# Singapore Telecoms Sector ---------------------------------------- Maintain MARKET WEIGHT

## Lower chance of near-term price war, but MyRepublic a credible market challenger

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- We met management of MyRepublic, an NGNBN Fibre broadband Retail Service Provider (~1% broadband market share, ~3% if fibre only), which recently launched S$49.99/month 1Gbps broadband promotion, to discuss its operating model and business strategies.
- The meeting indicated that this promo is unlikely to trigger another full scale price war. It is unlikely to be extended beyond its promo period (first 10,000 subs), as it didn't undercut the lowest price point (S$39/mth) and management was firm that the plan is to focus more on premium subscribers rather than the mass market.
- While near-term escalation in price war seems less likely, we believe MyRepublic is a credible market challenger in the medium to longer term. Scale and use of non-traditional channels could improve brand awareness, while the emergence of online/OTT content would help open/expand the market for solo broadband services.
- We believe STH is most vulnerable to residential broadband competition (~11% of service revenue, its reliance on hubbing strategy). Within the sector, we prefer M1 (high mobile exposure, increasing broadband market share from a low base).

**Figure 1: Singapore telecoms sector—comparative multiples**

| | Rat. | TP (S$) | Upside (%) | P/E (x) FY14E | P/E (x) FY15E | EV/EBITDA (x) FY14E | EV/EBITDA (x) FY15E | Div Yield (%) FY14E | Div Yield (%) FY15E |
|---|---|---|---|---|---|---|---|---|---|
| SingTel* | N | 3.90 | 11.4 | 14.3 | 13.4 | 6.7 | 6.2 | 5.0 | 5.4 |
| StarHub | N | 4.40 | 5.0 | 18.1 | 17.7 | 9.7 | 9.4 | 5.3 | 5.7 |
| M1 | O | 3.72 | 12.4 | 18.0 | 16.4 | 9.9 | 9.1 | 4.5 | 4.9 |

*Proportionately Consol. use FY3/15E for FY14E Source: Credit Suisse estimates.

### Who is MyRepublic?

MyRepublic (Not Listed) is one of the NGNBN Retail Service Providers focusing (so far) on residential broadband services using OpenNet's Fibre Network but invested in its own IP network and other elements (e.g. distribution, billing, customer support). It entered the Singapore broadband market in Jan-12 and has gained ~1% market share (~3% if fibre broadband only) to date. The company also plans to expand into the corporate market and regionally (e.g. New Zealand) this year.

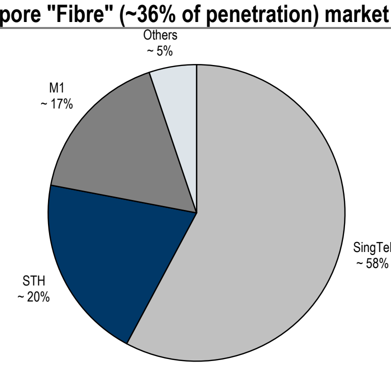
We highlight two things about MyRepublic. First, **it focuses on 'solo' broadband services** rather than bundling, basically trying to offer the 'best pipe' for its subscribers to reach third party/OTT content. **Second, its lean cost structure** (cloud-based IT system, use of social media, partner programme for marketing, etc.) together with NGNBN structure (low capital intensity) and recently its own OpCo could allow MyRepublic to break even with only 10,000-15,000 subscribers.

### Risk of worsening price war in the near term is limited…

On 14 January 2014, MyRepublic launched 1Gbps broadband promo for only S$49.99/month (24-month contract). This is clearly an aggressive offer given that incumbents offer only 300Mbps at the similar price point or charge S$396-399/month for 1Gbps currently. We believe this fuelled pressure the industry has been facing over past 12 months.

