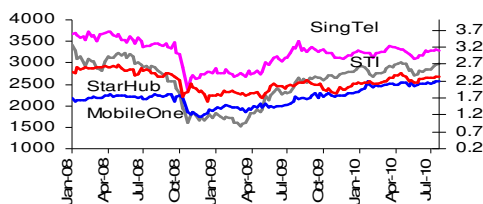


28 July 2010

Overweight



Telecom Sector

All three telcos to launch iPhone 4G

Simultaneous iPhone 4G launch. All three telcos - M1, SingTel and StarHub - will simultaneously launch the new Apple iPhone 4G on 30 Jul. While this was a departure from the previous iPhone 3GS launch, where SingTel had the exclusive march on the other two telcos for almost four months, we are not surprised by the latest move. We note that Apple has been moving towards non-exclusive deals for its iPhones across the globe; we suspect the stronger-than-expected demand arising from M1's and StarHub's mid-Dec 2009 launch of the iPhone 3GS may have tilted the scale towards a non-exclusive launch. In addition, Apple may also be looking to strive off growing competition from the Android-based smartphones.

Unlikely to see extreme pricing competition. Meanwhile, all the three telcos have started to accept pre-orders for the iPhone 4G online and are pricing the 16GB version between S\$0 and S\$480 and the 32GB one between S\$0 and S\$630 depending on the service plans taken up. We note that the pricing was just a little cheaper than the previous model. And being slightly late to the game (StarHub and M1 only started offering the iPhone 3GS in mid-Dec 2009), the demand from their existing iPhone subscribers may not be as strong due to the 2-year lock-in period. We suspect the demand may also be slightly dampened by the 4G's much-publicized "reception bug". As such, we note that the promotions/subsidies for the iPhone 4G are not that aggressive. And as expected, the telcos are continuing with the existing iPhone price plans.

Data usage likely to grow. Separately, Apple launched its widely popular iPad tablet in Singapore last Friday to overwhelming response as well. However, due to the closeness of the launches, we suspect that this may steal some of the iPhone 4G's thunder. Nevertheless, the growing popularity of these smart devices will trigger further growth in the mobile data segment. Already we note that all the three telcos have introduced new standalone mobile data packages for the iPad, but without the margin-sapping subsidies for the device.

Maintain OVERWEIGHT. We believe that the iPhone 4G launch should be quite positive as it is unlikely to result in further margin compression. The impending roll-out of the NBN (new fibre-to-home network) will provide further catalyst for all the three telcos in the latter part of 2010. As we continue to like their defensive earnings and attractive dividend yields, we remain **OVERWEIGHT** on the sector.

Company	Rating	Fair Value	Dividend Yield
M1 Ltd	BUY	S\$2.40	6.60%
SingTel	BUY	S\$3.40	4.80%
StarHub	BUY	S\$2.32	8.80%

*StarHub's fair value is under review

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

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Published by OCBC Investment Research Pte Ltd