SINGAPORE **Company Update**

OCBC Investment Research

MITA No. 010/06/2008

12 May 2009

Singapore Telecoms

Possible 4Q09 earnings surprise

Maintain

BUY

Previous Rating: BUY

S$2.71

Fair Value: S$3.09

Stock Code:	
Reuters:	STEL.SI
ISIN Code	Z74
Bloomberg:	ST SP
Event:	Update

General Data

Issued Capital (m)	15,926
Mkt Cap (Sm/USm)	38,701/ 25,903
Major Shareholder	Temasek Hldg (57.17%)
Free Float (%)	32.3
NTA per share (S$)	0.69
Daily Vol 3-mth ('000)	23,716
52Wk High (S$)	4.050
52Wk Low (S$)	1.940

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Upbeat 4Q09 results likely. SingTel is due to report its 4Q09 results on 14 May before market opens. We had earlier expected revenue to show a modest QoQ decline (<5%) as we expect the economic slowdown to exert a slight toil on its business; the weaker AUD is also expected to negatively impact its consolidated revenue. But based on the relatively upbeat quarterly results from its peers MobileOne and StarHub recently, as well as the strong 4Q09 results from 33%-owned associate Bharti Airtel, we may see better-than-expected showing from SingTel. Another area of earnings surprise could also come from forex gains, as the regional currencies have appreciated some 2-5% against the SGD over the quarter.

Systems are go for NBN. Separately, the Infocomm Development Authority (IDA) recently announced the successful achievement of the contractual and financial close (CFC) by OpenNet, the NetCo of the NBN (national broadband network). SingTel has a 30% stake in OpenNet. As such, OpenNet has now obtained its Facilities-Based Operator License for it to commence the roll out of the NBN, where the plan is to achieve 60% coverage of all residential premises and non-residential buildings by end-2010, and 95% of all residential premises and non-residential buildings by 2012.

Divestment of SingTel's underground assets. The IDA has also approved OpeNet's implementation plan of the AssetCo, which will be established as a business trust within 24 months of the CFC, and will own and control the relevant underlying passive infrastructure assets that are used to support OpenNet's deployment. SingTel will transfer these underlying assets to the AssetCo; it will also need to reduce its unit holdings in the AssetCo to less than 25% within 60 months of OpenNet's CFC. We view the move positively as it would allow SingTel to monetize its assets.

Room for upward revision. In line with the recovering equity markets around the globe, we note that share prices of its listed associates have also risen over the quarter, with Bharti up as much as 16%. However, we are still not entirely convinced that a sustainable recovery has taken place, as the economic fundamentals continue to lag the sharp rally in share prices. Still, should the global economic recovery come earlier and stronger than expected, we see room to raise our FY10 estimates. For now, we maintain our SOTP fair value of S$3.09 until we see the 4Q09 results. In the meantime, we retain our **BUY** call.

Year to 31-Mar	Turnover (S$m)	Operating Income (S$m)	Net Profit (S$m)	EPS (S cents)	EPS Growth (%)	PER (x)	Div Yield (%)
FY 07	13,377.0	2,949.0	3,779.0	23.1	-0.9	11.7	4.5
FY 08	14,844.0	2,745.0	3,958.0	24.9	7.6	10.9	4.6
FY 09F	14,513.9	2,812.6	3,267.5	20.5	-17.5	13.2	4.5
FY 10F	13,962.1	2,757.0	3,311.9	20.8	1.4	13.0	5.0

Spore Tel's Key Financial Data

EARNINGS FORECAST Year Ended 31 Mar (S$ m)	FY07	FY08	FY09F	FY10F
Operating Revenue	13377.0	14,844.0	14,513.9	13,962.1
Operating Expenses	-9212.0	-10,393.0	-10,101.5	-9,574.2
Other Operating Income	117.0	78.0	54.2	53.0
Operating EBITDA	4282.0	4,529.0	4,466.6	4,440.9
IDA Compensation	337.0	0.0	0.0	0.0
Depreciation	-1855.0	-1,887.0	-1,653.9	-1,683.9
Exceptional Items	185.0	103.0	0.0	0.0
Operating Profit	2949.0	2,745.0	2,812.6	2,757.0
Associates	2073.0	2,559.0	2,068.0	2,218.0
Interest & Investment Income	-20.0	165.0	81.0	50.0
Net Interest Expense	-314.0	-342.0	-279.8	-279.8
Pre-Tax Profit	4688.0	5,127.0	4,681.8	4,745.2
Tax	-908.0	-1,168.0	-1,414.3	-1,433.3
Minority Interest	-1.0	-1.0	0.0	0.0
Net profit	3779.0	3,958.0	3,267.5	3,311.9
Net Margin	28.2%	26.7%	22.5%	23.7%
Earnings per share (cents)	23.1	24.9	20.5	20.8
Fully diluted earnings per share (cents)	23.2	24.8	20.4	20.7

