

Report type: Quarterly results

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 lower y-y at S\$874 million
- Positive on Singapore performance, while AIS and Telkomsel's contributions remain strong
- Bharti pre-tax contribution lower q-q, Optus EBITDA stable, but Capex requirements still high
- We rate SingTel as Neutral with new TP of S\$3.31

What is the news?

SingTel reported 3Q13 underlying profits of S\$874 million, decreasing 2.3% y-y. Management maintained their guidance on the EBITDA and Capex for the various segments. In Singapore, revenue increased marginally 1.3%, due to higher Mobile, IPTV, and Equipment revenue, mitigated by lower International and national telephone revenue. In Australia, revenue decreased 8.1%, largely due to lower mobile revenue attributable to the decline in mobile termination rate and introduction of service credits. AIS and Telkomsel post healthy results, while Bharti's pre-tax contributions continue to decline.

Fig.1. Results Summary

| Income Statement | | | | |
|-------------------|--------------|--------------|--------------|---------------------------------|
| (Extract) | 3Q12 | 3Q13 | y-y (%) | Comments |
| (S\$'mn) | | | | |
| Singapore | 1,675 | 1,696 | 1.3% | Mobile, IPTV, Handsets rev up |
| Optus | 3,155 | 2,899 | -8.1% | Mobile rev A\$114 lower |
| Revenue | 4,830 | 4,595 | -4.9% | |
| Singapore | 524 | 529 | 1.1% | Mobile, IPTV, Handsets rev up |
| Optus | 733 | 731 | -0.2% | EBITDA stable y-y |
| Associates | 475 | 486 | 2.3% | Bharti's performance disappoint |
| EBITDA | 1,731 | 1,748 | 1.0% | Good cost management |
| PBT | 1,183 | 1,080 | -8.7% | |
| Net Income | 895 | 874 | -2.3% | Below expectations |

Source: Company, PSR

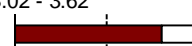
How do we view

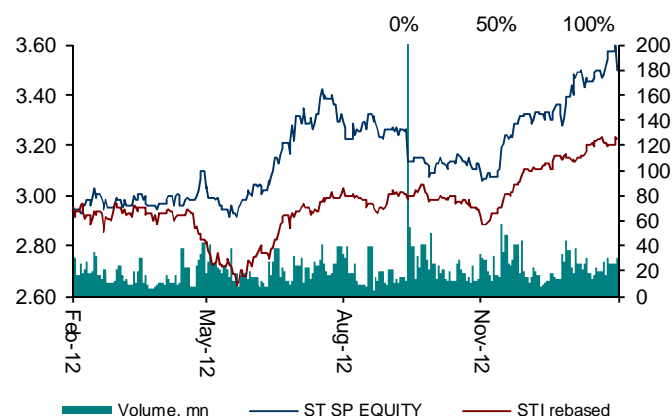
3Q13's earnings were below our expectations on weaker revenue from Optus, and lower contributions from associates. Positives from this round of results include an increase in data monetizing, indications of lower IPTV content cost in Singapore, effective cost management in Australia, and potentially better performances for Globe and Bharti moving forward. Optus would however require continued higher capex, and may incur high spectrum costs.

Investment Actions?

We factor in 3Q13's earnings, and improved q-q valuation of the associates. We derive a new Sum-of-the-parts (SOTP) target price of S\$3.31, and maintain our "Neutral" call.

SingTel Ltd

| | | |
|------------------------------------|---|----------------|
| Rating | 3 | Neutral |
| - Previous Rating | 3 | Neutral |
| Target Price (SGD) | 3.31 | |
| - Previous Target Price (SGD) | 3.06 | |
| Closing Price (SGD) | 3.50 | |
| Expected Capital Gains (%) | -5.4% | |
| Expected Dividend Yield (%) | 4.5% | |
| Expected Total Return (%) | -0.9% | |
| Raw Beta (Past 2yrs w weekly data) | 0.53 | |
| Market Cap. (USD mn / SGD mn) | 45084 / 55803 | |
| Enterprise Value (USD mn / SGD mn) | 50944 / 62962 | |
| 3M Average Daily T/O (mn) | 23.1 | |
| 52 week range (SGD) | 3.02 - 3.62 | |
| Closing Price in 52 week range |  | |



