26 May 2023

Communications | Telecommunications

Singtel (ST SP)

Buy (Maintained)

ROIC Trending Up; Keep BUY

Target Price (Return):	SGD3.40 (+34%)
Price (Market Cap):	SGD2.53 (USD30,867m)
ESG score:	3.25 (out of 4)
Avg Daily Turnover (SGD/USD)	46.8m/35.0m

- **Keep BUY, with new SOP-based SGD3.40 TP from SGD3.30, 34% upside and 4% FY24F (Mar) yield.** FY23 results missed on AUD weakness, albeit. with the highest DPS payout since FY19. With FY23 return on invested capital (ROIC) rising to 8.3% (FY22: 7.3%), management has set a new low double-digit target in the medium term. We cut FY24F-25F core earnings by 2-5% post results call, with FY26F introduced. Our TP (inclusive of a 6% ESG premium) is lifted slightly after updating the valuations of associates. Singtel remains our sector preferred pick.
- **A miss on FX, albeit, good operational showing with ROIC at 8.3%.** 4QFY23 core earnings of SGD489m (-12.5% QoQ, +4.4% YoY) brought FY23 core earnings to SGD2.05bn (+7% YoY), at 90% of our forecast (consensus: 93%) with the key deviation coming from the weaker AUD (-6% YTD). Group revenue and EBITDA fell a marginal 5% and 2.2% YTD with stronger EBITDA margin of 25.2% notched (FY22: 24.6%), largely on account of tight cost controls. The positive offsets were from associate contributions (+6.1% YTD) on Airtel's outperformance and lower depreciation expense. A final DPS of 5.3 SG cents (FY22: 4.8 SG cents) puts full-year DPS at 14.9 SG cents (including special DPS of 5 SG cents), the highest since FY19 with ordinary DPS of 9.9 SG cents at the top-end of its 60-80% payout, ahead of our and market expectations.
- **Roaming roars back.** Singapore consumer revenue grew 5% YoY in 2HFY23 (+ 11.2% YTD) while EBITDA gained 15%. Mobile services revenue (MSR) jumped 12%, supported by a further recovery in roaming revenue (postpaid roaming revenue trebled YoY and is at 60% of pre-pandemic levels), higher migrant traffic which bolstered prepaid sales and stronger 5G adoption. Optus' mobile revenue ticked up 3% on market price repair with EBITDA up 1% (+4% ex-NBN migration revenue). Meanwhile, NCS, Singtel's digital ICT arm, saw 16% revenue growth in FY23 although EBIT fell 35% on higher staff cost and investments to boost its capabilities. It has nonetheless registered two consecutive quarters of EBIT growth on cost containment efforts, supported by a strong sales pipeline of SGD3.2bn.
- **More asset monetisation to come.** Singtel's asset recycling has thus far netted >SGD6bn. We see scope for more cash to be returned (management targets for additional SGD6bn from further asset divestments (eg sale of Comcenter HQ and disposal of infrastructure assets such as data centres and satellites). Key risks are competition, FX weakness and weaker-than-expected earnings.
- **ESG framework update.** As there is greater focus on the E pillar due to critical climate change issues, we have tweaked our ESG weightage. Henceforth, we assign a weightage of 50% to the E pillar, followed by 25% each to the S and G pillars. Further details are in our 2 May thematic research note titled Envisioning a Better Future.

Forecasts and Valuation	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
Total turnover (SGDm)	15,339	14,624	15,779	16,320	17,177
Recurring net profit (SGDm)	1,922	2,053	2,580	2,878	3,115
Recurring net profit growth (%)	10.9	6.8	25.7	11.6	8.2
Recurring P/E (x)	20.99	19.65	15.64	14.01	12.95
P/B (x)	1.4	1.6	1.5	1.4	1.4
P/CF (x)	5.57	6.38	5.81	5.53	5.29
Dividend Yield (%)	3.8	4.0	4.0	4.0	4.0
EV/EBITDA (x)	13.29	13.45	11.80	10.83	9.97
Return on average equity (%)	7.0	7.6	9.8	10.5	10.8
Net debt to equity (%)	34.6	35.5	38.9	35.7	31.4

Source: Company data, RHB

Analyst

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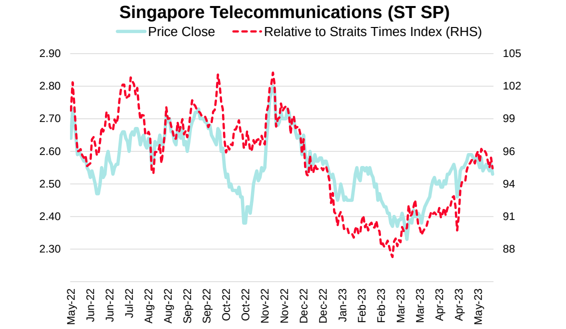
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.6)	2.8	5.0	(6.3)	(4.2)
Relative	(0.2)	5.5	7.3	(5.2)	(5.1)
52-wk Price low/high (SGD)					2.33 – 2.80



Source: Bloomberg

Overall ESG Score: 3.25 (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

Asia
Singapore
Communications
Singtel
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Buy

Valuation basis

SOP

Key drivers

i. Stronger earnings recovery;
ii. Cost efficiencies;
iii. Revenue opportunities within the enterprise segment;
iv. Unlocking of asset values.

