

# Singapore Telecommunications (ST SP)

## Most robust telco in the region

### Leading communications tech group in Asia

Singtel is Asia's leading communications technology group, operating in a dynamic region that is undergoing rapid and unprecedented digital transformation. The company operates through Australia Optus (~50% of total revenue), Digital InfraCo (3%), NCS (20%) and Singapore Singtel (27%). We think Singtel is making significant strides in restructuring the entire group, monetising assets and shedding unprofitable entities. Concerns about the competitive landscape in Australia and FX headwinds that may impact underlying profits remain. BUY with SOTP-based TP of SGD3.10.

### Recovery in core operating profit in FY24

We forecast FY24E core FDEPS growth of 17%. There are 2 key drivers for Singtel's profit growth in FY24E. Firstly, Optus in Australia has raised the tariffs of legacy mobile plans (Aug'23) and fixed-broadband plans (Nov'23). Optus raised prices of entry-level postpaid mobile plans by 60% to AUD49/month from AUD30/month. Secondly, Telstra, Optus' key competitor, has raised its mainstream postpaid plans by AUD6/month to AUD58/month (vs Optus' current price of AUD49/month) in Jul'23, leading us to expect Optus to follow suit in the next few months.

### Low double-digit ROIC by FY26E

Singtel's management is committed to improve ROIC (which is closely tied to its share price performance) to low double-digits by FY26 (FY23: 8%) by: a) increasing cost synergies, particularly from the recent consolidation of its enterprise and consumer businesses at both Singtel and Optus; b) reducing its capital intensity further through better management of 5G rollout and more prudent spending; c) leveraging on positive price momentum in Airtel to increase ARPU; and d) unlocking value from asset recycling and capital partnerships to fund growth investments.

### Monetizing assets to protect shareholders' value

Singtel expects to recycle up to SGD6b in capital to fund its growth engines (data centre, GXS and NCS). The group will receive SGD1.1b cash proceeds within three years from selling 20% of its RDC business to KKR, and SGD800m net proceeds from the Comcentre development in FY25E. This would leave Singtel with SGD4b in capital recycling likely from paring down stakes in regional associates (valued at SGD49b) in the medium term. Coupled with a programme to reduce indirect costs by 15% within 3 years, we think excess cash may help the group reach the higher end of its 70-90% underlying PATMI dividend pay-out ratio policy.

FYE Mar (SGD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	13,975	14,624	15,064	15,471	15,888
EBITDA	2,403	3,686	3,858	4,088	4,315
Core net profit	944	2,053	2,399	2,701	3,103
Core FDEPS (cts)	5.8	12.6	14.7	16.5	19.0
Core FDEPS growth(%)	(37.8)	117.5	16.8	12.6	14.9
Net DPS (cts)	9.3	11.3	12.9	13.8	14.3
Core FD P/E (x)	45.7	19.6	16.1	14.3	12.4
P/BV (x)	1.6	1.5	1.4	1.3	1.2
Net dividend yield (%)	3.5	4.6	5.4	5.8	6.1
ROAE (%)	3.5	8.3	8.8	9.3	10.1
ROAA (%)	1.9	4.3	5.1	5.6	6.2
EV/EBITDA (x)	22.0	13.4	12.0	10.9	10.0
Net gearing (%) (incl perps)	35.5	35.5	27.9	20.7	14.8
Consensus net profit	-	-	2,370	2,751	3,105
MIBG vs. Consensus (%)	-	-	1.2	(1.8)	(0.1)

Kelvin Tan  
kelvin.tan1@maybank.com  
(65) 6231 5837

# BUY

Share Price	SGD 2.36
12m Price Target	SGD 3.10 (+31%)
Previous Price Target	SGD 3.10

### Company Description

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

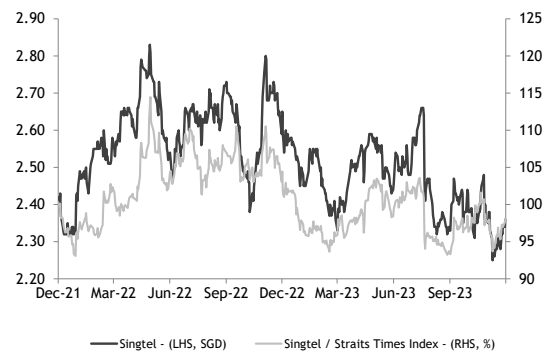
### Statistics

52w high/low (SGD)	2.66/2.25
3m avg turnover (USDm)	35.7
Free float (%)	41.8
Issued shares (m)	16,515
Market capitalisation	SGD39.0B
	USD29.0B

### Major shareholders:

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

### Price Performance



	-1M	-3M	-12M
Absolute (%)	0	1	(9)
Relative to index (%)	1	5	(4)

Source: FactSet

### Definitions

NCS: National Computer System  
RDC: Regional Data Centre

### Other companies mentioned

Telkomsel: Telkom Indonesia (TLKM IJ, CP: IDR3550, BUY, TP: IDR5000)  
Bharti Airtel: BHARTI IN, CP: INR1031, NR  
AIS: Advanced Info Service (ADVANC TB, CP: THB221, BUY, TP: THB251)  
Globe: GLO PM, CP: P1730, BUY, TP: P2470  
Indosat Ooredoo: ISAT IJ, CP: IDR9575, BUY, TP: IDR11500

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## 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 80%. Proceeds from sale of non-core assets are partly committed to exceptional payouts.

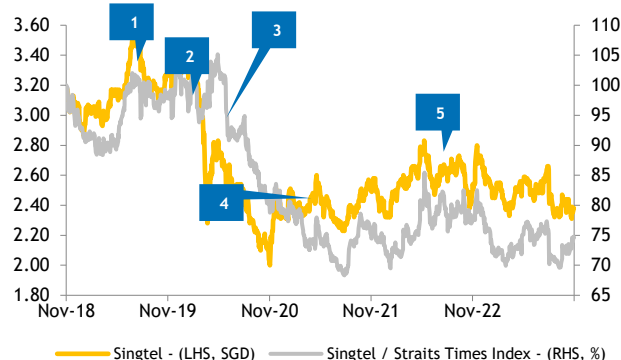
### Singtel SOTP valuation

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)	19,656	1.00	19,656	1.20	
(Less) Consol Net Debt						-7,861	-0.48
Sub Total						11,796	0.62 20%
Associates	Stake (%)	Valuation method	Valuation (LC)	Exch rate (SGD/LC)	Valuation (SGD m)	Per share (SGD)	% of total
Telkomcel (Indonesia)	35.0	70% of Market Cap listed Telkom	121,351,220	11,277	10,761	0.66	16%
Bharti Airtel (India)	29.4	DCF (9.4% WACC, 3% TG, 1.0 beta), mcap of africa and tower businesses	1,467,003	61.22	23,963	1.47	36%
AIS (Thailand)	23.3	DCF (7.5% WACC, 2% LTG, 0.956 beta)	173,870	26.10	6,662	0.41	10%
Globe (Philippines)	46.8	DCF (5.7% WACC, 1% LTG, 0.7 beta)	153,743	41.66	3,690	0.23	5%
Intouch (Thailand)	25.0	SOTP (AIS TP and mkt cap of THCOM TB)	66,284	26.10	2,540	0.16	4%
NetLink NBN Trust (Singapore)	24.8	DDM (COE 6%, 0% LTG, 0.5 beta)	937	1.00	937	0.06	1%
SingPost (Singapore)	21.7	Market Cap	227	1.00	227	0.01	0%
Sub Total					48,553	2.99	
Conglomerate Discount		20% discount				(0.4)	
Associates' value						2.48	80%
<b>Total Equity Value</b>						<b>3.10</b>	<b>100%</b>

