On a stable footing

Optus (Australia) has been resilient against competition and the planned initiatives on the network side would strengthen its competitive position even further. In India and Indonesia, voice tariff competition is abating, leading to an improved operating environment. While slower Singapore economy growth and the strong SGD is a concern, we maintain our dividend payout ratio of 78%/88% for FY13/14. We maintain our S$3.34 TP and ADD rating.

Post-paid market dominance to continue in Singapore: While the government has forecast 1-3% GDP growth in 2012, we view telecom spending to be relatively resilient. Mobile post-paid segment should continue to drive growth. Higher smart-phone subsidies could be a drag on margin, but this would be more than offset by lower content costs and margin upside in the IT business.

Optus well placed against competition: Optus has been strongly outperforming competition and holding Ebitda in a shrinking Ebitda pool. It has planned a number of initiatives such as 900MHz for 3G and trialling LTE. While Telstra could gun for lost revenue market share by tariff cuts keeping the competitive intensity high, we believe Optus should continue to out-perform due to its innovative offerings and tight cost control. Weak outlook for A$ vs. S$ (due to bearish outlook for commodities) and the Australian economy's vulnerability to an impending slowdown in China are macro risks.

Competitive landscape evolving in India and Indonesia: We expect 14% revenue growth for Bharti in FY13 driven by tariff increases, 3G, in addition to subscriber growth. Clarity should emerge as key regulatory decisions are expected soon. In Indonesia, while there is some competition in 3G, we do not expect brutal tariff wars, as telcos also have to bear smart-phone subsidies. Telkomsel's superior network quality would make it better positioned to leverage data revenue growth. There are margin levers in the form of lower licence and frequency fees. Weakening LCYs vs. the S$ is a concern though.

Company update

CMP	SGD3.12
12-mth TP (SGD)	*3.34 (7%)*
Market cap (US$ m)	38,727.3
Bloomberg	ST SP
Sector	Telecom

Price performance (%)

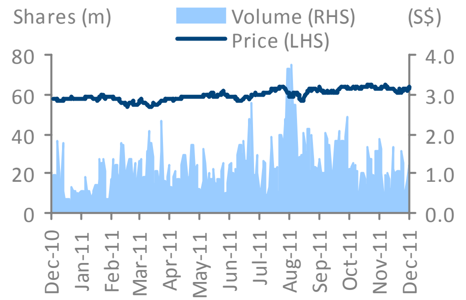
	1M	3M	1Y
SingTel	0.0	-0.9	2.9
Rel. to ST Index	**4.6**	**2.5**	**17.9**
StarHub Ltd	-1.4	-1.0	6.0
M1 Ltd	-1.2	-5.1	7.6

Shareholding pattern (%)

Temasek	54.4
Others	45.6

52Wk High/Low (SGD)	3.30/2.75
Shares o/s (m)	15,941.4
Daily volume (US$ m)	54.6
Dividend yield FY12ii (%)	8.6
Free float (%)	46.0

Stock performance



Financial summary (S$ m)

Y/e 31 Mar	FY10A	FY11A	FY12ii	FY13ii	FY14ii
Revenue (m)	**16,871**	**18,071**	**18,843**	**19,514**	**20,490**
EBITDA margin (%)	28.7	28.3	28.1	28.4	29.0
Net profit (m)	**3,907**	**3,829**	**3,874**	**4,332**	**4,878**
EPS (cents)	**24.5**	**24.0**	**24.3**	**27.2**	**30.6**
Growth (%)	13.2	-2.0	1.2	11.8	12.6
IIFL vs consensus (%)			1.4	4.3	8.3
PER (x)	**12.7**	**13.0**	**12.8**	**11.5**	**10.2**
ROE (%)	17.8	16.0	16.3	18.1	19.4
Net debt / equity (%)	0.2	0.2	0.3	0.2	0.2
EV / EBITDA (x)	**11.0**	**10.1**	**10.2**	**9.5**	**8.8**
Price / book (x)	2.1	2.0	2.1	2.0	1.9
Dividend yield (%)	4.2	4.7	8.6	6.1	7.7

