

Singapore Telecommunications (ST SP)

Driving ROIC higher

Data centers and IT services to help drive growth

We attended the recent Singtel Investor Day where management reiterated its commitment to improve Return on Invested Capital (ROIC) to high single-digits in the mid-term (FY22:5.4%) by: a) delivering on enterprises' 5G innovation for monetisation, b) capturing growth opportunities in data centres (DCs) and IT services as enterprises increase spending on digitalisation, and newly launched GXS bank, C) leveraging on positive price momentum in India, Indonesia and Australia to grow ARPU and d) unlocking value from asset recycling and capital partnerships to fund growth investment.

Regionalising NCS

Following 3 levers of growth (client industries, services and geographies) and expanding into Australia through recent acquisition, NCS targets to improve its revenue from FY22's SGD2.4bn to SGD5bn by FY26E. To achieve this, NCS plans to expand its regional talent pool from 12k to 20k within 4 years. The additions will mainly come from lower cost locations (i.e. Vietnam and India). We expect NCS EBIT pressure will likely persist for the next 1-2 years due to rising talent cost and impact cost of recent acquisitions in Australia.

Attractive opportunity in Data Centre

SingTel aims to build-up its Regional Data Centre (RDC) platform capacity by 4-fold to more than 220MW (including JV Co capacity) across Singapore, Thailand, and Indonesia in the next 3-5 years where there is highest demand and growth. It is also looking for suitable partners to expand into other ASEAN countries (e.g. Malaysia, Vietnam). It expects healthy RDC EBITDA margin of ~50%, even outside of Singapore.

Sustaining shareholders value

Singtel remains comfortable with its current net debt/ EBITDA (1QFY23: 1.6x), while proceeds from announced asset recycling programme -SGD6b would fully cover incremental 5G capex and growth initiatives over the next few years. Hence, we think it will be able to pay FY23-25E dividends at the top-end of its 60-80% payout policy. Re-iterate BUY with an SOTP-based TP of SGD3.15. Singtel is our Top Pick among Singapore telcos.

FYE Mar (SGD m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	15,428	14,915	16,036	16,383	16,557
EBITDA	3,617	3,343	4,042	4,270	4,366
Core net profit	1,518	1,558	2,520	2,878	3,206
Core FDEPS (cts)	9.3	9.5	15.4	17.6	19.6
Core FDEPS growth(%)	41.3	2.6	61.8	14.2	11.4
Net DPS (cts)	7.5	9.3	10.9	12.4	13.8
Core FD P/E (x)	26.3	27.7	17.0	14.9	13.4
P/BV (x)	1.5	1.6	1.5	1.5	1.4
Net dividend yield (%)	3.1	3.5	4.1	4.7	5.2
ROAE (%)	5.7	5.8	9.1	10.0	10.8
ROAA (%)	3.1	3.2	5.0	5.6	6.0
EV/EBITDA (x)	14.4	15.8	12.7	11.7	11.1
Net gearing (%) (incl perps)	45.7	35.5	29.8	24.1	17.7
Consensus net profit	-	-	2,520	2,878	3,220
MKE vs. Consensus (%)	-	-	0.0	(0.0)	(0.4)

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BUY

Share Price	SGD 2.63
12m Price Target	SGD 3.15 (+20%)
Previous Price Target	SGD 3.15

Company Description

Singtel is the largest integrated telecommunications service provider in Singapore and has significant share in Australia, India and ASEAN

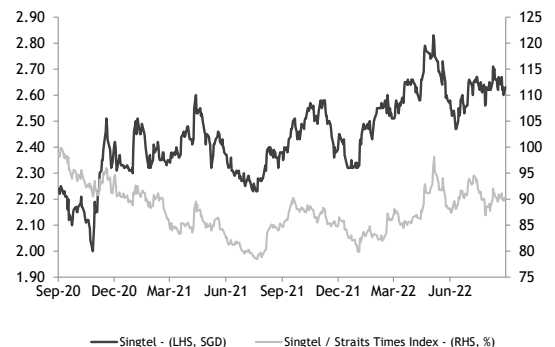
Statistics

52w high/low (SGD)	2.83/2.32
3m avg turnover (USDm)	41.4
Free float (%)	41.8
Issued shares (m)	16,515
Market capitalisation	SGD43.4B
	USD30.9B

