Asia Credit Research

Earnings Review:
Singapore Telecommunications Ltd ("SingTel")

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.

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Recommendation

- As picked up by the media, SingTel reported FY2019 profit that is lowest in 16 years. This is due to weakness in all major segments, including Group Consumer (EBITDA: -6.5% y/y), Group Enterprise (-15.7% y/y) and weakness from regional associates (mainly weighed by loss-making Airtel).
- That said, credit metrics remains strong with reported net debt / (EBITDA + share of associates pre-tax profits) at 1.6x though weakened y/y (4QFY2018: 1.3x). However, we think credit metrics may continue to weaken somewhat as net debt may climb after subscribing to Airtel rights worth SGD714mn and we note that dividends to be paid are ahead of underlying net profit by 1%. Despite the challenging outlook for its Group Consumer segment, SingTel is guiding overall EBITDA to remain stable y/y.
- That said, if credit metrics were to deteriorate significantly (e.g. heavy capex spend on 5G rollout, deterioration in EBITDA, associates making deepening losses), we may lower SingTel's Issuer Profile.
- Overall, the STSP curve looks very tight trading at just 20-54bps over swaps. While there is no close comparable, in our view, the credit profile of STSP is more similar to WHEELK 4.5% '21s (trading at 73bps over swaps) as we rate Wheelock & Co Ltd similarly at Positive (2) Issuer Profile.

Relative Value:

Bond	Maturity date/ Reset Date	OCBC Issuer Profile	Ask Yield	Spread
STSP 3.4875% '20s	08/04/2020	Positive (2)	2.17%	20bps
STSP 2.58% '20s	24/09/2020	Positive (2)	2.28%	34bps
STSP 2.72% '21s	03/09/2021	Positive (2)	2.36%	45bps
STSP 2.895% '23s	07/03/2023	Positive (2)	2.47%	54bps
STHSP 3.08% '22s	12/09/2022	Neutral (3)	2.75%	83bps
STHSP 3.55% '26s	08/06/2026	Neutral (3)	3.34%	127bps
WHEELK 4.5 '21s	02/09/2021	Positive (2)	2.64%	73bps
SIASP 3.22% '20s	09/07/2020	Neutral (3)	2.45%	51bps

Indicative prices as at 21 May 2019 Source: Bloomberg, OCBC, Company

Key Considerations

- **Continued weakness in underlying results from all segments:** SingTel reported 4QFY2019 results for the quarter ending 31 Mar. Excluding National Broadband Network ("NBN") migration revenues, revenue grew 0.2% y/y to SGD4.25bn though reported EBITDA fell 11.2% y/y to SGD1.08bn. The decline in reported EBITDA was due to weakness in major segments including Group Consumer (-6.5% y/y to SGD742mn, excluding NBN migration revenues) and Group Enterprise (-15.7% y/y to SGD379mn) while Group Digital Life continues to generate a small EBITDA loss of SGD18mn. This is not just a quarter of hiccup; for the full financial year, reported EBITDA was down 7.0% y/y to SGD4.51bn.

- **Continued slowdown of Group Consumer:** The decline in Group Consumer is mainly due to the Australia segment (-2.3% y/y to AUD604mn without NBN Migration revenues), noting that postpaid Average Revenue per User ("ARPU") declined 2% due to higher mix of SIM-only plans and data price competition. That said, we think Australia (Optus) Consumer segment remains stable with mobile revenue up 8.9% y/y for 4QFY2019 (in AUD terms) and up 10.4% y/y for the entire FY2019 on the back of 4G mobile subscribers growth (+5.9% y/y) offsetting declines in ARPU. For Singapore Consumer segment, while EBITDA rose 5.2% y/y to SGD169mn in 4QFY2019, this is largely due to cost management. We note that mobile service revenue continued to decline (-2.1% y/y to SGD249mn) due to lower voice and higher mix of SIM-only plans with post-paid ARPU declining 9.4% y/y. Breaking trends from previous financial releases, SingTel no longer provide a guidance for the Group Consumer segment. With intensifying competition, we expect further deterioration in the Group Consumer segment going forward, especially in Singapore. The race to the bottom with cheaper price plans and more data is the new norm. TPG is offering free mobile service as a trial. Meanwhile, rival Circles Life is offering 20GB for SGD18/mth while SingTel is offering 20GB for SGD20/mth; both are SIM only no contract plans.

- **Considerable slowdown in Group Enterprise segment:** Despite a small revenue decline, reported EBITDA for Group Enterprise fell significantly (-15.7% y/y) as the growth in ICT which comprises Cyber security and business solutions (revenue: +3.6% y/y to SGD839mn) generates lower margin (low to mid-teens) compared to other segments such as Data and Internet (revenue: -6.7% y/y to SGD182mn), mobile service (-9.8% y/y to SGD182mn) and fixed voice (-17.4% y/y to SGD106mn), which SingTel attributes to a cautious business environment. We note that SingTel disclosed lower prices on renewal of major public sector ICT contracts in Singapore though the guidance is for ICT services (FY2019 revenue: SGD3.0bn) to continue growing by low single digit. As ICT services is not expected to grow quickly, Group Enterprise segment may continue to face slowdown if the higher margin legacy services segments continue to decline. We think SingTel is also facing increased competition in the enterprise space.

- **Airtel still the main drag:** Pre-tax profits from Telkomsel stabilised (+2.3% y/y to SGD296mn, or -3.0% q/q) with 5.7mn growth in mobile customer base q/q following declines in 2018 (due to SIM card registration creating disruption). However, Airtel continues to deliver significant pre-tax losses of SGD143mn (4QFY2018 pre-tax loss: SGD8mn), continuing prior quarters trend (3QFY2019 pre-tax loss: SGD129mn) due to intense price competition. This has resulted in pre-tax profits from associates and joint ventures declining 19.3% y/y to SGD419mn, despite higher pre-tax profits from Globe (+45.0% y/y to SGD120mn) with growth in data revenue. That said, regional associates are still a key contributor to SingTel's credit profile. Collectively, SingTel's share of stakes in the listed regional associates (Airtel, Telkomsel, AIS, Intouch, Globe) is worth SGD20.5bn as of 31 Mar 2019 and they contribute SGD389mn (~42%) out of SGD919.1mn in SingTel's pre-tax profit.

- **Credit metrics remains strong though this is gradually weakening:** Reported net debt / (EBITDA + share of associates pre-tax profits) remains stable at 1.6x q/q though weaker y/y (4QFY2018: 1.3x). Net gearing is largely stable q/q at 24.9%. However, we think it may be likely for credit metrics to continue weakening as SingTel will be subscribing to Airtel's rights issue worth USD525mn (SGD714mn). Net debt may also rise as dividends in FY2019 forms an increased 101% of reported underlying net profit (FY2018: 81%) while dividends from regional associates is expected to decline to SGD1.2bn in FY2020 (FY2019: SGD1.55bn). Despite the challenging outlook for the Group Consumer segment, SingTel is projecting reported EBITDA to remain stable for FY2020.

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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.

Co.Reg.no.:193200032W