

# Singapore Telecom Sector

## Will there be a fourth mobile operator?

### Equities

Singapore  
Telecommunications

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#### Our view: greenfield fourth mobile operator unlikely; MVNO maybe

There is a lot of speculation around the possibility of the Singapore regulator, the Infocomm Development Authority (IDA), introducing a fourth mobile operator. We think that a greenfield fourth operator is unlikely as: 1) Singapore has high mobile penetration and is a mature market; 2) spectrum availability is limited; 3) investment costs would be high; and 4) a major portion of Singapore's households are already bundled with SingTel and StarHub. However, IDA may be more inclined to incentivize a more viable mobile virtual network operator (MVNO), which would have a very limited impact, in our view. Our base case scenario assumes that Singapore is unlikely to see the introduction of fourth mobile operator. However, in the unlikely event that Singapore introduces a greenfield fourth operator, we believe M1, being a pure-play mobile operator with limited bundled customers, would be impacted the most.

#### Mobile: more data usage; tariffs likely to be tweaked up; lower subsidies

We expect the mobile revenue pie in Singapore to grow at a low-single-digit rate YoY and that this will be driven by: 1) faster phones and faster networks, leading to higher data usage; 2) continued tweaking of mobile tariffs; 3) increasing adoption of tiered data pricing, which ensures operators benefit from growth in data usage; and 4) a further decline in handset subsidies.

#### StarHub to improve enterprise share; worst over for pay TV, home broadband

StarHub's investments in the enterprise business are likely to improve its market share from about 20% currently. We believe that there is limited scope for the competitive dynamics to deteriorate further in the pay-TV and broadband markets.

#### StarHub is our top pick; Buy rating for SingTel; Neutral rating on M1

After its recent under-performance compared with M1, we believe StarHub is trading at an attractive 2015E dividend yield of 4.8% compared with M1's 4.1%. We prefer StarHub over M1. We also like SingTel with its balanced yield and growth.

Figure 1: Valuation comparison

	Rating	Price	Share	%	PE (x)			EVEBITDA (x)			Dividend yield (%)		
		target	price	upside	2014E	2015E	2016E	2014E	2015E	2016E	2014E	2015E	2016E
SingTel	Buy	4.65	3.87	20.2%	16.7	15.1	13.9	9.2	8.5	8.0	4.4	4.9	5.3
StarHub	Buy	4.95	4.13	19.9%	19.4	18.8	18.3	10.2	10.1	9.8	4.8	4.8	4.8
M1 Limited	Neutral	3.95	3.78	4.5%	20.2	19.8	19.3	11.4	11.2	10.9	4.0	4.1	4.2

Note: SingTel year-end is March; data as on 1 September 2014.  
Source: Reuters, UBS estimates

# Executive summary

## Will there be a fourth mobile operator?

Since the IDA floated a consultation paper on 22 April 2014, a lot of debate has revolved around a key question: “Will there be a fourth mobile operator?” In this note, we explore this question in detail. We had meetings with the IDA, the Singapore mobile operators and MyRepublic. Based on our takeaways from these meetings and our analysis of them, we conclude that a greenfield fourth mobile operator is unlikely in Singapore as:

- Singapore’s market is highly penetrated and mature;
- Spectrum availability is limited – spectrum is currently available only in the 850MHz and the 2300MHz bands;
- Given the historical focus of the IDA on quality of service (QoS), we think that it is unlikely that IDA would create an uneven playing field favouring a fourth greenfield mobile operator;
- A major proportion of Singapore households are bundled by SingTel and StarHub – we estimate that out of the 1.2m households in Singapore, 0.82m households are already bundled by SingTel (0.37m) & StarHub (0.45m). The bundled customers generally tend to be more sticky; and
- Handsets are subsidized by existing mobile companies. A greenfield mobile operator would need adequate funding (to the tune of around S\$300m to start up) and we think it is unlikely that anyone would be keen to invest in a mature market with very limited growth prospects.

Our base-case scenario, therefore, is that Singapore is unlikely to see the introduction of a fourth mobile operator. However, in the unlikely event that there is a greenfield fourth operator in Singapore, we believe:

- The new entrant would struggle to run a viable mobile business (assuming a level playing field); and
- M1, being a pure-play mobile operator with limited bundled customers, would lose some of its share of the mobile market.

On the other hand, IDA could introduce measures to encourage Singapore mobile operators to reserve a portion of their spectrum for MVNO service providers. We believe this situation is more likely. However, we are not too concerned about this scenario as:

- MVNOs typically attract pre-paid users. Pre-paid revenues are around 20% of the Singapore mobile market in our view; and
- Singapore currently has MVNOs that exist that target specific niche segments. These MVNOs appeal to a very limited segment of the market.

## Mobile business – data usage continues to improve; subsidies coming down; pricing is evolving

Singapore mobile customers are using more and more data. The key drivers of this increase in data usage are:

- Faster mobile networks (LTE) make watching video a good experience;
- Faster phones (faster processors) also improve the viewing experience; and
- Large-screen phones are proliferating and these also drive up more data usage.

Since Singapore mobile operators have migrated a majority of their subscribers to tiered data plans, mobile operator revenues are levered to higher usage.

The other trend we have seen is the reduction of handset subsidies.

- When the iPhone 5S was introduced, Singapore mobile operators reduced the handset subsidies by around 20%.
- Also, Apple's ability to dictate a heavier handset subsidy has been reduced as the smartphone market has seen competition from other companies such as Samsung, LG, Sony, and HTC.
- We believe Singapore mobile operators will continue to manage handset subsidies down. It would be interesting to see how handset subsidies evolve when Apple launches iPhone 6.

Data pricing has been evolving in Singapore.

