



Media Statement on S&P Global Rating's Announcement

Singtel refers to the announcement by S&P Global Ratings dated 9 June 2020 (as attached).

At A-/Stable, Optus' corporate credit rating by S&P Global Ratings continues to be strong and we are committed to maintaining our investment-grade credit rating.

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Research Update:

Singtel Optus 'A-' Ratings Affirmed With Stable Outlook; SACP Revised Down To 'bbb' On Expected Weaker Metrics

June 9, 2020

Rating Action Overview

- Australia-based telecommunications services provider Singtel Optus Pty Ltd.'s operating and financial performance deteriorated significantly in fiscal 2020. Adjusted leverage has increased materially above our SACP threshold of 2x, to about 2.5x from 1.9x the year before.
- We expect Optus' credit metrics to remain under pressure through fiscal 2021 given that the operating environment remains challenging. Persistent price competition and margin dilution caused by the NBN are likely to continue to weigh on Optus' earnings profile.
- On June 9, 2020, S&P Global Ratings affirmed its 'A-' issuer credit and issue-level ratings on Optus because we continue to view it as a core subsidiary of the Singtel group. At the same time, we revised downward Optus' stand-alone credit profile (SACP) to 'bbb' from 'bbb+'.
- The stable outlook on Optus mirrors that on its parent company Singtel. We continue to view Optus as a core subsidiary of the Singtel group and align the Optus rating with the SACP on Singtel. 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 affirmed the ratings on Optus because we continue to view it as a core subsidiary of the parent, Singapore Telecommunications Ltd. (Singtel) group. We align the Optus rating with the SACP on Singtel. The issuer credit rating on Optus does not factor in any extraordinary support from the government of Singapore, unlike our credit rating on Singtel.

We revised downward the SACP on Optus to reflect the company's weaker financial risk profile in the year ending March 31, 2020. In our view, shareholder dividends and significant network investment requirements have elevated Optus' financial leverage over the past four years. The company's adjusted debt to EBITDA increased to about 2.5x in fiscal 2020, from 1.9 x in 2019.

Optus' operating and financial performance were significantly weaker in the year ended March 31, 2020. Unadjusted revenue and EBITDA declined 6.4% and 18.7%, respectively, in fiscal 2020, excluding the impact of one-off National Broadband Network (NBN) migration revenues. This deterioration reflects a challenging operating environment due to price competition, as well as cautious business and consumer sentiment exacerbated by the Australian summer bushfires and the initial fallout of COVID-19. In addition, the negative effects of lower NBN resale margins is having a greater effect on earnings as subscriber migration reaches critical mass. In fiscal 2020, consumer business EBITDA declined by 15.4% and EBITDA for the enterprise business declined by 55.7% from the year before (excluding the impact of one-off NBN migration revenues).

We note that Optus' fiscal 2020 results are before the full fallout of COVID-19. While the extent and duration of the COVID-19 pandemic are uncertain, our current forecast assumes that adjusted EBITDA and margins will remain under pressure over the next 12 months. Furthermore, persistent price competition and margin dilution caused by the NBN are likely to continue to weigh on Optus' earnings profile.

The 'bbb' SACP relies on Optus' disciplined approach to capital management, including maintaining an adjusted debt-to-EBITDA ratio below 2.75x. Our assessment of the company's commitment to grow earnings while limiting pressure on its balance sheet will to be a key rating consideration over the next two years. We expect management to take decisive action to weather the earnings pressure in fiscal 2021, including adopting a prudent approach to spending and shareholder returns.

We expect Optus to maintain its number two market position in Australia. Optus' position as the second-largest telecommunications service provider in Australia and as one of only three mobile network operators 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.

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 two-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 stable 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 such that its debt-to-EBITDA ratio exceeds 3.0x.

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 5.7% in 2021. Australia's population growth of 1.5% in 2020 and 2021, and unemployment rates of 7.5% and 6.8% in 2020 and 2021, respectively;
- Muted revenue and EBITDA growth over the next 12 months due to the effects of COVID-19;
- Capital expenditure to remain high as Optus continues its multiyear 5G investments at about 13% of total revenue over the next two years;
- 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;
- Balance-sheet operating leases of about A\$1.5 billion following the adoption of Australian Accounting Standard Board (AASB) 16;
- Projections exclude asset sales of any noncore assets; and
- Dividends to Singtel of about A\$600 million per annum.

Based on these assumptions, we arrive at the following credit measures:

Key Metrics*

(Mil. A\$)	2019a	2020a	2021f	2022f
Debt to EBITDA (x)	1.9	2.5	Below 2.75	Below 2.75
EBITDA margin (%)	31.3	26.1	26-32	26-32

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast. FOCF--Free operating cash flow.

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 March 31, 2020, Optus' stand-alone sources and uses of liquidity over the following 12 months include:

Principal liquidity sources:

- Cash FFO of about A\$2.1 billion to A\$2.2 billion;
- Cash holdings of A\$304 million; and
- Substantial undrawn bank facilities with maturities greater than 12 months.

Principal liquidity uses:

- Capital expenditure of about A\$1.1 billion–A\$1.4 billion per year (excluding spectrum payments);
- Substantial debt maturities; and
- Dividends to Singtel of about A\$600 million.

Ratings Score Snapshot

Issuer Credit Rating

A-/Stable/A-2

Business risk: Satisfactory

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

Financial risk: Intermediate

- Cash flow/leverage: Intermediate

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 (+2 notches from SACP)

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
- 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: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed

Singtel Optus Pty Ltd.

Issuer Credit Rating A-/Stable/A-2

Optus Finance Pty Ltd.

Senior Unsecured A-

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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