

Asian Pay Television Trust

Market pricing in a large premium



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SINGAPORE | TELECOMMUNICATION | 1Q19 RESULTS

- Revenue and EBITDA were marginally above our estimates. ARPU from cable TV business was more resilient than expected.
- Broadband disappointed with a steep drop in ARPU.
- Cable TV subscribers contracted for the fifth consecutive quarter.
- The strategic review announced by the company on 15 April 2019 has virtually removed all valuation discounts of APTT against its Taiwanese peers. Since the review, the share price had appreciated 38%. APTT's peers are trading at a dividend yield of c.4.4% and a EV/EBITDA multiple of 11x. Our target price of S\$0.16 is an aggressive 10% discount to these peers. We are downgrading APTT to REDUCE.

Results at a glance

S\$ mn	1Q19	1Q18	YoY	Comment
Revenue	73.2	77.0	-4.9%	2.5% point negative impact from currency
- basic cable TV	58.1	60.7	-4.3%	ARPU down 2.6%, Subscriber down 2.1%
- premium digital cable	3.2	3.6	-10.0%	
- broadband	11.9	12.7	-6.4%	ARPU down 8.8%, Subscribers up 7.8%
EBITDA	44.0	45.5	-3.3%	
Broadcast cost	(14.5)	(14.8)	-1.9%	
Interest	(12.0)	(13.0)	-7.7%	
PATMI	7.4	(7.0)	n.m.	
Operating c/flow	29.0	32.8	-11.6%	
Free cash-flow*	14.4	12.1	18.7%	capex declined S\$3mn
Dividends	(4.3)	(23.3)	-81.5%	
DPU (cents)	0.300	1.625	-81.5%	

Source: Company, PSR, FCF = EBITDA less capex, cash taxes, cash interest.

The Positives

+ Cable TV ARPU contracted only NT\$1 QoQ to NT\$493/month. Cable TV ARPU has been sliding for almost three years. This quarter, it only contracted NT\$1 QoQ. A possible reason could be the reduced competition in Taipei. Aggressive headline prices in that region previously compelled APTT to provide more discounts. Such activity has subsided.

The Negatives

- Cable TV subscribers still shrinking. The decline in cable TV subscribers that began in 1Q18 has continued into this quarter, with no signs of this abating anytime soon. The strategy is to push more broadband services to existing cable subscribers. Approximately 30% of cable TV subscribers have APTT broadband services. The downside is the need to lower prices aggressively to penetrate broadband.

- Capex still elevated. Capex was lower this quarter by S\$3mn on a YoY basis. However, as a percentage of revenue, capex stands at 20%. This is elevated compared to some Taiwan telecommunication peers where capex to revenue is only 13%. Management guided that capex this year will be lower than that in 2018. Our FY19e capex is 22% of revenue. The capex covers the deployment of fibre deeper into the network.

- Broadband was meant to be the growth engine. However, revenue in 1Q19 from this segment dropped to S\$11.9mn, the lowest since listing. Subscribers expanded by 7.8% YoY to 220k, but ARPU dropped by 8.8% to NT\$404. Competition is intense from unlimited mobile data plans, as well as from a popular product called the Android box, which can be used to view OTT content via the internet. These so-called BandOTT boxes help drive the usage of higher data speed from current 50MBps to 300-500MBps. Around 64,000 of such boxes have been deployed, more than double the 31,000 boxes a year ago.

16 May 2019

REDUCE (Downgraded)

LAST TRADED PRICE	SGD 0.178
FORECAST DIV	SGD 0.012
TARGET PRICE	SGD 0.160
TOTAL RETURN	-3.4%

COMPANY DATA

BLOOMBERG	APTT SP
O/S UNITS (MN) :	1,437
MARKET CAP (USD mn / SGD mn) :	187 / 256
52 - WK HI/LO (SGD) :	0.48 / 0.12
3M Average Daily T/O (mn) :	9.68

