

Acquisition of Amobee; Group Restructuring.

Bloomberg | Reuters | POEMS
ST SP | STEL.SI | SGT.SG
Industry: Communications Services

Phillip Securities Research Pte Ltd

5 March 2012

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.

- Acquisition of Amobee for US\$321mn
- Leveraging on SingTel's network of mobile subscribers
- Organisation restructuring
- We rate SingTel as Accumulate with unchanged TP of S\$3.31

What is the news?

SingTel announced the acquisition of Amobee, a mobile advertising agency, for US\$321mn. The acquisition expected to be completed by June 2012 with the current management team remaining in active control of the company. At the same time, SingTel also announced a Group level restructuring to adapt to the changing industry landscape & business focus. The Group would be restructured into 3 broad business groups of Group Consumer, Group Digital Life & Group ICT.

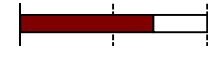
How do we view this?

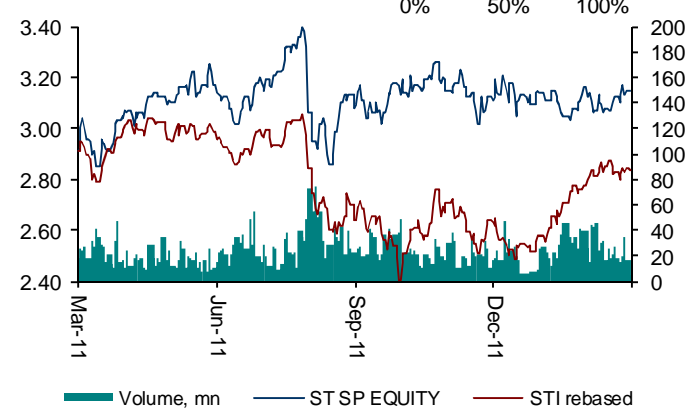
We view this as a move in the right direction. Being an industry leader in the mobile market, SingTel would be able to leverage on its vast network of >400mn mobile subscribers to grow its businesses beyond traditional boundaries. Over the past few years, the profitability of local Telcos had been negatively affected by the high handset subsidies provided to drive smartphone penetration. We see this acquisition and restructuring as an opportunity for SingTel to monetize on their investments into growing the smartphone base. Apart from opportunities in the smartphone markets, Management highlighted during the conference call that the feature phone users remain as an important mean to reach out to consumers in the emerging markets. However, the price paid for Amobee seemed pretty lofty based on the limited financial data disclosed, in our view.

Investment Actions?

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

SingTel Ltd

Rating	2	Accumulate
- Previous Rating	2	Accumulate
Target Price (SGD)	3.31	
- Previous Target Price (SGD)	3.31	
Closing Price (SGD)	3.13	
Expected Capital Gains (%)	5.8%	
Expected Dividend Yield (%)	4.5%	
Expected Total Return (%)	10.2%	
Raw Beta (Past 2yrs weekly data)	0.57	
Market Cap. (USD mn / SGD mn)	39959 / 50216	
Enterprise Value (USD mn / SGD mn)	45698 / 57656	
3M Average Daily T/O (mn)	23.9	
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

Derrick Heng

derrickhengch@phillip.com.sg

+65 6531 1221

What do we know about Amobee?

We present a short summary of Amobee with majority of the information adapted from the company's website (<http://amobee.com/>). Amobee is a mobile advertising agency that is founded in 2005. Prior to the acquisition, investors in the company include Sequoia Capital, ACCEL Partners, Globespan Capital Partners, Cisco Systems, Motorola, Telefonica & Vodafone. Current customers of Amobee include Zynga, Ebay, Google, Skype etc. Amobee is able to provide focused advertising opportunities for advertisers, such as location based advertising and analytic tools that presents how consumers interact with the advertiser's brand.

