September 4, 2013

CIMB

MALAYSIA

TELCO - OVERALL

SHORT TERM (3 MTH)	LONG TERM
TRADING BUY	OVERWEIGHT
TRADING SELL	**NEUTRAL**
	UNDERWEIGHT

Notes from the Field

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"Growth was also driven by the larger take-up of mid- to low-priced smart devices, bundled internet offerings for prepaid subscribers, and stronger postpaid subscriber acquisition.

– Henrik Clausen, CEO, DiGi

Highlighted Companies

DiGi.com
DiGi continues to gain market share despite the disadvantage it faces with a smaller 3G network. It has been able to manage the decline in voice and SMS revenues better than its peers.

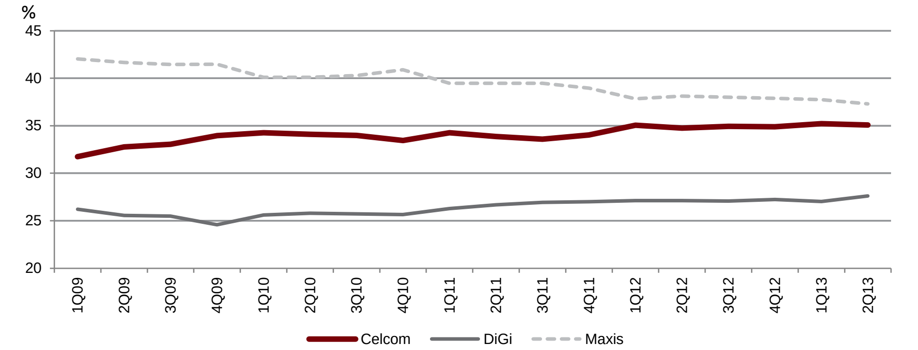
Maxis
Maxis's revenue remains flat and it is losing market share despite revamping its services and prices. We gather that this is due to its weak distribution channel and internal bureaucracy.

Telekom Malaysia
Despite competition from Maxis, TM's fibre net addition continues to be resilient. However, it faces soaring labour costs due to its new collective agreement and a higher statutory retirement age.

Converging market shares

Malaysia's telco industry is not only converging in terms of technology but also in terms of market share. Celcom may surpass Maxis within a year as we expect Maxis to cede more market share with its management flux. DiGi is stepping up its game with a new network.

Figure 1: Service revenue market share



SOURCES: CIMB, COMPANY REPORTS

Maxis has made little impact on TM in the fixed broadband space and we think the Astro-Maxis collaboration is unlikely to be a threat to TM either. The Malaysian telco sector and the underlying stocks remain a Neutral as they lack re-rating catalysts while their steep valuations are offset by their relatively attractive dividend yields. Top picks are M1 and TLKM.

Celcom and DiGi closing in

DiGi continues to gain revenue market share in the mobile market at Maxis's expense. It gained 0.6% pt to reach 27.6% of mobile service revenue while Maxis lost 0.4% pt. Celcom's market share of 35.1% is now just 2.2% pts shy of Maxis's and, at this rate, we think Celcom could surpass Maxis as the largest mobile operator within a year.

While expectations are high for Maxis's new CEO Morten Lundal to turn things around, we think change will take time given the deep-rooted issues.

TM remains resilient

Telekom Malaysia is unaffected by competition from Maxis in fibre broadband given Maxis's steep learning curve and poor execution. TM is capturing about 90% market share of new subscribers. Similarly, we do not think Astro's IPTV will make much of an impact on TM.

TM's content-sharing arrangement with Astro, which secures it 60% of the Barclays Premier League matches, is a step in the right direction but we think it does little to enhance TM's IPTV appeal as football fans want access to all matches.

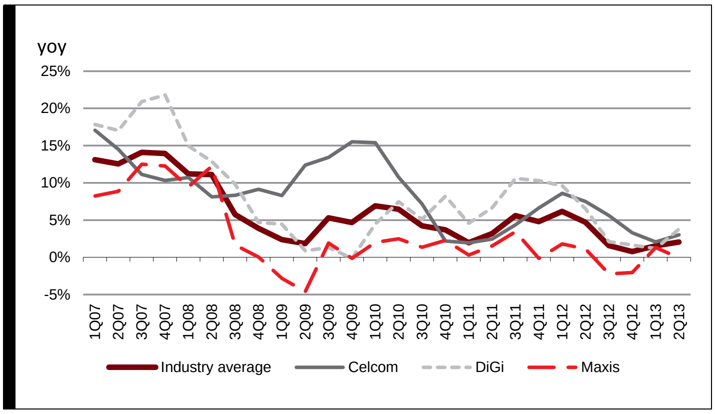
TM going full circle?

We think TM has a reasonably strong case to roll out a full-fledged mobile LTE network as it 1) complements its current fixed voice and data offerings, 2) its large fibre network, number of towers and 850MHz spectrum give it a cost advantage, and 3) gives TM an exposure to the high-growth mobile data segment. TM has in the past attempted to enter the wireless broadband space when it signed an MVNO agreement with Celcom. If TM launches a mobile LTE service, it will be going full circle after carving out its mobile operations to create Axiata.