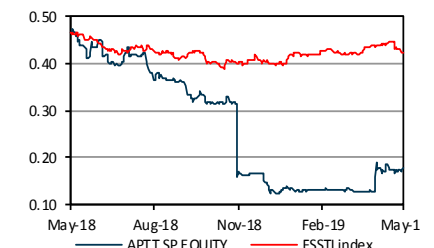
MAJOR SHAREHOLDERS

Temasek Holdings	7.93%
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PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	35.7	36.7	(54.5)
STI RETURN	(1.8)	0.8	(5.8)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS (APTT SP)

SGD mn	FY17	FY18	FY19e	FY20e
Revenue	334.8	313.9	290.8	286.9
EBITDA	201.4	184.3	168.1	165.4
NPAT	36.5	7.4	7.9	7.7
EPS (SGD)	0.03	0.01	0.01	0.01
PER, x	7.0	34.5	32.5	33.1
P/BV, x	0.2	0.2	0.2	0.2
DPU (SGD)	0.065	0.052	0.012	0.012
DVD YIELD	36.5%	29.1%	6.7%	6.7%
ROE	3.0%	0.7%	0.7%	0.7%

Source: Bloomberg, PSR

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Outlook

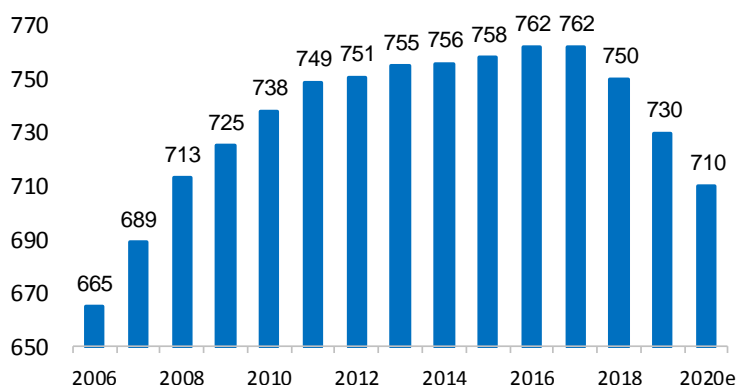
Operating metrics are still slipping, but a positive has been the slower decline in ARPU for the cable TV business. Management reiterated that the big growth driver for APTT would be the data backhaul business to support the wireless operators especially when 5G rolls out. Any impact will be materialised within five years. APTT is already providing such services but the contribution is low. Wireless operators will still prefer APTT's network. This is because they have not built their own fibre network, and the alternative would be to use the network of their competitor and incumbent Chunghwa Telecom.

Downgrade to REDUCE and target price of S\$0.16 (previously S\$0.14)

The strategic review announced by the company on 15 April 2019 has virtually removed all valuation discounts of APTT against its Taiwanese peers. Since the review, the share price had appreciated 38%. APTT's peers are trading at a dividend yield of around 4.4% and a EV/EBITDA multiple of 11x (Figure 2). Our target price of S\$0.16 is an aggressive 10% discount to these peers on an EV/EBITDA basis. We are downgrading APTT to REDUCE. Operationally, the business remains on a downtrend and we expect EBITDA to contract 8.8% in FY19e.

Figure 1: Cable TV subscribers peaked in 2016/17

APTT - Cable TV Subscribers (000s)



Source: PSR, Company

Figure 2: Taiwanese peers pay a dividend yield of 4.4%.

Company	1 Mth Perf.	3 Mth Perf.	YTD Perf.	Share Px Local	Market Cap (US\$ m)	PE FY17	PE FY18E	PE FY19E	Dividend Yield	ROE	EV/EBITDA	EBITDA Margin
Taiwan												
Chunghwa Telecom	1.8%	3.7%	-1.3%	112	27,775	24.3	25.0	25.4	4.0%	9.1%	11.0	35.0%
Taiwan Mobile	2.7%	4.6%	7.0%	114.0	12,534	28.6	30.3	29.7	4.9%	19.9%	13.3	26.7%
Far Eastone	2.0%	6.0%	-0.8%	75.8	7,931	26.3	27.9	27.0	4.9%	11.9%	10.0	30.8%
	2.1%	4.3%	0.9%		48,241	25.6	26.7	26.6	4.4%	12.4%	11.4	32.2%

