

Singapore Telecommunications (ST SP)

3% stock correction: Much ado about nothing?

Optus tower dispute - Singtel could be net beneficiary

Singtel's stock fell 3% on 12th aug following a media report ([link](#)) alleging Optus had a dispute with its mobile towers investor, AustralianSuper. In 2021, Optus sold 70% stake in its towerco to AustralianSuper and leased back with a commitment to lease 565 new towers. The report alleged AustralianSuper has failed to build the hundreds of new towers, which could result in penalties for the towerco. We believe Optus may receive penalty payments, although we think an amicable resolution is more likely with penalties being the last option. Assuming half of the new towers are not delivered and a penalty rate of ~10% (as a % of tower rental), we estimate it could lead to a post-tax annual penalty payment to Singtel of SGD7m or 0.2% earnings accretion pa. As such, we see the development as being largely non-material and the stock's correction is a buying opportunity.

Optus is shaping up well - consumer followed by enterprise

We believe Optus' turnaround is in full swing. Optus raised mobile tariff prices by 5-18% in May'24, which, according to management, was well-received by consumers ([NDR takeaways](#)). We estimate Optus' 1Q25 mobile revenue to increase 5% YoY. We also see potential turnaround of Optus Enterprise after restructuring of the business - mobile first approach in project bidding and only targeted/off-the-shelf enterprise offerings. This is reflected in the recent large contract win from Services Australia. On the cost front as well we see Optus turning around with a major chunk of the group SGD200m/yr cost savings target expected to come from Optus. We estimate, Optus EBITDA to increase 8.5% YoY and margins lift of 3ppt in 1QFY25.

Maintain BUY; correction is a buying opportunity

Singtel has fallen 9% since it went ex-dividend on 1 Aug'24. We view the correction as a buying opportunity, as fundamentals are unchanged and we are seeing a turnaround in its various businesses: Optus, SG Mobile and NCS margins. Associates also posted decent results too recently ([link](#)). Our BUY is based on 3 catalysts: 1) potential consolidation in Singapore; 2) ongoing turnaround of Optus; and 3) dividend visibility (prospective yield of 5-6%). As the interest rate cycle turns, we see Singtel, alongside its associates (AIS, Globe Tel and Netlink Trust), as potential beneficiaries as their dividend yield to bond yield spreads widen (refer to [report link](#)).

FYE Mar (SGD m)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue	14,624	14,128	14,470	14,717	14,939
EBITDA	3,686	3,597	3,781	3,965	4,126
Core net profit	2,054	2,261	2,600	3,199	3,722
Core EPS (cts)	12.4	13.7	15.7	19.4	22.5
Core EPS growth (%)	6.8	10.0	15.0	23.0	16.4
Net DPS (cts)	14.9	15.0	16.4	17.9	19.2
Core P/E (x)	19.8	18.5	18.0	14.7	12.6
P/BV (x)	1.6	1.7	1.9	1.9	1.8
Net dividend yield (%)	6.1	5.9	5.8	6.3	6.8
ROAE (%)	8.5	3.2	10.9	13.3	15.2
ROAA (%)	4.3	4.9	5.6	6.9	7.9
EV/EBITDA (x)	13.7	13.7	15.2	14.6	14.0
Net gearing (%) (incl perps)	22.9	14.6	26.8	28.7	28.6
Consensus net profit	-	-	2,600	2,988	3,414
MIBG vs. Consensus (%)	-	-	(0.0)	7.0	9.0

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BUY

Share Price	SGD 2.84
12m Price Target	SGD 3.40 (+25%)
Previous Price Target	SGD 3.40

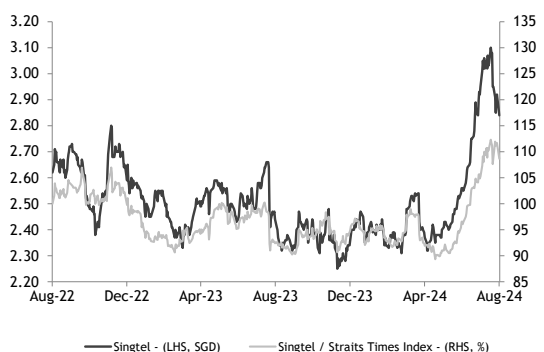
Statistics

52w high/low (SGD)	3.10/2.25
3m avg turnover (USDm)	79.3
Free float (%)	42.1
Issued shares (m)	61,515
Market capitalisation	SGD174.7B USD132.0B

