

SECTOR UPDATE

Telecommunications – Singapore

5G SA Rollout On Track; ARPU Rise To Partly Arrest Dilution From SIM Plans

The 5G standalone rollout is on track to achieve 50% population coverage by end-22. We expect the competitive landscape to remain benign as incumbents focus on monetising 5G services. A back-test of the 3G and 4G technological transition suggests telcos benefit from a new product/customer base, and this will likely come from the enterprise solution in the 5G era. Industry consolidation/JV will help to stabilise ROICs. Maintain OVERWEIGHT. Top picks: Netlink and Singtel.

WHAT'S NEW

- 5G standalone rollout is on track...** Singtel, StarHub and M1 are currently focused on the expansion of the 5G-standalone (SA) network. Importantly, all operators are on track to deliver 50% population coverage by 2022 and nationwide coverage by 2025. Based on a network survey by nPerf (see charts), Singtel had a head start with the launch of 5G SA coverage back in 4Q20. As for the StarHub-M1 joint venture (named Antina), we understand that the 5G SA rollout started with base station identification and installation. At this juncture, StarHub has achieved more than 70% of outdoor 5G NSA coverage. Singtel and Antina have appointed Ericsson and Nokia as their respective 5G core provider. Based on a report from Open Signal, Singapore is ranked in the middle of the Asia Pacific region (APAC) market for 5G download speed with 2.9x faster download speed vs the existing 4G network. Also, Singapore appears to rank second (only to South Korea) for the 5G game experience at this stage.
- ... and take-up of premium bundles have been encouraging.** With the rollout of 5G handset bundles (since 4Q20), telcos have been reporting good take-up of these packages (ie meeting internal targets). It appears that smartphone users are embracing 5G to improve user experience with mobile applications. This, we believe, will remain the trend in 2H21. Importantly, the introduction of 5G services will help to partly offset average revenue per user (ARPU) dilution from SIM-only plans. In 1Q21, StarHub demonstrated sequentially stable blended ARPUs (postpaid: S\$28/month, prepaid: S\$10/month) and we believe this is due to: a) benign competitive landscape, and b) uplift from 5G bundles helping to partly offset ARPU dilution. Singtel also mentioned that 2HFY21 sales of equipment were higher (+41% hoh, +6% yoy) due to higher sales of 5G handsets.
- 5G consumer bundles appear encouraging thus far, helping to partly mitigate ARPU dilution from SIM-only plans.** Pulling away from TPG's attractive data pricing packages, we note that the incumbents (particularly StarHub and Singtel) are offering 5G embedded offers. For one, StarHub recently launched a 5G SIM-only product called Mobile+ SIM Only. The most affordable plan, at S\$38 monthly, comes with a total of 70GB data. On top of having huge data bundles, customers on these plans will also enjoy 12 months of Disney+ on StarHub. This product is S\$10/month higher than its 1Q21 postpaid ARPUs. Singtel is offering 5G services via its XO Plus plans. With the exception of XO Plus 50 (for S\$50/month), 5G access is available to all XO Plus plans (ranging from S\$68-S\$168/month). In contrast, Singtel's postpaid ARPUs are hovering at S\$29/month (2HFY21).

