

# Singapore Telcos

# POSITIVE

[Unchanged]

## The curious case of Singapore's telco space

### Competition may remain elevated; D/G STH to HOLD

Post post-Covid recovery, we see competition in the mobile and fixed broadband (FBB) space inching up. While mobile consolidation was a hope of competitive rationalisation, Simba's improving fundamentals, balance sheet scale and wide ARPU gap vs. incumbents suggest it is favourably placed to continue to take market share. In a saturated 5G telco space, incremental share may come at the cost of incumbents. With 41% of Starhub's revenue exposure to mobile+FBB, we see a bigger growth overhang anchored by Simba. We D/G Starhub to HOLD and cut our TP to SGD1.30 (from SGD1.44) as we trim our NPAT est. 4-5% on lower mobile/FBB growth expectations. Less than 10% of Singtel's SoTP is 5G consumer driven and it remains relatively shielded. Retain BUY on Singtel.

### Simba ready to join the pride...

With just 4.8% revenue market share (1.2ppt RMS gain in past year), Simba has attained a healthy 42% EBITDA margin and is already FCF positive. This came as a positive surprise as telcos in regional markets are not able to achieve this feat even at 15-20% revenue market share. With Simba's Sim only plans still priced 50% below incumbents and its attractive roaming offers, we see ample room to gain lower-end market share. Simba also has room to invest in the network and potentially make inroads in the higher end market. Simba recently entered the highly commoditised FBB space and is looking at the experience of MyRepublic and M1, and we see room for it to take 5-6% market share.

### ...may result in less effective industry consolidation

Industry consolidation in various markets has helped to rationalise competitive price increases. It raises hopes that if consolidation happens, a 4-player and highly competitive SG market may also improve services. However, our game theory analysis suggests Simba may prioritise market share gains over profitability in light of a) already improving financials in a highly competitive market, b) balance sheet strength and b) just 5% market share is not sustainable in the long term. Given these dynamics, we think the desired results of industry consolidation may not percolate to the incumbents. While Simba's performance pales on the 5G spectrum, we note that 5G use cases in the consumer space are relatively limited and thus are not a major competitive disadvantage.

### D/G Starhub to HOLD; Maintain BUY on Singtel

Roughly 41% of Starhub's revenue comes from mobile and the FBB space and likely a bigger portion of its EBITDA. A sustained aggressive Simba may continue to weigh on its growth even if the industry undergoes consolidation, in our view. We trim our NPAT estimates for Starhub by 4-5% for FY25-26 and trim our TP to SGD1.30. Trading at 6x EV/EBITDA and 13x PE, valuations are broadly in-line with its 5-yr historical mean.

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#### Companies mentioned:

Simba (TUA AU, CP: AUD5.33 , not rated)  
Smartfren (FREN IJ, CP: IDR27, not rated)  
Vi (VODA IN, CP: INR7.80, not rated)  
Dito (DITO PM, CP: PHP1.72, not rated)  
XL Axiata (EXCL IJ, CP: IDR2260, TP: IDR3200, BUY)  
MyRepublic (not listed)  
M1 owned by Keppel Corp (KEP SP, CP: SGD6.49, not rated)

#### Abbreviations:

FBB - Fixed broadband  
ARPU - Average revenue per user  
FCF - Free cash flow  
RMS - Revenue market share

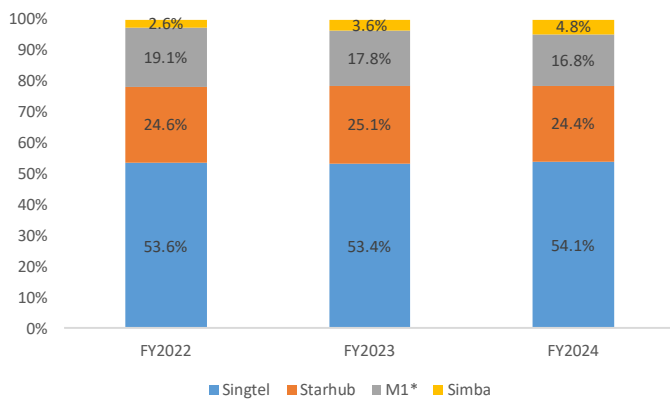
Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x)		P/B (x)		Div yld (%)	
							24E	25E	24E	25E	24E	25E
Singtel	ST SP	39,951	Buy	3.20	3.70	21	18.5	20.6	1.7	2.1	5.9	5.3
StarHub	STH SP	1,584	Hold	1.21	1.30	13	13.0	11.7	3.4	3.2	5.8	6.1

# Simba hits the mark and is well positioned to step up

Simba rolled out its commercial mobile service in Singapore in Mar 2020. In just over 4 years, Simba has garnered 5ppt revenue market share. While market share is still subscale, we note two feats which concerns us on its potential impact on the incumbent telco operators:

- Even at a subscale 5% market share, Simba has attained healthy EBITDA margins, positive FCF and almost NPAT breakeven.
- Pace of market share gain is on an uptrend which raises risk of an even bigger negative impact on incumbents going forward.

