

## Singapore Telecoms Sector

- Positive
- Neutral (unchanged)
- Negative

# Company visit; fibre adoption on an uptrend

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- We visited My Republic, a niche fibre-broadband player
- Price competition likely to be rational; NBN effects would be long term in nature
- We see stocks trading sideways

#### ■ What's new

We recently visited My Republic (Not listed), a new entrant offering fibre-based services on Singapore's national broadband network (NBN).

#### ■ What's the impact

**Fibre adoption likely to be a long-term trend:** without a doubt, over the next several years, we expect to see both consumers and enterprises alike migrating to the fibre-based NBN from the traditional broadband networks.

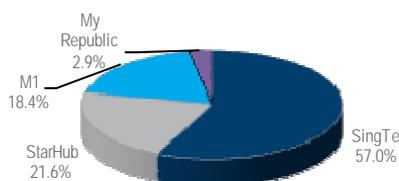
Where there is uncertainty, however, is over the pace and the impact of this migration on the profitability of the operators that we cover. Finding out more about this was the primary motive for our company visit.

#### My Republic has a niche focus:

My Republic is a niche operator primarily targeting the consumer segment. Management said the company: 1) has a low-cost business model as it relies on exploiting the latest technology – social networks

to drive customer acquisitions; cloud computing to minimise network expenses, 2) offers a premium Internet experience that prioritises video traffic, and 3) plans to expand its footprint into Australia and extend its product offerings to cater to the SME market in Singapore. The company expects to capture 6-7% of the fibre-broadband market over the next five years (2012: 5%) and management expects a sustainable EBITDA margin of about 30%.

#### ■ Fibre broadband market share (3Q12)

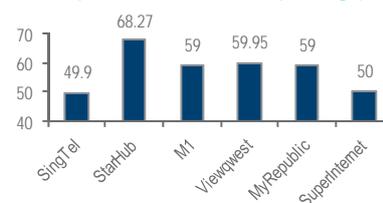


Source: IDA, companies

#### We expect rational price competition:

My Republic said it competes mainly on product attributes and via its low-cost business model. The company is also targeting to break even on a cash-flow basis by 1H13, suggesting to us that it is unlikely to resort to aggressive price competition. This is also corroborated by our survey of current offerings in the market.

#### ■ 100Mbps fibre-broadband pricing (SGD)



Source: IDA, companies

**NBN adoption rates unlikely to shift materially:** supply-side issues – low installation quota of

2,050 connections/week in 2011 – was one of the key reasons for the slow take-up of fibre services in 2011-12. While there were some changes made in this regard – the installation quota was raised to 3,100 connections/week from July 2012 by the regulator – our discussions with My Republic suggest that this is unlikely to be revised in the near term. As such, we continue to believe NBN's impact on the industry landscape is likely to be gradual.

Over 2011-14E, we forecast NBN industry revenue to rise at a 3% CAGR in the residential segment and fall at a 1% CAGR in the corporate market segment. We forecast Singapore Telecom (SingTel) (ST SP, SGD3.45, Hold [3]) to cede 3.2pp in revenue market share over this period. Also, we forecast M1's (M1 SP, SGD2.78, Hold [3]) and StarHub's (STH SP, SGD3.89, Hold [3]) NBN revenue market shares to rise by 1.3pp and 2.0pp, respectively, over this period.

#### ■ What we recommend

Valuations for the sector – shares are trading at 2013E PERs of 14-17x – do not appear compelling to us relative to the moderate earnings prospects (2013E: 5-14% YoY) that we forecast. We maintain our Neutral sector rating. Based on our 2013 forecasts, M1 and StarHub offer superior dividend yields to SingTel's.

#### ■ How we differ

Unlike some in the market, we believe that all three Singapore telcos are fairly valued and would trade sideways over the next six months.

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