

Singapore Telecom

Dividends + Growth: An attractive stock

Well positioned for attractive total shareholder returns

We reiterate our Buy call on SingTel as: 1. Mobile market dynamics in Singapore have improved with lower handset subsidies and higher data pricing 2. SingTel regional associates' (Bharti Airtel, Telkomsel, AIS, Globe Telecom) currencies such as INR, IDR have stabilized 3. SingTel offers an attractive proposition – c5% dividend yield with exposure to growth from regional mobile associates 4. Fixed Enterprise market is highly profitable with SingTel and StarHub competing rationally 5. Management team incentivized to create shareholder value.

Attractive mobile market dynamics

We believe that Singapore mobile market dynamics are attractive as 1. Operators do not engage in too much price competition 2. Operators have moved to tiered pricing plans from offering unlimited plans earlier 3. Handset subsidies have been reduced late last year around the launch of iPhone 5S/Samsung Note3 4. Data pricing has moved up significantly for usage in excess of the bundled quota. With Mio TV, SingTel has been able to bundle and improve its mobile revenue market share from 44% in 2008 to around 52% currently.

Broadband & Pay TV- Competitive market but does not move the needle

The broadband market in Singapore is competitive at the margin with smaller operators taking advantage of NBN to offer higher speeds at lower prices. However SingTel is able to protect its revenue through bundling. Pay TV market has seen some serious competition for content with SingTel acquiring the World Cup football rights recently. SingTel also owns the rights for English Premier League football. SingTel has used pay TV as a way to improve its wallet share with its customers (by bundling mobile and broadband with Pay TV).

Valuation: SoTP based PT of S\$4.50 per share

We maintain our price target of S\$4.50 for SingTel. Our target price is SOTP based. Singapore operations contribute 34.5%, Optus 17.3% and associates 48.2% to SingTel's target price.

Equities

Singapore
Fixed-Line Communications

12-month rating **Buy**

12m price target **S\$4.50**

Price **S\$3.57**

RIC: STEL.SI **BBG:** ST SP

Trading data and key metrics

52-wk range S\$4.07-3.44

Market cap. S\$56.9bn/US\$45.1bn

Shares o/s 15,936m (ORD)

Free float 48%

Avg. daily volume ('000) 16,573

Avg. daily value (m) S\$58.8

Common s/h equity (03/14E) S\$25.0bn

P/BV (03/14E) 2.3x

Net debt / EBITDA (03/14E) 0.9x

EPS (UBS, diluted) (\$)

	UBS	Cons.
03/14E	0.22	0.23
03/15E	0.24	0.25
03/16E	0.26	0.27

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Highlights (\$m)	03/11	03/12	03/13	03/14E	03/15E	03/16E	03/17E	03/18E
Revenues	18,075	18,824	18,182	16,784	16,696	17,003	17,278	17,552
EBIT (UBS)	3,154	3,217	3,073	2,934	2,908	3,012	3,048	3,172
Net earnings (UBS)	3,804	3,676	3,611	3,480	3,814	4,177	4,488	4,842
EPS (UBS, diluted) (\$)	0.24	0.23	0.23	0.22	0.24	0.26	0.28	0.30
DPS (\$)	0.26	0.16	0.17	0.16	0.18	0.19	0.21	0.23
Net (debt) / cash	(4,548)	(7,447)	(7,018)	(4,785)	(5,419)	(4,632)	(4,250)	(3,319)
Profitability/valuation	03/11	03/12	03/13	03/14E	03/15E	03/16E	03/17E	03/18E
EBIT margin %	17.4	17.1	16.9	17.5	17.4	17.7	17.6	18.1
ROIC (EBIT) %	17.3	16.5	14.8	14.5	14.3	14.3	14.4	15.0
EV/EBITDA (core) x	7.5	7.8	8.2	8.7	8.2	7.7	7.3	6.8
P/E (UBS, diluted) x	12.8	13.5	14.6	16.3	14.9	13.6	12.7	11.7
Equity FCF (UBS) yield %	8.2	6.9	7.1	8.5	3.8	6.8	6.5	7.9
Net dividend yield %	8.4	5.1	5.1	4.5	5.0	5.4	5.8	6.3

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of S\$3.57 on 25 Mar 2014 22:37 HKT

Investment Thesis

Singtel

Investment case

SingTel is Singapore's largest integrated telecom operator with a franchise that expands throughout the APAC nations of Australia, India, Thailand, Indonesia and the Philippines. We have a Buy rating on the stock as we believe SingTel provides a good combination of growth potential and dividend yield, given its exposure to other growth markets. Singapore mobile sector fundamentals remain strong as operators rationalise data tariffs with a focus on improving realisation rates.

