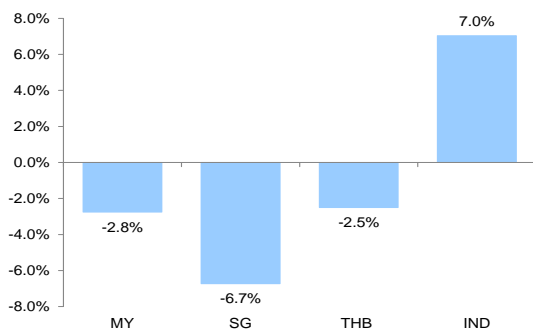


Telecommunications

Staying Connected – June 2015

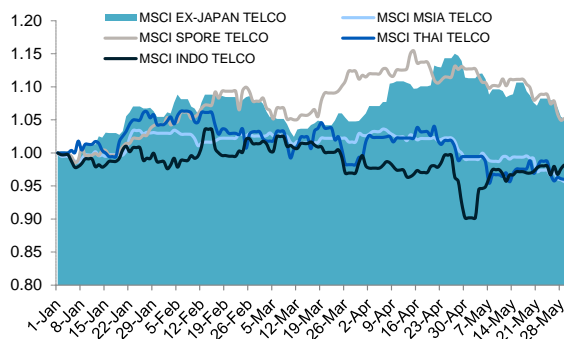
Macro ◆◆
 Risks ◆◆
 Growth ◆
 Value ◆◆

Regional market cap, MoM chg*



Note: *Based on RHB's coverage universe
 Source: Bloomberg

ASEAN-4 vs. MSCI Telecoms ex. Japan YTD



Source: Bloomberg

Unless otherwise mentioned, all share price data as at close on 29 May 2015

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The share prices of most Asean-4 telcos came under renewed pressure in May due largely to foreign selling and switching activities. Malaysian and Singapore telcos bore the brunt of the sell-off, down 7% and 3% respectively. We add Digi to our list of regional BUYs that include Telkom Indonesia (Telkom), Axiata, AIS, M1 & Jasmine.

- ◆ **Malaysia.** Competition is heating up in the mobile space with a raft of new attractively priced offers and rebates in the market. Celcom appears to be the most aggressive, as the telco sought to reverse the decline in its revenue share via new postpaid and prepaid plans. While a weak 2Q15 is already a foregone conclusion (the GST fallout), there could be further pressure on sector earnings should price competition intensify in the months ahead. The share prices of the Malaysian cellular companies (cellcos) fell 1-7% MoM in May – the worst monthly performance YTD on foreign selling. We upgraded Digi to BUY from Neutral after its share price hit a 52-week low. The telco is now our preferred MY pick in addition to Axiata.
- ◆ **Singapore.** SMRT's (MRT SP, NEUTRAL, TP: SGD1.72) decision to pull out from the 4G race – where the regulator is expected to firm up a new license framework and assign fresh spectrum to a new contender – decorated industry headlines. SMRT's partner was to be OMGTel, a unit of Consistel vying for the fourth mobile license alongside My Republic, the other front-runner. We retain our market contrarian call on M1 (our Top Pick) as we view concerns over the potential threat from a new entrant as excessive, with its FY16F EV/EBITDA trading below the sector's five year mean and FY16F dividend yield of about 6%.
- ◆ **Indonesia.** Indo telecoms were the best performer in our Asean-4 universe for the month of May, helped in part by the 9% and 11% rise in Telkom Indonesia and Tower Bersama's respective share prices. We gather from industry sources that the re-arrangement of the 1800MHz spectrum has started, which should lead to the spectrum being made technology neutral for 4G by 4Q15. The telcos are also capitalising on the onset of *Lebaran* with seasonal offers that should drive commendable revenue momentum in 2Q/3Q15.

Company Name	Price	Target	P/E (x)	P/B (x)	Yield (%)	Rating
			Dec-16F	Dec-16F	Dec-16F	
Advanced Info Services	THB234.00	THB279.00	14.5	13.1	6.9	BUY
Axiata Group	MYR6.58	MYR7.20	22.6	2.7	3.8	NEUTRAL
Digi.com	MYR5.61	MYR6.60	20.0	86.0	5.0	BUY
Indosat	IDR3,740	IDR4,900	12.7	1.1	3.8	BUY
Jasmine International	THB5.60	THB7.33	13.1	1.6	2.8	BUY
M1	SGD3.22	SGD4.40	13.9	7.3	6.5	BUY
Maxis	MYR6.89	MYR6.47	26.2	14.6	3.3	NEUTRAL
OCK Group	MYR0.84	MYR1.06	12.7	1.8	-	BUY
Sarana Menara Nusantara	IDR3,970	IDR5,600	24.7	5.3	-	BUY
SingTel	SGD4.13	SGD4.00	16.6	2.5	4.3	NEUTRAL
StarHub	SGD4.02	SGD4.00	18.1	33.8	5.0	NEUTRAL
Telekom Malaysia	MYR7.28	MYR7.40	26.7	3.4	3.4	NEUTRAL
Telekomunikasi Indonesia	IDR2,845	IDR3,600	15.7	3.6	4.8	BUY
Time dotCom	MYR6.29	MYR6.10	23.0	2.1	1.0	NEUTRAL
Total Access Communications	THB88.00	THB106.20	17.7	8.6	7.6	BUY
Tower Bersama Infrastructure	IDR9,425	IDR9,700	23.6	7.1	1.3	NEUTRAL
True Corp	THB11.50	THB10.37	62.2	3.5	-	SELL
XL Axiata	IDR4,290	IDR5,100	38.9	2.4	0.6	BUY

