

Singapore Company Update

Singtel

Bloomberg: ST SP | Reuters: STEL.SI

Refer to important disclosures at the end of this report

DBS Group Research. Equity

19 Jul 2022

BUY

Last Traded Price (18 Jul 2022): S\$2.66 (STI : 3,121.76)
Price Target 12-mth: S\$3.24 (22% upside) (Prev S\$3.20)

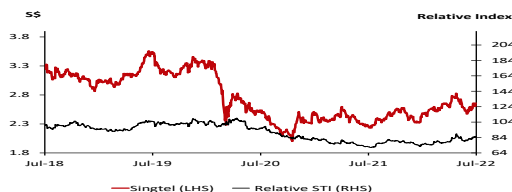
Analyst

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What's New

- Raise FY23F/24F earnings by 5%/4% on potential sale of Amobee and Trustwave; Recent price-hike in Australia could be an upside surprise.
- Among large caps, Singtel offers similar earnings growth & yield as Singapore banks, although Singtel is less reliant on economy than banks
- Maintain BUY with a higher TP of S\$3.24

Price Relative



Forecasts and Valuation

FY Mar (S\$m)	2021A	2022A	2023F	2024F
Revenue	15,644	15,339	15,517	16,257
EBITDA	5,630	5,902	6,471	6,929
Pre-tax Profit	1,371	2,893	3,381	3,775
Net Profit	554	1,948	2,322	2,594
Net Pft (Pre Ex.)	1,733	1,923	2,322	2,594
Net Pft Gth (Pre-ex) (%)	(29.5)	11.0	20.7	11.7
EPS (S cts)	3.35	11.8	14.1	15.7
EPS Pre Ex. (S cts)	10.5	11.6	14.1	15.7
EPS Gth Pre Ex (%)	(30)	11	21	12
Diluted EPS (S cts)	3.35	11.8	14.1	15.7
Net DPS (S cts)	7.50	9.30	10.5	11.8
BV Per Share (S cts)	160	170	174	178
PE (X)	79.3	22.5	18.9	16.9
PE Pre Ex. (X)	25.4	22.8	18.9	16.9
P/Cash Flow (X)	10.5	11.9	12.2	9.8
EV/EBITDA (X)	10.0	9.1	8.2	7.5
Net Div Yield (%)	2.8	3.5	4.0	4.4
P/Book Value (X)	1.7	1.6	1.5	1.5
Net Debt/Equity (X)	0.5	0.3	0.3	0.3
ROAE (%)	2.1	7.1	8.2	8.9
Earnings Rev (%):			5	4
Consensus EPS (S cts):			15.1	17.4
Other Broker Recs:		B: 16	S: 0	H: 2

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

Upward earnings revision after a long time

Investment Thesis:

36% holding company (HoldCo) discount should narrow, with recovery in the core business. The current HoldCo discount has widened to 36% (vs. seven-year average of 24%) mainly due to a sharp 42% decline in core operating profit from Singapore & Australia in FY21. We project core operating profits to recover by another 27% in FY23F after a 33% recovery in FY22 (excluding one-offs). Besides, Singtel offers over 4% yield based on a 75% payout ratio.

Potential catalyst: Asset divestments. (i) Partial divestment of its stake in associates (such as Bharti) might reduce HoldCo discount and hopefully lead to special dividend (ii) asset divestments worth S\$3bn to fund growth across data centres & ICT over the next three years, would also help to maintain earnings payout ratio above 75%.

Valuation:

Maintain BUY with a higher TP of S\$3.24. Our fair value for the company's core business is S\$0.81 per share (prev S\$0.77), from higher core profit due to the potential sale of Amobee and Trustwave. We value regional associates at S\$2.43 per share (unchanged), using 15% HoldCo discount to reflect a gradual recovery in the core business.