Source: Maybank IBG Research

## Price Drivers

### Historical share price trend



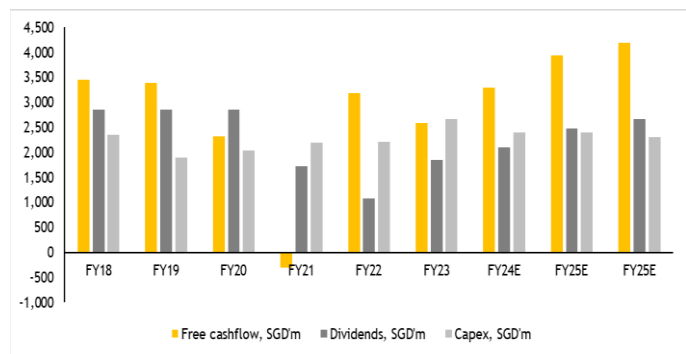
Source: FactSet, Maybank IBG Research

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 COVID-19 and structural challenges brought about by intense market competition.

## Financial Metrics

- We forecast 5.9% EBITDA CAGR over FY24-26E 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 (BHARTI IN, NR, CP: INR935.95) 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 FY24-26E; 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 positive to 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

- Intensifying price competition in Australia affecting ARPU
- Potential large fines levied on Optus due to signal disruption
- FX headwinds impacting Optus and associates

kelvin.tan1@maybank.com

Risk Rating & Score <sup>1</sup>	18.5
Score Momentum <sup>2</sup>	-0.0
Last Updated	16 Dec 2021
Controversy Score <sup>3</sup> (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 breaches at 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.

<sup>1</sup>**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. <sup>2</sup>**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. <sup>3</sup>**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).

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Quantitative Parameters (Score: 85)						
	Particulars	Unit	2021	2022	2023	Starhub (STH SP, FY23)
E	Scope 1	mtCO2e	0.007	0.006	0.006	0.0014
	Scope 2	mtCO2e	0.53	0.490	0.433	0.055
	<b>Total</b>	<b>mtCO2e</b>	<b>0.54</b>	<b>0.500</b>	<b>0.439</b>	<b>0.056</b>
	Scope 3	mtCO2e	7.9	7.300	3.568	0.01
	<b>Total</b>	<b>mtCO2e</b>	<b>8.43</b>	<b>7.800</b>	<b>4.007</b>	<b>0.066</b>
	Scope 1 emission intensity	tCO2e/MWh	0.0095	0.008	0.003	27.4
	Green energy share of capacity	%	0.43%	5.74%	7.28%	NA
	Net water consumption	m m <sup>3</sup>	0.909	0.933	0.933	0.0058
	Use of recycled water instead of portable water	m m <sup>3</sup>	0.238	0.287	0.354	NA
	Water Intensity	m3/SGDm	58	62	71	2.84
	Total Hazardous and Non-Hazardous Waste	tons	4,921	3,952	4,284	81.5
S	% of women in workforce	%	0.34%	0.3%	0.3%	42%
	% of women in management roles	%	28%	32.0%	31.0%	20%
	Lost time injury frequency (LTIF) rate	number	0.4	1.3	0.8	3
G	Group CEO salary as % of net profit	%	0.43%	0.18%	0.06%	0.18%
	Top 10 employees salary as % of profit	%	2.97%	0.71%	0.63%	1.2%
	Independent director on board	%	83%	85%	86%	54%
	Women directors on board	%	25%	31%	29%	23%

Qualitative Parameters (Score: 83)	
a) Is there an ESG policy in place and is there a standalone ESG Committee or is it part of the risk committee?	<i>Yes, the group has established a Board Sustainability Committee chaired by the CEO. This is supported by the 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 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%	11%
Scope 3 target to reduce 30% by 2030	30%	56%
Obtained a CDP rating of A-	A-	A-
Zero fatality and well-being score above 80%	80%	79%
One million digitally enabled persons and SMEs by 2025	1,000,000	740,000
<b>Impact</b>		
NA		
<b>Overall Score: 85</b>		
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
<b>Total</b>			<b>85</b>

As per our ESG assessment, Singtel displays a very high degree of transparency in its ESG disclosures. It is the only operator among its peers that has a 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. Quarterly P&L and business update

Fig 1: Quarterly P&L (SGD m)

	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	QoQ	YoY	%MIBG YTD	% cons YTD
<b>Operating revenue</b>										
Singapore consumer	428	446	497	444	937	957	2%	nm		
Optus	1944	1899	1905	2185	1785	1787	0%	-6%		
Digital InfraCo	613	651	645	647	103	100	-3%	-85%		
NCS	598	685	676	769	681	716	5%	5%		
Trustwave	44	41	40	-	38	38	0%	-7%		
<b>Group revenue</b>	<b>3584</b>	<b>3675</b>	<b>3713</b>	<b>3653</b>	<b>3488</b>	<b>3541</b>	<b>2%</b>	<b>-4%</b>	<b>47%</b>	<b>47%</b>
<b>EBITDA</b>										
Singapore consumer	166	162	175	151	382	366	-4%	126%		
Optus	531	534	474	549	456	461	1%	-14%		
Digital InfraCo	274	270	280	271	62	51	-18%	-81%		
NCS	70	40	51	94	75	62	-17%	55%		
Trustwave	-29	-29	-32	-	-	-23	-	-		
Corporate	-34	-39	-28	-28	-25	-32	28%	-18%		
<b>Group EBITDA</b>	<b>977</b>	<b>901</b>	<b>911</b>	<b>897</b>	<b>902</b>	<b>885</b>	<b>-2%</b>	<b>-2%</b>	<b>46%</b>	<b>47%</b>
<b>EBIT (excluding associates' contributions)</b>										
Singapore consumer	91	82	99	59	239	210	-12%	156%		
Optus	85	79	61	62	56	70	25%	-11%		
Digital InfraCo	183	178	189	164	27	15	-44%	-92%		
NCS	48	5	23	63	51	42	-18%	740%		
Trustwave	-33	-34	-36	-	-29	-27	-	-		
Corporate	-46	-49	-37	-37	-45	-30	-33%	-39%		
<b>Group EBIT</b>	<b>328</b>	<b>251</b>	<b>288</b>	<b>245</b>	<b>300</b>	<b>280</b>	<b>-7%</b>	<b>12%</b>	<b>45%</b>	<b>48%</b>
<b>Pre-tax contributions from regional associates</b>										
Telkomsel	228	228	210	196	219	212	-3%	-7%		
AIS	73	66	81	77	81	90	11%	36%		
Intouch	25	27	32	29	32	36	13%	33%		
Globe	95	77	51	78	70	71	1%	-8%		
Bharti Telecom/ Airtel	156	180	184	174	182	195	7%	8%		
<b>Regional associates</b>	<b>577</b>	<b>580</b>	<b>557</b>	<b>573</b>	<b>583</b>	<b>612</b>	<b>5%</b>	<b>6%</b>		
<b>Underlying PATMI</b>	<b>499</b>	<b>506</b>	<b>559</b>	<b>536</b>	<b>571</b>	<b>550</b>	<b>-4%</b>	<b>9%</b>	<b>47%</b>	<b>47%</b>
<b>PATMI</b>	<b>628</b>	<b>542</b>	<b>532</b>	<b>498</b>	<b>483</b>	<b>1653</b>	<b>242%</b>	<b>205%</b>	<b>89%</b>	<b>89%</b>