BALANCE SHEET As at 31 Mar (S$ m)	FY07	FY08	FY09F	FY10F
Cash	1,390.1	1,372.0	1,469.3	1,571.4
Other current assets	2,894.2	2,678.0	2,618.8	2,666.3
Fixed assets	9,729.6	10,124.2	10,587.8	10,960.6
Other long term assets	18,644.6	20,540.1	20,505.2	20,470.3
Total assets	32,658.5	34,714.3	35,181.1	35,668.6
Current liabilities less debt	3,439.6	3,881.4	3,796.6	3,635.1
Debt	6,467.5	7,542.5	6,975.7	6,465.5
Other long term liabilities	1,901.4	2,288.1	2,099.5	2,099.5
Total liabilities	11,808.5	13,712.0	12,871.8	12,200.2
Shareholders equity	20,847.2	20,999.5	22,306.5	23,465.7
Minority interests	2.8	2.8	2.8	2.8
Total equity and liabilities	32,658.5	34,714.3	35,181.1	35,668.6
NTA per share (cents)	67.6	68.7	77.2	84.7

CASH FLOW Year Ended 31 Mar (S$ m)	FY07	FY08	FY09F	FY10F
Operating profit before working cap. changes	4,330.6	4,582.8	4,923.9	4,959.1
Working capital changes	-77.7	104.1	37.4	-174.5
Interest, dividend and tax	331.8	766.8	680.4	750.7
Net cash from operations	4,584.7	5,453.7	5,641.7	5,535.3
Capex	-1,789.8	-1,954.0	-2,540.0	-2,540.0
Other investing flows	1,131.8	-794.2	-36.5	-11.7
Investing cash flow	-658.0	-2,748.2	-2,576.5	-2,551.7
Change in equity	-2,264.1	-30.9	0.0	0.0
Net change in debt	705.2	1,179.0	-566.8	-510.1
Bonds repurchased	-1,329.4	-12.2	0.0	0.0
Dividends paid	-1,921.2	-3,435.8	-1,990.0	-1,960.5
Others	-500.5	-411.5	-410.9	-410.9
Financing cash flow	-5,310.0	-2,711.4	-2,967.7	-2,881.6
Forex adjustments	3.0	-12.2	0.0	0.0
Net cash flow	-1,380.3	-18.1	97.4	102.1
Cash at beginning of year	2,770.3	1,390.0	1,371.9	1,469.3
Fixed deposits pledged	0.1	0.1	0.0	0.0
Cash at end of year	1,390.1	1,372.0	1,469.3	1,571.4
Key Ratios				
PER (x)	11.7	10.9	13.2	13.0
Price/NTA (x)	4.0	3.9	3.5	3.2
EV/EBITDA (x)	-5.2	-4.7	-4.8	-5.0
Dividend yield (%)	4.5	4.6	4.5	5.0
ROIC (%)	13.8	13.9	11.2	11.1
ROE (%)	18.1	18.8	14.6	14.1
Net gearing (%)	24.4	29.4	24.7	20.9
PE to growth (x)	-12.3	1.4	-0.8	9.6

Source: Company data, OIR estimates

SHAREHOLDING DECLARATION:
The analyst who wrote this report holds 1800 shares in the above security.

RATINGS AND RECOMMENDATIONS:
OCBC Investment Research's (OIR) technical comments and recommendations are short-term and trading oriented.
- However, OIR's fundamental views and ratings (Buy, Hold, Sell) are medium-term calls within a 12-month investment horizon. OIR's Buy = More than 10% upside from the current price; Hold = Trade within +/-10% from the current price; Sell = More than 10% downside from the current price.
- For companies with less than S$150m market capitalization, OIR's Buy = More than 30% upside from the current price; Hold = Trade within +/- 30% from the current price; Sell = More than 30% downside from the current price.

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