KEY CHARTS

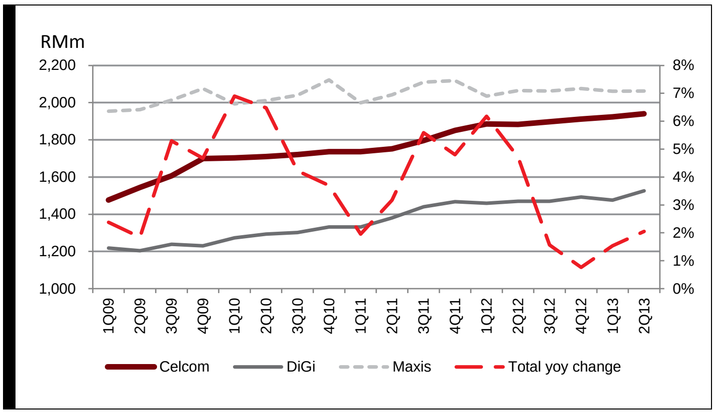
Revenue growth bottoming out

The growth of Malaysia's mobile service revenue appears to be bottoming out, driven by DiGi and Celcom. Maxis's revenue continues to be stagnant despite the RM40m/qtr contribution from wholesaling to U Mobile starting 3Q12. Stripping out U Mobile's contribution, Maxis's revenue would have fallen 2% yoy. Conversely, Celcom's revenue growth is fairly resilient at 3.0% yoy despite losing the wholesale business from U Mobile. In 2Q13, DiGi outpaced its peers by growing 3.8% yoy.



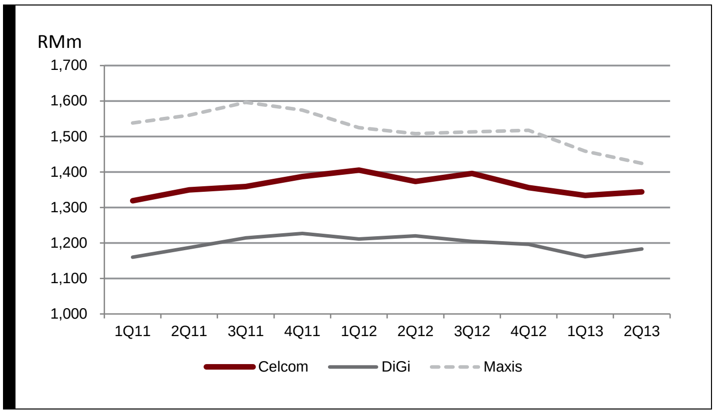
Maxis's revenue share continues to erode, Celcom closing in

Celcom and DiGi continue to gain market share of mobile service revenue. Maxis's revenue has remained flattish over the last few quarters despite growing its data revenues because voice revenues continue to erode. This is despite booking in wholesale revenues from U Mobile. Celcom is within spitting distance of Maxis's mobile service revenue market share. If this trend continues, Celcom will likely surpass Maxis within a year, in our view.



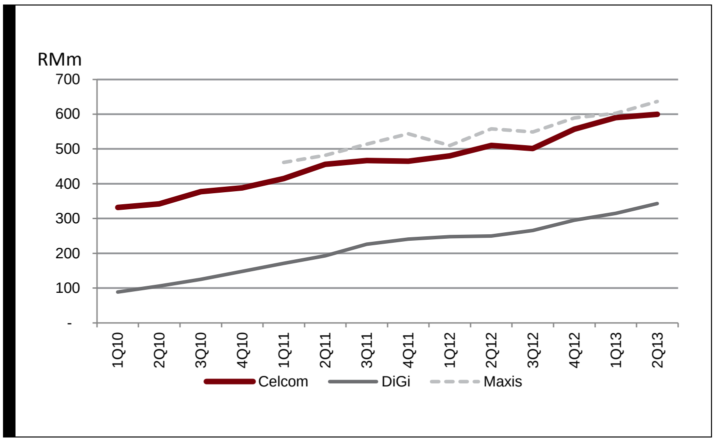
Traditional revenues continue to decline

Traditional revenues (voice and SMS) continue to fall across the board. DiGi is best able to slow the decline because of higher price elasticity among its subscribers and a 20% growth in voice subscribers between 1Q11 and 2Q13 compared to 14% and 2% growth for Celcom and Maxis, respectively. This is despite an onslaught of competition brought about by Maxis in the IDD space aimed at the migrant workers.



Advanced data services (ADS)

Maxis is maintaining its very slim lead over Celcom in advanced data services (small, mid and large screen data as well as value-added service). Celcom is the leader in large screen data but lags behind sharply in small screen data with a smartphone penetration of only 27.5% vs. Maxis's 52%. While DiGi has raised its market share in ADS from 16.3% in 1Q11 to 21.7% in 2Q13, it is a distant third player because it has a small presence in large screen data (dongle users). DiGi has not been acquiring large screen data users in order to focus on the higher-yielding small screen data users. This should change when DiGi launches its new network in 4Q13 and the telco has said it plans to focus on tablet users.