Source: Company

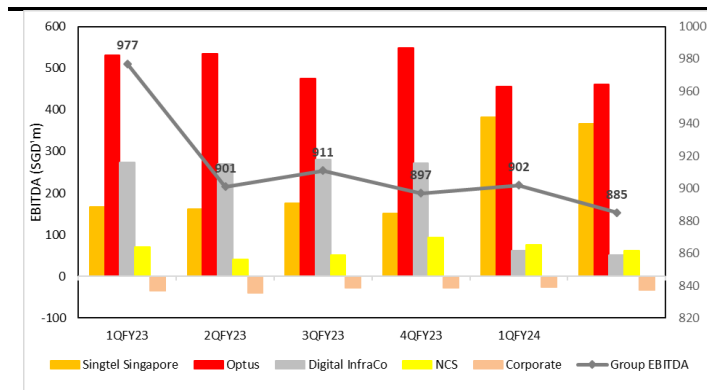
- 1H24 operating revenue and EBITDA fell 3.2% and 4.8% YoY, respectively, due to 8% depreciation in the Australian dollar. With a higher net exceptional gain mainly from the dilution of Singtel's equity interest in Telkomsel, net profit grew 83% to SGD2.14b.
- Overall Optus' operating revenue was up 1.4%, led mainly by its mobile business. Mobile service revenue increased 3.4%, driven mainly by customer growth, higher postpaid ARPU and increased content revenue from the FIFA Women's World Cup. EBITDA fell 3.2% YoY mainly due to increases in cost of goods sold, content rights and energy costs.
- Singtel's Singapore operating revenue fell 3.3% YoY due to a sharp decline in ICT revenue as businesses held back spending amid weak sentiment. Mobile service revenue grew 2.3%, lifted by customer

growth, higher roaming and 5G services despite increased data price competition and a shift in the market to lower-end plans. EBITDA for 1HFY24 was steady (-1.2% YoY) on roaming recovery and costs discipline.

- NCS continued its strong growth momentum in 1H24. Robust bookings of SGD1.4b were recorded, boosted by new wins and contract renewals in various sectors. With higher operating revenue and concerted cost optimisation efforts, EBITDA rose 24% as margins improved.
- Digital InfraCo’s operating revenue rose by a strong 13%, mainly from its data centre business, which benefited from price increases as well as fees earned from project-based satellite deployment services. EBITDA was up 4.7% as revenue growth was partly offset by higher staff and administrative expenses.
- Regional associates’ pre-tax contributions rose 3.3% YoY, driven by Airtel (+24% YoY) and AIS (+22.6% YoY), which partially offset Globe’s weaker results as well as GX Bank’s start-up losses.

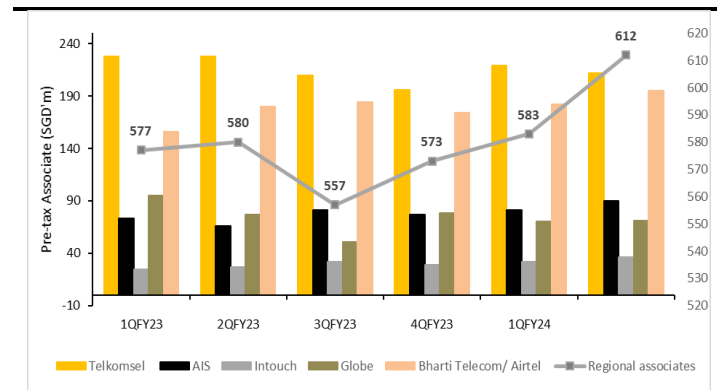
## 2. Quarterly operating metrics

Fig 2: Quarterly revenue by segment



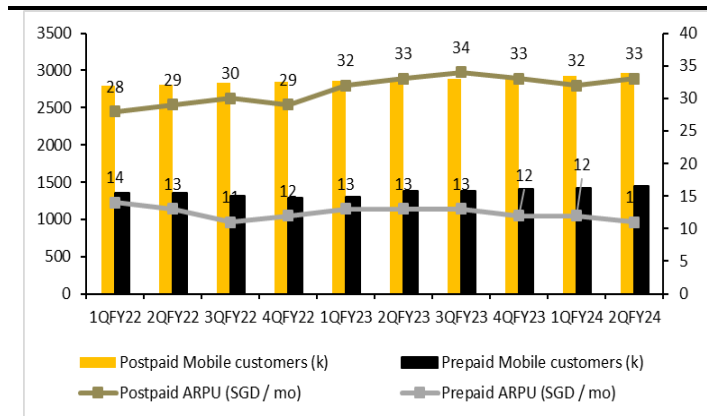
Source: Company

Fig 3: Quarterly pre-tax associate contribution



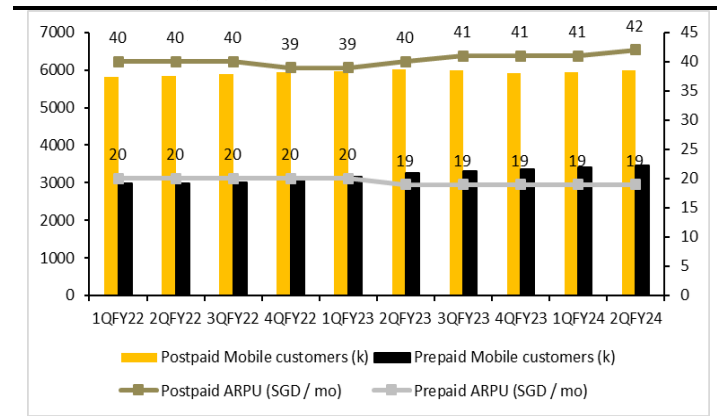
Source: Company

Fig 4: Singapore operating metrics



Source: Company

Fig 5: Australia (Optus) operating metrics



Source: Company



Fig 6: Quarterly operating metrics

	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	YoY	QoQ
<b>Singapore</b>								
Total Mobile (SGD 'm)	430	461	523	454	430	462	0%	7%
Mobile service revenue (SGD'm)	309	317	327	309	317	323	2%	2%
<b>Postpaid</b>								
Postpaid ARPU (SGD / mo)	32	33	34	33	32	33	0%	3%
Postpaid Mobile customers (k)	2856	2880	2888	2903	2931	2965	3%	1%
<b>Prepaid</b>								
Prepaid ARPU (SGD / mo)	13	13	13	12	12	11	-15%	-8%
Prepaid Mobile customers (k)	1301	1385	1385	1406	1421	1443	4%	2%
<b>Pay TV</b>								
Service revenue (SGD m)	44	35	40	34	35	36	3%	3%
Total subs (k)	343	333	328	322	317	320	-4%	1%
<b>Australia</b>								
Total Mobile (AUD 'm)	1248	1315	1396	1358	1282	1340	2%	5%
Mobile service revenue (AUD 'm)	935	947	963	952	961	986	4%	3%
<b>Postpaid</b>								
Postpaid ARPU (SGD / mo)	39	40	41	41	41	42	5%	2%
Postpaid Mobile customers (k)	5969	6006	5980	5923	5954	5985	0%	1%
<b>Prepaid</b>								
Prepaid ARPU (SGD / mo)	20	19	19	19	19	19	0%	0%
Prepaid Mobile customers (k)	3160	3258	3312	3348	3404	3456	6%	2%

