

23 July 2019

Singtel (ST SP)

Lock In Some Gains Now; Stay NEUTRAL

Communications | Telecommunications

Neutral (Maintained)

Target Price (Return) SGD3.40 (-3%)
Price: SGD3.52
Market Cap: USD42,479m
Avg Daily Turnover (MYR/USD) 62m/45.6m

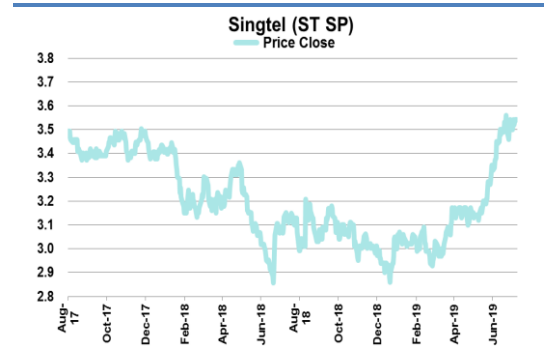
- **NEUTRAL, SOP-based TP of SGD3.40** from SGD3.35, 3% downside. FY20 (Mar) EV/EBITDA has retraced to its 5-year mean following the recent share price re-rating, spurred by investors seeking refuge from external macro-economic risks. At 5% prospective dividend yields (committed DPS of SGD0.175 for FY19/20), valuations are fair. Singtel remains our preferred Singapore telco, with earnings diversity and balance sheet strength as key investment merits. We would recommend that investors accumulate on dips.
- **Improving mobile dynamics in few core markets a positive...** The group's Singapore mobile business continues to face competitive pressure from the fourth mobile entrant (TPG Telecom) and mobile virtual network operators (MVNO). TPG's strong "incursion", however, has been diluted by a flurry of competitive responses in the market (including new digital brands from Singtel and StarHub (STH SP, NEUTRAL, TP: SGD1.72) over the past 12 months. Ex-Singapore, competition appears to be headed in the right direction, with the elimination of fixed speed unlimited plans in Thailand and on-going data price repair in Indonesia. Airtel's revenue in India has stabilised, but it will take time for ARPU's to rebound meaningfully, with RJIO adopting a less disruptive posture.
- **...but enterprise business remains patchy.** Singtel derived 38% of its group revenue (c.36% of EBITDA) from the enterprise segment in FY19. The contraction in enterprise EBITDA accelerated to -9% in FY19 (FY18: -2% YoY) and -15.6% YoY in 4QFY19, due to structural slippage in legacy revenues and price competition for lumpy public sector jobs. ICT revenue now makes up 51% of enterprise revenue vs 48% a year ago, with enterprise EBITDA margin compressed to 27% in FY19 (FY18: 29%) and 23.2% in 4QFY19. We expect the downside impact to persist in the medium term, with potentially some stabilisation in 3Q/4Q of FY20.
- **Monetisation of adjacent investments will unlock value in the longer term.** The crystallisation of value of its mobile advertising arm (Amobee) via a potential IPO or outright sale (highlighted at the group's recent Investor Day) is a longer-term re-rating catalyst for the stock. Amobee's EBITDA is guided to improve in FY20 (FY19: SGD1m), with high single-digit revenue growth, while turnover has a double-digit CAGR target over the next three years (2019-2021) from stronger programmatic advertising. HOOQ's (its over-the-top (OTT) platform) losses, which have been an overhang, should progressively ease, in our view, with regional OTTs consolidating.
- **Forecast and risks.** We update our TP based on the latest Street/market valuations of associates. Key upside/downside risks are weaker/stronger-than-expected competition in the key mobile markets of Singapore, Australia, Indonesia, Thailand and India. The extended gestation period of its adjacent/digital investments and the protracted decline in enterprise business margins portend additional downside risks.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	20.8	2.9	11.7	17.2	6.9
Relative	15.4	5.8	12.3	10.9	16.2
52-wk Price low/high (SGD)				2.83 - 3.55	



