

“Confusion Clarified”

We maintain our Overweight sector call on telecommunication sector in view of i) stable dividend ii) steady net addition in both prepaid and postpaid segment and iii) potential wider margin on 4G's impact iv) goodies from Budget 2014, HSBB 2.0. Our top pick for telecommunication sector is Digi with a BUY call and TP of RM7.00 pegged at EV/EBITDA of 14.2x.

Confusion clarified. The first day implementation of Government and Services Tax (GST), telco issues topped the statistics for GST complaints at 44% share as the confusion who should absorb the 6% on prepaid reload became hot debate. This led exchanging words between Finance Minister and Custom Department and the latter summons telcos representative to explain their action on such move. Finally communication minister laid the debate to rest, explaining the telcos action is not wrongful and hence, maintaining the 6% GST charge on prepaid reload.

Predicted moved. As we explained previously, this situation was a hot debate since a long time ago with telcos requesting to ministry to pass the 6% Sales and Service Tax (SST) to their subscribers. Government finally agreed to lift the SST charge in 2012, however the move only lasted for several days as customers complaint mounted.

Illustration. Previously, telco have been absorbing the 6% SST on the prepaid reload. Lets say consumer paid RM10 for the reload, hence telcos are paying 60 sen of each reload to the government. With the implementation of GST, telcos are finally able to pass the 60 sen from RM10 reload back to customers. On top of that, 6% GST are now charge on the RM10 reload, making purchase amount to RM10.60.

Temporary solutions. As a temporary solution, telcos are now giving extra talk time and sms to their subscribers at least for 3 months, and subsequently Customs Department will further negotiate with telcos for a permanent solution. At this juncture, we are uncertain on the quantum of extra talks time and sms to the subscribers pending telcos announcement. However, we view this as only temporarily solution as telcos have been discussing this with Communication Ministry at a lengthy time. We foresee that the extra talk time and texting given will not bite telcos margins as both call and text is in steady declining contribution to telcos revenue for several years in contrast to rising data and internet usage. At the end, should subscriber fully utilize the extra call and SMS given, it may provide some relief to telcos which potentially lift their ARPU.

Biggest winner. With the implementation of GST, telco sector are the biggest winner as they are able to pass the 6% back to their subscribers. That said, their FY15 bottomline will be lifted by around 3%-5% depending on their subscribers base. Having this, we found that Digi are the clear winner as their prepaid subscriber forms 83% of their total subscribers vs. Celcom (70%) and Maxis (77%) as at FY14.

Cushion the impact. To minimize the rising cost of GST implementation, ministry has agreed in principal with telcos to drop their broadband price at least by 6% in near time. This certainly a good news for subscribers to cope with GST that are already charge on broadband price. However we of the view the broadband usage still low in the country with broadband subscriber only forming about 10% (Celcom), 4% (Maxis) and 2% (Digi) of total subscriber base in FY14 due to expensive devices, and hence, restricting the full potential of broadband. Hence, we foresee lower the price of broadband will not bring any significant impact to telcos as rising affordable smart phones in the market able to cover the shortfall.

Recommendation. Despite the headwinds in GST implementation, we maintain our **Overweight** call on telecommunication sector as fund managers are looking for safe haven to rebalance their portfolios in bleak outlook of equity market. We note that valuation offer by telcos are not cheap, however in view of solid dividend payment in current negative environment offset the lofty valuation. Attractions on the sector includes 1) attractive dividend stream 2) strong broadband initiatives and take up rate and 3) steady postpaid and prepaid net addition. **Digi** is our top pick with a TP of RM7.00 pegged at EV/EBITDA of 14.2x with a BUY call.

Table 1: Subscribers Overview (FY2014)

Million	Total Subs	Postpaid		Prepaid		Broadband	
		Subs	% of Subs	Subs	% of Subs	Subs	% of Subs
Celcom	14,458	2,804	19%	10,165	70%	1,489	10%
Maxis	12,553	2,489	20%	9,624	77%	440	4%
Digi	11,662	1,721	15%	9,700	83%	241	2%
	Total Subs	Streamyx		Unifi		Fixed Line	
		Subs	% of Subs	Subs	% of Subs	Subs	% of Subs
Telekom	6,487	1,502	23%	729	11%	4,256	66%

Source: Company; M&A Securities

Table 2: Revenue Segmentation (FY2014)

