HD Moody's: SingTel's Q1 FY2014-15 results support its ratings

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Moody's Investors Service says that Singapore Telecommunications Limited's (SingTel, Aa3 stable) credit metrics for the first quarter of its fiscal year ending 31 March 2015 (FY2014-15) were largely stable and support the company's ratings.

"Although we expect SingTel's net leverage to rise to 1.6-1.7x by end-FY2015, such an increase will remain within our tolerance level for its ratings category," says Nidhi Dhruv, a Moody's Assistant Vice President and Analyst, and also Lead Analyst for SingTel.

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Dhruv was speaking on Moody's just-released report titled "SingTel's Q1 FY2014-15 Results Continue to Support Credit Profile".

According to the report, Moody's assessment of SingTel's net debt position is based on the company's sizable capital expenditure plans and spectrum payment requirements over the next 12 months, as well as its continued commitment to high shareholder returns.

Moody's notes that SingTel's credit metrics for the first quarter of FY2014-15 (April-June 2014) were largely stable. Its net leverage fell to 1.4x for the 12 months to June 2014 -- based on cash dividends from associates added back to EBITDA -- compared to 1.5x for the financial year ended 31 March 2014, as the company repaid debt of SGD981 million during the quarter.

As for its revenues in Q1 FY2014-15, Moody's report says that SingTel's consolidated revenue fell 3.4% YoY mainly on account of a depreciating Australian dollar. In constant currency terms, its consolidated revenue would have been stable.

Its operating revenues for Singapore grew 3.9% YoY during April-June 2014, led by growth in its managed services, mobile communications and Pay TV businesses. However, this growth was offset by revenue declines from its Australian subsidiary, SingTel Optus (A1 stable), mainly on account of lower equipment sales and a reduction in interconnect charges.

Moody's expects SingTel's Singapore business revenues to grow 1%-2% in FY2014-15. By contrast, the company will continue to face near-term pressures in Australia, due to intense competition.

SingTel's absolute EBITDA fell 3.2% in Q1 FY2014-15 YoY, again due to depreciation of the Australian Dollar by 5%. The company's digital services business continued to report negative EBITDA of SGD45 million, owing to ongoing start-up costs and new investments. Moody's does not expect this business to break-even for at least another 2-3 years.

Associate contributions to pre-tax profits grew 7.6% to SGD622 million in Q1 FY2014-15, driven by improvements in its associates, Bharti Airtel Ltd (Baa3 stable) and Globe Telecom Inc (unrated). In constant currency terms, associate contributions would have increased by 19%.

"We expect the company's strong financial metrics and liquidity profile to remain supportive of its a2 baseline credit assessment," adds Dhruv.

SingTel's expected operating cash flows as well as its cash holdings of SGD649 million as of 30 June 2014 will be sufficient to cover the SGD2.3 billion in capital expenditure, approximately SGD900 million for spectrum payments in Australia, and SGD2.5-2.8 billion in dividend payments for FY2015.

Moody's report further points out that SingTel's final ratings level of Aa3 incorporates a two-notch uplift for expected support from its major shareholder, Temasek Holdings (Private) Limited (Aaa stable), which in turn is wholly owned by the Singapore government (Aaa stable).

Subscribers can access the report at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_174376

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Nidhi Dhruv

Asst Vice President - Analyst

Corporate Finance Group

Moody's Investors Service Singapore Pte. Ltd.

50 Raffles Place #23-06

Singapore Land Tower

Singapore 48623

Singapore

JOURNALISTS: (852) 3758 -1350

SUBSCRIBERS: (852) 3551-3077

Laura Acres

Associate Managing Director

Corporate Finance Group

JOURNALISTS: (852) 3758 -1350

SUBSCRIBERS: (852) 3551-3077

Releasing Office:

Moody's Investors Service Singapore Pte. Ltd.

50 Raffles Place #23-06

Singapore Land Tower

Singapore 48623

Singapore

JOURNALISTS: (852) 3758 -1350

SUBSCRIBERS: (852) 3551-3077

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