Financial Results FY Ended 31 March 2022

27 May 2022

CORPORATE PARTICIPANTS	**CONFERENCE CALL PARTICIPANTS**
Mr Yuen Kuan Moon – *Group CEO*	**Mr Neel Sinha -** *CLSA*
Mr Arthur Lang – *Group CFO*	**Mr Ranjan Sharma -** *JP Morgan*
Ms Kelly Bayer Rosmarin – *CEO Optus*	**Mr Varun Ahuja –** *Credit Suisse*
Mr Ng Kuo Pin-*CEO of NCS*	**Mr Piyush Choudhary –** *HSBC Securities*
Ms Anna Yip - *CEO, Consumer SG*	**Mr Roger Samuel -** *Jefferies*
Ms Sin Yang Fong – *Vice President IR*	**Mr Eric Choi** – *Barrenjoey*
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Start of Transcript

Ms Sin Yang Fong – *Vice President, IR*

Good morning and warm welcome to all investors and analysts. Thank you for joining us today for Singtel's results briefing for the financial year ended 31 March 2022. On behalf of our Senior Management here we really appreciate you coming to Comcentre, for our online audience we are actually broadcasting to you from the FutureNow Innovation Centre at Comcentre in Orchard vicinity. All right, we hope you could join us in due course.

So, we have audience, this is a hybrid event. We have audience here, as well as online via Zoom. I am told that we already have more than 60 participants online, so we are good to start. The format of today's briefing is really it will be a presentation, a short presentation, by our Group Chief Executive Officer Mr Yuen Kuan Moon. Then it will be followed by a Q&A session which will start with the audience here in Comcentre, before we adjourn to invite questions from the online audience.

Just a bit of housekeeping. For online participants, later when you ask your questions, we hope you could on your video, allow us to be interacting with you. Then another rule would be, hopefully you do not mind but we are going to be recording this event for future playback purposes. So, without further ado let me bring on Moon.

Mr Yuen Kuan Moon – *Group CEO*

Good morning, everyone, it's good to be back in physical face-to-face meetings. I understand we traditionally will conduct just an audio conference. But I thought with the opening up and post-pandemic restrictions it is good to bring everybody back into a face-to-face meeting. But also welcome to our 60 online dial-in participants.

So let me start by covering a few selected slides focusing on our key financial highlights, progress of our strategic reset announced one year ago. I will leave ample time to address any follow-up questions. The full set of slides will be available on our website.

We have seen an improved set of results in our financial year FY22 in spite of the pandemic and uncertain macro environment. NPAT grew 2.5-times on exceptional gains, mainly coming through from our ATN divestment, while underlying NPAT increased 11%. Optus, Airtel and NCS posted strong results, while in Singapore growth in data centres, fixed broadband and a pick-up of mobile roaming mitigated some of the structural challenges in our carriage business.

We have made good progress in our first year of our strategic reset. We grew 5G market share and developed growth engines in NCS digital services to capitalise on accelerating digitisation trend. We have also unlocked more than S$2 billion through active capital recycling to fund some of our growth initiatives.

We also introduced a robust capital management framework to ensure sustainable dividends to shareholders, and also to provide financial flexibility for growth. Entering into the new financial year we are buoyed by what we see in the horizon of a strong digitalisation momentum by enterprises, and also the lifting of Covid restrictions not just in Singapore, but everywhere else in the world.

Revenue slid 2% due to the decline in our NBN migration revenue, and also a drop in equipment sales driven primarily by supply chain disruption and chipset shortages. Australia mobile services increased with higher customer as well as higher ARPU. While NCS and data centres led the growth in ICT services.

Excluding NBN migration revenue, as well as job support schemes from the government, revenue would have been stable and EBITDA and EBIT would have risen 8% and 33% respectively.

Regional associates' profit before tax rose significantly on Airtel's earnings recovery and sustained growth momentum in Airtel Africa. Underlying net profit after tax rose a strong 11%. ROE was lifted by exceptional gains, while ROIC is currently at 5.4%. We believe it has got room for improvement, and we will have strong plans to address that.

We propose a final ordinary dividend of 4.8 cents per share, an increase of 2.4 cents, giving a total dividend to 9.3 cents a 24% increase over last year, and payout ratio of 80%.

Our financial position remains robust. We generated over S$5 billion in cash, with an increased free cash flow from Optus and special dividends from Telkomsel and S$2.1 billion in capital recycling. We reduced our net debt by S$2.3 billion, and improved other debt metrics.

Our capital management framework protects dividends without sacrificing growth. So, besides Capex for regular network, spectrum payment, interest, and the remainder of operating cash is returned to shareholders. As earning grow, so will dividends.

For growth investments like 5G, digibank or data centres, the primary source of fundings will be from asset recycling or through capital partners. This framework actually incentivises us to be capital efficient, and to have a very clear focus on ROIC. Around S$3 billion of assets have been identified as targets for recycling in the mid-term. We have continued to seek capital partners to co-drive the long-term success of some of our growth initiatives.

FY22 has been a busy year as we executed to the first year of our strategic reset. We lead in 5G with market's fastest speeds and launched differentiated services. For example, in Optus with the Living Network and in our 5G Enterprise Space on the mobile edge computing platform through Paragon.

NCS acquisitions in Australia will give it the scale and credibility to compete in a new market. The two acquisitions from NCS, Dialog and ARQ, will add approximately S$300 million of annualised revenue. We expect to create a bigger impact in Australia’s IT services market.

