

FULLY VALUED

Last Traded Price: S\$2.90 (STI : 3,024.50)

Price Target : S\$2.60 (-10% downside)

Reason for Report : 3Q15 results

Potential Catalyst: Spectrum auction results

Where we differ: FY 15/16 EPS 3%/7% below consensus

Analyst

Sachin Mittal +65 6682 3699 sachinmittal@db.com

Result Summary

| FY Dec (\$ m) | 3Q 2015 | 3Q 2014 | 2Q 2015 | % chg yoy | % chg qoq |
|----------------------|---------|---------|---------|-----------|-----------|
| P&L Items | | | | | |
| Turnover | 277.6 | 250.2 | 276.8 | 11.0 | 0.3 |
| Gross Profit | 85.2 | 83.9 | 82.9 | 1.5 | 2.8 |
| Opg Profit | 56.1 | 55.6 | 55.0 | 0.9 | 2.0 |
| EBITDA | 86.7 | 84.5 | 83.6 | 2.6 | 3.7 |
| Net Profit | 44.9 | 44.5 | 44.3 | 0.9 | 1.4 |
| Other Data | | | | | |
| Gross Margin (%) | 30.7 | 33.5 | 29.9 | | |
| Opg Margin (%) | 20.2 | 22.2 | 19.9 | | |
| Net Margin (%) | 16.2 | 17.8 | 16.0 | | |

Financial Summary

| FY Dec (\$ m) | 2014A | 2015F | 2016F | 2017F |
|----------------------|-------|-------|-------|-------|
| Turnover | 1,076 | 1,108 | 1,111 | 1,099 |
| Operating Profit | 221 | 223 | 223 | 219 |
| EBITDA | 336 | 343 | 345 | 344 |
| Net Pft (Pre Ex.) | 176 | 179 | 179 | 175 |
| EPS (S cts) | 19.1 | 19.2 | 19.1 | 18.7 |
| EPS Pre Ex. (S cts) | 19.1 | 19.2 | 19.1 | 18.7 |
| EPS Gth (%) | 10 | 0 | 0 | (2) |
| EPS Gth Pre Ex (%) | 10 | 0 | 0 | (2) |
| Net DPS (S cts) | 18.9 | 17.3 | 17.2 | 16.8 |
| BV Per Share (S cts) | 42.4 | 42.6 | 44.5 | 45.9 |
| PE (X) | 15.2 | 15.1 | 15.2 | 15.5 |
| PE Pre Ex. (X) | 15.2 | 15.1 | 15.2 | 15.5 |
| EV/EBITDA (X) | 8.8 | 8.6 | 8.6 | 8.8 |
| Net Div Yield (%) | 6.5 | 6.0 | 5.9 | 5.8 |
| P/Book Value (X) | 6.8 | 6.8 | 6.5 | 6.3 |
| Net Debt/Equity (X) | 0.7 | 0.6 | 0.6 | 0.7 |
| ROAE (%) | 44.5 | 45.2 | 44.0 | 41.3 |

At A Glance

| | |
|---------------------------|---------------|
| Issued Capital (m shrs) | 937 |
| Mkt. Cap (\$m/US\$m) | 2,717 / 1,963 |
| 3m Avg. Daily Val (US\$m) | 2.3 |

ICB Industry : Telecommunications

ICB Sector: Mobile Telecommunications

Principal Business: M1 is the smallest of the three telecom operators in Singapore. M1 provides mobile services and has also started to provide fixed broadband services by riding on National Broadband Network.

Source: Company, DBS Bank, Bloomberg Finance L.P

Marker share declines further

- **Net profit of S\$ 44.9m (+1% y-o-y, +1% q-o-q) was in line**
- **Further loss of mobile market share to 23.1% versus 23.9% in 3Q14 and 25.3% in 3Q13.**
- **Further downside from potential entry of fourth player to be announced in 2Q16**
- **Maintain FULLY VALUED with unchanged S\$2.60 TP**

Highlights

Service revenues flat. Revenue of S\$ 277.6 (+11% y-o-y, flat q-o-q) was in line. Handset sales continued to be the key driver for revenue growth. Mobile revenue was slightly lower y-o-y, impacted by lower postpaid ARPU due to new cheaper packages. International revenue continued to decline. Witnessed further loss of mobile market share to 23.1% versus 23.9% in 3Q14 and 25.3% in 3Q13.

Higher handset sales squeeze margins. Higher handset costs and staff expenses decreased margins. The popularity of the iPhone has contributed to higher volumes and ASP, but has also increased handset costs for M1. However, handset subsidies can be minimised in future if new sim-only plans become popular.