Source: PSR, Company

Financials

Income Statement

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Revenue	319.2	334.8	313.9	290.8	286.9
EBITDA	189.3	201.4	184.3	168.1	165.4
Depreciation & Amortisation	(55.6)	(63.2)	(78.6)	(84.0)	(79.8)
EBIT	143.5	130.3	107.6	84.4	85.9
Net Finance Inc/(Exp)	(54.0)	(56.3)	(53.8)	(56.0)	(57.8)
Profit before tax	83.5	65.1	30.6	20.4	20.0
Taxation	(23.5)	(28.3)	(22.9)	(12.2)	(12.0)
Net profit before NCI	59.7	36.5	7.4	7.9	7.7
Non-controlling interest	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Net profit, reported	59.7	36.5	7.4	7.9	7.7

Per share data (SGD)

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	0.0416	0.0254	0.0052	0.0055	0.0054
DPU	0.065	0.065	0.052	0.012	0.012
BVPU	0.85	0.83	0.75	0.74	0.73

Cash Flow

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
CFO					
Profit before tax	83.5	65.1	30.6	20.4	20.0
Depreciation & Amortisation	55.6	63.2	78.6	84.0	79.8
WC changes	8.3	6.9	(8.2)	(6.7)	(5.0)
Net finance inc/(exp)	(54.0)	(56.3)	(53.8)	(56.0)	(57.8)
Tax paid	(13.1)	(19.1)	(16.7)	(7.2)	(7.0)
Others	(3.2)	16.8	21.5	8.0	8.0
Cashflow from ops	131.1	132.9	105.8	98.5	95.9
CFI					
CAPEX, net	(98.5)	(85.8)	(73.9)	(65.0)	(65.0)
Others	(2.6)	(13.3)	(12.7)	0.0	0.0
Cashflow from investments	(101.1)	(99.1)	(86.5)	(65.0)	(65.0)
Share issuance, net	0.0	0.0	0.0	0.0	0.0
Loans, net of repayments	69.3	68.3	79.9	0.0	0.0
Dividends	(102.3)	(93.4)	(93.4)	(17.2)	(17.2)
Others	1.0	(0.4)	0.3	0.0	0.0
Cashflow from financing	(32.0)	(25.2)	(12.8)	(17.2)	(17.2)
Net change in cash	(2.0)	8.6	6.4	16.2	13.6
CCE, end	59.1	67.7	74.1	90.4	104.0

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
ASSETS					
PPE	291	321	328	310	296
Others	2,368	2,391	2,372	2,371	2,370
Total non-current assets	2,659	2,712	2,700	2,681	2,666
Accounts receivables	15	12	13	12	12
Cash	59	67	74	90	103
Inventories	0	0	0	0	0
Others	1	1	1	1	1
Total current assets	75	80	88	103	116
Total Assets	2,737	2,793	2,792	2,787	2,786
LIABILITIES					
Accounts payables	21	22	23	20	20
Short term loans	12	15	6	6	6
Others	76	73	73	73	73
Total current liabilities	109	109	101	98	98
Long term loans	1,295	1,380	1,505	1,513	1,521
Others	103	114	112	112	112
Total non-current liabilities	1,398	1,494	1,616	1,624	1,632
Total Liabilities	1,507	1,603	1,718	1,723	1,731
EQUITY					
Non-controlling interests	2	2	2	3	3
Shareholder Equity	1,231	1,190	1,074	1,065	1,055

