

Telecoms Sector

Overweight

Stable 2009 outlook

Resilient 4Q CY08 earnings as expected. All the three telcos - MobileOne, SingTel and StarHub - reported a pretty resilient set of results recently (Exhibit 1). M1's 4Q08 results, though slightly weaker YoY and QoQ, were slightly better than expected, aided by an improvement in EBITDA as it had been less aggressive during the traditionally competitive holiday period. SingTel's 3Q09 results were broadly in line with our forecasts, although there was some disappointment with its regional associates' performances. Likewise for StarHub, its 4Q08 results were also within our expectations, while its FY08 earnings were slightly better than our estimate.

Operationally still going strong. But more importantly, all three telcos expect their operations to remain stable in 2009 (Exhibit 2). For M1, it is also looking to keep its service EBITDA margin of 43-44% and maintain its 80% dividend payout ratio. For SingTel, it expects operating revenues for both Singapore (excluding SCS) and Australia to grow at mid single-digit levels, with Singapore's EBITDA margin staying at 40%; but warns of lower associate contributions and adverse forex movements. Lastly, StarHub expects FY09 operating revenue to grow by low single-digit, while keeping service EBITDA margin at 31%; more importantly, it aims to continue to pay S\$0.045/share dividend quarterly, making for S\$0.18 total for the full year.

More rational competition amid slowing economy. But the rapidly slowing economy will continue to impact consumer spending, and while we do not expect the telcos to be spared (see Exhibit 3 for their ARPU trends), we believe that the impact should be relatively limited as we see telecom services as being a need rather than as a luxury. We also expect less aggressive sales & promotion (S&P) expenses. We have already been seeing an easing in the telcos' acquisition costs over the past two quarters (Exhibit 4) and we see this trend continuing although M1 may have to maintain a relatively higher S&P ratio versus the other two telcos to make up for its lack of bundling abilities. Otherwise, we expect the telcos to maintain status quo (Exhibit 5).

Maintain Overweight on telcos. Even though we are penciling in modest declines in both revenue and earnings for all three telcos this year, these declines pale in comparison to expected tumble in earnings of companies reliant on discretionary spending. Hence we still expect telcos to show relative outperformance this year, backed by their attractive dividends (M1 and StarHub). As such, we maintain **Overweight** on the sector.

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Stock	Price	Rating	Fair Value	Dividend Yield
MobileOne	S\$1.49	BUY	S\$2.12	8.6%
SingTel	S\$2.44	BUY	S\$3.09	5.0%
StarHub	S\$2.00	BUY	S\$2.78	9.0%

Exhibit 1: Summary of Telcos' 4Q CY08 Results

Dec 08 Quarter (\$\$ m)	SingTel	StarHub	M1
Operating Revenue	1147.0	536.7	194.7
EBITDA	539.0	165.2	78.8
Net Profit	327.0	87.5	36.6
Service EBITDA Margin	46.2%	32.1%	40.5%

Note: SingTel results only show Singapore telco business

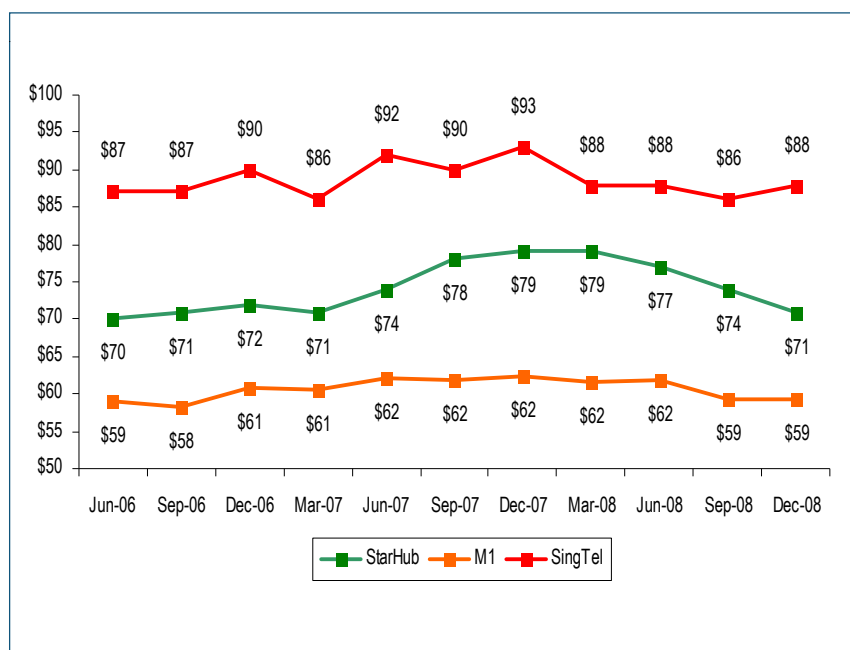
Source: Telcos, OIR

Exhibit 2: Guidance for 2009

Company	Guidance
SingTel	SG and AU 4Q09 operating revenues to grow at mid-single digits Both SG and AU EBITDAs to grow Lower associates contribution and FX volatility risk
StarHub	FY09 operating revenue to grow by low single-digit Maintain service EBITDA margin at 31% Dividend target of S\$0.18/share, or S\$0.045 per quarter
M1	Stable operations in 2009 EBITDA steady at 43-44% Dividend payout of at least 80% of net profit

