Malaysia Industry Focus

Malaysia Telecom

Refer to important disclosures at the end of this report

DBS Group Research . Equity 15 Dec 2016

Say hello to more competition

- U Mobile will be a stronger fourth player in 2017 after spectrum re-allocation
- Rising data usage is not translating into higher ARPU given the decline in data pricing
- Another spectrum allocation exercise is possible in 2017
- Prefer fixed-line operators; Telekom Malaysia is our only BUY call

A stronger fourth player. The start of 2017 will see the fourth player, U Mobile, having an almost equal amount of spectrum relative to the incumbents. As such, we believe it is reasonable to expect that U Mobile will turn more aggressive in order to gain market share, which currently stands at about 10% vs. 25-28% each for DiGi, Maxis, and Celcom. If history is any indication, market share should eventually converge between the four mobile players in the long run, similar to what happened after DiGi acquired its 3G spectrum in 2008.

Is data pricing still rational? After several adjustments in 2016, data pricing (on per gigabyte (GB) basis) in Malaysia had declined significantly and is now comparable with some of the more competitive markets in the region. We believe downward pressure on average revenue per user (ARPU) would eventually hit the mobile players as the low data pricing will likely accelerate the decline in legacy voice and SMS revenue, which are still quite substantial at 57-61% of mobile service revenue. This remains a key challenge for Malaysian mobile players' data monetisation strategy, where rising data usage does not necessarily translate into higher ARPU.

Spectrum allocation exercise in 2017? With licences for the 2100MHz and 2600MHz bands expiring in Apr 2018 and Dec 2017 respectively, we believe Malaysian Communications and Multimedia Commission (MCMC) is likely to call for another spectrum re-allocation exercise in 2017. This could be followed by the 700MHz band which is targeted to be freed up by 2018 at the earliest after the complete migration of analogue TV to digital TV broadcasting. Based on Singapore's spectrum reserve pricing, we estimate this round of spectrum allocation exercise could cost as much as RM9.0bn for the mobile industry.

Tough years ahead; we prefer fixed-line operators. With the move towards a new regime for spectrum allocation as well as a stronger fourth player, we believe questions will eventually be raised on competition risk and margin sustainability, as well as Malaysian mobile operators' premium valuations vs. regional peers. As such, we prefer the fixed-line operators, with Telekom Malaysia (TM) as our only BUY call.

KLCI : 1,645.28

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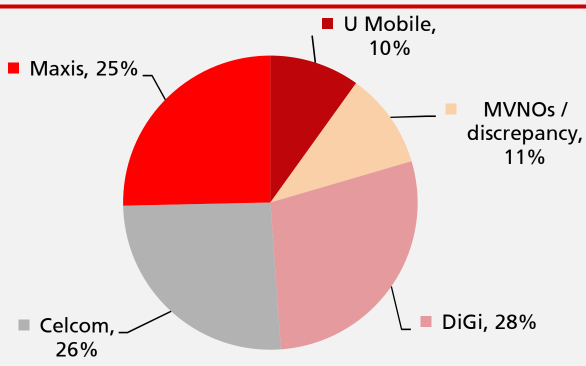
STOCKS

	Price	Mkt Cap	Target Price	Performance (%)		
	RM	US$m	RM	3 mth	12 mth	Rating
Axiata Group	4.50	9,112	4.45	(18.0)	(26.0)	HOLD
Digi.Com	4.98	8,739	4.35	(2.4)	(1.4)	HOLD
Maxis Bhd	6.00	10,171	5.10	(3.7)	(8.8)	FULLY VALUED
Telekom Malaysia	5.96	5,055	7.20	(13.4)	(7.6)	BUY
TIME dotCom Bhd	7.85	1,025	7.50	3.7	14.3	HOLD

Source: AllianceDBS, Bloomberg Finance L.P.
Closing price as of 13 Dec 2016

Axiata Group : Regional cellular operator
Digi.Com : Malaysia-focused cellular operator
Maxis Bhd : Largest Malaysian cellular operator by subscribers
Telekom Malaysia : Dominant fixed line operator in Malaysia
TIME dotCom Bhd : A data-centric, fixed-line telecommunication provider based in Malaysia serving enterprises and operators with small presence in the retail broadband segment

Estimate of subscriber market share in 2Q16



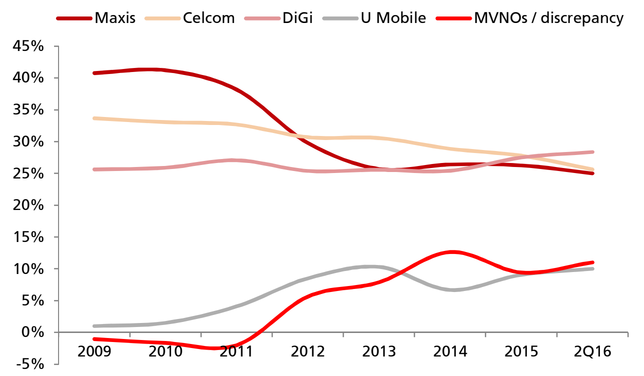
Source: MCMC, AllianceDBS

A stronger fourth player in 2017

Almost equal spectrum distribution. The start of 2017 will see the fourth player, U Mobile, having an almost equal amount of spectrum relative to the incumbents. As such, we believe it is reasonable to expect U Mobile to be more aggressive in order to gain market share, which currently stands at about 10% vs. 25-28% for DiGi, Maxis, and Celcom per the latest 2Q16 MCMC statistics.

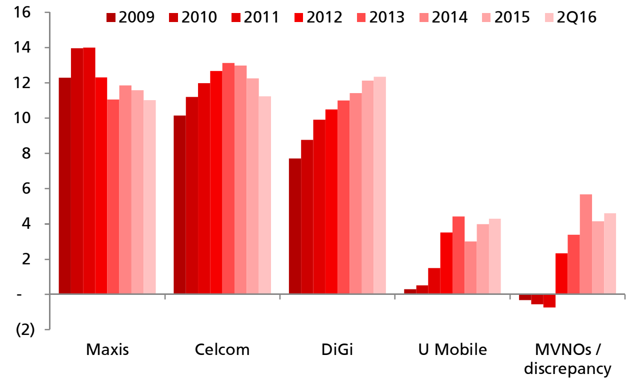
If history is any indication, we think market share could eventually converge between the four players in the long run, similar to what happened after DiGi acquired its 3G spectrum in 2008 (see chart below). As the number of mobile subscribers in Malaysia increased from 30m in 2009 to 44m in 2015, DiGi managed to capture most of the growth and maintained its market share, while Maxis and Celcom lost market share as they just barely increased their subscriber counts over the period.

Subscriber market share, 2009 to 2Q16 (%)



Source: MCMC, Companies, AllianceDBS

Number of mobile subscribers, by operators (in million)



Source: MCMC, Companies, AllianceDBS

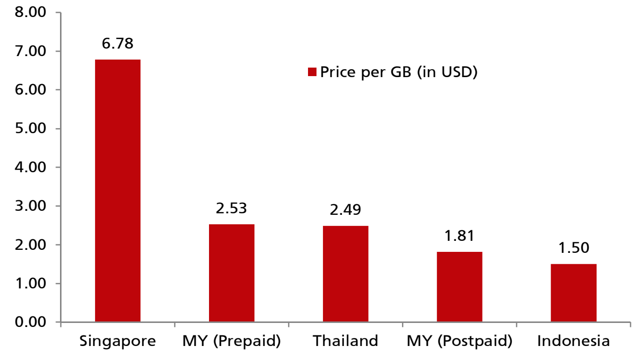
Earnings risks skewed to the downside. Consensus and our forecasts are still projecting flattish revenue and earnings for incumbents in 2017. With mobile penetration rate unlikely to rise further, this implies that everything would remain status quo in 2017, with U Mobile and TM's Webe barely gaining any market share in 2017 – the best case scenario that the incumbents could hope for. Clearly, this shows that the market has yet to price in potential market share loss for the incumbents (especially in the long run), which is unrealistic in view of the new spectrum gained by U Mobile (which should lead to better network quality and coverage) and loss of spectrum by Maxis and Celcom.

We certainly expect downward revisions to earnings in 2017, as competition has remained as intense as ever in recent months even before the 900MHz and 1800MHz spectrum re-allocation taking place in 2017. Besides that, we also believe the government may conduct another spectrum allocation exercise in 2017 (for 700MHz, 2100MHz, and 2600MHz). This would lead to: 1) higher interest cost due to increase in debt to fund any upfront payment, and 2) additional yearly spectrum expenses.

Assuming a simplistic scenario where the Big 3 incumbents ceded 1-2m of subscribers to U Mobile with market share equally split between four players, we estimate this could lead to 5-7% revenue loss for the incumbents respectively and 10-20% downside risks to earnings.

A look at competition - Is data pricing rational?

Data pricing per GB (in USD)



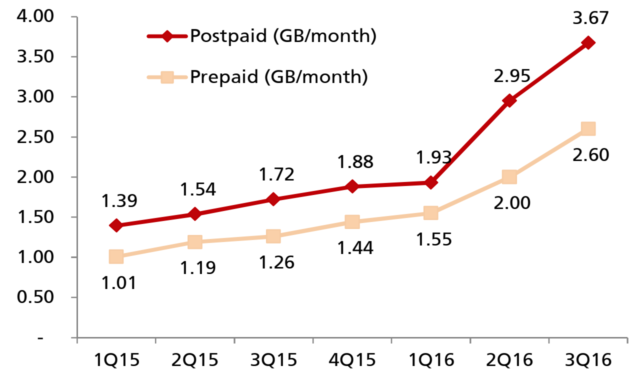
Source: Companies, AllianceDBS

Substantial decline in Malaysia's data pricing in 2016. Data pricing in Malaysia was about USD3.50-4.00/GB at the start of 2016. However, after several major adjustments throughout the year, data pricing (on per GB basis) in Malaysia has declined significantly and is now comparable with some of the more competitive markets in the region such as Indonesia and Thailand (see chart above). The comforting point is that we have yet to see a substantial decline in ARPU as Malaysian mobile players have generally maintained price points of their plans. Nevertheless, we believe downward pressure on ARPU would eventually hit mobile operators given that low data pricing will likely accelerate the decline in legacy voice and SMS revenue, which are still quite substantial at 57-61% of mobile service revenue (as at 3Q16). This is also exacerbated by the fact that bundling of generous or unlimited voice minutes is so prevalent now, especially for the postpaid segment.

This is not even taking into account the free data given by telcos. Almost all the mobile plans in Malaysia are now bundled with different amounts of free data, on top of the base data quota. This includes free additional data quota for: 1) off-peak or weekend usage; 2) video streaming services such as YouTube etc.; and 3) music streaming services such as Spotify.

Difficult to raise ARPU given generous data quota. With the current data quota considerably higher than the average data usage per user, data usage will need to rise by a lot before we can likely see any uplift to ARPU (unless there is an increase in data pricing). We view this as the key challenge to the Malaysian mobile players' current situation with data monetisation, i.e. ARPU does not rise with higher data usage. We believe this is not sustainable in the long run given the need to keep investing in capex in order to support higher data traffic and ensure consistent network quality.

Maxis' subscribers data usage



Sources: Maxis, AllianceDBS

To illustrate, the entry to mid-level internet plans offered by Malaysian mobile players now easily have a base data quota of 2-4GB for prepaid and 5-10GB for postpaid after several upgrades this year. This is not even considering the additional free data given, which could easily range from 2GB-10GB. Compare this with the average data consumption for mobile users in Malaysia, which appears to be only around 2.6GB for prepaid and 3.7GB for postpaid currently (using statistics from Maxis as a benchmark).

DiGi the most aggressive of all. We observe that DiGi has been the most aggressive player by far in 2016, having raised data quota for its postpaid and prepaid plans several times to maintain an edge over other incumbents and smaller players (such as U Mobile). Since DiGi is not a small player, others had no choice but to follow suit in order to maintain their market share.

On the postpaid segment, most players have tweaked their plans in the last few months and offerings are now roughly similar to DiGi. However, on the prepaid segment, DiGi has further increased the base data quota of its monthly internet passes by 50% recently, and we have yet to see the response from the other players.

We summarise some of the latest postpaid and prepaid plans offered by Malaysian mobile operators (see tables on the next page).

Comparison of postpaid plans by mobile operators (as at 14 Dec 2016)

	Maxis *OnePlan 98/128/158*	Celcom *First Gold / Gold +*	DiGi *Postpaid 50/80/110*	U Mobile *P50/70/98*
Monthly commitment (RM)	98/128/158	80/98	50/80/110	50/70/98
Base data quota (GB)	10/15/20GB	10/20GB	5/10/25GB	5/15/30GB
Free data quota (GB)	Weekend (4G) - 10/15/20GB	Weekend - 10/20GB	Weekend (4G) - 5/10/Unlimited	Music streaming - Unlimited Video streaming - 5/7/Unlimited
Call & SMS	Unlimited calls & SMS	Unlimited calls	Unlimited calls (except for Postpaid 50)	Unlimited calls (except for P50)
Remarks / Others	n/a	Unlimited Social Apps Free Yonder Music + RM10 to combine both data	1/2/3GB data rollover	n/a

Sources: Companies, AllianceDBS

Comparison of monthly internet passes and prepaid plans by mobile operators (as at 14 Dec 2016)

	Maxis *Hotlink FAST*	Celcom *Xpax Turbo*	DiGi *Prepaid BEST/ LiVE*	U Mobile *Power Prepaid*
Monthly internet passes (RM)	30/38/50	30/50	28/38/48	20/30/50
Base data quota (GB)	2/3/5GB	2/5GB	3/4.5/7.5GB	1.5/2.5/4GB
Free data quota (GB)	Weekend (4G) - 8GB Youtube - 4GB	Facebook - 1/2GB Youtube - 1/2GB	Video Freedom - 2GB Music Freedom - 2GB	Music streaming - Unlimited Video streaming - 0.5/2.5/4GB
Prepaid plan unique features	FREE calls to 5 on-net numbers FREE basic Internet	Free up to 10GB off-peak (1am-7am) internet (333MB/day) Free 500MB social chat	BEST - FREE 200MB when spend RM1 in a day. FREE social messaging LiVE - FREE monthly 8GB of Video + Music streaming quota. FREE social messaging	FREE unlimited Youtube 2am-10am FREE 1GB data every 30 days FREE basic Internet

Sources: Companies, AllianceDBS

Stock Recommendations

Tough years ahead for mobile operators. Malaysia is facing an unprecedented degree of pressure in its mobile market, with total industry service revenue expected to contract for the very first time in 2016. 2017 will be another difficult transition year as mobile players try to adjust to the new spectrum and competitive landscape from a stronger fourth player. We see market consolidation as a possible way to restore industry health, but think this is unlikely to happen anytime soon.

Premium valuation not sustainable. Domestic-focused operators such as DiGi and Maxis are trading at around 12.8-13.8x CY17 EV/EBITDA, a premium relative to the regional average of 8.0x. With potential earnings risks and falling free cash flow translating into lower dividends going forward, we do not think the current premium valuation is justified.

Prefer fixed-line operators. TM is our only BUY call. The recent weakness in TM's share price seems to reflect concerns over government initiatives to reduce fixed broadband prices. However, we believe this is a bit overdone given that: 1) TM does not tend to cut prices outright (instead, it offers more value for its plans); and 2) Negotiation with the government is still on-going. We remain optimistic that the rollout of the High-Speed Broadband Phase 2 (HSBB2) project, Sub-Urban Broadband (SUBB) project, and Webe mobile services would drive long-term growth for TM, as the company expands coverage of its high-speed broadband network to more areas. Maintain BUY with RM7.20 TP.