Malaysia (NEUTRAL)

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◆ Competition heats up

Competition among the major cellular operators has intensified following implementation of the GST. In late April, Celcom introduced the *First Basic 38* postpaid plan, which is priced at an attractive MYR38/mth for 3GB of data. This was followed by Digi's (DIGI MK, BUY, TP: MYR6.60) own entry-level postpaid package, which retails for MYR36 and U Mobile's UMI25 (MYR25) mobile internet prepaid plan. More recently, Celcom also unveiled its new prepaid plan in a bid to take on Maxis' (MAXIS MK, NEUTRAL, TP: MYR6.50) *Hotlink* plan (*Telco websites, 15 June*)

Comment: *We expect the pressure on industry mobile revenues to persist as the telcos slug it out to expand their wallet share. Celcom's new postpaid plan, which comes with a smartphone option, is likely to appeal more to sub-urban users where data adoption is still low and where it has the largest share of the market. This should mitigate the dilution from higher ARPU subscribers trading down. Celcom's new prepaid starter pack (Magic) is a direct threat to Maxis' popular Hotlink plan which offers free basic internet. All in all, we believe the heightened competition may pose downside risks to sector earnings although the impact from the GST has more or less been priced in, in our view. Maintain NEUTRAL on the sector with Digi and Axiata as our preferred picks.*

◆ Singapore start-up MyRepublic eyes the Malaysian market

MyRepublic (MR), a Singapore-based fiber broadband provider, has set its sights on the Malaysian market. The company has been successful in carving a niche in Singapore's competitive fiber broadband market via attractively priced plans. According to its CEO, Malcolm Rodrigues, MR plans to offer a 100Mbps fiber plan for MYR60-MYR70/month (*Digital News Asia, 5 June*).

Comment: *The prospects of a 'disruptive' foreign fiber broadband operator entering the market are certainly interesting, although we note potential regulatory setbacks and challenges in procuring unparalleled access to the high speed broadband (HSBB) network, currently limited to a wholesale basis by TM (T MK, NEUTRAL, TP: MYR7.40).*

Singapore (NEUTRAL)

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◆ StarHub trials 600Mbps LTE-A

Singapore's second largest mobile operator by subscribers, StarHub, has demonstrated Long Term Evolution-Advanced (LTE-A) technology in partnership with equipment vendor Nokia Networks of Finland. The demo, carried out at the cellco's city-state headquarters, reportedly achieved peak download speeds of 600Mbps using 4X4 multiple-input and multiple-output (MIMO) technology with LTE-A Carrier Aggregation (CA) technology. (*Telegeography, 28 May*)

◆ SMRT pulls out of telco race

SMRT has backed out of a bid to venture into the telecommunications industry after facing a wave of criticism over whether it might be distracted from its core business of providing public transport. The company has decided not to subscribe for shares in OMGtel, a subsidiary of wireless systems integrator Consistel that had been set up in October 2014 for the purpose of bidding for Singapore's fourth telco licence. It would instead "continue to place its investment focus on business areas such as in rail engineering where the company has an active interest." (*Singapore BT, 8 June*)

Indonesia (OVERWEIGHT)

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- ◆ Telkom set to acquire GTA

Telekomunikasi Indonesia (Telkom) has reached a definitive agreement to acquire Guam-based full-service telecoms operator, GTA, from funds serviced by Japanese private equity firm, Advantage Partners. The deal, which is subject to approval from regulators in Guam and the US, will strengthen the group's portfolio of international operations, which includes Telin Singapore, Telin Hong Kong, Telkom Australia, Telkom Taiwan, Telkom USA, Telin Malaysia, Telkom Macau, Telin Timor-Leste and a branch in Myanmar. (*Telegeography, 1 June*)

Comment: *Kindly refer to our report dated 2 June - [Telekomunikasi Indonesia : Calling On Guam](#)*

- ◆ Tax on 2G handsets?

The government of Indonesia is reportedly considering a plan to increase the tax levy on 2G handsets in order to facilitate a swifter migration to 4G over the next three or four years. The authorities want the tax hike to make 4G seem relatively less expensive to end users, while also working to free up spectrum once 2G is abandoned. The country's principal mobile operators – Telkomsel, XL Axiata and Indosat – all launched 4G commercially at the end of 2014 and have collectively mustered fewer than a million subscribers to date. (*Telegeography, 27 May*)

- ◆ Indosat to call on USD bonds

Indosat (ISAT) is looking to buy back USD650m worth of bonds, which have a maturation date of 2020, in an attempt to reduce its exposure to USD fluctuations. The telco may exercise its call option on the entire USD650m of bonds in July, noting that it has already put in place the funding needed to issue the call, securing USD-denominated credit facilities worth USD500m and IDR-denominated loans worth USD150m. Indosat is striving to make its ratio of USD to IDR-denominated liabilities stand at around 30:70. (*Telegeography, 19 May*)

