

M1 (M1 SP)

Closer To Fair Value

Base case priced in - Upgrade to HOLD

With the M1 de-rating close to levels we envisage in our base case scenario of gradual erosion in incumbents' revenues, we upgrade to a HOLD. However, it is still too early to be positive on the sector with new MVNOs and TPG set to launch in 2H18, and neither can we write off the worst case scenario risk we painted in our [13 March 2018 Sector Note](#). In the sector, we prefer Singtel (ST SP, SGD3.37, HOLD, TP SGD3.69).

A taste of things to come

Following TPG's teaser announcement on 19 March 2018 offering free SIMs, unlimited voice and 3GB/month data for senior citizens for 24 months, the Singapore focused M1 share price has de-rated by 2% and has underperformed the STI by 25% on a 12-month basis. Regardless of the fact that TPG's segment is niche and that the full mechanics have not yet been revealed, we believe the market took it as a sign that TPG intends to put up a fight for share. By playing the good corporate citizen card, not only did TPG create public goodwill but we believe it also helps it to negotiate building and housing access for its nationwide coverage rollout by end-2018.

The de-rating is not excessive

Per our base case scenario for the industry that TPG (TPM AU, Not Rated) and the various MVNOs attain a less than 10% industry wireless revenue share by 2019E, we think M1 is not yet at particularly compelling value levels yet. We do note that cash dividend yields even in the 2019E pressure point may pique interest at 5% levels but note that we expect to drop subsequently due to competition.

Watching closely

Although TPG's stated purpose at the onset was for only 5-6% market share, we cannot discount our worst case scenario that tariff wars ensue and a more aggressive market share grab takes place. Incumbents attempting to stay out and let MVNOs compete with TPG for a lower income segment is ideal but contamination is always possible. Our sensitivity analysis shows that every 1% change in wireless revenue would impact M1's 2019E core profits and TPs by 3%.

FYE Dec (SGD m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	1,061	1,071	1,073	1,047	1,035
EBITDA	312	307	294	268	261
Core net profit	150	133	128	94	75
Core FDEPS (cts)	16.1	14.2	13.7	10.0	8.1
Core FDEPS growth(%)	(15.5)	(11.5)	(3.6)	(26.8)	(19.5)
Net DPS (cts)	12.9	11.4	10.9	8.0	7.2
Core FD P/E (x)	10.8	12.2	12.7	17.3	21.5
P/BV (x)	4.0	3.8	3.4	3.2	3.2
Net dividend yield (%)	7.4	6.6	6.3	4.6	4.2
ROAE (%)	36.7	32.9	28.0	19.0	14.9
ROAA (%)	13.4	11.0	10.1	7.0	5.4
EV/EBITDA (x)	7.1	6.7	6.8	8.1	8.3
Net gearing (%) (incl perps)	96.7	94.1	75.1	107.7	103.2
Consensus net profit	-	-	121	101	91
MKE vs. Consensus (%)	-	-	5.4	(7.7)	(17.2)

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HOLD

[Prior:SELL]

Share Price	SGD 1.74
12m Price Target	SGD 1.63 (-7%)
Previous Price Target	SGD 1.63

Company Description

M1 is the third largest wireless operator in Singapore that is expanding its presence in fixed broadband and enterprise segments.

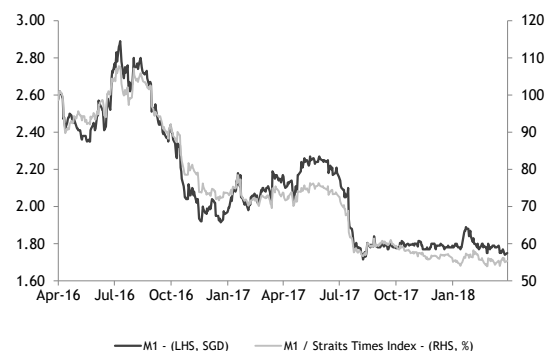
Statistics

52w high/low (SGD)	2.27/1.72
3m avg turnover (USDm)	1.6
Free float (%)	37.6
Issued shares (m)	924
Market capitalisation	SGD1.6B USD1.2B

Major shareholders:

