

### Report type: Update

#### Company Overview

SingTel (ST) is a leading communications service provider with diversified geographical exposures. The core part of SingTel's business resides in Singapore & Australia, while meaningful stakes in its regional Associates provides the Group with exposure across Asia-Pacific.

- Net income declined by 9.6% to S\$902mn
- Margin pressures in Singapore
- 8.4% decline in Associates contributions
- We rate SingTel as Accumulate with unchanged TP of S\$3.31

#### What is the news?

SingTel reported a 9.6% decline net income for the quarter, due to margin pressures at its core business and lower profit contributions from regional mobile associates. Revenue grew in Singapore & Australia, reflecting the larger mobile subscriber base and higher equipment sales from the launch of iPhone 4S in the quarter. EBITDA margins declined in Singapore as a result of higher mobile acquisition and retention volume. EBITDA margins were stable in Australia in spite of competitive pressures on ARPU.

Fig.1. Results Summary

Income Statement				
(Extract)	3QFY11	3QFY12	y-y (%)	Comments
<b>(S\$ 'mn)</b>				
<b>Revenue</b>	<b>4,704</b>	<b>4,830</b>	<b>2.7%</b>	<b>iPhone 4S, subscriber base</b>
Singapore	1,634	1,675	2.5%	
Optus	3,070	3,155	2.8%	
<b>EBITDA</b>	<b>1,284</b>	<b>1,256</b>	<b>-2.2%</b>	<b>Margin pressures in SG</b>
Singapore	572	524	-8.4%	Margin: 32.7% vs 36.0%
Optus	712	732	2.8%	Margin: 23.2% vs 23.2%
Associates	519	475	-8.4%	Bharti contributions -30%
PBT	1,263	1,183	-6.4%	
<b>Net Income</b>	<b>998</b>	<b>902</b>	<b>-9.6%</b>	

Source: Company, PSR

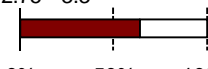
#### How do we view this?

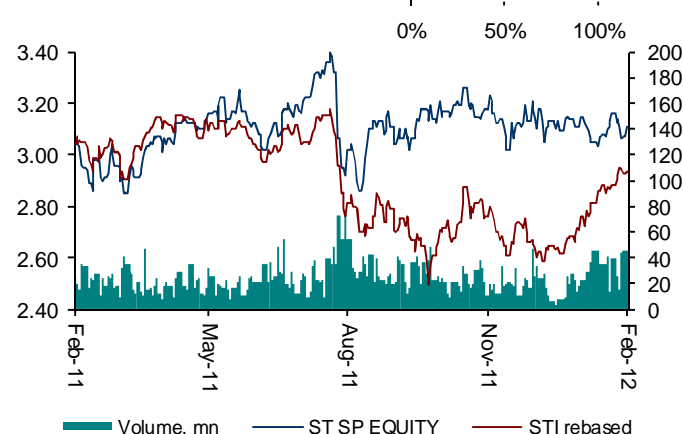
The results were in line with our expectations for its core business in Singapore and Optus. However, contributions from associates were lower than expected mainly due to weak contributions from Bharti Airtel and unfavorable foreign exchange movements.

#### Investment Actions?

Our Sum-of-the-parts (SOTP) target price remains unchanged at S\$3.31 and we rate SingTel as Accumulate.

#### SingTel Ltd

<b>Rating</b>	<b>2</b>	<b>Accumulate</b>
- Previous Rating	1	Buy
<b>Target Price (SGD)</b>	<b>3.31</b>	
- Previous Target Price (SGD)	3.31	
Closing Price (SGD)	3.13	
Expected Capital Gains (%)	5.8%	
Expected Dividend Yield (%)	4.5%	
<b>Expected Total Return (%)</b>	<b>10.2%</b>	
Raw Beta (Past 2yrs weekly data)	0.57	
Market Cap. (USD mn / SGD mn)	39538 / 49578	
Enterprise Value (USD mn / SGD mn)	51016 / 64457	
3M Average Daily T/O (mn)	23.0	
52 week range (SGD)	2.75 - 3.3	
Closing Price in 52 week range		



#### Major Shareholders

	(%)
1. Temasek Holdings Pte Ltd	54.4
2. Capital Research Global Investor	3.2

#### Key Financial Summary

FYE	03/11	03/12F	03/13F	03/14F
Revenue (SGD mn)	18,071	18,810	18,963	19,239
Net Profit, adj. (SGD mn)	3,770	3,648	3,788	3,898
EPS, adj. (SGD)	0.24	0.23	0.24	0.24
P/E (X),adj.	13.2	13.7	13.2	12.8
BVPS (SGD)	1.53	1.50	1.59	1.69
P/B (X)	2.1	2.1	2.0	1.8
DPS (SGD)	0.26	0.14	0.14	0.15
Div. Yield (%)	8.2%	4.4%	4.6%	4.7%

Source: Bloomberg, PSR est.

