

MALAYSIA



TELCO - OVERALL

RECOMMENDATION

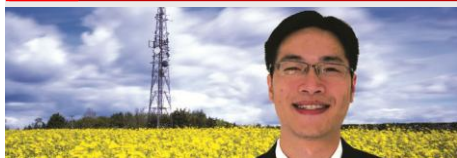
OVERWEIGHT

NEUTRAL

UNDERWEIGHT

SECTOR NOTE

Notes from the Field



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Read-throughs from 4Q14

Industry mobile service revenue rose 2.1% qoq in 4Q14, but still fell 1.2% in 2014 for its worst-ever performance. The overall market remains competitive. DiGi continued to gain revenue market share slightly from Maxis/Celcom. Across the board, telcos guided cautiously on 2015 growth and kept capex high for network investments.

We remain Underweight on the Malaysian telco sector. Despite the positive GST impact, we see risk of more intense competition and high capex in FY15. Valuations are also not cheap, with Malaysian telcos trading at an average FY15 EV/OpFCF of 17.0x vs. 14.3x for ASEAN telcos. Maintain Hold on Axiata, DiGi and Maxis, and Reduce on TM. Telkom Indonesia, Singtel and Thaicom remain our top ASEAN telco picks.

Mobile revenue pick-up

Industry mobile service revenue saw a 2.1% qoq (-0.6% yoy) pick-up in 4Q14. This was driven by the strong 8.4% qoq (+25.2% yoy) growth in mobile Internet, positive seasonality and the Big 3 telcos regaining some market traction vs. the smaller players. Mobile Internet formed 31.6% of mobile service revenue in 4Q14 vs. 25.1% a year ago, with smartphone adoption rising 16.1% pts yoy (+4.2% pts qoq) to 53.2% as at end-2014.

DiGi gains market share

DiGi continued to gain mobile revenue market share, albeit at a more incremental 0.2% pt qoq in 4Q14. This came at the expense of Maxis and Celcom, which both lost 0.1% pt each. Nevertheless, Maxis gained significant operational traction in prepaid with its strongest-ever quarterly net adds, attributed to the popularity of #Hotlink and rising traction in underserved segments. Celcom was still showing weak subscriber trends in 4Q14 due to some delays in the completion of its IT system upgrade and more work required to regain the

goodwill of dealers after its IT system was impacted by issues in mid-2014.

Market stayed competitive

The mobile market stayed competitive in 4Q14. Industry RPM was steady qoq/yoy in 4Q14 but Maxis's effective tariffs inched down closer to those of Celcom/DiGi. While partly driven by seasonality, Maxis also ramped up its sales & marketing spend significantly in 4Q14 (+13% qoq) to its highest-ever levels since 1Q09. DiGi's sales & marketing spend also rose (+5% qoq) to its highest level since 3Q08. Celcom launched new prepaid (Internet of XPax) and postpaid plans (First Basic/Elite) in 4Q14 and is planning to launch more new data-led products at the beginning of 2Q15. DiGi did a brand refresh exercise ("Lets Inspire") in mid-Jan 2015, while U Mobile launched its new #GetClever plans at end-Jan 2015.

Cautious 2015 guidance, high capex

Telcos were generally quite cautious with their growth guidance for 2015, citing competition and macro uncertainties. As we had highlighted previously, telcos guided for sustained high capex going into 2015 due to 3G/4G network investments. In particular, DiGi maintained its capex at 2014's elevated level of RM900m, after bringing forward its 4G coverage target to 50% by end-2015, vs. end-2017 previously.

