

Singapore Industry Focus Telecom Sector

Refer to important disclosures at the end of this report

DBS Group Research . Equity

26 Mar 2020

Re-setting expectations

- Assuming COVID-19's impact lingers throughout 2020, we cut our earnings forecasts by 9-10% for Singtel and StarHub
- Netlink is our top pick for earning resilience and ~5.8% yield. We also like Singtel for ~5.4% dividend yield, nearly +2 standard deviation (SD) of its mean and StarHub for 7% yield (near +1SD of its mean)
- Key risk will be stocks dropping to our bear-case valuation leading to a potential loss of 10% to 15%.

Assuming COVID-19's impact lingers throughout 2020, we cut our earnings forecasts by 9-10%.

Roaming revenue in Singapore (which makes up 12-20% of mobile revenue) will be the biggest causality followed by prepaid mobile revenue (which comprises 15-20% of mobile revenue). Regionally, Singtel will be impacted by ~10% drop in Aussie dollar, drop in roaming revenue in Australia which account for 5-6% of Optus's mobile revenue and potential weakness in regional currencies. We reduce Singtel's FY21F/22F earnings forecasts by 10%/6% and StarHub's by 9%/4%. We conservatively trim FY21F dividend per share (DPS) for Singtel to 14 Scts from 15 Scts earlier (17.5 Scts in FY20F) based on free cash flow.

Netlink is the top pick for earnings resilience, prefer Singtel for ~5.4% dividend yield & StarHub for ~7.1% yield. With almost 100% of free cash flow being paid out as dividends to shareholders, dividend yield has become more meaningful than non-cash earnings, in our view. Netlink is trading at ~6% dividend yield near its +1SD yield of 6.0% derived from a 90-basis points (bps) reduction in +1SD yield of industrial S-REITs. Netlink's net debt-to-EBITDA of less than 2x, suggests ample room to raise debt if needed. Singtel is trading at ~5.4% yield translating into +2SD yield over the last 15 years. If Singtel were to reduce capex, it may surprise with a 15-Sct DPS versus our projection of a 14-Sct DPS. StarHub is trading at ~7.1% yield versus +1SD yield of 7.8% and may benefit from its joint bid with M1 for Nationwide 5G license.

Bear-case scenario suggests potential loss of upto 10% to 15%. Bear-case scenario could see (i) Netlink drop to S\$0.76, (ii) Singtel fall to S\$2.18, (iii) StarHub decline to S\$1.00.

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Analyst

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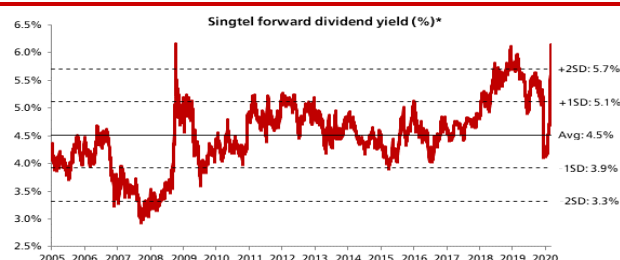
STOCKS

	Price S\$	Mkt Cap US\$m	12-mth Target Price S\$	Performance (%)		
				3 mth	12 mth	Rating
Singtel	2.60	29,355	2.80	(26.7)	(16.8)	BUY
StarHub	1.27	1,521	1.40	(14.3)	(21.1)	BUY
NetLink NBN Trust	0.90	2,412	0.95	(7.5)	6.8	BUY

Source: DBS Bank, Bloomberg Finance L.P.

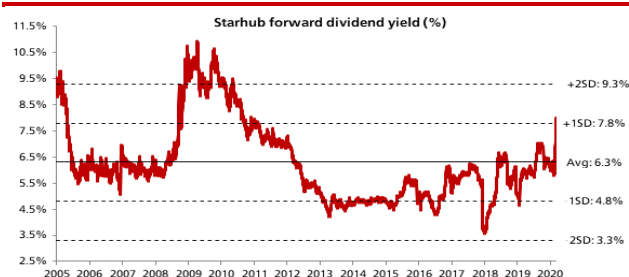
Closing price as of 25 Mar 2020

Singtel's ~5.4% dividend yield based on 14-Sct DPS in FY21F is near +2S.D. of its mean



Source: DBS Bank

StarHub's ~7.1% dividend yield based on 9-Sct DPS is below +1S.D. of its mean



Source: DBS Bank

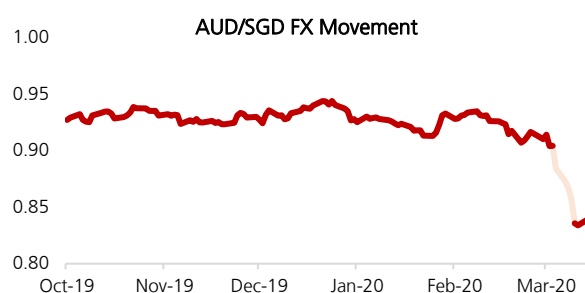


Live more, Bank less

Earnings cut to factor in the impact of COVID-19

COVID-19's impact may linger throughout 2020. The World Travel and Tourism Council has indicated that once the COVID-19 outbreak is over, it could take up to 10 months for the tourism industry to recover. A substantial and prolonged decline in inbound and outbound travel due to the prevailing COVID-19 situation is likely to result in a significant drop in the usage of roaming facilities. Roaming revenue in Singapore (12-20% of mobile revenue) will be the biggest casualty followed by prepaid mobile revenue (15-20% of mobile revenue). Roaming revenue might drop by as much as ~50% in 2020 due to the sharp decline in the number of business and leisure tourists, while prepaid mobile revenue might decline by ~20% due to a lower number of foreign workers.

Australian Dollar has weakened by ~10% YTD against the Singapore Dollar



Source: Yahoo Finance, DBS Bank

We reduce Singtel's FY21F/22F earnings forecasts by 10%/6%.

- Our earnings cuts come from three key changes:
- Roaming revenue could drop sharply in FY21F, leading to 6%/3% cuts in Singtel's FY21F/22F earnings.
 - ~10% drop in Australian Dollar (AUD) leading to another 2.5% cut in Singtel's FY21F/22F earnings each.
 - Bharti's pre-tax contribution could be lower than our previous estimates due to higher-than-expected regulatory dues, leading to another 2% cut in Singtel's FY21F/22F earnings each.

We conservatively trim dividend per share (DPS) for Singtel to 14 Scts in FY21F (March YE) from 15 Scts earlier (vs. 17.5 Scts in FY20F) based on sustainable free cash flows.

We cut StarHub's FY20F/21F earnings forecasts by 9%/4%.

This is mainly on the back of a sharp decline in roaming (12-13% of its mobile revenue) and prepaid mobile revenue (18-19% of its mobile revenue) in Singapore.

We prefer stocks with lower downside risks based on +2SD dividend yields.

We turn towards a dividend-based analysis in the wake of COVID-19 to analyse the resilience of Singapore telcos. Singtel, for example, pays out almost 100% of its free cash flow (FCF) as dividends to its shareholders now versus 70-80% of FCF a decade ago. Hence, we prefer to use historical dividend yields as the primary valuation metrics rather than historical PERs.

Netlink is currently trading at ~5.8% yield. We argue that Netlink should trade at a yield that is 80-100bps lower than industrial S-REITs' as Netlink's (1) distributions are largely independent of the economic cycle due to the regulated nature of its business, (2) asset life is much longer as it incurs annual capex to replenish its depreciated asset base, and (3) gearing is less than half of S-REITs' with ample debt headroom to fund future growth. Assuming a 90-bp lower yield for Netlink than large-cap industrial S-REITs' historical yields, we estimate +1SD yield of 6.0% and +2SD yield of 6.8% for Netlink. Netlink's net debt-to-EBITDA of less than 2x implies ample debt headroom. Regulated asset base (RAB) trusts can lever easily to 5x due to their earnings visibility and resilience.

SG large-cap Industrial REIT yields: Yields based on Mean and Standard Deviations

	Current	Mean	+1 S.D.	+2 S.D.
Mapletree Industrial Trust	6.1%	6.4%	7.1%	8.0%
Ascendas REIT	6.4%	6.0%	6.6%	7.4%
Average	6.2%	6.2%	6.9%	7.7%

Source: DBS Bank

According to our bear-case analysis, NLT's share price could drop to S\$0.76. In the case of continued market dislocation due to COVID-19, industrial S-REITs could decline to 7.7% (+2SD yield) from 6.2% currently (please see the table above). Given NLT's higher earnings resilience, lower gearing and longer asset life, we project the share to trade at 90bps of 6.8% under our bear-case scenario. Based on current FY21F distribution per share of 5.2 Scts, it translates into a bear-case price of S\$0.76 per share.

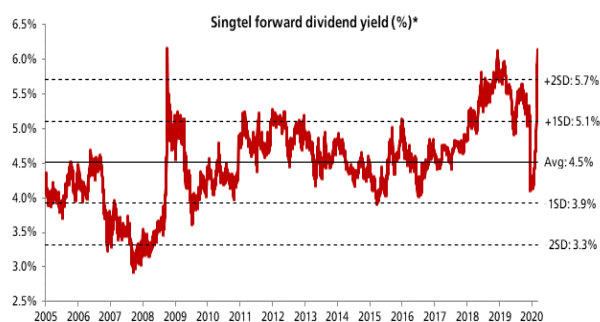
Singtel is trading near +2S.D. dividend yield of 5.7% even on our reduced estimate of a 14-Sct DPS. We cut DPS to 14 Scts in FY21F from 15 Scts previously although capex cuts in FY21F/22F could support a 15-Sct DPS as well.

Singtel's DPS calculations based on free cash flow projections

S\$bn	FY19 A	FY20 F	FY21 F	FY22 F
Core EBITDA	4,692	4,363	3,804	3,570
(-) Capex	1,718	2,042	2,173	2,117
(-) Working capital changes	-126	-226	49	-1
Core FCF to the firm	2,848	2,095	1,680	1,452
Interest costs	-393	-302	-486	-514
Core FC to the shareholders	2,455	1,793	1,195	938
Dividends from associates (post-tax)	1,402	1,235	1,235	1,235
FCF for dividends	3,857	3,028	2,430	2,173
FCF per share (Scts)	23.6	18.6	14.9	13.3

Source: DBS Bank

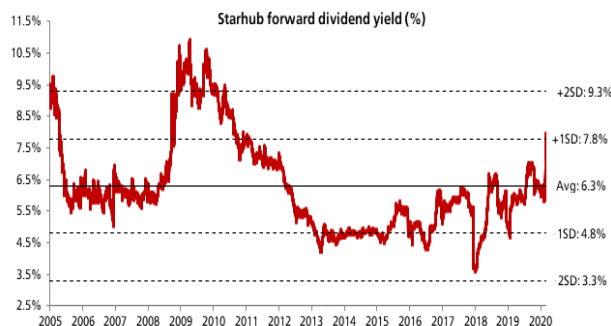
Singtel is trading near its 2S.D. dividend yield of 5.7% even on our reduced DPS estimates



Source: Thomson Reuters, DBS Bank

StarHub is trading at 7.1% yield versus +1S.D. yield of 7.8% and +2S.D. yield of 9.3%. We project StarHub to maintain a 9-Sct DPS as the company should be able to save capex from its joint-bid with M1 for a 5G licence, which is expected to be awarded in mid-2020. StarHub's gearing is one of the lowest in the region and the company could benefit from potential consolidation in the sector post 5G licence award.

StarHub is trading near its +1S.D. dividend yield of 7.8%

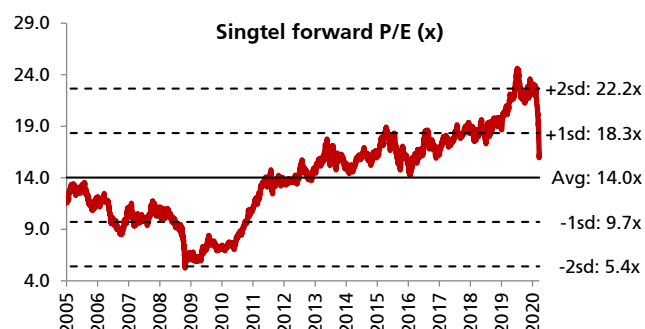


Source: Thomson Reuters, DBS Bank

According to our bear-case analysis, Singtel and StarHub could drop to S\$2.18 & S\$1.00 respectively. Under this scenario, we assume Singtel to drop to an all-time high dividend yield of 6.2% as seen during the global financial crisis. We assume 13.5 Scts DPS under this scenario due to bigger macro worries vs. 14Scts DPS under the base-case. As for StarHub, it may drop to +2S.D. dividend yield of 9% in case capex savings from joint-bid for 5G are less than expected.

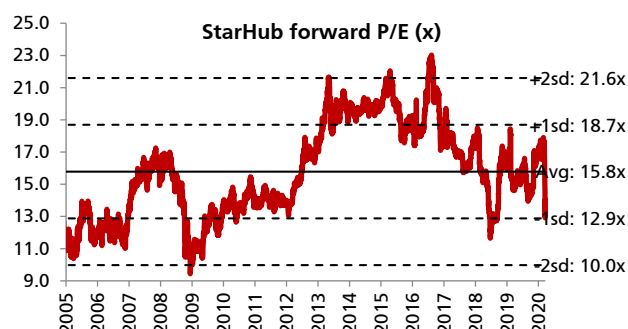
Historical PERs may be less relevant metrics due to much higher payout ratios. Singtel, for example, pays out almost 100% of its free cash flow (FCF) as dividends to the shareholders now versus 70-80% of FCF a decade ago. Hence, we prefer to use historical dividend yields as the primary valuation metrics rather than historical PERs.

