

MITA No. 010/06/2008

# Singapore Telecoms

14 May 2009

## Stable, positive FY10 outlook

Maintain

# BUY

Previous Rating: BUY

## S\$2.72

## Fair Value: S\$3.18

Stock Code: STEL.SI  
 Reuters: Z74  
 ISIN Code: STSP  
 Bloomberg: STSP

Event: Results

General Data	
Issued Capital (m)	15,927
Mkt Cap (S\$m/US\$m)	43,321/ 29,556
Major Shareholder	Temasek Hldg (57.17%)
Free Float (%)	32.3
NTA per share (S\$)	0.69
Daily Vol 3-mth ('000)	28,708
52Wk High (S\$)	3.810
52Wk Low (S\$)	1.940

**Singapore operations have done well.** SingTel's Singapore operations performed strongly (as we had expected after seeing upbeat quarterly results from its peers earlier), with 4Q09 operating revenue up 12.7% YoY (telco business rose 4.5%) and underlying net profit up 32.0%. Going forward, SingTel guides for operating revenue to grow at single-digit level, driven by increased contribution from its IT & Engineering business (SCS) and first time revenue from the NBN rollout. However, EBITDA margin is expected to decline to 36-38% (mainly due to the lower-margin IT business), while capex is likely to be below S\$800m (including S\$170m for a satellite).

**Stable Australia operations.** Australia operations also did okay, with 4Q09 operating revenue up 8.7% YoY in AUD terms, while net profit climbed 17.1%; besides higher mobile revenue, Optus also managed to improve its overall operational EBITDA margin to 27.8% (vs. 23.2% in 3Q09) despite higher iPhone subsidies. For FY10, management believes that its operating revenue and EBITDA will grow at low single-digit levels, driven by growth in mobile and wireless broadband. Capex is expected to be around A\$1.1b.

**More cautious outlook on associates.** As for its regional associates, pre-tax contribution fell 18% YoY in 4Q09, mainly due to the weaker regional currencies against SGD and also weaker Telkomsel showing. Going forward, SingTel guides for its two largest associates - Bharti and Telkomsel - to grow in local currency terms. However, ordinary dividends from the regional associates are expected to be lower, and overall contributions will continue to be impacted by any adverse forex movements.

**Maintain dividend policy of 45-60% payout.** SingTel is committed to an optimal capital structure while maintaining financial flexibility as it continues to review new investment opportunities in Asia and emerging adjacent markets. Nevertheless, it will maintain its dividend payout ratio of 45-60% of underlying net profit. As a recap, SingTel declared a final dividend of S\$0.069 (payable in Aug 09) for FY09, bringing its total payout to S\$0.125 (unchanged from last year), or 58% of its earnings (nearly the top end of its 45-60% guidance). We have revised our FY10 estimates up slightly (around 3% to reflect its resilient business) and introduced our FY11 estimates. We have also bumped up our SOTP fair value from S\$3.09 to S\$3.18 to reflect the recovery in equities of its associates. Maintain **BUY**

**Carey Wong**

(65) 6531 9808

e-mail: carey@ocbc-research.com

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 08	14,844.0	2,745.0	3,958.0	24.9	7.6	10.9	4.6
FY 09	14,934.0	2,559.0	3,449.0	21.7	-13.0	12.6	4.6
FY 10F	14,322.6	2,725.2	3,424.9	21.5	-0.7	12.6	4.6
FY 11F	15,361.2	2,877.4	3,628.4	22.8	5.9	11.9	-

Please refer to the important disclosures at the back of this document.

**Spore Tel's Key Financial Data**

<b>Spore Tel Results</b> Year Ended 31 Mar (S\$ m)	<b>4Q08</b> (S\$m)	<b>4Q09</b> (S\$m)	<b>% Chg</b> (YoY)	<b>3Q09</b> (S\$m)	<b>% Chg</b> (QoQ)
Revenue	3758.0	3565.6	-5.1%	3701.0	-3.7%
Operating expenses	-2618.0	-2441.5	-6.7%	-2665.5	-8.4%
Other income	15.1	25.5	68.9%	21.4	19.2%
<b>Operating EBITDA</b>	<b>1155.1</b>	<b>1149.6</b>	<b>-0.5%</b>	<b>1056.9</b>	<b>8.8%</b>
Depreciation	-462.7	-413.1	-10.7%	-391.0	5.7%
Exceptional items	-3.0	-338.5	nm	5.5	nm
<b>Profit from operations</b>	<b>689.4</b>	<b>398.0</b>	<b>-42.3%</b>	<b>671.4</b>	<b>-40.7%</b>
Associates	635.0	634.6	-0.1%	329.4	92.7%
Profit before tax and interests	1324.4	1032.6	-22.0%	1000.8	3.2%
Interest/investment income	-4.9	25.3	nm	2.7	nm
Interest expense	-101.2	-76.0	-24.9%	-83.0	-8.4%
<b>Pretax</b>	<b>1218.3</b>	<b>981.9</b>	<b>-19.4%</b>	<b>920.5</b>	<b>6.7%</b>
Tax	-125.4	-78.3	-37.6%	-121.2	-35.4%
Minority interest	-0.1	-0.2	100.0%	-0.1	100.0%
<b>Net Profit</b>	<b>1092.8</b>	<b>903.4</b>	<b>-17.3%</b>	<b>799.2</b>	<b>13.0%</b>
Exceptional items	3.0	338.5	nm	39.0	nm
<b>Underlying Profit</b>	<b>1095.8</b>	<b>1241.9</b>	<b>13.3%</b>	<b>838.2</b>	<b>48.2%</b>

