



Singapore Telecommunications Ltd

Outlook is down (and under)

SINGAPORE | TELECOMMUNICATIONS | 4Q20 RESULTS

- 4Q20 revenue and earnings were below expectations. Australia is the largest drag to earnings. Optus earnings were down 83% YoY. Singapore mobile suffered from weaker roaming revenue but wage credits provided an uplift to margins.
- India was the highlight for associates with a turnaround in profits of almost S\$98mn.
- FY20 final dividend was cut by 49% to 5.45 cents. No earnings guidance provided for FY21.
- Maintain NEUTRAL with a lower TP of S\$2.44 (prev. S\$3.18). Our FY21e PATMI is cut by 16%. Outlook will be weak for Singtel. Reduced international travel will lead to lower high margin roaming revenue. The soft economic background will hurt discretionary spending via lower prepaid usage and top-ups, negatively impacting the associates. Australia faces an added challenge of lower fixed broadband business post-NBN.

Results at a glance

SGDmn	4Q20	4Q19	YoY	Comments
Revenue	3,899	4,342	-10%	
- Singapore consumer	465	539	-14%	Blended ARPU collapsed by 19% YoY S\$26
- Australia consumer	1,640	1,896	-14%	Currency fell by 5.6% points YoY.
- Group enterprise	1,559	1,632	-4%	
EBIT	760	606	25%	EBIT is better comparable due to accounting change.
- Group consumer	244	465	-48%	
a) Singapore	116	109	6%	Wage credits supported earnings.
b) Australia	128	356	-64%	Excluding NBN EBIT declined more than 81%.
- Group enterprise	198	217	-9%	Dragged down by mobiles services
Regional Associates PBT	522	419	25%	
- Telkomsel	310	305	2%	
- AIS	84	91	-8%	
- Bharti	-42	-143	-71%	Turnaround continues for India operations.
Exceptionals	-19	76	-125%	
Underlying net profit	594	697	-15%	
DPS (cents) - Final	5.45	10.70	-49%	Cut due to uncertainty and 5G capex.

Source: Company, PSR

The Positive

+ Bharti was the bright light. In 4Q20, Bharti reported an operating profit of S\$86mn (4Q19: -S\$12mn). The associates contribution from Bharti is still negative due to heavy finance cost (S\$173mn) and FV loss (S\$27mn).

+ ICT revenue grew 7% in Singapore. NCS revenue grew due to higher data centres contracts and maintenance projects. NCS order-book was up approx. 7% YoY to S\$3.2bn in Mar20 (Mar19: S\$3bn).

The Negatives

- Singapore mobile ARPU suffers. Mobile blended ARPU suffered a large drop of 19% YoY (13% QoQ) to record low S\$26. A combination of lower roaming and higher SIM plans contributed to the weakness. EBIT managed to grow due to undisclosed wage credit in March (est. S\$20mn).

- NBN pain for Optus. Optus net profit plunged 83% YoY in A\$39mn. EBIT margins tumbled from 16% to 5%. The switch from their internal fixed broadband network to wholesale NBN network has hurt margins significantly for both consumer and enterprise access business. There is still another 135k Optus customers to be migrated to NBN.

1 June 2020

NEUTRAL(Maintained)

CLOSING PRICE	SGD 2.490
FORECAST DIV	SGD 0.130
TARGET PRICE	SGD 2.440
TOTAL RETURN	3.2%

COMPANY DATA

BLOOMBERG CODE:	STSP
O/S SHARES (MN):	16,328
MARKET CAP (USD mn / SGD mn):	28757 / 40657
52 - WK HI/LO (SGD):	3.56 / 2.19
3M Average Daily T/O (mn):	40.74

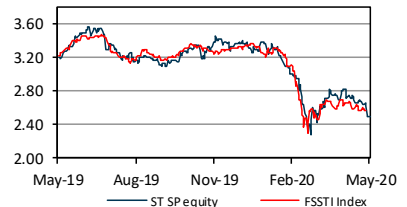
MAJOR SHAREHOLDERS (%)

Temasek Holdings Pte Ltd	52.5%
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PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(12.0)	(17.0)	(18.0)
STI RETURN	(3.3)	(15.4)	(16.5)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar, SGD mn	FY19	FY20	FY21e	FY22e
Revenue	17,372	16,542	15,662	15,725
EBITDA	4,692	4,541	4,074	4,220
Net Profit	3,071	1,052	2,292	2,491
Dividend Yield	7.0%	4.9%	5.2%	5.6%
ROE (%)	10.3%	3.9%	8.4%	9.0%
ROA (%)	6.3%	2.1%	4.6%	4.9%

