

19 July 2024

Communications | Telecommunications

Singtel (ST SP)

Buy (Maintained)

A Rising Tide; Reiterate BUY

Target Price (Return): SGD3.50 (+14%)
 Price (Market Cap): SGD3.06 (USD37,690m)
 ESG score: 3.3 (out of 4)
 Avg Daily Turnover (SGD/USD) 90.3m/66.8m

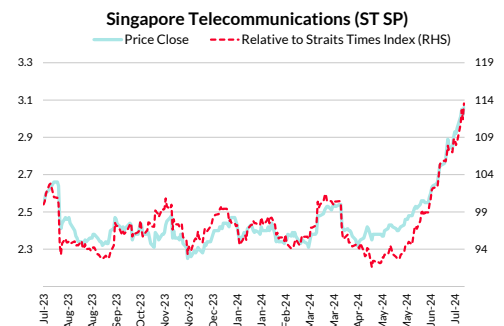
- Keep BUY, with new SOP-derived TP of SGD3.50 from SGD3.25, 14% upside and c.6% FY25F (Mar) yield.** A spate of positive developments has catalysed the strong re-rating of Singtel shares in recent weeks. We see earnings tailwinds lifting return on invested capital (ROIC) to the double-digit territory in FY25F. Capital management, dividend upside, ROIC accretion and price repair in key markets are key investment merits. Singtel remains our preferred Singapore telco pick. Our TP incorporates a 4% ESG premium.
- Earnings momentum to pick-up; ROIC upside.** Singtel's share price has re-rated by nearly 20% over the past month, supported by: i) The growing conviction of its earnings construct, ii) positive news flow related to data centre investments in Malaysia and globally (via STT Global Data Centres), iii) market price repair with the hardening of mobile tariffs across Australia and India, and iv) news of additional sell down on the shares of associate, Airtel. We see stronger cost rescaling and synergies from the consolidation of the Singapore enterprise business and Optus (part of the SGD0.6m in targeted cost savings into FY26F) from 2QFY25 fuelling earnings momentum. This should help lift ROIC to c. 10% in FY25F and c.11.3% in FY26F (FY24: 9.3%).
- 9% stake in larger NewCo under Thai amalgamation exercise; potentially higher stake in AIS (ADVANC TB, BUY, TP: THB256).** In the [amalgamation](#) exercise announced on 16 Jul, Singtel's 25% stake in Intouch Holdings (INTUC TB, NR) will be substituted with a c.9% holding in NewCo via a share swap (Figure 1). A requisite voluntary takeover offer (VTO) for 23.3%-owned AIS (ADVANC TB, BUY, TP: THB256) could see Singtel's direct stake increase by another 10% with a total outlay of SGD2.4bn. Overall, the exercise would eliminate the convoluted indirect cross shareholding structure in AIS (via Intouch which holds a 40.4% in AIS). As NewCo is a significantly larger and a more liquid entity, we believe a potential monetisation in due course would fetch better premiums vs the current holding in Intouch, which suffers from a holding company (holdco) discount. The VTO is likely to be implemented in 4QCY24 with full transaction completion in 2QCY25 ie Singtel's FY26F.
- Still BUY; variable realisation dividend (VRD) is supported by SGD6bn mid-term capital recycling target.** We see the VRD announced in May (3-6 SG cents/share) supported by the SGD6bn mid-term capital recycling target. This could stem from a further sell down/dilution of associate stakes in Airtel (29% currently) and/or other non-strategic holdings (ie Singapore Post (SPOST SP, NR), NETLINK NBN TRUST (NETLINK SP, NR)). The first tranche of the 3.8 SG cents/share VRD declared post FY24 results of 1.9 SG cents/share will be paid in August. We lift our TP to SGD3.50 after raising our FY25F-27F earnings by 2-7% and factoring in the latest market valuations of Airtel and Intouch. Key risks are competition, SGD strength and weaker-than-expected earnings.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	23.9	18.6	30.8	28.0	19.5
Relative	16.8	13.5	21.9	17.4	12.8
52-wk Price low/high (SGD)				2.25	-3.06



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 transparency and disclosure practices.

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)	23.76	21.97	19.95	17.33	15.72
P/B (x)	2.0	2.1	2.1	2.0	1.9
P/CF (x)	7.60	7.99	7.51	7.23	7.18
Dividend Yield (%)	5.0	4.9	5.9	6.4	6.5
EV/EBITDA (x)	16.02	16.09	14.59	13.82	13.73
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

Asia	Financial summary (SGD)	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
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
Singtel	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						
	Valuation metrics	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Valuation basis	Recurring P/E (x)	23.76	21.97	19.95	17.33	15.72
SOP	P/B (x)	2.0	2.1	2.1	2.0	1.9
	FCF Yield (%)	8.7	8.2	7.8	9.5	9.6
Key drivers	Dividend Yield (%)	5.0	4.9	5.9	6.4	6.5
i. Stronger earnings recovery;	EV/EBITDA (x)	16.02	16.09	14.59	13.82	13.73
ii. Cost savings;	EV/EBIT (x)	53.14	50.18	45.14	38.18	35.78
iii. Unlocking of asset values.						
	Income statement (SGDm)	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Key risks	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
Company Profile	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
	Cash flow (SGDm)	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
	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
	Balance sheet (SGDm)	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
	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
	Key metrics	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
	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