SOURCE: CIMB, COMPANY REPORTS

Figure 2: Sector comparisons

Company	Bloomberg Ticker	Recom.	Price (local curr)	Target Price (local curr)	Market Cap (US$ m)	Core P/E (x) CY2013	Core P/E (x) CY2014	3-year EPS CAGR (%)	P/BV (x) CY2013	P/BV (x) CY2014	Recurring ROE (%) CY2013	Recurring ROE (%) CY2014	EV/EBITDA (x) CY2013	EV/EBITDA (x) CY2014	Dividend Yield (%) CY2013	Dividend Yield (%) CY2014
Amcom Telecommunications	AMM AU	Neutral	1.90	2.00	418.7	20.6	17.8	12.6%	3.7	3.5	19.7%	20.2%	10.2	9.3	3.2%	3.7%
BigAir Group	BGL AU	Outperform	0.71	0.76	104.4	18.7	14.5	24.6%	3.1	2.7	19.4%	20.1%	8.0	6.5	1.6%	2.1%
iiNet	IIN AU	Neutral	5.96	6.43	868.2	15.5	13.0	29.0%	2.8	2.5	19.2%	20.7%	6.1	5.1	3.7%	4.6%
Hutchison Telecom (Aust)	HTA AU	Neutral	0.04	0.03	515.0	na	na	na	0.8	1.1	-23.7%	-29.4%	na	na	0.0%	0.0%
M2 Telecommunications	MTU AU	Underperform	6.30	5.80	1,015.9	20.1	16.0	22.8%	3.6	3.4	20.8%	21.9%	9.4	8.2	3.5%	4.1%
Macquarie Telecom Group	MAQ AU	Neutral	7.70	7.22	145.9	16.6	13.9	-3.2%	1.6	1.5	10.6%	11.4%	4.3	3.9	3.1%	3.7%
Telstra Corporation	TLS AU	Neutral	4.85	5.10	54,519.2	15.5	14.2	15.5%	5.2	5.1	33.3%	37.0%	6.5	5.7	5.9%	6.1%
TPG Telecom	TPM AU	Underperform	3.55	3.07	2,545.8	19.3	17.4	8.7%	4.0	3.5	22.7%	21.5%	9.2	8.8	2.2%	2.7%
Chorus	CNU NZ	Outperform	2.96	3.80	899.2	6.9	7.1	14.4%	1.7	1.6	27.1%	23.4%	4.3	4.6	8.6%	8.6%
Telecom Corporation	TEL NZ	Underperform	2.22	2.20	3,147.7	13.0	12.8	12.1%	2.9	2.8	21.4%	22.4%	3.4	3.4	7.2%	7.2%
Australia/NZ weighted average						15.8	14.5	18.2%	4.4	4.3	27.9%	30.7%	6.2	5.5	5.8%	6.0%
China Mobile Limited	941 HK	Neutral	85.50	76.00	221,630.3	10.5	10.6	-0.7%	1.7	1.6	16.8%	15.4%	3.3	3.1	4.2%	4.1%
China Telecom	728 HK	Outperform	4.10	4.64	42,790.4	14.7	10.2	41.2%	0.9	0.9	6.5%	8.9%	3.6	3.0	2.2%	2.2%
China Unicom	762 HK	Outperform	12.10	17.55	36,966.0	19.7	10.7	65.8%	1.0	1.0	5.3%	9.3%	3.6	2.9	2.0%	3.7%
China weighted average						**11.7**	**10.5**	**10.0%**	**1.4**	**1.3**	**12.6%**	**13.0%**	**3.4**	**3.0**	**3.6%**	**3.8%**
Bharti Airtel	BHARTI IN	Outperform	285.00	382.00	16,820.6	25.9	18.1	41.1%	1.7	1.5	7.2%	9.0%	5.1	4.2	0.4%	0.4%
Idea Cellular	IDEA IN	Underperform	150.10	150.00	7,350.3	26.5	17.3	55.6%	3.3	2.8	13.3%	17.5%	6.4	4.9	0.2%	0.2%
Reliance Communications	RCOM IN	Underperform	126.15	71.00	3,844.3	41.5	29.0	52.8%	0.7	0.7	1.8%	2.5%	7.5	7.2	0.2%	0.2%
Tata Communications	TCOM IN	Outperform	162.90	330.00	685.5	na	na	na	3.7	3.3	-22.7%	-2.1%	6.3	5.3	1.8%	1.8%
India weighted average						**29.6**	**19.4**	**56.0%**	**1.6**	**1.5**	**5.9%**	**8.1%**	**5.8**	**4.8**	**0.3%**	**0.3%**
Bharti Infratel Ltd	BHIN IN	Outperform	137.95	201.00	3,847.1	19.0	16.3	23.2%	1.6	1.5	8.3%	9.5%	4.1	3.4	2.5%	2.2%
Indosat	ISAT IJ	Neutral	4,075	5,500	1,934.8	15.5	13.0	97.5%	1.2	1.2	7.8%	9.2%	3.8	3.6	2.6%	3.1%
Telekomunikasi Indonesia	TLKM IJ	Outperform	2,200	2,900	19,376.1	14.5	13.7	3.7%	3.9	3.6	30.3%	27.5%	4.9	4.9	3.6%	3.8%
XL Axiata	EXCL IJ	Underperform	4,125	4,800	3,076.0	19.3	15.6	-6.1%	2.2	2.0	11.9%	13.4%	4.9	4.5	2.1%	2.6%
Indonesia weighted average						**15.1**	**13.9**	**5.2%**	**3.0**	**2.8**	**21.7%**	**20.9%**	**4.7**	**4.6**	**3.3%**	**3.6%**
Tower Bersama Infrastructure	TBIG IJ	Neutral	5,550	6,000	2,326.0	19.1	13.2	52.8%	4.5	3.1	28.5%	28.0%	13.7	10.4	0.0%	0.0%
SK telecom	017670 KS	Outperform	215,500	250,000	15,849.1	11.2	9.8	19.2%	1.4	1.3	12.9%	13.3%	4.7	4.3	4.4%	4.4%
KT corp	030200 KS	Neutral	36,450	42,000	8,668.8	8.8	6.9	9.7%	0.7	0.7	8.5%	10.1%	3.7	3.5	4.5%	5.5%
LG Uplus	032640 KS	Underperform	12,500	10,000	4,971.0	16.9	14.3	na	1.4	1.3	8.5%	9.3%	4.5	4.3	2.0%	2.4%
Korea weighted average						**11.0**	**9.2**	**20.6%**	**1.1**	**1.0**	**10.3%**	**11.4%**	**4.3**	**4.0**	**4.0%**	**4.4%**
Axiata Group	AXIATA MK	Outperform	6.75	6.80	17,530.1	20.0	18.4	9.1%	2.8	2.7	14.1%	15.0%	7.9	7.3	4.1%	4.9%
DiGi.com	DIGI MK	Neutral	4.67	4.65	11,048.7	22.4	20.3	17.7%	138.9	138.9	618.9%	683.6%	11.1	10.3	4.5%	4.9%
Maxis Berhad	MAXIS MK	Neutral	6.99	7.20	15,957.6	24.7	22.6	11.4%	8.5	9.5	31.6%	39.7%	11.9	11.1	5.7%	5.7%
Telekom Malaysia	T MK	Neutral	5.42	5.60	5,900.1	18.9	20.2	-8.7%	2.7	2.7	15.2%	13.5%	6.3	6.2	4.8%	4.5%
Malaysia weighted average						**21.7**	**20.3**	**8.7%**	**4.9**	**5.0**	**22.6%**	**24.4%**	**9.2**	**8.6**	**4.8%**	**5.1%**
M1 Limited	M1 SP	Outperform	3.21	3.65	2,317.9	17.2	15.5	12.9%	7.6	6.8	47.3%	46.1%	9.3	8.7	4.5%	5.2%
SingTel	ST SP	Neutral	3.51	3.80	43,791.8	15.4	14.1	6.7%	2.3	2.2	14.2%	14.9%	13.1	12.6	4.9%	5.3%
Starhub	STH SP	Neutral	4.10	4.54	5,516.4	18.2	17.2	8.4%	69.3	62.1	534.6%	381.3%	9.4	8.7	4.9%	5.9%
Singapore weighted average						**15.7**	**14.4**	**7.1%**	**2.6**	**2.5**	**16.3%**	**16.9%**	**12.4**	**11.8**	**4.9%**	**5.4%**
Advanced Info Service	ADVANC TB	Underperform	250.00	236.81	23,120.4	20.4	17.6	10.9%	15.9	14.7	82.0%	86.8%	11.4	10.3	5.0%	5.8%
Jasmine International	JAS TB	Neutral	7.25	8.73	1,609.6	16.6	12.4	32.4%	4.8	3.8	32.7%	34.3%	8.5	6.5	3.0%	5.7%
Shin Corporation	INTUCH TB	Outperform	77.75	96.00	7,754.7	15.7	13.6	18.3%	17.2	17.0	112.9%	126.0%	14.5	12.8	6.3%	7.3%
Thaicom	THCOM TB	Outperform	30.50	38.00	1,039.8	20.2	13.2	93.6%	2.1	1.9	10.8%	15.0%	8.2	5.5	5.0%	7.6%
Total Access Communication	DTAC TB	Underperform	105.00	101.00	7,733.6	22.2	20.3	16.5%	7.2	7.1	32.6%	35.4%	9.1	8.2	4.5%	6.1%
True Corporation	TRUE TB	Underperform	6.60	3.38	2,983.1	na	na	na	9.0	9.4	-22.8%	-5.4%	9.1	8.0	0.0%	0.0%
Thailand weighted average						**21.7**	**18.0**	**18.5%**	**10.6**	**9.9**	**50.3%**	**57.0%**	**10.7**	**9.4**	**4.7%**	**5.7%**
Average (all)						**14.1**	**12.5**	**12.5%**	**1.9**	**1.8**	**14.1%**	**14.9%**	**4.9**	**4.4**	**4.0%**	**4.3%**

