Singapore Telecommunications (ST SP)

Driving Long-Term ROIC Goals

Highlights

- Singtel aims to lift ROIC by leveraging on Optus ARPU uplift and EBIT margin expansion while deploying resources to high growth businesses, namely NCS, RE: AI and Nxera.
- Management is at the preliminary stage of unlocking value in fast-growing Nxera, suggesting either a tax-efficient REIT structure or listing of Nxera. An IPO could fetch an equity value of S$4b-4.5b for Nxera.
- Singtel has unlocked S$6.8b through asset recycling, bringing the group closer to its S$9b mid-term target. Maintain BUY with a fair value of S$5.50.

Analysis

- **Beyond Singtel28: Driving ROIC uplift...** Singtel aims to lift current ROIC of 11% to mid-teens and this is done via a two-pronged approach: a) organic ROIC – improve Optus and Singapore consumer market via rationale market behaviour and cost discipline; and b) portfolio ROIC – reallocate asset to be deployed to higher ROIC business (NCS, RE: AI and Nxera). We believe an imminent market consolidation in Singapore will drive market repair and improve the Singapore segment outlook.
- **…as management aims to lift FY30 opco EBIT to S$2.5b…** Optus will continue to benefit from a sector wide ARPU uplift, evident in a 14% yoy growth in 1QFY27 Optus operating profit. With 40% of Singtel's capital invested in Optus, the near-term aim is to drive opex efficiency and lift EBIT margin to 31-32% (FY26: ~26%) – a level comparable to its Australian peers. Together with strong underlying growth for NCS, Nxera and RE:AI, Singtel aims to drive opco EBIT from S$1.5b (FY26) to S$2.1b-2.5b by FY30.
- **…and deliver attractive shareholder returns.** To-date, Singtel has unlocked a total of S$6.8b through its active asset recycling programme. This brings Singtel closer to its S$9b mid-term recycling target. The S$9b has been allocation as such: a) S$5b for value realisation dividend (VRD) of 3-6 cents annually up to FY30; b) S$2b for share buyback – having utilised S$0.9b to-date; and c) S$2b for growth – committed S$1b to-date. The strategic acquisition of STT-GDC (S$1b commitment) is categorised under its S$2b growth funding initiative.

Key Financials

Year to 31 Mar (S$m)	2025	2026	2027F	2028F	2029F
Net turnover	14,146	14,260	14,625	14,988	15,382
EBITDA	3,792	3,847	4,035	4,153	4,256
Operating profit	3,880	4,390	4,565	4,796	5,049
Net profit (rep./act.)	4,017	5,606	2,980	3,135	3,304
Net profit (adj.)	2,470	2,769	2,980	3,135	3,304
EPS	14.9	16.8	18.1	19.0	20.0
PE (x)	28.6	25.5	23.6	22.5	21.3
P/B (x)	2.7	2.5	2.5	2.5	2.5
EV/EBITDA (x)	20.6	20.7	19.5	19.2	19.0
Dividend yield (%)	4.0	4.3	4.6	4.8	3.7
Net margin (%)	17.5	19.4	20.4	20.9	21.5
Net debt/(cash) to equity (%)	34.4	28.7	32.6	36.7	35.7
Interest cover (x)	11.3	12.2	12.4	12.6	12.8
ROE (%)	9.5	9.7	10.5	11.2	11.5
Consensus net profit	n.a	n.a	3,198	3,618	4,107
UOBKH/Consensus (x)	n.a	n.a	0.93	0.87	0.80

Source: Singtel, Bloomberg, UOB Kay Hian

Analyst(s)

Chong Lee Len

leelen@uobkh.com

+603-21471992

BUY (Maintained)

Share Price	S$4.52
Target Price	S$5.50
Upside	21.7%

Stock Data

Sector	Communication Services
Bloomberg ticker	ST SP
Shares issued (m)	16,512.8
Market cap (S$m)	73,693.9
Market cap (US$m)	58,141.2
3-mth avg daily t'over (US$m)	93.8

Price Performance (%)

52-week high/low: S$5.27/S$4.06

1mth	3mth	6mth	1yr	YTD
4.9	6.4	(9.4)	3.9	(0.7)

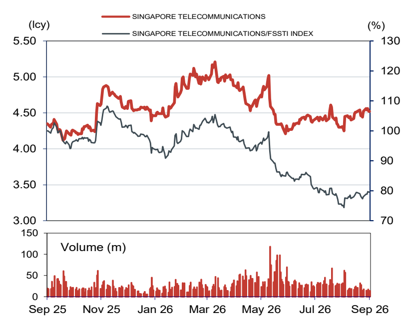
Major Shareholders (%)