Major shareholders:

Temasek Holdings Pte Ltd. (Investment Co)	52.0%
Central Provident Fund	4.7%
The Vanguard Group, Inc.	1.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(4)	18	16
Relative to index (%)	3	19	18

Source: FactSet

Abbreviations

NCS - National Computer System (100%-owned by Singtel)
VRD - Value realization dividends

Other companies mentioned in this report

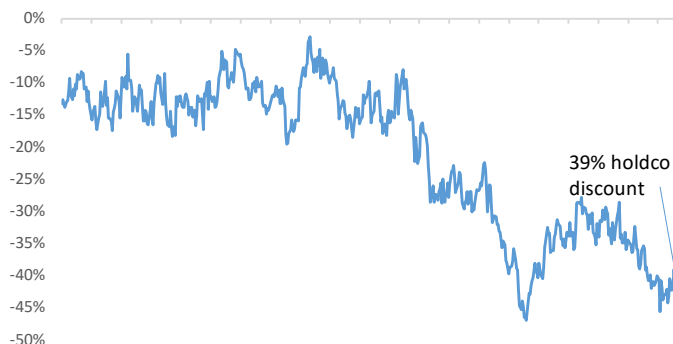
Optus: 100%-owned by Singtel
AIS (ADVANC TH, CP THB246, BUY, TP THB275)
Globe Tel (GLO PM, CP PHP2312, BUY, TP PHP2480)
Netlink Trust (NETL SP, CP SGD0.84, BUY, TP SGD0.97)
Bharti Airtel (BHARTI IN, CP INR1453.70, Not Rated)

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Tear Sheet Insert

Value Proposition

- Telco conglomerate with exposure to quality telco operators in ASEAN, India and Australia.
- Potential for cost and capex optimization with peaking 5G rollout.
- Attractive dividend yield backed by healthy balance sheet and favourable capital management/asset optimization initiatives.
- Holdco discount of 39% unfair amid positive tailwinds.

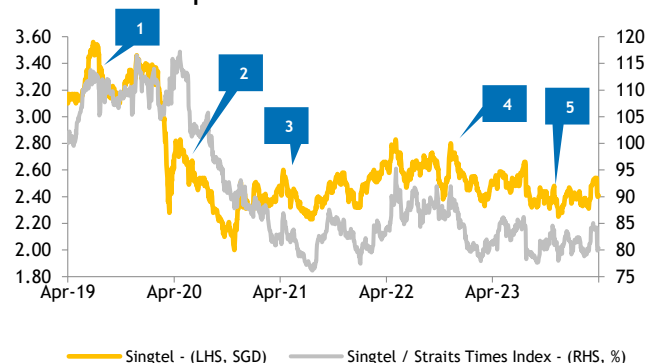
Holdco discount near 40%



Source: Company, Bloomberg, 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. Cut in final dividends to SGD5.45 cents vs. expectations of SGD10.70 cents
3. Australia wireless pricing went through industry-wide deflation.
4. Optus cyberattack.
5. Optus network outage.

Financial Metrics

- We forecast FY25-27 earnings to increase at a 16% CAGR, mainly helped by associates.
- We expect consolidated EBITDA to post a 4% CAGR over FY24-27E, helped by moderate top-line growth and cost cuts.
- We expect net debt to EBITDA, including associates, to remain healthy at <2x in FY24-26E; providing support to its DPS commitment.

Singtel SoTP

Valuation	Stake (%)	Valuation method	Valuation (SGD m)	Per share (SGD)
SingTel Singapore Business	100.0	Singtel DCF (8.3% WACC, 0.5% TG, 0.95 beta)	12,706	0.77
Optus	100.0	Optus DCF (8.1% WACC, 0.5% TG, 0.95 beta)	8,300	0.50
Associates				
Telkomsel (Indonesia)	30.1	65% of listed Telkom at MIBG TP	8,201	0.50
Bharti Airtel (India)	29.0	Market Cap	37,025	2.24
AIS (Thailand)	23.3	DCF (7.0% WACC, 2% LTG, 1.0 beta)	6,159	0.37
Globe (Philippines)	46.9	DCF (5.7% WACC, 1% LTG, 0.7 beta)	4,535	0.27
Intouch (Thailand)	21.1	Based on AIS TP	1,718	0.10
NetLink NBN Trust (Singapore)	24.8	DDM (COE 6%, 0% LTG, 0.5 beta)	1,015	0.06
SingPost (Singapore)	21.7	Market Cap	205	0.01
Associates Sub Total			58,858	3.56
Holdco discount		25% discount		-1.21
(Less) Consol Net Debt			-3,644	-0.22
Total Equity Value				3.40

Source: Company, Bloomberg, Maybank IBG Research

Swing Factors

Upside

- Potential rejig in Optus leading to RoIC and FCF improvement.
- Stronger-than-expected ARPU growth due to easing in price competition in markets where Singtel is present.
- Better-than-expected execution in meeting targeted cost savings.

