

Telecommunications Sector Results Season Takeaways

Report type: Update

Sector Overview

The Telecommunications Sector under our coverage consists of SingTel, StarHub & M1. StarHub (STH) and M1 are pure plays to the Singapore market, while SingTel (ST) has exposure to the Asia-Pacific region through its regional mobile associates.

- Stable earnings growth y-y for SingTel and M1
- Dividend yields remain attractive at 4.6% to 4.8%.
- M1 replaces SingTel as our most preferred stock in the sector.

Mobile

- More customers on 4G tiered plans and exceeding data allowances.
- Positive mobile customers net adds across three Telcos.

Pay TV

- Positive net adds for both SingTel and StarHub.
- M1 upbeat on MiBox take-up rate.

Broadband

- Continued growth in fibre broadband take-up.
- Competition remains intense, with further price discounts.

Most preferred stock: M1

M1 replaces SingTel as our most preferred stock in the sector. We like M1 over SingTel and StarHub as M1 (i) stands to gain the most from improving mobile dynamics in Singapore, and (ii) benefits from growth in its Fibre broadband. Mobile accounts for a higher revenue proportion for M1, compared to its peers. With its fibre broadband offering, M1 continues to grow its fixed services revenue. Adverse FX movements continue to have a negative impact on SingTel's earnings. However, SingTel's earnings remained stable y-y in the last quarter due to effective cost management strategy.

Positive on Telcos

We remain cautiously positive on the sector as the Telco stocks continue to provide attractive dividend yields and stable earnings growth. We see data monetising gaining good traction in Singapore and expect it to continue into FY2014. More subscribers have subscribed to 4G tiered plans and are increasingly exceeding their data allowances. SingTel and M1 reported improvement in EBITDA margin on service revenue while EBITDA margin for StarHub remained stable in the last quarter. Earnings growth was stable across the three Telcos in the current FY. Despite expectations of the Fed tapering in the near term, we think the Telcos continue to be attractive investments, providing earnings as well as dividend growth potentials.

Singapore Telecommunications Sector

Company	Rating	Price (\$)	TP (\$)	Upside (%)	M.Cap. (\$'mn)
M1	Accumulate	3.20	3.55	10.9%	2,954
StarHub	Accumulate	4.17	4.52	8.4%	7,170
SingTel	Accumulate	3.61	4.06	12.5%	57,556

Source: Bloomberg, Phillip Securities Research

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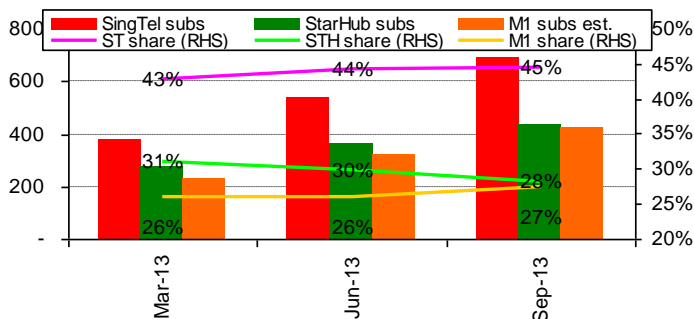
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Data Monetisation in Singapore continues good traction

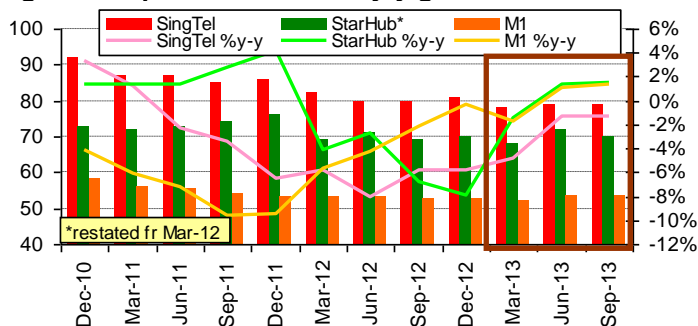
Increasing adoption 4G tiered-based plans continues across the three Telcos. SingTel and M1 reported more subscribers are exceeding data allowances, at 13% and 16% of their new tiered plans customer base respectively. SingTel had recently doubled its 4G excess data charges rate to S\$10.70/GB in mid-Sep 13. **We are optimistic on postpaid ARPU uplift into 2014.**