Temasek Holdings	51.0
Capital Group Companies	5.4
Vanguard Group	2.1

Balance Sheet Metrics

FY27F NAV/Share (S$)	1.7
FY27F Net Debt/Share (S$)	0.6

Price Chart



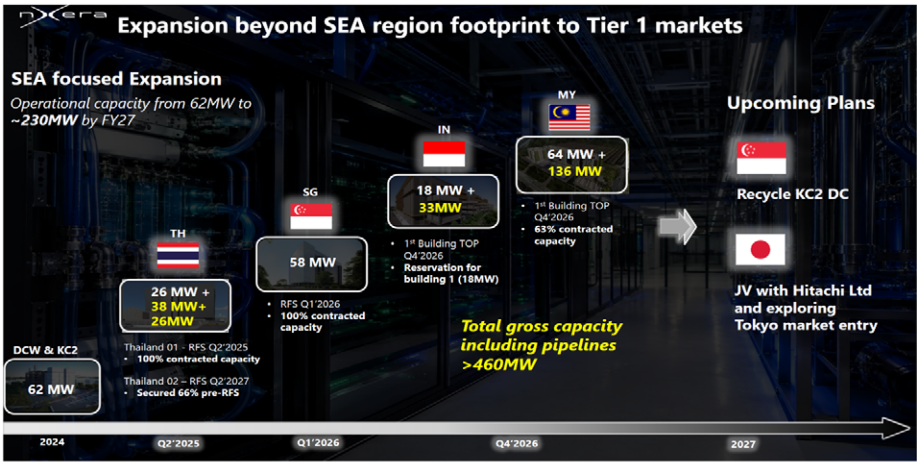
Source: Bloomberg

Company Description

Singtel is a telecommunications company offering a diverse range of services, including fixed-line, mobile, data, internet, TV, and digital solutions. It also has operations in Australia, India, Indonesia, Thailand and the Philippines.

- **Monetising physical AI: Nxera valued at S$4.0b-4.5b.** Nxera will boost 230MW of data centre capacity across Singapore, Indonesia and Malaysia by end-FY27 with an estimated EBITDA of over S$300m by FY28. Consequently, Singtel is evaluating options to unlock the value of its investment. While in the early stages of exploration, options cited by management include: a) a tax-efficient data centre REIT; and b) listing of Nxera data centre. We believe a listing exercise can fetch an equity value of S$4b-4.5b, based on EV/EBITDA multiple of 20x and S$300m EBITDA for Nxera. The partial monetisation exercise is intended to scale up Nxera as it aims to double data centre capacity to 460MW with the upscaling of KC2 DC in Singapore and potential JV with Hitachi in exploring Tokyo market entry.

Nxera Capacity Pipeline Of 460MW; Exploring Entry Into Tokyo Market



Source: Singtel

- **RE:AI – a complementary cashflow for Digital Infraco.** Riding on the tailwind of strong AI demand, Singtel's GPU-as-a-service is estimated to deliver S$600m in long-term revenue (3-5 years) with a capex of S$300m for 6MW of capacity (fully contracted). We understand there is a large prepayment for the 6MW contracted capacity and minimal counter party risk involved. This builds strong cashflow for Singtel. In addition, another 6MW of capacity is currently under negotiation and can potentially deliver another S$600m in revenue for RE: AI by FY28, at a similar capex of S$300m.

Valuation/Recommendation

- **Maintain BUY with an SOTP-based target price of S$5.50** (discount rate: 7%, growth rate: 2.5%). We pencilled in a successful acquisition of a 25% equity stake in ST Telemedia Global Data Centres, slated to be completed by this month, based on S$20m/MW enterprise value over 1GW of DC capacity in the near term.

Earnings Revision/Risk

- No revision to earnings.

Share Price Catalyst

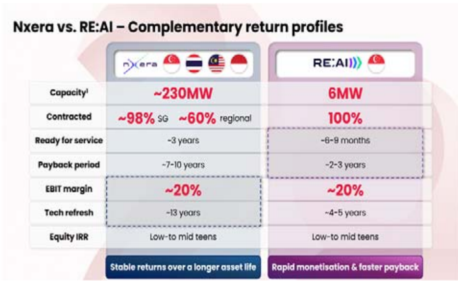
- **Key re-rating catalysts** include: a) market repair after consolidation in Singapore; b) value illumination of data centres and/or NCS; and c) stronger-than-expected Optus savings.

