

Singapore Telecommunications Ltd

Bharti shines in earnings and dividends



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SINGAPORE | TELECOMMUNICATIONS | 1H23 RESULTS

- 1H23 results were within expectations. Revenue and EBITDA were 48%/46% of our FY23e estimates. A special dividend of 5 cents was announced following the S\$2.2bn proceeds from sale of Bharti stake.
- Underlying earnings rose 2% to S\$1bn supported by an 8% growth in associate earnings to S\$813mn led by a turnaround in Bharti. There was a large drag in earnings from NCS with EBIT down 49% to S\$53mn.
- We maintain our FY23e forecast largely intact. Our ACCUMULATE and SOTP TP of \$3.05 is unchanged. Singtel is transitioning to longer-term growth drivers such as data centres and IT services. Near-term earnings growth will be driven by a rebound in mobile ARPUs in India, Singapore and other associates from roaming and improving economic conditions.

Results at a glance

SGDmn	1H23	1H22	YoY	Comments
Revenue	7,258	7,165	1%	Including Amobee, revenue down 5%.
- Singapore consumer	874	868	1%	Blended ARPU +10.3% and subscriber +2.5%.
- Optus	3,843	3,962	-3%	Blended ARPU -2% and subscribers +5%.
- Group enterprise	1,263	1,246	1%	ICT grew 18% from data centre utility pass through.
- NCS	1,283	1,246	3%	
EBITDA	1,877	1,929	-3%	
- Singapore consumer	328	298	10%	
- Optus	1,033	1,049	-2%	
- Group enterprise	543	543	0%	Lower FX income and fixed voice revenue.
- NCS	110	147	-25%	Retention bonus, amortisation, staff cost
Regional Associates PAT	813	751	8%	
- Telkomsel	350	365	-4%	
- AIS	113	131	-14%	
- Bharti	172	49	251%	
Exceptionals (post. tax)	165	-29	n.m.	
PATMI	1,170	954	23%	
Underlying PATMI	1,005	983	2%	
DPS (cents) - Interim	4.60	4.50	2%	76% payout of underlying net profit.
- Special	5.00	0	n.m.	Payable in 2 tranches of 2.5 cents (Dec22/Aug23).

Source: Company, PSR

The Positives

+ Strength in Singapore consumer. Singapore consumer grew EBITDA 10% YoY to S328mn. Mobile enjoyed EBITDA expansion from a 12.6% YoY rise in ARPU as roaming revenue returned with borders re-opening. Roaming is around 60% of pre-pandemic levels. Penetration of roaming has risen as compared to using SIM cards of destination countries. Revenue was impacted by a 21% decline in pay TV to S\$74mn due to the cessation of EPL.

+ Turnaround in Bharti is still underway. Bharti earnings spiked more than 3-fold to S\$172mn. Improvement in earnings came from the 24% YoY increase in ARPU to Rp190 (S\$3.2) and 9% YoY rise in 4G mobile customers to 210.3mn.

ACCUMULATE (Maintained)

CLOSING PRICE	SGD 2.690
FORECAST DIV	SGD 0.096
TARGET PRICE	SGD 3.050
TOTAL RETURN	17.0%

COMPANY DATA

BLOOMBERG CODE:	STSP
O/S SHARES (MN):	16,507
MARKET CAP (USD mn / SGD mn):	32337 / 44405
52 - WK HI/LO (SGD):	2.88 / 2.31
3M Average Daily T/O (mn):	28.00

MAJOR SHAREHOLDERS

Temasek Holdings Pte Ltd	52.6%
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PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	7.6	2.7	18.1
STI RETURN	4.3	(1.2)	7.4

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar, SGDmn	FY21	FY22	FY23e	FY24e
Revenue	15,644	15,339	15,026	15,258
EBITDA	3,832	3,767	4,148	4,261
Net Profit	1,733	1,924	2,105	2,270
DPS (SGD cents)	7.5	9.3	14.6	11.0
EPS-adj. (SGD cents)	10.6	11.7	12.7	13.8
Dividend Yield	2.8%	3.5%	5.4%	4.1%
ROE	6.5%	7.0%	7.4%	7.8%
ROA	3.6%	4.0%	4.2%	4.5%

Source: Company, PSR

VALUATION METHOD

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

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The Negatives

- **Still a work in progress for NCS.** EBITDA for NCS declined 26% YoY to S\$110mn. Part of the weakness was from post-acquisition charges in Australia such as staff retention and earnouts and overall higher staffing cost.

