

# Telecommunications Sector Results Season Takeaways

## SINGAPORE | TELECOMMUNICATIONS | SECTOR UPDATES

### 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.

- StarHub and M1 reported gains in FY13 net profit, up 3% and 9% y-y respectively; SingTel reported 4%y-y gain in 9MFY14 net profit.
- For the last quarter, ST and M1 reported 6% and 7% y-y gains respectively while 4Q13 net profit for STH was down 5% y-y, due to deferred tax in 4Q12.
- Dividend yields of > 4% from Telcos remain attractive.
- Maintain "Accumulate" for STH and M1. Downgraded ST to "Neutral" (report 14<sup>th</sup> Feb) over concern on Optus business outlook.
- We continue to like M1 as our preferred pick among the 3 Telco stocks.

### Singapore (SG)

#### 1. Mobile

- Higher revenue YTD Dec-13, on data monetising and increasing subscribers.
- More customers on 4G tiered plans and exceeding data allowances.

#### 2. Pay TV

- Positive net adds for both ST and STH.
- STH Pay TV revenue up 2% y-y in 4Q13 on higher ARPU.

#### 3. Broadband

- Price competition continues with attractive promotions from smaller players.
- ST and STH reported decline in revenue; M1 continues to gain from low base.
- Continued growth in fibre broadband subscriptions.

### ST Optus

- Increased earnings on higher EBITDA margin, attributed to effective cost mgt.
- Lower revenue on declining mobile revenue and weakening AUD against SGD.
- Mobile subscriber base declining across both pre-paid and post-paid.

### ST Regional Associates

- Growth in pre-tax earnings contribution continues, despite FX impact.
- Airtel reported improved earnings on strong data momentum in India.

### Positive Outlook on Telcos

We remain cautiously positive on the sector as the Telcos continue to provide attractive dividend yields and stable earnings growth. Data monetization will continue to drive earnings growth ahead. We expect data monetizing in SG to continue gaining good traction in FY2014.

SingTel continues to deliver moderate earnings growth despite adverse FX movements and lower Optus revenue, due to improved margins on effective cost management. However, we have concerns over business outlook for Optus which operates in a challenging environment that is dominated by Telstra in Australia.

M1 continues to be our preferred top pick, as we think it stand to benefit most on improving mobile dynamics in SG. M1 proposed special dividends of 7.1 Scents per share, which would contribute to total dividend yield of over 6% for FY13.

Overall, we think the Telcos continue to be attractive investments, providing earnings as well as dividends growth potentials.

### Singapore Telecommunications Sector

Company	Rating	Price (\$)	TP (\$)	Upside (%)	M.Cap. (\$'mn)
SingTel	Neutral	3.62	3.53	-2.5%	57,714
StarHub	Accumulate	4.13	4.52	9.4%	7,108
M1	Accumulate	3.38	3.68	8.9%	3,128

Source: Bloomberg, PSR

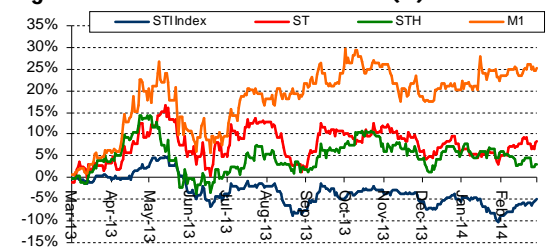
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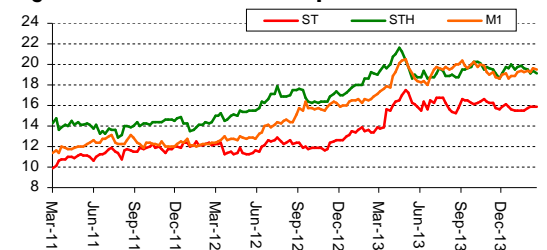
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Fig 1: 1Y Share Price Performance (%)



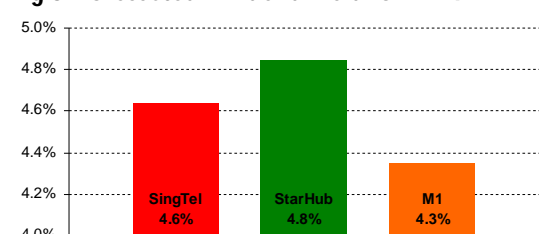
Source: Bloomberg, PSR

Fig 2: 3Y Historical P/E Comparison



Source: Bloomberg, PSR

Fig 3: Forecasted Dividend Yield for FY14\*



Source: Bloomberg, PSR est.

