Singapore Telecommunications Ltd

Momentum in mobile prices

SINGAPORE | TELECOMMUNICATIONS| UPDATE

05 September 2022

- At the recent investor day, a key highlight was the recovery in mobile prices in Singapore, Australia, India and Indonesia from the benign competition and the return of roaming revenue.
- Business segments with softer outlooks include AIS and NCS. Softer AIS outlook is due to intense competition, and for NCS it is the near-term ramp-up in headcount and staff cost.
- Our ACCUMULATE and SOTP TP are maintained at $3.05. The group aims to raise ROIC from 5.4% to a high single digit in the mid-term, essentially doubling earnings. The tailwinds for the group include rising mobile prices and the disposal of loss-making subsidiaries. Other drivers such as 5G monetization, cost optimisation and IT services, will be more elusive, in our opinion.

Key Highlights from Singtel Investor Day

A) Subsidiaries

Singapore consumer: Recovery in roaming and prepaid

1. The return of foreign workers is supporting prepaid revenue. Healthy take-up of 5G prepaid as going online is important. Take-up of 5G also improves as handsets become more affordable. Competition is aggressive in prepaid despite the strict requirement of only three prepaid SIM cards per subscriber.
2. Roaming revenue has returned to 46% of pre-pandemic level. Business travellers are staying longer and price plans need to adjust for longer roaming. Roaming can improve further as Korea, Japan and China have not fully opened.
3. Broadband is experiencing upgrades to higher price plans.
4. EPL is operationally challenging and there can be cost savings. Including OTT apps in mobile plans is not a new bundling plan and is less convenient. The focus is on non-EPL sports content and ethnic programmes.
5. Rolling out 5G coverage indoors is challenging. And limited spectrum can impact the quality of the network to meet IMDA requirements. The increased spending on 5G has been a trigger for market consolidation in other countries.

NCS: Still in the investment stage

1. The largest systems integrator in SE Asia with more than 12,000 workforce. NCS's strength has been in public service, defence and homeland security.
2. The target is S$5bn revenue in 5 years from the current S$2.4bn.
3. Look to increase headcount from more cost-competitive countries such as India and Vietnam. The headcount could rise to 20,000 in less than 4 years.
4. There is cost pressure from rising wages, increasing the workforce plus acquisition costs. The ability to raise the price and penetrate the new market will require time.

Regional Data Centre: Doubling in capacity

1. Current 60MW capacity (7 data centres) in Singapore generates S$250mn in revenue and 60% EBITDA. There is another 60GW underway. Tuas will commence with 30MW and another 30MW in the pipeline in Singapore. Thailand is expecting 20MW and Indonesia more than 100MW.

ACCUMULATE (Maintained)

CLOSING PRICE	SGD 2.600
FORECAST DIV	SGD 0.098
TARGET PRICE	SGD 3.050
TOTAL RETURN	**21.1%**

COMPANY DATA

BLOOMBERG CODE:	ST SP
O/S SHARES (MN) :	16,507
MARKET CAP (USD mn / SGD mn) :	30606 / 42919
52 - WK HI/LO (SGD) :	2.88 / 2.31
3M Average Daily T/O (mn) :	22.92

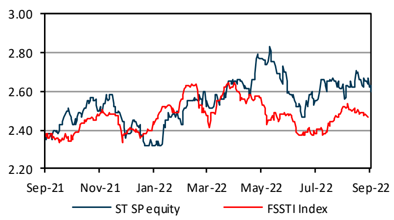
MAJOR SHAREHOLDERS

Temasek Holdings Pte Ltd	52.6%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	1.5	3.1	15.5
STI RETURN	0.9	0.8	6.9

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar, SGDmn	FY21	FY22	FY23e	FY24e
Revenue	15,644	15,339	15,228	15,770
EBITDA	3,832	3,767	4,105	4,320
Net Profit	1,733	1,924	2,023	2,305
DPS (SGD cents)	7.5	9.3	9.8	11.0
EPS-adj. (SGD cents)	10.6	11.7	12.3	14.0
Dividend Yield	2.9%	3.6%	3.8%	4.2%
ROE	6.5%	7.0%	7.1%	7.9%
ROA	3.6%	4.0%	4.1%	4.6%

Source: Company, PSR

VALUATION METHOD

Sum Of Parts - 7x EV/EBITDA; 20% disc. on associates

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2. The capital cost in the building data centres is around S$4.1mn per MW. Important factors in a datacentre include fault tolerance; telecommunications network; power lines; batteries and site selection.
3. The largest operating expense is utilities (70% of total). Around 2/3 of the data centres have pass-throughs from higher utilities. The balance will be renegotiated when contracts are due. Between 30-40% of the power is consumed by cooling.
4. Announced capacity by competition can be only landbank and no connectivity and power. In the joint venture with Gulf Energy and AIS, land has been secured to develop 20MW. Gulf Energy has capabilities in renewable energy; AIS the telecommunications reach and Singtel the relationship with hyperscalers.
5. An important metric for the datacentre is power usage effectiveness (PUE). The power used to operate the servers and other equipment. The best practice is 1.4, with hyperscalers drive to 1.3. The newer datacentres being built will have much more hyperscalers.