Axiata Investments (Singapore) Ltd.	28.8%
Keppel Telecommunications & Transportati	19.4%
Singapore Press Holdings Ltd.	13.5%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	(2)	(19)
Relative to index (%)	2	(3)	(25)

Source: FactSet

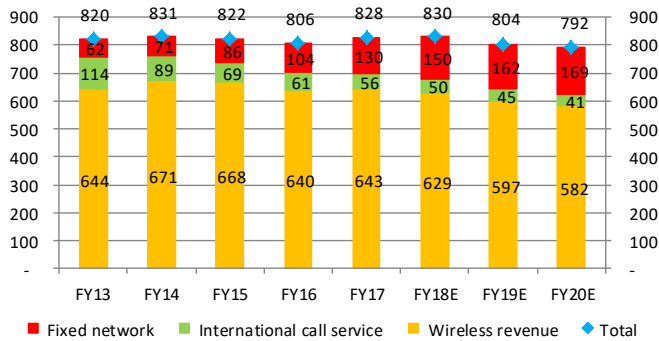
Link to sector note:

[Everything On HOLD | NEUTRAL](#)

Value Proposition

- Historically, the purest play in the Singapore wireless sector but has been expanding more meaningfully into fixed broadband and enterprise segments.
- The high growth phase of wireless has passed and wireless data cannibalization of voice and SMS is stifling growth.
- Seeking to tap into Smart Nation projects to enhance its enterprise service revenues and track record.

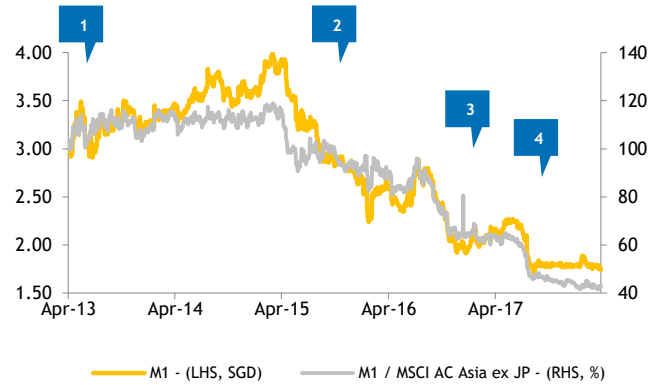
M1's service revenue breakdown (SGD m)



Source: Company, Maybank Kim Eng estimates

Price Drivers

Historical share price trend



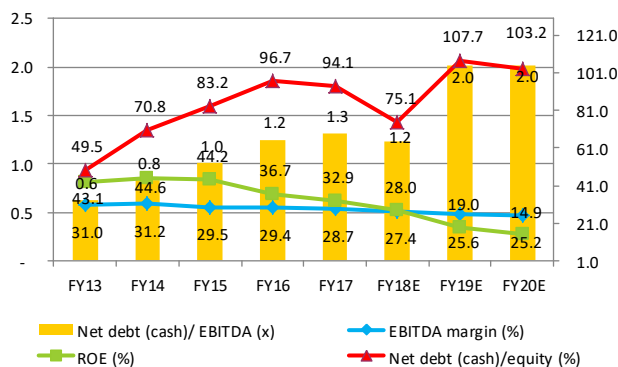
Source: Company, Maybank Kim Eng, Factset

- Industry re-rating on the back of the launch of 4G services that led to the end of unlimited data plan competition and a move to tiered data plans.
- Proposals for fourth mobile license issuance began to drive an industry de-rating.
- New spectrum auction entry of TPG followed by additional frequency won during general spectrum auction (GSA) continues domino effect.
- Soft 2Q17 results and cancellation of shareholder review weaken share price further.

Financial Metrics

- We assume competition from new players will manifest in tariff plan pressure similar to the 3G price war period in 2009-2012. We assume M1's wireless service revenues decrease by a 3% CAGR over 2017-2020E.
- We forecast a positive 9% CAGR over 2017-2020E for fixed network revenue that will help offset wireless and international call revenue pressure.
- Despite our overall service revenue decline assumptions from 2018E to 2020E, the balance sheet is still able to sustain cash dividends at the committed 80% payout level for 2018E-19E and even increase this to 90% in 2020E.