- While operators used to provide up to 12 GB for S\$39 in the 3G era, the pricing has been changed to monetise data usage better since the introduction of tiered-data plans.
- The new initiative by SingTel to provide 2GB on WiFi (for a nominal fee of S\$3) suggests that mobile data pricing will continue to evolve.
- StarHub plans to charge S\$10.70 per month for LTE users from January 2016. StarHub will charge a promotional rate of S\$2.14 per month from the contract end date to December 2015.

We expect the mobile business to remain highly profitable for the operators with limited growth opportunities. We do not foresee a major shift in mobile revenue market share going forward. As a result of increasing usage, tiered data pricing and tweaking of mobile tariffs, we expect Singapore mobile sector revenues to grow at low single digits. Our forecasts for the various operators' service revenues are outlined in the table below.

**Figure 2: Mobile service revenues**

	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
<b>Service revenue (S\$ m)</b>												
SingTel	1,964	2,055	2,136	2,189	2,239	2,275	2,303	2,325	2,342	2,355	2,368	2,378
StarHub	1,235	1,243	1,277	1,317	1,350	1,377	1,399	1,416	1,430	1,442	1,452	1,460
M1	644	666	680	694	704	711	720	729	736	742	747	750
<b>Growth (% YoY)</b>												
SingTel	2.4%	4.6%	4.0%	2.5%	2.3%	1.6%	1.2%	1.0%	0.7%	0.6%	0.5%	0.4%
StarHub	0.9%	0.6%	2.7%	3.2%	2.5%	2.0%	1.6%	1.3%	1.0%	0.8%	0.7%	0.5%
M1	6.1%	3.3%	2.2%	2.1%	1.4%	1.1%	1.3%	1.1%	1.0%	0.9%	0.6%	0.5%

Source: Company data, UBS estimates

## Enterprise business – StarHub has an opportunity to improve its position

Historically, the corporate enterprise market in Singapore has been dominated by SingTel. Currently we believe that SingTel has a revenue market share of 80% in the corporate enterprise market. StarHub is a distant second with c20% revenue market share. With only two main companies, this business remains highly profitable.

We believe StarHub can improve its revenue market share in this segment as:

- StarHub CEO, Tong Hai Tan, comes from an enterprise business background from his vast experience with IBM and is focused on expanding StarHub's wallet share in this business
- StarHub has been investing capex to strengthen its offering in order to provide a viable alternative to SingTel. For instance, StarHub's capex for 2014E is S\$300m compared with S\$167m for M1.

Post the Bukit Panjang exchange fire at one of the SingTel exchanges, StarHub has the ability to improve its market share as:

- MAS has mandated banks to diversify their data networks in order to build sufficient redundancy
- More enterprises are allocating a little more of their enterprise dollars in favour of StarHub with a view to improve the back-up and redundancy

Initiatives by the Singapore government to promote Singapore as a smart city also benefits StarHub given its investments in fibre and submarine landing station

We believe our forecasts of StarHub enterprise business revenues are conservative in the medium term. Quarterly data points are likely to be a catalyst for us and the street to revise our enterprise revenue forecasts up. Our forecasts for StarHub are outlined below:

**Figure 3: StarHub's enterprise revenue (S\$ m)**

	2013A	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Fixed network services	368	390	400	406	410	414	418	422	426	431	435	439
- Growth (%)	2.9%	5.9%	2.6%	1.4%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%

Source: Company data, UBS estimates

## Pay TV – Is the worst over? We believe so

Despite its being a two-company market, the pay-TV business in Singapore is very competitive. We believe SingTel's entry into Mio TV has helped the company improve its mobile revenue market share from 44% in 2007 to 52% as of 2013.

What is surprising is StarHub has not lost much revenues or customers due to SingTel entry. However, the pay-TV revenues for StarHub have been stagnant with SingTel capturing all the growth.

We believe the worst is over in terms of Pay TV competition as:

- SingTel's revenue market share in Pay TV has grown to c35% as of H1 2014. SingTel is unlikely to gain significantly more market share in our view as the low hanging fruit has been plucked.

- SingTel does not make any money in the pay-TV business in our view. With Pay TV now under Singapore CEO, it is unlikely that SingTel gets a lot more aggressive for content.
- SingTel has spent on football most of its content dollars. StarHub has a more diversified content assortment and we believe both SingTel and StarHub can co-exist.
- With the implementation of cross-carriage there is no exclusivity of content in Singapore. This limits the damage SingTel can do with content over-bidding.

We expect Singapore Pay TV to remain competitive but unlikely to get worse in terms of competitive intensity from this point.

**Figure 4: Pay TV revenue and subscriber market share**

	2009A	2010A	2011A	2012A	2013A	2014E	2015E	2016E
<b>Pay TV subscribers (000)</b>								
SingTel	155	264	353	398	418	451	481	507
StarHub	539	538	545	536	533	530	527	525
<b>Total</b>	<b>694</b>	<b>802</b>	<b>898</b>	<b>934</b>	<b>951</b>	<b>981</b>	<b>1,008</b>	<b>1,032</b>
<b>Pay TV subscriber market share</b>								
SingTel	22.3%	32.9%	39.3%	42.6%	44.0%	46.0%	47.7%	49.1%
StarHub	77.7%	67.1%	60.7%	57.4%	56.0%	54.0%	52.3%	50.9%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Pay TV revenue (\$\$ m)</b>								
SingTel	23	63	99	118	161	208	202	214
StarHub	405	395	376	396	386	383	379	374
<b>Total</b>	<b>428</b>	<b>458</b>	<b>475</b>	<b>514</b>	<b>546</b>	<b>591</b>	<b>581</b>	<b>589</b>
<b>Pay TV revenue market share</b>								
SingTel	5%	14%	21%	23%	29%	35%	35%	36%
StarHub	95%	86%	79%	77%	71%	65%	65%	64%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Company data, UBS estimates

## Residential broadband – We believe the worst is probably over in this business too

The NGBN has been a great leveller in terms of enabling smaller operators such as MyRepublic and View Quest to compete with the likes of SingTel, StarHub.