(Million)	Voice	y-o-y Chg	Data	y-o-y Chg	% of Voice	% of Data
Celcom	9,415	-2%	3,586	32%	50%	19%
Maxis	4,371	-4%	3,467	-4%	52%	42%
Digi	3,883	-4%	2,450	14%	55%	35%
Telekom	3,469	-4%	5,601	7%	31%	50%

Source: Company; M&A Securities

Sector Update - Telecommunication (Overweight)

Table 3: Capex Guidance

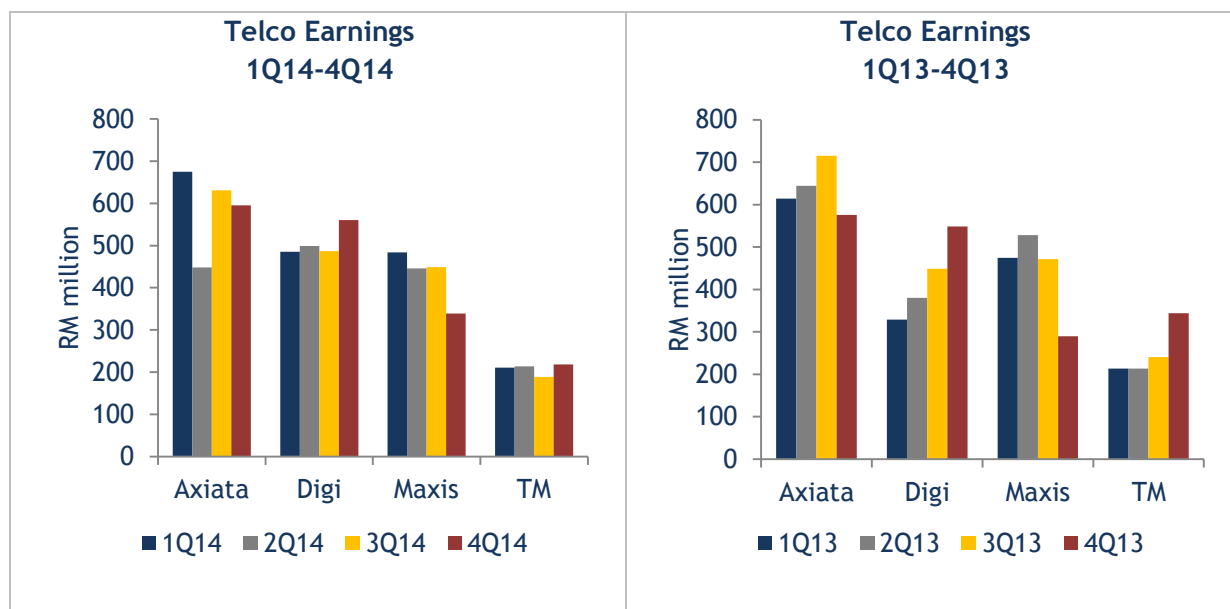
FY14 Capex				FY15 Capex
(Million)	Guidance	Spent	Details	
Axiata	RM4.4 bil	RM4.0 bil	Network modernization, IT Initiatives	RM3.85 bil
Maxis	RM1.1 bil	RM1.14 bil	Network modernisation and improvement in customer experience.	RM900 mil
Digi	RM900 mil	RM904	Modernize network equipment	RM750 mil
Telekom	18% of revenue	RM946 mil	Refreshed CDMA with LTE over 850MHz under TMgo, launch 280 sites nationwide by year end.	20% of revenue