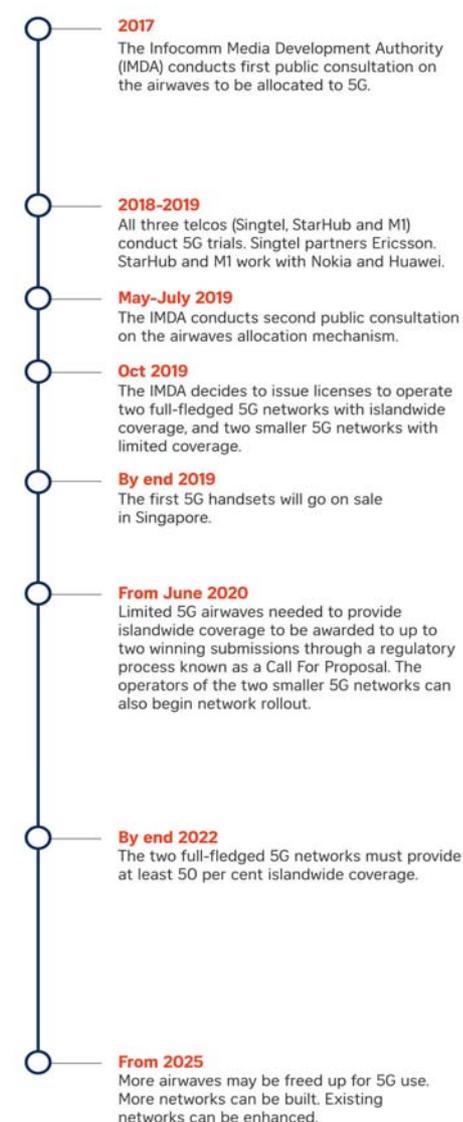
PEER COMPARISON

Company	Tickers	Rec	Share Price		Market Cap	PE (x)		EV/EBITDA (x)		Dividend Yield (%)	
			2 Jul 21 (\$)	Target Price (\$)		FY21F (x)	FY22F (x)	FY21F (x)	FY22F (x)	FY21F (x)	FY22F (x)
NetLink NBN Trust	NETLINK SP	BUY	0.955	1.08	3,722	37.3	35.6	16.0	15.5	5.3	5.3
Singtel	ST SP	BUY	2.27	2.84	37,486	14.1	12.8	11.5	11.4	4.4	5.0
StarHub	STH SP	HOLD	1.21	1.30	2,095	15.1	14.0	5.7	5.2	4.1	5.0

Source: UOB Kay Hian

OVERWEIGHT (Maintained)

5G DEVELOPMENT TIMELINE



Source: IMDA, UOB Kay Hian

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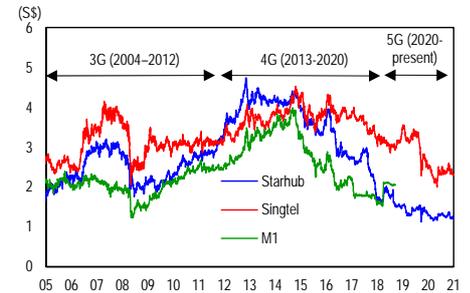
ACTION

- Maintain OVERWEIGHT on the sector** given attractive sector valuation and earnings recovery beyond 1H21. The sector is currently trading at 1SD below its 5-year mean EV/EBITDA of 12.3x. We believe earnings recovery should be more certain, given the benign competitive landscape and relatively better control of COVID-19 cases. We also believe the nationwide 5G rollout will help the incumbents sustain market share. Pronounced earnings uplift from the enterprise business may take a longer time to bear fruit as telcos continue to explore new business applications for 5G. Our top pick is undervalued Singtel and defensive Netlink. Singtel will benefit from the reopening of economies in the region and positive newsflow on the stake sale of Optus tower, amongst others.
- Singtel (ST SP/BUY/Target: S\$2.84).** We believe earnings weakness is largely priced in as the stock trades close to 1SD below its 5-year mean EV/EBITDA. Key re-rating catalysts include: a) reopening of economies in 2H21; b) monetisation of 5G nationwide coverage; c) faster-than-expected recovery in Optus' consumer and enterprise business; and d) market repair in Singapore. Our DCF-based target price implies 14x 2022F EV/EBITDA (5-year mean).
- NetLink NBN Trust (NETLINK SP/BUY/Target: S\$1.08).** NetLink NBN Trust (Netlink) offers good earnings visibility and a sustainable dividend yield of 5% over FY22-23. The stock is defensive amid external volatility with 80% of group revenue derived from a 7% regulated return over 2018-22. Key re-rating catalysts include: a) 5G densification – more job orders arising from telcos' fibre network densification demand; and b) growth in demand for non-building address point connections with the rollout of 5G/Smart Nation initiatives. At our target price, the stock trades at 17x FY21F EV/EBITDA, +1SD above its three-year mean EV/EBITDA of 15.3x. We expect the stock to further outperform as investors seek shelter in high dividend yielding stocks amid external volatility.