While the revenues of this business segment have been under severe pressure in the past several quarters, we believe the worst is indeed over as:

- SingTel and StarHub have decided to defend their turf in this segment and this puts pressure on new entrants with stretched financials
- Operators have moved away from giving high value premiums and substituted that by providing TV content as well as a few free months of service – Newer operators such as MyRepublic is unable to match the free content
- We believe that only the technically savvy customers are attracted to the MyRepublic offering of higher speed. There have been a lot of complaints about the speed of installation by, as well as the customer service of, the smaller operators and this limits their mass-market appeal.

- Operators such as SingTel and StarHub are able to bundle multiple services in a package which makes it attractive for households.

We believe that the price sensitive, deal seeking segment of the market (10-15%) may opt to go with the cheapest service provider. However, the mass market will still choose between SingTel, StarHub and M1, in our view.

## **Our stock picks – We like StarHub & SingTel; Neutral on M1.**

We believe StarHub stock is quite attractive after its recent under-performance compared with SingTel and M1. We like StarHub as:

- StarHub has a successful track record of providing attractive total shareholder returns.
- We believe StarHub's S\$0.20 dividend (5c per quarter) is sustainable. This implies a 2015E dividend yield of 4.8%, which is attractive in our view.
- We believe that StarHub's investments in the enterprise business are likely to pay off in the medium term.
- Also, we believe the worst is over in terms of the competitive dynamics in the residential broadband and pay-TV businesses

StarHub is therefore our top pick in the Singapore mobile sector. We believe this is a non-consensus call as there are currently two Buy ratings on the stock with 18 Neutrals and seven Sell recommendations (source Bloomberg).

We also like SingTel as a balanced play with 2015E dividend yield of 4.9% and exposure to growth through its overseas associates such as Bharti Airtel, Telkomsel, AIS and Globe.

We are neutral on M1 as we believe the stock's recent outperformance is likely to result in a pause and we prefer StarHub to M1.

# A few questions

## 1) Why is an MVNO likely to make very limited impact?

IDA is looking to enhance competition in the Singapore mobile market, and is exploring options for the introduction of MVNOs in the market or a fourth entrant. Both SingTel and StarHub CEO have highlighted the risk that wholesale prices may be mandated by the IDA for selling to MVNOs, which may become a condition for spectrum renewal. The IDA has invited industry view on this, which we have summarised in Figure below.

**Figure 1: : Industry view on IDA's consultation paper on proposed spectrum allocation and options to enhance mobile competition**

Company name	Support the introduction of MVNO/fourth operator	Comments
SingTel	No	The Singapore market is competitive and MVNO participation should be governed by market forces and intervention by regulator is unwarranted
StarHub	No	The market is mature and competitive. Introduction of MVNO is unlikely to yield any new benefits to customers
M1	No	There are already 13 licensed MVNO's in Singapore. Moreover MNO-MVNO arrangement should be driven by market forces
MyRepublic	Yes	Interested to be the fourth MNO rather than an MVNO as this will enable it to innovate and develop new cost model to enhance overall customer experience and lower costs
SuperInternet ACCESS	Yes	Will lead to expansion of service offer
Phoenix Communications	Yes	Will expand the product offer. Supports conducive regulatory framework for MVNO participation
Liberty Wireless	Yes	MVNOs could help utilize the scarce spectrum resources more effectively in Singapore

Source: Company data, UBS research

However, in our view MVNOs are unlikely to succeed in the market given 1) MVNOs largely appeal to the prepaid segment, which is only 20% of the Singapore mobile market and 2) Around two-thirds of Singapore households are bundled by StarHub or SingTel for multiple services and these households tend to be sticky.

A case in point (highlighted by StarHub) is Virgin Mobile, which despite being one of the most successful MVNOs globally, failed in Singapore. The company exited Singapore in July 2002, suggesting that the market was already very competitive and saturated.

## 2) Why do we believe the worst is over in pay-TV competition?

Since SingTel's entry into the pay-TV market, though the sector revenues have grown but the profitability of the sector has come down. We believe that the worst is over in the pay-TV segment as both StarHub and SingTel are struggling to make money from the business segment.

In our view, SingTel strategy to enter the pay-TV market was to end StarHub's dominance in the pay-TV segment and to weaken StarHub's ability to subsidize its mobile business from pay-TV business.

We think, after 5 years of entering the pay-TV market, SingTel has been able to achieve most of its objective in the pay-TV market. We expect competition in the pay-TV market to remain rational. Also, we do not see intense fight over the content post the coming of cross carriage regime

### 3) Can home broadband get much worse in terms of competition?

The introduction of NGBN has resulted in an ultra-competitive home broadband market. With broadband key to their bundling strategy, both SingTel and StarHub have indicated that they will defend their market share through price adjustments.

On the positive side however, all the three telcos having indicated signs of price stability emerging in the market recently. M1 has stopped its broadband promotions more recently, which is reflected in 2Q14 ARPU stabilising after several quarters of decline. MyRepublic has also raised the price of its 1Gbps plan from S\$49.99 to S\$59.99 over the last couple of months. We take a look at the broadband plans offered by these operators below.