Upside scenario

Valuation of S\$5.10/share: The key upside for SingTel is better than expected contributions from overseas associates and appreciation of associate currencies versus the Singapore dollar. ASEAN associates' aggregated equity value per share contributes to 49% of SingTel SOTP-based price target, out of which 15% and 21% comes from Bharti and Telkomsel respectively. For our upside scenario, we value Bharti and Telkomsel at their respective upside scenarios of Rs480 per share and Rp3,000 per share respectively and assume 10% appreciation of associate currencies (versus the Singapore dollar).

Downside scenario

Valuation S\$3.30/share: The key downside for SingTel is worse than expected contributions from overseas associates and depreciation of associate currencies versus the Singapore dollar. ASEAN associates' aggregated equity value per share contributes 49% of SingTel SOTP-based price target, of which 15% and 21% comes from Bharti and Telkomsel, respectively. For our downside scenario, we value Bharti and Telkomsel at their respective downside scenarios of Rs330 per share and Rp2,000 per share respectively and assume 10% depreciation of associate currencies (versus the Singapore dollar). We have also assumed lower implied EV/EBITDA multiple for Singapore business.

Upcoming catalysts

Positive catalysts: 1) Increased adoption of tiered data plans 2) lower than anticipated handset subsidies 3) better than anticipated performance from its associates 4) favourable currency movements.

Negative catalysts: 1) Increased competitive intensity in the mobile and fixed line business segment in Singapore 2) Adverse currency movements 3) delay in monetisation of data from tiered plans 4) Weak performance from its associate companies 5) continued underperformance in Optus can be negative catalyst.

12-month rating

Buy

12m price target

S\$4.50

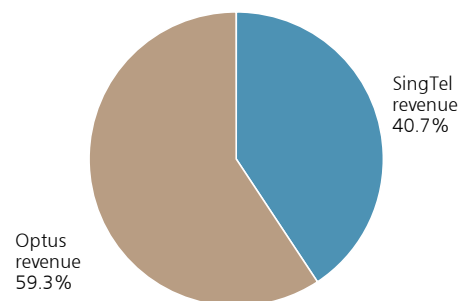
Business description

Singapore Telecom (SingTel) is Singapore's largest telecom service provider with a 46.9% subscriber market share as of June 2013. It has substantial overseas investments, including 100% of Australia's second-largest telecom operator, Optus, which it purchased in October 2001 for S\$13bn; 35% of Indonesia's Telkomsel; 32.3% of India's Bharti Airtel; 23.3% of Thailand's Advanced Info Service; and 47.3% of the Philippines' Globe Telecom. Temasek is the largest shareholder of SingTel with a 51.9% stake.

Industry outlook

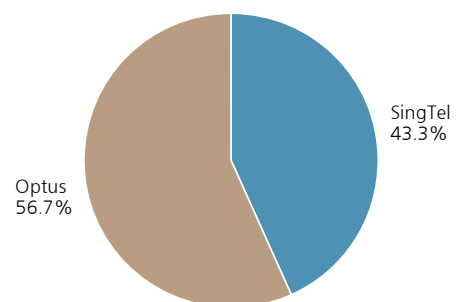
We are positive on Singapore telecom market due to stable and rational market environment. The competition continues to be rational in mobile market as evidenced by recent operators' efforts on rationalising handset subsidies. Also, ARPU and margins are expected to benefit from increasing adoption of smartphones and migration to tiered data plans. Further operators' continued focus on capital management is likely to benefit telecom shareholders in the long-term.

Revenues by segment (%) – FY14E



Source: UBS estimates

EBITDA by segment – FY14E



Source: UBS estimates

Mobile – Rational competition

- Handset subsidies have come down as operators have increased upfront payment for handset from customers. The following tables show comparison of iPhone 5S plans with iPhone 5 plans.

Figure 6: SingTel iPhone plans

	Lite			Value			Plus			Premium		
	iPhone 5S	iPhone 5	% chg	iPhone 5S	iPhone 5	% chg	iPhone 5S	iPhone 5	% chg	iPhone 5S	iPhone 5	% chg
Subscription (\$\$ monthly)	\$39.90	\$39.90		\$59.90	\$59.90		\$99.90	\$99.90		\$239.90	\$205.00	
Local Calls	100 mins	100 mins		200 mins	200 mins		500 mins	500 mins		Unlimited	2000 mins	
Local SMS/MMS	800	800		900	900		1,000	1,000		Unlimited	2,500	
Local Data Bundle	2GB	2GB		3GB	3GB		4GB	4GB		12GB	12GB	
iPhone 16GB	\$538	\$478	12.6%	\$278	\$198	40.4%	\$48	\$0	NA	\$0	\$0	NA
iPhone 32GB	\$668	\$598	11.7%	\$368	\$308	19.5%	\$128	\$48	166.7%	\$0	\$0	NA
iPhone 64GB	\$818	\$758	7.9%	\$528	\$468	12.8%	\$278	\$198	40.4%	\$0	\$58	-100.0%

