

Report type: Full Year Results

Company Overview

M1 is the 3rd largest Telecommunications company in Singapore. The introduction of NGNBN in Singapore lowered entry barriers to the Fixed Line business, which would allow M1 to venture into the corporate and retail broadband market.

- Profits missed, despite 4.5% growth
- Higher handset sales contributed to strong top line
- Consensus expectations could be too high
- Downgrade to Reduce with revised TP of S\$2.36

What is the news?

M1 reported a decent set of results for FY11. Revenue increased by 8.8%y-y, mainly due to strong growth in handset sales. Management attributed the strong handset sales to an increase in sales volume and unit selling price. International calling service revenue declined by 3%, despite a 22% increase in international retail minutes recorded. The company also announced a final dividend of 7.9cents, translating to a full year payout ratio of 80%.

Fig.1. Results Summary

Income Statement				
(Extract)	FY10	FY11	y-y (%)	Comments
(S\$'mn)				
Revenue	979.2	1,064.9	8.8%	Strong handset sales
EBITDA	311.0	308.7	-0.7%	Margin decline
EBIT	194.0	201.6	3.9%	
Net Income	157.1	164.1	4.5%	Below expectations

Source: Company, PSR


How do we view this?

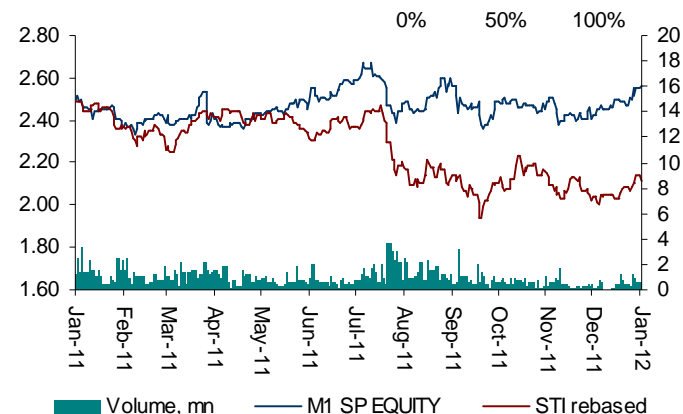
The results were marginally below our expectations of S\$170mn. M1 uses a fair value accounting method to record the sales of its iPhones that partly contributed to the strong top line recorded for its handset sales. Despite higher value smartphone plans sold, postpaid ARPU was only stable sequentially and declined by 1.6% y-y in 4QFY11. We view that as a reflection of the inability to monetize mobile service revenue, in spite of high subsidy on the more expensive smart phones.

Investment Actions?

In our earlier report, we caution that M1's pricey valuations are a reflection of high expectations of the company's prospects. While we expect M1 to benefit from the structural shift in market structure with the introduction of NGNBN, we believe that the stock price could face near term headwinds from margin pressure and unexciting management guidance of prospects for next year. After revising our earnings estimates, we downgrade our recommendation on M1 to Reduce.

M1 Ltd

Rating	4	Reduce
- Previous Rating	3	Neutral
Target Price (SGD)	2.36	
- Previous Target Price (SGD)	2.50	
Closing Price (SGD)	2.56	
Expected Capital Gains (%)	-7.8%	
Expected Dividend Yield (%)	5.2%	
Expected Total Return (%)	-2.7%	
Raw Beta (Past 2yrs weekly data)	0.43	
Market Cap. (USD mn)	1,801	
Enterprise Value (USD mn)	2,060	
3M Average Daily T/O (mn)	0.5	
52 w eek range (SGD)	2.2869 - 2.7	
Closing Price in 52 w eek range		



Major Shareholders

	(%)
1. Axiata Investments Ltd	29.2
2. Keppel T & T	19.7
3. SPH Multimedia	13.7

Key Financial Summary

FYE	12/11	12/12F	12/13F	12/14F
Revenue (SGD mn)	1,065	1,047	1,021	1,075
Net Profit, adj. (SGD mn)	164	160	156	168
EPS, adj. (SGD)	0.18	0.18	0.17	0.19
P/E (X),adj.	14.1	14.5	15.0	13.8
BVPS (SGD)	0.36	0.40	0.42	0.45
P/B (X)	7.2	6.4	6.1	5.7
DPS (SGD)	0.15	0.14	0.15	0.17
Div. Yield (%)	5.7%	5.5%	6.0%	6.5%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

DCF (WACC: 6.6%; terminal g: 0%)

Analyst

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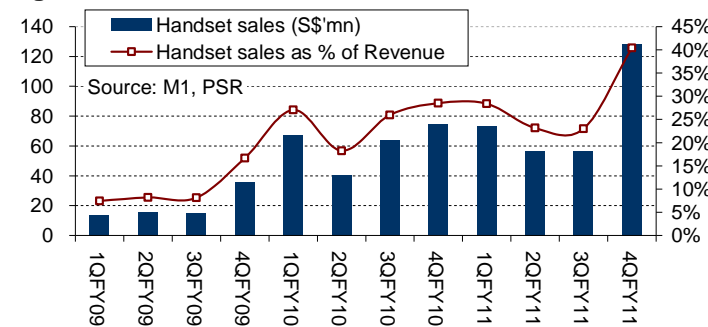
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Sales boosted by handset sales

