

# Telecoms Sector

## Overweight

### 1QCY09 results likely steady

**Likely steady results from SingTel and StarHub.** Based on the relatively steady results from MobileOne (M1) last week, we are also looking forward to similar showing from SingTel and StarHub when these companies report quarterly results over the next few weeks. As a recap, M1's 1Q09 results were mostly within expectations; topline slipped 8.6% YoY and 4.3% QoQ to S\$186.4m, but net profit jumped 10.4% YoY and 14.5% QoQ to S\$41.9m, albeit due to one-off accounting adjustment for the 1%-point corporate tax rate reduction; EBITDA service margin was steady at 44.6%, despite suffering a near-12k drop in subscribers.

**Associates - main concern for SingTel.** On 14 May 2009, SingTel will announce its 4Q09 results. We expect revenue to show a modest QoQ decline (<5%) as we expect the economic slowdown to exert a slight toil on its business; the weaker AUD is also expected to negatively impact its consolidated revenue. But the biggest concern will still be its regional mobile associates - SingTel had earlier guided for lower overall pre-tax contributions. As such, we are looking for a slightly larger fall (<10% QoQ) in 4Q09 earnings, buffered by the inclusion of contributions from recently-acquired Singapore Computer Systems (SCS).

**OpCo - medium-term positive for StarHub.** On 7 May 2009, StarHub will announce its 1Q09 results - we are pencilling in a modest QoQ (<5%) drop in both revenue and earnings due to the impact of the economic slowdown. And we do not expect any changes to its stated S\$0.045/quarter dividend policy, despite StarHub landing the OpCo bid for the NBN; based on our estimates, its strong operating cashflow should be sufficient to fund most of its higher capex requirements (likely to kick in from next year onwards). In any case, we see the OpCo win as a medium-term positive for StarHub and have adjusted our numbers recently.

**Keeping sector as Overweight.** Despite the recent rally in the overall market, where there has been a shift towards higher beta stocks in the belief that the worst of economic/financial crisis is behind us, we are not convinced that there will be a rapid recovery. We believe that investors should continue to hold on to some defensive stocks such as telcos for their less vulnerable earnings and stable dividend payouts as a means of portfolio diversification. As such, we maintain our **OVERWEIGHT** rating on the sector.

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Stock	Price	Rating	Fair Value	Dividend Yield
MobileOne	S\$1.47	BUY	S\$2.12	8.70%
SingTel	S\$2.60	BUY	S\$3.09	4.70%
StarHub	S\$2.03	BUY	S\$2.88	8.90%

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

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