Digital banking and data centre platform are gaining traction, and with access to new markets in Thailand, Indonesia and Malaysia. Our newly launched company group purpose is shaping up very nicely and how we interact with our stakeholders will flow through to all the efforts that we are doing on the activation on the ground to champion people and sustainability.

So let me do a bit of a deep-dive into some of our growth engines, starting with our Regional Data Centre strategy. We are leveraging on our operating know-how and experience in Singapore to co-build data centres with partners in the region. For example, in Indonesia, we are partnering with Telkom to explore both greenfield and brownfield building and acquisition of data centres.

In Thailand, our data centre joint venture is actually with Gulf and AIS. Gulf and AIS will bring energy provisioning, and business access relationships in the Thai market into the fold. So, these markets are the three fastest growing markets - Singapore, Indonesia and Thailand – in the region for data centres, and is projected to value over US$4 billion.

Digibanking is the other natural extension of our financial services capabilities, and ASEAN is the backyard with huge untapped opportunities. We acquired Bank Fama in Indonesia, together with Grab. We also successfully won the bid of a digital bank licence in Malaysia. This will open up doors to the huge underbanked and unbanked population in these markets.

We are not doing this alone. Besides Grab, we are working with local partners, like Emtek in Indonesia, and the Kuok Group in Malaysia to give us market access and also know-how in the respective markets.

Next is the transformation of NCS which is well underway. Last year we have carved it out as a standalone business entity, out of the Enterprise business. We have now set aggressive targets for NCS to grow its revenue to about S$5 billion by financial year FY26.

This really is going to be underpinned by a three-pronged strategy that is focused firstly on the Enterprise space. That means expanding from what we're traditionally very strong at, which is the government into Enterprise space. Secondly is expansion outside of Singapore particularly in ASEAN and Australia. The third area we'll really be pivoting to, in-demand digital services. That's the capabilities that we have acquired and also organically built.

We are starting from a firm foundation, including an expanded talent pool that we can tap into now with strong anchors in Australia through the acquisition of Dialog and ARQ. We have added another 2,000 employees in Australia for NCS as well as tapping into global delivery centres in India as well as in China. We will continue to evaluate such investments for market access to grow our scale, as well as to look at complementing new capabilities that are needed for this space.

We have big significant progress in the sustainability practices. We have further embedded ESG accountability by tying 20% of top management long-term incentives to ESG KPIs. So, despite rising network investments, we have reduced absolute emissions and are working towards our 2050 net zero commitment by setting internal carbon price as well as completing the scope 3 emission profile of Singtel.

We have also provided digital inclusion programs for both Australia and Singapore markets, such as Donate Your Data, help our communities and give customers the opportunity to make a positive social impact. Later on in the Q&A sessions Kelly can provide a bit more light in what sort of ESG or solutions that we have introduced in Australia to bring along our customers to be aware of this space as well.

Looking forward the outlook for FY23 – dividends from our regional associates are going to be around S$1.1 billion. Group capital expenditure is about S$2.6 billion, comprising A$1.7 billion of Optus and S$0.9 billion for the rest of the Group. This will support investments in our 5G networks, data centres, satellites and digital transformation initiatives.

So, we have maintained our dividend policy to pay out dividends at between 60% to 80% of our underlying profit. This policy is reviewed regularly to reflect the progress of the Group's transformation.

So let me summarize our investment proposition. A complementary portfolio of connectivity and ICT solutions put us in a very good position to thrive in the 5G digital world. Having the set of foundations for our growth drivers, we will move faster and stronger in execution in the new year.

Our business generates significant cash while capital recycling provides additional funding for flexibility. A solid balance sheet to buffer against rising market volatility. Our share price trades at a significant discount to the sum of the parts discount and we continue to work hard to change that narrative. With this, I end my presentation. Thank you for your time and look forward to the next session, which is the Q&A.

Ms Sin Yang Fong – *Vice President, IR*

Thank you, Moon. We will now proceed onto the Q&A session. Please allow us a moment to just get everything set up. Audience online, please stay with us. Do not go anywhere. It will just take a few seconds.

Welcome back. Let me introduce our management panel who have joined Moon for the Q&A session. To the audience left, Mr Ng Kuo Pin, CEO of NCS.

Mr Ng Kuo Pin - *CEO of NCS*

Hello.

Ms Sin Yang Fong – *Vice President, IR*

Ms Anna Yip, CEO of Consumer Singapore; Mr Arthur Lang, Group CFO; Moon, whom you have met and Ms Kelly Bayer Rosmarin, CEO Consumer Australia. So, we will now take questions from the floor audience here. Who would like to help me? Okay, Neel, very good. Thank you.

Please state your name and the company you represent.

Mr Neel Sinha - *CLSA Singapore*

Hi, Neel Sinha from CLSA, Singapore. The first question is not much to do with the results but on the recent news on a potential trim down on your Bharti stake. So, I'm trying to understand - I do understand the rationale for the Airtel Africa trim down and I understand timing had a part of it and the share price performance but for Bharti Airtel, can we get a sense of why?

When the market is in repair, it - I mean, we think profits can go three- to four-fold from where it is today over the next few years. So just an understanding of, does this then start filtering through to your other key associates as well? How much of it is tactical from a portfolio standpoint? What is the stakes in these associates that you would consider strategic?