Comment: *While we are positive on the move to cut its USD exposure (57% of overall debt as at 1Q15), we look forward to more definitive plans to lower its net gearing and net debt/EBITDA of 1.7x and 2.5x respectively. ISAT remains a BUY based on DCF TP of IDR4,900 (WACC: 9%, TG: 1.5%) as the remaining network upgrades in Tier-2 cities should be completed by 3Q15, allowing the group to better monetise data traffic and drive stronger revenue momentum. Our top pick remains Telkom (TLKM IJ, BUY, TP: IDR3,600), given its superior dividends and commercial execution.*

Thailand (OVERWEIGHT)

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- ◆ ICT minister, CAT boss call for 4G bid delay

Thailand's ICT Minister and CAT Telecom's acting CEO have called on the National Broadcasting and Telecommunications Commission (NBTC) to delay the auction of the 4G spectrum, slated to be held on 11 Nov, until the draft NBTC bill is completed. Under the initial proposal, the 1800MHz auction involves two blocks of the 25MHz bandwidth, but the government is now considering clawing back an additional 5MHz from CAT for the auction. (*Bangkok Post, 15 June*)

Comment: *The market may have likely priced in the likelihood of another auction delay (not new to the industry). However, it remains unclear if the NBTC would relent to DTAC's (DTAC TB, BUY, TP: THB106.20) request (as part of the return of its unused 5MHz 1800MHz spectrum under concession) to split the spectrum into three blocks of 10MHz each for the auction. A delay would be a setback for AIS (AIS TB, BUY, TP: THB279) given its bandwidth constraints/absence of a 4G service, but positive for TRUE (TRUE TB, SELL TP: THB10.37) as it buys time for the company to build up its coffers.*

- ◆ CAT lines up another MVNO partner

CAT Telecom will award a mobile virtual network operator (MVNO) contract to Data CDMA Communication, its third MVNO partner after 168 Communications and Real Move. Data CDMA will lease CAT's 3G cellular service on the 850MHz spectrum. CAT Telecom is also in talks for a possible MVNO with Tesco Lotus. (*Telegeography, 29 May*)

Comment: *MVNOs are not a game changer in the industry as most are focused on niche segments i.e. corporate customers and/or high-end data users.*

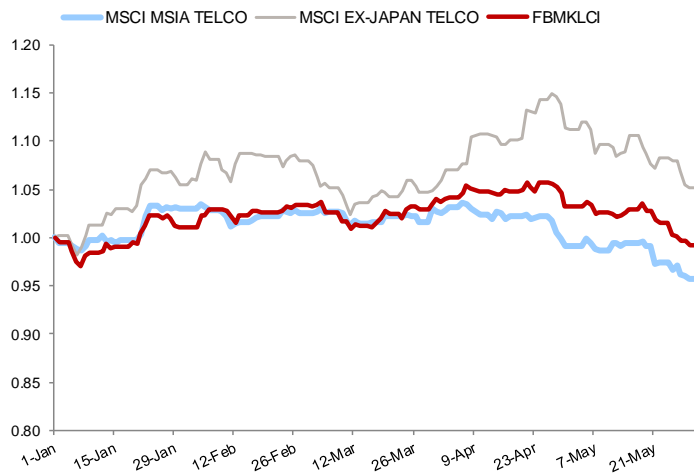
Figure 1: Regional sector valuation comparables