Where we differ:

Our revised FY23F/24F earnings are still 6%/10% 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:

Bull and Bear case valuation of S\$4.00 and S\$2.10. We assume core EBITDA CAGR of 12% from Singapore and Australia over FY22-24F (vs 7% under the base-case) and flat EBITDA under the bear-case

At A Glance

Issued Capital (m shrs)	16,508
Mkt. Cap (S\$m/US\$m)	43,911 / 31,363
Major Shareholders (%)	
Temasek Holdings Pte Ltd	52.5
Free Float (%)	47.5
3m Avg. Daily Val (US\$m)	63.2
GIC Industry :	Communication Services / Telecommunication



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Live more, Bank less

Singtel

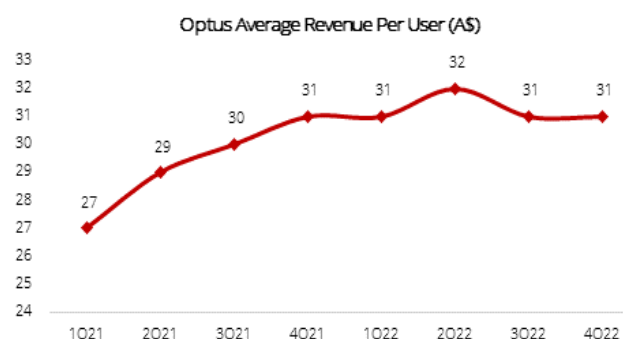
WHAT'S NEW

Earnings boost from "held for sale" assets?

We raise our FY23F/24F earnings by 5%/4% on potential classification of Amobee and Trustwave as "held for sale" subsidiary. According to Sky News, Amobee might be sold to London-Listed adtech firm Tremor for an estimated GBP165m (S\$280m). Amobee has been largely loss-making (S\$70m in EBIT loss in FY22). Furthermore, as Amobee is in advance stage of sale, Amobee might be classified as a subsidiary that is "held for sale" from 1QFY23F onwards; therefore, its revenue and earnings will not be captured from FY23F onwards in Singtel's reported profit. We also expect Trustwave to be divested in FY23F as Singtel has mentioned about its potential sale a few times and it could be classified as "held for sale" in 2QFY23F or 3QFY23F in our view. Trustwave generated an estimated S\$140m EBIT loss in FY22. Overall, this could result in avoiding an estimated S\$200-210m annual operating loss (~9% of FY23F underlying profit) from Amobee and Trustwave although the savings would be slightly lower in FY23F due to the timing of Trustwave classification. Hence, we have raised our Singtel's earnings by 5%/4% in FY23F/24F.

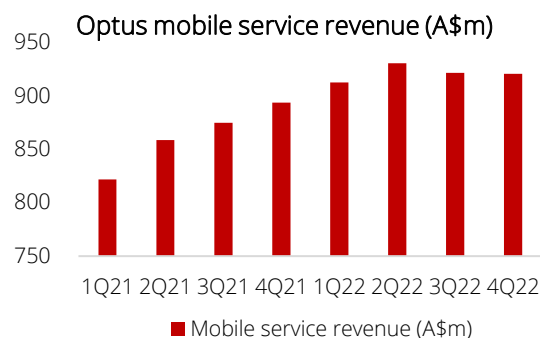
Optus in Australia implements an upward revision in tariffs in July 2022. In early Jul 2022, Optus has raised the price of Optus-choice plans by A\$4 for existing subscribers, which translates to about a 10%-15% on an average ARPU of A\$31. Telstra had raised the mobile tariffs by A\$4 across all its plans in the beginning of July. The last tariff increase by Optus in May 2021 was not applicable to existing subscribers who had joined before May 2021. This July upward revision will be applicable to subscribers who joined before May 2021 which will further boost ARPU growth. The price of all tier plans – from the A\$39 per month tier offering 10GB of data to the A\$79 per month tier offering 120GB – will be increased from 8 August along with an increase on the data allowance on these plans as well.

