

**M1** (M1 SP)**Potential GO Priced In; SELL****In line; but D/G to SELL from HOLD**

Following 9M18 results which met expectations, we maintain our forecasts and DCF-based (WACC 4.1%, LTG 1%) TP of SGD1.63. Current share price implies that 2019E onwards EBITDA will be 5-10% higher and EBITDA margins 170-350bps higher than our forecasts. Given earnings downside stemming from increased competition, we downgrade it to SELL. Switch to NetLink Trust (NETLINK SP, SGD0.785, BUY, TP SGD0.93) in the sector. More benign competition and / or significant opex reductions are risks to our outlook.

**In line with expectations of weaker 2H18**

9M18 consolidated revenue of SGD783m, up 4% YoY and 8% QoQ, formed 73% / 74% of MKE / FactSet consensus, in line. Growth was led by smartphone launches and fixed network while wireless was under pressure. 9M18 EBITDA of SGD231m, down 1% YoY and 1% QoQ, formed 79% / 78% of MKE / consensus estimates with a significant drop in marketing expenses and decline in leased-circuit costs offsetting a volume-based increase in other traffic costs. Reported 9M18 profit of SGD105m, down 2% YoY and 5% QoQ, was 82% / 80% of MKE / consensus estimates. This is in line as 4Q is typically a heavier-expense quarter. Also, unlike prior years, we are bracing for potential pressure from holiday-season promotions from the four MVNOs and / or newcomer, TPG (TPM AU, Not Rated).

**Changing habits in face of increasing competition**

For wireless, unlike 2Q18 when there was an ideal situation of a higher postpaid subscriber base and higher postpaid ARPUs, 3Q18 postpaid ARPU declined faster than subscriber growth. The reason was increased popularity of data add-on plans and lower data roaming, which lowered the percentage of subscribers breaching their data caps. MVNOs' lower price points led to the launch of data add-on options by incumbent MNOs.

**Chicken-or-egg situation**

Our forecasts do not incorporate its proposed general offer (see our [27 Sept 2018 note](#)), as the GO is not a certainty. Potential changes proposed by unlisted Konnectivity are contingent on regulatory approval and Konnectivity achieving a majority stake after the GO. We believe that its SGD2.06 proposed offer price captures a control premium and the impact of planned changes for the long term. Konnectivity has indicated that its plans could affect M1's 80% minimum payout policy.

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)	12.2	12.5	15.3	20.9	26.0
P/BV (x)	4.5	3.9	4.1	3.9	3.8
Net dividend yield (%)	6.6	6.4	5.2	3.8	3.5
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	7.9	9.3	9.5
Net gearing (%) (incl perps)	96.7	94.1	75.1	107.7	103.2
Consensus net profit	-	-	128	112	90
MKE vs. Consensus (%)	-	-	(0.0)	(16.4)	(15.9)

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**SELL**

[Prior:HOLD]

Share Price SGD 2.10  
12m Price Target SGD 1.63 (-23%)  
Previous Price Target SGD 1.63

**Company Description**

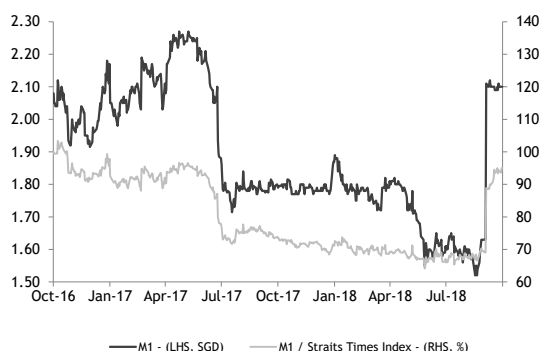
M1 is the third largest wireless operator in Singapore that is expanding its presence in fixed broadband and enterprise segments.