Company	Bloomberg Ticker	Currency	Ratings	TP	Price	Mkt Cap (USDm)	P/E (x)		EV/EBITDA (x)		P/BV (x)		PEG (x)	DY (%)		ROE (%)	
							FY15^	FY16^	FY15^	FY16^	FY15^	FY16^		FY15^	FY16^	FY15^	FY16^
Malaysia																	
Axiata Group	AXIATA MK	MYR	Neutral	7.20	6.58	15,442.1	23.6	22.6	9.1	8.6	2.8	2.7	14.2	3.6	3.8	11.6	12.0
Digi.com	DIGI MK	MYR	Buy	6.60	5.61	11,893.0	20.8	20.0	13.0	12.6	nm	nm	11.1	4.8	5.0	nm	nm
Maxis	MAXIS MK	MYR	Neutral	6.47	6.89	14,106.6	27.2	26.2	14.7	14.6	15.0	14.6	nm	7.7	3.3	42.2	51.3
TM	T MK	MYR	Neutral	7.40	7.28	7,383.0	28.6	26.7	7.9	15.4	3.7	3.4	nm	3.1	3.4	12.5	13.3
Time dotCom	TDC MK	MYR	Neutral	6.10	6.29	984.2	26.2	23.0	13.1	11.7	2.3	2.1	4.2	2.0	1.0	7.9	10.6
OCC Group	OCC MK	MYR	Buy	1.06	0.84	121.0	13.3	12.7	16.1	9.9	2.1	1.8	0.1	0.0	0.0	17.1	15.3
Singapore																	
Singtel	ST SP	SGD	Neutral	4.00	4.13	48,784.4	17.4	17.8	14.6	14.2	2.7	2.6	3.7	4.2	4.3	15.6	14.7
StarHub	STH SP	SGD	Neutral	4.00	4.02	5,146.5	18.6	18.1	9.9	9.6	nm	nm	85.3	5.0	5.0	nm	nm
M1	M1 SP	SGD	Buy	4.40	3.22	2,234.7	15.3	13.9	9.9	9.4	7.3	7.3	1.7	6.5	6.5	48.1	52.6
Indonesia																	
Telkom	TLKM IJ	IDR	Buy	3,600	2,845	21,686.0	17.2	15.7	6.0	5.4	3.9	3.6	1.2	4.3	4.8	23.7	24.1
XL Axiata	EXCL IJ	IDR	Buy	5,100	4,290	2,770.9	67.1	38.9	6.1	5.4	2.5	2.4	nm	0.4	0.6	3.8	6.3
Indosat	ISAT IJ	IDR	Buy	4,900	3,740	1,536.8	24.8	12.7	3.7	3.4	1.2	1.1	nm	3.7	3.8	5.5	9.3
Tower Bersama	TBIG IJ	IDR	Neutral	9,700	9,425	3,418.6	25.0	23.6	16.5	14.7	9.0	7.1	0.2	1.2	1.3	41.2	33.6
Sarana Menara	TOWR IJ	IDR	Buy	5,600	3,970	3,063.0	29.1	24.7	11.6	10.3	6.7	5.3	0.4	0.0	0.0	29.7	26.7
Thailand																	
Advanced Info Services	ADVANC TB	THB	Buy	279.00	234.00	20,655.7	15.9	14.5	9.5	9.2	13.7	13.1	0.8	6.3	6.9	nm	nm
DTAC	DTAC TB	THB	Buy	106.20	88.00	6,186.5	19.5	17.7	7.2	6.5	7.5	8.6	32.4	7.5	7.6	35.9	45.9
Jasmine International	JAS TB	THB	Buy	7.33	5.60	1,163.0	16.5	13.1	10.4	7.8	2.1	1.6	nm	29.5	2.8	nm	28.1
True Corp	TRUE TB	THB	Sell	10.37	11.50	8,402.1	51.9	62.2	13.4	12.3	3.7	3.5	0.1	0.0	0.0	7.0	5.5
Simple Avg. - Malaysia Telcos*							25.3	23.7	11.6	12.6	5.9	5.7	9.8	4.2	3.3	18.5	21.8
Simple Avg. - Singapore Telcos							17.1	16.6	11.4	11.1	5.0	4.9	30.2	5.2	5.2	31.8	33.7
Simple Avg. - Indonesia Telcos							32.7	23.1	8.8	7.8	4.7	3.9	0.6	1.9	2.1	20.8	20.0
Simple Avg. - Thailand Telcos							26.0	26.9	10.1	8.9	6.8	6.7	11.1	10.8	4.3	21.4	26.5
Simple Avg. - Regional Telcos							25.4	22.4	10.7	10.1	5.4	5.1	12.0	5.0	3.3	21.5	23.3

