

Singapore Telecommunications Ltd

Currency down, margins under



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SINGAPORE | TELECOMMUNICATIONS | 1Q24 Update

23 August 2023

- 1Q24 revenue and EBITDA were within expectations at both 23% of our FY24e forecast. The 9% decline in the Australian dollar and drop in Optus margins were the drag on earnings.
- Maiden disclosure of the Digital infraco (data centre, submarine cable, satellite), reflected an 11% YoY growth in EBITDA from higher pricing and satellite deployment services. Meanwhile, Bharti registered a 34% YoY growth in earnings to S\$112mn.
- Optus remains the weakest spot for the group with EBIT declining 28% YoY in local currency terms to S\$56mn. Despite the larger revenue and market size, Optus EBIT is only 23% of Singapore operations. We incorporated a modest decline in our FY24e revenue and EBITDA estimates by 2% to account for the weakness in the Australian dollar. The SOTP TP is lowered to S\$2.80 (prev. S\$2.84). We upgrade to BUY from ACCUMULATE due to recent price weakness. Valuations are attractive but any re-rating for Singtel will come from its S\$6bn asset monetization efforts, better cost controls at Optus, mobile price restoration and broadband growth.

BUY (Upgraded)

CLOSING PRICE	SGD 2.330
FORECAST DIV	SGD 0.103
TARGET PRICE	SGD 2.800
TOTAL RETURN	24.6%

COMPANY DATA

BLOOMBERG CODE:	STSP
O/S SHARES (MN):	16,511
MARKET CAP (USD mn / SGD mn):	28341 / 38470
52 - WK HI/LO (SGD):	2.77 / 2.29
3M Average Daily T/O (mn):	19.81

MAJOR SHAREHOLDERS

Temasek Holdings Pte Ltd	52.0%
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Results at a glance

SGDmn	2H23	2H22	YoY	Comments
Revenue	7,365	7,686	-4%	Excl Amobee, revenue up 1.5%.
- Singapore consumer	941	896	5%	Blended ARPU +9.3%, subscriber +4.4%.
- Optus	3,726	3,852	-3%	Blended ARPU -0.3%, subscribers +4%.
- Group enterprise	1,291	1,278	1%	
- NCS	1,445	1,278	13%	
EBITDA	1,808	1,838	-2%	Trustwave losses up S\$11mn to S\$58mn.
- Singapore consumer	326	284	15%	
- Optus	932	1,012	-8%	
- Group enterprise	551	549	0%	
- NCS	145	155	-6%	Post acquisition charges and higher staff cost.
Regional Associates PAT	806	773	4%	
- Telkomsel	314	342	-8%	
- AIS	127	125	2%	
- Bharti	213	148	44%	ARPU +8.4%, subscribers +11.6%
Exceptionals (post. tax)	7	54	n.m.	
PATMI	1,055	995	6%	
Underlying PATMI	1,048	941	11%	
DPS (cents) - Final	5.30	4.80	10%	80% payout of underlying net profit.

Source: Company, PSR # Note - No analyst briefing and limited financials were provided in the 3Q23 update

The Positives

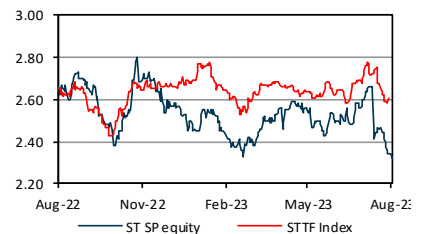
+ Stellar performance for Bharti. Bharti registered a 33% rise in profit after tax to S\$112mn. The key driver to earnings was the 9% YoY increase in mobile ARPU in India to Rp200. Customers are looking to premiumize their mobile pricing plans to 4G smartphones and from prepaid to postpaid. The earnings growth at Bharti was before the exceptional loss of S\$114mn from a devaluation of the Nigerian Naira (14 June) and fair value loss from its foreign currency convertible bonds.

+ Digital infraco, the new source of growth. The newly disclosed digital infraco reported an 11% rise in EBITDA to S\$62mn. Earnings were driven by higher prices in the data centre and satellite deployment services.