Source: Company, IIFL Research. Priced as on 4 January 2012

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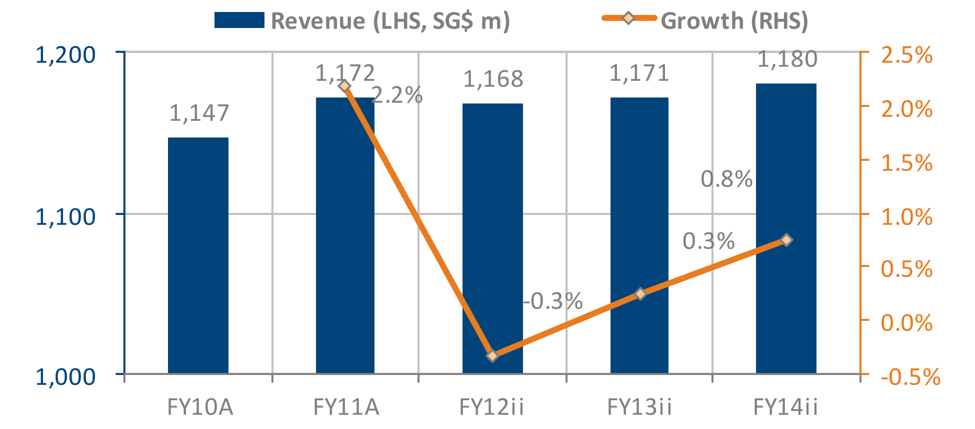
Singapore ops: Post-paid dominance to continue

Overall economy poised for a sharp slowdown, but wireless on strong footing: Singapore economy contracted 4.9% QoQ in 4QCY11 registering the second contraction in three quarters. The Singapore government has cut the 2012 GDP growth rate forecast from 4-6% to 1-3%, anticipating a sharp slowdown. Telecom should maintain its defensive characteristics – there is a portion of travel and communication discretionary spend which can convert to telecom revenues, though telecom may see an absolute revenue growth drop.

SingTel continues to have a commanding presence in post-paid. Its market share has increased based on emphasis on network and service quality, though it may seem to be an insufficient differentiator.

Multiple margin props: Ebitda margin will have multiple levers from lower content costs in pay-TV and margin expansion in the IT business and we expect this to offset the impact of higher subsidies due to iPhone 4S being a raging hit.

Figure 1: We build in a slowdown in corporate segment due to the softening economy



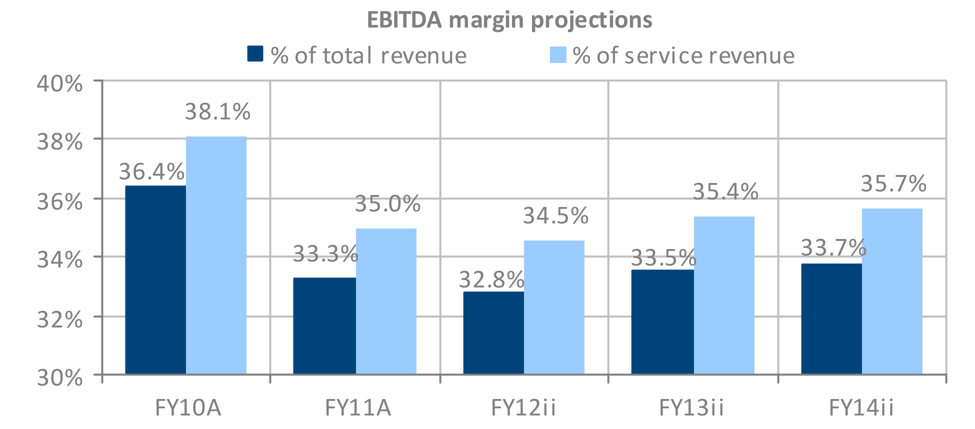
Source: Company, IIFL Research

Figure 2: Aggregate revenue projections for SingTel Singapore – wireless and Pay TV major drivers

