

Singapore Telecommunications Ltd

Adding liquidity to associates



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SINGAPORE | TELECOMMUNICATIONS | UPDATE

18 July 2024

- A new company (NewCo) will be created to own Singtel's 24.99% stake in Intouch and Gulf Energy Development's assets such as gas-fired and renewable power plants. In exchange, Singtel will own 9.08% of NewCo and receive S\$135mn in special dividends.
- Singtel and Gulf Energy will launch a voluntary tender offer for the 36.25% stake in Advanced Info Service (AIS) they do not own. The offer price of Bt216.30 per share is below the closing price of Bt220. Therefore, we assume Singtel's stake in AIS will remain unchanged at 23.31%.
- We are positive on the transaction. It partially monetises Singtel's stake in Intouch and AIS with the S\$135mn special dividend. Furthermore, the Intouch stake will become part of a much larger (and likely more liquid) Newco with a market cap of S\$25bn. We believe the trade-off is lower dividends from Intouch into a faster-growing NewCo, propelled by the planned build-up of energy assets. The eventual listing of NewCo shares above the implied Bt45 per share will be a value-accretive catalyst. Due to the recent price rally, we downgrade our recommendation from BUY to ACCUMULATE. Our target price is raised from S\$3.00 to S\$3.44 as we lower the discount on associates from 30% to 20%. The discount is narrowing as Singtel moves closer to achieving its S\$6bn divestment target. No change in our forecast.

Key Highlights

There are essentially two transactions. The first is to amalgamate Intouch and Gulf Energy Development (Gulf Energy) assets in a new company (NewCo). The second transaction involves a voluntary tender offer (VTO) of Advanced Info Service (AIS).

Figure 1: Highlights of the amalgamation

Transaction	NewCo formed: Holds Intouch and Gulf Energy Assets
Shareholding	Gulf 59.72%, Singtel 9.08% and Public 31.2%
Assets	<ul style="list-style-type: none"> Intouch owns a 40.44% stake in AIS. Gulf Energy owns an installed power plant capacity of 7.559GW, an LNG terminal, and natural gas distribution. The power capacity includes gas, biomass, solar, and wind.
Financials	<ul style="list-style-type: none"> Singtel will swap their 24.99% stake in Intouch for a 9.08% stake in Newco plus a S\$135mn special dividend (or Bt4.50 per share). Singtel will book an exceptional gain of S\$0.4bn. Singtel will forgo the S\$95mn dividend from Intouch to a less clear dividend policy from NewCo. NewCo will have an implied market cap of Bt672bn (S\$24.9bn) or Bt45 per share. NewCo's proforma book value is Bt247.3bn and net profit is Bt17.92bn as at Dec 23. The implied P/BV and PE ratio of 2.7x and 37x respectively.
Timeline	Estimated completion 2Q25

Source: PSR, Singtel

Figure 2: Highlights of the VTO of AIS

Transaction	Voluntary General offer of Advanced Info Service Co (AIS).
Shareholding	Intouch 40.44%, Singtel 23.31%, Public 36.25%
Offer price	Bt216.30
Offeror	Singtel and Gulf's major shareholders will act as joint offerors. There is no intention to privatise AIS. Singtel will receive the first 5% of the VTO, with no more than 10% allocated to it.
Timeline	Tender period 4Q24 to 1Q25

Source: PSR, Singtel

ACCUMULATE (Downgraded)

CLOSING PRICE	SGD 3.080
FORECAST DIV	SGD 0.158
TARGET PRICE	SGD 3.440
TOTAL RETURN	16.8%

COMPANY DATA

BLOOMBERG CODE:	ST SP
O/S SHARES (MN) :	16,513
MARKET CAP (USD mn / SGD mn) :	37930 / 50861
52 - WK HI/LO (SGD) :	3.1 / 2.25
3M Average Daily T/O (mn) :	36.11

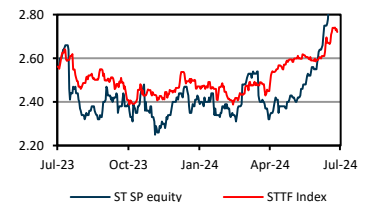
MAJOR SHAREHOLDERS

Temasek Holdings Pte Ltd	50.3%
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PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	18.4	30.2	22.3
STTF	5.5	12.1	10.3

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar, SGDbn	FY23	FY24	FY25e	FY26e
Revenue	14.62	14.13	14.57	15.04
EBITDA	3.69	3.60	3.84	4.05
Net Profit	2.05	2.26	2.32	2.65
DPS (cents)	14.9	15.0	15.8	16.3
EPS-adj. (cents)	12.4	13.7	14.1	16.1
P/E (X)-adj.	24.8	22.5	21.9	19.2
Dividend Yield	4.8%	4.9%	5.1%	5.3%
ROE	7.6%	8.9%	9.2%	10.3%
ROA	4.3%	4.9%	5.1%	5.8%