Major Shareholders

| | (%) |
|-------------------------------------|------|
| 1. Temasek Holdings Pte Ltd | 52.0 |
| 2. Capital Research Global Investor | 3.1 |

Key Financial Summary

| FYE | 03/11 | 03/12 | 03/13F | 03/14F |
|---------------------------|--------|--------|--------|--------|
| Revenue (SGD mn) | 18,071 | 18,825 | 18,372 | 19,101 |
| Net Profit, adj. (SGD mn) | 3,800 | 3,676 | 3,764 | 4,176 |
| EPS, adj. (SGD) | 0.24 | 0.23 | 0.24 | 0.26 |
| P/E (X), adj. | 14.7 | 15.2 | 14.8 | 13.4 |
| BVPS (SGD) | 1.53 | 1.47 | 1.50 | 1.60 |
| P/B (X) | 2.3 | 2.4 | 2.3 | 2.2 |
| DPS (SGD) | 0.26 | 0.16 | 0.16 | 0.17 |
| Div. Yield (%) | 7.4% | 4.5% | 4.5% | 4.8% |

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

SOTP

Analyst

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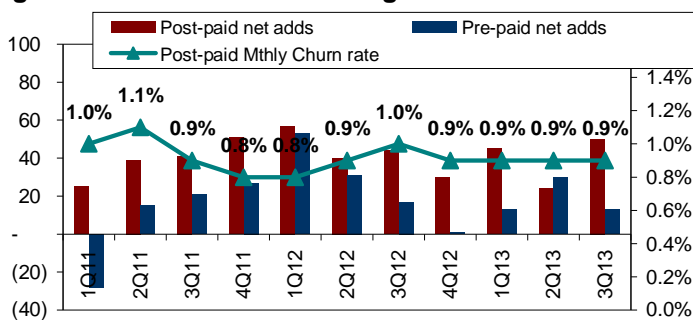
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Singapore

Both Revenue and EBITDA grew 1% y-y. On Mobile, the larger customer base mitigated the y-y decline in post-paid ARPU from S\$86 to S\$81. ARPU decreased due to lower voice roaming revenue, as customers take up data roaming plans. Management guided that the net effect on EBITDA margins for roaming to be largely stable.

Management also highlighted an increase in data monetizing, as 9% of post-paid customers that are currently on tiered plans exceeded their data allowances. 17% of the postpaid base is on tiered data plans. Furthermore, once the island-wide rollout of LTE has been completed, management will be reviewing data charges in 1 April 2013. A possible increase in additional data charges, from the current S\$5.35 per GB, an unspecified higher amount. With a dominate market share, we think it is likely for the other two Telcos to follow SingTel's increase, leading to a small upward lift to ARPU. Customers will also be more likely to sign up for higher tiered plans to enjoy higher phone subsidies, and higher data allowances.

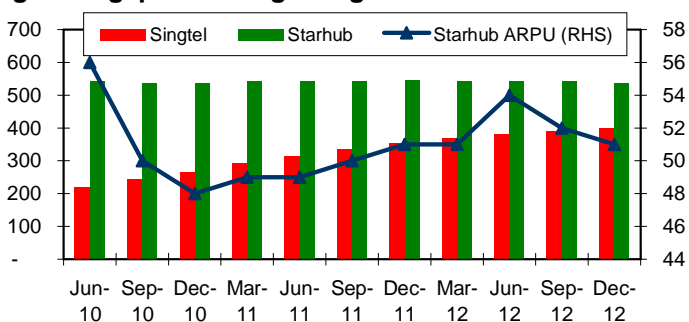
Fig 1. Customer net adds strong with low churn



Source: Company, PSR

SingTel has also completed negotiations for BPL broadcast rights. This was signed on a non-exclusive basis, and we expect for content costs to be lower. The potentially lower content cost would help improve SingTel's IPTV margins. We note that SingTel has been successfully gaining market share in the IPTV segment.