So that's a non-results related question. On the results, let me just - curious, Kelly, what are you doing right in Australia because the rest of the ASEAN countries, we've generally not seen a prepaid recovery or an ARPU recovery. So, some insight on that would be great.

On digital banking, as the loan book grows, how should I think about your funding cost? Is it initially going to be driven by wholesale funding or do you think you can ramp up on your CASA base fairly quickly?

The last point is, what gets - it would be good to get some insight on what you're experiencing on labour and IT costs because pretty much every Company I speak to, moans about this. So, what should we be thinking about over the next couple of years? Thanks.

Mr Yuen Kuan Moon - *Group CEO*

Thanks, Neel. You have got quite a few questions. I will give a bit of an overview on our stakes in all our associates as strategic assets. Then I ask Arthur to comment a bit about the rumours that we have seen in the market and what you have talked about in Airtel India is really a rumour which we have put out a statement this morning to clarify that. Kelly will take on the Australia Optus momentum that we are seeing and then I will not comment too much about the digital bank because it's really very early stage at this point in time and we are just building up and will be launching the service in Singapore in the second half of this year together with Grab but one thing you have to take note is, this is really - I will say a minority stake joint venture so we are supporting the investment in Singapore, partnering with Grab in the region we also have got local partners.

So, it's really about investing for the future, getting into digital services but it's not going to be a big business for us in - anywhere in the near future. So, I just want to clarify that this is not something that we are putting our future into entirely. The core is still a very big part of our business. There are other growth initiatives like NCS, which we can talk about. The data centres that we have got a plan to grow the business and those are much bigger and direct investments that we are holding bigger stakes in.

Finally, on labour, I'll come back later to talk about some of the IT costs and inflationary pressure as a whole but first, maybe Arthur can talk a bit about the clarification that we have made this morning on the stake in Airtel India.

Mr Arthur Lang - *Group CFO*

Sure. Neel, thanks for the question. I think this - first, very clear, we've held Airtel for almost three decades and in fact, I don't think there was a single time where we sold a stake or any stake in Airtel, right? It's a core part of our international portfolio so I mean there's a lot of speculation in market I just saw on Bloomberg another speculation that we're actually selling 2% to a tech investor.

So, we don't comment on such speculation. As and when if there's a material transaction, we will of course disclose it but I think what's fundamental, it's really at the end of the day and this is very much of that strategic reset we talked about a year ago, it's really to - how we can narrow that holding company discount which I think all of you know that Singtel suffers from.

One of the ways to do that is to illuminate the value that we have or what I always call the latent value in our balance sheet. It's not just an international portfolio issue, it's also all our real estate, our infrastructure assets and we have started that process.

Whether it's the sale of the Australian towers network, whether it's working with Telkomsel to sell their telco towers in Indonesia, whether it's a monetisation of - small monetisation of our Airtel Africa stake, working with Gulf and AIS to realize value in some of the businesses there and all that. So, it's really part and parcel of narrowing that discount.

So, we will always take that. So that has not changed. It is part of our strategic reset and we need to continue doing that but for specific to Airtel, we don't comment on rumours or any speculation at this point. Yes.

Mr Yuen Kuan Moon - *Group CEO*

Kelly, can you talk about…

Ms Kelly Bayer Rosmarin - *CEO, Optus*

Yes, thanks for the question, Neel. I think for us in Australia, we just start with a very old-fashioned principle that if you want to get more value from your customers, you need to add more value. So, we've been very focused on quite a wholesale transformation of every aspect of what we do for customers, starting with our value proposition, making sure that we represent value for money. That we give our customers great service and add value to their lives.

That led us to invest in some really cutting-edge innovation and saw us launch the Optus Living Network, which gives our customers control and access to features from inside the My Optus app that let them really add value to their own lives in the moments that matter.

We've now got eight Living Network features from being able to pause your network for a digital detox to being able to add $5 a day unlimited data day and to the latest one, Optus Eco, which we can talk about if you'd like, which is about engaging our customers in benefiting the environment in a positive way.

So, we really are differentiating our overall offering in addition to having created plans that really resonate with customers, like our family plan, the Optus Choice plans that let people tailor the composition of features to what they truly want.

At the same time, having invested in Australia's fastest 5G, we felt we were on really solid ground to raise our prices whilst also attracting new customers. So, breaking that old idea that there's a tradeoff between price and volume, we wanted to pursue both.

We also lifted our customer service, introducing a team of experts' model so that our customer care is second to none and we really have a genuine shared ambition as a company to be Australia's most loved everyday brand with lasting customer relationships. That's really permeating every facet of the business and enabling us to keep focusing on growing our ARPU and growing our customer base.

Mr Neel Sinha - *CLSA Singapore*

Quick follow-up on that. In the sandbox are the other players playing okay or what's your sense of competitive intensity in the market?

Ms Kelly Bayer Rosmarin - *CEO, Optus*

Look, our market is always very intense. We have Telstra is a very large, very good competitor that you can never underestimate. Whilst they talk a good game on pricing control, they have some of the most aggressive offers in the market through their JB HiFi partnership. We have TPG Vodafone, who have not been very successful in the market with growing customer numbers or ARPU and so we've seen increasing pricing-based competition from them.

Then we have a very active MVNO market with a number of players who put aggressive offers out there. So, from a traditional competitive base of price per gigs, there's no shortage of competition and that's why we're trying to change the basis of competition by providing differentiated offerings that customers cannot get anywhere else. So, it's not just about dollars per gig, it's about other factors that add value to our customers in the moments that matter.