Fig 1: S'pore subscribers ('000) on 4G post-paid plans with 4G market share



Source: IDA, Companies, Phillip Securities Research

Fig 2: Post-paid ARPU with %y-y growth

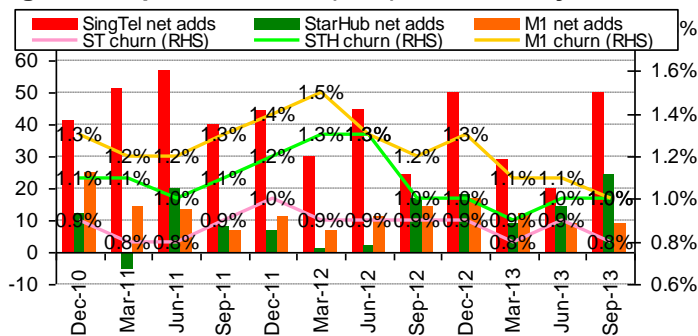


Source: Companies, Phillip Securities Research

Improving post-paid churn rate; higher customer base

Average monthly churn rate for post-paid are gradually improving for the telecom operators, due to better bundling appeal with Pay TV and/or broadband packages. The three Telcos continue to register healthy net additions to their mobile post-paid subscriber base.

Fig 3: Post-paid Net Adds ('000) with monthly churn rate



Source: Companies, Phillip Securities Research

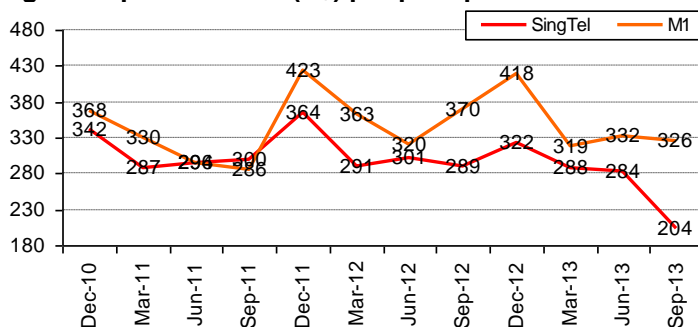
Other Key Drivers of ARPU:

(i) Upgrading from low to mid-tiered plans. (ii) Increase in excess data charges (for StarHub and M1). (iii) Potential increase in subscription fees for 4G plans.

Lower customer acquisition costs

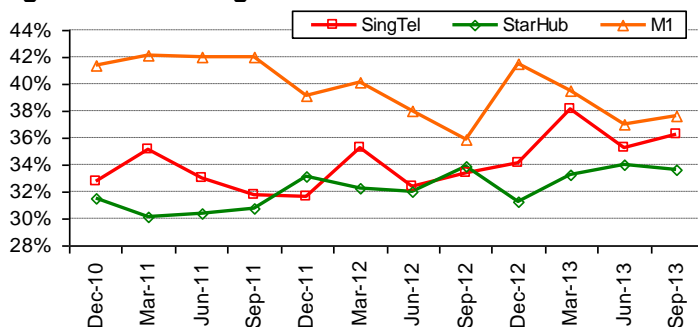
Acquisition costs per post-paid subscriber were generally lower in current year, compared to last year in 2012. Costs of sales expenses were lower across the Telcos due to lower handset sales volume. These would help lead to better EBITDA margins in current FY.