- **Losses in GXS Digital bank.** The digital bank associate registered a S\$27mn loss in 1H23. Expectations are for break even in 2025 rather than 2027. From a banker to everyone strategy, GXS will pivot to selected segment. Loans will be targeted to mobile devices and niche small medium enterprises. The advantage of GXS is the lower customer acquisition cost by embedding GXS into Grab and Singtel apps plus tapping on both customer bases.

- **Provisions in Optus.** There were two provisions made on Optus – (i) goodwill impairment of S\$1bn from higher WACC, lower Australian dollar and weaker economic outlook assumptions; (ii) A\$140mn provision for the cyber attack based on independent review, credit monitoring services for impacted customers and replacement of customer documents. It does not include potential class action (no notification so far) and penalties from pending investigations.

Outlook

We expect a recovery in earnings for Singtel to be led by mobile operations in India and Singapore.

1. Singapore Consumer: Roaming will drive EBITDA growth in FY22e. Without EPL content cost, margins in payTV are expected to rise. Churn rates in pay TV have been lower than expected.
2. Optus: There has been a jump in consumer churn and flight to quality post the cyber attack. Other actions were the pause in marketing and customer retention activities.
3. Enterprise: Limited growth expected. Recovery in mobile services from roaming revenue will be offset by weakness in legacy fixed voice business. The new data centre in Tuas and Thailand in 2025 will be significant driver to EBITDA growth. Total capacity to expand from current 60MW to appr. 120MW over three years.
4. NCS: With ambitions to become a pan-APAC IT service provider, we expect sluggish earnings until FY25e. NCS is investing in headcount, especially in lower cost countries such as Vietnam and India.
5. Associate: Bharti will lead earnings growth in associates as ARPUs remain on an upward trajectory. Our expectations are improving economic conditions will support discretionary spending in prepaid mobile and ARPU for the other associates.

Maintain ACCUMULATE with an unchanged TP of S\$3.05

Our SOTP valuation is based on 7x EV/EBITDA for Singtel's core Singapore and Australia businesses, at S\$1.15/share. Associates are marked to market at S\$1.90/share after a 20% discount to reflect volatility in their share prices.

Financials

Income Statement

Y/E Mar, SGD 'Mn	FY20	FY21	FY22	FY23e	FY24e
Revenue	16,542	15,644	15,339	15,026	15,258
Operating Profit	4,363	3,690	3,614	3,998	4,111
EBITDA	4,541	3,832	3,767	4,148	4,261
Depreciation & Amortisation	(2,580)	(2,685)	(2,723)	(2,973)	(3,098)
EBIT	1,961	1,147	1,045	1,175	1,163
Net Finance Inc/(Exp)	(462)	(398)	(404)	(463)	(445)
Associates	1,743	607	1,653	1,814	2,019
Profit before tax	2,040	754	2,621	2,660	2,783
Taxation	(988)	(194)	(662)	(452)	(501)
Non-controlling interest	22	(6)	(11)	(13)	(11)
Net profit, reported	1,075	554	1,949	2,195	2,270
Exceptional	(1,382)	(1,179)	25	90	-
Net profit, adjusted	2,457	1,733	1,924	2,105	2,270

Per share data (SGD Cents)

Y/E Mar	FY20	FY21	FY22	FY23e	FY24e
EPS, reported	6.6	3.4	11.8	13.3	13.8
EPS, adjusted	15.0	10.6	11.7	12.7	13.8
DPS	12.3	7.5	9.3	14.6	11.0
BVPS	163.9	161.9	170.4	174.3	178.0

