

M1 (M1 SP)

Limited Risk But Limited Upside

Much is in the price

We forecast a 3% CAGR decline in wireless service revenues over 2017-20E and we think this is largely reflected in M1's current valuation (TP1.63 based on DCF). The company's head start in securing a mobile virtual network operator (MVNO) leasing deal with unlisted CirclesLife has and will enable it to temper wireless revenue pressure relative to competitors. We maintain HOLD.

First mover cuts both ways

Although M1 does not break out its MVNO leasing revenues separately, it is likely that being the first incumbent to capitalize on an MVNO arrangement has driven its industry outperforming wireless service growth in 2017 (Fig 2). Arguably, enabling the first real low price competitor into the market may have precipitated industry revenue pressure and may be setting the price bar lower prior to TPG's (TPM AU, Not Rated) 2H18 launch. Nonetheless, the move coupled with a new focus on the enterprise market has shown to have relatively paid off for the telco.

Easy win may be over

Competitors have since entered into MVNO leasing contracts that may eventually take some of M1's competitive edge off. However, with M1's deal with Circles being a volume based one, intensifying MVNO competition resulting in volume uptick will at least initially be beneficial to its MVNO deal. Whether it impacts the core business is the risk. Our 2018E forecasts are in line with FactSet consensus (Fig 1) but we assume a heftier drag in 2019E with the full year impact of TPG's entry.

Maintain HOLD

We believe that M1's successful strategy of biting the bullet with its Circles' MVNO deal will continue to provide a relative benefit in the increasingly competitive wireless sector. There will be earnings pressure but this is largely priced in; in our view, hence we maintain our forecasts and HOLD. The degree of aggressiveness of TPG and the incumbents' reaction is the key risk or upside to our outlook.

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)	15.1	13.9	11.7	15.9	19.8
P/BV (x)	5.6	4.3	3.1	3.0	2.9
Net dividend yield (%)	5.3	5.8	6.8	5.0	4.5
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	6.3	7.6	7.8
Net gearing (%) (incl perps)	96.7	94.1	75.1	107.7	103.2
Consensus net profit	-	-	130	110	95
MKE vs. Consensus (%)	-	-	(2.1)	(14.8)	(20.8)

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HOLD

Share Price	SGD 1.60
12m Price Target	SGD 1.63 (+2%)
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.

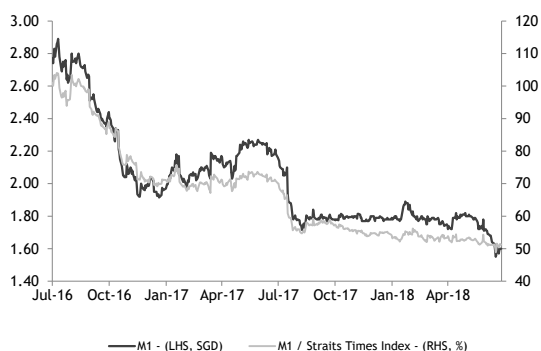
Statistics

52w high/low (SGD)	2.18/1.55
3m avg turnover (USDm)	1.7
Free float (%)	37.6
Issued shares (m)	937
Market capitalisation	SGD1.5B USD1.1B

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 (%)	(8)	(8)	(28)
Relative to index (%)	(1)	(4)	(28)