There is one other further competitive development in the market that we think is very negative and that is the proposed idea that TPG and Telstra will merge their regional networks. We're opposed to that occurring. We think it will be very negative for competition and adversely impact regional customers.

It's quite unheard of where you have number one and number three ganging up on number two. I think that tells you something about the success of our strategy but I think in the end, customers will be the losers. So, we'll work through the process that the ACCC has underway.

Mr Yuen Kuan Moon - *Group CEO*

So, I think, Neel, on the last question on inflationary pressure on labour costs on people, I think I like to take the question a bit broader. I mean, if you look at inflationary pressure, that it affects everyone in almost every market. I think there are probably two ways of looking at it.

Firstly, the primary impact, that is, how it affects the operating Company as a whole. What are the things that are within our control? Then the secondary impact and how inflationary pressure affects our customers who will then impact us.

So, in things that we can control, for example, in the overall cost of Singtel. You look at it, 70% of our costs are actually from COGS, right? So, part of this can be actually transferred to the customer in the sense because prices have gone up. Everything has gone up, so there will be inflationary pressure.

The other part on labour, which is the other big part, is really about being more efficient. Being - investing in automation, digitalisation where you become more productive and of course the other big part of growth of our labour costs is actually the expansion in NCS because NCS as an IT service provider is a people-centric business.

So, you see, human or capital as an employee is really equivalent to a telco for CapEx. So, you have to put in the human resource so that you can grow your business but again, a large part of this is part of the equivalent of COGS on the IT service that will be driving revenue growth from ICT businesses.

Then finally, if you look at the other impact on rising interest cost. If you look at Singtel debt profile, we have actually brought down more than S$2 billion of debt year-on-year. That is good because on a rising interest environment, debt is going to increase your costs. Interest costs.

The other good news is 96% of our debt is actually on fixed rate. So, we have managed to lock in that so only 4% have a variable rate and the average tenure of our debt is about six years.

Mr Arthur Lang - *Group CFO*

Six plus. Yes.

Mr Yuen Kuan Moon - *Group CEO*

Six. Over six years. So, in that sense, things that we can control and manage, we have taken steps to mitigate the impact of inflationary pressure. On the secondary impact on the customers, of course that is something that we also concerned with when our customers, both enterprise customers and consumers are feeling the pressure of inflation, they may cut back on their expenditures on telco services or lifestyle services.

That may have a secondary impact on us but that affects the whole market and we have to see who we can bring more value to our customers as what Kelly have said. You know, to do this right, to do this well, in order to get more value from the customers, we have to give more value to our customers.

Mr Neel Sinha - *CLSA Singapore*

Thank you very much.

Ms Sin Yang Fong – *Vice President, IR*

Thank you. Just maybe help me along, we do have a time constraint so for me to be able to cover a good sector of questions from everyone, we probably need to limit the number of questions per asker, right? So - and then when you're speaking, please also speak into the mic because we're needing to feed this into the Zoom audience as well. So just with that, can we invite the second question, please? I see Ranjan's hand. Yes, thank you.

Mr Ranjan Sharma - *JP Morgan*

Hi, good morning and thank you for the presentation. It's Ranjan from JP Morgan. The two questions that I have is, one is on your capital allocation priorities. So, if you had like $1 billion given to you, how would you rank the investments that you would make?

The second is, I believe you mentioned you have identified S$3 billion of assets that can be recycled. If you can share more details on that? Thank you.

Mr Yuen Kuan Moon - *Group CEO*

Sure. Arthur, maybe you can take the question?

Mr Arthur Lang - *Group CFO*

Okay, thanks Ranjan. So, I think if we were - I mean, to your hypothetical question of if we were to be given $1 billion. I think it would depend. It depends, where is that cash coming from? I think Moon just now shared this capital management framework that we have.

If that cash is coming from our operations, whether it's the Singapore business, whether it's the Australian business or from our associates, that's what we call the cash coming from core operations. We want to keep and segregate that cash to fund our kind of day-to-day business. Whether it's maintenance Capex or interest expense, spectrum payments, things like that. Whatever's left behind - of course, employee's salaries and all that. Whatever's left behind will be set aside for dividend because our dividend policy is predicated on underlying net income and cash flows.

This is a deviation from the past where everything was just comingled and every single dollar was competing for that - or that additional dollar that's coming from our operations. Now, in terms of our growth engines that Moon talked about, whether it's NCS, the digital bank or the data centre business, or even 5G Capex, that incremental 5G Capex, it comes from our $1 billion that is generated if we manage to recycle assets.

So that's - so the billion dollars that you talked about, Ranjan, it depends where it comes from. We want to do this so that there is no doubt that as our core operations improve, our profits improve, our cash flows improve, we will be able to grow dividend on a very sustainable basis and not - we - you know, as you know, in the last two, three years, we faced a lot of challenges on that front.

Now, on the capital recycling bit, so it's really as we said, how do we unlock the latent value on our balance sheet? Across the many different assets we own? That S$3 billion really is we've identified it, it is not a number, it is not a cap but at least it's as closely identifiable type of opportunities.

So, one of them, of course, is this building that we are in and we have announced publicly that we are going to redevelop this place. We have also announced that we are in search of a partner. We've also announced that it will be by end of the month. So just watch this space. We're not ready to announce yet, but we'll be announcing shortly on this. So that would probably contribute to that $3 billion number and then there are a few things where as and when we are able to share, we will do so.