Source: Company, PSR

VALUATION METHOD

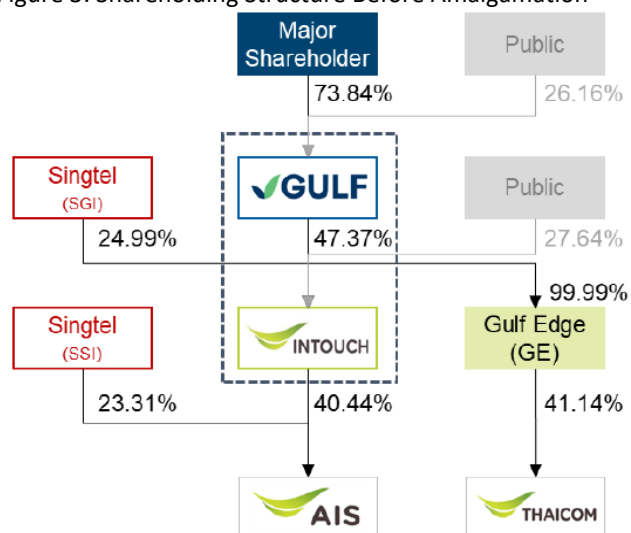
Sum Of Parts - 6x EV/EBITDA; 20% disc. on assoc.

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Head Of Research

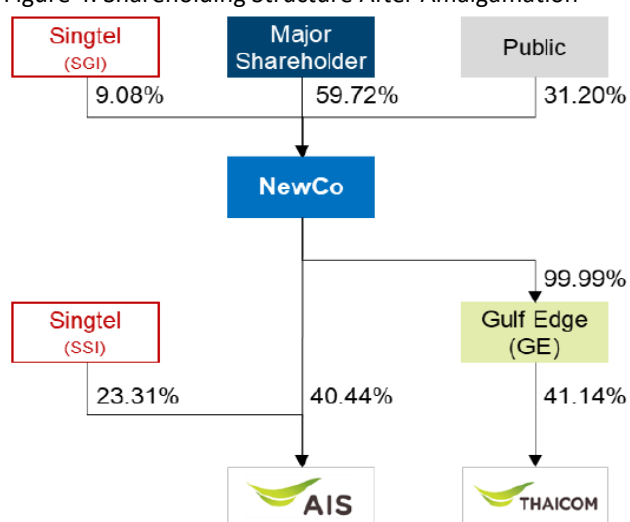
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Figure 3: Shareholding Structure Before Amalgamation



Source: Singtel, Intouch

Figure 4: Shareholding Structure After Amalgamation



Source: Singtel, Intouch

Financials

Income Statement

Y/E Mar, SGD 'Mn	FY22	FY23	FY24	FY25e	FY26e
Revenue	15,339	14,624	14,128	14,567	15,041
Operating Profit	3,614	3,491	3,378	3,637	3,855
EBITDA	3,767	3,686	3,597	3,839	4,047
Depreciation & Amortisation	(2,723)	(2,574)	(2,444)	(2,563)	(2,588)
EBIT	1,045	1,112	1,153	1,276	1,459
Net Finance Inc/(Exp)	(404)	(416)	(444)	(399)	(381)
Associates	1,653	1,827	1,362	1,922	2,127
Profit before tax	2,621	2,598	961	2,843	3,249
Taxation	(662)	(365)	(158)	(512)	(585)
Non-controlling interest	(11)	(8)	(9)	(12)	(13)
Net profit, reported	1,949	2,225	795	2,320	2,651
Exceptional	25	172	(1,466)	-	-
Net profit, adjusted	1,924	2,053	2,261	2,320	2,651

Per share data (SGD Cents)

Y/E Mar	FY22	FY23	FY24	FY25e	FY26e
EPS, reported	11.8	13.5	4.8	14.1	16.1
EPS, adjusted	11.6	12.4	13.7	14.1	16.1
DPS	9.3	14.9	15.0	15.8	16.3
BVPS	169.9	157.6	151.0	153.6	157.5

Cash Flow

Y/E Mar, SGD 'Mn	FY22	FY23	FY24	FY25e	FY26e
CFO					
Profit before tax	2,621	2,598	961	2,843	3,249
Adjustments	1,136	1,048	2,600	996	798
WC changes	270	(70)	85	(536)	(14)
Cash generated from ops	4,027	3,576	3,646	3,303	4,033
Tax paid	(352)	(347)	(341)	(512)	(585)
Cashflow from ops	5,298	4,776	4,718	3,904	4,704
CFI					
CAPEX & IA, net	(2,217)	(2,162)	(2,150)	(2,800)	(2,300)
Others	1,850	(21)	2,610	44	45
Cashflow from investments	(644)	(2,302)	247	(2,756)	(2,255)
CFF					
Share issuance, net	-	-	-	-	-
Loans, net of repayments	(1,650)	542	1,169	(500)	(500)
Dividends	(1,139)	(1,964)	(2,146)	(1,898)	(1,997)
Others	(477)	(1,519)	(1,015)	(399)	(381)
Cashflow from financing	(3,266)	(2,941)	(1,993)	(2,797)	(2,879)
Net change in cash	1,387	(467)	2,973	(1,650)	(430)
CCE, end	2,149	1,644	4,595	2,945	2,516