Singtel is trading near its historical average PER which is less meaningful now due to its fixed dividend commitment



Source: Thomson Reuters, DBS Bank

StarHub is trading near its -1S.D. PER, less relevant than dividend yield though



Source: Thomson Reuters, DBS Bank

Regional Peers Valuation

Company	Mkt Cap (US\$m)	Price S\$ 25-Mar	CAGR 19-21 (%)	PE (x) 19E	20F	21F	Dividend Yield (%) 19E	20F	21F	P/BV 19E	20F	EV/EBITDA 19E	20F	21F
China / Hong Kong SHCOMP Index 2,782														
China Mobile	148,164	56.10	0.2	9.8	10.1	9.8	5.7%	5.7%	5.7%	0.9x	0.9x	2.0x	1.9x	1.7x
China Telecom	4,189	2.34	5.8	8.4	7.9	7.5	5.3%	5.5%	5.9%	0.5x	0.5x	2.5x	2.2x	1.8x
China Unicom	18,037	4.57	28.1	11.2	8.9	6.9	3.6%	4.5%	5.8%	0.4x	0.4x	1.3x	1.1x	0.9x
Smartone Telecom	651	4.50	(6.8)	8.0	10.7	9.2	8.6%	7.0%	8.1%	1.0x	1.0x	2.9x	2.0x	1.7x
Hutchison Telecom	765	1.23	(5.0)	13.8	15.5	15.3	5.4%	4.8%	4.9%	0.5x	0.5x	0.3x	0.5x	1.5x
HKT Trust	9,864	10.10	8.9	13.9	13.0	11.7	7.1%	7.4%	7.5%	2.0x	2.0x	8.9x	8.7x	8.3x
Malaysia KLCI Index 1324.5														
Digi.Com	7,283	4.15	2.6	22.5	22.4	21.4	4.4%	4.5%	4.7%	48.9x	48.9x	11.2x	11.0x	10.7x
Maxis Bhd	9,426	5.34	5.2	27.8	26.3	25.1	3.7%	3.4%	3.4%	5.9x	5.8x	13.3x	12.6x	12.3x
Telekom	2,898	3.41	4.7	12.8	11.8	11.7	2.9%	4.2%	4.3%	1.7x	1.6x	4.0x	4.4x	4.2x
Axiata Group	7,094	3.43	24.1	32.6	25.6	21.1	2.8%	3.3%	4.0%	1.9x	1.9x	5.1x	6.3x	5.9x
Singapore STI Index 2505.47														
NetLink NBN Trust *	2,412	0.90	10.4	40.5	35.8	33.3	5.7%	5.8%	5.9%	1.2x	1.2x	14.8x	14.2x	13.7x
Singtel *	29,355	2.60	5.4	17.1	15.8	15.4	6.7%	5.8%	5.8%	1.5x	1.5x	8.9x	8.4x	8.2x
Starhub	1,521	1.27	(6.5)	11.3	13.3	12.9	7.1%	7.1%	7.0%	5.8x	5.6x	5.4x	5.8x	6.0x
Thailand SET Index 1080.03														
Advanced Info Service	18,327	202.00	1.6	18.7	17.6	18.2	3.6%	4.0%	4.4%	8.7x	7.5x	8.5x	8.0x	7.6x
Digital Telecommunication	4,250	13.10	4.4	13.4	12.4	12.3	7.4%	7.9%	7.8%	0.4x	0.4x	14.1x	13.2x	13.1x
Total Access Comm.	2,728	37.75	(48.4)	14.2	19.9	53.4	7.6%	2.5%	0.9%	3.6x	3.9x	4.3x	4.6x	4.7x
Indonesia JCI Index 3937.632														
Indosat	406	1,200	nm	-3.4	-2.7	nm	0.0%	0.0%	0.0%	0.5x	0.6x	3.2x	2.8x	2.7x
PT Link Net Tbk	473	2,610	4.0	7.3	7.1	6.8	8.2%	8.4%	8.9%	1.5x	1.4x	3.3x	3.2x	3.0x
PT Telekom	16,153	2,620	9.3	12.5	11.4	10.4	6.0%	6.6%	7.2%	2.6x	2.6x	4.8x	4.6x	4.5x
XL Axiata	938	1,410	50.9	21.1	11.1	9.3	0.0%	2.7%	4.3%	0.8x	0.7x	4.0x	2.9x	2.7x
PT Sarana Menara	2,000	630	13.7	13.6	12.3	10.5	3.7%	4.4%	5.2%	3.5x	3.1x	7.8x	7.9x	7.0x
				15.0	14.1	15.5						6.2	6.0	5.9

* 21F & 22F forecast

Source: DBS Bank; DBS Vickers; AllianceDBS

Company Guide

Singapore Company Guide

NetLink NBN Trust

Version 11 | Bloomberg: NETLINK SP | Reuters: NETL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

23 Mar 2020

BUY

Last Traded Price (20 Mar 2020): S\$0.90 (STI : 2,410.74)

Price Target 12-mth: S\$0.95 (6% upside) (Prev S\$1.05)

Analyst

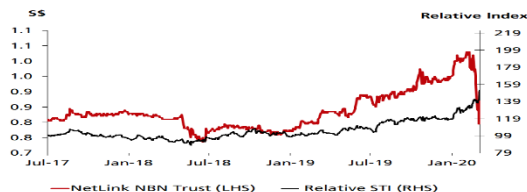
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What's New

- Netlink's outperformance is likely to continue due to the regulated nature of its business
- In case of a severe market-meltdown, Netlink could decline to S\$0.76, implying 10% downside risk
- Netlink's 5.8% yield is attractive compared to 6.2% average yield offered by large-cap industrial S-REITs. BUY with revised TP of S\$0.95

Price Relative



Forecasts and Valuation

FY Mar (\$m)	2019A	2020F	2021F	2022F
Revenue	354	369	381	393
EBITDA	250	267	278	288
Pre-tax Profit	69.8	82.2	93.6	103
Net Profit	77.4	86.1	97.3	105
Net Pft (Pre Ex.)	77.4	86.1	97.3	105
Net Pft Gth (Pre-ex) (%)	54.9	11.3	13.0	7.8
EPS (S cts)	1.99	2.21	2.50	2.69
EPS Pre Ex. (S cts)	1.99	2.21	2.50	2.69
EPS Gth Pre Ex (%)	55	11	13	8
Diluted EPS (S cts)	1.99	2.21	2.50	2.69
Net DPS (S cts)	4.88	5.07	5.20	5.32
BV Per Share (S cts)	77.7	75.0	72.3	69.8
PE (X)	45.3	40.7	36.0	33.4
PE Pre Ex. (X)	45.3	40.7	36.0	33.4
P/Cash Flow (X)	15.3	11.2	13.6	13.1
EV/EBITDA (X)	16.0	14.9	14.3	13.8
Net Div Yield (%)	5.4	5.6	5.8	5.9
P/Book Value (X)	1.2	1.2	1.2	1.3
Net Debt/Equity (X)	0.2	0.2	0.2	0.2
ROAE (%)	2.5	2.9	3.4	3.8
Earnings Rev (%):	-	-	-	-
Consensus EPS (S cts):		2.20	2.40	2.50
Other Broker Recs:		B: 8	S: 0	H: 3

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Built for the tough times

Netlink's outperformance is likely to continue. The stock has dropped 4% year-to-date (YTD) vs. 25% decline for Strait Times Index (STI). NetLink NBN Trust (NLT) is trading at 5.8% yield, vs. an average yield of 6.2% offered by large-cap industrial S-REITs. We argue that NLT should trade at 80-100 basis points (bps) lower yield than industrial S-REITs' as (1) NLT's distributions are largely independent of the economic cycle due to the regulated nature of its business, (2) NLT's asset life is much longer as it incurs annual capex to replenish its depreciated asset base, and (3) NLT's gearing is less than half of S-REITs' with ample debt headroom to fund future growth.

Where we differ: We benchmark Netlink's yield against industrial S-REITs whose asset life is 40-50 years. Netlink, on the other hand, incurs an annual capex of S\$50-60m to replenish its depreciated asset base, leading to a very long asset life. Also, Netlink's net debt to EBITDA of less than 2x implies ample room for raising cheap debt if needed. Regulated Asset Base (RAB) Trusts can lever up to 5x easily, implying that Netlink can easily raise up to S\$500m in additional debt if required.

Potential catalysts: NLT could use its debt headroom to invest in Smart Nation initiatives, not factored in our TP

Valuation:

Maintain BUY, lower TP of S\$0.95. We revise weighted average cost of capital (WACC) to 6.0% from 5.4% in our DCF (terminal growth rate of 1.2%) valuation. We project higher market risk premium and beta in the face of higher market volatility.

Key Risks to Our View:

Bear case TP of S\$0.76 implies 10% downside potential, including 5.8% yield. In case of industrial S-REITs declining from their mean valuation (6.2% yield) to -2SD valuation (7.7% yield), Netlink's yield could also decline to 6.8%

At A Glance

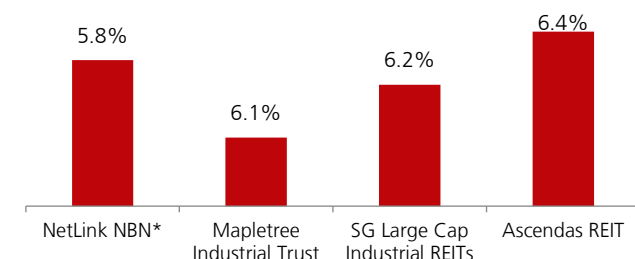
Issued Capital (m shrs)	3,897
Mkt. Cap (S\$m/US\$m)	3,507 / 2,418
Major Shareholders (%)	
Temasek Holdings Pte Ltd	25.4
UBS AG / Singapore	5.6
Lazard Ltd	4.9
Free Float (%)	64.1
3m Avg. Daily Val (US\$m)	7.7
GIC Industry : Communication Services / Telecommunication Services	



Live more, Bank less

WHAT'S NEW

NLT should trade at 80-100 bps lower yield than S-REITs'
NetLink is trading at 5.8% yield, vs. an average yield of 6.2 %
offered by large-cap industrial S-REITs.



*FY21F for NetLink NBN

Source: Reuters, DBS Bank

We argue that NLT should trade at a lower yield of 80-100bps than large-cap Industrial S-REITs' yield due to three reasons:

1. **NLT's distributions are largely independent of the economic cycle due to the regulated nature of its business.** Almost 93% of the business is regulated in nature, another 5% of the business is unregulated but contractual in nature. Only ~2% of the business from diversion income and others is less predictable in nature.
2. **NLT's asset life is longer than S-REITS as it incurs annual capex to replenish its depreciated asset base.** NLT incurs an annual capex of S\$55-60m or more to replenish its depreciated asset base, making its asset life quite long. Industrial S-REITs, on the other hand, have much shorter asset life of 40-50 years.
3. **NLT's gearing is less than half of S-REITS' with ample debt headroom to fund future growth.** Netlink's net debt to EBITDA of less than 2x implies ample room for raising cheap debt if needed. If we look at regional utilities and infrastructure players with RAB model, most of them have net debt to EBITDA above 5x. Clearly, Netlink can easily raise up to S\$500m in additional debt if required. NLT's net debt to equity of 16% is less than half the gearing of S-REITs at 35-40%. We think that NLT's gearing has been

kept low to have enough flexibility to raise capex in the future as NLT provides the backbone of broadband infrastructure in Singapore.

Maintain BUY, lower TP of S\$0.95. Our DCF valuation assumes 6.0% WACC and 1.2% terminal growth based on long-term household formation rates. Our change in TP is largely on the back of higher WACC (5.4% previously) to factor in a higher market risk premium and beta in the face of higher market volatility.

We have raised market risk premium from 7% to 7.5%, and beta from 0.5 to 0.6 to reflect the higher volatility brought about by the COVID-19 crisis. The Federal Reserve Board of US announced another rate cut on 15 March, and hence we have cut the risk-free rate from 2.5% previously to 2%.

SG large-cap Industrial REIT yields: Implied yields based on Mean & Standard deviations of Price to Net Asset Value

	Current	Mean	-1 SD	-2 SD
Mapletree Industrial Trust	6.1%	6.4%	7.1%	8.0%
Ascendas REIT	6.4%	6.0%	6.6%	7.4%
Average	6.2%	6.2%	6.9%	7.7%

Source: DBS Bank

According to our bear-case scenario analysis, NLT could drop to S\$0.76 per share. In the case of continued market dislocation due to COVID-19, industrial S-REITs could decline to -2SD valuation in the worst-case scenario. This would imply industrial S-REITs' average yield dropping to 7.7% from 6.2% currently (pls see the table above) implying almost a drop of 20% in the share price of industrial S-REITs. Given higher earnings resilience, lower gearing and longer asset life of NLT, we project NLT to trade at 90bps of 6.8% under our bear case scenario. Based on current FY21F distribution per share of 5.25cts, it translates into a bear-case price of S\$0.76 per share. Overall, that implies a downside risk of 10% including 5.8% yield.

CRITICAL DATA POINTS TO WATCH

Critical Factors

Fibre broadband penetration set to rise from c.94% currently.

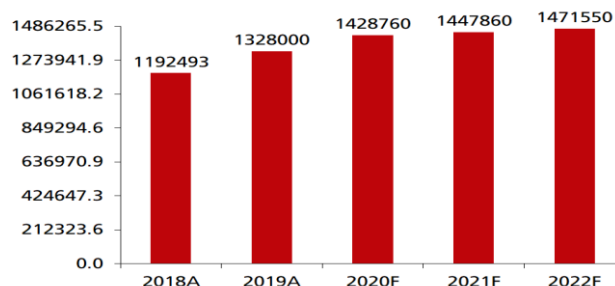
As of Dec 2019, NLT's network had passed over 1.5m residential homes, while there were 1.42m residential end-user connections, representing 94.5% of homes passed. NLT should benefit from StarHub's accelerated fibre migration over 1HFY20 which will have a full-year impact over FY21F. In the subsequent years, we expect NLT to benefit from (1) higher end-user fibre penetration currently, and (2) growth in the number of new households.

Growing market share in non-residential fibre business. NLT expanded its market share from c.30% in FY17 to c.34% in FY18, having grown from zero in 2012. Growth in market share will be driven by an expanding SME market, which is mainly located outside of the Central Business District (CBD) and business parks where NLT faces lower competition from other fibre network providers due to its relatively extensive nationwide network coverage. Key strategies include: (1) deploying fibre within selected non-residential buildings, and (2) extending network footprint into new major developments such as the Greater Southern Waterfront project.