Major shareholders:

Temasek Holdings	52.2%
Central Provident Fund	4.9%
Capital Research	1.2%

Price Performance



	-1M	-3M	-12M
Absolute (%)	0	2	11
Relative to index (%)	2	3	6

Source: FactSet

ESG@MAYBANK IGB
Tear Sheet Insert

Value Proposition

- Telco conglomerate whose companies have significant, if not leading, shares in their markets.
- High-growth phase for wireless segment has passed. Competition is generally on the rise in this segment in most markets.
- Enterprise and 5G to provide next legs of growth, while cash is harvested from wireless leadership to support investments and capex.
- Healthy balance sheet backs DPS payout ratio of 60-80%. Proceeds from sale of non-core assets are partly committed to exceptional payouts.

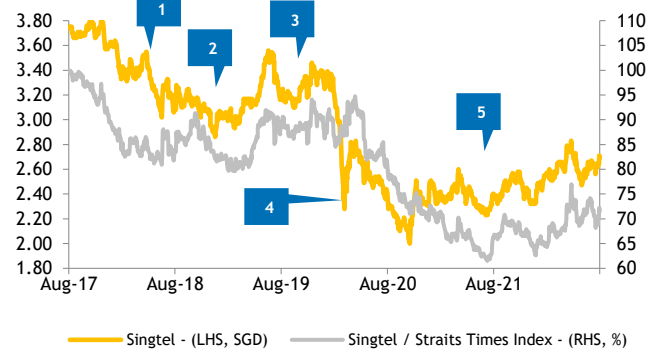
Singtel SOTP valuation

Valuation	Stake (%)	Valuation method	Valuation (LC)	Exch rate (SGD/LC)	Valuation (SGD m)	Per share (SGD)	% of total
SingTelCore Business	100.0	Singtel DCF (6.9% WACC, 1% TG, 0.90 beta) Optus DCF (6.0% WACC, 1% TG, 0.71 beta)	19,717	1.00	19,717	1.21	
(Less) Consol Net Debt					-8,403	-0.51	
Sub Total					11,314	0.69	22%
Associates							
Valuation	Stake (%)	Valuation method	Valuation (LC)	Exch rate (SGD/LC)	Valuation (SGD m)	Per share (SGD)	% of total
Telkomsel (Indonesia)	35.0	70% of Market Cap listed Telkom	113,827,444	10,645	10,693	0.66	16%
Bharti Airtel (India)	31.7	DCF (9.4% WACC, 3% TG, 1.0 beta), mcap of africa and tower businesses	1,538,551	55.83	27,558	1.69	40%
AIS (Thailand)	23.3	DCF (7.0% WACC, 2% LTG, 1.0 beta)	159,323	24.05	6,625	0.41	10%
Globe (Philippines)	47.0	DCF (5.7% WACC, 1% LTG, 0.7 beta)	185,155	38.13	4,856	0.30	7%
Intouch (Thailand)	21.1	SOTP (AIS TP and mkt cap of THCOM TB)	46,473	24.05	1,932	0.12	3%
NetLink NBN Trust (Singapore)	24.8	DDM (COE 6%, 0% LTG, 0.5 beta)	966	1.00	966	0.06	1%
SingPost (Singapore)	21.7	Market Cap	305	1.00	305	0.02	0%
Sub Total					52,631	3.24	
Conglomerate Discount		25% discount				(0.8)	
Associates' value					2.46	77%	
Total Equity Value						3.15	100%

