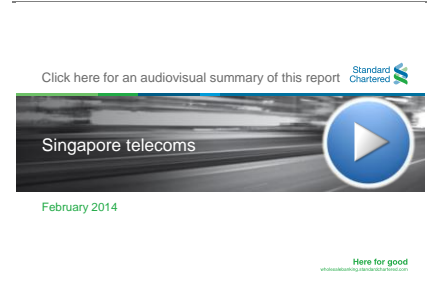


Singapore telecoms

M1 is a net beneficiary of price competition in fibre broadband

- Our recent store visits suggest intensifying price competition in fibre broadband since mid-2013. M1 is well poised to gain market share with aggressive pricing, in our view.
- In the long term, SingTel (ST SP, IL, close SGD 3.64, PT SGD 3.70) will face the greatest threat in both the residential broadband and enterprise businesses. Despite being a victim of the descent of cable broadband, StarHub (STH SP, IL, close SGD 4.16, PT SGD 4.00) could benefit more from its access to over 20,000 corporate premises of its enterprise clients.
- While M1 (M1 SP, close SGD 3.35, PT SGD 3.80) is likely to become the third competitive fibre broadband/pay-TV provider in the next two years, we also see a flourishing of the internet-based TV market in Singapore.



M1 has an edge in fibre pricing

Price competition in fibre broadband has intensified since mid-2013, with the telcos cutting 200Mbps broadband-only prices by 25-40% during IT shows. Among the five major retail service providers, M1 is the most capable to offer aggressive broadband prices. While SingTel and STH will face cannibalisation and margin erosion in their cable/xDSL businesses, M1 has an advantage in content and distribution network compared with smaller players. [Click here](#) for an audiovisual summary of the report.

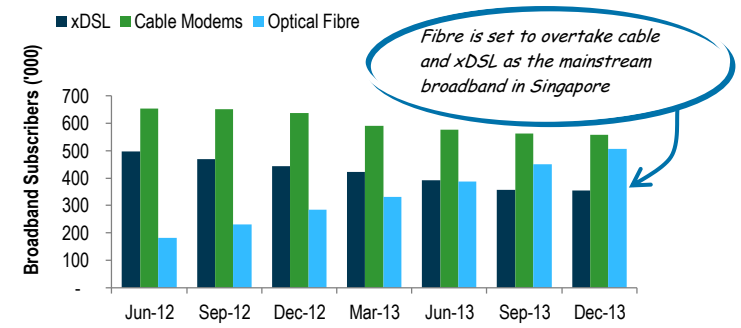
NBN invigorates Singapore pay-TV market

With easier access to fibre broadband, new entrants are able to deliver content directly to households. NBN could change the duopoly of the pay-TV market, with M1 potentially becoming the third competitive pay-TV provider in the next two years (currently it has 45+ channels versus 130+ for SingTel and 170+ for StarHub). We also see a flourishing of the internet-based TV services (like those offered by Netflix and Hulu) in Singapore.

The bottom line

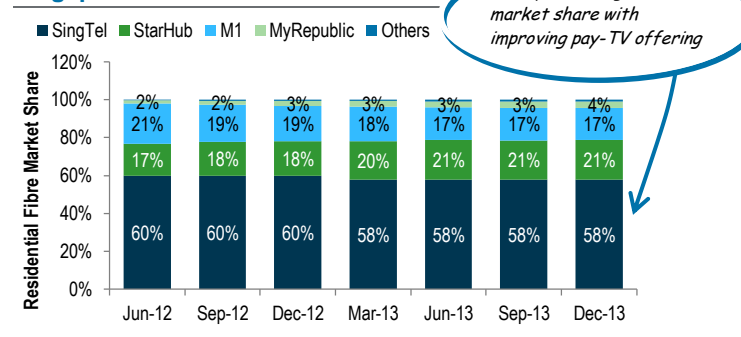
Our channel checks reaffirm our positive view on M1's long-term growth potential in both fibre broadband and pay-TV. On the back of lower capex and more positive long-term growth outlook, we raise our DCF-based price target for M1 to SGD 3.80 from SGD 3.60. M1 remains our top pick in the Singapore telecoms sector, in view of its: (1) sustainable high single-digit earnings growth; and (2) capability to pay a special dividend due to its strong balance sheet.

Broadband subscribers by access technology



Source: IDA, Standard Chartered Research

Singapore Fibre market share



Source: Company, Standard Chartered Research

Did you know... fiber broadband subs in Singapore have reached 505,600 (36% of total broadband subs) in December 2013, a 78% increase from a year ago and a four-fold rise from two years ago

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Rising price competition in fibre broadband

Our recent visits of IT shows in Singapore and meetings with incumbents and new fibre broadband providers suggest that price competition in fibre broadband has intensified since 2013. During the four major IT events in 2013, the three telcos have cut the prices of their broadband-only 200Mbps plans by 25-40%.

Competition leads to falling broadband-only prices

M1 was the first to offer a 200Mbps plan at SGD 29.25/month in late-2013. StarHub also cut prices of its 100Mbps plan to SGD 29.93/month from SGD 39.90/month at SITEX (a major IT and electronic exhibition in Singapore) in late-2013. SingTel was compelled to bring down prices, but it still charged a premium at SGD 34.95/month for its 100Mbps plan.

StarHub is the most vulnerable to price competition in fibre broadband

StarHub's pay-TV revenue represented 16.2% of the total revenue in 4Q13, while broadband made up 9.2%. This is the highest total revenue exposure among the three Singapore telcos to broadband and pay-TV. SingTel's residential broadband and pay-TV contributed only 2.2% to the group's revenues and M1's fixed services contributed 5.9% during the same quarter.

Given its highest revenue exposure to broadband and pay-TV, STH has a dilemma in its fibre broadband and cable businesses. An aggressive fibre push means cannibalisation of cable users and increased margin pressure, while continuation with cable means losing the opportunity to capture the fibre market share. During our store visits, we found that sales people continue pushing for cable broadband over fibre with one key selling point being the ready availability of cable against 3-4 weeks delay in fibre. This also means that they can start billing customers immediately and earn commissions faster.

MyRepublic

After having their own OpCos (NBN Operation Companies), smaller players such as MyRepublic are able to compete in prices. However, they are still at a disadvantage in terms of content offering and distribution network, compared with the three telcos in Singapore, in our view.