Share price last close as at 29 May 2015 * excluding OCC Group

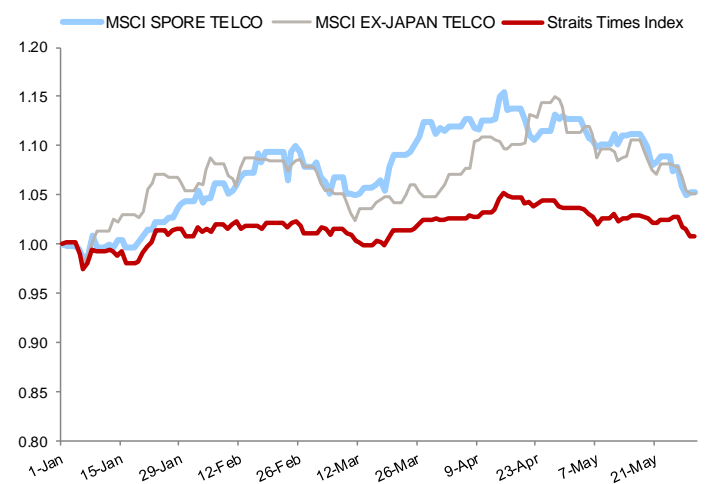
Source: RHB, Bloomberg

Figure 2: YTD MSCI M'sia telecom index performance



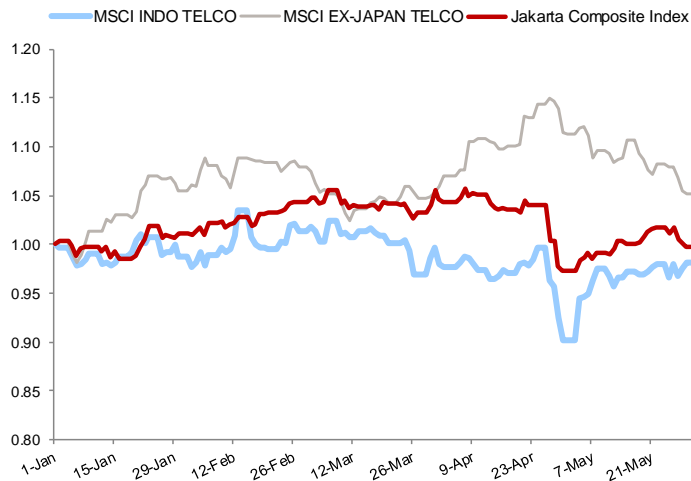
Source: Bloomberg

Figure 3: YTD MSCI S'pore telecom index performance



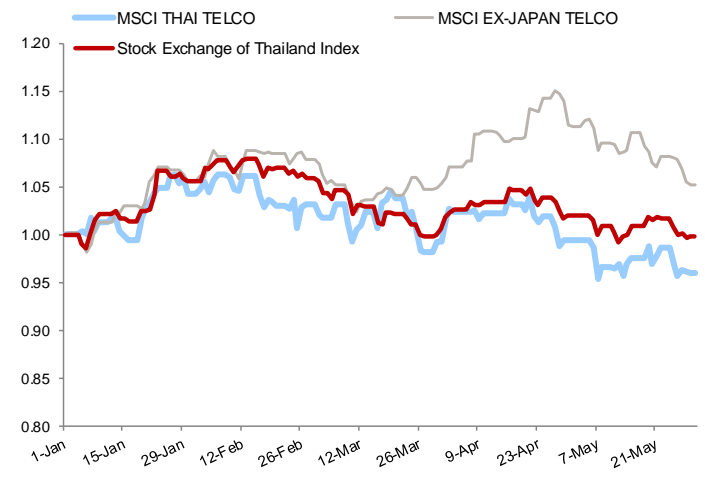
Source: Bloomberg

Figure 4: YTD MSCI Indonesia telecom index performance



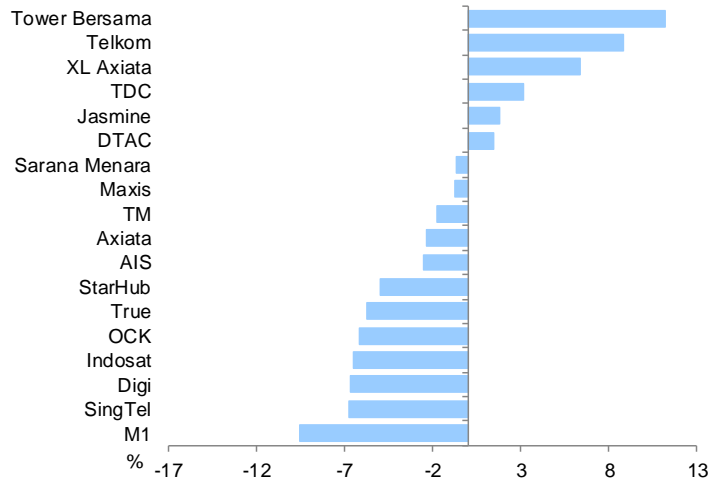
Source: Bloomberg

Figure 5: YTD MSCI Thailand telecom index performance



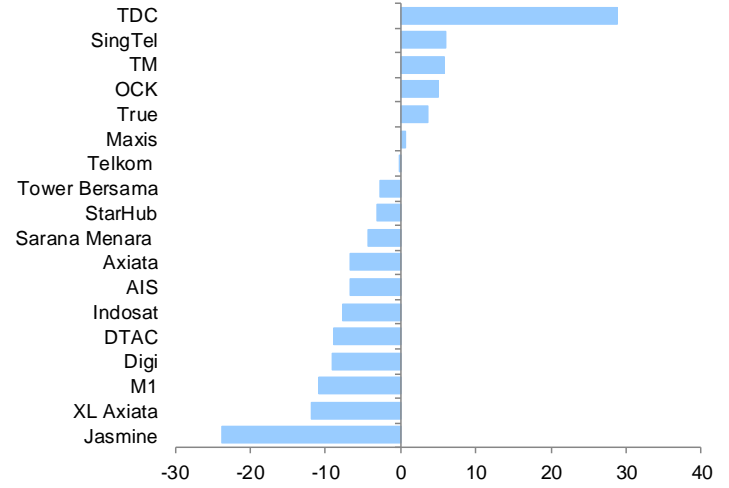
Source: Bloomberg

Figure 6: Share price performance (MoM) (%)



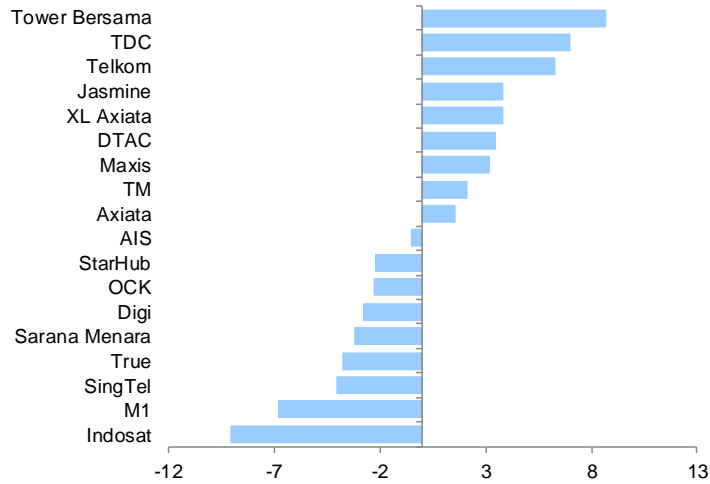
Source: Bloomberg

Figure 7: YTD share price performance (%)



