

COMPANY UPDATE

Singapore Telecommunications (ST SP)

Security Breach Affects Near-term Profitability, Buy On Weakness

Our earnings sensitivity suggests an 11% and 3% earnings impact in FY23-24F as a result of the Optus data security breach. Share price has corrected 6% in the past month, and we think that this has partly factored in the negative newsflow. We advocate a **BUY** on weakness with an unchanged DCF-based target price of S\$2.90/share. We continue to like the stock as management strives for high single-digit ROIC by FY25 (FY22: 5%).

WHAT'S NEW

- **Optus: Personal data compromised.** Optus had a data security breach whereby 9.8m of its customers (c.96% of subscribers) had personal data stolen and compromised by hackers. Out of the 9.8m customers, 1.2m customers had at least one valid and current form of identification document (ID) stolen along with other personal information such as email addresses, Medicare card numbers and date of births. Optus has notified these customers and recommended that they replace their IDs to prevent any identity theft. 900k customers had numbers from expired IDs stolen, with next steps being discussed with authorities. The remaining 7.7m customers had no valid or current ID stolen but had other personal information compromised.
- **Mounting costs.** Under Australia's Privacy Act, the maximum penalty that Optus faces is around A\$2.2m. For customers that had their identification numbers exposed, Optus has offered to pay for a 12-month subscription (A\$15/month) to credit monitoring service Equifax, which could cost Optus A\$189m. We reckon this pertains to the 2.1m customers who had IDs stolen as these customers have the highest risks of material losses from fraudulent loans and identity fraud. Facing calls to bear the replacement costs for affected customers, Optus has also agreed to bear passport replacement costs (A\$193/passport) for affected customers. For driver's licenses, various state governments have stated that Optus would bear the replacement costs as well.

STOCK IMPACT

- **Worst-case scenario of 17% drop in FY23 earnings.** Our base case sees an 11% and 3% drop in FY23 and FY24 net profit respectively. Worst-case scenario suggests a 17% and 6% drop in earnings respectively.
- **Expected aftershock.** Following the data security breach, we opine that there may be a loss in confidence for Optus mobile services, with a small exodus of mobile customers to other competitors. Assuming a 2ppt loss in net adds growth for Optus from our current FY23 estimates, Singtel's FY23F revenue and PATMI would drop by 0.2% and 0.3% respectively.

KEY FINANCIALS

Year to 31 Mar (\$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)	23.7	21.3	16.0	15.0	14.0
P/B (x)	1.6	1.5	1.4	1.4	1.4
EV/EBITDA (x)	13.4	13.6	13.0	12.8	12.6
Dividend yield (%)	3.0	3.7	4.6	5.0	5.0
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	-	-	2,452	2,857	3,281
UOBKH/Consensus (x)	-	-	1.05	0.96	0.89

Source: Singapore Telecommunications, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$2.52
Target Price	S\$2.90
Upside	+15.1%

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):	16,507.4
Market cap (S\$m):	41,598.7
Market cap (US\$m):	29,196.1
3-mth avg daily t'over (US\$m):	45.4

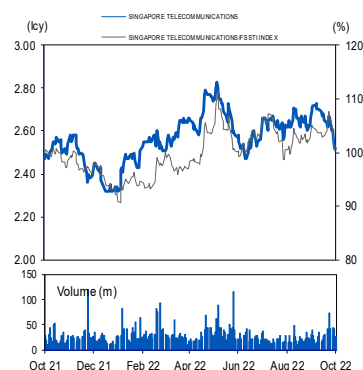
Price Performance (%)

52-week high/low				S\$2.83/S\$2.32
1mth	3mth	6mth	1yr	YTD
(5.6)	(3.1)	(5.3)	2.9	8.6

Major Shareholders

	%
Temasek Hlds	50.3
-	-
-	-
FY23 NAV/Share (S\$)	1.77
FY23 Net Debt/Share (S\$)	0.60

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

Analysing the impact on Singtel.