Figure 1: Fibre broadband-only plans in IT shows

	SITEX	IT SHOW	PC SHOW	COMEX	SITEX	IT SHOW	PC SHOW	COMEX	SITEX
Telco/Speed	Nov-11	Mar-12	Jun-12	Sep-12	Nov-12	Mar-13	Jun-13	Sep-13	Nov-13
StarHub 100M	54.30	49.65	49.65	49.65	-	-	37.43	39.90	29.93
StarHub 150M	-	-	-	47.94	49.90	49.90	-	-	-
StarHub 200M	-	-	-	-	-	59.90	44.93	49.90	43.66
StarHub 300M	-	-	-	-	-	79.90	79.90	-	-
M1 100M	39.00	45.00	39.00	39.00	39.00	39.00	-	-	-
M1 150M	79.00	65.00	65.00	59.00	-	41.00	-	-	-
M1 200M	99.00	99.00	99.00	79.00	49.00	49.00	39.00	39.00	29.25
M1 250M	-	-	-	-	-	51.00	-	-	-
M1 300M	-	-	-	-	-	-	49.00	49.00	42.88
SingTel 100M	59.25	49.90	49.90	-	-	-	-	-	34.95
SingTel 150M	-	-	-	49.90	49.90	49.90	49.90	-	-
SingTel 200M	-	-	-	-	59.90	59.90	59.90	49.90	39.50
SingTel 300M	-	-	-	-	79.90	79.90	79.90	59.90	42.45
MyRepublic 100M	-	59.00	59.00	59.00	59.00	38.88	38.88	44.25	38.88
MyRepublic 150M	-	-	-	-	-	48.88	48.88	48.75	48.88
ViewQwest 100M	-	-	69.95	65.00	65.00	-	-	-	48.95
ViewQwest 150M	-	-	-	-	-	65.00	65.00	-	-
ViewQwest 200M	-	-	105.95	-	-	-	-	65.00	59.95
ViewQwest 300M	-	-	-	-	79.95	-	-	-	65.00

Source: Company, Standard Chartered Research estimates

The telcos have cut fibre broadband prices by 25%-40% for their 200Mbps plans during 2013



Figure 2: Comparison of fibre plans and promotions

Features	SingTel	StarHub	M1	MyRepublic	ViewQwest	SuperInternet
VPN	-	-	-	Yes	Yes	-
Static IP	-	-	-	Yes	Free	Yes
Low latency	Yes	-	Yes	Yes	Free	-
Free Symmetric Speed	-	Yes	Yes	-	-	-
Free TP installation	Yes	Yes	Yes	Yes	-	-
Free Mobile Broadband 1GB	Yes	Yes	Yes	-	-	-
Home Voice Subscription	Yes	Yes	Yes	Yes	Yes	-
Bundle Discounts	Yes	Yes	Yes	-	-	-
No-contract plan	-	-	-	Yes	Yes	-
Internet Security	Yes	-	Yes	Free	-	-
Cloud Storage	Yes	-	-	-	-	-
RWS Invites	Yes	-	-	-	-	-
Laptop offers	Yes	Yes	Yes	Yes	-	-
Pay-TV	Yes	Yes	Yes	-	-	-
Smart TV device (Android)	-	-	-	-	Yes	-
Free months at SITEX	3/5/7	6/3	6/3	-	-	-
TV fibre bundle	\$69.90	\$68.80	\$43.28	-	-	-
100 Mbps plan	-	\$39.90	-	\$38.88	-	\$53.50
200 Mbps plan	\$49.90	-	\$39.00	-	\$59.95	-
300 Mbps plan	\$59.90	\$49.90	\$49.00	-	\$65.00	-
500 Mbps plan	\$79.90	\$69.90	-	-	\$89.95	-
1000 Mbps plan	-	\$395.90	\$399.00	\$49.99	\$149.95	-

Source: Company, Standard Chartered Research

M1 is most aggressive in terms of prices and promotions in fibre broadband



Incumbents face margin pressure

Due to a higher lease fee (SGD 15/month for companies with an OpCo and SGD 21/month for companies without an OpCo) paid to the NetCo, fibre broadband has lower profit margins than existing xDSL/cable broadband (6-12ppt lower in our estimates).

StarHub's cable versus fibre broadband

StarHub pays a fixed yearly amount of SGD c.30mn that covers both cable broadband and TV. With 345,000 cable broadband subs (as of end-2013 according to our estimates), the average network cost per cable subs is only SGD 6.8/month, versus SGD 15/month paid to the NetCo in fibre broadband.

Despite lower margins and cannibalisation of its cable subs, STH has stepped up pricing competition to maintain a decent market share in fibre. In conclusion, we believe STH will continue to face margin pressure due to:

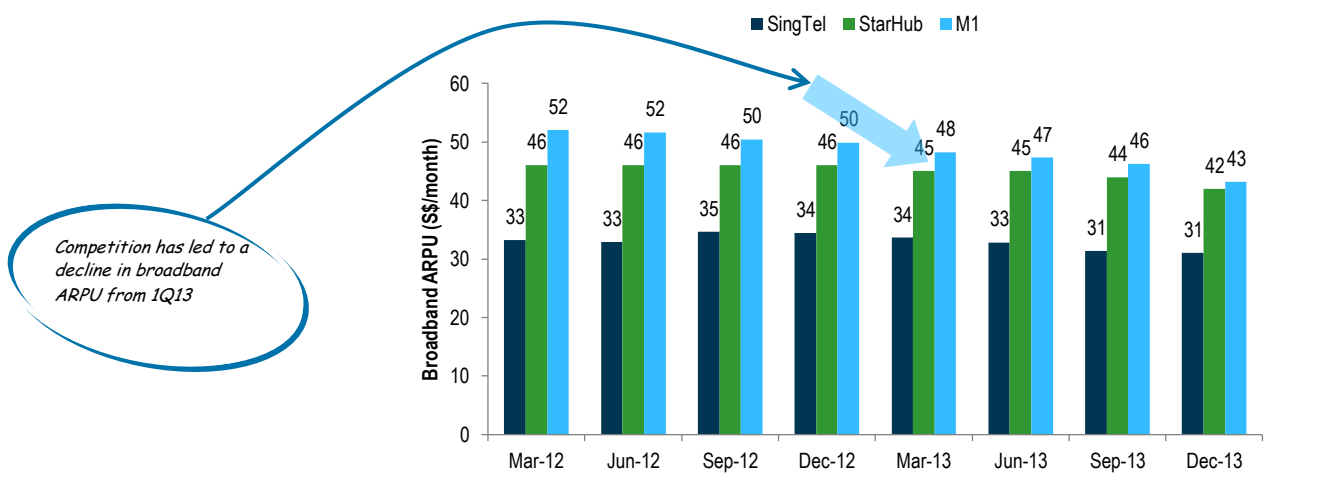
- Lower fibre broadband margin;
- Declining cable subs and hence declining cable margin due to falling utilisation; and
- Increasing retention costs of its cable subs.

