

11 November 2022

Communications | Telecommunications

## Singtel (ST SP)

### Buy (Maintained)

### 1HFY23: Dividend Boost; Keep BUY

- **Keep BUY, new SGD3.30 TP (SOP) from SGD3.55, 26% upside, 4.7% FY24F (Mar) yield.** 1HFY23 results were light relative to our and Street forecasts (40-41%) on FX weakness and higher interest expense. The pleasant surprise came from a special dividend. We see further core topline improvement, as roaming traffic regresses to pre-pandemic levels. Our ESG score is lowered to 3.3 from 3.6 post a recent cyber-security incident involving Optus with an adjusted 6% premium bolted to our TP. Singtel is our preferred sector pick. Key risks: Competition and earnings misses.
- **1HFY23 core earnings ticked up 2.2%** (+6% on constant currency terms) as stronger associate contributions (+11%) more than offset higher financing costs (revaluation losses from derivative asset) and FX weakness (AUD, THB, and PHP). Overall FX impact is manageable at -3% of 1HFY23 core earnings given the group's diversified portfolio with 93% of debt on fixed rates. A special 5 cents DPS was declared (payable in two tranches) with surplus cash returned from the asset recycling programme. This comes on top of the interim 4.6 cents payout (76% of core earnings). Post 1HFY23 results call, we lower FY23F core earnings by 11% to reflect the weaker AUD and latest opex run-rate. FY24F-25F earnings were toned down 5-6%.
- **Mobile revenue is recovering well,** but NCS' profitability remains under pressure. Singapore and Optus mobile service revenue rose 10.4% and 2% in 1HFY23 (+1-2% QoQ) with Singapore roaming revenue at c.60% of pre-pandemic levels (1QFY23: 49%) and some benefits from the mobile price repair Down Under. We expect the positive momentum to continue with key upside risk from the (eventual) reopening of China's borders (a key market). Optus EBITDA grew 2.5% YoY (+7.8% YoY ex-National Broadband Network or NBN migration revenue) on good cost management. While NCS revenue surged 20% YoY with maiden contributions from the newly acquired Australian ICT assets, EBIT fell 49% from higher depreciation, staff expenses, and investments in digital capabilities. Associate growth continues to be spearheaded by Airtel, which offset weaker contributions from Indonesia and Thailand.
- **Committed to winning back customer trust.** A SGD142m provision (exceptional item) was booked for the late Sep 2022 cyber-attack on Optus together with SGD1bn in goodwill impairment (non-cash) from macro headwinds. Optus has re-started customer acquisition activities after suspending them earlier due to the incident, which saw personal data of 9.8m customers compromised. It has seen some stabilisation in churn post net disconnections in the "tens of thousands" (>10m subs). We have reviewed our benchmark ESG score to factor in the cyber-attack, which has negatively impacted Optus' brand franchise. Overall, our ESG premium was reduced to 6% from 12% with a moderated score for the social pillar.

Forecasts and Valuation	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Total turnover (SGDm)	15,644	15,339	16,087	16,590	17,141
Recurring net profit (SGDm)	1,733	1,922	2,279	2,718	2,942
Recurring net profit growth (%)	(29.4)	10.9	18.6	19.2	8.3
Recurring P/E (x)	24.20	21.82	18.40	15.43	14.25
P/B (x)	1.6	1.5	1.5	1.4	1.4
P/CF (x)	5.87	5.79	6.32	5.84	5.59
Dividend Yield (%)	2.9	3.6	4.7	4.7	4.7
EV/EBITDA (x)	14.11	13.71	13.12	11.60	10.79
Return on average equity (%)	6.5	7.0	8.0	9.3	9.8
Net debt to equity (%)	45.7	34.6	36.4	36.1	34.3

Source: Company data, RHB

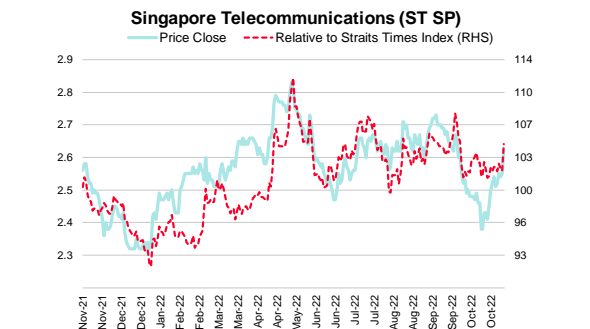
Target Price (Return):	SGD3.30 (25.5%)
Price (Market Cap):	SGD2.63 (USD30,933m)
ESG score:	3.30 (out of 4)
Avg Daily Turnover (SGD/USD)	70.9m/50.2m

#### Analyst

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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	13.4	5.6	-0.8	-6.1	3.1
Relative	11.8	3.5	2.7	-4.2	4.9
52-wk Price low/high (SGD)				2.32 – 2.83	



Source: Bloomberg

#### Overall ESG Score: 3.30 (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. A sum of AUD140m has been provided for in 1HFY23 in the form of customer related actions. The group invests significantly in its employees' training and development programmes to build a future-ready workforce, and their 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

