

Singapore Telecoms Sector Displaying Growth through Adversity

SINGAPORE | TELECOMMUNICATIONS | SECTOR UPDATES

Sector Overview

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

What is the news?

- Telcos reported gain in revenue in the last quarter, with StarHub's and M1's lifted by mobile growth and fixed services while SingTel gains across its Group Consumer, Enterprise and Digital Life segments.
- Strong net profit gains from SingTel and M1 in the last quarter. StarHub reversed declining earnings trend and posted modest earnings growth in the last quarter.
- Dividend yields of above 4% from Telcos remain attractive in our view, with potential growth in dividends.
- We continue to like **M1 as our preferred pick**, with a **Buy** rating in view of firm growth fundamentals. We upgraded **SingTel** to **Accumulate** in our last update report while we have **Neutral** on **StarHub**.

Key Risks

- Threat of new entrants in Singapore mobile market.
- Return FX currency headwinds and heightening competition in overseas markets for SingTel.

Potential Upsides

- Lowering of handset subsidies.
- Bottom-out in declining voice and roaming revenue.
- Possible trend towards customers upgrading from basic-tier to mid-tier plans for higher data allowances.
- Softer competition in Singapore broadband segment.

Outlook for the Sector

We remain **positive on the Telco sector**, expecting Telcos to deliver earnings and dividends growth into FY2015. Increase in mobile plan prices and further exceeding of data allowances among consumers would lead to continued growth among the Telcos. M1 remains our top pick as it stands to benefit the most from growth in mobile and fibre broadband services. Albeit StarHub suffered from an intense broadband competition, but has shown recovery to growth for its Pay TV business in recent quarters. SingTel continues to deliver moderate earnings growth despite adverse FX movements and benefits from recent turnaround in Optus, stabilising FX movements against SGD and strong gains from associates. Though M1 remains our top pick in the sector at present, we think SingTel may offer greater growth potential over the other 2 Telcos in the medium to long-term investment horizon in view of a saturated mobile market in Singapore.

Singapore Telecommunications Sector

Company	Rating	Price (\$S)	TP (\$S)	Upside (%)	Mkt Cap (\$S'mn)
SingTel Ltd	Accum.	3.99	4.12	3.3%	63,615
StarHub Ltd	Neutral	4.11	4.25	3.4%	7,088
M1 Ltd	Buy	3.60	3.95	9.7%	3,352

Source: Bloomberg, PSR est.

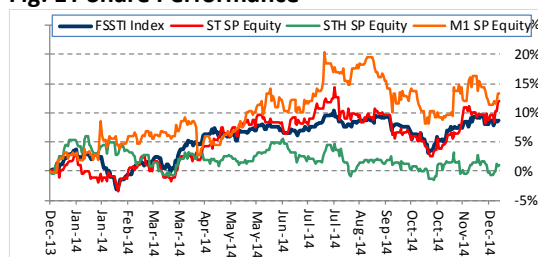
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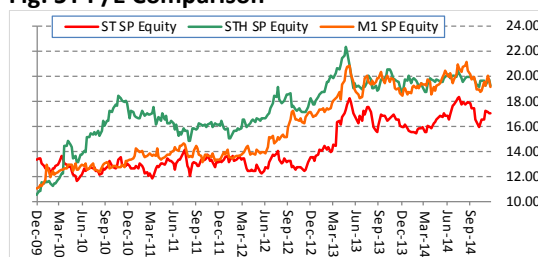
Tel: (65) 6531 1221

Fig: 1Y Share Performance



Source: Bloomberg

Fig: 5Y P/E Comparison



Source: Bloomberg

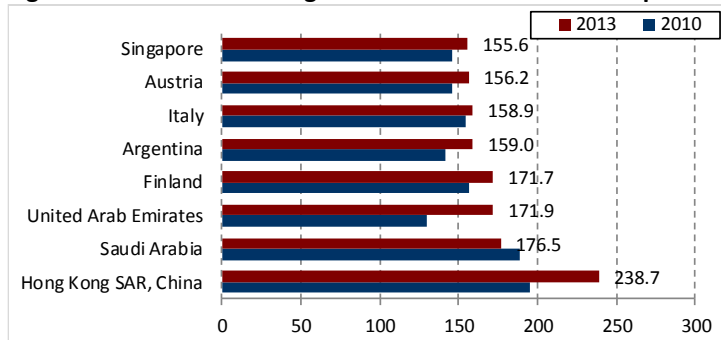
Singapore Mobile Market

Growth Impact from Slower Population Growth

Growth in non-resident population fell to 2.9%, down from 4.0% in mid-2013, as a result of foreign labour curbs undertaken by the Government, leading to a slowest population growth in 10 years record at 1.3% between Jun-13 and Jun-14. The population is projected to reach 6.5 to 6.9 million by 2030 based on Jan-2013 government White Paper, which would translate to 1.4% CAGR leading up to 2030.

