

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.

- No major earnings surprise
- Launch of iPhone 4S lifted revenue in the quarter
- PayTV ARPU improved for Starhub
- 100k fibre broadband subscribers or 8% of total wired broadband
- Continue to prefer SingTel over Starhub & M1

Earnings Surprise?

There were no major surprises in this quarter's results. However, Starhub's results were marginally above expectations due to one off items that flattered EBITDA by c.\$10mn and stronger than expected postpaid mobile ARPU. Even after stripping out the effects of one off gains, the results would still have beaten our estimates. Due to boosters from the launch from iPhone 4S in the quarter, M1 reported relatively strong equipment sales with its unique fair value accounting policy. SingTel's Group level profits were negatively impacted by lower contributions from its regional mobile associates. SingTel's focus in Singapore seems to be on growing its subscriber base.

Mobile

- SingTel gained postpaid market share
- M1's postpaid ARPU trended south due to early recognition of sales
- Handset sales flattered revenue in the quarter
- Better data pricing is the key to better profitability

PayTV

- SingTel continued to increase its subscriber base, while Starhub's subscriber base was stable
- ARPU: Starhub improved, SingTel stable

Broadband

- 100k residential fibre broadband subscribers (8% of total residential wired broadband)
- SingTel: c.55k, M1: c.22k, Starhub: undisclosed
- Fibre take up rate still slow due to capacity constraints
- Capacity at OpenNet to improve in March 2012

Recommendation

We continue to prefer SingTel for its cheaper valuation over its local peers. Starhub's operational performance had been strong, but we opine that valuations are fair. M1 is expected to be the biggest beneficiary from the rollout of NGNBN, but we believe that the lack of a strong PayTV franchise could be negative in the long run.

Telecommunications Sector

Company	Rating	Price (\$)	TP (\$)	Upside (%)	M.Cap. (US\$m n)
M1	Reduce	2.46	2.36	-4.1%	1,791
Starhub	Neutral	2.90	2.90	0.0%	3,977
SingTel	Accumulate	3.13	3.31	5.8%	39,939

Source: Bloomberg, PSR

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Mobile

Over the past 2yrs, SingTel gained postpaid, but lost prepaid market share to Starhub & M1. M1's postpaid ARPU continued to slide on early recognition of its service revenue. We believe that as smartphone's share of mobile subscriber base across the industry stabilize, ARPU uplift arising from improved product mix to higher value smartphone plans are unlikely. Better monetizing of the high mobile data usage would be the key to improved profitability and revenue growth in the future.

SingTel continued to dominate more than half of the mobile service revenue share in Singapore due to stronger mobile ARPU. The key driver of sales came from stronger handset sales, following the launch of iPhone 4S in the quarter.

Fig.1. Postpaid Market Share by subscriber (%)

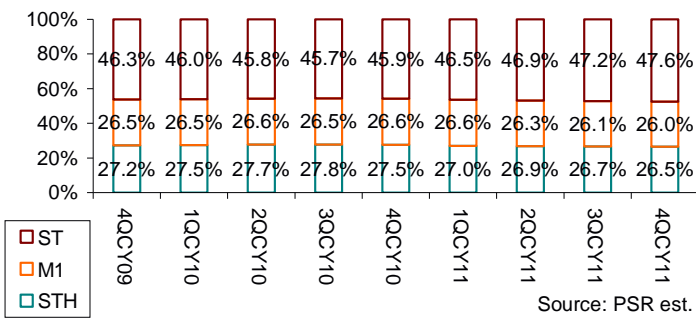


Fig.2. Prepaid Market Share by subscriber (%)