SingTel's xDSL versus fibre broadband

SingTel has already expensed ADSL capex and it only has to bear the maintenance expenditure now, which suggests a high net profit margin for its xDSL business. In addition, SingTel is indirectly owning the NetCo, which could suggest a relative higher net profit margin in fibre broadband (or less margin cannibalisation from migrating subs from xDSL to fibre).

Figure 3: Singapore residential broadband ARPU

ARPU's are on a downtrend due to competition

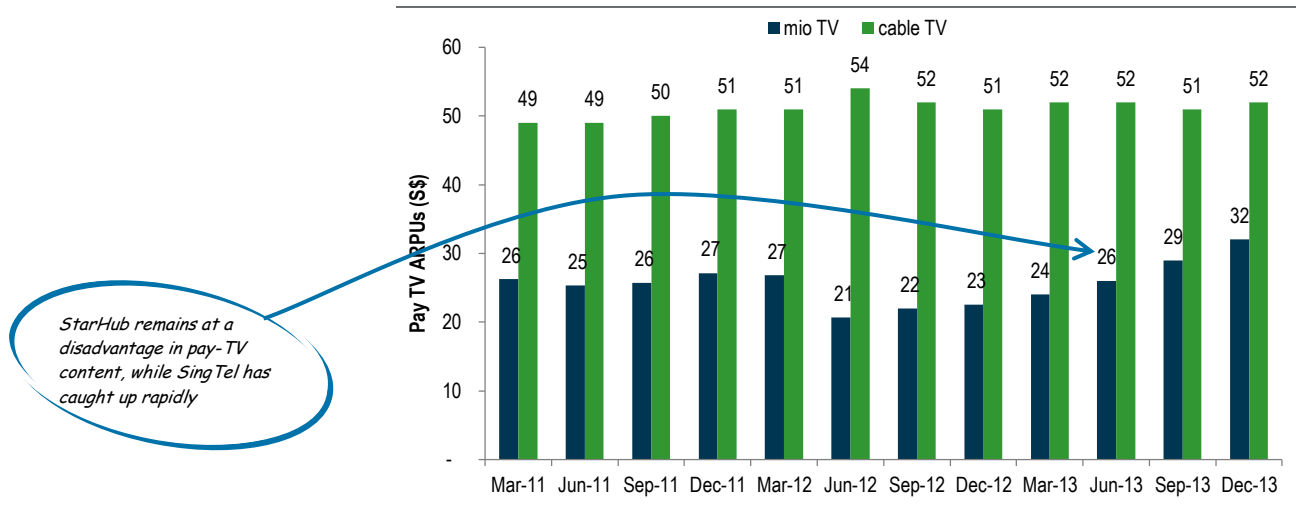


Competition has led to a decline in broadband ARPU from 1Q13



Figure 4: Pay-TV ARPUs

Cable TV ARPUs are more stable



Source: Company, Standard Chartered Research



Bundling is a key competitive edge

StarHub and SingTel continue to push bundled offerings to maintain an advantage in an otherwise level-playing field provided by the NBN. In July 2013, M1 launched its MiBox, which provides basic IPTV content but at much lower prices than STH's cable TV and SingTel's MioTV. Without TV content, smaller players, such as MyRepublic and ViewQwest, are differentiating their services through feature offerings, such as VPN access, Static IP and low-latency access to gamers.

StarHub has an edge in TV content

STH has the longest operation history in cable TV (since 2002, through a merger with the then dominant cable TV provider). Our comparable study suggests that STH has an edge in TV content compared with SingTel's MioTV (IPTV), with STH having more unique content than SingTel. In 2013, STH started its in-house production of local content, which could further strengthen its content advantage. STH's strength in cable TV content is evident from its higher cable TV ARPU (SGD 52 in 4Q13) against SingTel's MioTV ARPU at SGD 32.

In addition, STH's cable network is also responsible for the delivery of terrestrial free-to-air TV to Singapore households, making it easier for the company to make bundled offerings to households.

SingTel

SingTel launched MioTV (delivered through xDSL) in 2007, and since then it has made rapid catch-up in terms of TV content offerings. The company is able to offer a growing number of unique TV channels, such as the English Premier League (EPL) and Malay channels.

M1

With the launch of MiBox in July 2013, M1 began building its IPTV content. Due to its still-low broadband subs base, M1 will initially offer differentiated content. In the near term, M1 cannot compete with STH and SingTel on TV content, but its MiBox offering makes it more competitive than other fibre broadband players and could help it penetrate into the more price sensitive customers, in our view.

Other players – MyRepublic and ViewQwest

MyRepublic and ViewQwest are trying to differentiate themselves through feature offerings, such as VPN access, Static IP and low latency. In addition, MyRepublic and ViewQwest provide access to services offered by Netflix and Hulu and many other services through VPN, which are normally not available to Singapore users.

MyRepublic's strategy is also to engage with online users to create awareness and buzz in social media and discussion forums. MyRepublic's management is of the view that Teleporting is the future and cord-cutting trend (a phenomenon happening in the US market) will spread in Singapore as well.

MyRepublic has been able to create a buzz through its online presence on various forums and social media. Its management said the company has also collaborated with other retailers, and this might be sufficient to sustain the current subscription rate of 4-5% out of the new fibre signups every month. In contrast, ViewQwest has only two retail touch points.



