



Media Statement on S&P Global Ratings' Announcements

Singtel refers to the announcements by S&P Global Ratings dated 7 December 2020 (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 Outlook Revised To Negative; 'A/A-1' Ratings Affirmed

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- Singapore Telecommunications Ltd. (Singtel) has been hit harder than we expected by the COVID-19 pandemic and weakened economic conditions.
- We forecast Singtel's ratio of debt to EBITDA will weaken to 2.6x-2.7x in fiscal 2021 (year ending March 31, 2021), beyond our downgrade threshold of 2.5x, despite the company's steps to manage leverage and some recovery in the second quarter.
- On Dec. 7, 2020, S&P Global Ratings revised its 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' long-term issue rating on Singtel's senior unsecured notes.
- The negative outlook reflects our view that a recovery in Singtel's leverage over the next 18-24 months is contingent on an improvement in operating performance and the company's commitment to proactive balance-sheet management.

SINGAPORE (S&P Global Ratings) Dec. 7, 2020--S&P Global Ratings today revised its outlook on Singapore Telecommunications Ltd. (Singtel) to reflect the company's deteriorating leverage. Meanwhile, a recovery in the company's operating performance could also be slower than we expected, resulting in protracted weakness in financial ratios over the next 18-24 months.

We affirmed the rating on Singtel because we believe the company has taken tangible steps to manage its leverage, such as by reducing dividends. In our view, this signals management's intention to actively manage leverage.

Singtel has been hit hard by the COVID-19 pandemic, and recovery will be slow and dependent on conditions beyond the company's control. In our view, a significant improvement in Singtel's performance depends, to a large extent, on the return of some normalcy in operating conditions, including the reopening of economies and resumption of international travel. Pandemic-related government support schemes will taper off in the second half of fiscal 2021, while conditions that have dampened Singtel's performance persist. Therefore, we expect the company's adjusted EBITDA to decline 11%-13% in fiscal 2021, and remain below pre-COVID levels in fiscal 2022.

Risks remain for a recovery in Singtel's operating performance subsequent to fiscal 2021, given pressures on various fronts. In our opinion, Singtel's performance was hit with a larger decline than regional peers. This is partly because Singapore and Australia are mature markets. Less mature markets have a naturally higher growth potential, which could offset a hit from the pandemic. The fall in tourism and the economic weakness following the pandemic have translated into a fall in Singtel's prepaid and high-margin roaming revenues in its key markets of Singapore and Australia. The company's enterprise business was also hit due to decline in the carriage business, which includes voice, data, and mobile services, as well as equipment sales.

The weakness in Singtel's performance is also due to a structural decline in its business. Singapore and Australia have strong competitive pressures. Moreover, earnings of Singtel's Australia subsidiary Singtel Optus have been hurt by the implementation of the National Broadband Network (NBN) in Australia.

Given there are various elements in play, we believe a recovery in Singtel's performance has more uncertainty than for other telecom operators. We also do not anticipate significant payback from Singtel's 5G investments in the next two years, with 5G applications still in varying degrees of development. A protracted weakening of performance could indicate a fundamental erosion of the company's business strength, in our view.

In addition, continuing competition and a need to maintain high capital outlay to deploy advanced networks could constrain the ability of Singtel's regional associates to pay more dividends to the parent. We anticipate Singtel's cash dividends, net of withholding taxes, from associates will be Singapore dollar (S\$) 1.4 billion annually in fiscals 2021 and 2022, largely flat from fiscal 2020.

Steps taken by Singtel to manage its balance sheet are likely to be insufficient to ease the impact of the deterioration in operating performance. We therefore anticipate a weakening of credit metrics despite the company's decisive and careful management of dividend outflows. Singtel announced a reduction in its final dividend in May 2020, and shareholders approved a scrip dividend scheme in July 2020. The company also lowered its interim dividend in November 2020, and applied the scrip dividend scheme to that. As a result, we anticipate cash outflows from dividends will more than halve to about S\$1.3 billion in fiscal 2021 from S\$2.86 billion in fiscal 2020.

Yet, because of the weak operating performance, we forecast Singtel's debt-to-EBITDA ratio will weaken to 2.6x-2.7x in fiscal 2021, from 2.3x in fiscal 2020.

Nonetheless, we believe the Singtel management has shown a commitment to repair its leverage. The steep deviation from a long record of sticky and high dividends signals the company's intention to actively manage its discretionary cash outflow amid weak operating conditions.

We believe lower dividend payouts will remain Singtel's key tool to manage its balance sheet. In our view, the company will be unwilling to cut its other large cash outflow--capital expenditure (capex), which is necessary to maintain competitive parity. On the other hand, further application of the scrip dividend scheme or lower dividends could conserve cash and allow Singtel to quickly improve leverage to a level commensurate with the rating.

