

Me, my family and Singapore NBN

Moving to MyRepublic and Netflix – a 40% saving

An update on recent changes at home...

We have previously published two reports on personal NBN experiences in Singapore: 1) our initial experience with the NBN installation back in 2011 – [Me, my wife and Singapore NBN](#); and 2) our experience with ISPs on fibre connection back in 2013 – [Me, my kids and Singapore NBN](#). Today, we provide an update on some of the recent changes we have made to our broadband and TV plans, and its overall impact on our monthly bill. The net impact is: 1) our monthly fixed-telephony bill is down by 40% after these changes; 2) our viewing experience is a lot better with more control over content (all HD), mainly on Netflix via Apple-TV – its look and feel is much cooler, it's portable and easier to navigate (Fig. 2-3); and 3) we now have a faster, and cheaper, internet connection too.

- **We reduced StarHub pay-TV to the basic 3-tiers package** for SGD29 plus SGD15 for set-top box (STB) rental. The main reason for keeping the basic service is for the upcoming Olympics and sports content.
- **We switched off StarHub's 100Mbps cable broadband** – a saving of SGD80 per month.
- **We switched off Mio-TV** post the contract expiry – this resulted in a SGD50 monthly saving (including STB and home landline).
- **We signed up with MyRepublic's 1Gbps broadband** for SGD50 monthly.
- **We signed up with Netflix basic plan** for SGD11 per month.
- **So all up, our fixed-telephony bill has reduced by 40% per month** (taking into account the 3-service discount offered by StarHub).

Potential impact on operators

- **We are not a tech-savvy family by any means and have generally been slow to change** (we have been on HFC all these years!). But we do think that more people will transition to OTT content gradually. This doesn't mean that consumers will switch off their pay-TV offering entirely – there is still appeal in local and sports content, but ARPUs can come under pressure.
- **For StarHub (Neutral), TV revenues are 16% of the total, and these are 1% for Singtel (Buy).** This segment may not be profitable stand-alone, but it has been important for bundling. We also note that this OTT risk is not a new phenomenon, and telcos have been acknowledging/managing it – so the impact on financials could be gradual. Both operators are partnering with OTT players too (Netflix can be viewed on their STBs going forward), and adding more appealing/local content to reduce the impact.
- **This can be beneficial for M1 (Buy) and MyRepublic** in terms of boosting their sub base, especially the ones who transition more to OTT content.

Fig. 1: Change in monthly spend from old to new plans

		Old Spend		New Spend
Singtel Mio-TV + STB + Homeline	Basic	50	-	-
StarHub Cable-TV + STB	5 Tiers	74	3 Tiers	46
StarHub Broadband	100Mbps	81	-	-
StarHub 3-service discount offset		(20)	-	-
My Republic Broadband			1Gbps	53
Netflix			Basic	11
TOTAL		184		110
- % saving				-40%

Source: Nomura research

Global Markets Research

26 February 2016

Anchor themes

Pay-TV cannibalisation is not a new topic, but with rising awareness of OTT and other advancements, the risks ahead (more on ARPUs) could be more pronounced.

Nomura vs consensus

We are positive on Singtel given its business mix and cashflows. We are Neutral on StarHub - with concerns on lack of growth. We upgraded M1 to Buy recently.

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Also see our two sector reports: [Me, my wife and Singapore NBN \(19 Apr, 2011\)](#) and [Me, my kids and Singapore NBN... \(25 Sep, 2013\)](#)



Key figures

Fig. 2: Difference in set-top box size...StarHub vs. Apple TV



Source: Nomura research

Fig. 3: Difference in remote controls...StarHub vs. Apple TV



Source: Nomura research

Fig. 4: Pay-TV Subs, ARPU and its revenue contribution

	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
StarHub																
Cable-TV subs ('000)	544	543	541	536	532	530	531	533	533	535	539	542	545	545	542	536
- change	(1)	(1)	(2)	(5)	(4)	(2)	1	2	-	2	4	3	3	-	(3)	(6)
Revenues (mn)	96	104	99	98	95	96	96	100	94	98	97	100	96	98	97	100
- % of total	15%	16%	16%	15%	15%	15%	15%	16%	15%	16%	15%	16%	15%	15%	15%	16%
ARPU	51	54	52	51	52	52	51	52	51	52	51	52	51	52	51	51
Singtel																
Cable-TV subs ('000)	368	380	391	398	404	406	414	418	418	418	419	420	423	422	423	424
- change	15	12	11	7	6	2	8	4	-	-	1	1	3	(1)	1	1
Revenues (mn)	29	25	31	33	36	38	41	46	50	63	63	55	55	60	58	57
- % of total Singapore	1%	1%	2%	2%	2%	2%	2%	2%	2%	3%	3%	3%	3%	3%	3%	3%
- % of total Group	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Implied ARPU	27	22	27	28	30	31	33	37	40	50	50	44	43	47	46	45

Source: Company reports, Nomura research

See our recent report [Assessing Netflix risks in ASEAN](#) (dated 22 January 2016), by Pankaj Suri, on potential pay-TV cannibalisation risks.

