

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.

- Revenue remains stable q-q
- Telcos remain attractive due to high dividend yield
- Neutral on Starhub, SingTel, and M1. We prefer Starhub over SingTel and M1

Mobile

- Q-Q post-paid net adds similar across three Telcos
- Post-paid ARPU mostly flat q-q, Starhub marginally lower
- Data monetization key revenue growth driver

Pay TV

- SingTel continues to gain market share
- Revenue to remain stable and strong
- Cost of non-exclusive contents, previously signed on exclusive basis, unlikely to decrease significantly

Broadband

- Fibre broadband continues to grow rapidly
- SingTel continues to dominate, with market share higher than those in the post-paid mobile segment

Others

- Sep - Dec 2012 may see an increase in equipment revenue and cost, due to the launch of popular iPhone 5
- 320 MHz of spectrum may be up for auction in 2013

Recommendation

We are neutral on the sector, while maintaining that they remain attractive due to their high dividend yield and stable earnings. We prefer Starhub and SingTel over M1 due to their bundled packages, which include Pay TV, being better able to retain customer loyalty. With both having higher operating revenue than M1, while Capital expenditure as a ratio of Total Operating Revenue is similar across all three Telcos, Starhub and SingTel have a higher budget to spend on future enhancements.

We prefer Starhub to SingTel due to its single geographical exposure, compared to the multiple countries that SingTel has a stake in. Starhub is therefore less volatile. Starhub also creates shareholder value, while paying out a higher dividend yield based on current price. Based on current share price, we are Neutral on Starhub, SingTel and M1.

Singapore Telecommunications Sector

Company	Rating	Price (\$)	TP (\$)	Upside (%)	M.Cap. (US\$m)
M1 Ltd	Neutral	2.74	2.41	-12.0%	2,049
Starhub	Neutral	3.88	3.20	-17.5%	5,451
SingTel	Neutral	3.38	3.06	-9.5%	44,134

Source: Bloomberg, PSR

Analyst

Ken Ang

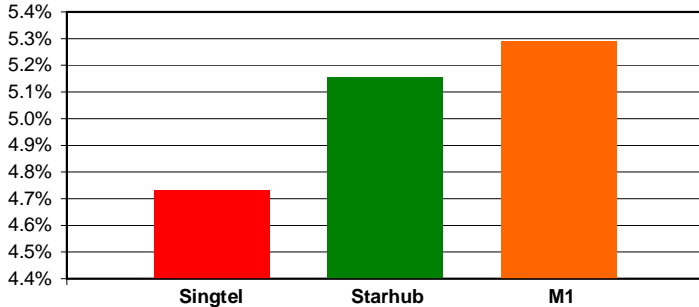
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Dividend yield at current price attractive

Although share prices of Starhub and M1 has rallied significantly in the past one year, dividend yields remain attractive in the current low interest rate environment. Free cash flow and earnings are stable even amidst the uncertainty in the global economy. With current inflation forecasted rates of 4.0% to 4.5% for 2012, the Telcos continue to provide positive real returns on investments. We note that the lower dividend yield of SingTel is due to its lower core dividend payout ratio.

Fig 1. Forecasted 2012 Dividend yield (%)



Source: Company data, Phillip Securities Research

Post-paid net adds similar across three Telcos

Post-paid net adds this quarter was largely similar this quarter. SingTel, which had the highest net adds since Dec 2010, slowed this quarter per Fig 2 below. SingTel however continues to have the highest market share and lowest churn rate among the three Telcos, indicating higher customer loyalty. Q-Q Post-paid ARPU was largely flat, with only Starhub declining marginally by \$1 to \$74/mth in the quarter. The number of mobile post-paid customers continues to grow, in line with the growing population.