Singtel's newly awarded digital banking license is likely to have limited credit impact over the next 12-24 months. We expect earnings contribution from digital banking will not be significant in the initial years. The Singapore digital banking license was awarded to a joint venture between Singtel and Singapore-based ride-hailing and food delivery platform operator Grab Holdings Inc. Although initial earnings contribution will be limited, we also anticipate the initial investment outlay will not be significant. That said, investments into the joint venture will ramp up progressively to at least S\$1.5 billion over the next five years, if regulatory conditions are met. Singtel's share of that will be S\$600 million. As operations grow and investment needs for this venture increase, we will consider Singtel's means of funding this and the impact on its credit metrics.

The negative outlook reflects the risk that the recovery in Singtel's performance over the next 18-24 months may fall below our expectations. This will prevent the company's debt-to-EBITDA ratio from improving to well below 2.5x over the period.

We may lower the rating if Singtel's debt-to-EBITDA ratio exceeds 2.5x on a sustained basis. This may happen due to: (1) weakening operating performance in the core markets of Singtel and its affiliates; (2) the group taking on further debt-funded acquisitions, or (3) the company having higher capital spending and dividend payouts than we expect.

We may also lower the rating if we believe Singtel's market position or earnings quality has eroded.

In addition, we may downgrade Singtel if we believe the company's ties with, and hence potential for extraordinary support from, the Singapore government have weakened.

We may revise the outlook to stable if Singtel improves its operating performance and financial headroom in line with our expectation, and adopts disciplined financial policies. The ratio of debt to EBITDA improving and sustaining well below 2.5x could indicate such improvement.

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
- [Criteria | Corporates | General: Methodology: The Impact Of Captive Finance Operations On Nonfinancial Corporate Issuers](#), Dec. 14, 2015
- [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 23, 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: Management And Governance Credit Factors For Corporate Entities](#), Nov. 13, 2012
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011

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Research Update:

Singtel Optus Outlook Revised To Negative, 'A-' Rating Affirmed; SACP Revised Down To 'bbb-' On Weaker Expected Earnings

December 7, 2020

Rating Action Overview

- Australia-based telecommunications services provider Singtel Optus Pty Ltd.'s financial performance is expected to deteriorate significantly in fiscal 2021. We anticipate adjusted EBITDA to decline by about 20%-30%, due to persistent price competition, cautious business and consumer sentiment exacerbated by COVID-19, slow recovery of international travel, as well as margin dilution caused by the National Broadband Network (NBN).
- As a result, adjusted leverage is likely to exceed 3x in fiscal 2021 and remain above our current stand-alone credit profile (SACP) threshold of 2.75x. We have revised down the SACP to 'bbb-' from 'bbb'.
- On Dec. 7, 2020, S&P Global Ratings revised its outlook to negative from stable on Optus, following the same action on the company's Singapore-based parent, Singtel. At the same time, we affirmed the 'A-' issuer credit and issue-level ratings on Optus.
- The negative outlook on Optus mirrors that on its parent company because we continue to view Optus as a core subsidiary to the group. The issuer credit rating on Optus does not factor in any extraordinary support from the government of Singapore, unlike our credit rating on Singtel.

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Rating Action Rationale

We revised the outlook to negative on Optus following a similar rating action on the parent, Singapore Telecommunications Ltd. (Singtel). We align the Optus rating with the SACP on Singtel. The negative outlook on Singtel reflects the risk that the recovery in Singtel's performance over the next 18-24 months may fall below our expectations. This will prevent the company's debt-to-EBITDA ratio from improving to well below 2.5x over the period. We may lower the rating if Singtel's debt-to-EBITDA ratio exceeds 2.5x on a sustained basis.

At the same time, we revised downward the SACP on Optus to reflect materially weaker expected earnings and margins over the next two years. Optus' operating environment remains challenging due to persistent price competition, cautious business and consumer sentiment exacerbated by COVID-19, and slow recovery of international travel affecting roaming revenues. Furthermore, margin dilution caused by the NBN migration is likely to continue to weigh on Optus' earnings profile.

We expect Optus' S&P Global Ratings-adjusted EBITDA to decline by about 20%-30%, pushing the adjusted debt-to-EBITDA ratio above 3x in the year ending March 31, 2021, well above our downward trigger of 2.75x. We note that Optus' adjusted leverage has increased significantly over the past two years to about 2.6x in fiscal 2020, from 1.9x in fiscal 2019. While we expect some recovery in earnings from fiscal 2022, Optus' leverage is expected to remain elevated, driven by tough market conditions, high capital expenditure with the 5G rollout, as well as upcoming spectrum payments.

The 'bbb-' SACP relies on Optus' disciplined approach to capital management, including maintaining an adjusted debt-to-EBITDA ratio below 3.25x. We expect management to take decisive actions to weather the earnings stress in fiscals 2021 and 2022. This include using levers such as: adopting a prudent approach to spending, restricting distributions, and undertaking noncore asset sales.