Source: Maybank IBG Research

Price Drivers

Historical share price trend



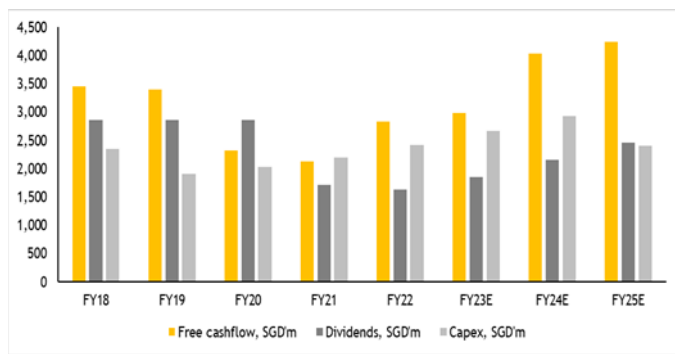
Source: Company, Maybank IBG Research

1. Proposal for fourth mobile licence. Bharti's profits started to taper off.
2. Proposal to increase effective stake in Bharti to 39.5%. Share price continued to be pressured by competitive environment.
3. Australia wireless pricing went through industry-wide reflation.
4. Earnings marred by weakness in ARPU on the back of lower usage of roaming and data given travel restriction and work-from-home arrangements.
5. Ongoing global economic disruption brought about by
6. COVID-19 and structural challenges brought about by intense market competition.

Financial Metrics

- We forecast EBITDA to register a 5.9% earnings CAGR over FY23-25E due to recovery following Covid-19.
- Pretax associate income could contribute to bottom line by growing 27% in the same period, led by Bharti's swing to net profit from net loss.
- We expect net debt to EBITDA, including associate dividends, to remain healthy at 1.6x-2.2x in FY23-25E; providing support to its fixed DPS commitment.

Free cashflow, dividends and capex



Source: Company, Maybank IBG Research

Swing Factors

Upside

- Strong growth in enterprise and Digital Life to positive operating leverage.
- Stronger-than-expected ARPU due to easing in price competition in countries it operates in.
- Faster-than-expected monetisation of 5G development.

Downside

- Further wireless margin compression triggered by competition in Singapore and / or Australia.
- Worse-than-expected cannibalisation of wireless voice, SMS and roaming by data.
- Failure to monetise 5G development.

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Risk Rating & Score ¹	18.5
Score Momentum ²	-0.0
Last Updated	16 Dec 2021
Controversy Score ³ (Updated: 16 Dec 2021)	0-No reports

Business Model & Industry Issues

- Singtel is most exposed to cybersecurity and personal data leakage risks given its nature of business. There have been minor lapses due to IT, process and human errors over the years, and Singtel was penalised for an immaterial sum.
- Going forward, Singtel will continue to educate its staff and improve practices and processes to minimise data breaches.
- As Singtel is in the business of connectivity, it is supporting digital inclusion through connecting communities and supporting the disadvantaged.
- Notably in FY20, the telco supported migrant workers with free remittance service and their WiFi and mobile data needs. It also provided refurbished laptops and data SIMs to disadvantaged students for their home-based learning. In Australia, Optus scaled up “Donate Your Data” to support disadvantaged students by offering them free mobile data access for online learning.
- Singtel displays no exceptional risks for a telco operator for ESG and is in line with peers in tackling ESG issues.

Material E issues

- Achieved carbon emissions intensity reduction of 70% in 2020, well exceeding our 2030 target of 50%.
- Over 84% of waste generated disposed via reuse, recycling or incineration with energy recovered.
- Only Southeast Asian company among a pioneer group of 28 global companies in July 2019 that committed to keeping global temperature increase within 1.5°C and net zero emissions by 2050.

