

Singapore Telecommunications (ST SP)

Relief Rally Thanks to Australia

HOLD

Share Price SGD 3.08
 12m Price Target SGD 3.46 (+12%)
 Previous Price Target SGD 3.46

Potential consolidation in Australia; maintain HOLD

TPG Australia (TPM AU, Not Rated) *disclosed* it is in potential “merger of equals” talks with unlisted Vodafone Australia. Although there is no certainty the transaction will take place, Singtel’s share price has reacted positively to the news. A successful transaction could affect 24% of our DCF-based SOTP (Fig 1) of SGD3.46. Until there is more clarity, we maintain our forecasts and HOLD. StarHub (STH SP, SGD1.65, BUY, TP SGD1.96) remains our preferred pick in the Singapore telco space as we believe its de-rating has been overdone.

Potential positive in Australia

TPG was *planning* to launch aggressive unlimited wireless data plans initially on a trial basis and eventually at AUD9.99/month. Whether this will change remains to be seen but we believe the market has priced into SingTel’s stock Australian competition and TPG’s Singapore launch in 4Q18. We currently forecast 7%/ 3% declines in SingTel Optus’ FY19-20E EBITDA.

What could it mean for Singapore operations?

There has been scant detail on TPG’s Singapore MNO launch but we believe it is fair to assume that its Australian transaction, if any, will be confined to that market. On the downside, TPG could potentially be less distracted in competing in Australia and have more time to compete in Singapore. On the plus side, its early willingness to merge in Australia affirms market and incumbent telcos’ expectations that Singapore’s wireless market could eventually consolidate. However, as we noted *previously*, Singapore regulators require a full network rollout - ie 2021 targets must be met - before TPG can consider such options.

Maintaining base case

Pending further developments, we maintain our forecasts. Our key positive takeaway is rational behaviour exhibited early on by TPG. Upside potential and risks to our outlook remain the level of competitive intensity in SingTel’s major markets.

FYE Mar (SGD m)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	16,711	17,268	17,579	17,838	17,649
EBITDA	7,940	7,513	7,077	7,282	8,100
Core net profit	3,915	3,593	3,191	3,255	3,805
Core FDEPS (cts)	24.4	22.0	19.5	19.9	23.3
Core FDEPS growth(%)	2.4	(10.0)	(11.2)	2.0	16.9
Net DPS (cts)	17.5	20.6	17.5	17.5	17.0
Core FD P/E (x)	16.0	16.8	15.8	15.5	13.2
P/BV (x)	2.3	2.0	1.7	1.7	1.6
Net dividend yield (%)	4.5	5.6	5.7	5.7	5.5
ROAE (%)	14.5	18.9	10.7	10.8	12.3
ROAA (%)	8.5	7.4	6.6	6.7	7.9
EV/EBITDA (x)	9.3	8.6	8.5	8.2	7.2
Net gearing (%) (incl perps)	37.8	33.4	33.3	31.8	26.2
Consensus net profit	-	-	3,398	3,644	3,970
MKE vs. Consensus (%)	-	-	(6.1)	(10.7)	(4.1)

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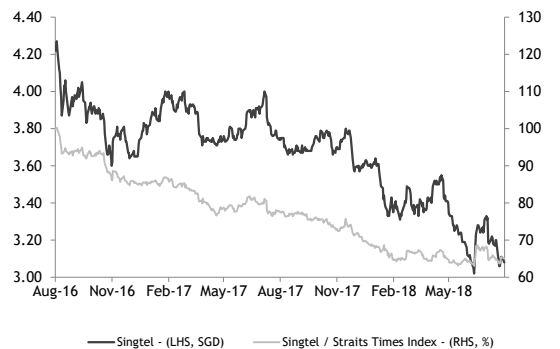
Statistics

52w high/low (SGD)	3.80/3.02
3m avg turnover (USDm)	52.2
Free float (%)	42.4
Issued shares (m)	15,944
Market capitalisation	SGD49.1B
	USD35.9B

Major shareholders:

Temasek Holdings	51.9%
Central Provident Fund	5.7%
Capital Research	3.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(7)	(9)	(18)
Relative to index (%)	(4)	0	(16)

Source: FactSet

Terms mentioned:

MNO - mobile network operator

Fig 1: Sum-of-the-parts (SOTP) valuation

Valuation	Stake (%)	Valuation method	Valuation (LC)	Exch rate (SGD/LC)	Valuation (SGD m)	Per share (SGD)	% of total
Consolidated Businesses							
SingTel	100.0	DCF (5.5% WACC, 0% TG, 0.60 beta)	9,915	1.00	9,915	0.61	18%
Optus	100.0	DCF (5.7% WACC, 0% TG, 0.65 beta)	13,643	1.01	13,738	0.84	24%
Sub Total			23,558		23,654	1.45	42%
Associates & Investments							
Telkomsel (Indonesia)	35.0	DCF (10.8% WACC, 3% TG, 1.0 beta)	105,018,542	10,588	9,919	0.61	18%
Bharti Airtel (India)	38.6	SOTP (10.5% WACC, 3% TG, 0.9 beta)	494,271	50.35	9,817	0.60	17%
AIS (Thailand)	23.3	DCF (7.0% WACC, 2% TG, 1.0 beta)	152,401	24.37	6,253	0.38	11%
Globe (Philippines)	47.2	DCF (7.7% WACC, 1% TG, 1.05 beta)	126,728	38.86	3,261	0.20	6%
Intouch (Thailand)	21.0	SOTP (AIS TP and mkt cap of THCOM TB)	45,653	24.37	1,873	0.11	3%
NetLink NBN Trust (Singapore)	25.0	Consensus target price	874	1.00	874	0.05	2%
SingPost (Singapore)	25.8	DCF (7.6% WACC, 1% TG, 0.95 beta)	880	1.00	880	0.05	2%
Sub Total					31,997	2.01	58%
Total Equity Value					55,651	3.46	100%

Source: Company data, Maybank Kim Eng

* Bharti is covered by Neerav Dalal. AIS and Intouch are covered by Maria Lapiz. SingPost is covered by SG research team.

** At the market prices of its listed parts, Singtel's SOTP would be SGD3.42

Fig 2: Markets snapshot

Market	Competition status	Upside/downside
Singapore	Heightened competition due to MVNOs	TPG yet to reveal degree of aggression for Dec quarter launch.
Australia	Heightened competition due to announced TPG unlimited data plans	TPG potential merger with Vodafone potentially lifts near-term competition but creates stronger merged entity.
India	Stabilized environment but Bharti needs to rebuild revenue share via 4G	Merger of unlisted Idea and Vodafone India lifts near-term competition but creates stronger entity in medium-term.
Indonesia	Improving with data pricing raised industry wide	Cannibalization of traditional voice and SMS and higher opex are likely to continue.
Thailand	Rational environment	AIS expanding presence in fixed broadband provides medium-term revenue opportunity.
Philippines	Heightened competition with video streaming promotions	Third entrant risk for 2019E+.

Source: Company data, Maybank Kim Eng

Value Proposition

- Telco conglomerate whose companies have significant, if not leading, shares in their markets.
- High growth phase for wireless segment has passed. Competition is generally on the rise in this segment in most markets.
- Enterprise and digital services to provide next legs of growth while cash is harvested from wireless leadership to support investments and capex.
- Healthy balance sheet backs a FY19E-20E fixed DPS policy commitment of SGD0.175. Non-core asset-sale proceeds are partly committed to exceptional payouts.
- Despite its acquisitions in recent years, SingTel continues to generate 14-16% ROIC.