Ms Sin Yang Fong – *Vice President, IR*
Varun at the back.

Mr Varun Ahuja – *Credit Suisse*

Yes, hi. Thank you for the opportunity. Two questions from me. Moon, if you can highlight any of the initiatives that you thought in the first year you could not do to your satisfaction because of any COVID-related stuff or anything. I just want to hear what all the initiatives that are left that you really want to push over the next couple of years.

Secondly, on NCS, I know you've been talking about a growth opportunity, but if you look at the results for the second half, the EBITDA growth is just mid-single digit, right, whereas some of the other IT services firms have been doing much stronger. So, I just wanted to understand anything that you want to highlight where you're seeing some issues there. Thank you.

Mr Yuen Kuan Moon – *Group CEO*

Okay, Varun. I'll take the first question and maybe ask KP to chime in a bit on the second question on the NCS second half EBITDA. Firstly, I think if you look at the timing last year in May, probably – exactly about a year ago, I talked about the strategic reset and identified the four pillars and the growth initiatives. I spoke about data centres, I spoke about NCS expanding into the region.

I think NCS have really acted and moved very quickly. Despite COVID restrictions, we managed to secure four acquisitions. In fact, if you think about it, two smaller ones and two bigger ones. Now we really have got a platform in Australia where we can scale our ICT business and sharing some of the capabilities between Singapore, Australia and in a Group basis for NCS. So, I think that is according to plan.

We could have moved a bit faster, for example, for data centres in the region, primarily because with data centres, you do need to identify sites, locations for greenfield builds. With the restriction on travelling, it's going to be very difficult. In fact, our momentum started to build up when the border starts to open and we are able to fly into Bangkok, into Thailand, into Jakarta, into Indonesia and we can start the activities with our partners.

The intent has always been there, it's just that the real activity needed some physical attention and you need to go down to look at environment to talk to people. So that has slowed us down a little bit and of course hopefully we've now – pretty much the pandemic behind us, borders are opening up. We can build on that momentum to run a bit faster on that.

I think on NCS, before I hand over to KP, we have to also to look at the – firstly, the two big acquisitions in Australia for NCS these are ongoing large businesses. As I said, you add $300 million of revenue – on annual revenue for NCS. These are profitable companies. These companies have got a well-run engine and now we are bringing synergies between the two acquisitions we made and together with our Singapore operations.

So, you see that we are building on that momentum and obviously NCS is a business – a people-centric business. So, you see some initial increase or ramp-up of manpower because you have to build the workforce to secure businesses. So, you see a bit of pressure on the EBITA, because we are investing ahead to grow business, right? So, KP, maybe you can highlight on the second half of NCS.

Mr Ng Kuo Pin – *CEO, NCS*

Sure. Well, thanks. I think maybe I set a bit of the NCS financial performance for the year. If you look at our report, we talk about the revenue growth about 9%, 9.1% to be precise, for the year. In the EBITDA, it's mid-single digit, but EBIT if you look at it is 8%. So, EBIT lower than revenue growth, but still a very respectable – in fact, a very good growth especially in the context where in the IT industry there's – the last year has been heavy competition in the marketplace for talent.

Many of my competitors are paying a lot and so are we. We have to obviously be relevant to our people. So, I think that because costs for us has been the talent cost increase, right, but still we're looking at very respectable 8% growth in EBIT with a revenue growth of 9%, right? But really, we're in the investing mode, right? Bearing in mind that 9% growth is largely in Singapore. So, the biggest – if you look – think about our strategy, it's really to grow along three dimensions.

The first is geographic expansion, so earlier Moon talked about into markets like Australia. Australia will be a very major growth market for us, as well as Southeast Asia, right? But Australia is our primary focus for the coming year. The second dimension of growth is – besides the government sector which are – seen to be very good at and strong and we continue to do a lot of that. We are now getting to the enterprise space, such as banking financials, as well as even in telco space, with the recent setup of what we call a Telco+ strategic business group, as well as a Gov+ strategic business group.

So that continues to be a real focus, which we are investing in. The third area of focus is around helping clients to become more digitally enabled, right? Many of you may have heard about NCS Next, which is the digital arm of NCS. We started that about two years ago. That has gotten a lot of good traction with marketplace. I would go back to the acquisition in Australia. If you follow what we have done, we have two major companies: Dialog, which is more a traditional IT company; and then we have A-R-Q or ARQ, which is a digital company.

So, what we are doing with ARQ is not just to serve the Australian marketplace, but we are now going to take ARQ, combine it with NCS Next, right? We keep the name NCS Next, but it will now be a regional digital powerhouse that straddles with Singapore and Australia. So that's the kind of model we're looking at to serve our clients, not just in the specific region, but across the regions that NCS is going into.

So, in summary, I think we are definitely in investment mode, which is why you will find that EBITDA will lag behind revenue growth, but I think we're very optimistic about the growth that we are seeing today.

Ms Sin Yang Fong – *Vice President, IR*

Our next question, Piyush.

Mr Piyush Choudhary – *HSBC Securities*

Hi. This is Piyush from HSBC. Two questions. Firstly, Moon, you talked about $5 billion target for NCS revenue by fiscal '26. Can you break up in between organic and inorganic? Like, what is the aspiration there. Would that imply that capital recycling exercise which you are doing bulk of that, the majority will go into probably inorganic activity in NCS?

Second also question on NCS, you have acquired these four entities. If you could tell us initial experience about integration and how you are seeing client traction in terms of cross-selling those products into the market? So, some insights over there in terms of acquisition.