Material S issues

- 28% of female employees in middle and top management.
- Singtel was included in the 2020 Bloomberg Gender-Equality Index and the Refinitiv Global Diversity & Inclusion Index 2019 and named as one of the top 10 employers for Gender Diversity at The Leonie Awards 2019.
- Total training investment of SGD21.9m and pledged SGD45m to boost the digital skills of its workforce through company-wide initiatives over three years.
- Zero fatality rate across Singtel and Optus in FY20.
- To promote digital inclusion, Optus has launched “Donate Your Data” in Australia to help disadvantaged young people bridge the digital divide.
- Singtel also supported 1,000 vulnerable seniors under CareLine 24-hour telephone befriending service with free mobile phone services to promote digital inclusion and well-being.

Key G metrics and issues

- Board consists of 10 directors, of which one is executive officer (MD/CEO), the remaining are non-executive & independent directors (including Chairman). 30% are female directors.
- The nomination, audit, investment and remuneration committees are chaired by independent directors.
- Key management/directors’ compensation accounted for 9.4%/1.3% of total employee compensation in 2019.
- There have been no corruption cases reported for the past three years.
- Cyber security and data leakage risks. Conducts its businesses in strict adherence to data protection laws - the Personal Data Protection Act in Singapore and the Privacy Act and Telecommunications Act in Australia.
- There have been minor lapses due to IT, process and human errors. Singtel will continue to educate its staff and improve practices and processes to minimise data breaches.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company’s exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company’s enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company’s score since the last update - a **negative** integer indicates a company’s improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Key highlights from Investor Day 2022

Singapore Consumer

For Singapore mobile business, roaming revenue has rebounded nicely to 45-50% of pre-COVID-19 levels, despite borders of North Asian markets, where most revenues are generated, still being closed. The segment has seen greater traction for 5G subscribers (ARPU uplift of SGD10-15) which rose 2.4x from Sep 21 to Mar 22 to 480k (17% of postpaid subs) on healthy 5G migration and robust network coverage (more than 95% nationwide). Key drivers of growth are expected to be: 1) increasing 5G adoption, 2) increasing home related spending, unlocking synergies in dash app (100,000 active users) and 3) boosting customer service with loyalty programs

Optus

Optus produced strong FY22 growth with net additions at 273k (+3% YoY) and EBIT of AUD249m (+32% YoY). Optus believes that the Australian telco market recovery is emerging with postpaid pricing rising to AUD59 (FY21: AUD55) and border reopenings increasing the number of travellers around the world. However, there is increasing pricing competition from the tier-2 players while the network merger of Telstra & TPG would make the market less competitive increasing pricing and reducing service quality.

Next Growth Engine: NCS

NCS is the market leader in IT services in Singapore and Southeast Asia, achieving EBITDA of SGD70m in Q1FY23. NCS aims to grow across 3 areas: client industries, services and geographies. While expanding into Australia through recent acquisitions, the company focuses on bringing value in digital, data, cloud and platform holistically as NCS Next. Today, the company has about 12,000 regional staff and it plans to grow its talent pool to 20,000 in 4 years through acquisition in lower cost locations such as Vietnam and India. EBIT is expected to grow more slowly in the next couple of years, purchase price allocation and goodwill will take a hit on the P&L with recent acquisitions in Australia.

Next growth engine: Regional Data Centre

Singtel Data Centre owns 60MW of capacity generating more than SGD250m revenue and SGD450m of EBITDA in FY22. Holding another 60MW in the pipeline in the next 3 years, there appears to be an attractive DC opportunity, growing 18% pa with highest demand growth in Thailand, Indonesia and Singapore. The segment aims to leverage its operational experience in Singapore to develop strategic partnerships in the region. Recently, its JV with GULF as well as AIS to establish a data center in Thailand, committed to deliver more than 100MW of capacity. It aims to break ground on its first DC in 2023 to become fully operational by FY24/25. The segment is also exploring buildout of DCs in Indonesia by partnering with its associates Telkomsel.

