

A stock analysis report on starhub economics essay



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The aftermath of the financial crisis in the year 2008 has adversely affected the economic systems in the world; causing liquidity in the credit markets to dry up and eventually resulted in many financial institutions facing insolvency issues. Businesses around the world faced tough times in getting funds as banks became conservative in lending. Financial authorities around the world thus took measures in a bid to control the wide spread of the crisis to reduce the impacts. Singapore was not spared in the crisis too and now sees massive funds, monetary policies and fiscal plans being implemented to ease the situation.

In 2009, Singapore's GDP decreased by 7.5% from a growth rate of 21.7% in the post-crisis bounce Q2 to 14.2% in Q3. However, there were increasing signs of recovery in Q3, showing an expansion of all sectors in the economy. This reflected a better-than-expected outcome for Singapore's GDP growth forecast for 2009 and has been revised upwards to between -2.5% and -2%, from -6% to -4%. The decrease in unemployment rate from 3.1% in 2005 to 2.2% in 2008 as shown in Appendix Table 2.1 also signals that the Singapore economy is recovering from economic slowdown.

1.2 Critical Variables affecting Singapore economy

We have identified several critical variables that have significant impact on the Singapore economy. They are namely, the monetary policy, fiscal policy, and external trades.

1.2.1 Monetary Policy

One of the key initiative of MAS' to ease the economy is adopting monetary policy works through manipulating the exchange rate to influence the economy to achieve low inflation and sustainable growth, taking into consideration the fact that the nature of Singapore's economy is strongly correlated because of the economy's reliance on exports and the city-state imports virtually all of its needs which will be covered in section 1. 2. 5 Singapore Export. This resulted in MAS relying on the currency rather than its interest rate as its policy tool.

Currently, MAS has abandoned its strong currency strategy in which it has implemented since April 2004 and has maintained its loose monetary policy ' zero per cent appreciation' for the Sing dollar despite a modest recovery from recession since 2002 (CNA, 2009a). The maintaining of its relaxed monetary policy of ' zero per cent appreciation' of the S\$SNEER policy band came about on October 10, 2009 (Bloomberg, 2009). This new policy is a complete U-turn of MAS' stance when MAS called for a quicker exchange-rate appreciation to damp inflation six months ago. Strengthening the Sing dollar, which has been adopted by MAS since April 2004, is a move to tame the increasing inflation as Singapore's annual inflation rate has moved up to 7. 5% in a new 26-year record high (CNA, 2009b). However, inflation for the upcoming year is expected to fall with the increase in commodity prices.

Although MAS Monetary Policy Statement does not state the reason for the new policy except that the economy is deteriorating and inflation is on the rise rapidly, we analyze that the new policy will help Singapore exporters in the long run, and this will be covered under section 1. 2. 5 Singapore Export.

This will encourage a strong growth recovery in the upcoming year and we <https://assignbuster.com/a-stock-analysis-report-on-starhub-economics-essay/>

foresee that the Singapore economy will be favorable to investment despite the gloomy world economy originating from US recession. This is due to the fact that Singapore does not rely only on US but other trading partners from other nations.

1. 2. 2 Fiscal Policy

On the fiscal front, the government has been responsive to the evolving challenges confronting the Singapore economy and has enforced it full force. Subsequently, with the onset of the global financial crisis and credit crunch, the government announced a \$2. 3 billion package towards the end of 2008 to loosen credit lines and help local businesses gain access to loans (MAS, 2009).

In view of the rapidly deteriorating economic environment, a \$20. 5 billion (8. 2% of GDP) resilience package was delivered to save jobs, to address structural challenges, help viable companies stay afloat and enhance the economy's long-term capabilities. For instance, the corporate income tax rate will be reduced from 18% to 17%, starting from YA2010, to boost competitiveness and attract investment to spur job creation. In addition, the government is also pressing ahead with long-term investments in infrastructure, education and healthcare to make Singapore a world-class city. Thus with these policies implemented, growth rate for Singapore economy is expected to rise further in 2010 (IRAS, 2009).

1. 2. 3 Inflation

Inflation occurs when demand exceeds supply, causing prices of goods and services to rise. Over the years, the Singapore's inflation rate has been on a rise from 0.5% in 2005 to 6.5% in 2008 which is in line with the consumer price index (CPI1) which also raised from 100.4 in 2005 to 110.3 in 2008 as shown in Appendix Table 1.4 (Government of Singapore, 2009). The rise in inflation is mainly driven by higher food and transport costs in Singapore. This leads to slower growth of the money supply in the economy as well as higher interest rate are charged for borrowing money. Monetary Authority of Singapore (MAS) has recently announced that its inflation forecast for 2010 to be between 2.5 and 3.5 per cent as a flood of foreign investment raises asset-bubble worries (JakartaGlobe, 2009). A fall in inflation means that the overall price level of goods will decrease and that consumer purchasing power will raise, stimulating consumer spending as well as the economy.