Peers comparison table

	Call	LC	Target Price	Current Price	Market Cap	P/E		Divd yield		Price/ BVPS		EV/EBITDA		Net Debt/EBITDA	
				LC	USD	CY16	CY17	CY16	CY17	CY16	CY17	CY16	CY17	CY16	CY17
Axiata	HOLD	MYR	4.45	4.50	9,152	21.9x	21.6x	3.9%	3.9%	1.7x	1.6x	7.8x	7.3x	2.4x	2.2x
Maxis	FULLY VALUED	MYR	5.10	6.00	10,216	24.1x	23.0x	3.3%	3.7%	9.9x	9.3x	12.7x	12.8x	2.1x	2.1x
DiGi.Com	HOLD	MYR	4.35	4.98	8,778	23.9x	24.5x	4.2%	4.1%	74.6x	74.6x	14.0x	13.8x	0.7x	0.7x
Telekom	BUY	MYR	7.20	5.96	5,078	27.5x	24.7x	3.3%	3.6%	2.8x	2.8x	7.1x	7.0x	1.2x	1.3x
TIME dotCom	HOLD	MYR	7.50	7.85	1,029	26.4x	20.8x	7.7%	1.2%	2.2x	2.0x	14.8x	12.0x	nm	nm
Starhub	FULLY VALUED	SGD	2.80	2.97	3,605	13.8x	14.8x	6.7%	6.7%	23.7x	23.2x	8.0x	8.1x	0.8x	0.9x
M1	FULLY VALUED	SGD	1.97	2.02	1,320	12.3x	12.9x	6.5%	6.2%	4.5x	4.2x	6.7x	6.8x	0.8x	0.9x
PT Telekom	HOLD	IDR	4100	3970	29,976	20.1x	17.5x	4.0%	4.6%	5.0x	4.9x	7.2x	6.7x	nm	nm
XL Axiata	BUY	IDR	3300	2380	1,905	64.2x	40.2x	0.9%	1.5%	1.2x	1.2x	5.7x	5.6x	2.6x	2.5x
Indosat	HOLD	IDR	5900	6275	2,554	36.5x	29.1x	0.0%	0.0%	2.5x	2.3x	4.2x	3.7x	1.4x	1.0x
Advance Info Service	HOLD	THB	154.00	147.50	12,321	14.4x	15.9x	6.9%	5.0%	9.9x	9.6x	8.3x	8.0x	1.3x	1.5x
Intouch Holdings	BUY	THB	90.00	50.25	4,527	8.9x	0.0x	11.1%	0.0%	11.3x	0.0x	8.8x	0.0x	nm	#DIV/0!
Total Access Comm	FULLY VALUED	THB	33.00	34.50	2,295	32.2x	27.1x	2.3%	2.7%	3.1x	2.9x	4.1x	3.9x	1.2x	1.1x
Average						19.5x	18.0x	4.6%	4.3%	9.7x	9.1x	8.7x	8.0x	1.0x	0.9x

Sources: AllianceDBS

Malaysia Company Guide

Telekom Malaysia

Version 5 | Bloomberg: T MK | Reuters: TLMM.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

15 Dec 2016

BUY

Last Traded Price (14 Dec 2016): RM5.95 (**KLCI :** 1,643.29)
Price Target 12-mth: RM7.20 (21% upside) (Prev RM7.20)

Potential Catalyst: Faster take-up rate for mobile services
Where we differ: FY16-18F EPS in line with consensus

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Price Relative

Forecasts and Valuation

FY Dec (RM m)	2015A	2016F	2017F	2018F
Revenue	11,722	12,077	12,606	13,180
EBITDA	3,830	3,788	3,942	4,277
Pre-tax Profit	912	943	1,137	1,427
Net Profit	700	813	905	1,071
Net Pft (Pre Ex.)	895	813	905	1,071
Net Pft Gth (Pre-ex) (%)	(4.9)	(9.2)	11.3	18.3
EPS (sen)	18.6	21.6	24.1	28.5
EPS Pre Ex. (sen)	23.8	21.6	24.1	28.5
EPS Gth Pre Ex (%)	(6)	(9)	11	18
Diluted EPS (sen)	23.8	21.6	24.1	28.5
Net DPS (sen)	21.4	19.5	21.7	25.6
BV Per Share (sen)	207	209	212	214
PE (X)	31.9	27.5	24.7	20.9
PE Pre Ex. (X)	25.0	27.5	24.7	20.9
P/Cash Flow (X)	7.6	7.7	7.3	6.9
EV/EBITDA (X)	6.8	7.1	7.0	6.4
Net Div Yield (%)	3.6	3.3	3.6	4.3
P/Book Value (X)	2.9	2.8	2.8	2.8
Net Debt/Equity (X)	0.4	0.6	0.6	0.6
ROAE (%)	9.1	10.4	11.4	13.4
Earnings Rev (%):		0	0	0
Consensus EPS (sen):		22.8	24.9	27.4
Other Broker Recs:		B: 13	S: 5	H: 11

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P

Stable growth in fixed-line business

Maintain BUY; RM7.20 TP. Recent weakness in TM share price seems to reflect concerns over government initiatives to reduce fixed broadband prices. However, we believe this is a bit overdone given that: 1) TM does not tend to cut prices outright (instead, it offers more value for its plans); and 2) Negotiation with government is still on-going. We remain optimistic that the rollout of the HSBB2 project, SUBB project, and Webe mobile services would drive long-term growth for TM, as the company expands the coverage of its high-speed broadband network to more areas. Maintain BUY with RM7.20 TP.

Details still sketchy for broadband price reduction. TM said the '50% reduction in broadband prices over two years' might be only applicable to the connectivity portion of its triple-play services. As such, the price points of its Unifi packages might not necessary be significantly lower in the future as we believe TM could mitigate this by bundling its packages with higher speed as well as more value-added services.

Webe going full steam. Webe was officially launched to the public in September. To attract more subscribers, TM is currently running a promotional offer where customers could subscribe to its unlimited postpaid plan for RM79/month, regardless whether they are existing P1/TM broadband customers and using smartphones that are compatible with 850MHz LTE (to be eligible for the discounts). Besides postpaid, Webe is looking to introduce prepaid plans which could materialise by 2H17.

Valuation:

Our DCF-based TP for TM is unchanged at RM7.20, assuming 8.0% WACC and 1.5% terminal growth. Maintain BUY call as we still like TM for the stable growth of its fixed-line business

Key Risks to Our View:

Regulatory risks. TM is subject to regulatory risks, such as mandatory access pricing, for example. The regulators also have the power to mandate an organisational split between its wholesale and retail divisions in order to promote fair market practice, if required.

At A Glance

Issued Capital (m shrs)	3,758
Mkt. Cap (RMm/US$m)	22,360 / 5,029
Major Shareholders (%)	
Khazanah Nasional	28.7
EPF	15.1
PNB	11.6
Free Float (%)	30.9
3m Avg. Daily Val (US$m)	7.7

ICB Industry : Telecommunications / Fixed Line Telecommunications

DBS ASIAN INSIGHTS   DBS VICKERS SECURITIES

ed: CK / sa:BC, PY

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

The broadband champion. Despite the structural decline in traditional voice services, TM still managed to achieve healthy revenue growth of 6-9% in FY12-15, thanks to the strong demand for Internet and data services. We believe this trend will continue, and forecast a decent 3-5% revenue growth for TM in FY16-18F, underpinned by the rollout of the High-Speed Broadband Phase 2 (HSBB2) project, Sub-Urban Broadband (SUBB) project, and Webe LTE mobile services.

HSBB2 to boost Unifi subs. Since its first rollout in 2010, TM's fibre broadband service, Unifi, has enjoyed strong take-up rates due to pent-up demand for high-speed broadband connectivity. As at end-3Q16, TM had 921k Unifi subscribers, representing 46% penetration rate out of 2.0m premises passed. Although subscriber gain is slowing down, TM managed to offset this by boosting ARPU in FY14-15 through various upselling activities.

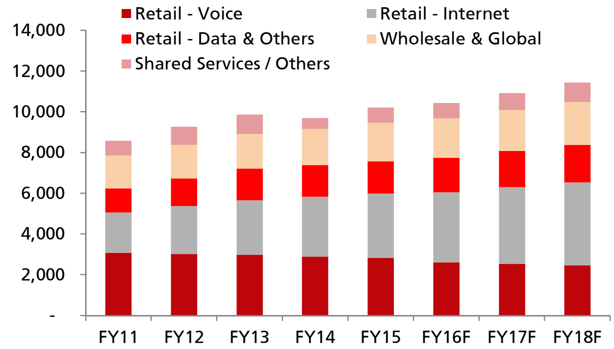
The rollout of the RM1.8bn HSBB2 project will see TM upgrade 95 exchanges to expand its Unifi coverage to state capitals and secondary cities in Malaysia. We believe this could accelerate Unifi subscriber growth for TM, especially from FY17F onwards.

SUBB will improve Streamyx speed. Running on existing copper network, Streamyx was the only fixed-line broadband service offered by TM before Unifi came into the picture. The decline in Streamyx subscribers over the years was the result of existing customers switching to Unifi service when it became available. Streamyx has enjoyed rising ARPU in FY11-14, as more subscribers take up or upgrade to higher-value packages with faster speeds.

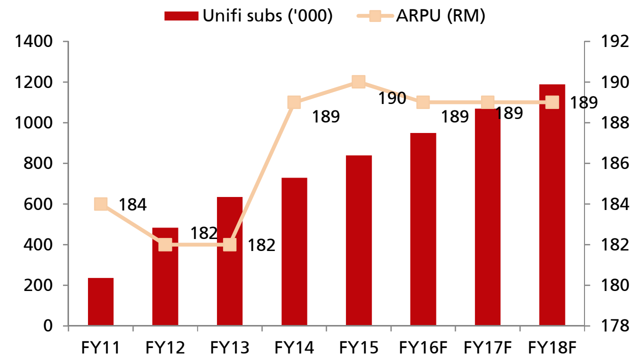
Under the RM1.6bn SUBB project, TM will upgrade its 400 existing sub-urban exchanges to support higher speeds for Streamyx broadband services. We believe this is positive for ARPU accretion as well as ensuring better customer experience for TM going forward.

Near-term showing dampened by Webe losses. TM suffered lower EBITDA margins after consolidating Webe's operation in FY14. We believe this will continue to drag margins in the near term, as it would take some time for Webe to roll out its LTE network and fully write-off the legacy WiMAX business. In addition, the increase in the minimum retirement age from 55 to 60 has also affected TM's medium-term plan to trim its bloated workforce through natural attrition.

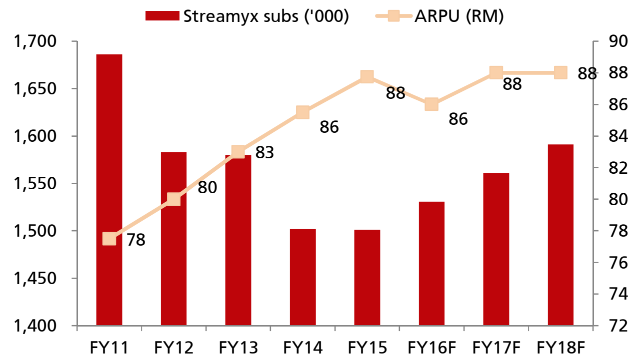
Revenue breakdown, by segments (in RM m)



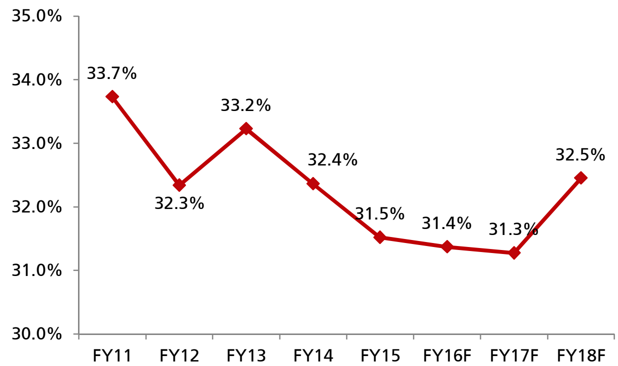
Unifi subscribers ('000)



Streamyx subscribers ('000)



EBITDA margins (%)



Source: Company, AllianceDBS

Balance Sheet:

Dividend reinvestment keeps gearing in check. TM has been consistent in its dividend payout, which is at a minimum of RM700m or 90% of normalised PATAMI, whichever is higher. To keep its gearing in check with higher capex requirements going forward, the company initiated a dividend reinvestment scheme in 2014. This has kept TM's gearing level at a comfortable level of 1.2x net debt-to-EBITDA as at end-Sep 2016.

Likely higher capex in FY16-17F. Our RM2.3-3.2bn capex assumptions for FY16-18F have factored in the additional capex for: 1) the RM1.8bn HSBB2 project; 2) the RM1.6bn SUBB project; and 3) Webe LTE network rollout.

Share Price Drivers:

Progress on mobile services launch. Webe was officially launched to the public in September. We believe faster take-up rate of its mobile services will help to minimise the losses at Webe and drive a re-rating in TM's share price.

Take-up rate for broadband services. With the HSBB2 and SUBB projects formally awarded, we believe the market will track the progress of the network rollout and eventually, the take-up rate of its high-speed broadband services.

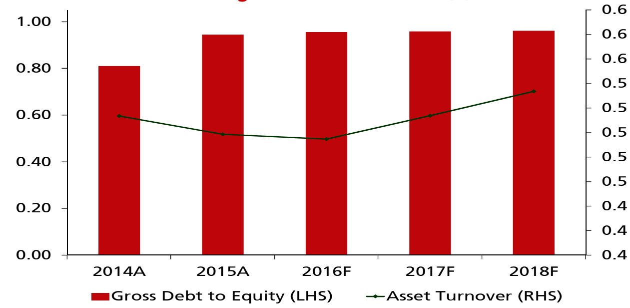
Key Risks:

Regulatory risks. TM is subject to regulatory risks, especially mandatory access pricing where it needs to make its network available to access seekers at regulated rates. The regulators also have the power to mandate an organisational split between its wholesale and retail divisions in order to promote fair market practice, if required.

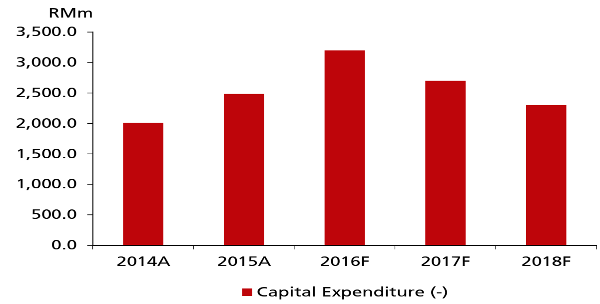
Company Background

Telekom Malaysia is the dominant fixed-line operator in Malaysia with the largest fixed-line subscriber base. With the acquisition of P1, TM now has access to LTE spectrum in the 2600MHz, apart from its own 850MHz. TM has launched its mobile services by Sep-2016, transforming into a quad-play service provider in Malaysia.