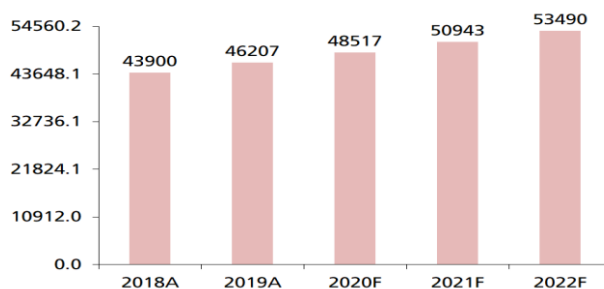
Opportunities in Non-Building Access Points (NBAP) segment.

Growth opportunities could arise from the Smart Nation Programme, which requires the deployment of a network of sensors and monitoring equipment across Singapore to support applications such as autonomous vehicles, high-definition surveillance cameras, parking space management and weather data collection. NLT continues to support the Requesting Licensees and government agencies on the rollout of Smart Nation initiatives.

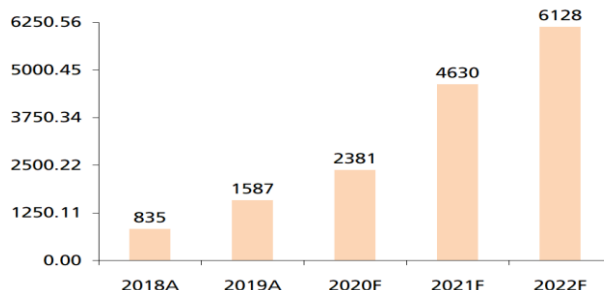
Residential end user connections



Non residential end user connections



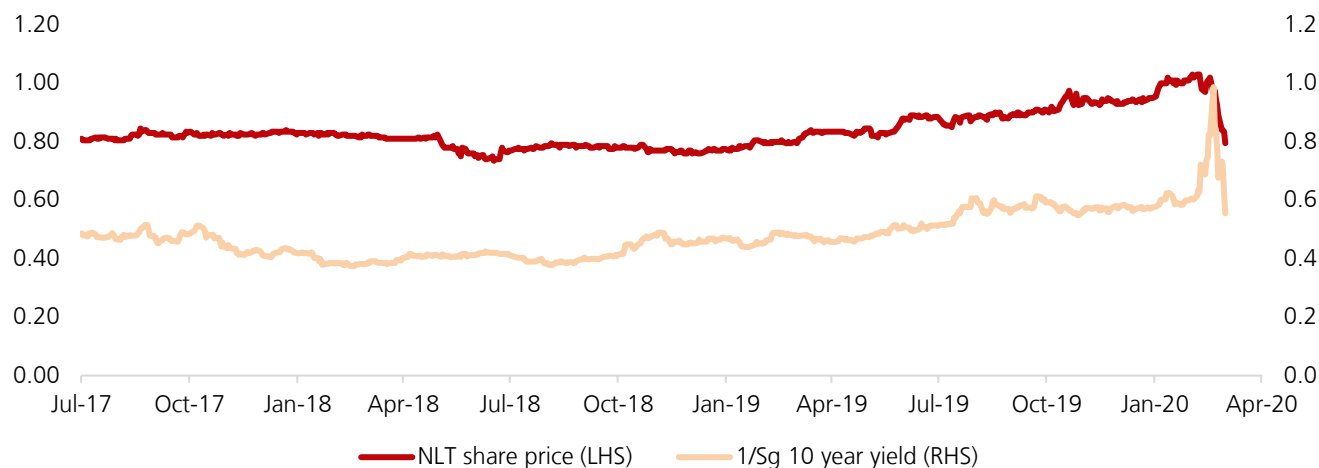
NBAP connections



Source: Company, DBS Bank

Appendix 1: A look at Company's listed history – what drives its share price?

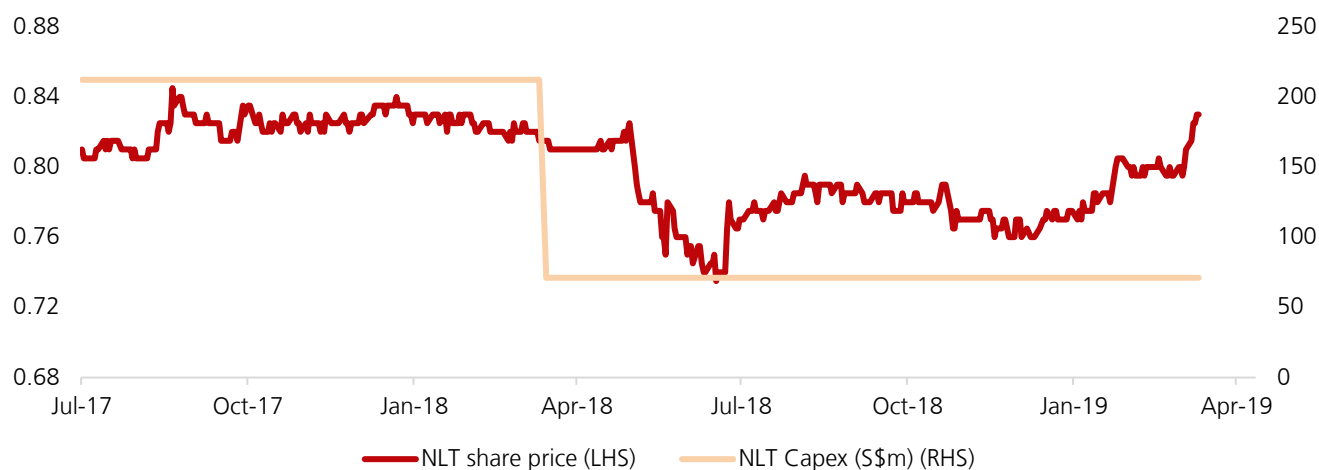
Share Price vs. 1/Sg 10 year yield



Source: Reuters, DBS Bank

NLT's share price correlates positively to the inverse of Singapore's 10-year benchmark government bond yield. We believe NLT is being priced like a bond proxy due to its strong yield characteristics. In a lower yield environment, NLT's share price should perform well as it continues to deliver DPU growth.

Share price vs. Capex



Source: Reuters, Company, DBS Bank

Since Netlink gets a guaranteed 7% return on its regulated asset base (RAB) and higher than regular capex will translate into higher EBITDA for Netlink. Netlink's regular annual capex is S\$55-60m but any upside surprise on the capex can be easily debt-funded at low-interest cost of 2.5%-3.0% which will generate 7% returns as allowed by the regulators.

NetLink NBN Trust

Balance Sheet:

Prudent capital structure. NLT has in place a prudent capital structure, with a S\$510m term loan plus two revolving credit facilities totalling S\$300m (S\$90m + S\$210m). Total gross debt as of 31 Dec 2019 stood at S\$636m. Net debt-to-equity ratio for the Trust is low, at around 0.2x. More importantly, the Trust's gross debt/EBITDA ratio as of 31 Dec 2019 at 2.2x is quite conservative compared to other listed utility/infrastructure companies and business trusts.

Low gearing allows for opportunistic acquisitions, developments. Current gearing is low, with net debt-to-equity ratio at c.0.2x. The Manager has ample headroom for opportunistic acquisitions and developments.

Share Price Drivers:

We identify several catalysts for NLT's share price: (i) wider scope of Smart Nation initiatives as NLT could use its debt headroom to invest in those initiatives, leading to a healthy growth in distributions in the long term, and (iii) more clarity on NLT's potential participation, if at all, in the 5G rollout programme that is expected over next two years.

Key Risks:

Regulatory changes. As c.80% of the revenue is regulated under the RAB model, any changes in nominal pre-tax WACC from 2022 onwards may lead to changes in Interconnection Offer (ICO) pricing. The pre-tax WACC for the current review period is currently set at 7%.

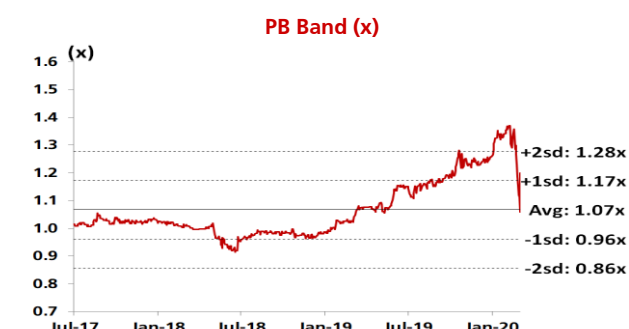
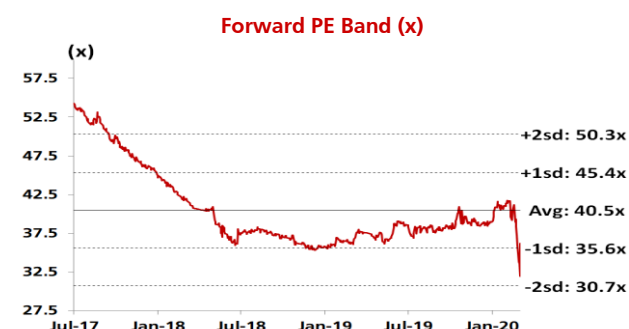
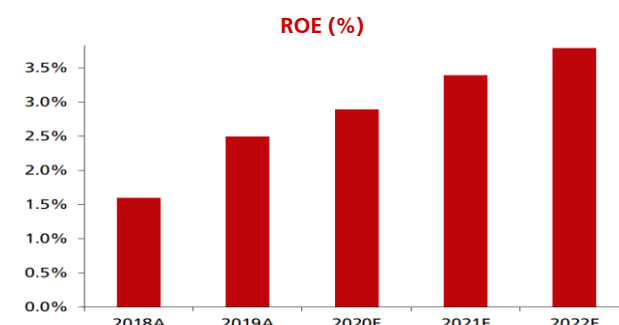
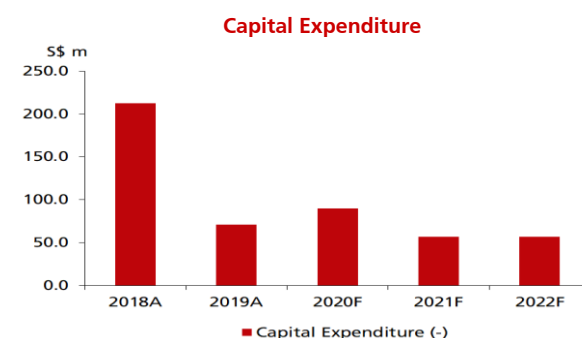
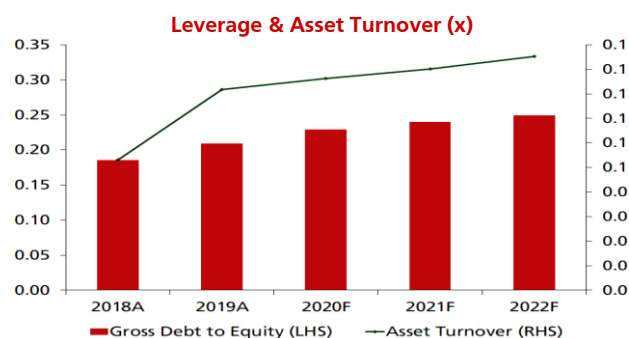
Technology risk. We note that NLT's unique "ring" and "star" topology schemes are considered as highly future-proof passive infrastructure. While wired fibre broadband remains the most efficient and effective technology today for the transmission of large amounts of data at high bandwidth with low latency from point-to-point directly and is often thought to be future-proof with limited substitution risk, there is risk of technology obsolescence with new technologies.

Environment, Social, Governance:

In FY19, NLT determined its material environmental, social and governance aspects, as it continues to expand its business and network infrastructure while upholding various sustainability efforts. NLT has formed a Sustainability Steering Committee to monitor and manage sustainability approaches as well as various ESG risks and opportunities.

Company Background

NLT designs, builds, owns and operates the fibre network infrastructure which is the foundation of Singapore's Next Generation Nationwide Broadband Network.