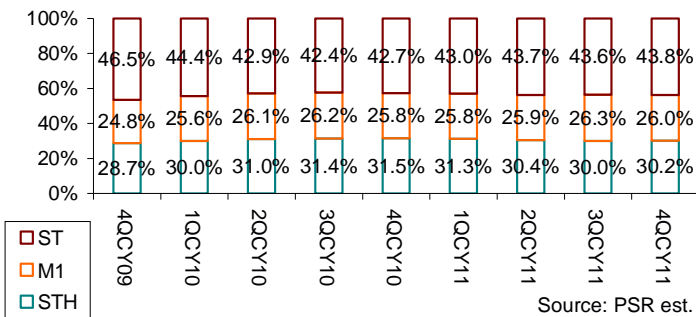


Fig.3. Postpaid ARPU trends

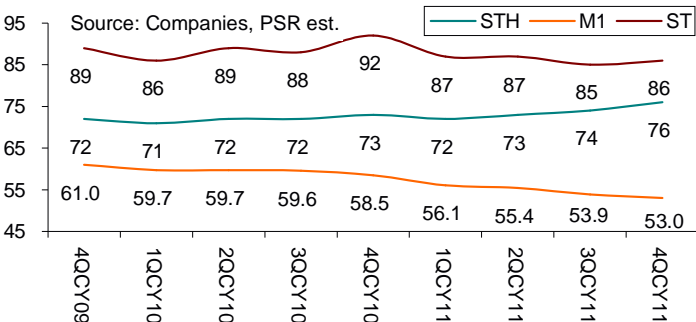
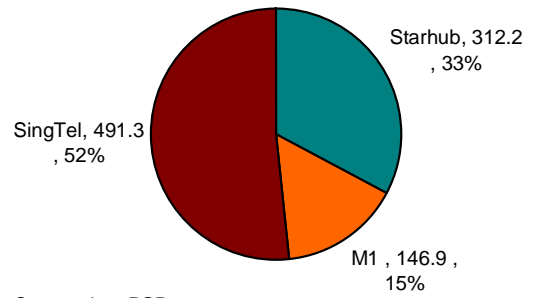
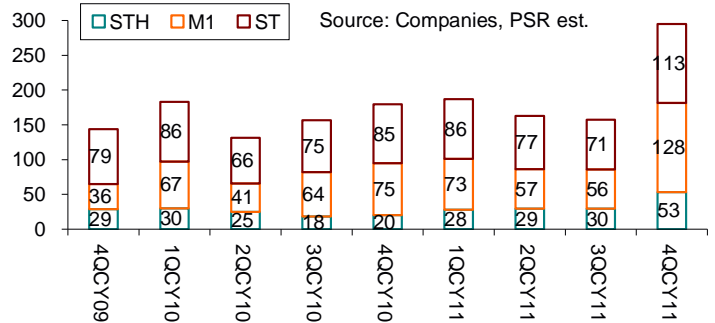


Fig.4. 4QCY11 Mobile Revenue share (%)



Source: Companies, PSR

Fig.5. Equipment Sales drove strong 4Q revenue



PayTV

Starhub maintained a stable PayTV subscriber base and SingTel gained market share with an average quarterly net add of 22k subscribers in the past year. (4QCY11 base: STH: 545k; ST: 353k) Starhub's ARPU improved sequentially in the last 2 quarters after the company raised subscription rates by S\$2/mth. SingTel's ARPU was stable.

Fig.6. PayTV Market Share by subscriber (%)

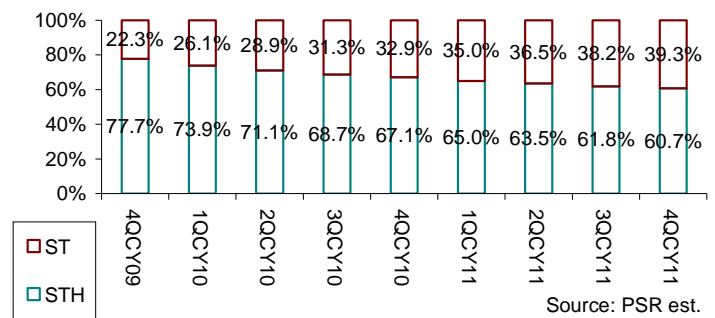
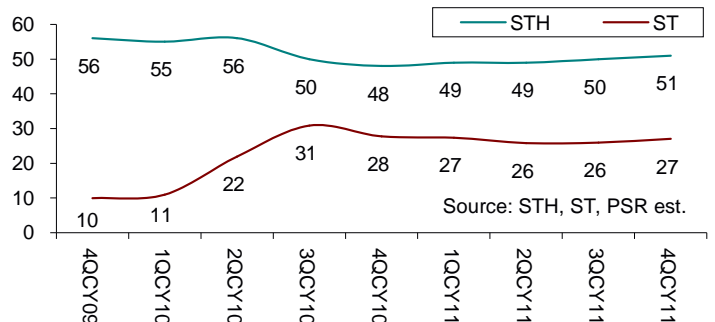