Source: Company data

Figure 7: StarHub iPhone plans

	Lite			Value			Premium			Elite		
	iPhone 5S	iPhone 5	% chg	iPhone 5S	iPhone 5	% chg	iPhone 5S	iPhone 5	% chg	iPhone 5S	iPhone 5	% chg
Subscription (\$\$ monthly)	\$38.00	\$38.00		\$58.00	\$58.00		\$98.00	\$98.00		\$205.00	\$205.00	
Local Calls	100 mins	100 mins		300 mins	300 mins		700 mins	700 mins		2,000 mins	2,000 mins	
Local SMS/MMS	800	800		900	900		1,000	1,000		2,500	2,500	
Local Data Bundle	2GB	2GB		4GB	4GB		6GB	6GB		12GB	12GB	
iPhone 16GB	\$537	\$473	13.5%	\$287	\$233	23.2%	\$64	\$0	NA	\$0	\$0	NA
iPhone 32GB	\$683	\$613	11.4%	\$397	\$343	15.7%	\$148	\$83	78.3%	\$0	\$0	NA
iPhone 64GB	\$822	\$768	7.0%	\$551	\$498	10.6%	\$281	\$228	23.2%	\$78	\$78	0.0%

Source: Company data

Figure 8: M1 iPhone plans

	Value			Lite			Extreme			Max		
	iPhone 5S	iPhone 5	% chg	iPhone 5S	iPhone 5	% chg	iPhone 5S	iPhone 5	% chg	iPhone 5S	iPhone 5	% chg
Subscription (\$\$ monthly)	\$39.00	\$39.00		\$59.00	\$59.00		\$98.00	\$98.00		\$198.00	\$198.00	
Local Calls	120 mins	120 mins		300 mins	300 mins		700 mins	700 mins		Unlimited	Unlimited	
Local SMS/MMS	600	600		800	800		1,000	1,000		2,000	2,000	
Local Data Bundle	2GB	2GB		3GB	3GB		5GB	5GB		12GB	12GB	
iPhone 16GB	\$525	\$430	22.1%	\$275	\$190	44.7%	\$45	\$0	NA	\$0	\$0	NA
iPhone 32GB	\$665	\$580	14.7%	\$365	\$290	25.9%	\$125	\$20	525.0%	\$45	\$0	NA
iPhone 64GB	\$820	\$710	15.5%	\$525	\$450	16.7%	\$260	\$150	73.3%	\$105	\$55	90.9%

Source: Company data

- Excess data charges have also been increased by operators in the last 6 months. SingTel increased excess data charges from S\$5.35 per GB to S\$10.70 per GB from September 2013. StarHub and M1 followed SingTel by increasing excess data charges from 1 Jan 2014 onwards. StarHub charges S\$8.56 per GB currently (vs. S\$6.42 per GB earlier) while M1 charges S\$10.70 per GB (vs. S\$5.35 per GB earlier)
- Operators are also trying to increase prices of various promotional offers to increase their ARPU. Eg. StarHub is charging S\$7 per month currently (vs. S\$5 per month earlier) for free IDD 018 calls to 18 countries.
- Some of the investors are concerned that ARPU improvement is not visible. We believe the following are the key reasons for the lack of ARPU uptick:
 - **Decline in headline roaming charges** – In Singapore, roaming constitute substantial part of telco's mobile revenues (~25% of mobile revenue for SingTel). The roaming revenues have come down over the last 12-18months as operators are negotiating lower roaming rates which are putting pressure on ARPU. However, there is not much impact on profitability as the discounts on roaming have also come down in line with bilateral roaming rates.
 - **Increasing usage of data only SIMs** – The data only SIMs (for Tablets, PCs etc) have lower ARPU than mobile phone SIMs and hence are resulting in ARPU dilution. Though, in terms of profitability data SIMs continue to be accretive.
 - **Decline in SMS revenues** – SMS revenues are dedining due to increasing usage of OTT apps which are also contributing to negative pressure on ARPU.

MyRepublic meeting takeaways

We recently met with Malcolm Rodrigues, CEO and Greg Mittman, VP-Corporate Development of MyRepublic Limited. The key takeaways from the meeting were:

- MyRepublic leverages the NBN (Next Generation Broadband) network in Singapore and cloud based IT systems to offer affordable high speed internet.
- MyRepublic is currently running a promotion of 1Gbps speed broadband at S\$49.99 per month for a limited period.
- MyRepublic takes dark fibre on lease from Opennet at S\$15/ month and then uses its own electronics, leases international bandwidth and provides the broadband connectivity
- The company hopes to leverage social media and direct selling models to save on subscriber acquisition costs that can be up to 3 months of Broadband ARPU in a 24 month contract
- MyRepublic hopes to launch services in New Zealand (mid 2014), Australia (mid 2015) and Malaysia (2016).
- In all these markets, the company believes that it can achieve cash breakeven at 1% (due to low cost model), base case expectation 5% market share and aspire to get to 10% market share.