Mr Yuen Kuan Moon – *Group CEO*

Well, I think, Piyush, firstly, I think this is really – the $5 billion is more of an aspirational target. I think we want to see ourselves as a player of scale in the region. It is not so much of a target, but an aspiration because in order to be a significant player in the region, you do need scale. You do need to have regional global delivery centres that you can tap into and you can share that capability across multiple markets.

That's what we are striving to achieve. The first step is actually Australia. So, I will not be able to give you the split of how much more acquisitions we make, but it's definitely a combination of both organic growth, as well as inorganic growth, like what we have done in Australia. For the Australia acquisition, obviously you look at it. Firstly, it's really about market access, right? Because if you don't if you start to grow it organically in a greenfield market like Australia, it's going to take a long time before you can capture any significant contribution. The market is growing at double-digit, 15% compound annual growth rate for the sector. So, if you do not get in fast, you will not be able to capture and ride that growth momentum of the industry.

We cannot bring our capabilities to bear. What we have done for the Singapore Government here where KP have started the strategic business unit called Gov+ will not be able to extend this capability beyond the shores of Singapore. But having made the acquisitions with Dialog and ARQ, we are – we will be able to then very quickly deploy these solutions for considerations in the Australia market.

Similarly, with ARQ acquisition as well, KP have mentioned the digital capabilities of ARQ, the employees there, will now be able to extend beyond the shores of Australia, bringing these capabilities back into Singapore and also in the region. So, I think if you look at it, there will be some organic growth tapping on to the common capabilities and there will be inorganic growth for either market access, for capabilities or for scale. Right? So, KP, you want to address the second half of the questions?

Mr Ng Kuo Pin – *CEO, NCS*

Yes, Moon. But if I may also share some thoughts on the first part. I think – yes, many of you will be thinking I don't know anything about growth and, you're right to get to $5 billion we don't have much time we have four more years – actually started last year, that's why it's one plus four – we will need to get at 21% CAGR. So, you think about 21%, earlier I mentioned about 9% growth. That was organic, but you can do your math, right?

So, it's between organic and inorganic, plus also something which we call synergy. Right? What do we mean by synergy? Which is when we look at inorganic growth, when we get access to a new market like Australia, then you can think about, okay, what's the synergy between the Australian clients and Singaporean clients? Right? We do a lot of work for government agencies here. There's a lot that we can now take to the Australian state governments and the states. Six states in Australia with very similar needs.

All right? So those are the kind of synergies that we are looking at when we think about growth, right? So, if I might say, if we think about that 21% CAGR, organic, inorganic and synergy. That's how we look at it. The exact split, I – we do have internal plan, but unfortunately, I don't think I would be able to share. We're still learning and hope you bear with us.

To your question about integration, the way we look at the – these current two acquisitions in Australia, there are really three integration streams that is happening. The first I did talk about earlier is to create a kind of a digital powerhouse straddling Singapore and Australia. All right? We'll call that NCS Next. So, with ARQ coming in, there's one level of integration we're looking at. Our vision is to have one NCS Next that is really one team, right? You have basically mobility of resources, people, moving between the two countries and Southeast Asia.

You have mobility of ideas as well along the way and together we're looking at NCS Next of about 1,900 people, right, if you just look at combining ARQ with the current team that NCS has. So that's one integration. The second integration is how we go to market in Australia. All right? So, we like to think that we will be able to offer the clients in Australia, a very good combination of traditional IT – we call that the core IT applications, infra, cyber, together with the digital part, which is NCS Next.

So that level of integration is more go to market, but we think that's a very powerful play that we can offer our clients. It's not new to NCS many of the global boys do that, but I think we are the right scale we're not super big. We have a lot of time to spend with our clients. We want to be focused on them and that intimacy with client, will be where we are trying to differentiate ourselves, right? The ability to bring the right scale to them and be dedicated to them.

Finally, the third integration is more internal systems and processes, which obviously – it needs to happen for every acquisition, which of course we are also putting in place. So, the idea is when – if we can do these three integrations well, we're not looking at Australian business and the Singapore business or Southeast Asia business or Greater China business. We are really looking at creating one global NCS with a very, very clear focus in Asia Pacific. We think we are differentiated in that respect compared to other global boys and this is how we want to play and get better at. I hope that answered your question, yes.

Ms Sin Yang Fong – *Vice President, IR*

Okay, I think I have to confess it was – I have been remiss. I have actually omitted the introduction of Bill Chang, who's also on the line. Bill is the CEO of Group Enterprise business. So, if you do have questions, we can take those later but, in the meantime, what we should do is probably move off to the Q&A from the Zoom audience. I have been informed that there have already been hands raised. So, okay we will take questions from Roger Samuel? Roger, are you ready to ask your question?

Mr Roger Samuel - *Jefferies*

Yes. Yes, thank you. My first question is on - just want to clarify the relationship between Group Enterprise and NCS? I understand there's some overlap between the two divisions in terms of Cloud and Cyber and there is an intercompany transaction as well and - yes. I'm just trying to understand the synergies between Group Enterprise and NCS if there's any? My second question is on Optus in Australia. Have we seen any impact on ARPU from roaming yet? Thank you.

