

Singapore Telecommunications Ltd

Aggressively restructuring to reality



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SINGAPORE | TELECOMMUNICATIONS | 1H24 RESULTS

13 November 2023

- 1H24 revenue and EBITDA were within our expectations at 46% of our FY24e forecast. EBITDA declined 5% YoY to S\$1.78bn due to an 11% contraction in Optus earnings. Underlying net profit rose 11% to S\$1.12bn despite a 4% point drag on currency.
- Singtel increased interim dividends by 13% to 5.2 cents and revised higher its payout ratio from 60-80% to 70-90%. A 3-year programme to remove S\$600mn (of S\$200mn p.a. FY24-26) of indirect cost was announced.
- We maintain BUY with an unchanged target price of S\$2.80. Our earnings are largely unchanged before incorporating exceptional items. We believe Singtel is making significant strides in restructuring the entire group, monetising assets, and shedding unprofitable entities. Mobile competition in Australia is not abating and Optus needs to realign its cost structure to this reality. Underlying net profit in 1H24 fell 69% YoY to A\$13mn.

BUY (Maintained)

CLOSING PRICE	SGD 2.360
FORECAST DIV	SGD 0.107
TARGET PRICE	SGD 2.800
TOTAL RETURN	23.2%

COMPANY DATA

BLOOMBERG CODE:	STSP
O/S SHARES (MN):	16,511
MARKET CAP (USD mn / SGD mn):	28651 / 38966
52 - WK HI/LO (SGD):	2.77 / 2.29
3M Average Daily T/O (mn):	18.91

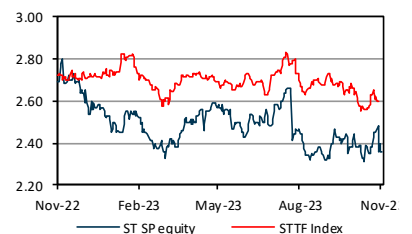
MAJOR SHAREHOLDERS

Temasek Holdings Pte Ltd	52.0%
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PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(2.1)	(4.5)	(5.3)
STTF	(2.6)	(5.2)	(0.4)

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar, SGDbn	FY22	FY23	FY24e	FY25e
Revenue	15.34	14.62	14.58	15.04
EBITDA	3.77	3.69	3.65	3.82
Net Profit	1.92	2.05	2.17	2.46
DPS (cents)	9.3	14.9	10.7	11.0
EPS-adj. (cents)	11.6	12.4	13.1	14.9
P/E (X)-adj.	20.3	19.0	18.0	15.9
Dividend Yield	3.9%	6.3%	4.5%	4.7%
ROE	7.0%	7.6%	8.1%	8.9%
ROA	4.0%	4.3%	4.7%	5.3%

Source: Company, PSR

VALUATION METHOD

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

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Results at a glance

SGDmn	1H24	1H23	YoY	Comments
Revenue	7,028	7,259	-3.2%	4% points drag from currency.
- Singtel	1,893	1,959	-3.4%	Postpaid ARPU +0.3%, subscriber +3.0%.
- Optus	3,572	3,843	-7.1%	Postpaid ARPU +3.1%, subscribers +1.3%.
- Digital Infracore	203	180	12.8%	
- NCS	1,396	1,283	8.8%	
EBITDA	1,787	1,878	-4.8%	Includes Trustwave losses of S\$49mn.
- Singtel	741	750	-1.2%	
- Optus	917	1,033	-11.2%	
- Digital Infracore	112	107	4.7%	
- NCS	136	110	23.6%	
Regional Associates PAT	857	812	5.5%	
- Telkomsel	336	350	-4.0%	
- AIS	138	113	22.1%	
- Bharti	213	172	23.8%	
Exceptionals (post. tax)	1,015	165	n.m.	S\$1.2bn dilution gain Telkomsel.
PATMI	2,136	1,170	82.6%	
Underlying PATMI	1,121	1,005	11.5%	
DPS (cents) - Interim	0.052	0.046	13.0%	77% payout of underlying net profit.

Source: Company, PSR

The Positives

+ Increase in dividends and payout ratio. Singtel raised interim dividends by 13% to 5.2 cents. The company also increased its committed dividend payout ratio to 70-90% of underlying net profit (prev. 60-80%). Supporting dividends was FCF (plus associate dividends and lease payments) of S\$817mn (1H23: S\$1.29bn).

+ Strong margin expansion at NCS. NCS is beginning to contribute more significantly to group earnings. EBITDA expanded 24% YoY to S\$136mn from revenue growth and cost optimisations. NCS booked S\$1.4bn in orders in 1H24 (1H23: S\$1.3bn). Much of the growth was outside the traditional government sector.

The Negative

- **Still stubborn cost structure at Optus.** Optus EBITDA declined 3% YoY to A\$1.03bn despite revenues growing. There was an almost 50% jump in utility cost or an additional A\$24mn. It was encouraging that staff costs have started to stabilise. 1H24 underlying net profit fell 69% ToT to A\$13mn on lower operating earnings and higher finance costs. There was a staff restructuring cost of S\$21mn under exceptionals, but which division was not disclosed.

Outlook

We believe management's restructuring strategy is beginning to yield results:

- 1) Of the planned \$6bn of assets to be monetised in the near-term S\$2bn has been unlocked*.
- 2) Re-organising the group and resources into growth sectors has seen improvement in earnings at NCS and monetisation of the digital infrastructure division.
- 3) Closure of Hooq (Mar20), divestment of Amobee (Jul22) and Trustwave (Oct23) has removed an estimated S\$200mn of operating losses.
- 4) The planned S\$600mn cost out programme (or removal of S\$200mn p.a. of indirect cost) from FY24 to FY26, will be a key initiative to lower fixed costs, especially at Optus.