Figure 5: Broadband and TV bundled offers during IT shows

	SITEX	IT SHOW	PC SHOW	COMEX	SITEX	IT SHOW	PC SHOW	COMEX	SITEX	Current
Telco/Speed	Nov-11	Mar-12	Jun-12	Sep-12	Nov-12	Mar-13	Jun-13	Sep-13	Nov-13	Feb-14
StarHub 16M	62.06	62.06	62.06	61.16	61.00	-	-	-	-	-
StarHub 25M	-	-	-	-	-	61.00	61.00	-	-	-
StarHub 50M	75.33	-	-	-	-	66.51	66.51	52.37	-	-
StarHub 100M	82.82	76.61	76.61	73.36	73.00	73.00	62.37	54.57	-	-
StarHub 150M/200M	-	91.16	91.16	-	-	83.00	-	-	68.80	68.80
SingTel 6M	49.90	49.90	49.90	46.90	-	-	-	-	-	-
SingTel 10M	59.90	59.90	59.90	59.90	49.90	49.90	49.90	49.90	49.90	49.90
SingTel 15M	-	-	69.90	67.90	59.90	59.90	59.90	59.90	59.90	59.90
SingTel 50M	64.90	64.90	64.90	-	-	-	-	-	-	-
SingTel 100M	-	-	-	69.90	69.90	69.90	69.90	-	-	-
SingTel 200M	-	-	-	-	-	79.90	79.90	69.90	69.90	69.90
SingTel 300M	-	-	-	-	99.90	99.90	99.90	79.90	79.90	79.90
SingTel 500M	-	-	-	-	-	-	-	99.90	99.90	99.90

Source: Company, Standard Chartered Research

Prices are stable for broadband and TV bundled plans

Figure 6: TV content offerings

Comparison of unique content offering by mio TV and cable TV

Category	Unique with SingTel	Unique with StarHub	Unique with M1
Sports	EPL, Fight Sports	SuperSports, EuroSports, Racquet, Golf, Horse Racing, NBA	-
News	Channel Newsasia, France 24, Deutsche Welle	CNN, CNBC, BBC World News	Channel Newsasia, AsiaOne, Investor Channel, International News, PBS
Education	-	History channels, C&I, Discovery channels, BBC Knowledge, The Biography Channel, Animal Planet	Six free and eight paid education channels
Kids	ETTV Yoyo, BabyTV	Cbeebies, Toonami, Cartoon Network, Momokids Asia	ZNToonz
LifeStyle	Li, We TV	TLC, BBC LifeStyle, Food Network Asia, Asian Food Channel, E! Entertainment, Style, truTV, Travel Channel, Ginx	4ME, food for live tv, healthy MeTV, iConcerts, Tune in Radio, Recipes, Sunrise Lifestyle
Entertainment	-	AXN, Universal Channel, Lifetime, Warner TV, BBC Entertainment, Diva Universal, ITV Choice, beTV, Syfy, MTV Live, Animax, iConcerts	Korean Drama
Movies	Sundance Channel	HBO Channels, Cinemax, CinemaWorld, Turner Classic Movies	-
Chinese	Three Unique channels	20 Unique channels including TVB channels	Three locally produced channels
Malay	Four Unique channels including Astro channels	Three unique channels	-
Indian	Eight unique channels	11 unique channels including Zee network	-
International	Four Unique channels	11 unique channels	Four channels

Source: Company websites, Standard Chartered Research



Implications for the telcos

The key takeaway from our channel checks is that intensifying competition in fibre broadband would accelerate migration from cable/xDSL to fibre broadband. With aggressive pricing and better content offerings (MiBox), M1 is likely to gain higher market share. In addition, price competition in fibre broadband raises margin pressure on incumbent broadband providers. Given its highest exposure to broadband, we believe STH will suffer the highest margin pressure, while SingTel will be able to maintain stable broadband margin due to its direct control of the NetCo and the fact that residential broadband accounts for a small portion of its total revenue (1.22% in 3Q14).

M1 is a net beneficiary: Amid price competition in fibre broadband, we believe M1 is the major beneficiary. Compared with STH and SingTel that are suffering cannibalisation of their cable/xDSL business, M1 will be increasingly competitive with aggressive pricing and better content offerings. In contrast with smaller players, M1 has an OpCo and hence is able to compete on prices with SingTel and STH. We expect M1 to gain new subs market share (over 20% by 2015), as its pricing advantage along with better TV contents offerings should make it more appealing to the price sensitive customers.

SingTel under the biggest threat: In the medium term, SingTel could hold well in terms of broadband subs and margin, on the back of service bundling and its control position in the NetCo. However, SingTel will come under the largest threat in the long run in both the residential broadband/pay-TV and enterprise markets. In the residential broadband market, falling fibre prices will increasingly cannibalise its xDSL subs. With the NBN providing access to over 20,000 (according to our estimates) corporate premises (versus a few thousand currently, according to our estimates), StarHub would be a big threat to SingTel's enterprise business.

StarHub in a net neutral position: Given its highest exposure to broadband/pay-TV business (25.4% in 4Q13), STH faces the highest revenue and margin pressure in its cable broadband. However, we see great opportunities for StarHub's enterprise solutions business.

Forecasts revision and valuation

SingTel

We maintain our forecasts and valuation for SingTel, given that its 3Q14 results were largely in line with our expectation. In view of the company's intention to raise stakes in its associates companies, SingTel might be considering the disposal of non-core assets (such as the satellite business in Australia) and raising debt. In our view, this potential new debt requirement will raise SingTel's gearing, which, in turn, could jeopardise the company's dividend-paying capability in the medium term.

StarHub

In the near term, StarHub's cable broadband business would continue to suffer from cannibalisation and margin erosion from intensifying price competition in fibre broadband, while in the medium to long term, we also see a rising threat to its pay-TV business from M1 in IPTV and smaller players in the internet-based pay-TV business. However, we believe StarHub will benefit a lot from its access to more than 20,000 corporate premises (that are otherwise inaccessible without the NBN programme), which could mitigate the downside risk in its cable business in the long run.

We have largely maintained our forecasts for StarHub, given its in-line 2013 results.



M1 remains out top pick in the Singapore telecoms sector

M1's fibre subs growth over the past two quarters has trailed our expectation, as incumbents remain competitive by leveraging their services bundling. However, our channel checks suggest great long-term growth potential in not only fibre broadband, but also the pay-TV market. Since the launch of MiBox in July 2013, M1 has launched over 40 channels (based on our estimates).

On the back of more conservative fibre subs growth assumptions and lower handset sales, we trim our 2014E/15E revenue by 5.6%/5.2% (1.6%/2.9% in service revenue) and net income by 3.6%/3.8% (partly on lower broadband margin, given the fierce price competition). However, we raise our DCF-based price target to SGD 3.80 from SGD3.60, after factoring in higher long-term growth from its fibre broadband and pay-TV businesses and also due to lower capex.

