

Singapore Telecommunications (ST SP)

Minor speed bumps

1HFY23 missed consensus; Maintain BUY

1HFY23 PATMI at SGD1.2b (+23% YoY) missed our/consensus expectations, accounting for just 46% of full-year estimates. Bottomline growth was lifted by strong performance from Airtel and net exceptional gains of SGD165m in 1HFY23. Moving beyond provisions for the cyberattack on Optus and NCS' higher opex, we see further upside in roaming revenue, new growth engine potential and continued strong contribution from regional associates. Our FY23-25 forecasts for Singtel's core business are unchanged. Reiterate BUY and SOTP-based TP of SGD3.15 for Singtel, with 20% potential upside.

Earnings contribution from mobile segment and Airtel

The Group's 1HFY23 operating revenue and EBITDA fell 5.6% and 2.0% YoY, respectively, due to the absence of NBN migration revenue and contributions from Amobee. NCS' operating revenue (+18% YoY) was propelled by broad-based improvement across key lines of business. EBITDA, however, declined by 26% YoY, impacted by higher opex attributable to post-acquisition charges, as well as higher staff costs due to investments in digital capabilities to support business growth. Notably, contributions from regional associates' rose 11% YoY, driven by Airtel's continued momentum in India as it grew ARPU through higher usage and tariff hikes. This helped offset weakness experienced by other associates from higher depreciation, as they made investments in 5G and fibre, and sharp currency depreciation.

Addressing Optus' data breach

A provision of SGD142m has been made in 1HFY23 as an exceptional expense to address the cyberattack on Optus. Recent developments suggest Optus may need to pay regulators an additional AUD2.2m fine, based on Australia's Privacy Act. But we see little earnings impact, as Singtel has high operating cashflow of SGD2.7b as at 1H23. Amid steep interest rate hikes and a weaker outlook for the consumer business, we also expect some near-term impact on Optus' future cashflow. But Optus is committed to rebuilding trust among customers and reducing churn.

Providing sustainable dividends while improving ROIC

For 1H23, management has declared an interim ordinary dividend of 4.6 cents per share (76% of group's underlying profit) and issued a special dividend of 5.0 cents per share to distribute the benefits of asset-recycling initiatives. We see from historical data that ROIC has been tightly coupled with Singtel's share price. Management is committed to lift ROIC to a high single-digit within 2-3 years from 5% in FY22. We believe the Group is well-positioned to weather the headwinds given its robust financial position and SGD3.5b cash on hand, as at Sep22.

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	-	-	2,524	2,877	3,236
MKE vs. Consensus (%)	-	-	(0.2)	0.0	(0.9)

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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

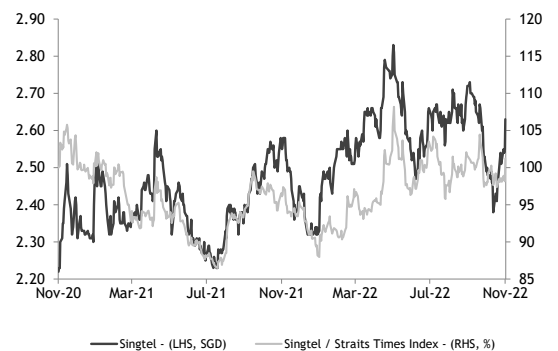
Statistics

52w high/low (SGD)	2.83/2.32
3m avg turnover (USDm)	49.7
Free float (%)	41.8
Issued shares (m)	16,515
Market capitalisation	SGD43.4B USD31.0B

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	6	(1)	3
Relative to index (%)	4	3	5

Source: FactSet

Glossary

NBN: National Broadband Network

ESG@MAYBANK IBG
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.

