

**07 Jan 19, 8.15am/11.15am Morning
Call/Webinar**

Phillip Singapore Weekly

2019 Singapore Strategy - Summary

2019 U.S. Banking sector outlook

Singapore Telecom Sector Initiation

Company Initiation

M1 limited – Initiation

StarHub limited – Initiation

Singtel limited – Initiation

Paul Chew, Head of Research

Edmund Xue, Research Analyst

Alvin Chia, Research Analyst

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Week 2 - Phillip Singapore Weekly

Paul Chew

Head Of Research

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7Jan 2019

Week 2 – Short-term Views

Macro Last Week

- **SG macro:** PMI for December weakest in 17-months
- **US Macro:** spike in jobs +312k (176k est.), Powell comment “no preset path for policy especially with muted inflation”; ISM manufacturing survey collapsed to 28 month lows

Corporate/Sector Last Week

- **Thai Beverage:** US\$4.89bn loan converted to equity; effective 26.26% (49% of 53.59% of Sabeco) to 53.26% (99.39% of 53.59%), impact minimal on EPS and NTA; PM said no enforcement of US\$136mn overdue sales tax and penalties; delay in elections + weak consumer demand

Tactical

- **Results for electronics to be weak but opportunity to buy for successful trade negotiations**

Week(s) Ahead

- **9Jan:** FOMC Minutes/Powell At Economic Club; 29-30Jan: FOMC Meeting
- **11Jan:** US CPI

2019 Singapore Strategy - Summary

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Outlook – Reversal of Flows

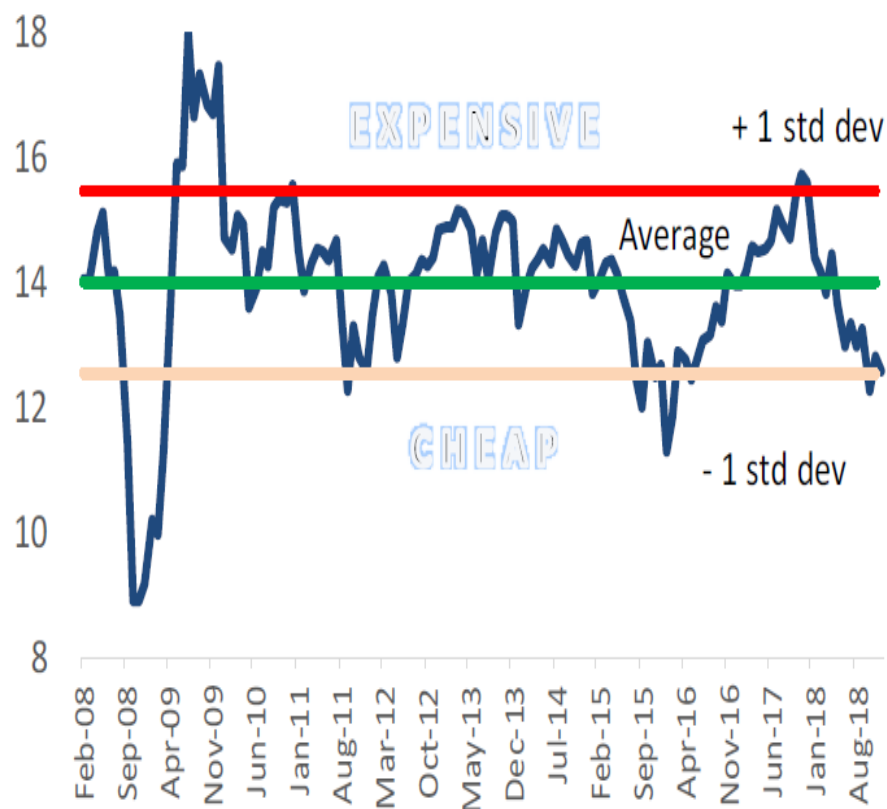
Positive on the market for 2018 with 3400 target.

Expect a reversal of flows back to Asia and Singapore

- 1. Valuations at 10-year lows: PE and Dividend Yields**
- 2. Slower rate hiking cycle: Dot plots are for 2 rate hikes and Fed Fund Futures point to none**
- 3. Trade truce: Trump has reversed many hard stances from N Korea to Iran + 2020 elections to worry.**
- 4. Rolling over of US growth: Fiscal stimulus has added 1.1% point hike to US Growth**
- 5. Turmoil in US politics: Committee on Oversight and Government Reform at least 15 investigations + Mueller Investigation**

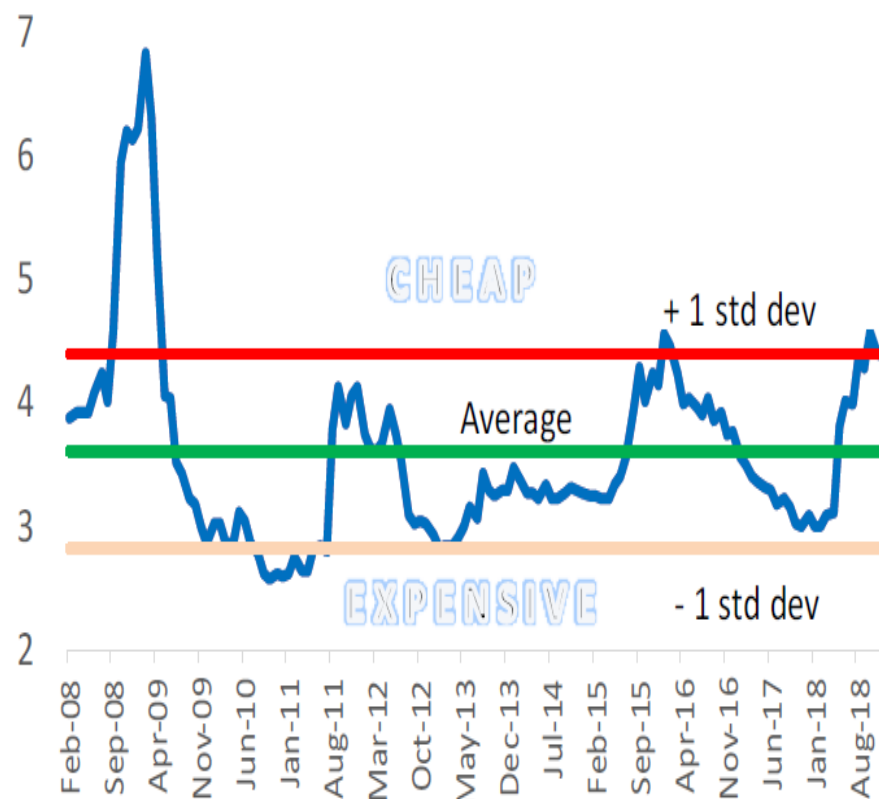
Attractive Valuations

STI: Forward PE (x)



Source: PSR, Bloomberg

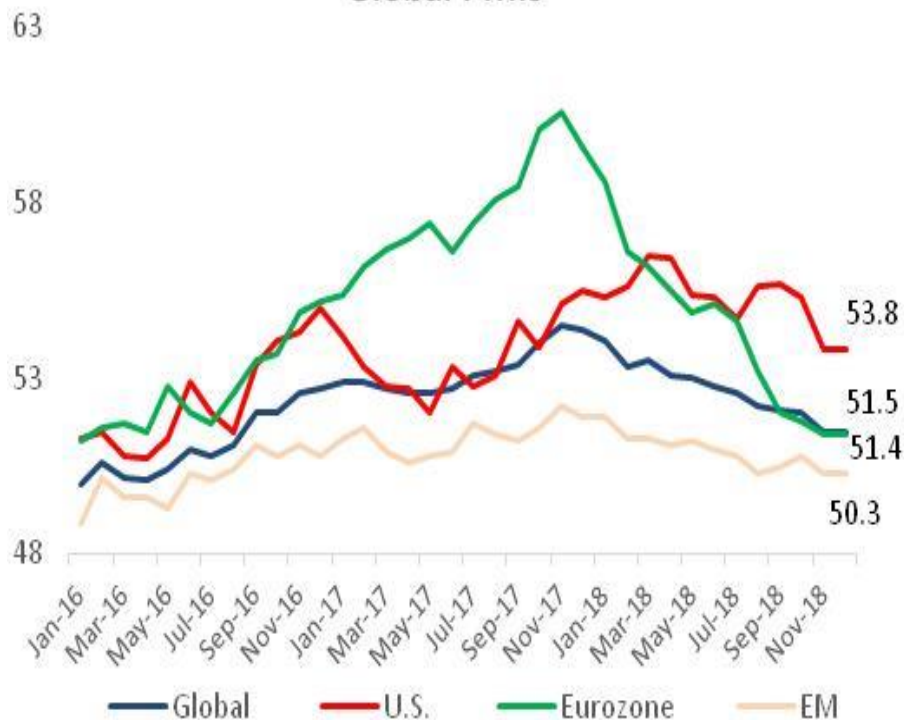
STI: Dividend Yield (%)