Fig 4: Acquisition cost (\$\$) per post-paid subscriber



Source: Companies, Phillip Securities Research

Fig 5: EBITDA margins on Service Revenue

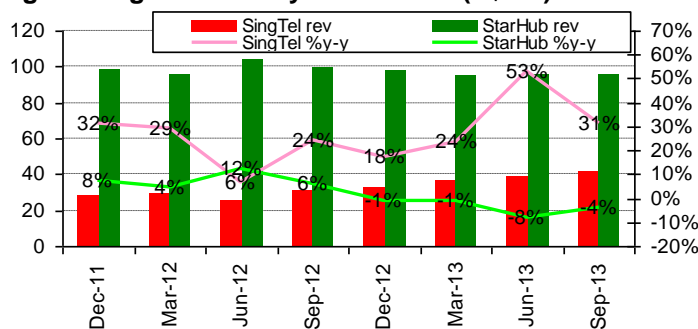


Source: Companies, Phillip Securities Research

Increasing Competitive Pressure in Pay TV Space

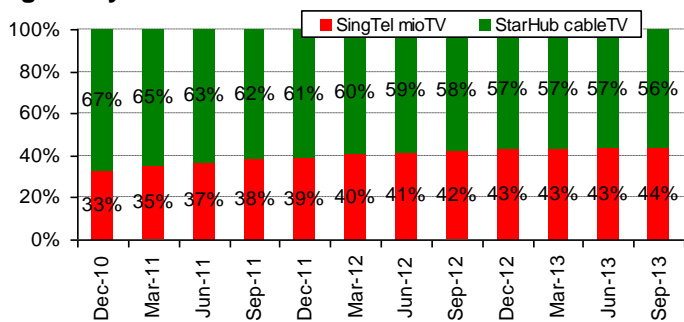
StarHub reported an increase in its Pay TV subscriber base in 3Q13, after six declining quarters. The y-y decline in Pay TV revenue was due to higher revenue earned from UEFA Euro event in 2012. Market share in the Pay TV space remained stable between SingTel's mio TV and StarHub TV.

Fig 6: Y-Y growth in Pay TV revenue (\$\$mn)



Source: Companies, Phillip Securities Research

Fig 7: Pay TV Market Share



Source: Companies, Phillip Securities Research

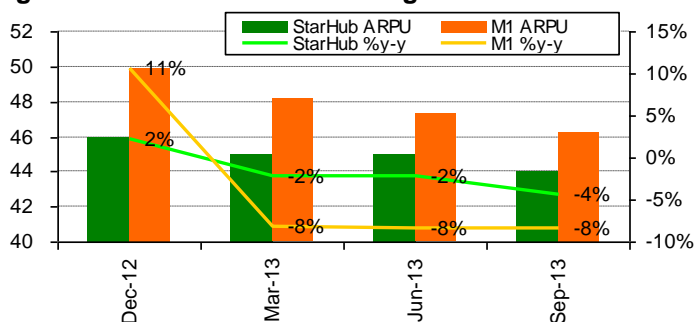
M1 optimistic on BPL cross-carry eligibility by mid 2014

Management shared that take-up rate for MiBox has been encouraging and expected to achieve 10K subscriber base target, in its recent 3Q13 results briefing. This heightened the possibility of M1 competing with SingTel and StarHub in providing English Premier League contents for soccer fans.

Declining ARPU under intense broadband competition

Broadband ARPU continues to decline under intensive price competition in residential broadband segment. The Telcos are now offering at least free 3 months' subscription for their fibre broadband plans, fuelling price competition (Refer to Fig 12). **We think ARPU would likely decline further.**

Fig 8: Broadband ARPU declining

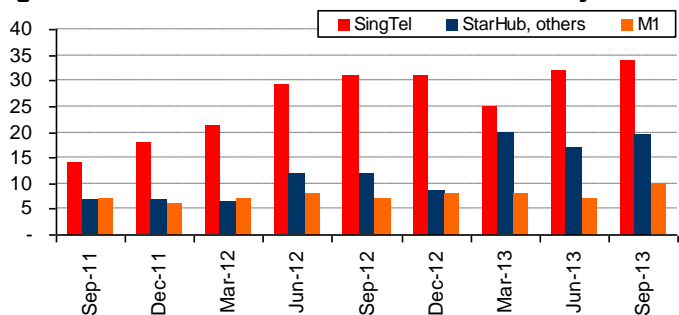


Source: Companies, Phillip Securities Research

Fibre take-up rate continues to increase

Take-up rate in fibre continues to increase y-y for the service operators. Based on IDA's data, ~33% of wired broadband subscriptions in Singapore are on fibre as of Sep 2013.

Fig 9: Fibre broadband net adds remain healthy

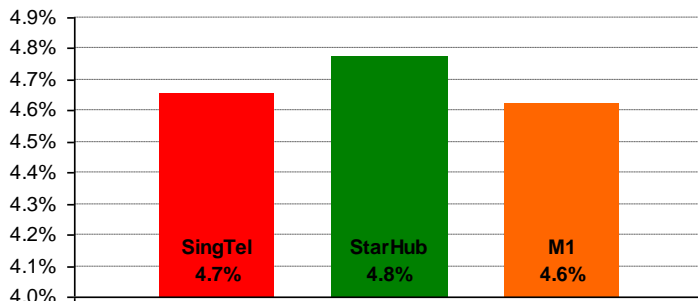


Source: IDA, Companies, Phillip Securities Research
*others: other (unlisted) providers, such as MyRepublic, ViewQwest, etc.

