

Asian Pay Television Trust

3Q results in line; expansion impact yet to be assessed

APTT announced an in-line set of 3Q results. The company is on track to reach full-year distribution guidance of S\$0.089/share and maintains a 2014 distribution target unchanged at S\$0.084/share, implying 11.6%/10.9% 2013/14 yield. Surprisingly, the company announced the expansion plan into the rest of the greater Taichung area, but commented that the expansion would not impact 2013/14 dividend guidance, and to be dividend accretive in the medium to long term. We have been having concerns on the economic return of network expansion beyond the affluent Taichung city area, but believe APTT will firstly tap into very adjacent areas with better return justification, and employ this as a defensive tool in response to 'rezoning' risk from new entrants.

- **Expansion strategy.** According to APTT, their expansion strategy includes:
 - 1) APTT is going to start from very adjacent areas of Taichung city, where it can be served mostly with the extension of the existing fiber lines, without much head end requirement;
 - 2) APTT would mainly target areas covered by Veetime and West Coast, instead of attacking the market covered by Kbro. This is mainly because APTT still enjoys some premium of the brand and service compared to the two smaller operators, while the differentiation with Kbro is not much. More importantly, APTT doesn't want to arouse a fight-back from Kbro into Taichung city (Kbro is applying for re-zoning permit now, and is waiting for regulatory approval).
 - 3) Given the loose definition of 'network coverage' by NCC, APTT can mainly cover the network to nodes, and then provide the last mile to demand.
 - 4) More uncertainty, in our view, is to meet 100% new areas coverage requirement within three years time, which will surely involve more head-end investments and more coverage to the nodes that do not necessarily bring much customers (e.g., the areas covered by Kbro).
 - 5) Operators have to provide 100% digital TV offering in expanded areas, and have to provide tier pricing for basic cable TV plans on digital TV platform according to NCC requirement. A simple scenario analysis assuming TBC can gain 10-30% market share in incremental 400K households in Greater Taichung (cable TV total penetration is about 70%), and assume ARPU from incremental subscriber is averaging NT\$550 (expect a 20% discount to basic TV ARPU of NT\$540 due to tiering pricing plus a digital ARPU of NT\$200), total annual revenue from incremental market is estimated to range between S\$10-20mn. APTT can provide cable broadband and channel leasing service, etc. to contribute about another S\$5mn per year, in our estimate.

Overweight

ASIA.SI, APTT SP

Price: S\$0.77

Price Target: S\$1.02

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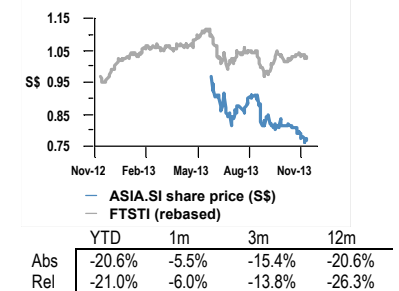
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Price Performance



Asian Pay Television Trust (Reuters: ASIA.SI, Bloomberg: APTT SP)

S\$ in th, year-end Dec	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue (reported) (S\$ th)	304,822	308,731	311,504	323,162	333,873
Adj.EBITDA (S\$ th)	194,291	197,740	199,958	208,937	217,015
Adj.EBITDA growth	4.8%	1.8%	1.1%	4.5%	3.9%
Net Profit Recurring (S\$ th)	72,323	74,153	94,151	95,958	104,442
Net Profit Recurring growth	0.4%	2.5%	27.0%	1.9%	8.8%
EPS Recurring (S\$)	0.05	0.05	0.07	0.07	0.07
DPS (S\$)	0.00	0.00	0.09	0.08	0.09
DPS Growth	-	-	-	(5.9%)	4.0%
EV/EBITDA (x)	11.7	11.5	11.4	10.9	10.5
P/E	15.3	14.9	11.8	11.5	10.6
Dividend Yield	0.0%	0.0%	11.6%	10.9%	11.4%