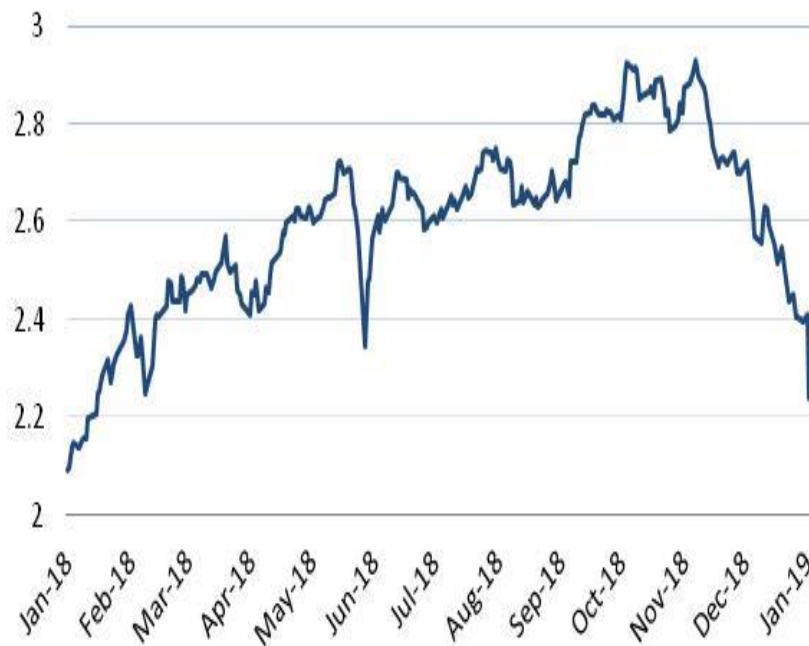
Source: PSR, Bloomberg

Global growth slowing but rates adjusting

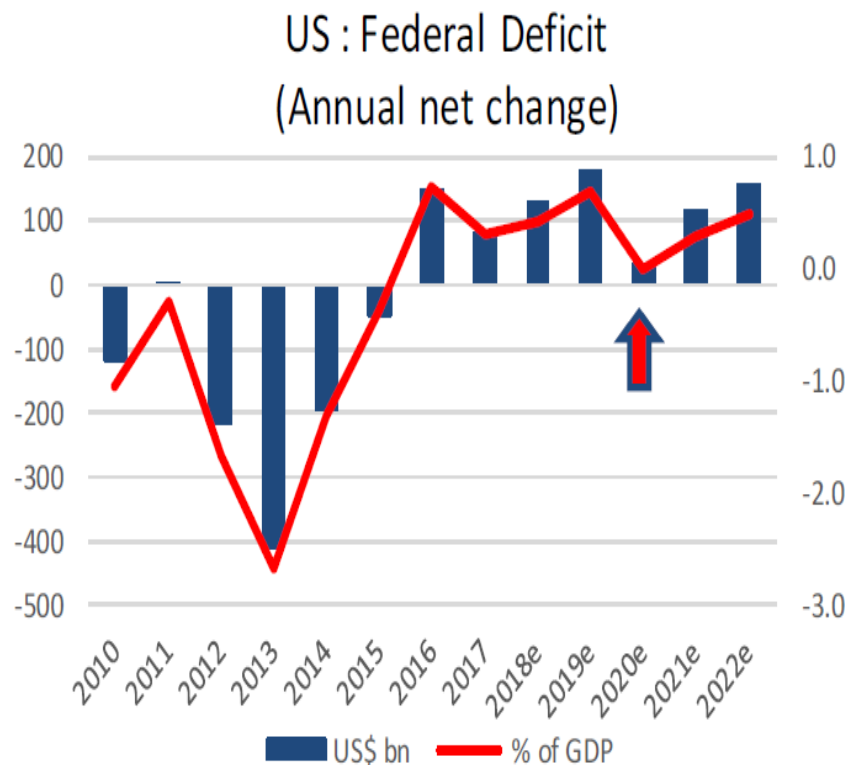
Global PMIs



Fed Funds Futures - Dec19



Rolling over of US growth + Investigations galore



Source: PSR, CBO

Possible investigations by Committee on Oversight and Government Reform:

1. Trump Tax Returns.
2. Trump Dealings With Russia esp. money laundering.
3. White House staff's personal email use.
4. Use of government property for personal use (or travel).
5. Payments from foreign government to Trump Organization.
6. Family separation policy.
7. Firing of Jeff Sessions as Attorney General.
8. Rebuilding of FBI HQ opposite Trump Hotel.
9. Hush payments to women alleging affairs.

Source: PSR, Various Media

The Phillip Absolute 10

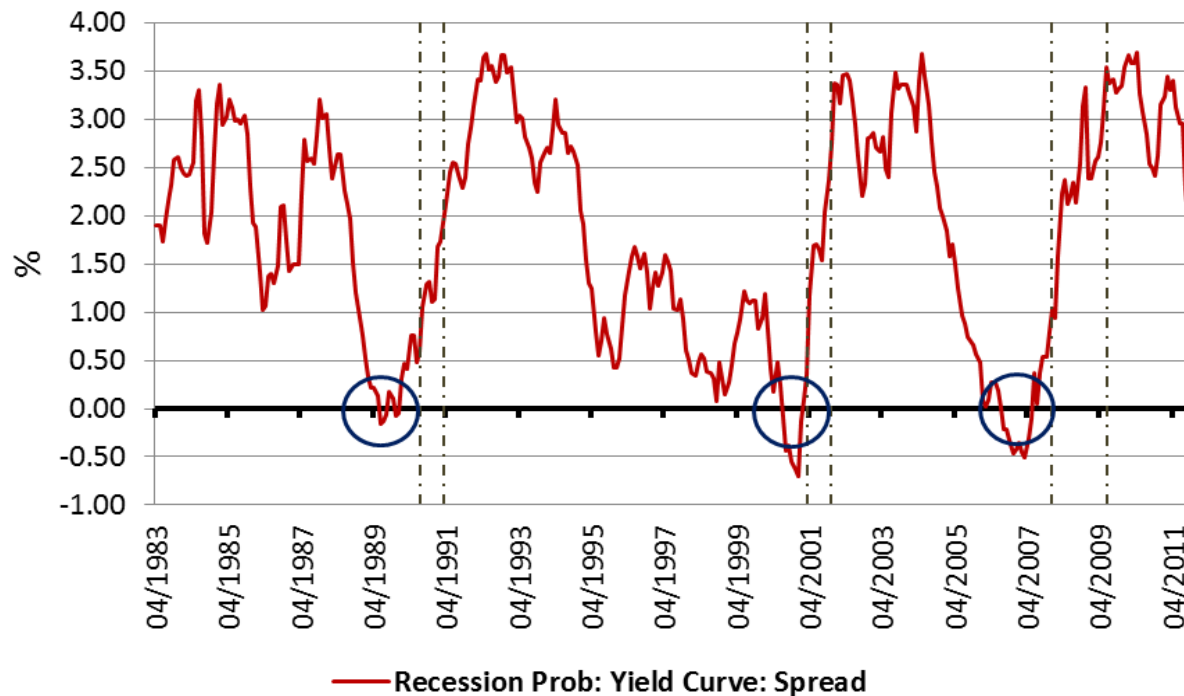
Until economic data stabilise, look for lower-beta equity portfolio.

| Company | 1M | 3M | YTD | Rating | Target Px (\$\$) | Share Px (\$\$) | Upside | Mkt Cap (US\$m) | Dvd. Yield |
|-------------------------------|-------|--------|--------|------------|------------------|-----------------|--------|-----------------|------------|
| <u>Yield</u> | | | | | | | | | |
| Ascendas REIT | 0.0% | -2.7% | -5.5% | Accumulate | 2.78 | 2.57 | 8% | 5,853 | 6.0% |
| CapitaLand Comm Trust | 0.6% | -1.7% | -9.3% | Accumulate | 1.90 | 1.75 | 9% | 4,798 | 4.8% |
| <u>Dividend Growth</u> | | | | | | | | | |
| Keppel DC REIT | -0.7% | -1.5% | -5.6% | Accumulate | 1.45 | 1.35 | 7% | 1,336 | 5.2% |
| SGX | -2.3% | -3.0% | -3.9% | Buy | 9.01 | 7.15 | 26% | 5,603 | 4.4% |
| UOB | -2.3% | -9.3% | -7.1% | Buy | 32.52 | 24.57 | 32% | 29,967 | 4.7% |
| <u>Growth</u> | | | | | | | | | |
| China SunSine | -2.3% | 20.0% | 40.0% | Buy | 1.68 | 1.26 | 33% | 453 | 3.6% |
| Geo Energy | -4.5% | -27.0% | -36.6% | Buy | 0.245 | 0.17 | 46% | 172 | 6.0% |
| Sheng Siong | -1.9% | -5.4% | 14.6% | Accumulate | 1.13 | 1.06 | 7% | 1,167 | 3.1% |
| <u>Re-rating Plays</u> | | | | | | | | | |
| CapitaLand | -0.3% | -7.7% | -11.9% | Accumulate | 4.00 | 3.11 | 29% | 9,480 | 3.9% |
| Comfort DelGro | 2.4% | -11.5% | 8.6% | Buy | 2.69 | 2.15 | 25% | 3,408 | 4.8% |
| Average | -1.1% | -5.0% | -1.7% | | | | 22% | 62,238 | 4.6% |