Key risks

i. Stronger-than-expected mobile competition;
ii. Higher-than-expected capex;
iii. Currency volatility.

Company Profile

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

Financial summary (SGD)	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
Recurring EPS	0.12	0.13	0.16	0.18	0.20
DPS	0.10	0.10	0.10	0.10	0.10
BVPS	1.76	1.63	1.69	1.77	1.86
Return on average equity (%)	7.0	7.6	9.8	10.5	10.8

Valuation metrics	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
Recurring P/E (x)	20.99	19.65	15.64	14.01	12.95
P/B (x)	1.4	1.6	1.5	1.4	1.4
FCF Yield (%)	12.5	9.2	11.8	12.6	13.5
Dividend Yield (%)	3.8	4.0	4.0	4.0	4.0
EV/EBITDA (x)	13.29	13.45	11.80	10.83	9.97
EV/EBIT (x)	47.95	44.62	35.16	30.69	27.94

Income statement (SGDm)	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
Total turnover	15,339	14,624	15,779	16,320	17,177
Gross profit	3,614	3,490	4,099	4,448	4,771
EBITDA	3,767	3,685	4,303	4,653	4,977
Depreciation and amortisation	(2,723)	(2,574)	(2,858)	(3,011)	(3,201)
Operating profit	1,044	1,111	1,445	1,642	1,776
Net interest	(313)	(359)	(390)	(409)	(427)
Pre-tax profit	2,867	3,039	3,594	4,009	4,398
Taxation	(934)	(978)	(1,006)	(1,122)	(1,275)
Reported net profit	1,922	2,053	2,580	2,878	3,116
Recurring net profit	1,922	2,053	2,580	2,878	3,115

Cash flow (SGDm)	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
Cash flow from operations	7,244	6,327	6,948	7,299	7,625
Capex	(2,217)	(2,600)	(2,200)	(2,200)	(2,199)
Cash flow from investing activities	(2,417)	(2,800)	(2,399)	(2,393)	(2,386)
Dividends paid	(1,176)	(1,486)	(1,682)	(1,633)	(1,633)
Cash flow from financing activities	(4,599)	(3,220)	(1,971)	(1,939)	(1,957)
Cash at beginning of period	755	2,130	1,668	935	1,836
Net change in cash	228	308	2,578	2,967	3,282
Ending balance cash	983	2,438	4,246	3,902	5,119

Balance sheet (SGDm)	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
Total cash and equivalents	2,130	1,668	935	1,836	3,083
Tangible fixed assets	10,892	10,385	9,727	8,915	7,914
Total assets	49,132	46,530	48,316	50,201	52,466
Short-term debt	1,614	983	983	983	983
Total long-term debt	10,254	9,910	10,410	10,910	11,410
Total liabilities	21,023	20,517	21,413	22,061	22,851
Total equity	28,109	26,013	26,903	28,141	29,616
Total liabilities & equity	49,132	46,530	48,316	50,201	52,466

Key metrics	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
Revenue growth (%)	(1.9)	(4.7)	7.9	3.4	5.3
Recurrent EPS growth (%)	10.9	6.8	25.7	11.6	8.2
Gross margin (%)	23.6	23.9	26.0	27.3	27.8
Operating EBITDA margin (%)	24.6	25.2	27.3	28.5	29.0
Net profit margin (%)	12.5	14.0	16.3	17.6	18.1
Dividend payout ratio (%)	79.0	78.7	63.3	56.7	52.4
Capex/sales (%)	14.5	17.8	13.9	13.5	12.8
Interest cover (x)	3.34	3.09	3.70	4.02	4.16