**Figure 5: SingTel broadband and bundled plans**

Plan	Speed	Price/ month	Offer
Fibre Home Bundle	200Mbps	\$49.90	Fibre broadband
	300Mbps	\$59.90	
	500Mbps	\$79.90	
Fibre Entertainment Bundle	200Mbps	\$69.90	Fibre broadband + Home Digital Line (unlimited local calls) + >50 channels on mio TV
	300Mbps	\$79.90	
	500Mbps	\$88.00	

Source: Company data

**Figure 6: StarHub broadband and bundled plans**

Plan	Speed	Price/ month	Offer
Fibre Home Broadband Plans	100Mbps	\$39.90	Fibre broadband
	300Mbps	\$49.90	
	500Mbps	\$69.90	
	1Gbps	\$395.90	
HomeHub	100Mbps	\$39.90	Fibre broadband + 66 channels on StarHub TV Home Phone Line (unlimited local calls) + 21Mbps mobile broadband + S\$5 Monthly HomeHub voucher
	300Mbps	\$49.90	
	500Mbps	\$69.90	

Source: Company data

**Figure 7: M1 broadband plans**

Plan	Speed	Price/ month	Offer
Fibre broadband	200Mbps	\$39.00	Fibre broadband + Free 12m MiBox subscription + Free Home Fixed Voice service
	300Mbps	\$49.00	
	500Mbps	\$59.00	
	1Gbps	\$158.00	
			Above + Free 1Gbps of mobile broadband

Source: Company data



**Figure 8: MyRepublic Broadband plans**

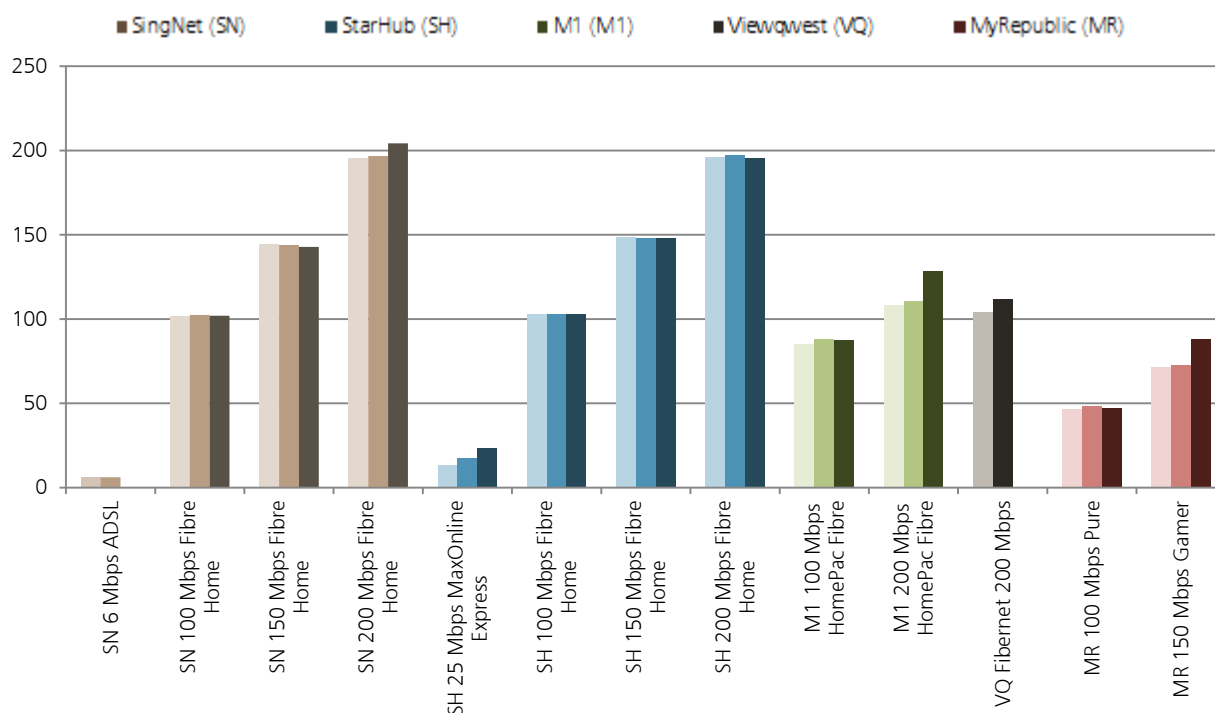
Plan	Speed	Price/ month	Offer
Ultra	1Gbps	\$59.99	Fibre broadband + 3m Home Voice Plus
Gamer	1Gbps	\$69.99	Fibre broadband + 3m Home Voice Plus + Gaming privileges

Source: Company data

Our meetings with the CEOs of SingTel and StarHub suggest that they do not expect the current price plans of MyRepublic to be sustainable over the longer term. They are of the view that:

- MyRepublic can survive if it can sustain providing 1Gbps of speed at these aggressive prices, but this is unlikely
- MyRepublic cannot provide the same level of service as incumbents as it needs to invest heavily in international bandwidth. The customer experience has not been good with waiting times for installation as well as lower speed during peak periods of usage.

**Figure 9: International (US) average peak download throughput (April 2014-June 2014)**



Source: IDA

#### 4) Is StarHub's dividend yield sustainable?

- Few of the investors have been concerned that StarHub's annual dividend of 20cent/share may not be sustainable.
- We would like to highlight that we do not see any threat to StarHub's 20cent/share dividend pay-outs.

- We are building in operating free cash flow CAGR of 4.1% over the next three years along with annual capex intensity of about S\$300m and we do not see any threat to 20cent/share dividends.
- Also, the company's net debt to EBITDA currently stands at 0.6x which is below the company's comfort zone of 1.0-1.5x. We do not see any major change in company leverage ratio over the next three years.
- On the contrary, we believe that StarHub can increase its dividend pay outs from 2016E/2017E as the capex intensity reduces and contribution of enterprise segment to total revenue increases. We are building in DPS to increase to 21cents/share in 2017E