2019 U.S. Banking Sector Outlook - Market too pessimistic

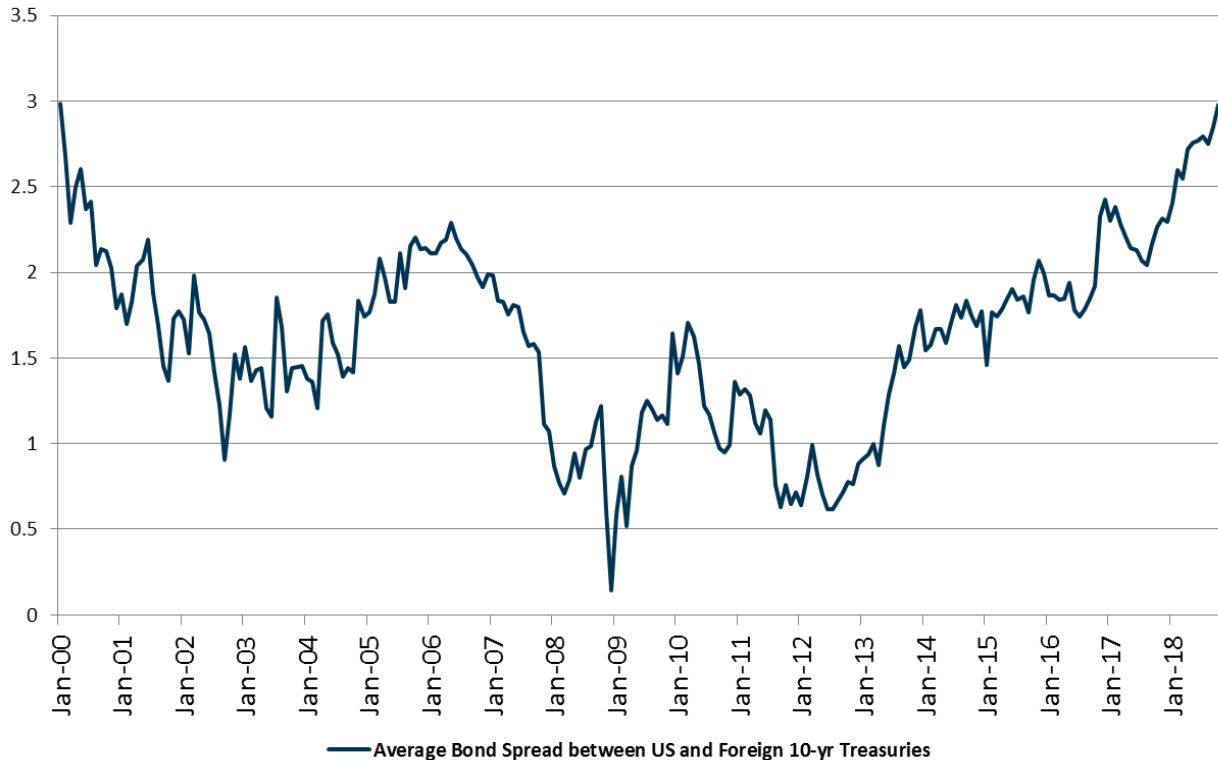
Edmund Xue JiaJun, Research Analyst, US Market

Inversion of yield curve is unlikely for next year



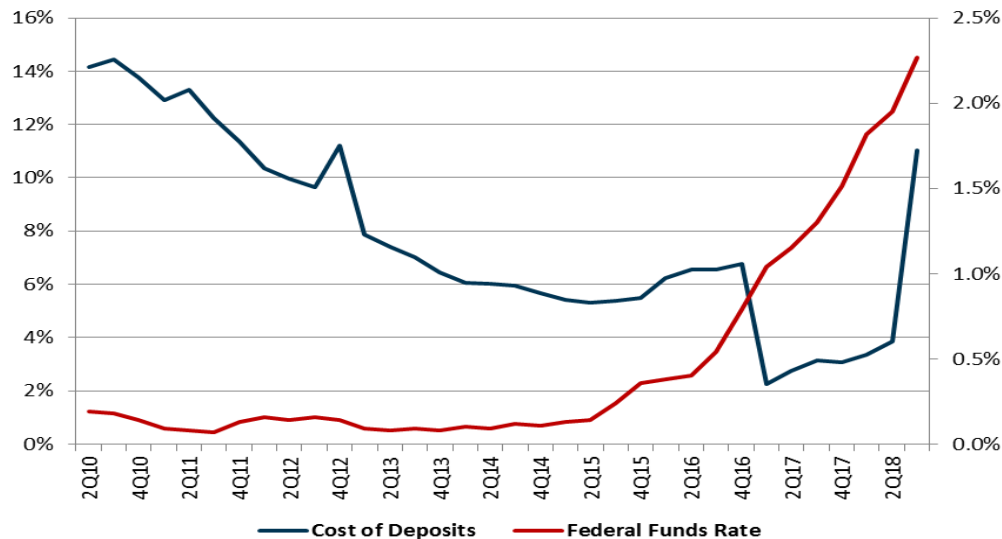
- After the yield curve inversion, recession occur after 13 months for the 1990 U.S. recession, 8 months for the dot-com crash in 2000 and 16 months for the Global financial crisis (GFC).
- On average, recession begins 15 months after a yield curve inversion (past 9 recessions)

Yield Spread between US 10-year treasury bond and foreign treasury bonds is at an 18-year high

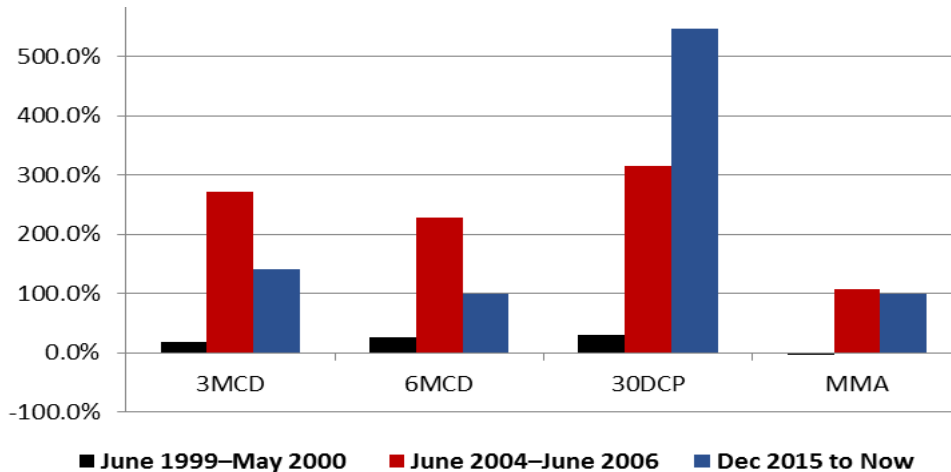


- Long term interest rates affected by supply and demand of longer-term Treasuries
- Shrinking balance sheet removes large buyer for longer-term treasuries
- Larger fiscal deficits from tax reforms increase issuance of Treasuries
- Widening yield spread between US and foreign Treasuries increase demand

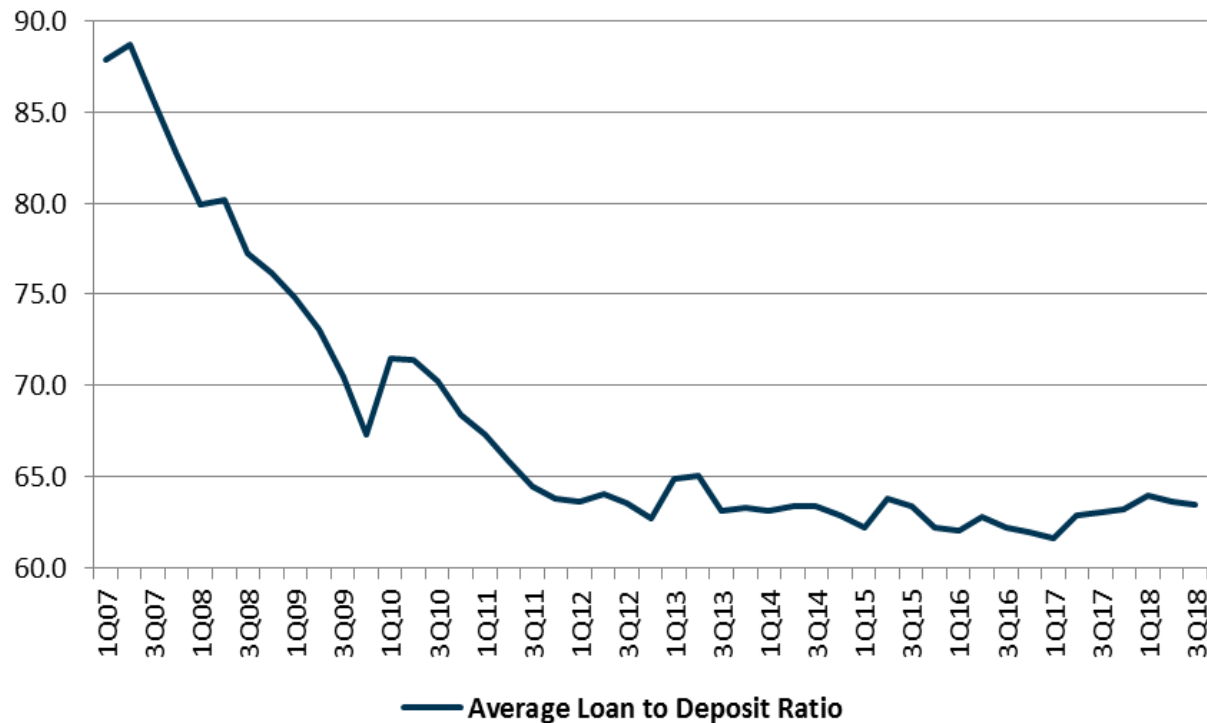
Deposit costs rise at faster rate, but offset by loan repricing



- 1MCD, 3MCD, MMA rates and especially the 30DCP have increased
- Cost of deposits for banks are rising at exponential rate since the start of the Fed tightening cycle
- But repricing gap is unlikely to narrow with loans being repriced in months and deposits repriced in years.