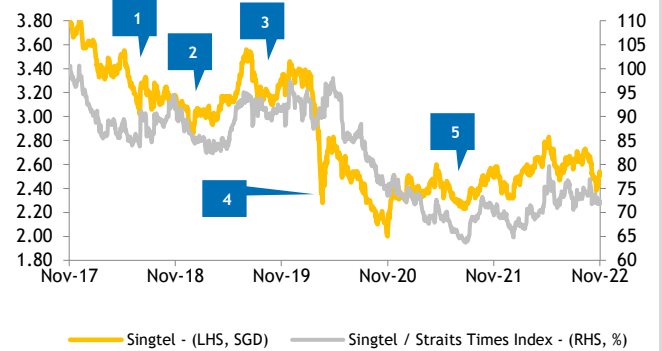
Singtel SOTP valuation

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
Telkomel (Indonesia)	35.0	70% of Market Cap listed Telkom	133,486,341	10,645	12,540	0.77	18%
Bharti Airtel (India)	31.7	DCF (9.4% WACC, 3% TG, 1.0 beta), mcap of africa and tower businesses	1,594,093	58.58	27,211	1.67	40%
AIS (Thailand)	23.3	DCF (7.5% WACC, 2% LTG, 0.95 beta)	171,099	26.70	6,408	0.39	9%
Globe (Philippines)	47.0	DCF (5.7% WACC, 1% LTG, 0.7 beta)	165,652	41.60	3,982	0.24	6%
Intouch (Thailand)	21.1	SOTP (AIS TP and mkt cap of THCOM TB)	47,691	26.70	1,786	0.11	3%
NetLink NBN Trust (Singapore)	24.8	DDM (COE 6%, 0% LTG, 0.5 beta)	986	1.00	986	0.06	1%
SngPost (Singapore)	21.7	Market Cap	256	1.00	256	0.02	0%
Sub Total					52,913	3.26	
Conglomerate Discount		25% discount				(0.8)	
Associates' Value					2.44	78%	
Total Equity Value					3.15	100%	

Source: Maybank IBG Research

Price Drivers

Historical share price trend



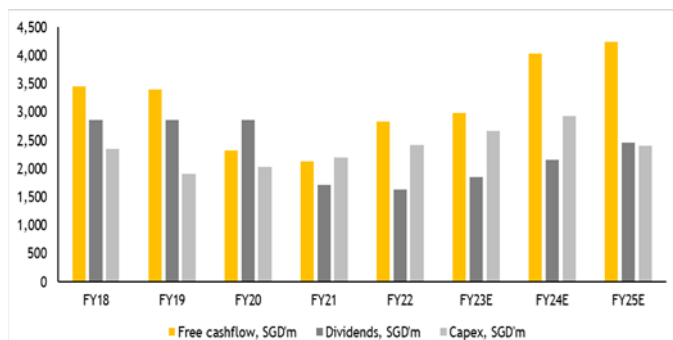
Source: FactSet, Maybank IBG Research

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 5.9% EBITDA CAGR over FY23-25E due to recovery following Covid-19.
- Pre-tax 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 major data breach in Optus 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).

Quantitative parameters (Score: 88)						
	Particulars	Unit	2020	2021	2022	Starhub (STH SP, FY22)
E	Scope 1	mtCO2e	0.006	0.007	0.006	0.0014
	Scope 2	mtCO2e	0.57	0.53	0.49	0.055
	Total	mtCO2e	0.58	0.54	0.50	0.056
	Scope 3	mtCO2e	0.18	7.9	7.3	0.01
	Total	mtCO2e	0.75	8.43	7.80	0.066
	Scope 1 emission intensity	tCO2e/MWh	0.0064	0.0095	0.0077	27.4
	Green energy share of capacity	%	21.5%	21.6%	22.5%	NA
	Net water consumption	m m ³	0.954	0.909	0.933	0.0058
	Use of recycled water instead of portable water	m m ³	0.192	0.238	0.287	NA
	Water Intensity	m ³ /SGDm	56	58	62	2.84
S	Total Hazardous and Non-Hazardous Waste	tons	8,541	4,921	3,952	81.5
	Customer E-waste Recycling	tons	70	50	41	73
	% of women in workforce	%	35.4%	54.8%	54.4%	42%
G	% of women in management roles	%	20%	28%	32%	20%
	Lost time injury frequency rate	number	0.4	0.4	0.3	3
	Group CEO salary as % of net profit	%	0.43%	0.43%	0.18%	0.18%
	Top 10 employees salary as % of profit	%	1.11%	2.97%	0.71%	1.2%
G	Independent director on board	%	70%	83%	85%	54%
	Women directors on board	%	40%	25%	31%	23%