Revenue Breakup (SG$ m)	FY10A	FY11A	FY12ii	FY13ii	FY14ii
Mobile Revenues (ex- est Intl)	1,610	1,788	1,965	2,145	2,315
National telephone	393	375	353	327	305
Corporate Data Revenue	1,147	1,172	1,168	1,171	1,180
Retail Broadband Revenue	430	440	449	458	467
International Telephony	519	511	497	473	452
Core IT & Engg revenue	1,417	1,534	1,502	1,491	1,526
Sale of equipment	268	311	334	355	376
Pay TV Revenue	16	79	119	165	197
Miscellaneous	194	191	172	153	135
Total	5,995	6,401	6,560	6,739	6,953
Growth %	8.1%	6.8%	2.5%	2.7%	3.2%

Source: Company, IIFL Research

Figure 3: Lower content costs and IT business will offset the impact of higher smart-phone subsidies



Source: Company, IIFL Research

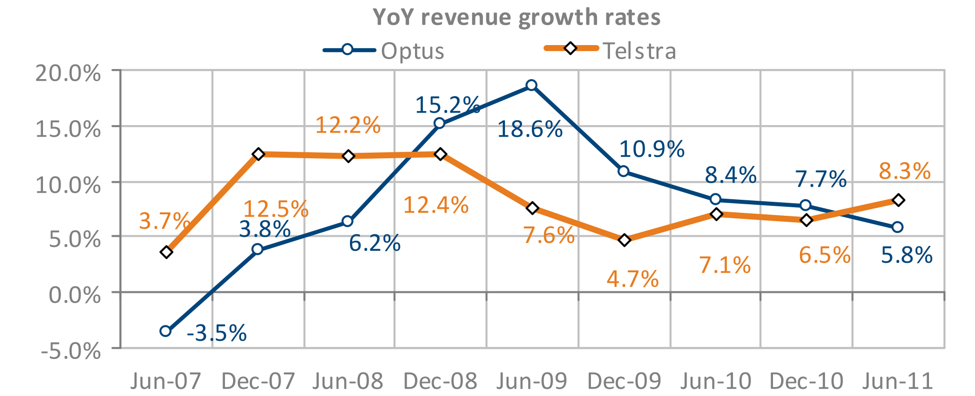
Optus (Australia): Outperformance amid heightened competition

Australian economy and A$ susceptible to impending slowdown in China: Economists have cut their 2012 China GDP growth forecasts to 8-9% (a ten year low) amid concerns on falling house prices, slowdown in property investment and slowing exports. China accounted for ~24% of Australia's exports in FY11 and Chinese demand for Australian coal and iron ore accounts for ~14% of the latter's GDP. The bearish outlook for commodities does not augur well for A$. While telecom spending would be partly insulated from an overall economic slowdown, a weak A$ vs. S$ would impact reported numbers.

Strategy in place to weather sustained competitive intensity: Optus has been gaining revenue market share without sacrificing Ebitda margin in a tough competitive environment due to differentiated offerings emphasising the brand and tight cost control.

Telstra has already taken off A$1bn so far from profits coming out with tariff adjustments, bundling discounts and subsidies. It can take off more profits to win back revenue market share from Optus. Consequently, we believe it is too early to say that competitive intensity will go down, and revenue growth will resume.

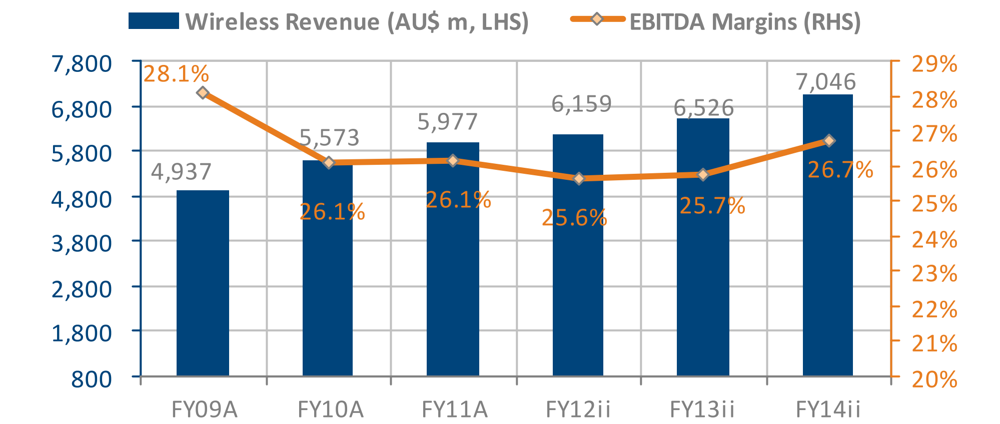
Figure 4: Gaining on Telstra. In September quarter, Optus grew its revenue 1.3% YoY despite competition



Source: Company, IIFL Research

Optus plans to implement a number of initiatives on the network side such as using 900MHz for 3G and trial of LTE and subsequent launch of dongles. The acceptance of 120 points of interconnect is a major victory, that would build scale to tap the upsides from NBN.