Over the last six quarters, Optus' ARPU has been hovering at an average of A\$31



Source: Company, DBS Bank

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

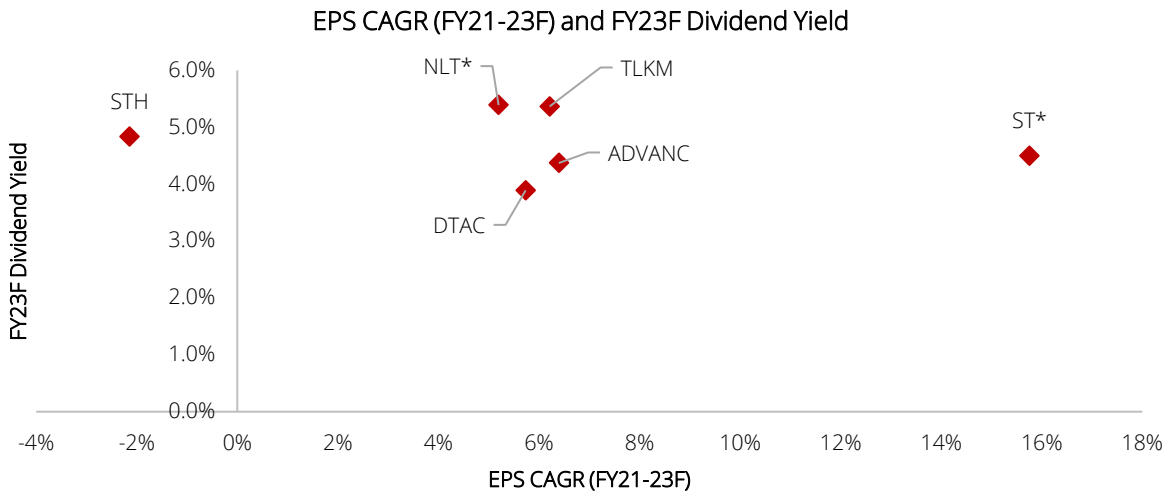


Source: Company, DBS Bank

Singtel has begun its growth journey while paying healthy dividends to its shareholders. Core business segments in Singapore and Australia saw a tumultuous period during the lockdowns and are gradually recovering following the resumption of foreign travel. Singtel should be less reliant on the Singapore economy compared to local banks in Singapore who offer similar growth. Furthermore, increasing contribution from associates will further support the telco's earnings growth, making the company an exciting stock that offers a better mixture of growth and yield. At current prices, Singtel offers a yield of over 4.0%.

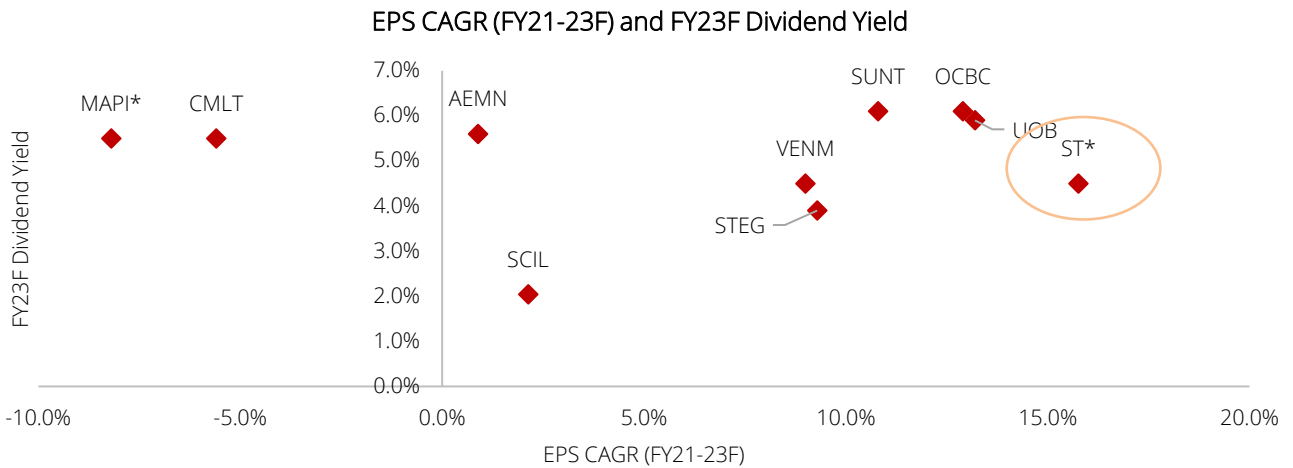
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Among regional telcos, Singtel offers far superior growth than other telcos that pay dividends



Source: Reuters, Companies, DBS Bank

Singtel offers a better mixture of yield and growth compared to other Singapore large caps



*Mar YE companies

**September YE company

Source: Companies, Reuters, DBS Bank

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What could drive Singtel to achieve its bull case TP of S\$4.00?