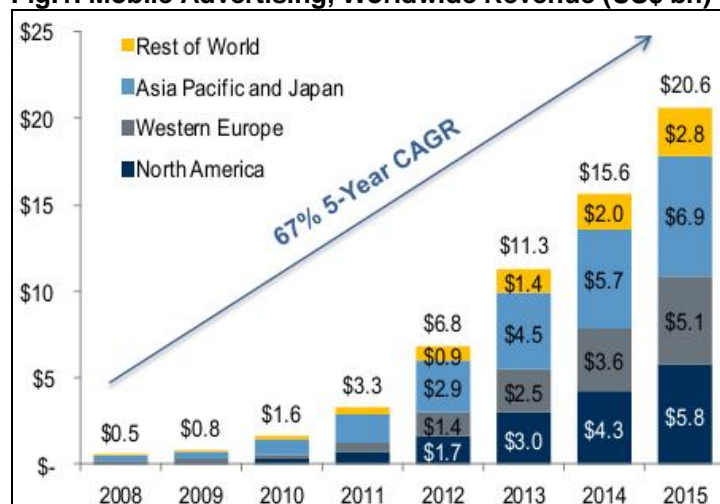
The Deal

SingTel will be paying US\$321mn for the company with a NAV of negative US\$0.6mn (as of 30 Nov 2011). The acquisition expected to be completed by June 2012 with the current management team remaining in active control of the company. Management highlighted that historical revenue for Amobee is c.US\$30mn/yr and had been growing at >100% over the past couple of years, as it is still very much a startup. Details of Amobee's historical earnings were not disclosed, but management highlighted that it is not material. We think that the price paid seems lofty at 10.7X historical sales and no earnings visibility. However, management justified the valuation with their internal discounted cash flow projections (DCF) and cited high multiples (13-30 X Sales) paid for comparable deals recently.

The Network Effect

Over the past few years, the profitability of local Telcos had been negatively affected by the high handset subsidies provided to drive smartphone penetration. With this new acquisition, we think that SingTel would be able to monetize on high smartphone subscriber bases in certain markets and create more revenue streams beyond the traditional Telco business. Apart from opportunities in the smartphone markets, Management highlighted that feature phone users remain an important avenue to reach out to emerging market consumers. SingTel has the classic "network effect" with a reach of >400mn mobile subscribers through its businesses in Singapore, Australia and Regional Mobile Associates. People are spending much more time on their mobile devices than in the past. Consequently, advertising opportunities are plenty with eyeballs shifting towards mobile devices. According to SingTel's presentation slides, Gartner forecasts that worldwide mobile advertising revenue would grow at a CAGR of 67% from 2010 to S\$20.6bn in 2015.

Fig.1. Mobile Advertising, Worldwide Revenue (US\$'bn)



Source: Gartner, SingTel presentation slides

Key highlights from conference call

Amobee:

- Currently, Amobee's focus is in US & European markets. Future focus will shift to growing in the Asia Pacific market.
- Amobee has the platform; SingTel has the data of users.
- Aims to keep business relationships with existing customers.
- Sales of US\$30mn/yr, earnings not material.
- Debt of US\$3.2mn.
- There is value in the shorter time to market, in a space that is expected to move very quickly. Hence, the acquisition of Amobee.

Group restructuring:

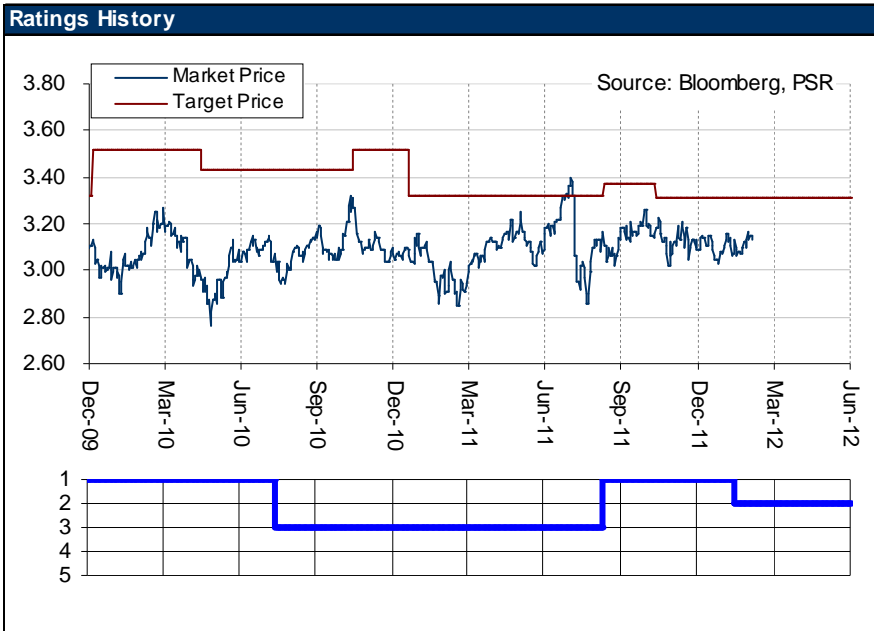
- Financial discipline will not change. Shift in focus does not imply Group would sacrifice profitability to grow client base.
- Dividend payout target of 55-70% remains unchanged.
- Existing MDA reporting to remain largely the same for next financial year, but would provide pro-forma disclosures of new business units.
- There are still opportunities for synergies across geographies for similar businesses. (eg. Purchasing of SIM cards, handsets, content deals etc.)
- Will keep credit rating as strong investment grade.

FYEMar	FY10	FY11	FY12F	FY13F	FY14F
Valuation Ratios					
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.	11.8	11.1	11.0	11.2	10.9
Dividend Yield (%)	4.5%	8.2%	4.4%	4.6%	4.7%
Per share data (SGD)					
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
Growth & Margins (%)					
Growth					
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%
Margins					
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%
Key Ratios					
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%
Income Statement (SGD mn)					
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
Profit Before Tax	4,501	4,446	4,283	4,386	4,504
Taxation	(595)	(624)	(635)	(598)	(606)
Profit After Tax	3,907	3,823	3,648	3,788	3,898
Non-controlling Interest	(1)	(3)	0	0	0
Net Income, reported	3,907	3,825	3,648	3,788	3,898
Net Income, adj.	3,903	3,770	3,648	3,788	3,898

Source: PSR

FYEMar	FY10	FY11	FY12F	FY13F	FY14F
Balance Sheet (SGD mn)					
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
Total non-current assets	32,807	32,727	33,957	34,862	35,688
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
Total current assets	5,144	6,555	4,859	5,583	6,395
Total Assets	37,952	39,282	38,816	40,444	42,082
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
Total current liabilities	6,835	8,541	8,416	8,488	8,534
Long term loans	5,351	4,587	4,707	4,707	4,707
Others	2,250	1,805	1,805	1,805	1,805
Total non-current liabilities	7,601	6,391	6,511	6,511	6,511
Non-controlling interest	23	22	22	22	22
Shareholder Equity	23,493	24,328	23,866	25,423	27,016
Cashflow Statements (SGD mn)					
CFO					
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)
Cashflow from ops	4,063	4,288	4,342	4,191	4,277
CFI					
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
Cashflow from investments	(1,226)	(1,565)	(1,782)	(1,280)	(1,211)
CFF					
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
Cashflow from financing	(2,322)	(1,580)	(3,990)	(2,231)	(2,306)
Net change in cash	515	1,143	(1,430)	680	760
Effects of exchange rates	23	(18)	0	0	0
CCE, end	1,614	2,738	1,308	1,988	2,749