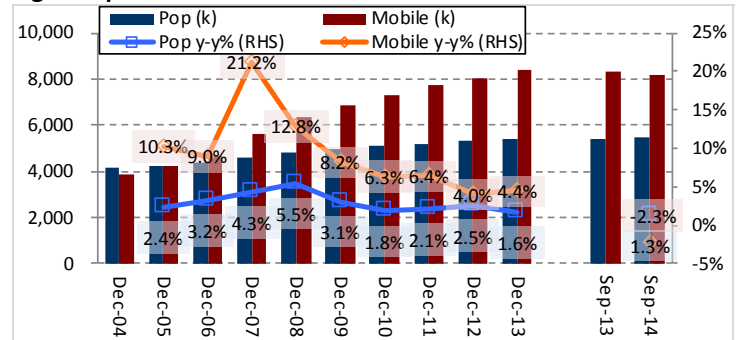
Mobile penetration was at 156% as of end 2013, placing Singapore in 20th rank among countries/territories with the highest penetration rate. We think there is **still room for further increase in mobile penetration due to trend towards consumers owning multiple devices** (e.g. smartphones, tablets). Postpaid subscriber base continue to rise despite the decline in the total number of mobile subscriptions this year, resulted from the cut in prepaid SIM card quota from 10 to 3 per person wef April-14, **Overall, mobile subscriber growth is expected to slow down but estimated to stay above 3-4% range over the next few years**

Fig 1: Countries with the highest Mobile Penetration Comparison



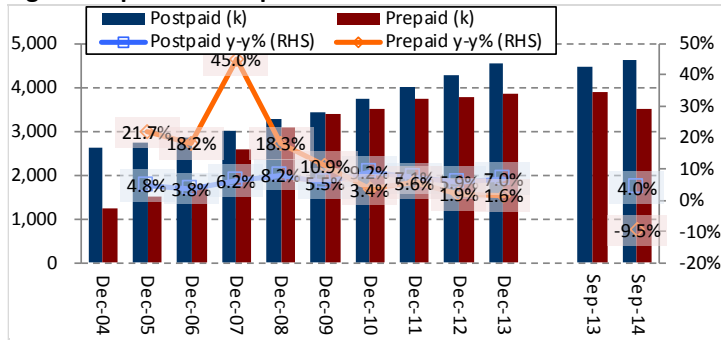
Source: World Bank (*some countries above 20th rank are omitted)

Fig 2: Population and Mobile Growth



Source: DOSS¹, IDA, Phillip Securities Research

Fig 3: Postpaid and Prepaid Subscribers Growth



Source: IDA, Phillip Securities Research

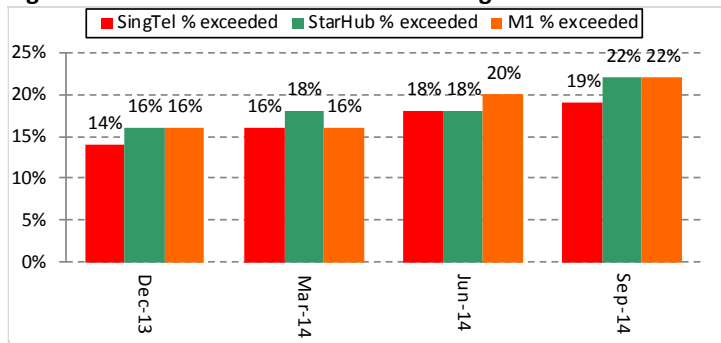
Driving Growth with Higher Mobile Data Consumption

58% out of the 4.6 million postpaid subscribers had switched to 4G lines as of Sep-14 since the introduction of 4G LTE tiered data plans in 2012. LTE offer 3-4x faster than 3G speed and up to 150 Mbps, allowing faster web browsing and video streaming, hence leading to higher mobile data usage. About 19-22% of subscribers on tiered plans was reported to have exceeded their data allowances. **Telcos are seeing growing mobile revenues from monetization of mobile data despite falling revenue from voice and SMS services.** By end of 2014, the Telcos would have rolled out nationwide LTE-Advanced networks, which would double 4G speeds and **encourage higher data consumption among mobile subscribers.**

SingTel and M1 revised data excess charges from S\$5.35/GB to S\$10.70/GB by the beginning of 2014. StarHub's data charges was also revised from last year's promotional rate of S\$6.42/GB to S\$10.70/GB.

