Telecommunications Sector
Results Season Takeaways

PhillipCapital
Your Partner In Finance

Phillip Securities Research Pte Ltd

5 June 2013

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.

- Service revenue remains largely stable q-q
- Telcos remain attractive as long term investments due to high dividend yields and stable earnings
- We think the current dip in share price presents good buying opportunity
- Accumulate on SingTel and M1, Reduce on StarHub. We prefer SingTel over M1 and StarHub

Mobile
- Q-Q post-paid net adds across three Telcos, with SingTel marginally gaining more market share
- Positive on tiered-plan customers continuing to exceeding data allowances, data monetizing expected to gain further traction moving forward

Pay TV
- SingTel continues to gain market share, StarHub post 5th consecutive quarter of negative net adds
- StarHub to benefit if cross-carriage ruling on BPL upheld. We present a detailed analysis below.

Broadband
- Fibre broadband continues to grow rapidly
- Residential take-up rates affected by low “Home-reach”

Others
- SingTel guides stable FY14 Group revenue, Starhub lowers revenue growth guidance to low single digit
- Capital expenditure to remain high
- SingTel to spend S$2B on Group Digital over next 3 yrs

Recommendation
We are cautiously optimistic on the sector, as they remain attractive due to their high dividend yield and stable earnings. We prefer SingTel over M1 and StarHub due to SingTel’s overseas exposure leading to higher growth potential. We continue to expect Bharti’s declining performance to turn around, while AIS and Telkomsel continues to post strong results. M1 remains attractive with high dividend yields, but near term capex requirements may reduce near term potential for dividend growth. We note the sharp decline in StarHub’s share price since the end of the results season. While noting concerns over potentially rising interest rates, the high dividend yields and strong fundamentals continue to make the Singapore Telcos attractive investments. We think the current dip in share price for the Telcos present good buying opportunity.

Singapore Telecommunications Sector

Company	Rating	Price (S$)	TP (S$)	Upside (%)	M.Cap. (US$'mn)
M1 Ltd	Accumulate	3.10	3.55	14.5%	2,279
Starhub	Reduce	4.18	4.40	5.3%	5,731
SingTel	Accumulate	3.82	4.07	6.5%	48,569

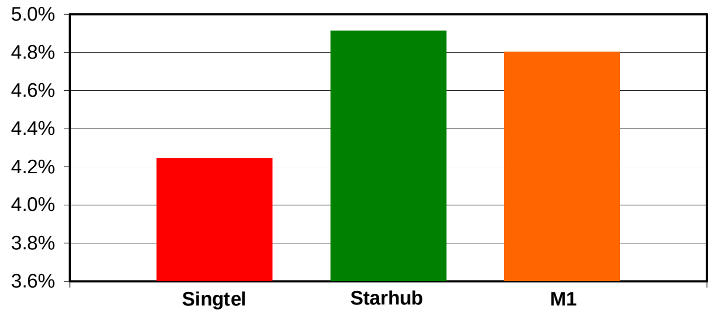
Source: Bloomberg, PSR

Analyst
Ken Ang
Kenangwy@phillip.com.sg
Tel : (65) 6531 1793

Dividend yield continues to be attractive at current price

Dividend yields continue to 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 to be 3% to 4% for 2013, the Telcos continue to provide positive real return on investments. Furthermore, potential for dividend growth provides further incentives to long-term investors. We note that the lower dividend yield of SingTel is due to its lower core dividend payout ratio.

Fig 1. Forecasted CY2013 Dividend yield (%)



Source: Company data, Phillip Securities Research

Post-paid net adds healthy

Post-paid net adds this quarter continued to be in positive territory for the three Telcos, with SingTel gaining higher market share. Q-Q Post-paid ARPU declined due to lower roaming revenue, and seasonality.

Key takeaway:

1) Data monetizing continues to gain good traction. SingTel and M1 guides for 20%+ of postpaid customers to be on tiered plans, while 9% - 10% of these customers continue to exceed data allowance.

StarHub has reported lower data monetizing effects due to the promotional 1GB of additional data allowance till 2HCY13. We expect similar increase in data monetizing for StarHub once the promotion has expired.

2) While roaming revenue has been declining due to changing consumer behaviors, Starhub expects the decline to bottom in the near term. Roaming revenue currently accounts for approximately 15% - 30% of the three Telcos' mobile revenue,

Key drivers of net adds: 1) Population growth in Singapore, potentially to 6.9 million by 2030.

