

Singapore Telecommunications Ltd

Accounting spring cleaning, sprinkled with cash



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SINGAPORE | TELECOMMUNICATIONS | UPDATE

02 May 2024

- Singtel announced exceptional non-cash impairment provisions of around S\$3.1 bn in 2HFY24. As a result, Singtel will report a net loss in 2H24. Reasons for the impairment include higher interest rates, the rollout of NBN, weaker enterprise spending, and softer macro conditions.
- Singtel also announced that Optus has signed an 11-year agreement to provide TPG Telecom with access to Optus mobile network sites in regional Australia. Optus will receive a service fee worth A\$1.6bn over the 11 years. There is an A\$900mn fixed fee and A\$690mn variable as the Optus 5G network rolls out.
- We view the write-offs as one-offs without impacting our valuations. Singtel also made a S\$1bn goodwill impairment on Optus in FY23. Sharing networks with TPG would be positive in terms of conserving cash flows and reducing excess capacity if TPG were to roll out its network. We maintain BUY with an unchanged target price of S\$2.80. We expect Singtel's operational performance to improve as mobile price repair occurs in multiple countries. Other share price catalysts include plans to monetise S\$4bn of assets further, S\$600mn of operating expense savings, and GPU-as-a-Service with Nvidia.

BUY (Maintained)

CLOSING PRICE	SGD 2.380
FORECAST DIV	SGD 0.107
TARGET PRICE	SGD 2.800
TOTAL RETURN	22.1%

COMPANY DATA

BLOOMBERG CODE:	ST SP
O/S SHARES (MN):	16,503
MARKET CAP (USD mn / SGD mn):	28860 / 39278
52 - WK HI/LO (SGD):	2.65 / 2.25
3M Average Daily T/O (mn):	32.45

MAJOR SHAREHOLDERS

Temasek Holdings Pte Ltd	52.0%
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PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(7.1)	(2.1)	(4.9)
STTF	2.7	5.7	2.5

PRICE VS. STTF



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	2.11	2.50
DPS (cents)	9.3	14.9	10.7	11.0
EPS-adj. (cents)	11.6	12.4	12.8	15.1
P/E (X)-adj.	20.5	19.2	18.6	15.8
Dividend Yield	3.9%	6.3%	4.5%	4.6%
ROE	7.0%	7.6%	8.4%	10.2%
ROA	4.0%	4.3%	4.7%	5.5%

Source: Company, PSR

VALUATION METHOD

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

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The S\$3.1bn of non-cash impairment, largely from Australia

Type	S\$m	Comments	Reasons
Optus Goodwill	2,000	Impairment provision on the goodwill of Optus	Weaker prospects in enterprise market, increased cost of capital and softer macroeconomy outlook.
Optus enterprise fixed assets	470	Optus impairment of enterprise fixed access network assets.	Steep declines in fixed carriage revenue.
Asia Pacific Cyber Security goodwill	340	Impairment Asia Pacific cyber security business.	General business weakness on lower corporate spending.
NCS Australia	280	Impairment for NCS Australia.	Higher cost of capital.
	<u>3,090</u>		

Source: Company, PSR

The exceptional provisions will not impact Singtel's dividend policy (70% and 90% of underlying net profit). Singtel is on track to pay at the upper end of its dividend policy for FY24 (PSR: 84% payout ratio).

Network sharing agreement between Optus and TPG Telecom

- What will Optus provide? Optus will provide TPG Telecom access to its 2,444 regional radio access network sites in regional Australia, of which only 200 are 5G enabled. Optus will accelerate its 5G sites in regional Australia to 1,500 by 2028 and 2,444 by end-2030. There is an option for TPG Telecom to extend the agreement for a further five years. Optus will receive total service fees of around A\$1.6bn over the 11-year agreement (net of the spectrum fees A\$1.17bn).
- What will TPG provide? TPG will license some of its spectrum to Optus. Optus will pay A\$420mn over the entire 11-year term for the use of the spectrum, which allows Optus to improve the capacity of its network without requiring more network sites.