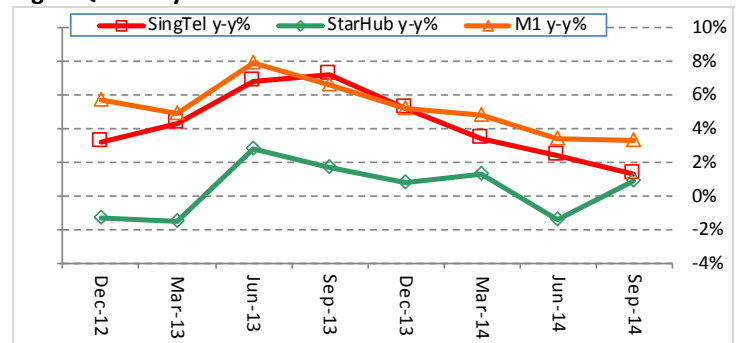
¹ Department of Statistics Singapore

Fig 4: % of Tiered Plan Customers Exceeding Data Bundles



Source: Company, Phillip Securities Research

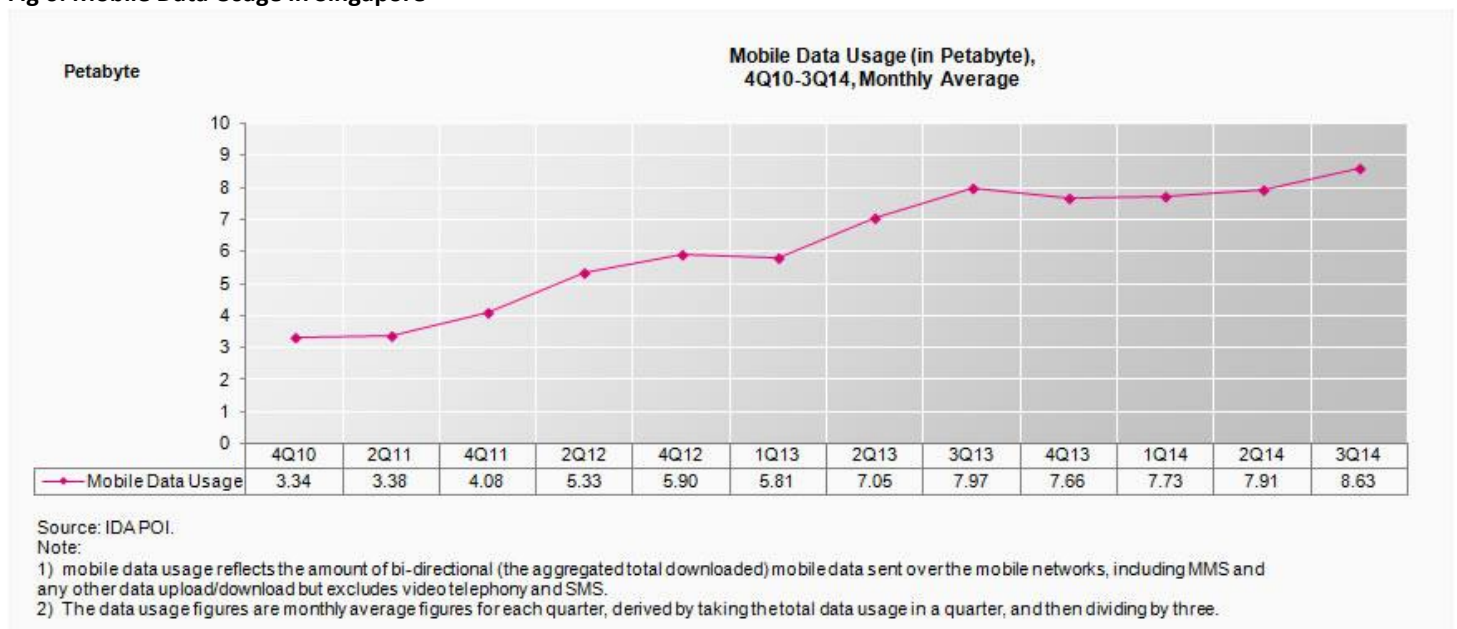
Fig 5: Quarterly Mobile Revenue Growth



Source: Company, Phillip Securities Research

*note: SingTel: mobile revenue in Singapore; exclude Optus's

Fig 6: Mobile Data Usage in Singapore



Source: IDA

Telcos Fighting Back OTT Apps with VoLTE technology

Telcos have seen a continuous decline in voice revenue in recent years, attributing to the emergence of over-the-top (OTT) apps which support voice/video calls and messaging services. Fighting back competition by OTT players, **Telcos have taken steps to deploy Voice over LTE (VoLTE) by end of the year.** VoLTE promises **superior voice and video quality** as compared to current VoIP services by OTT apps and traditional calls over 3G networks. According to a study by NSN Smart Labs, VoLTE also consumed 40% less battery power vs. OTT VoIP. While VoLTE may help Telcos to regain some ground lost to OTT players, the key advantages that VoLTE would bring to the Telcos include **overall cost savings through consolidation of wireless services and termination of legacy network infrastructure, and protect existing voice revenues.**

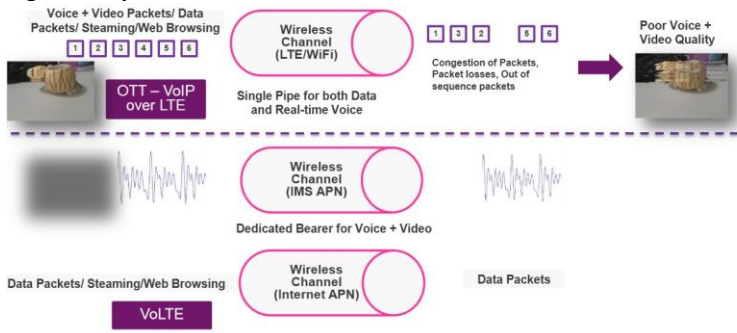
WhatsApp, a popular OTT app among smartphone users, will likely rollout VoIP call services in early 2015.