Figure 5: We build only a 50 bps decline in FY12ii Ebitda margin due to increased competition due to better execution; Prior to 2QFY12 earnings, we were building a 100 bps decline



Source: Company, IIFL Research

Figure 6: Aggregate Optus projections: Post NBN (FY15), capex intensity to reduce

Y/e March	FY09A	FY10A	FY11A	FY12ii	FY13ii	FY14ii
Revenue (AU$ m)	8,333	8,959	9,292	9,494	9,932	10,524
EBITDA %	24.8%	24.1%	25.1%	25.0%	25.5%	26.4%
Capex to sales	21.3%	11.7%	10.9%	13.0%	12.1%	11.7%
EBIT%	11.3%	11.6%	13.0%	13.6%	14.3%	15.6%

Source: Company, IIFL Research

Bharti (India): Improving operations; Regulatory clarity to emerge soon

Expect 14% revenue growth in FY13: We expect revenue growth to be driven by: 1) subscriber growth contributing 2%; 2) traffic growth of 5-7%; 3) RPM (rate per minute) expansion of 5%; and 4) data revenue growth of 2%. We foresee further tariff increases in 2012, especially if punitive regulation eventuates. Subscribers should easily absorb price increases. Competitive pressure will ensure tariff differentials wrt market leaders remain, but generic price levels will continue moving up. 3G revenues should pick up from cheaper handsets, better billing, networks and greater all-round awareness of 3G.

South Asia Ebitda margin to expand 80 bps: Margins had collapsed in FY10-11 owing to a sharp fall in tariffs; similarly, price increases should help reverse this. Slower subscriber addition will bring down acquisition costs slightly. 3G networks would help reduce cost of carrying voice traffic. Bharti's margins would be aided by improving DTH and by its Sri Lanka and Bangladesh businesses. Although higher fuel costs would be a headwind, we build in 80 bps margin expansion in FY13 for Bharti South Asia.

Figure 7: Expect aggregate Ebitda cagr of 15.7% over FY11-14

Aggregate India Projections (Rs m)	FY09	FY10	FY11	FY12ii	FY13ii	FY14ii
Mobile	303,601	324,872	362,689	411,277	471,909	551,088
Telemedia	33,517	34,154	36,324	38,775	41,397	44,285
Digital TV services*			6,377	13,069	17,541	21,805
Enterprise	84,882	83,597	41,292	43,375	45,977	48,736
Passive Infrastructure	42,489	35,425	85,555	99,032	113,855	128,791
Others	3,611	5,825	4,026	3,401	3,634	3,819
Total Gross Revenue	468,100	483,873	536,263	608,929	694,314	798,523
Eliminations	98,485	87,723	71,107	79,966	88,658	96,337
Aggregate Net Revenue	369,615	396,150	465,156	528,964	605,656	702,186
EBITDA %	41.0%	40.5%	37.2%	36.6%	37.5%	38.1%
Capex to Sales	38.3%	27.9%	22.9%	19.0%	17.6%	16.2%

Source: Company, IIFL Research; FY ends on March 31; *Digital TV included in others in FY09, FY10 and 1QFY11

Figure 8: Expect India wireless EBITDA margins to expand by 170 bps over FY11-14

India Wireless Projections	FY09	FY10	FY11	FY12ii	FY13ii	FY14ii
Subscribers (m)	93.9	127.6	162.2	178.2	183.4	187.9
Wireless Revenue (Rs m)	303,601	324,872	362,689	411,277	471,909	551,088
EBITDA margin	31.0%	31.1%	34.7%	34.2%	35.4%	36.4%
Capex / Sales ratio	21.4%	19.3%	16.2%	13.5%	12.0%	11.5%

Source: Company, IIFL Research; FY ends on March 31

Regulatory clarity to emerge soon: The regulatory environment in India has been in a constant state of flux over the last two years. While the New Telecom Policy (earlier expected in December 2011) has been pushed out to mid 2012, we expect key decisions on 3G roaming cut, interconnect cut, tower licence fee, rural incentives and excess spectrum charges soon, and an acknowledgement by the authorities that 900 MHz re-farming is impossible.