\* excl. special dividends proposed by M1 for FY13

**Adoption of 4G tiered-based plans in SG continues; uplift in mobile revenue**

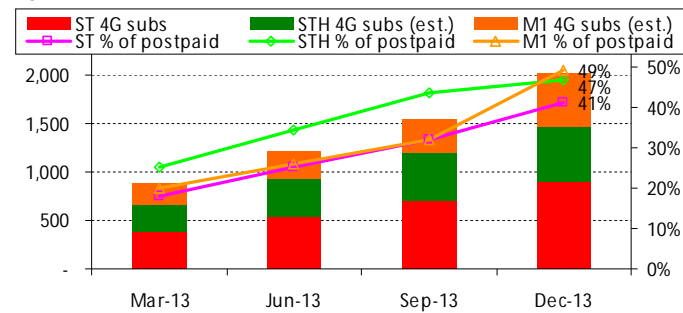
As of Dec-13, over 40% of postpaid subscriber base had switched over to 4G tiered data plans across the 3 Telcos, since revision to tiered plans in Sep-12. Subscribers were increasingly exceeding their data allowances, driven by higher data usage among smartphone users. Furthermore, STH and M1 had increased their data excess charges wef 1 Jan-14, after ST raised rates in Sep-13. **This would contribute to further mobile growth ahead for the 3 telecom operators.**

**Fig 4: Revised Excess Data Charges per GB**

	Previously	Now	Comments
SingTel	\$5.35	\$10.70	\$5.35 for existing 3G contracts
StarHub	\$6.42	\$8.56	for SmartSurf plans
M1	\$5.35	\$10.70	

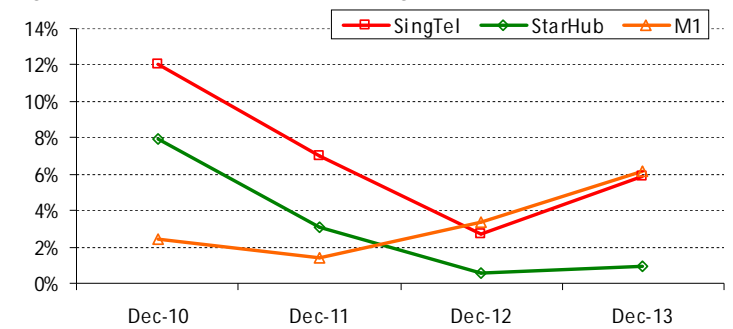
Source: Company, PSR

**Fig 5: 4G postpaid subs ('000) with % of total postpaid in SG**



Source: IDA, Companies, PSR

**Fig 6: 12M SG Mobile Revenue Y-Y growth (%)**

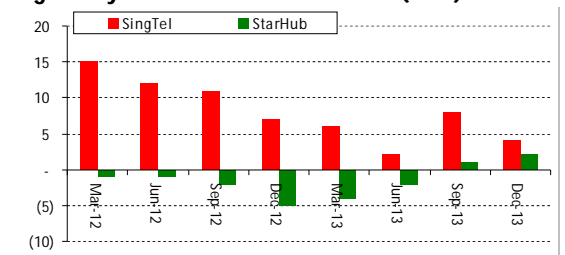


Source: Companies, PSR

**Increasing STH Pay TV subscriber base with BPL cross-carry**

With the Barclay Premier League (BPL) contents made available on its PayTV platform, STH sees positive net add to its Pay TV customers for the 2<sup>nd</sup> consecutive qtr. ST continues to increase its mio TV customer base despite the competition.

**Fig 7: Pay TV subscribers Net Adds ('000)**



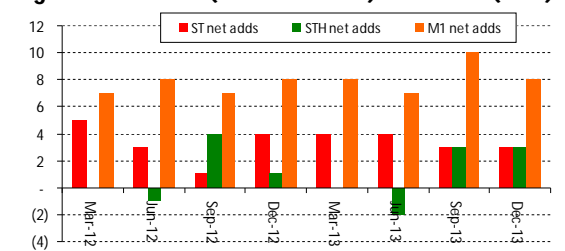
Source: Companies, PSR

**MyRepublic adding fuel to keep up the competition for broadband**

The Telcos continue to face price competition for fibre broadband offerings, with MyRepublic offering 1Gbps plan at S\$49.99/mth in a recent IT Fair held. Telcos were generally offering up to 300 Mbps plans at similar price (along with freebies).

**This would continue to add downward pressure on broadband ARPU and impact revenue from SG consumer broadband segment.**

**Fig 8: Broadband (inc. non-Fibre) Net Adds ('000)**

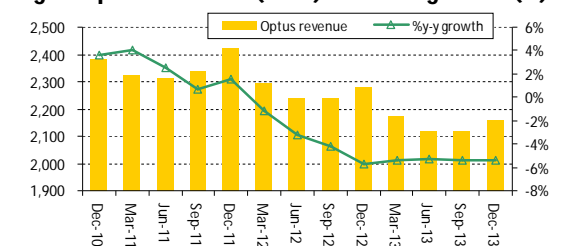


Source: Companies, PSR

**Optus losing mobile customers; revenue declining YoY since Dec-11**

Optus mobile subscriber base fell to 9.4 million as of Dec-13, losing 135K subscribers in a year. In the last quarter to Dec-13, it lost 57K postpaid customers. On the other hand, Telstra added 1.4M to its mobile customer base over the year, gaining market share from Optus and Vodafone Australia (which had lost over a 1M customers). **Optus had focused on cost reduction over new customer acquisition, yielding margin improvement and higher net profits.**

