

15 August 2024

Communications | Telecommunications

## Singtel (ST SP)

**Buy** (Maintained)

### A Strong Start To FY25F; Keep BUY

Target Price (Return): SGD3.50 (20.3%)  
 Price (Market Cap): SGD2.91 (USD36,556m)  
 ESG score: 3.3 (out of 4)  
 Avg Daily Turnover (SGD/USD) 104m/77.1m

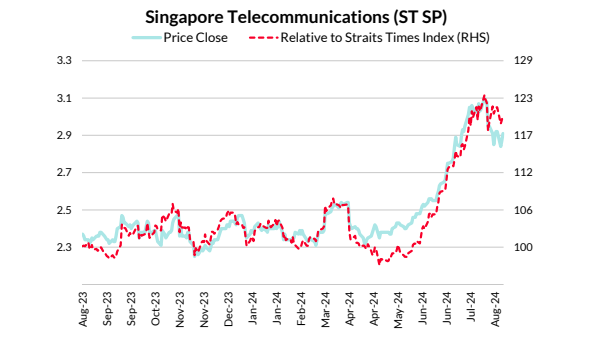
- **Keep BUY and SGD3.50 SOP TP (20% upside), c.7% FY26F (Mar) yield.** 1QFY25 results were broadly in line with strong EBIT growth from the core Singapore and Optus businesses. We see earnings tailwinds lifting ROICs to double-digit territory in FY25F and FY26F. Key investment thesis: Capital management, dividend upside, and price repair in key markets. Singtel is still our preferred Singapore telco pick. Our TP includes a 4% ESG premium.
- **In line; solid EBIT growth.** 1QFY25's SGD603m core earnings (+4.1% QoQ, +5.4% YoY; +9% YoY on constant currency) formed 52% and 51% of our and consensus' estimates. This came from solid pre-associate EBIT growth (+27.4% YoY, +53% QoQ) from 11% core business EBIT growth, the deconsolidation of Trustwave's (TW) losses, and higher NCS project margins. While EBIT growth is ahead of earlier guidance, we note it has yet to factor in the AUD1.4bn spectrum payment and absence of TW base effects in 2HFY25. Currency headwinds distorted regional associate contributions, which dipped 3% YoY with the steep fall in the Naira (NGN), and 7% slide in the IDR/SGD. We see stronger cost-down efforts from the targeted annual SGD200m cost savings in the ensuing quarters. Our forecasts are unchanged.
- **Strong recovery in core mobile revenue.** Singapore mobile service revenue (MSR) rose 7% YoY (+4% QoQ) with the normalisation of roaming revenue and higher Internet of Things (IoT) revenue. While EBITDA grew 3.5% from lower opex, EBIT was stable on higher depreciation. In Australia, market price repair saw Optus' MSR growing 4.7% YoY (+0.5% QoQ) with the repricing of its postpaid plans in late May, while EBITDA rose 5% on cost initiatives. Lower depreciation from the earlier impairment of enterprise assets saw EBIT surging 58% YoY. Optus saw continued recovery in mobile subs addition following the network outage last November.
- **NCS executing well on 3-axis strategy; Nxera in expansion mode; Airtel still seeing good ARPU uplifts.** NCS' revenue, EBITDA, and EBIT grew 4%, 13%, and 28% with good cost efforts and a strong SGD788m booking from pipeline projects in 1QFY25. Digital Infracore's EBIT fell 32% YoY on the expansion of its regional data centre (DC) platform (Nxera), including the recent JV to set up a DC in Johor. Airtel continued to deliver strong double-digit revenue and EBITDA growth (constant currency) with higher 4G/5G subs and ARPU post the repricing of plans.
- **Capital recycling.** We see the variable realisation dividend supported by a SGD6bn mid-term capital recycling target (c.SGD2bn recognised). We believe this will be from a further sell-down/dilution of associate stake in Airtel (now 28.7%) and/or other non-strategic holdings (eg Singapore Post, Net Link Trust).

