

CHINA
DEVELOPMENT
FINANCIAL

SingTel, StarHub, M1

(ST SP, STH SP, M1 SP)

Time to switch telco

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- SingTel (ST) and StarHub (STH) both reported disappointing quarterly results for their 3Q FY19 and 4Q FY18, respectively.
- Meanwhile, M1 shareholders should accept the \$2.06 offer by Keppel Corp and SPH.
- For investors still seeking exposure to the sector, ST offers the best option in our view, while \$1.55 would be a good entry level for STH.

STH - no more defensive. STH reported a 62% YoY drop in 4Q FY18 net profit to S\$20mn, missing consensus estimates. However, management's DPU guidance for 2019 more likely caused a much larger impact on its share price. STH plans to pay a quarterly dividend of at least 2.25 cents, a 44% cut from 4.0 cents per quarter in 2018. On a positive note, there is room for dividends to be raised if performance is better-than-expected (at least 80% of net profits).

ST – still well diversified. 3Q FY19 earnings fell 14% YoY to S\$823mn, which also missed consensus estimates. The weakness was due to weaker performance in Singapore and its associates, particularly Airtel. We believe the negative news has been priced in given that management has already guided for FY19 full-year EBITDA to decline by low single digits.

Valuation & Action:

Prefer ST. We would prefer ST given its diversified business across multiple countries. Upside in the short-term is limited by weakness in its Singapore consumer segment and Airtel, but its 6% dividend yield should provide support to its share price.

A key point to watch out for would be a turnaround for Airtel, which has been pulling down ST's performance in 2018. Reliance Jio - which launched in Sep-2016 but now commands around 21% market share of India's wireless subscribers - may start dialling back on its price war. There are already signs of stabilisation in India as average revenue per user (ARPU) for Airtel rose 4.0% QoQ in the most recent quarter. Even then, losses have continued to pile up for Airtel and Vodafone Idea, the two largest telcos in India. Ultimately, it's only a matter of time before the market reverts to a more sustainable structure, which would then benefit the largest players.

Company	SINGAPORE TELECOMMUNICATIONS
Market Cap (m)	\$49803 million
Current Price	\$3.05
52 Week High	\$3.58
52 Week Low	\$2.83
Dividend Yield (%), Est.	5.8
Price to Book, Est.	1.68
Price to Earnings, Est.	16.22



Company	STARHUB LTD
Market Cap (m)	\$2822 million
Current Price	\$1.63
52 Week High	\$2.62
52 Week Low	\$1.58
Dividend Yield (%), Est.	6.1
Price to Book, Est.	8.76
Price to Earnings, Est.	14.82



Company	M1 LTD
Market Cap (m)	\$1908 million
Current Price	\$2.06
52 Week High	\$2.15
52 Week Low	\$1.51
Dividend Yield (%), Est.	4.6
Price to Book, Est.	3.76
Price to Earnings, Est.	17.02



Source: Bloomberg, KGI Research

\$1.55 entry for STH. As for STH, a potential entry point would be \$1.55, a level which would then match ST's 5.8% dividend yield based on the 9.0 cents dividend guided by management. STH's managed services business, which includes cybersecurity and digital solutions, may still take at least 2 more years to contribute meaningfully to its bottom line.

Accept \$2.06 offer for M1. M1 shareholders should accept the offer by Keppel Corp (KEP SP, HOLD TP \$7.50) and SPH (SPH SP). As we mentioned in our report on KEP published on 27 Sep 2018, the offer is a good exit opportunity for shareholders as plans that KEP has for M1 may only bear fruits in the medium to long-term. There is the risk that dividends may be reduced going forward as cashflows are redirected to business transformation plans.

Konnectivity, the JV that is majority owned by KEP, had received 76.35% acceptance for the shares of M1 as of 16 February. This includes the 28.6% stake of Axiata Group (AXIATA MK). Shareholders will have till 5:30pm on 4 March to accept the \$2.06 offer.

Risks: ST has the largest forex risk given its exposure to AUD, IDR and INR. All these currencies depreciated between 5-10% YoY against SGD in 3Q FY19. A key risk to all three SG telcos is how the fourth telco, TPG Telecom, will continue to place pressure on ARPU in the coming quarters.

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HOLD	-10% to +10% total return over the next 12 months
SELL	<-10% total return over the next 12 months

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