**Fig 1: Singapore telcos revenue market share**



\*Estimates Source: Maybank IBG Research, Company data

**Fig 2: Simba financial metrics**

SGD mn	FY21	FY22	FY23	FY24
Mobile subs (000)	392	587	819	1,053
Growth %		50%	40%	29%
Net adds (000)		195	232	234
Revenues	32.2	57.4	86.1	117.1
Growth %		78%	50%	36%
EBITDA	-0.5	15.5	31.1	49.7
Growth %			101%	60%
Margins	-2%	27%	36%	42%
NPAT	-28.2	-26.7	-15.3	-4.4
Capex		35.1	43.4	45.8
FCF		-13.0	-5.2	11.4
Net Cash	94.6	49.6	44.0	55.3

Source: Maybank IBG Research, Company data

## Simba a rare cub finding its financial feet at a low market share

Telco is a high capex intensive business and typically profitability comes at attaining certain scale (~15-20% market share). Simba is rare with it attaining FCF positivity at 5% market share and has guided to attain positive NPAT in FY25.

**Fig 3: Financial metrics of subscale operators in the region**

	Simba	XL Axiata	Smartfren	Dito	Vi
Market	Singapore	Indonesia	Indonesia	Philippines	India
Year of launch	2020	1989	2002	2021	1997
Mobile market share	5%	19%	6%	6%	15%
NPAT margins	-3.8%	6.1%	-8.5%	-368.0%	-61.0%
FCF/FCF yield	SGD11.4mn/1.1%	Rp702bn/2.3%	--/0.0%	-PHP27bn/-79%	nm
Net debt to EBITDA	net cash	2.5	3.5	>10.0	>10.0

Source: Maybank IBG Research, Company data

## Competitive dynamics leaves room for Simba to take market share

Based on the current pricing plans, we notice that Simba is still 50% below that of incumbents. Admittedly, it has a weak network vs. incumbents but end-user experience suggests the lag is relatively small at only 6-10%. We think Simba's strong balance sheet and now positive FCF position allows it to keep investing in its network to keep its topline momentum ticking over. Assuming balance sheet leverage at 2x, we estimate Simba has balance sheet headroom of SGD185m to invest in the network.

**Fig 4: Sim only plan comparison - Simba still at significant discount to incumbents**

Operator	Price (SGD)	Data allocation	Add on	Premium vs. Simba
Singtel/Gomo	18.3	300GB	6GB Roaming	53%
Starhub/Giga	18.3	300GB	6GB Roaming	53%
Simba	12.0	200GB	7GB Roaming	
Singtel/Gomo	15.0	250GB	1GB Roaming	50%
Starhub/Giga	15.3	300GB	4GB Roaming	53%
M1	15.0	250GB	Unlimited Weekend Data	50%
Simba	10.0	200GB	3GB Roaming	

Source: Maybank IBG Research

Similarly, Simba’s fixed broadband pricing for a 10Gbps plan is at SGD29.9/mon which is again at 30-50% discount to a lower speed plans from incumbents.

**Fig 5: Network performance comparison - Simba 78% below incumbents on data download but only 8% below on network experience**

	Singtel	Starhub	M1	Simba	Simba vs. incumbent average
Video Experience	70.1	73.0	68.2	64.0	-9%
Live Video Experience	62.9	65.8	59.8	56.7	-10%
Games Experience	84.2	85.0	80.6	78.3	-6%
Download Speed Experience	97.8	118.4	88.1	21.9	-78%