Key drivers of ARPU: Monetizing of data from 1) upgrading from low to mid tier plans 2) Increase in revenue from exceeding of data allowances due to higher proportion of tiered-plan customers, and higher usage of data intensive services. 3) potential increase in additional data charges (SingTel has indicated potential upward review in additional data charges from current rate of S$5.35/GB once nationwide LTE roll-out has been completed. New rates may double to S$10.70/GB) 4) Gradual increase in tech-savvy population mix. 5) Lower handset subsidies.

Fig 2. Q-Q Postpaid Net Adds positive

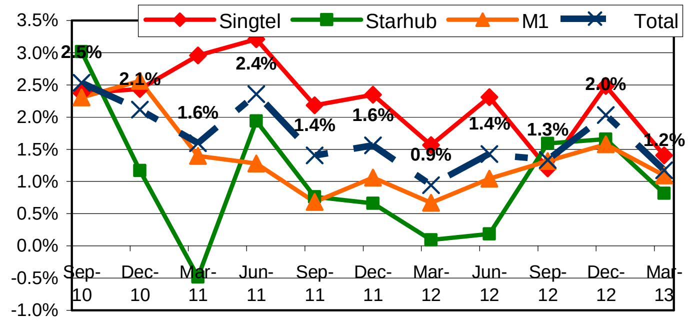


Fig 3. Postpaid ARPU q-q trends largely flat

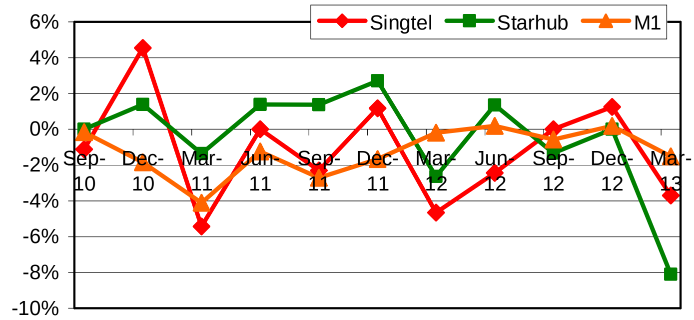
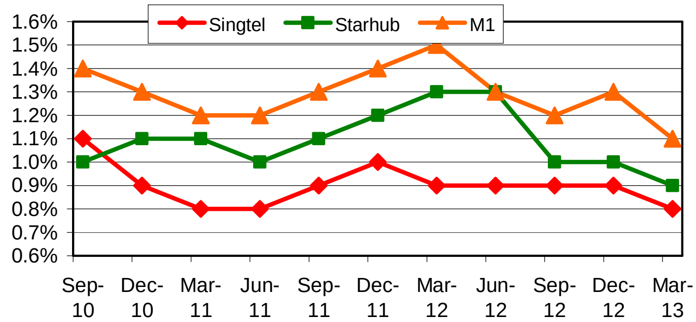


Fig 4. Monthly post-paid churn rate – M1 highest

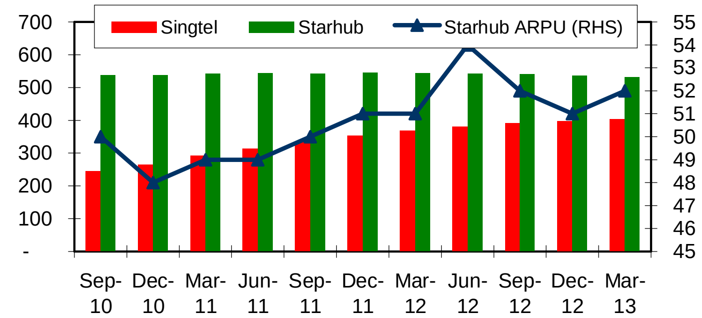


Source: Company data, Phillip Securities Research

Pay TV – BPL broadcast rights pending decision

SingTel continues to gain market share, while StarHub's subscriber base declined for the 5th consecutive quarter. MDA has previously directed for the BPL to be subjected to the "cross-carriage" rule. Under this rule, StarHub customers would be able to watch BPL on the StarHub box. SingTel has appealed against this. The decision on BPL is currently still pending from the Minister.

Fig 5. Pay TV Subscribers vs StarHub Pay TV ARPU



Source: Company data, Phillip Securities Research

While we had previously presented 2 scenarios on the BPL rights, recent events, specifically the intervention by MDA, was not within our expectations.

