

**Bulletin:**

## **Singapore Telecommunications' Proposed Largely Equity-Funded Purchase Of More Stake In Affiliates Has No Ratings Impact**

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SINGAPORE (S&P Global Ratings) Aug. 18, 2016--S&P Global Ratings said today that its ratings on Singapore Telecommunications Ltd. (Singtel: A+/Stable/A-1; axAAA/axA-1+) are not immediately affected by the company's proposed investments in Intouch Holdings PCL and Bharti Telecom Ltd. We expect only a marginal decline in Singtel's credit profile because the purchase will be mostly equity funded.

We expect Singtel's ratio of funds from operations (FFO) to debt to be 46%-49% over the next 12 months, compared with our earlier projection of 49%-52%. The revised projections are still above our downgrade trigger of 45%, even though the headroom under the rating has reduced substantially. Our base case does not incorporate the company's plans to possibly reduce ownership in NetLink Trust in 2017, ahead of the April 2018 deadline set by the Singapore telecom regulator Infocomm Development Authority.

The use of equity to fund the proposed acquisition is consistent with our belief that Singtel will remain disciplined in its financial policies toward acquisitions, given the lack of significant financial headroom to absorb a large debt-funded acquisition at the current rating level. We expect Singtel to fund potential acquisitions or capital injections into associates or subsidiaries in a way that its ratio of FFO to debt stays sustainably above 45%.

Singtel's proposed investments do not affect our view of the company's competitive position, which already captures its good diversity, with investments in various regional telecom companies.

Intouch is the biggest shareholder in Thailand's largest mobile operator Advanced Info Service Public Co. Ltd. (AIS: BBB+/Negative/--; axA+/--). Bharti Telecom holds a 45.1% stake in Bharti Airtel Ltd. (BBB-/Stable/--) in which Singtel already has a 15.0% direct stake. According to the proposed transaction, Singtel will acquire 21% of Intouch, increasing Singtel's effective ownership in AIS to about 31.8% from 23.3%. Singtel will increase its stake in Bharti Telecom to 47.2% from 39.8%. This would result in Singtel's effective stake in Bharti Airtel rising to 36.2% from 32.9%.

The consideration for the transaction will be Singapore dollar (S\$) 2.47 billion in cash, funded through internal cash, short-term debt, and proceeds from a share placement of 386 million new Singtel shares to Temasek Holdings (Private) Limited totaling S\$1.605 billion. The acquisitions and share placement are interdependent and have to close at the same time if at all.

The transaction is subject to shareholder and regulatory approval and is likely to be completed by the fourth quarter of 2016. We expect that Temasek will abstain from voting on the proposal because it is an interested party.

Only a rating committee may determine a rating action and this report does not constitute a rating action.

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