SOURCES: CIMB, COMPANY REPORTS

Calculations are performed using EFA™ Monthly Interpolated Annualisation and Aggregation algorithms to December year ends

Converging market shares

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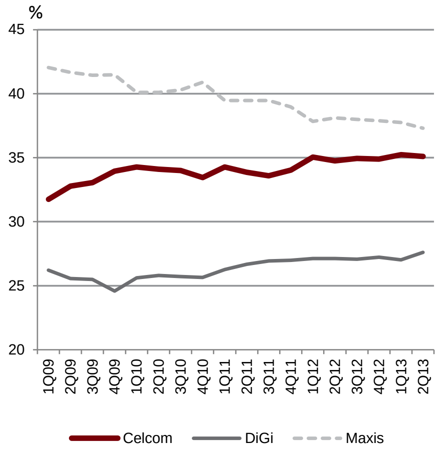
1. MAXIS STILL CEDING MARKET SHARE

1.1 Celcom is within spitting distance of Maxis

Malaysia continues to gravitate towards equal market share among the big three carriers as their market shares converged further in 2Q13. Maxis's market share lead over Celcom in mobile service revenue has narrowed dramatically from 5.2% pts in 1Q11 and 2.5% pts 1Q13 to just 2.2% pts in 2Q13. Maxis stumbled in the traditional revenues of voice and SMS (Figure 3) although it did well in advanced data services (ADS) revenue (Figure 4).