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data

52-week Range (S\$)	1.01-0.75
Market Cap (S\$ mn)	1,106
Market Cap (\$ mn)	886
Shares O/S (th)	1,436,800
Free Float(%)	97.0%
3M - Avg daily volume (mn)	3.23
3M - Avg daily value (S\$ mn)	2.66
3M - Avg daily value (\$ mn)	2.1
FTSTI	3186.72
Exchange Rate	1.25
Price (S\$)	0.77
Date Of Price	12 Nov 13

See page 6 for analyst certification and important disclosures, including non-US analyst disclosures.

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Company Description

APTT is a trust created to acquire TBC, Taiwan's third-largest cable TV operator with 15% of cable TV market share, and was listed in Singapore in May-2013. TBC provides basic cable TV, premium digital cable TV and broadband services to households and businesses in five relatively affluent franchise areas in northern and central Taiwan. Macquarie is the trustee-manager.

P&L sensitivity metrics

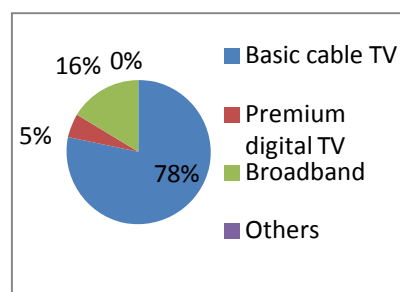
		FY13E AFF impact (%)	FY14E AFF impact (%)
Basic cable TV subscribers	We assume 0.6% increase in FY13E		
Impact of each 5%		1.3%	1.7%
Basic cable TV ARPU	We assume 1.5% decline in FY13E		
Impact of each 5%		2.4%	3.1%
EBITDA margin	We assume 64.2% margin in FY13E		
Impact of each 1%		1.7%	1.9%
Capex	We assume SGD49.2mn in FY13E		
Impact of each 5%		-1.9%	0.2%

Source: J.P. Morgan estimates

Price target and valuation analysis

We adopt DCF as the main valuation methodology. Our DCF valuation based on a 7.8% WACC and 0.5% terminal growth has yielded a Dec-14 price target of SGD1.02.

APTT revenue composition (2014E)



Source: J.P. Morgan estimates

Risk free rate:	3.0%
Market risk premium:	6.9%
Beta:	0.90
Debt/capital:	20.0%
Cost of debt:	2.5%
Terminal "g":	0.5%

Our DCF-based Dec-14 TP of SGD1.02 implies a P/E of 15.6x/15.3x, EV/EBITDA of 12.2x/11.7x and yield of for 8.8% and 8.3% for FY13E/FY14E. Upside risk is faster-than-expected premium digital TV take-up; downside risks include pricing pressure and subscriber growth slow-down as a result of re-zoning.

Valuation comp table

		CHT	TWM	FET	APTT	TWSE
Stock code		2412 TT	3045 TT	4904 TT	APTT SP	TWSE
Rating		N	N	UW	OW	N/A
Price (HK\$)/index level		93.00	97.00	64.1	0.77	8,195
PT (HK\$)		102.00	102.00	56.00	1.02	N/A
% to PT		10%	5%	-13%	32%	N/A
EV/EBITDA (x)	2013E	8.5	8.3	7.4	10.4	9.1
	2014E	8.6	7.0	8.0	10.0	7.9
P/E (x)	2013E	18.2	16.4	17.5	11.8	14.2
	2014E	18.0	16.2	15.7	11.5	12.9
Dividend Yield (%)	2014E	5.6%	6.2%	6.8%	11.6%	3.5%
	2015E	5.1%	6.2%	5.5%	10.9%	NA
P/B (x)	2013E	2.0	5.1	2.8	1.4	1.6
ROE (%)	2013E	11%	31%	16%	12%	N/A
OpFCF yield	2013E	5%	5%	7%	1%	N/A
EPS CAGR	2013E-2015E	1.5%	1%	-5%	14%	N/A

Source: Bloomberg and J.P. Morgan estimates. Note: Share prices and valuations are as of Nov 12, 2013.

