

30 June 2016 | Sector Update

Telecommunication Sector

Maintain NEUTRAL

Spectrum fee announcement under way

- **Discussion on spectrum fee at advanced stages**
- **External consultant appointed to facilitate the process**
- **Spectrum fee payment would probably be evenly spread out**
- **Digi would be least impacted, as compared to Celcom and Axiata, due to lower net gearing ratio and lower spectrum allocation of the 900Mhz frequency band**
- **Maintain NEUTRAL on the sector**

Advance stages of discussion. Our industry channel checks hinted that the regulator, the Malaysian Communications and Multimedia Commission (MCMC), is in advance stages of discussion with the four main telcos, namely Digi.Com Bhd, Maxis Bhd, Celcom Axiata Bhd and U Mobile Sdn Bhd in relation to the fee for the reallocated spectrum. Recall that in February 2016, MCMC has outlined the plans to reallocate the 900Mhz and 1,800Mhz frequency bands among the four telecoms operators which will be implemented by the 1st of July 2017.

Table 1: Spectrum allocation schedule

Mobile operator	Band (Mhz)					
	Old		New		Difference	
	900	1,800	900	1,800	900	1,800
Celcom	17 MHz x 2	25 MHz x 2	10 MHz x 2	20 MHz x 2	(7 MHz x 2)	(5 MHz x 2)
Maxis	16 MHz x 2	25 MHz x 2	10 MHz x 2	20 MHz x 2	(6 MHz x 2)	(5 MHz x 2)
Digi	2 MHz x 2	25 MHz x 2	5 MHz x 2	20 MHz x 2	3 MHz x 2	(5 MHz x 2)
U Mobile	-	-	5 MHz x 2	15 MHz x 2	5 MHz x 2	15 MHz x 2

Source: MCMC, MIDFR

Consultant has been appointed. Based on an online publication by Plum Consulting (Plum), the MCMC has appointed the former to provide advice on the appropriate value for mobile spectrum in Malaysia. This would include the renewal of existing license and the award of new spectrum. Plum is a consulting firm specializing in the application of economics and engineering to the telecommunications, online and broadcasting industries.

Plum will carry out a benchmarking exercise. This involves using both direct benchmarking and econometric analysis to determine the pricing range with regards to the spectrum frequencies applicable to the Malaysian market. Based on direct benchmarking, a simple average (normally in the form of Price/Mhz/Population or Price/Mhz/GDP) will be used as an estimate for spectrum value. This simple average is obtained by comparing the spectrum fee of the same band applied by other comparable countries. Meanwhile, economic analysis will involve estimating the value of the spectrum based on the effects of various drivers of spectrum value.

Spectrum fee structures. There are several fee structures which we believe the regulator may take into consideration. These include: (i) pure upfront payment; (ii) an upfront payment with a recurring annual payment; or (iii) lump sum upfront with annual fees. We view that it would most likely be an upfront payment with a recurring annual payment as this would evenly spread out the cost of spectrum over a longer period of time. Thus, there would not be a sudden surge in capital expenditure for the telco operators involved.

Digi would have the least impact. Making reference to the latest 1QFY16 quarterly earnings, Celcom Axiata Bhd had the highest net gearing ratio at 4.7x, followed by Digi.com Bhd and Maxis Bhd at 2.1x and 1.9x respectively. Coupled with the revised allocation schedule by MCMC, both Celcom and Maxis would have to incur higher spectrum fees as compared to Digi. In the event that the spectrum fee has been made known, we would advise investors to maintain exposure in Digi.com Bhd (NEUTRAL; TP:RM5.02) as the company's balance sheet would be least impacted by the fee.


Maintain NEUTRAL. Since the announcement of the spectrum reallocation earlier this year, the market has been awaiting the divulgement of the spectrum fee and the fee structure. This has created an overhang in the industry. As the implementation time of the new allocation has been made known, the regulator would need to update the industry players within a reasonable time frame. This will enable them to strategise on the source of funding and to relook into the redeployment of the capital structure in order to achieve the optimum efficiency. Pending the announcement, we retain our **NEUTRAL** stance on the sector. 

Table 2: 1QFY16 net gearing level

	Digi.com Bhd	Celcom Axiata Bhd	Maxis Bhd
Total Debt (RM'm)	1,631.1	4,488.0	9,081.0
Cash and Cash equivalent (RM'm)	502.7	1,695.0	786.0
Net Debt (RM'm)	1,128.4	2,793.0	8,295.0
Total Shareholders' funds (RM'm)	537.4	591.0	4,308.0
Ratio (x)	2.1	4.7	1.9

Source: Announcement, MIDFR

Stocks	Recomd'n	Price @ 29th June 2016 (RM)	Target Price (RM)	EPS (sen)		EPS (% change)		PER		DPS (sen)		Yield (%)	
				16E	17F	16E	17F	16E	17F	16E	17F		
Telekom Malaysia	BUY	6.82	8.18	24.0	25.4	0.5	5.5	34.1	32.2	21.2	22.3	2.6	2.7
Axiata Group Bhd	NEUTRAL	5.60	5.13	23.4	25.1	0.0	7.0	21.9	20.4	17	18	3.3	3.5
Digi.Com Bhd	NEUTRAL	4.77	5.02	22.1	22.5	-1.6	1.7	22.7	22.3	21	21.4	4.2	4.3
Maxis Bhd	NEUTRAL	5.81	6.55	25.8	26.2	-0.7	1.5	25.4	25.0	21	21	3.2	3.2

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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.