

Report type: Update

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.

- Stable earnings and Free cash flow
- Positive on Data monetizing
- Strong demand for Dividend yielding stocks
- Investors' minimum yield requirement likely lowered
- Share price to remain stable even if Fed rates increase
- Upgrade to "Accumulate", with new TP of S\$3.55.

What is our view?

We are positive on M1 based on the following reasons

1. Stable Earnings and Free Cash Flow. M1 is expected to register stable earnings and generate adequate Free Cash Flow. Rational competition in Singapore ensures this.

2. Positive on data monetizing. We are encouraged by management's guidance this quarter that 11% of re-contracting customers upgraded to higher tiered postpaid plans. 9% of customers also continue to exceed their data allowance. While M1 has not indicated interest in following SingTel's expected increase in excess data charge to S\$10.70, we think it likely for M1 to do so.

3. Strong demand for Dividend yielding stocks. The Telco counters, including M1, continue to offer attractive yields of 4.6%. Weak global economic data in recent months, which were below market's already-lowered expectations, have also reduced possibility of an earlier spike in Fed rates before CY2015. Equities are also likely to be a better inflation hedge as compared to bonds.

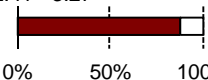
4. Investors' minimum yield requirement likely lowered. While investors previously demanded higher dividend yields, recent share price performances of the Telcos suggest that investors are increasingly accepting lower dividend yields. Furthermore, the stable earnings and FCF decreases risk of a reduction of dividend payouts.

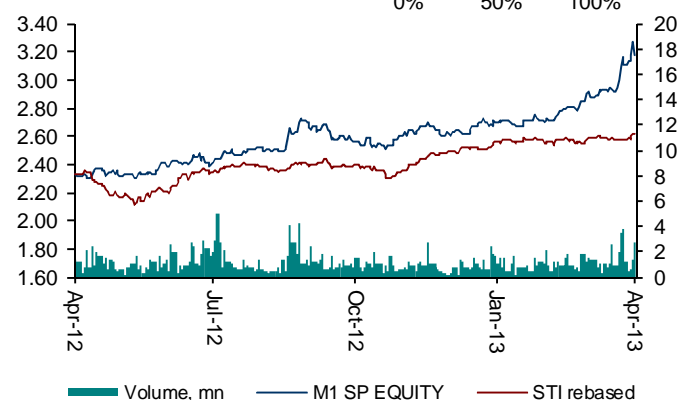
5. Share price expected to be stable even if Fed rates increase. While an increase in US Fed rates continues to be a potential downside catalyst, as investors demand higher returns, we expect share price to be stable. This is because investors may face inertial to switch portfolio, thus resulting in a lower sell-down rate and lesser downward pressure. The increase in earnings visibility also reduces its equity risk premium, thus justifying a higher share price.

Investment Actions?

Based on the reasons given above, we think that dividend yield will continue to support current share price. An increase in demand for dividend yield would also lead to capital gains. We therefore upgrade to an "Accumulate" rating, with a new TP of S\$3.55 based on our DCF model.

M1 Ltd

Rating	2	Accumulate
- Previous Rating	3	Neutral
Target Price (SGD)	3.55	
- Previous Target Price (SGD)	2.58	
Closing Price (SGD)	3.17	
Expected Capital Gains (%)	12.1%	
Expected Dividend Yield (%)	4.6%	
Expected Total Return (%)	16.7%	
Raw Beta (Past 2yrs w weekly data)	0.28	
Market Cap. (USD mn / SGD mn)	2356 / 2916	
Enterprise Value (USD mn / SGD mn)	2514 / 3112	
3M Average Daily T/O (mn)	1.1	
52 week range (SGD)	2.41 - 3.27	
Closing Price in 52 week range		



Major Shareholders

	(%)
1. Axiata Investments Ltd	28.9
2. Keppel T & T	19.5
3. SPH Multimedia	13.5

Key Financial Summary

FYE	12/11	12/12	12/13F	12/14F
Revenue (SGD mn)	1,065	1,077	1,083	1,148
Net Profit, adj. (SGD mn)	164	147	160	168
EPS, adj. (SGD)	0.18	0.16	0.17	0.18
P/E (X),adj.	17.5	19.7	18.1	17.3
BVPS (SGD)	0.36	0.38	0.42	0.46
P/B (X)	8.9	8.3	7.6	7.0
DPS (SGD)	0.15	0.15	0.15	0.15
Div. Yield (%)	4.6%	4.6%	4.6%	4.7%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

DCF (WACC: 7.9%; terminal g: 3%)

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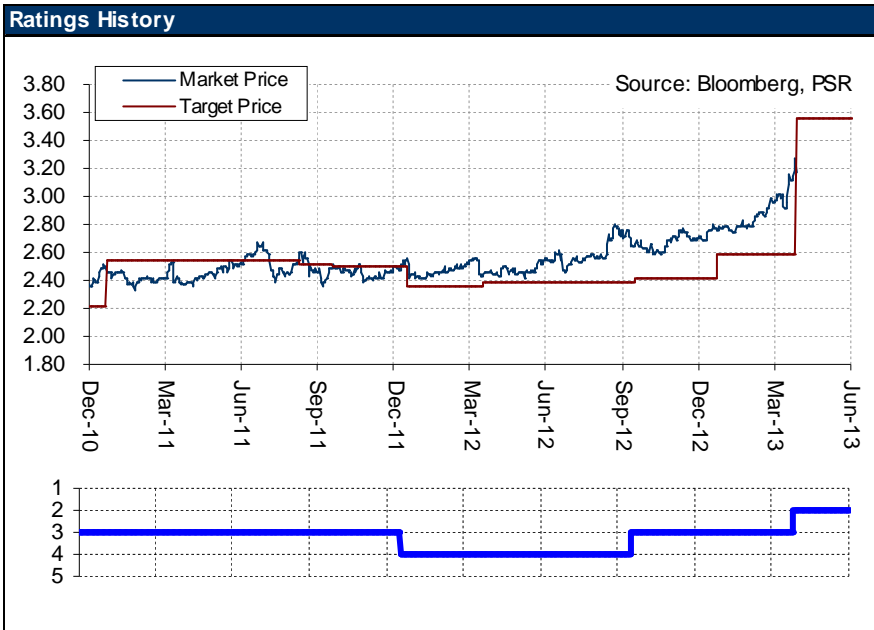
Tel: (65) 6531 1793