\*All multiples & yields based on current market price

#### Valuation Method

SOTP

#### Analyst

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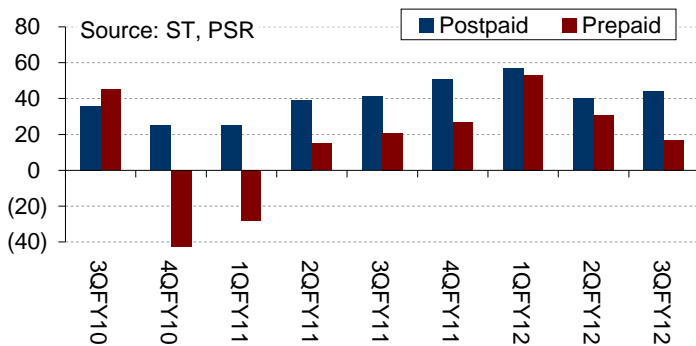
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**Sacrificing near term profitability for growth in Singapore's subscriber base**

During the results conference call, ST's management reiterated their strategy to grow subscriber base through multiple product offerings. By offering multiple product lines (mobile, broadband, home phone line, MioTV etc.), ST would be able to sell more services to its customers. While this could result in near term margin pressures due to higher acquisition costs, this strategy would ensure customer stickiness and position the company favorably in the fast changing communications business.

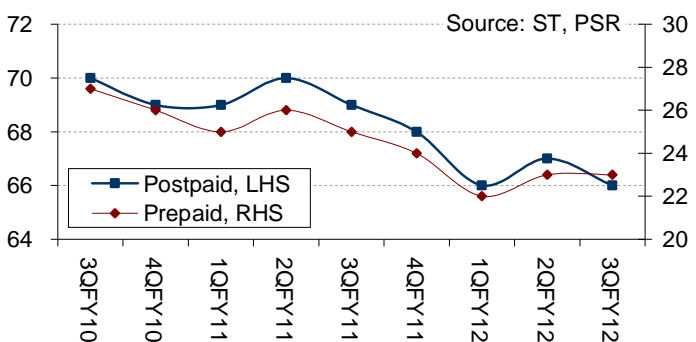
**Fig.2. Growing mobile subscriber base**



**Optus managed to grow revenue & EBITDA despite competitive pressures**

Optus added 113k and 69k postpaid and prepaid customers respectively. SingTel's Australia subsidiary would also offer Long Term Evolution (LTE) services from April 2012, paving the way for better monetizing of data services with tiered product pricing. Postpaid ARPU declined marginally to A\$66/month in line with management's earlier guidance of pricing pressures at the subsidiary.

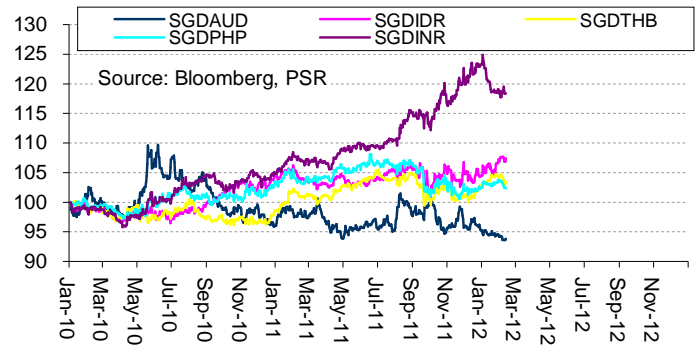
**Fig.3. Optus ARPU declined stable sequentially**



**Associates' contributions disappointed with lower contributions from Bharti Airtel and unfavorable FX**

As compared to the same period last year, SGD strengthened against several regional currencies, which impacted the translational profit contributions of its associates. Bharti's earnings declined by 3.7% in local currency terms due to higher depreciation, licence fee amortization and interest costs associated with "3G" rollout in South Asia. Bharti's contribution to the group was further impacted by a 10.1% weakening of the Indian Rupee.