Source: Company

### 3. Business overview and forecast

Singtel is the leading communication technology group in South East Asia. The company operates through Australia Optus (~50% of total revenue), Digital InfraCo (3%), NCS (20%) and Singapore Singtel (27%). Singtel maintains a presence in the region through significant ownership in other telcos that include Bharti Airtel (32.7% ownership) in India and Africa, Globe (49.8%) in the Philippines, AIS (47%) in Thailand, Optus (31.2%) in Australia and Telkomsel (50%) in Indonesia; these associates contribute over 75% of Singtel's annual profit.

For FY24E, we estimate Singtel's earnings to increase by 5-7% from last year given the successful integration of consumer and enterprise businesses in both Singapore and Australia, which will help drive cost benefits and deliver sustainable growth. We expect holdco discount to narrow to 15-20%, lead by a steady rise in its core operating profit through short-term and medium-term strategy to improve core operating profits, including the savings from the divestment of trustwave and rate tariff hikes in Optus for legacy, non-mobile and mainstream plans. There are 2 key drivers for Singtel's core operating profit in FY24. Firstly, we think tariff hikes in Optus would be a key contributor to Singtel's core profit. Optus raised prices for its legacy postpaid mobile plans effective from Aug'23 and national broadband network for new customers, effective from Nov'23. Considering Optus' key competitor, Telstra has raised its mainstream postpaid plans by AUD4-6 per month from Jul'23 onwards, we think Optus is also expected to raise prices for its mainstream postpaid plans in response over the next few months.

For FY25 and beyond, we think there would be potential consolidation in Singapore's mobile sector, which could aid further recovery in core operating profit in the medium term. Consolidation is required in Singapore as it offers advantages such as economies of scale, resulting in cost savings to fund both capital investments and operating expenditures. Southeast Asia's telecom industry is witnessing consolidation to improve operating efficiency and lowering net debt to EBITDA in order to channel resources into new investments, such as cloud, IoT and data centres. For instance, the merger between Indonesia's Indosat Ooredoo and Hutchison Indonesia saw the elimination of aggressive pricing and now the industry is witnessing improving ARPU and EBITDA margin. Hence it is about time the Singapore market goes through consolidation to further enhance 5G investments and experiences.

## 4. BUY with SOTP-based TP of SGD3.10

Our fair value for SingTel's core business is SGD0.62 per share. We value SingTel's regional associates at SGD2.48 per share. We apply a 20% holding company discount to reflect a gradual recovery in the core business. We retain our Buy rating and SOTP-based TP of SGD3.10.

Fig 7: SOTP valuation

Company	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)	19,656	1.00	19,656	1.20	
(Less) Consol Net Debt					-9,156	-0.56	
<b>Sub Total</b>					<b>10,500</b>	<b>0.62</b>	<b>21%</b>
	Stake (%)	Valuation method	Valuation (LC)	Exch rate (S\$/LC)	Valuation (SGD m)	Per share (SGD)	% of total
<b>Associates</b>							
Telkomsel (Indonesia)	35.0	70% of Market Cap listed Telkom	121,351,220	11,079	10,954	0.67	16%
Bharti Airtel (India)	31.7	DCF (9.4% WACC, 3% TG, 1.0 beta), mcap of Africa and tower businesses	1,675,689	61.36	27,308	1.67	40%
AIS (Thailand)	23.3	DCF (7.5% WACC, 2% LTG, 0.956 beta)	166,250	25.52	6,515	0.40	10%
Globe (Philippines)	47.0	DCF (5.7% WACC, 1% LTG, 0.7 beta)	153,275	41.33	3,709	0.23	5%
Intouch (Thailand)	21.1	SOTP (AIS TP and mkt cap of THCOM TB)	58,487	25.52	2,292	0.14	3%
NetLink NBN Trust (Singapore)	24.8	DDM (COE 6%, 0% LTG, 0.5 beta)	937	1.00	937	0.06	1%
SingPost (Singapore)	21.7	Market Cap	242	1.00	242	0.01	0%
<b>Sub Total</b>					<b>51,715</b>	<b>3.18</b>	
Conglomerate Discount		20% discount				(0.6)	
<b>Associates' value</b>						<b>2.48</b>	<b>79%</b>
<b>Total Equity Value</b>						<b>3.10</b>	<b>100%</b>

Source: FactSet, Maybank IBG Research



Fig 8: Singtel DCF

YE Mar (SGDm)	FY23	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E
EBIT	1,112	1,284	1,365	1,592	2,301	2,602	2,607	2,580	2,554
Depreciation and amortisation	831	820	876	832	834	836	838	840	842
EBITDA	1,943	2,104	2,241	2,424	3,134	3,438	3,445	3,420	3,396
Change in WC	(64)	(91)	(94)	(97)	(101)	(101)	(101)	(101)	(101)
Tax paid	(217)	(235)	(250)	(270)	(350)	(383)	(384)	(382)	(379)
Capex	(597)	(846)	(875)	(899)	(933)	(934)	(938)	(938)	(938)
<b>Unlevered FCF</b>	<b>1,065</b>	<b>797</b>	<b>787</b>	<b>783</b>	<b>781</b>	<b>886</b>	<b>866</b>	<b>866</b>	<b>866</b>
PV of FCF	1,065	746	689	641	599	635	581	544	509
Total PV of FCF		6,008							
Terminal Value		12,590							
PV of Terminal Value		7,394							
<b>Enterprise Value</b>		<b>13,403</b>							
Less: net debt									
<b>Equity Value</b>		<b>13,403</b>							
<b>Equity Value Per Share</b>		<b>0.82</b>							

