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Don't dismiss MyRepublic

…enough to keep prices in check

Global Markets Research

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Anchor themes

Data re-pricing is a key focus for telcos in Singapore, along with managing broadband prices and pay-TV issues. Otherwise, yields are appealing regardless.

Nomura vs consensus

We are relatively more positive on SingTel and M1.

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Some substance, some noise, some concerns, some action…

- **One shouldn't dismiss MyRepublic as a threat in the wireless segment.** As seen in the broadband segment, its sub-share scope/aspirations may be limited, but it can drive the market prices down or keep a lid at least. In broadband, it now has around 25k subs or 4-5% share we estimate, but since it has been around over the last few years, broadband prices (ARPUs) are down around 15-20% for the incumbents.

Wireless will be much more challenging no doubt

- **Regulatory developments around spectrum, roaming, access etc, will be much more difficult, expensive and time consuming in wireless**. This wasn't necessarily the case for fixed (NBN) which was a subsidised open-access framework with very low initial capex requirement.
- It may need SGD200-300mn for the initial rollout we think, plus spectrum.
- So there is plenty of work to be done still, and we don't think MyRepublic will just settle to be an MVNO, where the economics can be more challenging.

Funding may be hurdle, but not insurmountable

- MyRepublic's approach/niche can be appealing to many investors/telcos, especially given the recent euphoria around telco M&As.
- MyRepublic recently raised SGD20mn from Sinar Mas (Indonesian conglomerate) and SGD10mn from Iliad's founder Xavier Niel (arguably one of the successful examples of access-seekers exploiting market changes).

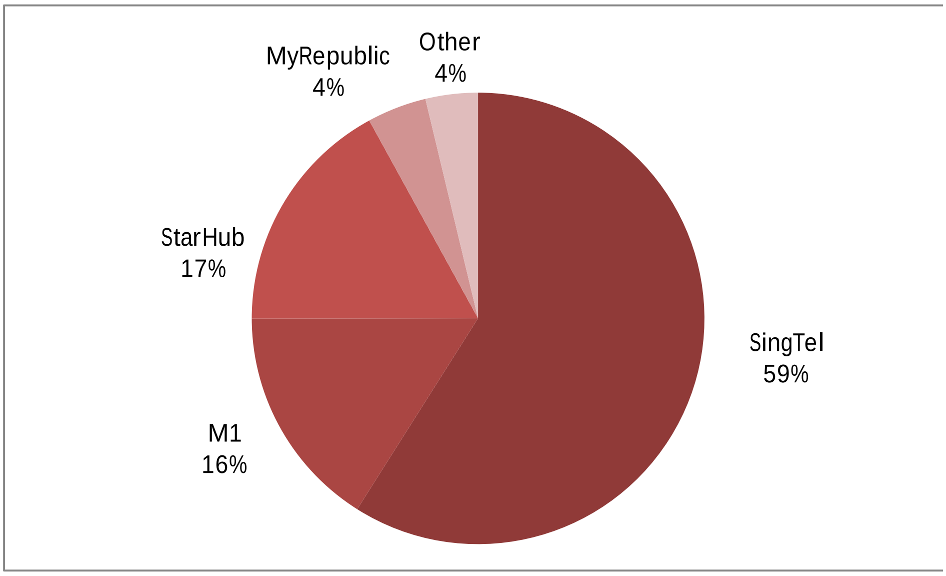
So, wireless segment could get much more interesting and topical

- **Telcos perhaps won't be losing much sleep right now – they all have plenty of spectrum, coverage and cash, but definitely don't want to dismiss these risks either.** There are enough examples around the world of newcomers taking significant share over time (Iliad in France, iiNet/TPG in Australia…. and enough disasters too).
- **Wireless competition in Singapore is generally benign. It is easy to assume status-quo**, and in fact, telcos are looking to increase data prices. For example, SingTel's recent move to offer bundled WiFi plans and charge SGD3 extra provides near-term upside to ARPU/revenues. But it may also limit some scope for customers looking to migrate up.

A bit more on MyRepublic

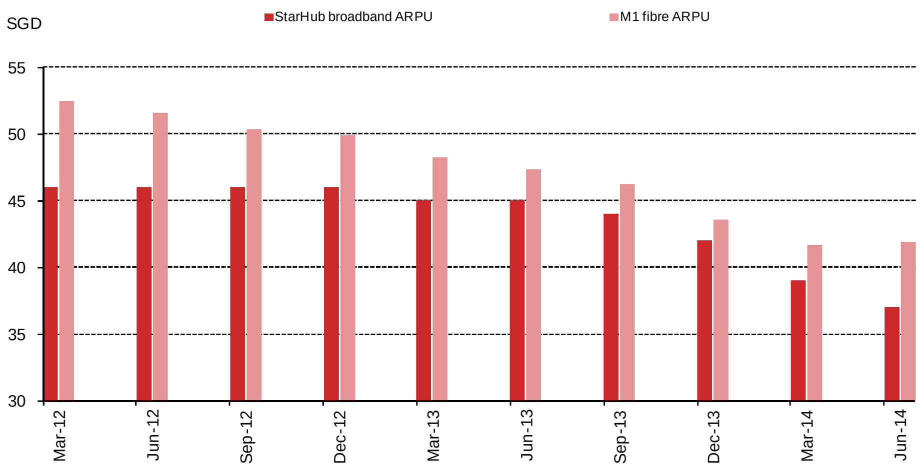
- It currently has around 25k broadband subs (5% share, we estimate).
- ARPUs are around SGD50.
- Launched its own OpCo recently too.
- It claims that its costs (acquisition, IT, provisioning, etc) are substantially lower than those of the existing fixed players.
- It has raised around SGD40mn in various capital raisings.