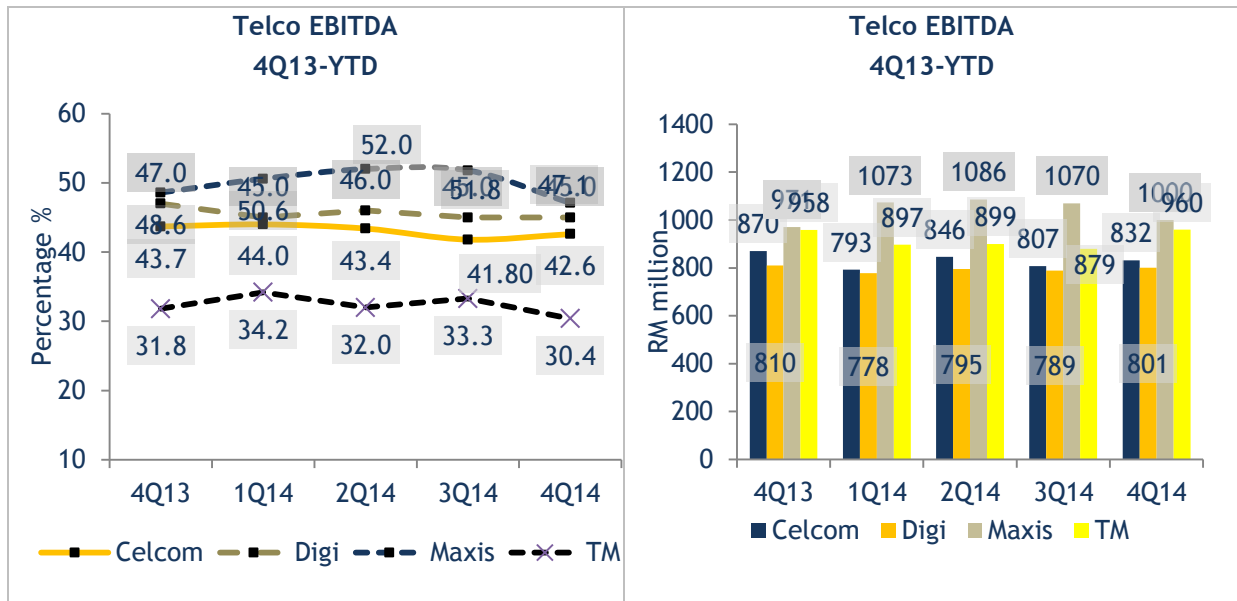
Source: Company; M&A Securities

Table 1: Peers Comparison

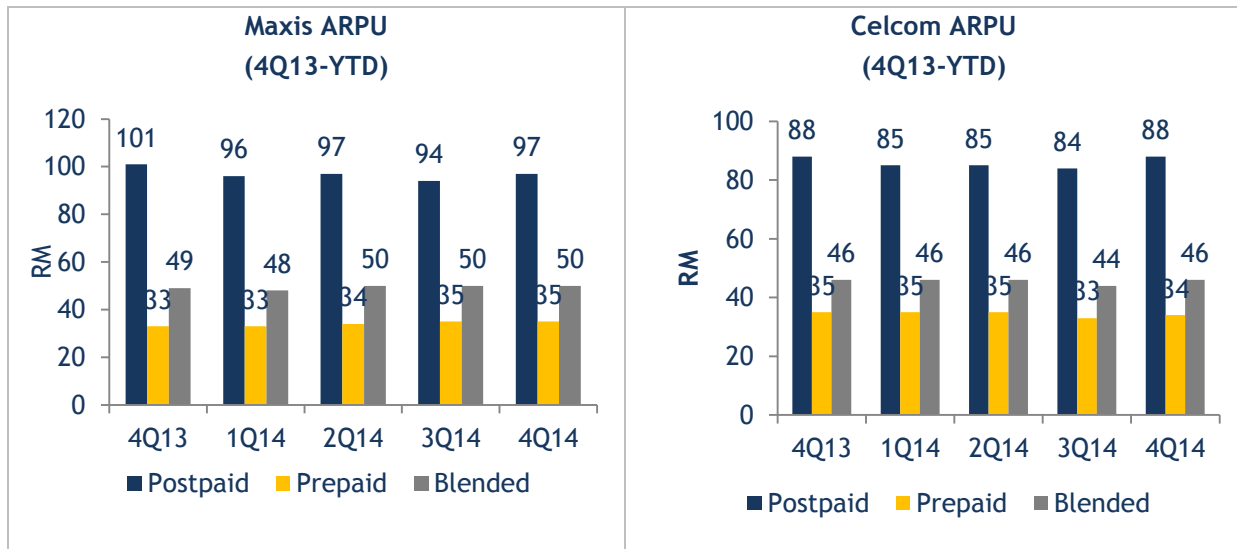
Company	FYE	Price (RM)	EPS (RM)		P/E (x)		P/B (x)		ROE (%)	Div Yield (%)	TP	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
Axiata	Dec	7.06	0.31	0.34	23	21	2.8	2.8	11.6	3.1	7.40	Hold
Maxis	Dec	7.08	0.27	0.28	27	25	12.0	12.6	32.1	4.5	7.10	Hold
Digi	Dec	6.26	0.27	0.28	23	22	65.3	62.1	301.5	4.2	6.60	Hold
Telekom	Dec	7.09	0.27	0.29	27	25	3.4	3.4	11.3	3.6	6.95	Hold
Time DotCom	Dec	5.66	0.28	0.32	21	18	1.3	1.2	8.0	1.0	NR	NR
Average			0.28	0.30	24	22	17.0	16.4	72.9	3.28		