Cash Flow

Y/E Mar, SGD 'Mn	FY20	FY21	FY22	FY23e	FY24e
CFO					
Profit before tax	2,040	754	2,621	2,660	2,783
Adjustments	2,941	3,002	1,136	1,578	1,478
WC changes	364	584	270	(532)	(7)
Cash generated from ops	4,871	4,340	4,027	3,706	4,254
Tax paid	(492)	(164)	(352)	(452)	(501)
Cashflow from ops	5,817	5,609	5,298	4,365	4,943
CFI					
CAPEX & IA, net	(2,037)	(2,214)	(2,217)	(2,500)	(2,500)
Others	(534)	(238)	1,850	45	46
Cashflow from investments	(2,921)	(2,666)	(644)	(2,455)	(2,454)
CFE					
Share issuance, net	-	-	-	-	-
Loans, net of repayments	17	(1,067)	(1,650)	1,000	(500)
Dividends	(2,857)	(1,273)	(1,139)	(1,552)	(1,651)
Others	383	(850)	(477)	(463)	(445)
Cashflow from financing	(2,457)	(3,190)	(3,266)	(1,015)	(2,596)
Net change in cash	440	(247)	1,387	895	(107)
CCE, end	990	741	2,149	3,044	2,936

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	4,958	5,035
Cash	1,000	755	2,130	3,025	2,918
Inventories	280	272	270	301	305
Others	337	62	485	485	485
Total current assets	7,176	6,532	8,130	8,769	8,743
PPE & IA	24,100	24,663	22,870	22,397	21,799
Others	17,679	16,803	18,131	18,833	19,662
Total non-current assets	41,779	41,466	41,001	41,230	41,461
Total Assets	48,955	47,998	49,131	49,999	50,205
LIABILITIES					
Accounts payables	5,641	5,977	5,596	4,808	4,883
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	8,267	8,342
Long term loans	10,202	10,826	10,254	11,254	10,754
Deferred tax liabilities	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	21,234	20,809
EQUITY					
Non-controlling interests	25	26	(15)	(2)	10
Shareholder Equity	26,789	26,486	28,124	28,767	29,387

Valuation Ratios

Y/E Mar	FY20	FY21	FY22	FY23e	FY24e
P/E (X)-adj.	40.9	79.5	22.8	20.2	19.6
P/B (X)	1.6	1.7	1.6	1.5	1.5
EV/EBITDA (X)	12.5	14.6	14.3	13.0	12.6

Growth & Margins

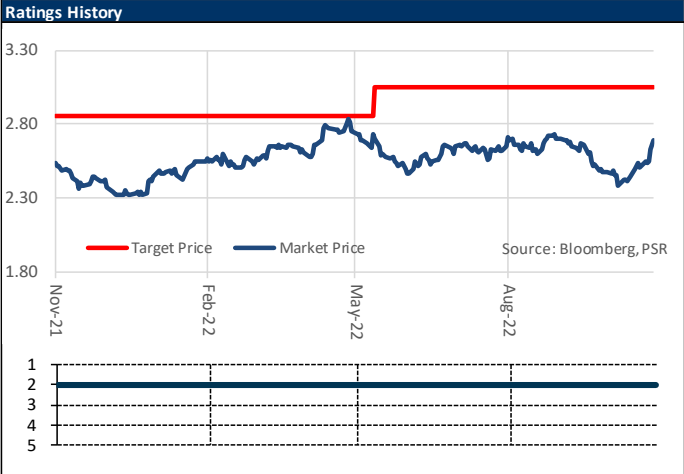
	FY20	FY21	FY22	FY23e	FY24e
Growth					
Revenue	-4.8%	-5.4%	-1.9%	-2.0%	1.5%
EBITDA	-3.2%	-15.6%	-1.7%	10.1%	2.7%
EBIT	-20.6%	-41.5%	-8.9%	12.4%	-1.0%
Net profit, adj.	-13.0%	-29.5%	11.0%	9.4%	7.9%

Margins

	FY20	FY21	FY22	FY23e	FY24e
Gross margin	26.4%	23.6%	23.6%	26.6%	26.9%
EBITDA margin	27.5%	24.5%	24.6%	27.6%	27.9%
EBIT margin	11.9%	7.3%	6.8%	7.8%	7.6%
Net profit margin	14.9%	11.1%	12.5%	14.0%	14.9%

Key Ratios

	FY20	FY21	FY22	FY23e	FY24e
ROE	8.7%	6.5%	7.0%	7.4%	7.8%
ROA	5.0%	3.6%	4.0%	4.2%	4.5%
Dividend Payout	186.4%	70.8%	79.8%	109.8%	80.0%
Dividend Yield	4.6%	2.8%	3.5%	5.4%	4.1%



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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