

25 August 2022

Communications | Telecommunications

Singtel (ST SP)

Buy (Maintained)

Mobile Resurrection; Keep BUY

Target Price (Return): SGD3.55 (+35%)
 Price (Market Cap): SGD2.63 (USD31,095m)
 ESG score: 3.60 (out of 4)
 Avg Daily Turnover (SGD/USD) 65.0m/47.0m

- **Keep BUY and SOP-based TP of SGD3.55, 35% upside with c.5% FY23F (Mar) yield.** Singtel's 1QFY23 results came in light but earnings should pick up momentum in 2H22. We see a further improvement in roaming traffic and prepaid sales, from higher tourist arrivals alongside stronger enterprise contributions. Singtel remains our preferred telco pick on its positive earnings execution and the unlocking of latent value from asset monetisation exercises. A 6% ESG premium imputed into our TP reflects the group's leading ESG traits.
- **Earnings momentum to pick up further.** 1QFY23 underlying earnings ticked up 6.6% QoQ (+10.6% YoY), as higher EBITDA and associate contributions (mostly Bharti) more than offset the increase in financing cost. The quarter saw the deconsolidation of Amobee's losses (in the process of being divested), which is EBIT-positive. While core earnings came in light (RHB/consensus: 20%), we see further earnings improvements ahead, on: i) Higher roaming revenue, ii) positive impact from Optus' repricing (early-Aug), iii) rising share of associates (Bharti), and iv) sale of non-core assets.
- **Mobile up strongly** following the recovery in roaming traffic from reopened borders. Singapore mobile service revenue (MSR) posted the highest growth since the onset of the pandemic, up 11% YoY (+10% QoQ) in 1QFY23. This was ahead of StarHub's (STH SP, NEUTRAL, TP: SGD1.20) +3.8% YoY (+0.1% QoQ). Consequently, consumer EBITDA surged 11.4% YoY (+30% QoQ). Despite the stiff competition, Optus' MSR advanced 2.4% YoY (+1.5% QoQ) as the Choice plans continue to resonate well with customers, alongside higher roaming revenue.
- **Enterprise/NCS still in investment mode.** NCS' EBITDA continued to be weigh down by investments to shore up its capabilities and higher staff cost, notwithstanding the good 13% YoY growth (-14% QoQ on seasonality). Management is vying for SGD5bn (21% CAGR) in revenue by FY26F – of which 40% would come from enterprise customers (FY22: 28%) (vs the current dominant government/public sector clientele). This would be mainly fuelled by the acquisitions in Australia (Dialog and ARQ).
- **Capital recycling.** Singtel has raised over c.SGD2.3bn (excluding the recent disposal of Globe Telecom's towers) from the disposal of non-core assets over the past year. The proceeds of these sales are being channelled towards 5G, new investments in enterprise (regional data centers, new markets outside of Singapore) and, to some extent, digital banking. We see its loss-making cyber-security outfit, Trustwave (TW) as the next in line to be monetised (carrying value of SGD695m).
- **Key downside risks** are competition in the domestic and Australian mobile markets, weaker-than-expected earnings and execution of its strategic business reset.

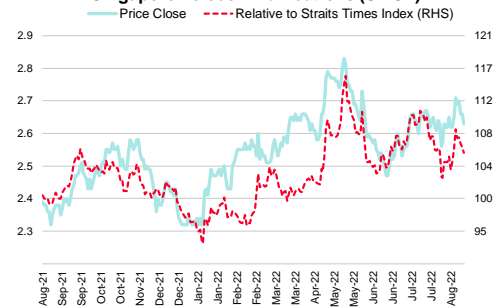
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	13.4	(0.8)	(1.5)	2.7	11.4
Relative	9.5	(2.8)	(2.5)	7.0	6.3
52-wk Price low/high (SGD)	2.32 – 2.83				

Singapore Telecommunications (ST SP)



Source: Bloomberg

Overall ESG Score: 3.60 (out of 4)

