

## Telecommunication Sector

(Overweight)

### “Goodies for Prepaid Subscriber”

We maintain our Overweight 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 2015, HSBB 2.0. Our top pick for telecommunication sector is Digi with a BUY call and TP of RM6.10 pegged at last 3-year of EV/EBITDA of 14.1x.

#### Budget 2016 Telecommunication Summary

Overall, we concurred that Budget 2016 is a caring budget with prime objective to ease the burden of low and middle income class. For telecommunication sector, we found various measures to boost the internet speed and usage. Among the measures announced in the Budget 2016 for telecommunication sector are;

- i. Ramping up internet speeds from 5Mbps to 20Mbps in rural areas (RM1.2 billion)
- ii. To build 1,000 new telecommunication tower and laying undersea cable in the next 5 years (RM2.7 billion)
- iii. Rebates on mobile prepaid cards

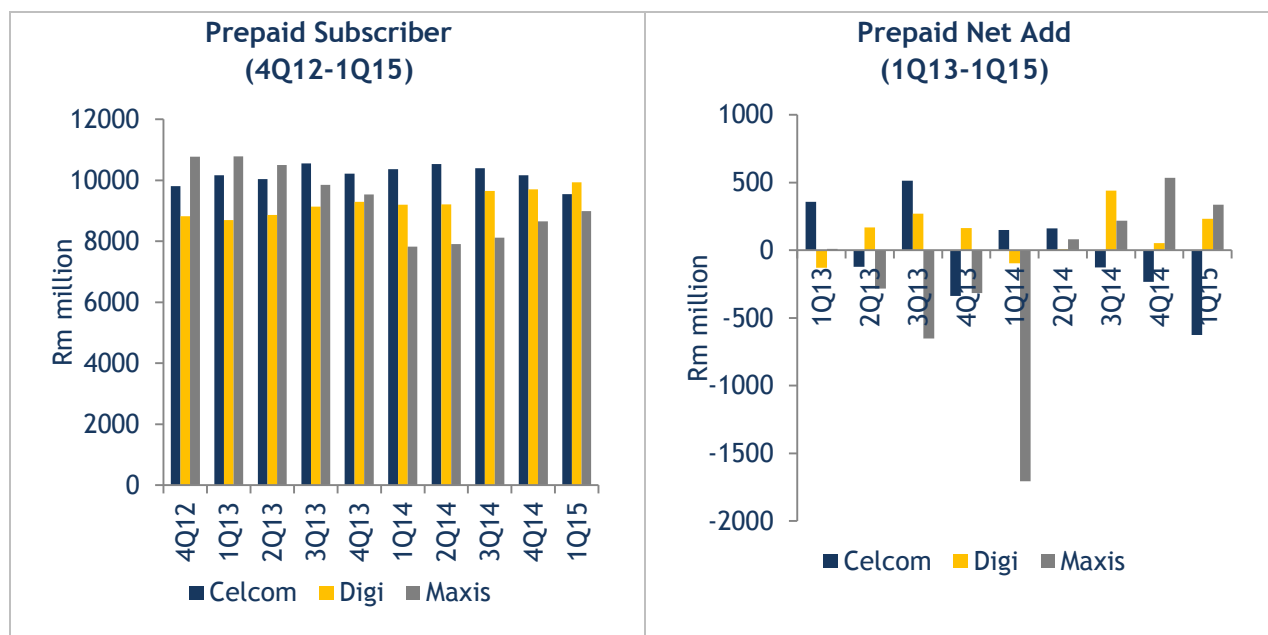
#### Our view

**GST rebate a cheer to subscriber.** We lauded the government decision on prepaid GST as under the announcement, consumer will get rebates on mobile prepaid cards equivalent to GST amount paid. In addition, the GST paid by prepaid subscriber will be credited back into subscriber account starting from 1<sup>st</sup> January to 31<sup>st</sup> December 2016. This means all the GST paid by prepaid subscriber during 1<sup>st</sup> April 2015-31<sup>st</sup> December 2015 will be credited back to the subscribers. We are caught by surprise with the government measures as under the previous trial system prepaid subscribers were rewarded through extra airtime and messages for all prepaid purchases.

**Add more muddle to telco operators.** At this juncture, we believe the government made its decision in isolation and the decision is deemed best for all interested party including the users. We understand that from the last directive on May 2015, telcos were already taking necessary action including a new IT system to calculate the usage-based GST. Should the new directive in the Budget 2016 be implemented, telcos will further incur more cost and time to tweak their IT system to jive with the Budget 2016 measure.

## Sector Update - Telecommunication (Overweight)

**Upgrading internet speed.** Details are scarce at the moment with the locations and the telcos involved are uncertain. However we lauded the move to increase the internet speed in the rural areas as it will match the internet speed with the urban areas. Given this, we do not discount the possibility of Telekom Malaysia (TM) to win the slice of the contract given their involvement in the Broadband for General Population (BBGP) during announcement of Budget 2014. At this juncture, we are unsure about the project funding as happened during the announcement of high speed broadband project where TM turned out to fund the majority all the cost



Source: Company, M&A Securities

**Recommendation.** We are positive on the Budget 2016 announcement as this will spur further interest on prepaid subscriber to use the service as this will reduce the impact of GST implementation on cost of living. We maintain our **Overweight** call on telecommunication sector. We note that valuation offer by telcos are not cheap, however in view of solid dividend payment in current negative environment may offset the lofty valuation. Attractions on the sector include 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 RM6.10 pegged at last 3-year of EV/EBITDA of 14.1x.

Table 2: 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	6.32	0.31	0.34	23	21	2.8	2.8	11.6	3.1	7.40	Hold
Maxis	Dec	6.70	0.27	0.28	27	25	12.0	12.6	32.1	4.5	7.10	Hold
Digi	Dec	5.53	0.27	0.28	23	22	65.3	62.1	301.5	4.2	6.60	Hold
Telekom	Dec	6.77	0.27	0.29	27	25	3.4	3.4	11.3	3.6	6.87	Hold
Time DotCom	Dec	7.00	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

# M&A Securities

## STOCK RECOMMENDATIONS

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

## SECTOR RECOMMENDATIONS

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

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