M1's revenue growth was mainly attributed to a 28% increase in handset sales for the year. For 4QFY11, handset sales increased by 128% q-q, while postpaid subscriber base increased by merely 11k. Management explained that this phenomenon is due to higher number of handsets sold without a contract in the quarter. While this view is valid, we believe that part of the increase was also due to strong sales of iPhone 4S that was launched recently, as reflected in the surge in subscriber acquisition cost (SAC) in the quarter.

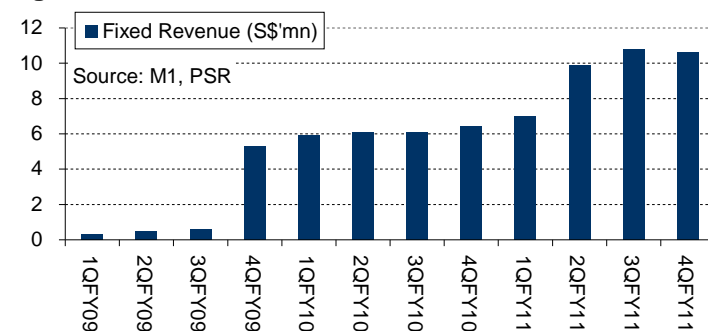
Fig.2. Handset Sales



Fixed Line Revenue growth slowing

One of the reasons for M1's stock price outperformance over the past year is due to expectations of prospects to grow its Fixed Line business, following the launch of NGNBN. However, NBN roll out remains slow and M1's Fixed Line revenue growth is seen to be slowing in the past few quarters. M1 is also a more aggressive player with its promotional pricing of S\$39/mth for the 100Mbps fibre plan, which we believe is marginally profitable as best.

Fig.3. Fixed Line Revenue



Earnings revision

For the next few quarters, we expect the aggressive pricing, slow NGNBN rollout and flattish mobile ARPU to keep margins in check. Following the weaker than expected results and potential margin compression, we revised our earnings estimates down by 1.1-1.6% for the next 2yrs and introduce FY14E estimates.

Consensus expectations for next year is too high

Management warned that the uncertain economic outlook could impact roaming revenue, business confidence and consumer spending. Hence, management guided for a stable performance for FY12E. We believe that consensus estimates could be too high, as the market currently expects FY12E profits of S\$176.5mn, which translates to a 7.5% y-y growth on the profits announced for FY11. We view our consensus estimates as too high when compared against our revised estimates of a 2.3% decline and management's guidance of stable outlook for FY12E.

Fig.4. Consensus expectations too high

Net Income	FY11A	FY12E	FY13E
Consensus	164.1	176.5	182.7
y-y (%)		7.5%	3.5%
PSR	164.1	160.4	155.6
y-y (%)		-2.3%	-3.0%