We expect Optus to maintain its number two market position in Australia. Optus' position as the second-largest telecommunications service provider in Australia and one of only three mobile network operators (MNO) underpin the business strength. Optus holds about 27% retail market share by revenue for mobile phone services in Australia and 15.5% of wholesale market share for NBN services. Recently, Optus announced its A\$250 million acquisition of Amaysim, Australia's largest mobile virtual network operator (MVNO) with a customer base of nearly 1.2 million subscribers. We view the acquisition as a defensive investment that should help reinforce Optus' market position with a dual-brand strategy as well as secure its wholesale revenues. Moreover, the acquisition removes a key market disruptor, which should promote a more stable market environment among Australia's three MNOs. The Australian Competition and Consumer Commission is reportedly not planning to oppose the acquisition.

The higher credit quality of Optus' parent Singtel continues to support the Optus 'A-' rating. We consider Optus to be a core subsidiary of the Singtel group. The company contributes about 50% of Singtel's adjusted revenue and 40% of its adjusted EBITDA. Our assessment of Singtel's group credit profile fully consolidates Optus. As a result, we apply a three-notch upward adjustment from the 'bbb-' SACP to align the Optus rating with Singtel's SACP of 'a-'. However, the ratings on Optus do not benefit from any uplift stemming from Singapore government support because we do not believe such potential support for Singtel would flow through to Optus, given the latter's status as an offshore subsidiary.

Outlook

The negative rating outlook on Optus reflects that on the company's sole owner Singtel.

Downside scenario

The ratings on Optus may face downward pressure if:

- We revised Singtel's SACP downward;
- Singtel reduces its shareholding in Optus, or other evidence emerges that shows Optus' importance in the Singtel group is diminishing, making it no longer consistent with its existing core group status; or
- Optus' business or financial risks materially increase, and as a result, we no longer view Optus to be a core subsidiary of the group. This could include a scenario where Optus maintains a substantially more-aggressive financial risk profile than the broader Singtel group.

Upside scenario

An upgrade on Optus would likely be reliant on raising Singtel's SACP.

Company Description

Singtel Optus is a subsidiary of Singapore Telecommunications Ltd. and the second-largest provider of telecommunications services in Australia in terms of revenue. It is one of only three mobile network operators in Australia and delivers a comprehensive range of telecommunications products and services.

Our Base-Case Scenario

- Australia's real GDP downturn of -4% in 2020 and growth of 4.2% in 2021. Australia's population growth of 1% in 2020 and 0.4% 2021, and unemployment rates of 7.1% and 6.8% in 2020 and 2021, respectively;
- Revenue, EBITDA and margin contraction over the next 12-18 months, predominantly due to strong competition, ongoing fixed-line NBN migration, and the effects of COVID-19 on roaming revenues and consumer and business sentiment;
- Capital expenditure (capex) to remain high as Optus continues its multiyear 5G investments. In fiscal 2021, capex to be about A\$1,600 million, including A\$32 million of spectrum payments;
- Australia's auction of the 26 gigahertz (GHz) spectrum band likely to take place in 2021. The size, timing, and structure of payments are uncertain and excluded from our base case;
- Acquisition of Amaysim for A\$250 million in fiscal 2021;
- Projections exclude the sale of noncore assets or additional financial support from Singtel; and
- Dividends to Singtel of about A\$250 million in fiscal 2021.

Liquidity

The short-term rating on Optus is 'A-2', reflecting the long-term issuer credit rating and our assessment of Optus' liquidity as adequate. Due to Optus' core status within the Singtel group, we have aligned our liquidity assessment on the subsidiary to that of its parent. Even so, on a stand-alone basis, Optus has sound liquidity.

As of Sept. 30, 2020, Optus' stand-alone sources and uses of liquidity over the following 12 months include:

Principal liquidity sources:

- Cash FFO of about A\$1.55 billion-A\$1.65 billion;
- Cash holdings of A\$156 million; and
- Material undrawn bank facilities with maturities greater than six months.

Principal liquidity uses:

- Capex of about A\$1.6 billion per year (excluding spectrum payments);
- Material debt maturities;
- Dividends to Singtel of about A\$250 million; and
- Acquisition of Amaysim for A\$250 million.

Ratings Score Snapshot

Issuer Credit Rating

A-/Negative/A-2

Business risk: Satisfactory

- Country risk: Very low
- Industry risk: Intermediate
- Competitive position: Satisfactory

Financial risk: Significant

- Cash flow/leverage: Significant

Anchor: bbb-

Modifiers

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: bbb-

- Group credit profile: a-
- Entity status within group: Core (+3 notches from SACP)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
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- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Singapore Telecommunications Outlook Revised To Negative; 'A/A-1' Ratings Affirmed, Dec. 7, 2020

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Singtel Optus Pty Ltd.		
Issuer Credit Rating	A-/Negative/A-2	A-/Stable/A-2
Ratings Affirmed		
Optus Finance Pty Ltd.		
Senior Unsecured	A-	

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