Balance sheet still able to support payout



Source: Company, Maybank Kim Eng estimates

Swing Factors

Upside

- A benign competitive environment or a hasty retreat by new entrants would be an unexpected surprise.
- Growth in fixed network via fixed broadband and/or enterprise could provide earnings surprises in the medium to long term.
- Any takeover interest by a new entrant or TPG could trigger a sector re-rating.

Downside

- Should TPG resort to handset subsidies to poach subscribers an escalation in incumbents' own efforts could take place.
- Higher-than-expected capex pressure as a result of competition and/or 5G rollout.
- Risks of a more rapid decline in wireless voice, SMS and roaming as data adoption gains momentum.

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FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Metrics					
P/E (reported) (x)	15.1	13.9	12.7	17.4	21.6
Core P/E (x)	10.8	12.3	12.7	17.4	21.6
Core FD P/E (x)	10.8	12.2	12.7	17.3	21.5
P/BV (x)	4.0	3.8	3.4	3.2	3.2
P/NTA (x)	4.2	3.9	3.5	3.3	3.3
Net dividend yield (%)	7.4	6.6	6.3	4.6	4.2
FCF yield (%)	11.0	7.3	9.1	nm	5.5
EV/EBITDA (x)	7.1	6.7	6.8	8.1	8.3
EV/EBIT (x)	11.9	11.7	12.3	17.7	21.3
INCOME STATEMENT (SGD m)					
Revenue	1,060.9	1,071.1	1,072.6	1,046.8	1,034.7
EBITDA	312.2	307.2	293.5	268.0	261.0
Depreciation	(126.8)	(129.9)	(131.5)	(145.8)	(159.9)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	185.4	177.3	162.0	122.2	101.1
Net interest income / (exp)	(6.7)	(9.9)	(8.1)	(9.5)	(10.4)
Associates & JV	0.0	(0.3)	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	178.6	167.1	153.9	112.8	90.7
Income tax	(28.9)	(30.1)	(26.2)	(19.2)	(15.4)
Minorities	0.0	0.0	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	149.7	137.0	127.8	93.6	75.3
Core net profit	149.7	132.5	127.8	93.6	75.3
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	11.0	46.5	87.4	58.9	22.6
Accounts receivable	192.1	215.7	163.5	159.6	157.7
Inventory	23.0	49.8	49.9	48.7	48.1
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	881.0	905.8	903.0	1,102.3	1,097.5
Intangible assets	14.3	14.9	14.9	14.9	14.9
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	25.3	36.2	36.2	36.2	36.2
Total assets	1,146.7	1,268.9	1,254.9	1,420.5	1,377.1
ST interest bearing debt	151.0	0.0	0.0	0.0	0.0
Accounts payable	198.3	240.7	171.6	167.5	165.5
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	250.0	450.0	450.0	600.0	550.0
Other liabilities	144.0	149.0	151.0	151.0	151.0
Total Liabilities	743.3	840.1	772.2	918.1	866.1
Shareholders Equity	403.4	428.8	482.7	502.4	510.9
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	403.4	428.8	482.7	502.4	510.9
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	1,146.7	1,268.9	1,254.9	1,420.5	1,377.0
CASH FLOW (SGD m)					
Pretax profit	178.6	167.1	153.9	112.8	90.7
Depreciation & amortisation	126.8	129.9	131.5	145.8	159.9
Adj net interest (income)/exp	6.7	9.9	8.1	9.5	10.4
Change in working capital	61.2	(17.6)	(15.8)	1.0	0.5
Cash taxes paid	(33.2)	(24.4)	(24.7)	(19.2)	(15.4)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	335.1	259.0	275.6	268.8	243.8
Capex	(140.5)	(151.1)	(128.7)	(157.0)	(155.2)
Free cash flow	114.9	98.5	146.9	(76.3)	88.6
Dividends paid	(142.3)	(103.2)	(106.0)	(102.2)	(74.9)
Equity raised / (purchased)	(18.6)	(8.7)	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	47.2	49.0	0.0	150.0	(50.0)
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(79.7)	(9.4)	0.0	(188.0)	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	1.0	35.5	40.9	(28.5)	(36.3)

