

Singapore Industry Focus

Telecom Sector

Refer to important disclosures at the end of this report

DBS Group Research. Equity

9 Jun 2021

Three reasons for sector consolidation

- We consider three reasons for potential consolidation in mobile sector in 2022 or earlier
- Mobile service revenue is likely to improve in 2H21F after a disappointing 1Q21
- Prefer Singtel for annual earnings growth of 13% over FY21-23F and 3.6% yield. Upgrade StarHub to BUY for 4.7% yield coupled with earnings recovery and sector consolidation in 2022

Three key reasons for mobile sector consolidation in 2022 or earlier.

(i) Mr David Teoh, founder of TPG Telecom has resigned from TPG Australia in March 2021 and is likely to focus on TPG Singapore in our view, where he holds ~37% stake. (ii) With 5G services projected to have 58% market share in 2025, TPG's 4G network might become less relevant in 2-3 years (ii) M1 is divesting its network assets to a Special Purpose Vehicle (SPV), which could potentially buy more network assets in our view.

Mobile service revenue is likely to recover in second half of 2021 after a disappointing 1Q2021.

Sequential weakness in 1Q2021 was due to continued weakness in business travel, tourism, and intense competition. We expect sequential recovery in the second half of 2021 and further recovery in 2022. Mobile service revenue in Singapore could decline by another 5% in 2021 (after a 23% decline in 2020) and register 6% growth in 2022, led by recovery in roaming, prepaid revenue, and growth of premium 5G services.

Prefer Singtel for offering annual earnings growth of 13% over FY21-23F with 3.6% yield. Singtel's underlying earnings to benefit from a stabilising core business (4% decline in FY22F core EBITDA after 16% decline in FY21), and ~S\$300m rise in post-tax earnings contribution from Bharti (vs S\$13m rise in FY21). Potential value unlocking from partial divestment of infrastructure assets is a key catalyst.

Key risks. A key risk to our Singtel call would be 6-7 months delay in potential tariff hike by Bharti to Jan-March 2022 quarter, causing Singtel to register only 12% earnings growth in FY22F (vs our base-case of 18% growth). A key risk to our StarHub call will be TPG securing fresh funding despite its bleak prospects, delaying sector consolidation

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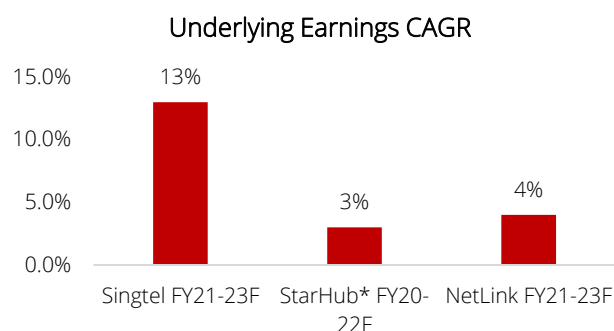
STOCKS

	Price S\$	Mkt Cap US\$m	12-mth Target Price S\$	Performance (%)		Rating
				3 mth	12 mth	
Singtel	2.37	29,595	3.01	1.3	(9.9)	BUY
StarHub	1.23	1,649	1.38	(1.6)	(12.8)	BUY
NetLink NBN Trust	0.96	2,888	1.02	1.1	(5.9)	HOLD

Source: DBS Bank, Bloomberg Finance L.P.