Our meetings, however, indicated that this is unlikely to trigger another full scale price war. **First, this promo is unlikely to be extended** after the first 10,000 subscriptions as advertised. It is more a short-term tactic for branding and to grow scale after recently starting its own OpCo. **Second, it didn't undercut industry's lowest price point** (S$39/mth for 200Mbps), and thus unlikely provoke aggressive response from incumbents. **Third, management was firm that the medium- to longer-term plan is to sell premium services** at a premium price, rather than trying to capture mass market using price alone.

**Figure 2: Singapore "Fibre" (~36% of penetration) market share Dec-13E**




Source: Company data, IDA, Credit Suisse estimates

### …but MyRepublic could be a credible market challenger

While near-term escalation in price war seems less likely, MyRepublic in our view could become a credible market challenger in the medium to longer term. We believe MyRepublic's key disadvantages are (1) the lack of brand awareness/distribution channel and (2) the ability to bundle. Both these could improve over time. Brand-awareness could grow with scale/word of mouth while non-traditional channels such as social network/blogs and online subscription are becoming increasingly important compared to traditional advertising and subscription process.

Importantly, we believe the emergence of online/OTT content brings about consumer 'choices,' increasing demand for bandwidth and, gradually, disintermediation of content. With faster and consistent broadband, consumers increasingly can access content anytime, anywhere and on many devices. We believe incumbents' bundling proposition (fixed-line + broadband + Pay TV) remains solid near term, but its value could be declining. 'Solo' broadband service might still represent a niche segment currently, but this segment in our view is growing. This does not mean incumbents like SingTel and STH would lose subscribers, but (1) they would need to become more innovative (invest more in exclusive content/services?), (2) bundling might become more about discount than integrated services, and (3) market could become an even more level playing field for new entrants.

### Prefer M1 over StarHub

We believe STH is relatively more vulnerable. Residential broadband is accounting for ~11% of STH's service revenue and is the key profit driver of its cable business. Its bundle (hubbing) strategy could help protect near-term market share, but we believe it would become more challenging in the medium to longer term. Within the sector we continue to prefer M1, which in our view could be the key beneficiary of both the improving mobile data monetisation and growing broadband market share from a low base with limited legacy fixed line exposure.

## Companies Mentioned *(Price as of 27-Jan-2014)*

**M1 Limited** (MONE.SI, S$3.31, OUTPERFORM, TP S$3.72)
**Singapore Telecom** (STEL.SI, S$3.5, NEUTRAL, TP S$3.9)
**StarHub Ltd** (STAR.SI, S$4.19, NEUTRAL, TP S$4.4)

# Disclosure Appendix

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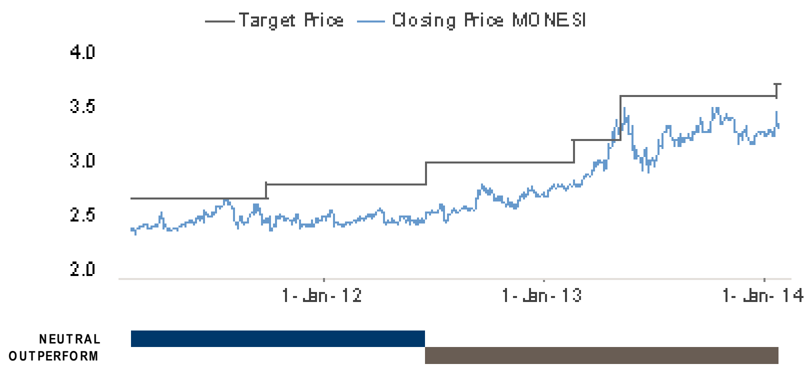
### 3-Year Price and Rating History for M1 Limited (MONE.SI)

| MONE.SI<br>Date | Closing Price<br>(S$) | Target Price<br>(S$) | Rating |
|---|---|---|---|
| 16-Feb-11 | 2.37 | 2.66 | N |
| 29-Sep-11 | 2.45 | 2.80 | * |
| 19-Jun-12 | 2.48 | 3.00 | O |
| 19-Feb-13 | 2.79 | 3.20 | |
| 09-May-13 | 3.23 | 3.60 | |
| 21-Jan-14 | 3.36 | 3.72 | |