Qualitative parameters (Score: 83)	
a)	is there an ESG policy in place and whether there is a standalone ESG Committee or is it part of Risk committee? <i>Yes, the group has established a Board Sustainability Committee chaired by the CEO. This is supported by Group Sustainability Council comprising of pillar heads. There are KPIs, business objectives, governance enablers and risks for each of the segments.</i>
b)	is the senior management salary linked to fulfilling ESG targets? <i>No</i>
c)	Does the company follow TCFD framework for ESG reporting? <i>Yes</i>
e)	Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured? <i>Yes, Singtel has developed full Scope 3 indirect GHG emissions inventory and baseline for operations in Singapore and Australia.</i>
f)	What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company? <i>Singtel has various carbon mitigation initiatives such as replacing chillers, replacing UPS and converting to energy efficient mobile base stations in Singapore.</i>
g)	Does carbon offset form part of the net zero/carbon neutrality target of the company? <i>Yes</i>

Target (Score: 80)		
Particulars	Target	Achieved
Singtel Group Scope 1 and 2 to reduce by 25% by 2025	25%	3.3%
Scope 3 target to reduce 30% by 2030	30%	Not disc.
Obtained a CDP rating of A-	A-	A-
Zero fatality and well-being score above 80%	80%	82%
One million digitally enabled persons and SMEs by 2025	1,000,000	740,000
Impact		
NA		
Overall score: 85		
As per our ESG matrix SingTel (ST SP) has an overall score of 85		

ESG score	Weights	Score	Final score
Quantitative	50%	88	44
Qualitative	25%	83	21
Target	25%	80	20
Total			85

As per our ESG assessment, Singtel displays a very high degree of transparency in its ESG disclosures. It is the only one amongst its peers that has high level of ESG quantitative targets. While we note some work is being carried out on reducing Scope 3 financed emissions, we believe further actions should be taken to meet the 2030 target. Singtel's overall ESG score is 85, which makes its ESG rating above average in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

1. 1HFY23 PATMI missed consensus

Singtel's headline 2Q23 net income of SGD1,170m (+22.6% YoY and -14% QoQ) missed Maybank IBG and consensus estimates at 46% of FY23E. The increase was lifted by net exceptional gains mainly from the partial disposal of the Group's direct stake in Airtel, the dilution of the Group's effective equity shareholding in Airtel as well as the tower sales at Telkomsel and Globe.