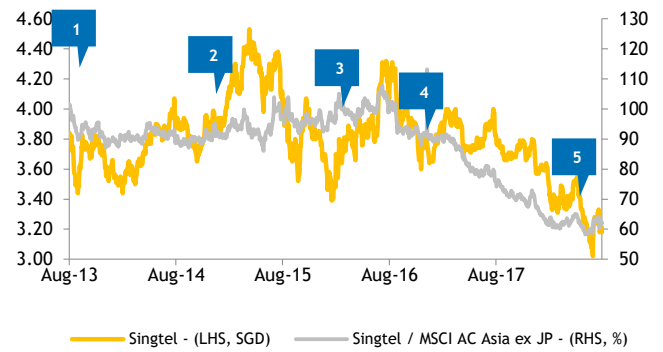
SingTel's SOTP breakdown

Valuation	Stake (%)	Valuation method	Valuation Per share (SGD m)	(SGD)	% of total
Consolidated Businesses					
SingTel	100.0	DCF (5.5% WACC, 0% TG, 0.60 beta)	9,915	0.61	18%
Optus	100.0	DCF (5.7% WACC, 0% TG, 0.65 beta)	13,738	0.84	24%
Sub Total			23,654	1.45	42%
Associates & Investments					
Telkomsel (Indonesia)	35.0	DCF (10.8% WACC, 3% TG, 1.0 beta)	9,919	0.61	18%
Bharti Airtel (India)	38.6	SOTP (10.5% WACC, 3% TG, 0.9 beta)	9,817	0.60	17%
AIS (Thailand)	23.3	DCF (7.0% WACC, 2% TG, 1.0 beta)	6,253	0.38	11%
Globe (Philippines)	47.2	DCF (7.7% WACC, 1% TG, 1.05 beta)	3,264	0.20	6%
Intouch (Thailand)	21.0	SOTP (AIS TP and mkt cap of THCOM TB)	1,873	0.11	3%
NetLink NBN Trust (Singapore)	25.0	Consensus target price	882	0.05	2%
SingPost (Singapore)	25.8	DCF (7.6% WACC, 1% TG, 0.95 beta)	880	0.05	2%
Sub Total			32,009	2.02	58%
Total Equity Value			55,663	3.46	100%

Source: Maybank Kim Eng

Price Drivers

Historical share price trend



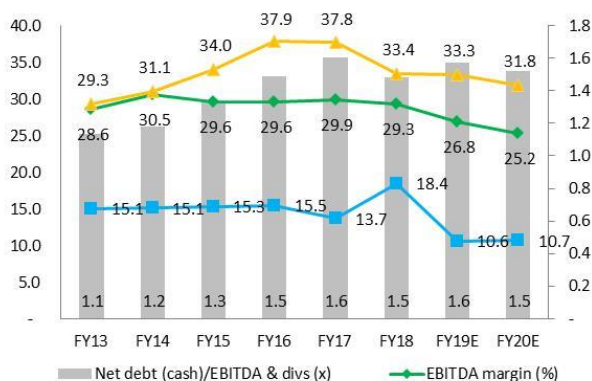
Source: Company, Maybank Kim Eng, Factset

1. Launch of 4G services that ended unlimited data plan competition.
2. All regional associates powered earnings in FY15.
3. Proposal for fourth mobile licence. Bharti's profits started to taper off.
4. TPG won licence in a general spectrum auction.
5. Proposal to increase effective stake in Bharti to 39.5%.

Financial Metrics

- Singapore and Australia operational EBITDA forecast to decline by 11% 2-year CAGR on the back of higher equipment subsidies.
- Pretax associate income could soften the blow by growing 15% over the same period.
- We forecast net debt to EBITDA, including associate dividends, forecast to remain healthy at 1.5x-1.6x in FY19-20E; providing support to its new fixed DPS commitment.

Financial ratios have not succumbed to competitive pressure



Source: Company, Maybank Kim Eng

Swing Factors

Upside

- Strong growth in enterprise and Digital Life to economies of scale.
- Ebbing competitive heat in India.
- Subsidies per smartphone drop.

Downside

- Wireless margin compression triggered either by TPG in Singapore and / or Australia or pre-emptive strikes by incumbents. These are not likely in consensus forecasts.
- Long-term capex for 5G rollout not likely priced in.
- Worse-than-expected cannibalisation of wireless voice, SMS and roaming by data.