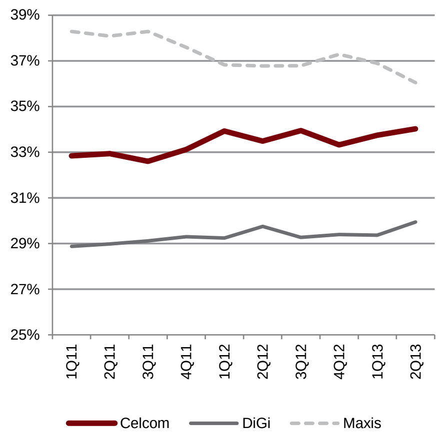
DiGi gained 0.6% pt in market share in 2Q13, the most among the three operators. It has been narrowing its market share gap by raising both its share of traditional revenues and ADS, as shown in Figures 4 and 5. DiGi has a small base in ADS, stemming from its small large screen base of only 247k vs. Celcom's 1.09m and Maxis's 617k. The telco's large screen base fell from a high of 320k in 2Q12 (Figure 6) because it deliberately removed its foot from the customer acquisition pedal to focus on the higher-yielding small screen data base.

Figure 3: Market share of mobile service revenue



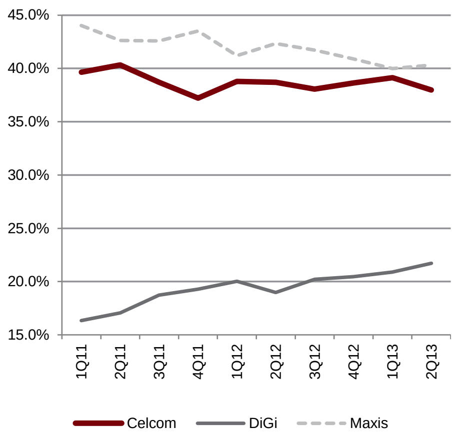
SOURCES: CIMB, COMPANY REPORTS

Figure 4: Market share of traditional revenue (voice and SMS)



SOURCES: CIMB, COMPANY REPORTS

Figure 5: Market share of ADS revenue (data and value-added services)



SOURCES: CIMB, COMPANY REPORTS

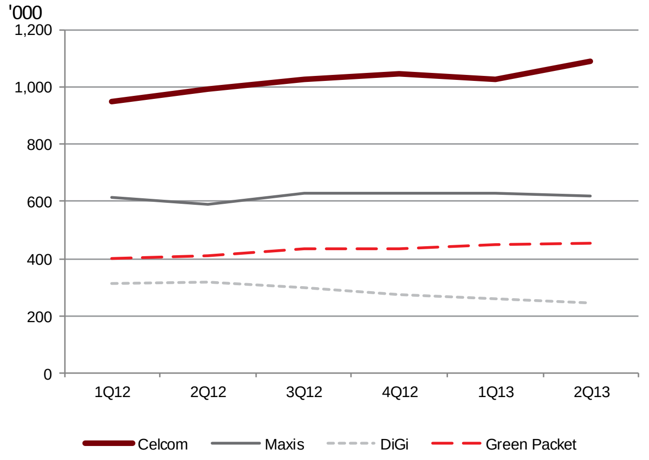
Despite Celcom's smartphone penetration of only 28.5% vs. DiGi's 30.4% and Maxis's 52% (Figure 7 overleaf), its revenue share of ADS (Figure 5 above) is close to that of Maxis because of its market leadership in large screen data/dongles. We also gather from DiGi that migrant workers are adopting entry-level smartphones. In addition, DiGi has been successful in signing up youths under the government's youth smartphone programme, which dishes out subsidies of RM200. DiGi is the only operator to offer a free smartphone (Alcatel One Touch Glory 2S, which costs RM200 and retails for RM300) under this programme, based on our channel checks.