Fig 1: Quarterly P&L

	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	QoQ	YoY	%MKE YTD	% cons YTD	1HFY22	1HFY23	YoY
Operating revenue													
Singapore consumer	414	453	482	414	428	446	4%	-2%			867	874	1%
Optus	2024	1938	1981	1872	1944	1899	-2%	-2%			3923	3963	1%
Group Enterprise	612	633	650	628	613	651	6%	3%			1245	1264	2%
NCS	528	579	559	695	598	685	15%	18%			1107	1283	16%
Amobee	236	254	251	181	-	-	-	-			490	-	-
Trustwave	98	101	87	82	44	41	-7%	-59%			199	85	-57%
Group revenue	3798	3855	3913	3774	3584	3675	3%	-5%	45%	47%	7653	7259	-5%
EBITDA													
Singapore consumer	149	149	156	128	166	162	-2%	9%			298	328	10%
Optus	542	507	558	454	531	534	1%	5%			1038	1065	3%
Group Enterprise	271	271	284	265	274	270	-1%	0%			542	544	0%
NCS	84	63	71	83	70	40	-43%	-37%			147	110	-25%
Amobee	5	2	1	-11	-	-	-	-			7	-	-
Trustwave	-24	-26	-35	-30	-29	-29	0%	12%			-50	-58	16%
Corporate	-28	-34	-40	-38	-34	-39	15%	15%			-63	-68	8%
Group EBITDA	997	932	990	849	977	901	-8%	-3%	46%	47%	1929	1878	-3%
EBIT (excluding associates' contributions)													
Singapore consumer	74	79	85	43	91	82	-10%	4%			153	173	13%
Optus	67	43	97	5	85	79	-7%	84%			108	164	52%
Group Enterprise	183	182	191	170	183	178	-3%	-2%			365	361	-1%
NCS	63	42	50	59	48	5	-90%	-88%			105	53	-50%
Amobee	-11	-14	-17	-28	-	-	-	-			-25	-	-
Trustwave	-33	-34	-42	-36	-33	-34	3%	0%			-67	-67	0%
Corporate	-1	-37	-51	-53	-46	-49	7%	32%			-65	-89	37%
Group EBIT	312	261	313	159	328	251	-23%	-4%	44%	47%	598	579	-3%
Pre-tax contributions from regional associates													
Telkomsel	241	124	216	126	228	228	0%	84%			472	456	-3%
AIS	85	46	80	45	73	66	-10%	43%			160	139	-13%
Intouch	26	14	23	13	25	27	8%	93%			49	52	6%
Globe	99	37	48	49	95	77	-19%	108%			181	172	-5%
Bharti Telecom/ Airtel	64	-15	102	46	156	180	15%	nm			147	336	129%
Regional associates	514	533	469	279	577	580	1%	11%			1157	1047	-10%
Underlying PATMI	451	532	473	468	499	506	1%	-5%	40%	40%	983	1005	2%
PATMI	445	509	734	261	628	542	-14%	6%	46%	46%	954	1170	23%

Source: Company

For 1HFY23, the Group's operating revenue and EBITDA were down YoY by 5.1% and 2.6%, respectively, due to the absence of NBN migration revenue and contributions from Amobee, as well as a 4% depreciation of the Australian dollar. However, EBIT (excluding associates' contributions) rose 1.2% YoY as Amobee's loss was no longer consolidated and depreciation charges fell after the sale of ATN in November 2021.

Optus' operating revenue was up 1.0% YoY as growth across its mobile and fixed businesses offset the absence of NBN migration revenue. Mobile service revenue grew 2.0% YoY, driven by customer growth across all product segments, stronger roaming revenue from the continued recovery of international travel and price rises implemented towards the end of Sep22. As such, Optus' EBITDA and EBIT was up 2.5% YoY and 51.3% YoY, respectively. SGD142m provision was incurred to cover the cost of an external independent review, credit monitoring services and replacement cost of impacted customer identification documents. We noted that

regulatory cost was not included in this provision as management does not anticipate additional costs following the regulatory review.

In Singapore Consumer, mobile service revenue was up 9.8% YoY, lifted by higher roaming revenue and increased 5G adoption. Fixed broadband revenue increased from the rise in demand for higher speed 2Gbps fibre plans and increase in WiFi mesh equipment sales. As a result, robust growth in EBITDA (+10% YoY) on higher roaming revenue and content cost savings.

