

COMPANY RESULTS

Singapore Telecommunications (ST SP)

3QFY24: Soft Results In Line; Forex Movements Continue To Affect Performance

For 9MFY24, Singtel reported a higher underlying net profit (+7.4% yoy), driven by higher contributions from its growth engines. However, 3QFY24 was a soft quarter with net profit flat yoy, dragged by currency headwinds. Optus performed better after the outage incident while Singtel Singapore suffered from weak sentiment. NCS continued its robust growth while margins for the Digital InfraCo segment suffered from higher investment costs. Maintain BUY with a lower target price of S\$2.99.

3QFY24 RESULTS

Year to 31 Mar (S\$m)	3QFY24	qoq % chg	yoy % chg	9MFY24	yoy % chg
Group Operating Revenue:*	3,593	1.4	(3.2)	10,621	(3.2)
Optus	1,802	0.8	(5.4)	5,374	(6.5)
Singtel Singapore	1,025	7.1	(2.1)	2,919	(2.9)
NCS	701	(2.1)	3.7	2,097	7.0
Digital InfraCo	109	9.0	15.6	312	13.6
Group EBITDA:*	935	4.4	2.6	2,722	(2.4)
Optus	465	0.9	(1.9)	1,382	(8.3)
Singapore Consumer	372	1.6	(4.9)	1,113	(2.4)
NCS	75	21.0	47.1	211	31.4
Digital InfraCo	55	7.8	(3.5)	167	2.2
EBITDA margin (%)	26.0	1.0ppt	1.5ppt	25.6	0.2ppt
Regional Mobile Associates	510	(15.6)	(8.7)	1,224	0.7
Underlying Net Profit	559	1.6	0.0	1,680	7.4

\*Including intercompany eliminations, Trustwave, corporate overheads and currency movements. Source: Singtel, UOB Kay Hian

RESULTS

- 9MFY24 results in line.** Singapore Telecommunications' (Singtel) 9MFY24 overall group revenue (-3.2% yoy), EBITDA (-2.4% yoy) and underlying net profit (+7.4% yoy) formed 71-72% of our full-year forecasts, just within our expectations. The soft results were due to a muted 3QFY24, impacted by an appreciating Singapore dollar against regional currencies. Excluding currency movements and contributions from the recently deconsolidated Trustwave in 3QFY24, 9MFY24 underlying operating revenue (+0.9% yoy), EBITDA (-0.3% yoy) and net profit (+10.7% yoy) would have performed better yoy, driven by higher contributions from Singtel's growth engines (NCS and Digital InfraCo).
- Soft 3QFY24.** Singtel's 3QFY24 overall revenue (-3.2% yoy), EBITDA (+2.6% yoy) and underlying net profit (stable yoy) were dragged by weaker domestic sentiment and currency headwinds, offset by the growth engine NCS and better operating performance from Optus. Excluding currency movements and Trustwave, 3QFY24 EBITDA (+0.9% yoy) and underlying net profit (+1.5 yoy) grew. Also, it was noted that 3QFY24 pre-tax profits from regional associates fell 8.7% yoy, dragged largely by Airtel (-15.9% yoy) and Telkomsel (-14.9% yoy). Excluding a S\$80m currency hit from the depreciation of the Nigerian Naira, Singtel's 3QFY24 underlying net profit would have grown by around 7-8% yoy.

KEY FINANCIALS

Year to 31 Mar (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	15,339	14,624	14,513	14,733	14,946
EBITDA	3,767	3,686	3,767	3,908	4,066
Operating profit	1,045	1,112	1,304	1,485	1,698
Net profit (rep./act.)	1,948	2,226	3,138	2,491	2,742
Net profit (adj.)	1,923	2,054	2,217	2,491	2,742
EPS (S\$ cent)	11.7	12.4	13.4	15.0	16.6
PE (x)	20.3	19.1	17.7	15.8	14.3
P/B (x)	1.4	1.5	1.4	1.4	1.4
EV/EBITDA (x)	12.6	12.8	12.6	12.1	11.6
Dividend yield (%)	3.9	6.3	4.6	5.3	5.7
Net margin (%)	12.7	15.2	21.6	16.9	18.3
Net debt/(cash) to equity (%)	34.6	35.5	30.0	28.8	27.3
Interest cover (x)	12.0	10.3	11.3	11.3	11.4
ROE (%)	7.1	8.2	11.8	9.0	9.8
Consensus net profit	-	-	2,346	2,721	3,090
UOBKH/Consensus (x)	-	-	0.95	0.92	0.89