Fig 2. Singapore IPTV gaining market share



Source: Companies, PSR

Management further guides its focus on gaining profitable market share. On Postpaid, the focus would be monetizing tiered data plans. An increase in data usage would also be a

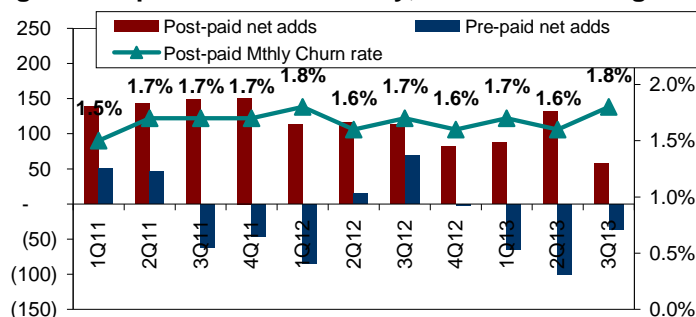
driver of better prepaid revenue. Management also intends to continue aggressively market its IPTV and Fibre. Fibre is seen to be an anchor, in convincing homes to take up home bundles which increase stickiness and reduces churn. We note SingTel's success of having significantly higher market share in the fibre broadband segment. For businesses, SingTel positions itself as a premium service provider, with an attractive suite of cloud based services.

Based on our forecast, we expect SingTel to meet its FY13 guidance for low single-digit revenue growth, and stable EBITDA.

Optus

Revenue from Optus declined 8.1% y-y, due to lower Mobile revenue attributable to the decline in mobile termination rate and introduction of service credits associated with the device repayment plans introduced from October 2011. On constant currency terms, revenue was lower 5.7% y-y. While revenue was lower, expenses were also reduced due to careful cost management. Subsidies on handsets per postpaid subscriber were reduced y-y, leading to better margins on handsets. Traffic expenses were also lower y-y due to lower interconnect cost attributable to similar decrease in mobile termination rate, and decline in outpayment costs.

Fig 3. Post-paid net adds healthy, but churn still high



Source: Company, PSR

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. More developments on its broadband services would also be made after the on-going spectrum auction.

We expect Optus to meet its FY13 guidance for mid single-digit revenue decline, and stable EBITDA.

Associates

Bharti continue to report q-q decrease in pre-tax profits, which was due to the depreciation of the Rupee and higher depreciation and amortization charges from its investments in 3G and LTE. Net finance costs also continue to rise. However, management sees an improvement in both Africa and India. In Africa, the business is picking up, while the Indian market is similarly improving with mobile rates stabilizing although challenges remain. 2G Data pricing is also expected to increase.

SingTel

| Valuation Methodology: SOTP | | | | | | | | | | |
|--|-----------------------------------|--|---------|------------------------------------|----------|-------|------------------|-----------------|-----------------|---------------|
| Financial Year ending 31st Mar | | | | | | | | | | |
| Segment | Method | | % stake | ST Value in local currency (LC'bn) | | LC:\$ | Holding Discount | Value in S\$'bn | Value per share | % of Total |
| Singapore | DCF (WACC: 8.1% , term. g: 1.0%) | | 100.0% | S\$ | 18.5 | 1.00 | | 18.5 | 1.16 | 30.6% |
| Optus | DCF (WACC: 8.1% , term. g: 0.0%) | | 100.0% | A\$ | 12.5 | 1.31 | | 16.4 | 1.03 | 27.1% |
| Core: Singapore + Optus | | | | | | | | 34.9 | 2.19 | 57.7% |
| | | | | S\$:LC | | | | | | |
| Telkomsel | P/E multiple 13.0 (X) | | 35.0% | IDR | 73,704.7 | 7,380 | 10% | 9.0 | 0.56 | 14.9% |
| AIS | DCF (WACC: 12.1% term. g: 2.0%) | | 23.3% | THB | 159.3 | 25.1 | 10% | 5.7 | 0.36 | 9.4% |
| Bharti | Market Value | | 32.3% | INR | 382.3 | 40.8 | 10% | 8.4 | 0.53 | 13.9% |
| Globe | Market Value | | 47.3% | PHP | 73.3 | 34.3 | 10% | 1.9 | 0.12 | 3.2% |
| Warid | Investment Value | | 30.0% | PKR | N.A. | NM | NM | 0.0 | 0.00 | 0.0% |
| PBTL | Investment Value | | 45.0% | BDT | N.A. | NM | NM | 0.0 | 0.00 | 0.0% |
| SingPost | Market Value | | 25.6% | S\$ | 0.6 | 1.0 | 10% | 0.5 | 0.03 | 0.9% |
| Key Associates | | | | | | | 10% | 25.6 | 1.60 | 42.3% |
| Total Enterprise Value | | | | | | | | 60.5 | 3.79 | 100.0% |
| Less: Net Debt FY13e | | | | | | | | (7.7) | (0.49) | |
| Total Equity Value | | | | | | | | 52.8 | | |
| Divided by outstanding no. of shares ('mn) | | | | | | | | 15,944 | | |
| Target Price per share (S\$) | | | | | | | | 3.31 | | |
| Current Market Price (S\$) | | | | | | | | 3.50 | | |
| F12M DPS (S\$) | | | | | | | | 0.16 | | |
| Price upside (%) | | | | | | | | -5.4% | | |
| Dividend yield (%) | | | | | | | | 4.5% | | |
| Total return (%) | | | | | | | | -0.9% | | |