ESSENTIALS

- Back-test of 3G and 4G technological refresh...** We back-test periods of technological refresh between 3G and 4G for the mobile service revenue and valuation trend in Singapore. Clearly, when telcos moved from 2G to 3G, there was strong top-line growth (5-year CAGR of 7%) and valuation expansion (see RHS chart). We believe this was due to telco operators' ability to upsell via a "new" product ie data. Telcos were concurrently selling voice, SMS and data (with bundled smartphones). Thereafter, the transition towards 4G appeared to be characterised by sliding mobile service revenue (as 4G offers faster speed but same product ie data, thereby creating competition) and valuation (due to lower ROIC given higher capex). Please refer to overleaf charts.
- ...provides pointers for 5G outlook.** Stepping into the era of 5G, we expect the following trends: a) ARPU uplift for consumer packages (coming from gamers and premium customers) will partly offset intense data pricing in the market, and importantly, b) establishment of new business applications for 5G will open up a new customer base for telcos ie machines/connection points (Internet of Things (IoT)). In addition, industry consolidation (including the tower asset sale) and joint co-location for 5G rollout will address dilution in ROICs.
- Singapore telcos echoed the view that 5G enterprise opportunities will be driven mainly by solutions and applications.** By virtue of low latency and high reliability (for the 5G SA network) 5G is expected to land new user cases across sectors, like remote robotics, massive IoT deployment and so forth. In an independent research report, the potential annual revenue accretion from 5G is estimated at S\$370m-510m (or 7-9% of current annual enterprise business revenue for Singtel and StarHub). However, monetisation of 5G use cases is expected to take place over time as the ecosystem is still nascent and not all use cases can be effectively addressed by telecom operators.
- 2H21 recovery likely to be aided by resumption of handset sales and ICT revenue.** We expect the gradual reopening of economic activities and business sentiment to boost demand for project-based services, ie information and communications technology solutions and cybersecurity services. Together with benign competitive landscape (TPG is still aggressive in terms of data pricing but the incumbents are pulling away with a focus on its 5G offering) will aid Singtel and StarHub towards their earnings recovery for 2H21. The enterprise segment accounts for 34% and 33% of their group revenue respectively.

BIG 3 HISTORICAL SHARE PRICE PERFORMANCE



Source: Bloomberg, UOB Kay Hian

SECTOR* HISTORICAL FORWARD EV/EBITDA



*Sector valuation comprise Singtel, Starhub and M1.

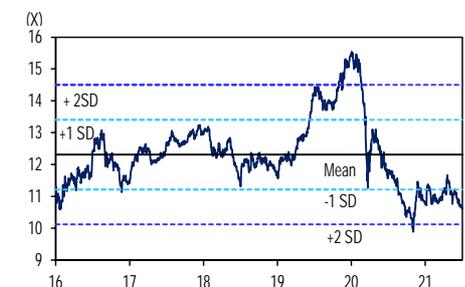
Source: Bloomberg, UOB Kay Hian

MARKET SHARE BY SUBSCRIBERS (1Q21)