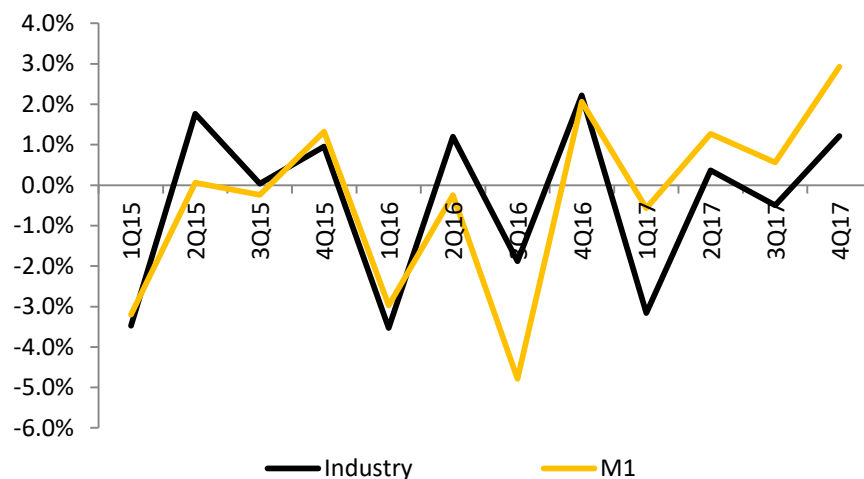
Source: FactSet

Figure 1: MKE vs FactSet consensus

YE Dec 31 (SGD m)	2018E	2019E	2020E
Revenues (MKE)	1,073	1,047	1,035
EBITDA (MKE)	294	268	261
EBITDA margin (MKE)	27.4%	25.6%	25.2%
Core profit (MKE)	128	94	75
Capex (MKE)	129	157	155
Target price (MKE)	1.63		
Revenues (consensus)	1,051	1,034	1,020
EBITDA (consensus)	298	282	271
EBITDA margin (consensus)	28.3%	27.3%	26.5%
Core profit (consensus)	130	110	95
Capex (consensus)	139	162	132
Target price (consensus)	1.77		
Revenues (MKE / consensus)	2.1%	1.3%	1.4%
EBITDA (MKE / consensus)	-1.3%	-5.0%	-3.6%
Core profit (MKE / consensus)	-2.1%	-14.8%	-20.8%
Capex (MKE / consensus)	-7.6%	-3.1%	17.4%
Target price (MKE / consensus)	-8.1%		

Source: Company data, Maybank Kim Eng, FactSet

Figure 2: Mobile service revenue growth* - since Circles service launch in late May 2016, we have seen a revival in M1's mobile service revenue growth above the sector particularly in 2017.



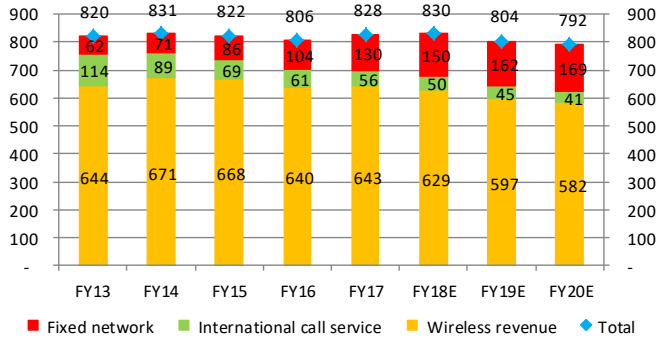
Source: Company data, Maybank Kim Eng

* Pre-accounting standard changes in January 2018 that has led and will lead to part of monthly services revenues being re-classified to equipment sales. March 2018 quarter revenues are also not comparable across the incumbents.

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.

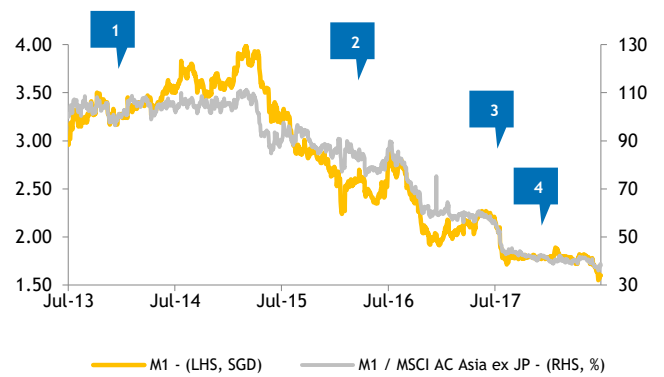
M1's service revenue breakdown (SGD m)