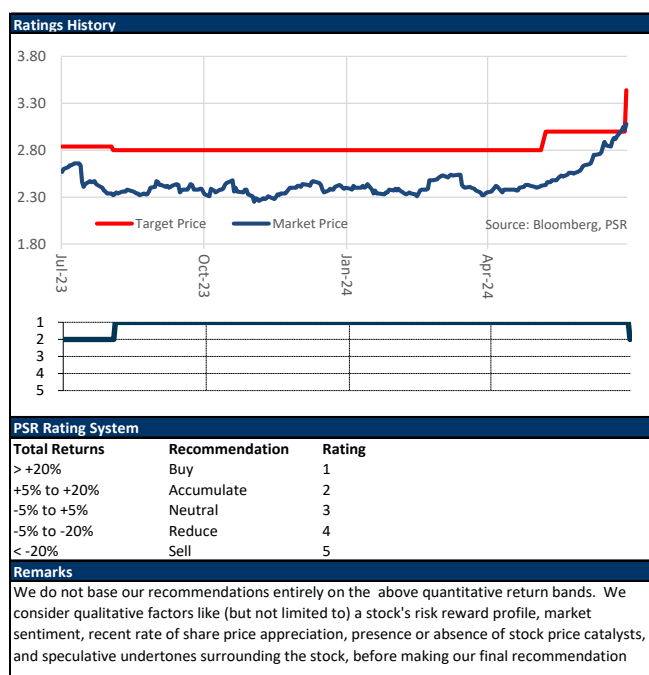
Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Mar, SGD 'Mn	FY22	FY23	FY24	FY25e	FY26e
ASSETS					
Accounts receivables	5,245	5,013	5,006	4,807	4,964
Cash	2,130	1,668	4,605	2,956	2,526
Inventories	270	346	301	291	301
Others	485	1,556	448	448	448
Total current assets	8,130	8,583	10,360	8,502	8,238
PPE & IA	22,870	21,374	18,274	18,511	18,222
Others	18,131	16,573	17,565	18,374	19,245
Total non-current assets	41,001	37,947	35,838	36,885	37,467
Total Assets	49,131	46,530	46,199	45,387	45,705
LIABILITIES					
Accounts payables	5,596	5,310	5,406	4,661	4,813
Short term loans	1,841	1,202	911	911	911
Tax payable	769	731	887	887	887
Total current liabilities	9,055	8,299	7,649	6,905	7,056
Long term loans	10,254	9,911	11,330	10,830	10,330
Deferred tax liabilities	499	543	540	540	540
Others	1,213	1,764	1,715	1,715	1,715
Total non-current liabilities	11,967	12,217	13,584	13,084	12,584
Total Liabilities	21,022	20,516	21,234	19,989	19,641
EQUITY					
Non-controlling interests	(15)	9	37	49	62
Shareholder Equity	28,124	26,005	24,928	25,349	26,003

Valuation Ratios

Y/E Mar	FY22	FY23	FY24	FY25e	FY26e
P/E (X)-adj.	26.5	24.8	22.5	21.9	19.2
P/B (X)	1.8	2.0	2.0	2.0	2.0
EV/EBITDA (X)	16.0	16.2	16.1	15.4	14.6
Growth & Margins					
Growth					
Revenue	-1.9%	-4.7%	-3.4%	3.1%	3.3%
EBITDA	-1.7%	-2.2%	-2.4%	6.7%	5.4%
EBIT	-8.9%	6.4%	3.7%	10.7%	14.3%
Net profit, adj.	11.0%	6.7%	10.1%	2.6%	14.3%
Margins					
Gross margin	23.6%	23.9%	23.9%	25.0%	25.6%
EBITDA margin	24.6%	25.2%	25.5%	26.4%	26.9%
EBIT margin	6.8%	7.6%	8.2%	8.8%	9.7%
Net profit margin	12.5%	14.0%	16.0%	15.9%	17.6%
Key Ratios					
ROE	7.0%	7.6%	8.9%	9.2%	10.3%
ROA	4.0%	4.3%	4.9%	5.1%	5.8%
Dividend Payout	80.0%	119.8%	311.4%	112.4%	101.5%
Dividend Yield	3.0%	4.8%	4.9%	5.1%	5.3%



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