Closing price as of 8 Jun 2021

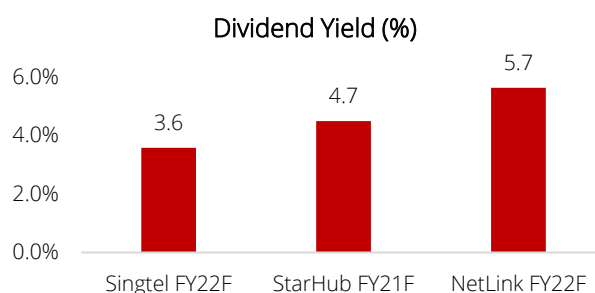
Singtel offers superior earnings growth



*Excluding Job support scheme grants

Source: DBS Bank

Netlink and StarHub offer superior dividend yield



Source: DBS Bank



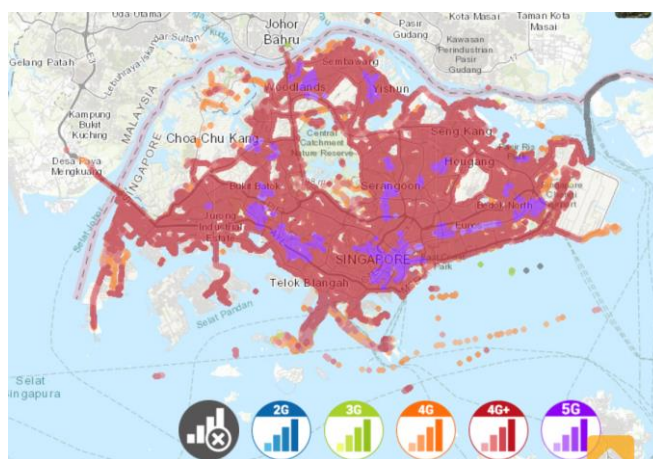
Live more, Bank less

Three key reasons that mobile sector consolidation could happen earlier than our base-case projection of 2022. In June 2020, TPG Australia injected a fresh capital of S\$174m to its Singapore entity and demerged the Singapore unit from TPG Australia.

- 1) **TPG Telecom's Founder, Mr David Teoh has resigned from TPG Australia.** In March 2021, Mr David Teoh, the founder of TPG Telecom resigned from TPG Australia in March 2021. He is likely to focus on TPG Singapore, which was demerged last-year and he holds a 37% stake in TPG Singapore. TPG Singapore burnt A\$97m of cash in FY20 (July YE) and had A\$55m in net cash plus it received another A\$174m of new capital from its demerger with TPG Telecom. Assuming annual cash burn of A\$90m, TPG has adequate funding to last till late 2022 calendar year as per our estimates.
- 2) **With 5G services projected to have 58% market share in 2025, TPG's 4G network might become irrelevant in 2-3 years.** Singtel, StarHub and M1 are focusing on the expansion of the 5G-standalone (SA) services. According to GlobalData, 5G subscriptions are likely to account for 58% of the market share in 2025. The country's largest telco, Singtel is deploying hundreds of SA sites. StarHub on the other hand has reached 70% of the outdoor areas already for 5G Non standalone (NSA) service and targets to launch 5G-SA jointly with M1 in 2H21F. Without a 5G-SA spectrum, TPG's network would not be future proof as consumers are likely to expect 5G services bundled with 4G services.
- 3) **M1 is divesting its network assets to a Special Purpose Vehicle (SPV) who could potentially acquire more network assets.** Keppel DC REIT and M1 are to form a new company that will buy M1's telecoms assets. Under the terms of the agreement, the two companies will set up a special purpose vehicle (SPV) to own and operate M1's network assets. M1 will be responsible to establish the SPV, which will acquire M1's current mobile, fixed, and fiber assets for S\$580 million in cash. The SPV will enter into a 15-year

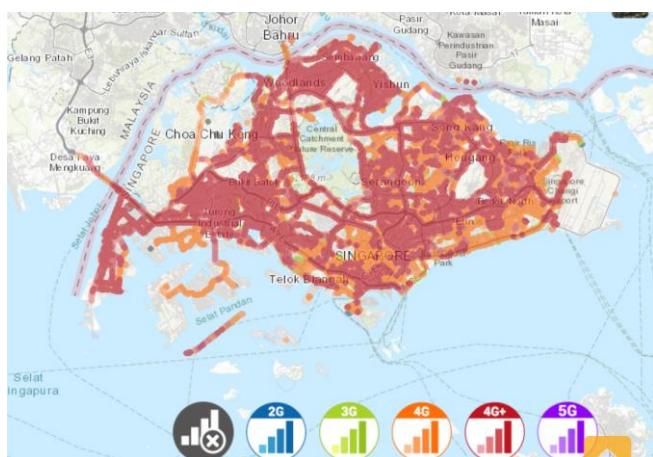
network service agreement with M1. According to M1's CEO Mr. Manjot Singh Mann, "Realising value from M1's network assets will free up capital that can be used to help M1 invest in new capabilities and also fund other growth initiatives". This SPV, in principal, can buy other network assets if M1 agrees to pay a leasing fee for those assets, in our view.