Source: Company, PSR

VALUATION METHOD

Sum Of Parts - 6x EV/EBITDA; 20% discount on associates

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Outlook

The pandemic will place pressure on all segments of Singtel operations:

- a. Singapore: Roaming traffic has plunged as international travel is curbed. Another repercussion of the outbreak has been slower collections from customers. Wage credits will provide some support to earnings.
- b. Australia: Expect further weakness as Optus carries the cost burden from the present on-net fixed broadband that is being transitioned to NBN. The outbreak further exacerbates the sluggishness through higher doubtful debts, lower equipment sales and reduced roaming revenue.
- c. Enterprise: The ICT business is growing modestly as reflected by the rise in NCS order-book. However, the access parts of the business will suffer due to reduced traffic.
- d. Associates: Bharti turnaround is expected to continue. The market is healing after a brutal price war. Indonesia and Thailand are facing more intense competition. Besides, the lock-downs and weaker economic backdrop will result in lower usage and top-ups for the dominant mobile prepaid segment.

Maintain NEUTRAL with a lower TP of S\$2.44 (prev. S\$3.18).

We cut our FY21e earnings by 16%. Our valuation model incorporates a 20% discount to the market valuation of the associates.

Financials

Income Statement

Y/E Mar, SGD 'Mn	FY18	FY19	FY20	FY21e	FY22e
Revenue	17,268	17,372	16,542	15,662	15,725
Operating Profit	4,792	4,467	4,363	3,882	4,017
EBITDA	5,051	4,692	4,541	4,074	4,220
Depreciation & Amortisation	2,250	2,222	2,580	2,614	2,756
EBIT	2,801	2,470	1,961	1,460	1,464
Net Finance Inc/(Exp)	(390)	(393)	(462)	(536)	(555)
Associates	1,804	1,563	(530)	1,825	2,082
Profit before tax	6,155	3,746	1,565	2,796	3,038
Taxation	(703)	(675)	(513)	(503)	(547)
Net profit before NCI	5,452	3,071	1,052	2,292	2,491
Non-controlling interest	21	23	22	23	14
Net profit, reported	5,473	3,095	1,075	2,315	2,506
Net profit, adjusted	5,473	2,825	2,457	2,315	2,506

Per share data (SGD Cents)

Y/E Mar	FY18	FY19	FY20	FY21e	FY22e
EPS, reported	33.5	19.0	6.6	14.2	15.3
EPS, adjusted	33.5	17.3	15.0	14.2	15.3
DPS	20.5	17.5	12.3	13.0	14.0
BVPS	182.1	182.7	164.1	166.8	169.1

Cash Flow

Y/E Mar, SGD 'Mn	FY18	FY19	FY20	FY21e	FY22e
CFO					
Profit before tax	6,155	3,746	1,565	2,796	3,038
Adjustments	(1,099)	879	2,941	1,278	1,182
WC changes	(139)	(126)	364	41	157
Cash generated from ops	4,916	4,498	4,871	4,115	4,377
Tax paid	(608)	(680)	(492)	(503)	(547)
Cashflow from ops	5,955	5,368	5,817	5,095	5,294
CFI					
CAPEX & IA, net	(3,473)	(1,718)	(2,037)	(2,500)	(3,000)
Others	1,523	(394)	(534)	47	47
Cashflow from investments	(1,951)	(2,329)	(2,921)	(2,453)	(2,953)
CFE					
Share issuance, net	-	-	-	-	-
Loans, net of repayments	223	174	17	730	511
Dividends	(3,346)	(2,857)	(2,857)	(1,870)	(2,123)
Others	(886)	(373)	393	(536)	(555)
Cashflow from financing	(4,009)	(3,056)	(2,447)	(1,676)	(2,167)
Net change in cash	(5)	(16)	450	966	175
CCE, end	525	513	1,000	1,965	2,140

