COMPANY UPDATE

Singapore Telecommunications (ST SP)

Positive Development From Down Under, On Track For ROIC Expansion

Following an appeal, Australia's Competition Tribunal has ruled against the proposed Telstra-TPG network-sharing deal, a positive development for wholly-owned Optus. Separately, Telkomsel's convergence with Indihome is expected to be completed by 1 Jul 23 and upselling activities are expected to lead to earnings accretion over 3-5 years. Singapore Consumer and Optus are expected to benefit from a ramp-up in international tourists. Maintain BUY with a target price of S$3.15.

WHAT'S NEW

- **Positive newsflow from down under.** Australia's Competition Tribunal (ACT) has backed the Australian Competition and Consumer Commission's (ACCC) earlier decision to block the network sharing deal between Telstra and TPG following an appeal. To recap, the proposed 10-year networking deal between Telstra and TPG would have seen Telstra obtaining additional spectrum from TPG in regional areas/urban fringe areas while TPG would have decommissioned 725 transmission towers in these areas already covered by Telstra. TPG would then gain access to Testra's 3,700 mobile network sites in regional Australia, increasing its coverage from 96% to 98.8% of Australia's population, edging out Optus.

- **Improving competition.** Citing competition concerns, both the ACT and ACCC ruled against the proposed network-sharing deal between Telstra and TPG as they deemed that it would reduce competition and de-incentivise investments, especially from Optus. With the deal rejected, this would prevent Telstra from entrenching its dominant competitive advantage. Optus would be more incentivised to invest in 5G network and compete with Telstra on an equal footing. In our view, TPG may then turn to Optus for an infrastructure sharing agreement, given that TPG chooses not to invest heavily in regional infrastructure. Overall, we are positive on the outcome.

- **Upcoming integration.** After the shareholder approval on 30 May 23, Telkomsel's integration with IndiHome is expected to be effective from 1 Jul 23 onwards. Recall that the consideration for the integration is Rp58.3t (around S$5.1b) whereby Singapore Telecommunications' (Singtel) final effective interest in Telkomsel would decrease to 30.1% from 35.0%. In our view, the integration could lead to cross-selling opportunities as Indihome currently has 9.4m customers as compared with Telkomsel's 151m customers. However, we expect IndiHome's integration to be largely earnings neutral for Singtel in FY24-25, given that there is a 1-2-year gestation period for there to be substantial cost synergies from sales/marketing channels, distribution networks and capex. We estimate that new contributions from IndiHome post-integration would net off roughly S$120m dilution in pre-tax contributions from Telkomsel for FY24-25.

KEY FINANCIALS

Year to 31 Mar (S$m)	2022	2023	2024F	2025F	2026F
Net turnover	15,339	14,624	15,053	15,637	16,317
EBITDA	3,767	3,686	3,872	4,108	4,441
Operating profit	1,045	1,112	1,395	1,654	2,019
Net profit (rep./act.)	1,948	2,226	2,431	2,733	3,088
Net profit (adj.)	1,923	2,054	2,431	2,733	3,088
EPS (S$ cent)	11.7	12.4	14.7	16.5	18.7
PE (x)	21.2	20.0	16.9	15.0	13.3
P/B (x)	1.5	1.6	1.5	1.5	1.5
EV/EBITDA (x)	13.3	13.6	13.0	12.2	11.3
Dividend yield (%)	3.8	6.0	4.0	4.8	5.6
Net margin (%)	12.7	15.2	16.2	17.5	18.9
Net debt/(cash) to equity (%)	34.6	35.5	34.0	31.9	29.1
Interest cover (x)	12.0	10.3	11.1	11.3	11.8
ROE (%)	7.1	8.2	9.2	10.1	11.1
Consensus net profit	-	-	2,413	2,750	3,294
UOBKH/Consensus (x)	-	-	1.01	0.99	0.94

Source: Singapore Telecommunications, Bloomberg, UOB Kay Hian

BUY
(Maintained)

Share Price	S$2.48
Target Price	S$3.15
Upside	+27.0%

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):	16,510.6
Market cap (S$m):	40,946.2
Market cap (US$m):	30,265.5
3-mth avg daily t'over (US$m):	35.8

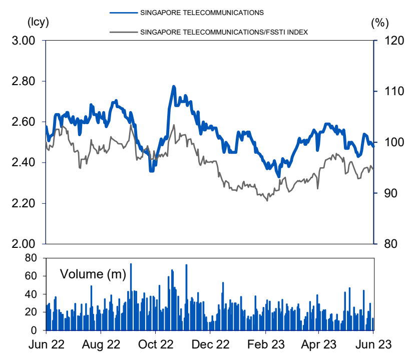
Price Performance (%)