E: GOOD

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

S: EXCELLENT

It actively pushes for digital enablement with, various key programmes that target different segments of society and their needs. Singtel invests significantly in employee training and development programmes to build a future-ready workforce. The group's 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-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	2,549	2,877	3,120
Recurring net profit growth (%)	(29.4)	10.9	32.6	12.9	8.5
Recurring P/E (x)	24.20	21.82	16.45	14.58	13.44
P/B (x)	1.6	1.5	1.4	1.4	1.3
P/CF (x)	5.87	5.79	6.04	5.72	5.46
Dividend Yield (%)	2.9	3.6	4.7	4.7	4.7
EV/EBITDA (x)	14.11	13.71	12.17	11.13	10.28
Return on average equity (%)	6.5	7.0	8.9	9.7	10.2
Net debt to equity (%)	45.7	34.6	35.8	34.1	31.4

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (SGD)	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Singapore	Recurring EPS	0.11	0.12	0.16	0.18	0.20
Communications	DPS	0.08	0.10	0.12	0.12	0.12
Singtel	BVPS	1.66	1.76	1.82	1.88	1.95
ST SP	Return on average equity (%)	6.5	7.0	8.9	9.7	10.2
Buy						
	Valuation metrics	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Valuation basis	Recurring P/E (x)	24.20	21.82	16.45	14.58	13.44
SOP	P/B (x)	1.6	1.5	1.4	1.4	1.3
	FCF Yield (%)	11.8	12.0	10.4	12.2	13.1
	Dividend Yield (%)	2.9	3.6	4.7	4.7	4.7
Key drivers	EV/EBITDA (x)	14.11	13.71	12.17	11.13	10.28
i. Stronger earnings recovery;	EV/EBIT (x)	47.14	49.48	33.26	28.39	26.44
ii. Improvement in cost efficiencies;						
iii. Revenue growth opportunities within the enterprise segment;						
iv. Unlocking of asset value.						
	Income statement (SGDm)	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Key risks	Total turnover	15,644	15,339	16,087	16,590	17,141
i. Stronger-than-expected mobile competition;	Gross profit	3,690	3,614	4,096	4,478	4,821
ii. Higher-than-expected capex;	EBITDA	3,832	3,767	4,299	4,682	5,026
iii. Volatility in currency values.	Depreciation and amortisation	(2,685)	(2,723)	(2,726)	(2,846)	(3,073)
	Operating profit	1,147	1,044	1,572	1,836	1,953
Company Profile	Net interest	(395)	(313)	(354)	(369)	(384)
Singtel is the largest integrated telecommunications group in the Asia-Pacific, with class-leading mobile assets in Singapore, Australia, India, Indonesia, Thailand and the Philippines, amongst others	Pre-tax profit	2,550	2,867	3,551	4,007	4,345
	Taxation	(811)	(934)	(994)	(1,122)	(1,217)
	Reported net profit	1,733	1,922	2,549	2,877	3,120
	Recurring net profit	1,733	1,922	2,549	2,877	3,120
	Cash flow (SGDm)	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
	Cash flow from operations	7,145	7,244	6,941	7,326	7,673
	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)	(1,127)	(1,600)	(1,959)	(1,958)
	Cash flow from financing activities	(3,811)	(4,550)	(1,854)	(2,227)	(2,238)
	Cash at beginning of period	1,000	755	2,130	1,976	2,647
	Net change in cash	920	277	2,287	2,700	3,044
	Ending balance cash	1,920	1,032	4,417	4,676	5,691
	Balance sheet (SGDm)	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
	Total cash and equivalents	755	2,130	1,976	2,647	3,613
	Tangible fixed assets	11,534	10,892	10,766	10,120	9,247
	Total assets	47,999	49,132	50,144	51,727	53,514
	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	21,095	21,768	22,401
	Total equity	26,511	28,109	29,050	29,959	31,113
	Total liabilities & equity	47,999	49,132	50,144	51,727	53,514
	Key metrics	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
	Revenue growth (%)	(5.4)	(1.9)	4.9	3.1	3.3
	Recurrent EPS growth (%)	(29.4)	10.9	32.6	12.9	8.5
	Gross margin (%)	23.6	23.6	25.5	27.0	28.1
	Operating EBITDA margin (%)	24.5	24.6	26.7	28.2	29.3
	Net profit margin (%)	11.1	12.5	15.8	17.3	18.2
	Dividend payout ratio (%)	70.7	79.0	76.9	68.1	62.8
	Capex/sales (%)	14.2	14.5	16.2	13.3	12.8
	Interest cover (x)	2.90	3.34	4.44	4.98	5.08

