	1,859	1,843	1,772
Other Oper. (Exp)/Inc	(1,235)	(1,308)	(1,270)	(1,300)
Operating Profit	596	551	573	472
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0
Associates & JV Inc	885	913	1,047	1,090
Net Interest (Exp)/Inc	(204)	(191)	(135)	(178)
Exceptional Gain/(Loss)	(371)	(809)	(29.0)	54.0
Pre-tax Profit	906	464	1,456	1,438
Tax	(438)	(373)	(496)	(438)
Minority Interest	(3.0)	(4.0)	(6.0)	(5.0)
Net Profit	465	87.0	954	995
Net profit bef Except.	836	896	983	941
EBITDA	1,481	1,464	1,620	1,562

Weaker Singapore consumer performance led to the 6.5% h-o-h drop in group revenue

Growth

Revenue Gth (%)	nm	10.7	(6.9)	0.4
EBITDA Gth (%)	nm	(1.1)	10.7	(3.6)
Opg Profit Gth (%)	nm	(7.6)	4.0	(17.6)
Net Profit Gth (%)	nm	(81.3)	996.6	4.3

Margins

Gross Margins (%)	24.7	22.6	24.1	23.1
Opg Profit Margins (%)	8.0	6.7	7.5	6.1
Net Profit Margins (%)	6.3	1.1	12.5	12.9

Balance Sheet (\$\$m)

FY Mar	2021A	2022A	2023F	2024F	2025F
Net Fixed Assets	13,590	14,250	14,478	14,676	14,912
Invts in Associates & JVs	13,084	13,040	12,659	12,326	12,019
Other LT Assets	14,793	13,711	13,379	13,088	12,790
Cash & ST Invts	755	2,130	2,529	3,667	4,784
Inventory	272	270	379	396	416
Debtors	5,444	5,245	5,551	5,800	6,099
Other Current Assets	62.0	485	485	485	485
Total Assets	47,999	49,131	49,460	50,439	51,504
ST Debt	2,034	1,614	1,614	1,614	1,614
Creditor	5,977	5,596	5,125	5,355	5,630
Other Current Liab	1,126	1,845	2,079	2,196	2,298
LT Debt	10,825	10,254	10,254	10,254	10,254
Other LT Liabilities	1,525	1,713	1,713	1,713	1,713
Shareholder's Equity	26,486	28,125	28,680	29,301	29,978
Minority Interests	26.0	(16.0)	(5.0)	6.00	17.0
Total Cap. & Liab.	47,999	49,131	49,460	50,439	51,504
Non-Cash Wkg. Capital	(1,325)	(1,441)	(789)	(870)	(928)
Net Cash/(Debt)	(12,104)	(9,738)	(9,339)	(8,201)	(7,084)
Debtors Turn (avg days)	128.4	127.2	119.6	120.3	120.0
Creditors Turn (avg days)	228.8	234.6	196.4	183.8	183.3
Inventory Turn (avg days)	10.9	11.0	11.9	13.6	13.5
Asset Turnover (x)	0.3	0.3	0.3	0.3	0.4
Current Ratio (x)	0.7	0.9	1.0	1.1	1.2
Quick Ratio (x)	0.7	0.8	0.9	1.0	1.1
Net Debt/Equity (X)	0.5	0.3	0.3	0.3	0.2
Net Debt/Equity ex MI (X)	0.5	0.3	0.3	0.3	0.2
Capex to Debt (%)	18.6	20.8	22.3	23.1	24.4

Source: Company, DBS Bank

Cash Flow Statement (S\$m)

FY Mar	2021A	2022A	2023F	2024F	2025F
Pre-Tax Profit	1,371	2,893	3,236	3,614	3,941
Dep. & Amort.	2,685	2,722	2,745	2,828	2,959
Tax Paid	(164)	(352)	(769)	(1,003)	(1,120)
Assoc. & JV Inc/(loss)	(1,798)	(2,136)	(1,322)	(1,455)	(1,571)
Chg in Wkg.Cap.	584	270	(886)	(36.2)	(43.3)
Other Operating CF	1,497	279	404	404	404
Net Operating CF	4,175	3,676	3,407	4,351	4,569
Capital Exp.(net)	(2,397)	(2,472)	(2,641)	(2,736)	(2,896)
Other Invs.(net)	(7.0)	127	0.0	0.0	0.0
Invs in Assoc. & JV	(263)	(234)	0.0	0.0	0.0
Div from Assoc & JV	1,434	1,622	1,703	1,788	1,878
Other Investing CF	1.00	1,934	0.0	0.0	0.0
Net Investing CF	(1,232)	977	(938)	(947)	(1,018)
Div Paid	(1,273)	(1,139)	(1,666)	(1,862)	(2,031)
Chg in Gross Debt	(1,693)	(2,710)	0.0	0.0	0.0
Capital Issues	447	(1.0)	0.0	0.0	0.0
Other Financing CF	(659)	586	(404)	(404)	(404)
Net Financing CF	(3,178)	(3,264)	(2,070)	(2,265)	(2,435)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(235)	1,389	399	1,138	1,116
Opg CFPS (S cts)	21.7	20.6	26.0	26.6	27.9
Free CFPS (S cts)	10.8	7.29	4.64	9.78	10.1

Optus capex to hover at A\$1.7bn, taking the overall capex to S\$2.6bn

Source: Company, DBS Bank

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	26 Aug 21	2.38	3.13	BUY

Source: DBS Bank

Analyst: Sachin MITTAL

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 3 Jun 2022 07:24:49 (SGT)

Dissemination Date: 3 Jun 2022 07:27:39 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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