



Asian Pay Television Trust (APTT SP/ASIA.SI)

8.2% div yield not enough to offset risks and lack of re-rating in next two years

Joel Ng / 62 6202 1192 / joel.ng@kqi.com

- APTT's share price dropped 50% after it announced a 77% cut to its DPU from 5.175 SG cents in FY2018 to 1.2 SG cents for 2019 and 2020.
- It will be paying a 1.625 SG cents DPU for 3Q18. If accounting for this payout (ex-date 12 Dec), dividend yield based on 1.20 cents would be 8.2% at its current price.
- Given the challenging macro outlook and company-specific risks, we think the 240bps spread over SingTel's 5.8% FY2018 div yield may not offer a favourable risk-reward trade-off.

Figure 1: User base and average revenue per user under pressure

RGUs ¹ ('000)	As at		
	30 Sep 2018	30 Jun 2018	
Basic cable TV	757	759	↓
Premium digital cable TV	194	188	↑
Broadband	210	205	↑

ARPU ² (NT\$ per month)	Quarter ended		
	30 Sep 2018	30 Jun 2018	
Basic cable TV	496	501	↓
Premium digital cable TV	127	133	↓
Broadband	425	439	↓

Source: APTT

Pressure on main business – Basic cable TV. Basic cable TV user base declined by almost 2,000 while average revenue per user (ARPU) declined to NT\$498/month in 3Q18 from NT\$501/month in 2Q18. As Basic Cable TV made up 79% of 9M18 revenues, weakness in this segment is expected to continue given the competitive pressures, and thus lead to declining total revenues going forward.

Can broadband save it? APTT has increased capex on broadband to S\$36mn in 9M18, from an average of S\$17mn/year from 2014 to 2017. The group is banking on broadband to drive future growth. However, even with the increase in subscribers for its broadband business, ARPU declined to NT\$425/month (NT\$449/479 in FY2017/16) in 3Q18 due to competition from low-cost unlimited data mobile plans. As a result, broadband revenues declined 1% YoY to S\$12.5mn, making up 16% of total revenues for 3Q18.

Table 1: Revenues by business units

Revenues S\$'000	3Q 2018	3Q 2017	Change (%)
Basic cable TV	63,953	68,026	-6.0%
Premium digital cable TV	3,396	3,865	-12.1%
Broadband	12,471	12,574	-0.8%

Source: APTT, KGI Research

Given the current trends, we are not confident that the increased capex on broadband and higher subscriber base

Not Rated		
Price as of 20 Nov 18 (SG	0.16	Performance (Absolute)
12M TP (\$)	-	1 Month (%) -48.9
Previous TP (\$)	-	3 Month (%) -55.3
Upside (%)	-	12 Month (%) -68.5
Trading data		Perf. vs STI Index (Red)
Mkt Cap (\$mn)	231	
Issued Shares (mn)	1,437	
Vol - 3M Daily avg (mn)	5.2	
Val - 3M Daily avg (\$mn)	1.2	
Free Float (%)	99.9%	
Major Shareholders		Previous Recommendations
Temasek Holdings	7.9%	

may be enough to offset the slow decline in its Basic cable TV business

8.2% dividend yield. APTT will be paying out 1.625 SG cents for its 3Q18 quarter, with the ex-date on 12 December. Accounting for this dividend would provide investors with an 8.2% dividend yield based on an ex-date price of 14.6 cents and 1.2 cents DPU per year for 2019 and 2020. As this would be less than 50% of its earnings per year, we believe APTT can sustain this dividend for 2019 and 2020.

Post-2020. APTT may be able to increase the 1.2 cents DPU after 2020 but we expect it to be marginal at best as the group will have to deal with the two towers of increased capex for its broadband business and efforts to reduce its debt. Its net debt/EBITDA will reach 8x by end-2018, and thus APTT will need to deleverage to a more sustainable 6x over the next five years.

Furthermore, we expect capex to be highly variable and thus a key source of uncertainty; capex is expected to be driven by the 5G roll out of the wireless carriers, and this will be another 1-2 years at the earliest to reach commercialisation phase. Our Taiwan telecoms analyst expects the auction for 5G spectrum in 2H19.

Valuation & Action: APTT's 8.2% div yield offers only a 240bps spread over SingTel's 5.8% dividend yield. In our view, this may not offer a high enough premium given the weak industry trends and company-specific risks. Management has done what was necessary to keep APTT on a sustainable footing and is positioning the group to be part of the 5G rollout in Taiwan. However, this will be a long-term plan that investors will have to ride along for at least the next three years.

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BUY >10% total return over the next 12 months

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

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

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