Source: PSR est.

Singapore

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

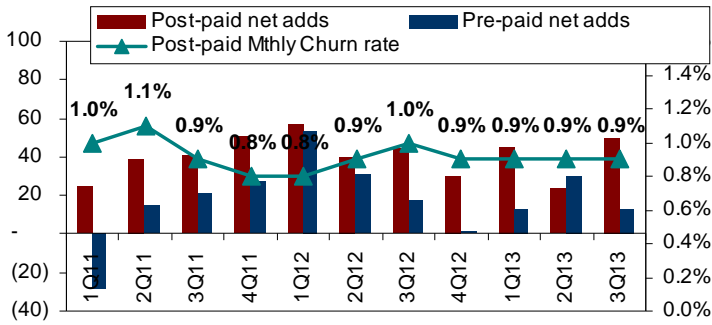


Fig 2: Post-paid ARPU vs monthly Churn rate

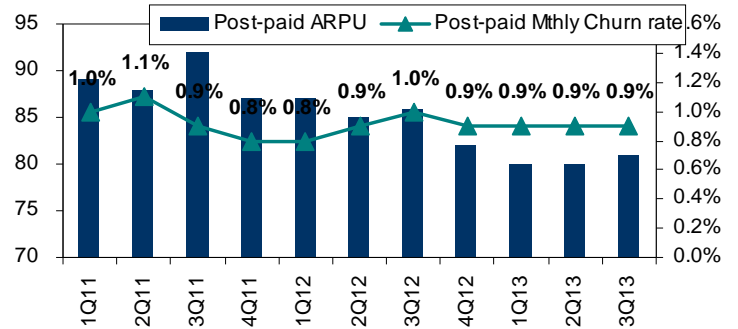


Fig 3: Pre-paid ARPU

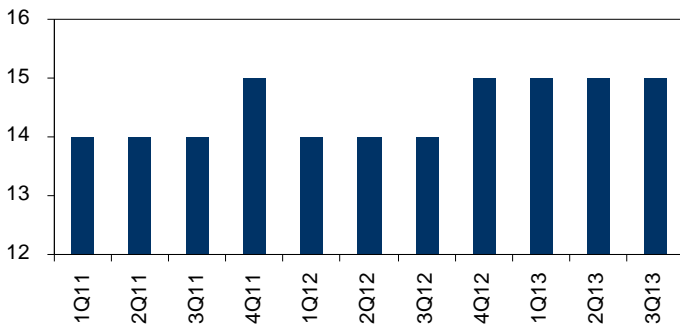


Fig 4: Service Revenue

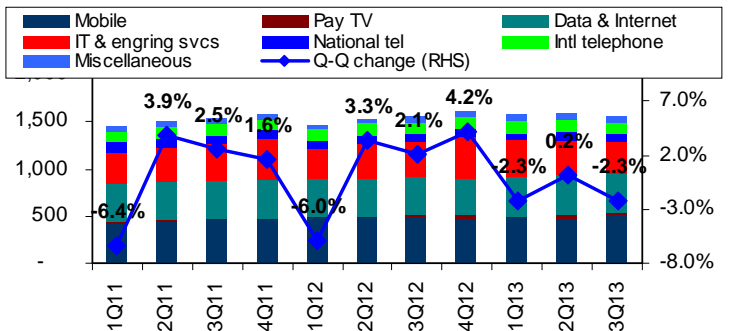
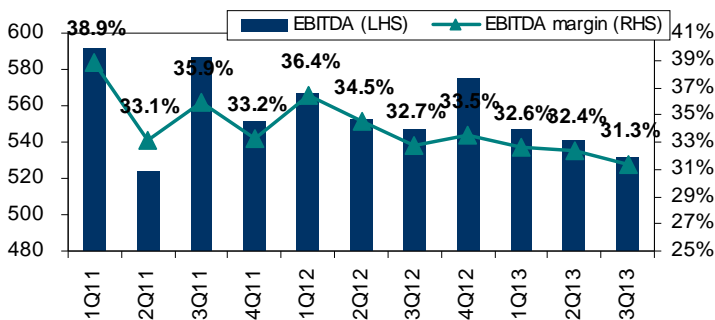


