

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.

- Underlying net income stable y-y at S\$886 million
- Guidance on Optus revenue revised downward to negative mid-single digit levels
- Group EBITDA guided to remain stable
- Unchanged Interim DPS of 6.8cents
- We rate SingTel as Neutral with new TP of S\$3.06

What is the news?

SingTel reported 2Q13 underlying profits of S\$886 million, increasing 0.1% y-y. Management revised its guidance on Australia from low single-digit revenue growth, to negative mid-single digit revenue decline, as it focuses on improving customer experience and yield, in the challenging environment. However, EBITDA is expected to remain stable on a Group level, in Singapore, and in Australia. The Group's 30% equity interest in Ward has also been reclassified as "Asset Held for Sale". An unchanged interim dividend of 6.8 cents per share was also declared, representing a 62% payout of current 1H13 earnings.

Fig.1. Results Summary

Income Statement				
(Extract)	2Q12	2Q13	y-y (%)	Comments
(S\$'mn)				
Singapore	1,601	1,672	4.4%	
Optus	3,008	2,900	-3.6%	FY13E -ve growth guidance
Revenue	4,610	4,572	-0.8%	
Singapore	530	541	2.1%	Small margin compression
Optus	719	725	0.8%	Cost mgmt initiative lower cost
Associates	498	574	15.2%	Warid reclass to "Held for sale"
EBITDA	1,747	1,840	5.3%	
PBT	1,177	1,193	1.3%	Higher amortising cost
Net Income	885	886	0.1%	

Source: Company, PSR

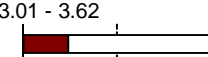
How do we view

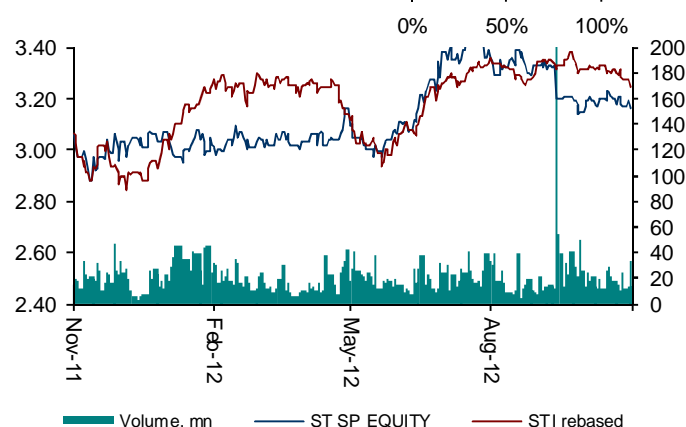
2Q13's earnings were below our expectations on weaker revenue from Optus, mitigated by good cost management. While guidance was lowered, we note the rather resilient performance, while potential earnings surprise may arise from improved data monetization, contributions from Digital Life, and SingTel's associates.

Investment Actions?

We factor in 2Q13's earnings, together with management's downward revision of Optus revenue guidance. We derive a new Sum-of-the-parts (SOTP) target price of S\$3.06, and maintain our "Neutral" call.

SingTel Ltd

Rating	3	Neutral
- Previous Rating	3	Neutral
Target Price (SGD)	3.06	
- Previous Target Price (SGD)	3.31	
Closing Price (SGD)	3.16	
Expected Capital Gains (%)	-3.2%	
Expected Dividend Yield (%)	5.0%	
Expected Total Return (%)	1.8%	
Raw Beta (Past 2yrs weekly data)	0.54	
Market Cap. (USD mn / SGD mn)	41231 / 50382	
Enterprise Value (USD mn / SGD mn)	47526 / 58099	
3M Average Daily T/O (mn)	27.4	
52 week range (SGD)	3.01 - 3.62	
Closing Price in 52 week range		



Major Shareholders

	(%)
1. Temasek Holdings Pte Ltd	52.0
2. Capital Research Global Investor	3.2

Key Financial Summary

FYE	03/11	03/12	03/13F	03/14F
Revenue (SGD mn)	18,071	18,825	18,577	19,163
Net Profit, adj. (SGD mn)	3,800	3,676	3,755	4,197
EPS, adj. (SGD)	0.24	0.23	0.24	0.26
P/E (X), adj.	13.2	13.7	13.4	12.0
BVPS (SGD)	1.53	1.47	1.51	1.61
P/B (X)	2.1	2.1	2.1	2.0
DPS (SGD)	0.26	0.16	0.16	0.17
Div. Yield (%)	8.2%	5.0%	5.0%	5.3%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