	Base	Bull
Target price	S\$3.23	S\$4.00
Core EBITDA CAGR (FY22-24F)	6.7%	12.1%
Pre-tax associate earnings contribution CAGR (FY22-24F)	11.3%	15.9%
Earnings CAGR (FY22-24F)	16.1%	24.1%
Dividend per share FY23F/24F	10.5/11.8 Scts	11.5/13.4 Scts
Dividend yield FY23F/24F	4.0%/4.5%	4.4%/5.1%

Source: Company, DBS Bank

Bull-case assumes faster recovery in the core businesses in Singapore and Australia. The Singapore consumer business was largely hampered during FY21/22 due to the reduction in roaming revenue and Singaporeans embracing SIM-only plans. Roaming revenue is positively correlated to rising tourists in the country, but 2H FYE Mar 2022 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.

In our base case scenario, we assumed a slower recovery in roaming revenue, which used to account for 15%-20% of the Singapore consumer business revenue during the pre-COVID period. A rapid recovery in this segment and support from 5G mobile upgrades could signal a healthy recovery in the overall consumer business.

Australia business Optus is continuing to recover, and FY23F revenue is expected to improve, led by rising ARPU. The prices of Optus's postpaid plans have been raised by over 10% in July 2022 for existing subscribers of Optus Choice plans which could lead to a faster recovery.

Historically poor core business performances have impacted Singtel's share price, affecting its earnings. Its ability to pay out healthy dividends also followed suit. Singtel is continuing to unlock the value of its assets to support organic growth while distributing some portions as dividends.

Bull-case assumes higher contribution from Bharti Airtel and Telkomsel to overall pre-tax associate earnings.

Overall, associate pre-tax earnings see a positive correlation of 25% to Singtel's share price from 1Q18

onwards. Bharti Airtel and Telkomsel are expected to contribute over 67%/70% to pre-tax associate earnings in

FY23F/24F (63% in FY22). The tariff revision by Bharti Airtel and industry stability in the Indonesian telecom sector are expected to bode well for Singtel's forecasted associated earnings.

Bharti Airtel is expected to contribute S\$691m/S\$933m during FY23F/24F, led by rising ARPUs on the back of the recent upward tariff revisions. Bharti Airtel has begun its earnings expansion and might contemplate implementing further tariff hikes, which can bode well for Singtel. Bharti Airtel's Triple Play Plan is gaining traction in India. Bharti Airtel is also witnessing healthy subscriber additions. All these factors are expected to support the rise in ARPU, which can possibly lead to a much higher pre-tax earnings contribution to Singtel from FY23F onwards.

Telkomsel is projected to generate S\$915m each in FY23F/24F, under our base case scenario. Competition in Indonesia has largely stabilised, and Telkomsel only faces stiff competition from XL Axiata at present, especially in the ex-Java region, as Indosat Ooredoo Hutchison is occupied with its integration challenges following the merger. If XL Axiata fails or falls below expectations on achieving the ex-Java region market share, it will be a positive for Telkomsel, which continues to demonstrate strong network quality. Furthermore, Indonesia telcos have undertaken upward price revisions, which could potentially lead to an uplift in ARPU and an improvement in data yields.

In Thailand, Advanced Info Service (AIS) could benefit from a potential industry consolidation resulting in improved ARPU. AIS is also well equipped with free cash flows to pay dividends and reduce its debt burden. In addition, AIS is seeking growth in its fixed broadband segment. To

Singtel

achieve the projected bull case pre-tax earnings contribution, the above needs to materialise for the three telcos, Bharti Airtel, Telkomsel, and AIS.

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

Associates (\$m)	FY22	FY23F	FY24F
Telkomsel	915	915	915
Bharti Airtel	432	691	933
Advanced Info Services	314	314	314
InTouch Holdings	95	95	95
Globe Telecom	311	317	317
NetLink NBN	54	55	55
Others, including Singapore Post	16	16	16
Total	2,137	2,404	2,645
<i>Growth</i>	<i>19%</i>	<i>12%</i>	<i>10%</i>

Source: Company, DBS Bank

Maintain BUY with a higher TP of S\$3.24. Our fair value for the company's core business is S\$0.81 per share (prev S\$0.77), on a visible improvement in core business due to

the potential sale of Amobee and Trustwave. We value regional associates at S\$2.43 per share (unchanged), with HoldCo discount of 15% reflecting gradual recovery in the core business.