Source: Company, DBS Bank

Key Assumptions

FY Mar	2018A	2019A	2020F	2021F	2022F
Residential end user	1,192,493	1,328,000	1,428,760	1,447,860	1,471,550
Non residential end user	43,900	46,207	48,517	50,943	53,490
NBAP connections	835	1,587	2,381	4,630	6,128

Segmental Breakdown

FY Mar	2018A	2019A	2020F	2021F	2022F
Revenues (\$\$m)					
Residential connections	196	207	233	238	242
Non-residential & NBAP	26.4	30.0	33.0	35.9	39.2
Ducts, manholes and CO	47.3	54.9	46.1	46.1	46.5
Others	(40.9)	62.0	57.1	60.6	65.3
Total	229	354	369	381	393

We project 99% fibre penetration in FY22F; non-residential to benefit from rise in market share

Income Statement (\$\$m)

FY Mar	2018A	2019A	2020F	2021F	2022F
Revenue	229	354	369	381	393
Cost of Goods Sold	0.0	0.0	0.0	0.0	0.0
Gross Profit	229	354	369	381	393
Other Opng (Exp)/Inc	(173)	(265)	(266)	(266)	(269)
Operating Profit	56.0	88.9	103	115	124
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(12.2)	(19.1)	(20.4)	(21.1)	(21.2)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	43.8	69.8	82.2	93.6	103
Tax	6.14	7.61	3.90	3.72	2.17
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	50.0	77.4	86.1	97.3	105
Net Profit before Except.	50.0	77.4	86.1	97.3	105
EBITDA	168	250	267	278	288
Growth					
Revenue Gth (%)	(23.6)	54.7	4.4	3.2	3.1
EBITDA Gth (%)	(24.9)	48.3	6.8	4.1	3.6
Opg Profit Gth (%)	(30.8)	58.7	15.5	11.7	8.1
Net Profit Gth (Pre-ex) (%)	(37.1)	54.9	11.3	13.0	7.8
Margins & Ratio					
Gross Margins (%)	100.0	100.0	100.0	100.0	100.0
Opg Profit Margin (%)	24.5	25.1	27.8	30.1	31.6
Net Profit Margin (%)	21.9	21.9	23.3	25.6	26.7
ROAE (%)	1.6	2.5	2.9	3.4	3.8
ROA (%)	1.2	1.8	2.0	2.3	2.5
ROCE (%)	1.3	2.1	2.5	2.8	3.1
Div Payout Ratio (%)	252.8	245.8	229.5	208.0	197.7
Net Interest Cover (x)	4.6	4.6	5.0	5.4	5.8

Source: Company, DBS Bank

Quarterly / Interim Income Statement (\$\$m)

FY Mar	3Q2019	4Q2019	1Q2020	2Q2020	3Q2020
Revenue	89.0	87.9	92.0	94.1	91.6
Cost of Goods Sold	0.0	0.0	0.0	0.0	0.0
Gross Profit	89.0	87.9	92.0	94.1	91.6
Other Oper. (Exp)/Inc	(66.4)	(65.8)	(67.6)	(67.2)	(66.0)
Operating Profit	22.6	22.1	24.5	26.9	25.6
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(4.5)	(4.4)	(4.5)	(4.7)	(5.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	18.1	17.7	20.0	22.2	20.5
Tax	1.52	2.32	0.96	0.97	1.02
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	19.6	20.0	20.9	23.2	21.5
Net profit bef Except.	19.6	20.0	20.9	23.2	21.5
EBITDA	62.8	62.8	65.2	67.6	67.9

Growth

Revenue Gth (%)	(1.7)	(1.3)	4.8	2.2	(2.6)
EBITDA Gth (%)	1.4	0.0	3.8	3.7	0.4
Opg Profit Gth (%)	6.5	(2.3)	11.0	9.8	(4.7)
Net Profit Gth (Pre-ex) (%)	5.0	2.0	4.6	10.8	(7.2)

Margins

Gross Margins (%)	100.0	100.0	100.0	100.0	100.0
Opg Profit Margins (%)	25.4	25.1	26.6	28.6	27.9
Net Profit Margins (%)	22.1	22.8	22.7	24.6	23.5

Net profit number is not a meaningful figure as accounting depreciation is much higher than regulatory depreciation. Regulatory depreciation is used to calculate the

Balance Sheet (\$\$m)

FY Mar	2018A	2019A	2020F	2021F	2022F
Net Fixed Assets	3,211	3,125	3,051	2,945	2,838
Invt in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	928	924	924	924	924
Cash & ST Invt	167	149	214	223	229
Inventory	3.89	4.74	6.47	6.68	6.89
Debtors	63.5	75.8	69.8	72.0	74.3
Other Current Assets	4.28	4.34	4.34	4.34	4.34
Total Assets	4,377	4,282	4,269	4,175	4,076
ST Debt	0.0	0.0	0.0	0.0	0.0
Creditor	48.4	56.0	120	124	128
Other Current Liab	12.5	23.7	23.7	23.7	23.7
LT Debt	589	635	670	678	678
Other LT Liabilities	553	538	534	530	528
Shareholder's Equity	3,174	3,030	2,922	2,819	2,719
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Cap. & Liab.	4,377	4,282	4,269	4,175	4,076
Non-Cash Wkg. Capital	10.8	5.20	(63.1)	(64.5)	(65.9)
Net Cash/(Debt)	(421)	(486)	(455)	(455)	(449)
Debtors Turn (avg days)	95.0	71.9	72.0	68.0	68.0
Creditors Turn (avg days)	(220.2)	(118.5)	(196.1)	(273.4)	(280.6)
Inventory Turn (avg days)	(15.2)	(9.8)	(12.5)	(14.7)	(15.1)
Asset Turnover (x)	0.1	0.1	0.1	0.1	0.1
Current Ratio (x)	3.9	2.9	2.1	2.1	2.1
Quick Ratio (x)	3.8	2.8	2.0	2.0	2.0
Net Debt/Equity (X)	0.1	0.2	0.2	0.2	0.2
Net Debt/Equity ex MI (X)	0.1	0.2	0.2	0.2	0.2
Capex to Debt (%)	36.0	11.2	13.4	8.4	8.4
Z-Score (X)	2.0	1.9	1.8	1.7	1.7

Net debt to EBITDA of less than 2x implies ample room for raising cheap debt if needed as RAB Trusts can lever up to 5x easily

Source: Company, DBS Bank

Cash Flow Statement (\$m)

FY Mar	2018A	2019A	2020F	2021F	2022F
Pre-Tax Profit	4.81	69.8	82.2	93.6	103
Dep. & Amort.	112	162	164	163	164
Tax Paid	(11.5)	(6.1)	0.0	0.0	0.0
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	21.1	2.30	68.3	1.39	1.42
Other Operating CF	31.7	2.05	0.0	0.0	0.0
Net Operating CF	158	230	315	258	268
Capital Exp.(net)	(212)	(71.1)	(90.0)	(57.0)	(57.0)
Other Invt.(net)	(1,095)	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	0.01	0.0	0.0	0.0
Net Investing CF	(1,307)	(71.1)	(90.0)	(57.0)	(57.0)
Div Paid	0.0	(221)	(194)	(200)	(205)
Chg in Gross Debt	(1,020)	45.0	35.0	8.00	0.0
Capital Issues	2,335	0.0	0.0	0.0	0.0
Other Financing CF	0.0	0.0	0.0	0.0	0.0
Net Financing CF	1,315	(176)	(159)	(192)	(205)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	166	(17.8)	65.6	8.79	5.88
Opg CFPS (\$ cts)	3.53	5.83	6.32	6.58	6.84
Free CFPS (\$ cts)	(1.4)	4.07	5.76	5.15	5.41

Regular annual capex is S\$50-60m but there is an additional S\$30m capex incurred in FY20F

Source: Company, DBS Bank

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	17 Apr 19	0.84	0.87	BUY
2:	14 May 19	0.84	0.90	BUY
3:	28 May 19	0.82	0.90	BUY
4:	06 Aug 19	0.87	0.95	BUY
5:	04 Nov 19	0.96	1.04	BUY
6:	11 Feb 20	1.00	1.05	BUY
7:	28 Feb 20	0.98	1.05	BUY

Source: DBS Bank

Analyst: Sachin MITTAL

Rui Wen LIM

Singapore Company Guide

Singtel

Version 21 | Bloomberg: ST SP | Reuters: STEL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

26 Mar 2020

BUY

Last Traded Price (25 Mar 2020): S\$2.60 (STI : 2,505.47)

Price Target 12-mth: S\$2.80 (8% upside) (Prev S\$3.52)

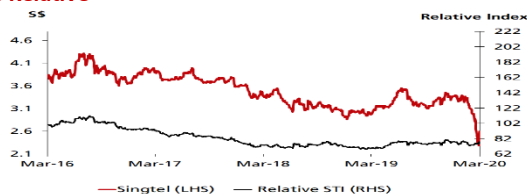
Analyst

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What's New

- Cut FY21F/22F earnings by 10%/6% on drop in roaming and prepaid revenue, and weak AUD
- Trading at dividend yield of 5.4% (near +2S.D. of mean) implies low downside risk
- BUY with revised TP of S\$2.80

Price Relative



Forecasts and Valuation

FY Mar (\$m)	2019A	2020F	2021F	2022F
Revenue	17,372	16,753	15,744	15,889
EBITDA	6,255	6,071	6,138	6,362
Pre-tax Profit	3,746	1,717	3,060	3,259
Net Profit	3,095	939	2,427	2,599
Net Pft (Pre Ex.)	3,026	2,378	2,427	2,599
Net Pft Gth (Pre-ex) (%)	(15.8)	(21.4)	2.0	7.1
EPS (S cts)	19.0	5.75	14.9	15.9
EPS Pre Ex. (S cts)	18.5	14.6	14.9	15.9
EPS Gth Pre Ex (%)	(16)	(21)	2	7
Diluted EPS (S cts)	18.9	5.75	14.9	15.9
Net DPS (S cts)	17.5	17.5	14.0	14.0
BV Per Share (S cts)	183	171	172	174
PE (X)	13.7	45.2	17.5	16.3
PE Pre Ex. (X)	14.0	17.8	17.5	16.3
P/Cash Flow (X)	11.1	10.9	10.5	9.9
EV/EBITDA (X)	8.4	9.1	8.9	8.5
Net Div Yield (%)	6.7	6.7	5.4	5.4
P/Book Value (X)	1.4	1.5	1.5	1.5
Net Debt/Equity (X)	0.3	0.5	0.4	0.4
ROAE (%)	10.4	3.3	8.7	9.2
Earnings Rev (%):		(3)	(10)	(6)
Consensus EPS (S cts):		16.3	19.0	20.1
Other Broker Recs:		B: 14	S: 0	H: 6

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Safer bet near +2S.D. dividend yield

Singtel offers 8% upside potential and 5.4% yield. Singtel's FY21F earnings are likely to be stable under our base case scenario of COVID-19 crisis lingering throughout 2020. More importantly, the stock offers 5.7% dividend yield in FY21F (March YE) even on our reduced estimate of 14Scts dividend per share (DPS). The yield of 5.7% is +2 standard deviation (S.D.) of its mean over the last 15 years, implying low downside risk. Based on the latest market price of its associates, holding company (HoldCo) discount has also widened to 25% vs. 15% average over the last-4 years.

Where we differ: cut FY21/22F earnings by 10%/6% bringing us 22%/21% below consensus; we project a cut in dividends. A big drop in roaming and prepaid mobile revenue in Singapore and 10% depreciation in the Australian Dollar are key reasons for our earnings cut. We cut dividend per share (DPS) to 14Scts in FY21F from 15Scts previously although capex cuts could support 15Scts DPS as well.

Potential catalysts: Rise in associate contributions and divestments. A potential rise in associate profits from 4QFY20F onwards and divestment of non-core assets worth over S\$5bn in the near to medium term are key catalysts.

Valuation:

Maintain BUY with a lower TP of S\$2.80. In our sum-of-the-parts valuation, we reduce the value of (i) core business to S\$0.71 per share (from S\$0.92), and (ii) associates to S\$2.08 per share (from S\$2.59) due to a decline in their market values.

Key Risks to Our View:

Bear-case valuation of S\$2.18. Under this scenario, we assume Singtel to drop to an all-time high dividend yield of 6.2% as seen during the global financial crisis. We assume 13.5 Scts DPS under this scenario vs. 14Scts DPS under the base-case.

At A Glance

Issued Capital (m shrs)	16,329
Mkt. Cap (S\$m/US\$m)	42,456 / 29,332
Major Shareholders (%)	
Temasek Holdings Pte Ltd	42.3
Central Provident Fund Board	5.1
Free Float (%)	52.6
3m Avg. Daily Val (US\$m)	66.8
GIC Industry : Communication Services / Telecommunication Services	



Live more, Bank less

WHAT'S NEW

Assuming COVID-19 crisis lingers throughout 2020

We cut FY21F/22F earnings by 10%/6% in total. This stems from roaming revenue drop in Singapore, Weak Aussie Dollar and higher regulatory fee at Bharti.

- a. **Roaming revenue could drop sharply in FY21F, leading to 6%/3% cut in FY21F/22F earnings.** A substantial decline in inbound and outbound travel emanating from COVID-19 situation is likely to result in a significant drop in roaming revenue. Roaming as a percentage of mobile services revenue in Singapore and Australia represent c.20% and c.6% respectively. We project revenue from roaming to drop by at least 50% in FY21F. This leads us to cut Singtel's FY21F/22F earnings by 6%/3%.
- b. **~10% drop in Australian Dollar (AUD) leads to another 2.5% cut in FY21F/22F earnings each.** Last week, the Australian Dollar was ravaged, plummeting to a 17-year low against the greenback on heightened concerns over a virus-induced global recession. Following suit, the Australian Dollar against the Singaporean Dollar hit a record low to close at S\$0.83. As Optus contributes almost one-quarter of group earnings, every 10% drop in AUD has 2.5% adverse impact on Singtel's earnings. In terms of earnings sensitivity, each 10% drop in Indonesian Rupiah and Thai Baht will adversely impact Singtel's earnings by 3.5% and 1.5% respectively.

Australian Dollar vs Singapore Dollar



Source: Yahoo Finance, DBS Bank

- c. **Bharti's pre-tax contribution could be lower than our previous estimates, leading to another 2% cut in FY21F/22F earnings each.** On 18 March, the apex court dismissed the adjusted gross revenue (AGR) dues determined by the Indian telcos through a self-assessment exercise. Following the dismissal, the court ordered the operators to settle the principal together

with interest and penalties. The telecom regulator has pegged the AGR dues at INR440bn, out of which INR180bn has been paid. Hence, Bharti has only settled 41% of the outstanding AGR dues.

We assume that the apex court will allow a 20-year staggered payment on a bigger amount as proposed by the telecom regulator versus our earlier expectation of 10-year payments on a smaller amount. We also assume a 10% interest rate to determine the annual payments for the forecast period.

	INR m
AGR dues	440,000
Settled	(180,000)
Outstanding dues	260,000
(-) Relief payment	-
Remaining payment	260,000
Annual payment estimate	30,540
Prev annual payment estimate	20,400
Rise in annual payments	10,140
	\$m
Rise in Annual payment	191
ST's effective ownership	33%

Reduction in pre-tax contribution to Singtel

64m

The court will convene in two weeks' time to pronounce its judgement on a 20-year staggered payment schedule. Vodafone-Idea Limited (VIL)'s AGR dues at INR583bn are approximately equivalent to 4x of its market capitalisation. Given VIL's already stretched balance sheet, Bharti paired with Reliance Jio and should continue to gain market share.