SOTP-based Fair Value At S$5.50/Share

	Valuation (S$m)	% of SOTP
Singapore ST	10,346	10%
Optus	15,512	15%
NCS, Digital Infraco, STT GDC	13,960	13%
Total enterprise value	39,818	37%
Net debt	10,705	10%
Total equity value of unlisted OpCos	29,113	27%
Equity Value of Associates		
GULF	1,958	2%
Airtel	50,348	50%
AIS	8,768	9%
Globe	2,228	2%
Telkomsel	14,147	14%
Total equity value of associates	77,449	76%
Total equity value of Singtel (S$m)	106,562	
Equity value/share (S$)	6.44	
Fair value/share (S$) (holding company discount of 15%)	5.50	

Source: UOB Kay Hian

Business Model Comparison Between Nxera And RE:AI



Source: Singtel, UOB Kay Hian

Regional Associates PBT Contribution

Associates (S$m)	1QFY27	yoy % chg
Telkomsel (Indonesia)	148	0.7
AIS (Thailand)	167	33.6
Intouch (Thailand)	–	–
Globe (Philippines)	65	(7.1)
Bharti Airtel (India)	392	19.9
Total	772	15.4

Source: Singtel, UOB Kay Hian

1QFY27 Performance Exceeded FY27 Outlook

Source: Singtel

Profit & Loss

Year to 31 Mar (S$m)	2026	2027F	2028F	2029F
Net turnover	14,260	14,625	14,988	15,382
EBITDA	3,847	4,035	4,153	4,256
Deprec. & amort.	2,021	2,130	2,149	2,137
EBIT	4,390	4,565	4,796	5,049
Net interest income/(expense)	2,476	(368)	(382)	(395)
Pre-tax profit	6,866	4,197	4,415	4,654
Tax	(1,249)	(1,217)	(1,280)	(1,350)
Minorities	(11)	-	-	-
Net profit	5,606	2,980	3,135	3,304
Net profit (adj.)	2,769	2,980	3,135	3,304

Balance Sheet

Year to 31 Mar (S$m)	2026	2027F	2028F	2029F
Fixed assets	11,256	11,320	11,419	11,359
Other LT assets	30,517	31,207	31,897	32,587
Cash/ST investment	3,470	2,876	2,263	2,716
Other current assets	5,454	5,584	5,715	5,858
Total assets	50,697	50,987	51,294	52,520
ST debt	1,100	1,100	1,100	1,100
Other current liabilities	7,481	7,569	7,689	7,834
LT debt	10,579	11,018	11,467	11,882
Other LT liabilities	2,820	2,820	2,820	2,820
Shareholders' equity	28,559	28,323	28,060	28,726
Minority interest	157	157	157	157
Total liabilities & equity	50,697	50,987	51,294	52,520

Cash Flow

Year to 31 Mar (S$m)	2026	2027F	2028F	2029F
Operating	4,920	5,758	5,977	6,161
Pre-tax profit	6,866	4,197	4,415	4,654
Tax	(1,249)	(1,217)	(1,280)	(1,350)
Deprec. & amort.	2,021	2,130	2,149	2,137
Associates	1,249	-	-	-
Working capital changes	255	(43)	(10)	1
Other operating cashflows	(4,222)	691	705	718
Investing	4	(3,207)	(3,261)	(3,090)
Capex (maintenance)	(2,482)	(2,194)	(2,248)	(2,077)
Proceeds from sale of assets	6	7	8	9
Others	2,486	(1,013)	(1,013)	(1,013)
Financing	(4,241)	(3,145)	(3,329)	(2,618)
Dividend payments	(3,005)	(3,216)	(3,397)	(2,639)
Issue of shares	6	7	8	9
Proceeds from borrowings	7	439	450	415
Others/interest paid	(1,249)	(375)	(390)	(404)
Net cash inflow (outflow)	683	(594)	(613)	453
Beginning cash & cash equivalent	2,766	3,470	2,876	2,263
Changes due to forex impact	6	7	8	9
Ending cash & cash equivalent	3,470	2,876	2,263	2,716

Key Metric

Year to 31 Mar (%)	2026	2027F	2028F	2029F
Profitability				
EBITDA margin	26.8	27.9	28.7	29.0
Pre-tax margin	35.9	26.1	27.7	28.8
Net margin	28.4	18.8	20.0	20.7
ROA	5.3	5.8	6.3	6.6
ROE	9.5	10.6	11.7	12.6
Growth				
Turnover	0.1	2.0	3.1	2.3
EBITDA	5.4	6.1	6.0	3.4
Pre-tax profit	195.2	(25.8)	9.5	6.3
Net profit	9.3	9.9	9.5	6.3
Net profit (adj.)	9.3	9.9	9.5	6.3
EPS	9.3	9.9	9.5	6.3
Leverage				
Debt to total capital	0.3	0.3	0.3	0.3
Debt to equity	0.5	0.5	0.5	0.5
Net debt/(cash) to equity	0.3	0.4	0.4	0.4
Interest cover	11.3	11.9	12.5	12.7