

Asymmetric information and expensive insurance

Singapore Telecoms: Not all price cuts are created equal (or even price cuts...)

- When a price cut is not quite...:** Local papers in Singapore widely reported recent pricing moves by carriers as “a price war”. A nice title to sell papers, but not entirely accurate. For all subscribers using 3GB of data or less (which represents a very large percent of the user base, our usage spread assumptions are in Table 4), these new packages represent no price change. Per GB price cuts begin at the 4GB usage level (please see Figure 2). This is important, as average data usage in 4Q15 was 3.3GB for M1 (growing 10% YoY) and 2.2GB for ST in 3Q15 (growing 22% YoY)...i.e. comfortably below where discounts are triggered.
- Asymmetric information and Telco pricing:** A fun fact...your telco provider knows you better than you know yourself (*don't feel bad, Facebook, TenCent, Google, and a whole host of government offices know you better than you as well...*). The reality is that there has always been a clear informational asymmetry between your telco and yourself in terms of your actual usage...they track it every second, and you don't. Telcos have always exploited this asymmetry to sell you larger packages by making the implied price look cheap. Per unit price is only cheap if you fully use the allowance (which almost none of us do). There is a massive difference between effective unit yields, and the yields implied if everyone used EXACTLY the package allowance.
- Fear, loathing, and very expensive insurance:** Another trick up the telco pricing sleeve is clear knowledge that many people are afraid to "break their bucket" and trigger expensive overage charges. As a result, telcos sell us expensive insurance, in that many of us choose a larger bucket than we should, relative to our actual usage, exacerbating the effective yield vs. perfect yield discussed above.
- A price cut or not?** The answer depends on usage patterns (which operators know better than any of us). If we assume usage centered around average levels stated in quarterly results (per above), we solve for an implied change to effective yield of -12% for M1 and SingTel, with a slightly larger cut implied for STH (details in Table 5) *if every subscriber chooses the perfect package...* so yes, a price cut, but not nearly the 50% that the press has claimed.
- Not a step change in competition:** End game, we do not see these new packages as overly disruptive. We see them, instead, as standard operating procedure. Issue new packages leveraging information asymmetry and fear which protect actual unit yields far better than they look, and use them to get press coverage regarding their "huge price cuts". This is a great PR strategy, and a great way to defend unit yields in a way that does not, actually, overly ramp competition.
- An excel sheet running through the packages is available on request.**

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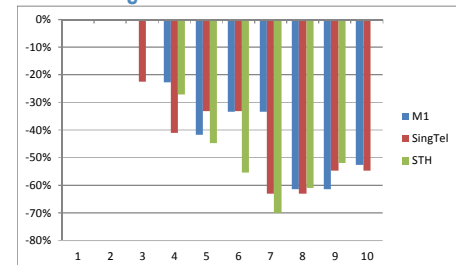
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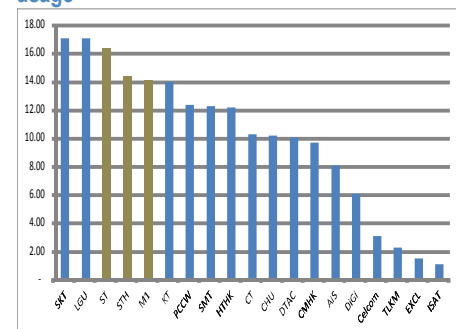
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New vs. Old packages: Price change for various usage levels



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

Per GB pricing in Asia assuming 3GB monthly usage



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

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Key charts

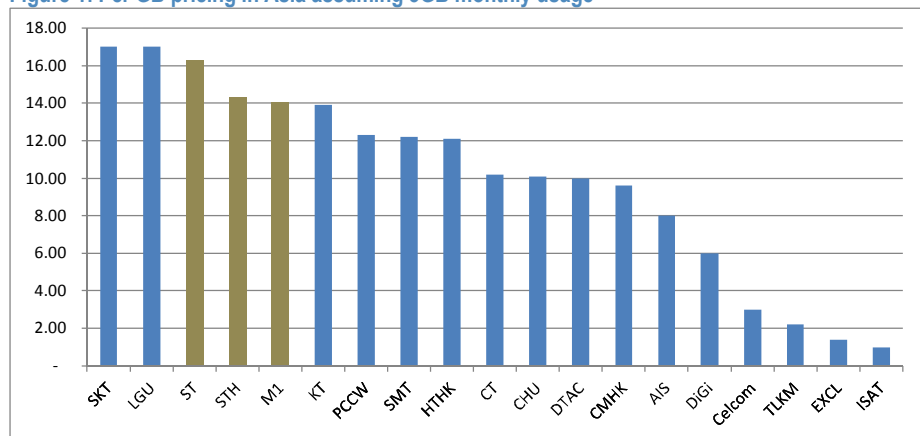
Table 1: Singapore wireless pricing plans: New vs. Old plans - Detail