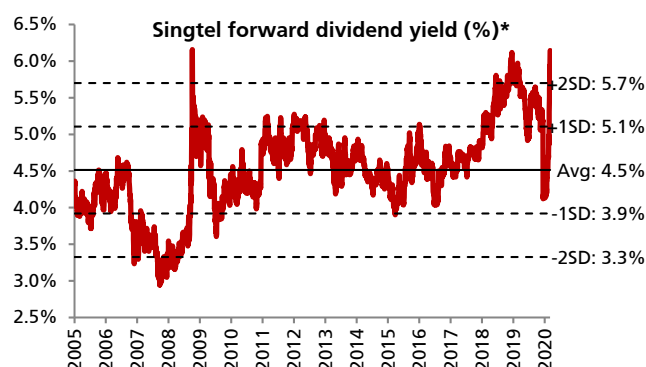
Trim Singtel's FY21F DPS by 6% to 14Scts conservatively

In our earlier estimate, we had projected the FY20F-22F free cash flows (FCF) to support 15Scts DPS. However, due to the plunge in AUD paired with reduced associate contributions, FCF from the core business is likely to decline to S\$1.68bn in FY21F from S\$2.1bn in FY20F. Approximately S\$0.5bn of interest expenses also needed to be factored. Dividends from associates are anticipated to hover at S\$1.24bn, a 5% reduction from our previous estimates and a 12% reduction from S\$1.4bn received in FY19 due to potential weakness in Indonesian Rupiah and 5G capex cycle. Therefore, S\$2.4-S\$2.2bn (14.9-13.3Scts per share) should be available to distribute to the shareholders in our view.

Singtel's DPS calculations based on free cash flow projections

S\$bn	FY19A	FY20F	FY21F	FY22F
Core EBITDA	4,692	4,363	3,804	3,570
(-) Capex	-1,718	-2,042	-2,173	-2,117
(-) Working capital changes	-126	-226	49	-1
Core FCF to the firm	2,848	2,095	1,680	1,452
Interest costs	-393	-302	-486	-514
Core FC to the shareholders	2,455	1,793	1,195	938
Dividends from associates (post-tax)	1,402	1,235	1,235	1,235
FCF for dividends	3,857	3,028	2,430	2,173
FCF per share (Scts)	23.6	18.6	14.9	13.3

Source: DBS Bank

Singtel is trading at +5.7% dividend yield (+2 S.D. of mean) based on 14Scts DPS in FY21F


Source: DBS Bank, Thomson-Reuters

Regional associates valuation is S\$2.08 per share based on the latest market price instead of fair value previously

Regional Associates	Share price	Exchange rate	Stake	Value (S\$ m)	Per Share (S\$)
Bharti Airtel	404.00 (Prev 591)	53.00	33%	13,022	0.78 (Prev 1.14)
AIS	194.00 (Prev 256)	22.62	23%	5,941	0.36 (Prev 0.47)
InTouch	46.50	22.62	21%	1,384	0.08
Globe*	1816.00	37.00	47%	3,082	0.18
Singpost	0.60	1.00	22%	295	0.02
Netlink NBN	0.80	1.00	25%	780	0.05
Telkomsel	FY21F (March YE) PER 15x (Prev 16x)	Exchange rate 10,000	Stake 35%	Value (S\$ m) 14,166	0.85 (Prev 0.90)
Total				38,670	2.31
HoldCo discount	10%			-3,867	-0.23
Net investment holdings				34,803	2.08 (Prev 2.59)

Core valuation is S\$0.71 per share based on lower estimates and lower multiples

	EV/EBITDA	Exchange	Ownership	Value (S\$m)	Per Share (S\$)
Singapore	6x	1.0	1.0	10571 (Prev 10911)	0.63 (Prev 0.65)
Optus	5x (Prev 6x)	1.0	1.0	10443 (Prev 13754)	0.62 (Prev 0.82)
Digital Business				2254	0.13
Debt				-11516	-0.69
Equity value of the core business				11786 (Prev 15332)	0.71 (Prev 0.92)

Source: DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

Bharti set to lead associates' 36% growth in FY21F. Bharti is set to lead associates' 36% growth in FY21F. Telkomsel is expected to see low single-digit growth over FY21/22F despite aggressive competition in regions outside Java (ex-Java). Advanced Info Service (AIS) is likely to continue to record low-to-mid single-digit growth in contributions supported by amicable market conditions. Globe's operations are unlikely to come under heavy threat from the new entrants during FY20/21F.

Associates' pre-tax profit projected grow 36% in FY21F

(\$m)	FY18A	FY19A	FY20F	FY21F	FY22F
Telkomse	1,372	1,128	1,187	1,215	1,224
Bharti	216	-511	-400	167 (Prev 229)	505
AIS	347	343	357	365	384
InTouch	103	96	99	104	110
Globe	266	368	376	383	391
NetLink	82	52	53	54	55
Others	68	60	51	52	54
Total	2,454	1,536	1,721	2,341 (Prev 2403)	2,722

Source: Company, DBS Bank

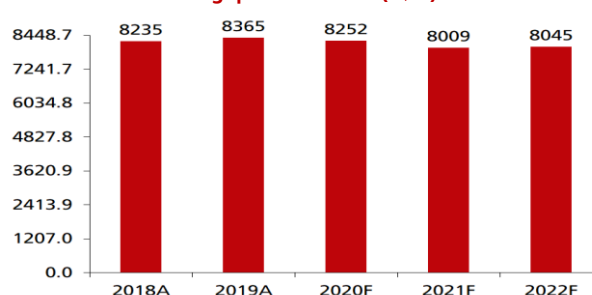
Project 12% decline in core EBITDA in FY21F. We expect core EBITDA to decline by 12% y-o-y, largely due to weakness at Optus as NBN fee drops by ~A\$300m. Stabilisation in the enterprise segment is also dependent on timing of government contracts in Singapore, which has been slow. Ongoing depreciation of the Australian Dollar (AUD) against Singapore Dollar (SGD) remains another key concern as the outlook for the Australian economy is not very exciting yet.

Core EBITDA projections across Singapore and Australia

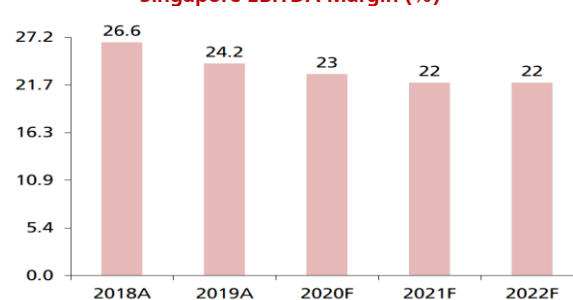
	FY18A	FY19A	FY20F	FY21F	FY22F
Group EBITDA (\$m)	5,051	4,692	4,363	3,851	3,694
Growth		-7%	-7%	-12%	-4%
Singapore EBITDA (\$m)	2,194	2,022	1,898	1,762	1,770
Growth		-8%	-6%	-7%	0%
Australia EBITDA (A\$m)	2,724	2,699		2	
Growth		-1%	-1%	-8%	-8%

Source: Company, DBS Bank

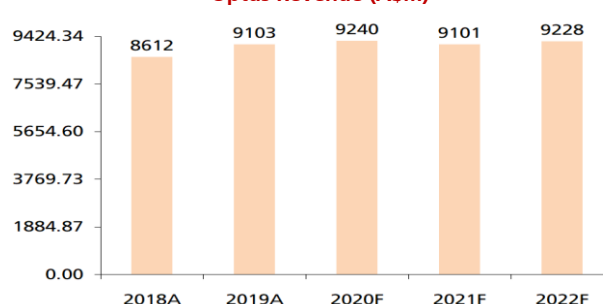
Singapore Revenue (\$m)



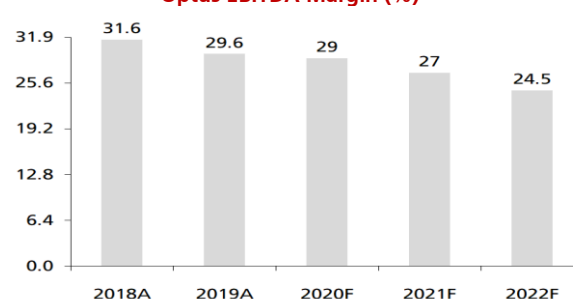
Singapore EBITDA Margin (%)



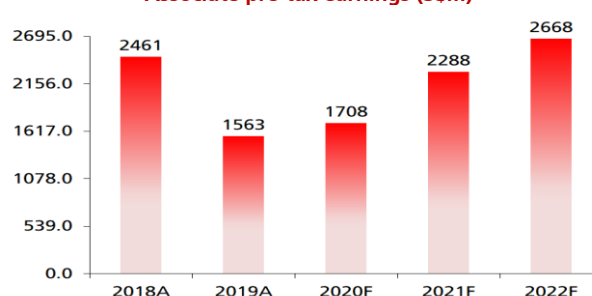
Optus Revenue (A\$m)



Optus EBITDA Margin (%)



Associate pre-tax earnings (\$m)

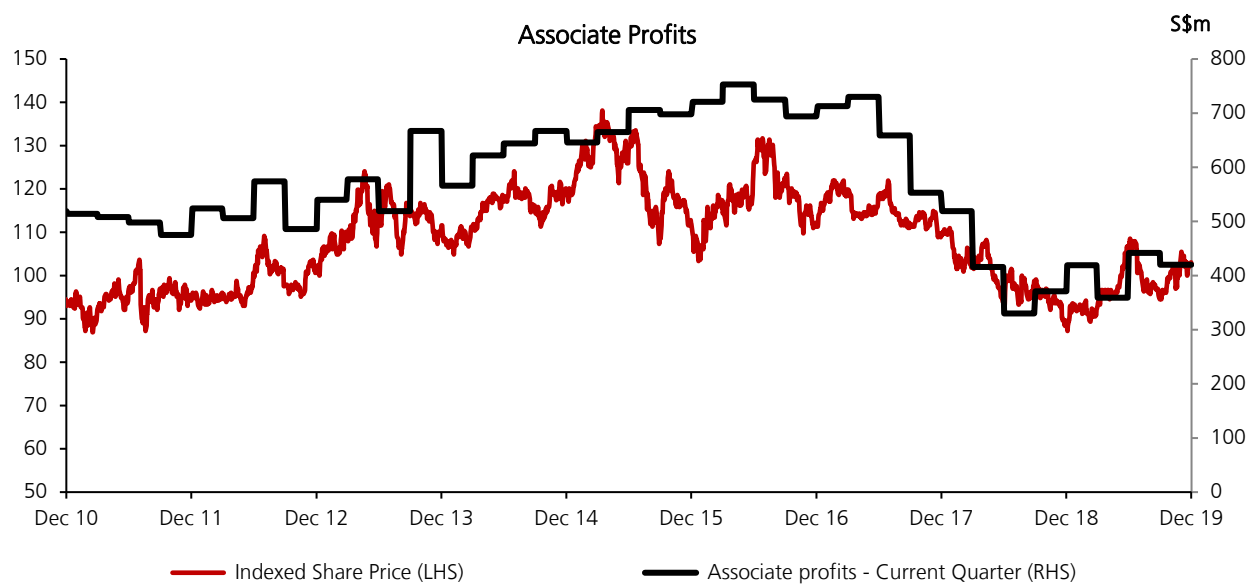
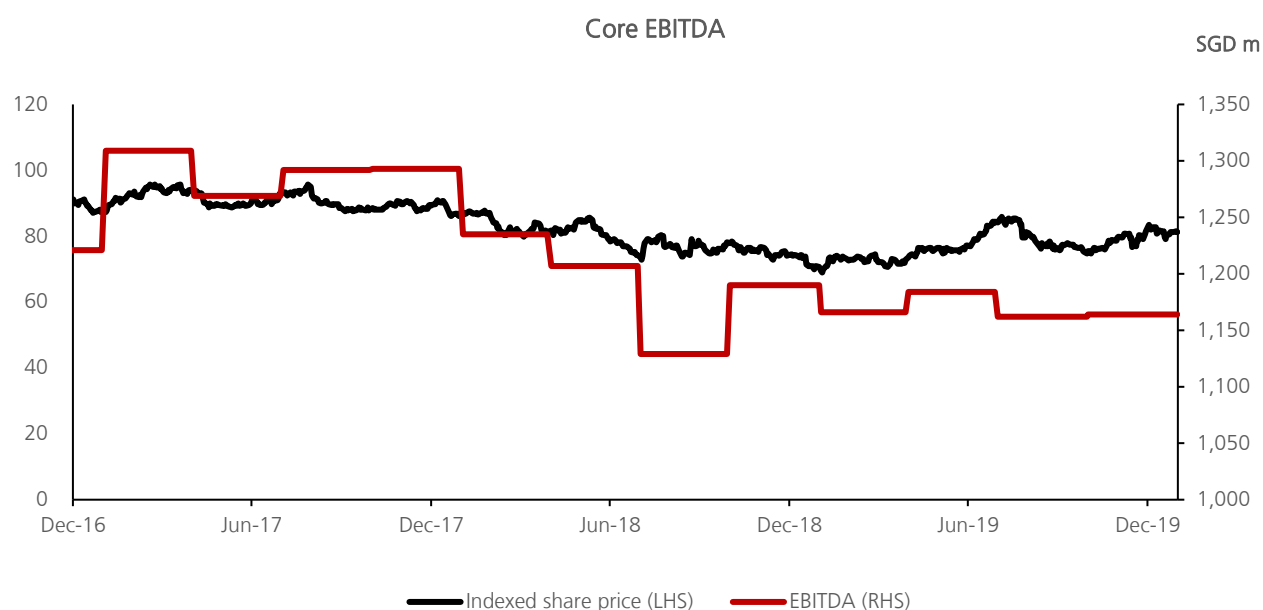


Source: Company, DBS Bank

Singtel

Appendix 1: A look at Company's listed history – what drives its share price?

Associate profit is the most critical factor followed by EBITDA. In our critical factor analysis for the past ~10 years, Singtel's share price seems to follow its current quarter's associate profits. Singtel's share price had a positive correlation of 0.75 with its associate profits. Core EBITDA has also become an important metric to watch out for in the recent past, exhibiting a positive correlation of 0.77 with share price over the past 10 quarters.

Share price vs. current quarter's associate profits**Share price vs. current quarter's EBITDA**

Source: Reuters, Companies, DBS Bank

Balance Sheet:

Balance sheet needs to be managed carefully. Singtel's 3QFY20 net debt-to-FY21F projected EBITDA adjusted for guided cash dividends from associates of S\$1.4bn stands at 2.2x FY20F, above the 2.0x required by credit rating agencies to maintain the same credit rating. We believe that Singtel would need to manage its balance sheet carefully. A potential exit from non-core assets in FY21F could buttress cash flows.