Dividend yields remain attractive

We continue to like the Telco stocks for their attractive dividend yields. Despite concerns of the fed tapering by year-end, we viewed that current yields are still attractive, with dividend growth potential as further incentives to long-term investors. SingTel and StarHub continue to be among top few ST index dividend yield stocks.

Fig 10: Forecasted CY13 dividend yield (%) by Telcos



Source: Bloomberg, Phillip Securities Research est.

Key upside/downside risk

Key upsides include effective data monetising from the Telcos, customers upgrading from low-tier to mid-tier plans and lower handset subsidies.

Key downside risks include an increase in Fed rates due to US Fed policies and a possible shift of investors' preference away from dividend yielding stocks. Having said that, our house view is that stocks with earnings/dividend growth and low debt servicing will be preferred in a tapering environment, and the Telcos fit this criteria as well.

Outlook on Telcos

We remain cautiously positive on the sector, as they remain attractive due to high dividend yields and stable earnings growth. M1 replaces SingTel as our most preferred stock in the sector, as M1 stands to gain the most from improving mobile dynamics in Singapore. M1 also benefits from fibre broadband growth on increasing broadband customer base. M1 had guided for FY14E capex to be around current FY13 capex level at S\$130 million. We think this may lead to higher free cash flows in FY14E, improving its ability to increase dividends in the near term.

SingTel reported stable earnings in the last quarter despite lower revenue, due to better EBITDA margin on effective cost management. It continues to have strong growth in its associates' earnings on constant currency terms. However, weakening foreign currencies outlook remain a challenge for SingTel, which may lead to earnings growth being eroded.

On StarHub, key concerns would be on increasing Pay TV content costs and competition with SingTel's mio TV. Management continues to guide its Pay TV as a viable business as it seeks to improve its value proposition to customers on content differentiation.

Fig 11: Telecommunications Sector Valuation Comparables

Company	Rating	FYE	Price	TP	Upside (%)	Market Cap. (\$\$'mn)	Ent. Value (\$\$'mn)	Market Cap. (US\$'mn)	Ent. Value (US\$'mn)	Equity Multiple (X)						Dividend Yield (%)		
										Net Income			Book Value			FY11/12	FY12/13E	FY13E/14E
M1	Accumulate	Dec	3.20	3.55	10.9%	2,954	3,155	2,356	2,516	18.0	20.1	17.7	9.2	8.5	7.3	4.5%	4.6%	4.6%
StarHub	Accumulate	Dec	4.17	4.52	8.4%	7,170	7,526	5,719	6,002	22.7	20.0	19.4	317.3	164.8	233.5	4.8%	4.8%	4.8%
SingTel	Accumulate	Mar	3.61	4.06	12.5%	57,556	65,132	45,902	51,939	15.7	15.9	16.3	2.5	2.4	2.2	4.4%	4.7%	4.7%

Source: Bloomberg, Phillip Securities Research est.

Fig 12: Promotional offers on Fibre Broadband plans

Plan Type (download speed)	Price/mth	Remarks
M1 Fibre Broadband (300 Mbps)	S\$49.00	Free 3 mths subscription: Free 12 mths MiBox subscription; Free ONT activation Free Terminal Point installation (only for 300 Mbps plan);
M1 Fibre Broadband (200 Mbps)	S\$39.00	
SingTel Fibre Home Bundle (500 Mbps)	S\$69.95	10% off mobile subscription <i>*Free activation & installation incl. in mio TV bundle offers</i>
SingTel Fibre Home Bundle (300 Mbps)	S\$52.45	
SingTel Fibre Home Bundle (200 Mbps)	S\$43.70	
StarHub Fibre Broadband (300 Mbps)	S\$59.90	Free 3 mths subscription (6 mths free for 100 Mbps plan); Free ONT activation; Free Terminal Point installation
StarHub Fibre Broadband (200 Mbps)	S\$49.90	
StarHub Fibre Broadband (100 Mbps)	S\$39.90	

Source: Companies' websites (as of 6 Dec 13), Phillip Securities Research

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