Newer phones which include iPhone 6/6 Plus and Samsung Note 4 support VoLTE.

58% of postpaid subscribers on 4G over last 2 years

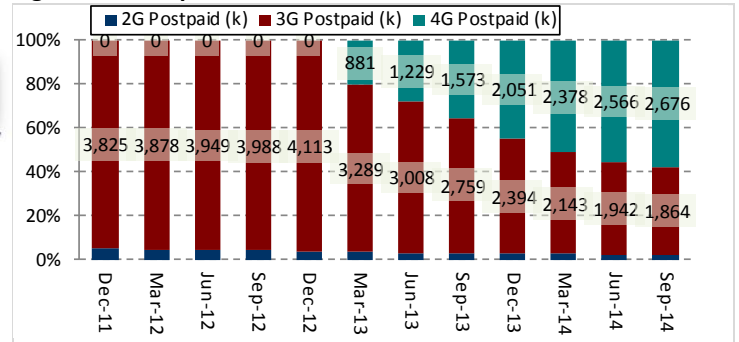
Based on IDA statistics, about 2.7 out of 4.6 million postpaid subscribers were on 4G lines as of end Sep-14. With current take-up rate, we expect at least 80-85% of postpaid subscribers would have switched to 4G plans by end of 2015. **Consumers on 4G lines would benefit from faster 4G data speeds and VoLTE, which would drive higher data consumption beyond allocated data allowances and higher ARPU.**

Fig 7: Comparison between OTT VoIP and VoLTE



Source: Imagination Technologies

Fig 8: % of Postpaid Subscribers on 2/3/4G



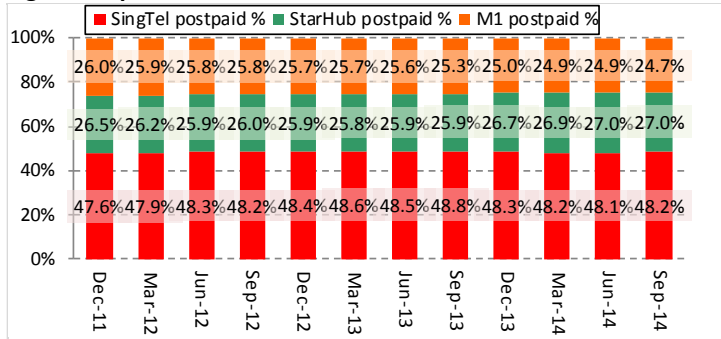
Source: IDA, Phillip Securities Research

Postpaid Market Share – StarHub Biggest Gainer this Year

StarHub gained 0.3% in postpaid market shares since end Dec-13 while SingTel and M1 lost 0.1% and 0.2% respectively. **StarHub's gain may be attributed to its attractive bundle package comprising mobile, pay TV and broadband**, as StarHub reported growing triple-service hubbing households in its customer base. While M1 also offers bundled pay TV service with MiBox, it does not offer blockbuster movie channels or other international mainstream contents, unlike SingTel's mio TV and StarHub TV.

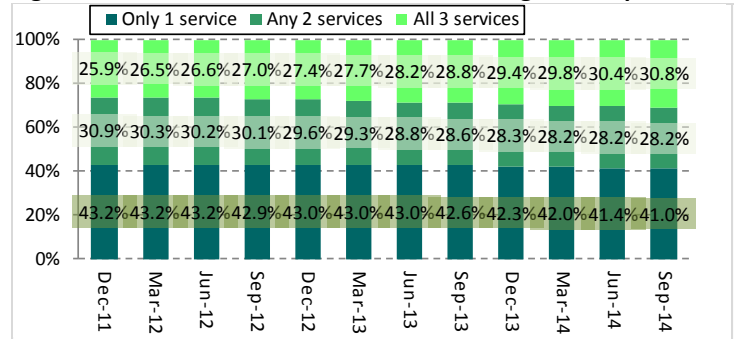
MiBox was launched in mid-2013 and replaces 1box, previous pay-TV service which was released back in 2010.

