

Singapore Telecom Sector

Analyst

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5G Framework encourages network sharing

- Two nationwide 5G networks starting from 2020
- Gradual 5G rollout – 50% coverage by 2023 versus ~100% for 4G in just 12-months
- Gradual 5G rollout implies similar or slightly higher annual capex as incurred for 4G and hence not a major cause of concern
- Netlink is our top pick for yield and Singtel for earnings recovery in FYMar20F

What's New

Singapore has launched public consultation on 5G framework. Five key takeaways from the consultation are:

- (1) Deployment of 5G from 2020 based on standalone network architecture, soon after standards are finalised in March 2020.
- (2) Sustainable competition with at least two nationwide 5G networks to encourage network sharing
- (3) No spectrum auction (3.5GHz paired with 26GHz and 28 GHz) but allocation via call for proposal (CFP) open only to the four existing mobile network operators (MNOs).
- (4) Over 50% coverage within 24-months of the commencement of the 3.5 GHz spectrum rights
- (5) Each standalone network operator must be willing to sell 5G wholesale services to other MNOs and players.

Our View

High emphasis on network sharing with four MNOs sharing two 5G networks. Based on our understanding, 5G capex is 2-3x that of 4G capex for similar coverage, and hence telcos must share the 5G network to justify the high 5G capex. Each standalone network operator must be willing to sell capacity on a wholesale basis.

Far more gradual rollout for 5G than 4G in line with our expectations. Despite 5G rollout starting from 2020 onwards, the paper implies around 50% coverage by 2023 as the key 5G spectrum, 3.5GHz, will be available for use by 2021 only. The 5G rollout is much more gradual as 4G network coverage requirement for TPG was nationwide outdoor coverage (not 50%) in just 12 months of spectrum rights commencement. The slower rollout can be explained by a lack of decent revenue opportunity in the consumer space despite high 5G capex requirements. The focus for 5G would be on enterprise applications where lower-latency and large number of connections are important. For example, remote surgery & high frequency trading for lower-latency and Internet of Things for large number of connections.

Gradual 5G rollout implies similar or slightly higher annual capex as incurred for 4G and hence not a major cause of concern. We estimate that StarHub may have incurred ~S\$500m 4G capex in total over 2013-18. Telcos may incur S\$1bn-1.5bn in 5G capex but over a longer period of 10-years. The 5G Spectrum price should not be a concern as the base price of 100 MHz of 3.5MHz spectrum ranges from S\$32m-S\$74m internationally.

Netlink is our top pick for yield, while we like Singtel for earnings recovery. Netlink should trade at a lower yield than large-cap industrial S-REITs' yield of ~5.7% as (a) Netlink's distributions are largely independent of the economic cycle, (b) gearing is less than half of industrial S-REITs, and (c) asset life is much longer than industrial SREITs. We like Singtel for a projected rebound in associates' contributions in FY20F, after two years of decline, which may lead to narrowing of holding company discount from 27% currently. Our TP is S\$0.87 for Netlink and S\$3.55 for Singtel.



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Share price appreciation + dividends

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