Africa Ebitda margin to improve as economies of scale kick in: We stick with our expectation of 1000bps improvement in Bharti's Ebitda margin to 37% by FY14. In generic terms, this implies 14% cost reduction. We estimate this to be driven by scale benefits and management's focus on cost control.

Figure 9: Our projections are lower than the Africa CEO's target of US$5bn in revenue and 40% EBITDA margin in FY13

Africa projections	FY11	FY12ii	FY13ii	FY14ii
Revenue (US$ m)	2,882.5	4,044.1	4,384.9	4,858.3
EBITDA %	21.6%	26.9%	31.9%	36.9%
EBIT %	2.6%	8.3%	12.9%	17.9%
Capex / sales%	26.8%	35.9%	30.0%	28.0%

Source: Company, IIFL Research; FY ends on March 31

Media reports suggest that Bharti may attempt to enter South Africa and Cameroon. The South African government is contemplating allowing a new company to become an LTE network owner. This may enable Bharti to enter a large market such as South Africa without taking competition head on.

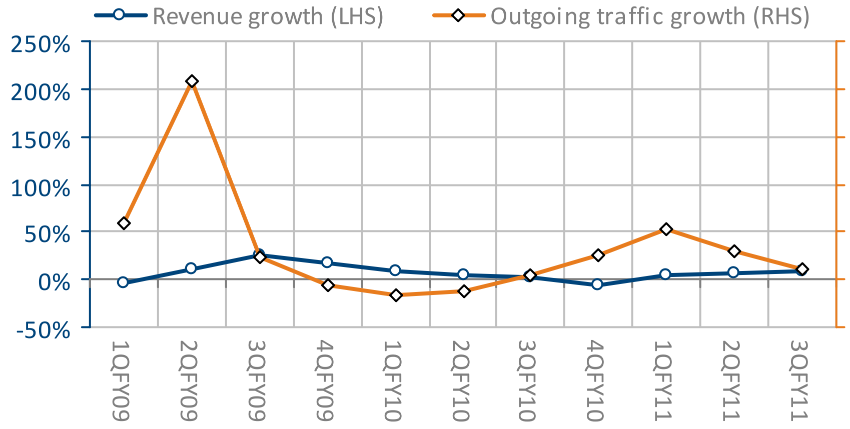
Telkomsel (Indonesia): Data revenue to drive growth

Paradigm shift from voice discounting to data revenue; Voice tariff wars unlikely: The Indonesian market is in a phase when the telcos are moving from voice discounting to data sales. The top-three players (Telkomsel, Indosat, XL Axiata) have become more rational and have improved sales incentive schemes. Hence it is a case of stronger selling in a better environment.

In data, Telkomsel has an advantage with 9,000 3G sites, compared to one-third of that for XL and still less for Indosat. IMEI tracking is helping Telkomsel discover that smart-hones launched by competitors are coming back into Telkomsel network owing to its superior network quality. Data revenue is expected to drive revenue growth going forward.