Mr Yuen Kuan Moon - *Group CEO*

Sure. All right I will take the enterprise question and Kelly will follow up with the ARPU for roaming in Australia. First of all, I think NCS was part of Group Enterprise last - well, before last year. Last financial year. I made that change in early last year when I first took over. The reason is really because recognizing that ICT is a really high growth business in the region and by separating it out and giving it focus, we will be able to capture part of that growth not just in Singapore but also in the region.

Then obviously if you look at some of the reporting, there's some of the legacy of NCS originated revenue and the non-NCS originated revenue. This is really something of the past that we are really going to no longer see this coming into the FY23. But the difference in ICT or in the enterprise business between the telco part which Bill operates and NCS is actually quite different. Bill's area on ICT is really more of a telco-centric digital services. For example, in the area of 5G. If you look at the 5G enterprise space, you see that companies transforming themselves through the adoption of 5G technology. The 5G para - MEC mobile edge computing platform being delivered through Paragon, that's a big part of it, it's actually coming from the enterprise space, right? That's the digital service the enterprise space for the Group Enterprise.

On the other hand, is NCS not going to get a - sort of a share of the 5G enterprise space? Obviously not because NCS plays in the application space of 5G. So, when you approach a corporate customer who are deploying 5G, they will have to look at the MEC platform when engaging Singtel for it and while it starts to transform its business, they will have to look at system integration, look at IT applications that are sitting on 5G and that's where NCS can come in as well.

So, we do see a very clear distinction of how we lead into the market whether it's a telco-led initiative or an IT-led initiative, right? So, Kelly - before Kelly talks about roaming, maybe after that I'll ask Anna to talk about roaming because roaming impacts Singapore business a lot more than Australia and also maybe Kelly, you talk about roaming ARPU and then Anna can jump in.

Ms Kelly Bayer Rosmarin - *CEO, Optus*

Yes, thanks for the question, Roger. So unfortunately, we didn't see a return to roaming in the financial year that the results were announced. So unfortunately, the impact to our ARPU from roaming was negligible. But we have seen green shoots in the month of April - the April school holidays - where travel in Australia got back to close to a third of pre-COVID levels. So hopefully there's more upside to come as roaming returns over the next few years.

Mr Yuen Kuan Moon - *Group CEO*

Anna?

Ms Anna Yip – *CEO, Consumer Singapore*

Okay. Thank you. Good morning, everyone. So, for Singapore, roaming as you guys know, has always been the very important part of the business. The recovery really speeded up I think probably towards - like December or January and then really sped up towards the end of the financial year. So, I think what you see here is really just a teeny bit of the roaming upside, but you can see the activity really start to recover from let's say 10%, 15% to almost 20% and as I speak now is probably edging beyond 30%.

But of course, it's not very evenly distributed across corridors. So, you see a lot more roaming traffic happening with for example Malaysia, some parts of for example Indonesia but the other corridors - let's say North Asia - is still very much muted. Another big one is actually North America and Europe. You also see a lot more traffic coming from there. So, we do think that this is on course of recovery in terms of roaming.

Another factor I also want to highlight for Singapore is the foreign workers population because in the last two years, we saw a decline of - actually, it's a very big decline. More than 200,000 number of foreign workers leaving the country and they have not been replenished yet. However, with a changing government policy being more relaxed, a lot of restrictions have gone away, we do see a return of this population. This is important because they are a very important segment for us particularly for the prepaid segment. So, we hope that this will also bring forth a nicer growth of that part of the business. Thank you.

Mr Roger Samuel - *Jefferies*
Thank you.

Ms Anna Yip - *CEO, Consumer Singapore*

All right. We'll move to a next person online. I think that's Eric Choi from Barrenjoey. Eric, could you ask your question? Eric, I think you're on mute.

Mr Eric Choi - *Barrenjoey*

Sorry. Can you hear me now?

Ms Anna Yip – *CEO, Consumer Singapore*

Yes, we do.

Mr Eric Choi - *Barrenjoey*

Sorry. Thank you. Thanks for the questions. I had just two for Kelly. Firstly, just wondering what revenue levers Optus had at its disposal to combat inflation in the cost base? If I look at the US and the UK, they've linked mobile pricing to CPI and Telstra likely will too. So, is this something that Optus would consider?

Then secondly, if that Telstra and TPG regional deal were to be approved, do you think you've differentiated the Optus product offering enough for things like Living Network to sustain your pricing premium over Vodafone? Thanks very much.

Mr Yuen Kuan Moon - *Group CEO*

Kelly?

Ms Kelly Bayer Rosmarin - *CEO, Optus*

Thanks Eric. So, on the first question about revenue levers, obviously our pricing strategy is up to us. CPI-linked continuous increases in pricing plans sounds a little bit more like an incumbent move than a move that a most loved, every day brand would make. But of course, it's up to us how we determine to handle that.

I think we do have other options that some of our competitors might not, with the Optus Living Network where there are on-demand features that customers can pay for that actually add value to them in the moments that matter and opportunities for them to do things that are meaningful to them as opposed to doing things across and blanketing the whole customer base.

But that's certainly something we can look at and we understand that it has become a trend in certain other markets. So, we always are going to be nimble and adapt to what our competitors do when it comes to pricing, but we also are going to stay true to being a customer champion in the market.

On your second question about what might happen with the network merger in regional Australia and whether we've done enough to differentiate ourselves with the Living Network? We certainly feel we've done enough to differentiate ourselves from the Vodafone TPG network in terms of coverage, in terms of 5G speed leadership, in terms of value added and differentiated features, in terms of quality of coverage and in terms of service. So, we're not actually super worried about that.