Key Highlights

Singtel to get more liquid and marketable shares in NewCo under Thailand amalgamation

In the [amalgamation](#) exercise announced by Intouch and Gulf Energy Development (GULF TB, NR) on 16 Jul, shareholders of the two companies will see their existing shares interchanged with NewCo shares based on prescribed ratios (Figure 1). Singtel's 25% stake in Intouch will be substituted with a c.9% stake in NewCo, while the major shareholder of GULF holding 59.7%. NewCo will be a substantially larger and more liquid SET-listed entity, making up of the energy businesses under GULF and the digital businesses (including AIS and Thaicom (THCOM TB, NR)). A requisite VTO will be triggered for AIS where Singtel is a party acting in concert. Note that the VTO price of THB216.30 is at a discount to AIS' share price as well as our and consensus TP, which could limit its appeal.

Figure 1: NewCo's share swap and key metrics

New share in NewCo for every Gulf share	1.02974
New share in NewCo for every Intouch share	1.69335
Newco shares issued to Intouch shareholders (excl Gulf) (m shares)	2857
Newco shares issued to Gulf shareholders (m shares)	12,082
Total new Newco shares (m shares)	14,940
Singtel's stake in Newco	9.1%
Gulf stake in Newco	59.7%
VTO price (THB)	216.30
Singtel's stake in AIS (current)	23.3%
Intouch's stake in AIS (current)	40.4%
Shares under VTO	36.3%

Source: Company data

Figure 2: NewCo will be involved in the energy infrastructure and digital businesses

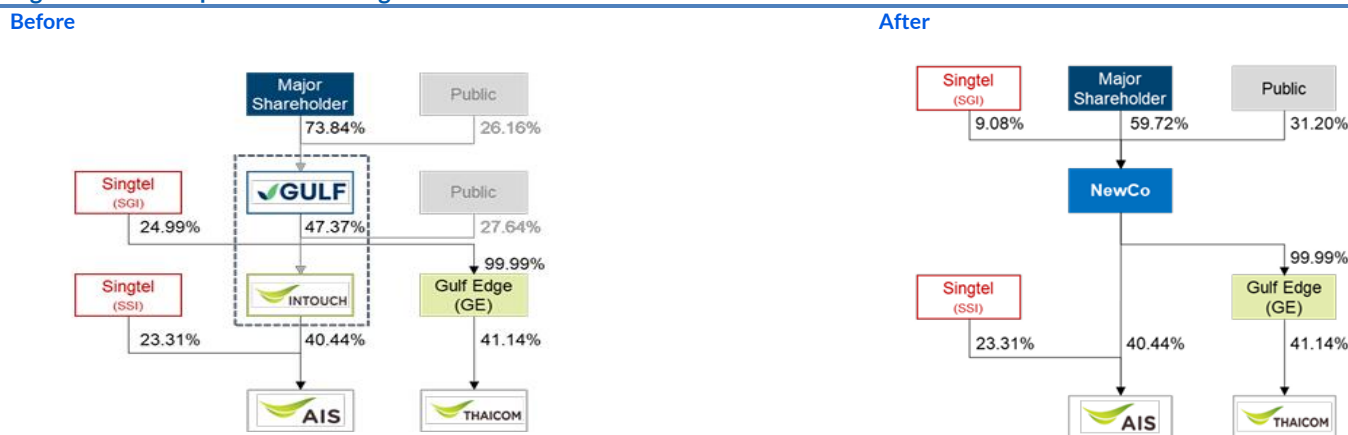


Source: Company data

Removes cross shareholding with a potentially higher direct stake in AIS

Overall, the exercise eliminates the convoluted cross shareholding structure in AIS by virtue of Singtel's current 25% stake in Intouch (which holds a 40.4% in AIS). There is scope for Singtel to raise its direct stake in AIS by another 10% up to c.33% via the primary allocation rights to the VTO of 5%, followed by another 5% of the remaining shares not owned by itself and Intouch (subject to the foreign shareholding headroom with a cap at 48.3%). There is no intention to privatise AIS. According to management, the transaction: i) Resonates well with the group's ST28 strategy of smart capital management, and ii) facilitates an eventual divestment of NewCo (deemed a non-core investment) in the longer-term at a better premium, being a more liquid entity vs its current holding in Intouch which suffers from a holdco discount.

Figure 3: Pre and post shareholding structure in NewCo



Source: Company data

Valuation and recommendation

We raise our FY25F-27F core earnings by 2-7%, mainly to reflect the upward revisions to associate contributions and stronger cost efficiencies. We see a 2-year core earnings CAGR of c.13%, underpinned by good cost rescaling efforts and synergies as well as the price hardening across key mobile markets. On dividends, we now project a higher DPS of 18-20 SG cents for FY25-27F, implying attractive dividend yield of 6-7%. We see the VRD announced in May (3-6 SG cents per share) supported by the SGD6bn mid-term capital recycling target. This could stem from a further sell down/dilution of associate stakes in Airtel (29% currently) and/or other non-strategic holdings (ie SingPost, NLT).