#### Analyst

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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	17.8	(1.4)	19.8	23.8	20.7
Relative	16.4	4.7	20.6	19.1	19.5
52-wk Price low/high (SGD)				2.25	-3.10



Source: Bloomberg

#### Overall ESG Score: 3.3 (out of 4)

##### E: GOOD

Singtel is committed to keeping global temperature increases within 1.5°C and reaching net-zero emissions by 2050 and a 25% renewable energy target by 2025. The company actively participates in the GSM Association (GSMA) Board and its Climate Action Committee to lead the industry on a science-based sector-specific decarbonisation pathway

##### S: GOOD

Optus was hit by a cyber-security attack in Sept 2022 with personal information related to 9.8m subscribers compromised. In Nov 2023, a nationwide network outage occurred which led to the shutdown of Optus' mobile services for more than 12 hours. The group invests significantly in employee training and development programmes to build a future-ready workforce. The gender diversity efforts have been constantly recognised by external parties including being listed in the Bloomberg Gender-Equality Index

##### G: EXCELLENT

The Board is made up of 12 Directors of which 84% are independent, and 25% are women. There is full disclosure of director remuneration including salaries and bonuses on a named basis. Singtel regularly provides corporate updates to the investment community, embodying good

Forecasts and Valuation	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Total turnover (SGDm)	14,624	14,128	14,823	15,329	15,959
Recurring net profit (SGDm)	2,053	2,260	2,533	2,916	3,216
Recurring net profit growth (%)	6.8	10.1	12.1	15.1	10.3
Recurring P/E (x)	22.60	20.90	18.97	16.48	14.94
P/B (x)	1.9	2.0	2.0	1.9	1.8
P/CF (x)	7.23	7.60	7.14	6.88	6.83
Dividend Yield (%)	5.3	5.2	6.2	6.7	6.9
EV/EBITDA (x)	15.37	15.41	13.98	13.25	13.17
Return on average equity (%)	8.4	3.2	10.5	11.7	12.5
Net debt to equity (%)	35.5	29.2	31.5	31.9	32.0

Source: Company data, RHB

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (SGD)</b>	<b>Mar-23</b>	<b>Mar-24</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
Singapore	Recurring EPS	0.13	0.14	0.15	0.18	0.19
Communications	DPS	0.15	0.15	0.18	0.20	0.20
<b>Singtel</b>	BVPS	1.57	1.45	1.48	1.53	1.59
ST SP	Return on average equity (%)	8.4	3.2	10.5	11.7	12.5
Buy						
	<b>Valuation metrics</b>	<b>Mar-23</b>	<b>Mar-24</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
<b>Valuation basis</b>	Recurring P/E (x)	22.60	20.90	18.97	16.48	14.94
Sum-of-the parts (SOP) valuation	P/B (x)	1.9	2.0	2.0	1.9	1.8
	FCF Yield (%)	9.2	8.6	8.2	10.0	10.1
<b>Key drivers</b>	Dividend Yield (%)	5.3	5.2	6.2	6.7	6.9
i. Stronger earnings recovery;	EV/EBITDA (x)	15.37	15.41	13.98	13.25	13.17
ii. Cost savings;	EV/EBIT (x)	50.98	48.07	43.26	36.60	34.31
iii. Unlocking of asset value.						
	<b>Income statement (SGDm)</b>	<b>Mar-23</b>	<b>Mar-24</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
<b>Key risks</b>	Total turnover	14,624	14,128	14,823	15,329	15,959
i. Stronger-than-expected mobile competition;	Gross profit	3,490	3,378	3,881	4,132	4,183
ii. Weaker-than-expected earnings;	EBITDA	3,685	3,597	4,086	4,338	4,390
iii. SGD strength.	Depreciation and amortisation	(2,574)	(2,444)	(2,765)	(2,768)	(2,706)
	Operating profit	1,111	1,153	1,321	1,570	1,684
<b>Company Profile</b>	Net interest	(359)	(303)	(426)	(445)	(463)
Singtel is the largest integrated telecommunications group in the Asia Pacific with class leading mobile assets in Singapore, Australia, India, Indonesia, Thailand and Philippines, amongst others	Pre-tax profit	3,211	1,722	3,529	4,116	4,537
	Taxation	(978)	(919)	(988)	(1,194)	(1,316)
	Reported net profit	2,225	794	2,533	2,916	3,216
	Recurring net profit	2,053	2,260	2,533	2,916	3,216
	<b>Cash flow (SGDm)</b>	<b>Mar-23</b>	<b>Mar-24</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
	Cash flow from operations	6,419	6,211	6,732	6,986	7,040
	Capex	(2,162)	(2,150)	(2,800)	(2,199)	(2,198)
	Cash flow from investing activities	(2,362)	(2,349)	(2,998)	(2,396)	(2,394)
	Dividends paid	(1,916)	(2,147)	(1,982)	(2,147)	(2,229)
	Cash flow from financing activities	(3,650)	(1,842)	(2,306)	(2,489)	(2,589)
	Cash at beginning of period	2,130	1,668	4,605	4,364	4,527
	Net change in cash	408	2,020	1,428	2,101	2,058
	Ending balance cash	2,538	3,688	6,033	6,466	6,585
	<b>Balance sheet (SGDm)</b>	<b>Mar-23</b>	<b>Mar-24</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
	Total cash and equivalents	1,668	4,605	4,364	4,527	4,687
	Tangible fixed assets	10,385	10,047	10,082	9,513	9,006
	Total assets	46,530	46,198	47,610	49,145	50,987
	Short-term debt	983	570	570	570	570
	Total long-term debt	9,910	11,330	11,830	12,330	12,830
	Total liabilities	20,517	21,234	22,102	22,876	23,738
	Total equity	26,013	24,964	25,507	26,269	27,248
	Total liabilities & equity	46,530	46,198	47,610	49,145	50,987
	<b>Key metrics</b>	<b>Mar-23</b>	<b>Mar-24</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
	Revenue growth (%)	(4.7)	(3.4)	4.9	3.4	4.1
	Recurrent EPS growth (%)	6.8	8.1	10.1	15.1	10.3
	Gross margin (%)	23.9	23.9	26.2	27.0	26.2
	Operating EBITDA margin (%)	25.2	25.5	27.6	28.3	27.5
	Net profit margin (%)	15.2	5.6	17.1	19.0	20.1
	Dividend payout ratio (%)	110.6	312.0	117.4	110.4	102.7
	Capex/sales (%)	14.8	15.2	18.9	14.3	13.8
	Interest cover (x)	3.09	3.81	3.10	3.53	3.64