**Figure 10: StarHub's cash flow statement (\$\$ m)**

	2012	2013	2014E	2015E	2016E	2017E	2018E
<b>Cash flow from operations</b>							
Net Profit	359	371	367	378	387	393	398
Depreciation & Amortization	273	270	267	270	273	276	280
Decrease/ (Increase) in working capital	101	(17)	4	7	10	8	6
Increase/ (Decrease) in non-current liab.	(21)	(20)	2	-	-	-	-
Decrease/ (Increase) in non-current assets	0	3	-	-	-	-	-
Others / adjustments	(22)	(11)	13	-	-	-	-
<b>Net Cash from Operating Activities</b>	<b>690</b>	<b>595</b>	<b>654</b>	<b>656</b>	<b>670</b>	<b>677</b>	<b>683</b>
<b>Cash flow from investing activities</b>							
Purchase of PPE & intangible assets	(272)	(303)	(314)	(301)	(303)	(302)	(302)
Others	4	3	-	-	-	-	-
<b>Net cash used in Investing activities</b>	<b>(268)</b>	<b>(299)</b>	<b>(314)</b>	<b>(301)</b>	<b>(303)</b>	<b>(302)</b>	<b>(302)</b>
<b>Cash flow from financing activities</b>							
Increase / (Decrease) in Debt	25	-	-	-	-	-	-
Increase / (Decrease) in Equity	0	1	-	-	-	-	-
Dividends	(343)	(344)	(344)	(344)	(344)	(361)	(361)
Others	29	3	-	-	-	-	-
<b>Net Cash used in financing Activities</b>	<b>(289)</b>	<b>(341)</b>	<b>(344)</b>	<b>(344)</b>	<b>(344)</b>	<b>(361)</b>	<b>(361)</b>
<b>Net Increase/(Decrease) in Cash</b>	<b>133</b>	<b>(46)</b>	<b>(4)</b>	<b>11</b>	<b>23</b>	<b>14</b>	<b>20</b>

Source: Company data, UBS estimates

## 5) How can StarHub improve its market share in the enterprise market?

- The Enterprise business is a high margin business, next only to mobile. As a result, all the three operators are looking to enhance their product offer to this segment. A case in point is M1, which has recently launched several HSBB services for Enterprises, including Singapore's first 10Gbps broadband service on the national fibre network.
- StarHub CEO believes that the company has around 20% wallet share in the Enterprise market, while SingTel has 80% market share.
- While SingTel has strengthened its position in data centre services and cloud services, StarHub's fibre and data centre investments has also positioned the latter as a viable alternative. StarHub has also invested in submarine cables, and currently has excellent connectivity to USA and Japan. The company also expects to have capability to connect China and Korea soon.
- StarHub suggests that the Enterprise market is divided into two sub-segments: 1) Wholesale (through partnerships) and 2) True Enterprise (Directly). Whilst the

wholesale segment is subject to price erosion, (as was also corroborated by SingTel recently highlighting margin pressures emerging in the core carriage segment), the True Enterprise segment is growing faster.

- Subsequent to the October 2013 fire led disruption at SingTel's Bukit Panjang exchange, the government is encouraging resilience in networks and promoting second operators in order to minimise service disruptions. We believe that StarHub is well positioned to serve as the second operator, and thereafter aim to grow share.
- StarHub intends to steadily grow through a partnership approach with global companies such as IBM and Microsoft. The company also works with global carriers such as Vodafone, AT&T and Telstra to fulfil Singapore requirements.
- Recent government initiatives to position Singapore as a smart city also provide further growth opportunities.

# Key takeaways from the management meetings

## SingTel meeting takeaways (Yuen Kuan Moon – CEO, Consumer Singapore)

### Mobile business

- Mobile business continues to be rational with the focus on improving monetization of data usage.
- Handset subsidies are coming down and the popularity of low cost handsets such as Xiaomi is also helping in margin improvement.
- IDA may look at reserving 2300MHz spectrum for the fourth operator just like they did in 2012 with 2600MHz.
- It is difficult for a new entrant to make money in the Singapore mobile market given the high initial investment and high penetration rate.

### Broadband business

- MyRepublic current price plans are not sustainable. Its cost base will increase once it gains scale.
- StarHub is encouraging broadband subscribers to migrate to fibre so that the company can claim adoption grant from IDA which will lapse in 2015.

### Pay TV business

- SingTel entered the pay-TV business in order to end StarHub's dominance in the pay-TV market and to improve its own bundling capability.
- SingTel aspires to be the home of football for Singapore households. Hence, the company has been a bit aggressive on getting the content recently.
- SingTel expects the future content bidding to be more rational as the company has already gained critical mass in the pay-TV segment.

## StarHub meeting takeaways (Tong Hai Tan – CEO and Jeannie Ong – CMO)

### Mobile business

- Singapore mobile market is highly competitive but the competition is rational. SingTel's recent new price plans reflect the same.
- StarHub may do some price correction on mobile in the near term as its mobile pricing is lowest in the market and it does not aspire to be the cheapest brand in Singapore.
- The company is focussed on reducing handset subsidies as it helps in improving margins. Also, the popularity of low price handsets from manufacturers such as Xiaomi, Asus etc. help in reducing subsidy costs.

- Prepaid segment is impacted by the number of SIMs that an individual can hold. Further, migrant workers have started using OTT applications on WiFi network which has reduced operator's wireless network usage.
- Regulator have regulated price in areas where they have made investments such as NGBN (at NetCO and OPCO level). Hence the management does not think IDA will regulate MVNO pricing.
- StarHub does not think a fourth operator has a viable business case in Singapore given mature market and exorbitant initial cost (especially spectrum cost).

### **Broadband business**

- StarHub did price adjustments in Dec'13 in order to defend its market share as a result its BB revenue has come down in the last 6months.
- StarHub is also encouraging its cable broadband subscribers to move to fibre as it will help the company claim adoption grant from IDA. Currently, S\$100m of adoption grant is pending from IDA which will lapse by Dec'15.
- Competition in broadband market is getting stable currently. MyRepublic has recently raised the price of its 1Gbps plan from S\$49.99 to S\$59.99. Also, M1 is not aggressive with its promotions.