1.2.4 External Factors

The outlook of Singapore's economy is closely linked to global conditions which is the international trade performance. In other words, positive global economic developments would suggest a healthy economy in Singapore. Singapore's consumer price index (CPI1) is driven by external factors such as oil and food commodity prices which is determined by the growth of the world markets. Emerging market economies, especially in Asia, continue to recover strongly. For instance, Indonesia, Singapore's fourth largest trading partner, with bilateral trade valued at S\$75.1 billion saw a rise of 13 per cent from 2007 (Borhan. H., 2009). In addition, private-sector economists currently expect the US economy to expand by 2.7% in 2010, from a

projected -2.4% this year, adding further to the bright outlook of the export markets.

1.3 Forecast for Singapore Economy

We expect that the growth in the first and second quarters in 2010 is likely to be moderated, taking in the fact that exportation is expected to remain depressed. However, in the third quarter onwards, we analyse that the economy will shift towards positive as a result of the stimulative policies implemented by the governments of its trading partners. The Singapore economy will thus ride on this wave of economic recovery and progression. In addition to this is the fact that MAS will continue to be vigilant over the progress of the economy and has implemented a series of policies.

With the continued implementation of the S\$SNEER policy, it will further strengthen Singapore's export markets, encouraging an increase in its export rates due to cheaper goods from Singapore. Furthermore, the resilience package which the government delivered will continue to reap positive effects in the economy as more companies are able to tide through this tough period, saving jobs and increasing employment rate in the process.

2. INDUSTRY ANALYSIS

2.1 Overview of Singapore Info Communication Industry

We have selected info communication industry as the industry suitable for investment. Over the years, the infocomm industry has greatly enhanced

Singapore's competitiveness by raising productivity and transforming business processes.

2. 1. 1 Defensive Industry

We have indentified infocomm industry as a defensive industry.

Telecommunication and internet services are an integral part of business operation and will still be required even in times of recession. The info communication industry plays an important and essential role that supports the Singapore economy to function as a major communication hub. As such, our selected industry will appeal to investors as defensive industries as the values of these stocks are generally maintained during economic downturn.

2. 1. 2 Market Structures – Oligopoly

The Singapore infocomm industry was liberalized in April 2000 by IDA to promote competition among existing players and create opportunities for new market entrants. Following that, big companies like StarHub and M1 were awarded licenses to set up telecommunications operations in Singapore (IDA, 2000). This leads to a transition of the market structure from monopoly previously dominated by SingTel to oligopoly.

Singapore's Info-communication industry is dominated by three major companies namely, SingTel, MobileOne (M1) and StarHub. Currently, SingTel holds the number one position with a 46. 4% market share. StarHub came in second with 27. 9% market share while MobileOne stands third with 25. 7% market share as of 2008 (IR Market Research Corp, 2009). Since a large percentage of the market is taken up by these firms, they tend to cooperate

with each other by keeping their prices competitive to take full advantage of the profits in the industry.

2. 1. 3 Past Sales and Earnings Performance

Singapore's info communication industry is one of the key contributors to the Singapore economy. From Appendix Chart 2. 2, we infer that the overall infocomm industry experienced a stage of constant growth during the period of 2004-2008. The revenue of the industry has been constantly increasing from \$34. 77 billion in 2004 to \$58. 10 billion in 2008. This represents an overall growth of 40. 2 per cent (IDA, 2008a). Based on the trend given in Appendix Chart 2. 2, we infer that the infocomm sector has past the rapid acceleration growth and currently in the stage between mature growth and stabilisation & market maturity. The public are now familiar with the industry, profit margin continues to grow and begins to stabilise as shown in past three years performance.

The Info communication industry in Singapore relies on both the domestic and export markets. Since the domestic market is limited to Singapore, major companies in the sector such as SingTel have expanded its business to overseas. In 2008, the 61% of Singapore's infocomm total revenue was contributed by export composition (IDA, 2008c). Based on the annual survey of info communication industry 2008, Singapore's infocomm export experienced a constant growth rate of 77. 6% from 2004 (\$19. 86 billion) to 2008 (\$35. 28 billion) as shown in Appendix Chart 2. 4. While Singapore's infocomm domestic experienced an overall grow of 53. 1% from 2004 (\$14. 91 billion) to 2008 (\$22. 82 billion) and strong growth of 25. 9% from 2007

(\$18.13 billion) to 2008 (\$22.82 billion) as shown in Appendix Chart 2.5 (IDA, 2008c).

