SingTel

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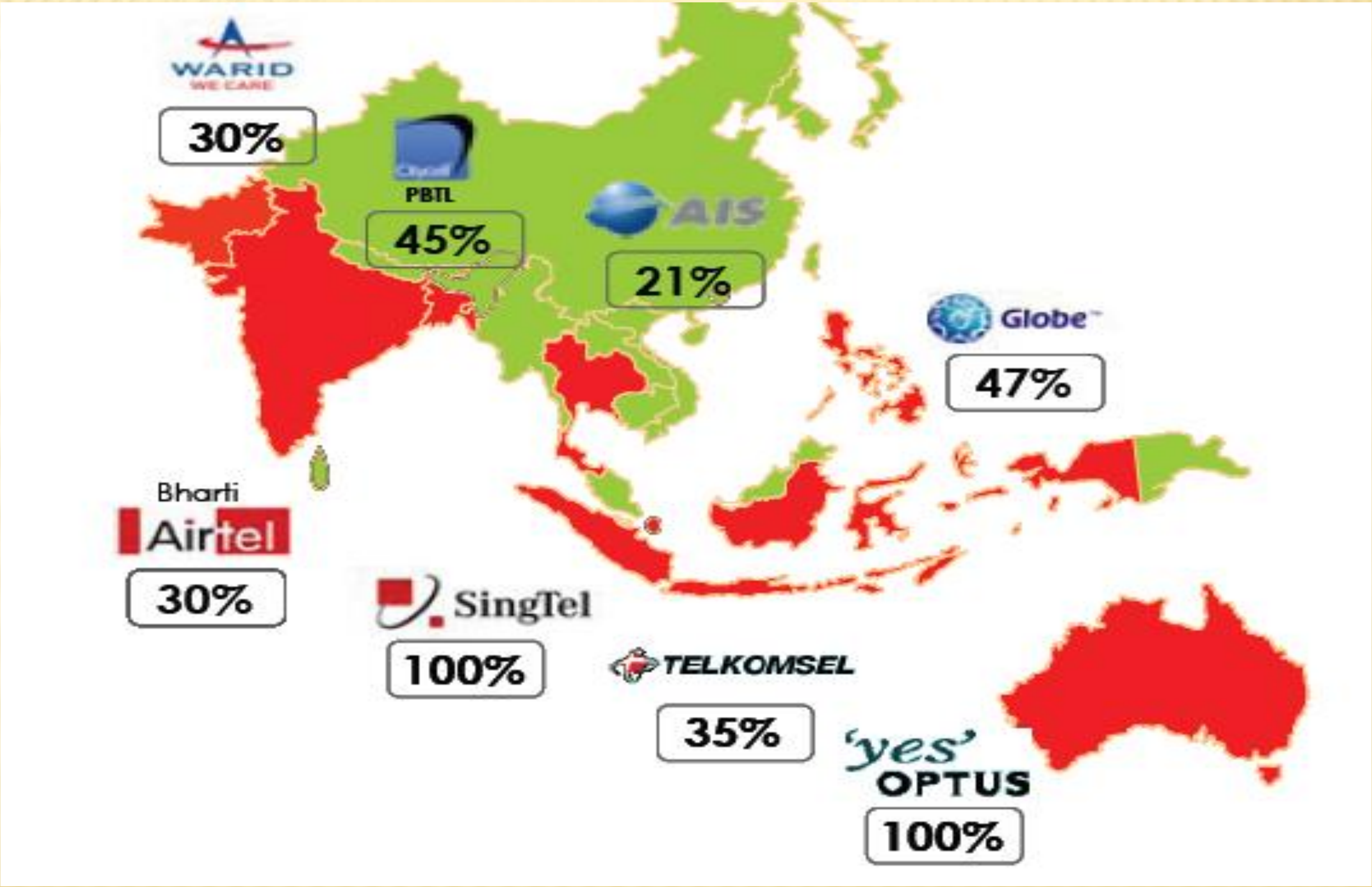
OVERVIEW

- ✓ SingTel is **Asia's leading communications group**, providing a diverse range of innovative communications services including fixed, mobile, data, Internet and IT.
- ✓ In **Singapore**, SingTel is the **leader** in the telecommunications market despite market liberalisation since 1997.
- ✓ **Optus**, its wholly-owned subsidiary, is the challenger telecommunications provider in **Australia**, and one of the most recognised brands in the highly competitive Australian market.
- ✓ The SingTel Group has major investments in **6 leading mobile operators** in the region.
- ✓ Together with Optus and the regional mobile associates, SingTel is Asia's largest multi-market mobile operator, serving **262 million customers** in **eight** markets.