Source: Maybank IBG Research

Fig 9: Optus DCF

YE Mar (SGDm)	FY23	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E
EBIT	445	514	546	637	920	1,041	1,043	1,032	1,022
Depreciation and amortisation	1,298	1,240	1,301	1,254	969	846	842	851	859
EBITDA	1,743	1,754	1,847	1,891	1,889	1,887	1,885	1,883	1,881
Change in WC	(1,117)	788	133	137	134	32	43	47	53
Tax paid	(269)	(271)	(285)	(292)	(291)	(291)	(291)	(291)	(290)
Capex	(1,673)	(1,554)	(1,525)	(1,401)	(1,267)	(1,266)	(1,312)	(1,262)	(1,162)
<b>Unlevered FCF</b>	<b>(1,316)</b>	<b>717</b>	<b>171</b>	<b>335</b>	<b>465</b>	<b>362</b>	<b>325</b>	<b>377</b>	<b>481</b>
PV of FCF	(1,316)	677	152	281	369	270	229	251	302
Total PV of FCF		1,216							
Terminal Value		8,028							
PV of Terminal Value		5,038							
<b>Enterprise Value</b>		<b>6,254</b>							
Less: net debt									
<b>Equity Value</b>		<b>6,254</b>							
<b>Equity Value Per Share</b>		<b>0.38</b>							

Source: Maybank IBG Research

## 5. Downside risks to our call

Downside risks to our call include: 1) intensifying price competition in Australia and Singapore affecting consumer ARPUs. In Australia, we see pre and postpaid entry price for MVNOs are at least 43% lower than the incumbent telcos. 2) Regarding the nationwide network outage, Optus' management intends to offer subscribers a "gesture of goodwill" but ruled out offering heavy discounts. 3) Continued strength in SGD vs AUD/other ASEAN currencies would likely remain a key near-term drag on earnings contribution to Singtel.

## 6. Key management

### **Yuen Kuan Moon (Group Chief Executive Officer)**

Mr Yuen Kuan Moon, 56, has been Group CEO of Singtel since 1 January 2021. That same year, he embarked on a strategic reset of the Group's businesses given the accelerated pace of digitalisation, due in part to the advent of the pandemic. Under his watch, Singtel has established 5G leadership and reinvigorated its core business while developing new growth engines by turning NCS into a regional tech services provider and forming a regional data centre business. He has also unlocked the latent value of Singtel's assets to recycle capital into higher growth areas. While pursuing business growth, Moon has championed people and sustainability with renewed vigour to help build diverse and inclusive communities.

Moon began his career at Singtel in 1993 and held several leadership roles in Marketing, Business Development and Sales. Prior to his appointment as Group CEO, Moon was CEO, Consumer Singapore, a post he had held since June 2012. He was also responsible for driving the Group's overall digital transformation as Group Chief Digital Officer from August 2018 to December 2020.

Moon holds a First-Class Honours degree in Engineering from the University of Western Australia and a Master of Science in Management from Stanford University.

### **Arthur Lang (Group Chief Financial Officer)**

Mr Arthur Lang, 51, was appointed Group Chief Financial Officer on 1 April 2021. He is responsible for Singtel Group's finance-related functions, including treasury, tax and investor relations and he also oversees the management of the Group's regional associates and its portfolio of strategic telecom investments. He also spearheads Singtel's efforts in GXS, the regional digital bank joint venture with Grab.

Arthur joined Singtel in January 2017 as CEO, International. Before joining Singtel, he was Group CFO of CapitaLand, where he also ran CapitaLand's real estate investment management business. He was awarded the Best CFO (Large Cap) at the 2015 Singapore Corporate Awards. Prior to CapitaLand, Arthur was at Morgan Stanley where he was Co-head of the Southeast Asia investment banking division and Chief Operating Officer of the Asia Pacific investment banking division.

Arthur has an MBA from the Harvard Business School and a BA in Economics (magna cum laude) from Harvard University.

### **Bill Chang (Chief Executive Officer, Digital InfraCo)**

Mr Bill Chang, 56, was appointed CEO, Digital InfraCo, Singtel's new standalone infrastructure unit, on 1 June 2023. Prior to that, Bill was CEO, Group Enterprise since 16 July 2012 and assumed the role of CEO, Regional Data Centre Business on 1 July 2022.

Bill joined Singtel in November 2005 as Executive Vice President of Corporate Business and subsequently became Managing Director, Business Group. Bill is the Chairman of the Singapore Institute of Technology's Board of Trustees and a board member of the Urban Redevelopment Authority of Singapore. He is also a member of the Australian Institute of Company Directors' International Advisory Technology Governance and Innovations Panel. He co-chaired the Future Jobs and Skills Sub-committee of the Committee on the Future Economy of Singapore from 2016 to 2017.

Bill graduated with a Bachelor of Engineering (Honours) in Electrical and Computer Systems Engineering from Monash University, Australia and attended the Harvard Business School's Advanced Management Program.

#### **Ng Kuo Pin (Chief Executive Officer, NCS)**

Mr Ng Kuo Pin, 53, was named CEO of NCS in August 2019. In January 2021, he was appointed to Singtel's Management Committee. Together with his team, he leads NCS in executing its new vision, one that is committed to advancing communities by partnering with governments and enterprises to harness technology and bringing people together to make the extraordinary happen. As a leading technology services firm, NCS aims to accelerate growth and build up a strategic presence in the Asia Pacific region.

Prior to joining NCS, he had a 25-year career at Accenture and spent nine years living and working in Beijing and Sydney. He started as an analyst in 1994 and was made partner in 2006. Between 2006 and 2018, he held several senior leadership roles within the global Communications, Media and Technology (CMT) operating group as Head of CMT Singapore, Head of CMT Greater China, and finally as Head of Consulting for CMT Asia Pacific, Africa and the Middle East.

Kuo Pin holds an Honours Degree in Engineering (Electrical and Electronics) from the Nanyang Technological University.

#### **Ng Tian Chong (Chief Executive Officer, Singtel Singapore)**

Mr Ng Tian Chong, 58, was appointed CEO of Singtel Singapore on 1 June 2023 to lead the consolidation of the consumer and enterprise businesses in Singapore into a singular operating company to drive growth, synergies and productivity at the country level. In this role, he oversees the delivery of Singtel's integrated suite of mobile, broadband and TV services as well as network solutions for both consumers and enterprises.

Prior to joining Singtel, Tian Chong spent more than 30 years at HP, where he held key positions in sales, finance, product management, service and support as well as marketing, across regional and country portfolios. He played a key role building HP to become the best-in-class player in the region and left the company as Senior Vice President and Managing Director of Greater Asia, with responsibility for all its go-to-market strategies and overall financial performance.

Tian Chong holds a Bachelor of Science in International Business from Menlo College in California and a Master's in Business Administration from Haas School of Business, University of California at Berkeley.

## Appendix I

Methodology of our proprietary ESG scoring.

We evaluate the ESG ratings based on quantitative, qualitative and ESG targets. We assign a score for each of these three parameters. The overall rating is based on the weighted average of the scores: quantitative (50%), qualitative (25%) and ESG target (25%).

For the quantitative, qualitative and ESG target, the sub-parameters are assigned a score - '0' for data not available, '+1' for improving trajectory, positive change, 'Yes', better than peers or a positive number if historical is not available and '-1' for declining trajectory, negative change, 'No', lower than peers or a negative number. The total of the scores of all the sub-parameters is divided by the total number of sub-parameters, to derive the score of each of the three parameters.

The sub-parameters may be different for different industries depending on the key areas to monitor for each industry. A company should achieve a minimum score of 50 for an average ESG rating.