** Asterisk signifies initiation or assumption of coverage.*




### 3-Year Price and Rating History for Singapore Telecom (STEL.SI)

| STEL.SI<br>Date | Closing Price<br>(S$) | Target Price<br>(S$) | Rating |
|---|---|---|---|
| 11-Feb-11 | 3.04 | 3.75 | O |
| 16-Feb-11 | 3.03 | 3.73 | |
| 12-May-11 | 3.16 | 3.62 | N |
| 11-Aug-11 | 2.92 | 3.60 | |
| 29-Sep-11 | 3.17 | 3.75 | O |
| 30-Sep-11 | 3.18 | | * |
| 04-Oct-11 | 3.17 | 3.75 | O |
| 10-Nov-11 | 3.18 | 3.70 | |
| 08-Dec-11 | 3.14 | 3.56 | |
| 13-Feb-12 | 3.13 | 3.49 | |
| 14-May-12 | 3.17 | 3.35 | N |
| 01-Jun-12 | 3.07 | 3.26 | |
| 09-Aug-12 | 3.43 | 3.36 | |
| 14-Nov-12 | 3.16 | 3.40 | |
| 15-Nov-12 | 3.12 | 3.58 | O |
| 17-Feb-13 | 3.48 | 3.75 | |
| 16-May-13 | 4.00 | 4.25 | |
| 09-Jul-13 | 3.73 | 4.05 | |
| 14-Aug-13 | 3.81 | 4.10 | |
| 14-Nov-13 | 3.79 | 4.20 | |
| 06-Jan-14 | 3.54 | 4.10 | |
| 16-Jan-14 | 3.52 | 3.90 | N |

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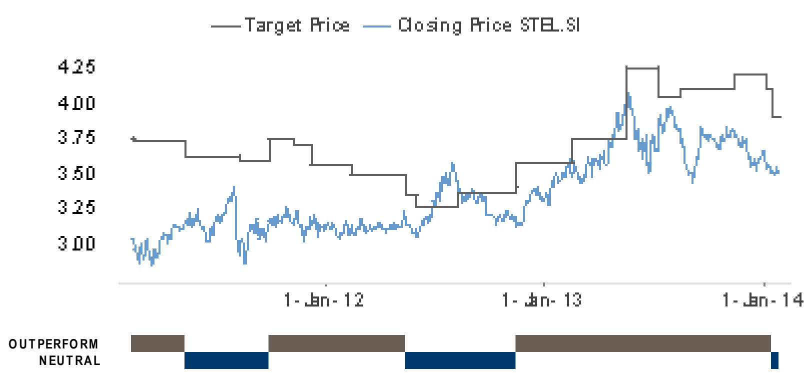
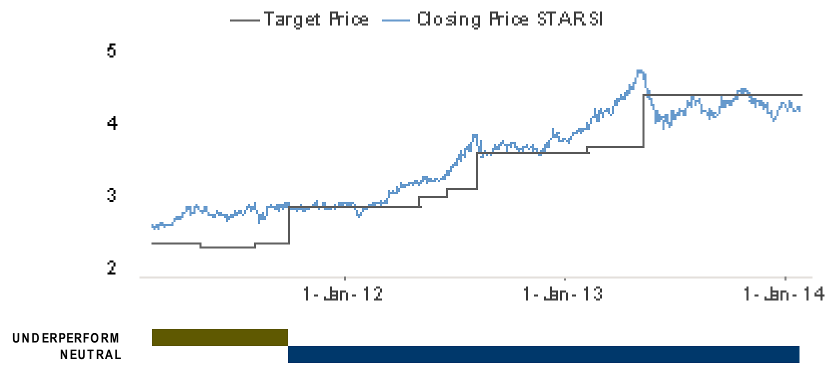