We're also not worried that there's any possibility that competition goes up with this merger because we think it's going to go down. What will be happening is that TPG Vodafone will be slapping their logo on the Telstra network in those regional areas. So really, it's about whether we've done enough to compete with Telstra, and we believe that especially regional Australians want and deserve choice and options, they want and deserve an alternative to Telstra in those regions and we are doing everything we can to provide that alternative, to offer great service and we do think we're differentiating very strongly from the incumbent.

Ms Sin Yang Fong – *Vice President, IR*

I think we probably have time for one last question and I do have still quite a few raised hands on the line. If in the event we can't finish and address all your questions, what we will do is we'll separately get back to you. But maybe we'll take the last question from Foong from CIMB? Foong, are you online?

Mr Choong Chen Foong - *CIMB*

Yes, I am. Thank you so much for the opportunity and congrats on the good set of results with the underlying net profit up. A couple of questions - two questions from me. Firstly, on NCS, EBITDA margin was slightly down for the year if you exclude JSS and I suppose that's partly due to the big recruitment drive that you did in the first half. Do you see more of that in FY23? Or have most of the hiring internally already been done?

If you can provide some colour on the trajectory of NCS margin this fiscal year? Implications from changes in the product mix? Whether you may need to sacrifice some margins as you try to establish your footprint in some of these newer markets? That will be helpful.

Then second question on capital management. On the dividend policy, would it be right to think that 60% is the minimum but the intention is to pay up 80% or the upper end of your policy range where possible? Or should we be referring to free cashflow as to where that pay up may end up in the range?

So, for instance, if we have a lumpy spectrum payment, should we expect that the payout will be in the lower end of the range? Yes, those are my two questions. Thank you.

Mr Yuen Kuan Moon - *Group CEO*

Yes. Foong, thank you for your question. I'll take the second question and then I'll hand over to KP for the NCS question. I mean, you know we have given our guidance for dividend policy 60% to 80% payout of our underlying profits, right? It's very - I mean, of course, the range will be 60% to 80%.

This year, our underlying profits have improved and with the improved underlying profit, the strong cashflow, we are able to pay in the upper range of that 60% to 80% range. So, it's really driven by fundamentals and Arthur had earlier on shared that we have now identified really two buckets of cash that's coming in. Cashflow generated by operations and cashflow generated by the recycling of capital.

So, with clear distinction of these two sets of cashflows coming in, we are a lot more confident in ensuring that the dividends will improve over time as we grow our underlying profits and therefore, maintaining at 60% to 80%, even within the range, we expect dividends to improve as underlying profits improve.

For NCS, I think KP have explained that we are really at an investment stage here in terms of building capabilities and growing our employee base because you do need people to grow new accounts and new businesses. But obviously, there must be a target of looking at what is a sustainable margin for this sort of a business? There are always industry benchmark and we look at this industry benchmark of a company of equivalent size and scale of NCS, what should it be? What sort of margin?

We set ourselves those targets and of course, if you are doing a lot more digital work, the margins will be better. If you're doing a lot more infrastructure work, the margins will be lower. So, I think it is really about growing the business in a sustainable manner both in revenue and margin expansion, right? KP?

Mr Ng Kuo Pin - *CEO of NCS*

Yes, sure. I'll maybe just add a bit more. So, I think everyone knows that the ICT digitalisation business is really all about talent, right? Of course, I think the company, the strategy that we adopt is important. The capabilities, the assets, the industries we play is also important. But at the end of the day, we will need to pay for good talent. So, which means that our cost for talent will continue to rise because I think there is still a lot of demand in this industry.

But the good news though is obviously we can charge this back to the client, and we should, all right. So that is something that on one hand while it's a cost, it's increasing. How we play in the market, the industries we go after and how we price ourselves will also be actually very important.

So effectively what we are trying to achieve is something call profitable growth, right. So, we do want to grow quite aggressively. Again, earlier we talked about the S$5 billion target, which is an aggressive one. But in order to do that, growth will be a key to us, but at the same time we want to make it profitable. So how we balance the cost as well as the price we charge to our clients, and which market, which clients we serve is also quite important.

Now to the question about the margin. The margin that NCS ultimately will deliver will be a function of two things. One is the mix of services. So even though we must talk about services, if we double click on that, there are different types of services, all right. So, there's application services, which is more kind of software application. There's infrastructure services, more hardware, kind of a data centre type of related. There is also cyber services, there is also digital services.

So different services have different margin profiles. So, the mix of that will also affect the NCS net margin. So, this is something which we are also now calibrating very carefully. If you look at our numbers, now our EBITDA is around 13% of our revenue. So as our revenue grow, our intention is to at least maintain the same margin percentage of revenue. Obviously with a change in the mix of services we are also trying to drive up that number, all right.

So, I think hopefully that gives a sense. Again, if you benchmark us against our competitors, you will find that some of the regional players are also around the same ballpark. The global boys do a better job. The IPPs do very good numbers. But I think you need to get to the global scale in order to do that.

Mr Choong Chen Foong - *CIMB*

Okay, thank you so much, Moon and KP. All the best for FY23.

Ms Sin Yang Fong – *Vice President, IR*

So, with that we do have to wrap up the session. So, thank you everyone for your strong interest. To participants online, your questions, we will come back to you shortly. So, on behalf of Singtel Management and the IR team, so thank you very much. We will see you in half years' time. All right, see you.

End of Transcript