

Target price revision post Bharti/TLKM changes Defensive tag intact, but little excitement in operating trends

January 10, 2012

Rating Remains	Neutral
Target price Reduced from 3.40	SGD 3.37
Closing price January 3, 2012	SGD 3.14
Potential upside	+7.3%

Action/Valuation: Maintain Neutral with a revised SGD3.37 target price

SingTel's Singapore business (26% of valuation) surprised positively in 2011 and we think this will continue in 2012, but its other business, particularly Optus (23% of valuation), could be more challenging given the competitive intensity in Australia. Even the Associates (51% of valuation) could be volatile – after an 11% drop in Associate EBT contribution, we forecast another 12% drop in FY12 (currencies are a key factor). This may keep a lid on the share price, so we maintain Neutral with a revised SGD3.37 target price.

Amid current macro uncertainty, SingTel's defensive appeal is intact given its strong cash position. We don't expect any capital management initiatives this year due to volatile credit markets. SingTel is currently trading at FY13F P/E of 13.6x.

Stock likely to be range-bound

SingTel shares have been range-bound (SGD2.80-3.40) for the past two years now, and it is difficult to see them breaking this range. There have been few instances when all three of its key businesses have performed well at the same time. Also, currencies are another concern – although the company does hedge its cashflows (Associate dividends, etc), earnings volatility will persist, in our view.

Catalysts: Macro conditions, competition and dividends

30 Mar	FY11	FY12F		FY13F		FY14F	
Currency (SGD)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	18,201	17,990	18,939	18,433	18,385	18,818	18,700
Reported net profit (mn)	3,825	3,633	3,540	3,803	3,699	3,945	3,907
Normalised net profit (mn)	3,809	3,633	3,540	3,803	3,699	3,945	3,907
Normalised EPS	23.85c	22.75c	22.17c	23.81c	23.16c	24.71c	24.47c
Norm. EPS growth (%)	-2.7	-4.6	-7.1	4.7	4.5	3.8	5.6
Norm. P/E (x)	13.2	N/A	14.2	N/A	13.6	N/A	12.8
EV/EBITDA (x)	7.4	8.0	7.8	7.6	7.6	7.3	7.3
Price/book (x)	2.1	N/A	2.1	N/A	2.0	N/A	2.1
Dividend yield (%)	8.2	N/A	5.1	N/A	5.4	N/A	5.1
ROE (%)	16.0	15.1	14.7	15.5	15.2	15.4	15.3
Net debt/equity (%)	18.4	25.0	24.4	21.8	21.9	20.3	19.9

Source: Company data, Nomura estimates

Key company data: See page 2 for company data and detailed price/index chart.

Anchor themes

Volatility, due to rising competition in regional markets, could persist, but SingTel's associates have strong market positions, balance sheets and earnings outlooks.

Nomura vs consensus

Our target price is broadly in line with consensus.

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Key data on Singapore Telecom

Income statement (SGDmn)

Year-end 30 Mar	FY10	FY11	FY12F	FY13F	FY14F
Revenue	16,966	18,201	18,939	18,385	18,700
Cost of goods sold	-2,797	-2,961	-3,188	-3,121	-3,171
Gross profit	14,169	15,240	15,752	15,264	15,529
SG&A	-11,199	-12,090	-12,752	-12,457	-12,691
Employee share expense	2,409	2,141	1,883	2,347	2,577
Operating profit	5,379	5,291	4,883	5,154	5,415
EBITDA	7,257	7,260	7,079	7,249	7,536
Depreciation	-1,827	-1,918	-2,145	-2,044	-2,069
Amortisation	-51	-51	-51	-51	-51
EBIT	5,379	5,291	4,883	5,154	5,415
Net interest expense	-334	-324	-225	-296	-275
Associates & JCEs	0	0	0	0	0
Other income	-3	25	0	0	0
Earnings before tax	5,042	4,992	4,658	4,859	5,140
Income tax	-1,136	-1,170	-1,121	-1,162	-1,236
Net profit after tax	3,906	3,822	3,537	3,696	3,904
Minority interests	1	3	3	3	3
Other items	8	-16	0	0	0
Preferred dividends	0	0	0	0	0
Normalised NPAT	3,915	3,809	3,540	3,699	3,907
Extraordinary items	-8	16	0	0	0
Reported NPAT	3,907	3,825	3,540	3,699	3,907
Dividends	-2,268	-4,120	-2,555	-2,715	-2,875
Transfer to reserves	1,639	-295	985	984	1,033