Source: Company data, RHB

Figure 1: Results review

FYE Mar (SGDm)	1QFY22	4QFY22	1QFY23	QoQ (%)	YoY (%)	Comments
Group revenue	3,798.0	3,774.0	3,584.0	(5.0)	(5.6)	Lower QoQ/YoY due to the deconsolidation of Amobee, weaker AUD/SGD and Australian NBN migration revenue
Optus	2,024.0	1,872.0	1,944.0	3.8	(4.0)	Stronger roaming revenue and penetration of Optus Choice Plans
Singapore Consumer	414.0	415.0	428.0	3.1	3.4	Stronger rebound in roaming revenue
Group Enterprise	612.0	628.0	613.0	(2.4)	0.2	Seasonally weaker billings
NCS	528.0	695.0	598.0	(14.0)	13.3	Seasonally weaker billings but robust growth across the board YoY, supported by inorganic acquisitions
Others	220.0	164.0	1.0			
EBITDA	997.0	849.0	977.0	15.1	(2.0)	Strong rebound in mobile revenue
EBITDA margin	26.3%	22.5%	27.3%	4.8	1.0	
Share of associates	533.0	611.0	572.0	(6.4)	7.3	Led by Bharti Airtel
- Airtel	64.0	184.0	159.0	(13.6)	148.4	Higher 4G ARPU and subs growth
- Telkomsel	241.0	226.0	228.0	0.9	(5.4)	Competition remains stiff
- AIS	85.0	75.0	73.0	(2.7)	(14.1)	Weaker consumer sentiment
- Globe Telecom	99.0	82.0	95.0	15.9	(4.0)	
- Others	18.0	21.0	(3.0)	(114.3)	(116.7)	
EBITDA and share of associates	1,530.0	1,459.0	1,550.0	6.2	1.3	
PBT	748.0	643.0	630.0	(2.0)	(15.8)	
Tax	(294.0)	(220.0)	(153.0)	(30.5)	(48.0)	
MI	(3.0)	(5.0)	1.0	nm	nm	
Core net profit	451.0	468.0	499.0	6.6	10.6	Broadly in line on expectations of earnings picking up

Source : Company data

Recommendation Chart

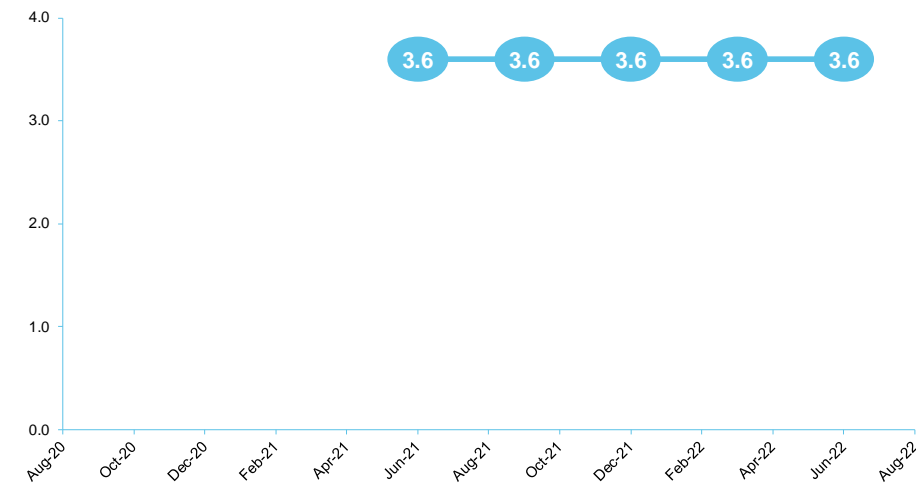


Source: RHB, Bloomberg

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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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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