Share Price Drivers:

Potential recovery in associate contributions and Optus. Signs of lower losses from Bharti due to improving tariffs and market conditions in India would put an end to Bharti's troubles.

Potential sale of stake in non-core assets. Singtel could consider divesting its stake in Netlink NBN Trust, data centre business and digital businesses.

Key Risks:

Bear-case valuation of S\$2.18. Under this scenario, we assume Singtel to drop to an all-time high dividend yield of 6.2% as seen during the global financial crisis, based on 13.5 DPS.

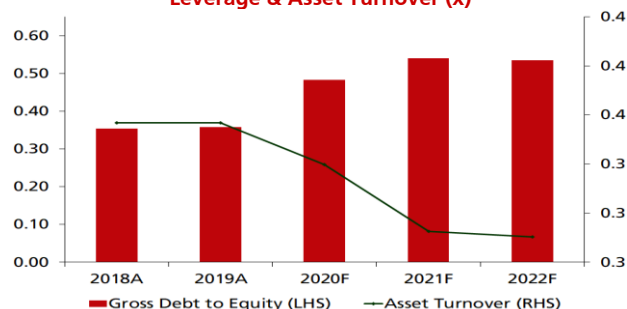
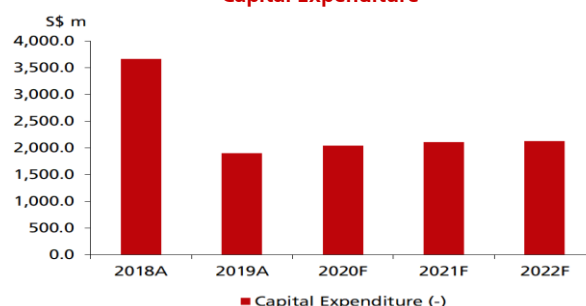
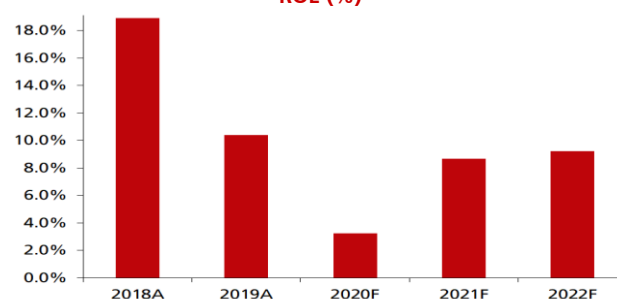
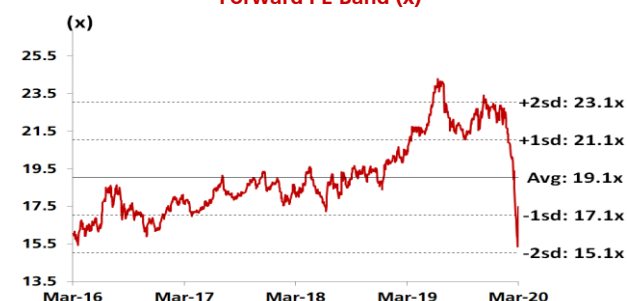
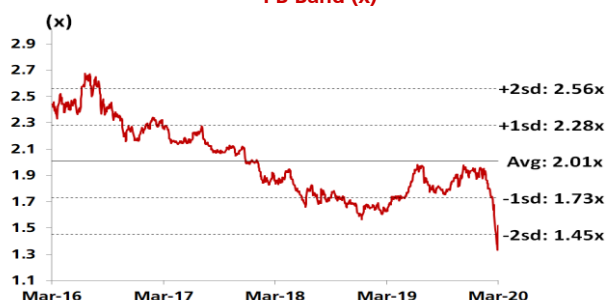
Bullish-case valuation of S\$3.00. Under this scenario, we assume Singtel to rise to +1S.D. dividend yield of 5% (assuming 15 Scts DPS)

Environment, Social, Governance:

Singtel rewards its management on various ESG key performance indicators (KPIs). For example, the company is targeting to reduce carbon emission intensity (kWh/TB) by 30% by 2020 and 50% by 2030, using 2015 as a baseline. At least 80% of waste generated within its operations is disposed via reuse, recycling or incineration with energy recovered. The company also set a community investment target of S\$100m to support vulnerable persons through various enabling and inclusion initiatives during 2016-2020.

Company Background

Singtel is the largest telecom operator in Singapore and its Australian subsidiary Optus is the second largest operator in Australia. Singtel also has substantial stakes in telcos in the region – Telkomsel in Indonesia, Bharti Airtel (Bharti) in India, AIS in Thailand and Globe in the Philippines.

Leverage & Asset Turnover (x)**Capital Expenditure****ROE (%)****Forward PE Band (x)****PB Band (x)**

Source: Company, DBS Bank

Key Assumptions

FY Mar	2018A	2019A	2020F	2021F	2022F
Singapore Revenue (\$m)	8,235	8,365	8,252	8,009	8,045
Singapore EBITDA Margin	26.6	24.2	23.0	22.0	22.0
Optus Revenue (A\$m)	8,612	9,103	9,240	9,101	9,228
Optus EBITDA Margin (%)	31.6	29.7	29.0	27.0	24.5
Associate pre-tax earnings	2,461	1,563	1,708	2,288	2,668

Segmental Breakdown

Income Statement (\$m)

FY Mar	2018A	2019A	2020F	2021F	2022F
Revenue	17,268	17,372	16,753	15,744	15,889
Cost of Goods Sold	(12,476)	(12,905)	(12,614)	(12,119)	(12,420)
Gross Profit	4,792	4,467	4,138	3,626	3,468
Other Opng (Exp)/Inc	(1,991)	(1,998)	(2,407)	(2,392)	(2,432)
Operating Profit	2,801	2,470	1,731	1,234	1,037
Other Non Op (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	2,461	1,563	1,708	2,288	2,668
Net Interest (Exp)/Inc	(345)	(355)	(284)	(461)	(446)
Exceptional Gain/(Loss)	1,880	68.2	(1,439)	0.0	0.0
Pre-tax Profit	6,797	3,746	1,717	3,060	3,259
Tax	(1,344)	(675)	(802)	(658)	(684)
Minority Interest	21.0	23.4	24.4	24.4	24.4
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	5,474	3,095	939	2,427	2,599
Net Profit before Except.	3,594	3,026	2,378	2,427	2,599
EBITDA	7,512	6,255	6,071	6,138	6,362
Growth					
Revenue Gth (%)	3.3	0.6	(3.6)	(6.0)	0.9
EBITDA Gth (%)	(5.6)	(16.7)	(2.9)	1.1	3.6
Opg Profit Gth (%)	1.5	(11.8)	(29.9)	(28.7)	(16.0)
Net Profit Gth (Pre-ex) (%)	(7.5)	(15.8)	(21.4)	2.0	7.1
Margins & Ratio					
Gross Margins (%)	27.8	25.7	24.7	23.0	21.8
Opg Profit Margin (%)	16.2	14.2	10.3	7.8	6.5
Net Profit Margin (%)	31.7	17.8	5.6	15.4	16.4
ROAE (%)	18.9	10.4	3.3	8.7	9.2
ROA (%)	11.3	6.4	1.9	4.8	5.1
ROCE (%)	5.3	4.8	2.2	2.2	1.8
Div Payout Ratio (%)	61.1	92.3	304.1	94.2	88.0
Net Interest Cover (x)	8.1	7.0	6.1	2.7	2.3

Bharti to drive growth in associate earnings while Telkomsel and others are expected to be largely stable

Source: Company, DBS Bank

Quarterly / Interim Income Statement (\$5m)

FY Mar	3Q2019	4Q2019	1Q2020	2Q2020	3Q2020
Revenue	4,626	4,342	4,113	4,152	4,378
Cost of Goods Sold	(3,483)	(3,238)	(2,978)	(3,040)	(3,255)
Gross Profit	1,143	1,104	1,135	1,112	1,123
Other Oper. (Exp)/Inc	(507)	(498)	(595)	(591)	(593)
Operating Profit	636	606	540	521	530
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	371	419	359	442	420
Net Interest (Exp)/Inc	(98.0)	(93.0)	(51.0)	18.0	(156)
Exceptional Gain/(Loss)	143	76.0	(34.0)	(1,405)	76.0
Pre-tax Profit	1,052	1,008	814	(424)	870
Tax	(235)	(241)	(279)	(250)	(250)
Minority Interest	6.00	6.00	6.00	6.00	7.00
Net Profit	823	773	541	(668)	627
Net profit bef Except.	680	697	575	737	551
EBITDA	1,007	1,025	899	963	950

Growth

Revenue Gth (%)	8.3	(6.1)	(5.3)	0.9	5.4
EBITDA Gth (%)	11.3	1.8	(12.3)	7.1	(1.3)
Opg Profit Gth (%)	10.6	(4.7)	(10.9)	(3.5)	1.7
Net Profit Gth (Pre-ex) (%)	(4.9)	2.5	(17.5)	28.2	(25.2)

Margins

Gross Margins (%)	24.7	25.4	27.6	26.8	25.7
Opg Profit Margins (%)	13.7	14.0	13.1	12.5	12.1
Net Profit Margins (%)	17.8	17.8	13.2	(16.1)	14.3

Balance Sheet (\$5m)

FY Mar	2018A	2019A	2020F	2021F	2022F
Net Fixed Assets	11,454	11,050	12,739	12,532	12,305
Invt in Associates & JVs	14,756	14,918	14,669	14,683	14,723
Other LT Assets	15,515	15,868	15,535	15,231	14,927
Cash & ST Invt	525	513	581	2,752	3,549
Inventory	397	418	385	362	365
Debtors	5,818	5,993	5,644	5,305	5,353
Other Current Assets	22.0	155	155	155	155
Total Assets	48,487	48,915	49,709	51,019	51,378
ST Debt	1,824	1,880	1,880	1,880	1,880
Creditor	5,371	5,817	5,211	4,897	4,942
Other Current Liab	1,235	1,097	1,644	1,500	1,527
LT Debt	8,668	8,784	11,579	13,231	13,231
Other LT Liabilities	1,709	1,527	1,527	1,527	1,527
Shareholder's Equity	29,706	29,838	27,921	28,061	28,373
Minority Interests	(26.0)	(28.1)	(52.5)	(76.9)	(101)
Total Cap. & Liab.	48,487	48,915	49,709	51,019	51,378
Non-Cash Wkg. Capital	(369)	(349)	(670)	(575)	(595)
Net Cash/(Debt)	(9,967)	(10,151)	(12,878)	(12,359)	(11,562)
Debtors Turn (avg days)	113.5	124.1	126.8	126.9	122.4
Creditors Turn (avg days)	183.7	191.1	201.6	194.1	183.9
Inventory Turn (avg days)	13.4	13.9	14.7	14.4	13.6
Asset Turnover (x)	0.4	0.4	0.3	0.3	0.3
Current Ratio (x)	0.8	0.8	0.8	1.0	1.1
Quick Ratio (x)	0.8	0.7	0.7	1.0	1.1
Net Debt/Equity (X)	0.3	0.3	0.5	0.4	0.4
Net Debt/Equity ex MI (X)	0.3	0.3	0.5	0.4	0.4
Capex to Debt (%)	35.0	17.8	15.2	13.9	14.1
Z-Score (X)	3.2	3.1	2.8	2.8	2.7

ST would need to manage its balance sheet carefully to maintain or improve its credit ratings.

Source: Company, DBS Bank

Cash Flow Statement (\$\$m)

FY Mar	2018A	2019A	2020F	2021F	2022F
Pre-Tax Profit	6,797	3,746	1,717	3,060	3,259
Dep. & Amort.	2,250	2,222	2,632	2,617	2,656
Tax Paid	(608)	(680)	(255)	(802)	(658)
Assoc. & JV Inc/(loss)	(2,461)	(1,563)	(1,708)	(1,373)	(1,468)
Chg in Wkg.Cap.	(178)	(126)	(226)	49.3	(7.1)
Other Operating CF	(1,493)	219	1,741	486	514
Net Operating CF	4,308	3,819	3,901	4,038	4,297
Capital Exp.(net)	(3,667)	(1,897)	(2,042)	(2,106)	(2,126)
Other Invt.(net)	18.1	(422)	0.0	0.0	0.0
Invt in Assoc. & JV	606	6.00	(735)	0.0	0.0
Div from Assoc & JV	1,648	1,549	1,253	1,359	1,427
Other Investing CF	1,093	(15.4)	0.0	0.0	0.0
Net Investing CF	(303)	(780)	(1,524)	(747)	(699)
Div Paid	(2,862)	(2,862)	(2,856)	(2,287)	(2,287)
Chg in Gross Debt	(312)	222	850	1,652	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(835)	(416)	(302)	(486)	(514)
Net Financing CF	(4,009)	(3,056)	(2,308)	(1,121)	(2,800)
Currency Adjustments	(4.2)	4.20	0.0	0.0	0.0
Chg in Cash	(8.8)	(12.2)	68.4	2,170	797
Opg CFPS (\$ cts)	27.5	24.2	25.3	24.4	26.4
Free CFPS (\$ cts)	3.92	11.8	11.4	11.8	13.3

A potential sale in stake of NBN Trust in FY21F could further buttress cash flows.