Network coverage of M1 as of May 2021



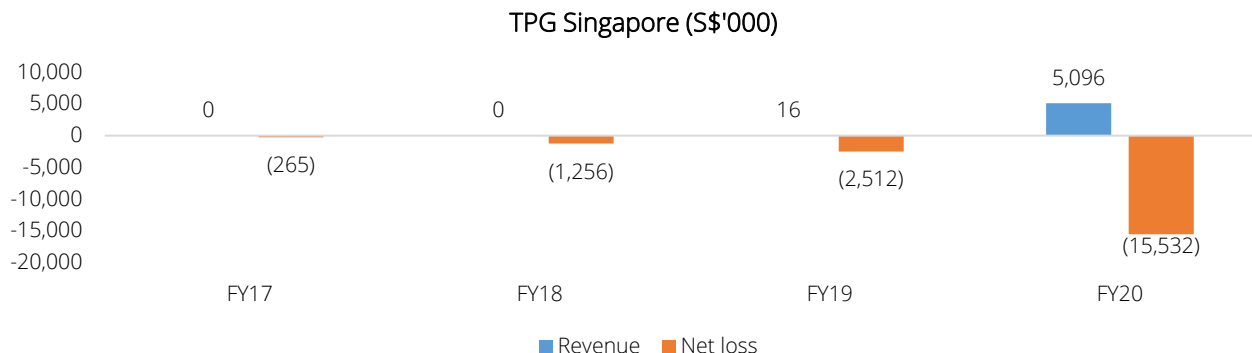
Source: nperf

Network coverage of TPG Singapore as of May 2021



Source: nperf

TPG Singapore's losses are widening (July YE); even bleaker prospects given lack of 5G spectrum



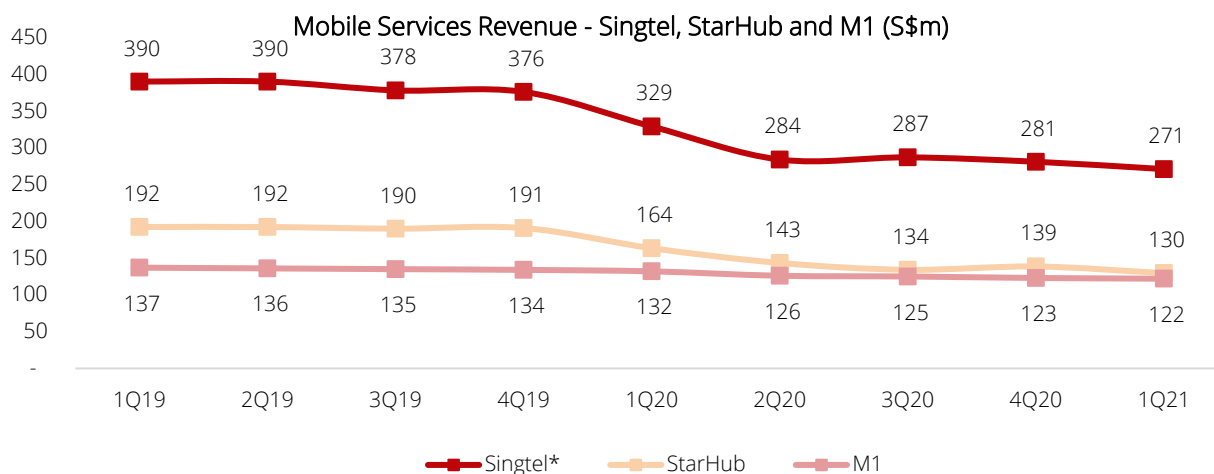
Source: Company, DBS Bank

Mobile services Outlook (Calendar year considered)

Expect a delayed recovery in mobile services revenue. Many countries including Singapore are making steady progress in rolling out country-wide vaccination drives. Once a sizeable proportion of the global population has got both doses of the vaccines available to boost immunity against COVID-19, inbound and outbound travel is likely to somewhat recover over 2022. In 2020, roaming revenue in Singapore (15-20% of 2019 mobile revenue) was the biggest casualty, followed by prepaid mobile