### **Enterprise business**

- According to StarHub management, the company has around 20% wallet share in the Enterprise market, while SingTel has 80% market share.
- StarHub is making lot of investments in the enterprise business. StarHub has invested in submarine cables, and currently has excellent connectivity to USA and Japan. The company also expects to have capability to connect China and Korea soon. StarHub has also invested in building data centre capacities.
- The enterprise market is divided into two sub-segments: 1) wholesale business (through partnerships) and 2) true Enterprise (directly to enterprise). While the wholesale segment is subject to price erosion, (as was also corroborated by SingTel recently highlighting margin pressures emerging in the core carriage segment), true enterprise segment is growing strongly. The contribution of true enterprise business is expected to increase significantly over the next few years.
- Subsequent to the October 2013 fire led disruption at SingTel's Bukit Penang building, the government is encouraging resilience in networks and promoting second operators in order to minimise service disruptions. StarHub is looking at this opportunity and is aiming to grow market share in the enterprise market.

### **Dividends**

- StarHub management does not see any risk to its annual dividend guidance of 20cents/share.
- The management highlighted that it will only increase its dividends once it believes that the new dividends are sustainable.
- The company will be more inclined to increase its dividends once the capex intensity reduces and the contribution of enterprise segment increases.

## **M1 meetings takeaways (Karen Kooi – CEO, Raymond Yeo – CFO and Ivan Lim – Director of Investor relations)**

### **Mobile business**

- M1 management highlighted that mobile market remains rational as all operators have been able to re-price their mobile plans towards tiered data pricing (ARPU has increased by 11% for customers on tiered data plans). Also handset subsidies have started declining. EBITDA margins in the mobile business are at healthy 40%.
- The company plans to complete LTE advanced roll-out by December 2014. The company hopes to shut down its 2G network by 2017.
- M1 management is evaluating introducing attractive add-on data plans to its base plan. Currently 1GB of excess data usage costs S\$10.7 per GB.

### **Fixed business**

- On the retail broadband, M1 has stopped giving premiums (such as laptops, tablets, and so on) and focused on giving a few months of free service which has resulted in lower ARPU.
- Also M1 has set up a state of the art data centre to support the fixed line business. M1 wants to focus on enterprise – Higher ARPU & Higher service level. M1 has been the first to launch 10GBps on fibre. Only 10% of the fixed line customers are enterprise.
- M1 sees an opportunity to provide broadband bundled with some content (through the MiBox). The company has recently won a contract to convert analogue to digital converters for low-income households. M1 is also awaiting its National TV license, post which it can negotiate cross carriage.

### **Others**

- M1 highlighted heightened capex level of c.S\$130m in 2014 and 2015 as the company is focused on building data centre, following which it should come off to c.S\$100m.
- M1 management highlighted that its board is comfortable at the lower end of leverage target of 1-1.5x Net Debt/EBITDA. Also the company will continue to pay special dividends periodically. M1 management reiterated that the company will stay disciplined when it comes to acquisitions in terms of target returns.

## **IDA meetings takeaways (Aileen Chia – Deputy Director General and Yeo Tiong Yeow – Deputy Director)**

- IDA is taking an open approach to competition in the mobile sector. It tried to introduce fourth operator in 2012 by reserving spectrum. However, no operator showed interest in launching operations in Singapore at that time.
- MyRepublic has recently shown keenness on starting mobile operations in Singapore. IDA has started consultation process with the industry with respect to viability of introducing new operators in the sector.

- 900MHz spectrum is coming for renewal in 2017. IDA plans to provide clarity to operators on spectrum renewal as early as possible. The spectrum can be reallocated or renewed. On spectrum renewal, IDA is also considering incentivising the existing operators to host MVNO.
- IDA is currently happy with the level of competition in the broadband market.
- IDA's view on net neutrality. Operators cannot block traffic to any site or OTT app. However, an operator can prioritize traffic to certain site or OTT app based on the commercial arrangement between operator and content provider.

## **MyRepublic meetings takeaways (Malcolm Rodriguez – CEO and Greg Mittman – VP, Corporate development)**

### **Singapore mobile plans**

- If MyRepublic enters mobile business then its focus will be on data. The company plans to launch a LTE data network in Singapore. It intends to launch simplified plans with unlimited data and voice usage.
- The mobile penetration can increase multiple times in Singapore after factoring in multiple devices and machine to machine communication.
- MyRepublic categorically ruled out coming in as an MVNO in Singapore market as it does not think there is a viable business case as a MVNO operator.
- MyRepublic wants access to some sub 1GHz and large amount to above 1GHz (TDD spectrum). The company is also looking at a regulated national infrastructure sharing arrangement and a national roaming arrangement with the existing operators in the initial phase (3-5years) in order to meet IDA QoS requirement and provide national coverage to its subscribers.
- The company believes the site rentals are not big as 80% of cell sites are in HDBs and the remaining 20% of the sites are in key commercial buildings.
- MyRepublic believes it will need initial funding of S\$250m to start mobile operations in Singapore.

### **Broadband business**

- MyRepublic currently has 25,000 subscribers and it has cleared all the waiting list for installations.
- The company has also recently increased the price of its 1Gbps plan to S\$59.9/month from S\$49.9/month.
- The company currently has two networks (one with Nucleus connect and other with its own operating company), which has delayed company plans of breaking even.
- MyRepublic is also looking to enter the fixed voice and enterprise market. It believes the enterprise business can be of a similar size as the residential broadband business for it.
- Management believes with the current business model MyRepublic can have an 8-10% market share of the residential broadband market. With the addition of fixed voice, the company could have a 15% market share and with mobile coming in it can aspire to having a 20-25% market share.

## **International expansion**

- MyRepublic is looking to launch operations in New Zealand by the end of October. The management team in New Zealand is already in place.
- Post New Zealand, the company is looking to launch services in Australia and Malaysia.