Source: Company, DBS Bank

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	08 Apr 19	3.06	3.55	BUY
2:	17 Apr 19	3.13	3.55	BUY
3:	13 May 19	3.14	3.55	BUY
4:	15 May 19	3.13	3.55	BUY
5:	28 May 19	3.15	3.55	BUY
6:	08 Jul 19	3.48	3.60	HOLD
7:	13 Jul 19	3.54	3.60	HOLD
8:	06 Aug 19	3.31	3.40	HOLD
9:	13 Aug 19	3.18	3.25	HOLD
10:	10 Oct 19	3.15	3.12	HOLD
11:	25 Oct 19	3.27	3.12	HOLD
12:	15 Nov 19	3.18	3.12	HOLD
13:	22 Nov 19	3.33	3.60	BUY
14:	14 Jan 20	3.25	3.80	BUY
15:	17 Jan 20	3.30	3.80	BUY
16:	14 Feb 20	3.22	3.63	BUY
17:	05 Mar 20	2.99	3.52	BUY

Source: DBS Bank

Analyst: Sachin MITTAL

Singapore Company Guide

StarHub

Version 21 | Bloomberg: STH SP | Reuters: STAR.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

26 Mar 2020

BUY

Last Traded Price (25 Mar 2020): S\$1.27 (STI : 2,505.47)

Price Target 12-mth: S\$1.40 (10% upside) (Prev S\$1.72)

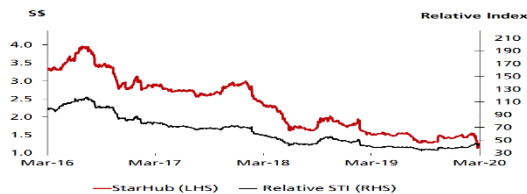
Analyst

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What's New

- FY20F/21F earnings forecasts cut by 9%/4% due to COVID-19
- The stock offers an attractive 7.1% dividend yield which can be sustained from capex savings if StarHub-M1 can jointly secure a Nationwide 5G licence
- BUY with revised TP of S\$1.40

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2019A	2020F	2021F	2022F
Revenue	2,331	2,277	2,299	2,350
EBITDA	617	538	522	531
Pre-tax Profit	219	174	185	193
Net Profit	186	150	159	166
Net Pft (Pre Ex.)	186	150	159	166
Net Pft Gth (Pre-ex) (%)	(34.9)	(19.6)	6.0	4.2
EPS (S cts)	10.8	8.66	9.19	9.58
EPS Pre Ex. (S cts)	10.8	8.66	9.19	9.58
EPS Gth Pre Ex (%)	(35)	(20)	6	4
Diluted EPS (S cts)	10.7	8.64	9.16	9.55
Net DPS (S cts)	10.8	9.01	9.01	9.01
BV Per Share (S cts)	18.4	18.0	18.2	18.8
PE (X)	11.8	14.7	13.8	13.3
PE Pre Ex. (X)	11.8	14.7	13.8	13.3
P/Cash Flow (X)	4.9	6.0	5.3	5.2
EV/EBITDA (X)	5.5	6.2	6.6	6.8
Net Div Yield (%)	8.5	7.1	7.1	7.1
P/Book Value (X)	6.9	7.0	7.0	6.8
Net Debt/Equity (X)	1.6	1.5	1.8	2.0
ROAE (%)	59.5	47.6	50.7	51.8
Earnings Rev (%)		(9)	(7)	N/A
Consensus EPS (S cts):		8.80	8.90	11.0
Other Broker Recs:		B: 7	S: 2	H: 10

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Dividends are well supported by free cash flow

BUY for 7.1% dividend yield and 10% upside potential. A joint bid by StarHub-M1 for upcoming 5G licence, is likely to lead to FY21-26F capital expenditure (capex) savings, generating higher free cash flow. The 5G licence award in mid-2020 may also encourage the transition to a 3-player market structure, in our view. StarHub's FY20F net debt-to-EBITDA of 1.7x also provides comfort on the sustainability of a 9-Sct dividend per share.

Where we differ: We cut FY20F/21F earnings forecasts by 9%/4%, we are 4% below consensus FY20F but 10% above for FY21F earnings. We project a sharp drop in roaming & prepaid revenue in FY20F due to COVID-19. For FY21F, we project lower costs than consensus especially content and traffic costs.

Potential catalyst: Award of Nationwide 5G licence in mid-2020. StarHub and M1 are likely to build a future-proof 5G network with incremental revenue opportunities from 5G without having to raise their capex projections.

Valuation:

BUY with a revised TP of S\$1.40. In our DCF valuation (WACC 7.8%, terminal growth 0%), we raise WACC from 7.4% earlier to reflect higher market volatility and risk premiums. Our TP translates into 6.8x 12-month forward EBITDA at a 10% premium to 6.2x regional average, reflecting StarHub's fixed dividend commitment and future capex savings from joint 5G network.

Key Risks to Our View:

Bear-case valuation of S\$1.00 if StarHub declines to +2S.D. yield of 9%. In case of less-than-expected capex savings from a joint 5G network, the market may grow skeptical on the sustainability of its 9-Sct DPS.

At A Glance

Issued Capital (m shrs)	1,732
Mkt. Cap (S\$m/US\$m)	2,199 / 1,519
Major Shareholders (%)	
Temasek Holdings Pte Ltd	55.8
Nippon Telegraph & Telephone Corp	9.9
Blackrock	5.0
Free Float (%)	29.3
3m Avg. Daily Val (US\$m)	2.8
GIC Industry : Communication Services / Telecommunication Services	



Live more, Bank less

WHAT'S NEW**COVID-19 impact will be felt in 2020**

FY20F/21F earnings forecasts cut by 9%/4% due to COVID-19. The World Travel and Tourism Council has indicated that once the COVID-19 outbreak is over, it could take up to 10 months for the tourism industry to recover. A substantial and prolonged decline in inbound and outbound travel due to the prevailing COVID-19 situation is likely to result in a significant drop in the usage of roaming facilities. Roaming revenue (which makes up 12-13% of StarHub's mobile revenue) will be the biggest casualty, followed by prepaid mobile revenue (which accounts for 18-19% of its mobile service revenue). Roaming revenue might drop by as much as ~50% in 2020 due to the sharp decline in the number of business and leisure tourists, while prepaid mobile revenue might decline by ~20% due to a lower number of foreign workers.

Dividends are likely to be sustained from capex savings if StarHub-M1 can jointly secure a Nationwide 5G licence.

StarHub's 9-Sct dividend per share translates into S\$156m in total payout. StarHub generated operating cash flow of S\$400-450m annually over FY17-19F. The key to sustain dividends is to keep the annual capex in the range of S\$250-300m. A standalone 5G network would have cost StarHub S\$450m in annual capex each year, making dividends unsustainable. However, we expect StarHub to incur an annual capex of S\$250-280m as it builds a joint 5G network with M1.

BUY with a revised TP of S\$1.40. In our DCF valuation (WACC 7.8%, terminal growth 0%), we raise WACC from 7.4% to reflect higher market volatility and risk premiums. Our TP translates into 6.8x 12-month forward EBITDA at a 10% premium to 6.2x regional average, reflecting StarHub's fixed dividend commitment and future capex savings from a joint 5G network.

CRITICAL DATA POINTS TO WATCH

Critical Factors

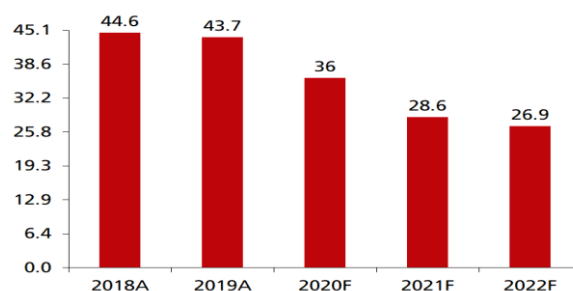
Mobile revenue to decline by 8% CAGR over FY19-21F but stabilise in FY22F with potential sector consolidation. We believe SIM-only plans will rise in popularity over the medium term, with lengthening smartphone replacement cycles and aggressive promotions by mobile virtual network operators (MVNOs). We expect mobile revenue decline to accelerate to 10% in FY20F led by a big drop in roaming and prepaid mobile revenue. We expect the decline to moderate 5% in FY21F as roaming recovers and stabilises by FY22F as we expect mobile sector consolidation where at least one mobile network player will be left without a Nationwide 5G licence. At this point, we think that Singtel and StarHub-M1 are prime candidates for the two nationwide licenses due to their technical and financial edge over TPG, which comprise 85% of the assessment criteria for the Nationwide licence.

Reducing content costs and growing enterprise business is the key for the non-mobile business. One of the major issues with StarHub has been the high-cost of content in the past. For the last two years, the company has been negotiating with the content providers to convert fixed-cost contracts into revenue sharing contracts to save some costs. We think that StarHub could see substantial improvement in its Pay TV margins over the next 12-18 months. Secondly, the company has been focusing on growing the enterprise business by acquiring new capabilities. StarHub is keen to acquire IT companies which bring new products and customers. One such recent example of Malaysia based IT solutions provider Strateq for ~\$82m at almost 20x price-to-earnings ratio (PER) multiple.

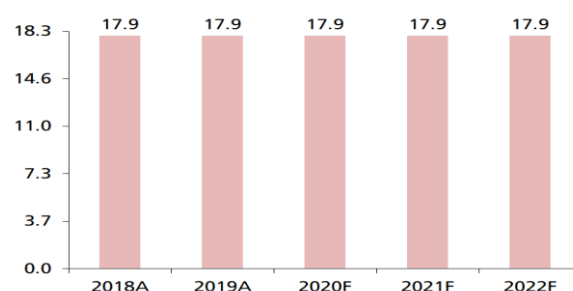
Dividends are likely to be sustained from capex savings if StarHub-M1 can jointly secure a Nationwide 5G licence.

StarHub's 9-Sct dividend per share translates to S\$156m in total payout. StarHub generated operating cash flow of S\$400-450m annually over FY17-19F. The key to sustaining dividends is to keep the annual capex in the range of S\$250-300m. A standalone 5G network would have cost StarHub S\$450m in annual capex each year, making dividends unsustainable. However, we expect StarHub to incur annual capex of S\$250-280m as it builds a joint 5G network with M1.

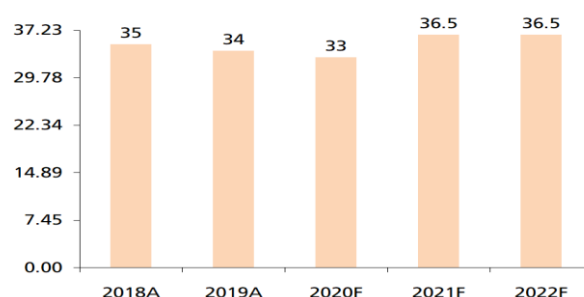
Mobile EBITDA Margins



CATV & Broadband EBITDA Margins



Fixed Network EBITDA Margins

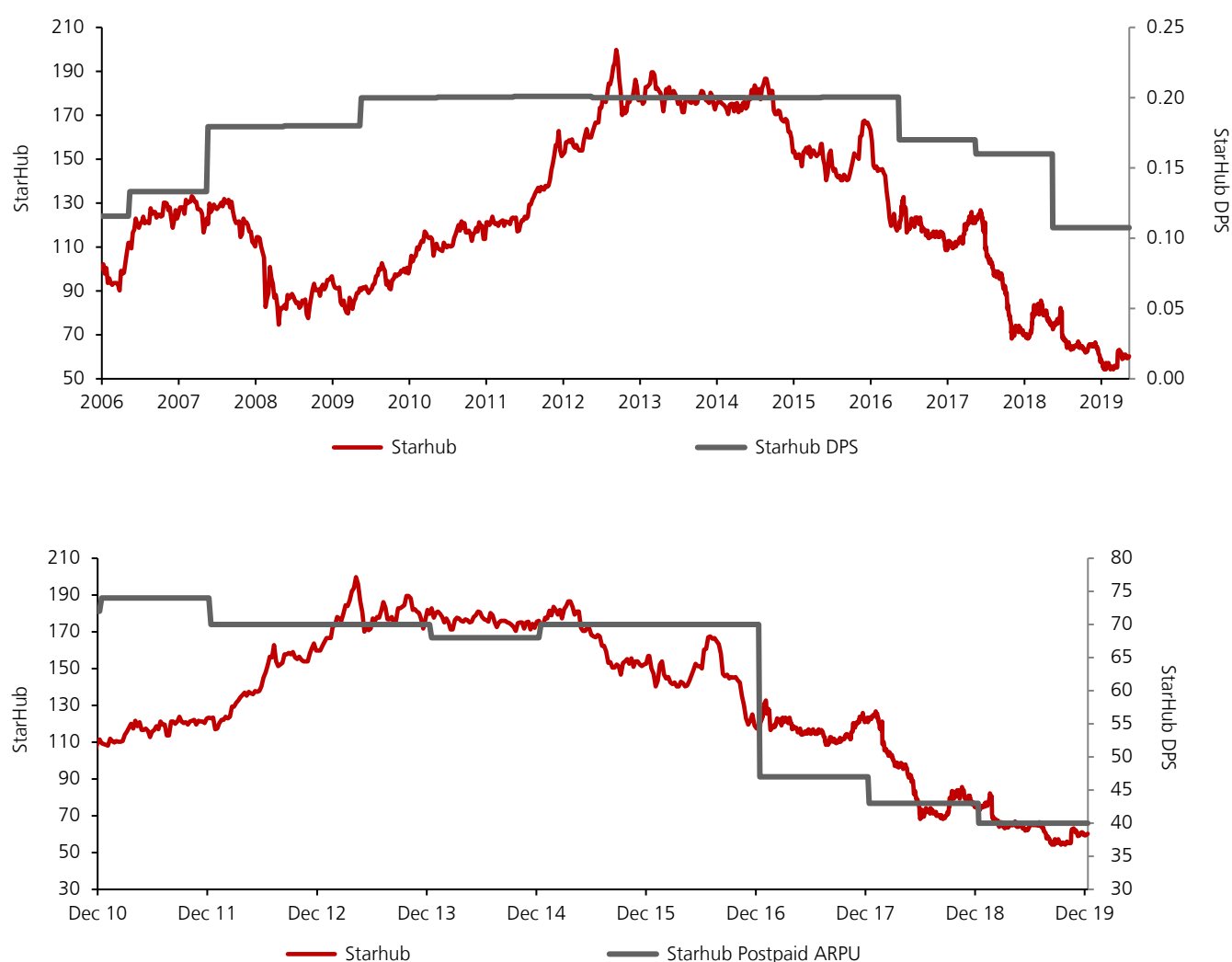


Source: Company, DBS Bank

Appendix 1: A look at Company's listed history – what drives its share price?