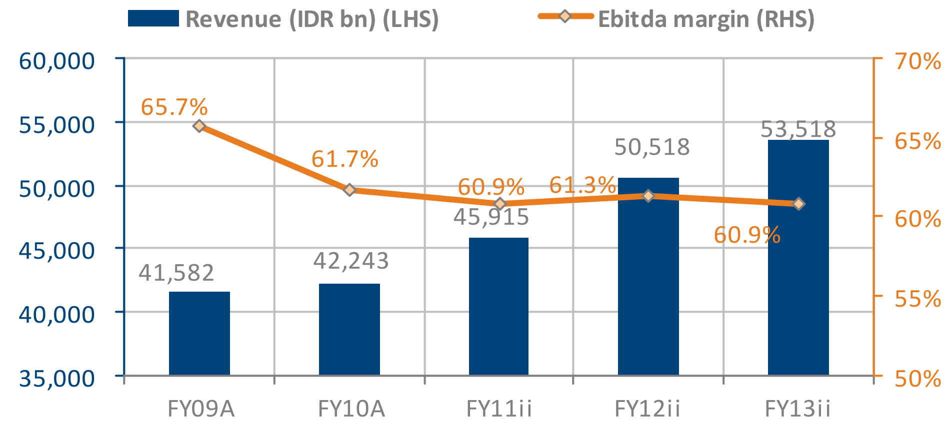
Ebitda margin could expand by 200bps: We expect 200 bps Ebitda margin improvement due to the reduction in licence costs, lower microwave frequency fee from migration to fibre and non-linear maintenance fee introducing some scale economies.

Figure 10: Hyper competitive phase where voice tariff cuts were the order of the day is behind the company



Source: Company, IIFL Research: FY ends in December

Figure 11: Expect 9% FY-13 revenue CAGR



Source: Company, IIFL Research: FY ends in December

Figure 12:Expect modest margin improvement, improved FCF generation and dividends

Telkomsel projections	FY08A	FY09A	FY10A	FY11ii	FY12ii	FY13ii
Revenue Growth %	1.3%	11.9%	1.6%	8.7%	10.0%	5.9%
EBITDA%	64.6%	65.7%	61.7%	60.9%	61.3%	60.9%
EBIT%	45.1%	45.2%	39.4%	38.4%	38.8%	38.3%
PAT growth %	-16.2%	15.2%	-5.2%	8.0%	12.5%	5.4%
Capex to sales	33.2%	32.1%	21.8%	13.9%	14.0%	14.0%
FCF (IDR bn)	6,325	9,431	8,697	20,338	20,040	21,266
Dividend payout ratio	77.7%	70.0%	78.6%	68.9%	100.8%	100.2%

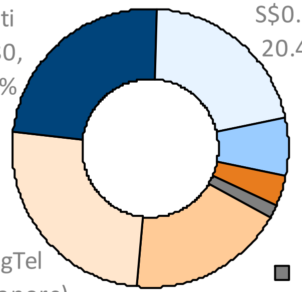
Source: Company, IIFL Research; FY ends on December 31

Valuation - ADD for 12.7% total returns

We have an ADD recommendation on SingTel, with 12.7% upside from CMP, which reflects our belief in the company's robust business mix.

Optus accounts for 58% of the core SingTel + Optus EV. The core constitutes 43.7% of the target price. Considering intensifying competitive pressure on Optus, heightened competition for the Singapore operations (with massive market share) due to NGNBN, and relatively low weightages for Globe and AIS, it boils down to whether the upside from Telkomsel and Bharti is sufficient to raise our optimism.

Figure 13: Singapore business, Optus, Bharti and Telkomsel constitute 88% of TP



Source: Company, IIFL Research

Valuation summary

We estimate that SingTel offers 12.7% 12-month upside; we recommend ADD

Valuation (All amounts in S$ m)	Approach	WACC (%)	Exit EV/ EBITDA	Fwd Multiple	M-Cap	Holding (%)	HC Discount (%)	Price (S$)
SingTel (Singapore)	DCF	7.9%	6.0			100.0		
Optus (Australia)	DCF	10.0%	6.0			100.0		
Core	DCF				23,266	100.0		1.46
Telkomsel	DCF	12.0%	6.6		34,498	35.0	10.0	0.68
AIS	PER			14.8	17,152	23.3	10.0	0.23
Globe	DCF	11.0%	5.0		4,338	47.3	10.0	0.12
Bharti India & SA	PER			13.0	34,622			
Bharti Africa	EV/EBITDA			7.5	9,144			
Bharti total					43,766	32.2	10.0	0.80
Others	DCF							0.06
Total/share								3.34
Dividend/share								0.18
CMP								3.12
Total returns								12.7%