UBS View:

MyRepublic service will find acceptance with the tech savvy young consumers in Singapore who constitute 3-5% of the market, in our view. We believe that larger players such as SingTel and StarHub are likely to retain their core customer base by offering bundled services in triple play (Mobile, Pay TV & Broadband) or quad play (Mobile, Fixed, Pay TV & Broadband).

World Cup 2014 – SingTel ups the ante

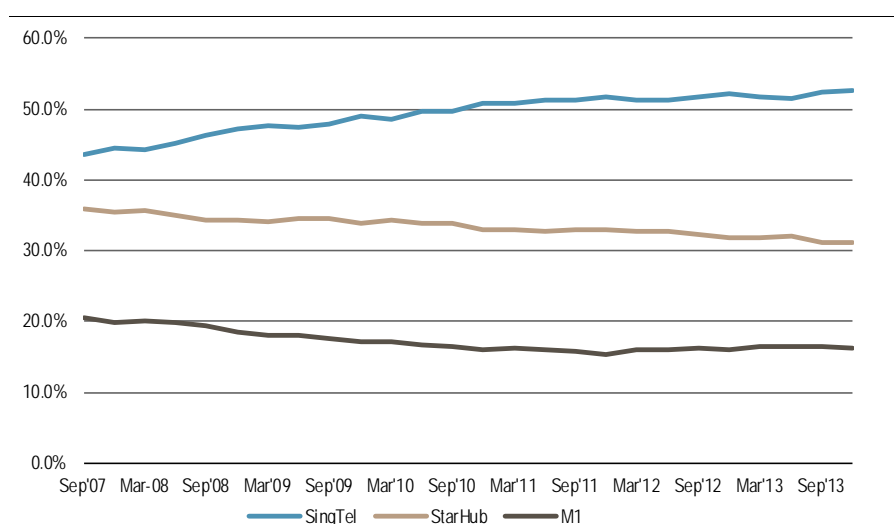
SingTel has secured the exclusive TV broadcast rights for FIFA World Cup 2014. SingTel mio TV subscribers will be able to watch all 64 matches for a one-time fee of c.S\$112, which is over 20% higher than the S\$88 fee that was charged for World Cup 2010, and c.60% higher than 'Early Birds' which were offered it for S\$66. Under the cross-carriage regime, SingTel will have to offer viewership of the matches to StarHub subscribers too, at the fee mentioned.

In 2010, the World Cup broadcast rights were jointly won by StarHub and SingTel. However, SingTel this year has secured exclusive rights to lock-in customers over the next two years. This one-time fee of c.S\$112 will be waived off for subscribers who either sign up for 24 months or enter into a re-contracting agreement of 24 months with any of SingTel's mio Stadium or Gold Pack existing Pay-TV packages. StarHub subscribers who have subscription to BPL plan can get the waiver of the S\$112, if they extend their contract for 2 years.

UBS View:

- *We do not think World Cup will have any meaningful impact on telcos' financials in the near term as the event is only for one month and matches are scheduled at odd hours (4am Singapore time). Also, StarHub customers who are watching BPL through cross carriage would have extended the contract for another year as SingTel has BPL rights for three years and currently subscribers are locked in for two years only.*
- *However, the exclusive World Cup deal again reflects telco's strategy of seeing sports as Marquee product to improve its bundled offering.*
- *As we show below, SingTel has been able to improve its mobile revenue market share by c.9% since it started its pay TV (mio TV) services in mid-2007. Part of the improvement in market share can be attributed to successful bundling strategy led by pay TV business.*

Figure 1: Mobile revenue market share of the three telcos



Source: Company data, UBS estimates

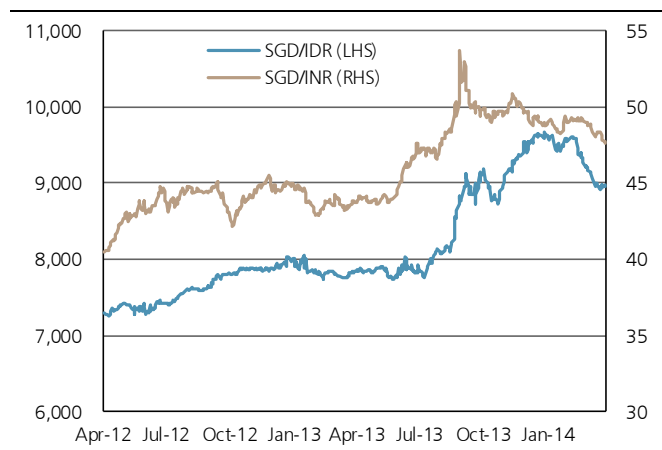
- *Given the low profitability of Pay TV and broadband business, mobile business is the key focus area for Singapore telcos and we believe operators will continue to strive to either improve or maintain market share by using bundling as a strategy.*
- *Given SingTel has some gaps in its Pay TV content (such as HBO and TVB content), SingTel has used football rights as a way to improve its content and hence its bundle.*

Forex impact – Turning more favourable

During last two years, adverse movements in Singtel's associate's currencies had a negative impact on groups overall earnings growth. SingTel's reported net profit growth in 9MFY14 was up only 4.3%. However constant currency growth was up 9.3%. This suggests a negative forex impact of c.5%.