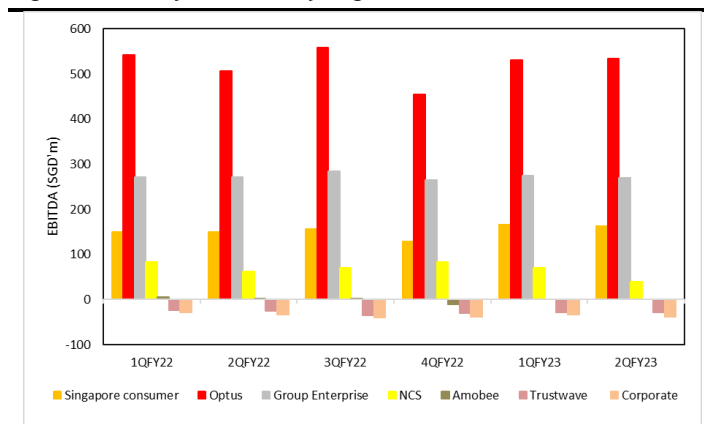
Group Enterprise’s operating revenue rose 1.6% year-on-year, with robust growth in ICT and mobile service revenues mainly lifted by the pass-through of utility charges to data centre customers and higher demand for cyber security services. Mobile service revenue grew by a strong 14%, boosted by higher roaming revenue from the easing of travel restrictions. EBITDA was stable as operating expenses were well-managed.

Major growth segment NCS operating revenue was up 20% as the performance was propelled by broad-based growth across key lines of business. Strong bookings of SGD1.3b were recorded in the first half year, boosted by a significant win in the enterprise sector, coupled with new wins and contract renewals in various sectors. However, EBITDA declined 26% due to higher opex from post-acquisition charges for its new Australian subsidiaries, as well as higher staff costs from investments in digital capabilities to support business growth.

Pre-tax contributions from the associates grew by 11% YoY and 1% QoQ respectively, impacted by the significant depreciations of the Thai Baht and Philippine Peso. Higher contributions from Airtel and Globe were partly offset by weaker performance from Telkomsel and AIS.