Source: IIFL Research

Valuation snapshot of major telcos in the APAC region

Company	Bloomberg code	CMP (LCY)	M-Cap (US$m)	PER			EV/EBITDA		
				CY11/FY12	CY12/FY13	CY13/FY14	CY11/FY12	CY12/FY13	CY13/FY14
SingTel (S$)*	ST SP	3.12	38,727	12.8	11.5	10.2	10.2	9.5	8.8
StarHub (S$)*	STH SP	2.88	3,842	16.3	14.9	14.6	8.2	7.7	7.5
M1 (S$)*	M1 SP	2.50	1,767	13.5	12.2	11.7	7.8	7.1	6.5
Telstra (A$)	TLS AU	3.41	43,997	12.1	11.6	11.3	5.2	5.2	5.2
Bharti (Rs)*	BHARTI IN	349.95	25,057	24.3	15.5	10.7	7.7	6.1	5.0
Idea Cellular (Rs)*	IDEA IN	82.20	5,126	38.9	21.1	13.3	7.4	5.7	4.6
RCOM (Rs)*	RCOM IN	72.90	2,837	13.8	22.7	14.8	8.4	7.7	7.2
Telkom (IDR)	TLKM IJ	7,050	15,499	11.8	11.0	10.3	4.4	4.2	4.0
Indosat (IDR)	ISAT IJ	5,800	3,437	27.1	19.4	15.9	5.3	4.8	4.6
XL Axiata (IDR)	EXCL IJ	4,500	4,180	11.8	10.5	9.3	4.9	4.6	4.3
AIS (THB)*	ADVANC TB	146.50	13,840	15.3	15.3	13.7	6.6	6.3	6.0
DTAC (THB)	DTAC TB	67.25	5,060	13.7	14.6	14.1	5.1	5.3	4.9
True (THB)	TRUE TB	3.14	1,447	-17.8	-46.2	87.2	5.8	5.6	5.2
Globe (PHP)*	GLO PM	1,241.00	3,755	15.2	14.1	13.0	5.8	5.6	5.4
PLDT (PHP)	TEL PM	2,640	12,944	12.8	13.2	12.3	7.7	7.3	6.9
Maxis (MYR)	MAXIS MK	5.50	13,175	18.2	17.7	17.2	10.3	10.1	9.9
Axiata (MYR)	AXIATA MK	4.88	13,195	20.9	13.9	12.8	6.3	6.0	5.7
China Unicom Hong Kong (HK$)	762 HK	16.58	50,294	70.9	36.0	22.8	5.9	5.0	4.4
SmarTone (HK$)	315 HK	13.32	1,766	15.1	12.9	10.4	4.9	4.2	3.6
PCCW (HK$)	8 HK	2.57	2,406	9.8	8.4	7.7	6.2	6.1	6.1
NTT DoCoMo (JPY)	9437 JT	143,500	81,751	11.6	10.9	10.2	3.6	3.5	3.4
SoftBank (JPY)	9984 JT	2,344	33,888	9.0	8.6	7.8	4.1	3.8	3.6
KDDI (JPY)	9433 JT	506,000	29,618	8.6	7.8	7.0	3.3	3.1	3.0
China Mobile (US$)	CHL US	49.10	197,099	11.3	11.3	13.0	NA	NA	NA
China Telecom (US$)	CHA US	58.53	46,256	17.6	15.0	11.1	NA	NA	NA

Source: Bloomberg, Companies, IIFL Research; Note: Prices as at close of business on 4 January 2012. * indicates IIFL estimates, the rest are Bloomberg estimates.

Financial summary

Income statement summary (S$ m)

Y/e 31 Mar	FY10A	FY11A	FY12ii	FY13ii	FY14ii
Revenue	16,871	18,071	18,843	19,514	20,490
EBITDA	4,847	5,119	5,293	5,550	5,942
EBIT	**2,969**	**3,151**	**3,278**	**3,492**	**3,813**
Interest expense	-334	-324	-339	-349	-350
Others	2,407	2,170	2,255	2,663	3,170
Profit before tax	**5,041**	**4,996**	**5,194**	**5,806**	**6,632**
Taxes	-1,136	-1,170	-1,320	-1,475	-1,754
Minorities and other	1	3	0	0	0
Net profit	**3,907**	**3,829**	**3,874**	**4,332**	**4,878**