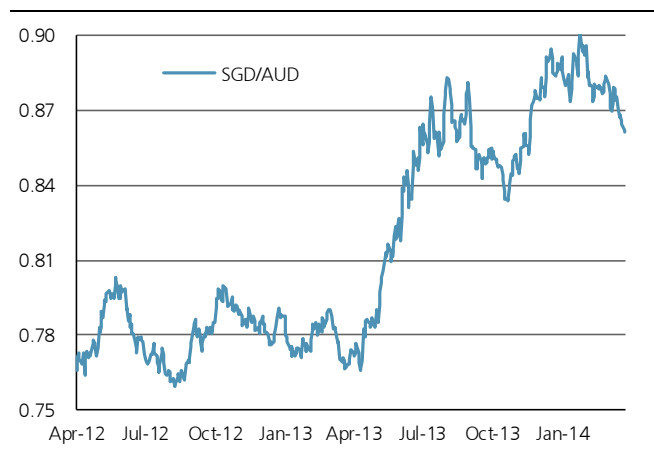
Chart below outlines the movement in Australian dollar (AUD), Indian Rupee (INR) and Indonesian Rupiah (IDR) versus Singapore dollar (SGD) during last 2 years. From April 2012 to Dec 13, AUD, INR, IDR have depreciated by 16%, 32% and 21% respectively relative to SGD.

Figure 2: Exchange rate of SGD vs INR and IDR



Source: Bloomberg, UBS estimates

Figure 3: Exchange rate of SGD vs. AUD



Source: Bloomberg, UBS estimates

However from Jan 2014 onwards, the currencies i.e. AUD/INR/IDR have stabilized and YTD have appreciated by 3%/7%/3% respectively. We view this to be positive for the group as SingTel derives c51% of its SoTP value from Australian, Indian and Indonesian operations.

Our current estimates are based on the assumptions the associates currencies will maintain similar levels. In our view, the YTD appreciation of INR and IDR reflect expectations of favourable political outcomes on the upcoming elections, and that there may be room for more upside if elections deliver the hoped for results. As shown in figure 4, any appreciation in the rates going forward will see upside risks to our estimates.

Figure 4: Exchange rate assumptions

Exchange rate assumptions	FY 15E	FY 16E	FY 17E
SGD/AUD	0.9	0.9	0.9
SGD/INR	49.1	49.1	49.1
SGD/IDR	9,550	9,550	9,550
EPS - base case	23.9	26.2	28.2
Case 1 - Appreciation of 5%	FY 15E	FY 16E	FY 17E
EPS - case 1	24.6	27.0	29.0
% change	2.8%	2.9%	3.0%
Case 2 - Appreciation of 10%	FY 15E	FY 16E	FY 17E
EPS - case 2	24.9	27.3	29.3
% change	4.1%	4.2%	4.2%

Source: UBS estimates

Figure 5: SoTP impact

	Change in all associate currencies	
	5% appreciation	10% appreciation
Valuation change%	3.6%	7.3%

Source: UBS estimates

Associate investment strategy

SingTel's regional associates (Bharti Airtel, Telkomsel, AIS, Globe Telecom) offer higher growth than Singapore and Australian businesses. SingTel management invests considerable time and resources in the strategy and day to day management of its associates. We observe that SingTel has been increasing its stakes in associates periodically.

- Increased its stake in Bharti to 32.3% (from 30.7%) in August 2013
- increased its stake in AIS to 23.3% (from 21.3%) in December 2011
- Increased its stake in Globe telecom to 47.3% (from 44.5%) in June 2008

Given SingTel's net debt/EBITDA is 0.9x (based on our FY14E), the company may look to increase its stake in associates (where opportunities are available).