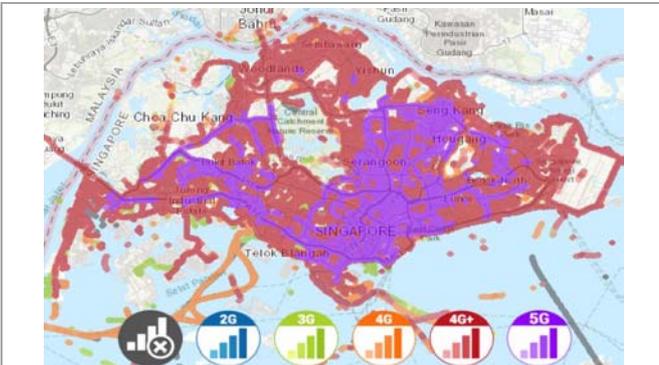
Source: IMDA, Respective companies

SECTOR 5-YEAR FORWARD EV/EBITDA



Source: Bloomberg, UOB Kay Hian

5G NETWORK COVERAGE - SINGTEL



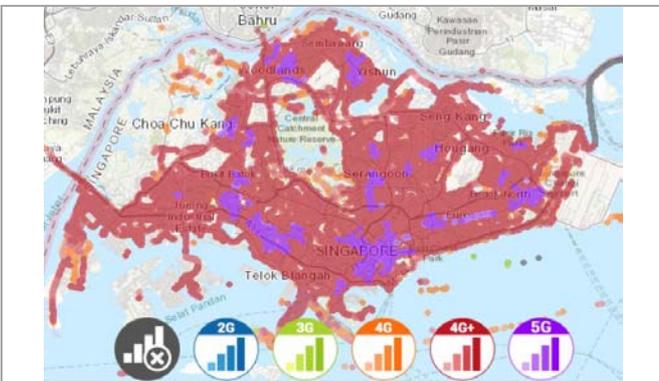
Source: nPerf, UOB Kay Hian

5G NETWORK COVERAGE - STARHUB-M1



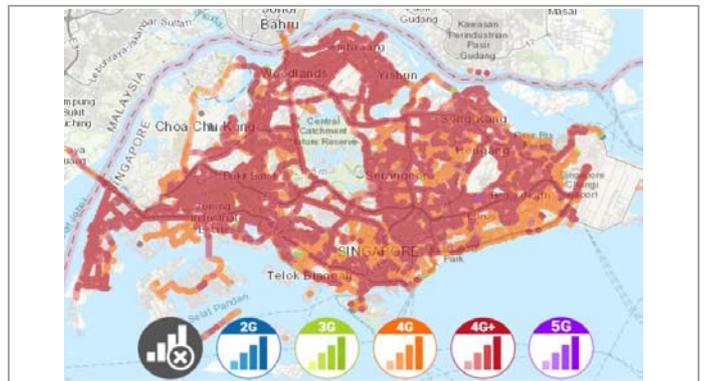
Source: nPerf, UOB Kay Hian

5G NETWORK COVERAGE - M1



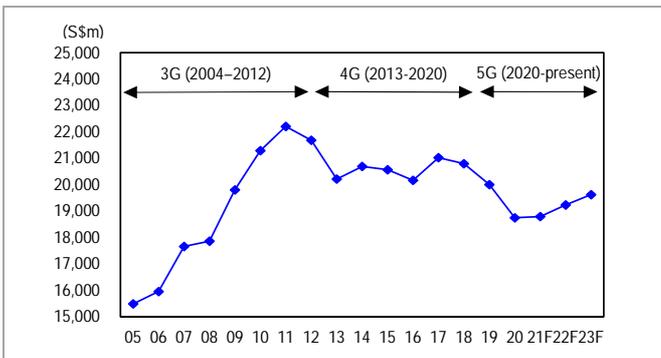
Source: nPerf, UOB Kay Hian

5G NETWORK COVERAGE - TPG



Source: nPerf, UOB Kay Hian

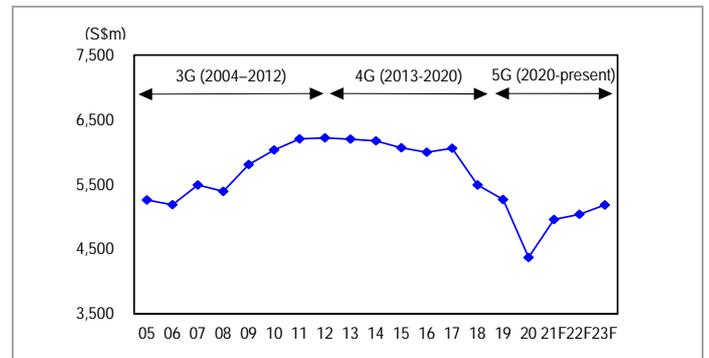
BIG 3* REVENUE TREND



*Singtel, Starhub and M1

Source: Respective companies, UOB Kay Hian

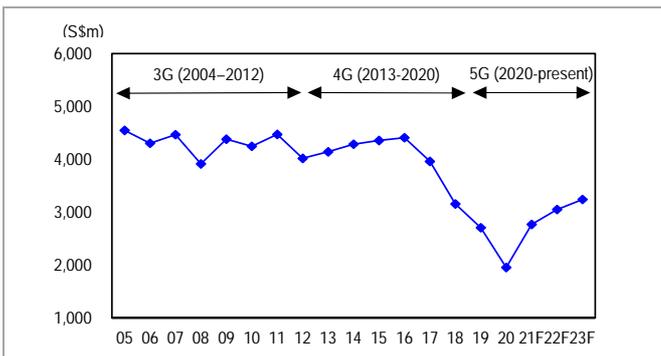
BIG 3* EBITDA TREND



*Singtel, Starhub and M1

Source: Respective companies, UOB Kay Hian

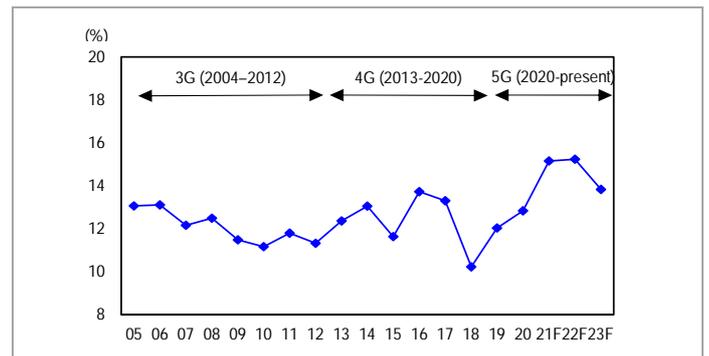
BIG 3* NET PROFIT TREND



*Singtel, Starhub and M1

Source: Respective companies, UOB Kay Hian

BIG 3* CAPEX AS % OF REVENUE TREND



*Singtel, Starhub and M1

Source: Respective companies, UOB Kay Hian

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