Downside

- Delays in Optus rejig and potential fines levied on Optus due to network outage.
- Intensifying price competition in Singtel exposed markets.
- FX headwinds impacting Optus and associates.

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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 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 services 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

- In FY23, completed a comprehensive review of SBTi target for revalidation with the support of all business units and brought forward net-zero goal to 2045 from 2050.
- In FY23, reduced scope 1 and 2 absolute emissions by 11.31%. Achieved improvement of GHG emissions intensity of 0.030tCO2 e/TB from 0.035tCO2 e/TB.
- Completed four solar energy generation projects amounting to 1.38MWp and expected to generate 1,700MWh annually.
- Completed a comprehensive review of the SBTi target for revalidation with the support of all business units and brought forward net-zero goal to 2045.

Material S issues

- In Sep 2022, Optus suffered a cyber-attack that resulted in the exposure of some customers’ personal information.
- In Nov 2023, Optus suffered a network outage leading to a government-ordered investigation.
- 31% of female employees in middle and top management.
- Recognised by the 2023 Bloomberg Gender Equality Index for the fifth consecutive year.
- Total training investment of SGD57.9m over FY21-23 and pledged SGD32.1m over FY24-25 to boost the digital skills of its workforce through company-wide initiatives over three years.
- Zero fatality rate across Singtel and Optus in FY23.

Key G metrics and issues

- The Board consists of 14 directors, of which the chairman (non-executive) and CEO are non-independent, the remaining are non-executive & independent directors. 43% are female directors.
- The nomination, audit, investment and remuneration committees are chaired by independent directors.
- Key management compensation accounted for 0.6% of total employee compensation and 0.8% of group net profit in FY23.
- 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 GHG emissions	m tCO2e	5.73	5.77	5.67	1.96
	Scope 2 GHG emissions	m tCO2e	1.29	1.33	1.33	0.47
	Total	m tCO2e	7.02	7.10	7.00	2.43
	Scope 3 GHG emissions	m tCO2e	N/A	3.06	3.27	N/A
	Total	m tCO2e	7.02	10.16	10.27	N/A
	GHG intensity (Scope 1 and 2)	tCO2e/t	0.68	0.66	0.67	0.63
	Energy intensity	GJ/ton	15.37	15.73	15.76	11.43
	Share of renewable energy use in operations	%	N/A	N/A	N/A	N/A
	Wastewater discharge (chemical O ₂ demand)	tonnes	153.7	177.8	171.4	22.7
	Hazardous waste 3R rate	%	70%	85%	75%	98%
	Air emissions intensity	ton/kT	2.83	2.21	2.42	N/A
NPE (New Plastic Economy) investments	MYR m	8	3	3	N/A	
S	% of women in workforce	%	35.4%	54.8%	54.4%	42%
	% of women in management roles	%	20%	28%	32%	20%
	Lost time injury frequency rate	number	0.4	0.4	0.3	3
G	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%
	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 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 the 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	Scores	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 a high level of ESG quantitative targets. While we note some work is being carried out to reduce Scope 3 financed emissions, we believe further actions are required to meet the 2030 target. Its overall ESG score is 85, which makes its ESG rating above average in our view (average ESG rating = 50).