Fig 7: EBITDA vs EBITDA as % of service rev



Source: Company, PSR

Optus

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

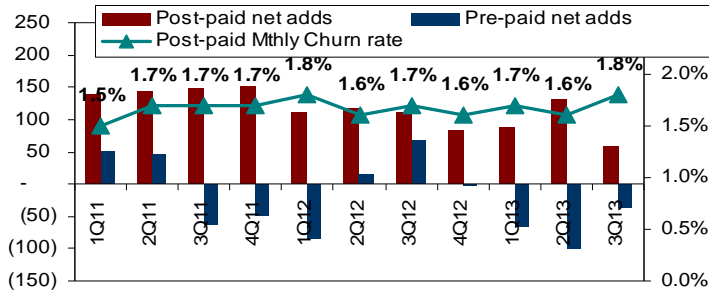


Fig 2: Post-paid ARPU vs monthly Churn rate

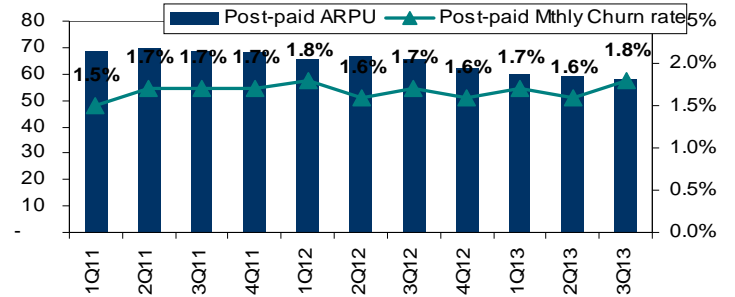


Fig 3: Pre-paid ARPU

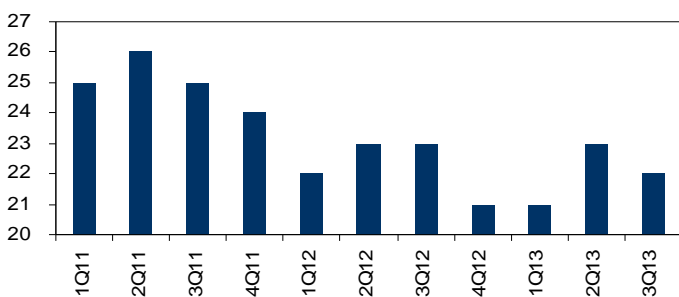


Fig 4: Service Revenue

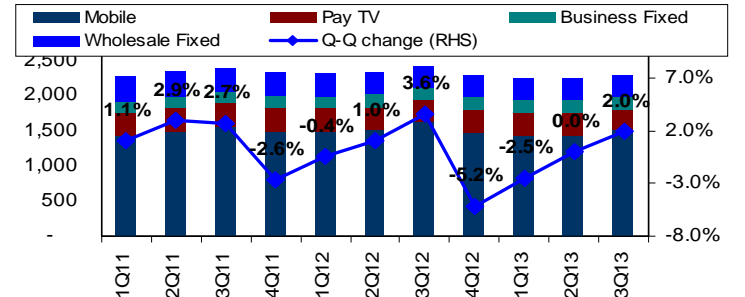
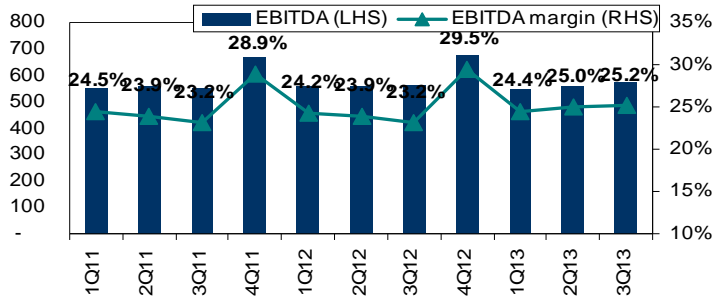