Source: Bloomberg; M&A Securities

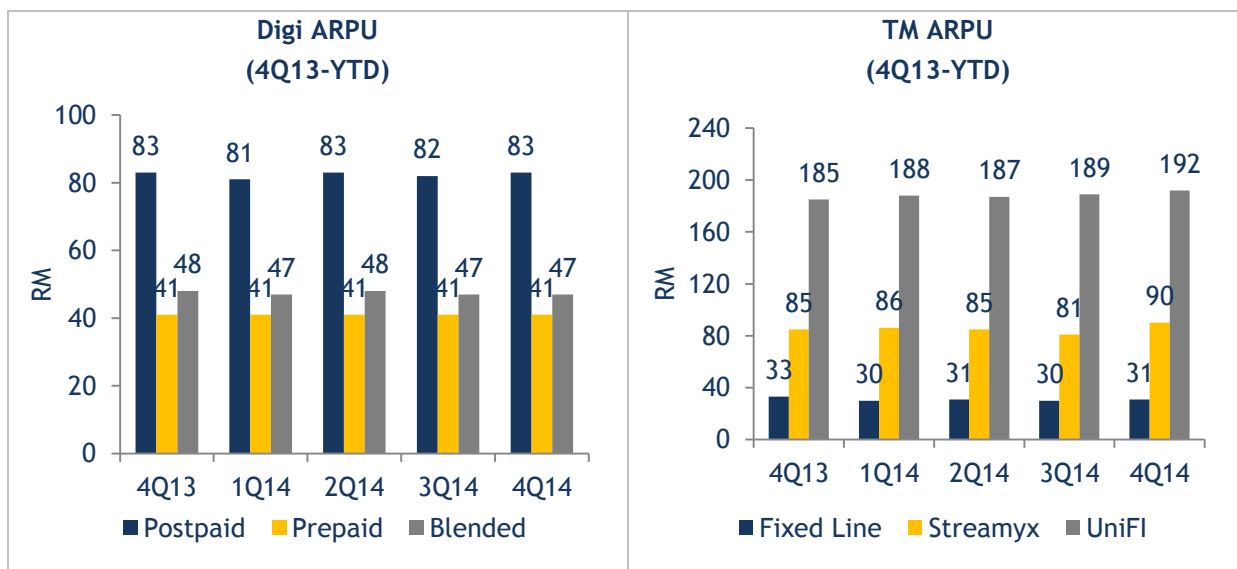




Source: Bursa Malaysia, M&A Securities



Source: Bursa Malaysia, M&A Securities



Source: Bursa Malaysia

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

DISCLOSURES AND DISCLAIMER

This report has been prepared by M&A SECURITIES SDN BHD. Readers should be fully aware that this report is for informational purposes only and no representation or warranty, expressed or implied is made as to the accuracy, completeness or reliability of the information or opinion contained herein. The recommendation and opinion are based on information obtained or derived from sources believed to be reliable.

This report contains financial forecast/projection based on our assumptions which may defer from the actual financial results announced by the companies under coverage. All opinions, estimates and assumptions are subject to change without notice. Analysts will initiate, update and cease coverage solely at the discretion of M&A SECURITIES SDN BHD.

Investors are to be cautioned that value of any securities invested may fluctuate from time to time. We advise investors to seek financial, legal and other advice for investing based on the recommendation of our report as we have not taken into account each investors' specific investment objectives, risk tolerance and financial position.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. M&A SECURITIES SDN BHD can accept no liability for any consequential loss or damage whether direct or indirect. Investment should be made at investors' own risks.

M&A SECURITIES SDN BHD and INSAS GROUP of companies, their respective directors, officers, employees and connected parties may have interest in any of the securities mentioned and may benefit from the information herein. M&A SECURITIES SDN BHD and INSAS GROUP of companies and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This report may not be reproduced, distributed or published in any form or for any purpose.

M & A Securities Sdn Bhd (15017-H)

(A wholly-owned subsidiary of INSAS BERHAD)

A Participating Organisation of Bursa Malaysia Securities Berhad

Principal Office:

Level 1,2,3 No.45 & 47,43-6

The Boulevard, Mid Valley City,

Lingkaran Syed Putra,

59200 Kuala Lumpur

Tel: +603 - 2282 1820 Fax: +603 - 2283 1893

Website: www.mnaonline.com.my