Fig. 5: ASEAN markets – Netflix versus the incumbent pay-TV companies

	Malaysia	Indonesia	Thailand	Singapore	
Netflix price per month	Basic (SD)	MYR 33	IDR 109k	THB280	SGD 10.98
	Standard (HD)	MYR 42	IDR 139k	THB 350	SGD 13.98
	Premium (Ultra HD)	MYR 51	IDR 169k	THB 420	SGD 16.98
Predominant TV technology	Pay-TV	FTA	DTT	Pay-TV	
Service provider	Astro	MSKY	True vision	StarHub, Singtel	
ARPU	MYR 99.3	IDR 101.2 k	THB 501	Singtel - SGD 46 StarHub -SGD 51	
Pay TV contribution to revenues	~80%	95%	16% of True's service revenues	Singtel - 3% StarHub - 16%	
Incumbent Pay TV					
Content on offer					
<i>International</i>	√	√	√	√	
<i>Sports</i>	√	√	√	√	
<i>Local</i>	√	√	√	√	
Subscribers (k)	3,534	2,460	2,924	Singtel - 423 StarHub - 542	
Market shares	95%	70%+		Singtel - 44% StarHub - 56%	
Delivery platform	Satellite, Fiber	Satellite	Cable, DTH	Cable, Fiber	
No. of channels	183	141	201	Singtel - 198 StarHub - 340	
HD availability	Yes	Yes	Yes	Yes	

Source: Company data, Nomura research

Appendix A-1

Analyst Certification

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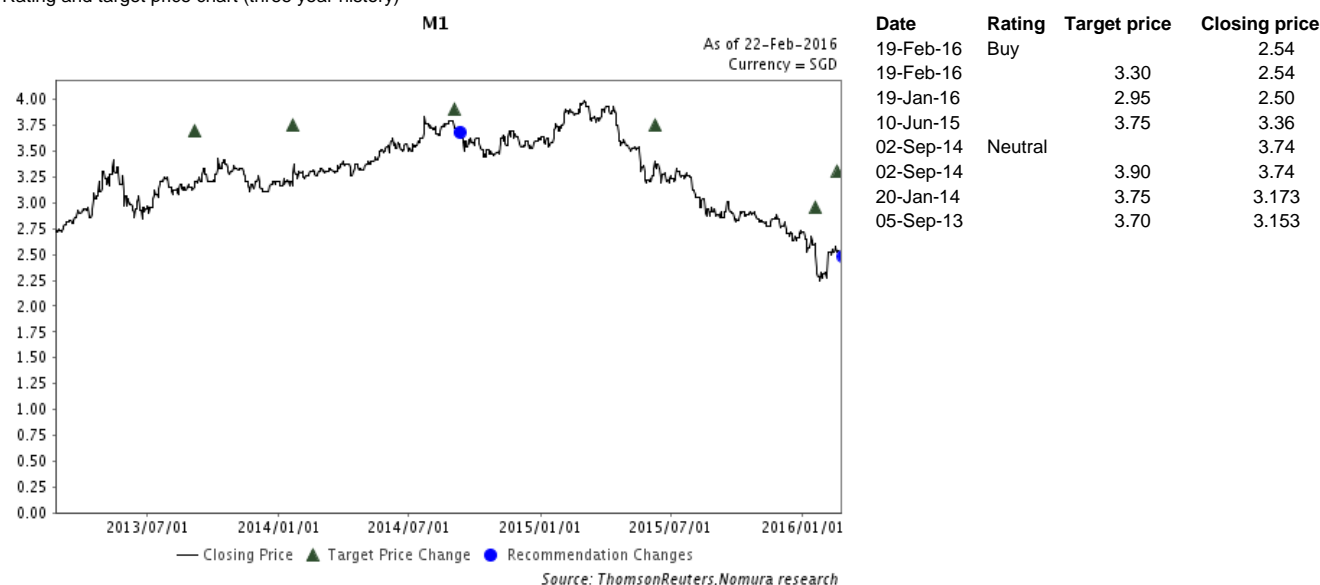
Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
M1	M1 SP	SGD 2.56	25-Feb-2016	Buy	N/A	
Singapore Telecom	ST SP	SGD 3.64	25-Feb-2016	Buy	N/A	
StarHub	STH SP	SGD 3.37	25-Feb-2016	Neutral	N/A	

M1 (M1 SP)