Fig 5: EBITDA vs EBITDA as % of service rev



Source: Company, PSR

Associates & JV

Fig 1: Post-tax contribution of Associates and JVs

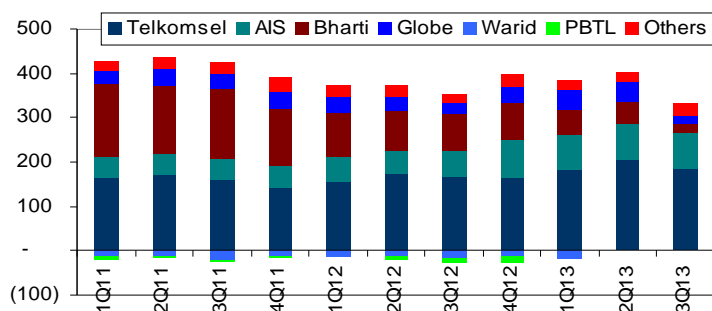
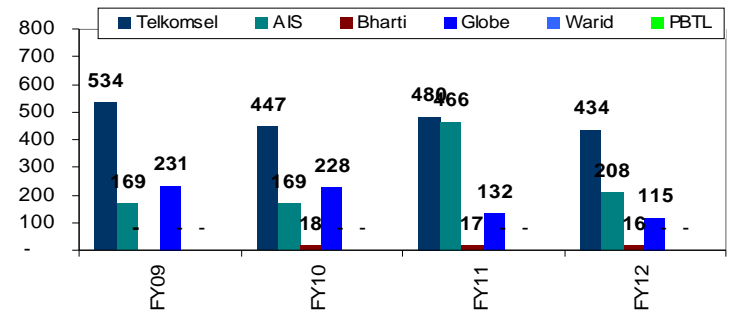
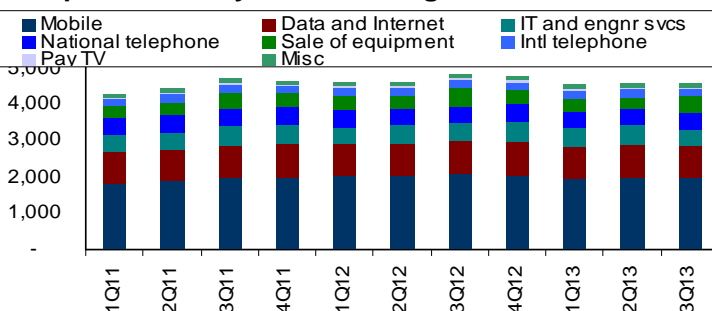


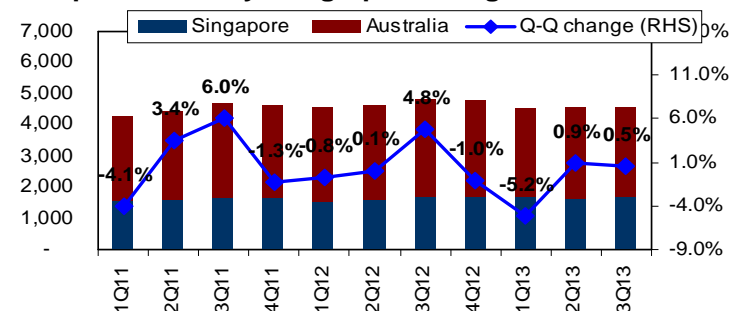
Fig 2: Associates Dividends (\$ million)



