

# Singapore Company Guide

## Asian Pay Television Trust

Edition 1 Version 1 | Bloomberg: APTT SP | Reuters: ASIA.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

2 Dec 2015

### HOLD

Last Traded Price: S\$0.745 (STI : 2,870.26)

Price Target: S\$0.77 (7% upside) (Prev S\$0.87)

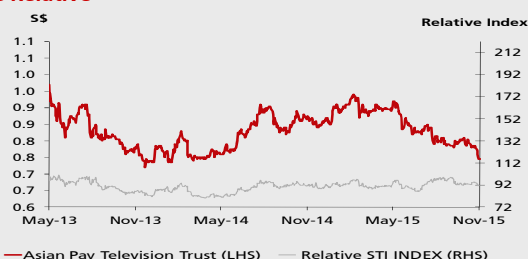
Potential Catalyst: Network expansion delays

Where we differ: FY16F EPS below consensus

#### Analyst

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#### Price Relative



#### Forecasts and Valuation

FY Dec (\$m)	2014A	2015F	2016F	2017F
Revenue	319	324	329	337
EBITDA	191	199	204	207
Pre-tax Profit	97.8	75.5	101	101
Net Profit	114	52.5	70.3	70.7
Net Pft (Pre Ex.)	114	52.5	70.3	70.7
EPS (S cts)	7.96	3.65	4.89	4.92
EPS Pre Ex. (S cts)	7.96	3.65	4.89	4.92
EPS Gth (%)	110	(54)	34	1
EPS Gth Pre Ex (%)	110	(54)	34	1
Diluted EPS (S cts)	7.96	3.65	4.89	4.92
Net DPS (S cts)	8.25	8.25	8.25	8.64
BV Per Share (S cts)	88.6	84.0	80.7	77.0
PE (X)	9.4	20.4	15.2	15.1
PE Pre Ex. (X)	9.4	20.4	15.2	15.1
P/Cash Flow (X)	11.0	5.7	5.6	5.5
EV/EBITDA (X)	10.8	10.7	10.7	10.6
Net Div Yield (%)	11.1	11.1	11.1	11.6
P/Book Value (X)	0.8	0.9	0.9	1.0
Net Debt/Equity (X)	0.8	0.9	1.0	1.0
ROAE (%)	8.8	4.2	5.9	6.2
<b>Earnings Rev (%):</b>		(1)	(1)	(1)
<b>Consensus EPS (S cts):</b>		4.8	5.8	6.2
<b>Other Broker Recs:</b>		B: 3	S: 0	H: 3

Source of all data: Company, DBS Bank, Bloomberg Finance L.P

### Slow network expansion

**Softening ARPU and rising costs are key concerns.** Persistent drop in premium digital cable ARPU and escalating operating and interest costs are key concerns. Network expansion in the Taichung region offers the ability to add more subscribers. However, potential delays in the expansion could minimize the upside. We revised down our premium digital cable ARPU and subscriber growth, resulting in c. 2% drop in FY16F EPS.

**Higher-than-expected finance and interest costs.** In 3Q15, premium cable TV ARPU continued its downward trend, dropping 3% q-o-q. However, expanded subscriber base has minimized the overall impact on revenue. Operating profitability was largely in line despite higher foreign exchange-related losses. In addition, bottom line was impacted by higher-than-expected finance and tax expenses. We have adjusted our model to reflect the higher costs.

**Network expansion is slowing.** Marketing operations in the new coverage areas have already commenced. However, Taichung network expansion has been delayed with some capex being pushed to FY16. Further delays could have an impact on revenues in the near term. APTT refinanced its existing debt in 1Q15 with a new 7-year c.S\$1.4bn borrowing facility. This leaves another ~S\$190m available for borrowing which should easily cover capex over the next two years.

#### Valuation:

Maintain HOLD and a revised DCF-based TP of \$0.77 (WACC 7.2%, terminal growth 0%). Given that expansion capex is funded by debt (not operating cash flow) and over 90% of its debt is hedged at fixed interest rate till 2017, we see little risk to 10% dividend yield over the next 2 years.

#### Key Risks to Our View:

**Competition and weak economy could stifle network expansion.** The total addressable market in the new coverage areas exceeds 400k homes. However, stronger competition and a weaker economy could dampen efforts to gain market share.