Figure 7: Changes in forecasts, price targets and recommendations

	Revenue		EBITDA		Net income		Price target (SGD)		Recommendation	
	2014E	2015E	2014E	2015E	2014E	2015E	Old	New	Old	New
SingTel	NA	NA	NA	NA	NA	NA	3.70	3.70	IL	IL
StarHub	-1.4%	-0.9%	-0.1%	0.5%	-0.9%	-0.8%	4.00	4.00	IL	IL
M1	-5.6%	-5.2%	-2.3%	-2.7%	-3.6%	-3.8%	3.60	3.80	OP	OP

Source: Standard Chartered Research estimates



Singapore Telecom (ST SP)

Income statement (SGD mn)

Year-end: Mar	2012	2013	2014E	2015E	2016E
Operating revenue	18,825	18,183	17,558	17,362	17,454
Gross profit	13,603	13,212	12,733	12,637	12,773
Operating expenses	(10,490)	(10,256)	(9,830)	(9,855)	(9,946)
Other income	103	117	118	119	120
Other expenses	0	0	0	0	0
EBIT	3,217	3,073	3,021	2,901	2,946
Net interest	(350)	(298)	(280)	(273)	(263)
Associates	2,032	2,023	2,265	2,672	2,955
Other non-operational	9	0	0	0	0
Exceptional items	7	(40)	(12)	(12)	(12)
Pre-tax profit	4,915	4,758	4,994	5,289	5,626
Taxation	(925)	(1,246)	(1,356)	(1,449)	(1,549)
Minority interests	(1)	(2)	(2)	(2)	(2)
Exceptional items after tax	0	0	0	0	0
Net profit	3,988	3,509	3,636	3,837	4,074
Net profit adj.	3,982	3,549	3,648	3,849	4,086
EBITDA	5,219	5,200	5,075	5,025	5,134
EPS (SGD)	0.25	0.22	0.23	0.24	0.26
EPS adj. (SGD)	0.25	0.22	0.23	0.24	0.26
DPS (SGD)	0.16	0.17	0.17	0.18	0.19
Avg fully diluted shares (mn)	15,972	15,976	15,987	15,987	15,987

Balance sheet (SGD mn)

Year-end: Mar	2012	2013	2014E	2015E	2016E
Cash	1,346	911	1,170	1,288	1,257
Short-term investments	3	1	0	0	0
Accounts receivable	3,927	3,680	3,698	3,717	3,735
Inventory	208	214	216	218	220
Other current assets	334	0	0	0	0
Total current assets	5,819	4,806	5,084	5,223	5,212
PP&E	11,580	11,725	11,906	11,940	11,838
Intangible assets	10,174	10,709	10,656	10,597	10,532
Associates and JVs	10,181	9,887	10,466	11,150	11,984
Other long-term assets	2,665	2,857	2,859	2,860	2,862
Total long-term assets	34,599	35,178	35,886	36,547	37,215
Total assets	40,418	39,984	40,971	41,770	42,427
Short-term debt	106	350	350	350	350
Accounts payable	4,372	4,222	4,243	4,264	4,286
Other current liabilities	1,058	1,220	1,229	1,238	1,247
Total current liabilities	5,535	5,792	5,822	5,852	5,882
Long-term debt	8,663	7,537	7,550	7,333	6,896
Convertible bonds	0	0	0	0	0
Deferred tax	244	299	299	299	299
Other long-term liabilities	2,528	2,366	2,382	2,399	2,415
Total long-term liabilities	11,434	10,203	10,232	10,031	9,610
Total liabilities	16,970	15,994	16,053	15,883	15,493
Shareholders' funds	23,428	23,965	24,890	25,858	26,903
Minority interests	20	25	27	29	32
Total equity	23,448	23,989	24,917	25,887	26,935
Total liabilities and equity	40,418	39,984	40,971	41,770	42,427
Net debt (cash)	7,422	6,976	6,730	6,395	5,989
Year-end shares (mn)	15,942	15,944	15,944	15,944	15,944

Source: Company, Standard Chartered Research estimates

Cash flow statement (SGD mn)

Year-end: Mar	2012	2013	2014E	2015E	2016E
EBIT	3,217	3,073	3,021	2,901	2,946
Depreciation & amortisation	2,002	2,127	2,053	2,124	2,188
Net interest	(341)	(298)	(280)	(273)	(263)
Tax paid	(372)	(160)	(663)	(639)	(658)
Changes in working capital	11	(92)	25	24	24
Others	1,194	1,167	1,261	1,441	1,482
Cash flow from operations	5,710	5,818	5,417	5,578	5,719
Capex	(2,249)	(2,059)	(2,065)	(1,982)	(1,903)
Acquisitions & Investments	(1,123)	(929)	(116)	(117)	(118)
Disposals	598	435	0	0	0
Others	(35)	(4)	0	0	0
Cash flow from investing	(2,809)	(2,557)	(2,180)	(2,099)	(2,021)
Dividends	(4,107)	(2,518)	(2,710)	(2,870)	(3,029)
Issue of shares	9	2	0	0	0
Change in debt	1,189	(805)	13	(217)	(437)
Other financing cash flow	(1,356)	(380)	(280)	(273)	(263)
Cash flow from financing	(4,264)	(3,702)	(2,977)	(3,360)	(3,729)
Change in cash	(1,363)	(442)	259	118	(31)
Exchange rate effect	(29)	6	0	0	0
Free cash flow	3,462	3,759	3,352	3,596	3,816

Financial ratios and other

Year-end: Mar	2012	2013	2014E	2015E	2016E
Operating ratios					
Gross margin (%)	72.3	72.7	72.5	72.8	73.2
EBITDA margin (%)	27.7	28.6	28.9	28.9	29.4
EBIT margin (%)	17.1	16.9	17.2	16.7	16.9
Net margin adj. (%)	21.2	19.5	20.8	22.2	23.4
Effective tax rate (%)	18.8	26.2	27.2	27.4	27.5
Sales growth (%)	4.2	-3.4	-3.4	-1.1	0.5
Net income growth (%)	4.3	-12.0	3.6	5.5	6.2
EPS growth (%)	4.2	-12.0	3.6	5.5	6.2
EPS growth adj. (%)	4.6	-10.9	2.7	5.5	6.2
DPS growth (%)	-38.8	6.3	1.2	5.9	5.6
Efficiency ratios					
ROE (%)	16.7	14.8	14.9	15.1	15.4
ROCE (%)	9.8	8.9	8.7	8.2	8.1
Asset turnover (x)	0.5	0.5	0.4	0.4	0.4
Op. cash/EBIT (x)	1.8	1.9	1.8	1.9	1.9
Depreciation/capex (x)	0.8	1.0	0.9	1.0	1.1
Inventory days	17.7	15.5	16.2	16.8	17.1
Accounts receivable days	71.5	76.4	76.7	77.9	77.9
Accounts payable days	343.3	315.5	320.2	328.6	333.3
Leverage ratios					
Net gearing (%)	31.7	29.1	27.0	24.7	22.2
Debt/capital (%)	25.1	23.1	22.5	21.4	19.8
Interest cover (x)	8.2	8.9	9.3	9.0	9.3
Debt/EBITDA (x)	1.5	1.6	1.6	1.6	1.5
Current ratio (x)	1.1	0.8	0.9	0.9	0.9
Valuation					
EV/sales (x)	3.0	3.3	3.7	3.7	3.7
EV/EBITDA (x)	10.7	11.5	12.8	12.8	12.5
EV/EBIT (x)	17.3	19.5	21.4	22.2	21.7
PER (x)	12.5	15.0	16.0	15.1	14.2
PER adj. (x)	12.5	14.9	16.0	15.1	14.2
PBR (x)	2.1	2.4	2.3	2.2	2.2
Dividend yield (%)	5.1	5.1	4.7	4.9	5.2