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(7.9)	(6.1)	(6.9)
STTF	(1.6)	0.6	1.2

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar, SGDbn	FY22	FY23	FY24e	FY25e
Revenue	15.34	14.62	14.83	15.19
EBITDA	3.77	3.69	3.71	3.86
Net Profit	1.92	2.05	2.09	2.28
DPS (cents)	9.3	14.9	10.3	11.0
EPS-adj. (cents)	11.6	12.4	12.7	13.8
P/E (X)-adj.	19.8	17.3	19.2	16.9
Dividend Yield	4.0%	6.4%	4.4%	4.7%
ROE	7.0%	7.6%	8.1%	8.7%
ROA	4.0%	4.3%	4.6%	5.0%

Source: Company, PSR

VALUATION METHOD

Sum Of Parts - 6x EV/EBITDA; 20% disc. on associate

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The Negative

- **No respite at Optus.** Optus EBITDA was hurt by a 9% decline in the Australian dollar. EBITDA margin was down 1.8% points from higher wages and electricity costs. Competitive pricing and a weakening in consumer sentiment are also placing pressure on mobile ARPU.

Outlook

The growth areas for Singtel are NCS, Digital Infracore, Telkomsel broadband and Bharti. However, any growth will be offset by weakness in Optus and Singapore Singtel's legacy enterprise business. We believe these factors will keep Singtel's growth outlook muted. Singtel's plans to recycle S\$6bn capital will be the medium-term drivers. We expect capital recycling to come from Comcentre redevelopment and partial disposal of stakes in digital infracore, NCS and associates.

Upgrade to BUY with lower TP of S\$2.80 (prev. S\$2.84)

Our SOTP valuation is based on 6x EV/EBITDA (in line with peer valuation) for Singtel's core Singapore and Australia businesses, at S\$0.90/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	FY21	FY22	FY23	FY24e	FY25e
Revenue	15,644	15,339	14,624	14,829	15,187
Operating Profit	3,690	3,614	3,491	3,557	3,680
EBITDA	3,832	3,767	3,686	3,707	3,860
Depreciation & Amortisation	(2,685)	(2,723)	(2,574)	(2,773)	(2,876)
EBIT	1,147	1,045	1,112	934	984
Net Finance Inc/(Exp)	(398)	(404)	(416)	(405)	(386)
Associates	607	1,653	1,827	1,974	2,156
Profit before tax	754	2,621	2,598	2,459	2,799
Taxation	(194)	(662)	(365)	(443)	(504)
Non-controlling interest	(6)	(11)	(8)	(10)	(11)
Net profit, reported	554	1,949	2,225	2,006	2,284
Exceptional	(1,179)	25	172	(88)	-
Net profit, adjusted	1,733	1,924	2,053	2,094	2,284

Per share data (SGD Cents)

Y/E Mar	FY21	FY22	FY23	FY24e	FY25e
EPS, reported	3.4	11.8	13.4	12.1	13.8
EPS, adjusted	10.6	11.6	12.4	12.7	13.8
DPS	7.5	9.3	14.9	10.3	11.0
BVPS	161.9	169.9	157.1	156.6	159.9

Cash Flow

Y/E Mar, SGD 'Mn	FY21	FY22	FY23	FY24e	FY25e
CFO					
Profit before tax	754	2,621	2,598	2,459	2,799
Adjustments	3,002	1,136	1,048	1,160	1,061
WC changes	584	270	(70)	(396)	(11)
Cash generated from ops	4,340	4,027	3,576	3,223	3,850
Tax paid	(164)	(352)	(347)	(443)	(504)
Cashflow from ops	5,609	5,298	4,776	4,114	4,866
CFI					
CAPEX & IA, net	(2,214)	(2,217)	(2,162)	(2,500)	(2,300)
Others	(238)	1,850	(21)	44	46
Cashflow from investments	(2,666)	(644)	(2,302)	(2,456)	(2,254)
CFE					
Share issuance, net	-	-	-	-	-
Loans, net of repayments	(1,067)	(1,650)	542	(500)	(500)
Dividends	(1,273)	(1,139)	(1,964)	(2,086)	(1,738)
Others	(850)	(477)	(1,519)	(405)	(386)
Cashflow from financing	(3,190)	(3,266)	(2,941)	(2,991)	(2,624)
Net change in cash	(247)	1,387	(467)	(1,333)	(13)
CCE, end	741	2,149	1,644	311	299