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (SGD)</b>	<b>Mar-21</b>	<b>Mar-22</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Singapore	Recurring EPS	0.11	0.12	0.14	0.17	0.18
Communications	DPS	0.08	0.10	0.12	0.12	0.12
<b>Singtel</b>	BVPS	1.66	1.76	1.81	1.86	1.92
ST SP	Return on average equity (%)	6.5	7.0	8.0	9.3	9.8
Buy						
	<b>Valuation metrics</b>	<b>Mar-21</b>	<b>Mar-22</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
<b>Valuation basis</b>	Recurring P/E (x)	24.20	21.82	18.40	15.43	14.25
SOP	P/B (x)	1.6	1.5	1.5	1.4	1.4
	FCF Yield (%)	11.8	12.0	9.6	11.9	12.6
<b>Key drivers</b>	Dividend Yield (%)	2.9	3.6	4.7	4.7	4.7
i. Stronger earnings recovery;	EV/EBITDA (x)	14.11	13.71	13.12	11.60	10.79
ii. Cost efficiencies;	EV/EBIT (x)	47.14	49.48	41.34	31.16	29.39
iii. Revenue opportunities within the enterprise segment;						
iv. Unlocking of asset values.						
<b>Key risks</b>	<b>Income statement (SGDm)</b>	<b>Mar-21</b>	<b>Mar-22</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
i. Stronger-than-expected mobile competition;	Total turnover	15,644	15,339	16,087	16,590	17,141
ii. Higher-than-expected capex;	Gross profit	3,690	3,614	3,791	4,330	4,650
iii. Currency volatility.	EBITDA	3,832	3,767	3,994	4,534	4,855
	Depreciation and amortisation	(2,685)	(2,723)	(2,726)	(2,846)	(3,073)
<b>Company Profile</b>	Operating profit	1,147	1,044	1,268	1,688	1,782
Singtel is the largest integrated telecommunications group in Asia-Pacific with class-leading mobile assets in Singapore, Australia, India, Indonesia, Thailand, and the Philippines, amongst others.	Net interest	(395)	(313)	(424)	(442)	(460)
	Pre-tax profit	2,550	2,867	3,176	3,786	4,098
	Taxation	(811)	(934)	(889)	(1,060)	(1,148)
	Reported net profit	1,733	1,922	2,279	2,718	2,942
	Recurring net profit	1,733	1,922	2,279	2,718	2,942
	<b>Cash flow (SGDm)</b>	<b>Mar-21</b>	<b>Mar-22</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
	Cash flow from operations	7,145	7,244	6,636	7,178	7,501
	Capex	(2,214)	(2,217)	(2,600)	(2,200)	(2,200)
	Cash flow from investing activities	(2,414)	(2,417)	(2,800)	(2,399)	(2,391)
	Dividends paid	(1,723)	(1,176)	(1,551)	(1,959)	(1,958)
	Cash flow from financing activities	(3,811)	(4,599)	(1,875)	(2,300)	(2,313)
	Cash at beginning of period	1,000	755	2,130	1,876	2,176
	Net change in cash	920	228	1,961	2,479	2,797
	Ending balance cash	1,920	983	4,091	4,355	4,973
	<b>Balance sheet (SGDm)</b>	<b>Mar-21</b>	<b>Mar-22</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
	Total cash and equivalents	755	2,130	1,876	2,176	2,896
	Tangible fixed assets	11,534	10,892	10,766	10,120	9,247
	Total assets	47,999	49,132	50,170	51,430	53,040
	Short-term debt	2,034	1,614	1,614	1,614	1,614
	Total long-term debt	10,831	10,254	10,754	11,254	11,754
	Total liabilities	21,488	21,023	21,342	21,851	22,486
	Total equity	26,511	28,109	28,829	29,579	30,555
	Total liabilities & equity	47,999	49,132	50,170	51,430	53,040
	<b>Key metrics</b>	<b>Mar-21</b>	<b>Mar-22</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
	Revenue growth (%)	(5.4)	(1.9)	4.9	3.1	3.3
	Recurrent EPS growth (%)	(29.4)	10.9	18.6	19.2	8.3
	Gross margin (%)	23.6	23.6	23.6	26.1	27.1
	Operating EBITDA margin (%)	24.5	24.6	24.8	27.3	28.3
	Net profit margin (%)	11.1	12.5	14.2	16.4	17.2
	Dividend payout ratio (%)	70.7	79.0	86.0	72.1	66.6
	Capex/sales (%)	14.2	14.5	16.2	13.3	12.8
	Interest cover (x)	2.90	3.34	2.99	3.82	3.87

Source: Company data, RHB

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Figure 1: Results review table