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FYE 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
Key Metrics					
P/E (reported) (x)	16.3	11.0	15.8	15.4	13.2
Core P/E (x)	16.0	16.7	15.8	15.4	13.2
Core FD P/E (x)	16.0	16.8	15.8	15.5	13.2
P/BV (x)	2.3	2.0	1.7	1.7	1.6
P/NTA (x)	4.2	3.8	3.1	3.1	2.9
Net dividend yield (%)	4.5	5.6	5.7	5.7	5.5
FCF yield (%)	2.8	4.5	4.8	5.0	6.6
EV/EBITDA (x)	9.3	8.6	8.5	8.2	7.2
EV/EBIT (x)	26.6	23.2	25.7	29.9	22.8
INCOME STATEMENT (SGD m)					
Revenue	16,711.0	17,268.0	17,579.0	17,838.2	17,649.2
EBITDA	7,940.4	7,512.8	7,076.9	7,281.9	8,100.1
Depreciation	(2,238.9)	(2,250.0)	(2,378.3)	(2,492.1)	(2,576.8)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	2,759.5	2,801.4	2,341.4	2,008.3	2,572.0
Net interest income / (exp)	(260.0)	(345.0)	(335.9)	(339.0)	(314.7)
Associates & JV	2,942.0	2,461.4	2,357.2	2,781.5	2,951.3
Exceptionals	(63.0)	1,880.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	5,378.1	6,796.6	4,362.8	4,450.8	5,208.7
Income tax	(1,548.0)	(1,344.5)	(1,193.0)	(1,217.1)	(1,424.4)
Minorities	22.0	21.0	21.0	21.0	21.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	3,852.1	5,473.1	3,190.7	3,254.7	3,805.3
Core net profit	3,915.1	3,593.1	3,190.7	3,254.7	3,805.3
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	534.0	525.0	643.4	945.3	842.7
Accounts receivable	4,924.0	5,035.0	5,125.7	5,201.3	5,146.1
Inventory	352.0	397.0	351.6	356.8	353.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	11,893.0	11,801.0	11,708.0	11,534.8	11,252.5
Intangible assets	13,073.0	13,969.0	13,829.3	14,067.0	13,926.3
Investment in Associates & JVs	14,428.0	14,987.0	14,987.0	14,987.0	14,987.0
Other assets	3,091.0	1,540.0	1,540.0	1,540.0	1,540.0
Total assets	48,295.0	48,254.0	48,184.9	48,632.2	48,047.6
ST interest bearing debt	3,134.0	1,824.0	1,901.0	1,901.0	1,901.0
Accounts payable	6,122.0	6,400.0	5,830.4	5,879.2	5,792.1
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	8,053.0	8,607.0	8,725.0	8,725.0	7,200.0
Other liabilities	2,773.0	1,770.0	1,715.0	1,715.0	1,715.0
Total Liabilities	20,082.0	18,601.0	18,171.4	18,220.2	16,608.1
Shareholders Equity	28,213.0	29,653.0	30,013.5	30,412.0	31,439.5
Minority Interest	0.0	(26.0)	(5.0)	16.0	37.0
Total shareholder equity	28,213.0	29,627.0	30,008.5	30,428.0	31,476.5
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	48,295.0	48,254.0	48,184.9	48,632.2	48,047.6
CASH FLOW (SGD m)					
Pretax profit	5,378.1	6,796.6	4,362.8	4,450.8	5,208.7
Depreciation & amortisation	2,238.9	2,250.0	2,378.3	2,492.1	2,576.8
Adj net interest (income)/exp	260.0	345.0	335.9	339.0	314.7
Change in working capital	(491.9)	(178.0)	(614.9)	(32.0)	(28.1)
Cash taxes paid	(785.2)	(2,511.8)	(318.7)	(631.6)	(820.1)
Other operating cash flow	(2,942.0)	(2,461.4)	(2,357.2)	(2,781.5)	(2,951.3)
Cash flow from operations	3,657.9	4,240.4	3,786.1	3,836.8	4,300.5
Capex	(2,260.6)	(2,349.0)	(2,285.3)	(2,319.0)	(2,294.4)
Free cash flow	3,052.8	2,998.4	3,139.8	3,395.8	4,137.8
Dividends paid	(2,815.5)	(2,857.0)	(3,356.2)	(2,856.2)	(2,856.2)
Equity raised / (purchased)	(27.2)	0.0	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	1,157.6	(312.0)	195.0	0.0	(1,525.0)
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(1,297.0)	(442.0)	139.7	(237.7)	140.7
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	70.7	(71.6)	118.4	302.0	(102.7)