Fig 1: Singtel SoTP

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Associates Sub Total			58,858	3.56
Holdco discount		25% discount		-1.21
(Less) Consol Net Debt			-3,644	-0.22
Total Equity Value				3.40

Source: Maybank IBG Research, Bloomberg

FYE 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
Key Metrics					
P/E (reported) (x)	19.2	50.6	18.0	14.7	12.6
Core P/E (x)	19.8	18.5	18.0	14.7	12.6
P/BV (x)	1.6	1.7	1.9	1.9	1.8
P/NTA (x)	2.7	2.5	3.1	2.9	2.7
Net dividend yield (%)	6.1	5.9	5.8	6.3	6.8
FCF yield (%)	6.9	2.8	5.6	8.9	11.3
EV/EBITDA (x)	13.7	13.7	15.2	14.6	14.0
EV/EBIT (x)	45.5	42.8	45.4	41.4	37.7
INCOME STATEMENT (SGD m)					
Revenue	14,624.0	14,128.0	14,470.0	14,717.1	14,938.9
EBITDA	3,685.9	3,597.0	3,781.0	3,964.6	4,126.5
Depreciation	(2,262.0)	(2,163.0)	(2,077.2)	(2,110.6)	(2,133.0)
Amortisation	(312.0)	(281.0)	(440.7)	(457.5)	(457.5)
EBIT	1,111.9	1,153.0	1,263.1	1,396.4	1,535.9
Net interest income / (exp)	(359.0)	(303.0)	(338.3)	(391.6)	(400.4)
Associates & JV	2,287.0	2,338.0	2,862.4	3,678.5	4,325.1
Exceptionals	171.5	(1,466.0)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	3,211.4	1,722.0	3,787.2	4,683.4	5,460.6
Income tax	(978.0)	(918.5)	(1,176.9)	(1,471.6)	(1,723.5)
Minorities	(8.0)	(9.0)	(10.7)	(13.2)	(15.4)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	2,225.4	794.5	2,599.7	3,198.6	3,721.7
Core net profit	2,053.9	2,260.5	2,599.7	3,198.6	3,721.7
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	1,667.9	4,605.0	1,581.3	1,486.8	1,817.2
Accounts receivable	5,012.8	5,006.0	4,982.5	4,920.4	4,845.2
Inventory	346.2	301.0	308.3	313.6	318.3
Property, Plant & Equip (net)	10,384.6	10,047.0	11,207.8	11,713.8	11,895.4
Intangible assets	10,989.5	8,227.0	9,483.0	9,025.5	8,567.9
Investment in Associates & JVs	11,788.1	12,758.0	13,379.7	14,389.7	15,604.4
Other assets	6,340.9	5,254.0	5,101.1	4,981.5	4,891.6
Total assets	46,530.0	46,198.0	46,043.7	46,831.2	47,940.0
ST interest bearing debt	471.1	24.0	24.0	24.0	24.0
Accounts payable	5,309.9	5,406.0	5,487.1	5,519.7	5,550.5
LT interest bearing debt	7,142.4	8,225.0	8,225.0	8,725.0	9,225.0
Other liabilities	7,592.0	7,578.0	7,414.0	7,287.0	7,190.0
Total Liabilities	20,515.7	21,233.0	21,150.3	21,555.5	21,989.4
Shareholders Equity	26,005.3	24,928.0	24,845.7	25,214.8	25,874.3
Minority Interest	9.0	37.0	47.7	60.9	76.3
Total shareholder equity	26,014.3	24,965.0	24,893.4	25,275.7	25,950.6
Total liabilities and equity	46,530.0	46,198.0	46,043.7	46,831.2	47,940.0
CASH FLOW (SGD m)					
Pretax profit	3,211.4	1,722.0	3,787.2	4,683.4	5,460.6
Depreciation & amortisation	2,574.0	2,444.0	2,517.9	2,568.1	2,590.5
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	0.0	0.0	0.0	0.0	0.0
Cash taxes paid	0.0	0.0	0.0	0.0	0.0
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	5,785.4	4,166.0	6,305.2	7,251.5	8,051.1
Capex	(2,162.0)	(2,150.0)	(2,784.1)	(2,189.0)	(1,907.5)
Free cash flow	2,799.4	1,182.0	2,628.3	4,193.5	5,282.4
Dividends paid	(1,965.0)	(2,146.0)	(2,682.0)	(2,829.5)	(3,062.2)
Equity raised / (purchased)	(37.0)	(33.0)	0.0	0.0	0.0
Change in Debt	(208.0)	1,080.0	0.0	500.0	500.0
Other invest/financing cash flow	(871.0)	1,503.0	(2,489.0)	(819.1)	(807.5)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	542.4	2,420.0	(1,649.9)	1,913.9	2,773.9

