Media Statement on S&P Global Ratings' Announcement

Singtel refers to the announcement by S&P Global Ratings dated 1 September 2022 revising the outlook for both Singtel and Optus from negative to stable (as attached).

We have a solid balance sheet and continue to be financially disciplined and committed to maintaining Singtel's and Optus' strong investment-grade credit ratings.

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Research Update:

Singtel, Optus Outlook Revised To Stable From Negative On Leverage Management; 'A/A-1', 'A-/A-2' Ratings Affirmed

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Rating Action Overview

- Singapore Telecommunications Ltd.'s (Singtel) leverage will improve significantly from a series of divestments. We believe this will give the Singapore-based telecommunications operator financial flexibility for elevated 5G capital expenditure (capex) and growth aspirations.
- On Sept. 1, 2022, S&P Global Ratings revised the outlook on Singtel to stable from negative. At the same time, we affirmed our 'A/A-1' issuer credit ratings on Singtel and 'A' long-term issue rating on the company's senior unsecured notes. We also affirmed the 'BBB' long-term issue rating on its subordinated perpetual securities.
- Reflecting the revision of outlook on Singtel, we revised the outlook on Singtel's Australian subsidiary, Singtel Optus Pty Ltd. (Optus), to stable from negative. At the same time, we affirmed our 'A-/A-2' issuer credit ratings on Optus and 'A-' long-term issue rating on the company's senior unsecured notes.
- The stable outlook reflects our view that Singtel will actively manage leverage such that its debt-to-EBITDA ratio stays below 2.5x on a sustained basis, while maintaining its fundamental business strength.

Rating Action Rationale

Singtel's leverage will improve following a series of divestments. The telco has made significant headway in asset recycling in the past year. After paring down its stake in tower assets in Australia for A$1.9 billion in November 2021, it monetized a 1.6% stake in Airtel Africa PLC for Singapore dollar (S$) 149 million in March 2022. Singtel also announced the sale of digital marketing arm, Amobee Group Pte. Ltd., for US$239 million in July 2022. More recently, the telco sold a 3.3% stake in Indian telco associate, Bharti Airtel Ltd. To be executed by Nov. 23, 2022, this sale will yield S$2.25 billion for Singtel. This alone will improve Singtel's debt-to-EBITDA ratio by 0.4x. We now estimate Singtel's debt-to-EBITDA ratio will be close to 2x over the next 24 months, below our downgrade trigger of 2.5x.

The divestments reflect the new strategic direction that Singtel announced in May 2021. The company's strategic shift incudes unlocking the value of its infrastructure assets and developing new engines of growth.

Moderate headroom in our rating on Singtel should cushion the impact from debt-funded growth aspirations. Singtel's investment outflow is set to rise. The company faces 5G capex and has stepped up its investment momentum for new growth engines. We expect capital expenditure (capex; excluding spectrum payments) to rise to S$2.6 billion-S$2.7 billion in fiscal years 2023 (year-end March) and 2024, from S$2.2 billion in fiscal 2022. Since the end of fiscal 2022, the company has shelled out over S$600 million to boost its information, communications, and technology (ICT), and digital services capabilities, a key new growth engine. We expect Singtel to maintain this investment momentum as management seeks both organic and inorganic growth in this segment. In our view, the sizable divestments provide Singtel with greater flexibility to explore further opportunities within the current ratings.

Singtel and Optus have demonstrated proactive leverage management. Singtel intends to reduce its reliance on debt to fund growth. Instead, the telco plans to bring in capital partners and monetize assets. This strategy has played out in the local partnerships it formed for its data-center expansion and digital banking ventures, as well as in its divestment momentum.

We also view Singtel's change in dividend policy as a commitment to a more sustainable balance sheet. Since reducing its final dividend in May 2020, the company has further lowered its cash dividend outflow. Initiatives included the introduction of a scrip dividend scheme.