1.2 DiGi continues to be disadvantaged in large screen broadband

DiGi plans to step up its game in large screen data in 4Q13 after it completes its network upgrade. The telco plans to get back into the dongle market more aggressively and introduce affordable tablets. While its upgraded network offers better voice and data quality, we think the limited 900MHz spectrum will still hamper DiGi from capturing its fair share of large screen data revenues. This is because:

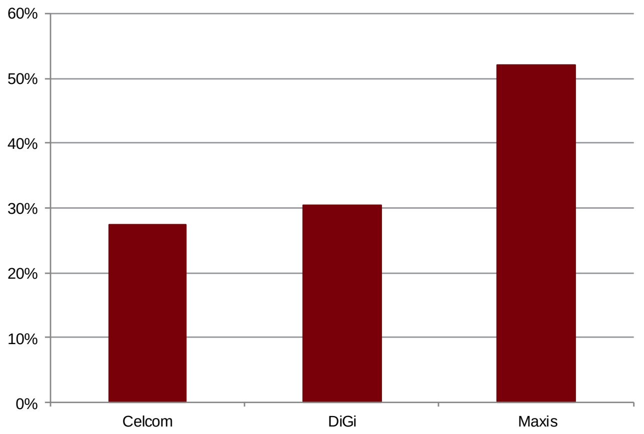
- DiGi is unable to immediately launch LTE on the superior 1800MHz band, unlike its peers, because it lacks spectrum at the 900MHz band to migrate 2G traffic to from 1800MHz. Celcom and Maxis have already launched LTE at 1800MHz, enabling them to address small screen users more effectively. Both the telcos have been listed as 4G LTE-supported carriers for iPhone 5.
- User experience will be inferior to its peers' as it is limited to the 2.6GHz only. The 2.6GHz frequency has poorer signal propagation both geographically and indoors.

Figure 6: Wireless large screen data subscribers



SOURCES: CIMB, COMPANY REPORTS

Figure 7: Smartphone penetration, 2Q13



SOURCES: CIMB, COMPANY REPORTS

1.3 Watch your back, Maxis

All in, we expect Celcom and DiGi to continue closing in on Maxis, especially given its management flux. If Celcom maintains its rate of market share gain, we think it could surpass Maxis as the largest mobile operator within a year.

Morten has his work cut out for him. While expectations are high for Maxis's new CEO Morten Lundal (who starts work on 1 Oct) to turn things around, we think change will take time. In addition, talk of headcount reductions at Maxis will likely demoralise its employees. *The Star* reported that "Those in the know claim that Maxis may be looking at laying off between 10% and 15% of its workforce soon, involving a few hundred people, for whom some form of compensation may be worked out."

Despite revamping its plans and pricing over the last 18 months, Maxis's revenue has remained flat and it has lost market share. We understand from our industry sources that this is because of:

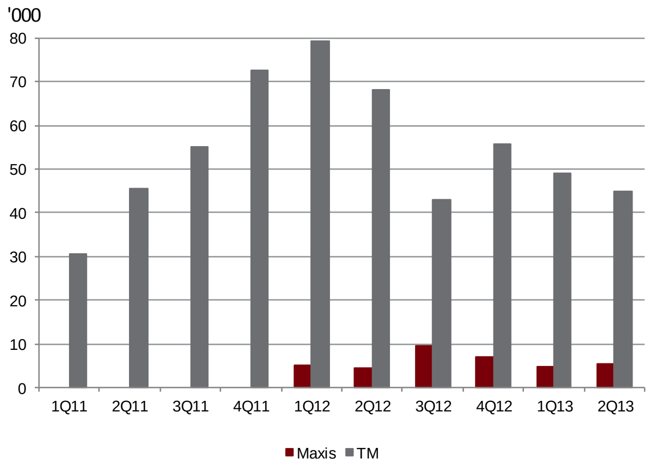
- Poor service delivery. Maxis is bureaucratic and processes require levels of authority.
- Issues with dealers and distributors. Maxis has not done much in opening up new sales channels. It continues to rely on its traditional channels and has little control over its dealers and false activations. Instead, its rivals are engaging new convenience stores to pushing SIM packs and reload vouchers.

2. TELEKOM CONTINUES TO DOMINATE

2.1 What competition?

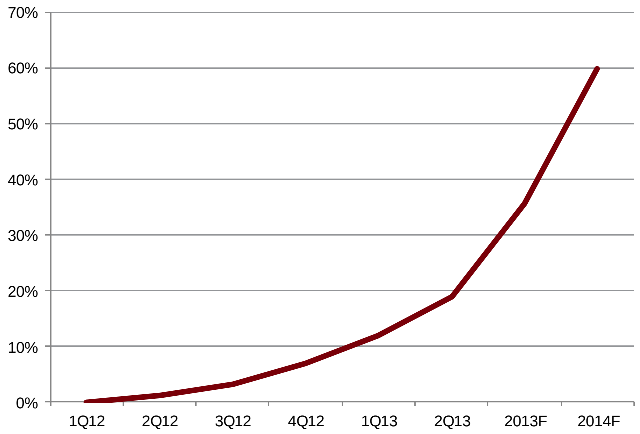
Six quarters since Maxis launched its fibre-to-the-home (FTTH) service riding on TM's HSBB network, it has only captured 9-11% of new subscribers (Figure 8 below) and 6% of the total subscribers. This is despite the fact that: 1) Maxis's plans are RM50 or up to 26% cheaper than that of TM (Figure 10), and 2) an estimated 19% of TM's users (Figure 9) have exited their 2-year contracts. TM's lack of response to Maxis is a reflection of Maxis's muted threat, in our view.