**Fig.4. SingTel's FX exposure**



\*rebased 2010=100

FYE Mar	FY10	FY11	FY12F	FY13F	FY14F
<b>Valuation Ratios</b>					
P/E (X), adj.	12.8	13.2	13.7	13.2	12.8
P/B (X)	2.1	2.1	2.1	2.0	1.8
EV/EBITDA (X), adj.	13.3	12.5	12.4	12.6	12.3
Dividend Yield (%)	4.5%	8.2%	4.4%	4.6%	4.7%
<b>Per share data (SGD)</b>					
EPS, reported	0.25	0.24	0.23	0.24	0.24
EPS, adj.	0.24	0.24	0.23	0.24	0.24
DPS	0.14	0.26	0.14	0.14	0.15
BVPS	1.48	1.53	1.50	1.59	1.69
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	13.0%	7.1%	4.1%	0.8%	1.5%
EBITDA	15.6%	6.7%	0.5%	-1.3%	2.5%
EBIT	20.7%	7.8%	-1.6%	-5.0%	2.8%
Net Income, adj.	5.9%	-3.4%	-3.2%	3.8%	2.9%
<b>Margins</b>					
EBITDA margin	28.8%	28.6%	27.6%	27.1%	27.3%
EBIT margin	17.6%	17.7%	16.8%	15.8%	16.0%
Net Profit Margin	23.2%	21.2%	19.4%	20.0%	20.3%
<b>Key Ratios</b>					
ROE (%)	17.8%	16.0%	15.1%	15.4%	14.9%
ROA (%)	11.0%	9.9%	9.3%	9.6%	9.4%
Net Debt/(Cash)	5,266	4,548	6,097	5,417	4,657
Net Gearing (X)	22.4%	18.7%	25.5%	21.3%	17.2%
<b>Income Statement (SGD mn)</b>					
Revenue	16,871	18,071	18,810	18,963	19,239
EBITDA	4,851	5,175	5,200	5,131	5,260
Depreciation & Amortisation	(1,878)	(1,969)	(2,045)	(2,135)	(2,179)
EBIT	2,973	3,206	3,155	2,997	3,081
Net Finance (Expense)/Income	(334)	(324)	(364)	(370)	(370)
Other items	n/a	n/a	n/a	n/a	n/a
Associates & JVs	1,862	1,564	1,492	1,759	1,793
<b>Profit Before Tax</b>	<b>4,501</b>	<b>4,446</b>	<b>4,283</b>	<b>4,386</b>	<b>4,504</b>
Taxation	(595)	(624)	(635)	(598)	(606)
<b>Profit After Tax</b>	<b>3,907</b>	<b>3,823</b>	<b>3,648</b>	<b>3,788</b>	<b>3,898</b>
Non-controlling Interest	(1)	(3)	0	0	0
<b>Net Income, reported</b>	<b>3,907</b>	<b>3,825</b>	<b>3,648</b>	<b>3,788</b>	<b>3,898</b>
<b>Net Income, adj.</b>	<b>3,903</b>	<b>3,770</b>	<b>3,648</b>	<b>3,788</b>	<b>3,898</b>