Cash flow summary (S$ m)

Y/e 31 Mar	FY10A	FY11A	FY12ii	FY13ii	FY14ii
Profit Before Tax	5,041	4,996	5,194	5,806	6,632
Depr. & amortization	1,878	1,969	2,015	2,057	2,129
Tax Paid	-592	-621	-716	-745	-850
Working capital Δ	-136	117	78	-19	-21
Other operating & Non-Cash items	-912	-401	-1,095	-1,329	-1,704
Operating cashflow	5,280	6,060	5,476	5,771	6,186
Capital expenditure	-2,213	-2,803	-2,364	-2,116	-2,127
Free cash flow	**3,067**	**3,257**	**3,112**	**3,655**	**4,059**
Equity Raised	709	7	7	0	0
Debt financing/disposal	-902	844	482	40	40
Dividends paid	-2,084	-2,357	-4,281	-3,011	-3,800
Other items	-252	-627	-209	0	0
Net change in cash	**538**	**1,124**	**-889**	**685**	**299**

Source: Company data, IIFL Research

Balance sheet summary (S$ m)

Y/e 31 Mar	FY10A	FY11A	FY12ii	FY13ii	FY14ii
Cash & equivalents	1,614	2,738	1,849	2,534	2,833
Sundry debtors	3,172	3,449	3,417	3,385	3,349
Inventories - trade	346	299	297	294	291
Other current assets	13	69	68	67	67
Fixed assets	**10,750**	**11,113**	**11,013**	**11,072**	**11,070**
Intangible assets	10,200	10,218	10,176	10,176	10,176
Other term assets	11,857	11,396	13,213	13,812	14,612
Total assets	**37,951**	**39,282**	**40,034**	**41,340**	**42,397**
Sundry creditors	4,650	4,550	4,508	4,466	4,418
Other current liabs	657	1,291	1,279	1,267	1,254
Short-term debt	1,528	2,699	2,787	2,807	2,827
Long-term debt/CBs	5,351	4,587	5,461	5,481	5,501
Other long-term liabs	2,250	1,805	2,675	2,675	2,675
Minorities/other equity	23	22	22	22	22
Net worth	**23,493**	**24,328**	**23,301**	**24,622**	**25,700**
Total liabs & equity	**37,952**	**39,282**	**40,034**	**41,340**	**42,397**

Ratio analysis

Y/e 31 Mar	FY10A	FY11A	FY12ii	FY13ii	FY14ii
Growth ratios (%)					
Revenue growth (%)	13.0	7.1	4.3	3.6	5.0
Op Ebitda growth (%)	9.4	5.6	3.4	4.9	7.1
Op Ebit growth (%)	10.0	6.1	4.0	6.5	9.2
Op Ebitda margin (%)	28.7	28.3	28.1	28.4	29.0
Op Ebit margin (%)	17.6	17.4	17.4	17.9	18.6
Net profit margin (%)	23.2	21.2	20.6	22.2	23.8
Dividend payout (%)	60.4	60.3	111.8	77.7	87.7
Tax rate (%)	22.5	23.4	25.4	25.4	26.4
Net debt/equity (%)	22.4	18.7	27.5	23.4	21.4
Net debt/op Ebitda (x)	1.1	0.9	1.2	1.0	0.9
Return on equity (%)	17.8	16.0	16.3	18.1	19.4
ROCE (%)	8.7	9.1	9.1	9.4	10.0
Return on assets (%)	25.5	25.5	27.2	29.5	32.9

Source: Company data, IIFL Research

Key to our recommendation structure

BUY - Absolute - Stock expected to give a positive return of over 20% over a 1-year horizon.
SELL - Absolute - Stock expected to fall by more than 10% over a 1-year horizon.

In addition, **Add** and **Reduce** recommendations are based on expected returns relative to a hurdle rate. Investment horizon for **Add** and **Reduce** recommendations is up to a year. We assume the current hurdle rate at 10%, this being the risk-free rate of return + equity risk premium.

Add - Stock expected to give a return of 0-10% over the hurdle rate, ie a positive return of 10%+.
Reduce - Stock expected to return less than the hurdle rate, ie return of less than 10%.
