

Singapore Telecoms Sector

Continued Growth from Data Monetisation

SINGAPORE | TELECOM | UPDATE

9 March 2015

Key takeaways

- Mobile data monetisation will continue to drive growth for the Telcos.
- Margins to improve in following quarters after strong iPhone sales in the last quarter.
- We like Singtel over its peers on strong gains from its associates, which would offset slowing mobile subscribers growth in Singapore.
- **Overweight** on the sector, with Telcos providing earnings growth driven by mobile data monetisation and attractive dividend yields of over 4%.

Continuing take-ups in tiered data plans → driving growth on data monetisation

About 61% of postpaid subscribers in Singapore were on tiered plans, of which 21-22% are exceeding data allowances. We believe there is still room for further take-ups in tiered postpaid plans and will drive increasing mobile data revenue.

Margins down in 4Q; expected to recover and stabilise

EBITDA margins was down sharply in the fourth quarter last year as a result of higher handset subsidies on strong iPhone sales. Consumer's enthusiasm towards the large-screen form factor lead to strong sales of the more expensive iPhone 6 and 6 Plus. We expect margins to improve in the following quarters due to higher mobile data revenue and seasonality trends.

We like Singtel over its peers on strong earnings growth from its associates

Singtel benefited from strong earnings growth from its associates, particularly Bharti Airtel, due to strong growth in mobile data usage and customer base. We expect strong gains from Singtel's regional associates to support earnings growth momentum, helping to offset slowing mobile subscribers growth in the Singapore market. Key risks for Singtel would include currency headwinds which may erode translated gains from its associates.

Investment actions

We remain positive on the Telcos and recommend Overweight on the sector, expecting earnings growth this year primarily driven by mobile data monetisation. Telcos continue to offer attractive dividend yields of over 4% in our view.

OVERWEIGHT

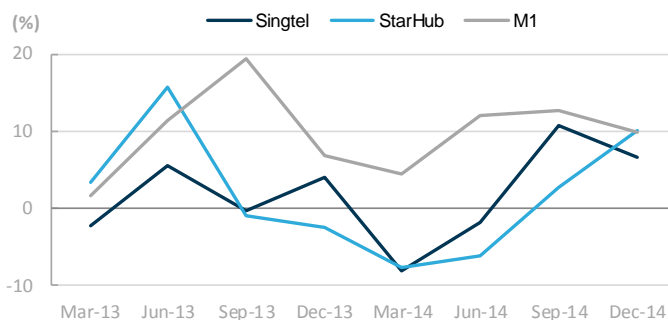
Singapore Telecom Sector

| | Singtel Ltd | StarHub Ltd | M1 Ltd |
|--------------------|-------------|-------------|------------|
| Rating | Accumulate | Accumulate | Accumulate |
| Price (S\$) | 4.09 | 4.19 | 3.93 |
| Target Price (S\$) | 4.42 | 4.50 | 4.00 |
| Dividend Yield (%) | 4.2% | 4.3% | 5.1% |
| Upside (%) | 8.1% | 7.4% | 18% |
| Mkt Cap (S\$ mn) | 65,205 | 7,230 | 3,670 |

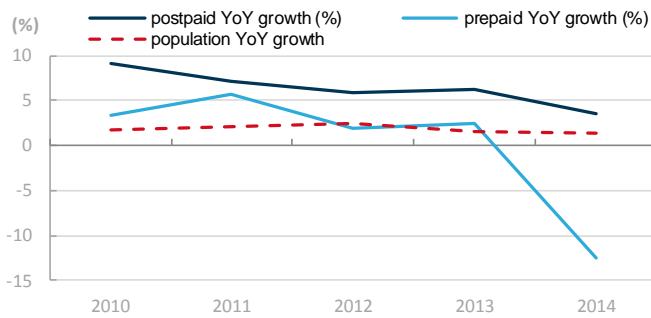
Source: Bloomberg, PSR est.