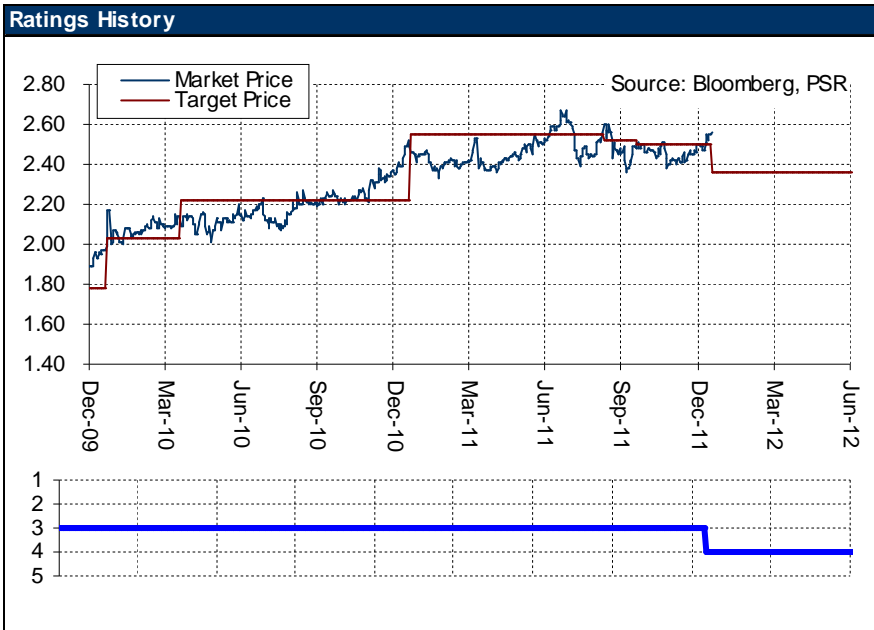
Source: Bloomberg, PSR

FYEMar	FY10	FY11	FY12F	FY13F	FY14F
Valuation Ratios					
P/E (X), adj.	14.6	14.1	14.5	15.0	13.8
P/B (X)	7.6	7.2	6.4	6.1	5.7
EV/EBITDA (X), adj.	8.6	8.6	8.6	8.5	8.0
Dividend Yield (%)	6.8%	5.7%	5.5%	6.0%	6.5%
Per share data (SGD)					
EPS, reported	0.18	0.18	0.18	0.17	0.19
EPS, adj.	0.17	0.18	0.18	0.17	0.19
DPS	0.18	0.15	0.14	0.15	0.17
BVPS	0.34	0.36	0.40	0.42	0.45
Growth & Margins (%)					
Growth					
Revenue	25.3%	8.8%	-1.7%	-2.4%	5.2%
EBITDA	1.0%	-0.7%	0.4%	0.7%	6.9%
EBIT	8.0%	3.9%	-2.2%	-2.9%	7.8%
Net Income, adj.	4.5%	4.5%	-2.3%	-3.0%	8.0%
Margins					
EBITDA margin	31.8%	29.0%	29.6%	30.6%	31.1%
EBIT margin	19.8%	18.9%	18.8%	18.7%	19.2%
Net Profit Margin	16.0%	15.4%	15.3%	15.2%	15.6%
Key Ratios					
ROE (%)	56.2%	52.5%	46.8%	41.7%	42.5%
ROA (%)	17.7%	17.2%	16.3%	15.6%	16.5%
Net Debt/(Cash)	307	292	272	255	245
Net Gearing (X)	101.5%	90.6%	75.0%	66.3%	60.1%
Income Statement (SGD mn)					
Revenue	979	1,065	1,047	1,021	1,075
EBITDA	311	309	310	312	334
Depreciation & Amortisation	(117)	(107)	(113)	(121)	(128)
EBIT	194	202	197	191	206
Net Finance (Expense)/Income	(6)	(6)	(6)	(6)	(6)
Other items	2	2	2	2	2
Associates & JVs	0	0	0	0	0
Profit Before Tax	190	197	193	188	203
Taxation	(33)	(33)	(33)	(32)	(34)
Profit After Tax	157	164	160	156	168
Non-controlling Interest	0	0	0	0	0
Net Income, reported	157	164	160	156	168
Net Income, adj.	157	164	160	156	168

Source: PSR

FYEMar	FY10	FY11	FY12F	FY13F	FY14F
Balance Sheet (SGD mn)					
PPE	601	607	625	638	656
Intangibles	99	111	103	97	90
Associates & JVs	0	0	0	0	0
Investments	0	0	0	0	0
Others	1	1	1	1	1
Total non-current assets	701	718	729	735	747
Inventories	23	36	28	26	27
Accounts Receivables	195	206	190	186	195
Investments	0	0	0	0	0
Cash	9	12	32	49	59
Others	7	7	7	7	7
Total current assets	234	261	257	268	287
Total Assets	934	979	986	1,003	1,034
Short term loans	66	54	54	54	54
Accounts Payables	158	196	163	159	167
Others	75	60	60	60	60
Total current liabilities	300	311	277	274	281
Long term loans	250	250	250	250	250
Others	82	95	95	95	95
Total non-current liabilities	332	345	345	345	345
Non-controlling interest	0	0	0	0	0
Shareholder Equity	303	323	363	384	408
Cashflow Statements (SGD mn)					
CFO					
PBT	190	197	193	188	203
Adjustments	124	114	119	127	133
Cash from ops before WC changes	314	312	312	314	336
WC changes	(84)	14	(9)	3	(2)
Cash generated from ops	230	326	303	317	334
Taxes paid, net	(37)	(35)	(33)	(32)	(34)
Interest paid	(6)	(5)	(6)	(6)	(6)
Cashflow from ops	187	286	264	279	293
CFI					
CAPEX, net	(119)	(124)	(124)	(127)	(139)
Dividends from associates & JVs	0	0	0	0	0
Dividends/Interest from Investments	0	0	0	0	0
Purchase/sale of investments	0	0	0	0	0
Investments in subs & associates	(1)	(1)	0	0	0
Others	0	0	0	0	0
Cashflow from investments	(120)	(124)	(124)	(127)	(139)
CFF					
Share issuance	9	16	0	0	0
Purchase of treasury shares	0	0	0	0	0
Loans, net of repayments	47	(13)	0	0	0
Dividends to minority interests	0	0	0	0	0
Dividends to shareholders & capital reduction	(121)	(161)	(120)	(135)	(144)
Others	0	0	0	0	0
Cashflow from financing	(66)	(158)	(120)	(135)	(144)
Net change in cash	1	3	20	17	10
Effects of exchange rates	0	0	0	0	0
CCE, end	9	12	32	49	59

Source: PSR



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
> -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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