Source: Company, Maybank Kim Eng estimates

Price Drivers

Historical share price trend



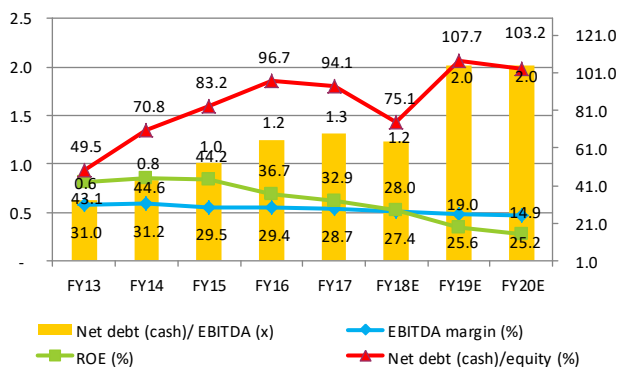
Source: Company, Maybank Kim Eng, Factset

- 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.

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Metrics					
P/E (reported) (x)	15.1	13.9	11.7	16.0	19.9
Core P/E (x)	15.1	13.9	11.7	16.0	19.9
Core FD P/E (x)	15.1	13.9	11.7	15.9	19.8
P/BV (x)	5.6	4.3	3.1	3.0	2.9
P/NTA (x)	5.8	4.4	3.2	3.1	3.0
Net dividend yield (%)	5.3	5.8	6.8	5.0	4.5
FCF yield (%)	7.9	6.4	9.9	nm	5.9
EV/EBITDA (x)	7.1	6.7	6.3	7.6	7.8
EV/EBIT (x)	11.9	11.7	11.5	16.7	20.0
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	1,377.1
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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Malaysia

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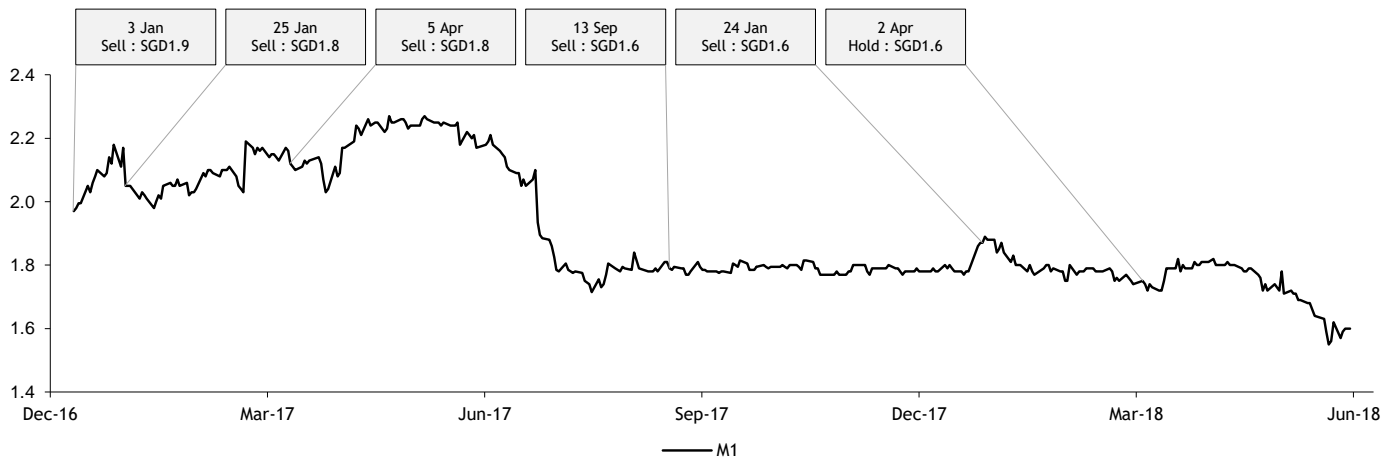
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