

Singapore Telecommunications Ltd

Bruised by currency



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SINGAPORE | TELECOMMUNICATIONS | 3Q24 UPDATE

25 February 2024

- 3Q24 earnings were within expectation. 9M24 revenue and EBITDA were 73%/75% of our FY24e forecast. Currency was almost a 2% point drag to earnings.
- 3Q24 associate contribution disappointed with an 8% YoY decline to S\$374mn. Airtel Africa suffered a YTD24 translation of S\$130mn following a massive depreciation of the Nigerian Naira during the quarter. Direct stake in Airtel Africa has been divested.
- We maintain BUY with an unchanged target price of S\$2.80. We lowered our associate earnings by 10% due to the weakness in Airtel Africa. But this was offset by a lower finance expense assumption. Our FY24e PATMI is reduced by 3%. We expect an upside surprise in EBITDA margins in 4Q24 if Singtel can deliver its S\$200mn of cost out by the end of FY24. Mobile price repair is underway in multiple countries where Singtel operates. We expect this to drive earnings together with plans to monetise S\$4bn of assets further.

BUY (Maintained)

CLOSING PRICE	SGD 2.370
FORECAST DIV	SGD 0.107
TARGET PRICE	SGD 2.800
TOTAL RETURN	22.7%

COMPANY DATA

BLOOMBERG CODE:	ST SP
O/S SHARES (MN) :	16,503
MARKET CAP (USD mn / SGD mn) :	29119 / 39113
52 - WK HI/LO (SGD) :	2.65 / 2.25
3M Average Daily T/O (mn) :	23.31

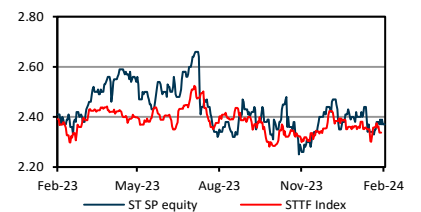
MAJOR SHAREHOLDERS

Temasek Holdings Pte Ltd	52.0%
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PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(0.4)	3.9	(4.0)
STTF	1.7	2.7	(1.3)

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	2.10	2.50
DPS (cents)	9.3	14.9	10.7	11.0
EPS-adj. (cents)	11.6	12.4	12.7	15.1
P/E (X)-adj.	20.4	19.1	18.7	15.7
Dividend Yield	3.9%	6.3%	4.5%	4.6%
ROE	7.0%	7.6%	7.9%	9.1%
ROA	4.0%	4.3%	4.5%	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	3Q24	3Q23	YoY	Comments
Revenue	3,593	3,714	-3%	1.8% points negative impact from currency.
- Singtel Singapore	1,025	1,047	-2%	Weaker mobile equipment and legacy voice.
- Australia consumer	1,802	1,905	-5%	Mobile Subs. +2.2%, ARPU +3%
- NCS	701	676	4%	Bookings of S\$694mn secured in the quarter.
EBITDA	934	911	3%	Removed Trustwave S\$32mn loss in 3Q23.
- Singtel Singapore	372	391	-5%	
- Australia consumer	465	474	-2%	
- NCS	75	51	47%	Reduction in acquisition-related costs.
Regional Associates PAT	374	407	-8%	
- Telkomsel	139	162	-14%	Higher operating costs and legacy services.
- AIS	62	66	-6%	
- Bharti	87	113	-23%	Weakness in Airtel Africa.
PAT	465	532	-13%	
Underlying PAT	559	559	0%	

Source: Company, PSR # Note - No analyst briefing and limited financials were provided in the 3Q24 update

The Positive

+ Early mobile price repair in Australia. Optus postpaid ARPU of A\$42 is the highest in more than four years. We believe price repair is underway. Competition, especially for entry-level price plans, has eased, and prices are edging higher. Despite the network outage, mobile service revenue grew 3.4% YoY.

The Negative

- Airtel Africa currency hit. Contribution from Bharti Telecom declined 23% YoY to S\$87mn. Operations in India grew 14% YoY supported by an 8% rise in ARPU to Rp208. Currency took a toll on the results, with a 4% decline in the rupee against the Singapore dollar. A translation loss hit Africa operations due to the weakness in the Nigerian Naira.

Outlook

We expect mobile price recovery in Australia, India, Thailand, and Indonesia to drive earnings growth. An upside surprise in margins will stem from Singtel's planned S\$600mn reduction in core cost, largely in Optus.