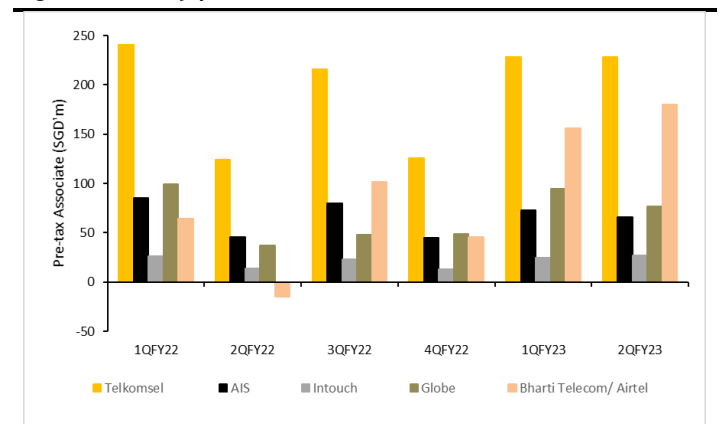
2. Quarterly trends and updates

Fig 2: Quarterly revenue by segment



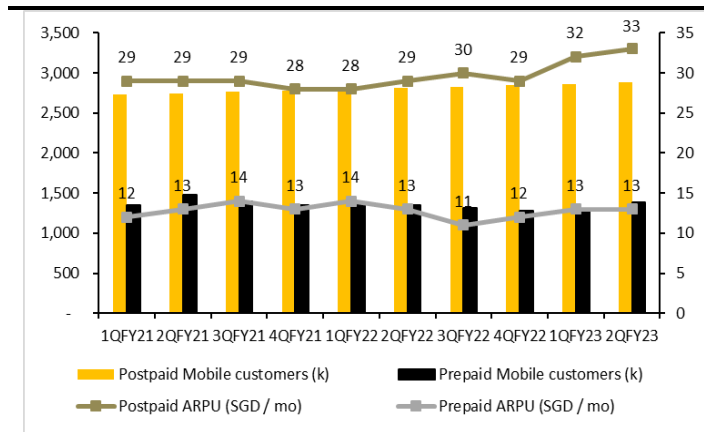
Source: Company

Fig 3: Quarterly pre-tax associate contribution



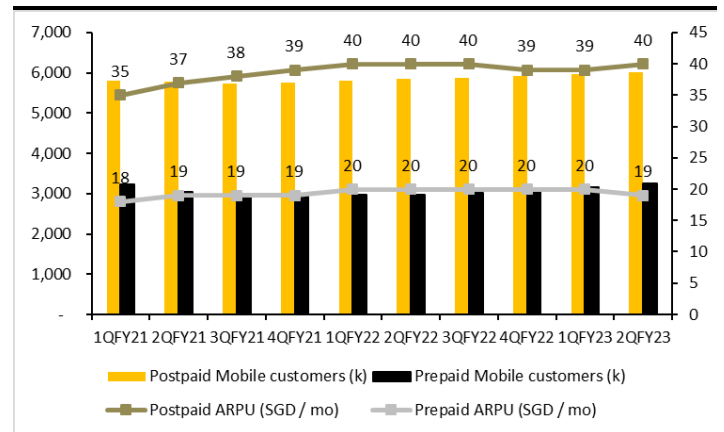
Source: Company

Fig 4: Singapore operating metrics



Source: Company

Fig 5: Australia (Optus) operating metrics



Source: Company

Fig 6: Quarterly operating metrics

	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	YoY	QoQ
Singapore											
Total Mobile (SGD 'm)	475	539	441	404	448	507	413	430	461	7%	3%
Mobile service revenue (SGD'm)	287	281	271	279	287	286	283	309	317	3%	10%
Postpaid											
Postpaid ARPU (SGD / mo)	29	29	28	28	29	30	29	32	33	3%	14%
Postpaid Mobile customers (k)	2,745	2,769	2,782	2,791	2,811	2,827	2,845	2,856	2,880	1%	2%
Prepaid											
Prepaid ARPU (SGD / mo)	13	14	13	14	13	11	12	13	13	0%	0%
Prepaid Mobile customers (k)	1,480	1,393	1,346	1,351	1,349	1,319	1,284	1,301	1,385	6%	3%
Pay TV											
Service revenue (SGD m)	51	51	51	51	50	49	46	44	35	-20%	-30%
Total subs (k)	377	375	375	371	368	362	356	343	333	-3%	-10%
Australia											
Total Mobile (AUD 'm)	1,225	1,511	1,312	1,266	1,245	1,320	1,245	1,248	1,315	5%	6%
Mobile service revenue (AUD 'm)	859	912	895	913	931	922	921	935	947	1%	2%
Postpaid											
Postpaid ARPU (SGD / mo)	37	38	39	40	40	40	39	39	40	3%	0%
Postpaid Mobile customers (k)	5,771	5,729	5,766	5,814	5,848	5,884	5,931	5,969	6,006	1%	3%
Prepaid											
Prepaid ARPU (SGD / mo)	19	19	19	20	20	20	20	20	19	-5%	-5%
Prepaid Mobile customers (k)	3,038	2,997	2,967	2,973	2,983	3,014	3,076	3,160	3,258	3%	9%