Figure 1: ASEAN telco and tower valuation comparison

| Company | Bloomberg Ticker | Recom. | Price (local curr) | Target Price (local curr) | Mkt Cap (US\$ m) | Core P/E (x) | | EV/EBITDA (x) | | EV/OpFCF (x) | | 3-year CAGR (%) | | Dvd Yield (%) | |
|---------------------------------------|------------------|--------|--------------------|---------------------------|------------------|--------------|-------------|---------------|-------------|--------------|-------------|-----------------|-------------|---------------|------------|
| | | | | | | 2015F | 2016F | 2015F | 2016F | 2015F | 2016F | EPS | EBITDA | 2015F | 2016F |
| Axiata | AXIATA MK | HOLD | 7.10 | 7.00 | 16,787 | 26.1 | 24.0 | 8.6 | 8.2 | 17.9 | 14.2 | (1.7) | 3.9 | 3.3 | 3.8 |
| Maxis | MAXIS MK | HOLD | 7.00 | 6.90 | 14,472 | 24.3 | 22.9 | 13.6 | 13.2 | 17.3 | 16.3 | 3.1 | 0.9 | 4.8 | 5.2 |
| DiGi | DIGI MK | HOLD | 6.40 | 6.20 | 13,703 | 22.7 | 21.4 | 14.3 | 13.4 | 18.1 | 16.5 | 11.0 | 7.2 | 4.4 | 4.7 |
| TM | T MK | REDUCE | 7.18 | 6.30 | 7,354 | 26.9 | 25.7 | 7.4 | 7.0 | 14.7 | 13.8 | (1.3) | 4.6 | 3.3 | 3.5 |
| MY telcos avg (ex-outliers) | | | | | | 25.0 | 23.5 | 11.0 | 10.4 | 17.0 | 15.2 | 2.8 | 4.1 | 3.9 | 4.3 |
| SingTel | ST SP | ADD | 4.24 | 4.25 | 49,598 | 17.8 | 16.5 | 9.9 | 9.3 | 17.0 | 15.7 | 4.2 | 3.3 | 4.2 | 4.5 |
| Starhub | STH SP | HOLD | 4.28 | 4.50 | 5,419 | 18.3 | 18.9 | 9.8 | 9.7 | 14.7 | 14.1 | 1.1 | 3.1 | 4.7 | 4.7 |
| M1 | M1 SP | ADD | 3.99 | 3.80 | 2,734 | 20.1 | 19.0 | 11.1 | 10.6 | 15.9 | 14.5 | 6.4 | 5.5 | 5.0 | 5.3 |
| SG telcos avg (ex-outliers) | | | | | | 18.7 | 18.1 | 10.3 | 9.9 | 15.8 | 14.8 | 3.9 | 4.0 | 4.6 | 4.8 |
| TLKM | TLKM IJ | ADD | 2,950 | 2,950 | 22,927 | 17.0 | 15.5 | 8.0 | 7.3 | 12.5 | 10.4 | 8.0 | 6.6 | 4.6 | 5.4 |
| XL | EXCL IJ | ADD | 4,735 | 5,500 | 3,116 | 70.7 | 22.6 | 6.6 | 5.6 | 17.8 | 11.1 | (0.4) | 7.3 | 0.6 | 1.8 |
| Indosat | ISAT IJ | ADD | 4,155 | 3,800 | 1,741 | 176.4 | 34.1 | 4.0 | 3.7 | 12.4 | 10.2 | nm | 2.1 | 0.3 | 1.5 |
| Link Net | LINK IJ | ADD | 6,225 | 6,500 | 1,460 | 23.9 | 19.4 | 11.9 | 9.6 | 28.8 | 18.7 | 29.6 | 27.0 | 0.0 | 0.0 |
| Indo telcos avg (ex-outliers) | | | | | | 20.4 | 22.9 | 7.6 | 6.6 | 14.3 | 12.6 | 12.4 | 10.8 | 1.4 | 2.2 |
| AIS | ADVANC TB | HOLD | 231.00 | 252.00 | 21,244 | 16.9 | 15.8 | 10.2 | 10.2 | 14.3 | 13.9 | 6.6 | 3.7 | 6.0 | 6.3 |
| DTAC | DTAC TB | HOLD | 86.00 | 99.00 | 6,299 | 19.8 | 15.3 | 7.1 | 6.1 | 13.0 | 12.2 | 7.7 | 8.6 | 6.5 | 8.3 |
| True | TRUE TB | REDUCE | 14.40 | 10.13 | 10,961 | 274.3 | 86.8 | 17.4 | 15.3 | 50.3 | 25.5 | nm | 14.6 | 0.0 | 0.0 |
| Jasmine | JAS TB | ADD | 8.90 | 9.50 | 1,926 | 13.5 | 11.8 | 7.2 | 6.2 | 9.4 | 7.8 | 21.7 | 17.7 | 4.5 | 5.1 |
| Thaicom | THCOM TB | ADD | 34.75 | 49.00 | 1,178 | 16.4 | 14.1 | 6.8 | 5.7 | 7.2 | 6.0 | 29.3 | 18.7 | 3.1 | 3.5 |
| Intouch | INTUCH TB | ADD | 79.25 | 86.00 | 7,860 | 13.7 | 13.1 | 13.0 | 12.4 | 13.0 | 12.4 | 12.7 | 12.7 | 7.2 | 7.6 |
| Thai telcos avg (ex-outliers) | | | | | | 16.1 | 14.1 | 10.3 | 9.3 | 11.4 | 10.5 | 15.6 | 12.7 | 4.5 | 5.1 |
| Asean Telcos avg (ex-outliers) | | | | | | 23.2 | 19.4 | 9.8 | 9.0 | 14.3 | 12.9 | 9.2 | 8.7 | 3.7 | 4.2 |
| TBIG | TBIG IJ | HOLD | 9,300 | 9,500 | 3,439 | 28.1 | 22.4 | 15.6 | 13.3 | 40.9 | 26.0 | 40.4 | 26.9 | 0.0 | 0.0 |
| TOWR | TOWR IJ | ADD | 3,800 | 5,000 | 2,989 | 24.2 | 19.3 | 11.3 | 9.4 | 22.1 | 16.4 | 31.8 | 20.9 | 0.0 | 0.0 |
| SUPR | SUPR IJ | ADD | 9,075 | 13,700 | 796 | 18.1 | 12.8 | 8.2 | 7.1 | 14.9 | 12.1 | 35.2 | 43.2 | 0.0 | 0.0 |
| Indo towers avg (ex-outliers) | | | | | | 23.5 | 18.2 | 11.7 | 9.9 | 26.0 | 18.1 | 27.7 | 31.2 | 0.0 | 0.0 |