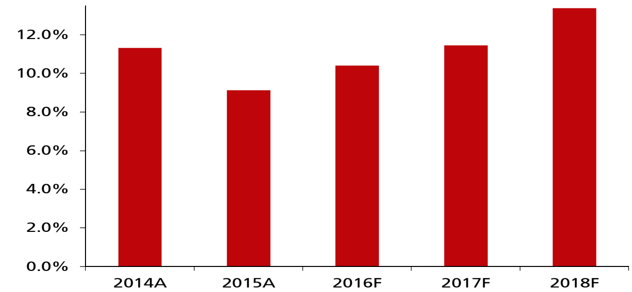
Leverage & Asset Turnover (x)



Capital Expenditure



ROE (%)



Forward PE Band (x)

PB Band (x)

Source: Company, AllianceDBS

Key Assumptions

FY Dec	2014A	2015A	2016F	2017F	2018F
Revenue growth (%)	5.71	4.33	3.03	4.38	4.55
EBITDA margin (%)	31.9	31.2	31.0	30.9	32.1
Capex (RM m)	2,021	2,493	3,200	2,700	2,300
Unifi subscribers ('000)	729	839	949	1,069	1,189

Income Statement (RMm)

FY Dec	2014A	2015A	2016F	2017F	2018F
Revenue	11,235	11,722	12,077	12,606	13,180
Cost of Goods Sold	(7,754)	(8,151)	(8,430)	(8,799)	(9,042)
Gross Profit	**3,481**	**3,571**	**3,647**	**3,807**	**4,139**
Other Opng (Exp)/Inc	(2,150)	(2,178)	(2,475)	(2,406)	(2,436)
Operating Profit	**1,331**	**1,393**	**1,172**	**1,401**	**1,703**
Other Non Opg (Exp)/Inc	(43.1)	(211)	0.0	0.0	0.0
Associates & JV Inc	9.30	24.7	0.0	0.0	0.0
Net Interest (Exp)/Inc	(155)	(159)	(230)	(264)	(275)
Exceptional Gain/(Loss)	(36.8)	(136)	0.0	0.0	0.0
Pre-tax Profit	**1,106**	**912**	**943**	**1,137**	**1,427**
Tax	(263)	(320)	(283)	(307)	(357)
Minority Interest	(10.7)	109	153	75.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	**832**	**700**	**813**	**905**	**1,071**
Net Profit before Except.	941	895	813	905	1,071
EBITDA	3,672	3,830	3,788	3,942	4,277
Growth					
Revenue Gth (%)	5.7	4.3	3.0	4.4	4.6
EBITDA Gth (%)	1.4	4.3	(1.1)	4.1	8.5
Opg Profit Gth (%)	(9.0)	4.6	(15.8)	19.5	21.5
Net Profit Gth (Pre-ex) (%)	(9.4)	(4.9)	(9.2)	11.3	18.3
Margins & Ratio					
Gross Margins (%)	31.0	30.5	30.2	30.2	31.4
Opg Profit Margin (%)	11.8	11.9	9.7	11.1	12.9
Net Profit Margin (%)	7.4	6.0	6.7	7.2	8.1
ROAE (%)	11.3	9.1	10.4	11.4	13.4
ROA (%)	3.8	3.0	3.3	3.7	4.3
ROCE (%)	5.8	4.9	4.3	5.4	6.7
Div Payout Ratio (%)	101.8	115.0	90.0	90.0	90.0
Net Interest Cover (x)	8.6	8.8	5.1	5.3	6.2

Source: Company, AllianceDBS

Higher FY16-17F capex due to HSBB2, SUBB and Webe.

Quarterly / Interim Income Statement (RMm)

FY Dec	3Q2015	4Q2015	1Q2016	2Q2016	3Q2016
Revenue	2,923	3,184	2,855	3,045	2,923
Cost of Goods Sold	0.0	0.0	0.0	0.0	0.0
Gross Profit	**2,923**	**3,184**	**2,855**	**3,045**	**2,923**
Other Oper. (Exp)/Inc	(2,474)	(2,950)	(2,525)	(2,765)	(2,619)
Operating Profit	**449**	**235**	**330**	**280**	**304**
Other Non Opg (Exp)/Inc	(91.9)	91.8	(14.9)	(6.7)	11.7
Associates & JV Inc	6.40	6.50	6.00	8.30	8.10
Net Interest (Exp)/Inc	(42.6)	(41.0)	(47.7)	(57.7)	(57.3)
Exceptional Gain/(Loss)	(61.4)	(67.2)	119	(28.0)	(47.7)
Pre-tax Profit	**259**	**225**	**393**	**196**	**219**
Tax	(124)	(65.9)	(103)	(97.2)	(99.6)
Minority Interest	31.6	33.8	31.9	40.8	40.6
Net Profit	**167**	**193**	**322**	**140**	**160**
Net profit bef Except.	228	260	203	168	208
EBITDA	952	953	965	954	958
Growth					
Revenue Gth (%)	2.9	9.0	(10.3)	6.7	(4.0)
EBITDA Gth (%)	2.6	0.2	1.2	(1.1)	0.3
Opg Profit Gth (%)	47.2	(47.7)	40.9	(15.3)	8.6
Net Profit Gth (Pre-ex) (%)	3.9	13.8	(21.8)	(17.5)	23.9
Margins					
Opg Profit Margins (%)	15.3	7.4	11.6	9.2	10.4
Net Profit Margins (%)	5.7	6.0	11.3	4.6	5.5

Weaker sales at wholesale and global segment

Balance Sheet (RMm)

FY Dec	2014A	2015A	2016F	2017F	2018F
Net Fixed Assets	14,785	15,187	16,171	16,729	16,605
Invts in Associates & JVs	6.50	26.3	26.3	26.3	26.3
Other LT Assets	1,350	1,902	1,902	1,902	1,902
Cash & ST Invts	3,455	4,027	2,981	2,505	2,576
Inventory	116	237	242	252	264
Debtors	2,825	2,947	3,019	3,152	3,295
Other Current Assets	84.9	86.4	86.4	86.4	86.4
Total Assets	**22,623**	**24,413**	**24,427**	**24,653**	**24,754**
ST Debt	197	408	408	408	408
Creditor	3,605	4,367	4,437	4,631	4,759
Other Current Liab	1,055	1,047	1,047	1,047	1,047
LT Debt	6,251	7,175	7,175	7,175	7,275
Other LT Liabilities	3,555	3,376	3,423	3,469	3,265
Shareholder's Equity	7,571	7,781	7,862	7,952	8,059
Minority Interests	389	258	75.1	(29.9)	(59.9)
Total Cap. & Liab.	**22,623**	**24,413**	**24,427**	**24,653**	**24,754**
Non-Cash Wkg. Capital	(1,634)	(2,144)	(2,137)	(2,188)	(2,161)
Net Cash/(Debt)	(2,993)	(3,557)	(4,603)	(5,078)	(5,108)
Debtors Turn (avg days)	83.1	89.9	90.2	89.3	89.3
Creditors Turn (avg days)	228.5	254.6	276.4	264.5	265.0
Inventory Turn (avg days)	9.1	11.3	15.0	14.4	14.6
Asset Turnover (x)	0.5	0.5	0.5	0.5	0.5
Current Ratio (x)	1.3	1.3	1.1	1.0	1.0
Quick Ratio (x)	1.3	1.2	1.0	0.9	0.9
Net Debt/Equity (X)	0.4	0.4	0.6	0.6	0.6
Net Debt/Equity ex MI (X)	0.4	0.5	0.6	0.6	0.6
Capex to Debt (%)	31.2	32.8	42.2	35.6	29.9
Z-Score (X)	2.0	1.8	1.8	1.8	1.9

Gearing levels remain comfortable

Source: Company, AllianceDBS

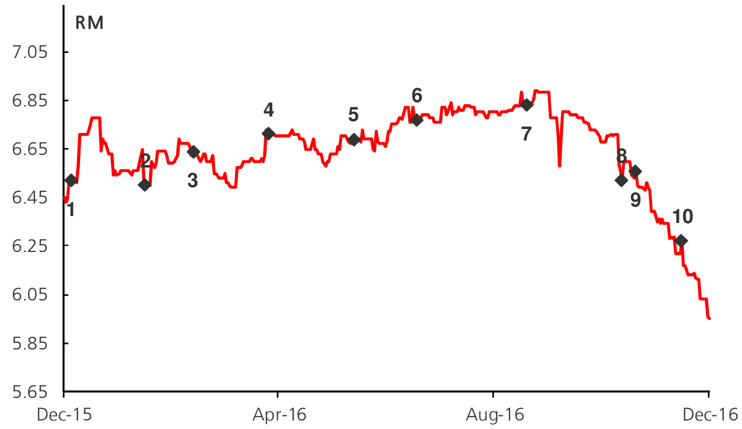
Cash Flow Statement (RMm)

FY Dec	2014A	2015A	2016F	2017F	2018F
Pre-Tax Profit	1,106	912	943	1,137	1,427
Dep. & Amort.	2,341	2,437	2,616	2,541	2,575
Tax Paid	(114)	(333)	(283)	(307)	(357)
Assoc. & JV Inc/(loss)	(9.3)	(24.7)	0.0	0.0	0.0
Chg in Wkg.Cap.	(85.9)	504	(7.2)	51.5	(27.3)
Other Operating CF	(272)	(738)	(354)	(354)	(354)
Net Operating CF	**3,014**	**2,942**	**2,915**	**3,069**	**3,264**
Capital Exp.(net)	(2,010)	(2,484)	(3,200)	(2,700)	(2,300)
Other Invts.(net)	155	(45.4)	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(307)	(20.2)	0.0	0.0	0.0
Net Investing CF	**(2,162)**	**(2,550)**	**(3,200)**	**(2,700)**	**(2,300)**
Div Paid	(932)	(848)	(732)	(815)	(964)
Chg in Gross Debt	(213)	743	0.0	0.0	100
Capital Issues	779	269	0.0	0.0	0.0
Other Financing CF	(14.2)	(22.2)	(30.0)	(30.0)	(30.0)
Net Financing CF	**(380)**	**143**	**(762)**	**(845)**	**(894)**
Currency Adjustments	(0.3)	1.20	0.0	0.0	0.0
Chg in Cash	472	536	(1,047)	(475)	70.5
Opg CFPS (sen)	83.3	64.9	77.8	80.3	87.6
Free CFPS (sen)	27.0	12.2	(7.6)	9.82	25.7

Higher capex for HSBB, SUBB and Webe

Source: Company, AllianceDBS

Target Price & Ratings History



***Note**: Share price and Target price are adjusted for corporate actions.*

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	18 Dec 15	6.52	7.80	BUY
2:	29 Jan 16	6.50	7.80	BUY
3:	25 Feb 16	6.64	7.80	BUY
4:	08 Apr 16	6.71	7.80	BUY
5:	26 May 16	6.69	7.50	BUY
6:	01 Jul 16	6.77	7.50	BUY
7:	01 Sep 16	6.83	7.50	BUY
8:	25 Oct 16	6.52	7.50	BUY
9:	02 Nov 16	6.56	7.50	BUY
10:	28 Nov 16	6.27	7.20	BUY

Source: AllianceDBS
Analyst: Woo Kim TOH

Malaysia Company Guide

Axiata Group

Version 7 | Bloomberg: AXIATA MK | Reuters: AXIA.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

15 Dec 2016

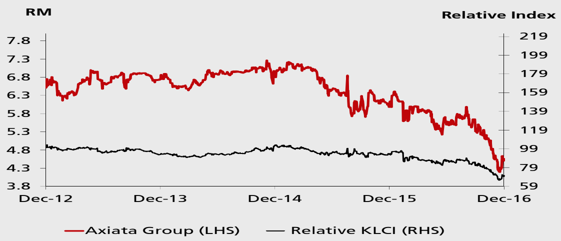
HOLD

Last Traded Price (14 Dec 2016): RM4.56 (**KLCI :** 1,643.29)
Price Target 12-mth: RM4.45 (-2% downside) (Prev RM4.45)

Potential Catalyst: Recovery in Celcom operations; de-gearing exercise
Where we differ: Valuation assumptions are more conservative than consensus

Analyst
Woo Kim TOH +60 32604 3917 wookim@alliancedbs.com

Price Relative



Forecasts and Valuation

FY Dec (RM m)	2015A	2016F	2017F	2018F
Revenue	19,883	20,367	21,307	21,904
EBITDA	8,301	7,824	8,477	8,817
Pre-tax Profit	3,331	2,777	2,995	3,343
Net Profit	2,554	1,815	1,837	2,019
Net Pft (Pre Ex.)	2,071	1,815	1,837	2,019
Net Pft Gth (Pre-ex) (%)	(7.5)	(12.4)	1.2	9.9
EPS (sen)	29.0	20.6	20.8	22.9
EPS Pre Ex. (sen)	23.5	20.6	20.8	22.9
EPS Gth Pre Ex (%)	(10)	(12)	1	10
Diluted EPS (sen)	23.5	20.6	20.8	22.9
Net DPS (sen)	20.0	17.5	17.7	19.5
BV Per Share (sen)	267	270	273	276
PE (X)	15.7	22.2	21.9	19.9
PE Pre Ex. (X)	19.4	22.2	21.9	19.9
P/Cash Flow (X)	6.4	6.6	6.2	5.9
EV/EBITDA (X)	6.4	7.8	7.3	7.1
Net Div Yield (%)	4.4	3.8	3.9	4.3
P/Book Value (X)	1.7	1.7	1.7	1.6
Net Debt/Equity (X)	0.4	0.7	0.7	0.7
ROAE (%)	11.5	7.7	7.7	8.3
Earnings Rev (%):		0	0	0
Consensus EPS (sen):		21.6	24.4	27.0
Other Broker Recs:		B: 5	S: 2	H: 22

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P

Competition everywhere

Maintain HOLD, lower RM4.45 TP. We maintain our HOLD call on Axiata with a lower TP of RM4.45. We see no near-term re-rating catalysts for the stock given weak operating performance at Celcom which contributes a substantial 50-60% of FY16-18F earnings. Recovery would not be easy in view of rising competition and challenges in the Malaysian mobile market. Besides that, all the other operating subsidiaries and associates are also facing a relatively hard time at their home countries due to competition, tax issues, and regulatory uncertainties.

Gearing level increased post-acquisition of Ncell. After completing the acquisition of Ncell in April 2016, Axiata's gearing had risen to 1.6x net debt-to-EBITDA, which is relatively high compared to its peers. We think any major M&A activities are likely to be on hold for now, at least until Axiata reduces its gearing level by listing its subsidiaries such as edotco.

Monetisation of tower assets. Axiata has plans to eventually monetise and list its tower arm, edotco. To boost its IPO profile, edotco has been focusing on reducing capex, improving operating efficiencies, and raising the tenancy ratio of its tower assets over the last 12 months (1.5x of approximately 17,000 towers). It recently acquired another 12.5%-stake in Myanmar Tower Co Ltd (MTC), bring its stake in MTC to 87.5%.

Valuation:

Our RM4.45 TP for Axiata is based on sum-of-parts valuation, which implies 21x FY17 PE and 7.4x EV/EBITDA.

Key Risks to Our View:

Forex risks. Axiata is exposed to forex risks given that all of its subsidiaries and associates are foreign, except for Celcom. It is also exposed to fluctuations in USD due to USD-denominated debt, mainly at the holding company level.

At A Glance

Issued Capital (m shrs)	8,971
Mkt. Cap (RMm/US$m)	40,909 / 9,201
Major Shareholders (%)	
Khazanah	44.5
EPF	14.0
Skim ASB	8.5
Free Float (%)	32.9
3m Avg. Daily Val (US$m)	6.0

ICB Industry : Telecommunications / Mobile Telecommunications

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

Heightened competition affecting Celcom. Teething IT issues had prevented Celcom from launching new plans in 2014, and this had affected dealers' confidence. This issue was finally resolved by 2Q15 after some delays. But the damage was done, as reflected in the decline in subscriber base as well as ARPU in FY14-15. In order to regain momentum, Celcom was more aggressive in the market in 1H15 and initially showed some positive results (net adds of 61k in 2Q15). However, rivals responded with aggressive pricing, leading to a net churn in Celcom subscribers as well as decline in ARPU by end-2015.

We think growth could still be tough for Celcom in FY16 because of rising competition in Malaysia's mobile market. Overall, we estimate Celcom's revenue will fall further by 11% in FY16F (FY15: -5%), before recovering by 1-2% in FY17-18F, in line with industry growth.

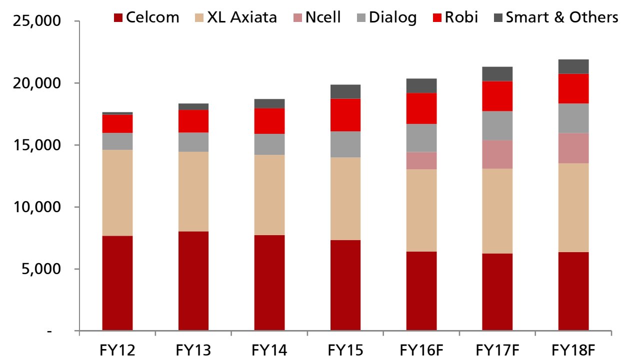
XL: new management and strategy. After the appointment of a new CEO early this year, XL has changed its strategy to focus on profitability and accelerate Axis-XL integration. Management plans to adopt a dual-brand strategy – XL will be the premium digital lifestyle brand while Axis will be a tactical brand to serve the lower-end market. The company will also move away from its 'minute factory' strategy (i.e. high-gross-add model), and concentrate instead on improving EBITDA by attracting mid- and high-value subscribers. Though revenue growth will be relatively muted for XL in the near term, Axiata believes these are the right strategies for XL going forward and remains committed to them.