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Mar, SGD 'Mn	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
Accounts receivables	5,444	5,245	5,013	4,894	5,012
Cash	755	2,130	1,668	335	322
Inventories	272	270	346	297	304
Others	62	485	1,556	1,556	1,556
Total current assets	6,532	8,130	8,583	7,081	7,194
PPE & IA	24,663	22,870	21,374	21,101	20,525
Others	16,803	18,131	16,573	17,214	17,849
Total non-current assets	41,466	41,001	37,947	38,315	38,374
Total Assets	47,998	49,131	46,530	45,396	45,567
LIABILITIES					
Accounts payables	5,977	5,596	5,310	4,745	4,860
Short term loans	1,880	1,841	1,202	1,202	1,202
Tax payable	268	769	731	731	731
Total current liabilities	9,137	9,055	8,299	7,735	7,849
Long term loans	10,826	10,254	9,911	9,411	8,911
Deferred tax liabilities	499	499	543	543	543
Others	1,026	1,213	1,764	1,764	1,764
Total non-current liabilities	12,350	11,967	12,217	11,717	11,217
Total Liabilities	21,487	21,022	20,516	19,451	19,066
EQUITY					
Non-controlling interests	26	(15)	9	19	31
Shareholder Equity	26,486	28,124	26,005	25,925	26,471

Valuation Ratios

Y/E Mar	FY21	FY22	FY23	FY24e	FY25e
P/E (X)-adj.	68.9	19.8	17.3	19.2	16.9
P/B (X)	1.4	1.4	1.5	1.5	1.5
EV/EBITDA (X)	13.1	12.7	12.9	13.0	12.4

Growth & Margins

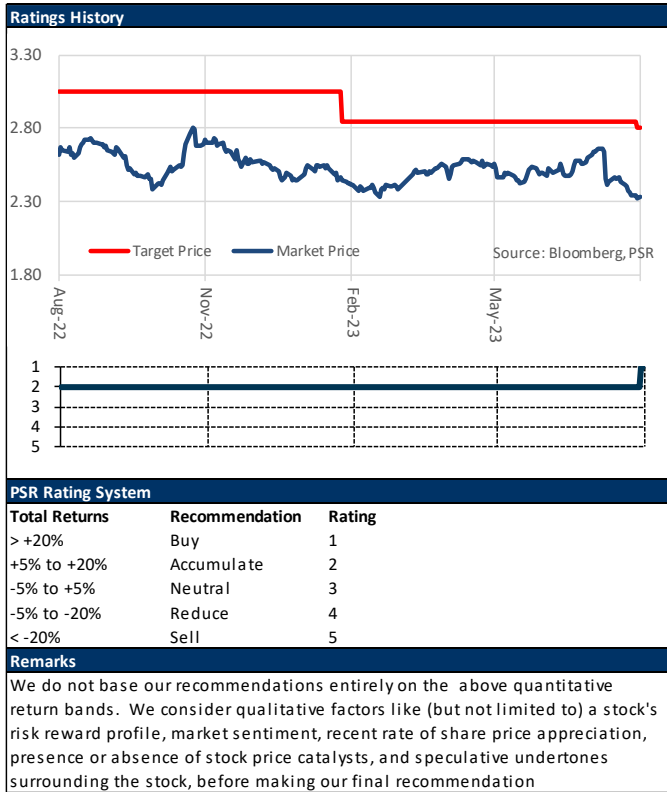
	FY21	FY22	FY23	FY24e	FY25e
Growth					
Revenue	-5.4%	-1.9%	-4.7%	1.4%	2.4%
EBITDA	-15.6%	-1.7%	-2.2%	0.6%	4.1%
EBIT	-41.5%	-8.9%	6.4%	-16.0%	5.3%
Net profit, adj.	-29.5%	11.0%	6.7%	2.0%	9.1%

Margins

	FY21	FY22	FY23	FY24e	FY25e
Gross margin	23.6%	23.6%	23.9%	24.0%	24.2%
EBITDA margin	24.5%	24.6%	25.2%	25.0%	25.4%
EBIT margin	7.3%	6.8%	7.6%	6.3%	6.5%
Net profit margin	11.1%	12.5%	14.0%	14.1%	15.0%

Key Ratios

	FY21	FY22	FY23	FY24e	FY25e
ROE	6.5%	7.0%	7.6%	8.1%	8.7%
ROA	3.6%	4.0%	4.3%	4.6%	5.0%
Dividend Payout	70.8%	80.0%	120.2%	85.0%	79.7%
Dividend Yield	3.2%	4.0%	6.4%	4.4%	4.7%



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