#### At A Glance

Issued Capital (m shrs)	1,437
Mkt. Cap (S\$m/US\$m)	1,070 / 759
Major Shareholders	
Venezio Investments Pte Ltd (%)	7.9
Morgan Stanley (%)	5.4
Thornburg Investment Mgmt Inc	5.0
Free Float (%)	78.8
3m Avg. Daily Val (US\$m)	1.1

ICB Industry : Consumer Services / Media

**CRITICAL DATA POINTS TO WATCH**

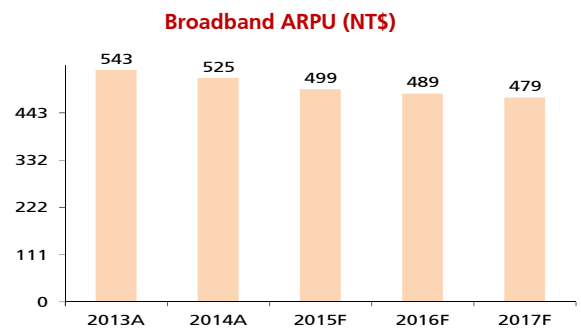
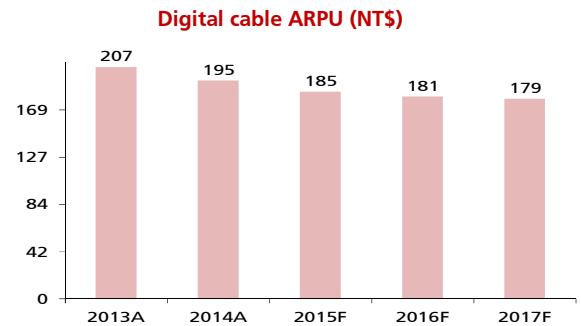
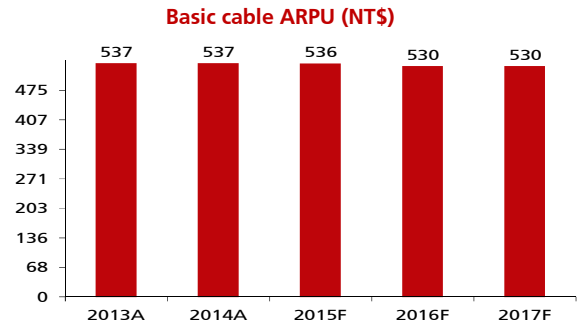
**Earnings Drivers:**

**ARPU decline a concern.** TBC's ARPU has been declining since 2013, especially in the premium digital cable segment, partly due to weak economic condition. Premium digital cable ARPU had declined to NT\$182 (-6% y-o-y, -3 q-o-q) in 3Q15 which has offset much of the subscriber gains seen during the period. As result, we have tempered our premium digital cable ARPU for FY16F. Broadband ARPU has also weakened during the same period.

**Network expansion ongoing, may face delays.** TBC is expanding its network to the greater Taichung region, which is expected to add to the consumer base in the near term. The company incurred S\$43m in total capex over 2013-14 and expect to incur another S\$30m-40m in total over 2015-16. This expansion capex is funded by debt and not operating cash flow.

The core network had covered in excess of 30% of homes in the new coverage area, which has enabled TBC to receive the required regulatory licences to operate in the new coverage areas. Marketing operations commenced in 4Q14. However, the Taichung network expansion has been delayed due to content pricing issues with some network expansion capex being pushed to FY16. At present, the expansion is expected to be completed in FY16 with S\$20m-25m capex during the year. Further delays could result in lower-than-expected subscriber addition in FY16, negatively impacting earnings. We have thus revised down our premium digital cable subscriber growth, resulting in a c.1% drop in FY16F EPS (including the ARPU revision).

**Higher finance expenses.** The network expansion and the resultant increase in debt burden have contributed towards the increase in interest expense for APTT. Finance costs for APTT has risen 26% in 9M15 y-o-y (excluding one-offs). However, APTT has minimised its exposure to interest rate volatility by hedging over 90% its total debt through interest rate swaps till FY17.



Source: Company, DBS Bank

**Balance Sheet:**

**Sufficient debt facilities for growth capex.** APTT refinanced its existing debt in 1Q15 with a new 7-year c.\$1.4bn borrowing facility. This leaves ~\$190m available for borrowing for APTT which should comfortably cover capex over the next two years

**Share Price Drivers:**

**Network expansion.** Successful network expansion in the greater Taichung region is likely to benefit APTT greatly due to customer additions. However, further delays could potentially minimise the upside from the expansion and pressure profitability in FY16.