Capex and funding. We surely will need to do more thorough work on this part with our upcoming Taiwan trip to speak to more industry contacts and players. A rough estimate is about S\$100mn in total, assuming less head-end requirements and selective last mile rollout to demand. This is in line with company guidance to cover the capex with existing “expansion portion” of debt facility of S\$100mn, implying about 5-6x of revenue. With that, total debt/EBITDA will stay within the target range of 4.5x-5x. We will follow up with more detailed analysis on the return of expansion after our Taiwan trip.

Table 1: Summary of 3Q13 financials

SGD '000s	2013E	1H13A	3Q13A	9M as % of full year forecasts
Revenue				
Basic Cable TV revenue	247,404	122,681	62,674	75%
Premium Digital Cable TV revenue	13,245	6,347	3,330	73%
Broadband revenue	50,595	25,119	12,610	75%
Other revenue	260	0	0	0%
Total revenue	311,504	154,147	78,614	75%
Costs				
Broadcast and production costs	(59,839)	(29,741)	(15,105)	75%
Other operating costs	(23,704)	(11,782)	(6,367)	77%
Total staff costs	(26,060)	(13,020)	(6,484)	75%
Mgmt fee/trust expense/trust manage	(5,700)	(1,410)	(4,157)	98%
EBITDA	196,201	98,194	46,501	74%
EBITDA margin	63.0%	63.7%	59.2%	n/a
Asset EBITDA	199,958	99,604	50,658	75%
Asset EBITDA margin	64.2%	64.6%	64.4%	n/a
Cash distribution	128,517	68,966	n/a	n/a

Source: Company data and J.P. Morgan estimates.

Table 2: Summary of 3Q13 KPIs

Subs in'000s, ARPU in NT\$	2012A	2013E	1H13A	3Q13A
Basic cable TV subs	751	756	753	754
net adds	3	4	2	1
Premium digital cable TV subs	110	128	118	121
net adds	20	18	8	3
Broadband subs	175	185	179	180
net adds	10	10	4	1
Basic cable TV ARPU	545	537	538	537
Premium digital cable TV ARPU	219	204	209	208
Broadband ARPU	572	541	547	545

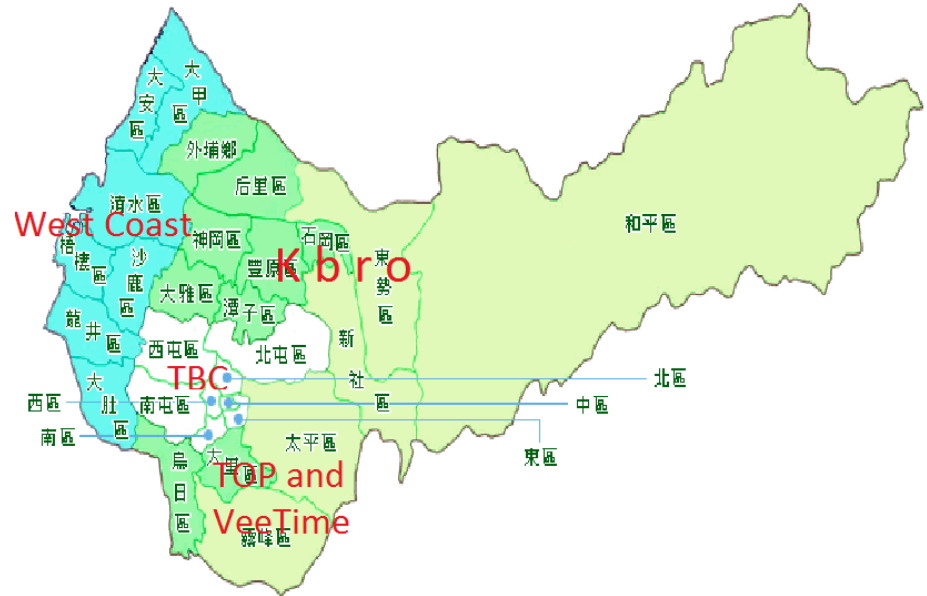
Source: Company data and J.P. Morgan estimates.