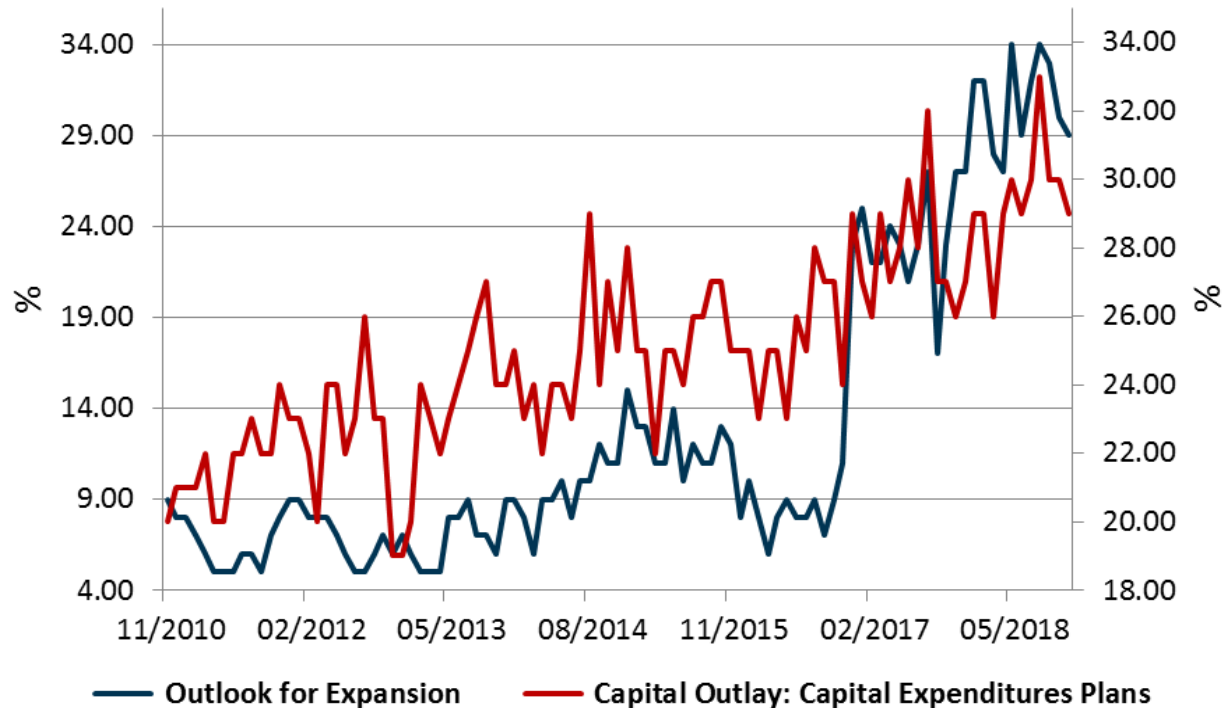


Banks have sufficient deposits to make new loans



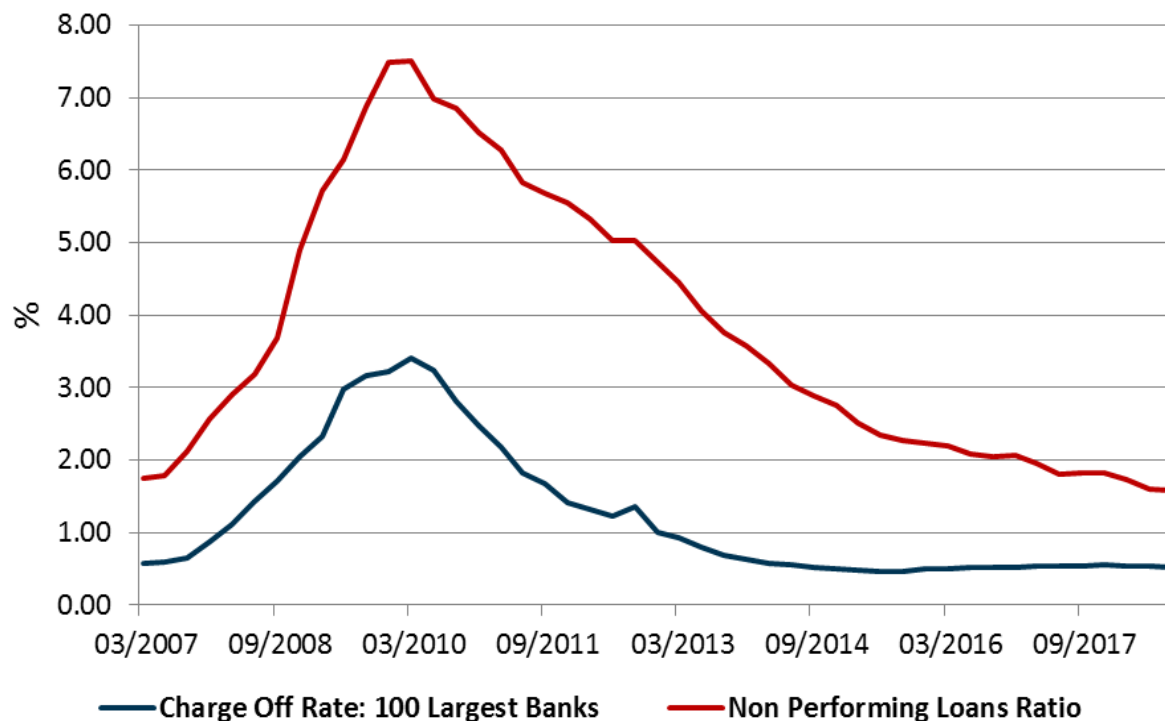
- Banks have accumulated huge amount of deposits after the 2008 GFC.
- Loan-to-deposit ratio for large-cap banks remains low at 63%
- Recent tax reforms provided banks with excess capital to make loans

Small businesses drive C&I loan growth



- Small businesses remain upbeat about the economy as there is low unemployment, rising wages and consumer sentiments
- According to the NFIB Business Optimism Index, small businesses' outlook for expansion in 2019 is up 7.4% YoY while the percentage of small businesses with future capital expenditure plans is up 11.5% YoY.

Asset quality remains benign



- Both the charge-off rates and the non-performing loans ratio are at an all-time low since pre-GFC
- According to Fed Credit Access Survey, the proportion of respondents who had an account shut down by a lender was the highest since the survey was launched in 2013.
- Rejection rates for credit cards are 21.2%, well above the October 2017 figure of 15.7%.

P/E Ratio for U.S. banks is below 1 standard deviation and at 25-year lows



P/B Ratio for U.S. banks is below historical average



- The Price-to-earnings (P/E) for the US banking sector is currently below its one standard deviation and the lowest since 2013, while the Price-to-Book (P/B) Ratio is below its historical average.

Attractive valuations for the banking and financials sector

| | PE Ratio | P/B Ratio | EPS |
|-------------------------------|-------------|------------|-------------|
| Banks | 9.8 | 1.1 | 28.1 |
| Financials | 11.3 | 1.3 | 34.8 |
| Energy | 14.7 | 1.5 | 29.0 |
| Materials | 14.2 | 2.1 | 22.2 |
| Industrials | 14.9 | 4.2 | 36.2 |
| Consumer Discretionary | 18.9 | 6.2 | 40.7 |
| Consumer Staples | 17.4 | 4.7 | 29.9 |
| Healthcare | 15.7 | 3.6 | 62.9 |
| Information Technology | 15.6 | 5.8 | 69.3 |
| Communication | 15.4 | 2.9 | 9.0 |
| Utilities | 17.0 | 1.8 | 15.7 |
| Real Estate | 33.1 | 2.7 | 5.8 |

- It currently has the lowest P/E and P/B ratio of all sectors.
- The P/E ratio and P/B ratio of financials are currently one of the lowest besides industrials and materials, despite having a respectable EPS for 2018.

Overweight on the US Banking Sector

| Ticker | Name | Description |
|--------|---|--|
| KBWB | Invesco KBW Bank ETF | The fund seeks investment results that correspond generally to the price and yield of an equity index called the KBW Nasdaq Bank Index. |
| FTXO | First Trust Nasdaq Bank ETF | The fund seeks investment results that correspond generally to the price and yield of an equity index called the Nasdaq US Smart Banks Index |
| FAS | Direxion Daily Financial Bull 3X Shares | The Fund's objective is daily investment results, before fees and expenses, of 300% of the performance of the Russell 1000 Financial Services Index. |
| UYG | ProShares Ultra Financials | ETF seeks to double (200%) the daily performance of the Dow Jones U.S. Financials Index. Its investments are focused on large and mid-cap U.S. financial stocks. |

Singapore telecom sector

Better than it appears

Alvin Chia

Research Analyst

Singapore telecom sector (OVERWEIGHT)

Investment Thesis:

- Impact of TPG Telecom entrance into Singapore is contained
- Enterprise provides growth drivers for the telcos
- CAPEX for 5G should be gradual and not be a cause for concern

Singtel Limited BUY (Initiation)

| | |
|---------------------|--------------|
| BLOOMBERG CODE | ST SP |
| CLOSING PRICE | SGD 2.860 |
| FORECAST DIV | SGD 0.175 |
| TARGET PRICE | SGD 3.40 |
| TOTAL RETURN | 25.0% |

StarHub Limited ACCUMULATE (Initiation)

| | |
|---------------------|--------------|
| BLOOMBERG CODE | STH SP |
| CLOSING PRICE | SGD 1.700 |
| FORECAST DIV | SGD 0.086 |
| TARGET PRICE | SGD 1.880 |
| TOTAL RETURN | 15.0% |

M1 Limited NEUTRAL (Initiation)

| | |
|---------------------|-------------|
| BLOOMBERG CODE | M1 SP |
| CLOSING PRICE | SGD 2.090 |
| FORECAST DIV | SGD 0.108 |
| TARGET PRICE | SGD 2.060 |
| TOTAL RETURN | 3.7% |

Singapore telecom sector (OVERWEIGHT)

Mobile:

1. **Increase data usage, decrease in voice & International call** (M1 reported 34% of subscribers exceeding their bundle plans, average data usage 5.2gb vs 3.9gb a year ago)
2. **Longer replacement cycles for smartphones** → resulting in higher adoption of SIM-Only plans
3. **Decrease in pre-paid subscription across all telcos** → attributable to alternatives such as SIM-only plans, cancellation of non-active users, lower subscription from foreign workers
4. **Declining Average Revenue Per User (ARPU) numbers:**
 - SIM-Only plans
 - Bracing for TPG's entry
 - MVNOs prevent MNO to price higher unable to capture the rise in data usage
 - SFRS 15 accounting standard – revenue recognition