*Data centre stake sale and Comcentre development.

Maintain BUY with unchanged TP of S\$2.80

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	14,583	15,041
Operating Profit	3,690	3,614	3,491	3,496	3,645
EBITDA	3,832	3,767	3,686	3,646	3,825
Depreciation & Amortisation	(2,685)	(2,723)	(2,574)	(2,557)	(2,557)
EBIT	1,147	1,045	1,112	1,089	1,268
Net Finance Inc/(Exp)	(398)	(404)	(416)	(405)	(386)
Associates	607	1,653	1,827	1,874	2,092
Profit before tax	754	2,621	2,598	3,794	3,019
Taxation	(194)	(662)	(365)	(417)	(543)
Non-controlling interest	(6)	(11)	(8)	(17)	(12)
Net profit, reported	554	1,949	2,225	3,360	2,463
Exceptional	(1,179)	25	172	1,192	-
Net profit, adjusted	1,733	1,924	2,053	2,168	2,463

Per share data (SGD Cents)

Y/E Mar	FY21	FY22	FY23	FY24e	FY25e
EPS, reported	3.4	11.8	13.4	20.3	14.9
EPS, adjusted	10.6	11.6	12.4	13.1	14.9
DPS	7.5	9.3	14.9	10.7	11.0
BVPS	161.9	169.9	157.1	164.4	168.7

Cash Flow

Y/E Mar, SGD 'Mn	FY21	FY22	FY23	FY24e	FY25e
CFO					
Profit before tax	754	2,621	2,598	3,794	3,019
Adjustments	3,002	1,136	1,048	1,045	805
WC changes	584	270	(70)	(388)	(14)
Cash generated from ops	4,340	4,027	3,576	4,450	3,811
Tax paid	(164)	(352)	(347)	(417)	(543)
Cashflow from ops	5,609	5,298	4,776	5,300	4,736
CFI					
CAPEX & IA, net	(2,214)	(2,217)	(2,162)	(2,500)	(2,300)
Others	(238)	1,850	(21)	44	45
Cashflow from investments	(2,666)	(644)	(2,302)	(2,456)	(2,255)
CFE					
Share issuance, net	-	-	-	-	-
Loans, net of repayments	(1,067)	(1,650)	542	(500)	(500)
Dividends	(1,273)	(1,139)	(1,964)	(2,152)	(1,738)
Others	(850)	(477)	(1,519)	(405)	(386)
Cashflow from financing	(3,190)	(3,266)	(2,941)	(3,058)	(2,624)
Net change in cash	(247)	1,387	(467)	(214)	(144)
CCE, end	741	2,149	1,644	1,430	1,287

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	4,812	4,964
Cash	755	2,130	1,668	1,454	1,310
Inventories	272	270	346	292	301
Others	62	485	1,556	1,556	1,556
Total current assets	6,532	8,130	8,583	8,114	8,131
PPE & IA	24,663	22,870	21,374	21,317	21,060
Others	16,803	18,131	16,573	17,180	17,804
Total non-current assets	41,466	41,001	37,947	38,497	38,864
Total Assets	47,998	49,131	46,530	46,611	46,995
LIABILITIES					
Accounts payables	5,977	5,596	5,310	4,666	4,813
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	7,656	7,802
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	19,372	19,019
EQUITY					
Non-controlling interests	26	(15)	9	26	39
Shareholder Equity	26,486	28,124	26,005	27,212	27,937

Valuation Ratios

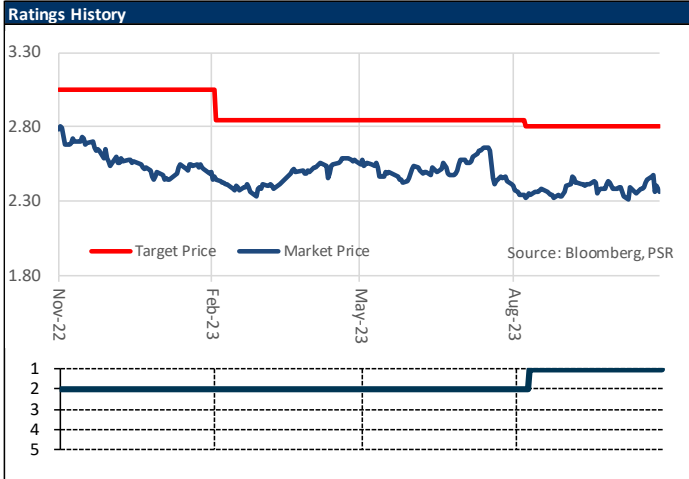
Y/E Mar	FY21	FY22	FY23	FY24e	FY25e
P/E (X)-adj.	22.3	20.3	19.0	18.0	15.9
P/B (X)	1.5	1.4	1.5	1.4	1.4
EV/EBITDA (X)	13.2	12.9	13.0	13.1	12.4

Growth & Margins

Growth					
Revenue	-5.4%	-1.9%	-4.7%	-0.3%	3.1%
EBITDA	-15.6%	-1.7%	-2.2%	-1.1%	4.9%
EBIT	-41.5%	-8.9%	6.4%	-2.0%	16.4%
Net profit, adj.	-29.5%	11.0%	6.7%	5.6%	13.7%
Margins					
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%	7.5%	8.4%
Net profit margin	11.1%	12.5%	14.0%	14.9%	16.4%

Key Ratios

ROE	6.5%	7.0%	7.6%	8.1%	8.9%
ROA	3.6%	4.0%	4.3%	4.7%	5.3%
Dividend Payout	70.8%	80.0%	120.2%	52.7%	73.9%
Dividend Yield	3.2%	3.9%	6.3%	4.5%	4.7%



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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