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, and associates are marked to market 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)	(291)	(346)
Associates	607	1,653	1,827	1,687	2,092
Profit before tax	754	2,621	2,598	3,721	3,059
Taxation	(194)	(662)	(365)	(409)	(551)
Non-controlling interest	(6)	(11)	(8)	(17)	(13)
Net profit, reported	554	1,949	2,225	3,295	2,496
Exceptional	(1,179)	25	172	1,192	-
Net profit, adjusted	1,733	1,924	2,053	2,103	2,496

Per share data (SGD Cents)

Y/E Mar	FY21	FY22	FY23	FY24e	FY25e
EPS, reported	3.4	11.8	13.4	19.9	15.1
EPS, adjusted	10.6	11.6	12.4	12.7	15.1
DPS	7.5	9.3	14.9	10.7	11.0
BVPS	161.9	169.9	157.1	164.0	168.6

Cash Flow

Y/E Mar, SGD 'Mn	FY21	FY22	FY23	FY24e	FY25e
CFO					
Profit before tax	754	2,621	2,598	3,721	3,059
Adjustments	3,002	1,136	1,048	1,118	766
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)	(409)	(551)
Cashflow from ops	5,609	5,298	4,776	5,214	4,728
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)	(291)	(346)
Cashflow from financing	(3,190)	(3,266)	(2,941)	(2,943)	(2,585)
Net change in cash	(247)	1,387	(467)	(185)	(111)
CCE, end	741	2,149	1,644	1,459	1,348

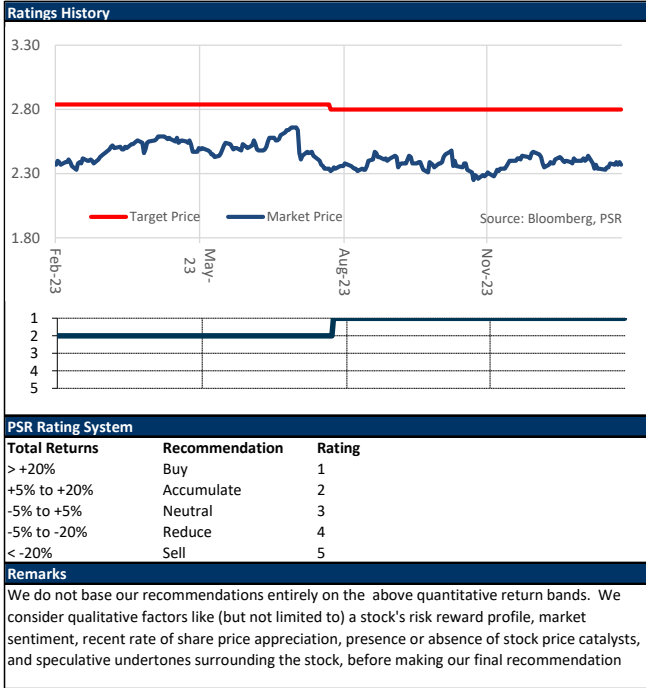
Source: Company, Phillip Securities Research (Singapore) Estimates

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	1,483	1,372
Inventories	272	270	346	292	301
Others	62	485	1,556	1,556	1,556
Total current assets	6,532	8,130	8,583	8,143	8,192
PPE & IA	24,663	22,870	21,374	21,317	21,060
Others	16,803	18,131	16,573	17,086	17,710
Total non-current assets	41,466	41,001	37,947	38,403	38,770
Total Assets	47,998	49,131	46,530	46,546	46,962
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	38
Shareholder Equity	26,486	28,124	26,005	27,148	27,905

Valuation Ratios

Y/E Mar	FY21	FY22	FY23	FY24e	FY25e
P/E (X)-adj.	22.4	20.4	19.1	18.7	15.7
P/B (X)	1.5	1.4	1.5	1.4	1.4
EV/EBITDA (X)	13.2	12.9	13.1	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%	2.4%	18.7%
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%	14.4%	16.6%
Key Ratios					
ROE	6.5%	7.0%	7.6%	7.9%	9.1%
ROA	3.6%	4.0%	4.3%	4.5%	5.3%
Dividend Payout	70.8%	80.0%	120.2%	53.8%	73.0%
Dividend Yield	3.2%	3.9%	6.3%	4.5%	4.6%



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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