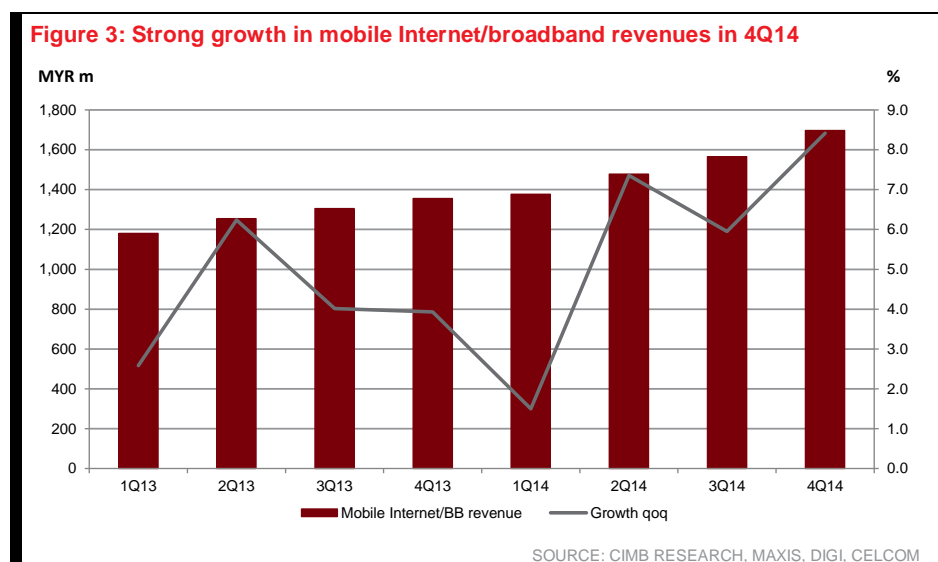
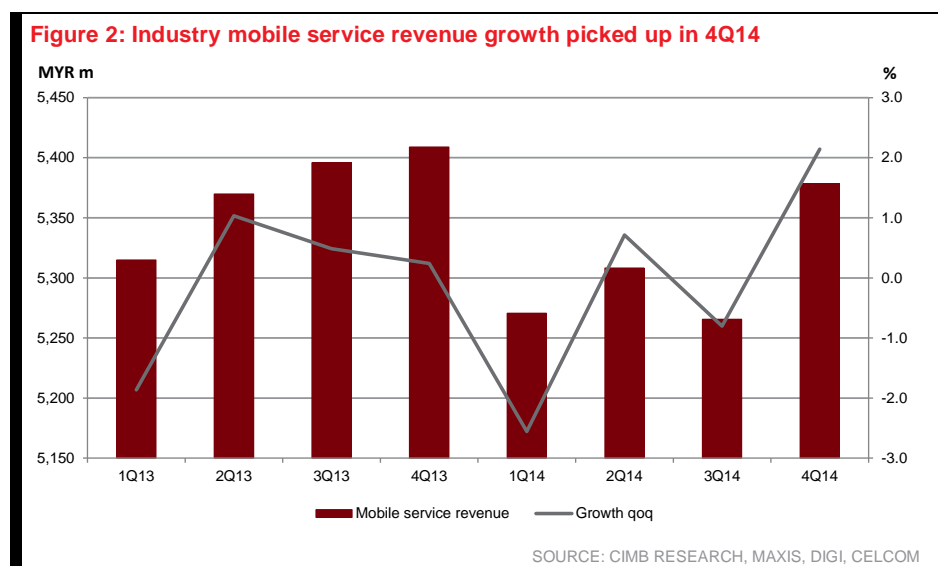
Note: Operating FCF is calculated as EBITDA minus average 3-year forward capex
SOURCE: CIMB RESEARCH, COMPANY