Dialog and Robi. Contribution from Dialog has been relatively stable as it is already the largest telecom operator in Sri Lanka. On the other hand, contribution from Robi has been growing significantly since FY11 on the back of healthy subscriber growth amid heavy capex investment from Axiata.

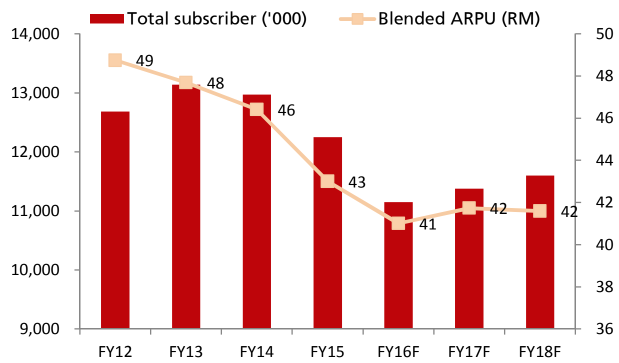
The competitive landscape in Bangladesh is also improving, following the recent proposed merger between Robi and Airtel Bangladesh, which will create the second largest mobile operator in Bangladesh.

Stable EBITDA margins. Overall, group EBITDA margins took a hit in FY15 following the poor performance of Celcom and the XL-Axis integration. We believe margins should improve gradually going forward on the back of a recovery in XL operations and positive contribution from Ncell.

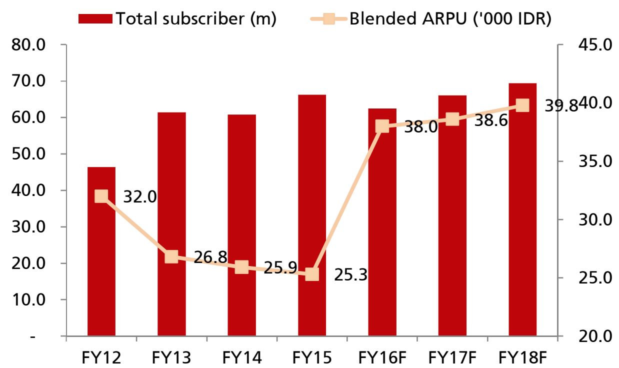
Revenue contribution (in RM m)



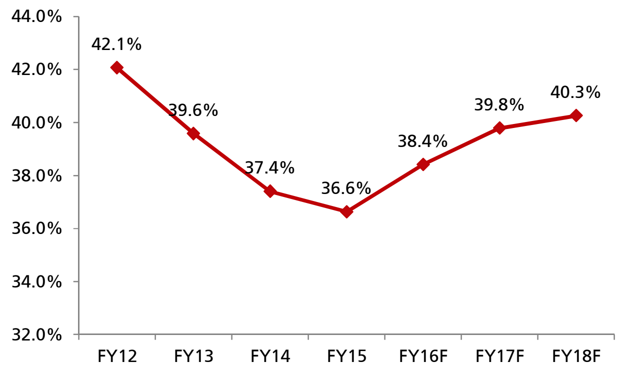
Celcom subscribers and blended ARPU



XL Axiata subscribers and blended ARPU



Group EBITDA margins (%)



Source: Company, AllianceDBS

Balance Sheet:

Comfortable gearing, but will trend up once Ncell acquisition is completed. As at end-3Q16, Axiata's gearing was comfortable at 1.6x net debt-to-EBITDA. To reduce its gearing level, we believe Axiata will eventually monetise and list its tower arm, edotco.

Capex to remain high. We expect FY16-18F capex to remain elevated at 20-25% of revenue for Axiata due to aggressive network rollout to boost mobile data leadership in key markets such as Malaysia, Indonesia and Bangladesh.

Share Price Drivers:

Strong turnaround in Celcom and XL. Collectively, Celcom and XL contribute more than 70% of our earnings forecasts and SOP-valuation for Axiata. As such, we believe a strong turnaround in the current sluggish performance of Celcom and XL will be a key catalyst for the stock to re-rate.

Tower arm IPO. Axiata has plans to eventually monetise and list its tower arm, edotco. To boost its IPO profile, edotco has been focusing on reducing capex, improving operating efficiencies, and raising the tenancy ratio of its tower assets over the last 12 months. It also recently acquired a 75%-stake in MTC, an independent tower operator in Myanmar.

Key Risks:

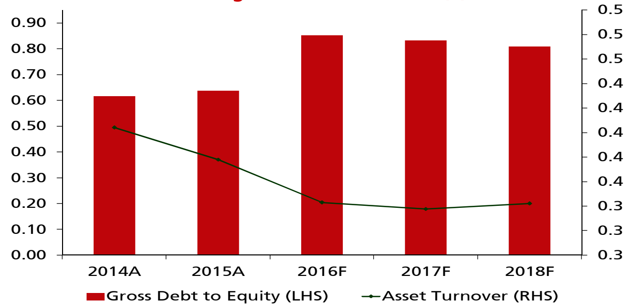
Forex risks. Axiata is exposed to forex risks given that all of its subsidiaries and associates are foreign, except for Celcom.

Irrational competition. Given the already high mobile penetration rate and low ARPU in the various key markets that Axiata operates in, any irrational competition will hurt its subsidiaries' growth as well as profitability.

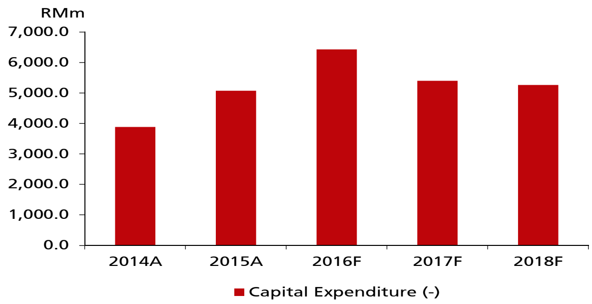
Company Background

Axiata Group is a telecommunications group in Asia which has controlling interests in mobile operators in Malaysia, Indonesia, Sri Lanka, Bangladesh and Cambodia.

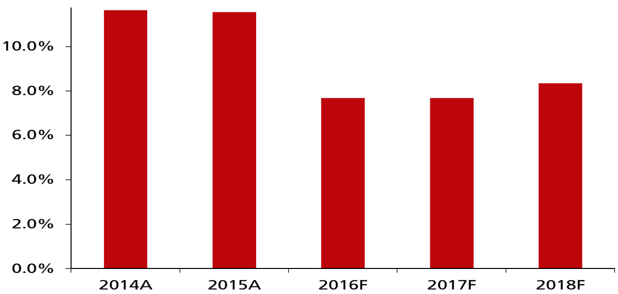
Leverage & Asset Turnover (x)



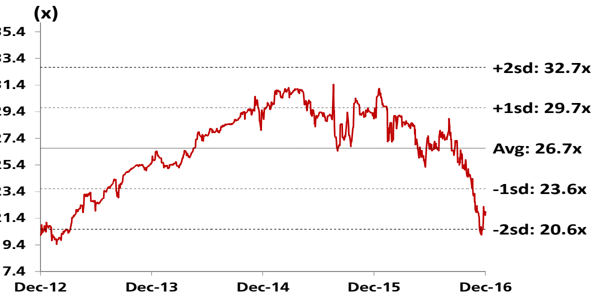
Capital Expenditure



ROE (%)



Forward PE Band (x)



PB Band (x)

Source: Company, AllianceDBS

Key Assumptions

FY Dec	2014A	2015A	2016F	2017F	2018F
Celcom revenue growth	(3.5)	(5.1)	(12.8)	(2.2)	1.69
Celcom EBITDA margins	42.9	41.8	39.0	39.5	40.5
XL revenue growth (%)	8.66	1.13	(5.2)	2.96	4.91
XL EBITDA margins (%)	35.3	37.2	38.6	38.8	38.5

Segmental Breakdown

FY Dec	2014A	2015A	2016F	2017F	2018F
Revenues (RMm)					
Celcom	7,729	7,338	6,402	6,260	6,366
XL Axiata	6,475	6,657	6,644	6,841	7,177
Robi	2,085	2,623	2,499	2,412	2,387
Dialog	1,686	2,121	2,265	2,338	2,402
Others	737	1,144	2,557	3,457	3,572
Total	**18,712**	**19,883**	**20,367**	**21,307**	**21,904**

Intense competition in the market

Income Statement (RMm)

FY Dec	2014A	2015A	2016F	2017F	2018F
Revenue	18,712	19,883	20,367	21,307	21,904
Cost of Goods Sold	(11,713)	(12,599)	(12,543)	(12,831)	(13,086)
Gross Profit	**6,999**	**7,284**	**7,824**	**8,477**	**8,817**
Other Opng (Exp)/Inc	(3,702)	(3,581)	(4,204)	(4,373)	(4,384)
Operating Profit	**3,297**	**3,703**	**3,620**	**4,104**	**4,433**
Other Non Opg (Exp)/Inc	(125)	(648)	0.0	0.0	0.0
Associates & JV Inc	382	451	158	110	140
Net Interest (Exp)/Inc	(548)	(658)	(1,001)	(1,219)	(1,230)
Exceptional Gain/(Loss)	109	483	0.0	0.0	0.0
Pre-tax Profit	**3,114**	**3,331**	**2,777**	**2,995**	**3,343**
Tax	(770)	(695)	(677)	(780)	(881)
Minority Interest	4.25	(81.9)	(286)	(378)	(443)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	**2,349**	**2,554**	**1,815**	**1,837**	**2,019**
Net Profit before Except.	2,240	2,071	1,815	1,837	2,019
EBITDA	7,133	8,301	7,824	8,477	8,817
Growth					
Revenue Gth (%)	1.9	6.3	2.4	4.6	2.8
EBITDA Gth (%)	(5.3)	16.4	(5.8)	8.3	4.0
Opg Profit Gth (%)	(19.7)	12.3	(2.2)	13.4	8.0
Net Profit Gth (Pre-ex) (%)	(18.9)	(7.5)	(12.4)	1.2	9.9
Margins & Ratio					
Gross Margins (%)	37.4	36.6	38.4	39.8	40.3
Opg Profit Margin (%)	17.6	18.6	17.8	19.3	20.2
Net Profit Margin (%)	12.6	12.8	8.9	8.6	9.2
ROAE (%)	11.6	11.5	7.7	7.7	8.3
ROA (%)	5.1	4.9	3.1	2.9	3.2
ROCE (%)	6.4	6.8	5.6	5.7	6.1
Div Payout Ratio (%)	80.4	69.0	85.0	85.0	85.0
Net Interest Cover (x)	6.0	5.6	3.6	3.4	3.6

Source: Company, AllianceDBS

Quarterly / Interim Income Statement (RMm)

FY Dec	3Q2015	4Q2015	1Q2016	2Q2016	3Q2016
Revenue	5,065	5,360	5,009	5,310	5,457
Cost of Goods Sold	(3,201)	(3,396)	(3,136)	(3,244)	(3,365)
Gross Profit	**1,864**	**1,964**	**1,872**	**2,066**	**2,092**
Other Oper. (Exp)/Inc	(738)	(1,058)	(1,463)	(1,215)	(1,149)
Operating Profit	**1,126**	**906**	**409**	**851**	**943**
Other Non Opg (Exp)/Inc	(412)	63.8	376	3.25	4.85
Associates & JV Inc	112	48.1	67.5	19.1	(3.6)
Net Interest (Exp)/Inc	(175)	(242)	(204)	(282)	(244)
Exceptional Gain/(Loss)	376	53.0	(96.0)	(182)	(249)
Pre-tax Profit	**1,027**	**830**	**552**	**410**	**452**
Tax	(72.2)	(314)	(151)	(177)	(156)
Minority Interest	(63.7)	(48.0)	(32.9)	(43.3)	(39.2)
Net Profit	**891**	**467**	**368**	**189**	**257**
Net profit bef Except.	515	414	464	371	506
EBITDA	1,858	2,201	2,017	2,264	2,247
Growth					
Revenue Gth (%)	7.6	5.8	(6.6)	6.0	2.8
EBITDA Gth (%)	(1.3)	18.4	(8.3)	12.2	(0.7)
Opg Profit Gth (%)	37.3	(19.5)	(54.9)	108.0	10.9
Net Profit Gth (Pre-ex) (%)	(12.0)	(19.6)	12.1	(20.1)	36.3
Margins					
Gross Margins (%)	36.8	36.6	37.4	38.9	38.3
Opg Profit Margins (%)	22.2	16.9	8.2	16.0	17.3
Net Profit Margins (%)	17.6	8.7	7.4	3.6	4.7

Balance Sheet (RMm)

FY Dec	2014A	2015A	2016F	2017F	2018F
Net Fixed Assets	19,933	23,134	31,152	32,179	33,058
Invts in Associates & JVs	7,557	8,311	8,470	8,579	8,720
Other LT Assets	13,321	14,816	14,816	14,816	14,816
Cash & ST Invts	5,116	5,511	3,799	3,343	3,143
Inventory	79.5	155	136	142	146
Debtors	3,062	3,955	4,073	4,261	4,381
Other Current Assets	58.9	236	236	236	236
Total Assets	**49,127**	**56,118**	**62,682**	**63,557**	**64,500**
ST Debt	1,949	2,348	2,348	2,348	2,348
Creditor	8,375	9,643	9,648	9,870	10,066
Other Current Liab	236	499	499	499	499
LT Debt	11,945	14,045	20,045	20,045	20,045
Other LT Liabilities	4,066	3,860	3,860	3,860	3,860
Shareholder's Equity	20,745	23,525	23,797	24,073	24,376
Minority Interests	1,813	2,199	2,485	2,863	3,307
Total Cap. & Liab.	**49,127**	**56,118**	**62,682**	**63,557**	**64,500**
Non-Cash Wkg. Capital	(5,410)	(5,796)	(5,702)	(5,729)	(5,803)
Net Cash/(Debt)	(8,778)	(10,882)	(18,594)	(19,050)	(19,249)
Debtors Turn (avg days)	56.0	64.4	71.9	71.4	72.0
Creditors Turn (avg days)	328.7	391.4	422.2	421.2	418.1
Inventory Turn (avg days)	3.2	5.1	6.4	6.0	6.0
Asset Turnover (x)	0.4	0.4	0.3	0.3	0.3
Current Ratio (x)	0.8	0.8	0.7	0.6	0.6
Quick Ratio (x)	0.8	0.8	0.6	0.6	0.6
Net Debt/Equity (X)	0.4	0.4	0.7	0.7	0.7
Net Debt/Equity ex MI (X)	0.4	0.5	0.8	0.8	0.8
Capex to Debt (%)	28.0	30.9	28.7	24.1	23.5
Z-Score (X)	1.7	1.6	1.4	1.4	1.4

Higher net debt due to the acquisition of Ncell

Source: Company, AllianceDBS

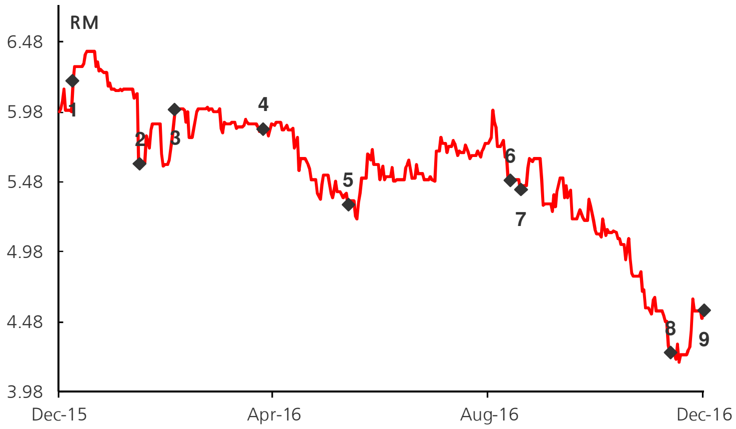
Cash Flow Statement (RMm)