Source: Bloomberg

Forecasts and Valuation	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
Total turnover (SGDm)	17,268	17,371	17,706	18,012	18,377
Recurring net profit (SGDm)	3,594	2,823	2,988	3,205	3,329
Recurring net profit growth	(7.2)	(21.4)	5.8	7.3	3.9
Recurring P/E (x)	15.6	19.9	18.8	17.5	16.9
P/BV (x)	1.9	1.9	1.9	1.8	1.8
P/CF (x)	9.4	10.5	9.8	9.8	7.7
Dividend Yield (%)	5.8	5.0	5.0	5.0	5.0
EV/EBITDA (x)	13.1	14.1	13.4	12.6	11.8
ROE (%)	12.1	9.5	10.0	10.6	10.4
Net debt to equity (%)	33.4	34.1	31.7	28.7	20.1
Interest coverage (x)	14.1	10.4	13.1	13.9	14.4

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
Singtel	Recurring EPS (MYR)	0.23	0.18	0.19	0.20	0.21
Communications	DPS (MYR)	0.21	0.18	0.18	0.18	0.18
Singtel	BVPS (MYR)	1.86	1.87	1.88	1.90	2.00
ST SP	ROE (%)	12.12	9.47	9.97	10.57	10.42

Valuation basis	Valuation metrics	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
We apply a SOP methodology to value Singtel, with most key associates valued at consensus TP's.	Recurring P/E (x)	15.6	19.9	18.8	17.5	16.9
	P/B (x)	1.89	1.88	1.87	1.85	1.76
	FCF Yield (%)	6.43	6.50	6.26	6.49	9.20
	Dividend yield (%)	5.8	5.0	5.0	5.0	5.0
	EV/EBITDA (x)	13.1	14.1	13.4	12.6	11.8
	EV/EBIT (x)	12.5	16.5	15.8	14.7	13.6

Key drivers	Income statement (MYRm)	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
i. Monetisation of adjacent/digital investments;	Total turnover	17,268	17,371	17,706	18,012	18,377
ii. Stronger recovery in associate earnings;	Gross profit	4,791	4,466	4,691	4,938	5,085
iii. Receding competition in key mobile markets	EBITDA (adj.)	5,050	4,691	4,893	5,140	5,287
	Depreciation & amortisation	(2,250)	(2,222)	(2,565)	(2,657)	(2,758)
	Operating profit	5,261	4,005	4,156	4,419	4,579
	Net interest	(345)	(355)	(288)	(268)	(268)
	Pre-tax profit	4,916	3,650	3,868	4,151	4,311
	Taxation	(1,343)	(850)	(901)	(966)	(1,004)
	Net profit	3,594	2,823	2,988	3,205	3,329
	Recurring net profit	3,594	2,823	2,988	3,205	3,329

Key risks	Cash flow (MYRm)	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
i. Stronger-than-expected competition in Singapore, Australia, Indonesia and India	Change in working capital	(2,703)	1,192	(1,721)	(2,066)	(808)
ii. Continuing margin pressure on the enterprise business;	Cash flow from operations	5,955	5,368	5,712	5,744	7,264
iii. Larger-than-expected losses from adjacent/digital investments	Capex	(2,349)	(1,718)	(2,200)	(2,100)	(2,100)
	Cash flow from investing activities	(1,951)	(2,329)	(2,200)	(2,100)	(2,100)
	Dividends paid	(2,857)	(2,857)	(2,857)	(2,857)	(2,857)
	Cash flow from financing activities	(4,009)	(3,056)	(2,857)	(2,857)	(2,857)
	Cash at beginning of period	534	529	512	1,167	1,953
	Net change in cash	(5)	(17)	655	786	2,307
	Ending balance cash	529	512	1,167	1,953	4,260

Company Profile	Balance sheet (MYRm)	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
Singtel is the leading integrated telecommunications operator in the Asia-Pacific region, with class-leading mobile assets in Singapore, Australia, Indonesia, Thailand, Philippines and India, amongst others. It also owns one of the largest cyber-security outfits in the world.	Total cash and equivalents	525	513	1,167	1,953	4,260
	Tangible fixed assets	28,304	27,820	27,455	26,898	26,239
	Total investments	12,783	12,858	12,858	12,858	12,858
	Total assets	48,254	48,915	48,486	48,811	50,581
	Short-term debt	1,824	1,880	1,880	1,880	1,880
	Total long-term debt	8,607	8,784	8,784	8,784	8,784
	Total liabilities	18,600	19,105	18,525	18,481	18,647
	Total equity	29,654	29,810	29,962	30,330	31,934
	Total liabilities & equity	48,254	48,915	48,486	48,811	50,581