Read-throughs from 4Q14

Mobile revenue pick-up

Revenue growth picked up in 4Q14

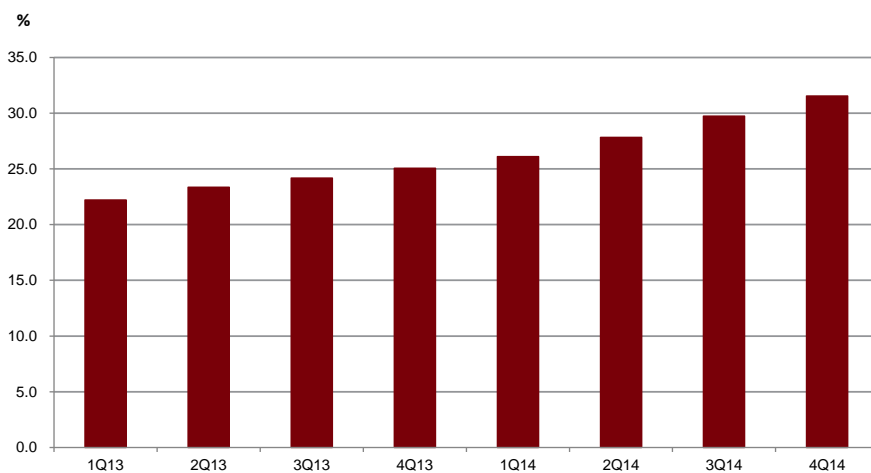
Industry mobile service revenue saw a 2.1% qoq (-0.6% yoy) pick-up in 4Q14. This was driven by the strong 8.4% qoq (+25.2% yoy) growth in mobile Internet/broadband (MIBB) and positive seasonality. We also believe the Big 3 telcos regained some market traction vs. the smaller players in the quarter.



Mobile Internet trends were encouraging

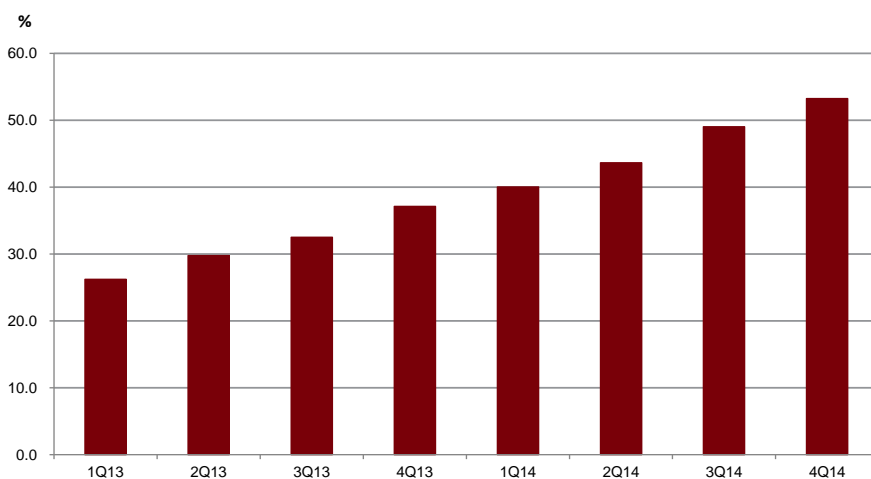
MIBB formed 31.6% of mobile service revenue in 4Q14 vs. 25.1% a year ago, with smartphone adoption rising 16.1% pts yoy (+4.2% pts qoq) to 53.2% as at end-2014. Mobile operators continued to drive penetration higher, especially among their prepaid subscribers, through device bundles and by leveraging the increasing affordability of entry-level smartphones.