Figure 8: Fibre broadband net additions



SOURCES: CIMB, COMPANY REPORTS

Figure 9: Estimated percentage of TM's fibre customers exiting their contracts



SOURCES: CIMB, COMPANY REPORTS

Figure 10: Comparison between TM's Unifi and Maxis's fibre broadband

Maxis home fibre broadband	**Fast**	**Faster**	**Fastest**
Monthly fee (RM) (existing postpaid customers)	148	198	248
Previous price (RM)	148	198	248
Monthly fee (RM) (others)	148	198	248
Previous price (RM)	168	238	298
Download speed	10Mbps	20Mbps	30Mbps
Upload speed	undisclosed	undisclosed	undisclosed
Quota	Unlimited	Unlimited	Unlimited
Contract period	24 months	24 months	24 months
Calls to maxis fixed lines		Unlimited free calls	
Calls to Maxis mobile		RM30 woth of free calls to mobile networks and IDD calls	
		(Previously 100mins free and & 100mins IDD calls to 10 destinations (fixed & mobile))	
Note: DECT phone not included. Previously free.			
Unifi (HSBB) - Residential	**VIP 5**	**VIP 10**	**VIP 20**
Monthly Fee	149	199	249
Download Speed	5 Mbps	10 Mbps	20 Mbps
Upload Speed	5 Mbps	10 Mbps	20 Mbps
Fair Usage	Unlimited	Unlimited	Unlimited
Min Contract Period	24 months	24 months	24 months
Phone Calls	Free calls to TM fixed line	Free calls to TM fixed line	Free calls to TM fixed line
Mobile and other fixed line	10 sen/min	10 sen/min	10 sen/min
	Normal IDD rates	Normal IDD rates	Normal IDD rates
Video	Free 30 IPTV channels	Free 30 IPTV channels	Free 30 IPTV channels
Free	Phone, Wifi Gateway	Phone, Wifi Gateway	Phone, Wifi Gateway
	Set top Box	Set top Box	Set top Box

SOURCES: CIMB, COMPANY REPORTS

All in, this alleviates our earlier concerns that competition from Maxis will chip away TM's market share. Maxis has admitted that it faces a steep learning curve in addressing this market. We also gather from the industry that TM drags its feet in delivering services to Maxis. Astro faces a similar challenge with its triple-play (pay TV, fibre broadband and fixed voice) offering. Also, Astro offers a bundling discount of RM25 (Figure 11), which is less than the RM50 or up to 26% savings that Maxis offers for its broadband over TM's fibre service (Figure 10).

Figure 11: Astro B.yond IPTV

	TV package	Price (RM/mth)	Content
A	Family pack	37.95	50 channels including 10 HD
	or		
	Value packs		*All comes with Family pack + HD*
	Nilai pek	75.00	Malay + Mustika + Indo pek + Astrox box office Tayangan Hebat!
	Namma pek	75.00	Indian + Chakravarthy + Astro box office Thangathirai
	Wah pack	75.00	Chinese + New emperor + Astro Wah Lai Toi
	Superpack 1	125.00	Malay + Mustika + Astro box office Tayangan Hebat! + Sports/Movies + Recording
	Superpack 2	125.00	Indian + Maharaja + Astro box office Thangathirai + Sports/Movies + HD + Recording
	Superpack 3	125.00	Chinese + Dragon pack + Dynasty/Emperor + Sports/Movies + HD + Recording
	Superpack 4	125.00	Urban + Celestial movies + Metro + Sports/Movies + HD + Recording
	+		
B	Maxis home fibre		
	10 Mbps	148.00	
	20 Mbps	198.00	
	30 Mbps	248.00	
	+		
C	10 HD and VOD channels worth RM25	Free	Limited time offer
	+		
D	Home voice package (optional)	20.00	
	-		
E	RM25 discount (Superpack only)	(25.00)	
	=		
	Total	RM223-406	**A + B + C + D - E**

SOURCES: CIMB, COMPANY REPORTS

2.2 Moving beyond early adopters

TM added 45k new fibre broadband subscribers in 2Q13, a deceleration from its heydays of 60k-80k/qtr because early adopters have signed on and the growth of its addressable market has slowed along with its network rollout, in our view. TM increased the number of homes passed by 608k, 400k and 210k in 2010, 2011 and 2012, respectively, to meet its HSBB rollout commitment. YTD TM has only increased its coverage by 60k premises passed as it is commercially demand-driven.

2.3 Signing up BPL does little to increase HyppTV's appeal

TM had inked a content-sharing agreement with Astro to carry the much-coveted Barclays Premier League (BPL) matches. The pay TV operator will avail its Astro SuperSport HD and AstroSuper Sport 1 HD, which broadcast 60% of all the BPL matches, to TM. TM is including these two channels into its Sports Pack, which costs RM30/mth. The balance of the matches is carried on Astro Super Sport 2 and Fox Sports. TM struck this deal to enhance the appeal of its HyppTV IPTV offering without stretching its content budget, in our view.

All or nothing. We think TM's additional two channels will have little appeal, in our view, because BPL fans will not be able to catch all the games they want. Football fans will demand the screening of all matches available from their service provider. We believe the less price-sensitive viewers will pay the premium and subscribe to Astro. The price-sensitive consumers will either watch the games at Malaysia's ubiquitous *mamak* stalls or coffee shops or on pirated streams online.

2.4 TM going full circle?

TM is looking to refresh the CDMA technology used to offer fixed wireless service in rural areas. It was vague about whether it plans to expand its technology-refreshed service to urban areas or offer mobile service instead of the current nomadic service, adding that it must be commercially viable.