2.2 Government Initiatives towards Info Communication Industry

Singapore's government support plays an important role in the growth of the infocomm industry. Over the years, IDA has been continuously working on creating demand and opportunities to enhance competition and sustain growth in the infocomm industry through short and medium term policies, regulations and guidelines. For instance, IDA has been working on programmes such as the Overseas Development Programme to assist local infocomm companies in expanding into international markets through collaborating with major local infocomm companies (IDA, 2009a). Singapore export infocomm has been a key contributor to the overall growth of the industry. In 2008, 61% of Singapore's Infocomm total revenue was generated by the export sector (IDA, 2008c).

On top of that, the government has recently developed a go-to-market strategy to accelerate market access and expand business opportunities through marketing products and services offered by local infocomm companies to potential foreign customers through overseas tradeshow and seminars (IDA, 2009d). This would help promote the Infocomm industry, create more overseas business opportunities as well as increasing the profit margins of Singapore Infocomm exports in the following financial year.

As for domestic of infocomm, the government will be investing S\$1.73 billion on the infocomm industry to meet the demand of businesses and citizens through increasing business efficiency (IDA, 2009c). To promote effective

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competition, IDA has also recently released new advisory guidelines which obligates major mobile operators such as SingTel, StarHub and M1 to cease the fixed early termination charges on customers who sign on mobile contracts for no longer than three months and terminate before the end of their contract with effect on 1 March 2010. This would mean higher competition between firms in the upcoming year which would aid in the growth of the industry (IDA, 2009e).

2. 3 Porter's Competitive Forces Model

2. 3. 1 Rivalry among Existing Firms

The rising demand for mobile & broadband services has attributed to the stronger competition between the three major operators – SingTel, StarHub and MobileOne. Competitors are now providing higher quality and value-added services at more attractive prices. For instance, SingTel is offering the all-in-one Mio Home packages that include broadband Internet access, home fixed line and Mio TV at an attractive price. In addition, SingTel and M1 are also offering rewards such as monthly bill rebates to promote loyalty from existing subscribers and new phone set at attractive prices to attract new customers. Besides that, they are also offering full mobile number portability services to allow subscribers to retain their existing phone number even if they switch to another service provider. As such, the competition between these companies would further drive the infocomm industry.

2. 3. 2 Bargaining Power of Customers

Since Singapore Infocomm sector are dominated by SingTel, StarHub and M1, customers will have to accept the service plans offered by these companies. As such, customers in the telecommunication industry have little bargaining power since the price of products and services are mainly determined by these companies and. For example, customers who wish to buy an iPhone would need to subscribe to 3G data plans and pay a fixed price plan set by the mobile provider. Thus, even if there is a price cut, it is most likely caused by competition within the industry rather than customers bargaining power (MSN, 2009). As such, major infocomm companies have the ability to influence the market price of their products and services while keeping prices competitive to take full advantage of the profit margin thus making the industry attractive to invest.

2. 3. 3 Bargaining Power of Supplier

The suppliers of the major infocomm companies are recognised as having strong bargaining power over the industry. For instance, the suppliers of StarHub's Max Cable TV are mainly contents providers such as Cartoon Network, HBO, etc and handsets suppliers such as Nokia, Sony Ericsson, etc. With the recent acquisition of the distribution rights of Apple iPhone, Apple Inc would become the new supplier of StarHub. These suppliers have high power in exercising the price and quality of the product. For example, in order to broadcast a particular channel on Max Cable TV, StarHub would need to pay a price set by the channel providers.

2. 3. 4 Threat of New Entrants

The ownership of a telecom license can represent a huge barrier to entry. Singapore infocomm industry was liberalized in April 2000 by the government with the objective to increase competition among existing players and to create opportunities for new market entrants. However, since most citizens already own at least one mobile phone and are tied to their service plans, it would be difficult for a new entrant to penetrate into the market as they would need to come out with a large sum of money for set up as well as to compete with existing competitors in price, quality and services. As such, the threat of a new entrant to major players such as SingTel and StarHub is low (Point-Topic, 2009).

2. 3. 5 Threat of Substitute Products or Services

Our team infers that there are currently no close substitutes in other industries since the Singapore infocomm industry is constantly keeping up with new technology and infrastructure it would be hard for other industries to come out with substitute products or services. As such, the threat of substitute products or services to the major infocomm companies is also minimal.

2. 4 Forecast for Info Communication Industry

It is expected that the info communication industry will maintain its performance in this economic slowdown. The defensive industry as a whole remains stable and continues to grow even at times of economic slowdown which is an appealing choice for investors. Thus we have grounds to believe that revenue for the infocomm industry will sustain and that the industry will achieve a stronger growth to be in line or even go beyond the forecasted growth of the general economy for 2010 (IDA, 2008a).

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3. COMPANY ANALYSIS

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