Table 3: System operator statistics in Greater Taichung

	Franchise area	No. of households in the area	As % of total Taichung households	Basic cable TV subscribers	Local market share	Digital TV subscribers	Digital TV penetration
TBC - Chun Chien	Taichung city	401,998	45%	295,283	73%	84,025	28%
VeeTime (independent)	Dali	162,711	18%	44,600	27%	7,861	18%
TOP- Datung				58,455	36%	19,521	33%
TOP -Westcoast	Shalu	132,837	15%	78,325	59%	16,807	21%
Kbro- Feng Meng	Fengyuan	188,571	21%	106,240	56%	27,372	26%

Source: Company data, Wikipedia, NCC and J.P. Morgan research. Note: data is as of 3Q13.

Figure 1: Coverage map of Greater Taichung area; TBC has already occupied the most high return area



Source: NCC and J.P. Morgan research.

Asian Pay Television Trust: Summary of Financials

Income Statement						Balance sheet					
S\$ in thousands, year end Dec	FY11	FY12	FY13E	FY14E	FY15E	S\$ in thousands, year end Dec	FY11	FY12	FY13E	FY14E	FY15E
Revenue	304,822	308,731	311,504	323,162	333,873	Cash and cash equivalents	66,938	52,465	69,704	79,711	89,904
EBITDA	179,737	171,072	196,201	202,245	210,008	Accounts receivable	15,564	15,644	15,785	16,375	16,918
Adj.EBITDA	194,291	197,740	199,958	208,937	217,015	Others	-	-	-	-	-
Depreciation & amortization	(31,996)	(38,248)	(44,847)	(52,136)	(49,633)	Total current assets	82,502	68,109	85,488	96,086	106,822
EBIT	147,741	132,824	151,354	150,109	160,374	ST loans	0	6,369	0	0	0
Interest income	114	106	83	110	126	Others	202,526	220,887	219,743	220,161	220,572
Interest expense	(50,216)	(48,161)	(44,235)	(39,402)	(40,408)	Total current liabilities	202,526	227,256	219,743	220,161	220,572
Associates	-	-	-	-	-	Net working capital	(120,024)	(159,147)	(134,255)	(124,075)	(113,749)
Profit before tax	70,764	10,574	77,918	104,901	114,176	Net fixed assets	114,809	121,867	126,238	114,626	105,191
Tax	(75,289)	(36,832)	(22,596)	(28,323)	(30,827)	Other long term assets	21,688	15,022	8,842	3,722	969
Net profit - reported	(7,750)	(26,434)	54,946	76,201	82,972	Total non-current assets	1,951,692	1,918,845	1,917,036	1,900,304	1,888,116
Net profit - adjusted	72,323	74,153	94,151	95,958	104,442	Shares Outstanding (mn)	1,436,800	1,436,800	1,436,800	1,436,800	1,436,800
						EPS (\$\$) (reported)	(0.01)	(0.02)	0.04	0.05	0.06
						EPS (Adjusted)	0.05	0.05	0.07	0.07	0.07
						DPS (\$\$)	0.00	0.00	0.09	0.08	0.09
Revenue growth	2.1%	1.3%	0.9%	3.7%	3.3%	Long-term debt	1,033,218	1,019,397	974,371	995,720	1,024,694
Adj.EBITDA growth	4.8%	1.8%	1.1%	4.5%	3.9%	Other liabilities	324,954	370,296	14,650	25,650	31,796
Recurring net profit growth	0.4%	2.5%	27.0%	1.9%	8.8%	Total Liabilities	1,560,698	1,616,949	1,208,764	1,241,531	1,277,061
Adj EPS growth	0.4%	2.5%	27.0%	1.9%	8.8%	Shareholders' equity	473,496	370,005	793,760	754,859	717,877
DPS growth	-	-	-	(5.9%)	4.0%	Total liabilities and equity	2,034,194	1,986,954	2,002,524	1,996,390	1,994,939
						Net debt/(cash)	966,280	973,301	904,667	916,009	934,789
						Book value per share	0.33	0.26	0.55	0.53	0.50
Ratio Analysis						Cash flow statement					
%, year end Dec	FY11	FY12	FY13E	FY14E	FY15E	S\$ in thousands, year end Dec	FY11	FY12	FY13E	FY14E	FY15E
EBITDA margin	63.7%	64.0%	64.2%	64.7%	65.0%	Cash flow from operations	185,008	174,774	108,077	189,869	187,947
ROE	13.0%	17.6%	16.2%	12.4%	14.2%	Capex	(33,410)	(46,638)	(49,218)	(40,525)	(40,198)
ROC	(0.8%)	(32.0%)	10.7%	11.1%	11.6%	Cash flow from investment	(34,499)	(47,691)	(49,218)	(40,525)	(40,198)
ROA	3.5%	3.7%	4.7%	4.8%	5.2%	Cash flow from financing	(117,860)	(140,301)	(41,621)	(139,337)	(137,555)
Tax rate	106.4%	348.3%	29.0%	27.0%	27.0%	Change in cash for year	32,703	(14,473)	17,239	10,007	10,194
Capex to sales	11.0%	15.1%	15.8%	12.5%	12.0%	Beginning cash	34,235	66,938	52,465	69,704	79,711
Debt/Capital	67.1%	72.5%	53.3%	54.8%	56.6%	Closing cash	66,938	52,465	69,704	79,711	89,904
Net debt or (cash) to equity	204.1%	263.1%	114.0%	121.3%	130.2%						
Interest coverage (x)	3.9	4.1	4.5	5.3	5.4						