We expect StarHub to benefit from this ruling, while SingTel would be at a disadvantage, should SingTel's appeal to the Minister fail. This is due to the following reasons:

1) StarHub's churn rate expected to stabilize. While SingTel has introduced many new Pay TV channels in recent years, StarHub's Pay TV offering remains attractive. We attribute previous churn rates to SingTel's attractive bundled deals, and StarHub's lack of BPL broadcast rights. With this ruling, StarHub can reduce churn from BPL fans.

2) Additional revenue receivable from SingTel. While SingTel can earn BPL content revenue from StarHub's BPL subscribers, SingTel would have to pay StarHub a fee for use of broadcasting through StarHub's Pay TV box.

3) Pricing of BPL content likely under scrutiny. Should SingTel consider absurdly higher pricing of BPL contents, while offering direct or indirect rebates only to its Mio TV subscribers, we think it possible for MDA to intervene once again to reduce competition deemed to be unfair.

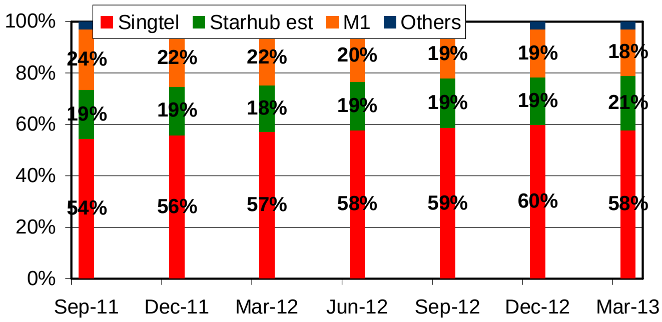
4) Possibly significantly higher BPL content cost for SingTel. While SingTel has hinted for lower content cost under the "non-exclusive" arrangement, we think that this was under the scenario that StarHub also subscribes for BPL broadcast rights separately. Should the appeal fail, content cost may be significantly higher.

Broadband

Based on figures from IDA, fibre broadband net adds grew 19.0% q-q. StarHub and the other fibre broadband providers gained higher market share this quarter. A key challenge in the growth of fibre broadband continues to be lower number of residential homes having the fibre connected to within their homes ("Home-reach"), while the fibre rollout to enterprise and commercial buildings have been rather slow.

Competition for fibre broadband has been rather intense, leading to a decline in StarHub's 1Q13 Broadband ARPU. Prices of fibre broadband have also declined, with M1 and StarHub offering S$39.90/mth fibre plans at speeds of 200mbps and 100mbps respectively, based on the websites.

Fig 6. Estimated Fibre Market Share (%) – SingTel leads



Source: Company data, Phillip Securities Research

Other areas

SingTel guides stable FY14 Group revenue, StarHub lowers revenue growth guidance to low single digit – SingTel gave guidance for FY14 (ending Mar 2014). Group EBIT (ex-associate) and Group revenue is expected to be stable due to mid single digit decline in Optus Australia's mobile service revenue. Growth in ordinary dividends from associates, which registered 17% y-y growth in FY13, is expected to drive higher net profit growth.

StarHub reduced revenue growth guidance from single digit growth to low single digit, due to lower than expected revenue reported this quarter.

Capital expenditure to remain high – The Telcos are building up on their LTE capabilities, with nationwide rollout of LTE services. Coupled with additional spending to meet the new Quality of Service (QOS) standards and enhancements of existing 3G services, capital expenditure is expected to be at elevated levels. While payments arising from the spectrum auction this year can be paid at a later date, managements would similarly need to make provisions for these substantial payments now.

SingTel to spend S$2 billion on Group Digital over next 3 years – SingTel also guided for higher spending on Group Digital, with average spending of S$700 million per year. Although current contributions are relatively small, Group Digital is expected to drive the next phrase of revenue growth in the medium term.

Key upside/downside risk

Key upsides 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.

Order of decreasing preference: SingTel, M1, StarHub

We are cautiously positive on the sector, as they remain attractive due to their high dividend yield and stable earnings. We prefer SingTel over M1 and StarHub due to SingTel's overseas exposure leading to higher growth potential. We continue to expect Bharti to turn around with better revenue growth in India and Africa, and lower financing cost through the recent capital injection and bond issuance. AIS and Telkomsel continues to post strong results.

M1 remains attractive with high dividend yields. Key concern on M1 would be increasing capital expenditure requirements, including 3G enhancements, and the upcoming spectrum auctions. This also lowers Free Cash Flow, and reduces its ability to increase dividends in the near term.

We note the sharp decline in StarHub's share price since the end of the results season.