Source: Company

Fig 7: Updates on Singtel's associates

Country	Company	Market position (market share)	Stake (%)	Key Outlook/Driver	MKE rating
India	Bharti Airtel	No.2 in India (29%)	31.9	<ul style="list-style-type: none"> - Airtel Group continued its growth momentum, with double-digit increases in operating revenue and EBITDA, boosted by strong performances in both India and Africa partially offsetting fair value losses mainly from the devaluation of certain African currencies. - Bharti Airtel would continue its growth momentum with the tariff hike, switch from 2G to 4G and launch of 5G services. Strong turnaround in Airtel would lift associates' contributions, led by robust operating improvements in India and Africa. 	NR
Thailand	Advanced Info Service	No.1 in Thailand (44%)	23.3	<ul style="list-style-type: none"> - ADVANC reported 3Q22 net profit of THB6.0b (-5.4% YoY, -4.3% QoQ). Excluding after-tax FX loss of THB185m, 3Q22 core net profit was THB6.2b (-7.5% YoY, -2.6% QoQ), 0.8%/3.2% lower than our forecast/consensus' estimates. The profit was in-line with our forecast as lower-than-expected SG&A expenses offset the negative impact of weak revenue. Core service revenue was 1.1% lower than expected at THB33.1b (+1.0% YoY, -0.5% QoQ); mobile revenue, 88% of core service revenue, dropped by 0.3% YoY and 0.4% QoQ on the back of 157k net addition of subscribers and THB212/month ARPU (-5.2% YoY, -1.6% QoQ). 	BUY
Indonesia	Telkomsel	No.1 in Indonesia (59%)	35	<ul style="list-style-type: none"> - Growth at Telkomsel and AIS were hampered by weak macroeconomic conditions along with intense competition. - We think TLKM retained its growth momentum in 9M22: we forecast revenue at IDR110.8t (+4.5% YoY) - see Fig.1. We believe TLKM's customer base is less sensitive to fuel price hikes (medium-to-high segment), and TLKM benefited from its exposure to Central and Eastern Indonesia which have been buoyed by high coal (Kalimantan) and nickel prices (Sulawesi). In addition, its fibre-to-home (FTTH) service (IndiHome) is targeting the middle-upper income segments, with Java as a key region. - We are aware investments in the new economy may add pressure to net income via mark-to-market accounting; we thus focus on core-net income. We project TLKM's 9M22 core net income at IDR17.3t, or 65% of our FY22E forecast. We think digital infrastructure operations remain solid and believe TLKM can retain market leadership in Indonesia. 	BUY
Philippines	Globe Telecom	No.1 in the Philippines (47.0%)	46.9	<ul style="list-style-type: none"> - Globe's profit growth was fuelled by revenue growth with the reopening of the economy and higher equity accounted profits of its fintech joint venture, partially offset by higher depreciation and finance charges from accelerated network expansion and upgrades - Like its peers, GLO also saw slowdown in net adds in fixed-line, at 28.9k in 2Q22 (TEL: +66.7k, CNVRG: +30.6k) from 65k in 1Q22. The faster churn in wireless broadband (2Q22: -382k) reduced GLO's home revenues by 5% YoY in 1H22. To address this slowdown, GLO launched its prepaid broadband offering in Aug 2022, which offers fibre subscriptions for as low as PHP5/hour (see Hitting the brakes report). We think this complements GLO's mobile data offering, especially in the underserved rural areas. - GLO sold 5,709 of its towers for PHP71b (PHP12.4m/tower) in Aug, where it is estimated to book gains of PHP25.6b, a part of which will be deferred over the 15-year lease term. GLO was able to sell the final portfolio of 1,350 towers to Phil-Tower Consortium for PHP20b (PHP14.8m/tower). Post-deal, we expect GLO to book annual savings of c.PHP2b, as its tower lease fee of c.PHP9.2b is expected to offset c.PHP11.2b worth of O&M and depreciation expenses. We also expect interest cost savings of PHP1.3b/PHP2.7b for FY22/23E as the tower sale proceeds will be used to fund capex and reduce debt. 	BUY

Source: Maybank IBG Research

3. Maintain BUY and SGD3.15 TP

Reiterate BUY on Singtel, our top sector pick. Potential re-rating catalysts are: i) imposition of regulatory fine for Optus; ii) monetisation of the upcoming data centre/NCS; and iii) resumption of regional roaming revenue.

Fig 8: SOTP valuation

Valuation	Stake (%)	Valuation method	Valuation (LC)	Exch rate (SGD/LC)	Valuation (SGD m)	Per share (SGD)	% of total
SingTel Core 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%
Valuation	Stake (%)	Valuation method	Valuation (LC)	Exch rate (S\$/LC)	Valuation (SGD m)	Per share (SGD)	% of total
Associates							
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: FactSet, Maybank IBG Research