FYE 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Metrics</b>					
P/E (reported) (x)	42.1	18.9	16.1	14.3	12.4
Core P/E (x)	45.7	19.6	16.1	14.3	12.4
Core FD P/E (x)	45.7	19.6	16.1	14.3	12.4
P/BV (x)	1.6	1.5	1.4	1.3	1.2
P/NTA (x)	2.8	2.7	2.2	2.1	1.9
Net dividend yield (%)	3.5	4.6	5.4	5.8	6.1
FCF yield (%)	nm	nm	10.6	10.6	9.3
EV/EBITDA (x)	22.0	13.4	12.0	10.9	10.0
EV/EBIT (x)	nm	44.4	36.1	32.7	27.1

**INCOME STATEMENT (SGD m)**

Revenue	13,975.0	14,624.0	15,063.7	15,471.0	15,887.9
EBITDA	2,403.0	3,686.0	3,858.2	4,088.5	4,315.3
Depreciation	(2,723.0)	(2,574.0)	(2,574.0)	(2,723.0)	(2,723.0)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	(320.0)	1,112.0	1,284.2	1,365.5	1,592.3
Net interest income / (exp)	(361.3)	(359.0)	(343.6)	(343.6)	(343.6)
Associates & JV	2,137.0	2,287.0	2,386.3	2,722.3	3,051.6
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	1,455.7	3,040.0	3,326.8	3,744.2	4,300.2
Income tax	(505.6)	(978.0)	(920.0)	(1,035.4)	(1,189.2)
Minorities	(6.2)	(8.0)	(8.0)	(8.0)	(8.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	943.9	2,225.0	2,398.8	2,700.8	3,103.0
Core net profit	943.9	2,053.0	2,398.8	2,700.8	3,103.0

**BALANCE SHEET (SGD m)**

Cash & Short Term Investments	2,130.0	1,668.0	3,032.4	4,728.8	6,229.9
Accounts receivable	5,245.0	5,013.0	5,163.7	5,303.4	5,446.2
Inventory	270.0	346.0	301.3	309.4	317.8
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	10,892.0	10,385.0	10,211.0	9,888.0	9,465.0
Intangible assets	11,977.0	10,990.0	10,990.0	10,990.0	10,990.0
Investment in Associates & JVs	17,206.0	15,522.0	15,522.0	15,522.0	15,522.0
Other assets	1,412.0	2,607.0	2,538.0	2,538.0	2,538.0
<b>Total assets</b>	<b>49,132.0</b>	<b>46,531.0</b>	<b>47,758.4</b>	<b>49,279.6</b>	<b>50,508.9</b>
ST interest bearing debt	1,614.0	983.0	983.0	983.0	983.0
Accounts payable	6,402.0	6,104.0	6,906.5	7,093.2	7,284.3
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	10,254.0	9,910.0	9,910.2	9,910.2	9,910.2
Other liabilities	3,444.0	3,520.0	2,496.0	2,763.0	2,686.0
<b>Total Liabilities</b>	<b>21,714.0</b>	<b>20,517.0</b>	<b>20,295.8</b>	<b>20,749.0</b>	<b>20,863.6</b>
Shareholders Equity	27,433.0	26,023.0	28,216.9	29,745.6	31,421.0
Minority Interest	(15.0)	(9.0)	(9.0)	(9.0)	(9.0)
<b>Total shareholder equity</b>	<b>27,418.0</b>	<b>26,014.0</b>	<b>28,207.9</b>	<b>29,736.6</b>	<b>31,412.0</b>
<b>Total liabilities and equity</b>	<b>49,132.0</b>	<b>46,531.0</b>	<b>47,758.4</b>	<b>49,279.6</b>	<b>50,508.9</b>

**CASH FLOW (SGD m)**

Pretax profit	1,455.7	3,040.0	3,326.8	3,744.2	4,300.2
Depreciation & amortisation	2,723.0	2,574.0	2,574.0	2,723.0	2,723.0
Adj net interest (income)/exp	(1,681.7)	(1,754.8)	(809.2)	(715.3)	(687.0)
Change in working capital	(104.9)	(1,181.0)	696.5	39.0	39.9
Cash taxes paid	0.0	0.0	0.0	0.0	0.0
Other operating cash flow	0.4	0.4	0.5	0.0	0.0
Cash flow from operations	2,392.0	2,678.2	5,788.1	5,790.8	6,376.1
Capex	(2,217.0)	(2,270.0)	(2,400.0)	(2,400.0)	(2,300.0)
Free cash flow	(1,240.7)	2,613.0	3,388.1	3,390.8	4,076.1
Dividends paid	(660.7)	(1,784.0)	(1,919.0)	(2,160.6)	(2,482.4)
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	(1,351.0)	(770.2)	(475.7)	508.0	245.4
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	1,375.3	(462.0)	1,364.4	1,696.4	1,501.1

FYE 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(9.4)	4.6	3.0	2.7	2.7
EBITDA growth	(33.6)	53.4	4.7	6.0	5.5
EBIT growth	nm	nm	15.5	6.3	16.6
Pretax growth	(37.7)	108.8	9.4	12.5	14.9
Reported net profit growth	(37.8)	135.7	7.8	12.6	14.9
Core net profit growth	(37.8)	117.5	16.8	12.6	14.9
<b>Profitability ratios (%)</b>					
EBITDA margin	17.2	25.2	25.6	26.4	27.2
EBIT margin	nm	7.6	8.5	8.8	10.0
Pretax profit margin	10.4	20.8	22.1	24.2	27.1
Payout ratio	160.8	83.1	87.5	83.3	75.3
<b>DuPont analysis</b>					
Net profit margin (%)	6.8	15.2	15.9	17.5	19.5
Revenue/Assets (x)	0.3	0.3	0.3	0.3	0.3
Assets/Equity (x)	1.8	1.8	1.7	1.7	1.6
ROAE (%)	3.5	8.3	8.8	9.3	10.1
ROAA (%)	1.9	4.3	5.1	5.6	6.2
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	na	na	na	na	na
Days receivable outstanding	137.7	126.3	121.6	121.8	121.8
Days inventory outstanding	na	na	na	na	na
Days payables outstanding	na	na	na	na	na
Dividend cover (x)	0.6	1.2	1.1	1.2	1.3
Current ratio (x)	0.9	1.0	1.1	1.3	1.5
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.3	2.3	2.4	2.4	2.4
Net gearing (%) (incl perps)	35.5	35.5	27.9	20.7	14.8
Net gearing (%) (excl. perps)	35.5	35.5	27.9	20.7	14.8
Net interest cover (x)	na	3.1	3.7	4.0	4.6
Debt/EBITDA (x)	4.9	3.0	2.8	2.7	2.5
Capex/revenue (%)	15.9	15.5	15.9	15.5	14.5
Net debt/ (net cash)	9,738.0	9,225.0	7,860.8	6,164.4	4,663.3