Valuation and ratio analysis

FD normalised P/E (x)	12.8	13.2	14.2	13.6	12.8
FD normalised P/E at price target (x)	14.2	14.6	15.7	15.0	14.2
Reported P/E (x)	12.8	13.1	14.2	13.6	12.8
Dividend yield (%)	4.5	8.2	5.1	5.4	5.1
Price/cashflow (x)	9.4	8.3	8.8	9.1	9.1
Price/book (x)	2.1	2.1	2.1	2.0	2.1
EV/EBITDA (x)	7.6	7.4	7.8	7.6	7.3
EV/EBIT (x)	10.2	10.2	11.3	10.7	10.1
Gross margin (%)	83.5	83.7	83.2	83.0	83.0
EBITDA margin (%)	42.8	39.9	37.4	39.4	40.3
EBIT margin (%)	31.7	29.1	25.8	28.0	29.0
Net margin (%)	23.0	21.0	18.7	20.1	20.9
Effective tax rate (%)	22.5	23.4	24.1	23.9	24.0
Dividend payout (%)	58.0	107.7	72.2	73.4	73.6
Capex to sales (%)	11.5	11.2	12.7	12.5	12.1
Capex to depreciation (x)	1.1	1.1	1.1	1.1	1.1
ROE (%)	17.8	16.0	14.7	15.2	15.3
ROA (pretax %)	15.7	14.5	13.3	13.9	14.2

Growth (%)

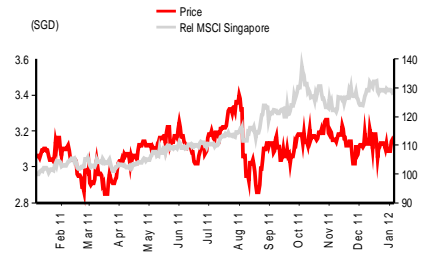
Revenue	12.9	7.3	4.1	-2.9	1.7
EBITDA	12.0	0.0	-2.5	2.4	4.0
EBIT					
Normalised EPS	9.8	-2.7	-7.1	4.5	5.6
Normalised FDEPS	9.8	-2.7	-7.1	4.5	5.6

Per share

Reported EPS (SGD)	24.47c	23.95c	22.17c	23.16c	24.47c
Norm EPS (SGD)	24.52c	23.85c	22.17c	23.16c	24.47c
Fully diluted norm EPS (SGD)	24.52c	23.85c	22.17c	23.16c	24.47c
Book value per share (SGD)	1.47	1.52	1.49	1.56	1.46
DPS (SGD)	0.14	0.26	0.16	0.17	0.16

Source: Company data, Nomura estimates

Relative performance chart (one year)



Source: ThomsonReuters, Nomura research

(%)	1M	3M	12M
Absolute (SGD)	0.6	-1.3	2.3
Absolute (USD)	0.5	0.8	2.3
Relative to index	3.9	-3.1	21.9
Market cap (USDmn)	39,013.5		
Estimated free float (%)	45.8		
52-week range (SGD)	3.3/2.75		
3-mth avg daily turnover (USDmn)	48.06		
Major shareholders (%)			
Temasek	54.1		
Capital Group	4.9		

Source: Thomson Reuters, Nomura research

Notes

Moderating growth rates

Cashflow (SGDmn)

Year-end 30 Mar	FY10	FY11	FY12F	FY13F	FY14F
EBITDA	7,257	7,260	7,079	7,249	7,536
Change in working capital	823	260	116	48	37
Other operating cashflow	-2,751	-1,477	-1,465	-1,802	-2,064
Cashflow from operations	5,329	6,043	5,730	5,495	5,509
Capital expenditure	-1,952	-2,033	-2,402	-2,290	-2,258
Free cashflow	3,377	4,010	3,328	3,205	3,252
Reduction in investments	-9	-53	0	0	0
Net acquisitions	-90	-668	-300	0	0
Reduction in other LT assets	21	24	0	0	0
Addition in other LT liabilities	0	0	0	0	0
Adjustments	-150	-47	0	0	0
Cashflow after investing acts	3,150	3,266	3,028	3,205	3,252
Cash dividends	-2,085	-2,358	-4,120	-2,555	-2,715
Equity issue	-54	-32	0	0	0
Debt issue	-204	815	500	0	0
Convertible debt issue	0	0	0	0	0
Others	-270	-567	-225	-296	-275
Cashflow from financial acts	-2,613	-2,142	-3,845	-2,851	-2,990
Net cashflow	537	1,124	-817	354	262
Beginning cash	1,076	1,614	2,738	1,921	2,276
Ending cash	1,613	2,738	1,921	2,276	2,537
Ending net debt	5,227	4,479	5,796	5,441	5,180

Notes

FCF outlook remains strong

Source: Company data, Nomura estimates

Balance sheet (SGDmn)