FYE Dec	FY10	FY11	FY12	FY13F	FY14F
Valuation Ratios					
P/E (X), adj.	18.1	17.5	19.7	18.1	17.3
P/B (X)	9.4	8.9	8.3	7.6	7.0
EV/EBITDA (X), adj.	9.9	10.0	10.4	9.8	9.4
Dividend Yield (%)	5.5%	4.6%	4.6%	4.6%	4.7%
Per share data (SGD)					
EPS, reported	0.175	0.181	0.161	0.175	0.184
EPS, adj.	0.175	0.181	0.161	0.175	0.184
DPS	0.175	0.145	0.146	0.146	0.148
BVPS	0.337	0.355	0.381	0.418	0.456
Growth & Margins (%)					
Growth					
Revenue	25.3%	8.8%	1.1%	0.5%	6.0%
EBITDA	1.1%	-0.9%	-3.4%	5.5%	4.2%
EBIT	8.1%	3.5%	-7.0%	4.9%	5.1%
Net Income, adj.	4.5%	4.3%	-10.6%	9.1%	5.3%
Margins					
EBITDA margin	32.0%	29.1%	27.8%	29.2%	28.7%
EBIT margin	20.1%	19.1%	17.6%	18.3%	18.2%
Net Profit Margin	16.1%	15.4%	13.6%	14.8%	14.7%
Key Ratios					
ROE (%)	56.2%	52.5%	43.7%	43.7%	42.0%
ROA (%)	17.7%	17.2%	15.0%	16.0%	16.2%
Net Debt/(Cash)	307	292	260	238	222
Net Gearing (X)	101.4%	90.3%	74.8%	62.0%	53.0%
Income Statement (SGD mn)					
Service revenue	733	751	772	806	836
Handset sales	246	314	305	276	312
Revenue	979	1,065	1,077	1,083	1,148
EBITDA	313	310	300	316	330
Depreciation & Amortisation	(117)	(107)	(111)	(118)	(121)
EBIT	196	203	189	198	208
Net Finance (Expense)/Income	(6)	(6)	(6)	(5)	(5)
Other items	0	0	0	0	0
Associates & JVs	0	0	0	0	0
Profit Before Tax	191	197	184	193	203
Taxation	(33)	(33)	(37)	(33)	(35)
Profit After Tax	157	164	147	160	168
Non-controlling Interest	0	0	0	0	0
Net Income, reported	157	164	147	160	168
Net Income, adj.	157	164	147	160	168

Source: PSR

FYE Dec	FY10	FY11	FY12	FY13F	FY14F
Balance Sheet (SGD mn)					
PPE	601	607	628	663	689
Intangibles	99	111	99	88	79
Associates & JVs	0	0	0	0	0
Investments	0	0	0	0	0
Others	1	1	0	0	0
Total non-current assets	701	718	727	752	768
Inventories	23	36	33	31	34
Accounts Receivables	195	206	194	199	210
Investments	0	0	0	0	0
Cash	9	12	12	43	34
Others	7	7	8	8	8
Total current assets	234	261	246	281	286
Total Assets	934	979	973	1,032	1,053
Short term loans	66	53	272	31	31
Accounts Payables	158	196	188	191	203
Others	76	61	64	74	74
Total current liabilities	300	311	524	296	308
Long term loans	250	250	0	250	225
Others	82	95	103	102	102
Total non-current liabilities	332	345	103	352	327
Non-controlling interest	0	0	0	0	0
Shareholder Equity	303	323	348	384	418
Cashflow Statements (SGD mn)					
CFO					
PBT	191	197	184	193	203
Adjustments	124	114	116	124	127
Cash from ops before WC changes	314	311	300	316	330
WC changes	(84)	14	8	(0)	(2)
Cash generated from ops	230	326	308	316	328
Taxes paid, net	(37)	(35)	(27)	(33)	(35)
Interest paid	(6)	(5)	(6)	(5)	(5)
Cashflow from ops	187	286	275	278	288
CFI					
CAPEX, net	(100)	(103)	(123)	(141)	(137)
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	(19)	(21)	1	0	0
Cashflow from investments	(120)	(124)	(122)	(141)	(137)
CFF					
Share issuance	9	16	10	0	0
Purchase of treasury shares	0	0	0	0	0
Loans, net of repayments	47	(13)	(31)	9	(25)
Dividends to minority interests	0	0	0	0	0
Dividends to shareholders & capital reduction	(121)	(161)	(132)	(134)	(134)
Others	(0)	0	0	19	0
Cashflow from financing	(66)	(158)	(154)	(106)	(159)
Net change in cash	0	3	(0)	31	(9)
Effects of exchange rates	0	0	0	0	0
CCE, end	9	12	12	43	34

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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