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	721	3,059
Taxation	(194)	(662)	(365)	(414)	(551)
Non-controlling interest	(6)	(11)	(8)	(2)	(13)
Net profit, reported	554	1,949	2,225	305	2,496
Exceptional	(1,179)	25	172	(1,808)	-
Net profit, adjusted	1,733	1,924	2,053	2,113	2,496

Per share data (SGD Cents)

Y/E Mar	FY21	FY22	FY23	FY24e	FY25e
EPS, reported	3.4	11.8	13.4	1.8	15.1
EPS, adjusted	10.6	11.6	12.4	12.8	15.1
DPS	7.5	9.3	14.9	10.7	11.0
BVPS	161.9	169.9	157.1	145.9	150.5

Cash Flow

Y/E Mar, SGD 'Mn	FY21	FY22	FY23	FY24e	FY25e
CFO					
Profit before tax	754	2,621	2,598	721	3,059
Adjustments	3,002	1,136	1,048	4,118	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)	(414)	(551)
Cashflow from ops	5,609	5,298	4,776	5,210	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)	(189)	(111)
CCE, end	741	2,149	1,644	1,455	1,344

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	1,478	1,367
Inventories	272	270	346	292	301
Others	62	485	1,556	1,556	1,556
Total current assets	6,532	8,130	8,583	8,138	8,188
PPE & IA	24,663	22,870	21,374	18,317	21,060
Others	16,803	18,131	16,573	17,086	17,710
Total non-current assets	41,466	41,001	37,947	35,403	38,770
Total Assets	47,998	49,131	46,530	43,541	46,958
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	11	23
Shareholder Equity	26,486	28,124	26,005	24,158	24,916

Valuation Ratios

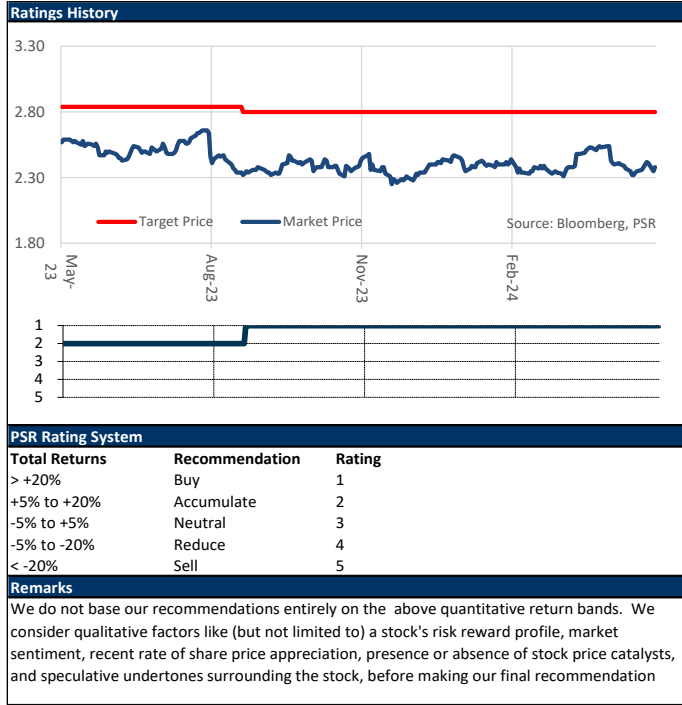
Y/E Mar	FY21	FY22	FY23	FY24e	FY25e
P/E (X)-adj.	22.5	20.5	19.2	18.6	15.8
P/B (X)	1.5	1.4	1.5	1.6	1.6
EV/EBITDA (X)	13.3	13.0	13.1	13.2	12.5

Growth & Margins

	FY21	FY22	FY23	FY24e	FY25e
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%	2.9%	18.1%
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%	14.5%	16.6%

Key Ratios

	FY21	FY22	FY23	FY24e	FY25e
ROE	6.5%	7.0%	7.6%	8.4%	10.2%
ROA	3.6%	4.0%	4.3%	4.7%	5.5%
Dividend Payout	70.8%	80.0%	120.2%	579.9%	73.0%
Dividend Yield	3.2%	3.9%	6.3%	4.5%	4.6%



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