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Fig: Telcos' adjusted earnings growth YoY (%)

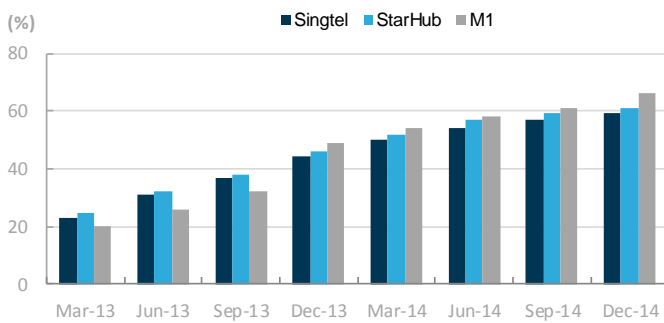


Source: Companies, Phillip Securities Research (Singapore)

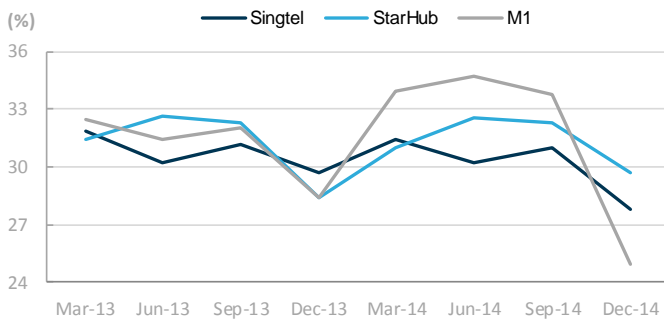
Fig: Mobile subscribers growth in Singapore


Prepaid subscribers down sharply due to reduction in prepaid SIM card quote from 10 to 3 per subscriber from April 2014.

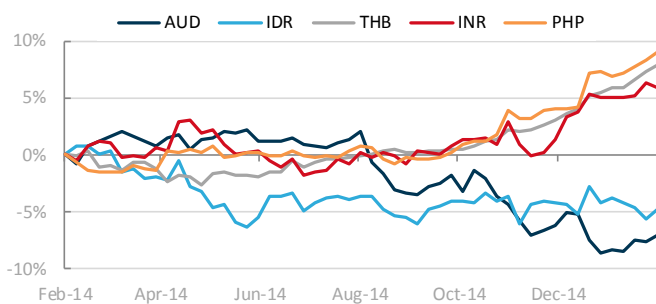
Source: Companies, SingStat, Phillip Securities Research (Singapore)

Fig: Proportion of postpaid on tiered plans in Singapore (%)


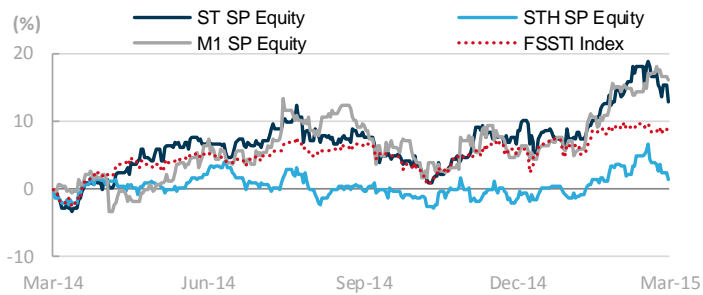
Source: Companies, Phillip Securities Research (Singapore)

Fig: EBITDA margins on overall revenue (%)


Source: Companies, Phillip Securities Research (Singapore)

Fig: Foreign currencies against Singapore currency (%)


Source: Bloomberg, Phillip Securities Research (Singapore)