PhillipCapital
Your Partner In Finance

Telecommunications Sector Valuation Comparables

Company	Rating	FYE	Price	TP	Upside	Market	Ent.	Market	Ent.	Equity Multiple (X)						Dividend Yield (%)		
Market price as of:						Cap.	Value	Cap.	Value	Net Income			Book Value					
4-Jun-13					(%)	(S$'mn)	(S$'mn)	(US$'mn)	(US$'mn)	FY11/12	FY12/13E	FY13E/14E	FY11/12	FY12/13E	FY13E/14E	FY11/12	FY12/13E	FY13E/14E
M1 Ltd	**Accumulate**	**Dec**	3.10	**3.55**	14.5%	2,858	3,054	2,279	2,437	17.4	19.4	17.9	8.8	8.2	7.4	4.7%	4.7%	4.7%
Starhub	**Reduce**	**Dec**	4.18	**4.40**	5.3%	7,186	7,477	5,731	5,965	22.7	20.0	21.8	312.5	163.3	175.3	4.8%	4.8%	4.8%
SingTel	**Accumulate**	**Mar**	3.82	**4.07**	6.5%	60,901	67,943	48,569	54,243	16.6	16.9	15.2	2.6	2.5	2.4	4.1%	4.4%	4.4%

Source: Bloomberg, PSR est.

Important Information

This publication is prepared by Phillip Securities Research Pte Ltd., 250 North Bridge Road, #06-00, Raffles City Tower, Singapore 179101 (Registration Number: 198803136N), which is regulated by the Monetary Authority of Singapore ("Phillip Securities Research"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this document by mistake, please delete or destroy it, and notify the sender immediately. Phillip Securities Research shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources, which Phillip Securities Research has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this publication are based on such information and are expressions of belief of the individual author or the indicated source (as applicable) only. Phillip Securities Research has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete, appropriate or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited its officers, directors, employees or persons involved in the preparation or issuance of this report, (i) be liable in any manner whatsoever for any consequences (including but not limited to any special, direct, indirect, incidental or consequential losses, loss of profits and damages) of any reliance or usage of this publication or (ii) accept any legal responsibility from any person who receives this publication, even if it has been advised of the possibility of such damages. You must make the final investment decision and accept all responsibility for your investment decision, including, but not limited to your reliance on the information, data and/or other materials presented in this publication.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

Past performance of any product referred to in this publication is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This publication should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this research should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this publication, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as may be mentioned in this publication.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold a interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this publication. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, which is not reflected in this material, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited its officers, directors, employees or persons involved in the preparation or issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this material.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Section 27 of the Financial Advisers Act (Cap. 110) of Singapore and the MAS Notice on Recommendations on Investment Products (FAA-N01) do not apply in respect of this publication.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

Please contact Phillip Securities Research at [65 65311240] in respect of any matters arising from, or in connection with, this document.

This report is only for the purpose of distribution in Singapore.

Contact Information (Singapore Research Team)

Chan Wai Chee
CEO, Research
Special Opportunities
+65 6531 1231
yebo@phillip.com.sg

Joshua Tan
Head of Research
Equities & Asset Allocation
+65 6531 1249
joshuatan@phillip.com.sg

Ken Ang
Investment Analyst
Financials, Telecoms
+65 6531 1793
kenangwy@phillip.com.sg

Ng Weiwen
Macro Analyst
Global Macro, Asset Strategy
+65 6531 1735
ngww@phillip.com.sg

Roy Chen
Investment Analyst
China Macro & Equities
+65 6531 1535
roychencz@phillip.com.sg

Nicholas Ong
Investment Analyst
Commodities, Offshore & Marine
+65 6531 5440
nicholasonghg@phillip.com.sg

Richard Jio
Investment Analyst
Singapore Equities
+65 6531 1791
richardjioew@phillip.com.sg

Wong Yong Kai
Investment Analyst
US Equities
+65 6531 1685
wongyk@phillip.com.sg

Research Assistant
General Enquiries
+65 6531 1240 (Phone)
research@phillip.com.sg

PhillipCapital
Your Partner In Finance

Contact Information (Regional Member Companies)

SINGAPORE
Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

MALAYSIA
Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

HONG KONG
Phillip Securities (HK) Ltd
Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

JAPAN
Phillip Securities Japan, Ltd.
4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website:www.phillip.co.jp

INDONESIA
PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

CHINA
Phillip Financial Advisory (Shanghai) Co. Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

THAILAND
Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

FRANCE
King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

UNITED KINGDOM
King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

UNITED STATES
Phillip Futures Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005

AUSTRALIA
PhillipCapital
Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel +61-03 9629 8288
Fax +61-03 9629 8882
Website: www.phillipcapital.com.au