Source: Singapore Telecommunications, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$2.37
Target Price	S\$2.99
Upside	+26.3%
(Previous TP)	S\$3.15)

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):	16,503.4
Market cap (S\$m):	39,112.9
Market cap (US\$m):	29,086.7
3-mth avg daily t'over (US\$m):	41.2

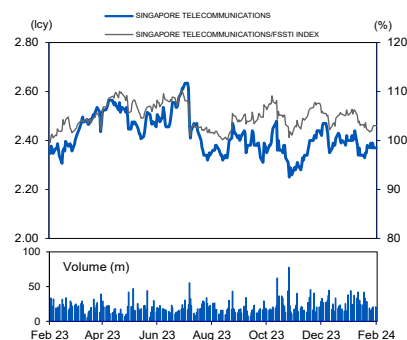
Price Performance (%)

52-week high/low	S\$2.63/S\$2.25
1mth	3.9
3mth	1.7
6mth	(0.7)
1yr	(4.0)
YTD	(0.4)

Major Shareholders

Temasek Hldgs	52.0
FY24 NAV/Share (S\$)	1.65
FY24 Net Debt/Share (S\$)	0.50

PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- Optus: On the road to recovery.** On a constant currency basis, 9MFY24 operating revenue increased 0.2% yoy on the back of increased mobile service revenue (+3.4% yoy) while 9MFY24 EBITDA fell 1.6% yoy from lower margins in the enterprise segment. Despite a network outage incident in 3QFY24, 3QFY24 mobile service revenue (+3.4% yoy) and overall EBITDA grew (+1.7% yoy) on a constant currency basis, driven by sustained customer growth post-incident along with lower operating expenses. Postpaid ARPU was stable at A\$42/month, supported by higher prices and ongoing data roaming recovery. Although postpaid subscribers decreased 28,000 qoq, management noted that customer churn has stabilised and has returned to net adds in early-4QFY24. Prepaid ARPU was stable qoq while subscribers grew 23,000 qoq. The group recognised a S\$54m provision for the network outage in 3QFY24.
- Singapore: Stiff competition.** Despite 3QFY24 mobile service revenue increasing 1.8% yoy, 3QFY24 overall operating revenue (-2.1% yoy) and EBITDA (-4.9% yoy) fell, dragged by a decline in legacy voice, equipment sales and pay TV revenue coupled with inflationary pressures. We understand that outbound roaming revenue is currently at 92% (2QFY24: 90%) of pre-COVID-19 levels. On the back of the ongoing roaming recovery, postpaid ARPU improved qoq to S\$34/month (2QFY24: S\$33/month), while postpaid subscribers increased 25,000 qoq respectively. However, as consumers continue to shift to lower-end plans, we expect postpaid ARPU to face growing pressure as more consumers trade down. Prepaid ARPU was stable S\$11/month qoq while subscribers surged by 59,000 qoq.
- NCS: Outperformer as margins improve.** Carrying on from 2QFY24, NCS reported robust 3QFY24 revenue and EBITDA growth of 3.6% yoy and 47.1% respectively, driven by realised operational cost efficiencies and the absence of post-acquisition losses. As a result, 3QFY24 EBITDA margins expanded 3.2ppt yoy and 2.0ppt qoq respectively. 9MFY24 orderbook amounted to S\$2.1b (2QFY24: S\$1.4m), driven by S\$694m in new contract wins and projects across various sectors.
- Digital InfraCo: Investing for the future.** Revenue (+15.6% yoy) grew in 3QFY24, backed by price uplifts and utility pass-through from its regional data centres business (Nxera), coupled with fees from its project-based satellite services. However, as mentioned in our previous report, with upcoming new additional capacity from DC Tuas, Batam and Thailand, we expect investment costs to weigh on margins till FY25-26. For 3QFY24, EBITDA dropped by 2.7% yoy largely due to a ramp-up in investments costs.
- Unlocking shareholder value.** Including a 3.9% direct stake sale of Airtel Africa in 3QFY24, the group has about S\$4b of capital recycling. Singtel currently has S\$2b-3b of excess cash after accounting for current growth initiatives and 5G capex. We opine that the excess cash may lead to larger dividends towards the higher end of the group's new 70-90% of underlying PATMI dividend policy in 2HFY24.

