

14 January 2020

## Telecommunications

### Still a Tough Call

- **Maintain NEUTRAL.** The sector's risk-reward profile appears largely balanced in our view, with stocks having priced in the prospects of elevated competition over the past two years from new entrants and structural revenue/EBITDA pressures. The sector's 1-year forward EV/EBITDA at -1SD is fair, supported by telcos' decent yields of >5%. Our preferred pick remains Singtel for its earnings diversity and dividend certainty, which should augur well in a slow-growth and macro-infused environment. Improving tariff dynamics in India/Indonesia are its key re-rating catalyst.
  - **Mobile revenues to remain under pressure.** We expect mobile revenues and earnings to remain under pressure in 2020 due to protracted weakness in usage revenues and data competition. The heightened adoption of subscriber identity module (SIM)-only plans, competition from mobile virtual network operators (MVNOs), and follow-through impact from handset amortisation should continue to weigh on ARPUs. We expect the telcos' EBITDAs to remain relatively steady given the tight focus on opex, digitisation initiatives, and lower traffic costs. Singtel has booked some SGD263m in cost savings in 9M19 while StarHub has realised >SGD120m over the same period.
  - **Enterprise rings louder for StarHub and M1,** given their still modest share of the market. Enterprise revenue made up 24% of StarHub's revenue in 9M19 and 13% of M1 (FY18). This compares with Singtel's 36% (1H FY20). We expect enterprise revenues to remain their key growth driver, providing a buffer against weak mobile revenues.
  - **5G not likely to be a game changer with extensive fibre broadband penetration.** The Infocomm Media Development Authority (IMDA) is expected to announce the successful applicants for two 5G spectrum packages – 100MHz of the 3.5GHz spectrum and 800MHz of the mmWave band – by end 2Q20. The spectrum will be offered by way of a beauty contest/call for proposal (CFP), with the application deadline extended to 17 Feb (from 21 Jan). We believe the frontrunners are Singtel and a JV between StarHub and M1. Some of the key features of the CFP include the rollout of a 5G standalone network from the outset on the 3.5GHz band, the requirement for mobile network operators (MNOs) to provide wholesale services to other operators – including MVNOs, and 50% 5G coverage on the 3.5GHz band within 24 months, or by end-2022. The IMDA will score and rank application submissions based on network design & resilience (40%), network rollout & performance (35%), price offered for one lot of the 3.5GHz band (15%), and financial capability (10%).
- While Singapore will be one of the first in the region to rollout 5G on the mid-band spectrum (3.5GHz), we see little impact from 5G in the medium term due to the already extensive fibre penetration/adoption nationwide and selected-use cases – mostly confined to enterprise verticals and smart solutions for cities.
- **Competition still the key downside risk.** The Singapore mobile market is hyper competitive and fragmented, with SIM penetration at >150%. The number of MVNOs has mushroomed over the past two years and had exceeded the four MNOs in the market, with more likely to join the fray. With MNOs using MVNOs to hedge against the go-to-market strategy of the fourth MNO (TPG), the newest entrant is appearing as less of a competitive threat, we think. We note IMDA's stance to assign 5G spectrums to only MNOs have eliminated fresh concerns over competition.

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**Neutral** (Maintained)

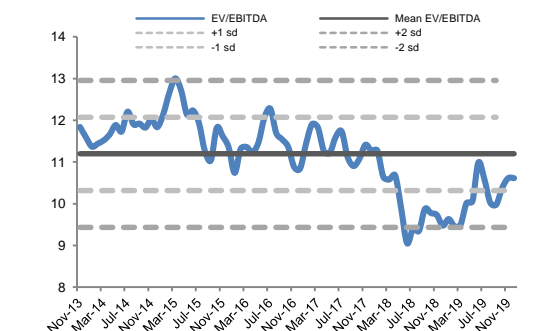
Stocks Covered 2  
Ratings (Buy/Neutral/Sell): 0 / 2 / 0  
Last 12m Earnings Negative

**Top Pick** **Target Price**  
Singtel (ST SP) – NEUTRAL SGD3.50

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#### 1-year forward sector EV/EBITDA (x)



Source: RHB, Bloomberg

Company	Rating	TP (SGD)	% Upside (Downside)	P/E (x) Dec-20F	P/BV (x) Dec-20F	Yield (%) Dec-20F
Singtel	Neutral	3.50	6.4	18.2	1.8	5.3
StarHub	Neutral	1.44	-2.0	13.6	6.6	6.1