Source: PSR



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

Important Information

This publication is prepared by Phillip Securities Research Pte Ltd., 250 North Bridge Road, #06-00, Raffles City Tower, Singapore 179101 (Registration Number: 198803136N), which is regulated by the Monetary Authority of Singapore ("Phillip Securities Research"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this document by mistake, please delete or destroy it, and notify the sender immediately. Phillip Securities Research shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources, which Phillip Securities Research has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this publication are based on such information and are expressions of belief of the individual author or the indicated source (as applicable) only. Phillip Securities Research has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete, appropriate or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited its officers, directors, employees or persons involved in the preparation or issuance of this report, (i) be liable in any manner whatsoever for any consequences (including but not limited to any special, direct, indirect, incidental or consequential losses, loss of profits and damages) of any reliance or usage of this publication or (ii) accept any legal responsibility from any person who receives this publication, even if it has been advised of the possibility of such damages. You must make the final investment decision and accept all responsibility for your investment decision, including, but not limited to your reliance on the information, data and/or other materials presented in this publication.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

Past performance of any product referred to in this publication is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This publication should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this research should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this publication, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the

preparation or issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as may be mentioned in this publication.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold an interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this publication. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, which is not reflected in this material, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this material.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Section 27 of the Financial Advisers Act (Cap. 110) of Singapore and the MAS Notice on Recommendations on Investment Products (FAA-N01) do not apply in respect of this publication.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

Please contact Phillip Securities Research at [65 65311240] in respect of any matters arising from, or in connection with, this document.

This report is only for the purpose of distribution in Singapore.

Contact Information (Singapore Research Team)

Chan Wai Chee
CEO, Research
Special Opportunities
+65 6531 1231
yebo@phillip.com.sg

Lee Kok Joo, CFA
Head of Research
S-Chips, Strategy
+65 6531 1685
leekj@phillip.com.sg

Joshua Tan
Strategist
+65 6531 1249
joshuatan@phillip.com.sg

Magdalene Choong
Investment Analyst
SG & US Financials, Gaming
+65 6531 1791
magdalenechoongss@phillip.com.sg

Go Choon Koay, Bryan
Investment Analyst
Property
+65 6531 1792
gock@phillip.com.sg

Derrick Heng
Investment Analyst
Transportation, Telecom.
+65 6531 1221
derrickhengch@phillip.com.sg

Nicholas Low, CFA
Investment Analyst
Commodities, Offshore & Marine
+65 6531 1535
nicholaslowkc@phillip.com.sg

Travis Seah
Investment Analyst
REITS
+65 6531 1229
travisseahhk@phillip.com.sg

Peter Lee
Research Assistant
General Enquiries
+65 6531 1240 (Phone)
+65 6336 7607 (Fax)
research@phillip.com.sg

Ken Ang
Investment Analyst
Financials
+65 6531 1793
kenangwy@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel : (65) 6533 6001
Fax : (65) 6535 6631
Website: www.poems.com.sg

HONG KONG

Phillip Securities (HK) Ltd
Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel (852) 22776600
Fax (852) 28685307
Websites: www.phillip.com.hk

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel (62-21) 57900800
Fax (62-21) 57900809
Website: www.phillip.co.id

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel (66-2) 6351700 / 22680999
Fax (66-2) 22680921
Website www.phillip.co.th

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel (44-20) 7426 5950
Fax (44-20) 7626 1757
Website: www.kingandshaxson.com

AUSTRALIA

PhillipCapital Australia
Level 37, 530 Collins Street,
Melbourne, Victoria 3000, Australia
Tel (613) 96298380
Fax (613) 96148309
Website: www.phillipcapital.com.au

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel (603) 21628841
Fax (603) 21665099
Website: www.poems.com.my

JAPAN

PhillipCapital Japan K.K.
Nagata-cho Bldg.,
8F, 2-4-3 Nagata-cho,
Chiyoda-ku, Tokyo 100-0014
Tel (81-3) 35953631
Fax (81-3) 35953630
Website: www.phillip.co.jp

CHINA

Phillip Financial Advisory (Shanghai) Co. Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel (86-21) 51699200
Fax (86-21) 63512940
Website: www.phillip.com.cn

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel (33-1) 45633100
Fax (33-1) 45636017
Website: www.kingandshaxson.com

UNITED STATES

Phillip Futures Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1.312.356.9000
Fax +1.312.356.9005