**Statistics**

52w high/low (SGD)	2.12/1.52
3m avg turnover (USDm)	3.1
Free float (%)	37.6
Issued shares (m)	924
Market capitalisation	SGD1.9B
	USD1.4B

**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 (%)	29	30	17
Relative to index (%)	37	42	29

Source: FactSet

**Terms mentioned:**

MVNO - mobile virtual network operator  
MNO - mobile network operator

**Figure 1: Quarterly results**

YE Dec 31 (SGD m)	3Q17	1Q18	2Q18	3Q18	QoQ	YoY	9M18 as % FY18E MKE	9M18 as % FY18E cons
<b>Total revenue</b>	<b>249.5</b>	<b>254.2</b>	<b>253.8</b>	<b>274.6</b>	<b>8%</b>	<b>10%</b>	<b>73.0%</b>	<b>74.3%</b>
Service revenue	186.5	184.9	193.6	190.1	-2%	2%		
Wireless revenue	142.7	140.9	146.2	142.6	-2%	0%		
- Postpaid	127.6	127.3	132.6	129.4	-2%	1%		
- Prepaid	15.1	13.6	13.6	13.2	-3%	-13%		
International call service	13.8	12.1	10.7	9.7	-9%	-30%		
- Retail	8.7	7.3	7.1	6.4	-10%	-26%		
- Wholesale & Bilateral	5.1	4.8	3.6	3.3	-8%	-35%		
Fixed network	30.0	31.9	36.7	37.8	3%	26%		
Handset sales	63.0	69.3	60.2	84.5	40%	34%		
Traffic expenses	-9.7	-7.7	-7.3	-7.2	-1%	-26%		
Leased circuit cost	-8.0	-8.4	-8.7	-7.8	-10%	-3%		
Other traffic cost	-23.2	-24.5	-27.3	-29.2	7%	26%		
Handset cost	-62.3	-70.7	-62.9	-85.9	37%	38%		
Other income	0.4	0.3	0.0	1.4				
Depreciation/Amortization	-32.7	-30.4	-31.4	-32.2	3%	-2%		
Staff	-30.3	-31.6	-31.2	-31.5	1%	4%		
Advert & Promo	-4.9	-4.2	-4.2	-2.8	-33%	-43%		
Provisions	-2.4	-2.1	-1.9	-1.9	0%	-21%		
Other G&A	-29.0	-29.9	-31.8	-32.2	1%	11%		
<b>Operating profit</b>	<b>47.4</b>	<b>45.0</b>	<b>47.1</b>	<b>45.3</b>	<b>-4%</b>	<b>-5%</b>		
Net interest income (exp)	-2.9	-2.8	-2.9	-2.9	0%	0%		
Share of associates			-0.1	-0.4	3.0			
<b>Pretax profit</b>	<b>44.5</b>	<b>42.2</b>	<b>44.1</b>	<b>42.0</b>	<b>-5%</b>	<b>-6%</b>		
Income taxes	-8.0	-7.4	-7.8	-7.6	-3%	-5%		
<b>Profit after tax</b>	<b>36.5</b>	<b>34.8</b>	<b>36.3</b>	<b>34.4</b>	<b>-5%</b>	<b>-6%</b>		
Minority interest	-	0.1	0.1	(0.1)	(2.0)			
<b>Net profit</b>	<b>36.5</b>	<b>34.7</b>	<b>36.2</b>	<b>34.5</b>	<b>-5%</b>	<b>-6%</b>	<b>82.5%</b>	<b>80.1%</b>
EBITDA	80.1	75.4	78.5	77.5	-1%	-3%	78.8%	77.7%

Source: Company data, Maybank Kim Eng, FactSet

**Figure 2: Quarterly operating statistics**

YE Dec 31	3Q17	1Q18	2Q18	3Q18	QoQ	YoY
Total subs ('000)	2,008	1,992	1,963	1,946	-1%	-3%
Net adds	(36)	(47)	(29)	(17)		
Postpaid subs ('000)	1,272	1,304	1,338	1,362	2%	7%
Net adds	5	37	34	24		
Prepaid subs ('000)	736	688	625	584	-7%	-21%
Net adds	(41)	(89)	(63)	(41)		
Blended ARPU (SGD/mo)	23.5	23.3	24.6	24.3	-1%	4%
Postpaid ARPU (SGD/mo)	55.4	54.6	55.6	54.0	-3%	-3%
Prepaid ARPU (SGD/mo)	10.8	9.9	10.5	10.5	0%	-3%

