

# 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.

- Service revenue increases q-q
- Telcos remain attractive as long term investments due to high dividend yields and stable earnings growth y-y.
- Accumulate on SingTel, M1 and StarHub. We prefer SingTel over M1 and StarHub

### Mobile

- Data monetising gaining traction, with more customers exceeding data allowances.
- Higher post-paid ARPU q-q with positive post-paid and pre-paid net adds across three Telcos.

### Pay TV

- Market share stable q-q. StarHub's subscriber base continues to shrink at -2K, but is expected to improve.
- Cross-carriage ruling on BPL upheld. StarHub stands to gain.

### Broadband

- Continued growth in fibre broadband take-up.
- Price competition remains intense.

### Others

- SingTel guides lower FY14 Group revenue on FX weakness. StarHub maintains low single digit revenue growth guidance.
- 4G Spectrum secured at reserve prices.

### Recommendation

We remain cautiously positive on the sector, as they remain attractive due to high dividend yields and stable earnings growth. We prefer SingTel over M1 and StarHub due to SingTel's overseas exposure leading to higher growth potential. Despite negative impact from AUD depreciation, we expect SingTel to benefit from strong growth in associates' earnings. 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. StarHub likely to benefit from cross-carry of BPL but we think the impact may not be significant. While noting concerns over potentially rising interest rates and expectation of the Fed tapering by year end, dividend yields still holds their appeal and stable growth in earnings continue to make the Singapore Telcos attractive investments. We expect Telcos to further gain on data monetization with higher data consumption by mobile subscribers.

### Singapore Telecommunications Sector

Company	Rating	Price (\$)	TP (\$)	Upside (%)	M.Cap. (US\$'mn)
M1 Ltd	Accumulate	3.28	3.55	8.2%	2,366
Starhub	Accumulate	4.13	4.37	5.8%	5,551
SingTel	Accumulate	3.48	3.99	14.7%	43,375

Source: Bloomberg, PSR

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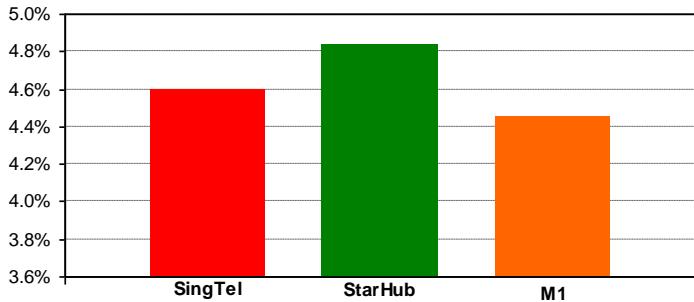
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**Dividend yields still hold their appeal**

With expectations of the fed to taper bond purchases by year-end, this may lead to a shift of investors' preference away from dividend yielding stocks. However, current dividend yields from Telcos continue to provide positive real return as MAS revised the inflation forecast to be 2% to 3% (down from 3% to 4%) in July. We think current yields still hold their appeal, with dividend growth potential as further incentives to long-term investors. SingTel and StarHub continue to be among top few ST Index dividend yield stocks.

**Fig 1. Forecasted CY2013 Dividend yield (%)**



Source: Company data, Phillip Securities Research

**Mobile revenue growth contributed by ARPU uplift**

StarHub and M1 reported higher y-y growth in mobile revenue, helped by higher post-paid ARPU and net adds. SingTel reported lower negative y-y growth in group mobile revenue, with 7% y-y growth in its Singapore mobile revenue.

**1) Data monetizing gaining traction**

Post-paid ARPU increased q-q across the three Telcos, on increasing adoption of 4G tiered-based plans. SingTel and M1 reported higher % of their tiered plan customers exceeding data allowances.

SingTel will be increasing its 4G excess data charges rate to \$10.70/GB (up from S\$5.35/GB) with effect from 16 Sep this year. M1's excess data charges remains at S\$5.35/GB, but we think M1 may soon revise the rate upwards. StarHub currently charges a promotional rate of S\$6.42/GB for its tiered-based plans (non-promotional S\$10.70/GB for its new HD voice plans). The promotion would run out on Dec 13. **We expect increases in excess data charges to drive higher ARPU.**

**Key drivers of ARPU:**

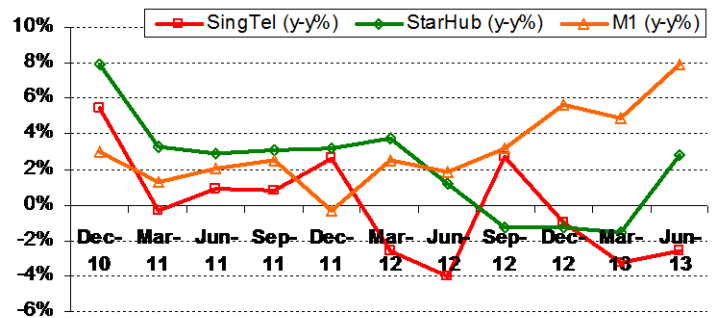
- a) Upgrading from low to mid tier plans. b) More customers exceeding their data allowances due to higher usage of data intensive services. c) Potential increases in data charges d) Gradual increase in tech-savvy population mix.