SOTP

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Singapore

Revenue grew 4.4% y-y, while EBITDA increased 2.1% y-y. While blended ARPU declined y-y from S\$52 to S\$50, the larger increase in mobile subscribers, both pre-paid and post-paid led to the higher Mobile revenue. Revenue from NSC group also continued to contribute significantly, with a healthy order book, mostly from government-related entities. SingTel's mio TV also continue to gain market share, while recent non-exclusive wins, especially the renewal of the BPL contract, is expected to reduce churn rates and increase revenue from possibly higher pricing power and subscribers.

We expect a decline in EBITDA margin in 3Q13, due to higher subsidy of iPhone 5 leading to higher acquisition cost. This subsidy would however be recovered over the phone's contract period.

Optus

Revenue from Optus declined 3.6% y-y, but increased 1.4% q-q to S\$2,900 million. The y-y decline was due to price competition, lower service credits, and reduced termination rates mandated from October 2011. This has led to negative mobile industry revenue growth, and a downward revision of revenue guidance, from a low single-digit growth, to a mid single digit decline. EBITDA is expected to remain stable, due to cost reduction initiatives, coupled with increasing efficiencies.

Moving forward, management sees the key revenue driver to be from the monetizing of data usage. Optus has rebalanced its data allowances, while rolling out 4G and improving its existing 3G network to boost signal coverage. Higher uptake of its bundled plans is also expected to aid in reducing churn rates and increasing revenue.

Associates

Warid was reclassified as "Asset Held for Sale" in 2Q13, thus removing the remaining loss-reporting associate. This contributed to the 15.2% y-y increase in share of associates' pre-tax profit. Excluding the depreciation of the regional currencies, the associates' pre-tax profit increased by 24% y-y. The stronger y-y performance of AIS and Telkomsel mitigated the weaker performance of Bharti, due to the depreciation of the Indian rupee, and economic headwinds in Africa.

Should Warid be sold, we would expect a large one-off deficit to be recognised in the Income statement, due to the realization of S\$ 366 million in cumulative translation loss. The impact would be dependent on the transaction price, with a higher transaction price leading to a higher book value gain on investment, and lower losses on the income statement. However, we are not too optimistic on a high selling price, taking into account Warid's high debts, operating losses, and guarantee call of US\$30.3 million SingTel recently received but has not met. A buyer would likely take this into consideration, therefore further reducing the selling price.

Digital Life

While management has not disclosed much on its recent investments, we note that advertising revenue has increased significantly from S\$10 million to S\$18 million, mainly due to contributions from Amobee. Management guides that they have a clear roadmap, and expect to see increasing contributions from its Digital Life investments.