Figure 4: MIBB formed 32% of industry service revenue in 4Q14



SOURCE: CIMB RESEARCH, MAXIS, DIGI, CELCOM

Figure 5: Smartphone penetration hit 53% as at end-2014



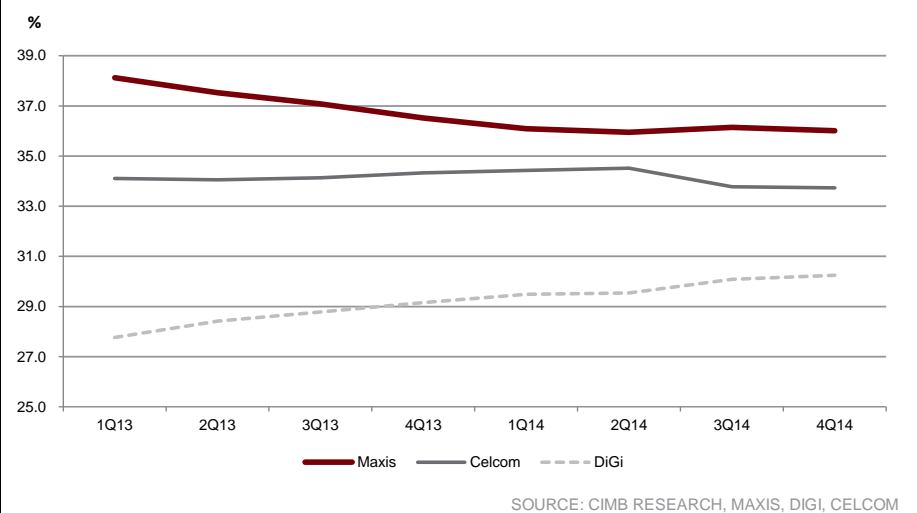
SOURCE: CIMB RESEARCH, MAXIS, DIGI, CELCOM

DiGi gains market share

DiGi still gaining incremental revenue market share... ➤

All three incumbents recorded service revenue growth qoq but DiGi grew faster. As such, DiGi continued to gain mobile revenue market share, albeit at a more incremental 0.2% pt qoq in 4Q14. This came at the expense of Maxis and Celcom, which both lost 0.1% pt each. For the former, the previous declining revenue market share trend appears to have been stemmed, with stabilisation seen over the last three quarters.

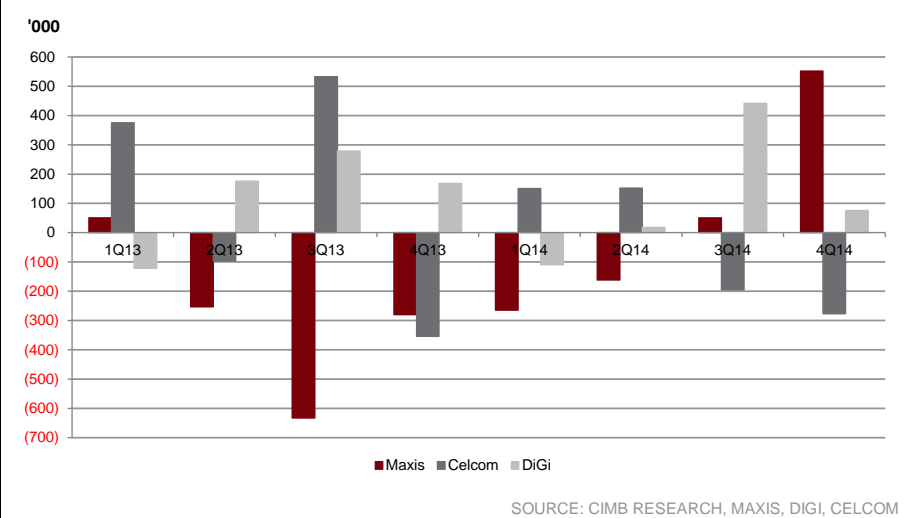
Figure 6: DiGi still making incremental mobile revenue share gains going into 4Q14



...but Maxis starting to gain operational traction in prepaid

Maxis gained significant operational traction in prepaid with its strongest-ever quarterly net adds, attributed to the popularity of #Hotlink and rising traction in underserved segments (youth and foreign workers). Celcom was still showing weak subscriber trends in 4Q14 due to some delays in the completion of its IT system upgrade and more work required to regain goodwill of dealers, after its IT system was impacted by issues in mid-2014.