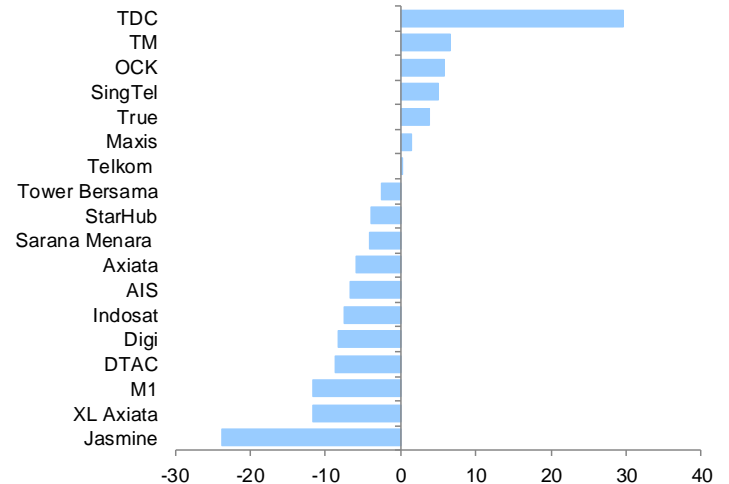
Source: Bloomberg

Figure 8: Relative price performance (MoM) (%)



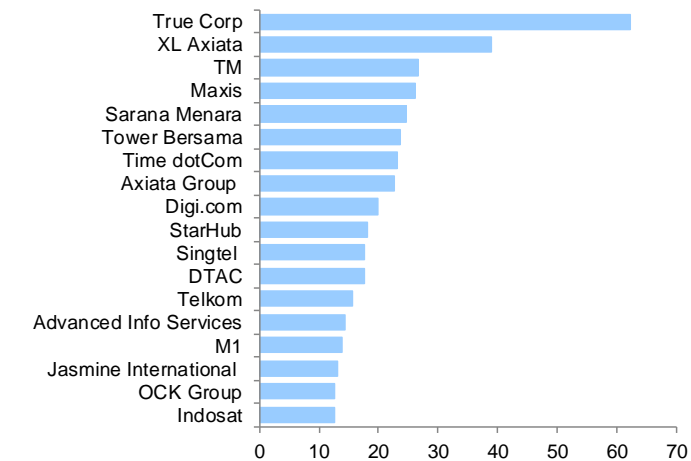
Source: RHB

Figure 9: Relative YTD price performance (%)



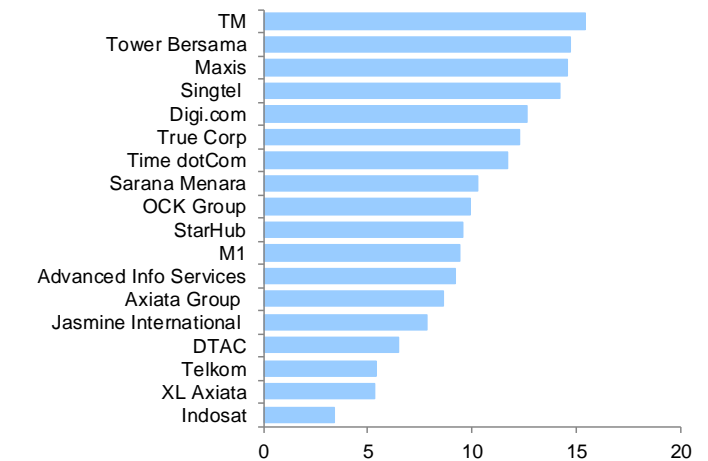
Source: RHB

Figure 10: FY16 P/Es (x)



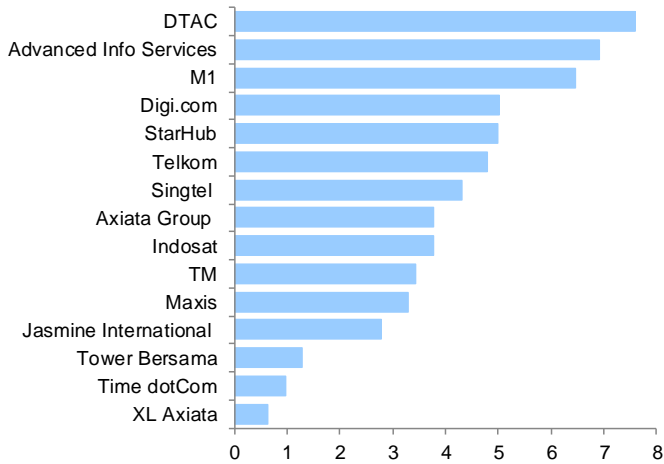
Source: RHB

Figure 11: FY16 EV/EBITDAs (x)