Group - revenue by Business Segment



Group - revenue by Geographical Segment



Source: Company, PSR

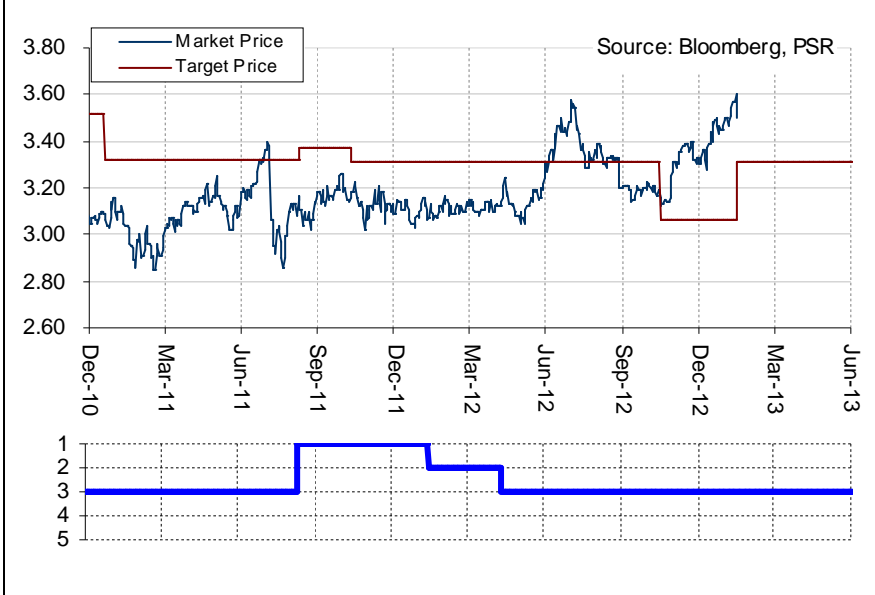
| FYEMar | FY10 | FY11 | FY12 | FY13F | FY14F |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Valuation Ratios | | | | | |
| P/E (X), adj. | 14.3 | 14.7 | 15.2 | 14.8 | 13.4 |
| P/B (X) | 2.4 | 2.3 | 2.4 | 2.3 | 2.2 |
| EV/EBITDA (X), adj. | 13.0 | 12.3 | 12.1 | 12.0 | 11.7 |
| Dividend Yield (%) | 4.1% | 7.4% | 4.5% | 4.5% | 4.8% |
| Per share data (SGD) | | | | | |
| EPS, reported | 0.25 | 0.24 | 0.25 | 0.22 | 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 | 1.50 | 1.60 |
| Growth & Margins (%) | | | | | |
| Growth | | | | | |
| Revenue | 13.0% | 7.1% | 4.2% | -2.4% | 4.0% |
| EBITDA | 9.4% | 5.6% | 1.9% | 0.1% | 3.0% |
| EBIT | 13.2% | -1.6% | -1.3% | 1.3% | 8.1% |
| Net Income, adj. | 13.1% | -2.8% | -3.3% | 2.4% | 11.0% |
| Margins | | | | | |
| EBITDA margin | 28.7% | 28.3% | 27.7% | 28.4% | 28.2% |
| EBIT margin | 31.9% | 29.3% | 27.7% | 28.8% | 29.9% |
| Net Profit Margin | 23.2% | 21.2% | 21.2% | 19.2% | 21.9% |
| Key Ratios | | | | | |
| ROE (%) | 17.8% | 16.0% | 16.7% | 14.9% | 16.9% |
| ROA (%) | 11.0% | 9.9% | 10.0% | 8.7% | 10.2% |
| Net Debt/(Cash) | 5,266 | 4,548 | 7,447 | 7,747 | 6,622 |
| Net Gearing (X) | 22.4% | 18.7% | 31.8% | 32.4% | 25.9% |
| Income Statement (SGD mn) | | | | | |
| Revenue | 16,871 | 18,071 | 18,825 | 18,372 | 19,101 |
| EBITDA | 4,847 | 5,119 | 5,219 | 5,225 | 5,383 |
| Associates & JVs | 2,410 | 2,141 | 2,005 | 2,193 | 2,450 |
| Depreciation & Amortisation | (1,878) | (1,969) | (2,002) | (2,130) | (2,118) |
| EBIT | 5,379 | 5,292 | 5,222 | 5,288 | 5,715 |
| Net Finance (Expense)/Income | (334) | (324) | (341) | (308) | (279) |
| Other items | (2) | 25 | 86 | (235) | 0 |
| Profit Before Tax | 5,042 | 4,993 | 4,968 | 4,745 | 5,436 |
| Taxation | (1,136) | (1,170) | (978) | (1,214) | (1,257) |
| Profit After Tax | 3,907 | 3,823 | 3,990 | 3,531 | 4,179 |
| Non-controlling Interest | 1 | 3 | (1) | (3) | (3) |
| Net Income, reported | 3,907 | 3,825 | 3,989 | 3,529 | 4,176 |
| Net Income, adj. | 3,910 | 3,800 | 3,676 | 3,764 | 4,176 |