Key share price catalysts include further asset recycling exercises, stronger-than-expected earnings and dividends. Downside risks are competition, weaker-than-expected earnings and continued SGD strength.

Figure 4: Singtel's SOP valuation

	Stake	Value (SGDm)	Attributable value (SGDm)	Value/share (SGD)	% of total	Basis
Subsidiaries						
Singtel Spore	100%	9,103.6	9,103.6	0.55	12.0	5x CY25F EV/EBITDA
Optus Australia	100%	10,132.3	10,132.3	0.61	13.3	5x CY25F EV/EBITDA
Total subsidiaries			19,235.9	1.16	25.3	
Associates						
Bharti Airtel	29.0%	133,913.3	38,834.8	2.35	51.1	Market price
Telkomsel	30.1%	19,069.8	5,740.0	0.35	7.6	RHB valuation
AIS	23.3%	27,182.6	6,333.6	0.38	8.3	RHB TP
Globe	46.7%	7,211.4	3,367.7	0.20	4.4	Market price
Intouch	25.0%	8,932.1	2,232.1	0.14	2.9	Market price
SingPost	25.5%	1,020.6	260.3	0.02	0.3	Market price
Total associates			56,768.5	3.44	74.7	
Grand Total			76,004.5	4.60		
Net debt			(7,295.0)	-0.44		
Equity Valuation			68,709.5	4.16		
Holdco discount				-0.83		20% discount
ESG premium/(discount)				0.17		
Target Price (SGD)				3.49		TP rounded up to SGD3.50

Source: RHB

Emissions And ESG

Trend analysis

Total tCO₂e 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.

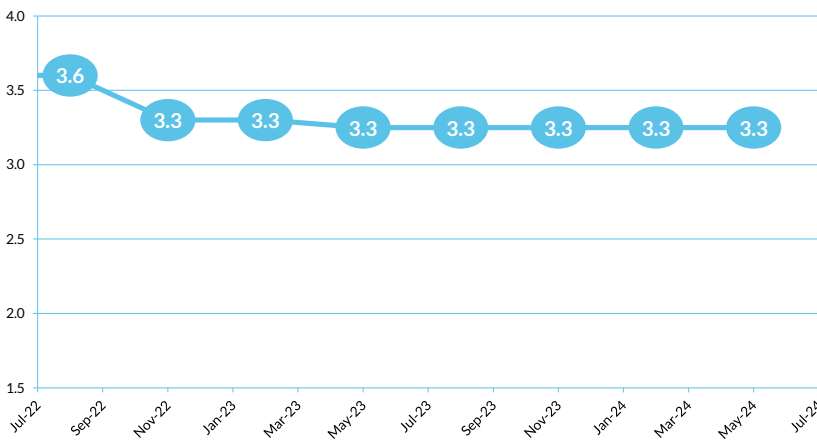
Emissions (tCO ₂ e)	Mar-22	Mar-23	Mar-24
Scope 1	6,322	6,251	-
Scope 2	488,622	432,706	-
Scope 3	8,146,316	3,568,342	-
Total emissions	8,641,260	4,007,299	na

Source: Company data, RHB

Latest ESG-Related Developments

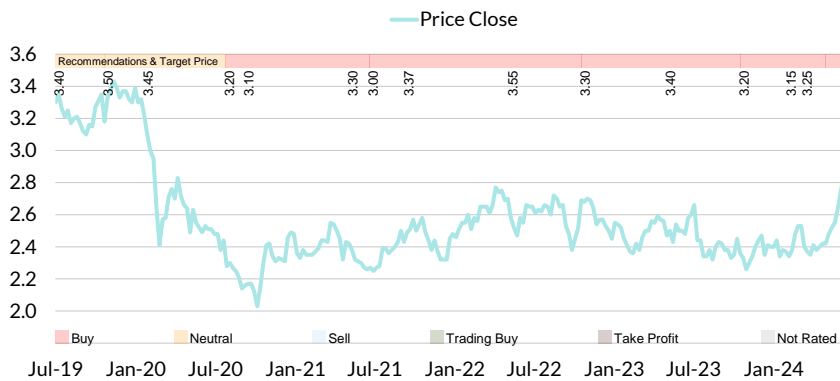
- Optus was hit by a cyber-security attack in Sep 2022 with personal information related to 9.8m subscribers compromised.
- On 8 Nov 2023, the Optus network was down for over 12 hours nationwide with the company attributing it to technical issues.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-05-23	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
2020-02-14	Neutral	3.45	3.22

Source: RHB, Bloomberg

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Take Profit:	Target price has been attained. Look to accumulate at lower levels
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Not Rated:	Stock is not within regular research coverage

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