Singtel has a new policy to pay 60%-80% of its underlying net profit as dividends. The company has also reiterated that it will fund dividends with cash from core operations. As such, we do not expect special dividends from recent divestment proceeds.

Similarly, Optus had not paid dividends to Singtel in fiscals 2021 and 2022. This was amid the hit to earnings from COVID-19 and a structural revenue decline from Australia's migration to the National Broadband Network (NBN). In our view, this is testimony to Optus' intention to manage the 'bbb-' stand-alone credit profile (SACP). We expect a step-up in debt in fiscal 2025, when an additional A$1.48 billion of spectrum liability will arise from 900 megahertz (MHz) spectrum licenses won in the December 2021 auction. We view such spectrum liabilities as debt-like.

The pick-up in the underlying earnings momentum of Singtel and Optus should continue over the next 24 months. We expect the earnings recovery to continue through fiscal 2024. A return of tourists' prepaid and roaming revenue as international travel resumes in both the Singapore and Australia core markets will support this.

Competition intensity in the Australian mobile market is easing, in our view. While average revenue per user (ARPU) in Australia had declined before the pandemic due to competition, it has risen in the past 12-18 months. We believe the easing of competitive pressure will lead to more gains in ARPU. Notably, Optus has increased prices for some mobile plans by up to 10%. The leading telco in Australia, Telstra Corp Ltd., has also implemented an increase of A$3-A$4 for its tariff plans (representing about a 5% increase) from July 1, 2022.

Notwithstanding the improvement in its underlying performance, Singtel's adjusted EBITDA, which includes cash dividends from associates, will likely weaken slightly in fiscal 2023. This is because dividends from associates will decline. We project S$1.2 billion of such dividends for fiscal 2023, down from a high base of S$1.6 billion in fiscal 2022, which was propped up by special dividends. Continuing competition and a need for high capital outlay to deploy advanced networks will constrain the ability of associates to pay higher dividends.

Outlook

Singtel: The stable outlook on Singtel reflects our expectation that the company will balance its growth aspirations with its leverage, such that its ratio of debt to EBITDA remains below 2.5x.

Optus: The stable rating outlook on Optus reflects that on the company's sole owner, Singtel.

Downside scenario

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

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

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

Optus: The ratings on Optus may face downward pressure if:

- We revise downward our assessment of Singtel's SACP;
- Singtel reduces its shareholding in Optus, or other evidence emerges that 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

Singtel: We may raise the ratings on Singtel if the company reduces its leverage tolerance, such that its debt-to-EBITDA ratio improves and remains below 2x.

However, an upgrade is unlikely over the next 24 months due to funding requirements for capex and growth.

Optus: An upgrade of Optus will likely rely on an upward revision of our assessment of Singtel's SACP.

Company Description

Singtel is a diversified telecommunications company. It has core operations in Singapore and Australia and strategic stakes in other leading telecommunications players in South and

Southeast Asia, as well as Africa. It is headquartered and listed in Singapore and is majority owned by Temasek Holdings (Pte.) Ltd.

Optus is a subsidiary of Singtel and is the second-largest provider of telecommunications services in Australia in terms of revenue.