Singapore telecom sector (OVERWEIGHT)

Figure 1: MVNOs in Singapore

| MVNOs In Singapore | CirclesLife | | Zero | Zero1 | MyRepublic | | |
|--------------------|-------------|---------------|-----------|-----------|------------|---------|---------|
| Plans | FLEXI | Base | Zero x | Zero1 | Smart 35 | Mega 55 | Xtra 85 |
| Price | \$0 | \$28 | \$59.95 | \$29.99 | \$35 | \$55 | \$85 |
| Data | 1 GB | 6 GB | Unlimited | Unlimited | 9 GB | 18 GB | 30 GB |
| Voice (mins) | 30 | 100 | Unlimited | 200 | 1,000 | 1,000 | 1,000 |
| SMS | 10 | Pay-as-you-go | 200 | 200 | 1,000 | 1,000 | 1,000 |
| MNO Partner | M1 | | Singtel | | StarHub | | |

Source: PSR, Company

Figure 2: SIM – Only plans vs traditional bundled plans

| | Singtel | | StarHub | | M1 | |
|-------------------------------|-----------------|-----------------|---------------------|-----------------|--------------|-----------------|
| Name | SIM Only + 5GB | Combo 3 | SIM Only | 2 -Year plan | mySIM (3) 20 | mySIM (e) 40 |
| Price | \$20/mth | \$68.9/mth | \$25/mth | \$50/mth | \$20/mth | \$40/mth |
| Tenure | 12 mths | 24 mths | - | 24 mths | 12 mths | 24 mths |
| Data | 5 GB | 3 GB | 3 GB + 10 GB / 1 yr | 3 GB + 10GB | 5 GB | 5 GB |
| Calls | 150 Mins | Unlimited | 100 Mins | 100 Mins | 100 Mins | 100 Mins |
| SMS | 500 SMS | Unlimited | - | - | 100 SMS | 100 SMS |
| Handset | - | iPhone Xs 64 GB | - | iPhone Xs 64 GB | - | iPhone Xs 64 GB |
| Upfront handset cost | - | (\$728) | - | (\$842) | - | (\$930) |
| Telco revenues | | | | | | |
| Customer spend across 24 mths | \$480 | \$2,382 | \$600 | \$2,042 | \$480 | \$1,890 |
| Handset cost* | - | (\$1,402) | - | (\$1,402) | - | (\$1,402) |
| Net revenue | \$480 | \$980 | \$600 | \$640 | \$480 | \$488 |
| | SIM -Only plans | | Bundled plans | | | |
| Average net revenue | \$520 | | \$703 | | | |

* Assume 15% discount off list price in Apple stores

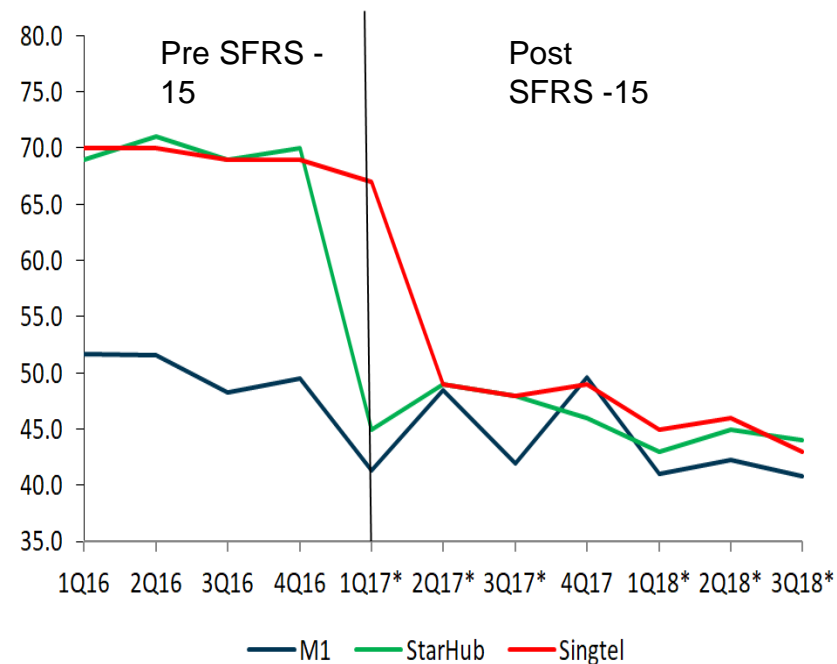
Source: PSR, Company

Traditional bundled plans commands higher net revenue

Singapore telecom sector (OVERWEIGHT)

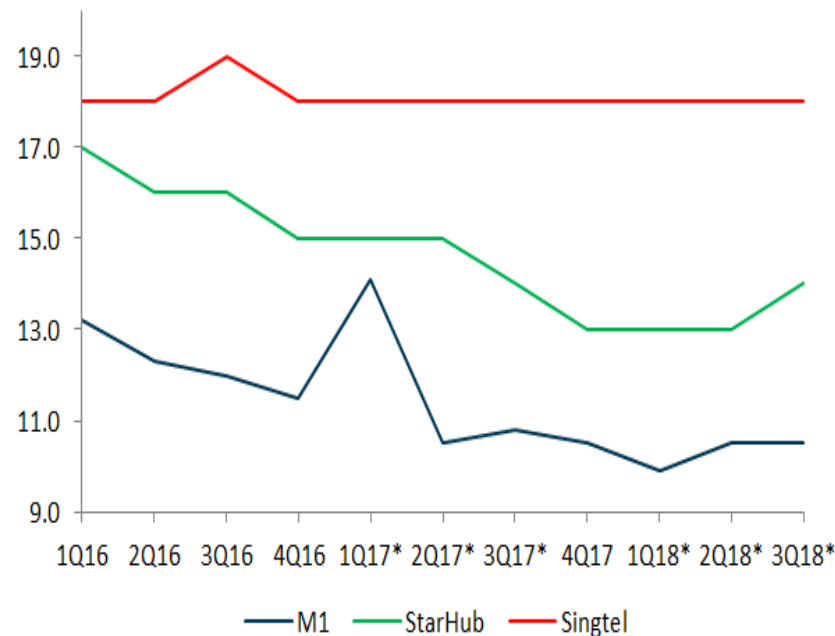
Industry ARPU

Figure 2: Declining Mobile Post-paid ARPU (S\$)



Source: PSR, Companies

Figure 3: Mobile Pre-paid ARPU (S\$)

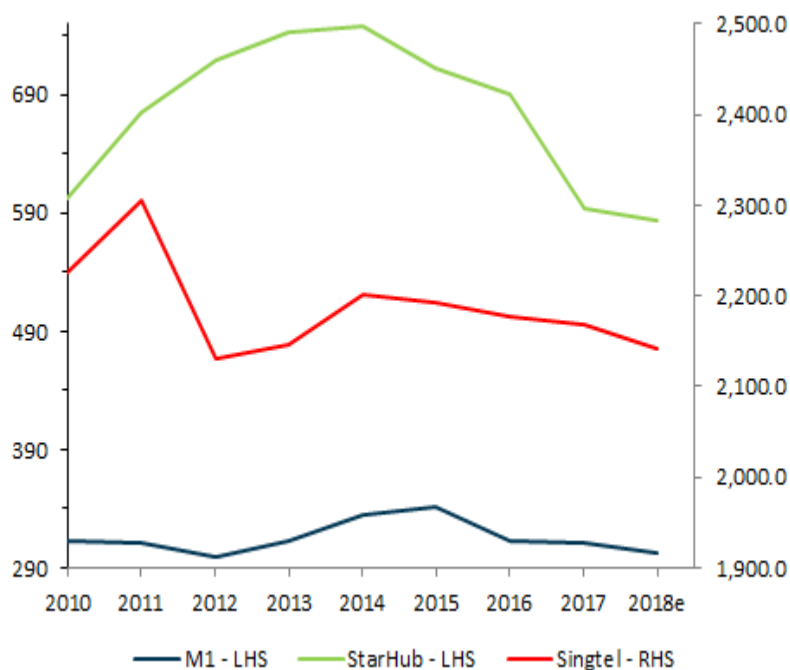


Source: PSR, Companies

Singapore telecom sector (OVERWEIGHT)

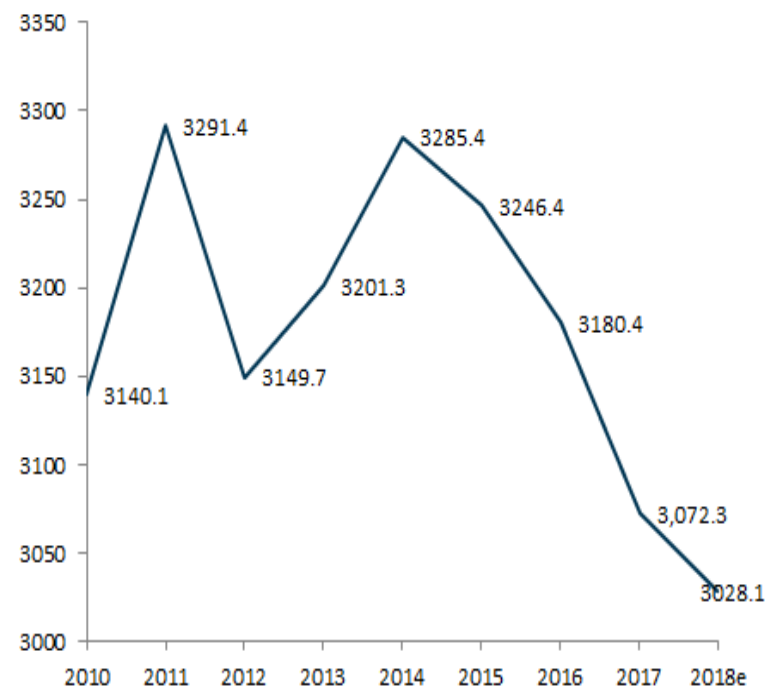
Industry EBITDA

Figure 4: M1, STH, Singtel EBITDA (\$mn)