Singapore Telecom (STEL.SI)

	03/11	03/12	03/13	03/14E	% ch	03/15E	% ch	03/16E	03/17E	03/18E
Income statement (\$m)										
Revenues	18,075	18,824	18,182	16,784	-7.7	16,696	-0.5	17,003	17,278	17,552
Gross profit	-	-	-	-	-	-	-	-	-	-
EBITDA (UBS)	5,123	5,218	5,201	5,056	-2.8	4,983	-1.5	5,099	5,196	5,292
Depreciation & amortisation	(1,969)	(2,001)	(2,128)	(2,123)	-0.3	(2,075)	-2.3	(2,087)	(2,148)	(2,120)
EBIT (UBS)	3,154	3,217	3,073	2,934	-4.5	2,908	-0.9	3,012	3,048	3,172
Associates & investment income	2,141	2,005	2,106	2,203	4.6	2,561	16.2	2,997	3,360	3,717
Other non-operating income	0	0	0	0	-	0	-	0	0	0
Net interest	(324)	(340)	(298)	(246)	17.6	(239)	2.6	(284)	(255)	(234)
Exceptionals (incl goodwill)	25	86	(154)	105	-	0	-	0	0	0
Profit before tax	4,996	4,968	4,727	4,996	5.7	5,229	4.7	5,725	6,152	6,655
Tax	(1,170)	(978)	(1,216)	(1,407)	-15.7	(1,410)	-0.2	(1,543)	(1,659)	(1,808)
Profit after tax	3,826	3,990	3,511	3,590	2.2	3,819	6.4	4,182	4,493	4,847
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	3	(1)	(2)	(5)	-150.0	(5)	0.0	(5)	(5)	(5)
Extraordinary items	0	0	0	0	-	0	-	0	0	0
Net earnings (local GAAP)	3,829	3,989	3,509	3,585	2.2	3,814	6.4	4,177	4,488	4,842
Net earnings (UBS)	3,804	3,676	3,611	3,480	-3.6	3,814	9.6	4,177	4,488	4,842
Tax rate (%)	23.4	19.7	25.7	28.2	9.4	27.0	-4.2	26.9	27.0	27.2
Per share (\$)										
EPS (UBS, diluted)	0.24	0.23	0.23	0.22	-3.6	0.24	9.6	0.26	0.28	0.30
EPS (local GAAP, diluted)	0.24	0.25	0.22	0.22	2.2	0.24	6.4	0.26	0.28	0.30
EPS (UBS, basic)	0.24	0.23	0.23	0.22	-3.6	0.24	9.6	0.26	0.28	0.30
Net DPS (\$)	0.26	0.16	0.17	0.16	-3.6	0.18	9.3	0.19	0.21	0.23
Cash EPS (UBS, diluted) ¹	0.36	0.36	0.36	0.35	-2.4	0.37	5.1	0.39	0.42	0.44
Book value per share	1.53	1.47	1.50	1.57	4.3	1.63	4.0	1.70	1.77	1.85
Average shares (diluted)	15,935.70	15,935.70	15,935.70	15,935.70	0.0	15,935.70	0.0	15,935.70	15,935.70	15,935.70
Balance sheet (\$m)										
Cash and equivalents	2,738	1,346	911	2,752	202.1	2,118	-23.0	2,905	3,787	4,218
Other current assets	3,817	4,472	3,895	3,596	-7.7	3,577	-0.5	3,642	3,701	3,760
Total current assets	6,555	5,818	4,806	6,347	32.1	5,695	-10.3	6,547	7,488	7,978
Net tangible fixed assets	11,113	11,580	11,725	11,763	0.3	12,854	9.3	12,798	13,168	13,007
Net intangible fixed assets	10,218	10,174	10,709	10,709	0.0	10,709	0.0	10,709	10,709	10,709
Investments / other assets	11,396	12,845	12,744	11,217	-12.0	11,455	2.1	11,861	12,330	12,862
Total assets	39,282	40,417	39,984	40,037	0.1	40,714	1.7	41,916	43,695	44,557
Trade payables & other ST liabilities	5,842	5,404	5,400	5,023	-7.0	5,000	-0.5	5,082	5,156	5,230
Short term debt	2,699	131	392	0	-	0	-	0	500	500
Total current liabilities	8,541	5,535	5,792	5,023	-13.3	5,000	-0.5	5,082	5,656	5,730
Long term debt	4,587	8,662	7,537	7,537	0.0	7,537	0.0	7,537	7,537	7,037
Other long term liabilities	1,805	2,773	2,665	2,483	-6.8	2,190	-11.8	2,225	2,256	2,287
Preferred shares	0	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	14,932	16,970	15,994	15,043	-5.9	14,727	-2.1	14,844	15,449	15,054
Common s/h equity	24,328	23,427	23,965	24,968	4.2	25,962	4.0	27,047	28,221	29,477
Minority interests	22	20	25	25	0.0	25	0.0	25	25	25
Total liabilities & equity	39,282	40,417	39,984	40,037	0.1	40,714	1.7	41,916	43,695	44,557
Cash flow (\$m)										
Net income (before pref divs)	3,829	3,989	3,509	3,585	2.2	3,814	6.4	4,177	4,488	4,842
Depreciation & amortisation	1,969	2,001	2,128	2,123	-0.3	2,075	-2.3	2,087	2,148	2,120
Net change in working capital	249	(1,093)	573	(77)	-	(5)	93.7	17	15	15
Other operating	(4)	813	(392)	1,345	-	(531)	-	(372)	(437)	(501)
Operating cash flow	6,043	5,710	5,818	6,975	19.9	5,353	-23.3	5,909	6,214	6,476
Tangible capital expenditure	(2,032)	(2,259)	(2,059)	(2,161)	-4.9	(3,166)	-46.5	(2,031)	(2,518)	(1,959)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	0	0	0	0	-	0	-	0	0	0
Other investing	(727)	(550)	(498)	0	-	0	-	0	0	0
Investing cash flow	(2,759)	(2,809)	(2,557)	(2,161)	15.5	(3,166)	-46.5	(2,031)	(2,518)	(1,959)
Equity dividends paid	(2,357)	(4,112)	(2,518)	(2,582)	-2.5	(2,821)	-9.3	(3,092)	(3,315)	(3,586)
Share issues / (buybacks)	(33)	(11)	(35)	0	-	0	-	0	0	0
Other financing	(591)	(1,330)	(344)	0	-	0	-	0	0	0
Change in debt & pref shares	840	1,189	(805)	(392)	51.30	0	-	0	500	(500)
Financing cash flow	(2,141)	(4,264)	(3,702)	(2,974)	19.7	(2,821)	5.1	(3,092)	(2,815)	(4,086)
Cash flow inc/(dec) in cash	1,143	(1,363)	(441)	1,841	-	(634)	-	787	882	431
FX / non cash items	(18)	(29)	6	0	-	0	-	0	0	0
Balance sheet inc/(dec) in cash	1,124	(1,392)	(435)	1,841	-	(634)	-	787	882	431