# Appendix

Figure 11: SingTel Singapore business – Key assumptions

YE March (\$\$ m)	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E
<b>Mobile</b>										
SingTel mobile subs ('000s)	4,090	4,199	4,279	4,343	4,395	4,436	4,469	4,495	4,516	4,533
Implied blended ARPU (\$\$)	44.1	44.0	44.0	44.0	43.9	43.9	43.8	43.8	43.8	43.8
<b>Broadband</b>										
SingTel broadband subs (000)	585	596	606	613	618	623	626	629	632	634
Implied broadband ARPU (\$\$)	65.4	65.4	65.4	65.4	65.4	65.4	65.4	65.4	65.4	65.4
<b>IPTV</b>										
SingTel Pay TV subs (000)	459	488	513	534	552	567	580	592	602	610
Implied pay TV ARPU (\$\$)	36.2	36.2	36.2	36.2	36.2	36.2	36.2	36.2	36.2	36.2
<b>Singapore business</b>										
Total revenues	7,131	7,234	7,311	7,377	7,399	7,394	7,384	7,369	7,354	7,336
EBITDA	2,314	2,356	2,386	2,421	2,428	2,424	2,422	2,413	2,404	2,393
- EBITDA margins (service revenue)	34.2%	34.3%	34.4%	34.6%	34.6%	34.6%	34.6%	34.6%	34.5%	34.5%
Net income	2,831	3,211	3,533	3,817	4,115	4,387	4,658	4,901	5,163	5,416

Source: Company data, UBS estimates

Figure 12: StarHub – Key assumptions

YE Dec (\$\$ m)	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
<b>Mobile</b>											
Service revenue	1,243	1,277	1,317	1,350	1,377	1,399	1,416	1,430	1,442	1,452	1,460
Growth (% YoY)	0.6%	2.7%	3.2%	2.5%	2.0%	1.6%	1.3%	1.0%	0.8%	0.7%	0.5%
StarHub mobile subs ('000s)	2,385	2,447	2,496	2,535	2,566	2,591	2,612	2,628	2,641	2,651	2,659
Implied ARPU	43.7	44.0	44.4	44.7	45.0	45.2	45.4	45.5	45.6	45.7	45.8
<b>Pay TV</b>											
Revenue	383	379	374	370	366	362	358	354	350	346	343
Growth (% YoY)	-0.6%	-1.1%	-1.3%	-1.1%	-1.0%	-1.1%	-1.1%	-1.1%	-1.1%	-1.1%	-1.1%
StarHub cable subs (000)	530	527	525	523	522	521	521	520	520	519	519
Implied cable ARPU (\$\$)	60.1	59.5	58.9	58.3	57.7	57.2	56.6	56.0	55.5	54.9	54.4
<b>Broadband</b>											
Revenue	227	224	222	221	219	218	217	216	215	214	213
Growth (% YoY)	-5.2%	-1.4%	-0.9%	-0.8%	-0.7%	-0.6%	-0.5%	-0.4%	-0.4%	-0.3%	-0.3%
StarHub broadband subs (000)	1,325	1,352	1,374	1,391	1,404	1,414	1,422	1,429	1,435	1,440	1,444
Implied broadband ARPU (\$\$)	42.0	41.2	40.3	39.5	39.1	38.7	38.4	38.0	37.6	37.2	36.8
<b>Fixed (Enterprise)</b>											
Revenue	390	400	406	410	414	418	422	426	431	435	439
Growth (% YoY)	5.9%	2.6%	1.4%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
<b>Consolidated</b>											
Service revenue	2,243	2,281	2,320	2,351	2,376	2,397	2,413	2,426	2,438	2,447	2,455
Other revenues	124	118	119	120	120	121	121	121	122	122	122
Total revenues	2,367	2,398	2,439	2,471	2,497	2,517	2,534	2,548	2,559	2,569	2,576
EBITDA	733	743	757	767	776	783	788	793	796	799	802
- EBITDA margins (service revenue)	32.7%	32.6%	32.6%	32.6%	32.6%	32.7%	32.7%	32.7%	32.7%	32.7%	32.7%
Net income	367	378	387	393	398	400	401	402	402	404	405

Source: Company data, UBS estimates

**Figure 13: M1 – Key assumptions**

YE December (S\$ m)	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
<b>Mobile</b>											
Total M1 mobile subs ('000s)	2,005	2,016	2,043	2,064	2,082	2,095	2,106	2,115	2,122	2,128	2,132
Total ARPU	27.0	28.2	28.5	28.5	28.6	28.7	28.9	29.0	29.2	29.3	29.4
<b>Broadband</b>											
M1 broadband subs ('000s)	101	119	136	154	171	188	195	200	204	208	208
Implied ARPU (S\$)	59.2	52.1	50.0	50.0	49.8	49.8	49.8	49.8	49.8	49.8	49.8
<b>Consolidated</b>											
Total revenues	1,010	1,026	1,046	1,064	1,082	1,101	1,117	1,128	1,137	1,144	1,149
EBITDA	329	337	346	353	361	370	377	382	386	389	391
- EBITDA margins (service revenue)	39.7%	40.0%	40.1%	40.1%	40.3%	40.5%	40.6%	40.6%	40.7%	40.7%	40.7%
Net income	174	178	182	188	197	207	214	219	225	229	232

Source: Company data, UBS estimates

### Statement of Risk

We believe the Singapore telecom sector faces risks related to competition and regulation.

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<b>Buy</b>	FSR is > 6% above the MRA.	48%	33%
<b>Neutral</b>	FSR is between -6% and 6% of the MRA.	41%	30%
<b>Sell</b>	FSR is > 6% below the MRA.	11%	23%
Short-Term Rating	Definition	Coverage <sup>3</sup>	IB Services <sup>4</sup>
<b>Buy</b>	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
<b>Sell</b>	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 30 June 2014.