Figure 7: Maxis registered strong subscriber net addition in 4Q14

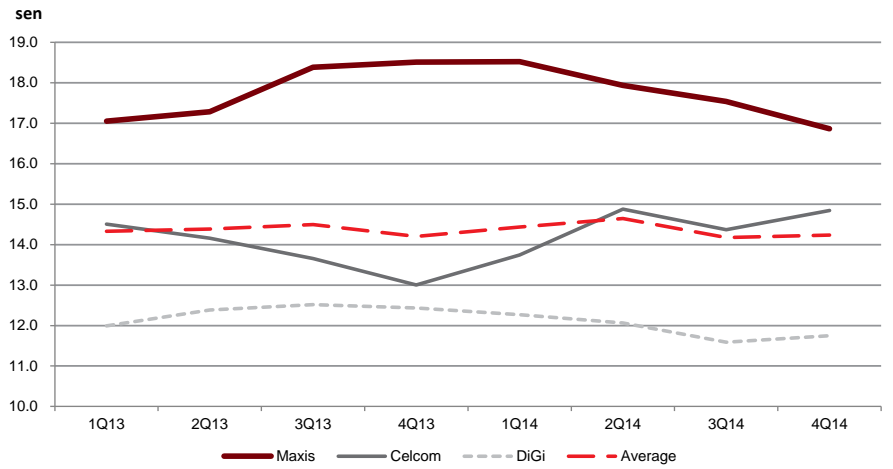


Market stayed competitive

Maxis ramped up sales & marketing spend

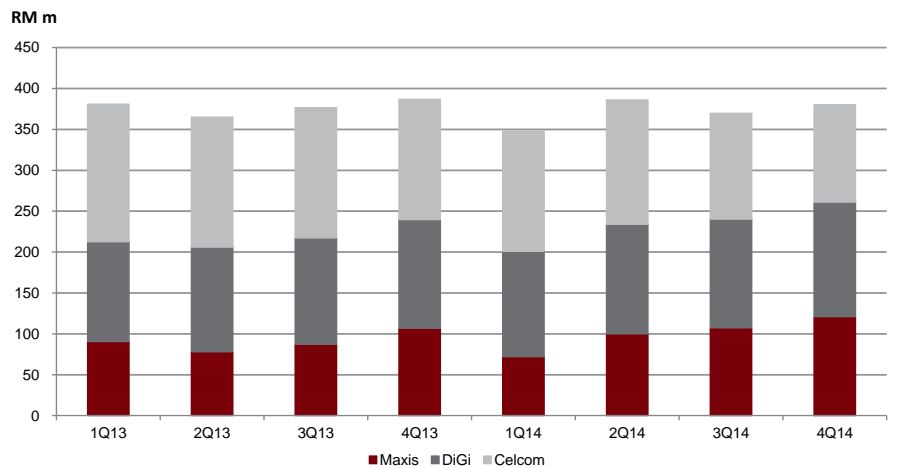
The mobile market stayed competitive in 4Q14. Industry RPM was steady qoq/yoy in 4Q14 but Maxis’s effective tariffs inched down closer to those of Celcom/DiGi. While partly driven by seasonality, Maxis also ramped up its Sales & marketing spend significantly in 4Q14 (+13% qoq) to its highest-ever levels since 1Q09. DiGi’s sales & marketing spend also rose (+5% qoq) to its highest level since 3Q08.