Fig 9: Postpaid Market Shares



Source: Company, Phillip Securities Research

Fig 10: StarHub's Household Customers on Single/Multiple Svcs



Source: Company, Phillip Securities Research

Rational Price Competition, with some Differentiation

Postpaid plans were last revised in Aug 2014 and monthly subscription prices have generally rose \$2-\$4 across most tiered plans. The steepest price increase came from StarHub plans, which previously were priced at \$1 to \$2 discount to the other 2 Telcos before the revision, were now priced the same as most of SingTel's tiered data plans. **M1 offers 2-4% discount on its basic to mid tiered plans, making up for its less appealing Pay TV and broadband bundle packages as compared to its competitors.** While the 3 Telcos may offer similar pricing as well as free bundled 4G data usage, there are some noteworthy differentiation in their value-add services (See table below). With cheaper pricing, M1 might regain some lost grounds. **Nonetheless, we expect market shares to remain largely stable.**

Newer postpaid plans would only affect new and re-contracting subscribers.

Table 1: Postpaid Mobile Plans Comparison

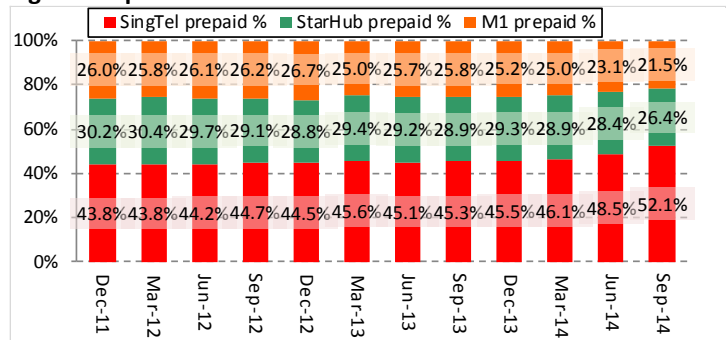
		Free outgoing call minutes					
		100	150-200	300-350	400-450	700-800	unlimited
SingTel	Mthly subscr (\$S)	\$27.90	\$42.90	\$62.90	\$82.90	\$102.90	\$239.90
	Bundled SMS/MMS	500	1000	1200	1300	1500	unlimited
	Bundled data	100MB	2GB	3GB	4GB	6GB	12GB
	Value adds*	-	Bundled 2GB SingTel WiFi usage (unlimited use till 31 Jul 2015)				
StarHub	Mthly subscr (\$S)	N/A	\$42.90	\$62.90	\$82.90	\$102.90	\$220.00
	Bundled SMS/MMS	-	1000	1200	1300	1500	Unlimited
	Bundled data	-	3GB	4GB	5GB	6GB	12GB
	Value adds*	-	Additional 1GB data upside @ \$8.56/mth				
M1	Mthly subscr (\$S)	\$28.00	\$41.00	\$61.00	\$81.00	\$101.00	\$208.00
	Bundled SMS/MMS	500	1000	1200	1500	2000	5000
	Bundled data	300MB	3GB	4GB	5GB	7GB	13GB
	Value adds*	-	Unlimited free calls to 3 M1 numbers				

Source: Company Websites (refer to websites for more details)

Prepaid Market Share – Dominant SingTel Continues Gain

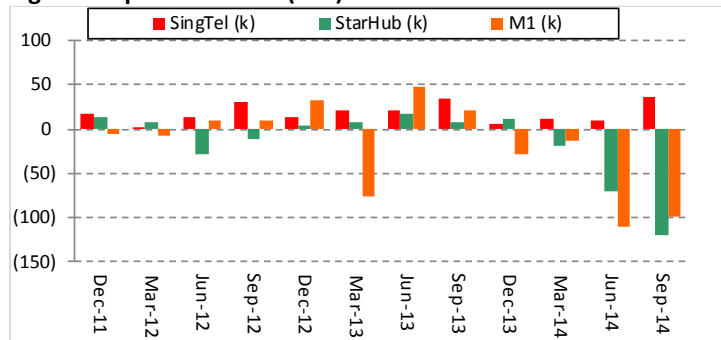
While both M1 and StarHub reported declines in prepaid subscribers following regulatory changes in prepaid SIM card quota, **SingTel continues to gain prepaid subscribers**. Contributing factors may be attributed to: 1) SingTel's clean-up of its inactive prepaid base on a more frequent basis and 2) extensive distribution channels and marketing from SingTel.

Fig 11: Prepaid Market Shares



Source: Company, Phillip Securities Research

Fig 12: Prepaid Net Adds (000)



Source: Company, Phillip Securities Research

Possible Threat of New Entrants

IDA had issued a consultation paper earlier in Apr this year and hinted on encouraging more competition in the Telco market. While we see little success of new entrants into the competition, IDA has received several feedbacks from industry players that have expressed interest to enter the Telecoms market, mostly as MVNOs. **But the biggest threat of new competitor faced by the 3 telcos may come from MyRepublic, a 2-year old provider of fibre broadband services, which has indicated its intent on becoming the 4th telco in Singapore.** The risk would not be immediate as:

Mobile virtual network operator (MVNO) provides wireless communication services but does not own the wireless network infrastructure. It resells voice and data services purchased from existing MNOs at wholesale rates.

- 1) it would need to purchase wireless spectrum and invest in 3/4G mobile network infrastructure and,
- 2) IDA requires high QoS standards from the telcos, which are expected to provide > 99% mobile coverage in outdoor areas, putting high up-front capital cost pressure on any new Telco players.