Source: PSR

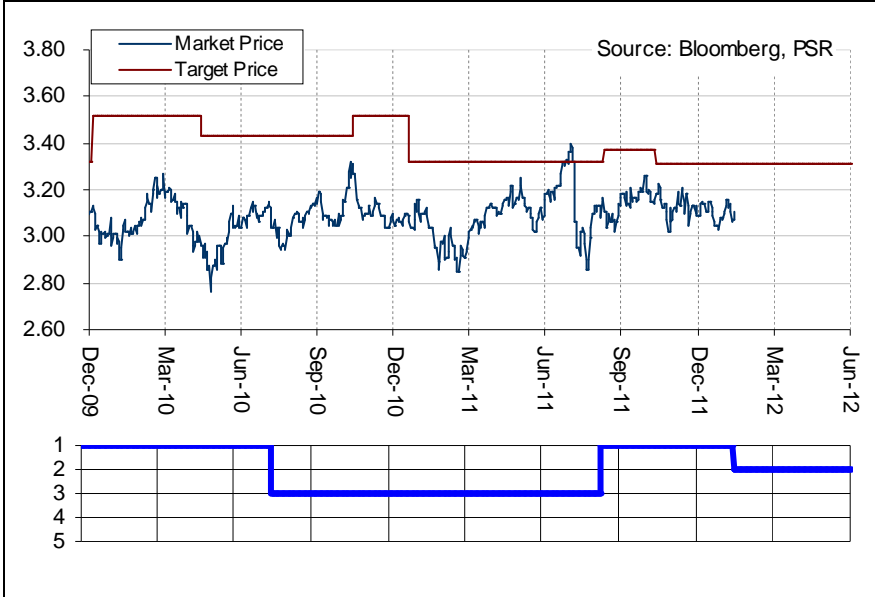
FYE Mar	FY10	FY11	FY12F	FY13F	FY14F
<b>Balance Sheet (SGD mn)</b>					
PPE	10,750	11,113	11,628	11,879	12,036
Intangibles	10,200	10,218	10,118	10,018	9,918
Associates & JVs	10,412	10,197	11,011	11,765	12,534
Investments	256	309	309	309	309
Others	1,190	890	890	890	890
<b>Total non-current assets</b>	<b>32,807</b>	<b>32,727</b>	<b>33,957</b>	<b>34,862</b>	<b>35,688</b>
Inventories	346	299	287	304	309
Accounts Receivables	3,172	3,449	3,195	3,221	3,268
Investments	0	0	0	0	0
Cash	1,614	2,738	1,308	1,988	2,749
Others	13	69	69	69	69
<b>Total current assets</b>	<b>5,144</b>	<b>6,555</b>	<b>4,859</b>	<b>5,583</b>	<b>6,395</b>
<b>Total Assets</b>	<b>37,952</b>	<b>39,282</b>	<b>38,816</b>	<b>40,444</b>	<b>42,082</b>
Short term loans	1,528	2,699	2,699	2,699	2,699
Accounts Payables	4,650	4,450	4,326	4,397	4,443
Others	657	1,392	1,392	1,392	1,392
<b>Total current liabilities</b>	<b>6,835</b>	<b>8,541</b>	<b>8,416</b>	<b>8,488</b>	<b>8,534</b>
Long term loans	5,351	4,587	4,707	4,707	4,707
Others	2,250	1,805	1,805	1,805	1,805
<b>Total non-current liabilities</b>	<b>7,601</b>	<b>6,391</b>	<b>6,511</b>	<b>6,511</b>	<b>6,511</b>
Non-controlling interest	23	22	22	22	22
<b>Shareholder Equity</b>	<b>23,493</b>	<b>24,328</b>	<b>23,866</b>	<b>25,423</b>	<b>27,016</b>

**Cashflow Statements (SGD mn)**

<b>CFO</b>					
PBT	4,501	4,446	4,283	4,386	4,504
Adjustments	382	692	917	746	756
Cash from ops before WC changes	4,883	5,138	5,200	5,131	5,260
WC changes	(136)	15	142	28	(6)
Cash generated from ops	4,747	5,154	5,342	5,159	5,254
Taxes paid, net	(370)	(301)	(635)	(598)	(606)
Interest paid	(315)	(565)	(364)	(370)	(370)
<b>Cashflow from ops</b>	<b>4,063</b>	<b>4,288</b>	<b>4,342</b>	<b>4,191</b>	<b>4,277</b>
<b>CFI</b>					
CAPEX, net	(1,998)	(2,006)	(2,460)	(2,286)	(2,236)
Dividends from associates & JVs	954	1,194	1,010	1,006	1,025
Dividends/Interest from Investments	34	52	0	0	0
Purchase/sale of investments	6	(18)	0	0	0
Investments in subs & associates	(90)	(670)	(332)	0	0
Others	(131)	(117)	0	0	0
<b>Cashflow from investments</b>	<b>(1,226)</b>	<b>(1,565)</b>	<b>(1,782)</b>	<b>(1,280)</b>	<b>(1,211)</b>
<b>CFF</b>					
Share issuance	11	7	0	0	0
Purchase of treasury shares	(64)	(39)	0	0	0
Loans, net of repayments	(181)	815	120	0	0
Dividends to minority interests	(1)	(1)	0	0	0
Dividends to shareholders & capital reduction	(2,084)	(2,357)	(4,110)	(2,231)	(2,306)
Others	(2)	(4)	0	0	0
<b>Cashflow from financing</b>	<b>(2,322)</b>	<b>(1,580)</b>	<b>(3,990)</b>	<b>(2,231)</b>	<b>(2,306)</b>
<b>Net change in cash</b>	<b>515</b>	<b>1,143</b>	<b>(1,430)</b>	<b>680</b>	<b>760</b>
Effects of exchange rates	23	(18)	0	0	0
<b>CCE, end</b>	<b>1,614</b>	<b>2,738</b>	<b>1,308</b>	<b>1,988</b>	<b>2,749</b>

Source: PSR

**Ratings History**



**PSR Rating System**

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
> -20%	Sell	5

**Remarks**

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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