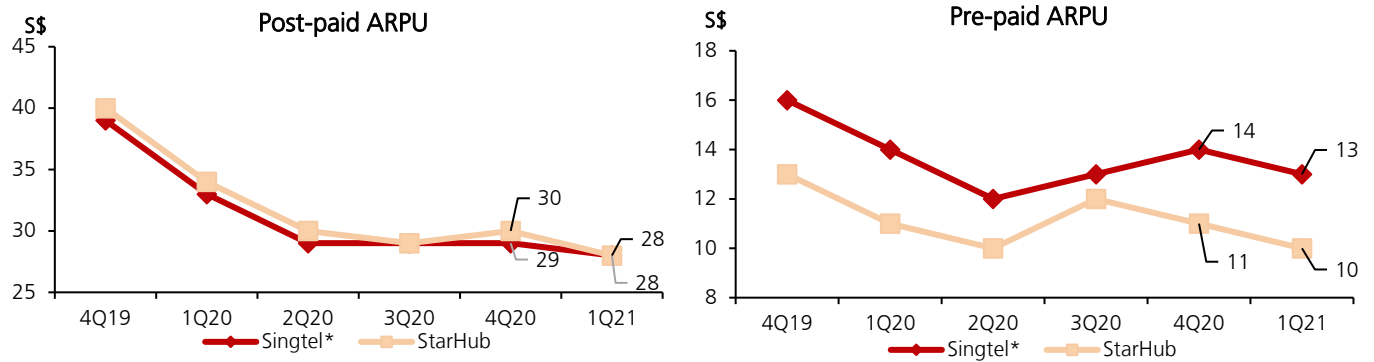
revenue (15-20% of 2019 mobile revenue). We project a delayed recovery in 2021 due to the lack of travel resumption, resulting in a 5% decline in sector mobile services revenue compared to our previous estimate of stable revenue. While in 2022, a strong comeback is expected by the Singaporean telcos following tourist and foreign workers' arrival and the return of roaming revenue with an estimated mobile services revenue growth of ~6%.

Mobile service revenue decline has slowed down and may stabilize from 3Q21 onwards



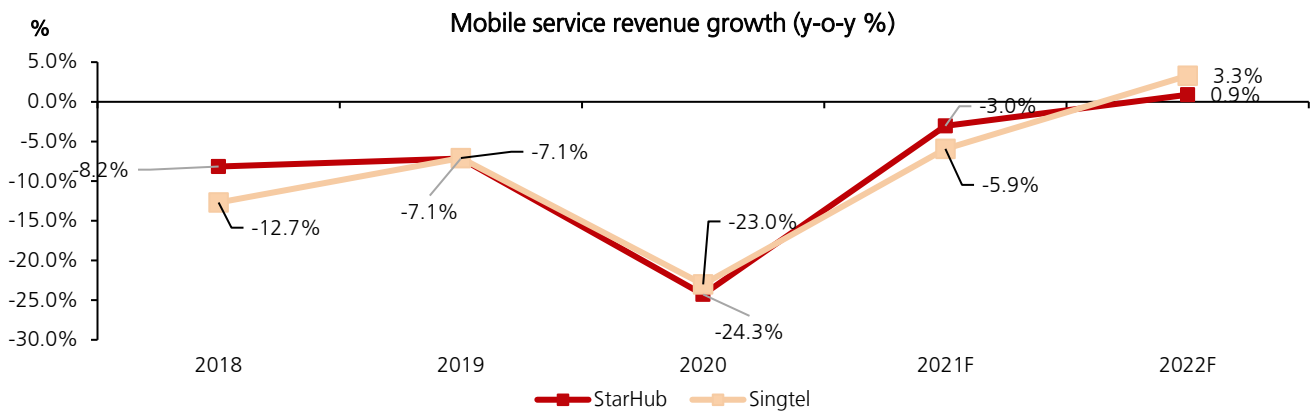
*March Y/E company. Calendar year for ease of comparison
Source: Companies, DBS Bank

Post-paid and pre-paid ARPU are stabilising



*March Y/E company. Calendar year for ease of comparison
Source: Companies, DBS Bank

In 2020, mobile service revenues dropped ~23% in Singapore (vs. 7% drop in 2019); 2021F likely to witness mid-single digit decline followed by growth in 2022F