	Key metrics	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
	Revenue growth (%)	3.3	0.6	1.9	1.7	2.0
	Recurrent EPS growth (%)	(7.2)	(21.4)	5.8	7.3	3.9
	Gross margin (%)	27.7	25.7	26.5	27.4	27.7
	Operating EBITDA margin (%)	29.2	27.0	27.6	28.5	28.8
	Net profit margin (%)	20.8	16.3	16.9	17.8	18.1
	Capex/sales (%)	13.6	9.9	12.4	11.7	11.4
	Interest cover (x)	14.1	10.4	13.1	13.9	14.4

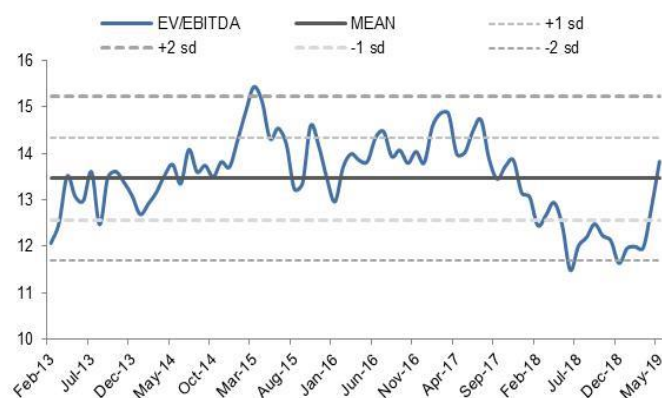
Source: Company data, RHB

Figure 1: SOP valuation for Singtel

	Stake	Value (SGDm)	Attributable value (SGDm)	Value/share (SGD)	% of total	Basis
Singtel	100%	11,791.5	11,791.5	0.72	18.0	6x 2020 EV/EBITDA
Optus	100%	14,048.7	14,048.7	0.86	21.4	5x 2020 EV/EBITDA
Total subsidiaries			25,840.2	1.58	39.4	
Associates						
Bharti	35.2%	29,627.8	10,429.0	0.64	15.9	Consensus TP
Telkomsel	35.0%	50,113.0	17,539.5	1.07	26.7	DCF (WACC: 11.3%, TG: 3%)
AIS	23.3%	26,014.6	6,061.4	0.37	9.2	Consensus TP
Globe	47.1%	6,777.9	3,192.4	0.20	4.9	Consensus TP
Intouch	21.0%	9,014.0	1,892.9	0.12	2.9	Consensus TP
SingPost	25.5%	2,540.3	647.8	0.04	1.0	Consensus TP
Total associates			39,763.0	2.44	60.6	
Grand Total			65,603.3	4.02		
Net debt			(10,151.0)	(0.62)		
Equity Valuation			55,452.3	3.40		
Implied FY20 P/E				17.2		
Implied FY20 EV/EBITDA				12.9		

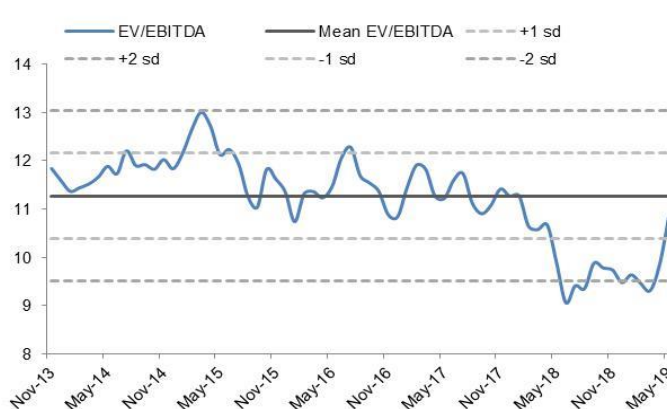
Source: RHB

Figure 2: Singtel's 1-year forward EV/EBITDA (x)



Source: Bloomberg, RHB

Figure 3: Telco sector's 1-year forward EV/EBITDA (x)



Source: Bloomberg, RHB

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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