We think TM has a reasonably strong case to roll out a full-fledged mobile LTE network as it 1) complements its current fixed voice and data offerings, 2) its large fibre network, number of towers and 850MHz spectrum give it a cost advantage, and 3) gives TM an exposure to the high-growth mobile data business. TM has in the past attempted to enter the wireless broadband space when it signed an MVNO agreement with Celcom. To address non-LTE users, TM could collaborate with one of the incumbent mobile operators to access their 2G and 3G networks.

3. VALUATION AND RECOMMENDATION

3.1 Maintain Neutral

The Malaysian telco sector remains a Neutral as there are no major imminent re-rating catalysts. Growth is unexciting and valuations are steep. However, downside risks are limited by the sector's attractive dividend yields of 5-6%. Competition in the data space will step up if TM launches LTE using its 850MHz, which offers the fixed line player good geographical and indoor coverage.

DiGi. While we think DiGi will continue to gain market share, the stock offers little value with a CY13 P/E of 20x and CY14 P/E of 23x. A potential re-rating catalyst is if the company decides to inject its assets into a business trust, which will help it right-size its balance sheet. Leveraging up its net debt/EBITDA to 1.5-2x should free up cash of RM0.40-0.60/share. DiGi's board will decide by year-end. We maintain our DCF-based target price of RM4.65 (WACC 8.3%).

Maxis. Expectations are high for Maxis's incoming CEO to quickly turn things around but we believe its deep-rooted issues will require several quarters to revamp. In the meantime, we expect Maxis's market share to continue sliding and it may be surpassed by Celcom in terms of service revenue market share. Maxis's key attraction is its dividend yield of almost 6%, among the highest in our telco universe. However, its dividend payment is unsustainable unless revenues grow. Maxis's target price is RM7.20, based on DCF (WACC 8.2%).

Telekom Malaysia. Despite competition from Maxis, TM's fibre net addition continues to be resilient. Similarly, we do not think Astro's triple-play offering will dent TM's market share as its bundling discount of RM25 is not compelling. However, TM faces soaring labour costs due to its new collective agreement and a higher statutory retirement age of 60 years from 55. TM's target price is RM5.60, based on DCF (WACC 8.9%).

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Recommendation Framework #1 *

Stock

OUTPERFORM: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.

NEUTRAL: The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

UNDERPERFORM: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.

TRADING BUY: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.

TRADING SELL: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.

Sector

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

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Stock

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UNDERPERFORM: Expected negative total returns of 10% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 10% or more over the next 3 months.

TRADING SELL: Expected negative total returns of 10% or more over the next 3 months.

Sector

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +10% or better over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +10% (or better) or -10% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +10% to -10%; both over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -10% or worse over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +10% or better over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -10% or worse over the next 3 months.

*** This framework only applies to stocks listed on the Korea Exchange, Hong Kong Stock Exchange and China listings on the Singapore Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.*

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2012.

AAV – not available, **ADVANC** - Excellent, **AEONTS** – Good, **AMATA** - Very Good, **ANAN** – not available, **AOT** - Excellent, **AP** - Very Good, **BANPU** - Excellent , **BAY** - Excellent , **BBL** - Excellent, **BCH** – not available, **BCP** - Excellent, **BEC** - Very Good, **BGH** - not available, **BJC** – Very Good, **BH** - Very Good, **BIGC** - Very Good, **BTS** - Excellent, **CCET** - Good, **CENTEL** – Very Good, **CK** - Very Good, **CPALL** - Very Good, **CPF** - Very Good, **CPN** - Excellent, **DELTA** - Very Good, **DTAC** - Very Good, **EGCO** – Excellent, **ERW** – Excellent, **GLOBAL** - Good, **GLOW** - Very Good, **GRAMMY** – Excellent, **HANA** - Very Good, **HEMRAJ** - Excellent, **HMPRO** - Very Good, **INTUCH** – Very Good, **ITD** – Very Good, **IVL** - Very Good, **JAS** – Very Good, **KAMART** – not available, **KBANK** - Excellent, **KK** – Excellent, **KTB** - Excellent, **LH** - Very Good, **LPN** - Excellent, **MAJOR** - Good, **MAKRO** – Very Good, **MCOT** - Excellent, **MINT** - Very Good, **PS** - Excellent, **PSL** - Excellent, **PTT** - Excellent, **PTTGC** - Excellent, **PTTEP** - Excellent, **QH** - Excellent, **RATCH** - Excellent, **ROBINS** - Excellent, **RS** – Excellent, **SAMART** – Excellent, **SC** – Excellent, **SCB** - Excellent, **SCC** - Excellent, **SCCC** - Very Good, **SIRI** - Good, **SPALI** - Very Good, **SRICHA** – not available, **SSI** – not available, **STA** - Good, **STEC** - Very Good, **TCAP** - Very Good, **THAI** - Excellent, **THCOM** – Very Good, **TICON** – Very Good, **TISCO** - Excellent, **TMB** - Excellent, **TOP** - Excellent, **TRUE** - Very Good, **TTW** – Very Good, **TUF** - Very Good, **VGI** – not available, **WORK** – Good.