Optus: Raising prices and capex to peak this year

1. Enjoys a 33% market share in mobile. Competition is fierce with 40 MVNOs that compete on price. Pricing has been softer recently due to the ceasing of insurance plans (A$1.20) and fewer late payment fees. In July 2022, postpaid prices increased from A$55 (80GB) in May 2021 to A$59 (100GB).
2. Roaming is 40-45% of pre-pandemic levels but Chinese tourists and foreign students are still missing. Outbound roaming is larger than inbound but roaming revenue is not as large as in Singapore.
3. The Telstra-TPG network merger is not competitive. Telstra gets access to TPG spectrum and TPG gets access to Telstra's network. It is a backdoor for Telstra to secure more spectrum when there is a cap in the auctioning process.
4. Capex will be elevated this year to 18-20% of revenue due to 5G, one-off satellite Capex; new exchange and replacement of Huawei equipment.
5. Hard to achieve comparable ROIC similar to the group as a result of the huge A$10bn capital in the business.

B) Regional Associates

Advanced Info Services (AIS): Competition remains intense

1. ARPU is suffering from prepaid competition from unlimited price plans (BT100-150) and weak consumer sentiment. Economic conditions for the past 2-3 years was badly impacted by the collapse in tourism. The situation has been made worse with rising inflation. EBITDA guidance has been lowered from low-single-digit growth to flat to slightly decline.
2. Jasmine is impacted by rental expenses that are above market rates. Following the acquisition, AIS can utilise the fibre that it owns.
3. Opportunity in digital finance has narrowed with cancelling of transfer fees between banks. The KYC requirements in e-wallet can be even tighter than opening a bank account.
4. Some competitors lack 5G spectrum. Customer experience has not yet been affected as usage has been low during the pandemic. The arrival of more low to mid-end handsets can help raise the penetration of 5G.
5. When competitors merge, the integration can be disruptive to customers and the 18 months is an opportunity to raise market share.

Bharti Airtel: Two-player oligopoly intact

1. Will move to 5G standalone eventually as more 4G traffic moves to 5G. 5G is now niche usage as there is already too much data being offered. Monetization will pick up only if consumption rises.
2. There is inflation pressure on consumers. There is distress at the bottom end of the market; explosive growth at the high end and resilience in the middle market.
3. The recent increase in phone prices has affected customers upgrading their price plans.
4. The 3rd operator requires capital injection from the parent as the liquidity position is constrained; and it is operating at subscale with a 17% market share. Around half its EBITDA is from 2-3 circles. Bharti has around 36% mobile market share in India.
5. The authorities require investments in connectivity for the country. It can come only if operators are profitable which requires higher prices. ARPU has climbed 68% over the last three years.

Globe Telecom: Raising capital to capture demand

1. The 3rd operator will find funding a challenge. It is not a factor in decision-making, apart from the disposal of telco towers.
2. 2H22 tailwind includes the reopening of the economy and school enrolments. Globe has a large share of the student population.
3. Capex rose due to the strong demand. This year will be the peak in Capex.
4. Broadband focus is in prepaid where customers use it only when required. Prepaid can expand the market size. Customers still opt for prepaid plans despite the higher price per GB.
5. Consumer wallets are affected by the rise in gas, sugar and rice prices. However, the flow of overseas remittances never stopped despite the pandemic and has helped fuel the local economy.

Telkomsel: Price repair underway

1. There have been two rounds of price repair and competition has been more rational. The unlimited price plans encouraged abuse and were resold by customers to other users as another B2C product. The higher value segment is less price sensitive.
2. On Bank Fama, there are many customer segments not served in Tier 2 and 3 cities. Telkomsel can tap on its 170mn customer base and work with the bank.
3. Telkom is planning to combine its broadband (IndiHome) and mobile business (Telkomsel). A single customer view for customers is important. Telkomsel is building up its 5G base stations which will require more fibre. There is a common fibre backhaul for fixed broadband and mobile.
4. There is a very granular approach to mobile pricing. There are 514 cities in Indonesia, which are split into 12 pricing zone and a huge number of pricing SKUs.
5. Working with GoTo group on publishing games unique to Indonesia and not just an aggregator of games. Other collaborations include tapping on 400,000 Telkomsel retailers to sell top-ups.