**2) Positive net adds for both post-paid and pre-paid**

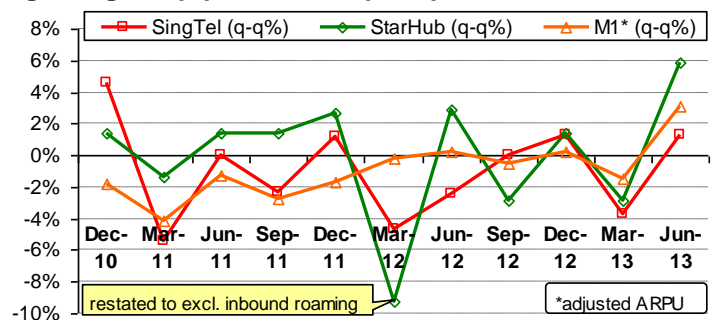
The Telcos registered higher post-paid and pre-paid customer base this quarter. Post-paid market share remains relatively unchanged from last quarter.

**Key driver of net adds:** increasing population growth in Singapore (potentially 6.9 million by 2030).

**Fig 2. y-y growth in mobile revenue**



**Fig 3. Higher q-q increase in post-paid ARPU**

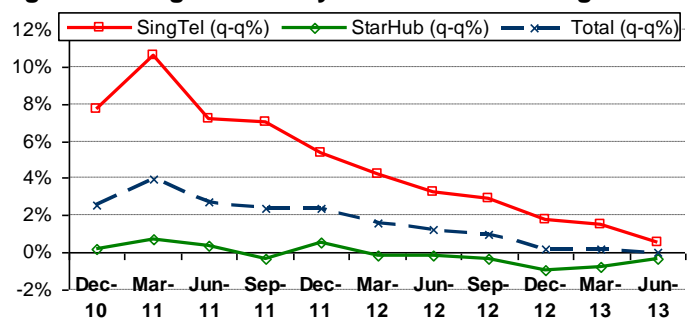


Source: Company data, Phillip Securities Research

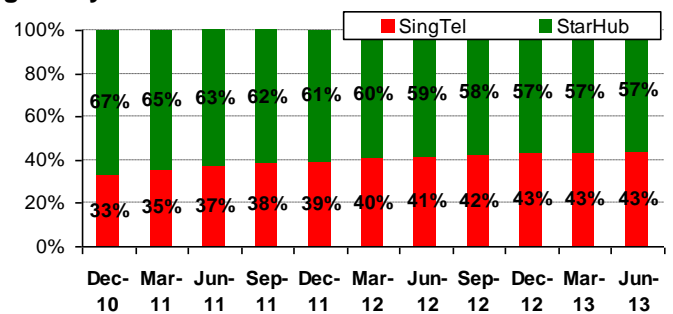
**Growth in Pay TV customers slowing down**

Growth in SingTel's mioTV customer base slowing since end Mar-11. StarHub's subscriber base continues to shrink at -2K for the last reported quarter. Net change in StarHub's subscriber base is however slowly edging towards positive territory. Market share is stabilising q-q. With the cross-carriage rule in place, we think StarHub may gain back some share from SingTel as BPL subscribers move to StarHub's cable platform from mioTV.

**Fig 4. Convergence in Pay TV customer base growth**



**Fig 5. Pay TV market share stabilises**



Source: Company data, Phillip Securities Research

### Cross-carrying of Barclays Premier League (BPL)

Following the rejection of SingTel's appeal by the Minister on 26 Jul, StarHub can now cross-carry live BPL matches beginning 2013/14 season. StarHub stands to gain from this.

### BPL bundle promotions – STH seems more attractive

StarHub offers revised S\$600 rebate (initially S\$300) with sign-up on cross-carried BPL to subscribers. The rebate helps offset the high BPL stand-alone cost of S\$59.90/mth. SingTel offers S\$480 discount on its fibre entertainment bundle with sign-up of its Gold Pack bundle, at total cost of S\$124.80/mth. Compared with SingTel's, we think StarHub's offer seems more attractive as the rebate applies to any StarHub bills. SingTel's promotion offers more savings for customers subscribing to fibre broadband, home digital line and pay TV channels as a whole package.

SingTel's new pricing applies only to new or for renewal subscriptions. Existing mio TV contracts would be honoured. We think this would mitigate effects of BPL subscribers switching to StarHub's platform in the short term.

### New Internet TV offering with M1's MiBox

M1 launched a new Internet TV service on 26 Jul 13 that offers video-on-demand entertainment and educational titles, games, e-books and app. The MiBox service comes bundled with an Android set-top box and has a niche appeal that offers Internet access via TV. Priced at S\$8.56/mth for M1 fibre customers (S\$12.84/mth for non-M1 fibre customers), with promotion of 12 months fee waiver (non-M1 fibre: 6 months waiver).

