



Singapore Telecommunications Ltd

Short-term pain from Bharti

SINGAPORE | TELECOMMUNICATIONS | 1Q20 RESULTS

- Revenue and net profit disappointed by 7% and 28% respectively. Losses at Bharti Airtel widened to S\$119mn this quarter due to investments in its network.
- The enterprise segment suffered pricing pressure from contract renewals and erosion in core carriage services.
- We saw robust revenue growth from cybersecurity and digital. There were positive mobile price revisions in Optus.
- Maintain ACCUMULATE with a lower TP of S\$3.45 (prev. S\$3.66). We lowered our FY20e earnings by 11%.

Results at a glance

SGD 'mn	1Q19	1Q18	YoY	4Q19	QoQ	Comments
Revenue	4,113	4,262	-3.5%	4,342	-5.3%	Weaker due to higher competition in the Singapore consumer and enterprise business
Group Enterprise EBITDA	417	449	-7.1%	379	10.0%	Erosion in core carriage and pricing pressure on ICT contract renewals
EBITDA	1,184	1,207	-1.9%	1,166	1.5%	Affected by lower-margin equipment and ICT sales
Regional Associates PAT	273	384	-28.9%	331	-17.5%	Airtel expanded losses to S\$119mn due to higher network costs, depreciation and finance expenses. Competition has stabilised
Net profit	541	832	-35.0%	773	-30.0%	Largely due to Airtel losses. Excluding Airtel NPAT would have been down 3% YoY

Source: Company, PSR

The Positives

+ **Robust revenue growth in cybersecurity and digital.** Singtel's growth engines are intact. Cybersecurity revenue improved 6% YoY. The digital business Amobee grew revenue by 16% YoY. Amobee EBITDA was uplifted by technology licensing fee from iTV.

+ **Positive momentum in Australia.** Market recovering is underway in Australia. Incumbent Telstra and Optus raised mobile prices this quarter. We expect this to translate into ARPU improvements in later quarters. Optus posted healthy growth in post-paid subscribers adding 50,000 new customers.

The Negatives

- **Headwinds in the enterprise segment likely to continue.** EBITDA margin declined 7% YoY. Pricing pressure from contract renewals has just started and is expected to persist until 3Q19. Furthermore, businesses are taking more extended periods in making decisions due to uncertainties in the economy. Small and Medium Enterprises contributed most to the weakness in Singapore. Over in Australia, enterprise is impacted by a slowdown in the banking and government sector. Core carriage was down 9% YoY due to lower voice and roaming usage. We have toned down on our expectations in the enterprise segment.

- **Network expansion worsened losses in Airtel.** Higher network costs, depreciation and finance charges from Bharti Airtel (Airtel) expansion of its 4G network impacted earnings this quarter. However, competition is improving in India. Airtel saw ARPU expanded 5% QoQ to RS 129, the third consecutive quarter of expansion.

13 August 2019

ACCUMULATE (Maintained)

CLOSING PRICE	SGD 3.260
FORECAST DIV	SGD 0.175
TARGET PRICE	SGD 3.450
TOTAL RETURN	11.2%

COMPANY DATA

BLOOMBERG CODE:	ST SP
O/S SHARES (MN):	16,329
MARKET CAP (USD mn / SGD mn):	38483 / 53233
52 - WK HI/LO (SGD):	3.56 / 2.83
3M Average Daily T/O (mn):	25.27

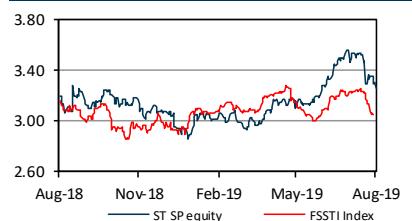
MAJOR SHAREHOLDERS (%)

Temasek Holdings Pte Ltd	52.4%
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PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(4.6)	7.5	8.6
STIRETURN	(4.8)	(2.9)	(0.6)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD mn	FY 18	FY 19	FY 20e	FY 21e
Revenue	17,268	17,372	17,657	18,318
EBITDA	5,051	4,692	4,898	5,126
Net Profit	5,452	3,071	2,869	3,218
Dividend Yield	6.3%	5.4%	5.4%	5.4%
ROE (%)	18.3%	10.3%	9.7%	10.7%
ROA (%)	11.2%	6.3%	5.6%	6.2%

Source: Company, PSR

VALUATION METHOD

Sum Of Parts

Alvin Chia (+65 6212 1852)

Research Analyst

alvinchiaw@phillip.com.sg

Outlook

Guidance for EBITDA (grow by high-single-digit) and free cash flow (~S\$2.4b) was updated to reflect changes in SFRS (I) 16. Airtel remains the largest overhang in earnings. We believe losses will narrow as competition is showing early signs of improvement. Airtel's network expansion will aid growth in the future. We expect the enterprise segment to remain weak due to the various headwinds. We are more optimistic in Australia and expect the consumer segment to be strong.