Source: Companies, DBS Bank

As of May 2021, players are offering more data at the same price or at a lower price than Jan 2021 - TPG is most aggressive

10-May-2021

Singtel GOMO	S\$20	S\$30
Data	20GB	60GB
Voice	200	500
SMS	200	500
Price per GB S\$	1.0	0.5

StarHub GIGA*	S\$10	S\$20	S\$45
Data	6GB	40GB	100GB
Voice	500	300	10000
SMS	500	300	10000
Price per GB S\$	1.7	0.5	0.5

*Unused data can be rolled over to up to one month

TPG	S\$10	S\$18
Data*	50GB	80GB
Voice	300	300
SMS	30	30
Price per GB S\$	0.2	0.2

*Extra 50GB for signups between 10 April - 11 July 2021

Circles.Life	S\$10	S\$18*	S\$38
Data	5GB	20GB	Unlimited**
Voice	50	100	100
SMS	25	25	25
Price per GB S\$	2.0	0.9	-

*S\$18 if subscriber ports in, otherwise S\$28

**100 GB at 4G speeds

Source: Companies, DBS Bank

29-Jan-2021

Singtel GOMO	S\$20	S\$30
Data	20GB	50GB
Voice	200	500
SMS	200	500
Price per GB S\$	1.0	0.6

StarHub GIGA*	S\$10	S\$25	S\$45
Data	5GB	25GB	75GB
Voice	100	1000	1000
SMS	100	1000	1000
Price per GB S\$	2.0	1.0	0.6

*Unused data can be rolled over to up to one month

TPG	S\$10	S\$18
Data	50GB	80GB
Voice	300	300
SMS	30	30
Price per GB S\$	0.2	0.2

Circles.Life	S\$5	S\$18*
Data	2GB	20GB
Voice	50	100
SMS	25	25
Price per GB S\$	2.5	0.9

*S\$18 if subscriber ports in, otherwise S\$28

ARPU stabilisation is a trade-off between lower priced 4G plans vs. premium earned via 5G plans

SIM-Only plans

Singtel 5G NOW	S\$15
Data	10GB
Price per GB S\$	1.50
Singtel GOMO (4G)	S\$20
Data	20GB
Price per GB S\$	1.00

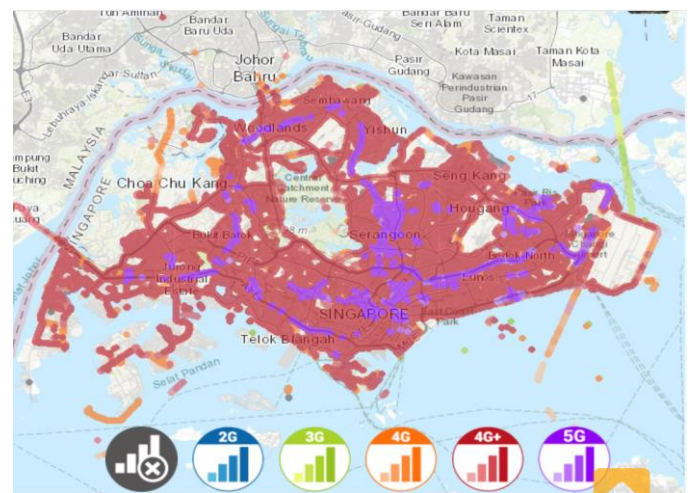
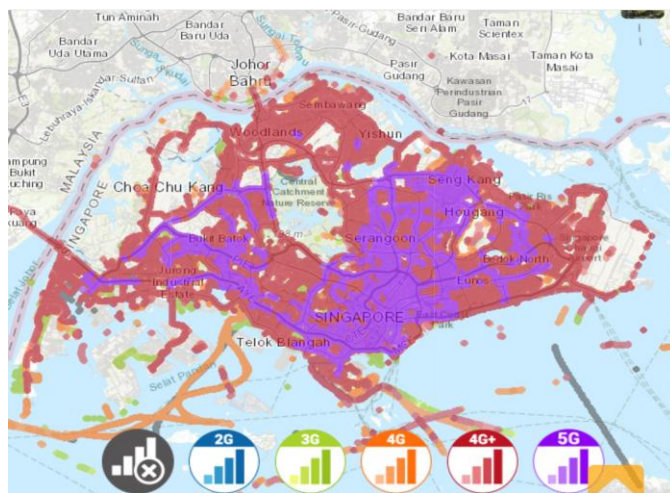
M1 5Go	S\$15	S\$25	S\$40
Data	25GB	45GB	100GB
Price per GB S\$	0.60	0.56	0.40
M1 (4G)	S\$20	S\$30	
Data	40GB	90GB	
Price per GB S\$	0.50	0.30	