Changes in dividend per share and postpaid ARPU are key determinants of StarHub's share price. In our critical factor analysis conducted to understand the share price drivers of Singaporean telcos over the past 10 years, we have identified StarHub's dividend per share (DPS) and Postpaid ARPU to be good indicators of StarHub's share price performance. Changes in DPS exhibits a 0.76 correlation with StarHub's share price. Postpaid ARPU exhibits a 0.53 correlation with StarHub's share price as Mobile service revenues account for over 40% of StarHub's service revenue.

StarHub's stock price (LHS) exhibits decent correlations with DPS (RHS) and Postpaid ARPU (RHS)



Source: StarHub, Reuters, DBS Bank

Balance Sheet:

Balance sheet is strong enough to support dividends. Net debt-to-EBITDA of 1.7x is quite healthy and much below its listed peer Singtel's above 2x. We expect StarHub to borrow S\$200m in FY21F to fund S\$282m in spectrum payments and dividends. StarHub's recent reduction in capex over FY19/20 should further boost free cash flow to support expansion.

Share Price Drivers:

Stabilisation of Pay-TV revenues and clarity on cost savings initiatives. Signs of sequential stabilisation in Pay-TV revenues over 4Q19F-1Q20F and better clarity on StarHub's cost savings initiatives over FY20F would shed some light on the magnitude of a potential decline in StarHub's FY20F earnings.

Award of a Nationwide 5G licence in mid-2020. StarHub and M1 are likely to have a future-proof 5G network with incremental revenue opportunities from 5G without having to raise their capex projections.

Key Risks:

Bear-case valuation is S\$1.00 in case StarHub declines to +2S.D. dividend yield of 9%. In case of less-than-expected capex savings from joint 5G network, market may grow skeptical on the sustainability of its 9-Sct DPS. In our base-case forecasts, we project StarHub to manage annual capex below S\$300m.

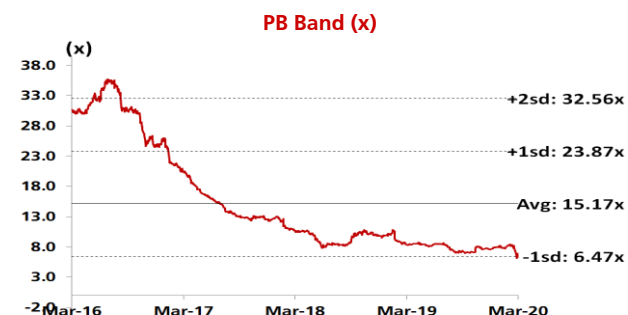
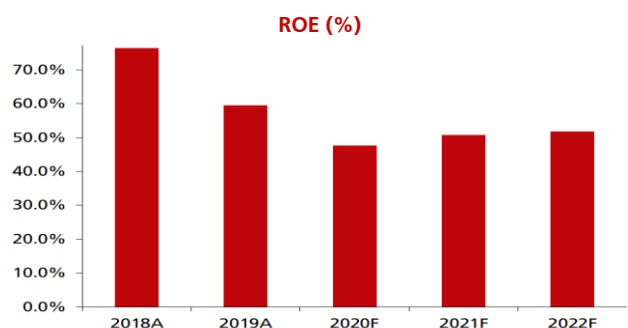
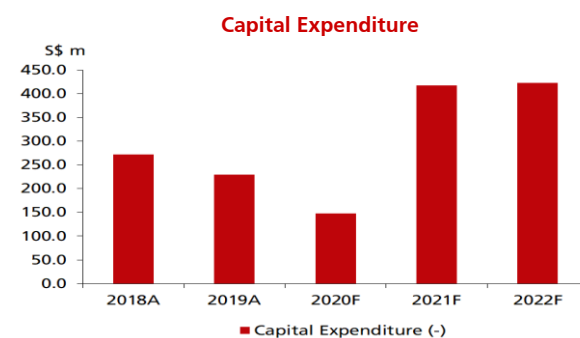
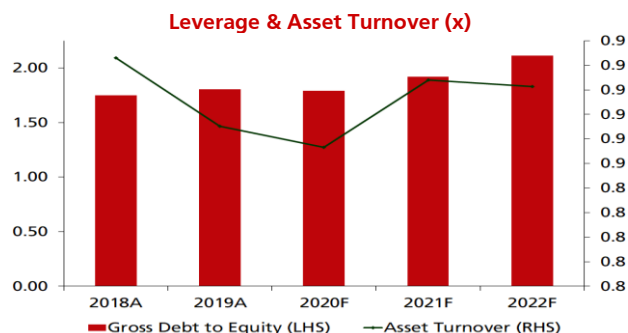
Bull-case valuation is S\$1.60 in case StarHub rises to -1S.D. dividend yield of 5%. In case of annual capex below S\$250m over the next few years and cyber-security business turning profitable in the near term, the stock could re-rate to S\$1.60.

Environment, Social, Governance:

ESG responsibilities are driven by 13 sustainability goals. StarHub's ESG responsibilities revolve around 13 sustainability goals covering areas such as supporting local communities, e-waste programmes addressing climate change and other environmental challenges, etc. As a part of this, in FY18, StarHub committed S\$827,000 to 16 voluntary welfare organisations and non-profit organisations to promote employability and essential life skills among underprivileged Singaporeans. By FY22, StarHub plans to increase its renewable energy capacity to 10%.

Company Background

StarHub is the second largest of the three telecom operators in Singapore. The company provides mobile services, pay-TV, fixed broadband and fixed voice services, popularly known as quadruple play services.



Source: Company, DBS Bank

Key Assumptions

FY Dec	2018A	2019A	2020F	2021F	2022F
Mobile EBITDA Margins	44.6	43.7	36.0	28.6	26.9
CATV & Broadband	17.9	17.9	17.9	17.9	17.9
Fixed Network EBITDA	35.0	34.0	33.0	36.5	36.5

Segmental Breakdown

FY Dec	2018A	2019A	2020F	2021F	2022F
Revenues (\$\$m)					
Mobile	825	766	693	659	660
Cable TV & Broadband	497	424	393	384	376
Fixed Network	511	575	662	727	784
Equipment sale	530	566	530	530	530
Others					
Total	2,362	2,331	2,277	2,299	2,350

Mobile expected to decline till FY22F and stabilize after mobile sector consolidation in FY22

Income Statement (\$\$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Revenue	2,362	2,331	2,277	2,299	2,350
Cost of Goods Sold	(2,005)	(2,086)	(2,067)	(2,078)	(2,118)
Gross Profit	357	245	211	221	232
Other Opng (Exp)/Inc	1.20	11.0	0.0	0.0	0.0
Operating Profit	358	256	211	221	232
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(1.0)	(0.5)	(0.5)	(0.5)	(0.5)
Net Interest (Exp)/Inc	(27.1)	(36.7)	(36.0)	(35.3)	(38.2)
Exceptional Gain/(Loss)	(15.0)	0.0	0.0	0.0	0.0
Pre-tax Profit	315	219	174	185	193
Tax	(44.9)	(40.0)	(31.3)	(33.2)	(34.7)
Minority Interest	1.10	7.80	7.00	7.00	7.00
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	271	186	150	159	166
Net Profit before Except.	286	186	150	159	166
EBITDA	633	617	538	522	531
Growth					
Revenue Gth (%)	(2.0)	(1.3)	(2.3)	1.0	2.2
EBITDA Gth (%)	(1.1)	(2.7)	(12.7)	(3.0)	1.7
Opg Profit Gth (%)	(1.2)	(28.6)	(17.7)	4.9	5.0
Net Profit Gth (Pre-ex) (%)	4.6	(34.9)	(19.6)	6.0	4.2
Margins & Ratio					
Gross Margins (%)	15.1	10.5	9.2	9.6	9.9
Opg Profit Margin (%)	15.2	11.0	9.2	9.6	9.9
Net Profit Margin (%)	11.5	8.0	6.6	6.9	7.1
ROAE (%)	76.4	59.5	47.6	50.7	51.8
ROA (%)	10.3	6.9	5.6	6.1	6.2
ROCE (%)	17.3	11.1	9.0	9.5	9.7
Div Payout Ratio (%)	102.1	99.8	104.1	98.1	94.2
Net Interest Cover (x)	13.2	7.0	5.9	6.3	6.1

Source: Company, DBS Bank

Quarterly / Interim Income Statement (\$5m)

FY Dec	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019
Revenue	620	597	553	573	608
Cost of Goods Sold	(520)	(435)	(407)	(411)	(475)
Gross Profit	99.2	162	146	162	134
Other Oper. (Exp)/Inc	(69.3)	(89.7)	(89.0)	(81.5)	(87.2)
Operating Profit	29.9	72.2	57.3	80.0	46.5
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(0.2)	0.40	0.0	(0.7)	(0.4)
Net Interest (Exp)/Inc	(7.7)	(9.4)	(9.7)	(9.3)	(8.3)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	22.0	63.2	47.6	70.0	37.8
Tax	(6.6)	(13.8)	(8.2)	(13.5)	(4.5)
Minority Interest	4.40	4.70	0.10	1.40	1.60
Net Profit	19.8	54.0	39.5	58.0	34.9
Net profit bef Except.	19.8	54.0	39.5	58.0	34.9
EBITDA	108	162	146	170	138

Growth

Revenue Gth (%)	6.4	(3.7)	(7.4)	3.6	6.3
EBITDA Gth (%)	(26.4)	50.4	(9.9)	16.0	(18.7)
Opg Profit Gth (%)	(60.4)	141.5	(20.7)	39.7	(41.9)
Net Profit Gth (Pre-ex) (%)	(65.3)	172.7	(26.9)	47.0	(39.8)

Margins

Gross Margins (%)	16.0	27.1	26.5	28.2	22.0
Opg Profit Margins (%)	4.8	12.1	10.4	14.0	7.6
Net Profit Margins (%)	3.2	9.0	7.1	10.1	5.7

Balance Sheet (\$5m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Net Fixed Assets	893	820	694	717	756
Invts in Associates & JVs	22.7	22.1	21.6	21.1	20.6
Other LT Assets	807	950	896	988	1,072
Cash & ST Invts	166	118	156	73.2	37.3
Inventory	75.2	98.3	96.1	97.0	99.1
Debtors	283	249	243	245	251
Other Current Assets	407	477	477	477	477
Total Assets	2,654	2,734	2,583	2,619	2,713
ST Debt	50.1	408	408	408	408
Creditor	595	540	527	532	544
Other Current Liab	247	229	168	170	172
LT Debt	978	641	609	675	789
Other LT Liabilities	195	337	305	271	235
Shareholder's Equity	508	518	512	515	525
Minority Interests	80.0	62.0	55.0	48.0	41.0
Total Cap. & Liab.	2,654	2,734	2,583	2,619	2,713
Non-Cash Wkg. Capital	(77.2)	55.5	121	117	111
Net Cash/(Debt)	(863)	(931)	(860)	(1,009)	(1,159)
Debtors Turn (avg days)	37.4	41.6	39.4	38.8	38.5
Creditors Turn (avg days)	128.8	120.0	112.0	108.8	108.0
Inventory Turn (avg days)	15.5	18.4	20.4	19.8	19.7
Asset Turnover (x)	0.9	0.9	0.9	0.9	0.9
Current Ratio (x)	1.0	0.8	0.9	0.8	0.8
Quick Ratio (x)	0.5	0.3	0.4	0.3	0.3
Net Debt/Equity (X)	1.5	1.6	1.5	1.8	2.0
Net Debt/Equity ex MI (X)	1.7	1.8	1.7	2.0	2.2
Capex to Debt (%)	26.5	21.9	14.6	38.5	35.3
Z-Score (X)	1.9	1.8	1.8	1.7	1.7

\$5200m worth of perpetual bonds are part of equity

Source: Company, DBS Bank

Cash Flow Statement (\$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Pre-Tax Profit	315	219	174	185	193
Dep. & Amort.	276	361	328	302	300
Tax Paid	(68.6)	(71.9)	(92.1)	(31.3)	(33.2)
Assoc. & JV Inc/(loss)	1.00	0.50	0.50	0.50	0.50
Chg in Wkg.Cap.	(122)	(105)	(4.4)	1.82	4.16
Other Operating CF	16.1	45.1	(42.1)	(43.9)	(45.8)
Net Operating CF	418	448	364	414	419
Capital Exp.(net)	(272)	(230)	(148)	(417)	(423)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(62.3)	6.60	0.0	0.0	0.0
Net Investing CF	(335)	(223)	(148)	(417)	(423)
Div Paid	(277)	(186)	(156)	(156)	(156)
Chg in Gross Debt	50.0	19.9	(32.1)	66.1	114
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(36.4)	(108)	10.0	10.0	10.0
Net Financing CF	(263)	(274)	(178)	(79.9)	(31.8)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(180)	(48.4)	38.2	(82.7)	(35.9)
Opg CFPS (\$ cts)	31.2	32.0	21.3	23.8	24.0
Free CFPS (\$ cts)	8.42	12.6	12.5	(0.2)	(0.2)

Includes S\$141m of spectrum payment for 700MHz in FY21F/21F each which StarHub secured for S\$282m

Source: Company, DBS Bank

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	17 Apr 19	1.53	1.55	HOLD
2:	28 May 19	1.49	1.55	HOLD
3:	07 Aug 19	1.45	1.55	HOLD
4:	24 Oct 19	1.31	1.30	HOLD
5:	06 Nov 19	1.43	1.43	BUY
6:	24 Jan 20	1.51	1.72	BUY
7:	21 Feb 20	1.52	1.72	BUY
8:	23 Feb 20	1.52	1.72	BUY
9:	12 Mar 20	1.43	1.72	BUY

Source: DBS Bank

Analyst: Sachin MITTAL

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

Completed Date: 26 Mar 2020 07:07:55 (SGT)

Dissemination Date: 26 Mar 2020 08:18:14 (SGT)

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8. Nihal Vijaya Devadas Kaviratne CBE, a member of DBS Group Holdings Board of Directors, is a Director of StarHub as of 31 Dec 2019.

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