Source: Company data

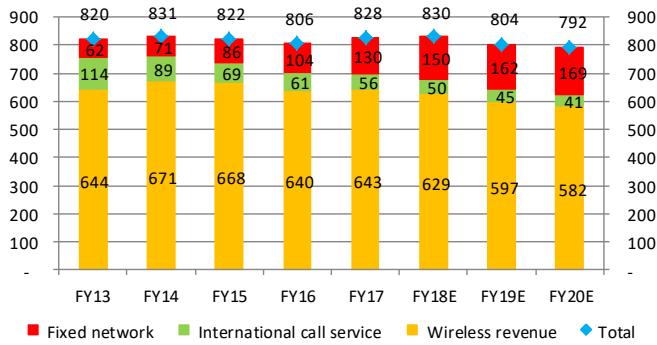
**Other results highlights**

- Although this quarter's presentation slides did not provide an outlook for the rest of the year, the outlook presented in the 2Q18 results presentation remains intact.
- 3Q's QoQ decline in wireless-service revenue stemmed primarily from M1's MNO business and not from its MVNO-derived revenue from its contract with unlisted Circles.Life.
- A 100bp QoQ decline to 33% of tiered-plan subscribers exceeding their data caps reflected the increasing popularity of SIM-only plans and data add-on options.
- A significant 33% QoQ and 43% YoY drop in advertising and promotional expense was from savings by veering away from traditional-print to more digital and social-media advertising.
- Competition remained intense in prepaid wireless.

## 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.

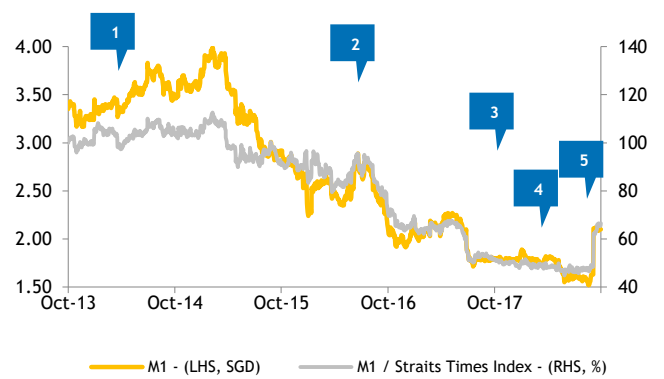
M1's service revenue breakdown (SGD m)



Source: Company, Maybank Kim Eng estimates

## Price Drivers

Historical share price trend



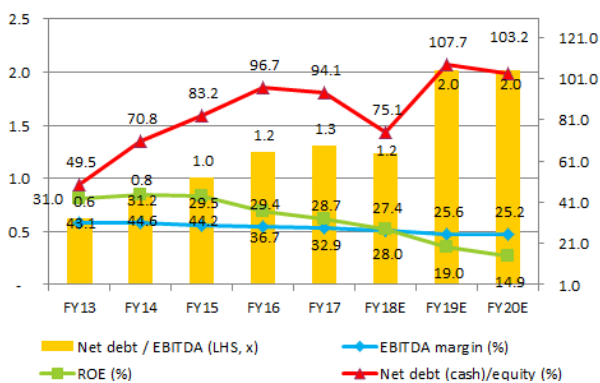
Source: Company, Maybank Kim Eng, FactSet

- 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 weakened share price further.
- Announcement of potential general offer at SGD2.06.

## 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 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 as it remains within its debt covenants.