Valuation Ratios

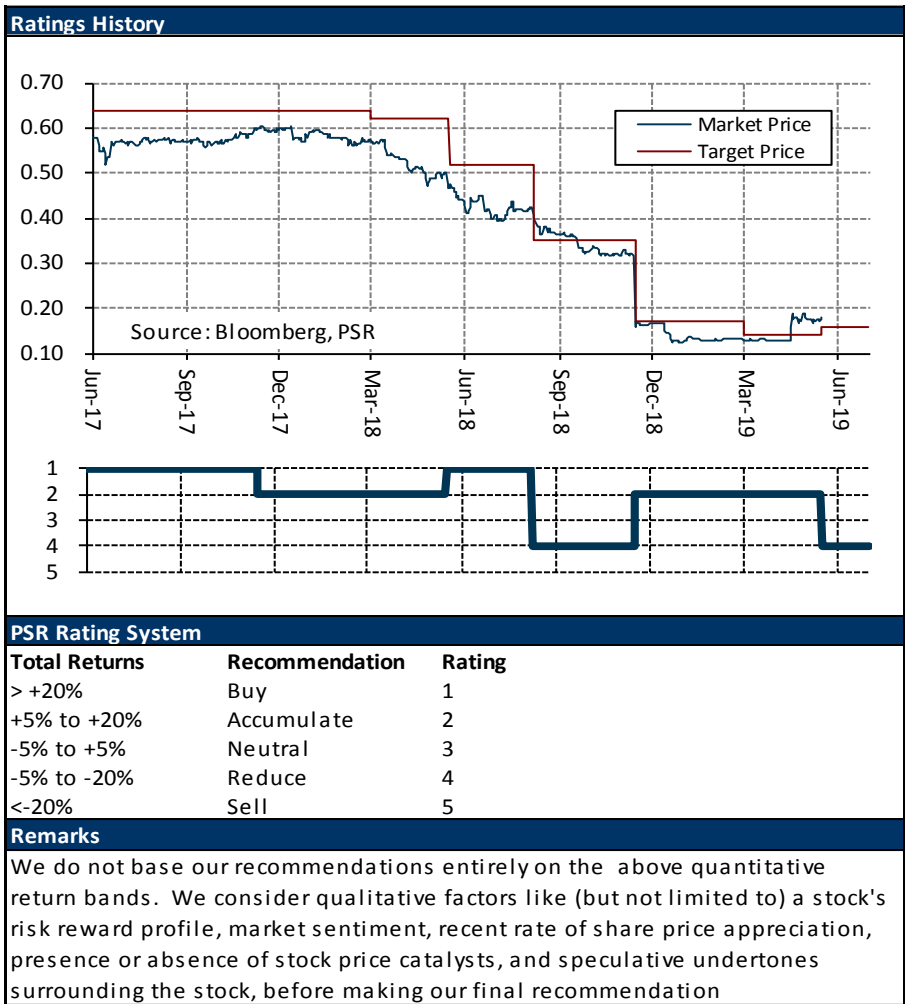
Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
P/E (X), adj.	4.3	7.0	34.5	32.5	33.1
P/B (X)	0.2	0.2	0.2	0.2	0.2
EV/EBITDA (X), adj.	8.0	7.9	9.2	10.0	10.2
Dividend Yield	36.5%	36.5%	29.1%	6.7%	6.7%

Growth & Margins

Growth					
Revenue	-3.9%	4.9%	-6.3%	-7.3%	-1.3%
EBITDA	-5.8%	6.4%	-8.5%	-8.8%	-1.6%
EBIT	-2.4%	-9.2%	-17.5%	-21.5%	1.7%
Net profit, adj.	32.4%	-38.9%	-79.7%	6.2%	-1.9%
Margins					
EBITDA margin	59.3%	60.2%	58.7%	57.8%	57.7%
EBIT margin	45.0%	38.9%	34.3%	29.0%	29.9%
Net profit margin	18.7%	10.9%	2.4%	2.7%	2.7%

Key Ratios

Key Ratios					
ROE	4.9%	3.0%	0.7%	0.7%	0.7%
ROA	2.2%	1.3%	0.3%	0.3%	0.3%
Net Debt / (Cash)	1,248	1,328	1,437	1,429	1,423
Net Gearing (X)	1.0	1.1	1.3	1.3	1.3



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