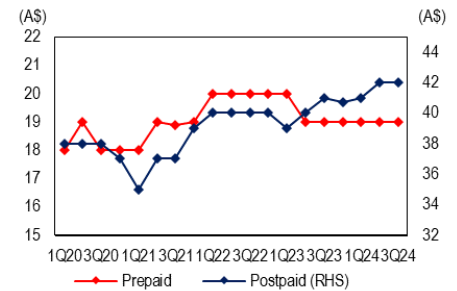
### EARNINGS REVISION/RISK

- We lower our FY24-26 PATMI estimates,** on the back of lower overall margin assumptions. We now estimate FY24/25/26 underlying PATMI at S\$2,217m (S\$2,371m previously), S\$2,491m (S\$2,750m previously) and S\$2,742m (S\$3,107m previously).

### VALUATION/RECOMMENDATION

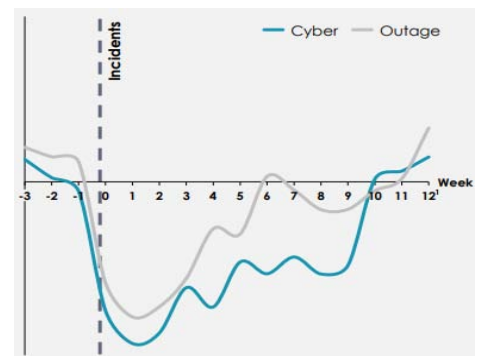
- Maintain BUY with a lower DCF-based target price of S\$2.99 (S\$3.15 previously)** (discount rate: 7%, growth rate: 2.0%). At our target price, the stock will trade at 15x FY24 EV/EBITDA. In our view, Singtel remains an attractive play against elevated market volatility, underpinned by improving business fundamentals and a decent 4.6% dividend yield.
- Key re-rating catalysts include:** a) successful monetisation of 5G, b) monetisation of data centres and/or NCS, and c) market repair in Singapore.

### AUSTRALIA CONSUMER ARPU TREND



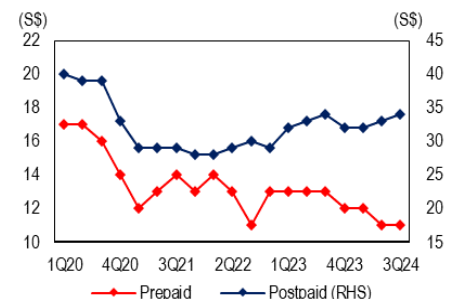
Source: Singtel, UOB Kay Hian

### OPTUS WEEKLY POSTPAID NET CONNECTIONS



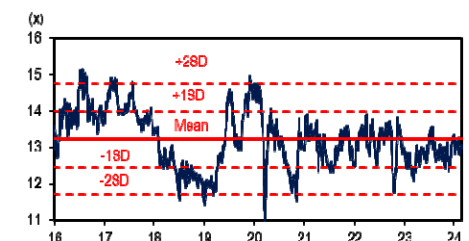
Source: Singtel, UOB Kay Hian

### SINGAPORE CONSUMER ARPU TREND



Source: Singtel, UOB Kay Hian

### FORWARD EV/EBITDA (X)



Source: Bloomberg, UOB Kay Hian

### PRE-TAX CONTRIBUTION

Associates (S\$m)	3QFY24	qoq % chg	yoy % chg
Telkomsel (Indonesia)	179	(15.6)	(14.9)
AIS (Thailand)	77	(14.4)	(5.7)
Intouch (Thailand)	44	22.2	40.6
Globe (Philippines)	64	(9.9)	25.8
Bharti Airtel (India)	146	(25.1)	(20.8)
<b>Total</b>	<b>510</b>	<b>(15.6)</b>	<b>(8.7)</b>

