

Singapore Telecom Sector

Analyst

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How would M1's mobile makeover sway the sector?

- M1 revamps its mobile offerings completely with cheaper handset-bundled plans and more-expensive SIM-Only offerings
- Downside risk to our projected decline of 6.5% in 2019, but long-term impact of the move is likely to be positive from more handset-bundled subscribers
- Less than 1% impact on Singtel's earnings even if mobile revenue were to dip 9% as Singapore mobile contributes < 10% to Singtel's bottom line
- Singtel and Netlink are our top picks in the sector

What's New

M1's mobile offerings get a makeover. M1 has revamped its mobile offerings completely, doing away with all of its existing SIM-Only and bundled mobile plans and replacing them with a "base plan plus add-ons" structure.

Accordingly, M1's SIM-Only plans start at S\$25 per month and offers 30GB of monthly data along with 1,000 minutes of talk time and 1,000 SMS. Base plans can be further enhanced with a range of add-on plans made available (e.g. 10GB of data for S\$10). Handset plans follow a similar approach, with the base plan starting at S\$30 offering 12GB of data, 100 minutes of talk time and 100 SMS. Both base plans are bundled with free data over weekends, free caller ID and free music streaming on Spotify to name a few complimentary privileges. The plans offer greater flexibility to subscribers for customisation and are offered both digitally and via M1's stores.

We believe M1's new offerings have taken a page out of the "GOMO" (20GB for S\$20) and "Giga" (25GB for S\$25) SIM-Only plans launched by Singtel and StarHub over the past few months, except M1 has extended its offerings to the handset-bundled space and offers much greater customisability. In our view, M1's new plans with better flexibility would be of greater appeal to the millennials that all three operators are aggressively targeting now.

M1 has revamped its existing mobile plans

Handset-bundled plans (Old)				
M1	S\$40	S\$70	S\$90	S\$118
Voice	100	100	100	100
SMS	100	100	100	100
Data	15GB	35GB	50GB	Unlimited
Add-on	25GB for S\$5			

Handset-bundled plans (New)			Add-Ons	
M1 (Base Plan)	S\$30	S\$20	5GB	100 min
Voice	100	S\$48	30GB	200 min
SMS	100	S\$80	66GB	400 min
Data	12GB	S\$205	100GB	Unlimited

SIM-Only plans (Old)				
M1	S\$20	S\$40	S\$50	S\$98
Data	15GB	25GB	40GB	Unlimited
Add-on	25GB for S\$5			

SIM-Only plans (New)			Add-Ons	
M1 (Base Plan)	S\$25			
Voice	1000	S\$10	10GB	100 min
SMS	1000	S\$20	50GB	100 min
Data	30GB	S\$50	150GB	10,000 min

Source: M1, DBS Bank



Live more, Bank less

Flash Note

M1 takes the fight to the handset-bundled offerings. The most significant impact of M1's renewed plans, in our view, is in the handset-bundled segment. M1 has reduced the entry point of handset-bundled plans from S\$40 to S\$30 per month with a marginal curtailment of the data quota

(12GB now vs. 15GB earlier). Based on our computations of handset subsidies using the iPhone XS as a proxy, we estimate that M1's new plans lead to S\$70 savings over 2-years

New handset bundled plans are much more attractive than new SIM-only plans

in S\$	M1 (Old)		M1 (New)	
	SIM-Only Plan	Handset-Bundled Plan	SIM-Only Plan	Handset-Bundled Plan
Monthly Contract Price	20	40	25	30
Upfront Fee		1,130		1,300
Retail price of the device	1,649		1,649	
Total customer spent over 24 months	2,129	2,090	2,249	2,020
Difference in cash outlay versus SIM-only plan		39		229

Handset in consideration is the iPhone XS model with a capacity of 64GB. Retail price of an iPhone XS is S\$1,649 as listed on the Apple Singapore website. Entry-level SIM-Only and handset-bundled plans have been considered for the comparison.