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts. ¹Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

Singapore Telecom (STEL.SI)

Valuation (x)	03/11	03/12	03/13	03/14E	03/15E	03/16E	03/17E	03/18E
P/E (local GAAP, diluted)	12.7	12.5	15.0	15.9	14.9	13.6	12.7	11.7
P/E (UBS, diluted)	12.8	13.5	14.6	16.3	14.9	13.6	12.7	11.7
P/CEPS	8.4	8.8	9.2	10.2	9.7	9.1	8.6	8.2
Equity FCF (UBS) yield %	8.2	6.9	7.1	8.5	3.8	6.8	6.5	7.9
Net dividend yield (%)	8.4	5.1	5.1	4.5	5.0	5.4	5.8	6.3
P/BV x	2.0	2.1	2.2	2.3	2.2	2.1	2.0	1.9
EV/revenues (core)	3.0	3.0	3.3	3.7	3.7	3.7	3.6	3.5
EV/EBITDA (core)	7.5	7.8	8.2	8.7	8.2	7.7	7.3	6.8
EV/EBIT (core)	17.3	17.6	19.5	21.4	21.3	20.7	20.4	19.3
EV/OpFCF (core)	9.9	14.6	10.3	12.5	14.2	10.3	10.3	8.7
EV/op. invested capital	3.0	2.9	2.9	3.1	3.0	3.0	2.9	2.9
Enterprise value (\$m)	03/11	03/12	03/13	03/14E	03/15E	03/16E	03/17E	03/18E
Market cap.	48,673	49,797	52,704	56,890	56,890	56,890	56,890	56,890
Net debt (cash)	4,907	5,997	7,233	5,902	5,102	5,026	4,441	3,785
Buy out of minorities	23	21	23	25	25	25	25	25
Pension provisions/other	810	694	0	0	0	447	899	451
Total enterprise value	54,412	56,508	59,959	62,817	62,018	62,388	62,255	61,151
Non core assets	0	0	0	0	0	0	0	0
Core enterprise value	54,412	56,508	59,959	62,817	62,018	62,388	62,255	61,151
Growth (%)	03/11	03/12	03/13	03/14E	03/15E	03/16E	03/17E	03/18E
Revenue	7.1	4.1	-3.4	-7.7	-0.5	1.8	1.6	1.6
EBITDA (UBS)	5.7	1.9	-0.3	-2.8	-1.5	2.3	1.9	1.8
EBIT (UBS)	6.3	2.0	-4.5	-4.5	-0.9	3.6	1.2	4.1
EPS (UBS, diluted)	-2.7	-3.4	-1.8	-3.6	9.6	9.5	7.5	7.9
Net DPS	81.7	-38.8	6.3	-3.6	9.3	9.6	7.2	8.2
Margins & Profitability (%)	03/11	03/12	03/13	03/14E	03/15E	03/16E	03/17E	03/18E
Gross profit margin	-	-	-	-	-	-	-	-
EBITDA margin	28.3	27.7	28.6	30.1	29.8	30.0	30.1	30.1
EBIT margin	17.4	17.1	16.9	17.5	17.4	17.7	17.6	18.1
Net earnings (UBS) margin	21.0	19.5	19.9	20.7	22.8	24.6	26.0	27.6
ROIC (EBIT)	17.3	16.5	14.8	14.5	14.3	14.3	14.4	15.0
ROIC post tax	13.4	13.0	11.4	10.8	10.8	10.8	10.9	11.3
ROE (UBS)	15.9	15.4	15.2	14.2	15.0	15.8	16.2	16.8
Capital structure & Coverage (x)	03/11	03/12	03/13	03/14E	03/15E	03/16E	03/17E	03/18E
Net debt / EBITDA	0.9	1.4	1.3	0.9	1.1	0.9	0.8	0.6
Net debt / total equity %	18.7	31.8	29.3	19.1	20.9	17.1	15.0	11.2
Net debt / (net debt + total equity) %	15.7	24.1	22.6	16.1	17.3	14.6	13.1	10.1
Net debt/EV	8.4	13.2	11.7	7.6	8.7	7.4	6.8	5.4
Capex / depreciation %	103.2	112.9	96.8	101.8	152.6	97.3	117.2	92.4
Capex / revenue %	11.2	12.0	11.3	12.9	19.0	11.9	14.6	11.2
EBIT / net interest	9.7	9.5	10.3	11.9	12.2	10.6	12.0	13.6
Dividend cover (UBS)	0.9	1.5	1.3	1.3	1.4	1.4	1.4	1.4
Div. payout ratio (UBS) %	108.1	68.5	74.1	74.2	73.9	74.0	73.9	74.0
Revenues by division (\$m)	03/11	03/12	03/13	03/14E	03/15E	03/16E	03/17E	03/18E
Others	18,075	18,824	18,182	16,784	16,696	17,003	17,278	17,552
Total	18,075	18,824	18,182	16,784	16,696	17,003	17,278	17,552
EBIT (UBS) by division (\$m)	03/11	03/12	03/13	03/14E	03/15E	03/16E	03/17E	03/18E
Others	3,154	3,217	3,073	2,934	2,908	3,012	3,048	3,172
Total	3,154	3,217	3,073	2,934	2,908	3,012	3,048	3,172

