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Snap comment

Iain Johnston
+44 20 7375 9114
iain@newstreetresearch.com

Brian Rusling
+44 20 7375 9112
brian@newstreetresearch.com

Chris Hoare
+44 20 7375 91301
chris@newstreetresearch.com

Charlie Gaynor
+44 20 7375 9121
charlie@newstreetresearch.com

MyRepublic confirm interest as fourth Singapore MNO

SingTel (Buy, TP S$4.60, +7%); StarHub (Neutral, TP S$4.30, +2%); M1 (Neutral, TP S$3.77, -1%)

MyRepublic has confirmed a potential move into the mobile market at a recent press conference in Singapore. What we have learnt suggests that they have actively engaged in discussions with the IDA; that the operator believes that mobile data caps are too low, and that the cost of data is too high, suggesting a distinctly data-centric offering in future; and that they intend using both a small cells and an MVNO strategy at launch. The operator confirmed that it would expect to roll-out a network in 9-12 months after a license award. We see risks to the existing operators should a fourth entrant emerge, with StarHub and M1 most exposed to a new entrant intent on competing on tariffs.

MyRepublic in Singapore made two announcements this week, one on fixed and the second on mobile:

- **A 1Gbps fixed broadband free trial campaign**, commencing March 19 and is available for six weeks. My Republic announced that it will give potential customers 1Gbps fixed broadband service on a two-month trial with no set-up or cancellation fees. The company believes the experience will be so impressive it can convert trial users to paying customers. Whilst 1Gbps speeds are available this move is, we believe, breaking new ground. MyRepublic has approximately 30,000 users now whilst M1 only launched the 1Gbps tier in November 2014 and Singtel in March. MyRepublic believes that a $50/month price point is not only possible but necessary to drive mass-market adoption (by comparison, StarHub is offering 300Mbps for $50/month now). Significantly, in the light of the possible entry into the mobile market, MyRepublic has been keen to stress the transformed nature of data pricing in fixed access following their 1Gbps launch, and positioning themselves as the price leaders.

- **Small cells to drive a 4G network build.** MyRepublic also said that it intends to bid on spectrum in the next auction (with 2.3 GHz and 2.5GHz spectrum potentially available) and expected the auction by year-end or in early 2016 ("Mobility is something we are seriously looking into…" Yap Yong Teck, Singapore MD). The company has been in talks with the IDA and believes that there will be a new entrant license set aside and also hopes for new national roaming regulation that would give it access to competitor networks via a wholesale MVNO agreement. MyRepublic has indicated that it will build its network starting with small cells (and wi-fi hotspots) and thinks it can deploy 12,000-15,000 small cells in three years with macro cells the last element of the network build. As for launch timing, with mandated roaming, it could launch 9-12 months after procuring a license, which indicates commercial service as early as the end of 2016. Without roaming it would take two years to get sufficient network coverage, it believes (we believe 900MHz spectrum might be available in 2017). Management has suggested that it might be prepared to explore a three-party bid with a local partner and a foreign telco partner, and that it would consider accepting equity investments as part of that process.

  Interestingly, the presentation was heavily focused on mobile data: "At present, Singapore's mobile data pales in comparison to…Hong Kong and South Korea…On the World Economic Forum's fixed and mobile affordability ICT world ranking, Singapore ranks 46th…MyRepublic promises to return to the days of much larger and more generous data bundles, and to offer unlimited mobile data plans". These statements are a clear signal, we believe, from MyRepublic to the IDA and local politicians about the willingness to offer consumers low-cost data mobile packages should the company acquire an MNO license.

Whilst the press conference did not greatly add to our understanding of the proposed mobility strategy, it should remind investors that the fourth MNO risk in Singapore is real. We see the time as ripe for a fourth entrant to emerge and challenge the existing oligopoly in Singaporean wireless:

- **Industry returns have been high,** and we believe these have substantially exceeded the cost of capital, driven by a combination of high ARPUs, EBITDA margins, and a small city-state network. With high returns, new entrant risk can only grow, and regulatory risk is elevated;

- **Growing political and regulatory pressure for a fourth entrant.** The creation of the NBN, and a competitive retail service provider segment, has lowered broadband pricing for consumers, encouraging regulators and politicians to consider "opening up" wireless networks, whilst concerns about the cost of living in Singapore are forcing politicians to consider more consumer-friendly policies, we believe. Second, although Singapore operators maintain high quality networks, the popular press portrays the operators as having significant problems, resulting in populist pressure to create alternative infrastructure;

- **The ingredients needed for a 'new wireless' business model are in place,** drawing on a range of different ingredients to offer a competitive wireless service *without* the cost structures of a traditional cellular operator. The key available ingredients are better WiFi; a fibre platform for WiFi/small cells (the NBN); and the availability of spectrum at both high and low frequencies. However, we have yet to hear if a wholesale MVNO agreement will be mandated by the IDA;

- **MyRepublic and Consistel have expressed an interest in becoming the fourth MNO**. MyRepublic is a credible player in broadband, has a clear vision of a mobile strategy, and has interesting financial support, including Xavier Niel we believe. Consistel is a less well-known challenger, but has expertise in DAS, and appears to have more access to funding. Both are realistic potential challengers, in our view.

Our base case assumes a 30% reduction in mobile ARPUs for the MNOs, a slightly worse outcome than we have seen in the broadband market following the NBN launch. Although we think that there are offsetting measures that could be adopted to offset the inevitable ARPU pressures, it is the share prices of the smaller operators would be most vulnerable: M1 would see a 25% drop in the TP, and StarHub a 22% fall, the latter slightly inoculated by a greater exposure to HSD, fixed-telephony and TV. Singtel's defensive qualities driven by a broad geographic exposure to international assets come to the fore, and would suffer only a small 6% reduction in our TP. **We remain buyers of SingTel and recommend investors consider switching into SingTel and out of the more exposed StarHub and M1, particularly after the latter have enjoyed strong, dividend led, runs.**

For further information please contact Iain Johnston on +44 207 375 9124, Charlie Gaynor on +44 207 375 9121 or Brian Rusling on +44 207 9112.

This report was produced by New Street Research LLP. 11 Austin Friars, London, EC2N 2HG Tel: +44 20 7375 9111