Maintain ACCUMULATE with a lower TP of S\$3.45 (prev. S\$3.66).

We revised FY20e net profit downwards by 11% in light of the results. Our target price is based on FY20e 7X EV/EBITDA of Singtel's Singapore and Australia businesses and the valuation of its listed associates. We like Singtel for its stable dividend yield and earnings diversity.

Financials

Income Statement

Y/E Mar, SGD 'Mn	FY17	FY18	FY19	FY20e	FY21e
Revenue	16,711	17,268	17,372	17,657	18,318
Operating Profit	4,782	4,792	4,467	4,633	4,851
EBITDA	4,998	5,051	4,692	4,898	5,126
Depreciation & Amortisation	2,239	2,250	2,222	2,385	2,533
EBIT	2,759	2,801	2,470	2,514	2,593
Net Finance Inc/(Exp)	(374)	(390)	(393)	(484)	(446)
Profit before tax	4,515	6,155	3,746	3,478	3,624
Taxation	(684)	(703)	(675)	(609)	(634)
Net profit before NCI	3,831	5,452	3,071	2,869	2,990
Non-controlling interest	22	21	23	16	16
Net profit, reported	3,853	5,473	3,095	2,886	3,005

Per share data (SGD Cents)

Y/E Mar	FY17	FY18	FY19	FY20e	FY21e
EPS, reported	23.6	33.5	19.0	17.7	18.4
DPS	17.2	20.5	17.5	17.5	17.5
BVPS	172.8	182.1	182.7	182.0	182.9

Cash Flow

Y/E Mar, SGD 'Mn	FY17	FY18	FY19	FY20e	FY21e
CFO					
Profit before tax	4,515	6,155	3,746	3,478	3,624
Adjustments	470	(1,099)	879	1,420	1,502
WC changes	(492)	(139)	(126)	(19)	(105)
Cash generated from ops	4,493	4,916	4,498	4,879	5,021
Tax paid	(834)	(608)	(680)	(609)	(634)
Cashflow from ops	5,315	5,955	5,368	5,591	5,852
CFI					
CAPEX & IA, net	(2,518)	(3,473)	(1,935)	(2,500)	(3,289)
Others	(2,314)	1,523	(394)	69	78
Cashflow from investments	(4,832)	(1,951)	(2,329)	(2,431)	(3,211)
CFE					
Share issuance, net	1,602	-	-	-	-
Loans, net of repayments	911	223	174	101	672
Dividends	(2,816)	(3,346)	(2,857)	(2,858)	(2,858)
Others	(121)	(886)	(373)	(484)	(446)
Cashflow from financing	(422)	(4,009)	(3,056)	(3,241)	(2,632)
Net change in cash	60	(5)	(16)	(81)	9
CCE, end	534	525	513	431	440

Balance Sheet

Y/E Mar, SGD 'Mn	FY17	FY18	FY19	FY20e	FY21e
ASSETS					
Accounts receivables	4,924	5,814	5,993	5,746	6,149
Cash	534	525	513	431	440
Inventories	352	397	418	401	426
Others	107	23	155	155	155
Total current assets	5,918	6,759	7,078	6,734	7,170
PPE & IA	24,966	25,423	25,067	25,183	25,939
Others	17,411	16,314	16,770	18,962	18,896
Total non-current assets	42,377	41,737	41,837	44,145	44,835
Total Assets	48,294	48,496	48,915	50,879	52,006
LIABILITIES					
Accounts payables	4,922	5,371	5,817	5,535	5,858
Short term loans	3,343	2,152	2,101	2,101	2,101
Tax payable	296	351	255	255	255
Total current liabilities	9,272	8,429	8,794	10,797	11,120
Long term loans	8,052	8,668	8,784	8,885	9,557
Deferred tax liabilities	575	536	515	515	515
Others	2,181	1,151	1,012	1,012	1,012
Total non-current liabilities	10,808	10,355	10,311	10,412	11,084
Total Liabilities	20,081	18,784	19,105	21,209	22,204
EQUITY					
Non-controlling interests	22	(3)	(28)	(45)	(60)
Shareholder Equity	28,214	29,737	29,838	29,714	29,862