FYE Mar (SGDm)	2QFY22	1QFY23	2QFY23	QoQ	YoY	1H FY22	1H FY23	YoY	Comments
Group revenue	3,855.0	3,584.0	3,675.0	2.5	(4.7)	7,653.0	7,259.0	(5.1)	Lower YoY due to the deconsolidation of Amobee, weaker AUD and Australian NBN migration revenue.
Optus	1,938.0	1,944.0	1,899.0	(2.3)	(2.0)	3,962.0	3,843.0	(3.0)	Weaker AUD. Stronger roaming revenue and penetration of Optus Choice Plans.
Singapore Consumer	453.0	428.0	446.0	4.2	(1.5)	867.0	874.0	0.8	Stronger rebound in roaming revenue.
Group Enterprise	633.0	613.0	651.0	6.2	2.8	1,245.0	1,264.0	1.5	Higher ICT revenue partially offset by lower carriage revenues. QoQ lifted by recovery in roaming revenue.
NCS	579.0	598.0	685.0	14.5	18.3	1,107.0	1,283.0	15.9	Maiden contributions from Dialog and ARQ.
Others/interco	252.0	1.0	(6.0)			472.0	(5.0)		
<b>EBITDA</b>	<b>932.0</b>	<b>977.0</b>	<b>901.0</b>	<b>(7.8)</b>	<b>(3.3)</b>	<b>1,929.0</b>	<b>1,878.0</b>	<b>(2.6)</b>	
EBITDA margin	24.2%	27.3%	24.5%	(2.7)	0.3	25.2%	25.9%	0.7	
<b>Share of associates</b>	<b>513.0</b>	<b>572.0</b>	<b>585.0</b>	<b>2.3</b>	<b>14.0</b>	<b>1,046.0</b>	<b>1,157.0</b>	<b>10.6</b>	Led by Airtel.
- Airtel	83.0	159.0	177.0	11.3	113.3	147.0	336.0	128.6	Higher 4G ARPU and subs growth.
- Telkomsel	231.0	228.0	228.0	0.0	(1.3)	472.0	456.0	(3.4)	Competition and macro headwinds.
- AIS	75.0	73.0	66.0	(9.6)	(12.0)	160.0	139.0	(13.1)	Competition and macro headwinds.
- Globe Telecom	82.0	95.0	77.0	(18.9)	(6.1)	181.0	172.0	(5.0)	Impacted by a weaker PHP.
- InTouch	23.0	25.0	27.0	8.0	17.4	49.0	52.0	6.1	
- Others	19.0	(8.0)	10.0	(225.0)	(47.4)	37.0	2.0	(94.6)	Includes share of losses from GXS Bank of SGD27m in 1H FY23
EBITDA and share of PBT	1,445.0	1,550.0	1,484.0	(4.3)	2.7	2,975.0	3,034.0	2.0	
Tax	736.0	643.0	630.0	(2.0)	(14.4)	1,484.0	1,539.0	3.7	
MI	(202.0)	(220.0)	(153.0)	(30.5)	(24.3)	(496.0)	(530.0)	6.9	
<b>Core net profit</b>	<b>531.0</b>	<b>499.0</b>	<b>505.0</b>	<b>1.2</b>	<b>(4.9)</b>	<b>982.0</b>	<b>1,004.0</b>	<b>2.2</b>	Below our and market estimates
Adjustments for EI	(23.0)	129.0	36.0	nm	nm	(29.0)	165.0	nm	Includes SGD142m provision for Optus' cyber-security incident.
Headline net profit	508.0	628.0	541.0	(13.9)	6.5	953.0	1,169.0	22.7	

Source : Company Data

## Recommendation Chart

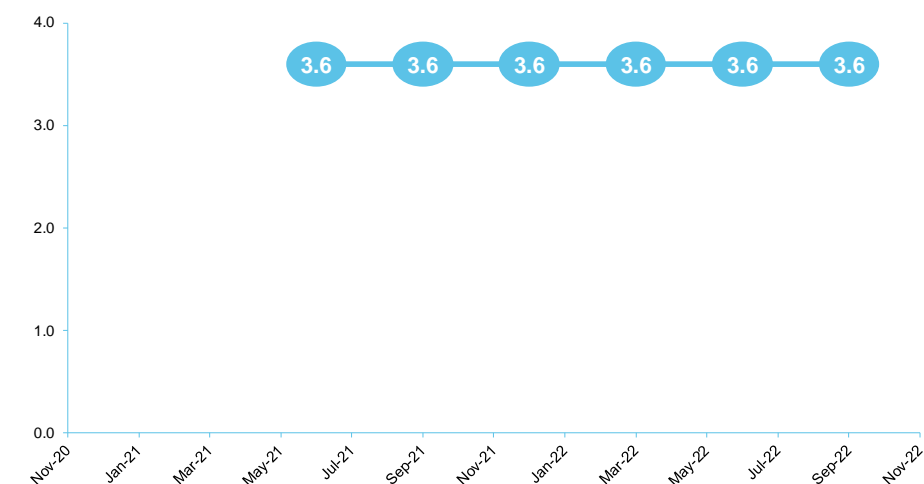


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2019-11-15	Neutral	3.50	3.18
2019-08-08	Neutral	3.40	3.26
2019-07-23	Neutral	3.40	3.52
2019-05-15	Neutral	3.35	3.13
2019-03-11	Neutral	3.09	2.93
2019-02-14	Neutral	3.22	3.03

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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<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
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<b>Not Rated:</b>	Stock is not within regular research coverage

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