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth ratios (%)					
Revenue growth	(8.3)	1.0	0.1	(2.4)	(1.2)
EBITDA growth	(8.6)	(1.6)	(4.4)	(8.7)	(2.6)
EBIT growth	(16.9)	(4.4)	(8.6)	(24.6)	(17.3)
Pretax growth	(18.2)	(6.5)	(7.8)	(26.8)	(19.5)
Reported net profit growth	(16.1)	(8.5)	(6.7)	(26.8)	(19.5)
Core net profit growth	(16.1)	(11.5)	(3.6)	(26.8)	(19.5)
Profitability ratios (%)					
EBITDA margin	29.4	28.7	27.4	25.6	25.2
EBIT margin	17.5	16.5	15.1	11.7	9.8
Pretax profit margin	16.8	15.6	14.4	10.8	8.8
Payout ratio	80.3	80.4	80.0	80.0	90.0
DuPont analysis					
Net profit margin (%)	14.1	12.8	11.9	8.9	7.3
Revenue/Assets (x)	0.9	0.8	0.9	0.7	0.8
Assets/Equity (x)	2.8	3.0	2.6	2.8	2.7
ROAE (%)	36.7	32.9	28.0	19.0	14.9
ROAA (%)	13.4	11.0	10.1	7.0	5.4
Liquidity & Efficiency					
Cash conversion cycle	na	na	na	na	na
Days receivable outstanding	66.3	68.5	63.6	55.6	55.2
Days inventory outstanding	na	na	na	na	na
Days payables outstanding	na	na	na	na	na
Dividend cover (x)	1.2	1.2	1.2	1.3	1.1
Current ratio (x)	0.6	1.2	1.5	1.4	1.2
Leverage & Expense Analysis					
Asset/Liability (x)	1.5	1.5	1.6	1.5	1.6
Net gearing (%) (incl perps)	96.7	94.1	75.1	107.7	103.2
Net gearing (%) (excl. perps)	96.7	94.1	75.1	107.7	103.2
Net interest cover (x)	27.7	17.9	20.0	12.9	9.8
Debt/EBITDA (x)	1.3	1.5	1.5	2.2	2.1
Capex/revenue (%)	13.2	14.1	12.0	15.0	15.0
Net debt/ (net cash)	390.0	403.5	362.6	541.1	527.4

Source: Company; Maybank

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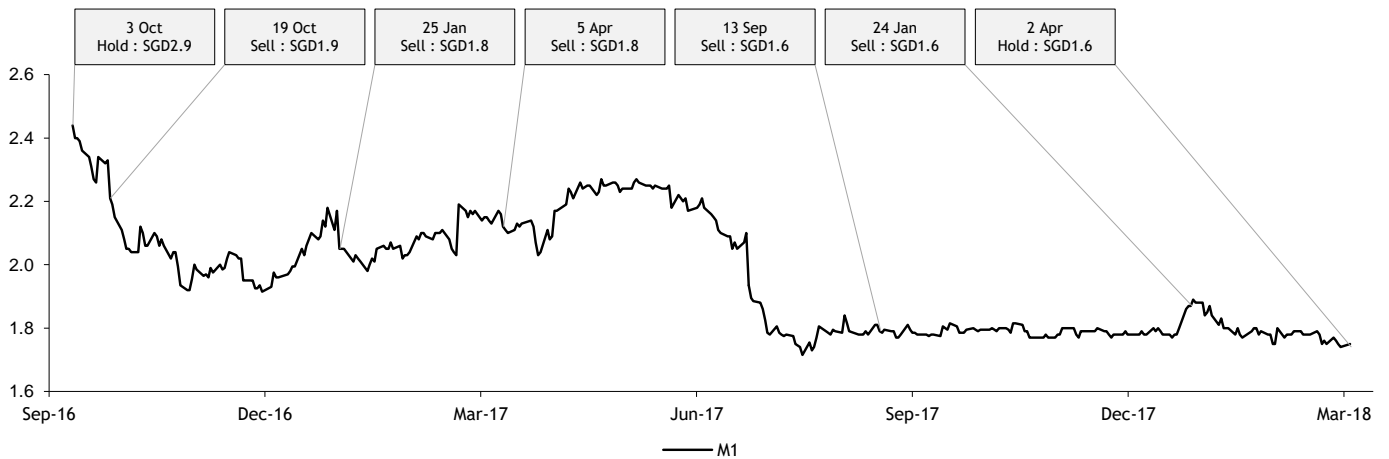
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