In short, we not see any immediate threats to the incumbent Telcos, though we do not dismiss the possibility of IDA facilitating the entry of a fourth Telco into the market.

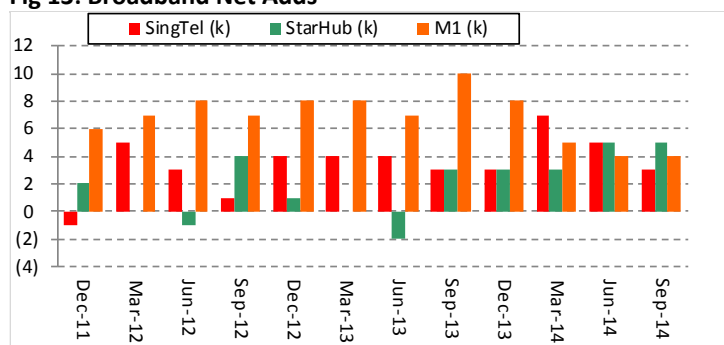
Singapore Broadband Market

Broadband Price Competition Remains – M1 Gains

Unlike mobile plans, residential broadband prices were more differentiated among various providers and competition was intense last year as Telcos had introduced aggressive promotion offers and cut prices on their broadband plans. **While competition had seemed to ease a little this year, ISP continue to compete on prices.** MyRepublic continues to offer 1Gbps fibre broadband at attractive price and M1 now offers 1Gbps plan at similar price. We opined that **M1 could compete at lower broadband prices as it continues to grow its fixed services revenue, benefiting from the increase in subscribers from a low base.** On the other hand, SingTel and StarHub reported declines in consumer broadband revenue, impacted by lower ARPU on their larger customer bases. On a positive note, **we think that broadband competition may soften going forward as SingTel and StarHub continue to gain subscribers while cutting back on promotional offers.**

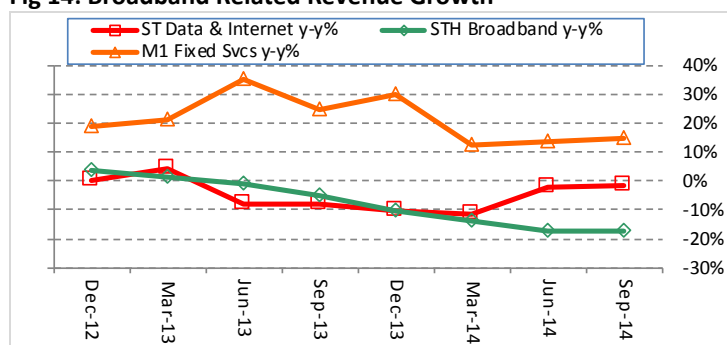
Prior to fibre broadband availability, SingTel and StarHub provide ADSL and Cable broadband services respectively while M1 did not have any fixed broadband services.

Fig 13: Broadband Net Adds



Source: Company, Phillip Securities Research

Fig 14: Broadband Related Revenue Growth



Source: Company, Phillip Securities Research

*note: SingTel's Data & Internet revenue in Singapore; exclude Optus's

Table 2: Fibre Broadband Plan Comparison (Based on 24-months Contracts)

		Broadband Download Speed (Mbps)				
		100	200	300	500-600	1000
SingTel	Mthly subscr (S\$)	N/A	\$49.90	\$59.90	\$69.90	N/A
	Bundles	Includes 10GB cloud storage + 10% Mobile Line discount				
	Add-ons	Additional ~\$18-\$20/mth for basic mio TV bundles → 33% discount off U.P.				
StarHub	Mthly subscr (S\$)	\$39.90	*	\$49.90	*	N/A
	Bundles	Free StarHub TV bundle				
	Add-ons*	Additional ~\$28.90/mth for faster fibre speed, mobile broadband, unlimited local calls and \$5-6 monthly vouchers				
M1	Mthly subscr (S\$)	\$29.00	N/A	\$39.00	N/A	\$49.00
	Bundles	Free mobile broadband, 12mths MiBox service, \$50-\$200 handset voucher				
	Add-ons	-				
MyRepublic	Mthly subscr (S\$)	N/A	-	N/A	N/A	\$49.99
	Bundles					
	Add-ons	-				
ViewQwest	Mthly subscr (S\$)	N/A		N/A	\$65.00	\$89.95
	Bundles	Free ViewQwest TV				
	Add-ons	-				

Source: Company Websites (refer to websites for more details)

Favourable ICT Trends Create Opportunities for Telcos

While Next Gen NBN may have created more competition in the consumer broadband competition, it has also opened new doors to economic opportunities for Telcos to tap on the Enterprise market, providing innovative ICT and cloud solutions for businesses. **SingTel has been dominant in the Enterprise ICT segment but it is facing stiffer competition from the other 2 Telcos.** M1 looks to supports the underserved SME segment as it had earlier unveiled its data centre and enhanced suite of enterprise cloud offerings in end-Oct this year. StarHub is also growing its share of the pie as it enhances its capabilities and enterprise ICT and cloud solutions for businesses. With the trends towards Big Data and Cloud Computing on the enterprise level and Smart Nation initiative by the government, we are positive on continued growth from the Telcos in the enterprise market.