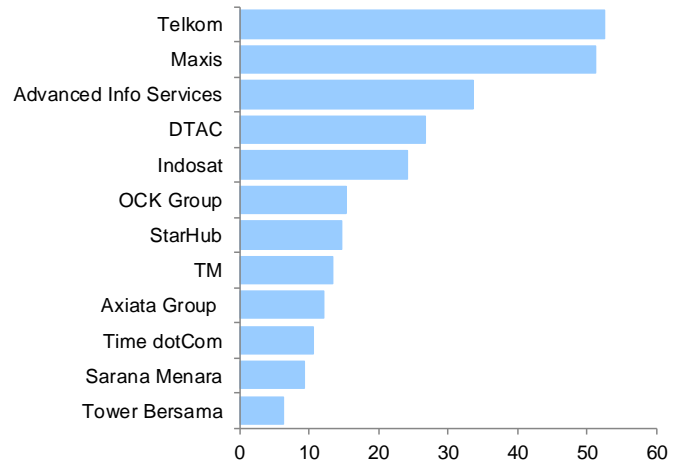
Source: RHB

Figure 12: FY16 dividend yields (%)



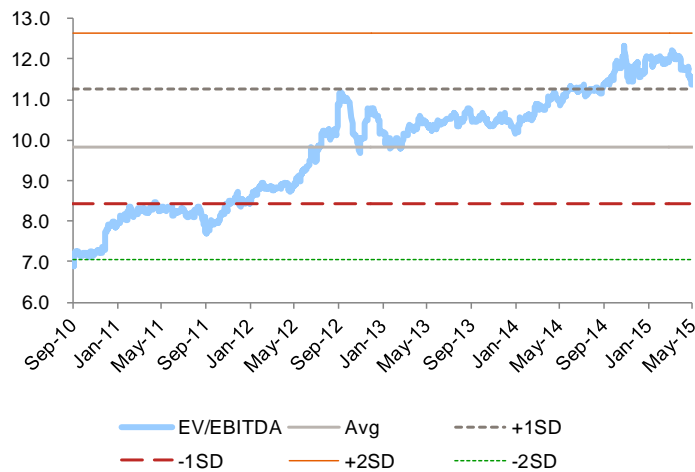
Source: RHB

Figure 13: FY16 ROEs (%)