Source: Maybank IBG Research

**Fig 6: Home broadband plan comparison - Simba still at significant discount vs. incumbents**

	Singtel	Singtel	Starhub	Starhub	M1	M1	Simba
Speed	10Gbps	2.5Gbps	10Gbps	2Gbps	10Gbps	2.5Gbps	10Gbps
Price (SGD)	69.0	43.9	70.0	39.0	63.9	39.9	30.0
Add-on	1 x TP-Link BE22000 Wi-Fi 7 Router	Mobile Broadband (500MB) Home Line 12 FREE months of Singtel TV Ethnic Pack 12 FREE months of Broadband Protect	Ultra smooth connection for 4+ users and multiple devices Choose your preferred router Premier League (24 months) Disney+ (12 months) and Amazon Prime (3 months) on us	1 FREE Linksys MX2 Mesh router (WiFi 6) Amazon Prime on us for 3 mths	Free registration (worth \$61.04) Free ONT Activation for all time slots (worth up to \$123.41) Choose 1 for free: TP-Link Archer BE805 (worth \$799) ASUS ZenWiFi BT10 (Pack of 2, worth \$1,299)	TP-Link Archer BE230 . FREE ONT device worth \$118	. Waived NLT Service Activation fee worth \$61.04 . FREE ONT device worth \$118
	12 months of Disney+ Premium 12 months of Amazon Prime 12 FREE months of Viu Premium 3 FREE months of Microsoft 365 1 FREE month of Singtel Home Protect Flexi 1 FREE month of Security Suite Triple Protect 6 FREE months of Sports Plus Pack on CAST.sg	1 FREE month of Parental Control Pass	Free installation & consultation by our technical experts				

Source: Maybank IBG Research

## A resilient and heavily price discounted Simba may weigh on competition for long

Industry consolidation in various markets has helped to rationalise competition/price increases. It raises hopes that if consolidation happens, a 4-player and highly competitive Singapore service may also improve.

Typical M&A is driven by two factors: better cost structure for the consolidating entity through spectrum augmentation and by rationalizing network duplication and/or rational competition.

However, we think the desired result of industry consolidation on competition may not be visible in Singapore owing to a unique industry structure post consolidation.

- For a subscale operator, market share gain is a bigger growth driver than price increases. Abroad, small operators have participated in industry price hike efforts (Vi in India, XL Axiata and Dito to an extent

in Indonesia and Philippines, respectively), however, that is mainly due to their need to conserve capital and attain sustainability.

- Mathematically speaking, a 1ppt market share gain for Simba is equivalent to a 20% price increase. In our view, price increase of that magnitude is unlikely and, as such, Simba may continue to delve on market share gains.
- Simba has already attained a decent financial performance in an already hyper competitive environment. Besides it has a strong balance sheet position. As such need, on the part of Simba to participate in industry rationalisation is not high, in our view. In fact, Simba could see industry consolidation as a means to quickly attain scale.

Given these dynamics, we think the desired results of industry consolidation may not percolate to the incumbents.

While Simba pales on 5G spectrum performance, we note that 5G use cases in the consumer space are relatively limited and thus not a major competitive disadvantage.

## Downgrade Starhub to HOLD

We downgrade Starhub to HOLD. While we see company's earnings growing at a CAGR of 9% over FY24-26, we temper our expectation of mobile and fixed broadband revenue growth in view of a resilient Simba and potentially less effective industry consolidation. We expect mobile and fixed broadband revenue to decline at -1% CAGR over 2024-26. We trim our 2025-26 earnings estimates by 4-5%. Roughly 41% of the company's revenues come from mobile and fixed broadband and likely a higher proportion of EBITDA. As such, the company has a larger exposure to consumer revenues and faces a bigger risk from Simba's aggression.

Factoring the cut in our earnings and a lower LT growth rate (from 1% to 0.5%), we trim our TP to SGD1.30. Our earnings estimates are 2-5% below the street.

**Fig 7: Starhub earnings revision summary**

SGD m	New			Old			% change		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenues	2,406	2,447	2,482	2,419	2,476	2,526	-0.5%	-1.2%	-1.7%
EBITDA	472	497	521	485	513	539	-2.8%	-3.1%	-3.4%
Margins	19.6%	20.3%	21.0%	20%	21%	21%			
<b>NPAT</b>	<b>161</b>	<b>178</b>	<b>190</b>	<b>161</b>	<b>185</b>	<b>200</b>	<b>-0.1%</b>	<b>-3.8%</b>	<b>-4.8%</b>
<b>TP</b>	<b>1.30</b>			<b>1.44</b>			<b>-10%</b>		