StarHub (STH SP)

Income statement (SGD mn)

Year-end: Dec	2012	2013	2014E	2015E	2016E
Operating revenue	2,422	2,359	2,422	2,486	2,540
Gross profit	1,411	1,418	1,456	1,498	1,538
Operating expenses	(990)	(1,005)	(1,016)	(1,034)	(1,047)
Other income	27	50	40	32	26
Other expenses	0	0	0	0	0
EBIT	447	463	480	495	516
Net interest	(16)	(16)	(16)	(17)	(17)
Associates	0	0	0	0	0
Other non-operational	0	0	0	0	0
Exceptional items	0	0	0	0	0
Pre-tax profit	431	447	464	479	499
Taxation	(72)	(77)	(79)	(82)	(86)
Minority interests	0	0	0	0	0
Exceptional items after tax	0	0	0	0	0
Net profit	359	371	384	397	413
Net profit adj.	359	371	384	397	413
EBITDA	720	733	749	765	786
EPS (SGD)	0.21	0.22	0.22	0.23	0.24
EPS adj. (SGD)	0.21	0.21	0.22	0.23	0.24
DPS (SGD)	0.20	0.20	0.20	0.20	0.20
Avg fully diluted shares (mn)	1,726	1,726	1,726	1,727	1,728

Balance sheet (SGD mn)

Year-end: Dec	2012	2013	2014E	2015E	2016E
Cash	312	267	326	375	443
Short-term investments	0	0	0	0	0
Accounts receivable	142	124	126	125	123
Inventory	28	43	45	48	50
Other current assets	136	178	151	152	154
Total current assets	618	612	648	700	770
PP&E	791	857	913	976	1,037
Intangible assets	397	381	352	333	316
Associates and JVs	0	0	0	0	0
Other long-term assets	3	0	0	0	0
Total long-term assets	1,191	1,238	1,265	1,309	1,353
Total assets	1,809	1,850	1,914	2,009	2,123
Short-term debt	0	0	0	0	0
Accounts payable	728	754	791	831	873
Other current liabilities	151	148	151	154	157
Total current liabilities	879	902	942	985	1,030
Long-term debt	688	688	688	688	688
Convertible bonds	0	0	0	0	0
Deferred tax	119	128	128	128	128
Other long-term liabilities	79	50	50	49	49
Total long-term liabilities	886	866	865	865	864
Total liabilities	1,765	1,767	1,808	1,850	1,894
Shareholders' funds	44	83	111	165	234
Minority interests	0	0	0	0	0
Total equity	44	83	111	165	234
Total liabilities and equity	1,809	1,850	1,919	2,014	2,128
Net debt (cash)	376	421	362	312	244
Year-end shares (mn)	1,718	1,718	1,718	1,718	1,718

Cash flow statement (SGD mn)

Year-end: Dec	2012	2013	2014E	2015E	2016E
EBIT	447	463	480	495	516
Depreciation & amortisation	273	270	269	269	270
Net interest	(20)	(19)	(19)	(19)	(19)
Tax paid	(54)	(89)	(79)	(82)	(86)
Changes in working capital	42	(7)	63	40	42
Others	2	(23)	3	2	2
Cash flow from operations	690	595	716	706	725
Capex	(273)	(303)	(313)	(313)	(313)
Acquisitions & Investments	0	0	0	0	0
Disposals	1	1	0	0	0
Others	4	3	0	0	0
Cash flow from investing	(268)	(299)	(313)	(313)	(313)
Dividends	(343)	(344)	(344)	(344)	(344)
Issue of shares	(1)	1	0	0	0
Change in debt	25	0	0	0	0
Other financing cash flow	31	3	0	0	0
Cash flow from financing	(289)	(341)	(344)	(344)	(344)
Change in cash	133	(46)	59	49	68
Exchange rate effect	1	0	0	0	0
Free cash flow	417	292	403	393	411

Financial ratios and other

Year-end: Dec	2012	2013	2014E	2015E	2016E
Operating ratios					
Gross margin (%)	58.3	60.1	60.1	60.2	60.5
EBITDA margin (%)	29.7	31.1	30.9	30.8	30.9
EBIT margin (%)	18.5	19.6	19.8	19.9	20.3
Net margin adj. (%)	14.8	15.7	15.9	16.0	16.3
Effective tax rate (%)	16.7	17.1	17.1	17.1	17.3
Sales growth (%)	4.7	-2.6	2.6	2.7	2.2
Net income growth (%)	13.9	3.2	3.6	3.3	4.1
EPS growth (%)	13.8	3.1	3.6	3.3	4.1
EPS growth adj. (%)	13.8	3.1	3.6	3.2	4.0
DPS growth (%)	0.0	0.0	0.0	0.0	0.0
Efficiency ratios					
ROE (%)	1,087.1	587.5	395.9	287.6	207.2
ROCE (%)	51.1	49.3	50.0	49.6	48.7
Asset turnover (x)	1.4	1.3	1.3	1.3	1.2
Op. cash/EBIT (x)	1.5	1.3	1.5	1.4	1.4
Depreciation/capex (x)	0.2	0.2	0.1	0.1	0.1
Inventory days	11.8	13.8	16.7	17.2	17.8
Accounts receivable days	22.2	20.6	18.8	18.4	17.8
Accounts payable days	258.3	287.2	292.1	299.6	310.2
Leverage ratios					
Net gearing (%)	863.2	508.6	324.7	189.7	104.4
Debt/capital (%)	74.0	72.5	70.8	67.1	62.9
Interest cover (x)	22.4	24.6	25.4	26.2	27.3
Debt/EBITDA (x)	0.9	0.9	0.9	0.9	0.9
Current ratio (x)	0.7	0.7	0.7	0.7	0.7
Valuation					
EV/sales (x)	2.6	3.2	3.1	3.0	2.9
EV/EBITDA (x)	8.7	10.4	10.0	9.8	9.4
EV/EBIT (x)	13.9	16.5	15.6	15.1	14.3
PER (x)	16.2	19.6	18.6	18.0	17.3
PER adj. (x)	16.3	19.7	18.7	18.1	17.4
PBR (x)	149.6	89.1	64.2	43.4	30.5
Dividend yield (%)	5.9	4.7	4.8	4.8	4.8
Other					
Mobile revenue	1,224	1,320	1,324	-	-
Cable television revenue	396	368	351	-	-
Cable broadband revenue	249	268	283	-	-
Fixed network services revenue	358	373	396	-	-
Sale of equipment	194	196	196	-	-