Source: PSR, Companies

Figure 5: Industry EBITDA (\$\$mn)

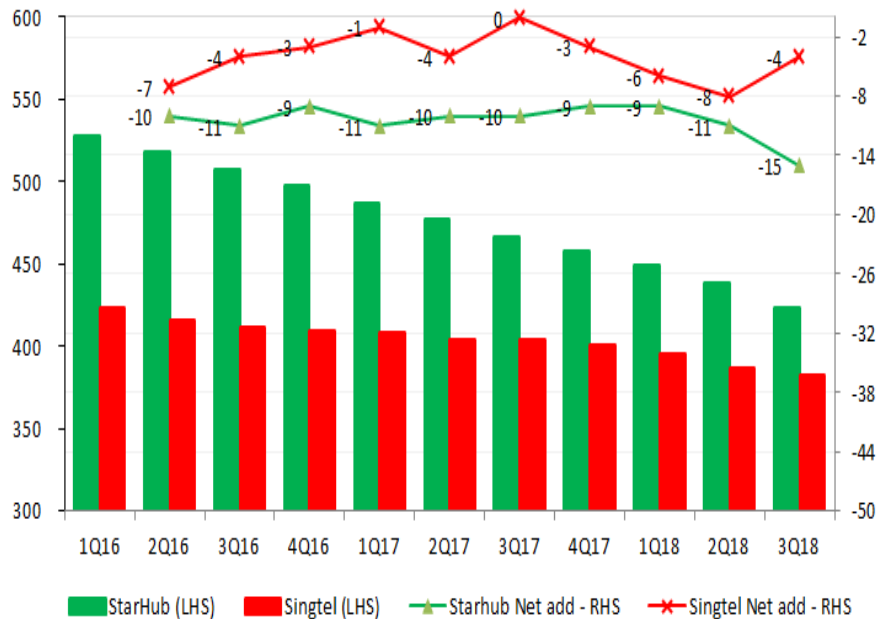


Source: PSR, Companies

Singapore telecom sector (OVERWEIGHT)

Pay - TV sector

Figure 6: Declining pay-Tv Subscribers ('000)



Source: Company

- Disrupted by OTT players like Netflix, Amazon Video etc
- Market Contracted 8% YoY or 65k subscribers
- StarHub is renegotiating with content providers to shift from a fixed cost model to variable cost model
- Singtel is internally reviewing their content and phasing out unpopular channels

Singapore telecom sector (OVERWEIGHT)

Impact of TPG's entrance into Singapore is contained

TPG Telecom slated to launch in FY18 → delay in commercial launch → will commence middle FY19

We view that TPG will have marginal impact to Singapore's telco market in FY19 because:

1. CAPEX spent less than S\$100m (Announced S\$200 - S\$300m) [StarHub spent S\$600m for the 4G network] → Quality, Coverage, Reliability ??
2. Less firing power after the merger of TPG & VHA as TPG Singapore has separate balance sheet

TPG's Strategy?

Senior citizens above the age of 65 get free mobile data plan for 2 years + 20,000 free trial customers (0.38% of postpaid customers)

Singapore telecom sector (OVERWEIGHT)

Enterprise provides a growth drivers for the telcos

- Enterprise is benefitting from resumption of smart nation projects and demand from businesses especially from small & medium enterprise (SME), hospitality and financial services.
- StarHub undertaking massive investments (Consolidations of Accel Systems & D'crypt + new Joint Venture with Certis Cisco on a pure-play cyber- security business called Ensign)
- We continue to see Singtel's enterprise segment come under pressure we believe some market share is being taken away by StarHub and other smaller players. Singtel's managed services revenue shrunk by 3.7% YoY. We believe Singtel is losing its ability to price at a premium because of new entrants like StarHub and other companies.

Singapore telecom sector (OVERWEIGHT)

5G Network

- Will be a 2020 event, Japan will showcase it in the summer Olympics, the standards for 5G has not been fixed yet but rumour has it that the 5G will be using 3.5 bandwidth, currently Singapore is using 3.5 bandwidth for satellite so the government may have to let up that space to the telcos
- 5G is more for enterprise use (requires low latency) and has little impact on consumers

E.g. of use cases:

1. Driverless cars
2. Remote surgery
3. Port authority
4. Agriculture

CAPEX - we do not foresee a nation wide rollout since there is not strong use cases yet hence CAPEX will be done gradually. We also do not foresee overbidding of spectrum rights we believe that the teleco's have learned their lessons on 3G

M1 limited - Initiation

ACCEPT THE VGO

Alvin Chia

Research Analyst

M1 Limited (NEUTRAL, TP: S\$2.06, Last : S\$2.08)

Voluntary general offer (VGO)

- Keppel Corp and Singapore Press Holdings via a special purpose vehicle Konnectivity made a VGO for all M1 shares at \$2.06/share. Deemed interest of both parties is currently at 33.27%.
- Earliest possible close of offer is at 10 January 2019.
- The VGO is still pending IMDA approval. We expect the VGO to be successful:
 1. IMDA is unlikely to reject
 2. Minimum acceptance required is 17%
 3. Not subjected to Axiata's acceptance.

M1 is most exposed to TPG Telecom's entrance to the Singapore market. ~ 80% of its revenue is derived from Singapore mobile.

We think Shareholders should accept the VGO.

StarHub limited - Initiation

Anticipating growth in enterprise

Alvin Chia

Phillip Securities Research Pte Ltd

28 May 2018

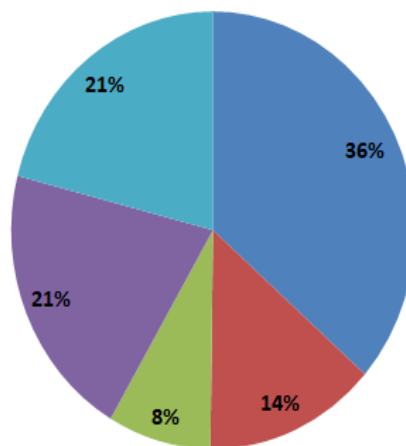
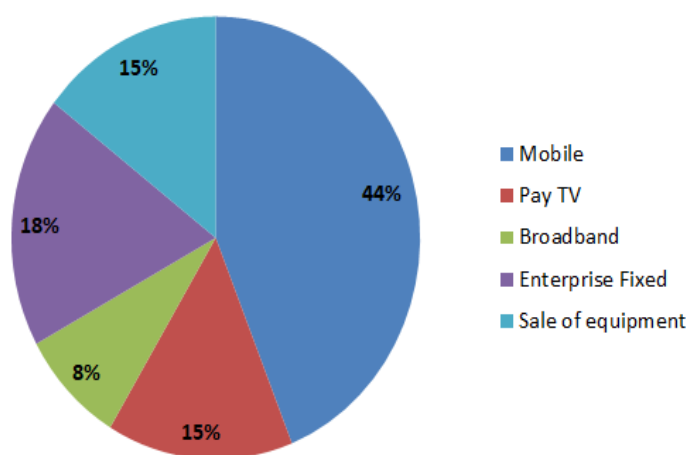
StarHub Limited (ACCUMULATE, TP: S\$1.88, Last : S\$1.73)

Investment Thesis:

- Anticipating growth in enterprise from resumption of smart nation initiatives
- Pay-tv business could improve with better cost management initiatives
- TPG Telecom is unlikely to pose a serious threat to the incumbents
- \$210mn restructuring exercise will help cushion the decline in mobile and pay-tv
- We initiate coverage on StarHub with an **ACCUMULATE** rating and a target price of S\$1.88.

StarHub Limited (ACCUMULATE, TP: S\$1.88, Last : S\$1.73)

Figure 1: FY17 Vs FY18e revenue breakdown

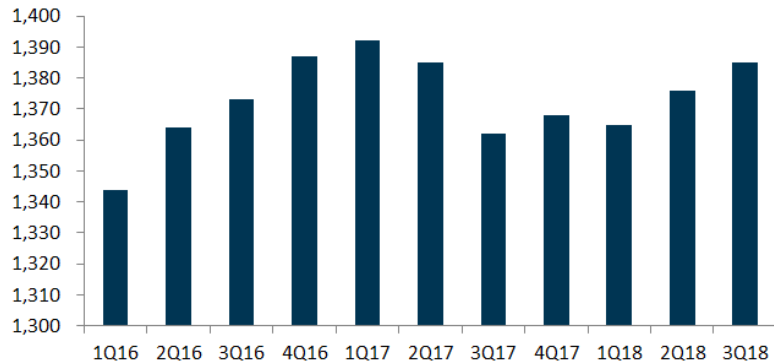


- Decline in mobile & increase in sale of equipment mainly due to SFRS 15 accounting standard
- Continued weakness from pay-tv
- Stable broadband
- Growth in enterprise

Source: PSR, Company

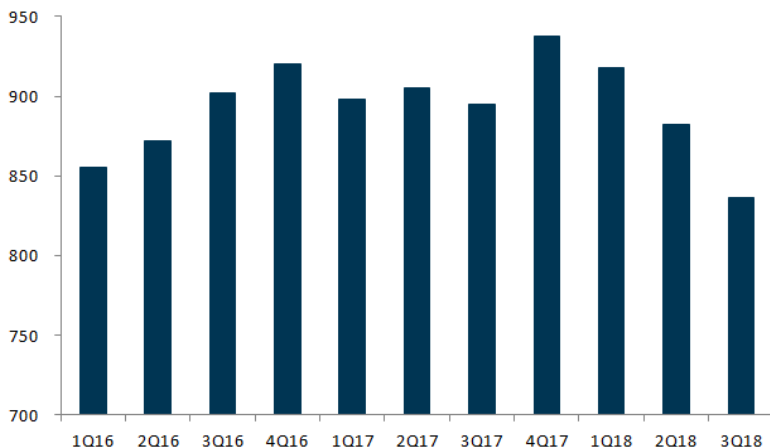
StarHub Limited (ACCUMULATE, TP: S\$1.88, Last : S\$1.73)