Outlook

Downside risk from fourth player. We model 7% revenue share for the fourth mobile player by 2022 and expect a 10% adverse impact on M1's revenue in 2022 versus 4% for StarHub. The winner of the reserved spectrum will be announced in 1Q16 while the actual operations of the fourth mobile player could start from 2Q17 onwards. The impact on M1 could be larger than its peers due to (i) more price sensitive user base; (ii) lesser number of subscribers on bundled offerings; and (iii) larger exposure to the mobile sector as a percentage of group revenue.

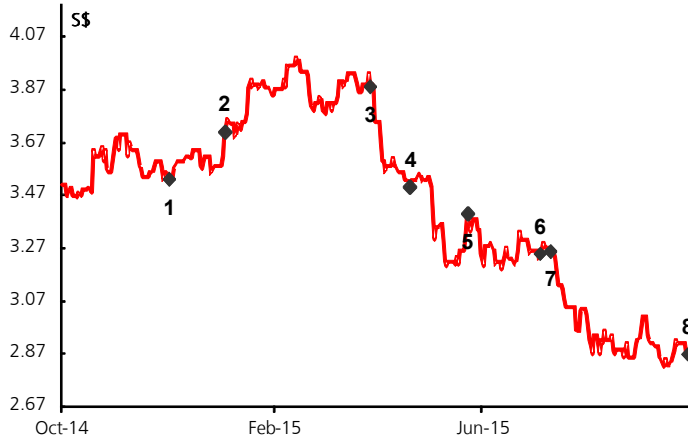
Valuation:

We have used a terminal growth rate of 0% to reflect the uncertainties created by the entry of a fourth player in our DCF valuation (WACC 6.8%) to derive a TP of S\$2.60. We maintain FULLY VALUED.

Key Risks:

Unsuccessful HetNet trails or inability to raise adequate funding. Without HetNet, capex requirements could increase significantly. Another risk will be the fourth entrant's inability to raise adequate funding for network rollout.

Target Price & Ratings History



| S.No. | Date | Closing Price | Target Price | Rating |
|-------|-----------|---------------|--------------|--------------|
| 1: | 19 Dec 14 | 3.53 | 4.05 | BUY |
| 2: | 20 Jan 15 | 3.71 | 4.05 | BUY |
| 3: | 14 Apr 15 | 3.88 | 4.05 | HOLD |
| 4: | 07 May 15 | 3.50 | 3.65 | HOLD |
| 5: | 09 Jun 15 | 3.40 | 3.60 | BUY |
| 6: | 21 Jul 15 | 3.25 | 3.60 | BUY |
| 7: | 27 Jul 15 | 3.26 | 2.94 | FULLY VALUED |
| 8: | 14 Oct 15 | 2.87 | 2.60 | FULLY VALUED |

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

Source: DBS Bank

DBS Bank recommendations are based on an 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

GENERAL DISCLOSURE/DISCLAIMER

This report is prepared by DBS Bank Ltd. This report is solely intended for the clients of DBS Bank Ltd and DBS Vickers Securities (Singapore) Pte Ltd, its respective connected and associated corporations and affiliates (collectively, the "DBS Vickers Group") only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBS Bank Ltd.

The research set out in this report is based on information obtained from sources believed to be reliable, but we (which collectively refers to DBS Bank Ltd., its respective connected and associated corporations, affiliates and their respective directors, officers, employees and agents (collectively, the "DBS Group")) do not make any representation or warranty as to its accuracy, completeness or correctness. Opinions expressed are subject to change without notice. This document is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate independent legal or financial advice. The DBS Group accepts no liability whatsoever for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from any use of and/or reliance upon this document and/or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. The DBS Group, along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. The DBS Group may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

Any valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report, and there can be no assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments. The information in this document is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the company (or companies) referred to in this report.

The valuations, opinions, estimates, forecasts, ratings or risk assessments described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein IS NOT TO BE RELIED UPON as a representation and/or warranty by the DBS Group (and/or any persons associated with the aforesaid entities), that:

- (a) such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
- (b) there is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein.

Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

DBS Vickers Securities (USA) Inc ("DBSVUSA"), a U.S.-registered broker-dealer, does not have its own investment banking or research department, nor has it participated in any investment banking transaction as a manager or co-manager in the past twelve months.