FY Dec	2014A	2015A	2016F	2017F	2018F
Pre-Tax Profit	3,114	3,331	2,777	2,995	3,343
Dep. & Amort.	3,672	4,199	4,204	4,373	4,384
Tax Paid	(909)	(695)	(677)	(780)	(881)
Assoc. & JV Inc/(loss)	(382)	(451)	(158)	(110)	(140)
Chg in Wkg.Cap.	1,867	300	(93.6)	26.9	73.4
Other Operating CF	(1,777)	(393)	0.0	0.0	0.0
Net Operating CF	**5,584**	**6,291**	**6,053**	**6,505**	**6,780**
Capital Exp.(net)	(3,887)	(5,073)	(6,422)	(5,400)	(5,263)
Other Invts.(net)	218	(597)	0.0	0.0	0.0
Invts in Assoc. & JV	(212)	(107)	0.0	0.0	0.0
Div from Assoc & JV	167	167	0.0	0.0	0.0
Other Investing CF	(2,632)	(730)	(5,800)	0.0	0.0
Net Investing CF	**(6,347)**	**(6,340)**	**(12,222)**	**(5,400)**	**(5,263)**
Div Paid	(1,885)	(722)	(1,543)	(1,561)	(1,716)
Chg in Gross Debt	(132)	207	6,000	0.0	0.0
Capital Issues	147	51.2	0.0	0.0	0.0
Other Financing CF	1,290	594	0.0	0.0	0.0
Net Financing CF	**(580)**	**130**	**4,457**	**(1,561)**	**(1,716)**
Currency Adjustments	26.0	314	0.0	0.0	0.0
Chg in Cash	(1,317)	395	(1,712)	(456)	(200)
Opg CFPS (sen)	43.3	67.9	69.7	73.5	76.1
Free CFPS (sen)	19.8	13.8	(4.2)	12.5	17.2

Including capex spending for Ncell

Source: Company, AllianceDBS

Target Price & Ratings History



***Note**: Share price and Target price are adjusted for corporate actions.*

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	22 Dec 15	6.20	6.00	HOLD
2:	29 Jan 16	5.61	6.00	HOLD
3:	18 Feb 16	6.00	5.55	HOLD
4:	08 Apr 16	5.86	5.55	HOLD
5:	26 May 16	5.32	5.25	HOLD
6:	26 Aug 16	5.49	5.00	HOLD
7:	01 Sep 16	5.42	4.95	HOLD
8:	25 Nov 16	4.26	4.45	HOLD
9:	14 Dec 16	4.56	4.45	HOLD

Source: AllianceDBS
Analyst: Woo Kim TOH

Digi.Com

Version 7 | Bloomberg: DIGI MK | Reuters: DSOM.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

15 Dec 2016

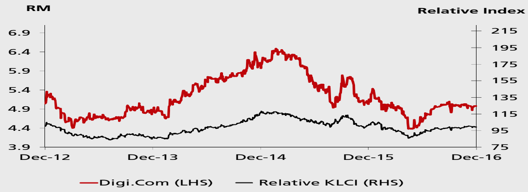
HOLD

Last Traded Price (14 Dec 2016): RM4.98 (**KLCI :** 1,643.29)
Price Target 12-mth: RM4.35 (-13% downside) (Prev RM4.35)

Potential Catalyst: Less intense competition pressure
Where we differ: FY16-18F slightly below consensus

Analyst
Woo Kim TOH +60 32604 3917 wookim@alliancedbs.com

Price Relative



Forecasts and Valuation

FY Dec (RM m)	2015A	2016F	2017F	2018F
Revenue	6,914	6,711	6,761	6,898
EBITDA	2,982	2,898	2,961	3,063
Pre-tax Profit	2,309	2,159	2,110	2,180
Net Profit	1,723	1,619	1,582	1,635
Net Pft (Pre Ex.)	1,723	1,619	1,582	1,635
Net Pft Gth (Pre-ex) (%)	(15.2)	(6.0)	(2.3)	3.3
EPS (sen)	22.2	20.8	20.4	21.0
EPS Pre Ex. (sen)	22.2	20.8	20.4	21.0
EPS Gth Pre Ex (%)	(15)	(6)	(2)	3
Diluted EPS (sen)	22.2	20.8	20.4	21.0
Net DPS (sen)	22.0	20.8	20.4	21.0
BV Per Share (sen)	6.68	6.68	6.68	6.68
PE (X)	22.5	23.9	24.5	23.7
PE Pre Ex. (X)	22.5	23.9	24.5	23.7
P/Cash Flow (X)	17.4	17.3	16.7	16.1
EV/EBITDA (X)	13.3	14.0	13.8	13.4
Net Div Yield (%)	4.4	4.2	4.1	4.2
P/Book Value (X)	74.6	74.6	74.6	74.6
Net Debt/Equity (X)	2.0	3.7	4.0	4.3
ROAE (%)	285.8	311.7	304.7	314.8
Earnings Rev (%):		0	0	0
Consensus EPS (sen):		21.6	21.7	21.9
Other Broker Recs:		B: 5	S: 11	H: 13

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P

Strongest balance sheet

Heightened competition. We maintain our HOLD call on DiGi with an unchanged TP of RM4.35. We see no re-rating catalysts for the stock as its growth would be relatively muted in FY16-18F due to heightened competition stemming from a stronger fourth player (U Mobile gained new spectrum) and TM's entry into the mobile space. The saving grace for DiGi is its 4.2% net dividend yield, currently the highest relative to other Malaysian telcos.

Strong balance sheet but dividend payout is capped at 100%. DiGi has the lowest gearing level among Malaysian telcos at 0.4x net debt-to-EBITDA. However, its dividend payout has been capped at 100% due to limited retained earnings available for dividend distribution.

No funding issues for spectrum reallocation fee. The regulator has fixed the spectrum fee for the 900MHz and 1800MHz band, where DiGi needs to pay RM599m upfront and RM51m annually over the 15-year license period. Compared to its peers who are more leveraged, DiGi is in a relatively better position to fund the spectrum fee with its stronger balance sheet. Getting a slice of the 900MHz spectrum, which it lacks, will help to level the playing field for DiGi against Maxis and Celcom, though this will be partly offset by increased competition from U Mobile.

Valuation:

Our RM4.35 TP for DiGi is based on DCF valuation, assuming 7.3% WACC and 1.5% terminal growth. Maintain HOLD.

Key Risks to Our View:

Irrational competition. Given the already-high mobile penetration rate in Malaysia, any irrational competition in the market will hurt DiGi's growth as well as the industry's.

At A Glance

Issued Capital (m shrs)	7,775
Mkt. Cap (RMm/US$m)	38,720 / 8,709
Major Shareholders (%)	
Telenor	49.0
Employee Provident Fund	14.1
PNB	5.0
Free Float (%)	33.7
3m Avg. Daily Val (US$m)	6.7

ICB Industry : Telecommunications / Mobile Telecommunications

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

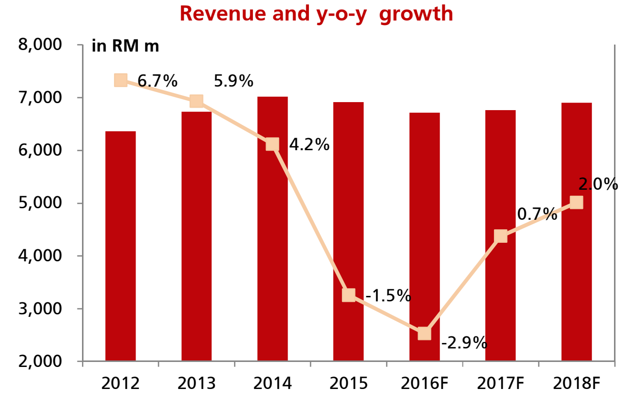
Heightened competition. DiGi achieved above-industry-average growth in FY11-14 as it played catch-up to rival Maxis and Celcom, especially on 3G services where its licence was obtained much later on. Its 3G network coverage has improved significantly following a network modernisation exercise which was completed in 3Q13, and this has helped to drive subscriber acquisitions in new geographical areas.

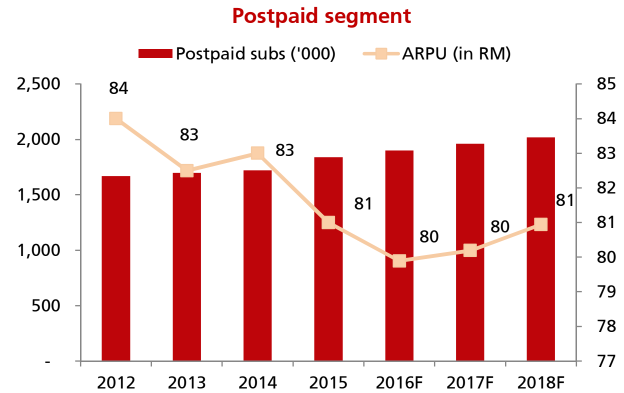
Nonetheless, revenue declined by 1.5% in FY15 due to intense price competition in the market and confusion over the GST's implementation on prepaid subscribers. We believe growth would be challenging in FY16-18F as competitive pressures could remain elevated due a more formidable U Mobile (gaining new spectrum) and TM's entry into the mobile space.

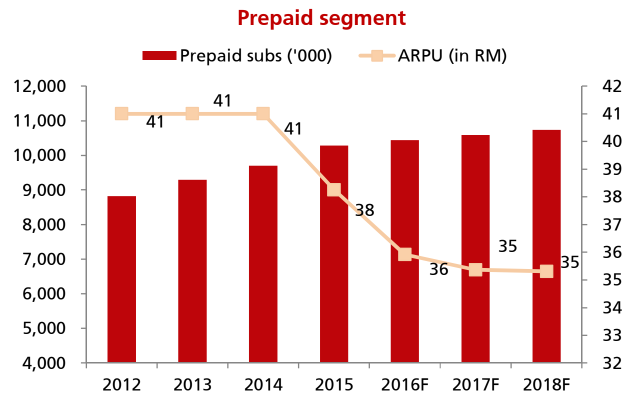
Smart bundling in prepaid segment. Since FY11, DiGi has been able to maintain its lead in the prepaid market, gaining subscribers ahead of Maxis and Celcom. Its prepaid division has relatively higher minutes-of-usage and ARPU, thanks to its stronghold in the youth and migrant worker segments. The company has implemented various initiatives such as affordable smartphone bundling to drive up Internet penetration among its prepaid subscribers, which now stands at 61%. This is crucial to drive revenue growth going forward, as prepaid subs make up >70% of DiGi's revenue. Nonetheless, given the rising competition, we expect DiGi to achieve weaker ARPU in FY16-18F.

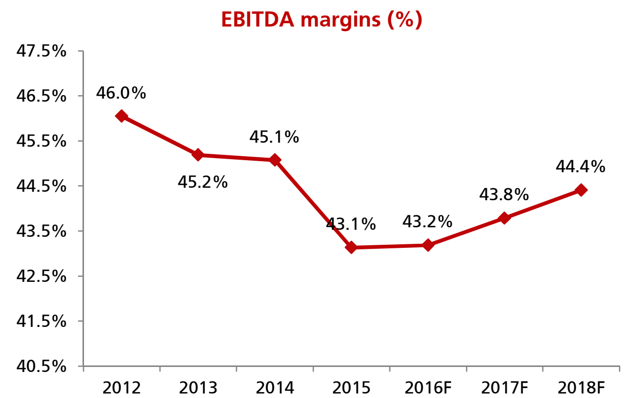
Competing in postpaid mass market. Network quality was slightly affected during its network modernisation exercise in FY12-13, but DiGi managed to avoid postpaid subscriber loss, thanks to promotional activities. We do not foresee huge gains in subscribers for DiGi going forward as the postpaid market is quite competitive, especially in the low-end/mid-range segment. Price competition had slightly affected postpaid ARPU in FY15, and we think it will likely stay at current levels despite better data monetisation of its LTE network.

Subdued EBITDA margins. DiGi recorded a decline in EBITDA margins in FY15 due to intense price competition and higher network traffic costs. Given the heightened competition in the market, we expect EBITDA margins to remain subdued at 43-44% in FY16-18F.









Source: Company, AllianceDBS

Balance Sheet:

Lowest gearing. DiGi has the lowest gearing level among Malaysian telcos, with its net debt-to-EBITDA at 0.4x. Nonetheless, its dividend payout has been capped at 100% due to limited retained earnings available for dividend distribution. Management is exploring a business trust structure to solve this issue, but there has not been any concrete progress so far.

Capex for LTE rollout in FY16-17F. We see DiGi keeping its capex level intact at RM800-900m per annum for further expansion of its LTE network. Additional funding needs for 2G spectrum reallocation fee should not be a problem for the company given its strong balance sheet.

Share Price Drivers:

Transition into business trust. A business trust structure will solve DiGi's retained earnings issue and enable a higher dividend payout. Assuming DiGi is comfortable to gear up to 1.2-1.5x net debt-to-EBITDA, we estimate that the company could distribute additional dividends of up to 40-50 sen/share.

Further market share gains. In relative terms, DiGi's share price has re-rated significantly and outperformed its peers over the last few years as it gained market share and achieved above-industry-average growth. Nevertheless, further market share gains may not be easy for DiGi going forward, given the intensifying competition with the potential entry of a new competitor (i.e. Telekom Malaysia).

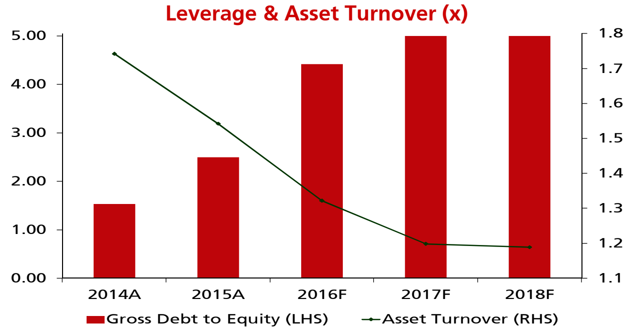
Key Risks:

Irrational competition. Given the already-high mobile penetration rate in Malaysia, any irrational competition in the market will hurt DiGi's growth as well as the industry's.

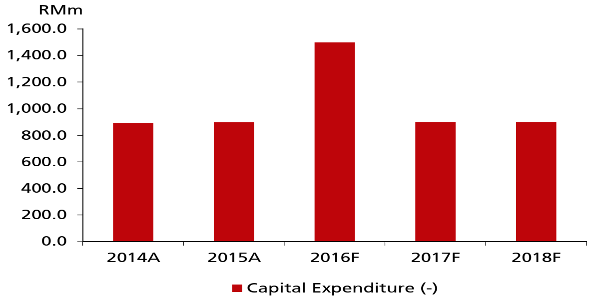
Company Background

Owned by Sweden-based Telenor, DiGi.Com is primarily a domestic mobile wireless operator in Malaysia.