Our Base-Case Scenario

Assumptions

- Singapore GDP growth of 3.3% in 2022 and 2.6% in 2023.
- Australia GDP growth of 3.6% in 2022 and 2.8% in 2023.
- The performance of the telco sector is moderately linked to GDP growth. We believe local competitive dynamics and the regulatory landscape play a bigger role in Singtel's consumer business. Economic conditions have a stronger role in the company's enterprise business because investments would depend on business sentiment.
- Singtel's adjusted EBITDA to decline 4%-6% in fiscal 2023. This is despite our expectation of an improvement in underlying performance. We expect dividends from equity-accounted associates, which we include in adjusted EBITDA, to decline to about S$1.2 billion in fiscal 2023, from a high S$1.6 billion base propped up by special dividends in fiscal 2022. More rational competition in Australia, the resumption of international travel (which drives the return of high-margin roaming revenue), and subscriber base expansion will support the recovery in the underlying performance. Adjusted EBITDA to rise 2%-4% in fiscal 2024.
- Capex (including spectrum payments) to remain elevated at S$2.6 billion-S$2.8 billion through the projection period, to support 5G rollout in Singapore and Australia.
- Divestment proceeds in fiscal 2023 of S$2.25 billion from the sale of 3.3% of Bharti Airtel, and about US$200 million in net proceeds from the sale of Amobee. We expect divestment proceeds from Comcentre in fiscal 2025.
- Investment of about S$1.5 billion in fiscal 2023. This takes into account announced investments of about S$600 million in ICT and digital services, about S$200 million in tower associate Australia Tower Network Pty Ltd., US$100 million in Innov8, and S$330 million in Intouch Holdings PCL. We have also assumed about S$200 million of equity infusion into Bharti Airtel for each of fiscals 2023 and 2024, for the remainder of Bharti Airtel's rights issue announced in 2021.
- We add the unpaid amounts relating to Optus' 26 gigahertz spectrum to Singtel's and Optus' adjusted debt because we view spectrum payables as debt-like. We only add liabilities relating to the A$1.48 billion worth of 900 MHz spectrum won in December 2021 to adjusted debt when the spectrum is available for use. The licenses won will likely come into force on July 1, 2024.
- Increases in dividend payout, in line with the increase in final dividends declared for fiscal 2022 to be paid out in fiscal 2023. We project dividend outflow of S$1.6 billion-S$1.7 billion annually in fiscals 2023 and 2024.

Key metrics

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

For Singtel:

- Debt-to-EBITDA ratio of about 2x in fiscals 2023 and 2024.
- FFO-to-debt ratio of above 40% over the same period.

For Optus:

- Debt-to-EBITDA ratio of 2.5x-2.7x in fiscals 2023 and 2024. This will rise in fiscal 2025 to above 3x when spectrum payables relating to the 900 MHz spectrum are added to adjusted debt.
- FFO-to-debt ratio of 34%-36% in fiscals 2023 and 2024.

Environmental, Social, And Governance

Singtel: ESG credit indicators: E-2, S-2, G-2

ESG factors are an overall neutral consideration in our credit rating analysis of Singtel. The company's adjusted EBITDA declined about 10% in fiscal 2021, partly due to pandemic travel restrictions that weighed on its prepaid and high-margin roaming revenue. Fundamental operating conditions have improved since, with the return of international travel supporting a 7.1% rise in reported EBITDA in fiscal 2022. This excluded Australia's NBN migration revenue and pandemic-related support schemes from the Singapore government.

Singtel has been fined for incidents such as data breaches and misleading claims in the past, although the amounts were not large. There were no fines or non-monetary sanctions against the telco in fiscal 2022 in relation to these. We also do not see material repercussions for its business because of these incidents.

Optus: ESG credit indicators: E-2, S-2, G-2

ESG factors have no material influence on our credit rating analysis of Optus.

Ratings Score Snapshot

Singtel:

Issuer Credit Rating: A/Stable/A-1

Business risk: Strong

- Country risk: Low
- Industry risk: Intermediate
- Competitive position: Strong

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: Positive (+1 notch)

Stand-alone credit profile: a-

- Related government rating: AAA
- Likelihood of government support: Moderate (+1 notch)

Optus:

Issuer Credit Rating: A-/Stable/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: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- 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
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Singapore Telecommunications Ltd.		
Issuer Credit Rating	A/Stable/A-1	A/Negative/A-1
Singtel Optus Pty Ltd.		
Issuer Credit Rating	A-/Stable/A-2	A-/Negative/A-2
Ratings Affirmed		
Singapore Telecommunications Ltd.		
Senior Unsecured	A	
Optus Finance Pty Ltd.		
Senior Unsecured	A-	
Singtel Group Treasury Pte. Ltd.		
Senior Unsecured	A	

Junior Subordinated	BBB