StarHub does not have a 5G SIM-only plan
Source: Companies, DBS Bank

Singtel has had a head start in deploying its 5G network. Singapore's 5G networks are being built by Singtel and, separately, a joint venture between StarHub and M1. On 8 October 2020, Singtel launched Singapore's first 5G standalone (SA) trial network for enterprises. The network, which utilises 3.5GHz spectrum and Massive MIMO (Multiple-input multiple-output) technology, provides enterprises with timely access to 5G to develop and trial 5G solutions.

StarHub and M1 have incorporated a new joint venture (JV) company, Antina to jointly build and operate a 5G-SA network. The JV has completed the 5G base station sites identification with site preparation and installation well underway. In addition, the implementation of 5G-SA core network and transmission network to serve the new 5G base station is also in progress.

Singtel (left) has had a head start in deploying its 5G network compared to StarHub (right) as of May 2021



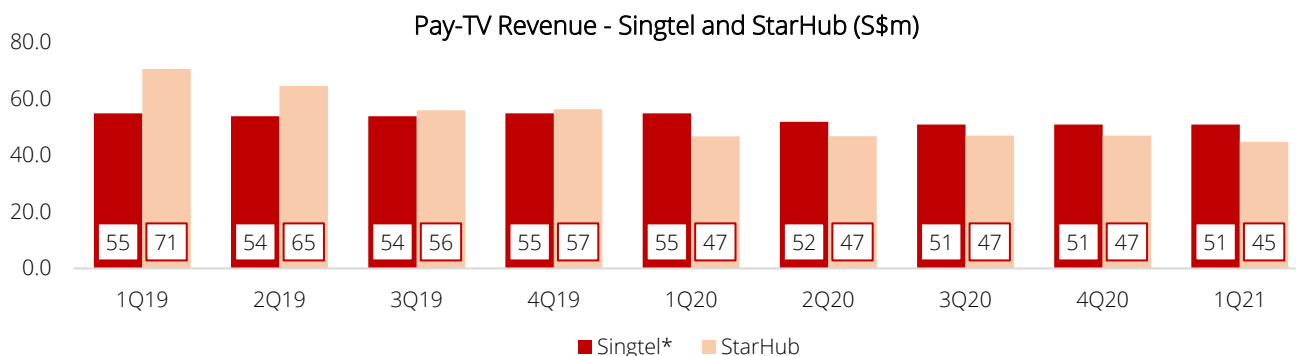
Source: nPerf

Pay-TV Outlook (Calendar year considered)

Singtel's Pay-TV revenues have remained relatively stable since 1Q18. Singtel's Pay-TV revenues continue to be relatively stable despite a minor dip over the last three quarters due to the COVID-19 pandemic that resulted in lower advertising sales revenue. Over the last couple of years, Singtel has opted to compensate the expected decline in residential TV customers by growing the OTT (CAST/ TV Go) customer base. Singtel introduced TV Go in July 2013 and CAST in July 2016, realising early on the role of OTT in home entertainment. In 2020, its OTT customer base grew by 11,000 (+5.7% y-o-y) to 204,000. Its OTT customers now represent ~35% of total Pay-TV customers. We expect Singtel's Pay-TV revenue to remain stable over 2021F.