**High dividend Yield.** APTT has maintained a dividend of 8.25 Scts in FY15, with a yield of ~10%. The management expects to maintain 100% payout of the distributable funds which is likely to help maintain high dividend levels. However, slower customer additions, ARPU drop and increasing costs are key concerns in the long term. Given that expansion capex is funded by debt (not operating cash flow) and over 90% of its debt is hedged at fixed interest rate till 2017, we see little risk to 10% dividend yield over the next 2 years

**Key Risks:**

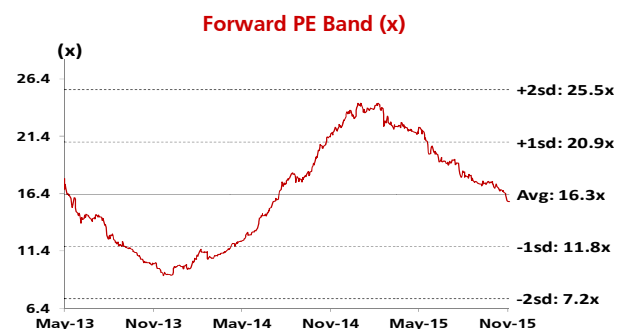
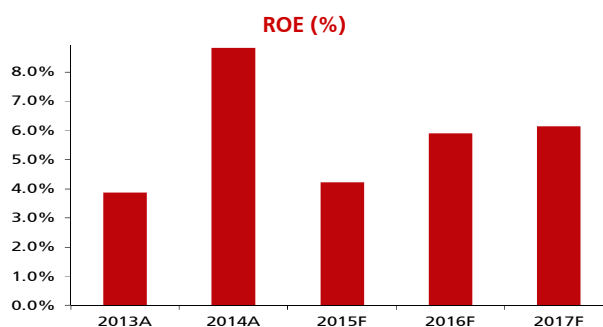
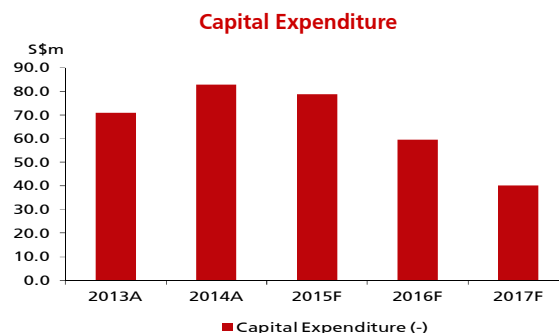
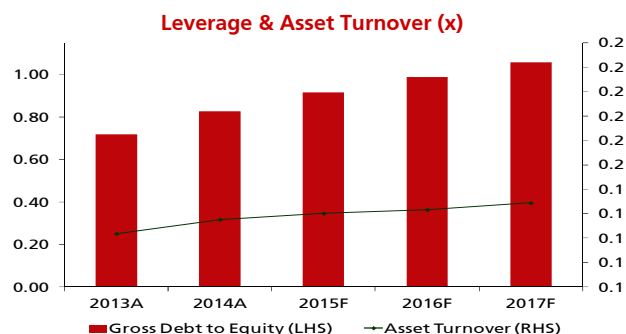
**Potential regulatory policy changes could affect ARPU, revenue.** Regulatory policy changes which allow customers to choose channel bundles at a lower price could erode ARPU and revenue for APTT as c.80% of revenues stem from basic cable. However, the management is of the view that the new policy is unlikely to come into effect due to the lack of support from the industry.

**Competition and weaker economy could stifle network expansion.** The total addressable market in the new coverage areas exceeds 400k homes. APTT is targeting to penetrate at least 35% of households over the next five years. However, stronger competition and a weaker economy could dampen efforts to gain market share.

**Sharp depreciation of Taiwan dollar or sharp rise in interest rates.** APTT hedges only part of its currency and interest rate risks, suggesting there is still an element of risk.

**Company Background**

APTT is a single-asset business trust which holds Taiwan Broadband Communications (TBC) Group, the third largest cable TV operator in Taiwan. TBC also provides fixed broadband services in addition to its cable TV services.