Fig.7. ARPU trends



*Starhub ARPU as reported, SingTel ARPU estimated

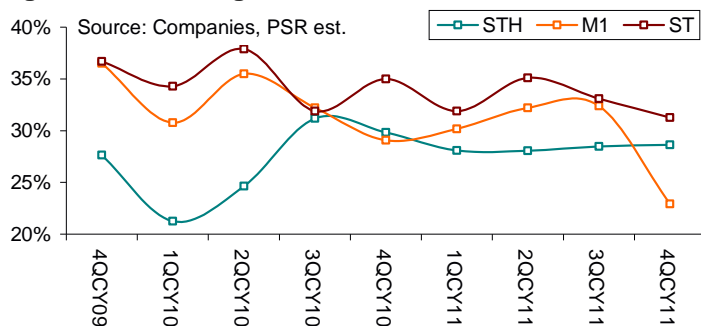
Broadband

According to OpenNet, there are currently c.100k residential fibre broadband users in Singapore, which we estimate to be approximately 8% of total residential wired broadband base. (SingTel c.55k fibre connections; M1 c.22k; Starhub undisclosed) Fibre connection rates had been slow with long installation lead time due to capacity constraints at OpenNet. However, the situation should improve as OpenNet advised that its weekly capacity would increase by close to 50%, from the current 2,400 slots to 3,550 slots, during coming IT Show in March 2012.

Margin Trends

SingTel & M1 registered a sequential decline on its EBITDA margin due to distortions from the sale of equipment and seasonal factors in the quarter. Starhub's margins were relatively constant due to one off gains of c.S\$10mn.

Fig.8. EBITDA margin trends



Valuation & Conclusion

We opine that engaging consumers on multiple platforms through a holistic service offering would be a critical success factor for the local Telcos. Bundling of services ensures better customer stickiness (lower churn; lower SAC) and would allow for cross provision of services (eg. PayTV on mobile devices). Over the years, Starhub had been a strong advocate of service bundling through its hubbing plans. SingTel caught up on Starhub with the strong growth in the PayTV subscriber base. M1 is still a laggard in this field.

As a sector, pricing rationalization through better monetizing of mobile data usage would be the key to profitability and revenue growth in the year ahead.

We continue to prefer SingTel for its cheaper valuation over its local peers. Starhub's operational performance had been strong, but we opine that valuations are fair. M1 is expected to be the biggest beneficiary from the rollout of NGNBN, but we believe that the lack of a strong PayTV franchise could be negative in the long run.

Telecommunications Sector Valuation Comparables

Company	Rating	FYE	Price	TP	Upside (%)	Market Cap. (US\$m n)	Ent. Value (US\$m n)	Equity Multiple (X)						Dividend Yield (%)		
								Net Income			Book Value			FY10/11	FY11/12E	FY12/13E
Market price as of:																
1-Mar-12																
Telecommunications																
M1	Reduce	Dec	2.46	2.36	-4.1%	1,791	2,016	14.2	13.6	14.0	7.4	6.9	6.2	7.1%	5.9%	5.7%
Starhub	Neutral	Dec	2.90	2.90	0.0%	3,977	4,350	18.9	15.7	15.4	n.m.	n.m.	n.m.	6.9%	6.9%	6.9%
SingTel	Accumulate	Mar	3.13	3.31	5.8%	39,939	45,692	13.2	13.7	13.2	2.1	2.1	2.0	8.2%	4.4%	4.6%

Source: PSR est.

*FY10/11 refers to: FY10 for FYE Dec & FY11 for FYE Mar

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