Source: Company reports and J.P. Morgan estimates.

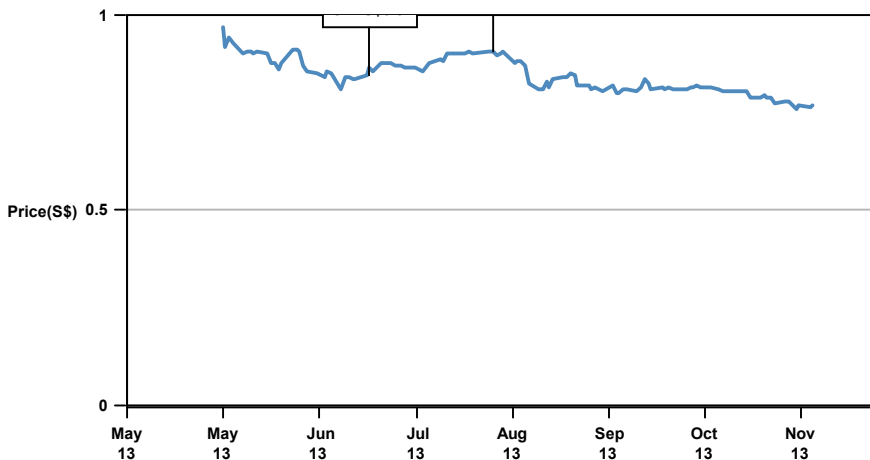
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Asian Pay Television Trust (ASIA.SI, APTT SP) Price Chart



Date	Rating	Share Price (\$\$)	Price Target (\$\$)
09-Jul-13	OW	0.84	0.90
13-Aug-13	OW	0.91	1.02

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Jul 09, 2013.

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