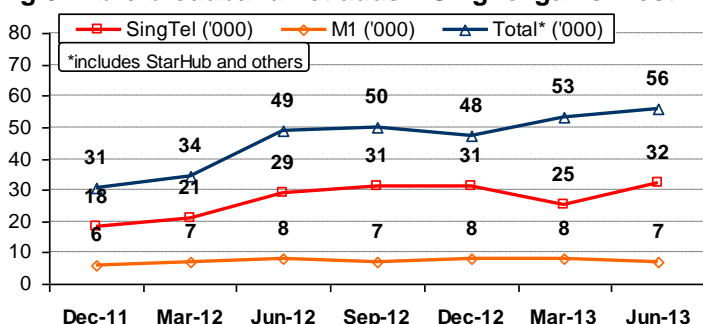
### M1 a possible BPL contender

We note that M1 may join the fray of providing cross-carried BPL contents if it can obtain the necessary regulatory approval. To qualify to receive cross-carriage contents, it would need to meet the Media Market Conduct Code's requirement of having at least 10K subscribers on its MiBox platform. With its current large mobile and broadband subscriber base, M1 is likely able to tap on existing customers to meet this requirement.

### Continued growth in fibre net adds

Based on IDA figures, fibre customers grew 17% q-q at 56K for Apr-Jun quarter (Previous quarter: 53K). Both SingTel and M1 reported net adds of 32K and 7K respectively.

**Fig 6. Fibre broadband net adds – SingTel gains most**



Source: Company data, IDA, Phillip Securities Research

### Price competition remains intense

StarHub's broadband revenue declined 1% and SingTel's revenue in this segment remains relatively flat for the quarter. Price competition in broadband segment remains intense, as service providers continue to offer discounts on their fibre plans. M1 and StarHub continue to offer S\$39.90/mth on their fibre plans (speeds of 200mbps and 100mbps respectively), based on their websites.

### Other areas

**SingTel lowers FY14 Group revenue guidance on FX weakness. StarHub maintains guidance of low single digit revenue growth** – SingTel revised FY14 guidance downward due to expected depreciation of key currencies, including AUD. Excluding this FX impact, management guides business fundamentals to remain unchanged and strong. StarHub maintained guidance of low single digit revenue growth on a conservative view.

**4G Spectrum Secured at Reserve Prices** – The three Telcos secured a total of 270 MHz of 4G spectrum in the recent auction at reserve prices – a possible testament to “rational competition” among the Telcos. The spectrum allocation will facilitate the Telcos in meeting growing 4G demands. Payment for the spectrum would be on Dec 2014, and Sep 2016.

### Key upside/downside risk

Key upsides include effective data monetising from the Telcos, customers upgrading from low-tier to mid-tier plans and lower handset subsidies.

Key downside risks include an increase in Fed rates due to US Fed policies and a shift of investors' preference away from dividend yielding stocks.

### Order of decreasing preference: SingTel, M1, StarHub

We remain cautiously positive on the sector, as they remain attractive due to high dividend yields and stable earnings growth. We prefer SingTel over M1 and StarHub due to SingTel's overseas exposure leading to higher growth potential. Despite outlook of depreciating AUD against SGD, we think SingTel would still benefit from strong growth in associates' earnings. Bharti Airtel post increased earnings despite weakening Indian Rupee. AIS and Telkomsel continues to post strong results.

M1 remains attractive with high dividend yield. Key concern on M1 would be increasing capital expenditure requirements, leading to lower Free Cash Flow. This would reduce its ability to increase dividends in the near term.

We are positive on StarHub to benefit from the cross-carry of BPL, but we think the impact may not be significant. Key concerns would be on increasing Pay TV content costs, leading to thinning of EBITDA margins. We see limited growth potential on net adds as Pay TV market may well be in a maturity stage.

### 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			FY11/12	FY12/13E	FY13E/14E
Market price as of: 6-Sep-13																		
<b>M1 Ltd</b>	<b>Accumulate</b>	<b>Dec</b>	3.28	<b>3.55</b>	8.2%	3,027	3,224	2,366	2,522	18.5	20.6	18.6	9.4	8.7	7.7	4.4%	4.5%	4.5%
<b>Starhub</b>	<b>Accumulate</b>	<b>Dec</b>	4.13	<b>4.37</b>	5.8%	7,101	7,484	5,551	5,853	22.5	19.8	20.9	308.7	161.4	80.7	4.8%	4.8%	4.8%
<b>SingTel</b>	<b>Accumulate</b>	<b>Mar</b>	3.48	<b>3.99</b>	14.7%	55,483	61,818	43,375	48,368	15.1	15.4	14.5	2.4	2.3	2.2	4.5%	4.8%	4.8%

Source: Bloomberg, Phillip Securities Research est.

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