Regional Associates

AIS

AIS guided low single-digit FY22 (-2%) growth with flat to slightly declining EBITDA due to heightened inflation risk and increasing utilities cost pressures. Green shoots from fixed broadband and enterprise non-mobile growth momentum are expected to outpace industry growth. The company will invest about THB30b with the bulk used for 5G investment and around THB5-6b allocated to expanding broadband and enterprise businesses. This is done on the back of ongoing cost savings initiatives (network and back office operations) to become more efficient in capital allocation. AIS has proposed to buy 99.87% of Triple T broadband company (TTTBB) and 19% of JASIF for THB32b. The proposal is undergoing regulatory approval around the end of this year and is expected to be concluded at the beginning of next year. This acquisition will help to expand the scale of AIS' broadband business with better customer engagement especially in country areas.

TTTBB - Triple T Broadband, wholly owned subsidiary of JAS

Jasmine International (JAS TB, CP THB 2.40, NR)

Jasmine Broadband Internet Infrastructure Fund (JASIF TB, CP THB8.70, HOLD, TP THB8.10)

Bharti Airtel

Reliance Jio was the top bidder in next generation of 5G services through an auction exercise followed by Bharti Airtel. Bharti Airtel has enough spectrum to maintain market share in a 4-player telco market which includes two weak telcos. Adani Networks which also bid for a small quantity of 5G spectrum will use it to create a private network to support its businesses from airports to power as well as data centres. We believe Bharti Airtel will continue its growth momentum with the tariff hike, the 2G to 4G switch and launch of 5G services. Strong turnaround in Airtel is expected to continue, led by robust operating improvement in India and Africa. Bharti believes that another round of price hikes may be able to lift its ARPU by Rs30-40 (1QFY23: Rs183) and ROIC to 12-13% (1QFY23: 8-9%).

Telkomsel

Telkomsel believes that overall market competition is improving, pointing to healthy EBITDA and net income margin at 57.1% and 26.2%, respectively. This is supported by the Digital business as an engine of growth and accounted for 80% of total revenues. TSEL has identified different strategic initiatives through managing costs, network improvements, content bundling, CV stimulation & optimisation to improve customer loyalty and stickiness. Key focus for the company is to accelerate 5G device uptake and coverage capacity, developing more relevant use cases to increase traction in the manufacturing and infrastructure sectors.

Globe

GCash remains the No.1 finance app in the market, constantly surpassing active users of top digital players. As of Mar 2021, GCash had 66m registered users (+57.9% YoY), 5.2m merchant and social sellers (+2.7x YoY), 520 GLife merchant partners (+16x YoY) and around 339k cash-in, cash-out agents (+5.5x YoY). GCash was also able to record GTV of PHP535b, resulting in net profit of PHP922m in 1Q22 (PHP327m in equity gains for GLO). Profitability is expected to be sustained as GCash expands its fee income earnings segments and its lending business through GCredit and GLoan. GCash has also begun offering clients an easy way to trade cryptocurrency across popular exchanges.