FYE 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
Key Ratios					
Growth ratios (%)					
Revenue growth	(4.7)	(3.4)	2.4	1.7	1.5
EBITDA growth	(2.2)	(2.4)	5.1	4.9	4.1
EBIT growth	6.4	3.7	9.6	10.6	10.0
Pretax growth	11.0	(46.4)	119.9	23.7	16.6
Reported net profit growth	14.2	(64.3)	227.2	23.0	16.4
Core net profit growth	6.8	10.1	15.0	23.0	16.4
Profitability ratios (%)					
EBITDA margin	25.2	25.5	26.1	26.9	27.6
EBIT margin	7.6	8.2	8.7	9.5	10.3
Pretax profit margin	22.0	12.2	26.2	31.8	36.6
Payout ratio	110.5	nm	104.1	92.3	85.2
DuPont analysis					
Net profit margin (%)	15.2	5.6	18.0	21.7	24.9
Revenue/Assets (x)	0.3	0.3	0.3	0.3	0.3
Assets/Equity (x)	1.8	1.9	1.9	1.9	1.9
ROAE (%)	8.5	3.2	10.9	13.3	15.2
ROAA (%)	4.3	4.9	5.6	6.9	7.9
Liquidity & Efficiency					
Cash conversion cycle	(43.1)	(44.5)	(48.9)	(52.7)	(56.1)
Days receivable outstanding	126.3	127.6	124.3	121.1	117.7
Days inventory outstanding	10.1	11.1	10.3	10.4	10.5
Days payables outstanding	179.5	183.2	183.4	184.3	184.3
Dividend cover (x)	0.9	0.3	1.0	1.1	1.2
Current ratio (x)	1.0	1.4	0.9	0.9	1.0
Leverage & Expense Analysis					
Asset/Liability (x)	2.3	2.2	2.2	2.2	2.2
Net gearing (%) (incl perps)	22.9	14.6	26.8	28.7	28.6
Net gearing (%) (excl. perps)	22.9	14.6	26.8	28.7	28.6
Net interest cover (x)	3.1	3.8	3.7	3.6	3.8
Debt/EBITDA (x)	2.1	2.3	2.2	2.2	2.2
Capex/revenue (%)	14.8	15.2	19.2	14.9	12.8
Net debt/ (net cash)	5,945.6	3,644.0	6,667.7	7,262.2	7,431.8

Source: Company; Maybank IBG Research

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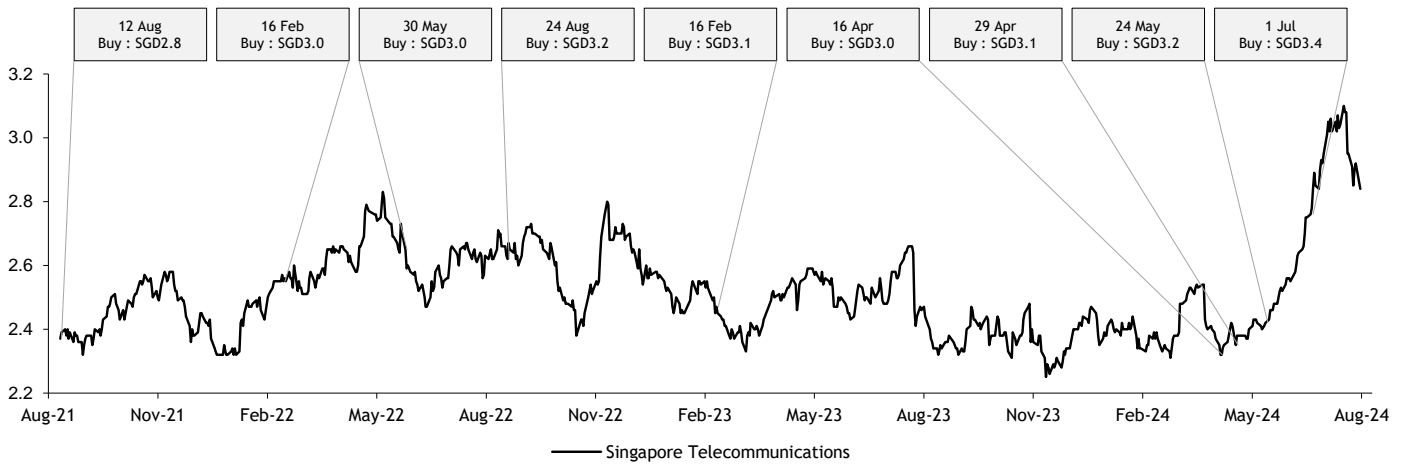
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