Financials

Income Statement

Y/E Mar, SGD 'Mn	FY20	FY21	FY22	FY23e	FY24e
Revenue	**16,542**	**15,644**	**15,339**	**15,228**	**15,770**
Operating Profit	4,363	3,690	3,614	3,955	4,170
EBITDA	**4,541**	**3,832**	**3,767**	**4,105**	**4,320**
Depreciation & Amortisation	(2,580)	(2,685)	(2,723)	(2,973)	(3,098)
EBIT	**1,961**	**1,147**	**1,045**	**1,132**	**1,222**
Net Finance Inc/(Exp)	(462)	(398)	(404)	(463)	(445)
Associates	1,743	607	1,653	1,765	2,001
Profit before tax	2,040	754	2,621	2,609	2,825
Taxation	(988)	(194)	(662)	(443)	(509)
Non-controlling interest	22	(6)	(11)	(13)	(12)
Net profit, reported	**1,075**	**554**	**1,949**	**2,152**	**2,305**
Exceptional	(1,382)	(1,179)	25	129	-
Net profit, adjusted	**2,457**	**1,733**	**1,924**	**2,023**	**2,305**

Per share data (SGD Cents)

Y/E Mar	FY20	FY21	FY22	FY23e	FY24e
EPS, reported	6.6	3.4	11.8	13.0	14.0
EPS, adjusted	15.0	10.6	11.7	12.3	14.0
DPS	12.3	7.5	9.3	9.8	11.0
BVPS	163.9	161.9	170.4	173.8	177.8

Cash Flow

Y/E Mar, SGD 'Mn	FY20	FY21	FY22	FY23e	FY24e
CFO					
Profit before tax	**2,040**	**754**	**2,621**	**2,609**	**2,825**
Adjustments	2,941	3,002	1,136	1,625	1,495
WC changes	364	584	270	(538)	(16)
Cash generated from ops	4,871	4,340	4,027	3,696	4,304
Tax paid	(492)	(164)	(352)	(443)	(509)
Cashflow from ops	**5,817**	**5,609**	**5,298**	**4,394**	**4,997**
CFI					
CAPEX & IA, net	(2,037)	(2,214)	(2,217)	(2,500)	(2,500)
Others	(534)	(238)	1,850	46	47
Cashflow from investments	**(2,921)**	**(2,666)**	**(644)**	**(2,454)**	**(2,453)**
CFF					
Share issuance, net	-	-	-	-	-
Loans, net of repayments	17	(1,067)	(1,650)	1,000	(500)
Dividends	(2,857)	(1,273)	(1,139)	(1,585)	(1,651)
Others	383	(850)	(477)	(463)	(445)
Cashflow from financing	**(2,457)**	**(3,190)**	**(3,266)**	**(1,048)**	**(2,596)**
Net change in cash	440	(247)	1,387	891	(52)
CCE, end	**990**	**741**	**2,149**	**3,040**	**2,989**

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Mar, SGD 'Mn	FY20	FY21	FY22	FY23e	FY24e
ASSETS					
Accounts receivables	5,559	5,444	5,245	5,025	5,204
Cash	1,000	755	2,130	3,021	2,970
Inventories	280	272	270	305	315
Others	337	62	485	485	485
Total current assets	**7,176**	**6,532**	**8,130**	**8,837**	**8,975**
PPE & IA	24,100	24,663	22,870	22,397	21,799
Others	17,679	16,803	18,131	18,755	19,554
Total non-current assets	**41,779**	**41,466**	**41,001**	**41,152**	**41,352**
Total Assets	**48,955**	**47,998**	**49,131**	**49,988**	**50,327**
LIABILITIES					
Accounts payables	5,641	5,977	5,596	4,873	5,046
Short term loans	3,788	1,880	1,841	1,841	1,841
Tax payable	199	268	769	769	769
Total current liabilities	**10,579**	**9,137**	**9,055**	**8,332**	**8,506**
Long term loans	10,202	10,826	10,254	11,254	10,754
Deferred tax liabilites	526	499	499	499	499
Others	835	1,026	1,213	1,213	1,213
Total non-current liabilities	**11,562**	**12,350**	**11,967**	**12,967**	**12,467**
Total Liabilities	**22,141**	**21,487**	**21,022**	**21,299**	**20,972**
EQUITY					
Non-controlling interests	25	26	(15)	(2)	10
Shareholder Equity	**26,789**	**26,486**	**28,124**	**28,692**	**29,346**

Valuation Ratios

Y/E Mar	FY20	FY21	FY22	FY23e	FY24e
P/E (X)-adj.	39.6	76.8	22.0	19.9	18.6
P/B (X)	1.6	1.6	1.5	1.5	1.5
EV/EBITDA (X)	12.2	14.2	13.9	12.8	12.1
Growth & Margins					
Growth					
Revenue	-4.8%	-5.4%	-1.9%	-0.7%	3.6%
EBITDA	-3.2%	-15.6%	-1.7%	9.0%	5.2%
EBIT	-20.6%	-41.5%	-8.9%	8.3%	8.0%
Net profit, adj.	-13.0%	-29.5%	11.0%	5.2%	13.9%
Margins					
Gross margin	26.4%	23.6%	23.6%	26.0%	26.4%
EBITDA margin	27.5%	24.5%	24.6%	27.0%	27.4%
EBIT margin	11.9%	7.3%	6.8%	7.4%	7.8%
Net profit margin	14.9%	11.1%	12.5%	13.3%	14.6%
Key Ratios					
ROE	8.7%	6.5%	7.0%	7.1%	7.9%
ROA	5.0%	3.6%	4.0%	4.1%	4.6%
Dividend Payout	186.4%	70.8%	79.8%	75.2%	78.8%
Dividend Yield	4.7%	2.9%	3.6%	3.8%	4.2%

Ratings History

PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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