NEW Data (GB)	Monthly fee (LC)				Implied data unit price (LC)			
	M1	SingTel	StarHub (till 31	StarHub (from 1	M1	SingTel	StarHub (till 31	StarHub (from 1
			March)	April)			March)	April)
1	42.0	42.9	42.9	42.9	42.0	42.9	42.9	42.9
2	42.0	42.9	42.9	42.9	21.0	21.5	21.5	21.5
3	42.0	48.8	42.9	42.9	14.0	16.3	14.3	14.3
4	47.9	48.8	45.9	48.9	12.0	12.2	11.5	12.2
5	47.9	68.8	45.9	48.9	9.6	13.8	9.2	9.8
6	67.9	68.8	45.9	48.9	11.3	11.5	7.7	8.2
7	67.9	88.8	65.9	68.9	9.7	12.7	9.4	9.8
8	87.9	88.8	85.9	88.9	11.0	11.1	10.7	11.1
9	87.9	108.8	105.9	108.9	9.8	12.1	11.8	12.1
10	107.9	108.8	220.0	220.0	10.8	10.9	22.0	22.0

OLD Data (GB)	Monthly fee (LC)			Implied data unit price (LC)		
	M1	SingTel	StarHub	M1	SingTel	StarHub
2	42.0	42.9	42.9	21.0	21.5	21.5
3	42.0	62.9	42.9	14.0	21.0	14.3
4	62.0	82.9	62.9	15.5	20.7	15.7
5	82.0	102.9	82.9	16.4	20.6	16.6
6	102.0	102.9	102.9	17.0	17.2	17.2
7	102.0	239.9	220.0	14.6	34.3	31.4
8	228.0	239.9	220.0	28.5	30.0	27.5
9	228.0	239.9	220.0	25.3	26.7	24.4
10	228.0	239.9	220.0	22.8	24.0	22.0

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

Figure 1: Per GB pricing in Asia assuming 3GB monthly usage



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

Table 2: Singapore wireless pricing plans: New vs. Old plans - according to plan structure

NEW			
Operator	Monthly fee (LC)	Data (GB)	Implied data unit price (USD/GB)
M1	47.9	5	6.7
SingTel	48.8	4	8.6
M1	67.9	7	6.8
SingTel	68.8	6	8.1
StarHub	48.9	6	5.7
M1	87.9	9	6.9
SingTel	88.8	8	7.8
StarHub	88.9	8	7.8
StarHub	108.9	9	8.5
M1	107.9	13	5.8
SingTel	108.8	12	6.4
StarHub	226	15	10.6
M1	233.9	25	6.6
SingTel	244.9	24	7.2

Note: Best plan as per unit data price in each data category highlighted in grey

OLD

Operator	Monthly fee (LC)	Data (GB)	Implied data unit price (USD/GB)
SingTel	42.9	2	15.1
M1	42	3	9.9
SingTel	62.9	3	14.8
StarHub	42.9	3	10.1
M1	62	4	10.9
SingTel	82.9	4	14.6
StarHub	62.9	4	11.1
M1	82	5	11.5
StarHub	82.9	5	11.7
M1	102	7	10.3
SingTel	102.9	6	12.1
StarHub	102.9	6	12.1
M1	228	13	12.4
SingTel	239.9	12	14.1
StarHub	220	12	12.9