Source: Company data, RHB

Figure 1: Results review table

FYE Mar (SGDm)	1QFY24	4QFY24	1QFY25	QoQ (%)	YoY (%)	Comments
Group revenue	3,488.0	3,506.0	3,413.0	(2.7)	(2.2)	Driven by stronger core business growth (Singapore and Optus)
Optus	1,785.0	1,757.0	1,722.0	(2.0)	(3.5)	Mobile repricing in May. Impacted by SGD strength
Singtel Singapore	937.0	973.0	933.0	(4.1)	(0.4)	MSR up 7% on higher roaming traffic and IoT growth
NCS	681.0	737.0	707.0	(4.1)	3.8	Larger project recognition YoY
Digital InfraCo	103.0	102.0	109.0	6.9	5.8	Price uplifts from DC contracts and utility cost pass-through
<b>EBITDA</b>	<b>902.0</b>	<b>875.0</b>	<b>977.0</b>	<b>11.7</b>	<b>8.3</b>	
EBITDA margin	25.9%	25.0%	28.6%	3.7	2.8	
Share of associates	588.0	644.0	567.0	(12.0)	(3.6)	
- Airtel	182.0	232.0	157.0	(32.3)	(13.7)	Impacted by the steep decline in the NGN. Strong double-digit revenue and EBITDA growth on constant currency basis
- Telkomsel	219.0	196.0	199.0	1.5	(9.1)	6% depreciation of the IDR against SGD YoY
- Advanced Info Service	81.0	91.0	91.0	0.0	12.3	Contributions from Triple T Broadband (3BB) from 1Q24
- Globe Telecom	70.0	82.0	83.0	1.2	18.6	
- Intouch	32.0	36.0	36.0	0.0	12.5	
- Others	4.0	7.0	1.0	(85.7)	(75.0)	
EBITDA and share of associates	1,490.0	1,519.0	1,544.0	1.6	3.6	
Depreciation	(602.0)	(626.0)	(596.0)	(4.8)	(1.0)	Lower due to earlier impairment of Optus enterprise assets
EBIT	888.0	893.0	948.0	6.2	6.8	Absence of TW losses
PBT	836.0	809.0	871.0	7.7	4.2	
Tax	(262.0)	(228.0)	(266.0)	16.7	1.5	
MI	(2.0)	(2.0)	(3.0)	nm	nm	
<b>Core net profit</b>	<b>572.0</b>	<b>579.0</b>	<b>602.0</b>	<b>4.0</b>	<b>5.2</b>	Broadly in line with expectations