FYE 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
Key Ratios					
Growth ratios (%)					
Revenue growth	(1.5)	3.3	1.8	1.5	(1.1)
EBITDA growth	1.7	(5.4)	(5.8)	2.9	11.2
EBIT growth	(3.7)	1.5	(16.4)	(14.2)	28.1
Pretax growth	(1.4)	26.4	(35.8)	2.0	17.0
Reported net profit growth	(0.5)	42.1	(41.7)	2.0	16.9
Core net profit growth	2.9	(8.2)	(11.2)	2.0	16.9
Profitability ratios (%)					
EBITDA margin	47.5	43.5	40.3	40.8	45.9
EBIT margin	16.5	16.2	13.3	11.3	14.6
Pretax profit margin	32.2	39.4	24.8	25.0	29.5
Payout ratio	72.8	61.3	89.5	87.8	73.0
DuPont analysis					
Net profit margin (%)	23.1	31.7	18.2	18.2	21.6
Revenue/Assets (x)	0.3	0.4	0.4	0.4	0.4
Assets/Equity (x)	1.7	1.6	1.6	1.6	1.5
ROAE (%)	14.5	18.9	10.7	10.8	12.3
ROAA (%)	8.5	7.4	6.6	6.7	7.9
Liquidity & Efficiency					
Cash conversion cycle	na	na	na	na	na
Days receivable outstanding	100.1	103.8	104.0	104.2	105.5
Days inventory outstanding	na	na	na	na	na
Days payables outstanding	na	na	na	na	na
Dividend cover (x)	1.4	1.6	1.1	1.1	1.4
Current ratio (x)	0.6	0.7	0.8	0.8	0.8
Leverage & Expense Analysis					
Asset/Liability (x)	2.4	2.6	2.7	2.7	2.9
Net gearing (%) (incl perps)	37.8	33.4	33.3	31.8	26.2
Net gearing (%) (excl. perps)	37.8	33.4	33.3	31.8	26.2
Net interest cover (x)	10.6	8.1	7.0	5.9	8.2
Debt/EBITDA (x)	1.4	1.4	1.5	1.5	1.1
Capex/revenue (%)	13.5	13.6	13.0	13.0	13.0
Net debt/ (net cash)	10,653.0	9,906.0	9,982.6	9,680.7	8,258.3

Source: Company; Maybank

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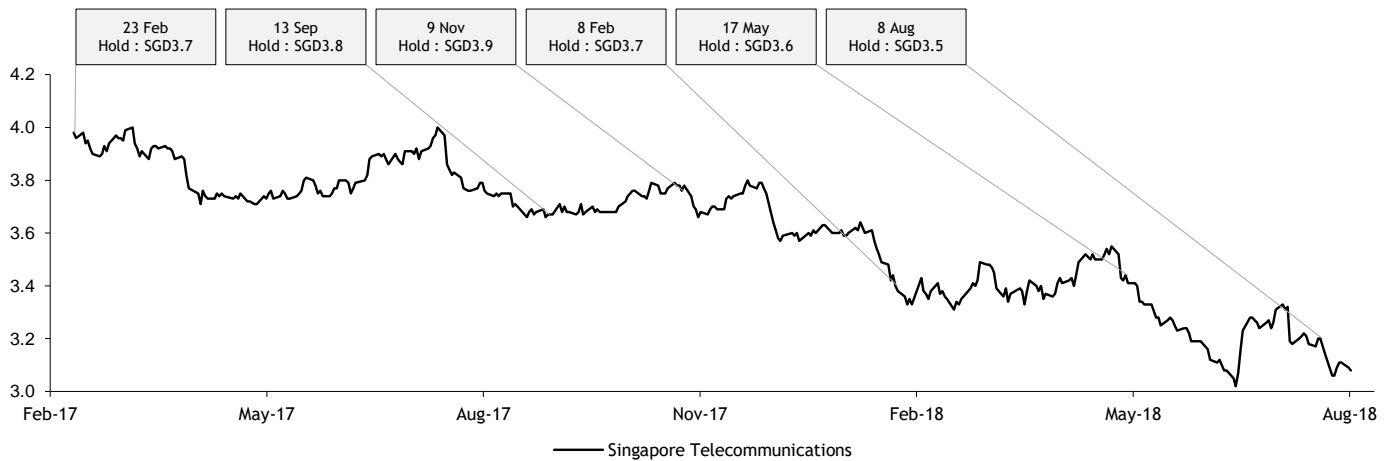
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