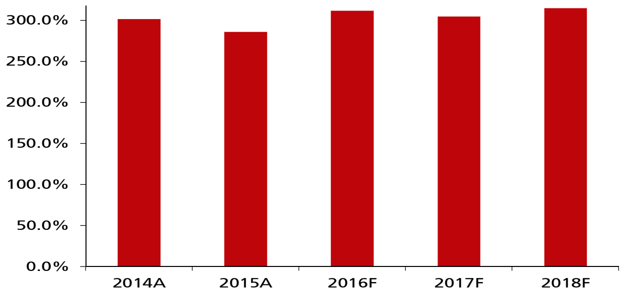
Leverage & Asset Turnover (x)



Capital Expenditure

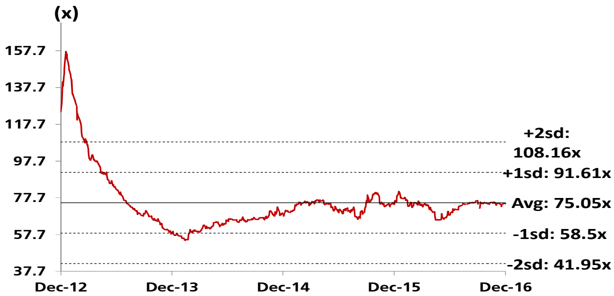


ROE (%)



Forward PE Band (x)

PB Band (x)



Source: Company, AllianceDBS

Key Assumptions

FY Dec	2014A	2015A	2016F	2017F	2018F
Total subscribers	11,421	12,125	12,335	12,545	12,755
Blended ARPU (RM)	47.4	44.7	42.6	42.3	42.5
EBITDA margins (%)	45.1	43.1	43.2	43.8	44.4
Capex (RM m)	900	897	1,499	900	900

Lower ARPU due to intense competition

Segmental Breakdown

FY Dec	2014A	2015A	2016F	2017F	2018F
Revenues (RMm)					
Postpaid voice	787	736	727	713	706
Prepaid voice	3,096	2,880	2,749	2,649	2,607
Data	2,450	2,732	2,782	2,954	3,136
Others	686	566	453	444	448
Total	**7,019**	**6,914**	**6,711**	**6,761**	**6,898**

Income Statement (RMm)

FY Dec	2014A	2015A	2016F	2017F	2018F
Revenue	7,019	6,914	6,711	6,761	6,898
Cost of Goods Sold	(2,099)	(2,033)	(2,013)	(2,015)	(2,042)
Gross Profit	**4,920**	**4,881**	**4,698**	**4,746**	**4,856**
Other Opng (Exp)/Inc	(2,249)	(2,527)	(2,458)	(2,527)	(2,559)
Operating Profit	**2,671**	**2,354**	**2,239**	**2,219**	**2,297**
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(25.8)	(45.7)	(80.8)	(109)	(117)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	**2,645**	**2,309**	**2,159**	**2,110**	**2,180**
Tax	(614)	(586)	(540)	(527)	(545)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	**2,031**	**1,723**	**1,619**	**1,582**	**1,635**
Net Profit before Except.	2,031	1,723	1,619	1,582	1,635
EBITDA	3,163	2,982	2,898	2,961	3,063
Growth					
Revenue Gth (%)	4.2	(1.5)	(2.9)	0.7	2.0
EBITDA Gth (%)	4.0	(5.7)	(2.8)	2.2	3.5
Opg Profit Gth (%)	23.4	(11.9)	(4.9)	(0.9)	3.5
Net Profit Gth (Pre-ex) (%)	19.1	(15.2)	(6.0)	(2.3)	3.3
Margins & Ratio					
Gross Margins (%)	70.1	70.6	70.0	70.2	70.4
Opg Profit Margin (%)	38.1	34.1	33.4	32.8	33.3
Net Profit Margin (%)	28.9	24.9	24.1	23.4	23.7
ROAE (%)	301.5	285.8	311.7	304.7	314.8
ROA (%)	50.4	38.4	31.9	28.0	28.2
ROCE (%)	112.5	83.7	62.8	50.1	49.6
Div Payout Ratio (%)	99.5	99.3	100.0	100.0	100.0
Net Interest Cover (x)	103.4	51.5	27.7	20.3	19.7

Source: Company, AllianceDBS

Quarterly / Interim Income Statement (RMm)

FY Dec	3Q2015	4Q2015	1Q2016	2Q2016	3Q2016
Revenue	1,675	1,725	1,653	1,655	1,619
Cost of Goods Sold	0.0	0.0	0.0	0.0	0.0
Gross Profit	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Other Oper. (Exp)/Inc	(1,098)	(1,192)	(1,105)	(1,064)	(1,018)
Operating Profit	**577**	**532**	**548**	**592**	**601**
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(12.1)	(13.1)	(14.7)	(16.0)	(15.6)
Exceptional Gain/(Loss)	(28.0)	0.0	0.0	0.0	0.0
Pre-tax Profit	**537**	**519**	**534**	**576**	**585**
Tax	(140)	(137)	(135)	(155)	(147)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	**397**	**382**	**399**	**421**	**438**
Net profit bef Except.	425	382	399	421	438
EBITDA	747	701	704	735	775
Growth					
Revenue Gth (%)	(2.8)	3.0	(4.2)	0.2	(2.2)
EBITDA Gth (%)	(5.2)	(6.1)	0.4	4.5	5.4
Opg Profit Gth (%)	(9.5)	(7.7)	3.0	7.9	1.6
Net Profit Gth (Pre-ex) (%)	(8.6)	(9.9)	4.4	5.4	4.2
Margins					
Opg Profit Margins (%)	34.5	30.9	33.2	35.7	37.1
Net Profit Margins (%)	23.7	22.2	24.1	25.4	27.1

Excluding lower devices sales, service revenue is flat q-o-q

Balance Sheet (RMm)

FY Dec	2014A	2015A	2016F	2017F	2018F
Net Fixed Assets	2,382	2,643	2,977	3,240	3,431
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	502	599	1,105	1,001	943
Cash & ST Invts	519	234	360	491	365
Inventory	64.5	117	67.1	67.6	69.0
Debtors	744	922	839	845	862
Other Current Assets	95.2	148	148	148	148
Total Assets	**4,308**	**4,662**	**5,496**	**5,793**	**5,818**
ST Debt	804	1,269	1,269	1,269	1,269
Creditor	1,844	2,056	1,914	1,907	1,925
Other Current Liab	439	433	409	412	420
LT Debt	244	25.4	1,025	1,325	1,325
Other LT Liabilities	290	360	360	360	360
Shareholder's Equity	686	519	519	519	519
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Cap. & Liab.	**4,308**	**4,662**	**5,496**	**5,793**	**5,818**
Non-Cash Wkg. Capital	(1,380)	(1,302)	(1,269)	(1,258)	(1,265)
Net Cash/(Debt)	(528)	(1,060)	(1,933)	(2,102)	(2,229)
Debtors Turn (avg days)	37.5	44.0	47.9	45.5	45.2
Creditors Turn (avg days)	406.8	506.6	534.9	547.7	548.3
Inventory Turn (avg days)	14.0	23.6	24.8	19.3	19.5
Asset Turnover (x)	1.7	1.5	1.3	1.2	1.2
Current Ratio (x)	0.5	0.4	0.4	0.4	0.4
Quick Ratio (x)	0.4	0.3	0.3	0.4	0.3
Net Debt/Equity (X)	0.8	2.0	3.7	4.0	4.3
Net Debt/Equity ex MI (X)	0.8	2.0	3.7	4.0	4.3
Capex to Debt (%)	85.2	69.3	65.3	34.7	34.7
Z-Score (X)	9.6	8.1	6.7	6.4	6.4

Net debt-to-EBITDA is relatively healthy at 0.4x

Source: Company, AllianceDBS

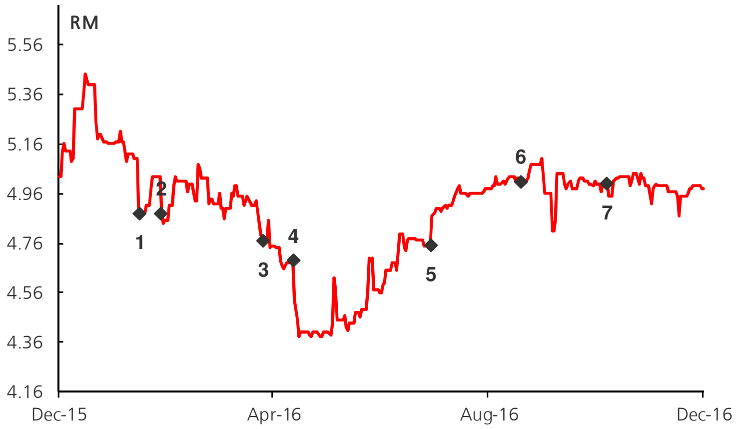
Cash Flow Statement (RMm)

FY Dec	2014A	2015A	2016F	2017F	2018F
Pre-Tax Profit	2,645	2,309	2,159	2,110	2,180
Dep. & Amort.	492	628	659	741	766
Tax Paid	(501)	(601)	(540)	(527)	(545)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(39.4)	(121)	(33.3)	(10.4)	6.82
Other Operating CF	(62.9)	(93.0)	0.0	0.0	0.0
Net Operating CF	**2,699**	**2,228**	**2,244**	**2,313**	**2,408**
Capital Exp.(net)	(892)	(896)	(1,499)	(900)	(900)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	12.6	10.7	0.0	0.0	0.0
Net Investing CF	**(880)**	**(886)**	**(1,499)**	**(900)**	**(900)**
Div Paid	(2,006)	(1,889)	(1,619)	(1,582)	(1,635)
Chg in Gross Debt	295	243	1,000	300	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	0.0	0.0	0.0	0.0	0.0
Net Financing CF	**(1,711)**	**(1,646)**	**(619)**	**(1,282)**	**(1,635)**
Currency Adjustments	0.0	17.6	0.0	0.0	0.0
Chg in Cash	108	(286)	127	131	(127)
Opg CFPS (sen)	35.2	30.2	29.3	29.9	30.9
Free CFPS (sen)	23.2	17.1	9.59	18.2	19.4

Include RM599m upfront payment for spectrum

Source: Company, AllianceDBS

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	29 Jan 16	4.88	5.60	HOLD
2:	10 Feb 16	4.88	5.00	HOLD
3:	08 Apr 16	4.77	5.00	HOLD
4:	25 Apr 16	4.69	4.40	HOLD
5:	12 Jul 16	4.75	4.40	HOLD
6:	01 Sep 16	5.01	4.35	HOLD
7:	20 Oct 16	5.00	4.35	HOLD

***Note** : Share price and Target price are adjusted for corporate actions.*

Source: AllianceDBS
Analyst: Woo Kim TOH

Malaysia Company Guide
Maxis Bhd

Version 7 | Bloomberg: MAXIS MK | Reuters: MAXC.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

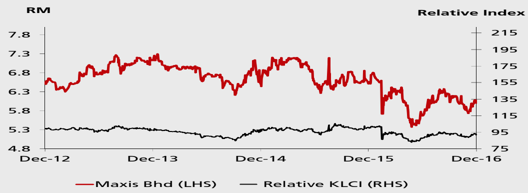
15 Dec 2016

FULLY VALUED

Last Traded Price (14 Dec 2016): RM6.00 (**KLCI :** 1,643.29)
Price Target 12-mth: RM5.10 (-15% downside) (Prev RM5.10)
Potential Catalyst (Negative): Lower dividend payout; weak earnings
Where we differ: Our TP is one of the lowest among consensus as we are more conservative on valuation

Analyst
Woo Kim TOH +60 32604 3917 wookim@alliancedbs.com

Price Relative



Forecasts and Valuation

FY Dec (RM m)	2015A	2016F	2017F	2018F
Revenue	8,601	8,412	8,356	8,427
EBITDA	4,517	4,276	4,248	4,285
Pre-tax Profit	2,460	2,525	2,652	2,705
Net Profit	1,739	1,868	1,963	2,001
Net Pft (Pre Ex.)	1,952	1,868	1,963	2,001
Net Pft Gth (Pre-ex) (%)	2.6	(4.3)	5.1	2.0
EPS (sen)	23.2	24.9	26.1	26.6
EPS Pre Ex. (sen)	26.0	24.9	26.1	26.6
EPS Gth Pre Ex (%)	3	(4)	5	2
Diluted EPS (sen)	26.0	24.9	26.1	26.6
Net DPS (sen)	20.0	20.0	22.0	24.0
BV Per Share (sen)	55.8	60.7	64.8	67.5
PE (X)	25.9	24.1	23.0	22.5
PE Pre Ex. (X)	23.1	24.1	23.0	22.5
P/Cash Flow (X)	11.1	13.2	13.4	13.1
EV/EBITDA (X)	11.9	12.7	12.8	12.6
Net Div Yield (%)	3.3	3.3	3.7	4.0
P/Book Value (X)	10.8	9.9	9.3	8.9
Net Debt/Equity (X)	2.0	2.0	1.9	1.8
ROAE (%)	39.1	42.7	41.7	40.3
Earnings Rev (%):		0	0	0
Consensus EPS (sen):		24.9	24.7	24.6
Other Broker Recs:		B: 0	S: 16	H: 13

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P

Rich valuation

Rich valuation. We affirm our FULLY VALUED rating for Maxis with a TP of RM5.10. The stock is trading at a rich valuation of 23x FY17F PE, the most expensive among Malaysian telcos. We do not believe its premium valuation is justified given the lower dividend payout and deteriorating industry dynamics as a result of intensifying competition.

Highly-leveraged. Maxis is also the most leveraged Malaysian telco at 1.7x net debt-to-EBITDA (vs. 0.4-1.5x for peers). The increase in gearing level over the years was largely to fund the gap created by the annual 40-sen DPS which was above free cash flow (FCF). The company has an internal gearing limit of 2.0x net debt-to-EBITDA, suggesting limited debt headroom ahead.

Spectrum reallocation fee could lead to cut in dividends. The regulator has fixed the spectrum fee for the 900MHz and 1800MHz band, where Maxis needs to pay RM817m upfront and RM70m annually over the 15-year licence period. We estimate the upfront payment could raise Maxis gearing level to 2.0x net debt-to-EBITDA by end-2016.

Valuation:

We value Maxis based on the DCF method (WACC 6.8%; terminal growth 1.5%) to derive a TP of RM5.10. Maxis' valuation is not cheap at 23x FY17F PE, which is at a premium to regional peers'. We maintain our FULLY VALUED call.

Key Risks to Our View:

Irrational competition
Given the already-high mobile penetration rate in Malaysia, any irrational competition in the market will hurt Maxis' as well as the industry's growth.

At A Glance

Issued Capital (m shrs)	7,510
Mkt. Cap (RMm/US$m)	45,062 / 10,135
Major Shareholders (%)	
Binariang GSM	64.9
PNB	8.3
EPF	5.6
Free Float (%)	30.0
3m Avg. Daily Val (US$m)	3.6

ICB Industry : Telecommunications / Mobile Telecommunications

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

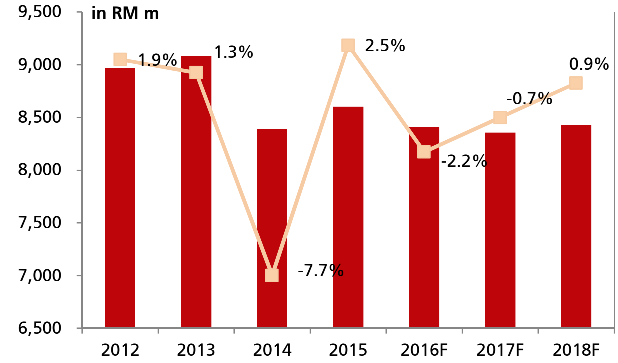
The mobile leader. Maxis remains the leader in the Malaysia mobile market with approximately 39% revenue market share (as at end-1Q16), though its leadership position has weakened slightly over the years as revenue growth was subpar and below the industry average in FY11-14. After significantly revamping its distribution channels, growth resumed in FY15 on the back of the recovery in the prepaid segment. Nevertheless, we expect a slight decline in revenue for Maxis in FY16-17F given the intense competition in the market.

Leading share in postpaid. Compared to the industry, Maxis has the largest share of postpaid subscribers (~41%) with the highest ARPU. It has a strong franchise in the high-end segment, which mainly comprises business and enterprise customers. In order to maintain good customer experience, Maxis had deliberately lowered pay-per-use pricing for data and roaming services, which caused ARPU to take a hit in FY13-14. There was strong adoption of Maxis' bundled OnePlan in FY15, which lifted ARPU. In response to competition, Maxis has given higher data allocation to its postpaid subscribers. We believe this would limit ARPU uplift from rising data usage going forward.

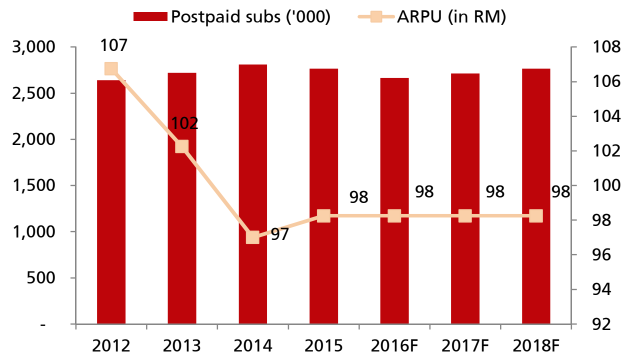
Declining prepaid segment. Maxis had been lagging behind its peers in the prepaid market due to its weak distribution channel and uncompetitive offerings. Under the helm of a new CEO, these were significantly revamped in FY14, which helped to stem subscriber loss. Nonetheless, with U Mobile gaining new spectrum by July 2017, we expect competition to intensify further and lead to loss of prepaid subscribers for the incumbents in FY17-18F.