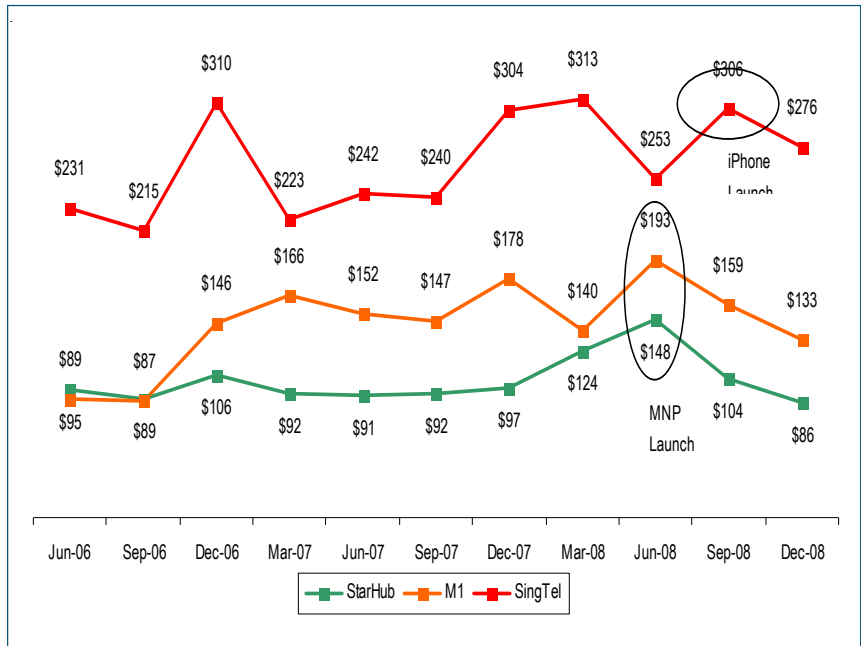
Source: Telcos, OIR

Exhibit 3: ARPU Trends



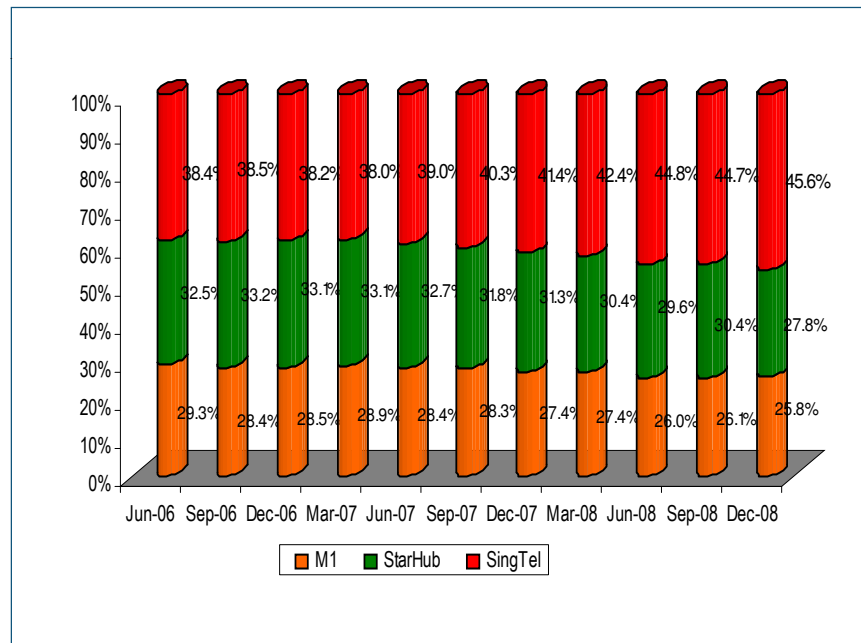
Source: Telcos, OIR

Exhibit 4: Acquisition Costs



Source: Telcos, OIR

Exhibit 5: Post-Paid Market Share



Source: Telcos, OIR

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The analyst who wrote this report holds 1800 shares in the Spore Telecoms.

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