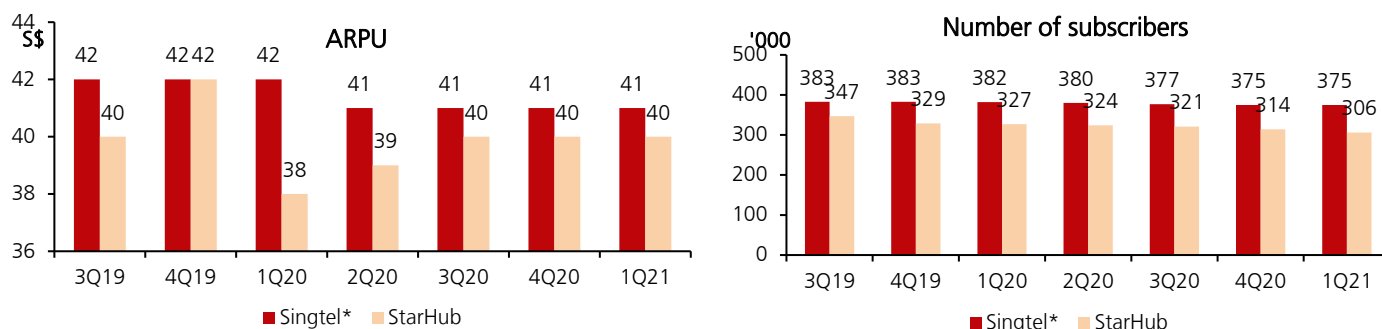
We expect StarHub to see slight decline in Pay-TV revenue in 2021. Pay-TV revenues at StarHub declined by 4.7% q-o-q in 1Q21, following three quarters of stabilising revenues. This was due to a lower subscriber base, and COVID-19 impact on commercial revenue and advertising due to cost management by commercial clients. StarHub lost ~8,000 subscribers in 1Q21 (~7,000 lost in 4Q20). StarHub's Pay-TV ARPU remained stable at S\$40 in 1Q21, indicating third consecutive quarter of stable ARPU. With the completion of subscriber migration in October 2019, coupled with the intense promotion campaigns to retain customers, the churn rates have moderated to 1.1% for Pay-TV by 1Q21. Management expects to reign in content costs with a variable costing model to mitigate the impact of Pay TV promotional offers.

Pay-TV revenues at StarHub indicates stabilising signs while in Singtel it has remained relatively stable



*March Y/E company. Calendar year considered for ease of comparison
Source: Companies, DBS Bank

Pay-TV ARPU at both telcos has been relatively stable in recent quarters; subscriber losses have moderated as well



*March Y/E company. Calendar year considered for ease of comparison
Source: Companies, DBS Bank

Fixed Consumer Broadband (Calendar year considered)

Plug-and-play devices fixed consumer broadband devices improve segment profitability. New fixed consumer broadband devices are mostly plug-and-play in nature, eliminating/reducing the need for dedicated installation and maintenance staff.

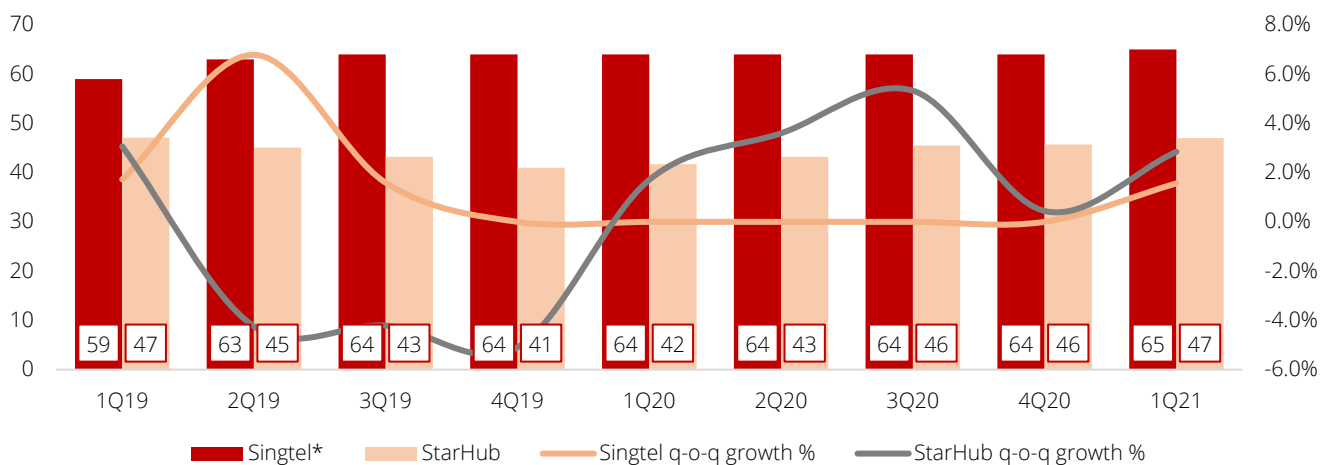
Singtel's 9M20 fixed consumer broadband revenues grew by 3.2% y-o-y to S\$192m. Singtel's fixed consumer broadband revenues have been largely stable on a q-o-q basis despite operating in a highly competitive market. In FY21F, we expect that Singtel will grow its fixed consumer broadband revenues by low-mid single digits.