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Mar, SGD 'Mn	FY18	FY19	FY20	FY21e	FY22e
ASSETS					
Accounts receivables	5,814	5,993	5,559	5,169	5,189
Cash	525	513	1,000	1,965	2,140
Inventories	397	418	280	313	315
Others	23	155	337	337	337
Total current assets	6,759	7,078	7,176	7,784	7,981
PPE & IA	25,423	25,067	24,100	23,986	24,230
Others	16,314	16,770	17,679	18,022	18,639
Total non-current assets	41,737	41,837	41,779	42,008	42,869
Total Assets	48,496	48,915	48,955	49,792	50,850
LIABILITIES					
Accounts payables	5,371	5,817	5,641	5,325	5,504
Short term loans	2,152	2,101	3,788	3,788	3,788
Tax payable	351	255	199	199	199
Total current liabilities	8,429	8,794	10,579	10,263	10,441
Long term loans	8,668	8,784	10,202	10,932	11,443
Deferred tax liabilities	536	515	526	526	526
Others	1,151	1,012	835	835	835
Total non-current liabilities	10,355	10,311	11,562	12,292	12,803
Total Liabilities	18,784	19,105	22,141	22,555	23,245
EQUITY					
Non-controlling interests	(3)	(28)	25	2	(12)
Shareholder Equity	29,737	29,838	26,789	27,235	27,618

Valuation Ratios

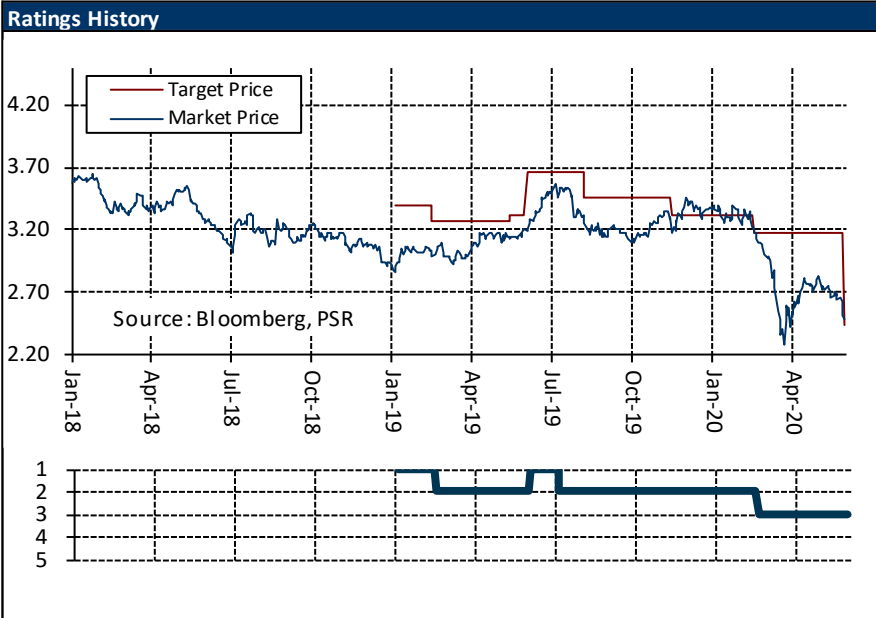
Y/E Mar	FY18	FY19	FY20	FY21e	FY22e
P/E (X)-adj.	7.4	13.1	37.8	17.6	16.2
P/B (X)	1.4	1.4	1.5	1.5	1.5
EV/EBITDA (X)	10.1	10.9	11.8	13.1	12.7

Growth & Margins

Growth					
Revenue	3.3%	0.6%	-4.8%	-5.3%	0.4%
EBITDA	1.1%	-7.1%	-3.2%	-10.3%	3.6%
EBIT	1.5%	-11.8%	-20.6%	-25.5%	0.3%
Net profit, adj.	42.3%	-43.7%	-65.7%	117.9%	8.7%
Margins					
Gross margin	27.7%	25.7%	26.4%	24.8%	25.5%
EBITDA margin	29.2%	27.0%	27.5%	26.0%	26.8%
EBIT margin	16.2%	14.2%	11.9%	9.3%	9.3%
Net profit margin	31.6%	17.7%	6.4%	14.6%	15.8%

Key Ratios

ROE (%)	18.3	10.3	3.9	8.4	9.0
ROA (%)	11.2	6.3	2.1	4.6	4.9
Dividend Payout (%)	61.1	92.3	186.1	91.7	91.2
Dividend Yield (%)	8.2	7.0	4.9	5.2	5.6



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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