

17 January 2024

Communications | Telecommunications

Telecommunications

Neutral (Maintained)

Some Positive Vibes

Stocks Covered 2
 Rating (Buy/Neutral/Sell): 1 / 1 / 0
 Last 12m Earnings Revision Trend: Negative

- Astute stock-picking still key; Singtel remains our Top Pick.** We see the stronger GDP growth and peaking interest rates as supportive of Singapore's telecommunications sector (SG telcos) in 2024F. Sector FY24F EV/EBITDA of 9.4x is fair (-1SD from historical mean), given the mature stage of the market, and at a premium to the ASEAN-4 average of 6x. This is justified, in part, by superior yields. Singtel is our Top Pick, being a regional sector bellwether and a core telco portfolio constituent.
- Earnings momentum and dividend outlook.** The SG telcos notched <1% return in 2023 (FSSTI: -0.3%, YTD: -2%) on stock-specific issues and earnings headwinds (investments in new capabilities and inflationary pressures). We see sector core EBITDA growing by c.12% YoY in CY24F from +7% YoY in 2023, largely from better operational numbers and cost restraint. SG telcos continue to offer the highest dividend yields among the ASEAN-4 telcos, at 5.5% on average for FY24F. This compares with the 4% in Malaysia, 2.7% in Indonesia, and 3.5% in Thailand.
- Roaming recovery gathers pace.** We see a further normalisation of industry roaming revenues in 2024 to pre-pandemic levels (currently at 60-70%) from the pick-up in visitor arrivals. This comes on the back of the reciprocal visa-free scheme extended to inbound China travellers, which is set to be implemented soon, and additional flights between the two countries. Overall, industry blended mobile ARPU (9M23: +3.3% YoY) should be supported by stronger 5G monetisation and rational competition.
- Singtel – stronger ROIC, dividend upside.** We see: i) Continued ROIC improvement (low double-digit target by FY26F) from cost-saving initiatives (SGD0.6m targeted into FY26F) and synergies from the combined Singapore mobile and enterprise operations; ii) potentially higher dividends (including specials) from capital recycling (SGD6bn targeted) as share price catalysts. While mid-term headwinds (higher churn) are expected for Optus after last November's major network incident, we believe market price reparation remains a strong underlying catalyst. Post 1HFY24F results, management raised DPS guidance to 70-90% of core PATAMI (from 60-80%). We project 12.9% FY24-FY26F core earnings CAGR.
- StarHub – uncertainties despite lower transformation spending.** The company is mid-way through its multi-year (2022-2025) transformation programme (DARE+), which is set to strengthen its core focus and offerings (Infinity Play) in the longer term. While management guided for lower DARE+ spending at its recent 2023 Investor Day, ie of SGD270m (SGD310m previously), the benefits and positive synergies will likely take time to accrue – with execution – and weaker-than-expected transformation outcomes still being key downside risks, in our view.
- Key downside risks:** Intensifying competition, weaker-than-expected earnings, and the negative effect of external macroeconomic developments. A sector consolidation portends upside risk.

Top Picks

Singtel (ST SP) – BUY

Target Price

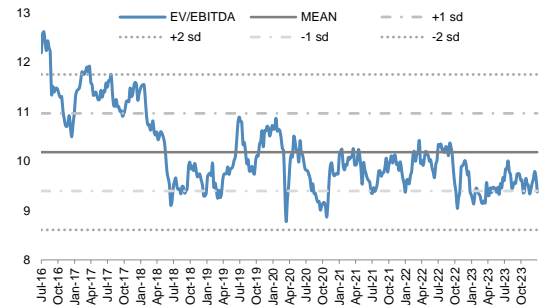
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Sector forward EV/EBITDA

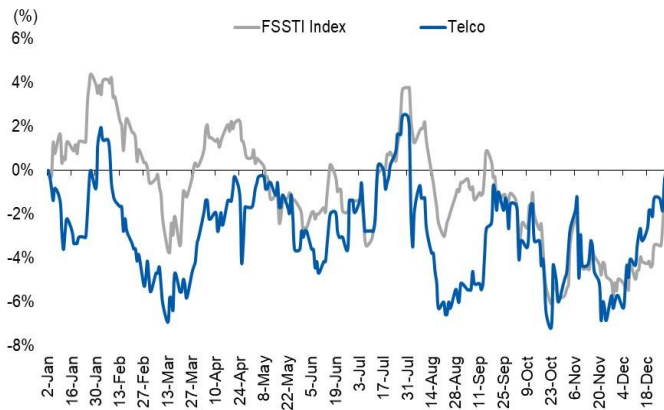


Source: Company data, RHB

Company Name	Rating	Target (SGD)	% Upside (Downside)	P/E (x) Dec-24F	P/B (x) Dec-24F	ROAE (%) Dec-24F	Yield (%) Dec-24F
Singtel	Buy	3.20	32.2	14.6	1.4	9.8	6.4
StarHub	Neutral	1.15	5.5	11.9	2.9	25.5	4.6