Source: Company, Standard Chartered Research estimates



M1 (M1 SP)

Income statement (SGD mn)

Year-end: Dec	2012	2013	2014E	2015E	2016E
Operating revenue	1,077	1,008	1,046	1,093	1,140
Gross profit	562	584	603	633	663
Operating expenses	(375)	(387)	(394)	(403)	(410)
Other income	1	2	2	2	2
Other expenses	3	0	0	0	0
EBIT	190	198	211	232	255
Net interest	(6)	(5)	(4)	(4)	(4)
Associates	0	0	0	0	0
Other non-operational	0	0	0	0	0
Exceptional items	0	0	0	0	0
Pre-tax profit	185	194	207	228	251
Taxation	(37)	(33)	(36)	(40)	(44)
Minority interests	0	0	0	0	0
Exceptional items after tax	0	0	0	0	0
Net profit	148	161	171	188	207
Net profit adj.	148	161	171	188	207
EBITDA	301	313	324	345	367
EPS (SGD)	0.16	0.18	0.18	0.20	0.22
EPS adj. (SGD)	0.16	0.17	0.18	0.20	0.22
DPS (SGD)	0.15	0.21	0.15	0.17	0.20
Avg fully diluted shares (mn)	911	922	924	927	932

Balance sheet (SGD mn)

Year-end: Dec	2012	2013	2014E	2015E	2016E
Cash	12	55	46	74	127
Short-term investments	0	0	0	0	0
Accounts receivable	180	145	184	186	159
Inventory	33	29	29	29	30
Other current assets	22	21	21	21	22
Total current assets	246	249	280	310	337
PP&E	630	649	678	702	722
Intangible assets	99	88	76	64	52
Associates and JVs	0	0	0	0	0
Other long-term assets	0	0	0	0	0
Total long-term assets	729	737	754	766	774
Total assets	975	987	1,034	1,076	1,111
Short-term debt	272	0	0	0	0
Accounts payable	188	181	182	183	184
Other current liabilities	65	54	54	54	54
Total current liabilities	524	235	236	237	238
Long-term debt	0	250	250	250	250
Convertible bonds	0	0	0	0	0
Deferred tax	103	107	108	109	110
Other long-term liabilities	0	0	0	0	0
Total long-term liabilities	103	357	358	359	360
Total liabilities	627	591	593	595	597
Shareholders' funds	348	395	441	481	514
Minority interests	0	0	0	0	0
Total equity	348	395	441	481	514
Total liabilities and equity	975	987	1,034	1,076	1,111
Net debt (cash)	260	196	204	176	123
Year-end shares (mn)	913	923	924	930	935

Cash flow statement (SGD mn)

Year-end: Dec	2012	2013	2014E	2015E	2016E
EBIT	190	198	211	232	255
Depreciation & amortisation	111	115	113	113	112
Net interest	(6)	(5)	(4)	(4)	(4)
Tax paid	(27)	(30)	(36)	(40)	(44)
Changes in working capital	8	24	(37)	(0)	28
Others	(2)	(1)	0	0	0
Cash flow from operations	275	302	246	300	347
Capex	(123)	(125)	(130)	(125)	(120)
Acquisitions & Investments	0	0	0	0	0
Disposals	1	4	0	0	0
Others	0	(1)	0	0	0
Cash flow from investing	(122)	(122)	(130)	(125)	(120)
Dividends	(132)	(136)	(137)	(160)	(186)
Issue of shares	10	22	12	12	12
Change in debt	(31)	(22)	0	0	0
Other financing cash flow	0	0	0	0	0
Cash flow from financing	(154)	(137)	(125)	(148)	(174)
Change in cash	(0)	43	(9)	28	53
Exchange rate effect	0	0	0	0	0
Free cash flow	152	177	116	175	227

Financial ratios and other

Year-end: Dec	2012	2013	2014E	2015E	2016E
Operating ratios					
Gross margin (%)	52.1	57.9	57.7	57.9	58.2
EBITDA margin (%)	28.0	31.1	31.0	31.6	32.2
EBIT margin (%)	17.7	19.7	20.2	21.2	22.4
Net margin adj. (%)	13.7	16.0	16.3	17.2	18.1
Effective tax rate (%)	20.0	16.8	17.5	17.5	17.5
Sales growth (%)	1.1	-6.4	3.8	4.4	4.3
Net income growth (%)	-9.9	9.2	5.9	9.9	10.2
EPS growth (%)	-10.5	8.1	5.5	9.5	9.5
EPS growth adj. (%)	-10.4	7.9	5.7	9.5	9.5
DPS growth (%)	0.7	43.8	-29.6	16.1	16.0
Efficiency ratios					
ROE (%)	44.1	43.4	40.9	40.7	41.6
ROCE (%)	34.0	33.0	27.3	28.3	29.8
Asset turnover (x)	1.1	1.0	1.0	1.0	1.0
Op. cash/EBIT (x)	1.4	1.5	1.2	1.3	1.4
Depreciation/capex (x)	0.8	0.8	0.8	0.8	0.8
Inventory days	24.6	26.8	24.0	23.3	22.6
Accounts receivable days	62.3	58.8	57.3	61.7	55.2
Accounts payable days	136.0	158.7	149.5	144.7	140.3
Leverage ratios					
Net gearing (%)	74.8	49.5	46.3	36.7	24.0
Debt/capital (%)	60.3	33.3	31.3	29.8	28.6
Interest cover (x)	34.5	44.1	49.5	54.3	59.8
Debt/EBITDA (x)	1.0	0.8	0.8	0.7	0.7
Current ratio (x)	0.5	1.1	1.2	1.3	1.4
Valuation					
EV/sales (x)	2.4	3.1	3.2	3.0	2.8
EV/EBITDA (x)	8.6	9.9	10.2	9.5	8.8
EV/EBIT (x)	13.7	15.6	15.6	14.2	12.7
PER (x)	15.7	17.8	18.1	16.5	15.1
PER adj. (x)	15.7	17.8	18.1	16.5	15.1
PBR (x)	7.1	7.6	7.0	6.5	6.1
Dividend yield (%)	5.7	6.7	4.4	5.1	5.9