Figure 2: Post-paid subscribers boosted by MyRepublic's contribution ('000)



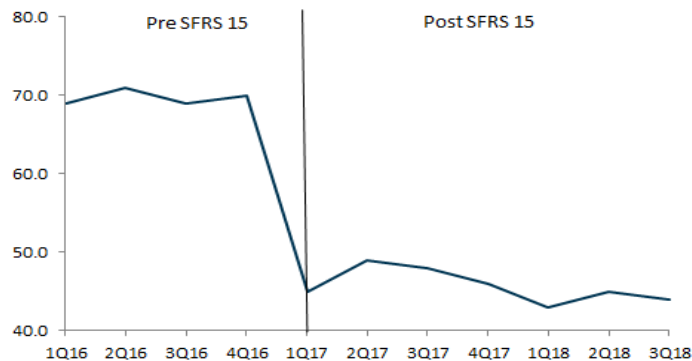
Source: PSR, Company

Figure 3: Declining pre-paid subscribers ('000)



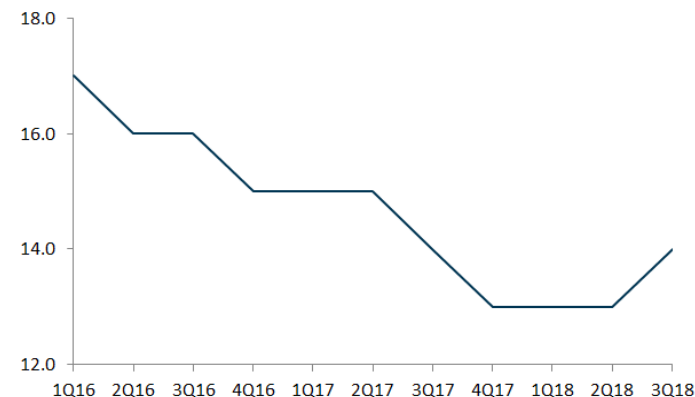
Source: PSR, Company

Figure 4: Mobile Post-paid ARPU (S\$)



Source: PSR, Company

Figure 5: Mobile Pre-paid ARPU (S\$)



Source: PSR, Company

StarHub Limited (ACCUMULATE, TP: S\$1.88, Last : S\$1.73)

Valuation

| Company | 1 Mth Perf. | 3 Mth Perf. | YTD Perf. | Share Px local | Market Cap (US\$mn) | PE FY18 | P/BV FY18 | Dividend Yield (%) | ROE FY18 | TTM 12 EV/EBITDA | FY19 EV/EBITDA | EBITDA Margin (%) | EV (US\$mn) |
|--------------------|----------------|----------------|--------------|-------------------|------------------------|------------|--------------|-----------------------|-------------|---------------------|-------------------|----------------------|----------------|
| India | | | | | | | | | | | | | |
| Bharti | -7.0% | -22.1% | 2.0% | 310.5 | 17,667 | 208.0 | 1.8 | 2.5 | 0.9% | 9.4 | 9.2 | 36.2 | 35,171 |
| Vodafone Idea | -9.5% | -52.9% | -51.3% | 35.8 | 4,445 | N.M. | 0.4 | N.A. | -15.1% | 37.0 | 26.2 | 21.4 | 19,616 |
| Indonesia | | | | | | | | | | | | | |
| Telkom | | | | | | | | | | | 6.5 | 50.2 | 29,002 |
| Indosat | | | | | | | | | | | 3.9 | 43.0 | 2,299 |
| XL Axiata | | | | | | | | | | | 4.0 | 37.6 | 2,882 |
| Thailand | | | | | | | | | | | | | |
| AIS | | | | | | | | | | | 8.5 | 44.6 | 19,344 |
| DTAC | | | | | | | | | | | 5.0 | 38.6 | 3,852 |
| Philippines | | | | | | | | | | | | | |
| Globe | | | | | | | | | | | 6.1 | 40.7 | 7,134 |
| PLDT INC | | | | | | | | | | | 5.8 | 38.9 | 7,306 |
| Malaysia | | | | | | | | | | | | | |
| Axiata group | | | | | | | | | | | 6.1 | 37.6 | 12,975 |
| Digi | | | | | | | | | | | 12.5 | 45.4 | 8,863 |
| ASTRO | | | | | | | | | | | 6.0 | 40.0 | 2,393 |
| MAXIS | | | | | | | | | | | 12.1 | 53.5 | 11,942 |
| Singapore | | | | | | | | | | | | | |
| M1 | -0.6% | 20.1% | 6.1% | 2.1 | 1,416 | 14.9 | 3.9 | 5.5 | 30.8% | 7.6 | 7.8 | 28.2 | 1,684 |
| Singtel | -0.3% | -15.4% | -21.9% | 2.9 | 34,071 | 14.4 | 1.6 | 6.1 | 10.8% | 12.8 | 11.0 | 40.1 | 41,353 |
| | -3.8% | -12.5% | -8.0% | | 142,587 | 18.3 | 6.5 | 4.4 | 32.2% | 9.8 | 9.4 | 42.3 | 24,991 |
| StarHub | -8.0% | -26.1% | -39.3% | 1.70 | 2,154 | 13.8 | 8.1 | 9.4 | 69.6% | 7.6 | 6.0 | 25.6 | 2,846 |

We initiate coverage on StarHub with an ACCUMULATE rating and a target price of S\$1.88. Our target price is based on FY19e 6X EV/EBITDA. We gave a 35% discount to StarHub's regional peers as we take a conservative view of the mobile and pay-tv business.

Source: PSR, Company

Singtel limited - Initiation

Turnaround in Associates

Alvin Chia

Phillip Securities Research Pte Ltd

28 May 2018

Singtel Limited (BUY, TP: S\$3.40, Last : S\$2.90)

Investment Thesis:

- We expect a turnaround in associates largely driven by recovery in Telkomsel
- TPG Telecom is unlikely to pose a serious threat to the incumbents
- Enterprise business will benefit from resumption of smart nation initiatives
- We initiate coverage on Singtel with a **BUY** rating and a target price of S\$3.40.

Singtel Limited (BUY, TP: S\$3.40, Last : S\$2.90)

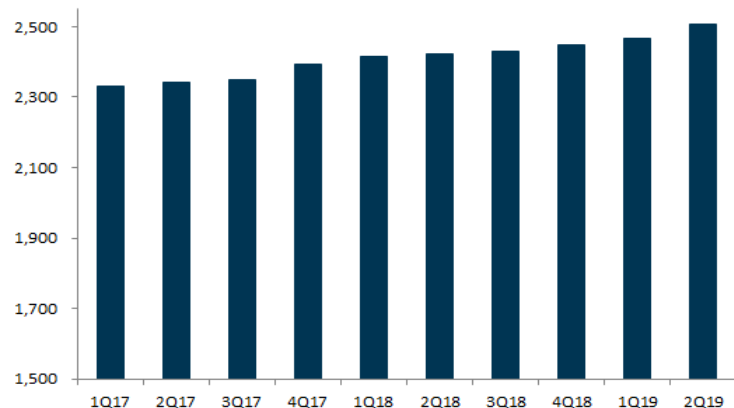
Turnaround in Associates mainly driven by Telkomsel

Telkomsel (TSEL) – 35% stake

- TSEL is the largest wireless carrier in Indonesia (167mn customers)
- Late 2017, Indo govt ordered all prepaid subscribers to re-register SIM cards
- Post re-registration → intense competition up until 1H18
 1. Post Lebaran TSEL is able to hike data prices 4-11%
 2. Further upside from data usages as TSEL customers still uses traditional voice calls
 3. 4G smartphone penetration is at 73% suggesting room for growth

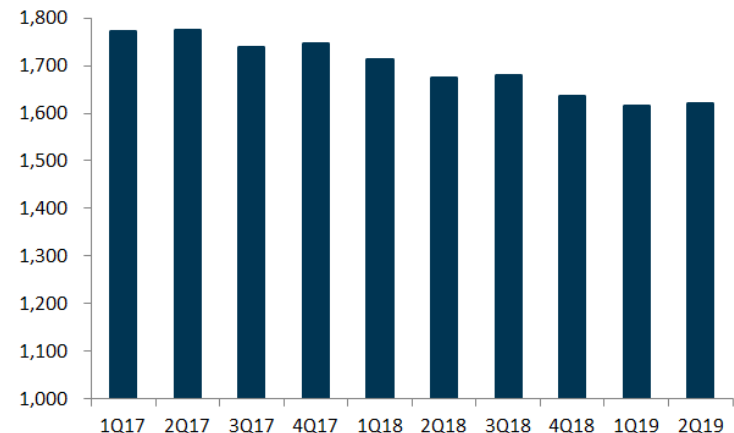
Singtel Limited (BUY , TP: S\$3.40, Last : S\$2.90)

Figure 1: Increasing Mobile Post-Paid subscribers ('000)



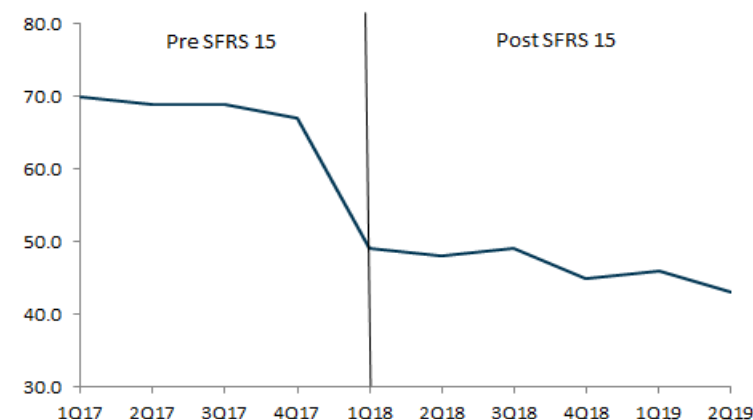
Source: PSR, Company

Figure 2: Declining mobile Pre-Paid subscribers ('000)