Fig 2. Q-Q Postpaid Net Adds

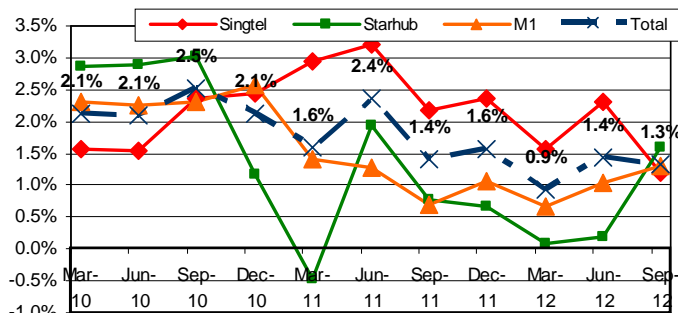


Fig 3. Postpaid ARPU q-q trends

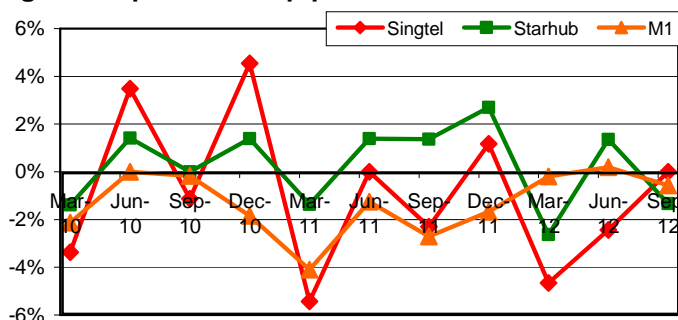
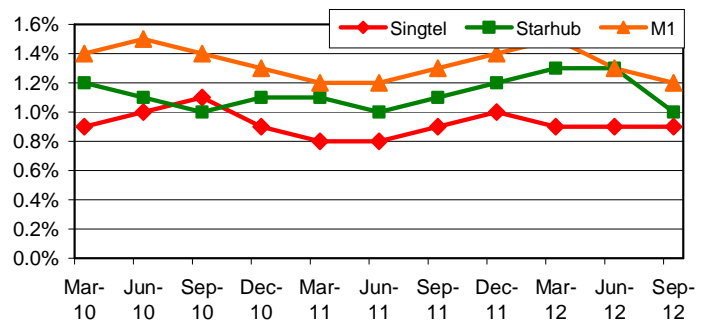


Fig 4. Monthly post-paid churn rate

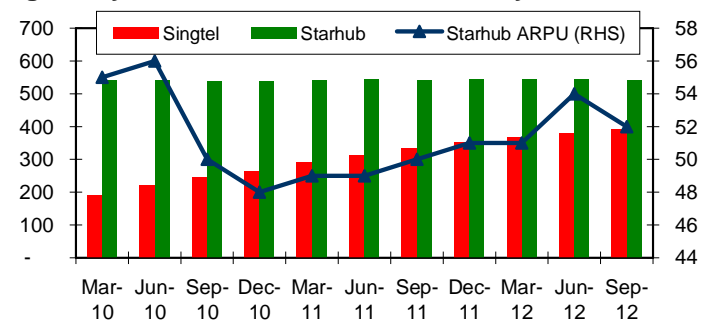


Source: Company data, Phillip Securities Research

Pay TV

SingTel continues to gain market share, as Starhub maintains its subscriber base. This is possibly due customers subscribing to both Pay TVs, while the subscriber base continues to grow. Starhub's APRU experienced a q-q drop of \$2 to \$52/mth, due to one-off gains from UEFA Euro 2012. Ignoring these one-off effects, APRU continues to grow healthily as observed from Fig 5. SingTel continues to gain market share, which we attribute largely to its sports channels. SingTel's other offerings are also now more attractive, with the new FOX contents providing greater variety to its subscribers.