Figure 8: Maxis's RPM is inching down closer to that of DiGi and Celcom



SOURCE: CIMB RESEARCH, MAXIS, DIGI, CELCOM

Figure 9: Maxis and DiGi recorded high sales & marketing spend in 4Q14



SOURCE: CIMB RESEARCH, MAXIS, DIGI, CELCOM

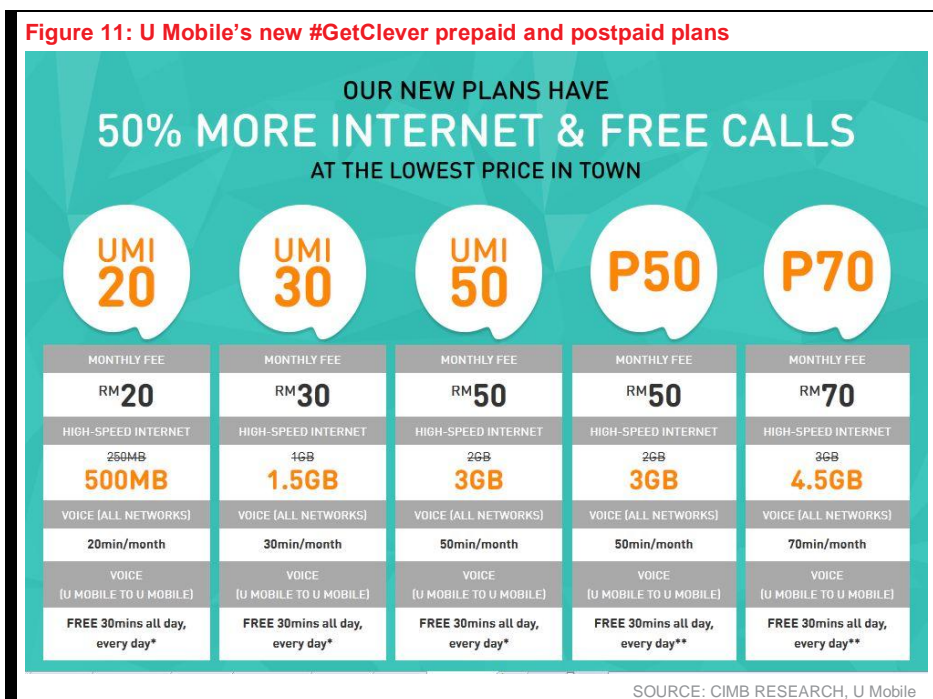
Market activities remain high ▶

Celcom launched new prepaid (Internet of Xpax, 16 Oct 2014) and postpaid plans (First Basic/Elite, 24 Dec 2014) in 4Q14 and is planning to launch more new data-led products at the beginning of 2Q15. DiGi did a brand refresh exercise (“Lets Inspire”) in mid-Jan 2015, while U Mobile launched its new #GetClever plans at end-Jan 2015. For the latter, U Mobile highlighted that the unique selling points are the 50% more data allowance (vs. previous plans), free bundled minutes and beyond that, 5 sen/30 seconds, which is the lowest headline call tariff among mobile operators in Malaysia.

Figure 10: Celcom's new prepaid plan, Internet of Xpax



Figure 11: U Mobile's new #GetClever prepaid and postpaid plans



SOURCE: CIMB RESEARCH, U Mobile

Cautious 2015 guidance, high capex

4Q14 results were largely in line ►

The 4Q14 results for Malaysian telcos were largely in line with expectations at the EBITDA level. At the core net profit level, Maxis's results came in below our FY14 forecast due to higher-than-expected depreciation and taxes, while Telekom Malaysia's results came in ahead due to lower-than-expected interest cost, taxes and minority interest charge.

Figure 12: Malaysian telcos: 4Q14 results were largely in line

| Telco | FY14 vs CIMB expectations | | Key variance |
|--------------|---------------------------|-----------------|--|
| | EBITDA | Core net profit | |
| Maxis | In-line | Below | Higher-than-expected depreciation and taxes |
| Axiata Group | In-line | In-line | NA |
| DiGi | In-line | In-line | NA |
| TM | In-line | Ahead | Lower-than-expected interest cost, taxes & minority interest |

SOURCE: CIMB RESEARCH, MAXIS, AXIATA GROUP, DIGI, TM

Competitive/macro uncertainties weigh on guidance ►

Telcos were generally quite cautious with their revenue growth and EBITDA margin guidance for 2015, citing competition and macro uncertainties. As we had highlighted previously, telcos guided for sustained high capex going into 2015 due to 3G/4G network investments. In particular, DiGi maintained its capex at 2014's elevated level of RM900m, after bringing forward its 4G coverage target to 50% by end-2015, vs. end-2017 previously.

Figure 13: Malaysian telcos: 2015 guidance

| Telco | 2015 guidance | | |
|--------------|--------------------------|-----------------|---------|
| | Revenue growth | EBITDA margin | Capex |
| Maxis | Low single digit* | Slightly lower* | RM1.1bn |
| Axiata Group | 4.0% | Steady | RM4.8bn |
| DiGi | Low- to mid-single digit | Steady | RM900m |
| TM | 4.0%-4.5% | Steady^ | RM2.3bn |

*ex-GST impact, ^Refers to EBIT margin
SOURCE: CIMB RESEARCH, MAXIS, AXIATA GROUP, DIGI, TM