Singapore

Fig 1: Customer Net Adds ('000) vs Post-paid monthly Churn rate

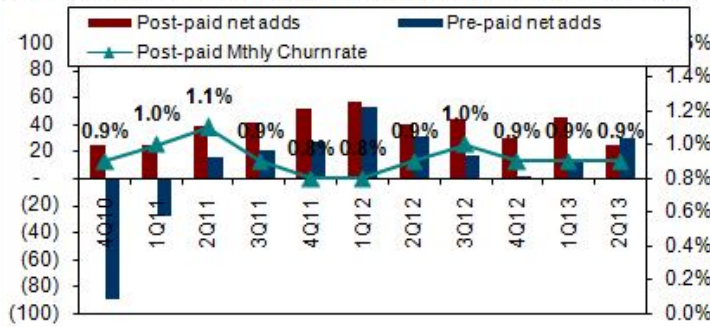


Fig 2: Post-paid ARPU vs monthly Churn rate

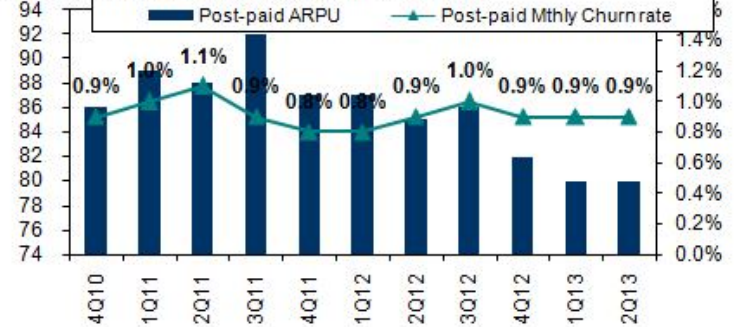


Fig 3: Pre-paid ARPU

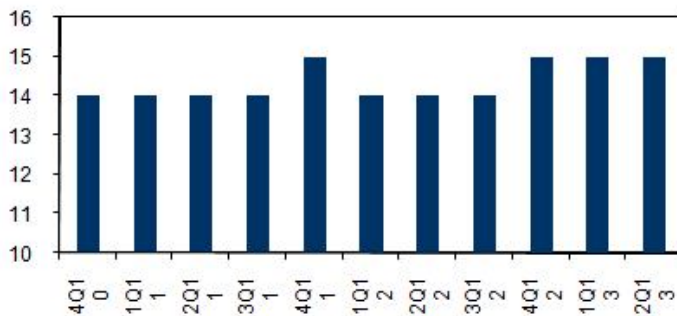


Fig 4: Service Revenue

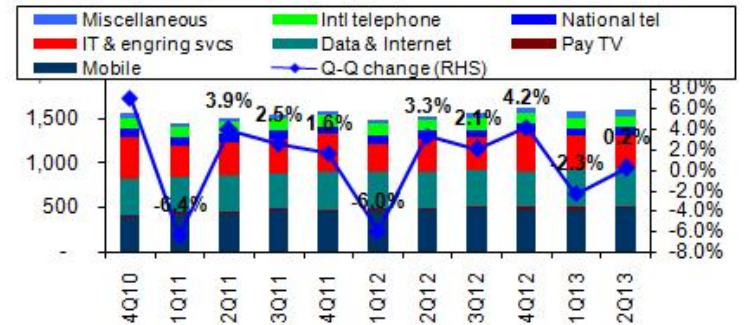
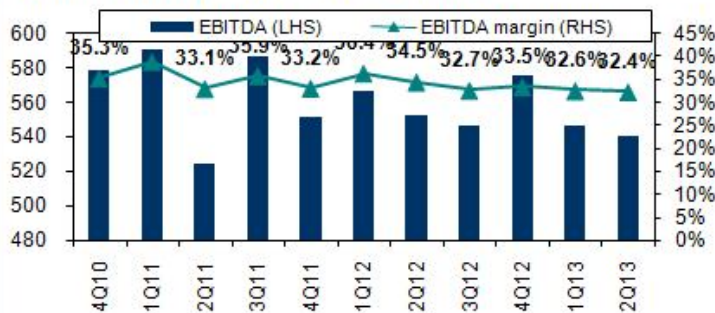