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

Value of the core business in Singapore & Australia is S\$0.81 per share, benefitting from reduction in net debt

	FY23F EBITDA (\$m)	EV/EBITDA	Ownership	Value (\$m)	Per share (\$)	Previous
Singapore telco	1,798	5.0	100%	8,989	0.54	0.50
Optus telco	2,070	5.0	100%	10,352	0.66	0.66
Data centre	100	20.0	100%	2,000	0.12	0.11
Digital Business				600	0.04	0.07
Debt				(9,106)	(0.55)	(0.57)
Equity value of the core business				13,334	0.81	0.77

Source: Reuters, DBS Bank

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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	1.29
AIS	217.00	25.00	23%	6,015	0.36	0.36
InTouch	71.50	25.00	21%	1,944	0.12	0.12
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	0.76

	Value (\$m)	Per share (\$)	Previous
Associate Valuation (pre-HoldCo discount)	47,279	2.86	2.86
Hold co discount (15%)	(7,092)	(0.43)	(0.43)
Associate Valuation	40,187	2.43	2.43

Source: Reuters, DBS Bank

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.

Historical PE and PB band



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



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

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Key Assumptions

FY Mar	2020A	2021A	2022A	2023F	2024F
Singapore Revenue (\$m)	8,169	7,481	7,524	6,658	6,690
Singapore EBITDA Margin	25.2	25.0	22.7	28.5	29.0
Optus Revenue (A\$m)	8,958	8,321	7,836	9,325	10,071
Optus EBITDA Margin (%)	29.6	24.0	24.7	24.5	24.5
Associate pre-tax earnings	1,743	1,798	2,136	2,404	2,645

Income Statement (\$m)

FY Mar	2020A	2021A	2022A	2023F	2024F
Revenue	16,542	15,644	15,339	15,517	16,257
Cost of Goods Sold	(12,180)	(11,954)	(11,725)	(11,602)	(12,126)
Gross Profit	4,363	3,690	3,614	3,915	4,131
Other Opng (Exp)/Inc	(2,401)	(2,543)	(2,570)	(2,593)	(2,670)
Operating Profit	1,962	1,147	1,044	1,322	1,461
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	1,743	1,798	2,136	2,404	2,645
Net Interest (Exp)/Inc	(282)	(396)	(312)	(345)	(332)
Exceptional Gain/(Loss)	(1,382)	(1,179)	25.0	0.0	0.0
Pre-tax Profit	2,041	1,371	2,893	3,381	3,775
Tax	(988)	(811)	(934)	(1,048)	(1,170)
Minority Interest	22.0	(6.0)	(11.0)	(11.0)	(11.0)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	1,075	554	1,948	2,322	2,594
Net Profit before Except.	2,457	1,733	1,923	2,322	2,594
EBITDA	6,286	5,630	5,902	6,471	6,929
Growth					
Revenue Gth (%)	(4.8)	(5.4)	(1.9)	1.2	4.8
EBITDA Gth (%)	0.9	(10.4)	4.8	9.6	7.1
Opg Profit Gth (%)	(20.6)	(41.5)	(9.0)	26.7	10.5
Net Profit Gth (Pre-ex) (%)	(13.0)	(29.5)	11.0	20.7	11.7
Margins & Ratio					
Gross Margins (%)	26.4	23.6	23.6	25.2	25.4
Opg Profit Margin (%)	11.9	7.3	6.8	8.5	9.0
Net Profit Margin (%)	6.5	3.5	12.7	15.0	16.0
ROAE (%)	3.8	2.1	7.1	8.2	8.9
ROA (%)	2.2	1.1	4.0	4.7	5.2
ROCE (%)	2.4	1.1	1.7	2.2	2.4
Div Payout Ratio (%)	186.0	223.6	78.8	75.0	75.0
Net Interest Cover (x)	7.0	2.9	3.3	3.8	4.4