Source: Maybank IBG Research, Company data

**Fig 8: MIBG vs. street estimates for Starhub**

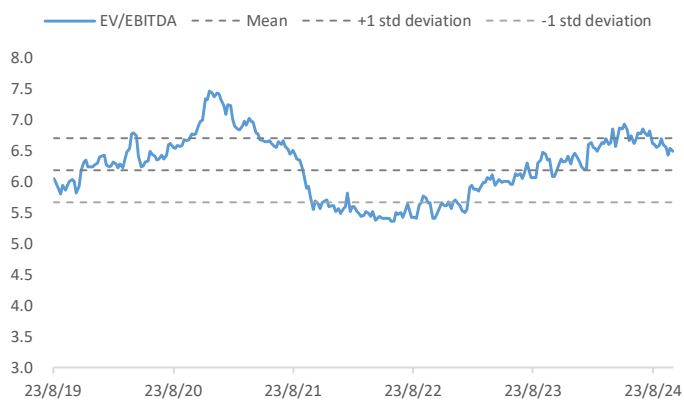
SGD m	Maybank			Street			% var		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenues	2,406	2,447	2,482	2,387	2,458	2,546	0.8%	-0.4%	-2.5%
EBITDA	472	497	521	478	506	523	-1.4%	-1.7%	-0.4%
Margins	19.6%	20.3%	21.0%	20.0%	20.6%	20.5%			
<b>NPAT</b>	<b>161</b>	<b>178</b>	<b>190</b>	165	182	200	<b>-2.1%</b>	<b>-1.9%</b>	<b>-5.0%</b>

Source: Maybank IBG Research, Bloomberg

**Why HOLD?** We still see the company offering a decent 9% earnings CAGR on the back of Dare+ linked cost optimisation, capex reduction and superior enterprise growth.

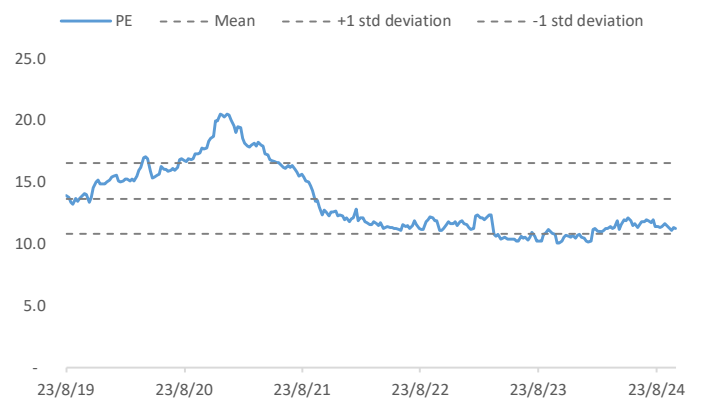
**Valuations.** On EV/EBITDA valuations, it is trading at a slight premium while on PE it is at a discount to its 5-year mean. On dividend yield, it is at premium to its 5-year average.

**Fig 9: Starhub EV/EBITDA band**



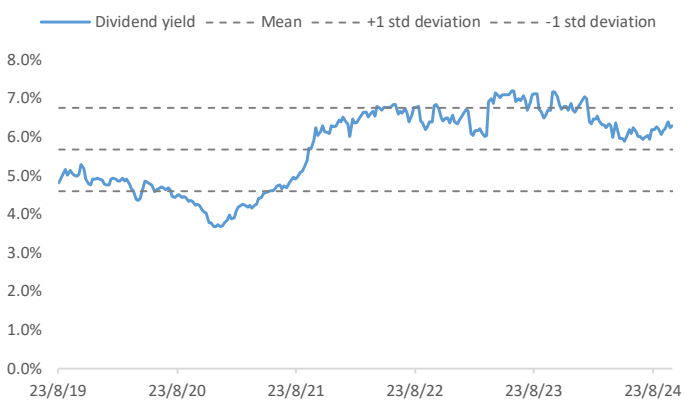
Source: Maybank IBG Research, Bloomberg

**Fig 10: Starhub PE band**



Source: Maybank IBG Research, Bloomberg

**Fig 11: Starhub dividend yield band**



Source: Maybank IBG Research, Bloomberg

## Singtel relatively shielded; retain BUY

Around 11% of Singtel’s group revenues come from Singapore mobile and broadband. This reduces to <5% factoring associate contributions. On our SoTP, Singapore consumer is less than 5% of Singtel’s SoTP. We reiterate our BUY on Singtel. Historical discount is at >30%.

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