- Under Australia's Privacy Act, the maximum penalty that Optus could face is around A\$2.2m. That said, we are of the view that Optus would not be paying any fines under the Privacy Act, given that a recent hack of Canva, a unicorn in Australia, compromised the personal information of 137m users but resulted in insignificant or even zero fines by the Australian government.
- For Equifax, we estimate that 50% of the 2.1m customers whose identification documents were compromised would take up the 12-month subscription. At A\$15/month over a year, this would lead to total costs of A\$79m for FY23 and A\$110m FY24F respectively. Our bear case assumes that all of the 2.1m customers sign up for the subscription, leading to total costs of A\$126m for FY23F and A\$176m for FY24F.
- At a cost of A\$193/passport replacement, this cost would make up the largest portion of the total costs. It is expected that almost all of the 1.2m customers with identification numbers compromised would replace their passports. As there has been no confirmation on actions needed for the remaining 900k customers who had expired identification documents, we are assuming that a significant portion of this group would also have to change their passports given that Australian citizens are allowed to apply for loans with expired passports within the preceding two years based on Australia's 100 point identification check system. We estimate that 70% of the 2.1m customers would change their passports at a total cost of A\$284m, with our bear case being 100% of the 2.1m customers at a total cost of A\$365m.
- Similarly, for driver's licenses (A\$11.5-82.1/replacement), Australian citizens are also able to apply for loans with their driver's licenses along with other documents, albeit less powerful as expired driver's licenses are not accepted. At an average cost of A\$30/replacement, we estimate that 70% of the 2.1m customers would change their driver's license at a total cost of A\$44m, with our bear case being 100% of the 2.1m customers at a total cost of A\$57m.

IMPACT OF COSTS ON FY23F EARNINGS AND TARGET PRICE (\$)

	Australia Privacy Act	12 month Equifax subscription	Passport replacement costs	Driver's license replacement costs	Change to FY23 PATMI (%)	Change to FY24 PATMI (%)
Base	A\$0.0m	A\$189m	A\$284m	A\$34m	-10.9%	-2.8%
Bear	A\$2.2m	A\$378m	A\$405m	A\$48m	-16.9%	-5.6%

Source: UOB Kay Hian

EARNINGS REVISION/RISK

- None.

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 FY23F EV/EBITDA (its five-year mean EV/EBITDA). Since the data breach was disclosed on 22 Sep 22, Singtel's share price has fallen around 3%. While we expect some knee-jerk reactions to near-term share price, we continue to like the prospects of the group.
- 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.

SUMMARY OF THE CUSTOMERS AFFECTED

Number of customers affected	Type of compromised data
1,200,000	1) ID numbers which includes current driver license and passport numbers. 2) Personal information such as email Address, date of birth or phone numbers
900,000	1) Expired ID numbers which includes expired passport numbers. 2) Personal information such as email Address, date of birth or phone numbers
7,700,000	1) Personal information such as email Address, date of birth or phone numbers

Source: Singtel, UOB Kay Hian

AUSTRALIA'S 100 POINT IDENTIFICATION CHECK

Forms of ID	Points
Passport (current or expired within the last 2 years)	70
Citizenship Certificate	70
Birth Certificate	70
Driver License (Australian only)	40
Medicare Card	25
Bank Statements	25

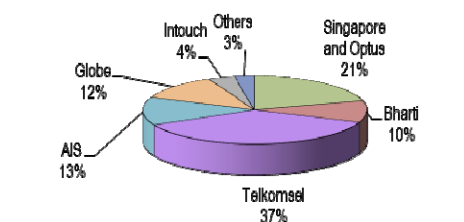
Source: UOB Kay Hian

FY23 OUTLOOK

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

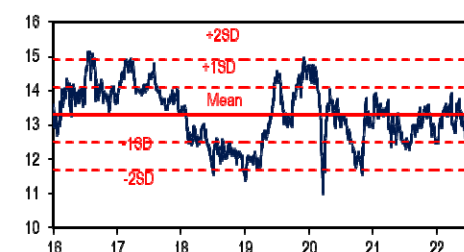
Source: Singtel, UOB Kay Hian

CORE EARNINGS BY BUSINESS UNIT (FY22)