Source: M1, Apple Singapore, DBS Bank

We believe this to be a key shift in M1's pricing strategy. Competition within the mobile sector over the past year was largely limited to SIM-Only offerings with all three incumbents aggressively revising their plans with bigger data bundles at lower price points. M1 has taken a swing at the handset-bundled offerings, a segment in which M1 has a lower traction in, when compared with its larger peers. We believe this could indicate a shift in M1's strategy after being taken private by Keppel Corporation and Singapore Press Holdings, with M1 potentially trying to target the corporate bundled-plan segment that is dominated by Singtel and StarHub.

With the revamped handset-bundled offerings, M1 is:

- Trying to **poach high-value handset-bundled users** from Singtel and StarHub as M1's new plans are cheaper and offers very competitive data quotas (Refer to the plan comparisons below)
- Trying to **decelerate the shift towards SIM-Only offerings**. M1's handset-bundled plans are now only S\$5 more expensive, at S\$25 vs. S\$20 per month before, offers an attractive data quota of 12GB (vs. average smartphone data usage of 4.7GB in Singapore) and requires a lower cash outlay from subscribers (e.g. S\$190 lesser for an iPhone XS on an entry level handset-bundled plan). This could result in a deceleration of subscriber migration towards SIM-Only offerings, in our view.

M1 to improve SIM-Only ARPU with the new plans along with some subscriber losses. The new SIM-Only plans starting at S\$25 per month (vs. S\$20 earlier) are likely to uplift M1's SIM-Only ARPU (>20% of M1's postpaid subscriber base) although M1 may cede some SIM-Only subscribers to Singtel's GOMO plans (20GB for S\$20) in the process. However, we do point out that CirclesLife, the Mobile Virtual Network Operator (MVNO) partner of M1, still has the cheapest SIM-Only offering with 20GB for S\$18. This should help M1 sustain some of the subscriber losses on the SIM-Only front.

Downside risk to our projected 6.5% decline in the mobile sector for 2019. We see downside risk to our projected 6.5% decline in the mobile sector over 2019 in view of these new plans by M1. The new handset-bundled plans are likely to cause further deterioration in the industry's postpaid ARPU, especially if Singtel and StarHub revamp their bundled plans in light of M1's new offerings, which we think is likely. However, such revisions would make handset-bundled plans more attractive to users, which in turn could decelerate the migration towards SIM-Only offerings, partially offsetting the negative impact on postpaid ARPU. We maintain our forecast for a projected decline of 6.5% without revisions, until better clarity on the reaction of StarHub and Singtel emerge.

Flash Note

Move towards more attractive handset-bundled plans is positive in the long run. While the immediate impact of these new plans would be negative for the sector, we believe a move to make handset-bundled plans more attractive would be positive over the medium term as:

a) Handset-bundled offerings are more difficult for TPG and MVNOs to enter, given inherent difficulties in setting up handset distribution channels and supply chains.

b) Handset-bundled plans ensure much greater customer loyalty than SIM-Only offerings, given the 24-month contract lock-in.

Handset-bundled offerings also generate higher ARPU vs. SIM-Only offerings although the impact on the bottom line remains quite similar with the lack of handset subsidies on SIM-Only offerings.

Minimal impact on Singtel's earnings as Singapore mobile accounts for less than 10% of Singtel's bottom line.

Singapore mobile contributes less than 10% to Singtel's bottom line (Singapore operations accounted for ~32% of Singtel's FY19 [March YE] underlying profits of which only ~30% was derived from the mobile segment). Hence, even at an estimated 9% decline in mobile service revenue, we

project that Singtel's earnings would fall by less than 1%, ceteris paribus. Potential downward revisions in the mobile sector should not be of concern for Singtel's investors, in our view.