Fig 7: EBITDA vs EBITDA as % of service rev



Source: Company, PSR

Optus

Fig 1: Customer Net Adds ('000) vs Post-paid monthly Churn rate

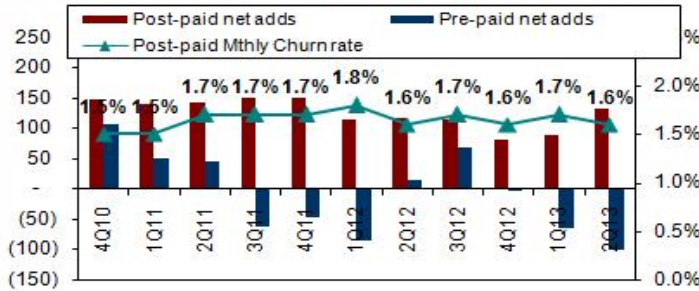


Fig 2: Post-paid ARPU vs monthly Churn rate

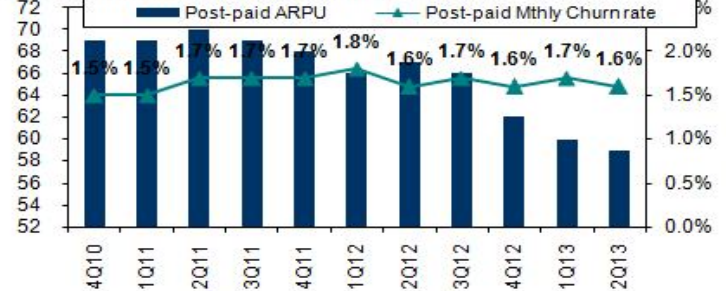


Fig 3: Pre-paid ARPU

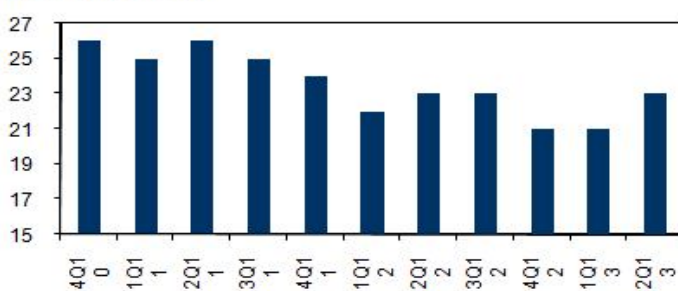


Fig 4: Service Revenue

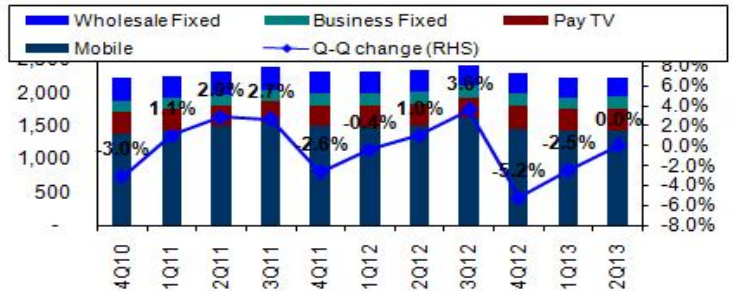
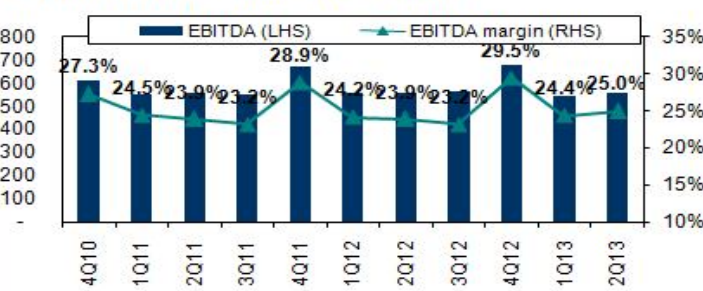


Fig 5: EBITDA vs EBITDA as % of service rev



Associates & JV

Fig 1: Post-tax contribution of Associates and JVs

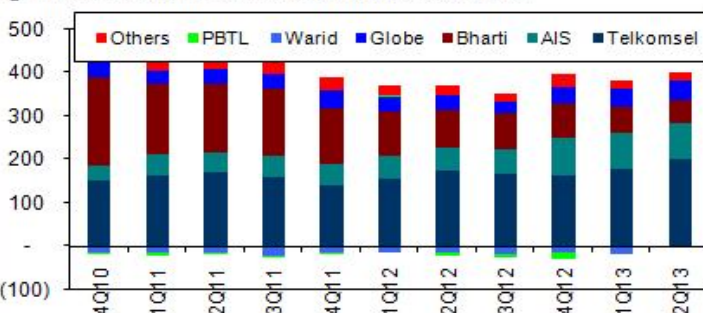
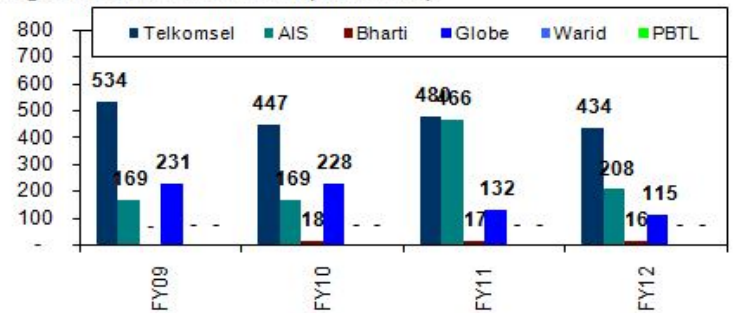
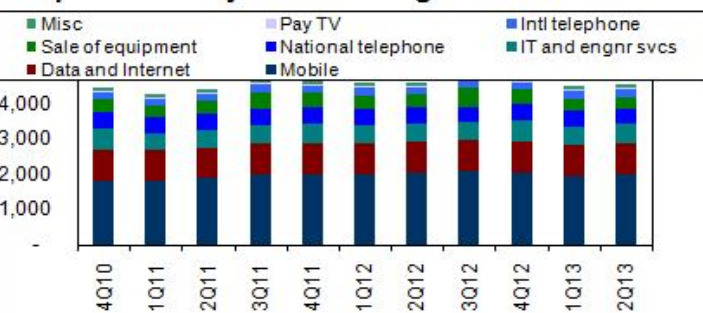