Source: Singtel, UOB Kay Hian

FORWARD EV/EBITDA (X)



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Net turnover	15,339.0	15,741.7	15,926.9	15,925.6
EBITDA	3,767.0	3,958.2	4,024.1	4,082.5
Deprec. & amort.	2,722.0	2,303.1	2,249.1	2,218.7
EBIT	1,045.0	1,655.1	1,775.0	1,863.8
Associate contributions	2,136.0	2,183.8	2,312.3	2,484.4
Net interest income/(expense)	(313.0)	(363.1)	(376.9)	(389.8)
Pre-tax profit	2,879.0	3,475.8	3,710.3	3,958.4
Tax	(934.0)	(903.7)	(964.7)	(1,029.2)
Minorities	(11.0)	0.0	0.0	0.0
Net profit	1,934.0	2,572.1	2,745.6	2,929.2
Net profit (adj.)	1,934.0	2,572.1	2,745.6	2,929.2

CASH FLOW

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Operating	5,298.0	5,147.9	5,362.5	5,498.4
Pre-tax profit	2,879.0	3,475.8	3,710.3	3,958.4
Tax	(934.0)	(903.7)	(964.7)	(1,029.2)
Deprec. & amort.	2,378.0	2,253.1	2,249.1	2,218.7
Associates	(11.0)	0.0	0.0	0.0
Working capital changes	(180.0)	(40.4)	(9.1)	(39.3)
Non-cash items	313.0	363.1	376.9	389.8
Other operating cashflows	853.0	0.0	0.0	0.0
Investing	(644.0)	(3,016.4)	(2,923.4)	(2,815.6)
Capex (maintenance)	(2,217.0)	(2,361.2)	(2,229.8)	(2,070.3)
Proceeds from sale of assets	(207.0)	(655.1)	(693.7)	(745.3)
Others	1,780.0	0.0	0.0	0.0
Financing	(3,266.0)	(1,768.2)	(1,971.5)	(2,026.2)
Dividend payments	(1,139.0)	(1,877.3)	(2,040.6)	(2,050.4)
Issue of shares	(1.0)	0.0	0.0	0.0
Proceeds from borrowings	(991.0)	472.2	446.0	414.1
Others/interest paid	(1,135.0)	(363.1)	(376.9)	(389.8)
Net cash inflow (outflow)	1,388.0	363.3	467.5	656.6
Beginning cash & cash equivalent	755.0	2,130.0	2,493.3	2,960.8
Changes due to forex impact	(13.1)	(0.1)	(0.1)	(0.1)
Ending cash & cash equivalent	2,129.9	2,493.2	2,960.7	3,617.3

BALANCE SHEET

Year to 31 Mar (\$m)	2022	2023F	2024F	2025F
Fixed assets	10,892.0	11,000.2	10,980.9	10,832.5
Other LT assets	30,558.0	31,213.1	31,906.8	32,652.1
Cash/ST investment	2,130.0	2,493.3	2,960.8	3,617.4
Other current assets	5,551.0	5,693.6	5,759.7	5,757.2
Total assets	49,131.0	50,400.2	51,608.2	52,859.3
ST debt	1,614.0	1,614.0	1,614.0	1,614.0
Other current liabilities	7,441.0	7,543.2	7,600.2	7,558.5
LT debt	10,254.0	10,726.2	11,172.2	11,586.3
Other LT liabilities	1,713.0	1,713.0	1,713.0	1,713.0
Shareholders' equity	28,124.0	28,818.8	29,523.8	30,402.6
Minority interest	(15.0)	(15.0)	(15.0)	(15.0)
Total liabilities & equity	49,131.0	50,400.2	51,608.2	52,859.3

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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