Best-in-class EBITDA margins. Thanks to higher contribution from postpaid (~49% of mobile revenue), Maxis commands the highest EBITDA margins among its peers. Margins dipped in FY12 as a result of higher device sales and increase in low-margin international hubbing business. This improved subsequently on the back of staff reduction exercise in FY13. Despite pressure on data pricing, we believe Maxis will be able to sustain its EBITDA margins at this level given a more efficient network from 4G rollout.

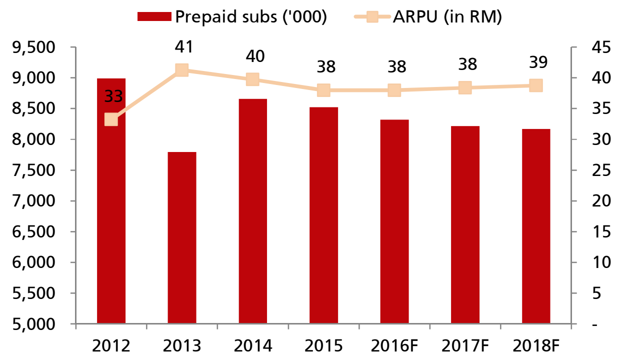
Revenue and y-o-y growth (%)



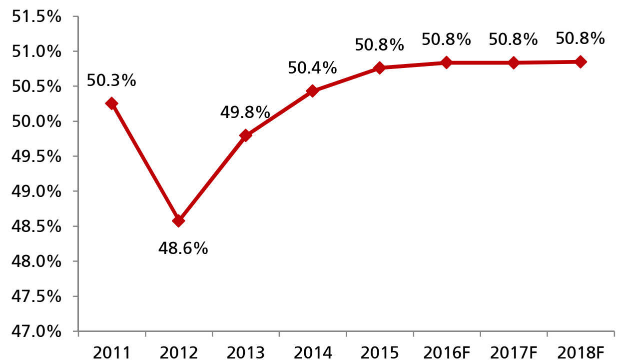
Postpaid segment



Prepaid segment



EBITDA margins (%)



Source: Company, AllianceDBS

Balance Sheet:

Highly leveraged. Maxis is currently the most leveraged Malaysian telco at 1.7x net debt-to-EBITDA (vs. 0.3-1.3x for peers). The increase in gearing level over the years was largely to fund the gap between its annual 40-sen DPS and FCF. In order to maintain a gearing level of below 2.0x net debt-to-EBITDA, Maxis had cut its dividend payout in FY15.

Sustained capex in FY16-17F. We see Maxis sustaining its capex level for now at RM1.1-1.3bn over FY16-17F for the rollout of its LTE network. Due to the reduced spectrum holding, Maxis may need to incur additional capex in order to maintain its network quality, unless more spectrum is secured in the future.

Share Price Drivers:

Spread between bond yield and dividend yield. Despite unexciting growth, valuation for Malaysian telcos (including Maxis) has re-rated significantly since 2011 on yield compression play. Hence, we believe the share price performance and sustainability of Maxis' premium valuation going forward largely hinges on: 1) changes in bond yield at the macro level; and 2) its dividend payout. Going forward, dividend payout for Maxis should be more in line with FCF generation.

Key Risks:

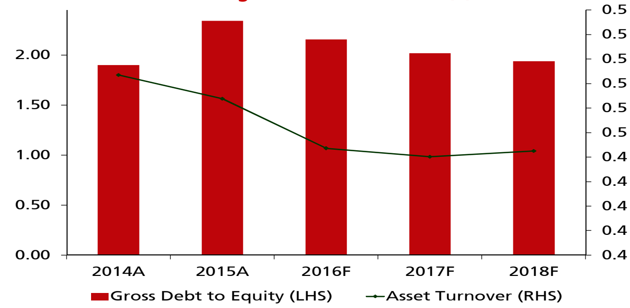
Spectrum reallocation fee. The regulator has re-allocated spectrum in the 900 MHz and 1800 MHz band recently, with fees to be determined later. This could lead to further cut in dividend payout because Maxis' gearing level is approaching its internal 2.0x net debt-to-EBITDA limit.

Irrational competition. Given the already-high mobile penetration rate in Malaysia, any irrational competition in the market will hurt Maxis' growth as well as the industry's.

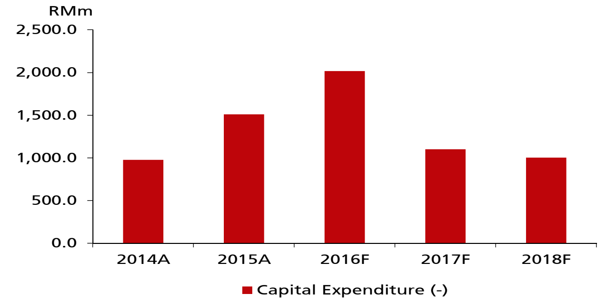
Company Background

Maxis is the largest mobile operator in Malaysia in terms of revenue market share. It has a strong lead in the postpaid segment that has helped to drive above-average EBITDA margins vs. peers.

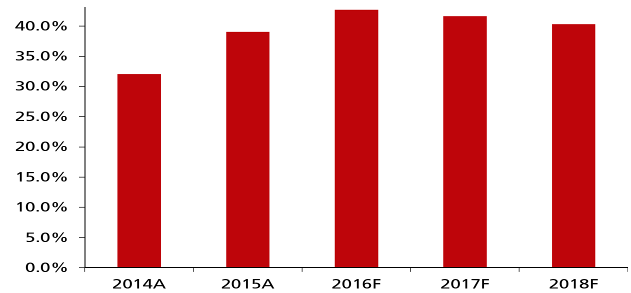
Leverage & Asset Turnover (x)



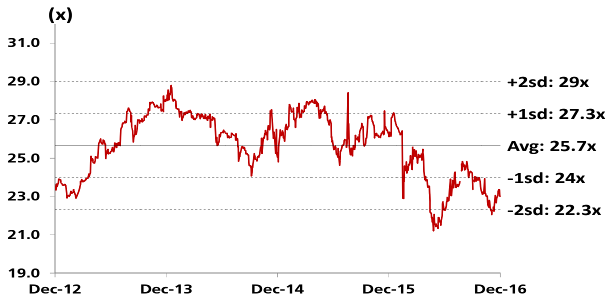
Capital Expenditure



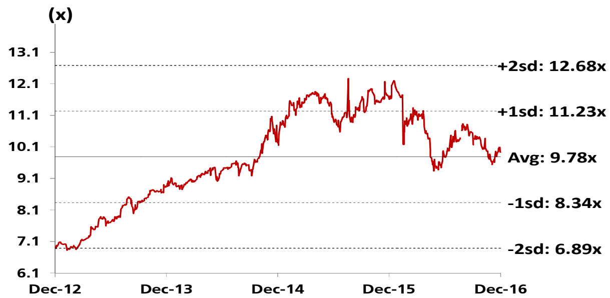
ROE (%)



Forward PE Band (x)



PB Band (x)



Source: Company, AllianceDBS

Key Assumptions

FY Dec	2014A	2015A	2016F	2017F	2018F
Revenue growth (%)	(7.7)	2.53	(2.2)	(0.7)	0.85
Total subscribers	11,863	11,579	11,259	11,189	11,169
Blended ARPU	54.7	53.2	53.1	53.4	54.0
EBITDA margins (%)	50.4	50.8	50.8	50.8	50.9

Segmental Breakdown

FY Dec	2014A	2015A	2016F	2017F	2018F
Revenues (RMm)					
Mobile	8,018	8,177	7,967	7,893	7,941
Enterprise & fixed	252	253	266	276	290
Home services	119	171	180	187	196
Total	**8,389**	**8,601**	**8,412**	**8,356**	**8,427**

Intense competition amid already high mobile penetration rate

Income Statement (RMm)

FY Dec	2014A	2015A	2016F	2017F	2018F
Revenue	8,389	8,601	8,412	8,356	8,427
Cost of Goods Sold	(2,707)	(2,728)	(2,531)	(2,356)	(2,355)
Gross Profit	**5,682**	**5,873**	**5,881**	**5,999**	**6,072**
Other Opng (Exp)/Inc	(2,681)	(2,788)	(2,902)	(2,882)	(2,907)
Operating Profit	**3,001**	**3,085**	**2,979**	**3,117**	**3,164**
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(380)	(412)	(454)	(464)	(460)
Exceptional Gain/(Loss)	(185)	(213)	0.0	(0.2)	0.0
Pre-tax Profit	**2,436**	**2,460**	**2,525**	**2,652**	**2,705**
Tax	(711)	(713)	(656)	(690)	(703)
Minority Interest	(7.0)	(8.0)	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	**1,718**	**1,739**	**1,868**	**1,963**	**2,001**
Net Profit before Except.	1,903	1,952	1,868	1,963	2,001
EBITDA	4,405	4,517	4,276	4,248	4,285
Growth					
Revenue Gth (%)	(7.7)	2.5	(2.2)	(0.7)	0.9
EBITDA Gth (%)	(2.5)	2.5	(5.3)	(0.7)	0.9
Opg Profit Gth (%)	(4.7)	2.8	(3.4)	4.6	1.5
Net Profit Gth (Pre-ex) (%)	(9.0)	2.6	(4.3)	5.1	2.0
Margins & Ratio					
Gross Margins (%)	67.7	68.3	69.9	71.8	72.1
Opg Profit Margin (%)	35.8	35.9	35.4	37.3	37.6
Net Profit Margin (%)	20.5	20.2	22.2	23.5	23.8
ROAE (%)	32.1	39.1	42.7	41.7	40.3
ROA (%)	9.7	9.4	9.9	10.3	10.5
ROCE (%)	14.5	14.6	14.4	14.7	14.7
Div Payout Ratio (%)	174.9	86.4	80.4	84.2	90.1
Net Interest Cover (x)	7.9	7.5	6.6	6.7	6.9

Source: Company, AllianceDBS

Quarterly / Interim Income Statement (RMm)

FY Dec	3Q2015	4Q2015	1Q2016	2Q2016	3Q2016
Revenue	2,166	2,176	2,140	2,102	2,156
Cost of Goods Sold	(689)	(676)	(656)	(700)	(682)
Gross Profit	**1,477**	**1,500**	**1,484**	**1,402**	**1,474**
Other Oper. (Exp)/Inc	(801)	(726)	(644)	(652)	(696)
Operating Profit	**676**	**774**	**840**	**750**	**778**
Other Non Opg (Exp)/Inc	88.0	7.00	(36.0)	(62.0)	9.00
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(110)	(101)	(106)	(102)	(98.0)
Exceptional Gain/(Loss)	(88.0)	(7.0)	36.0	62.0	(9.0)
Pre-tax Profit	**566**	**673**	**734**	**648**	**680**
Tax	(144)	(203)	(214)	(165)	(175)
Minority Interest	(2.0)	(2.0)	(2.0)	5.00	(2.0)
Net Profit	**420**	**468**	**518**	**488**	**503**
Net profit bef Except.	508	475	482	426	512
EBITDA	1,100	1,159	1,159	1,032	1,131
Growth					
Revenue Gth (%)	2.7	0.5	(1.7)	(1.8)	2.6
EBITDA Gth (%)	(4.3)	5.4	0.0	(11.0)	9.6
Opg Profit Gth (%)	(8.2)	14.5	8.5	(10.7)	3.7
Net Profit Gth (Pre-ex) (%)	3.3	(6.5)	1.5	(11.6)	20.2
Margins					
Gross Margins (%)	68.2	68.9	69.3	66.7	68.4
Opg Profit Margins (%)	31.2	35.6	39.3	35.7	36.1
Net Profit Margins (%)	19.4	21.5	24.2	23.2	23.3

Driven by higher mobile Internet revenue in prepaid

Balance Sheet (RMm)

FY Dec	2014A	2015A	2016F	2017F	2018F
Net Fixed Assets	4,008	4,227	4,365	4,433	4,397
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	11,523	11,939	12,537	12,455	12,387
Cash & ST Invts	1,531	1,296	685	787	920
Inventory	12.0	13.0	16.8	16.7	16.9
Debtors	971	1,218	1,052	1,044	1,053
Other Current Assets	64.0	291	291	291	291
Total Assets	**18,109**	**18,984**	**18,947**	**19,027**	**19,065**
ST Debt	880	1,077	1,077	1,077	1,077
Creditor	3,002	3,467	3,064	2,833	2,672
Other Current Liab	301	349	349	349	349
LT Debt	8,118	8,801	8,801	8,801	8,801
Other LT Liabilities	1,070	1,070	1,070	1,070	1,070
Shareholder's Equity	4,716	4,190	4,556	4,867	5,066
Minority Interests	22.0	30.0	30.0	30.0	30.0
Total Cap. & Liab.	**18,109**	**18,984**	**18,947**	**19,027**	**19,065**
Non-Cash Wkg. Capital	(2,256)	(2,294)	(2,053)	(1,830)	(1,660)
Net Cash/(Debt)	(7,467)	(8,582)	(9,193)	(9,091)	(8,958)
Debtors Turn (avg days)	41.7	46.4	49.2	45.8	45.4
Creditors Turn (avg days)	761.3	911.0	966.2	878.2	813.7
Inventory Turn (avg days)	11.5	3.5	4.4	5.0	5.0
Asset Turnover (x)	0.5	0.5	0.4	0.4	0.4
Current Ratio (x)	0.6	0.6	0.5	0.5	0.6
Quick Ratio (x)	0.6	0.5	0.4	0.4	0.5
Net Debt/Equity (X)	1.6	2.0	2.0	1.9	1.8
Net Debt/Equity ex MI (X)	1.6	2.0	2.0	1.9	1.8
Capex to Debt (%)	10.8	15.3	20.4	11.1	10.1
Z-Score (X)	3.1	2.9	2.9	3.0	3.0

Net debt-to-EBITDA is close to its internal limit of 2.0x

Source: Company, AllianceDBS

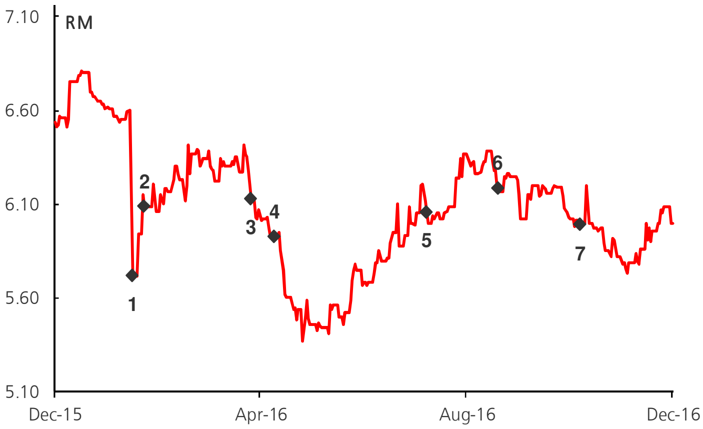
Cash Flow Statement (RMm)

FY Dec	2014A	2015A	2016F	2017F	2018F
Pre-Tax Profit	2,436	2,460	2,525	2,652	2,705
Dep. & Amort.	1,404	1,432	1,298	1,131	1,120
Tax Paid	(636)	(681)	(656)	(690)	(703)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	449	139	(241)	(223)	(170)
Other Operating CF	454	723	494	494	494
Net Operating CF	**4,107**	**4,073**	**3,419**	**3,364**	**3,446**
Capital Exp.(net)	(974)	(1,510)	(2,017)	(1,100)	(1,000)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(258)	(369)	(17.4)	(16.1)	(16.5)
Net Investing CF	**(1,232)**	**(1,879)**	**(2,034)**	**(1,116)**	**(1,016)**
Div Paid	(3,002)	(2,327)	(1,502)	(1,652)	(1,802)
Chg in Gross Debt	1,227	341	0.0	0.0	0.0
Capital Issues	14.0	18.0	0.0	0.0	0.0
Other Financing CF	(391)	(461)	(494)	(494)	(494)
Net Financing CF	**(2,152)**	**(2,429)**	**(1,996)**	**(2,146)**	**(2,296)**
Currency Adjustments	0.05	0.0	0.0	0.0	0.0
Chg in Cash	723	(235)	(611)	102	133
Opg CFPS (sen)	48.7	52.4	48.7	47.8	48.1
Free CFPS (sen)	41.7	34.1	18.7	30.1	32.6