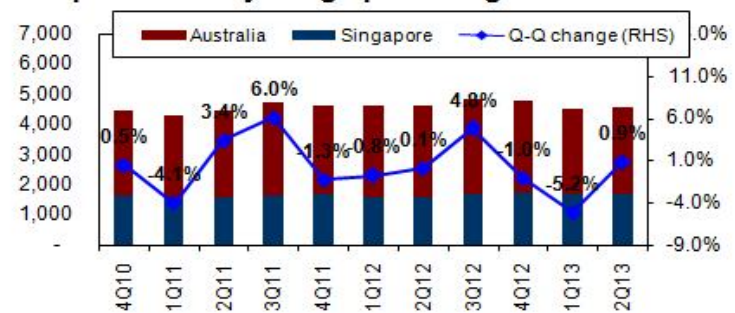
Fig 2: Associates Dividends (\$ million)



Group - revenue by Business Segment



Group - revenue by Geographical Segment



Source: Company, PSR

FYEMar	FY10	FY11	FY12	FY13F	FY14F
Valuation Ratios					
P/E (X), adj.	12.9	13.2	13.7	13.4	12.0
P/B (X)	2.1	2.1	2.1	2.1	2.0
EV/EBITDA (X), adj.	12.0	11.3	11.1	11.3	10.8
Dividend Yield (%)	4.5%	8.2%	5.0%	5.0%	5.3%
Per share data (SGD)					
EPS, reported	0.25	0.24	0.25	0.24	0.26
EPS, adj.	0.25	0.24	0.23	0.24	0.26
DPS	0.14	0.26	0.16	0.16	0.17
BVPS	1.48	1.53	1.47	1.51	1.61
Growth & Margins (%)					
Growth					
Revenue	13.0%	7.1%	4.2%	-1.3%	3.2%
EBITDA	9.4%	5.6%	1.9%	-1.2%	4.6%
EBIT	13.2%	-1.6%	-1.3%	1.1%	8.6%
Net Income, adj.	13.1%	-2.8%	-3.3%	2.2%	11.8%
Margins					
EBITDA margin	28.7%	28.3%	27.7%	27.8%	28.2%
EBIT margin	31.9%	29.3%	27.7%	28.4%	29.9%
Net Profit Margin	23.2%	21.2%	21.2%	20.6%	21.9%
Key Ratios					
ROE (%)	17.8%	16.0%	16.7%	16.1%	16.9%
ROA (%)	11.0%	9.9%	10.0%	9.4%	10.3%
Net Debt/(Cash)	5,266	4,548	7,447	7,633	6,695
Net Gearing (X)	22.4%	18.7%	31.8%	31.8%	26.1%
Income Statement (SGD mn)					
Revenue	16,871	18,071	18,825	18,577	19,163
EBITDA	4,847	5,119	5,219	5,158	5,396
Associates & JVs	2,410	2,141	2,005	2,253	2,459
Depreciation & Amortisation	(1,878)	(1,969)	(2,002)	(2,130)	(2,118)
EBIT	5,379	5,292	5,222	5,282	5,737
Net Finance (Expense)/Income	(334)	(324)	(341)	(310)	(282)
Other items	(2)	25	86	62	0
Profit Before Tax	5,042	4,993	4,968	5,034	5,455
Taxation	(1,136)	(1,170)	(978)	(1,214)	(1,255)
Profit After Tax	3,907	3,823	3,990	3,820	4,200
Non-controlling Interest	1	3	(1)	(3)	(3)
Net Income, reported	3,907	3,825	3,989	3,817	4,197
Net Income, adj.	3,910	3,800	3,676	3,755	4,197