52-week high/low S$2.77/S$2.33

1mth	3mth	6mth	1yr	YTD
0.4	4.2	(3.5)	(3.0)	(3.5)

Major Shareholders	%
Temasek Hldgs	52.0
-	-
-	-
FY24 NAV/Share (S$)	1.61
FY24 Net Debt/Share (S$)	0.55

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Singapore:** We expect a robust recovery in data roaming revenue as outbound tourists to China ramps up in 1QFY24. Management noted that there is still further upside to data roaming recovery, currently at 60-70% of pre-pandemic levels. Postpaid ARPU is expected to continue its upward momentum, driven by increasing take-up of 5G bundled plans and higher data roaming. Due to stiff competition, we expect prepaid ARPU to maintain/soften slightly as promotions increase, supported by the return of international tourists. FY23 mobile customer market share fell 2.4ppt yoy to 45.6% as the group shifted to on higher-value customers.
- **Optus:** After the cyberattack incident in FY23, Optus has returned to positive subscriber net adds with postpaid subscribers growing 41,000 qoq and 90,000 yoy in 4QFY23, implying that negative consumer sentiment from the security incident may be over. Also, the gradual return of international students and tourists is expected to boost data roaming revenue and prepaid subscribers in 1QFY24. Prepaid subscribers surged by 36,000 qoq and 272,000 yoy respectively in 4QFY23 as China's borders reopened. Management noted that Optus plans to raise prices for its prepaid plans in FY24 given the ongoing market repair in Australia.
- **NCS: Initial gestation period.** Despite robust revenue growth, EBITA margins are set to soften due to opex investments, higher staff costs and amortisation costs post-acquisitions. Although management noted that these costs would be passed down to customers as ongoing contracts expire, these costs would continue to pressure margins in FY24. Bookings for 4QFY23 were S$1.5b, a sharp qoq increase from S$442m in 3QFY23.
- **Enterprise: Stable contributor.** Continued demand for Information and Communication Technology (ICT) and cyber security services, along with post-COVID-19 growth momentum in roaming would help support revenue growth for the enterprise segment. Facing inflationary pressures, we reckon margins would be stable given the implementation of efficient cost controls.
- **Regional data centre: Non-stop expansion.** Singtel plans to double its data centre capacity in Singapore in the next three years to around 155MW, up from its current 60MW capacity. For FY23, the group's regional data centres contributed S$273m in annual revenue and S$172m in EBITDA respectively. Through partnerships with AIS and Telkom, Singtel plans to add an additional 20MW in Thailand and 51MW in Indonesia respectively. This will create a data centre asset close to S$7b-8b within five years.

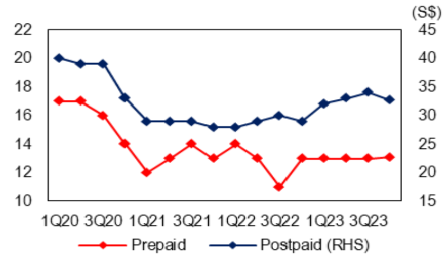
EARNINGS REVISION/RISK

- **We make no changes to our FY24-26 PATMI estimates.**

VALUATION/RECOMMENDATION

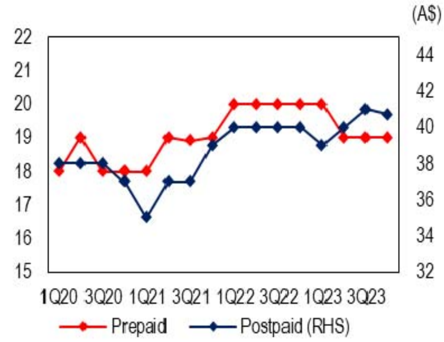
- **Maintain BUY with a DCF-based target price of S$3.15** (discount rate: 7%, growth rate: 2.0%). At our target price, the stock will trade at 14x FY23 EV/EBITDA (+1.0SD of its five-year mean EV/EBITDA). In our view, Singtel remains an attractive play against elevated market volatility, underpinned by improving business fundamentals.
- **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.

