

12 October 2017 | Sector Update

Telecommunication Sector

Maintain NEUTRAL

MCMC announced marketing plan for 700Mhz

- **Eight spectrum blocks of 700Mhz up for tender**
- **Four payment options fee ranging from RM215.5m up to RM417.1m per block**
- **Up to eight bidders may tender for the 700Mhz spectrum band**
- **Maintain NEUTRAL stance on the sector**

Marketing plan. The Malaysian Communication and Multimedia Commission (MCMC) announce its marketing plan for the 700Mhz frequency bands which is expected to be made available from 1st January 2019. The 700Mhz frequency bands shall be assigned by way of tender, which will be carried through by the process of beauty contest. To participate in the tender, mobile telecommunication service providers will need to submit a five year detailed business plan (i.e. from 2019 to 2023) which is based on 2x5Mhz spectrum block. A total of 8 spectrum blocks will be made available. However, each bidder may only apply up to four spectrum blocks (i.e. 2x20Mhz). MCMC also stressed that spectrum awarded shall not be traded and/or transferred either in whole or in part to a third party.

Pricing component. MCMC provide several payment options for the bidders with payment terms of up to 15 years which would raise the spectrum cost up to RM417.1m from RM215.5m. In addition, successful bidders have to pay an annual fee of RM18.5m for each year of the 15 years of spectrum for each of the 2x5Mhz spectrum block.

Table 1: Spectrum fee option based on one block of 2x5Mhz

Option	Total spectrum amount (RM'm)	Payment tenure (year)	Average fee per year (RM'm)
1	215.535	1	215.535
2	260.595	5	52.119
3	328.380	10	32.838
4	417.120	15	27.808

Source: MCMC, MIDFR

Eight potential bidders. Taking cue from the current allocation of 2,600Mhz, a total of eight mobile telecommunication service providers could be bidding for the 700Mhz spectrum. This include Maxis, Digi, Celcom, U Mobile, Webe, Altel, Redtone and YTL Comm (YES). However, premised on the rollout of mobile services on 2,600Mhz, we view that Maxis, Digi, Celcom, U Mobile, and YTL Comm (YES) would stand a better chance of getting a fair portion of the coveted 700Mhz. Nonetheless, Maxis and Celcom may bid for 1 block of 2x5Mhz while Digi and U Mobile may bid for 2 blocks of 2x5Mhz to compensate for the shortfall in 900Mhz. To recall, based on the current allocation of 900Mhz, Maxis and Celcom have 2x10Mhz each while Digi and Umobile have 2x5Mhz each.

Sufficient cash reserve. Assuming that each bidder bids for one or two blocks of the frequency band, Maxis, Digi, Celcom, and YTL Comm have sufficient cash reserve to fund the bidding (*Refer Table 2*). Meanwhile, we believe that U Mobile would have the financial support of its main shareholders. From the available payment options, the first option would be the most viable. However, we do not discount the possibility that the bidders may also opt for the instalment term. This is in view of the annual maintenance fee and more importantly, the capital expenditure (capex) required to efficiently rollout the services on the 700Mhz frequency band. Note that the mobile telecommunication service providers may balance between the allocation of the spectrum band and the capex required for the infrastructure. Nonetheless, we view that should Digi bid and opt for a lump sum payment for 2 blocks of the 700Mhz spectrum, it could affect its dividend payment ability. Digi typically pays approximately 100% of its net earnings.

Table 2: Comparison between listed bidders and expected spectrum fee


Listed company	Expected block of 2x5Mhz	Expected spectrum fee (RM'm)*	Cash reserve as at 30 th June 2017 (RM'm)
Maxis Bhd	1	215.5	475.0
Axiata Group Bhd (Celcom)	1	215.5	7,373.6
Digi.Com Bhd#	2	431.1	628.3
YTL Power international Bhd (YES)	1	215.5	8,946.3

* Assume lump sum payment

#Digi has RM5b sukuk program for capex and working capital

Source: Companies, MIDFR

Reallocation of 2300Mhz and 2600Mhz could be delayed. Given that the successful bidders would need to pay a hefty sum for the 700Mhz next year, we do not discount the possibility that the spectrum allocation for much awaited 2,300Mhz and 2,600Mhz could be postpone further. This would provide more time for the mobile telecommunication service providers to strengthen their respective financial position.

Reiterate NEUTRAL. Competition remains intense as mobile players are constantly solidifying its market position. On another note, the hefty cost of acquiring and maintaining new spectrum allocation serves as a challenge to local mobile players. To seek refuge from the competitive mobile landscape, we advise investor to shift the telecommunication portfolio to fixed line players such as **Telekom Malaysia Bhd (BUY; TP: RM7.77)** who control the majority of the fixed line market. All in, we reiterate our **NEUTRAL** stance on the  sector.

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.