Source: Company, DBS Bank

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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
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

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

Balance Sheet (\$\$m)

FY Mar	2020A	2021A	2022A	2023F	2024F
Net Fixed Assets	12,425	13,590	14,250	14,363	14,451
Invt in Associates & JVs	13,712	13,084	13,040	12,659	12,326
Other LT Assets	15,642	14,793	13,711	13,379	13,088
Cash & ST Invt	1,000	755	2,130	2,762	4,042
Inventory	280	272	270	357	374
Debtors	5,559	5,444	5,245	5,228	5,477
Other Current Assets	337	62.0	485	485	485
Total Assets	48,955	47,999	49,131	49,232	50,244
ST Debt	3,970	2,034	1,614	1,614	1,614
Creditor	5,641	5,977	5,596	4,826	5,057
Other Current Liab	968	1,126	1,845	2,124	2,246
LT Debt	10,202	10,825	10,254	10,254	10,254
Other LT Liabilities	1,360	1,525	1,713	1,713	1,713
Shareholder's Equity	26,789	26,486	28,125	28,706	29,354
Minority Interests	25.0	26.0	(16.0)	(5.0)	6.00
Total Cap. & Liab.	48,955	47,999	49,131	49,232	50,244
Non-Cash Wkg. Capital	(433)	(1,325)	(1,441)	(881)	(967)
Net Cash/(Debt)	(13,172)	(12,104)	(9,738)	(9,106)	(7,826)
Debtors Turn (avg days)	127.4	128.4	127.2	123.2	120.2
Creditors Turn (avg days)	217.8	228.8	234.6	214.8	193.9
Inventory Turn (avg days)	13.3	10.9	11.0	12.9	14.3
Asset Turnover (x)	0.3	0.3	0.3	0.3	0.3
Current Ratio (x)	0.7	0.7	0.9	1.0	1.2
Quick Ratio (x)	0.6	0.7	0.8	0.9	1.1
Net Debt/Equity (X)	0.5	0.5	0.3	0.3	0.3
Net Debt/Equity ex MI (X)	0.5	0.5	0.3	0.3	0.3
Capex to Debt (%)	15.8	18.6	20.8	21.3	22.1
Z-Score (X)	2.2	2.2	2.2	2.3	2.3

Source: Company, DBS Bank

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Cash Flow Statement (\$m)

FY Mar	2020A	2021A	2022A	2023F	2024F
Pre-Tax Profit	2,041	1,371	2,893	3,381	3,775
Dep. & Amort.	2,581	2,685	2,722	2,746	2,823
Tax Paid	(492)	(164)	(352)	(769)	(1,048)
Assoc. & JV Inc/(loss)	(1,743)	(1,798)	(2,136)	(1,322)	(1,455)
Chg in Wkg.Cap.	364	584	270	(839)	(36.2)
Other Operating CF	1,627	1,497	279	404	404
Net Operating CF	4,378	4,175	3,676	3,600	4,462
Capital Exp.(net)	(2,241)	(2,397)	(2,472)	(2,526)	(2,621)
Other Invs.(net)	(54.4)	(7.0)	127	0.0	0.0
Invs in Assoc. & JV	(759)	(263)	(234)	0.0	0.0
Div from Assoc & JV	1,439	1,434	1,622	1,703	1,788
Other Investing CF	134	1.00	1,934	0.0	0.0
Net Investing CF	(1,482)	(1,232)	977	(823)	(832)
Div Paid	(2,857)	(1,273)	(1,139)	(1,741)	(1,945)
Chg in Gross Debt	726	(1,693)	(2,710)	0.0	0.0
Capital Issues	0.0	447	(1.0)	0.0	0.0
Other Financing CF	(279)	(659)	586	(404)	(404)
Net Financing CF	(2,409)	(3,178)	(3,264)	(2,145)	(2,349)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	488	(235)	1,389	632	1,281
Opg CFPS (S cts)	24.6	21.7	20.6	26.9	27.2
Free CFPS (S cts)	13.1	10.8	7.29	6.50	11.1

Optus capex to hover at A\$1.7bn, taking the overall capex to \$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
2:	03 Jun 22	2.58	3.20	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

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