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 | 10,156 | 10,871 |
| Investments | 256 | 309 | 149 | 223 | 223 |
| Others | 1,190 | 890 | 2,516 | 2,537 | 2,537 |
| Total non-current assets | 32,807 | 32,727 | 34,599 | 35,766 | 36,538 |
| Inventories | 346 | 299 | 208 | 246 | 271 |
| Accounts Receivables | 3,172 | 3,449 | 3,927 | 3,697 | 3,663 |
| Investments | 0 | 0 | 334 | 38 | 0 |
| Cash | 1,614 | 2,738 | 1,346 | 618 | 783 |
| Others | 13 | 69 | 3 | 0 | 0 |
| Total current assets | 5,144 | 6,555 | 5,819 | 4,599 | 4,718 |
| Total Assets | 37,952 | 39,282 | 40,418 | 40,365 | 41,256 |
| Short term loans | 1,528 | 2,699 | 131 | 125 | 111 |
| Accounts Payables | 4,650 | 4,450 | 5,053 | 4,539 | 4,735 |
| Others | 657 | 1,392 | 351 | 547 | 547 |
| Total current liabilities | 6,835 | 8,541 | 5,535 | 5,212 | 5,393 |
| Long term loans | 5,351 | 4,587 | 8,663 | 8,239 | 7,294 |
| Others | 2,250 | 1,805 | 2,772 | 3,012 | 3,012 |
| Total non-current liabilities | 7,601 | 6,391 | 11,434 | 11,251 | 10,306 |
| Non-controlling interest | 23 | 22 | 20 | 18 | 15 |
| Shareholder Equity | 23,493 | 24,328 | 23,428 | 23,884 | 25,542 |
| Cashflow Statements (SGD mn) | | | | | |
| CFO | | | | | |
| PBT | 4,501 | 4,446 | 4,314 | 4,104 | 4,758 |
| Adjustments | 382 | 692 | 918 | 802 | 625 |
| Cash from ops before WC changes | 4,883 | 5,138 | 5,232 | 4,905 | 5,383 |
| WC changes | (136) | 15 | 11 | (329) | 204 |
| Cash generated from ops | 4,747 | 5,154 | 5,243 | 4,576 | 5,587 |
| Taxes paid, net | (370) | (301) | (451) | (615) | (616) |
| Interest paid | (315) | (348) | (415) | (343) | (310) |
| Others | (2) | (4) | (1) | (3) | 0 |
| Cashflow from ops | 4,060 | 4,501 | 4,376 | 3,615 | 4,661 |
| CFI | | | | | |
| CAPEX, net | (1,923) | (2,005) | (2,249) | (2,387) | (2,109) |
| Dividends from associates & JVs | 954 | 1,194 | 920 | 996 | 1,057 |
| Dividends/Interest from Investments | 34 | 52 | 45 | 41 | 0 |
| Purchase/sale of investments | 6 | (18) | (71) | 293 | 0 |
| Investments in subs & associates | (90) | (670) | (918) | (7) | 0 |
| Others | (206) | (119) | 383 | (775) | (104) |
| Cashflow from investments | (1,226) | (1,565) | (1,889) | (1,840) | (1,156) |
| CFF | | | | | |
| Share issuance | 11 | 7 | 9 | 2 | 0 |
| Purchase of treasury shares | (64) | (39) | (20) | (31) | 0 |
| Loans, net of repayments | (204) | 840 | 1,189 | (429) | (959) |
| Dividends to minority interests | (1) | (1) | (2) | (1) | 0 |
| Dividends to shareholders & capital reduction | (2,084) | (2,357) | (4,111) | (2,517) | (2,517) |
| Others | 23 | (243) | (914) | 472 | 138 |
| Cashflow from financing | (2,320) | (1,793) | (3,850) | (2,505) | (3,339) |
| Net change in cash | 515 | 1,143 | (1,363) | (730) | 166 |
| Effects of exchange rates | 23 | (18) | (29) | 1 | 0 |
| CCE, end | 1,614 | 2,738 | 1,346 | 617 | 784 |

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

Important Information

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