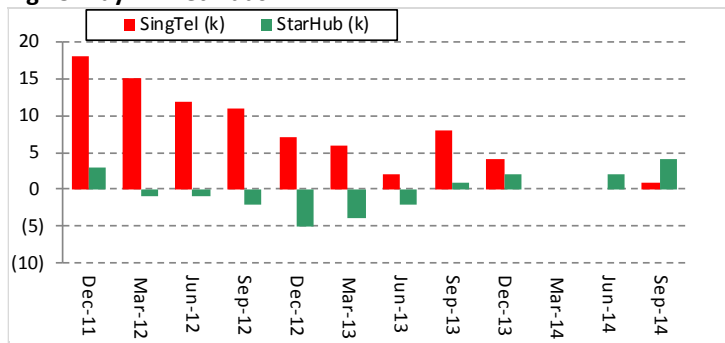
Singapore Pay TV Market

Facing Substitution Risks from Internet Streaming Services

StarHub managed to reverse declining trend in its Pay TV customer base since Sep-13, following cross carriage of the popular Barclays Premier League (BPL) contents availability and attributed to attractive bundle offers from StarHub. **Albeit SingTel and StarHub continue to grow their Pay TV customer bases, the business is facing threats from rising popularity of movie/TV streaming services on the Internet.** While geo-blocking helps to protect the local pay TV businesses, the trend towards consumers bypassing geo-restrictions to access contents that are otherwise unavailable in their countries could gradually erode profitability. Other developments that point to the growing threat include the expansion of Netflix, which is extending the availability of its streaming service to Australia in 2015, and HBO's "cutting the cords" with its standalone streaming service that would be launched in the US next year.

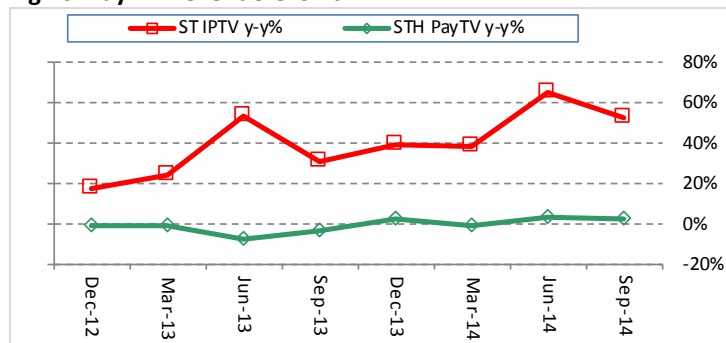
Competitors ViewQwest and MyRepublic offers users bundled VPN access in their broadband services to popular streaming services, circumventing geographical restrictions.

Fig 15: Pay TV Net Adds



Source: Company, Phillip Securities Research

Fig 16: Pay TV Revenue Growth



Source: Company, Phillip Securities Research

Financial Performance

SingTel

SingTel's service revenue growth was initially impacted by weaker Optus performance due to weakening Australian dollar against SGD and competition in the Australia mobile market, but had since rebounded on recent turnaround in Optus in the last 2 quarters. SingTel not only **benefited from effective cost management and investments in enhancing mobile network infrastructure in both Singapore and Australia**, but also from **stronger earnings contribution from its associates**, mainly Bharti Airtel and Globe, and **stabilising FX movements**.

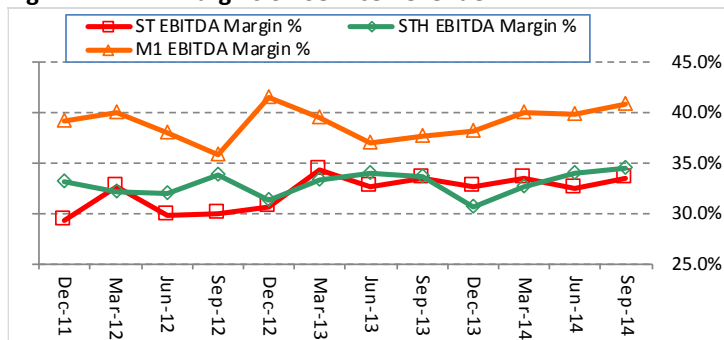
StarHub

StarHub had poor showing due to intensified competition in the broadband and pay TV segments in Singapore mass market, impacting revenue and earnings growth. While we began to see **some recovery in its Pay TV business**, **broadband revenue had declined sharply (~17%y-y in 3Q14) due to intense price competition** which led to a 20% drop in broadband ARPU to S\$35/mth as of 3Q14, from S\$44/mth in the same quarter in previous year.