**Fig 9: Optus Revenue (A\$m) with Y-Y growth (%)**



Source: Company, PSR

However, we think that Optus revenue (in AUD) declining over the last 8 quarters is a cause for concern. Mobile services accounts for over 50% of Optus revenue. **Based on estimates, net profit from Optus contributes about 30% of total SingTel Group's net profit in SGD for the year 2013.**

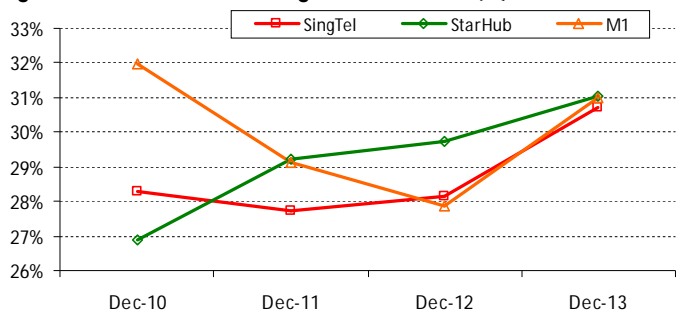
**Optus Chief resigning; leaves Optus on 31-March 2014**

Management had indicated it would refocus on regaining market share in Australia during the last results briefing for 3Q14. However, with the **resignation of CEO for Consumer Australia, Mr. Kevin Russell, recently announced on 27 Feb-14, we think this adds to the uncertainty over the outlook on Optus.** Mr. Kevin Russell will leave Optus by end March-14. In the interim, Mr. Paul O'Sullivan, CEO for SingTel Group Consumer, will serve as acting CEO for Consumer Australia.

**Improving Margins; Stable Earnings Growth**

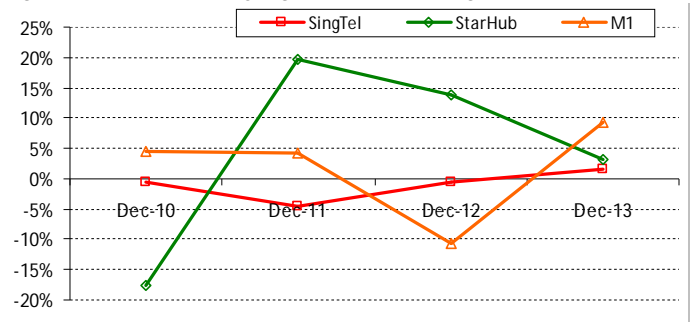
We see margins improving across the Telcos. ST and M1 have boosted their EBITDA margins on their fullyear revenue by 3% to 31%. Underlying net profits (over 12-mth period in 2013) across the Telcos, have increased YoY, ranging from low to high single digit.

**Fig 10: 12mths EBITDA margin on Revenue (%)**



Source: Companies, PSR

**Fig 11: 12mths Underlying Net Profits Y-Y growth (%)**



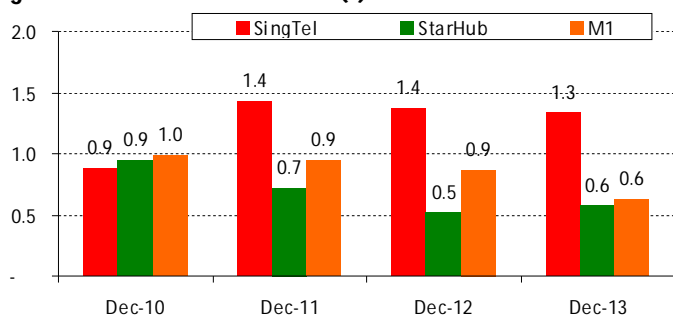
Source: Companies, PSR

**Improvement in gearing for STH and M1**

STH and M1 are operating at low net debt/EBITDA\* ratio of 0.6x, compared to ratio of 1.3x for ST as of Dec-13. With low gearing position, we see better dividend growth potential in StarHub and M1.

*\*Exclude Associates' contribution and exceptional items in calculation of EBITDA for SingTel*

**Fig 12: Net Debt/EBITDA ratios (x)**



Source: Companies, PSR

**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.

**Fig 13: Singapore Telecommunications Sector Comparables**

Company	Rating	FYE	Price	TP	Upside (%)	Market Cap. (\$'mn)	Ent. Value (\$'mn)	Equity Multiple (X)				Dividend Yield (%)				
								FY12	FY13	FY14E	FY12	FY13	FY14E			
Market price as of: 7-Mar-14																
SingTel	Neutral	Mar	3.62	3.53	-2.5%	57,714	64,793	14.5	16.5	15.8	2.5	2.4	2.4	4.4%	4.6%	4.6%
StarHub	Accumulate	Dec	4.13	4.52	9.4%	7,108	7,529	19.8	19.2	18.5	163.4	85.9	58.2	4.8%	4.8%	4.8%
M1	Accumulate	Dec	3.38	3.68	8.9%	3,128	3,323	21.3	19.5	18.5	9.0	7.9	8.1	4.3%	6.2%	4.3%

Source: Bloomberg, PSR est.

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