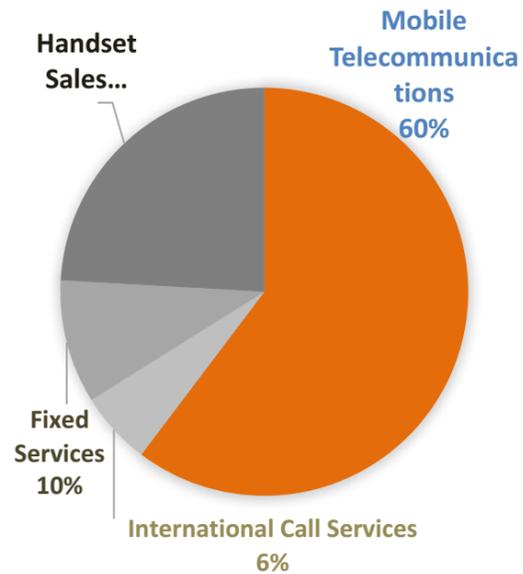




A Weakening Signal

Company Overview

Figure 1. M1 Operating Revenue Mix



Source: M1 Annual Report

M1 Ltd. Is the smallest of the three Singapore telecom operators. M1 operates solely in Singapore. It provides mobile voice, data communications, broadband and fixed communications services in Singapore. The Company operates high-speed fixed broadband, fixed voice and other services.

(SGD\$ M)	FY15A	FY16A	FY17E	FY18E
Revenue	1,157.2	1,060.9	1,102.5	1079.4
Gr Rate (%)	-	(8.32)	3.93	(2.09)
EBITDA	341.4	312.0	306	266
Margin (%)	29.5	29.4	27.7	24.6
Net Income	178.5	149.1	140.8	100.3
Margin (%)	15.4	14.1	12.8	9.3
FCF	106.1	129.9	109.8	-4.0
Forward EV/EBITDA	-	-	4.73	5.44

Investment Thesis

Figure 3. M1 Revenue and Operating Profit



Source: M1 Annual Report, Estimates

- Heightened competition;** entry of TPG by 2018, as well as MyRepublic's MVNO venture, forecasted to gain combined revenue market share of 5.5% at incumbent's expense. M1 is most at risk given the lack of diversification, since most of its operations are focused on the wireless segment (80% of Rev). **Escalating Costs;** M1 is projected to retain and grow high-end customer base ahead of new entrants, through more handset subsidies. This will escalate costs, which would hurt revenues (ARPU) and dividend payouts (huge factor driving stock price). **Market saturation inhibiting organic growth;** household penetration rate of fixed broadband for Singapore at 98%, and mobile penetration rate at 150% in 2017 poses a challenge to M1's organic growth. M1's foray into corporate segment is challenging due to incumbent's entrenched position. **Lack of M&A Interest;** The strategic review carried out by M1's 3 largest shareholders in March failed to garner any buyer interest. Lacking a potential deal providing an upside catalyst, there is no impetus to break the current negative sentiment on the stock.

Industry Outlook

Figure 2. Projected Market Share by Telco Companies



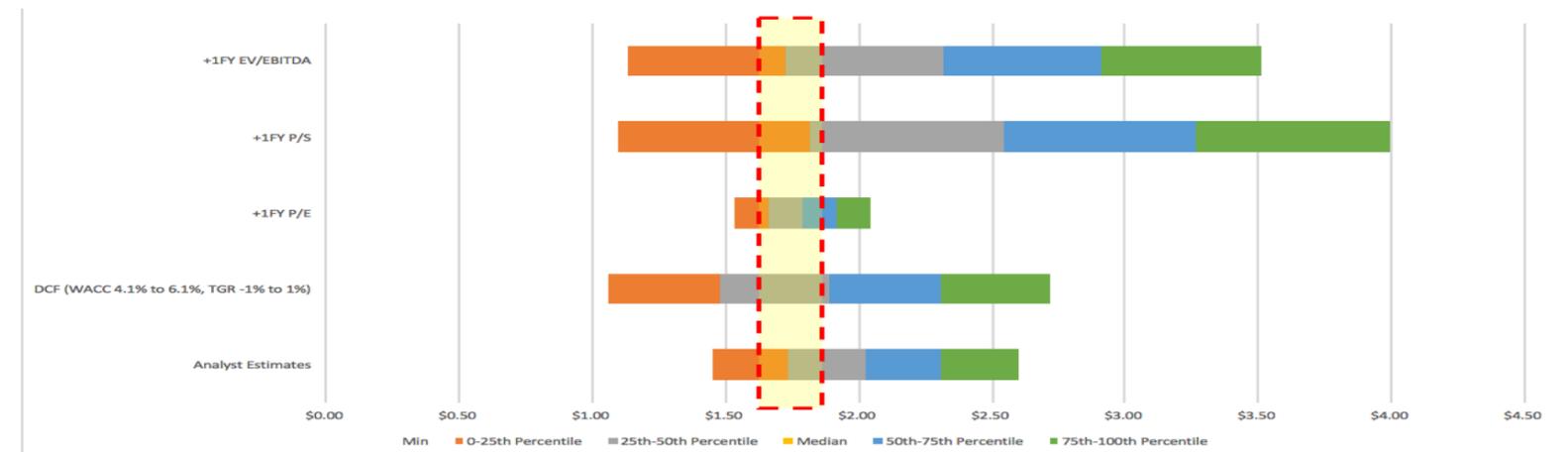
Source: Various Broker Estimates

- Entry of TPG Telecom;** TPG won bid to use 60 MHz spectrum, with rights to airwaves beginning 1st April '17. It is required to provide basic 4G coverage within 18 months of start date. Its full-fledged rollout is expected in 2018, potentially triggering another price war. MyRepublic has also signalled its intention to enter the market as an MVNO (Mobile Virtual Network Operator), which could further increase competition and depress margins.
- Telcos compete to lock in postpaid customers;** Higher customer acquisition costs to put pressure on the bottom line as handset subsidies are expected to remain relatively high as telcos attempt to retain their postpaid customers. ARPU is also expected to fall due to growing take-up of lower-priced postpaid SIM-only plans, combined with increased data allowances.

Valuations

Our 12 month price target from date of coverage is S\$1.57, assuming a terminal growth rate of 0% and WACC of 5.1%. With only strictly domestic revenue streams, additional competition in an already saturated market will inevitably hurt margins and profit for M1. Furthermore, M1's inability to generate strong selling points against its larger more illustrious peers and effective diversification of revenue streams lend credence to our projected growth assumptions and target price.

Figure 4. Valuation Summary



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