Source: Company; Maybank IBG Research



## Research Offices

### ECONOMICS

**Suhaimi ILIAS**  
Chief Economist  
Malaysia | Philippines | Global  
(603) 2297 8682  
suhaimi\_ilias@maybank-ib.com

**CHUA Hak Bin**  
Regional Thematic Macroeconomist  
(65) 6231 5830  
chuahb@maybank.com

**Dr Zamros DZULKAFI**  
Malaysia | Philippines  
(603) 2082 6818  
zamros.d@maybank-ib.com

**Erica TAY**  
China | Thailand  
(65) 6231 5844  
erica.tay@maybank.com

**Brian LEE Shun Rong**  
Indonesia | Singapore | Vietnam  
(65) 6231 5846  
brian.lee1@maybank.com

**Fatin Nabila MOHD ZAINI**  
(603) 2297 8685  
fatinnabila.mohdzaini@maybank-ib.com

**Luong Thu Huong**  
(65) 6231 8467  
hana.thuhoang@maybank.com

### FX

**Saktiandi SUPAAT**  
Head of FX Research  
(65) 6320 1379  
saktiandi@maybank.com

**Fiona LIM**  
(65) 6320 1374  
fionallim@maybank.com

**Alan LAU**  
(65) 6320 1378  
alanlau@maybank.com

**Shaun LIM**  
(65) 6320 1371  
shaunlim@maybank.com

### STRATEGY

**Anand PATHMAKANTHAN**  
ASEAN  
(603) 2297 8783  
anand.pathmakanthan@maybank-ib.com

### FIXED INCOME

**Winson PHOON, FCA**  
Head of Fixed Income  
(65) 6340 1079  
winsonphoon@maybank.com

**SE THO Mun Yi, CFA**  
(603) 2074 7606  
munyi.st@maybank-ib.com

### PORTFOLIO STRATEGY

**ONG Seng Yeow**  
(65) 6231 5839  
ongsengyeow@maybank.com

### MIBG SUSTAINABILITY RESEARCH

**Jigar SHAH**  
Head of Sustainability Research  
(91) 22 4223 2632  
jigars@maybank.com

**Neerav DALAL**  
(91) 22 4223 2606  
neerav@maybank.com

### REGIONAL EQUITIES

**Anand PATHMAKANTHAN**  
Head of Regional Equity Research  
(603) 2297 8783  
anand.pathmakanthan@maybank-ib.com

**WONG Chew Hann, CA**  
Head of ASEAN Equity Research  
(603) 2297 8686  
wchewh@maybank-ib.com

### MALAYSIA

**WONG Chew Hann, CA Head of Research**  
(603) 2297 8686  
wchewh@maybank-ib.com  
• Equity Strategy  
• Non-Bank Financials (stock exchange)  
• Construction & Infrastructure

**Anand PATHMAKANTHAN**  
(603) 2297 8783  
anand.pathmakanthan@maybank-ib.com  
• Equity Strategy

**Desmond CH'NG, BFP, FCA**  
(603) 2297 8680  
desmond.chng@maybank-ib.com  
• Banking & Finance

**ONG Chee Ting, CA**  
(603) 2297 8678  
ct.ong@maybank-ib.com  
• Plantations - Regional

**YIN Shao Yang, CPA**  
(603) 2297 8916  
samuel.y@maybank-ib.com  
• Gaming - Regional  
• Media • Aviation • Non-Bank Financials

**TAN Chi Wei, CFA**  
(603) 2297 8690  
chiwei.t@maybank-ib.com  
• Power • Telcos

**WONG Wei Sum, CFA**  
(603) 2297 8679  
weisum@maybank-ib.com  
• Property • Glove

**Jade TAM**  
(603) 2297 8687  
jade.tam@maybank-ib.com  
• Consumer Staples & Discretionary

**Nur Farah SYIFAA**  
(603) 2297 8675  
nurfarahsyifaa.mohamadfuad@maybank-ib.com  
• Renewable Energy • REITs

**LOH Yan Jin**  
(603) 2297 8687  
lohyanjin.loh@maybank-ib.com  
• Ports • Automotive • Technology (EMS)

**Jeremie YAP**  
(603) 2297 8688  
jeremie.yap@maybank-ib.com  
• Oil & Gas • Petrochemicals

**Arvind JAYARATNAM**  
(603) 2297 8692  
arvind.jayaratnam@maybank.com  
• Technology (Semicon & Software)

**TEE Sze Chiah Head of Retail Research**  
(603) 2082 6858  
szechiah.t@maybank-ib.com  
• Retail Research

**Nik Ihsan RAJA ABDULLAH, MSTA, CFTe**  
(603) 2297 8694  
nikmohdihsan.ra@maybank-ib.com  
• Chartist

**Amirah AZMI**  
(603) 2082 8769  
amirah.azmi@maybank-ib.com  
• Retail Research

### SINGAPORE

**Thilan WICKRAMASINGHE Head of Research**  
(65) 6231 5840  
thilanw@maybank.com  
• Banking & Finance - Regional  
• Consumer

**Eric ONG**  
(65) 6231 5849  
ericong@maybank.com  
• Healthcare • Transport • SMIDs

**Kelvin TAN**  
(65) 6231 5837  
kelvin.tan1@maybank.com  
• Telcos • Industrials

**LI Jialin**  
(65) 6231 5845  
jialin.li@maybank.com  
• REITs

**Jarick SEET**  
(65) 6231 5848  
jarick.seet@maybank.com  
• Technology

**Krishna GUHA**  
(65) 6231 5842  
krishna.guha@maybank.com  
• REITs

### PHILIPPINES

**Rachelleen RODRIGUEZ, CFA Head of Research**  
(63) 2 8849 8843  
rachelleen.rodriguez@maybank.com  
• Banking & Finance • Transport • Telcos  
• Utilities

**Daphne SZE**  
(63) 2 8849 8847  
daphne.sze@maybank.com  
• Consumer

**Alexa Mae CARVAJAL**  
(63) 2 8849 8838  
alexamae.carvajal@maybank.com  
• Consumer • Gaming • Property • REITs

### THAILAND

**Chak REUNGSINPINYA Head of Research**  
(66) 2658 5000 ext 1399  
chak.reungsinpinya@maybank.com  
• Strategy • Energy

**Jesada TECHAHUSDIN, CFA**  
(66) 2658 5000 ext 1395  
jesada.t@maybank.com  
• Banking & Finance

**Wasu MATTANAPOTCHANART**  
(66) 2658 5000 ext 1392  
wasu.m@maybank.com  
• Telcos • Technology • REITs • Property  
• Consumer Discretionary

**Surachai PRAMUALCHAROENKIT**  
(66) 2658 5000 ext 1470  
surachai.p@maybank.com  
• Auto • Conmat • Contractor • Steel

**Suttatip PEERASUB**  
(66) 2658 5000 ext 1430  
suttatip.p@maybank.com  
• Food & Beverage • Commerce

**Natchaphon RODJANAROWAN**  
(66) 2658 5000 ext 1393  
natchaphon.rodjanarowan@maybank.com  
• Utilities

**Boonyakorn AMORNANSANK**  
(66) 2658 5000 ext 1394  
boonyakorn.amornsank@maybank.com  
• Services

### INDONESIA

**Jeffrosenberg CHENLIM Head of Research**  
(62) 21 8066 8680  
jeffrosenberg.lim@maybank.com  
• Strategy • Banking & Finance • Property