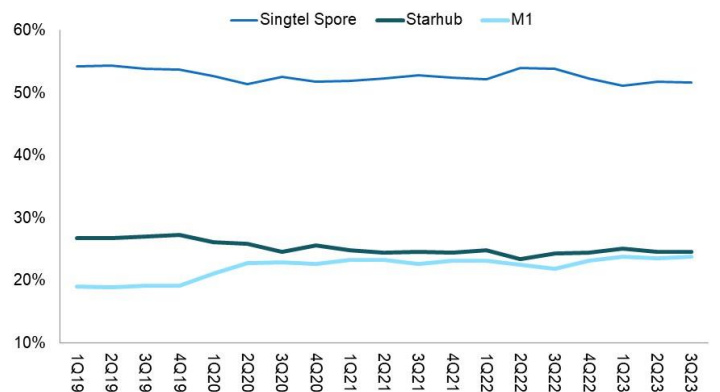
Source: Company data, RHB

Figure 1: 2023 performance of the telco sector vs STI



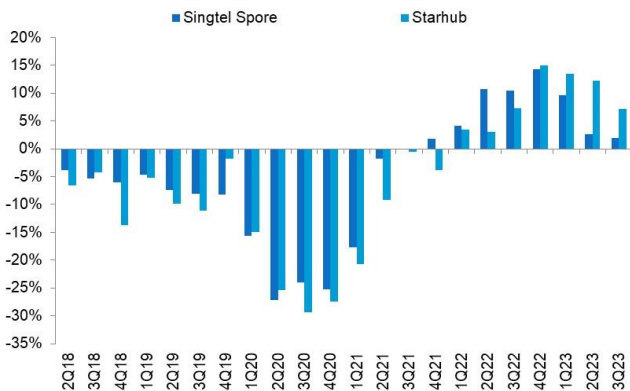
Source: Company data, RHB

Figure 2: Mobile revenue share



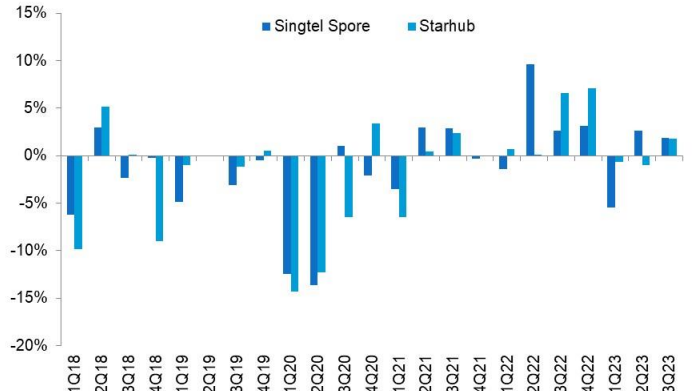
Source: Company data, RHB

Figure 3: Mobile revenue growth (YoY)



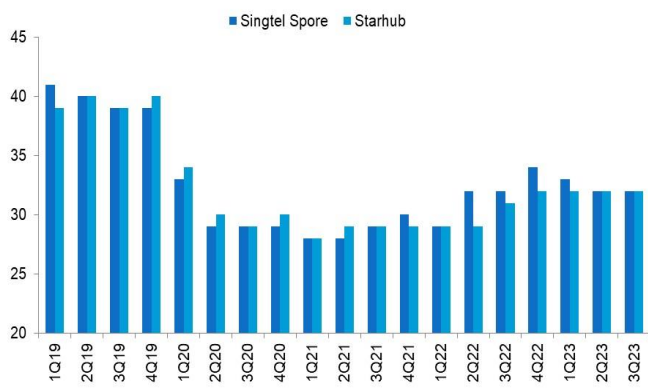
Source: Company data, RHB

Figure 4: Mobile revenue growth (QoQ)



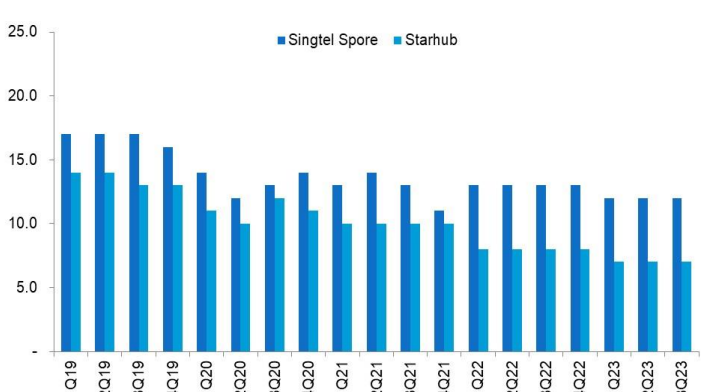
Source: Company data, RHB

Figure 4: Postpaid ARPU trend (SGD)



Source: Company data, RHB

Figure 6: Prepaid ARPU trend (SGD)



Source: Company data, RHB

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