SGD 2.56 (25-Feb-2016) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

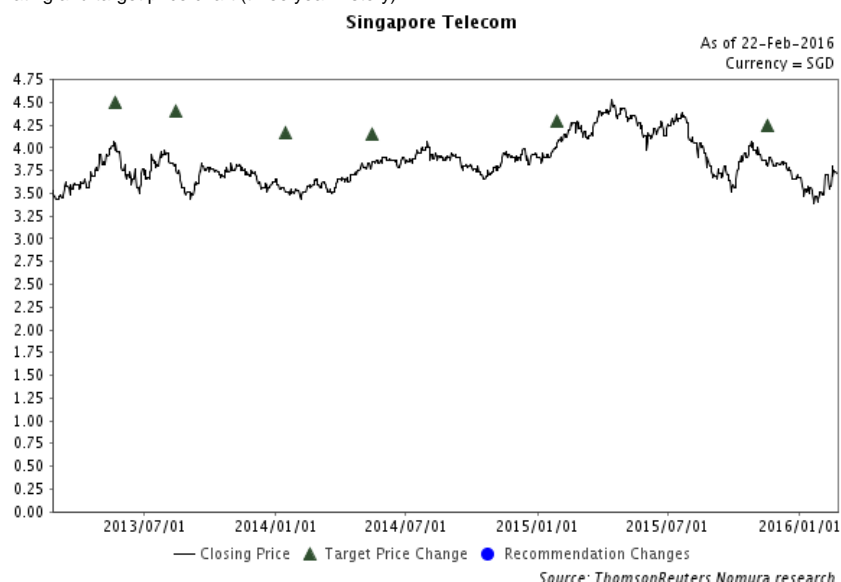
Valuation Methodology Our DCF-based target price of SGD3.30 uses a WACC of 7% and terminal growth rate of 2.5%, with cash flows discounted to FY20F. The benchmark index for this stock is the MSCI Singapore.

Risks that may impede the achievement of the target price Downside risks include: 1) more aggressive competition in Singapore; 2) higher capex.

Singapore Telecom (ST SP)

SGD 3.64 (25-Feb-2016) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
17-Nov-15		4.25	3.84
28-Jan-15		4.30	4.05
15-May-14		4.15	3.85
14-Jan-14		4.16	3.51
14-Aug-13		4.40	3.81
22-May-13		4.50	4.05

For explanation of ratings refer to the stock rating keys located after chart(s)

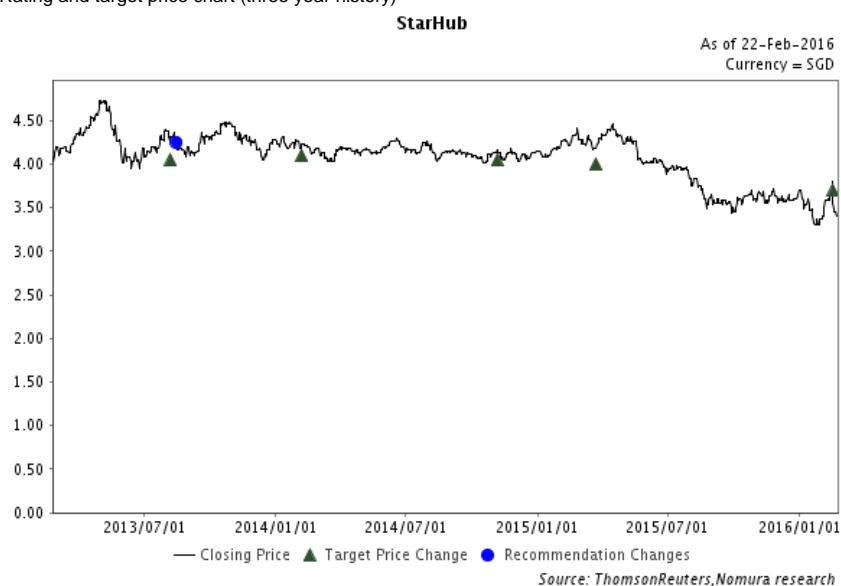
Valuation Methodology Our target price of SGD4.25 is based on our DCF sum-of-the-parts model. We use an average discount rate (WACC) of 6-9% for the Singapore and Optus businesses, with a terminal growth rate of 1.9%. Our discount rates for its associates are 8-11%, with terminal growth rates ranging 2-5%. Cash flows are discounted from FY20F. The benchmark index for this stock is MSCI Singapore.

Risks that may impede the achievement of the target price Risks include more aggressive competition in Singapore and Australia, a macro slowdown, further appreciation of the Singapore dollar, and slowing growth at associates.

StarHub (STH SP)

SGD 3.37 (25-Feb-2016) Neutral (Sector rating: N/A)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
17-Feb-16		3.70	3.56
23-Mar-15		4.00	4.19
05-Nov-14		4.05	4.16
06-Feb-14		4.10	4.23
07-Aug-13	Neutral		4.32
07-Aug-13		4.05	4.32

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our SGD3.7 DCF-based 12-month target price assumes a WACC of 6% and terminal growth rate of 2%, with cash flows discounted to FY20F. The benchmark index for this stock is MSCI Singapore.

Risks that may impede the achievement of the target price Upside risks include further improvement in data pricing, easing competition in broadband and lower customer churn across all segments. Downside risks include more aggressive competition, and customer and ARPU losses.

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