**Willy GOUTAMA**  
(62) 21 8066 8500  
willy.goutama@maybank.com  
• Consumer

**Etta Rusdiana PUTRA**  
(62) 21 8066 8683  
etta.putra@maybank.com  
• Telcos • Internet • Construction

**William Jefferson W**  
(62) 21 8066 8563  
william.jefferson@maybank.com  
• Property

**Adi WICAKSONO**  
(62) 21 8066 8686  
adi.wicaksono@maybank.com  
• Plantations

**Satriawan HARYONO, CEWA, CTA**  
(62) 21 8066 8682  
satriawan@maybank.com  
• Chartist

### VIETNAM

**Quan Trong Thanh Head of Research**  
(84 28) 44 555 888 ext 8184  
thanh.quan@maybank.com  
• Strategy • Banks

**Hoang Huy, CFA**  
(84 28) 44 555 888 ext 8181  
hoanghuy@maybank.com  
• Strategy • Technology

**Le Nguyen Nhat Chuyen**  
(84 28) 44 555 888 ext 8082  
chuyen.le@maybank.com  
• Oil & Gas • Logistics

**Nguyen Thi Sony Tra Mi**  
(84 28) 44 555 888 ext 8084  
trami.nguyen@maybank.com  
• Consumer Discretionary

**Tran Thi Thanh Nhan**  
(84 28) 44 555 888 ext 8088  
nhan.tran@maybank.com  
• Consumer Staples

**Nguyen Le Tuan Loi**  
(84 28) 44 555 888 ext 8182  
loi.nguyen@maybank.com  
• Property

**Nguyen Thanh Hai**  
(84 28) 44 555 888 ext 8081  
thanhhai.nguyen@maybank.com  
• Industrials

**Nguyen Thanh Lam**  
(84 28) 44 555 888 ext 8086  
thanhlam.nguyen@maybank.com  
• Retail Research

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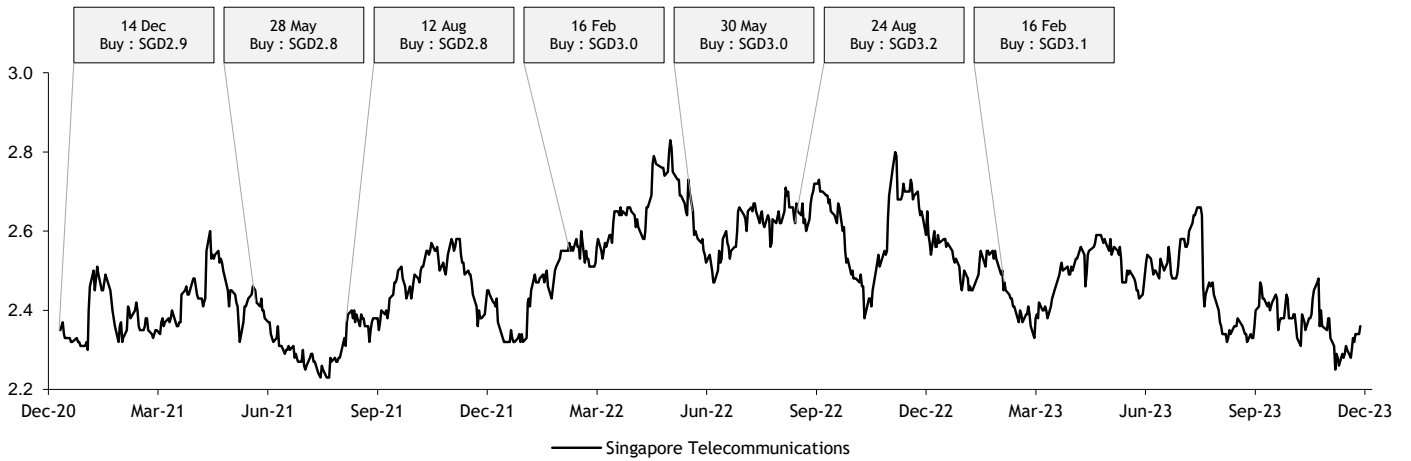
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 **Malaysia**

Maybank Investment Bank Berhad  
(A Participating Organisation of  
Bursa Malaysia Securities Berhad)  
33rd Floor, Menara Maybank,  
100 Jalan Tun Perak,  
50050 Kuala Lumpur  
Tel: (603) 2059 1888;  
Fax: (603) 2078 4194

Stockbroking Business:  
Level 8, Tower C, Dataran Maybank,  
No.1, Jalan Maarof  
59000 Kuala Lumpur  
Tel: (603) 2297 8888  
Fax: (603) 2282 5136

 **Singapore**

Maybank Securities Pte Ltd  
Maybank Research Pte Ltd  
50 North Canal Road  
Singapore 059304

Tel: (65) 6336 9090

 **Indonesia**

PT Maybank Sekuritas Indonesia  
Sentral Senayan III, 22<sup>nd</sup> Floor  
Jl. Asia Afrika No. 8  
Gelora Bung Karno, Senayan  
Jakarta 10270, Indonesia

Tel: (62) 21 2557 1188

Fax: (62) 21 2557 1189

 **Thailand**

Maybank Securities (Thailand) PCL  
999/9 The Offices at Central World,  
20<sup>th</sup> - 21<sup>st</sup> Floor,  
Rama 1 Road Pathumwan,  
Bangkok 10330, Thailand

Tel: (66) 2 658 6817 (sales)

Tel: (66) 2 658 6801 (research)

 **London**

Maybank Securities (London) Ltd  
PNB House  
77 Queen Victoria Street  
London EC4V 4AY, UK

Tel: (44) 20 7332 0221

Fax: (44) 20 7332 0302

 **India**

MIB Securities India Pte Ltd  
1101, 11<sup>th</sup> floor, A Wing, Kanakia  
Wall Street, Chakala, Andheri -  
Kurla Road, Andheri East,  
Mumbai City - 400 093, India

Tel: (91) 22 6623 2600

Fax: (91) 22 6623 2604

 **Vietnam**

Maybank Securities Limited  
Floor 10, Pearl 5 Tower,  
5 Le Quy Don Street,  
Vo Thi Sau Ward, District 3  
Ho Chi Minh City, Vietnam

Tel : (84) 28 44 555 888

Fax : (84) 28 38 271 030

 **Hong Kong**

MIB Securities (Hong Kong)  
Limited  
28/F, Lee Garden Three,  
1 Sunning Road, Causeway Bay,  
Hong Kong

Tel: (852) 2268 0800

Fax: (852) 2877 0104

 **Philippines**

Maybank Securities Inc  
17/F, Tower One & Exchange  
Plaza  
Ayala Triangle, Ayala Avenue  
Makati City, Philippines 1200

Tel: (63) 2 8849 8888

Fax: (63) 2 8848 5738

 **Sales Trading**
**Indonesia**

Helen Widjaja  
helen.widjaja@maybank.com  
(62) 21 2557 1188

**Philippines**

Keith Roy  
keith\_roy@maybank.com  
Tel: (63) 2 848-5288

**London**

Greg Smith  
gsmith@maybank.com  
Tel: (44) 207-332-0221

**India**

Sanjay Makhija  
sanjaymakhija@maybank.com  
Tel: (91)-22-6623-2629

[www.maybank.com/investment-banking](http://www.maybank.com/investment-banking)  
[www.maybank-keresearch.com](http://www.maybank-keresearch.com)