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
<b>Key Metrics</b>					
P/E (reported) (x)	15.1	13.9	15.4	21.0	26.1
Core P/E (x)	12.2	12.6	15.4	21.0	26.1
Core FD P/E (x)	12.2	12.5	15.3	20.9	26.0
P/BV (x)	4.5	3.9	4.1	3.9	3.8
P/NTA (x)	4.7	4.0	4.2	4.0	3.9
Net dividend yield (%)	6.6	6.4	5.2	3.8	3.5
FCF yield (%)	9.8	7.1	7.5	nm	4.5
EV/EBITDA (x)	7.1	6.7	7.9	9.3	9.5
EV/EBIT (x)	11.9	11.7	14.4	20.5	24.6

**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
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

**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
<b>Total assets</b>	<b>1,146.7</b>	<b>1,268.9</b>	<b>1,254.9</b>	<b>1,420.5</b>	<b>1,377.1</b>
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
<b>Total Liabilities</b>	<b>743.3</b>	<b>840.1</b>	<b>772.2</b>	<b>918.1</b>	<b>866.1</b>
Shareholders Equity	403.4	428.8	482.7	502.4	510.9
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>403.4</b>	<b>428.8</b>	<b>482.7</b>	<b>502.4</b>	<b>510.9</b>
<b>Total liabilities and equity</b>	<b>1,146.7</b>	<b>1,268.9</b>	<b>1,254.9</b>	<b>1,420.5</b>	<b>1,377.1</b>

**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	(220.2)	(160.5)	(128.7)	(345.0)	(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
Change in Debt	47.2	49.0	0.0	150.0	(50.0)
Other invest/financing cash flow	0.0	0.0	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>1.0</b>	<b>35.5</b>	<b>40.9</b>	<b>(28.5)</b>	<b>(36.3)</b>

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
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)
<b>Profitability ratios (%)</b>					
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
<b>DuPont analysis</b>					
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
<b>Liquidity &amp; Efficiency</b>					
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
<b>Leverage &amp; Expense Analysis</b>					
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 (%)	20.8	15.0	12.0	33.0	15.0
Net debt/ (net cash)	390.0	403.5	362.6	541.1	527.4

Source: Company; Maybank

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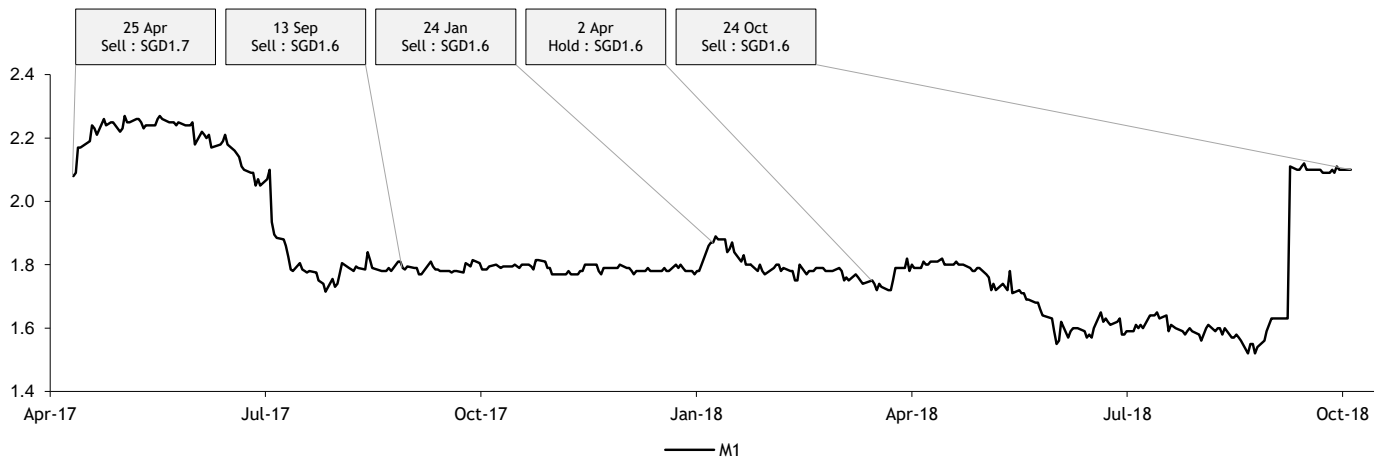
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