As at 30 Mar	FY10	FY11	FY12F	FY13F	FY14F
Cash & equivalents	1,614	2,738	1,921	2,276	2,537
Marketable securities	0	0	0	0	0
Accounts receivable	3,172	3,449	3,590	3,484	3,544
Inventories	346	299	311	302	307
Other current assets	13	69	72	70	71
Total current assets	5,144	6,555	5,894	6,131	6,459
LT investments	256	309	309	309	309
Fixed assets	10,750	11,113	10,625	10,872	11,060
Goodwill	9,561	9,561	9,561	9,561	9,561
Other intangible assets	639	657	606	555	503
Other LT assets	11,601	11,087	11,683	12,386	13,287
Total assets	37,952	39,282	38,679	39,813	41,180
Short-term debt	1,513	2,673	2,673	2,673	2,673
Accounts payable	4,650	4,450	4,632	4,507	4,555
Other current liabilities	672	1,418	1,509	1,564	1,619
Total current liabilities	6,835	8,541	8,813	8,744	8,847
Long-term debt	5,328	4,544	5,044	5,044	5,044
Convertible debt	0	0	0	0	0
Other LT liabilities	2,273	1,847	1,055	1,118	1,192
Total liabilities	14,436	14,932	14,912	14,906	15,083
Minority interest	23	22	19	16	13
Preferred stock	0	0	0	0	0
Common stock	2,616	2,623	2,623	2,623	2,623
Retained earnings	20,877	21,705	21,125	22,269	23,461
Proposed dividends	0	0	0	0	0
Other equity and reserves	0	0	0	0	0
Total shareholders' equity	23,493	24,328	23,748	24,892	26,084
Total equity & liabilities	37,952	39,282	38,679	39,813	41,180

Notes

Strong balance sheet bodes well for ongoing capital management

Liquidity (x)

Current ratio	0.75	0.77	0.67	0.70	0.73
Interest cover	16.1	16.3	21.7	17.4	19.7

Leverage

Net debt/EBITDA (x)	0.72	0.62	0.82	0.75	0.69
Net debt/equity (%)	22.25	18.41	24.40	21.86	19.86

Activity (days)

Days receivable	61.4	66.4	68.0	70.2	68.6
Days inventory	33.9	39.7	35.0	35.9	35.1
Days payable	516.7	560.8	521.4	534.3	521.6
Cash cycle	-421.4	-454.7	-418.3	-428.2	-417.9

Source: Company data, Nomura estimates

Appendix A-1

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Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Singapore Telecom	ST SP	SGD 3.14	05-1-2012	Neutral	Not rated	4

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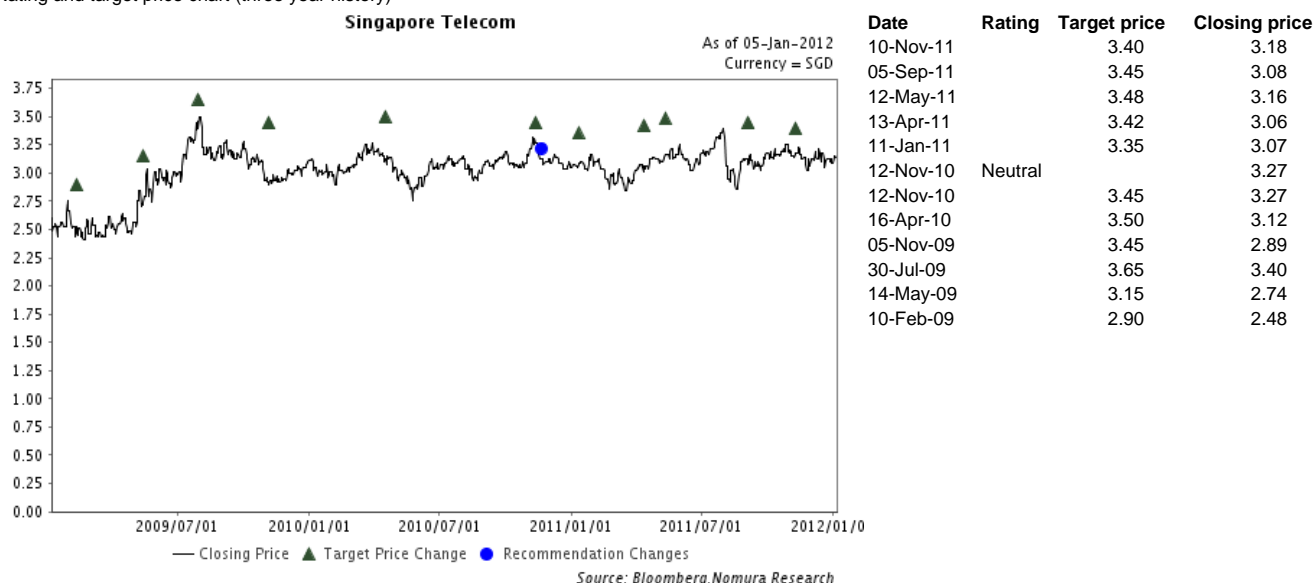
Previous Rating

Issuer name	Previous Rating	Date of change
Singapore Telecom	Buy	12-11-2010

Singapore Telecom (ST SP)

SGD 3.14 (05-1-2012) Neutral (Sector rating: Not rated)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our target price of SGD3.37 is based on our DCF sum-of-the-parts model. We use an average discount rate (WACC) of 7.2-9.8% for the Singapore and Optus businesses, with a terminal growth rate of 1%. Our discount rates for its associates are 10-12%, with terminal growth rates ranging 2-4%. Cashflows are discounted to FY15F.

Risks that may impede the achievement of the target price More aggressive competition in Singapore and Australia, a macro slowdown, further appreciation of the Singapore dollar and slowing growth at associates.

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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

STOCKS

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Explanation of Nomura's equity research rating system in Japan published prior to 6 January 2009

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