Fig. 1: Fibre broadband share (as at June 2014)



Source: Company reports, Nomura estimates

Fig. 2: Broadband ARPU trends



Source: Company reports, Nomura estimates

Appendix A-1

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Materially mentioned issuers

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M1	M1 SP	SGD 3.79	26-Aug-2014	Buy	N/A	
Singapore Telecom	ST SP	SGD 3.87	26-Aug-2014	Buy	N/A	A13

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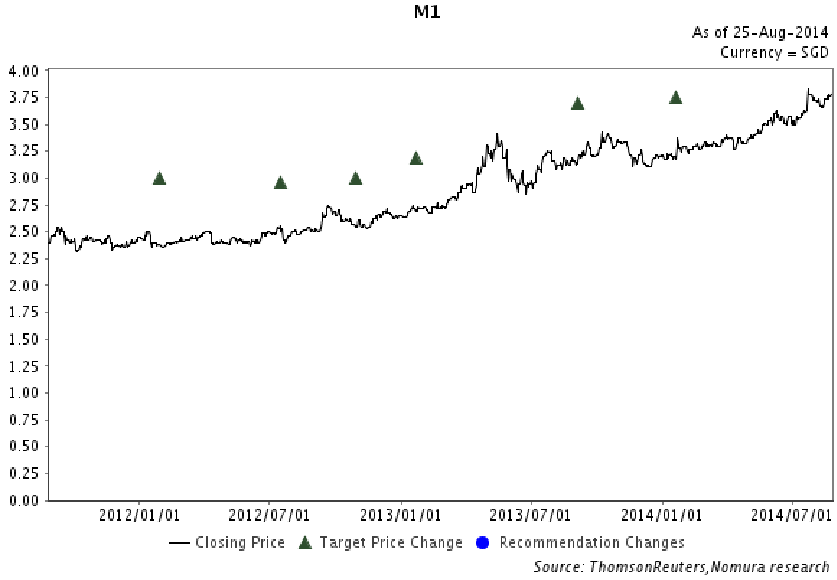
M1 (M1 SP) **SGD 3.79 (26-Aug-2014)** Buy (Sector rating: N/A)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
20-Jan-14		3.75	3.173
05-Sep-13		3.70	3.153
21-Jan-13		3.18	2.693
30-Oct-12		3.00	2.546
16-Jul-12		2.96	2.556
30-Jan-12		3.00	2.38

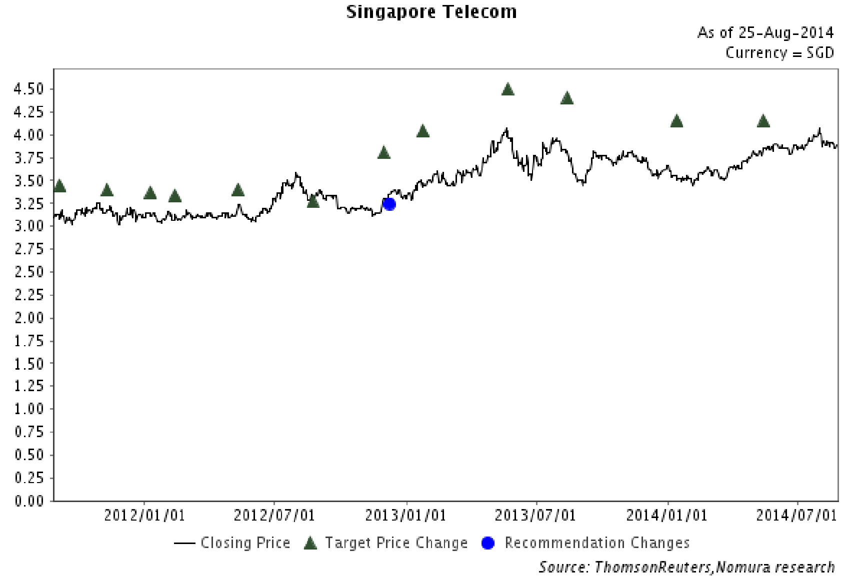
For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our DCF-based target price of SGD3.75 uses a WACC of 7.3% and terminal growth rate of 2%, with cash flows discounted to FY17F. The benchmark index for this stock is MSCI Singapore.

Risks that may impede the achievement of the target price Risks include 1) more aggressive competition in Singapore, 2) limited ability to offer fixed-mobile bundles, and 3) a macro slowdown in Singapore.

Singapore Telecom (ST SP) **SGD 3.87 (26-Aug-2014)** Buy (Sector rating: N/A)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
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
24-Jan-13		4.05	3.47
30-Nov-12	Buy		3.31
30-Nov-12		3.80	3.31
23-Aug-12		3.27	3.33
10-May-12		3.40	3.21
13-Feb-12		3.34	3.13
10-Jan-12		3.37	3.11
10-Nov-11		3.40	3.18
05-Sep-11		3.45	3.08

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

Valuation Methodology Our target price of SGD4.15 is based on our DCF sum-of-the-parts model. We use an average discount rate (WACC) of 6-8% for the Singapore and Optus businesses, with a terminal growth rate of 1.5%. Our discount rates for its associates are 8-11%, with terminal growth rates ranging 2-4%. Cash flows are discounted from FY17F. The benchmark index for this stock is MSCI Singapore.

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