Singtel and Netlink are our top picks in the sector. Besides a 17.5-Sct DPS (5.6% yield) committed till FY20F (Mar YE), Singtel offers a 6% earnings CAGR over FY19-21F. This should be driven by associates' earnings, after two years of decline, potentially leading to a narrowing of the holding company discount (26% currently vs. 14% historically). We maintain our BUY call on Singtel with a TP of S\$3.55.

NetLink (NLT) offers ~6% yield in FY20F (Mar YE), and FY19-21F EBITDA CAGR of 6% from 100% fibre migration. We argue that NLT should trade at a lower yield than an average yield of 5.7% offered by large-cap industrial S-REITs as (1) NLT's distributions, due to the regulated nature of its business, are largely independent of the economic cycle; (2) NLT's gearing is less than half of S-REITs' with an ample debt headroom to fund future growth; and (3) NLT's asset life is much longer than S-REITs as NLT incurs annual capex to replenish its regulated asset base (RAB). We maintain our BUY call on NLT with a TP of S\$0.90.

Flash Note

Mobile Plans in Singapore

M1 has revamped its existing mobile plans

Handset-bundled plans (Old)					Handset-bundled plans (New)					Add-Ons	
M1	S\$40	S\$70	S\$90	S\$118	M1 (Base Plan)	S\$30	S\$20	5GB	100 min		
Voice	100	100	100	100	Voice	100	S\$48	30GB	200 min		
SMS	100	100	100	100	SMS	100	S\$80	66GB	400 min		
Data	15GB	35GB	50GB	Unlimited	Data	12GB	S\$205	100GB	Unlimited		
Add-on	25GB for S\$5										

SIM-Only plans (Old)					SIM-Only plans (New)					Add-Ons	
M1	S\$20	S\$40	S\$50	S\$98	M1 (Base Plan)	S\$25					
Data	15GB	25GB	40GB	Unlimited	Voice	1000	S\$10	10GB	100 min		
Add-on	25GB for S\$5				SMS	1000	S\$20	50GB	100 min		
					Data	30GB	S\$50	150GB	10,000 min		

Source: M1, DBS Bank

SIM-Only and bundled offerings by Singtel and StarHub

Singtel Handset-bundled offerings						Singtel SIM-Only plans				
	Combo 1	Combo 2	Combo 3	Combo 6	Combo 12		S\$20 (GOMO)	S\$36.05	S\$46.75	S\$73.5
Price	S\$27.90	S\$42.90	S\$68.90	S\$95.90	S\$239.90	Data	20GB	30GB	40GB	55GB
Data	100MB	2GB	3GB	6GB	12GB	All SIM-Only plans come with 150 mins of Voice and 500 SMS Includes 10-20GB free data/month through promotional offerings				
Voice mins	100	200	Unlimited							
SMS	500	1000	Unlimited							
DATA X INFINITY	N/A	N/A	Unlimited data, +\$29.90							

StarHub Handset-bundled offerings					StarHub SIM-Only plans			
Price	S\$50	S\$75	S\$105	S\$238		S\$25 (GIGA)	S\$50	S\$80
Data	15GB	40GB	70GB	110GB	Data	25GB**	40GB*	70GB*
Voice mins	100	300	500	10,000	Voice	1,000	300	500

Includes 10GB of free data for two years and unlimited data over weekends on an ongoing promotion.

**Unused data can be rolled over to up to two months

SIM-Only offerings by TPG and Mobile Virtual Network Operators (MVNOs)

TPG	S\$0		Circles.Life	S\$0	S\$28*
Data	Unlimited		Data	1GB	20GB
2GB per day			Voice	30	100
			SMS	10	25
			*\$18 if the number is ported over		

Zero1	S\$9.90	S\$29.99	S\$39.90
Data	1GB	3GB	9GB

MyRepublic	S\$18	S\$35	S\$55	S\$80
Data	1GB	12GB	18GB	80GB

Includes boundless data

Source: Companies, DBS Bank

Flash Note

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

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