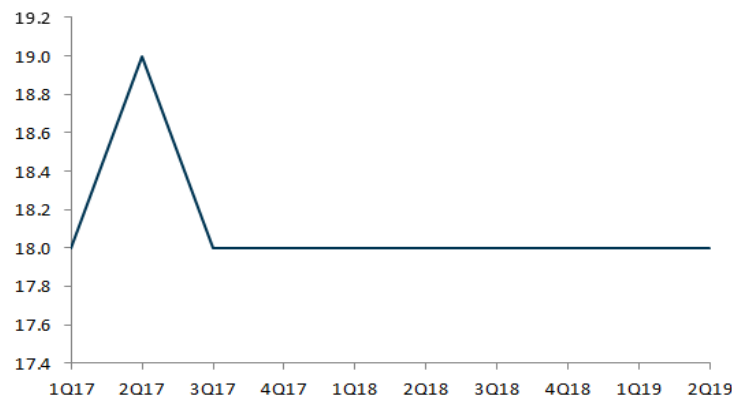
Source: PSR, Company

Figure 3: Declining mobile post-paid ARPU (\$)



Source: PSR, Company

Figure 4: Declining mobile pre-paid ARPU (\$)



Source: PSR, Company

Singtel Limited (BUY , TP: S\$3.40, Last : S\$2.90)

Valuation

Figure 5: Sum of parts breakdown

| Valuation breakdown | Value (S\$mn) | Price Per share (S\$) | Comment |
|------------------------|---------------|-----------------------|--------------------|
| Singapore Business | 13,121 | 0.80 | 7X FY19e EV/EBITDA |
| Australia Business | 22,114 | 1.35 | 7X FY19e EV/EBITDA |
| Total (- debt + Cash) | 25,229 | 1.55 | |
| Listed associates | 30,313 | 1.86 | |
| Target Price | | 3.40 | |

Source: Bloomberg, PSR

Figure 6: Listed associates

| Associates | No. of shares (mn) | Share price (S\$) | Market Cap (SGD mn) | Stake (%) | Value (SGD mn) | Per share (S\$) |
|---------------|--------------------|-------------------|---------------------|-----------|----------------|-----------------|
| Telkomsel | 99,062 | 0.35 | 34,681 | 35.0% | 12,138 | 0.74 |
| Bharti Airtel | 3,997 | 6.04 | 24,129 | 39.5% | 9,531 | 0.58 |
| AIS | 2,973 | 7.38 | 21,934 | 23.3% | 5,115 | 0.31 |
| Globe | 133 | 49.11 | 6,535 | 47.1% | 3,077 | 0.19 |
| Singpost | 2,254 | 0.92 | 2,074 | 21.8% | 452 | 0.03 |
| Total | | | | | 30,313 | 1.86 |

Source: Bloomberg, PSR

Figure 7: Peer valuations

| Company | 1 Mth Perf. | 3 Mth Perf. | YTD Perf. | Share Px Local | Market Cap (US\$mn) | PE FY18 | P/BV FY18 | Dividend Yield (%) | ROE FY18 | TTM 12 EV/EBITDA | FY19 EV/EBITDA |
|--------------------|-------------|-------------|-----------|----------------|---------------------|---------|-----------|--------------------|----------|------------------|----------------|
| India | | | | | | | | | | | |
| Bharti | -7.0% | -22.1% | 2.0% | 310.5 | 17,667 | 208.0 | 1.8 | 2.5 | 0.9% | 9.4 | 9.2 |
| Vodafone | -9.5% | -52.9% | -51.3% | 35.8 | 4,445 | N.M. | 0.4 | N.A. | -15.1% | 37.0 | 26.2 |
| Indonesia | | | | | | | | | | | |
| Telkom | -10.0% | 2.8% | -6.3% | 3700.0 | 25,392 | 18.4 | 4.0 | 4.5 | 20.4% | 7.0 | 6.5 |
| Indosat | -15.2% | -65.1% | -73.7% | 1660.0 | 625 | N.M. | 0.7 | 4.4 | -11.5% | 4.4 | 3.9 |
| XL Axiata | -14.6% | -19.8% | -11.4% | 2020.0 | 1,496 | 196.5 | 1.0 | N.A. | 0.0% | 5.6 | 4.0 |
| Thailand | | | | | | | | | | | |
| AIS | 4.0% | -15.5% | 18.4% | 174.0 | 16,075 | 16.9 | 10.2 | 4.2 | 66.1% | 9.5 | 8.5 |
| DTAC | -1.6% | -3.3% | 15.2% | 43.5 | 3,201 | 51.1 | 3.8 | 2.9 | 4.0% | 4.3 | 5.0 |
| Philippines | | | | | | | | | | | |
| Globe | -5.8% | 16.5% | 24.8% | 1889.0 | 4,780 | 14.0 | 3.7 | 4.8 | 25.1% | 6.5 | 6.1 |
| PLDT INC | -3.3% | -21.2% | -15.5% | 1158.0 | 4,758 | 11.1 | 2.3 | 5.5 | 6.9% | 6.7 | 5.8 |
| Malaysia | | | | | | | | | | | |
| Axiata | 1.1% | -30.0% | -15.5% | 3.8 | 8,361 | 41.1 | 1.8 | 2.2 | -15.2% | 11.3 | 6.1 |
| Digi | -4.3% | -3.9% | -8.4% | 4.5 | 8,349 | 22.8 | 50.6 | 4.4 | 248.9% | 13.3 | 12.5 |
| ASTRO | -15.7% | -34.8% | -48.8% | 1.3 | 1,673 | 12.1 | 11.3 | 6.0 | 82.4% | 5.0 | 6.0 |
| MAXIS | -3.9% | -4.0% | -9.2% | 5.5 | 10,280 | 21.8 | 5.9 | 3.7 | 29.3% | N.A. | 12.1 |
| Singapore | | | | | | | | | | | |
| M1 | -0.6% | 20.1% | 6.1% | 2.1 | 1,416 | 14.9 | 3.9 | 5.5 | 30.8% | 7.6 | 7.8 |
| StarHub | -8.0% | -26.1% | -39.3% | 1.7 | 2,154 | 13.8 | 8.1 | 9.4 | 69.6% | 7.6 | 6.0 |
| | -4.9% | -11.9% | -4.3% | | 110,671 | 19.4 | 8.0 | 4.6 | 36.2% | 8.9 | 8.8 |
| Singtel | -0.3% | -15.4% | -21.9% | 2.9 | 34,071 | 14.4 | 1.6 | 6.1 | 10.8% | 12.8 | 11.0 |

Source: Bloomberg, PSR

We initiate coverage on Singtel with a BUY rating and a target price of S\$3.40. Our target price is based on FY19e 7X EV/EBITDA of its Singapore and Australia business and the valuation of its associates. We gave a 20% discount to Singtel's regional telecommunication peers as we take a conservative approach in Singtel's valuation.

Appendix

M1 offer doc

2.1.4 Adjustment for Distributions. Without prejudice to the foregoing, the Offer Price has been determined on the basis that the Offer Shares will be acquired with the right to receive any Distribution that may be declared, paid or made by the Company on or after the Pre-Conditional Offer Announcement Date.

Accordingly, in the event any Distribution is or has been declared, paid or made by the Company in respect of the Offer Shares on or after the Pre-Conditional Offer Announcement Date, the Offer Price payable to a Shareholder who validly accepts or has validly accepted the Offer ("**Accepting Shareholder**") shall be reduced by an amount which is equal to the amount of such Distribution, depending on when the settlement date in respect of the Offer Shares tendered in acceptance of the Offer by such Accepting Shareholder falls, as follows:

- (i) if such settlement date falls on or before the books closure date for the determination of entitlements to the Distribution (the "**Books Closure Date**"), the Offer Price shall remain unadjusted for each such Offer Share, as the Offeror will receive the Distribution in respect of such Offer Share from the Company; and
- (ii) if such settlement date falls after the Books Closure Date, the Offer Price for each Offer Share shall be reduced by an amount which is equal to the amount of the Distribution in respect of each Offer Share, as the Offeror will not receive the Distribution in respect of such Offer Share from the Company.

For the avoidance of doubt, the interim dividend of S\$0.052 per Share announced by the Company on 27 July 2018 and paid to Shareholders on 17 August 2018 will not be deducted from the Offer Price.

Appendix

Illustration of SFRS 15 impact on ARPU:

Numbers below are mocked up:

Assumptions

Mobile device retail price without contract: \$1,200

Monthly combo plan: \$100 (24 months contract)

Upfront payment by customer: \$0

Pre-SFRS 15 treatment:

Upon sign-up: \$0 recognised as no upfront payment required by customer

Monthly recognition of \$100 x 24 months

Post-SFRS 15 treatment:

Upon sign-up: \$1,200 (SFRS 15 requires retail value of handset to be recognised when contract is signed)

Monthly revenue: $(\$100 \times 24 \text{ months} - \$1,200) / 24 = \$50$

VS

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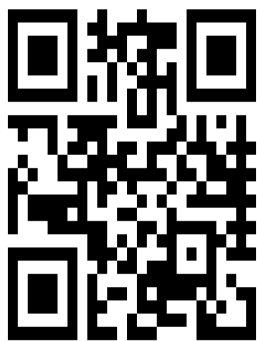
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Thank you