Valuation Ratios

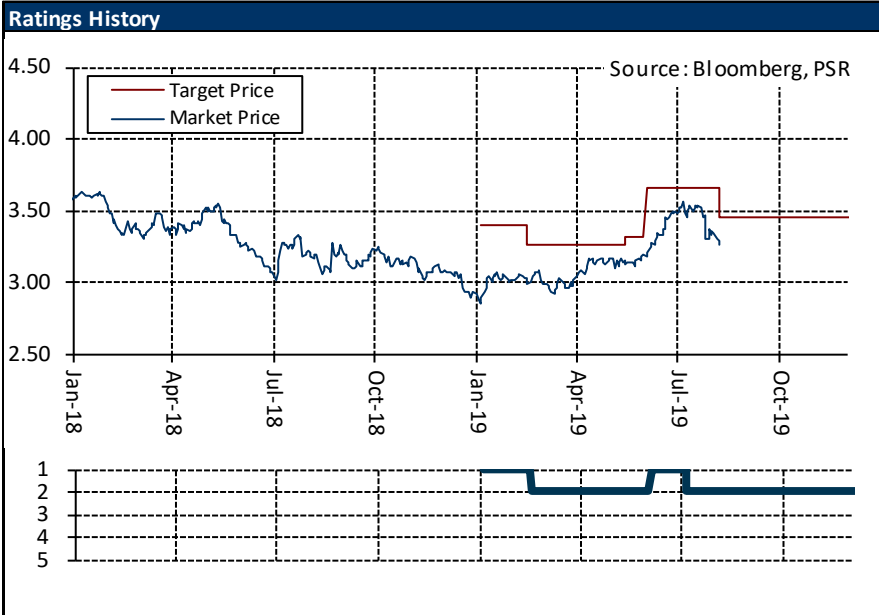
Y/E Mar	FY17	FY18	FY19	FY20e	FY21e
P/E (X)	13.8	9.7	17.2	18.4	17.7
P/B (X)	1.9	1.8	1.8	1.8	1.8
EV/EBITDA (X)	12.8	12.6	13.6	13.0	12.6

Growth & Margins

Growth					
Revenue	-1.5%	3.3%	0.6%	1.6%	3.7%
EBITDA	-0.3%	1.1%	-7.1%	4.4%	4.7%
EBIT	-3.7%	1.5%	-11.8%	1.8%	3.2%
Net profit, adj.	-0.7%	42.3%	-43.7%	-6.6%	4.2%
Margins					
Gross margin	28.6%	27.7%	25.7%	26.2%	26.5%
EBITDA margin	29.9%	29.2%	27.0%	27.7%	28.0%
EBIT margin	16.5%	16.2%	14.2%	14.2%	14.2%
Net profit margin	22.9%	31.6%	17.7%	16.3%	16.3%

Key Ratios

ROE (%)	13.6	18.3	10.3	9.7	10.0
ROA (%)	7.9	11.2	6.3	5.6	5.7
Dividend Payout (%)	73.1	61.1	92.3	99.0	95.1
Dividend Yield (%)	5.3	6.3	5.4	5.4	5.4



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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Contact Information (Singapore Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Admin

Siti Nursyazwina - syazwina@phillip.com.sg

Banking & Finance | Healthcare

Tin Min Ying – tinmy@phillip.com.sg

Oil & Gas | Energy

Chen Guangzhi - chengz@phillip.com.sg

Telco | Technology

Alvin Chia - alvinchiawy@phillip.com.sg

Property | REITs

Natalie Ong - natalieongpf@phillip.com.sg

China/HK Equity

Zheng Jieyuan – zhengjy@phillip.com.sg

US Equity

Edmund Xue – edmundxuej@phillip.com.sg

Technical Analysis

Chua Wei Ren – chuawr@phillip.com.sg

Credit Analysis

Timothy Ang – timothyang@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

JAPAN

Phillip Securities Japan, Ltd.

4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

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 STATES

Phillip Capital 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
Website: www.phillipusa.com

INDIA

PhillipCapital (India) Private Limited

No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

CAMBODIA

Phillip Bank Plc

Ground Floor of B-Office Centre, #61-64,
Norodom Blvd Corner Street 306, Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

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 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

INDONESIA

PT Phillip Securities Indonesia

ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

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

AUSTRALIA

Phillip Capital Limited

Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 8633 9803
Fax +61-03 8633 9899
Website: www.phillipcapital.com.au

TURKEY

PhillipCapital Menkul Degerler

Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

HONG KONG

Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd

No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

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

SRI LANKA

Asha Phillip Securities Limited

No. 60, 5th Lane,
Colombo 3, Sri Lanka
Tel: (94) 11 2429 100
Fax: (94) 11 2429 199
Website: www.ashaphillip.net

DUBAI

Phillip Futures DMCC

Member of the Dubai Gold and
Commodities Exchange (DGEX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895