Asia Credit Research

Earnings Review: Singapore Telecommunications Ltd ("SingTel")

Recommendation

- 3QFY2019 results look lackluster, with core segments and associates showing declines. Reported EBITDA fell 11% y/y to SGD1.19bn (even without impact from NBN migrations, reported EBITDA would have fallen 2.5% y/y). The outlook continues to look murky with FY2019 outlook shaded down and SingTel is expected to record a decline in EBITDA.
- SingTel faces competition not just in its home markets of Singapore and Australia but also regionally. Its associates similarly recorded significantly lower pre-tax profits (-35% y/y to SGD342mn).
- Overall, credit metrics have somewhat weakened with the y/y fall in EBITDA and rise in net debt though this still falls within our Positive (2) Issuer Profile rating. We prefer to Underweight the STSP curve given its tight spreads and deteriorating credit profile and are recommending a switch into WHEELK 4.5% '21s (which we similarly rate at Positive (2) Issuer Profile). Investors looking for higher yields can consider SIASP 3.16% '23s and STHSP 3.08% '22s. We hold both Singapore Airlines Ltd and StarHub Ltd's issuer profiles at Neutral (3).

Relative Value:

Bond	Maturity date/ Reset Date	OCBC Issuer Profile	Ask Yield	Spread
STSP 3.4875% '20s	08/04/2020	Positive (2)	2.21%	25bps
STSP 2.58% '20s	24/09/2020	Positive (2)	2.32%	37bps
STSP 2.72% '21s	03/09/2021	Positive (2)	2.46%	51bps
STSP 2.895% '23s	07/03/2023	Positive (2)	2.59%	61bps
STHSP 3.08% '22s	12/09/2022	Neutral (3)	2.98%	102bps
STHSP 3.55% '26s	08/06/2026	Neutral (3)	3.46%	132bps
WHEELK 4.5 '21s	02/09/2021	Positive (2)	2.72%	76bps
SIASP 3.16% '23s	25/10/2023	Neutral (3)	2.93%	93bps

Indicative prices as at 26 Feb 2019 Source: Bloomberg, OCBC, Company

Issuer Profile: Positive (2)

Ticker: **STSP**

Background

Singapore Telecommunications Ltd ("SingTel") is the largest listed Telecommunications company in Singapore with a market cap of SGD50.5bn. SingTel is a communications company, providing various services including mobile, data, fixed, pay television, internet, video, infocomms technology ("ICT") and digital solutions. Through various subsidiaries and associates, SingTel is the leading mobile player in Singapore, Australia, Indonesia, Philippines, Thailand and India. Temasek Holdings is the majority shareholder with 52.4% stake as of 26 Feb 2019.

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Key Considerations

- **Lacklustre results with decline in core segments, with outlook continuing to look murky:** SingTel reported 3QFY2019 results for the quarter ending 31 Dec 2018. Overall, results are lacklustre despite stability of the topline (+1% y/y to SGD4.63bn). Reported EBITDA plunged 11% y/y to SGD1.19bn, with declines in the core segments of Group Consumer (-10.8% y/y to SGD795mn) and Group Enterprise (-9.0% y/y to SGD428mn) while Group Digital Life remained a small negative contributor (-SGD16mn). That said, without the National Broadband Network ("NBN") migration revenue in Australia and dispute settlement which are one-offs, reported EBITDA would have declined just 2.5% y/y. Accordingly, SingTel has shaded down its guidance for FY2019, with EBITDA forecasted to decline by low single digit (previously in 2QFY2019, SingTel forecasted EBITDA to be stable for the full financial year).

- **Group Consumer segment struggles as consumers use more and pay less, with no respite to the Mobile segment:** Reported EBITDA for the segment is down 10.8% y/y to SGD795mn, with declines in Singapore (-3.2% y/y to SGD194mn) and Australia (-8.3% y/y to AUD615mn). For Australia, even without NBN migration revenues, EBITDA would still have fallen by 3.6% y/y to AUD571mn. Looking ahead, the headwinds still persist with SingTel forecasting Singapore Mobile Service revenue to decline by mid-to-single digit and Australia Mobile Service revenue to be stable (a small growth was previously expected in 2QFY2019). The race to the bottom with cheaper price plans and more data is the new norm, with TPG offering free mobile service as a trial while rival StarHub has unveiled aggressive plans offering 50GB for SGD20/mth as an add-on.
  - **i)** In Singapore, this is due partly to declines in mobile service revenue (-

