



Fitch Affirms Singtel and Optus at 'A+'/'A'; Planned Acquisitions

Fitch Ratings-Singapore-18 August 2016: Fitch Ratings has affirmed Singapore Telecommunications Limited's (Singtel) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs), as well as its senior unsecured rating, at 'A+'. The agency has also affirmed at 'A' the Long-Term Foreign-Currency IDR and senior unsecured rating of Singtel's wholly owned subsidiary, Singtel Optus Pty Limited (Optus). The Outlook on the IDRs is Stable.

The affirmation follows Singtel's announcement that it proposes to acquire shares in Intouch Holdings Public Company and Bharti Telecom Limited from Temasek Holdings (Temasek) for SGD2.5bn, which will be partly financed by a proposed SGD1.6bn placement of Singtel shares to Temasek. Management expects the proposed acquisitions and equity funding to be completed by end-2016, pending approvals from shareholders and regulators.

If these transactions go ahead, Fitch expects Singtel's FFO-adjusted net leverage for the financial year ending March 2017 (FY17) to increase to 2.2x (FY16: 2.1x). Our Stable Outlook reflects our view that Singtel will deleverage to 1.8x-2.0x in FY18-FY19, near the 2.0x level above which we may consider negative rating action.

Therefore, we expect Singtel's rating headroom to be slender, although the divestment of its stake in NetLink Trust ahead of the Infocomm Development Authority's mandated April 2018 deadline would provide Singtel with additional financial headroom. Our projections assume Singtel receives SGD1.5bn for this asset in FY18. Further acquisitions that lead to leverage sustained above 2.0x may result in negative rating action.

KEY RATING DRIVERS

Growing Regional Presence: The proposed deals will raise Singtel's effective stakes in Thailand's Advanced Info Service Public Company Limited (AIS, BBB+/Stable) to 31.8% (from 23.3%) and India's Bharti Airtel Limited (Bharti, BBB-/Stable) to 36.2% (from 32.9%), in line with Singtel's stated long-term ambitions to increase its stakes in regional associates. AIS and Bharti will remain associate companies of Singtel, so incremental cash contributions are unlikely to be significant. About 33% of Singtel's FFO emanates from Singapore, 42% from Optus and 25% from associates in the form of cash dividends.

FCF Deficit: Negative FCF is likely to persist due to the company's high capex needs and dividend commitments. We estimate group annual cash capex of SGD2.3bn-2.4bn in FY17-FY19 (FY16: SGD2.1bn), driven by investment in a new data centre in Singapore, 4G expansion in Australia and new unified billing and customer care systems. We forecast Singtel's FFO at SGD5.0bn-5.1bn in FY17 (FY16: SGD5.3bn), as slow growth of operations in Singapore and Australia offsets continuing EBITDA losses in the digital life segment.

Parental Support: Singtel's 'A+' ratings factor in one notch of support above its standalone ratings to reflect Singapore's (AAA/Stable) majority state ownership through Temasek. The proposed SGD1.6bn placement will raise Temasek's stake in Singtel to 52.3% from 51.1%. Singtel is Temasek's largest investment, accounting for about 13% of total investment value of SGD242bn at end-March 2016.

Strong Regional Play: Singtel's standalone credit profile of 'A' reflects its diversified income stream through its solid market position in Singapore, number two market position in Australia through Optus and leading market positions in Indonesia, India, the Philippines and Thailand through associates.

Strong Optus-Singtel Link: The strong linkage between Optus and Singtel leads to an equalisation of Optus's rating with Singtel's standalone credit profile of 'A'. Singtel owns 100% of Optus and maintains full control through the board. Fitch expects Optus's revenue to decline by mid-single-digits in FY17, but EBITDA to stay flat following the fall in Australia's mobile termination rates in January 2016.

LIQUIDITY

Adequate Liquidity: Singtel's liquidity is strengthened by its strong access to capital markets and banks, which is underpinned by its regional market reach and robust financial position. Fitch expects Singtel to partially refinance its short-term maturities of SGD1.0bn over the next year. In addition, the company had an unrestricted cash balance of SGD966m at end-June 2016 and undrawn committed bank facilities to tap into. Singtel's undertaking to lower its equity-stake in NetLink Trust to below 25% by April 2018 also provides the group with additional liquidity.

KEY ASSUMPTIONS

Fitch's key assumptions within the rating case for the issuer include:

- SGD1.6bn equity funding to partially offset the SGD2.5bn acquisition of stakes in Intouch and Bharti Telecom
- flat revenue in FY17, then rising at a low-single-digit percentage in FY18 and FY19
- an operating EBITDAR margin of around 31% (FY16: 30.7%) in FY17-FY19, with better data monetisation offsetting declining roaming revenues
- stable dividends from associates of SGD1.2bn-1.3bn in FY17-FY19
- annual cash capex of around SGD2.3bn-2.4bn in FY17-FY19; excluding additional spectrum fees
- divestment of Singtel's stake in NetLink Trust to below 25% in FY18, from 100% currently
- a dividend payout ratio of 73%-75% in FY17-FY19 (FY16: 73%), in line with Singtel's stated policy of 60%-75% of underlying profit

RATING SENSITIVITIES

Rating Sensitivities - Singtel

Positive: There is limited upside potential for Singtel's rating in the short to medium term, although developments that may, individually or collectively, lead to positive rating action include:

- FFO-adjusted net leverage falling below 1.0x, with positive post-dividend distribution FCF on a sustained basis
- tangible evidence of support from Temasek, including an equity injection or legal guarantee on Singtel's debt

Negative: Developments that may, individually or collectively, lead to negative rating action include:

- FFO-adjusted net leverage above 2.0x on a sustained basis
- FFO fixed-charge coverage below 7.0x (FY16: 8.7x) on a sustained basis
- weakening of ties between Temasek and Singtel, indicating a change in implied support

Rating Sensitivities - Optus

Positive: Developments that may, individually or collectively, lead to positive rating action include:

- an upgrade of Singtel's standalone ratings or a strengthening of the linkage between Singtel and Optus, for example, through parental legal guarantees.

Negative: Developments that may, individually or collectively, lead to negative rating action include:

- a downgrade of Singtel's standalone ratings or a weakening of the linkage between Singtel and Optus.

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Applicable Criteria

Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage (pub. 17 Aug 2015) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869362)

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