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Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
<b>M1 Limited</b>	MONE.SI	Neutral	N/A	S\$3.78	01 Sep 2014
<b>Singapore Telecom<sup>12</sup></b>	STEL.SI	Buy	N/A	S\$3.87	01 Sep 2014
<b>StarHub</b>	STAR.SI	Buy	N/A	S\$4.13	01 Sep 2014

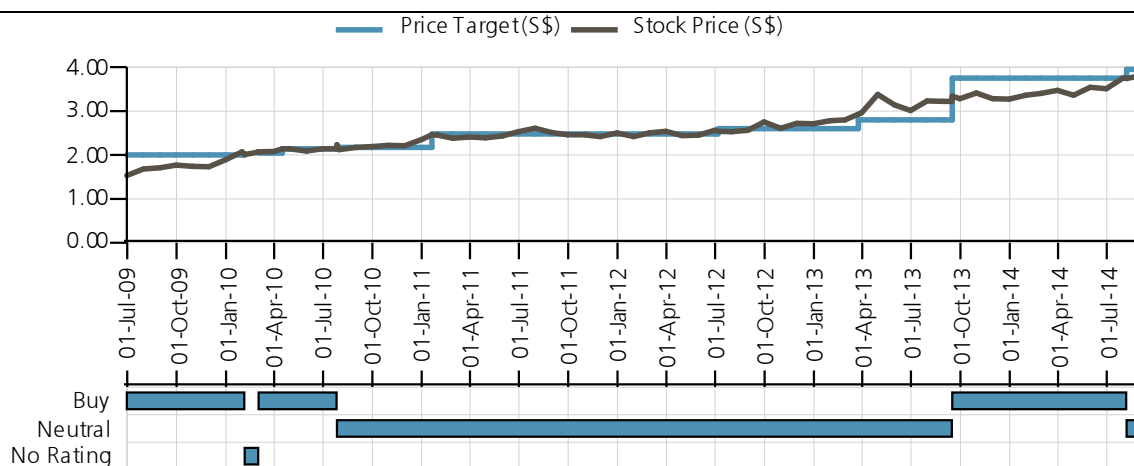
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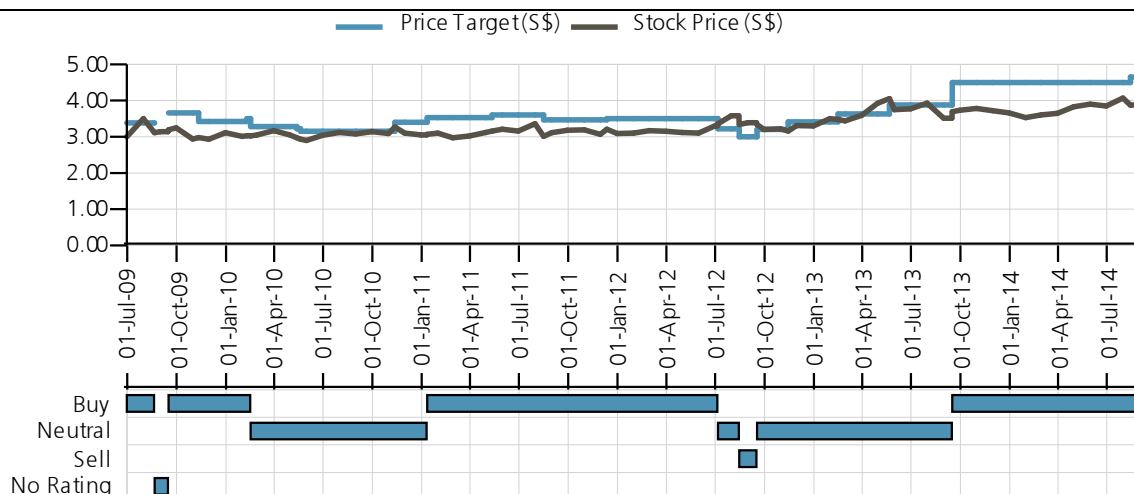
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### M1 Limited (S\$)



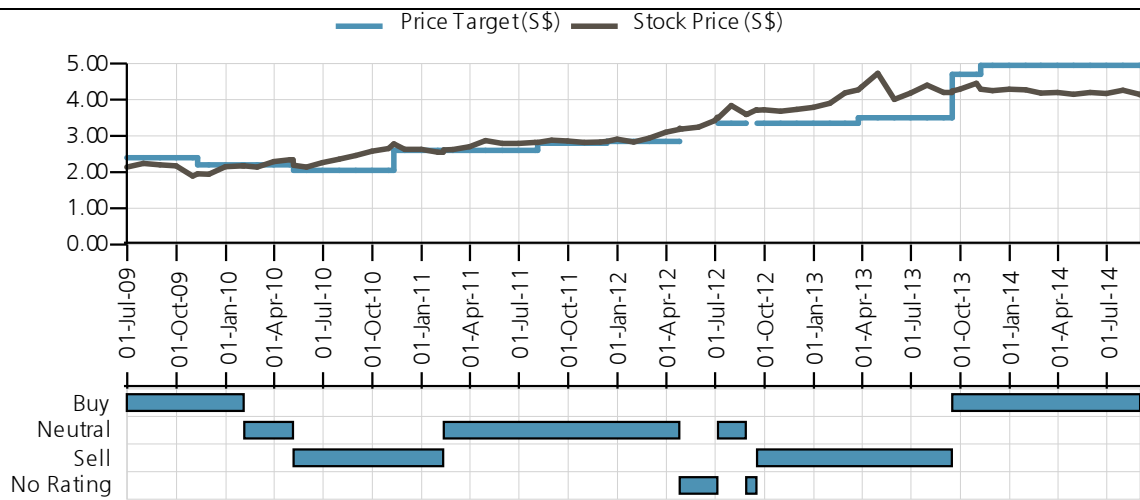
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