4.2% y/y to SGD261mn) with ARPU falling to SGD43/mth (3QFY2018: SGD49/mth) despite data usage increasing to 4.5GB (3QFY2018: 3.7GB). Churn rates which have remained low at 0.9%/mth (3QFY2018: 1.1%/mth) with a stable postpaid market share of 47.6% (3QFY2018: 47.7%). However, we infer that this is at the expense of more aggressive promotions and lower prices in a bid to fend off competition. We note that rivals (e.g. StarHub Ltd, M1 Ltd) have also seen ARPU declining despite increased data usage. Meanwhile, Pay TV (-5.0% y/y to SGD49mn) and Fixed voice (-10.4% y/y to SGD29mn) continued to decline.

ii) In Australia, trends are similar with mobile service revenue lower by 3.5% y/y to AUD897mn, impacted by lower ARPU (declined by ~7% to AUD41/mth) due to increased SIM-only plans and data price competition. Meanwhile, Voice, Broadband and Pay TV collectively saw revenue decline by 13.0% y/y to AUD182mn.

- **Enterprise segment is no longer a reliable buffer against slowdown in mobile:** Despite revenue growth in ICT (+8.7% y/y to SGD771mn) which brought about stability in Group Enterprise's topline, Group Enterprise reported EBITDA fell in 3QFY2019 as the legacy services (e.g. Mobile, data, internet, voice) declined while ICT has a lower margin. Changing the tone from the past, SingTel has cited price competition as a reason for EBITDA decline – meanwhile, we note that rival StarHub Ltd's Enterprise services revenue has grown 12.0% y/y to SGD146.1mn. In 3QFY2019, SingTel downgraded the forecast for ICT revenue growth to low single digit (from 2QFY2019's forecast of mid-to-single digit growth).

- **Significant drag from regional associates:** Associates pre-tax earnings were down 35% y/y to SGD342mn, mainly due to lower contribution from Telkomsel (-7.4% y/y to SGD305mn) and Airtel (which delivered a negative pre-tax earnings of SGD129mn) due to intense competition. SingTel guides that the dividends from regional associates will decline to ~SGD1.4bn (FY2018 actuals: SGD1.5bn). That said, associates remain a key part of SingTel, with SingTel's share of stakes in the listed regional associates (Airtel, AIS, Intouch, Globe) worth SGD19.1bn as of 31 Dec 2018 (SingTel's market cap: SGD50.5bn) and make up 38.8% of SingTel's SGD972.6bn pre-tax profits.

- **Slightly weaker but credit metrics remain strong:** The weaker results y/y has impacted reported net gearing, which rose to 25.2% (3QFY2018: 22.5%) and net debt/(EBITDA + share of associates pre-tax profits) which rose to 1.58x (3QFY2018: 1.1x). Reported free cash flow has also declined 51.3% y/y to SGD387mn. That said, credit metrics are still within our Positive (2) Issuer Profile which we are maintaining though we will be cautious if debt levels continue to rise.

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Explanation of Issuer Profile Rating ("IPR") / Issuer Profile Score ("IPS")

Positive ("Pos") – The issuer's credit profile is either strong on an absolute basis, or expected to improve to a strong position over the next six months.

Neutral ("N") – The issuer's credit profile is fair on an absolute basis, or expected to improve / deteriorate to a fair level over the next six months.

Negative ("Neg") – The issuer's credit profile is either weaker or highly geared on an absolute basis, or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings ("IPR") into a 7 point Issuer Profile Score ("IPS") scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

Explanation of Bond Recommendation

Overweight ("OW") – The performance of the issuer's specific bond is expected to outperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Neutral ("N") – The performance of the issuer's specific bond is expected to perform in line with the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Underweight ("UW") – The performance of the issuer's specific bond is expected to underperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Other

Suspension – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed.

Withdrawal ("WD") – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

Analyst Declaration
The analyst(s) who wrote this report and/or her or his respective connected persons did not hold financial interests in the above-mentioned issuer or company as at the time of the publication of this report.

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Co.Reg.no.:193200032W