Source: Company, DBS Bank

## Asian Pay Television Trust

## Key Assumptions

FY Dec	2013A	2014A	2015F	2016F	2017F
Basic cable ARPU (NT\$)	537	537	536	530	530
Digital cable ARPU (NT\$)	207	195	185	181	179
Broadband ARPU (NT\$)	543	525	499	499	499

## Segmental Breakdown

FY Dec	2013A	2014A	2015F	2016F	2017F
<b>Revenues (\$\$m)</b>					
Basic Cable TV	248	256	260	262	268
Digital Cable TV	13.1	13.8	15.7	16.0	16.4
Broadband	50.2	49.2	48.7	50.9	53.0
Others	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>311</b>	<b>319</b>	<b>324</b>	<b>329</b>	<b>337</b>

Increase from subscriber additions

## Income Statement (\$\$m)

FY Dec	2013A	2014A	2015F	2016F	2017F
Revenue	311	319	324	329	337
Cost of Goods Sold	(59.9)	(60.1)	(59.5)	(59.6)	(60.3)
<b>Gross Profit</b>	<b>252</b>	<b>259</b>	<b>265</b>	<b>270</b>	<b>277</b>
Other Opng (Exp)/Inc	(99.9)	(117)	(114)	(116)	(119)
<b>Operating Profit</b>	<b>152</b>	<b>142</b>	<b>150</b>	<b>154</b>	<b>157</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(73.5)	(44.1)	(74.8)	(53.4)	(55.9)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>78.2</b>	<b>97.8</b>	<b>75.5</b>	<b>101</b>	<b>101</b>
Tax	(23.4)	16.9	(22.6)	(30.3)	(30.4)
Minority Interest	(0.4)	(0.3)	(0.3)	(0.3)	(0.3)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>54.4</b>	<b>114</b>	<b>52.5</b>	<b>70.3</b>	<b>70.7</b>
Net Profit before Except.	54.4	114	52.5	70.3	70.7
EBITDA	195	191	199	204	207
<b>Growth</b>					
Revenue Gth (%)	0.9	2.3	1.7	1.6	2.3
EBITDA Gth (%)	8.6	(2.1)	4.5	2.2	1.6
Opg Profit Gth (%)	11.3	(6.4)	5.9	2.6	2.0
Net Profit Gth (Pre-ex) (%)	112.5	110.2	(54.1)	33.9	0.6
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	80.8	81.1	81.6	81.9	82.1
Opg Profit Margin (%)	48.7	44.5	46.4	46.8	46.7
Net Profit Margin (%)	17.5	35.9	16.2	21.3	21.0
ROAE (%)	3.9	8.8	4.2	5.9	6.2
ROA (%)	2.1	4.6	2.1	2.8	2.8
ROCE (%)	4.5	6.0	4.4	4.5	4.7
Div Payout Ratio (%)	235.9	103.7	225.9	168.7	175.5
Net Interest Cover (x)	2.1	3.2	2.0	2.9	2.8

Higher interest expense

Source: Company, DBS Bank

**Quarterly / Interim Income Statement (\$m)**

FY Dec	3Q2014	4Q2014	1Q2015	2Q2015	3Q2015
Revenue	80.5	81.9	82.3	82.7	81.6
Cost of Goods Sold	(14.9)	(15.6)	(16.2)	(14.9)	(15.7)
<b>Gross Profit</b>	<b>65.6</b>	<b>66.3</b>	<b>66.1</b>	<b>67.8</b>	<b>65.9</b>
Other Oper. (Exp)/Inc	(29.3)	(32.5)	(27.3)	(28.0)	(28.2)
<b>Operating Profit</b>	<b>36.3</b>	<b>33.8</b>	<b>38.9</b>	<b>39.8</b>	<b>37.7</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(11.3)	(11.6)	(34.8)	(13.4)	(13.8)
Exceptional Gain/(Loss)	(0.5)	(0.3)	(11.5)	3.17	(1.1)
<b>Pre-tax Profit</b>	<b>24.6</b>	<b>21.9</b>	<b>(7.4)</b>	<b>29.6</b>	<b>22.9</b>
Tax	(9.4)	(5.5)	1.94	(9.5)	(8.3)
Minority Interest	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
<b>Net Profit</b>	<b>15.1</b>	<b>16.3</b>	<b>(5.6)</b>	<b>20.1</b>	<b>14.5</b>
Net profit bef Except.	15.6	16.6	5.93	16.9	15.5
EBITDA	48.0	48.9	48.7	50.4	49.0

**Growth**

Revenue Gth (%)	1.6	1.7	0.5	0.5	(1.3)
EBITDA Gth (%)	(0.8)	1.9	(0.5)	3.6	(2.8)
Opg Profit Gth (%)	(2.9)	(6.9)	14.9	2.3	(5.3)
Net Profit Gth (Pre-ex) (%)	(75.9)	6.7	(64.3)	184.8	(8.0)