M1

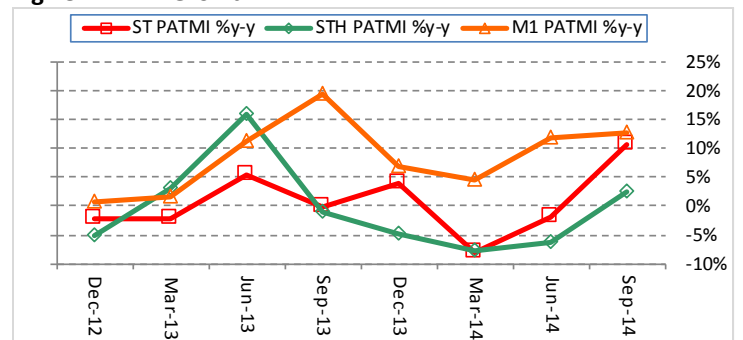
M1 had the strongest showing in performance on improving margins and earnings growth, **benefiting from growth in both the mobile and fixed services segments**. While M1 had also saw decline in its Fibre broadband ARPU, **fixed services revenue continue to grow on the back of strong net additions of 21K to its fibre subscriber base during the last 4 quarters** (27% increase from its subscriber base of 77K as of end Sep-13).

Fig 17: EBITDA Margins on Service Revenue



Source: Company, Phillip Securities Research

Fig 18: PATMI Growth



Source: Company, Phillip Securities Research

Upsides & Downside Risks

Potential Upsides

Key upsides among the Telcos would include: **1) lowering of mobile phone subsidies**, **2) bottom-out in their declining voice and roaming revenue** and **3) a trend towards customers upgrading from the basic-tier to mid-tier plans** for higher data allowances. **StarHub and M1 would further benefit from softer competition in Singapore broadband market** as consumer broadband services account for a significant portion of their overall service revenue.

Key Risks

One major risk include the **threat of new entrants in the local mobile space**, as the regulator IDA may seek to facilitate more competition in the Singapore Telco sector in the near future. **Impact from this risk would be lesser for SingTel** as Singapore mobile communication services accounts for 12-13% of its total revenue. **SingTel also faces FX headwind risks and heightening competitions in Australia and other regional markets where its mobile associates are present in.**

Outlook

We remain **positive on the Telco sector**, expecting Telcos to deliver earnings and dividends growth into FY2015. Increase in mobile plan prices and further exceeding of data allowances among consumers would lead to continued growth among the Telcos. M1 remains our top pick as it stands to benefit the most from growth in mobile and fibre broadband services. Albeit StarHub suffered from an intense broadband competition, but has shown recovery to growth for its Pay TV business in recent quarters. SingTel continues to deliver moderate earnings growth despite adverse FX movements and benefits from recent turnaround in Optus, stabilising FX movements against SGD and strong gains from associates. Though M1 remains our top pick in the sector at present, we think SingTel may offer greater growth potential over the other 2 Telcos in the medium to long-term investment horizon in view of a saturated mobile market in Singapore.

Table 3: SWOT Comparison

	SingTel	StarHub	M1
Strengths	Market leader in Singapore mobile, broadband & enterprise segments Diversified business across consumer (~62% of revenue), enterprise (~37%) and digital (~1%)	Strong position in residential Pay TV market, which remains viable.	Continued growth in fibre broadband; lesser impact from price wars.
Weaknesses	Impact from FX headwinds.	Service revenue down mainly from broadband competition.	Gradually declining mobile market shares.
	Growth limited to saturated mobile market in Singapore		
Opportunities	Rising data consumption and mobile ARPU, benefiting from rational price competition		
	Digital Life investments turning profitable. Growth from overseas regions through Optus and mobile associates.	Growing exposure to local enterprise markets, riding on cloud computing, ICT trends for growth.	
Threats	Threat of new entrants in Singapore mobile market		
	Stiffer price competition in overseas markets	Substitution threats from Internet streaming services on Pay TV	

Source: Phillip Securities Research

Fig 19: Telco Stocks Comparison

Company	Rating	Price (\$)	TP (\$)	Upside (%)	Mkt Cap (\$'mn)	Ent Val (\$'mn)	P/E			P/B			Div Yield (%)		
							FY13/14	FY14/15F	FY15/16F	FY13/14	FY14/15F	FY15/16F	FY13/14	FY14/15F	FY15/16F
SINGAPORE TELECO	Accum.	3.99	4.12	3.3%	63,615	72,173	18.0	17.0	15.8	2.7	2.6	2.4	4.2%	4.2%	4.3%
STARHUB LTD	Neutral	4.11	4.25	3.4%	7,088	7,475	19.2	19.4	18.7	85.7	62.2	47.9	4.9%	4.9%	4.9%
M1 LTD	Buy	3.60	3.95	9.7%	3,352	3,590	21.0	19.4	18.3	8.5	8.5	7.7	3.9%	4.6%	5.3%

Source: Bloomberg, PSR est.

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