**EARNINGS FORECAST**

<b>Year Ended 31 Mar (S\$ m)</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10F</b>	<b>FY11F</b>
Operating Revenue	14844.0	14934.0	14322.6	15361.2
Operating Expenses	-10393.0	-10595.0	-9984.0	-10690.0
Other Operating Income	78.0	92.0	30.0	30.0
<b>Operating EBITDA</b>	<b>4529.0</b>	<b>4431.0</b>	<b>4368.6</b>	<b>4701.2</b>
IDA Compensation	0.0	0.0	0.0	0.0
Depreciation	-1887.0	-1733.0	-1643.4	-1823.7
Exceptional Items	103.0	-139.0	0.0	0.0
Operating Profit	2745.0	2559.0	2725.2	2877.4
Associates	2559.0	2052.0	2271.0	2421.0
Interest & Investment Income	165.0	98.0	80.0	80.0
Net Interest Expense	-342.0	-326.0	-302.1	-322.0
<b>Pre-Tax Profit</b>	<b>5127.0</b>	<b>4383.0</b>	<b>4774.1</b>	<b>5056.5</b>
Tax	-1168.0	-933.0	-1349.2	-1428.1
Minority Interest	-1.0	-1.0	0.0	0.0
<b>Net profit</b>	<b>3958.0</b>	<b>3449.0</b>	<b>3424.9</b>	<b>3628.4</b>
Net Margin	26.7%	23.1%	23.9%	0.2
Earnings per share (cents)	24.9	21.7	21.5	22.8
Fully diluted earnings per share (cents)	24.8	21.6	21.5	22.7

**BALANCE SHEET**

<b>As at 31 Mar (S\$ m)</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10F</b>	<b>FY11F</b>
Cash	1,372.0	1,076.0	1,341.3	1663.7
Other current assets	2,678.0	2,717.6	2,606.8	2930.9
Fixed assets	10,124.2	9,122.6	9,776.7	10302.7
Other long term assets	20,540.1	20,338.5	20,309.4	20280.3
Total assets	34,714.3	33,254.7	34,034.3	35177.6
Current liabilities less debt	3,881.4	3,675.1	3,634.7	3870.9
Debt	7,542.5	7,474.9	6,870.2	6325.9
Other long term liabilities	2,288.1	1,604.4	1,590.7	1590.7
Total liabilities	13,712.0	12,754.4	12,095.5	11787.5
Shareholders equity	20,999.5	20,476.2	21,914.6	23366.0
Minority interests	2.8	24.1	24.1	24.1
Total equity and liabilities	34,714.3	33,254.7	34,034.3	35177.6
NTA per share (cents)	68.8	65.7	74.9	84.2

**CASH FLOW**

<b>Year Ended 31 Mar (S\$ m)</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10F</b>	<b>FY11F</b>
Operating profit before working cap. changes	4,582.8	4,465.4	4,674.3	4954.8
Working capital changes	104.1	-28.1	137.5	-85.2
Interest, dividend and tax	766.8	725.7	798.2	853.5
Net cash from operations	5,453.7	5,163.0	5,610.0	5723.1
Capex	-1,954.0	-1,961.8	-2,540.0	-2540.0
Other investing flows	-794.2	-428.8	163.8	43.6
Investing cash flow	-2,748.2	-2,390.6	-2,376.2	-2496.4
Change in equity	-30.9	11.9	0.0	0.0
Net change in debt	1,179.0	48.0	-604.8	-544.3
Bonds repurchased	-12.2	-649.3	0.0	0.0
Dividends paid	-3,435.8	-1,989.4	-1,990.0	-1986.4
Others	-411.5	-439.0	-373.6	-373.6
Financing cash flow	-2,711.4	-3,017.8	-2,968.4	-2904.3
Forex adjustments	-12.2	-50.7	0.0	0.0
Net cash flow	-18.1	-296.1	265.5	322.4
Cash at beginning of year	1,390.0	1,371.9	1,075.8	1341.3
Fixed deposits pledged	0.1	0.2	0.0	0.0
Cash at end of year	1,372.0	1,076.0	1,341.3	1663.7

**Key Ratios**

PER (x)	10.9	12.6	12.6	11.9
Price/NTA (x)	4.0	4.1	3.6	3.2
EV/EBITDA (x)	10.9	11.2	11.2	10.2
Dividend yield (%)	4.6	4.6	4.6	0.0
ROIC (%)	13.9	12.3	11.9	12.2
ROE (%)	18.8	16.8	15.6	15.5
Net gearing (%)	29.4	31.3	25.2	20.0
PE to growth (x)	1.4	-1.0	-18.8	2.0

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.

**DISCLAIMER FOR RESEARCH REPORT**

This report is solely for information and general circulation only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our written consent. This report should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities mentioned herein. Whilst we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee its accuracy or completeness, and you should not act on it without first independently verifying its contents. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. You may wish to seek advice from a financial adviser regarding the suitability of the securities mentioned herein, taking into consideration your investment objectives, financial situation or particular needs, before making a commitment to invest in the securities. OCBC Investment Research Pte Ltd, OCBC Securities Pte Ltd and their respective connected and associated corporations together with their respective directors and officers may have or take positions in the securities mentioned in this report and may also perform or seek to perform broking and other investment or securities related services for the corporations whose securities are mentioned in this report as well as other parties generally.

Privileged/Confidential information may be contained in this message. If you are not the addressee indicated in this message (or responsible for delivery of this message to such person), you may not copy or deliver this message to anyone. Opinions, conclusions and other information in this message that do not relate to the official business of my company shall not be understood as neither given nor endorsed by it.

Co.Reg.no.: 198301152E

For OCBC Investment Research Pte Ltd



---

Carmen Lee  
Head of Research

Published by OCBC Investment Research Pte Ltd