Fig 5. Pay TV Subscribers vs Starhub Pay TV ARPU

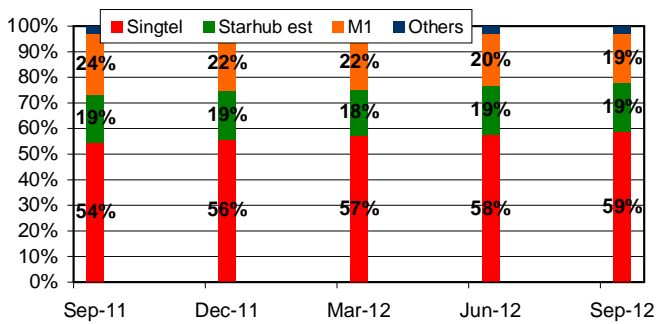


Source: Company data, Phillip Securities Research

Broadband

Based on figures from IDA, SingTel and M1, SingTel continues to gain market share in the Fibre Broadband segment with 31k net adds, while M1 experienced a slight drop in market share. With the rapid growth of Fibre broadband subscriptions, the Telcos are able to benefit from customers upgrading from the lower priced cable broadband to the slightly costlier but faster fibre broadband connections. While M1 only had an insignificant share in the cable broadband, the introduction of the fibre broadband has positively enabled M1's participation in the broadband segment. We see challenges for M1 moving forward due to the lack of cable broadband customer base to promote their fibre broadband to, unlike the other two Telcos. However, we are confident of the fibre broadband contributing significantly to M1's revenue growth in the next few quarters.

Fig 6. Estimated Fibre Market Share (%)



Source: Company data, Phillip Securities Research

Key upside/downside risk

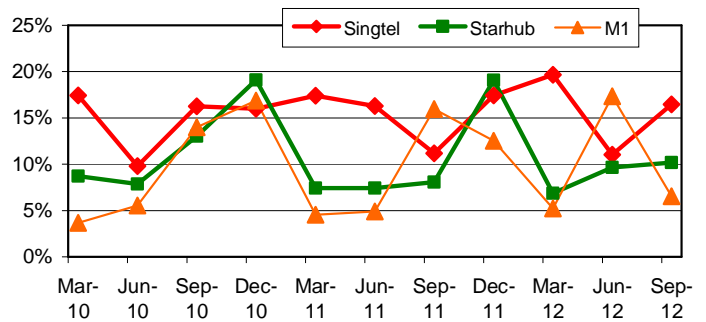
Key upside risks include the ability of the Telcos to monetize data effectively, such as through a higher number of customers shifting from the lowest tiered plans to the mid tier plans. Similarly, an increase in price plans for the various revenue segments, and lower mobile subsidies would also increase net profits.

Key downside risks include an unexpected change in the US Fed policies, leading to an increase in Fed rates and shift of investors' preference away from dividend yielding stocks. Irrational competition, though unlikely, may also have an adverse impact on the net profits of the three Telcos.

Order of decreasing preference: Starhub, SingTel, M1

We are neutral on the sector, while maintaining that they remain attractive due to their high dividend yield and stable earnings. We prefer Starhub and SingTel over M1 due to their bundled packages, which include Pay TV, being better able to retain customer loyalty. With both having higher operating revenue than M1, while Capital expenditure as a ratio of Total Operating Revenue is similar across all three Telcos, Starhub and SingTel have a higher budget to spend on future enhancements. In maintaining similar quality of service, M1's subscriber base would likely be smaller and possibly more concentrated in certain locations.

Fig 7. Singapore Capex as % of Total Operating Rev



Source: Company data, Phillip Securities Research

We prefer Starhub to SingTel due to its single geographical exposure, compared to the multiple countries that SingTel has a stake in. Starhub is therefore less volatile. Starhub also creates shareholder value, while paying out a higher dividend yield based on current price.

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			FY10/11	FY11/12	FY12E/13E
Market price as of:																		
11-Dec-12																		
M1 Ltd	Neutral	Dec	2.74	2.41	-12.0%	2,502	2,747	2,049	2,249	15.9	15.3	16.0	8.3	7.7	7.1	6.4%	5.3%	5.3%
Starhub	Neutral	Dec	3.88	3.20	-17.5%	6,656	6,968	5,451	5,705	25.3	21.1	19.9	123.3	289.4	950.9	5.2%	5.2%	5.2%
SingTel	Neutral	Mar	3.38	3.06	-9.5%	53,889	61,607	44,134	50,429	14.2	14.7	14.4	2.2	2.3	2.2	7.7%	4.7%	4.7%

Source: Bloomberg, PSR est.

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