M1, StarHub, MyRepublic, ViewQuest and WhizComms are the other providers that compete with Singtel in the fixed consumer broadband market.

StarHub's 2020 fixed consumer broadband revenues remained stable (-0.2% y-o-y) at S\$176.1m. This was mainly due to ARPU uplift during the year despite subscriber losses. 1Q21 ARPU improved by S\$4 y-o-y to S\$31. In FY21F we expect StarHub's fixed consumer broadband revenue to remain relatively stable.

Consumer broadband revenues have remained relatively stable

Consumer Fixed Broadband Revenue - Singtel and StarHub (\$m)



*March Y/E company. Calendar year considered for ease of comparison

Source: Companies, DBS Bank

Stock picks

Singtel

Singtel to enter positive earnings growth territory after 4-years of earnings decline. FY18 and FY19 were adversely impacted by Bharti due to Reliance Jio led disruption in India. FY20 & FY21 were impacted by sharp drop in core EBITDA especially Australia. We project 18%/10% earnings growth at Singtel in FY22F/23F due to (i) a stabilising core business (4%/1% decline in FY22F/23F EBITDA vs 16% decline in FY21) and (ii) ~S\$300m/S\$250m rise in post-tax earnings contribution from Bharti vs S\$13m rise in FY21)

Singtel's core business is trading 77% below our fair value of 64Scts per share, which can be tackled through partial divestment of infrastructure assets.

In our view, Singtel could divest assets worth 29-31 Scts per share – Optus's towers in the near term, followed by others.

According to media news, the proposed sale and leaseback of Optus's towers began on 15 April 2021 – attracting investors from both Australia and abroad. The estimated value of the project is ~A\$2.0bn (~S\$2.08bn). Towers in Australia tend to be valued at 18x-20x EV/EBITDA while core telco business is valued at only 5x EV/EBITDA, implying spacious room for unlocking of trapped value.

Singtel has officially indicated potential for value unlocking from Optus's towers and digital businesses

Non-core asset	Valuation
Optus towers	S\$1.6-2.0bn (10-12 Scts per share)
Data centres	S\$2.0bn (12 Scts per share)
Digital business	S\$1.2bn (7 Scts per share)

Source: Company, DBS Bank

Optus has over 2,500 towers spread across more than 1,000 regional towns as per the telco's website. The funds from the deal are expected to be utilised to fund its 5G network rollout without further burdening the balance sheet. However, one of the potential risks of a sale and leaseback is the possibility of opening the towers to external tenants such as Vodafone Hutchison Australia or TPG.

Key risk to our Singtel call. A key risk to our Singtel call would be 6-7 months delay in potential tariff hike by Bharti to Jan-March 2022 quarter, causing Singtel to register only 12% earnings growth in FY22F (vs our base-case of 18% growth).

StarHub

StarHub' earnings to enter sustainable growth territory in FY22F. We expect StarHub to register mid-single digit earnings from FY22F onwards due to (i) recovery from pandemic in FY22F reversing 5-years of mobile service decline (ii) potential mobile sector consolidation in 2022 reviving long-term growth of the mobile business. Meanwhile, enterprise business should continue to grow led by Cybersecurity & regional ICT services.

At current market price, FY21F dividend yield stands at 4.7%. Our FY22F DPS projection is based on an 80% payout ratio on earnings. StarHub is preserving its cash for potential acquisitions and enterprise IT space is an area of interest.

Key risk to our StarHub call. A key risk to our StarHub call will be TPG securing fresh funding despite bleak prospects, delaying sector consolidation from our base-case of late 2022.

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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