Source: Company data

## Emissions And ESG

### Trend analysis

Total tCO<sub>2</sub>e emissions saw a notable decline in FY23, in part due to the significant 56.2% reduction in Scope 3 emissions from a change in definitions for purchased goods and services and capital goods. Both Scope 1-2 emissions saw a 20.4% reduction in 2023 against the 2015 baseline, on track to achieve the target 25% reduction by 2025

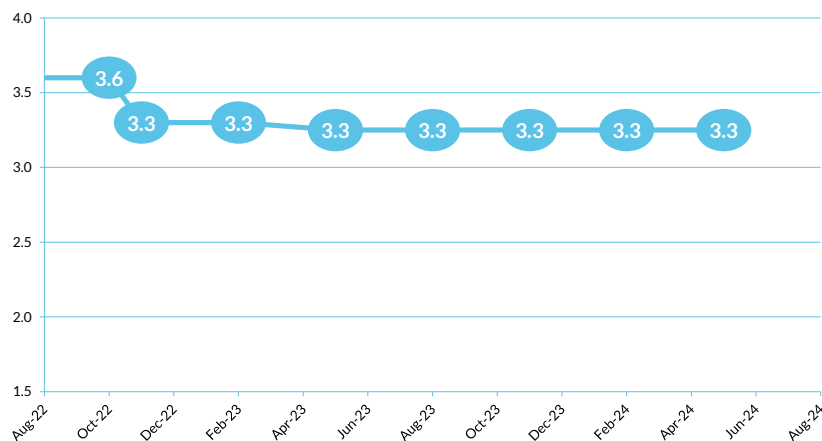
Emissions (tCO <sub>2</sub> e)	Mar-22	Mar-23	Mar-24
Scope 1	6,322	6,251	-
Scope 2	488,622	432,706	-
Scope 3	8,146,316	3,568,342	-
Total emissions	8,641,260	4,007,299	na

Source: Company data, RHB

## Latest ESG-Related Developments

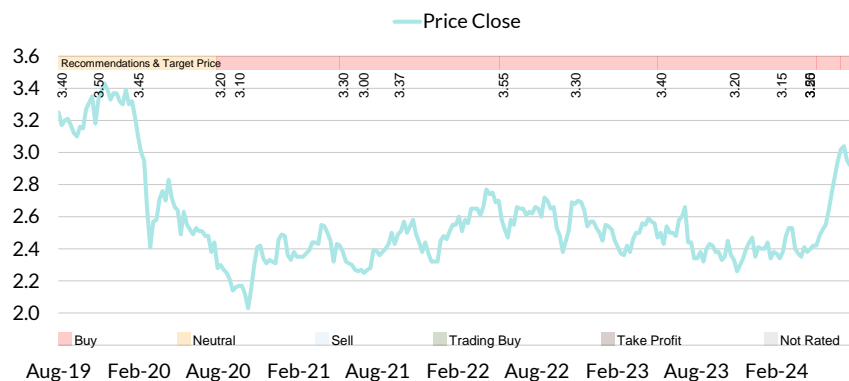
- Optus was hit by a cyber-security attack in Sept 2022 with personal information related to 9.8m subscribers compromised.
- On Nov 8 2023, Optus network was down for over 12 hours nationwide with the company attributing it to technical issues.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-07-18	Buy	3.50	3.06
2024-05-23	Buy	3.25	2.41
2024-02-26	Buy	3.15	2.34
2023-11-10	Buy	3.20	2.36
2023-09-18	Buy	3.40	2.41
2023-05-25	Buy	3.40	2.53
2022-11-11	Buy	3.30	2.69
2022-05-29	Buy	3.55	2.70
2021-10-04	Buy	3.37	2.46
2021-08-12	Buy	3.00	2.37
2021-07-13	Buy	3.00	2.29
2021-05-27	Buy	3.30	2.45
2020-11-12	Buy	3.10	2.23
2020-10-01	Buy	3.10	2.15
2020-08-18	Buy	3.20	2.35

Source: RHB, Bloomberg

## RHB Guide to Investment Ratings

<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
<b>Sell:</b>	Share price may fall by more than 10% over the next 12 months
<b>Not Rated:</b>	Stock is not within regular research coverage

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