



Media Statement on S&P's Announcement

Singtel refers to the announcement by S&P Global Ratings dated 31 July 2019 (as attached).

Singtel and Optus' credit ratings are strong and we remain financially disciplined and committed to maintaining our investment-grade credit ratings.

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Singapore Telecommunications And Singtel Optus Outlooks Revised To Negative; Ratings Affirmed

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- Singapore Telecommunications Ltd. (Singtel) is facing increasing competitive pressure in its major operating markets with rising capital expenditure needs. Furthermore, we expect the company's dividend payout to remain high, resulting in weaker financial metrics.
- On July 31, 2019, S&P Global Ratings revised the outlook on Singtel to negative from stable. We also affirmed our 'A+' long-term and 'A-1' short-term issuer credit ratings on the company. At the same time, we affirmed our 'A+' issue rating on Singtel's senior unsecured notes.
- S&P Global Ratings consequently revised its outlook on Singtel's Australia-based subsidiary Singtel Optus Pty Ltd. to negative from stable. We also affirmed our 'A' long-term and 'A-1' short-term issuer credit ratings on Optus as well as our 'A' issue rating on the company's senior unsecured notes.
- The negative outlook reflects our view that the increasing competitive pressure and capital expenditure in Singtel's operating markets could prevent its leverage from improving over the next 18-24 months.

SINGAPORE (S&P Global Ratings) July 31, 2019--S&P Global Ratings today took the rating actions listed above. We revised the outlook on Singtel to reflect increasing competition in the company's major operating markets and the concurrent elevated cash needs for capital expenditure and dividend payout. The outlook revision also reflects the risk of Singtel's operating metrics deteriorating, or the company undertaking debt-funded investment or spending more than we anticipate. An indication of deteriorating metrics is Singtel's ratio of funds from operations (FFO) to debt not recovering to above 40% over the next 18-24 months.

Our rating on Singtel reflects our expectation that the company could gradually improve its operating performance over the next two years owing to its strong market position and geographical diversification. We expect Singtel to preserve its leading position in Singapore and second position in Australia, as well as retain meaningful market share and leading positions in most markets of its regional associates.

For the fiscal year ending March 31, 2020, we expect Singtel's FFO-to-debt ratio to dip below 40% due to declining dividends from associates. Dividends from associates have historically accounted for a substantial 20%-25% of adjusted EBITDA. The expectation of lower dividends from associates is mainly due to performance of Indonesia-based associate PT Telekomunikasi Selular (Telkom sel), which was hit by price competition in 2018. Telkom sel is Singtel's largest dividend contributor, accounting for about 60% of dividends received from associates in the past three years.

Indonesia's tariffs have since recovered, translating into year-on-year earnings improvement in Telkom sel's performance in the first quarter ended March 31, 2019. We expect dividends from associates to lag performance and weaken to about Singapore dollars (S\$) 1.2 billion for fiscal 2020 from S\$1.55 billion in fiscal 2019. We anticipate such dividends to recover to S\$1.4 billion-S\$1.5 billion thereafter.

In Singapore, growth in revenues from information and communication technology (ICT) and digital businesses will mitigate the continued decline in mobile communications. However, rising costs will lead to modest margin contraction. This translates into flattish cash generation from Singapore operations.

We do not expect the impending commercial launch of TPG Telecom in Singapore to cause a significant decline in Singtel's domestic consumer business. Tariffs have already fallen substantially across the board in recent years, following the influx of mobile virtual network operators (MNVOs). We believe Singtel's SIM-only and GOMO plans have captured more price-sensitive segments of the market. Additionally, TPG's network coverage remains lackluster in a country where consumers are used to almost-seamless connectivity. Unless TPG's strategy substantially undercuts the market and its network quality improves, TPG may find it difficult to establish a strong foothold in the market.

In Australia, we expect generally flat EBITDA (excluding National Broadband Network [NBN] migration revenue) as rising costs diminish topline growth. NBN migration revenue will prop up Optus' cash flow, after the NBN lifted a temporary suspension of migration to its hybrid fiber-coaxial network.

Despite challenging market conditions overall, Singtel said it would keep dividends at 17.5 cents per share in fiscal 2020. With its track record of high dividend payout, we believe it is unlikely that this payout will be scaled back in subsequent years. Additionally, capital expenditure will likely remain high over the next few years. Higher capital spending will support the rollout of 5G fixed wireless access services in Australia and potential 5G spending in Singapore. We believe this is necessary to propel Singtel's growth, but this is done at the expense of higher leverage. The company's \$5735 million participation in Bharti Airtel's rights issuance earlier this year also contributed to this financial strain.

Singtel may divest its digital assets over the medium term, which is likely to help deleveraging. However, the timing of such divestments and the valuation of the digital assets remain uncertain. Thus, we have not factored this in our base case assumptions.

Singtel benefits from its linkage to the government of Singapore, through a majority 52.3% stake owned by Temasek Holdings (Private) Limited, an investment holding company for the government. Thus, we maintain a one-notch uplift from the stand-alone credit profile to derive the final rating.

We consider Optus to be a core subsidiary of the Singtel group, contributing about 50% of Singtel's adjusted revenue and 40% of its adjusted EBITDA. Our assessment of Singtel's group credit profile includes the full consolidation of Optus. Thus, our rating on Optus is equalized with Singtel's stand-alone credit profile of 'a', which is before the uplift stemming from its linkage to the government of Singapore. We do not expect Singtel's benefit as a government-related entity to flow to Optus, given the latter's status as an offshore subsidiary.

The negative outlook reflects a one-in-three chance that increasing competitive pressure and capital expenditures in Singtel's operating markets could prevent the company's leverage (FFO-to-debt ratio) from improving above 40% over the next 18-24 months.

We may lower the rating if Singtel's FFO-to-debt ratio stays close to or below 40% on a sustained basis. That may happen due to weakening operating performance in core markets of Singtel and its affiliates, higher capital spending and dividend payout than we expect, and the group taking on further debt-funded acquisitions. In addition, we may downgrade Singtel if we believe the ties with, and hence potential for extraordinary support from, the Singapore government have weakened.

We may revise the outlook to stable if Singtel's financial headroom improves in line with our expectations with disciplined financial policies, such that its ratio of FFO to debt sustains above 40%.

Related Criteria

- [General Criteria: Group Rating Methodology](#), July 1, 2019
- [Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments](#), April 1, 2019
- [Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings](#), March 28, 2018
- [General Criteria: Methodology For Linking Long-Term And Short-Term Ratings](#), April 7, 2017
- [General Criteria: Guarantee Criteria](#), Oct. 21, 2016
- [General Criteria: Rating Government-Related Entities: Methodology And Assumptions](#), March 25, 2015
- [Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#), Dec. 16, 2014
- [Criteria | Corporates | Industrials: Key Credit Factors For The Telecommunications And Cable Industry](#), June 22, 2014
- [Criteria | Corporates | General: Corporate Methodology](#), Nov. 19, 2013
- [General Criteria: Country Risk Assessment Methodology And Assumptions](#), Nov. 19, 2013
- [General Criteria: Methodology: Industry Risk](#), Nov. 19, 2013
- [General Criteria: Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings](#), Oct. 24, 2013
- [General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities](#), Nov. 13, 2012
- [General Criteria: Use Of CreditWatch And Outlooks](#), Sept. 14, 2009

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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