## 3-Year Price and Rating History for StarHub Ltd (STAR.SI)

| STAR.SI Date | Closing Price (S$) | Target Price (S$) | Rating |
|---|---|---|---|
| 14-Feb-11 | 2.60 | 2.35 | U |
| 05-May-11 | 2.79 | 2.31 | |
| 04-Aug-11 | 2.83 | 2.36 | |
| 29-Sep-11 | 2.87 | 2.85 | N |
| 30-Sep-11 | 2.86 | | * |
| 13-Dec-11 | 2.87 | 2.85 | N |
| 04-May-12 | 3.19 | 3.00 | |
| 19-Jun-12 | 3.35 | 3.10 | |
| 08-Aug-12 | 3.74 | 3.60 | |
| 08-Feb-13 | 3.93 | 3.68 | |
| 10-May-13 | 4.62 | 4.40 | |

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**Price Target: (12 months) for Singapore Telecom (STEL.SI)**

**Method:** Our target price of S$3.90 for Singapore Telecom is based on a sum-of-the parts calculation. The core Singapore and Australia operations within the sum-of-the-parts, which contribute S$2.00 of the total, are valued using discounted cash flow (DCF) analysis. For Singapore, we use an estimated 6.8% weighted average cost of capital (WACC) and we use a terminal growth rate of 1% for mobile and -1% for fixed line, For Australia, we use an estimated 8.4% WACC and we use 1% terminal growth rate for mobile and 0% for fixed line. The associates, which contribute S$1.90 within our sum-of-the-parts, are also valued using DCF. For Singtel's 35% stake in Telkomsel, we value at S$0.61. For Singtel's 32% stake in Bharti, we value at S$0.51. For Singtel's 23% stake in AIS, we value at S$0.46. For Singtel's 47% stake in Globe, we value at S$0.19. We also value Singtel's 26% stake in SingPost at S$0.04.

**Risk:** The key risks to our S$3.90 target price on Singtel are (1) more severe than expected competition among the telcos in Singapore and Australia, as well as key regional markets, (2) slower than expected growth in key business segments in key regional markets and (3) faster or slower than expected progress in Singapore NGNBN project (4) changes in regulatory environment (5) Stronger or weaker change in currencies

**Price Target: (12 months) for StarHub Ltd (STAR.SI)**

**Method:** Our target price of S$4.40 for Starhub is derived from discounted cash flow (DCF) based on weighted average cost of capital (WACC) of 7.0%, 0.8% terminal growth rate for mobile, -1.0% for cable & broadband, and 1.5% for Fixed network services respectively . Our 7.0% WACC is based on a 7.9% cost of equity and a 3.3% cost of debt (post tax shield). At our target price, StarHub would be trading at an FY13E EV/EBITDA of 10.5x, higher than the regional average.

**Risk:** Key risks to achievement of our S$4.40 target price for StarHub are (1) more severe than expected competition among the telcos in Singapore , (2) slower than expected growth in key business segments in Singapore, (3) faster or slower than expected progress of Singapore's NGNBN project and (4) changes in regulatory environment.

**Price Target: (12 months) for M1 Limited (MONE.SI)**

**Method:** Our 12-month target price of S$3.72 for MobileOne Ltd is based on discounted cash flow valuation based on a 6.8% weighted average cost of capital (WACC) and a 0.5% terminal growth rate. Our 6.8% WACC is based on a 7.6% cost of equity and a 3.9% cost of debt (post tax shield). At our target price, M1 would be trading at an FY13E EV/EBITDA of 11.2x, higher than regional average but M1 offers good medium term growth story from NGNBN opportunity, supported by strong FCF and dividend yield.

**Risk:** Risks to our 12-month target price of S$3.72 for MobileOne Ltd are: (1) more severe than expected competition among the telcos in Singapore , (2) slower than expected growth in key business segments in Singapore (3) faster or slower than expected progress in Singpoare's NGNBN project and (4) changes in regulatory environment.

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