Source: Singtel, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Net turnover	14,624.4	14,512.5	14,732.8	14,945.7
EBITDA	3,685.9	3,767.1	3,908.0	4,065.9
Deprec. & amort.	2,574.1	2,463.5	2,422.6	2,367.7
EBIT	1,111.8	1,303.6	1,485.4	1,698.2
Associate contributions	2,287.0	2,237.1	2,318.5	2,465.4
Net interest income/(expense)	(358.9)	(332.9)	(344.7)	(355.9)
Pre-tax profit	3,211.9	4,128.8	3,459.2	3,807.7
Tax	(978.0)	(990.9)	(968.6)	(1,066.2)
Minorities	(8.4)	0.0	0.0	0.0
Net profit	2,225.5	3,137.9	2,490.6	2,741.6
Net profit (adj.)	2,053.5	2,216.9	2,490.6	2,741.6

### CASH FLOW

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Operating	4,775.8	5,886.5	5,217.9	5,416.7
Pre-tax profit	3,211.9	4,128.8	3,459.2	3,807.7
Tax	(978.0)	(990.9)	(968.6)	(1,066.2)
Deprec. & amort.	2,574.1	2,463.5	2,422.6	2,367.7
Associates	(172.0)	0.0	0.0	0.0
Working capital changes	(130.1)	(47.7)	(40.1)	(48.4)
Non-cash items	358.9	332.9	344.7	355.9
Other operating cashflows	(89.0)	0.0	0.0	0.0
Investing	(2,301.7)	(2,702.9)	(2,610.8)	(2,533.1)
Capex (maintenance)	(2,162.4)	(2,031.8)	(1,915.3)	(1,793.5)
Proceeds from sale of assets	(679.2)	(671.1)	(695.6)	(739.6)
Others	539.9	0.0	0.0	0.0
Financing	(2,941.2)	(1,747.5)	(2,031.0)	(2,232.0)
Dividend payments	(1,964.3)	(1,821.0)	(2,069.3)	(2,234.8)
Issue of shares	0.1	0.0	0.0	0.0
Proceeds from borrowings	(974.7)	406.4	383.1	358.7
Others/interest paid	(2.3)	(332.9)	(344.7)	(355.9)
Net cash inflow (outflow)	(467.1)	1,436.2	576.1	651.6
Beginning cash & cash equivalent	2,130.0	1,667.9	3,104.1	3,680.1
Changes due to forex impact	5.0	0.0	(0.1)	(0.1)
Ending cash & cash equivalent	1,667.9	3,104.1	3,680.0	4,331.6

### BALANCE SHEET

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Fixed assets	10,384.6	10,264.9	10,069.7	9,807.6
Other LT assets	27,562.6	27,921.6	28,305.1	28,732.6
Cash/ST investment	1,667.9	3,104.1	3,680.1	4,331.7
Other current assets	5,428.4	5,384.0	5,462.0	5,536.7
<b>Total assets</b>	<b>46,530.0</b>	<b>48,161.1</b>	<b>49,003.4</b>	<b>49,895.0</b>
ST debt	982.7	982.7	982.7	982.7
Other current liabilities	7,316.4	7,224.3	7,262.2	7,288.4
LT debt	9,910.6	10,317.0	10,700.0	11,058.7
Other LT liabilities	2,306.0	2,306.0	2,306.0	2,306.0
Shareholders' equity	26,004.9	27,321.8	27,743.1	28,249.8
Minority interest	9.4	9.4	9.4	9.4
<b>Total liabilities &amp; equity</b>	<b>46,530.0</b>	<b>48,161.1</b>	<b>49,003.4</b>	<b>49,895.0</b>

### KEY METRICS

Year to 31 Mar (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	25.2	26.0	26.5	27.2
Pre-tax margin	22.0	28.4	23.5	25.5
Net margin	15.2	21.6	16.9	18.3
ROA	4.7	6.6	5.1	5.5
ROE	8.2	11.8	9.0	9.8
<b>Growth</b>				
Turnover	(4.7)	(0.8)	1.5	1.4
EBITDA	(2.1)	2.2	3.7	4.0
Pre-tax profit	11.0	28.5	(16.2)	10.1
Net profit	14.3	41.0	(20.6)	10.1
Net profit (adj.)	6.8	8.0	12.3	10.1
EPS	6.1	8.0	12.3	10.1
<b>Leverage</b>				
Debt to total capital	29.5	29.3	29.6	29.9
Debt to equity	41.9	41.4	42.1	42.6
Net debt/(cash) to equity	35.5	30.0	28.8	27.3
Interest cover (x)	10.3	11.3	11.3	11.4

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