FYE 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	25.9	25.5	17.0	14.9	13.4
Core P/E (x)	26.2	27.7	17.0	14.9	13.4
Core FD P/E (x)	26.3	27.7	17.0	14.9	13.4
P/BV (x)	1.5	1.6	1.5	1.5	1.4
P/NTA (x)	3.0	2.8	2.6	2.5	2.3
Net dividend yield (%)	3.1	3.5	4.1	4.7	5.2
FCF yield (%)	nm	11.7	7.5	6.4	8.6
EV/EBITDA (x)	14.4	15.8	12.7	11.7	11.1
EV/EBIT (x)	55.8	85.1	39.1	34.1	31.8
INCOME STATEMENT (SGD m)					
Revenue	15,427.8	14,915.3	16,035.6	16,383.2	16,557.0
EBITDA	3,616.8	3,343.3	4,041.9	4,269.7	4,366.5
Depreciation	(2,685.0)	(2,723.0)	(2,731.0)	(2,803.0)	(2,851.0)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	931.8	620.3	1,310.9	1,466.7	1,515.5
Net interest income / (exp)	(395.0)	(361.3)	(400.0)	(399.9)	(399.9)
Associates & JV	1,798.0	2,137.0	2,595.6	2,935.5	3,342.5
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	2,334.8	2,396.0	3,506.5	4,002.4	4,458.1
Income tax	(811.0)	(832.2)	(980.0)	(1,118.6)	(1,245.9)
Minorities	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	1,517.6	1,557.6	2,520.3	2,877.6	3,205.9
Core net profit	1,517.6	1,557.6	2,520.3	2,877.6	3,205.9
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	754.7	2,130.0	3,456.1	4,820.5	6,516.9
Accounts receivable	5,443.7	5,245.0	5,638.9	5,761.2	5,822.3
Inventory	271.6	270.0	320.7	327.7	331.1
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	11,534.1	10,892.0	10,823.0	10,948.0	10,497.0
Intangible assets	13,129.1	11,977.0	11,977.0	11,977.0	11,977.0
Investment in Associates & JVs	15,790.3	17,206.0	17,206.0	17,206.0	17,206.0
Other assets	1,074.9	1,412.0	1,412.0	1,412.0	1,412.0
Total assets	47,998.4	49,132.0	50,833.7	52,452.4	53,762.3
ST interest bearing debt	2,033.9	1,614.0	1,614.0	1,614.0	1,614.0
Accounts payable	6,784.8	6,402.0	7,352.0	7,511.4	7,591.1
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	10,825.6	10,254.0	10,245.4	10,245.6	10,245.6
Other liabilities	1,843.0	3,444.0	3,444.0	3,914.0	4,042.0
Total Liabilities	21,487.0	21,714.0	22,655.2	23,284.8	23,492.8
Shareholders Equity	26,485.8	27,433.0	28,189.6	29,174.3	30,274.1
Minority Interest	25.6	(15.0)	(15.0)	(15.0)	(15.0)
Total shareholder equity	26,511.4	27,418.0	28,174.6	29,159.3	30,259.1
Total liabilities and equity	47,998.4	49,132.0	50,833.7	52,452.4	53,762.3
CASH FLOW (SGD m)					
Pretax profit	2,334.8	2,396.0	3,506.5	4,002.4	4,458.1
Depreciation & amortisation	2,685.0	2,723.0	2,731.0	2,803.0	2,851.0
Adj net interest (income)/exp	(1,695.0)	(1,681.7)	(917.5)	(1,302.2)	(1,279.2)
Change in working capital	878.1	(104.9)	505.4	30.2	15.1
Cash taxes paid	0.0	0.0	0.0	0.0	0.0
Other operating cash flow	0.0	0.4	0.4	0.5	0.0
Cash flow from operations	4,031.2	3,332.4	5,825.4	5,533.3	6,045.0
Capex	(2,200.0)	2,217.0	(2,662.0)	(2,928.0)	(2,400.0)
Free cash flow	2,328.2	4,133.7	3,163.4	2,605.3	3,645.0
Dividends paid	(1,722.2)	(1,090.3)	(1,764.2)	(2,014.3)	(2,244.2)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(353.9)	(921.4)	665.6	720.3	358.2
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(244.9)	1,375.3	1,326.1	1,364.4	1,696.4