Source: Company data, RHB

Figure 1: Results review table

FYE Mar (SGDm)	4QFY22	3QFY23	4QFY23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)	Comments
Group revenue	3,774.0	3,713.0	3,653.0	(1.6)	(3.2)	15,340.0	14,625.0	(4.7)	Lower YoY due to the deconsolidation of Amobee, weaker AUD and Australian NBN migration revenue
Optus	1,872.0	1,905.0	1,821.0	(4.4)	(2.7)	7,815.0	7,569.0	(3.1)	Weaker AUD impacted translated revenue. Stronger roaming revenue and revenue seasonality
Singapore Consumer	415.0	497.0	444.0	(10.7)	7.0	1,764.0	1,815.0	2.9	Recovery in roaming revenue
Group Enterprise	628.0	645.0	647.0	0.3	3.0	2,523.0	2,556.0	1.3	Higher ICT revenue partially offset by lower carriage revenues
NCS	695.0	676.0	769.0	13.8	10.6	2,361.0	2,728.0	15.5	Higher contributions from Australian assets acquired
Others/interco	164.0	(10.0)	(28.0)			877.0	(43.0)		
EBITDA	849.0	911.0	897.0	(1.5)	5.7	3,768.0	3,686.0	(2.2)	Weighed down by higher investments in NCS to drive digital capabilities and Optus' investments in new businesses
EBITDA margin	22.5%	24.5%	4.0	375.5	377.5	24.6%	25.2%	0.6	
Share of associates	611.0	572.0	558.0	(2.4)	(8.7)	2,136.0	2,287.0	7.1	Led by Airtel
- Airtel	184.0	184.0	174.0	(5.4)	(5.4)	433.0	694.0	60.3	Higher 4G ARPU and subs growth
- Telkomsel	226.0	210.0	196.0	(6.7)	(13.3)	914.0	862.0	(5.7)	Competition and macro headwinds. IDR weakness
- AIS	75.0	81.0	77.0	(4.9)	2.7	315.0	297.0	(5.7)	Competition and macro headwinds. THB weakness
- Globe Telecom	82.0	51.0	78.0	52.9	(4.9)	311.0	301.0	(3.2)	Impacted by weaker PHP
- Intouch	23.0	32.0	29.0	(9.4)	26.1	95.0	113.0	18.9	
- Others	21.0	14.0	4.0	(71.4)	(81.0)	68.0	20.0	(70.6)	
EBITDA and share of associates	1,459.0	1,482.0	1,457.0	(1.7)	(0.1)	5,903.0	5,973.0	1.2	
Depreciation	(690.0)	(622.0)	(654.0)	5.1	(5.2)	(2,722.0)	(2,575.0)	(5.4)	
EBIT	769.0	860.0	803.0	(6.6)	4.4	3,181.0	3,398.0	6.8	
PBT	691.0	769.0	731.0	(4.9)	5.8	2,868.0	3,039.0	6.0	
Tax	(221.0)	(208.0)	(241.0)	15.9	9.0	(934.0)	(979.0)	4.8	
MI	(2.0)	(2.0)	(2.0)	nm	nm	(11.0)	(9.0)	nm	
Core net profit	**468.0**	**559.0**	**488.0**	**(12.7)**	**4.3**	**1,923.0**	**2,051.0**	**6.7**	Below our and market estimates
Exceptional Items	(207.0)	(28.0)	35.0	nm	nm	25.0	172.0	nm	Include gains from the sale of a 3.3% stake in Airtel, dilution of the group's effective stake in Airtel and tower disposals at Globe and Telkomsel

Source : Company data

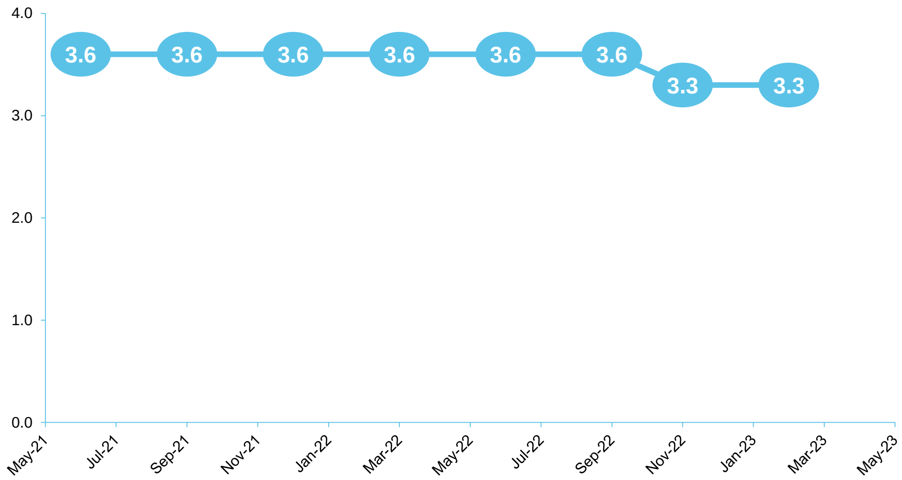
Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
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

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Buy:	Share price may exceed 10% over the next 12 months
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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Not Rated:	Stock is not within regular research coverage

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