COVERAGE



WARID
WE CARE
30%
PBTL
45%
AIS
21%
Globe
47%
Bharti
Airtel
30%
SingTel
100%
TELKOMSEL
35%
'yes'
OPTUS
100%

REGIONAL PRESENCE

Country	India	Indonesia	Philippines	Thailand	Pakistan	Bangladesh
Company	Bharti Airtel	TELKOMSEL	Globe	AIS	WARID WE CARE	PBTL
Effective stake	30.4%	35.0%	47.3%	21.3%	30.0%	45.0%
Mkt position	#1	#1	#2	#1	#4	#5
Mkt share	24%	51%	34%	44%	19%	4%
No. of mobile subscribers (m)	102.4	76.0	25.0	27.9	17.9	2.0
Subscribers growth (yoy)	+48%	+45%	+10%	+7%	+15%	+15%
Mobile penetration	37%	63%	80%	100%	58%	29%

STRENGTHS

- ❖ SingTel offers an **integrated** domestic telecommunications service provider offering mobile, data, internet and broadband services. It also launched IPTV services commercially in 2007.
- ❖ The company is a **leading** domestic fixed, mobile and broadband operator.
- ❖ Ability to **compete directly with StarHub** across the three major sectors of voice, TV and data.

WEAKNESSES

- National telephony revenues are declining as the number of local **fixed-lines** in service **fell**, a result of the popularity of alternative services of VoIP and **mobile.**
- **Economic slowdown** has created concern it will impact SingTel's overseas Asian markets, which account for two-thirds of group sales and profits.

OPPORTUNITIES

- ❖ **3G** offerings, including 3G TV services, provide scope for a greater number of **high-ARPU** customers.
- ❖ Success in tapping into the **foreign expatriate** community has resulted in strong prepaid offering take-up.
- ❖ The corporate internet protocol virtual private network (**IP-VPN**) market is expected to grow significantly in the medium term.
- ❖ Part of winning consortium for the build of Singapore's **ultra high-speed broadband network.**

THREATS

- ❖ The continued growth of the **StarHub and M1** subscriber base could see it continue to threaten SingTel's market leadership.
- ❖ Growing competition in south Asia from the likes of **Telekom Malaysia** is also a worry.
- ❖ The popularity of the **StarHub broadband/cable TV package** could see it eclipse SingTel ADSL.

SINGTEL'S STRATEGY

Continued growth in SingTel's **regional subscriber base** is the way forward for SingTel. **India** and **Indonesia** will continue to be integral to the operator's success. The operator will also continue to enter **new high-growth markets**, such as **Vietnam**, where it hopes to play a part in that country's growing telecoms sector. Beyond the Asia Pacific region, SingTel is looking at possible investments in **Africa**, the **Middle East** and **Central Asia**, as growth dries up in South East Asia.

WHY SINGTEL?

- ✓ Market leader with strong branding
- ✓ Low debt-to-equity ratio of approx. 37.4%
- ✓ Modest ROE of at least 15%
- ✓ Increase in retained earnings every year
- ✓ Stable and low capital expenditures (CAPEX)
- ✓ Large amount of cash available approx. SGD 1.1 billion
- ✓ Positive free cash flow every year i.e. Operating Cash Flow – CAPEX > 0
- ✓ Positive EVA every year i.e. (ROIC – WACC) X Invested Capital > 0

VALUATION (DCF)

All numbers in millions except stock price						
SingTel (FY ended 31 March)	2009	2010f	2011f	2012f	2013f	2014f
Revenue	14934.4	15830.46	16463.68	17122.23	17807.12	18519.4
Net Income	3448.4	3957.616	4115.921	4280.557	4451.78	4629.851
Depreciation	1738.6	1828.8	1828.8	1828.8	1828.8	1828.8
Less: Increase in net working capital	132.4	111.36	133.63	160.36	192.43	230.92
Less: Capital expenditures	1918.3	1975.85	2054.88	2137.08	2222.56	2311.46
Free Cash Flow	3136.3	3699.207	3756.206	3811.921	3865.588	3916.271
PV factor		0.945537	0.89404	0.845348	0.799308	0.755775
PV FCF		3497.737	3358.199	3222.401	3089.796	
TV	89822.73					
PV TV	67885.81					
Intrinsic Value	81058.19					
No. of shares	15929.06					
Stock price	5.088699					

Revenue growth: 6%, Net profit margin: 25%, WACC: 5.76%, Long term growth rate: 1.4%

VALUATION (DDM)

Based on Dividend Discount Model to perpetuity,

PV = Div (1 + g) / (r – g)

= 0.13*(1 + 0.03) / (0.0576 – 0.03)

= SGD 4.85,

where Div is current dividend i.e. SGD 0.13,

r is required rate of return i.e. 5.76% (based on WACC),

g is long term growth rate i.e. 3% (based on inflation rate).

RECOMMENDATION

- Recommendation: BUY
- Intrinsic value: SGD 4.97 (average of DDM & DCF)
- Current price (as at 2 Oct 2009): SGD 3.21
- Discount: 35.4%
- Technical analysis: MACD signals a BUY.

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