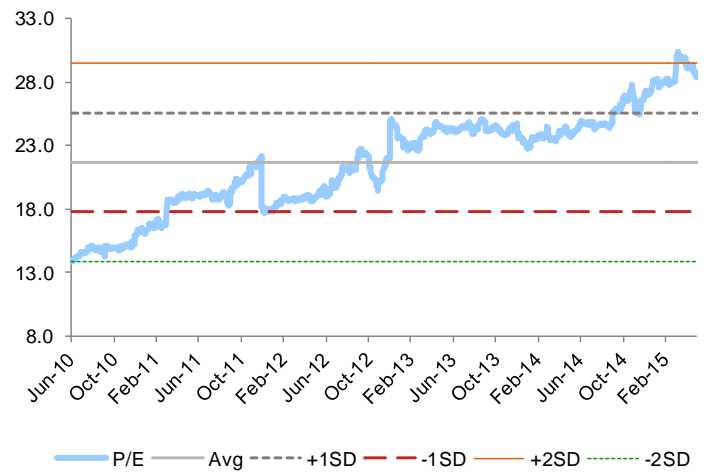
Source: RHB

Figure 14: MY telecoms historical EV/EBITDA band



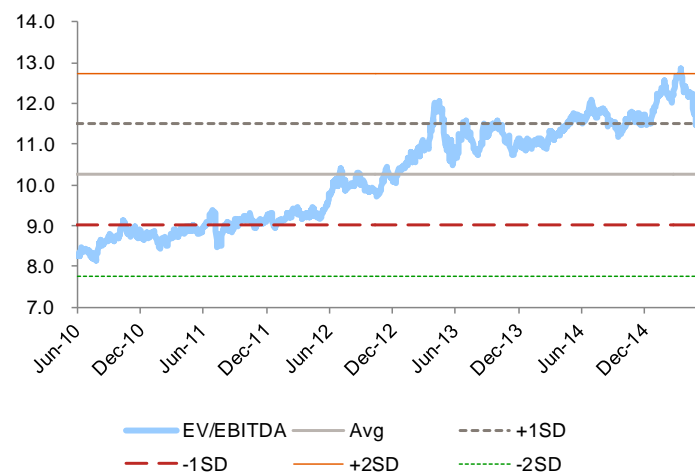
Source: RHB

Figure 145: MY telecoms historical P/E band



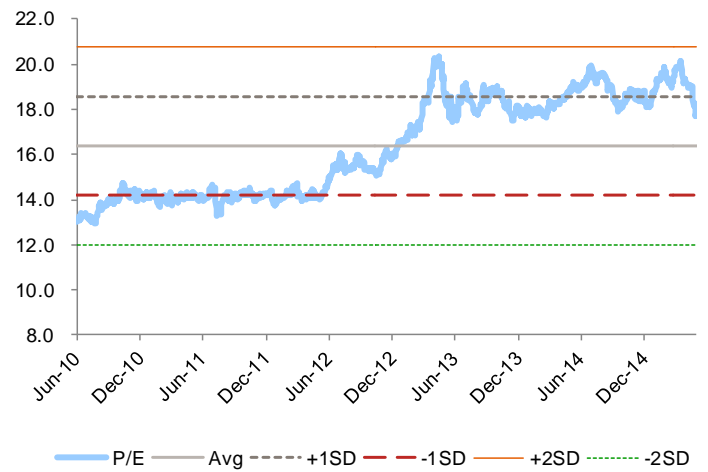
Source: RHB

Figure 16: SG telecoms historical EV/EBITDA band



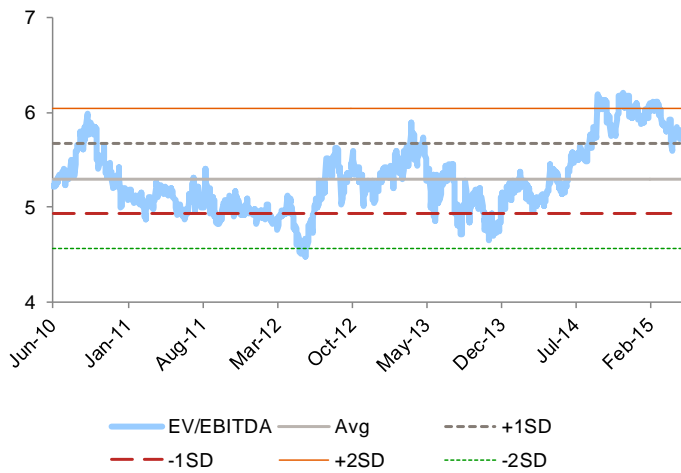
Source: RHB

Figure 17: SG telecoms historical P/E band



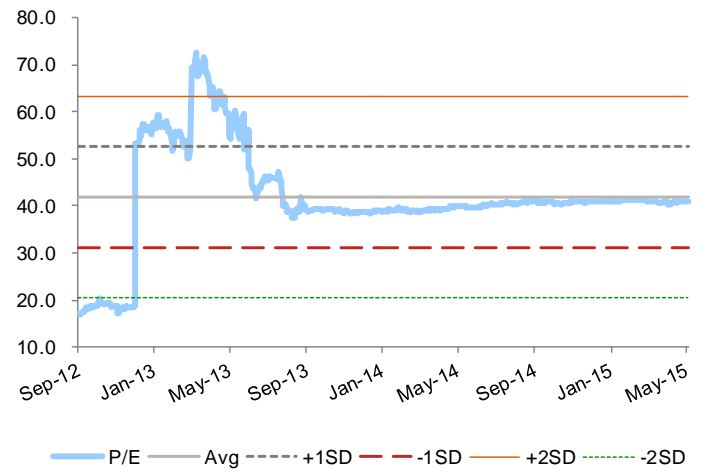
Source: RHB

Figure 18: IND telecoms historical EV/EBITDA band



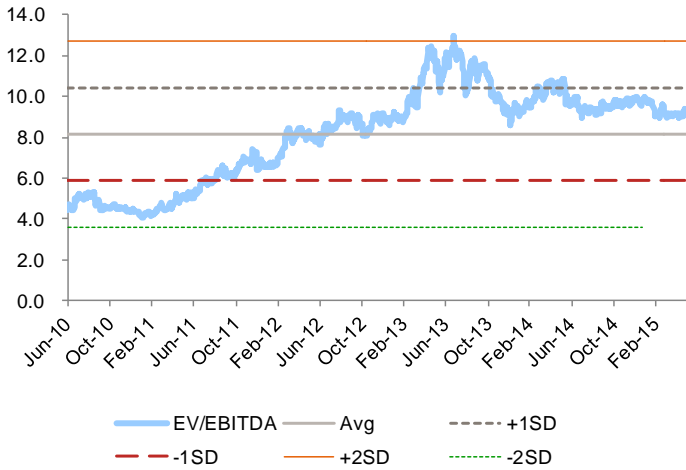
Source: RHB

Figure 19: IND telecoms historical P/E band



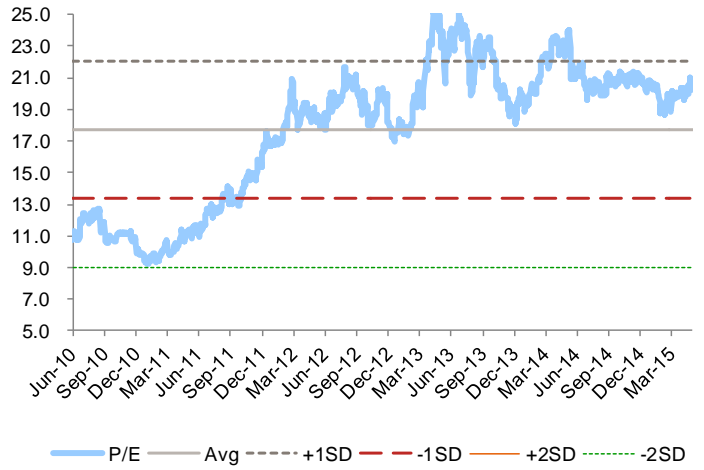
Source: RHB

Figure 20: TH telecoms historical EV/EBITDA band



Source: RHB

Figure 21: TH telecoms historical P/E band



Source: RHB

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