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Forecast returns

Forecast price appreciation	+26.1%
Forecast dividend yield	5.0%
Forecast stock return	+31.1%
Market return assumption	7.5%
Forecast excess return	+23.6%

Statement of Risk

Risks include increasing competition in Singapore, Australia, Indonesia, and India. Singtel's IPTV entry could result in start-up losses as content is likely to be expensive. SingTel's earnings are also subject to foreign exchange risks due to substantial contribution from overseas subsidiaries and associates.

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UBS 12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	44%	36%
Neutral	FSR is between -6% and 6% of the MRA.	45%	35%
Sell	FSR is > 6% below the MRA.	11%	23%
UBS Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 31 December 2013.

1: Percentage of companies under coverage globally within the 12-month rating category. 2: Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

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Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Singapore Telecom ¹²	STEL.SI	Buy	N/A	S\$3.57	25 Mar 2014

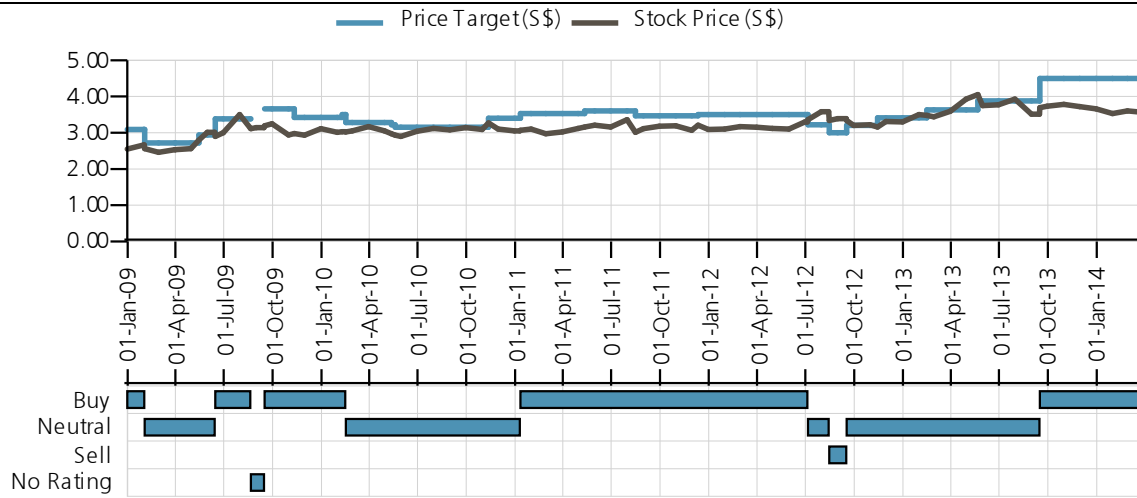
Source: UBS. All prices as of local market close.

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Singapore Telecom (S\$)



Source: UBS; as of 25 Mar 2014

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