Source: PSR

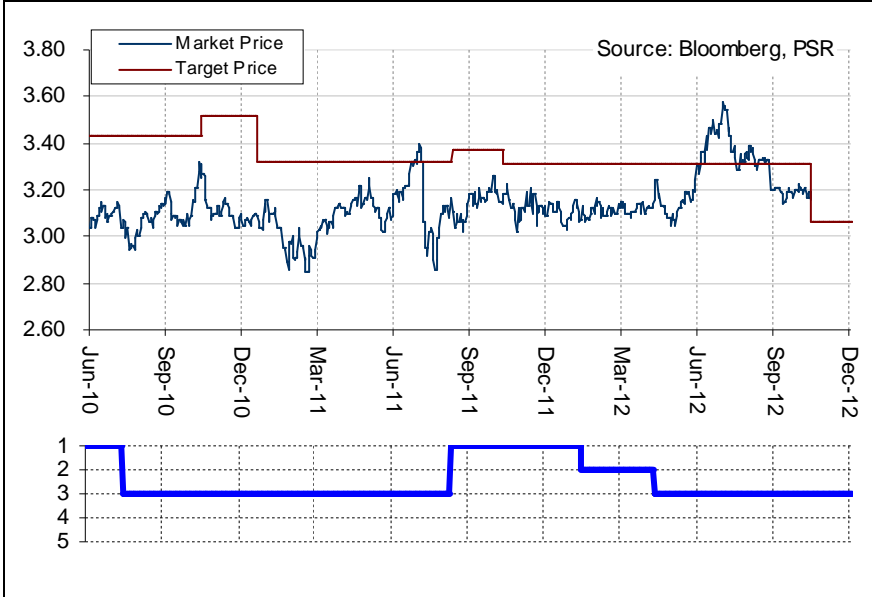
FYEMar	FY10	FY11	FY12	FY13F	FY14F
Balance Sheet (SGD mn)					
PPE	10,750	11,113	11,580	11,871	11,934
Intangibles	10,200	10,218	10,174	10,980	10,973
Associates & JVs	10,412	10,197	10,181	10,219	10,935
Investments	256	309	149	181	181
Others	1,190	890	2,516	2,539	2,539
Total non-current assets	32,807	32,727	34,599	35,788	36,562
Inventories	346	299	208	265	274
Accounts Receivables	3,172	3,449	3,927	3,563	3,675
Investments	0	0	334	38	0
Cash	1,614	2,738	1,346	773	747
Others	13	69	3	0	0
Total current assets	5,144	6,555	5,819	4,639	4,696
Total Assets	37,952	39,282	40,418	40,427	41,258
Short term loans	1,528	2,699	131	126	112
Accounts Payables	4,650	4,450	5,053	4,633	4,752
Others	657	1,392	351	409	409
Total current liabilities	6,835	8,541	5,535	5,167	5,272
Long term loans	5,351	4,587	8,663	8,280	7,330
Others	2,250	1,805	2,772	2,958	2,958
Total non-current liabilities	7,601	6,391	11,434	11,238	10,288
Non-controlling interest	23	22	20	18	14
Shareholder Equity	23,493	24,328	23,428	24,004	25,683

Cashflow Statements (SGD mn)

CFO					
PBT	4,501	4,446	4,314	4,393	4,774
Adjustments	382	692	918	728	623
Cash from ops before WC changes	4,883	5,138	5,232	5,122	5,396
WC changes	(136)	15	11	(119)	(2)
Cash generated from ops	4,747	5,154	5,243	5,003	5,394
Taxes paid, net	(370)	(301)	(451)	(615)	(615)
Interest paid	(315)	(348)	(415)	(345)	(312)
Others	(2)	(4)	(1)	(3)	0
Cashflow from ops	4,060	4,501	4,376	4,040	4,467
CFI					
CAPEX, net	(1,923)	(2,005)	(2,249)	(2,387)	(2,109)
Dividends from associates & JVs	954	1,194	920	1,083	1,061
Dividends/Interest from Investments	34	52	45	21	0
Purchase/sale of investments	6	(18)	(71)	306	0
Investments in subs & associates	(90)	(670)	(918)	(6)	0
Others	(206)	(119)	383	(771)	(104)
Cashflow from investments	(1,226)	(1,565)	(1,889)	(1,754)	(1,153)
CFF					
Share issuance	11	7	9	2	0
Purchase of treasury shares	(64)	(39)	(20)	(26)	0
Loans, net of repayments	(204)	840	1,189	(388)	(964)
Dividends to minority interests	(1)	(1)	(2)	(0)	0
Dividends to shareholders & capital reduction	(2,084)	(2,357)	(4,111)	(2,518)	(2,518)
Others	23	(243)	(914)	73	141
Cashflow from financing	(2,320)	(1,793)	(3,850)	(2,857)	(3,341)
Net change in cash	515	1,143	(1,363)	(571)	(26)
Effects of exchange rates	23	(18)	(29)	(2)	0
CCE, end	1,614	2,738	1,346	773	747

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

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