Fig 9: Singtel DCF

YE Mar (SGDm)	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
EBIT	787	880	909	830	767	724	677	628
Depreciation and amortisation	1,533	1,649	1,633	1,556	1,516	1,489	1,459	1,429
EBITDA	2,320	2,529	2,542	2,387	2,283	2,212	2,136	2,057
Change in WC	(99)	(102)	(103)	(105)	(105)	(105)	(105)	(105)
Tax paid	(259)	(282)	(284)	(266)	(255)	(247)	(238)	(229)
Capex	(922)	(948)	(959)	(976)	(973)	(974)	(975)	(976)
Unlevered FCF	1,040	797	787	783	781	886	866	866
PV of FCF	973	698	645	600	560	594	544	509
Total PV of FCF	6,231							
Terminal Value	12,590							
PV of Terminal Value	6,918							
Enterprise Value	13,150							
Less: net debt								
Equity Value	13,150							
Equity Value Per Share (SGD)	0.81							

Source: Maybank IBG Research

Fig 10: Optus DCF

YE Mar (SGDm)	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
EBIT	248	524	587	606	554	512	482	451
Depreciation and amortisation	1,302	1,198	1,154	1,218	1,167	1,207	1,234	1,264
EBITDA	1,550	1,722	1,740	1,824	1,720	1,719	1,717	1,715
Change in WC	(12)	605	132	118	86	102	29	36
Tax paid	(239)	(266)	(269)	(281)	(265)	(265)	(265)	(265)
Capex	3,084	(1,740)	(1,980)	(1,441)	(1,324)	(1,227)	(1,226)	(1,275)
Unlevered FCF	4,383	321	(375)	221	217	328	255	212
PV of FCF	4,135	286	(315)	175	162	232	170	133
Total PV of FCF	4,425							
Terminal Value	3,899							
PV of Terminal Value	2,143							
Enterprise Value	6,567							
Less: net debt								
Equity Value	6,567							
Equity Value Per Share (SGD)	0.40							

Source: Maybank IBG Research

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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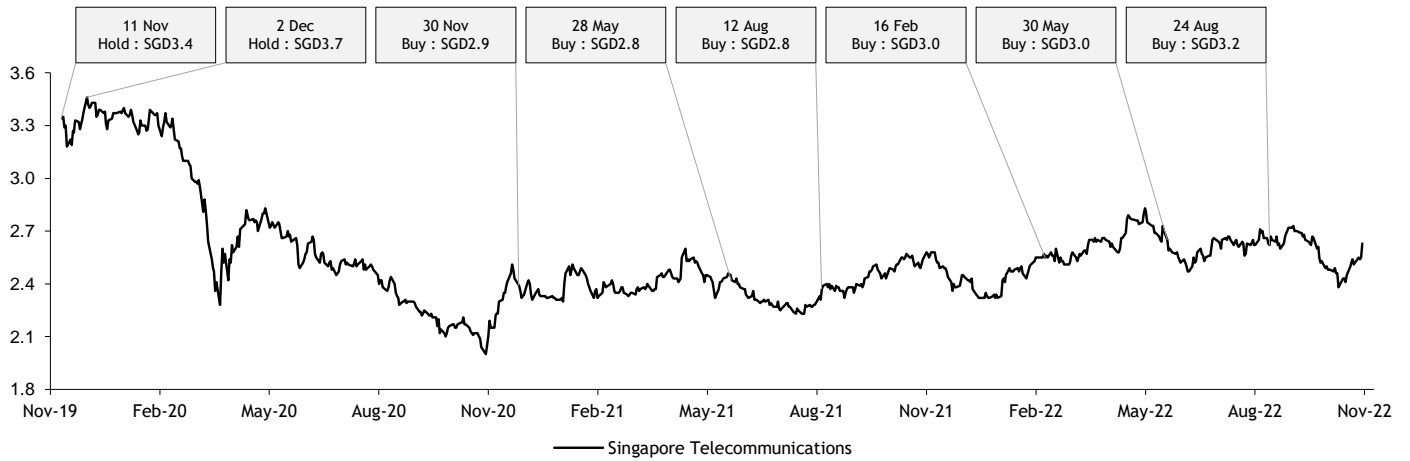
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Historical recommendations and target price: Singapore Telecommunications (ST SP)



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