Note: Best plan as per unit data price in each data category highlighted in grey

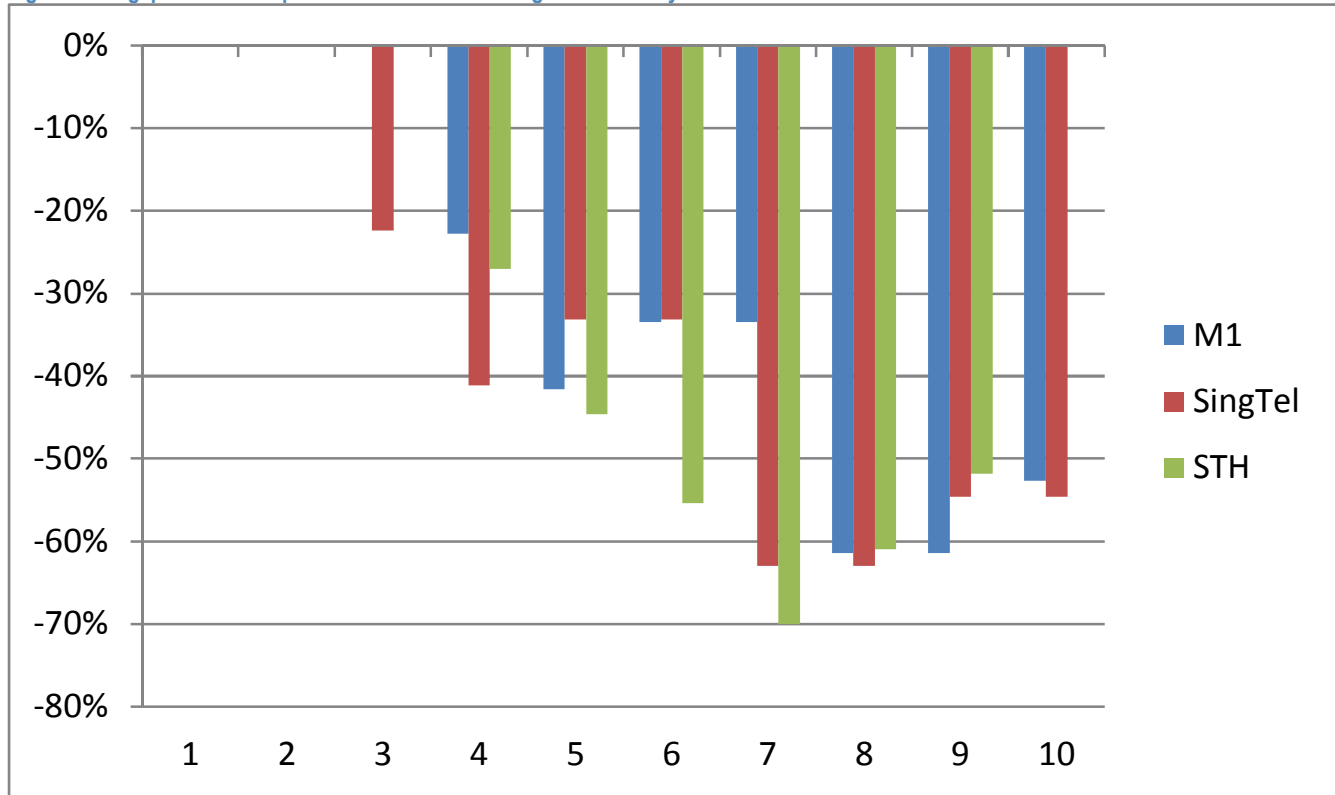
Source: J.P. Morgan estimates, Company data.

Table 3: Singapore wireless plans: New vs. Old % change in effective yields

Data (GB)	M1	SingTel	STH	StarHub (from 1 April)
1	0%	0%	0%	0%
2	0%	0%	0%	0%
3	0%	-22%	0%	0%
4	-23%	-41%	-27%	-22%
5	-42%	-33%	-45%	-41%
6	-33%	-33%	-55%	-52%
7	-33%	-63%	-70%	-69%
8	-61%	-63%	-61%	-60%
9	-61%	-55%	-52%	-51%
10	-53%	-55%	0%	0%

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

Figure 2: Singapore wireless plans: New vs. Old % change in effective yield



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

Table 4: Usage spread assumptions by package

Data (GB)	Assumed usage per level				Implied Usage M1	SingTel	STH	StarHub (from 1 April)
	M1	SingTel	STH	StarHub (from 1 April)				
1	20%	25%	20%	20%	0.2	0.25	0.20	0.20
2	20%	25%	20%	20%	0.4	0.50	0.40	0.40
3	20%	25%	20%	20%	0.6	0.75	0.60	0.60
4	15%	15%	15%	15%	0.6	0.60	0.60	0.60
5	10%	5%	10%	10%	0.5	0.25	0.50	0.50
6	5%	5%	5%	5%	0.3	0.30	0.30	0.30
7	5%	0%	5%	5%	0.35	-	0.35	0.35
8	5%	0%	5%	5%	0.4	-	0.40	0.40
9					0	-	-	-
10					0	-	-	-
	1	1	1	Implied Usage	3.35	2.65	3.35	3.35

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

Table 5: Implied change in effective yield based on usage spread assumptions

Data (GB)	Implied Price New			Implied Price Old				
	M1	SingTel	STH					
1	8.40	10.73	8.58	8.58	8.40	10.73	8.58	8.58
2	4.20	5.36	4.29	4.29	4.20	5.36	4.29	4.29
3	2.80	4.07	2.86	2.86	2.80	5.24	2.86	2.86
4	1.80	1.83	1.72	1.83	2.33	3.11	2.36	2.36
5	0.96	0.69	0.92	0.98	1.64	1.03	1.66	1.66
6	0.57	0.57	0.38	0.41	0.85	0.86	0.86	0.86
7	0.49	-	0.47	0.49	0.73	-	1.57	1.57
8	0.55	-	0.54	0.56	1.43	-	1.38	1.38
9	-	-	-	-	-	-	-	-
10	-	-	-	-	-	-	-	-
	19.75	23.25	19.76	20.00	22.37	26.32	23.55	23.55
Implied effective yield	-12%	-12%	-16%	-15%				

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

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