Fig: 1Y Share performance


Source: Bloomberg

Fig: Selected peers comparison

| BB Ticker | Company | FYE | Mkt Cap (\$m) | Ent Val (\$m) | Op Mar | Net Mar | P/E | | | EV/EBITDA | | | Div Yield | | |
|------------------------|------------------|-----|---------------|---------------|-------------|-------------|-------------|-------------|-------------|------------|------------|------------|------------|------------|------------|
| | | | | | FY14/15 | FY14/15 | FY14/15 | FY15/16e | FY16/17e | FY14/15 | FY15/16e | FY16/17e | FY15/16e | FY15/16e | FY16/17e |
| ST SP | SINGAPORE TELECO | Mar | 65,205 | 73,341 | 18.0 | 21.7 | 15.9 | 17.2 | 16.2 | 12.8 | 14.5 | 14.3 | 4.6 | 4.3 | 4.5 |
| STH SP | STARHUB LTD | Dec | 7,230 | 7,654 | 20.0 | 15.5 | 19.3 | 19.0 | 18.6 | 10.1 | 10.1 | 9.9 | 4.8 | 4.8 | 4.9 |
| M1 SP | M1 LTD | Dec | 3,670 | 3,949 | 20.5 | 16.3 | 19.1 | 19.3 | 18.3 | 10.9 | 11.1 | 10.7 | 5.2 | 4.7 | 4.9 |
| Peers' average: | | | | | 18.4 | 12.1 | 22.0 | 20.3 | 17.5 | 8.5 | 8.1 | 7.6 | 3.4 | 3.3 | 3.6 |
| 941 HK | CHINA MOBILE | Dec | 366,280 | 276,464 | 21.9 | 19.3 | 10.4 | 15.0 | 14.7 | 3.5 | 5.1 | 4.8 | 4.2 | 2.9 | 2.9 |
| 762 HK | CHINA UNICOM | Dec | 51,494 | 75,228 | 7.1 | 4.2 | 16.3 | 16.6 | 14.3 | 3.3 | 3.5 | 3.3 | 2.4 | 2.2 | 2.5 |
| 728 HK | CHINA TELECOM-H | Dec | 68,001 | 84,284 | 8.5 | 5.5 | 13.9 | 16.9 | 15.1 | 3.5 | 4.0 | 3.8 | 3.1 | 2.1 | 2.3 |
| 215 HK | HUTCHTEL HK | Dec | 3,217 | 3,902 | 8.3 | 5.1 | 19.0 | 19.2 | 17.4 | 7.4 | 7.9 | 7.5 | 3.9 | 3.8 | 4.2 |
| AXIATA MK | AXIATA GROUP BER | Dec | 22,775 | 26,788 | 18.9 | 12.6 | 25.7 | 23.1 | 20.8 | 9.9 | 9.5 | 8.8 | 3.1 | 3.4 | 3.9 |
| MAXIS MK | MAXIS BHD | Dec | 19,745 | 22,590 | 34.2 | 20.5 | 29.9 | 26.4 | 24.7 | 13.8 | 13.7 | 13.3 | 5.8 | 4.2 | 4.4 |
| DIGI MK | DIGI.COM BHD | Dec | 18,352 | 18,552 | 38.1 | 28.9 | 23.6 | 23.4 | 22.5 | 15.3 | 14.7 | 14.0 | 4.2 | 4.2 | 4.4 |
| ADVANC TB | ADVANCED INFO | Dec | 30,125 | 30,989 | 31.8 | 24.2 | 20.7 | 17.4 | 15.1 | 11.6 | 9.9 | 9.3 | 4.8 | 5.8 | 6.6 |
| DTAC TB | TOTAL ACCESS COM | Dec | 8,357 | 9,478 | 15.7 | 11.9 | 21.3 | 16.9 | 15.2 | 8.3 | 6.7 | 6.2 | 7.2 | 6.3 | 6.9 |
| TEL PM | PHILIPP LONG DIS | Dec | 20,708 | 23,771 | 27.2 | 19.9 | 18.4 | 18.5 | 18.0 | 9.2 | 10.0 | 9.6 | 4.5 | 5.1 | 5.2 |
| GLO PM | GLOBE TELECOM | Dec | 7,901 | 9,292 | - | 13.5 | 17.2 | 17.5 | 16.6 | 7.5 | 7.1 | 6.6 | - | 4.7 | 4.9 |
| BHARTI IN | BHARTI AIRTEL | Mar | 30,625 | 43,567 | 14.1 | 3.2 | 45.3 | 24.8 | 20.6 | 7.1 | 6.4 | 5.8 | 0.6 | 0.6 | 0.8 |
| IDEA IN | IDEA CELLULAR | Mar | 11,888 | 14,409 | 13.7 | 7.4 | 23.2 | 17.7 | 16.4 | 8.1 | 6.2 | 5.4 | 0.3 | 0.5 | 0.6 |
| RCOM IN | RELIANCE COMMUNI | Mar | 3,664 | 14,390 | 10.5 | 5.0 | 25.4 | 18.1 | 13.6 | 10.1 | 9.0 | 8.5 | 0.0 | 0.5 | 0.7 |
| TLKM IJ | TELEKOMUNIKASI | Dec | 31,526 | 33,646 | - | 16.3 | 19.1 | 17.5 | 16.1 | 7.2 | 6.5 | 6.2 | - | 3.9 | 4.4 |
| EXCL IJ | XL AXIATA TBK PT | Dec | 4,038 | 6,013 | 7.3 | -3.8 | - | 35.3 | 20.3 | 6.9 | 5.9 | 5.3 | - | 1.1 | 2.1 |

Source: Bloomberg

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