Note: Data as at 13 Jan 2020  
Source: Company data, RHB

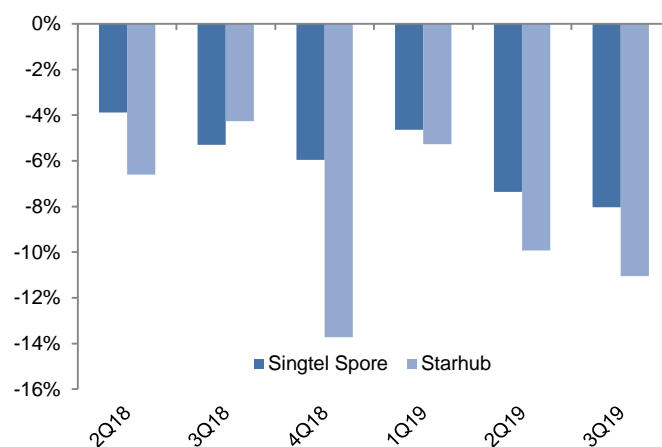
## Key Charts And Tables

**Figure 1: 5G spectrum assignment exercise**

Call for Proposal Deadline	17-Feb-20
Award decision	mid- 2020
No. of packages to be assigned	2
Spectrum blocks per package	100MHz (3.5GHz) and 800MHz (mmwave band)
Base price (SGDm)	55
Spectrum tenure (years)	15 (16 for mmwave bands)
Population coverage (target)	50% outdoor within 2 years (by end-2022)
Other key requirements	i) CFP open to existing MNOs, ii) mandatory wholesaling of 5G network to MNOs and MVNOs.

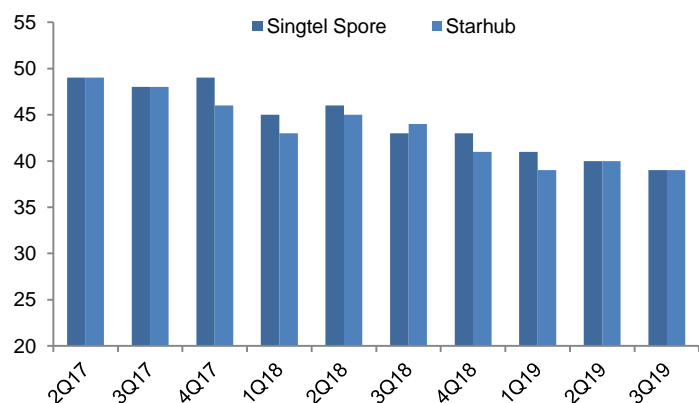
Source: IMDA

**Figure 2: Mobile revenue growth (% chg YoY)**



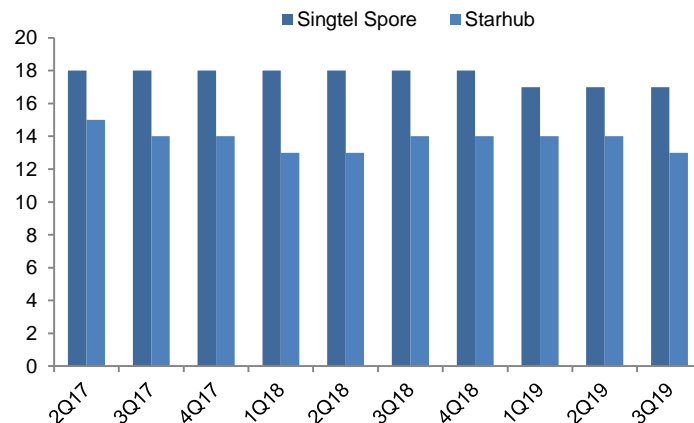
Source: RHB

**Figure 3: Postpaid ARPU (SGD)**



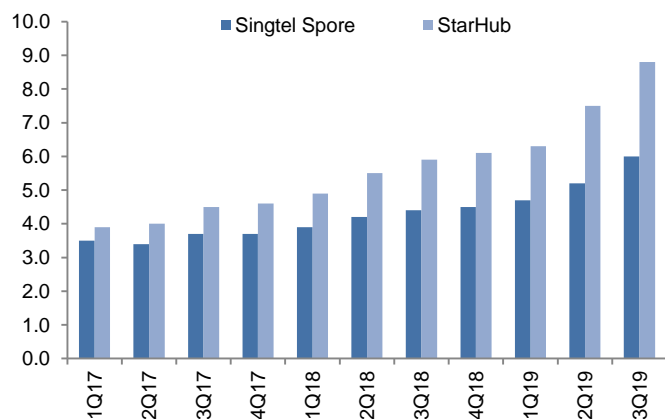
Source: Company data

**Figure 4: Prepaid ARPU (SGD)**



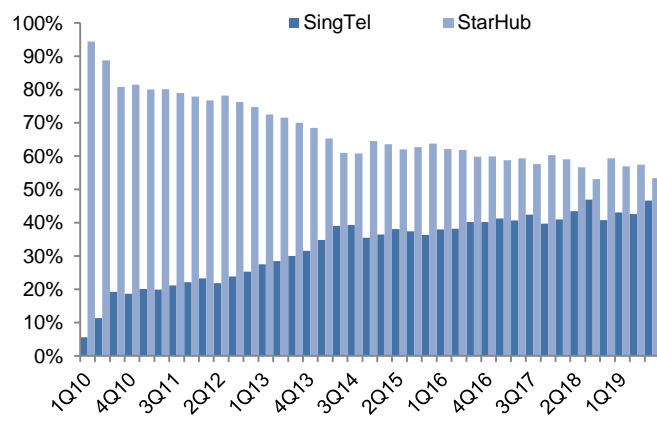
Source: Company data

**Figure 5: Average data usage (GB/subs/month)**



Source: RHB, Company data

**Figure 6: Pay-TV subscriber share**



Source: RHB

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