VALUATION AND RECOMMENDATION

Maintain Underweight on Malaysian telco sector ►

We remain Underweight on the Malaysian telco sector. Despite the positive GST impact from April 2015 onwards, we see risk of potentially more intense competition and sustained high capex in FY15. Valuations are also not cheap, with Malaysian telcos trading on average at an FY15 EV/OpFCF of 17.0x, vs. the average of 14.3x for ASEAN telcos. We maintain our Hold calls on Axiata (AXIATA MK, TP: RM7.00), DiGi (DIGI MK, TP: RM6.20) and Maxis (MAXIS MK, TP: RM6.90), and our Reduce call on Telekom Malaysia (T MK, TP: RM6.30). Telkom Indonesia (TLKM IJ, TP: Rp2,950), Singtel (ST SP, TP: S\$4.25) and Thaicom (THCOM TB, TP: THB49.00) remain our top telco picks in ASEAN.

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#03

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| | | | | | |
|---------------------|-----------|-----------|---------|-------------|------------------|
| Score Range: | 90 - 100 | 80 - 89 | 70 - 79 | Below 70 or | No Survey Result |
| Description: | Excellent | Very Good | Good | N/A | |

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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2014

1586 companies under coverage for quarter ended on 31 December 2014

| | Rating Distribution (%) | Investment Banking clients (%) |
|--------|-------------------------|--------------------------------|
| Add | 58.4% | 6.0% |
| Hold | 29.4% | 4.3% |
| Reduce | 12.2% | 1.0% |

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2014.

AAV – Very Good, **ADVANC** – Very Good, **AEONTS** – not available, **AMATA** - Good, **ANAN** – Very Good, **AOT** – Very Good, **AP** - Good, **ASK** – Very Good, **ASP** – Very Good, **BANPU** – Very Good, **BAY** – Very Good, **BBL** – Very Good, **BCH** – not available, **BCP** - Excellent, **BEAUTY** – Good, **BEC** - Good, **BECL** – Very Good, **BGH** - not available, **BH** - Good, **BIGC** - Very Good, **BJC** – Good, **BLA** – Very Good, **BMCL** - Very Good, **BTS** - Excellent, **CCET** – Good, **CENTEL** – Very Good, **CHG** – not available, **CK** – Very Good, **CPALL** – not available, **CPF** – Very Good, **CPN** - Excellent, **DELTA** - Very Good, **DEMCO** – Good, **DTAC** – Very Good, **EA** - Good, **ECL** – not available, **EGCO** - Excellent, **GFPT** - Very Good, **GLOBAL** - Good, **GLOW** - Good, **GRAMMY** - Excellent, **HANA** – Excellent, **HEMRAJ** – Very Good, **HMPRO** - Very Good, **ICHI** - not available, **INTUCH** - Excellent, **ITD** – Good, **IVL** - Excellent, **JAS** – not available, **JUBILE** – not available, **KAMART** – not available, **KBANK** - Excellent, **KCE** - Very Good, **KGI** – Good, **KKP** – Excellent, **KTB** - Excellent, **KTC** – Good, **LH** - Very Good, **LPN** – Very Good, **M** - not available, **MAJOR** - Good, **MAKRO** – Good, **MBKET** – Good, **MC** – Very Good, **MCOT** – Very Good, **MEGA** – Good, **MINT** - Excellent, **OFM** – Very Good, **OISHI** – Good, **PS** – Very Good, **PSL** - Excellent, **PTT** - Excellent, **PTTEP** - Excellent, **PTTGC** - Excellent, **QH** – Very Good, **RATCH** – Very Good, **ROBINS** – Very Good, **RS** – Very Good, **SAMART** - Excellent, **SAPPE** - not available, **SAT** – Excellent, **SAWAD** – not available, **SC** – Excellent, **SCB** - Excellent, **SCBLIF** – Good, **SCC** – Very Good, **SCCC** - Good, **SIM** - Excellent, **SIRI** - Good, **SPALI** - Excellent, **STA** – Very Good, **STEC** - Good, **SVI** – Very Good, **TASCO** – Good, **TCAP** – Very Good, **THAI** – Very Good, **THANI** – Very Good, **THCOM** – Very Good, **THRE** – not available, **THREL** – Good, **TICON** – Good, **TISCO** - Excellent, **TK** – Very Good, **TMB** - Excellent, **TOP** - Excellent, **TRUE** – Very Good, **TTW** – Very Good, **TUF** - Good, **VGI** – Very Good, **WORK** – not available.

CIMB Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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