**Margins**

Gross Margins (%)	81.5	81.0	80.4	82.0	80.8
Opg Profit Margins (%)	45.1	41.3	47.2	48.1	46.2
Net Profit Margins (%)	18.7	19.9	(6.8)	24.3	17.7

Growth affected due to ARPU drop

**Balance Sheet (\$m)**

FY Dec	2013A	2014A	2015F	2016F	2017F
Net Fixed Assets	150	176	206	216	207
Invt in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	2,247	2,225	2,225	2,225	2,225
Cash & ST Invt	96.2	74.5	46.7	44.0	41.4
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	11.5	11.5	11.7	11.9	12.2
Other Current Assets	1.22	2.12	2.12	2.12	2.12
<b>Total Assets</b>	<b>2,506</b>	<b>2,489</b>	<b>2,491</b>	<b>2,499</b>	<b>2,487</b>
ST Debt	6.12	17.5	17.5	17.5	17.5
Creditor	19.1	20.0	19.8	19.8	20.1
Other Current Liab	192	66.3	79.1	96.2	113
LT Debt	943	1,036	1,092	1,130	1,155
Other LT Liabilities	24.4	73.7	73.7	73.7	73.7
Shareholder's Equity	1,319	1,273	1,207	1,159	1,106
Minority Interests	2.33	2.33	2.33	2.33	2.33
<b>Total Cap. &amp; Liab.</b>	<b>2,506</b>	<b>2,489</b>	<b>2,491</b>	<b>2,499</b>	<b>2,487</b>
Non-Cash Wkg. Capital	(198)	(72.6)	(85.0)	(102)	(119)
Net Cash/(Debt)	(853)	(979)	(1,062)	(1,104)	(1,131)
Debtors Turn (avg days)	15.9	13.2	13.1	13.1	13.1
Creditors Turn (avg days)	392.3	629.0	689.8	712.3	687.2
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	0.1	0.1	0.1	0.1	0.1
Current Ratio (x)	0.5	0.8	0.5	0.4	0.4
Quick Ratio (x)	0.5	0.8	0.5	0.4	0.4
Net Debt/Equity (X)	0.6	0.8	0.9	1.0	1.0
Net Debt/Equity ex MI (X)	0.6	0.8	0.9	1.0	1.0
Capex to Debt (%)	(7.5)	7.9	7.1	5.2	3.5
Z-Score (X)	0.8	0.8	0.7	0.7	0.6

Rising mainly due to rise in tax provisions

Source: Company, DBS Bank

## Cash Flow Statement (\$m)

FY Dec	2013A	2014A	2015F	2016F	2017F
Pre-Tax Profit	78.2	97.8	75.5	101	101
Dep. & Amort.	43.1	48.7	49.0	49.4	49.7
Tax Paid	(8.8)	(55.3)	(9.8)	(13.1)	(13.2)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	6.09	2.51	(0.4)	(0.2)	0.0
Other Operating CF	89.2	3.93	74.8	53.4	55.9
<b>Net Operating CF</b>	<b>208</b>	<b>97.7</b>	<b>189</b>	<b>190</b>	<b>194</b>
Capital Exp.(net)	70.9	(82.8)	(78.9)	(59.5)	(40.4)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	0.0	0.0	0.0	0.0
<b>Net Investing CF</b>	<b>70.9</b>	<b>(82.8)</b>	<b>(78.9)</b>	<b>(59.5)</b>	<b>(40.4)</b>
Div Paid	(128)	(147)	(119)	(119)	(124)
Chg in Gross Debt	44.4	110	55.7	38.7	24.3
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(175)	0.40	(75.2)	(53.7)	(56.2)
<b>Net Financing CF</b>	<b>(259)</b>	<b>(36.6)</b>	<b>(138)</b>	<b>(134)</b>	<b>(156)</b>
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	19.8	(21.7)	(27.8)	(2.7)	(2.7)
Opg CFPS (\$ cts)	14.0	6.62	13.2	13.3	13.5
Free CFPS (\$ cts)	19.4	1.04	7.67	9.11	10.7

Over 100%  
dividend payout  
ratio

Source: Company, DBS Bank

## Target Price &amp; Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date	Closing Price	Target Price	Rating
1:	25 Feb 15	0.91	0.90	HOLD
2:	13 May 15	0.90	0.90	HOLD
3:	10 Aug 15	0.85	0.87	HOLD
4:	09 Nov 15	0.79	0.80	HOLD

Source: DBS Bank

DBS Bank recommendations are based on Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return i.e. > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

*Share price appreciation + dividends*

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