SINGAPORE CONSUMER ARPU TREND



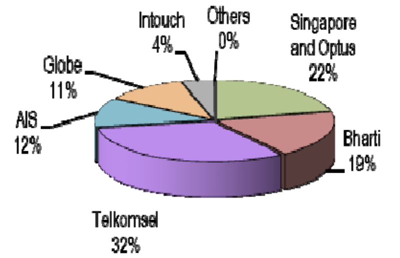
Source: Singtel, UOB Kay Hian

AUSTRALIA CONSUMER ARPU TREND



Source: Singtel, UOB Kay Hian

FY23 SEGMENTAL POST-TAX CONTRIBUTIONS



Source: Singtel, UOB Kay Hian

FORWARD EV/EBITDA (X)

Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (S$m)	2023	2024F	2025F	2026F
Net turnover	14,624.4	15,052.5	15,637.0	16,317.2
EBITDA	3,685.9	3,871.9	4,108.1	4,441.2
Deprec. & amort.	2,574.1	2,476.6	2,453.8	2,422.0
EBIT	1,111.8	1,395.2	1,654.3	2,019.2
Associate contributions	2,287.0	2,450.6	2,637.9	2,796.5
Net interest income/(expense)	(358.9)	(350.2)	(363.2)	(375.8)
Pre-tax profit	3,211.9	3,495.7	3,929.0	4,439.8
Tax	(978.0)	(1,064.4)	(1,196.4)	(1,351.9)
Minorities	(8.4)	0.0	0.0	0.0
Net profit	2,225.5	2,431.3	2,732.6	3,087.9
Net profit (adj.)	2,053.5	2,431.3	2,732.6	3,087.9

BALANCE SHEET

Year to 31 Mar (S$m)	2023	2024F	2025F	2026F
Fixed assets	10,384.6	10,327.4	10,218.5	10,066.7
Other LT assets	27,562.6	27,985.7	28,464.9	28,991.8
Cash/ST investment	1,667.9	2,271.6	2,996.5	3,870.6
Other current assets	5,428.4	5,581.0	5,791.4	6,035.3
Total assets	46,530.0	47,652.2	48,957.8	50,450.8
ST debt	982.7	982.7	982.7	982.7
Other current liabilities	7,316.4	7,406.9	7,559.8	7,725.3
LT debt	9,910.6	10,332.1	10,738.6	11,130.2
Other LT liabilities	2,306.0	2,306.0	2,306.0	2,306.0
Shareholders' equity	26,004.9	26,615.2	27,361.3	28,297.1
Minority interest	9.4	9.4	9.4	9.4
Total liabilities & equity	46,530.0	47,652.2	48,957.8	50,450.8

CASH FLOW

Year to 31 Mar (S$m)	2023	2024F	2025F	2026F
Operating	4,775.8	5,195.9	5,492.3	5,807.4
Pre-tax profit	3,211.9	3,495.7	3,929.0	4,439.8
Tax	(978.0)	(1,064.4)	(1,196.4)	(1,351.9)
Deprec. & amort.	2,574.1	2,476.6	2,453.8	2,422.0
Associates	(172.0)	0.0	0.0	0.0
Working capital changes	(130.1)	(62.2)	(57.4)	(78.4)
Non-cash items	358.9	350.2	363.2	375.8
Other operating cashflows	(89.0)	0.0	0.0	0.0
Investing	(2,301.7)	(2,842.5)	(2,824.2)	(2,797.0)
Capex (maintenance)	(2,162.4)	(2,107.4)	(2,032.8)	(1,958.1)
Proceeds from sale of assets	(679.2)	(735.2)	(791.4)	(838.9)
Others	539.9	0.0	0.0	0.0
Financing	(2,941.2)	(1,749.7)	(1,943.2)	(2,136.3)
Dividend payments	(1,964.3)	(1,821.0)	(1,986.5)	(2,152.1)
Issue of shares	0.1	0.0	0.0	0.0
Proceeds from borrowings	(974.7)	421.5	406.6	391.6
Others/interest paid	(2.3)	(350.2)	(363.2)	(375.8)
Net cash inflow (outflow)	(467.1)	603.7	724.9	874.1
Beginning cash & cash equivalent	2,130.0	1,667.9	2,271.6	2,996.5
Changes due to forex impact	5.0	0.0	(0.1)	(0.1)
Ending cash & cash equivalent	1,667.9	2,271.6	2,996.4	3,870.5

KEY METRICS

Year to 31 Mar (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	25.2	25.7	26.3	27.2
Pre-tax margin	22.0	23.2	25.1	27.2
Net margin	15.2	16.2	17.5	18.9
ROA	4.7	5.2	5.7	6.2
ROE	8.2	9.2	10.1	11.1
Growth				
Turnover	(4.7)	2.9	3.9	4.3
EBITDA	(2.1)	5.0	6.1	8.1
Pre-tax profit	11.0	8.8	12.4	13.0
Net profit	14.3	9.2	12.4	13.0
Net profit (adj.)	6.8	18.4	12.4	13.0
EPS	6.1	18.4	12.4	13.0
Leverage				
Debt to total capital	29.5	29.8	30.0	30.0
Debt to equity	41.9	42.5	42.8	42.8
Net debt/(cash) to equity	35.5	34.0	31.9	29.1
Interest cover (x)	10.3	11.1	11.3	11.8

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