FYE 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	(6.7)	(3.3)	7.5	2.2	1.1
EBITDA growth	(10.6)	(7.6)	20.9	5.6	2.3
EBIT growth	(52.5)	(33.4)	111.3	11.9	3.3
Pretax growth	14.5	2.6	46.3	14.1	11.4
Reported net profit growth	41.3	2.6	61.8	14.2	11.4
Core net profit growth	41.3	2.6	61.8	14.2	11.4
Profitability ratios (%)					
EBITDA margin	23.4	22.4	25.2	26.1	26.4
EBIT margin	6.0	4.2	8.2	9.0	9.2
Pretax profit margin	15.1	16.1	21.9	24.4	26.9
Payout ratio	80.7	97.5	70.4	70.3	70.2
DuPont analysis					
Net profit margin (%)	9.8	10.4	15.7	17.6	19.4
Revenue/Assets (x)	0.3	0.3	0.3	0.3	0.3
Assets/Equity (x)	1.8	1.8	1.8	1.8	1.8
ROAE (%)	5.7	5.8	9.1	10.0	10.8
ROAA (%)	3.1	3.2	5.0	5.6	6.0
Liquidity & Efficiency					
Cash conversion cycle	na	na	na	na	na
Days receivable outstanding	128.4	129.0	122.2	125.3	125.9
Days inventory outstanding	na	na	na	na	na
Days payables outstanding	na	na	na	na	na
Dividend cover (x)	1.2	1.0	1.4	1.4	1.4
Current ratio (x)	0.7	0.9	1.0	1.1	1.3
Leverage & Expense Analysis					
Asset/Liability (x)	2.2	2.3	2.2	2.3	2.3
Net gearing (%) (incl perps)	45.7	35.5	29.8	24.1	17.7
Net gearing (%) (excl. perps)	45.7	35.5	29.8	24.1	17.7
Net interest cover (x)	2.4	1.7	3.3	3.7	3.8
Debt/EBITDA (x)	3.6	3.5	2.9	2.8	2.7
Capex/revenue (%)	14.3	nm	16.6	17.9	14.5
Net debt/ (net cash)	12,104.8	9,738.0	8,403.3	7,039.1	5,342.7

Source: Company; Maybank IBG Research

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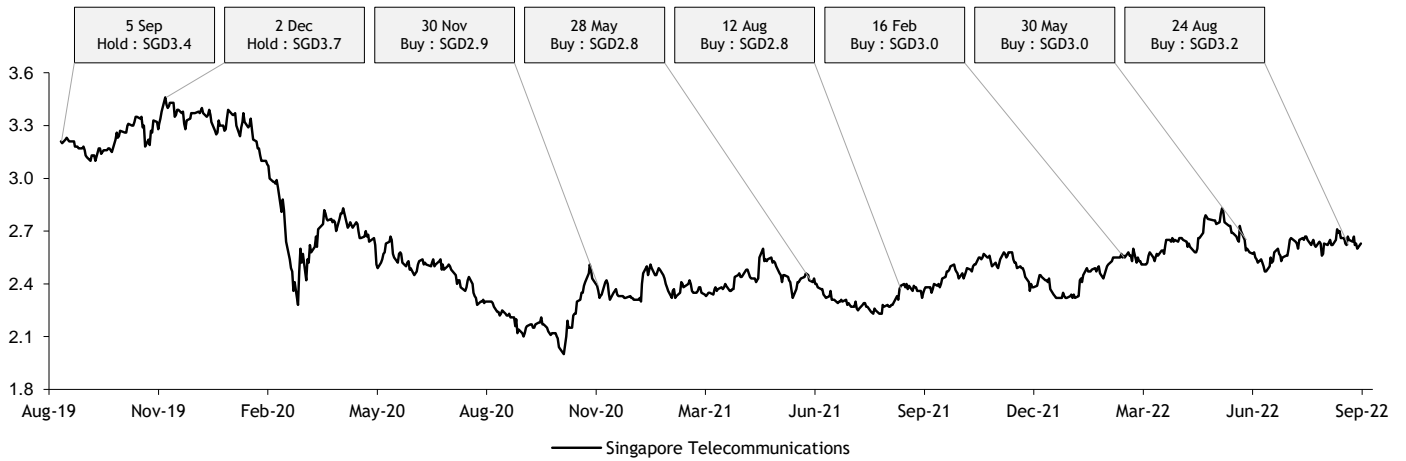
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