Source: Company, Standard Chartered Research estimates

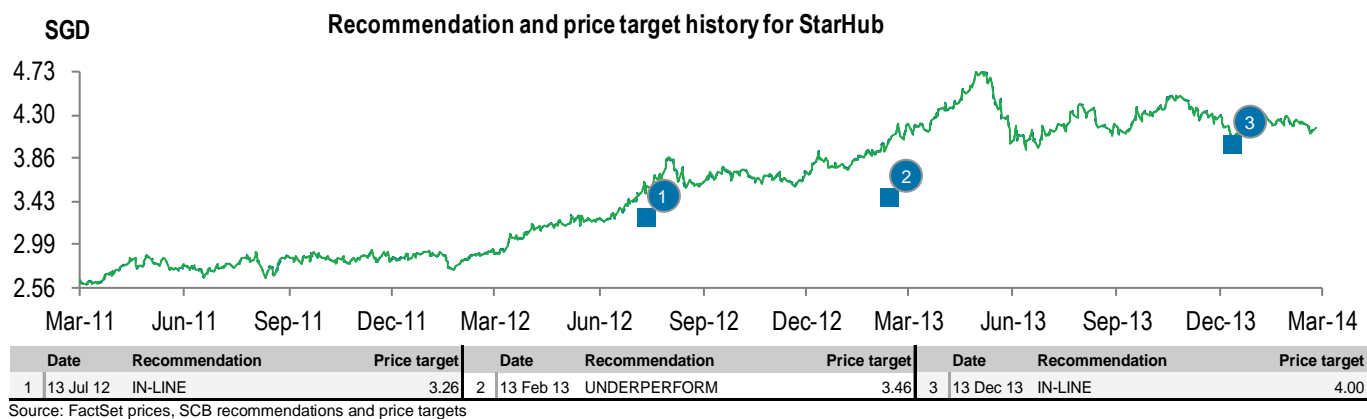
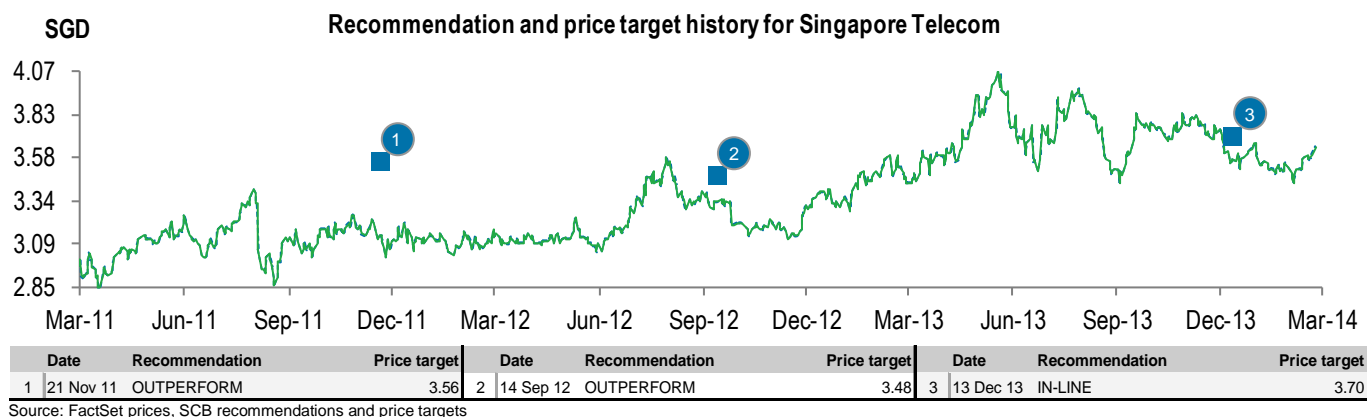
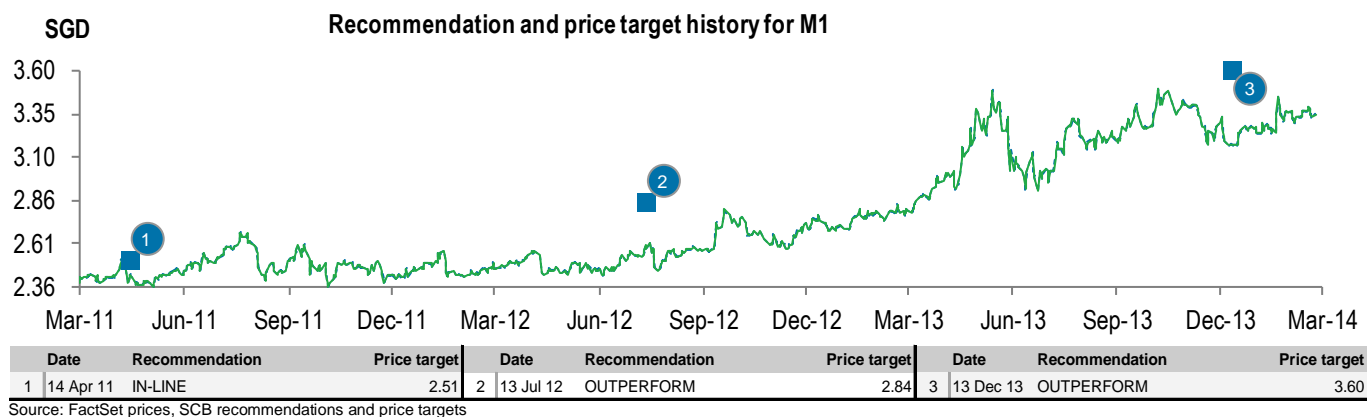


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As of 31 December 2013



Research Recommendation

Terminology	Definitions
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