ANALYST CERTIFICATION


The research analyst primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst also certifies that no part of his/her compensation was, is, or will be, directly, or indirectly, related to specific recommendations or views expressed in this report. As of the date the report is published, the analyst and his/her spouse and/or relatives who are financially dependent on the analyst, do not hold interests in the securities recommended in this report ("interest" includes direct or indirect ownership of securities).

COMPANY-SPECIFIC / REGULATORY DISCLOSURES

1. DBS Bank Ltd., DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS"), their subsidiaries and/or other affiliates have a proprietary position in the M1 recommended in this report as of 31 Aug 2015.
2. DBS Bank Ltd., DBSVS, DBSVUSA, their subsidiaries and/or other affiliates may beneficially own a total of 1% of any class of common equity securities of the company mentioned as of 31 Aug 2015.
3. **Compensation for investment banking services:**
DBS Bank Ltd., DBSVS, DBSVUSA, their subsidiaries and/or other affiliates may have received compensation, within the past 12 months, and within the next 3 months may receive or intends to seek compensation for investment banking services from the company mentioned.

DBSVUSA does not have its own investment banking or research department, nor has it participated in any investment banking transaction as a manager or co-manager in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.

RESTRICTIONS ON DISTRIBUTION

| | |
|----------------------------|--|
| General | This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. |
| Australia | This report is being distributed in Australia by DBS Bank Ltd. ("DBS") or DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS"), both of which are exempted from the requirement to hold an Australian Financial Services Licence under the Corporation Act 2001 ("CA") in respect of financial services provided to the recipients. Both DBS and DBSVS are regulated by the Monetary Authority of Singapore under the laws of Singapore, which differ from Australian laws. Distribution of this report is intended only for "wholesale investors" within the meaning of the CA. |
| Hong Kong | This report is being distributed in Hong Kong by DBS Vickers (Hong Kong) Limited which is licensed and regulated by the Hong Kong Securities and Futures Commission. |
| Indonesia | This report is being distributed in Indonesia by PT DBS Vickers Securities Indonesia. |
| Malaysia | This report is distributed in Malaysia by AllianceDBS Research Sdn Bhd ("ADBRS"). Recipients of this report, received from ADBRS are to contact the undersigned at 603-2604 3333 in respect of any matters arising from or in connection with this report. In addition to the General Disclosure/Disclaimer found at the preceding page, recipients of this report are advised that ADBRS (the preparer of this report), its holding company Alliance Investment Bank Berhad, their respective connected and associated corporations, affiliates, their directors, officers, employees, agents and parties related or associated with any of them may have positions in, and may effect transactions in the securities mentioned herein and may also perform or seek to perform broking, investment banking/corporate advisory and other services for the subject companies. They may also have received compensation and/or seek to obtain compensation for broking, investment banking/corporate advisory and other services from the subject companies.  Wong Ming Tek, Executive Director, ADBRS |
| Singapore | This report is distributed in Singapore by DBS Bank Ltd (Company Regn. No. 196800306E) or DBSVS (Company Regn No. 198600294G), both of which are Exempt Financial Advisers as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. DBS Bank Ltd and/or DBSVS, may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, DBS Bank Ltd accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact DBS Bank Ltd at 6327 2288 for matters arising from, or in connection with the report. |
| Thailand | This report is being distributed in Thailand by DBS Vickers Securities (Thailand) Co Ltd. Research reports distributed are only intended for institutional clients only and no other person may act upon it. |
| United Kingdom | This report is being distributed in the UK by DBS Vickers Securities (UK) Ltd, who is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients. |
| Dubai | This research report is being distributed in The Dubai International Financial Centre ("DIFC") by DBS Bank Ltd., (DIFC Branch) having its office at PO Box 506538, 3 rd Floor, Building 3, East Wing, Gate Precinct, Dubai International Financial Centre (DIFC), Dubai, United Arab Emirates. DBS Bank Ltd., (DIFC Branch) is regulated by The Dubai Financial Services Authority. This research report is intended only for professional clients (as defined in the DFSA rulebook) and no other person may act upon it. |
| United States | Neither this report nor any copy hereof may be taken or distributed into the United States or to any U.S. person except in compliance with any applicable U.S. laws and regulations. It is being distributed in the United States by DBSVUSA, which accepts responsibility for its contents. Any U.S. person receiving this report who wishes to effect transactions in any securities referred to herein should contact DBSVUSA directly and not its affiliate. |
| Other jurisdictions | In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is intended only for qualified, professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions. |

DBS Bank Ltd.
12 Marina Boulevard, Marina Bay Financial Centre Tower 3
Singapore 018982
Tel. 65-6878 8888
Company Regn. No. 196800306E