Includes RM817m upfront payment for spectrum

Source: Company, AllianceDBS

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	29 Jan 16	5.72	5.80	FULLY VALUED
2:	05 Feb 16	6.09	5.50	FULLY VALUED
3:	08 Apr 16	6.13	5.50	FULLY VALUED
4:	22 Apr 16	5.93	4.80	FULLY VALUED
5:	21 Jul 16	6.06	5.15	FULLY VALUED
6:	01 Sep 16	6.19	5.10	FULLY VALUED
7:	20 Oct 16	5.99	5.10	FULLY VALUED

***Note** : Share price and Target price are adjusted for corporate actions.*

Source: AllianceDBS
Analyst: Woo Kim TOH

Malaysia Company Guide

TIME dotCom Bhd

Version 5 | Bloomberg: TDC MK | Reuters: TCOM.KL **Refer to important disclosures at the end of this report**

DBS Group Research . Equity 15 Dec 2016

HOLD

Last Traded Price (14 Dec 2016): RM7.84 (**KLCI :** 1,643.29)
Price Target 12-mth: RM7.50 (-4% downside) (Prev RM7.50)

Potential Catalyst: Stronger bandwidth sales; regional expansion
Where we differ: FY16-18F earnings in line with consensus

Analyst
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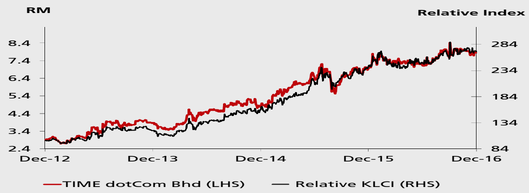
Price Relative



Forecasts and Valuation

FY Dec (RM m)	2015A	2016F	2017F	2018F
Revenue	682	791	927	1,041
EBITDA	248	295	356	397
Pre-tax Profit	471	341	236	275
Net Profit	467	328	217	251
Net Pft (Pre Ex.)	155	171	217	251
Net Pft Gth (Pre-ex) (%)	(4.8)	10.3	27.2	15.2
EPS (sen)	81.1	57.1	37.8	43.5
EPS Pre Ex. (sen)	26.9	29.7	37.8	43.5
EPS Gth Pre Ex (%)	(5)	10	27	15
Diluted EPS (sen)	26.9	29.7	37.8	43.5
Net DPS (sen)	80.2	60.8	9.44	10.9
BV Per Share (sen)	362	358	386	419
PE (X)	9.7	13.7	20.8	18.0
PE Pre Ex. (X)	29.1	26.4	20.8	18.0
P/Cash Flow (X)	13.4	13.3	13.9	12.3
EV/EBITDA (X)	17.8	14.8	12.0	10.4
Net Div Yield (%)	10.2	7.8	1.2	1.4
P/Book Value (X)	2.2	2.2	2.0	1.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	21.0	15.9	10.2	10.8
Earnings Rev (%):		0	0	0
Consensus EPS (sen):		29.8	36.7	44.2
Other Broker Recs:		B: 2	S: 0	H: 4

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P

Expanding regionally

Maintain HOLD. We maintain our HOLD call on TIME with a TP of RM7.50. Since last year, the stock has significantly outperformed its Malaysian telco peers due to its better growth prospects and capital management initiatives. The stock is now trading at 20.4x FY17 PE, which we think is fairly valued. Stronger-than-expected global bandwidth sales once its major submarine cable systems (i.e. APG, FASTER and AAE-1) start operations from 2H16 onwards could be a re-rating catalyst.

Regional expansion. After increasing its stake early this year, TIME now owns a 45% stake in CMC Telecommunication Infrastructure Corporation (CMC Telecom). Similar to TIME, CMC Telecom is a fixed-line operator in Vietnam, mainly focusing on providing broadband services for businesses and home users. TIME has also spent a total of c.RM10m to acquire a 49% stake in KIRZ Co. Ltd., a carrier-neutral data centre operator based in Thailand.

Valuation:

Our RM7.50 TP for TIME is based on DCF-valuation assuming 8.4% WACC and 2.5% terminal growth (given that sales are predominantly from data business and less legacy voice business).

Key Risks to Our View:

Steeper decline in bandwidth prices. Steeper-than-expected decline in bandwidth prices and/or slowdown in data demand will be an earnings risk for TIME's bandwidth business.

At A Glance

Issued Capital (m shrs)	578
Mkt. Cap (RMm/US$m)	4,534 / 1,020
Major Shareholders (%)	
Pulau Kapas Venture S/B	31.4
Khazanah Nasional	11.3
EPF	5.7
Free Float (%)	50.3
3m Avg. Daily Val (US$m)	0.51

ICB Industry : Telecommunications / Fixed Line Telecommunications

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

Prime beneficiary of data growth. TIME dotCom Berhad (TIME) is a data-centric (>80% of revenue), fixed-line telecommunication provider based in Malaysia. The company acquired Global Transit and AIMS in 2012, effectively expanding its business to international bandwidth and data centre operations since then.

Global Transit owns international submarine cable assets such as Unity and Asia Pacific Gateway (APG). It has also committed to participate in two other submarine cable consortiums, i.e. FASTER and AAE-1.

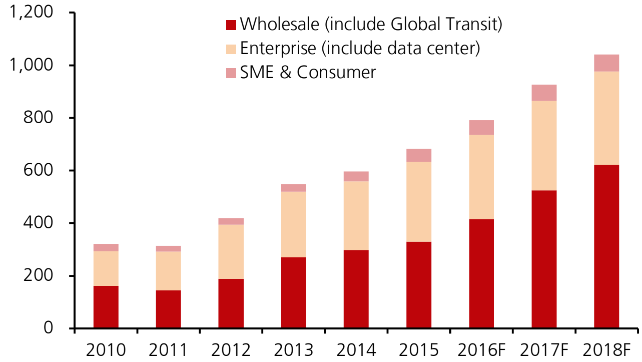
Strong growth for wholesale segment. The wholesale segment remains the key growth driver for TIME in the near term due to: 1) strong demand for node fiberisation by telcos for their 4G LTE network rollout, and 2) commissioning of new submarine cable systems. The stronger USD also helps to boost revenue since sales of international bandwidth are denominated in USD. Overall, we forecast growth for the wholesale segment to accelerate to 15-29% in FY18-25F, higher than the 11% growth in FY15.

Unity capacity had been upgraded to 1.1Tbps (from 800Gbps) while commissioning of the APG cable system (3.4Tbps capacity) is expected to happen by mid-2016. In the meantime, construction of FASTER (10Tbps capacity) and AAE-1 (1.9Tbps) is in progress, and both submarine cable systems are likely to be completed by early 2017.

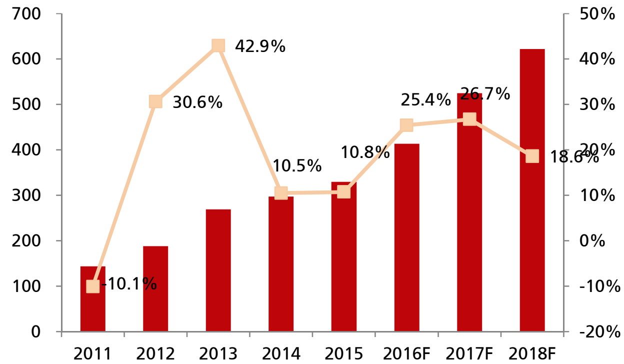
Conservative growth forecast for enterprise segment. The enterprise segment consists of revenue from government organisations and corporates, as well as from its data centre business. We conservatively forecast growth for this segment to be within 4-6% in FY16-FY18F, lower than the double-digit growth recorded over the past few years. This is mainly due to the competitive market environment where 1) there has been a shift by customers from dedicated corporate-grade broadband to consumer-grade broadband, given the introduction of Unifi-for-Business by TM, and 2) overcapacity of data centres in the Malaysia market.

Decent margins. We expect TIME's EBITDA margins in FY16-18F to stay at 36-37%, in line with management's guidance. Margins will likely improve going forward as the utilisation rate of its submarine cable system increases progressively over the years after initial commissioning.

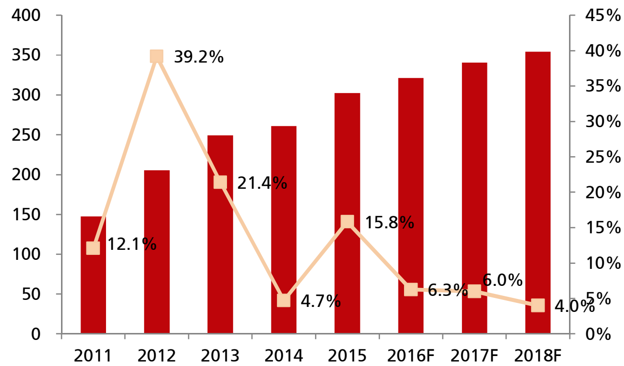
Revenue breakdown, by segment (in RM)



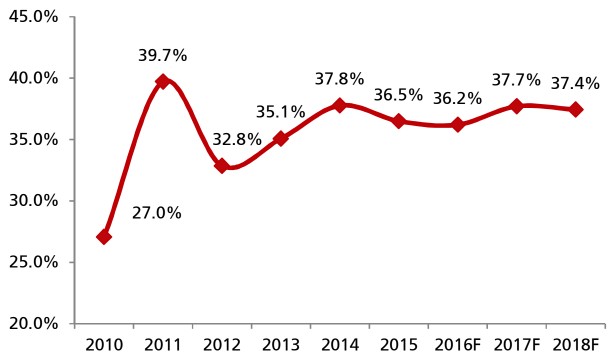
Wholesale segment growth (%)



Enterprise segment growth (%)



EBITDA margins (%)



Source: Company, AllianceDBS

Balance Sheet:

Capex to trend down. TIME has guided for higher capex of RM250m in FY16F. The additional capex is to finance the construction of FASTER and AAE-1 submarine cable systems. Beyond FY17F, we assume capex to normalise to RM150-175m, in line with its capex level in the past.

Debt to partly finance capex. In view of the higher capex, TIME is likely to partly finance its capex via debt. This could turn its balance sheet from net cash currently into a slight net debt position, with gearing level at less than 0.1x net-debt/equity. This is still well below its comfortable gearing level of 0.3x net-debt/equity.

Share Price Drivers:

Further capital management initiatives. TIME recently disposed of its remaining 68.7m DiGi shares for RM307m cash. We think this could be fully paid out as special dividend amounting to 53 sen/share. TIME paid 13sen special DPS so far.

Regional expansion in ASEAN. TIME is expanding its business in the ASEAN region through acquisitions or JVs. This would start with Thailand or Vietnam, given that TIME have direct connectivity to those countries after the APG submarine cable system is commissioned in end-June 2016.

Key Risks:

Steeper decline in bandwidth prices. Steeper-than-expected decline in bandwidth prices and/or slowdown in demand will be an earnings risk for TIME's bandwidth business.

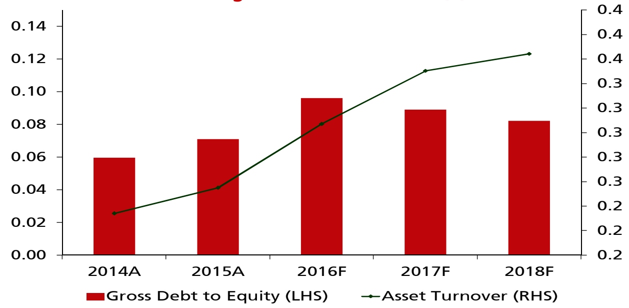
Intense price competition from incumbent TM. Aggressive price competition in the domestic market by incumbent Telekom Malaysia (TM) is a risk, though we believe the probability is low, given TM's dominant market share of 85%.

Forex risks. TIME is exposed to forex risks since sales of its international bandwidth business are denominated in USD.

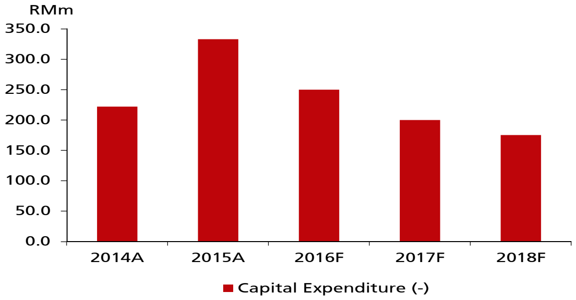
Company Background

TIME is a data-centric, fixed-line telecommunication provider based in Malaysia which mainly serves enterprises and operators.

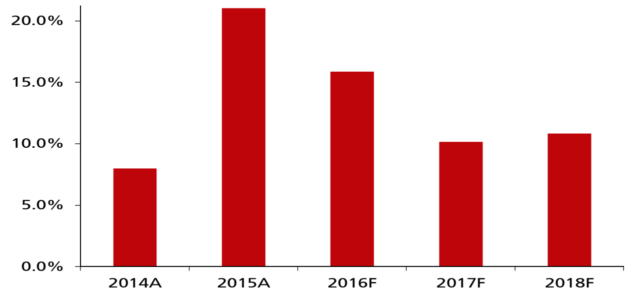
Leverage & Asset Turnover (x)



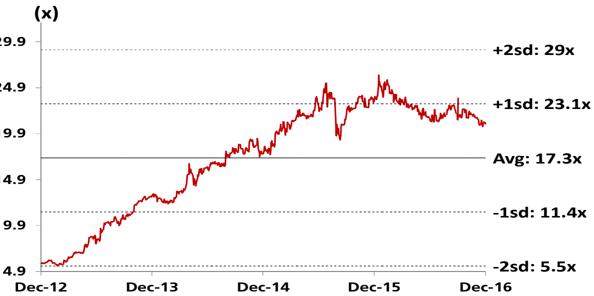
Capital Expenditure



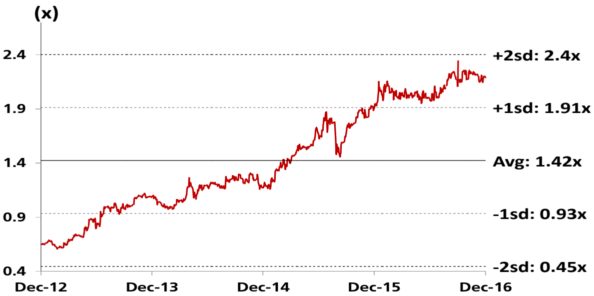
ROE (%)



Forward PE Band (x)



PB Band (x)



Source: Company, AllianceDBS

Key Assumptions (y-o-y growth)

FY Dec	2014A	2015A	2016F	2017F	2018F
Wholesale segment	10.5	10.8	25.4	26.7	18.6
Enterprise segment	4.72	15.8	6.25	6.00	4.00
SME & Consumer	29.0	33.0	12.0	10.0	5.00

Strong growth due to contribution from new submarine cable

Segmental Breakdown

FY Dec	2014A	2015A	2016F	2017F	2018F
Revenues (RMm)					
Data	457	525	633	767	881
Voice	71.4	76.5	72.7	69.0	65.6
Data centre	64.8	76.7	82.0	86.9	90.4
Others	2.88	4.61	3.56	3.71	3.96
Total	**596**	**682**	**791**	**927**	**1,041**

Income Statement (RMm)

FY Dec	2014A	2015A	2016F	2017F	2018F
Revenue	596	682	791	927	1,041
Cost of Goods Sold	(377)	(459)	(514)	(588)	(664)
Gross Profit	**219**	**223**	**277**	**339**	**377**
Other Opng (Exp)/Inc	(75.3)	(52.5)	(95.5)	(102)	(104)
Operating Profit	**144**	**171**	**182**	**237**	**273**
Other Non Opg (Exp)/Inc	(11.0)	(37.8)	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.1)	4.45	(1.2)	(0.2)	2.64
Exceptional Gain/(Loss)	11.0	312	157	0.0	0.0
Pre-tax Profit	**179**	**471**	**341**	**236**	**275**
Tax	(6.9)	(5.4)	(12.6)	(18.9)	(24.8)
Minority Interest	1.52	1.48	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	**174**	**467**	**328**	**217**	**251**
Net Profit before Except.	163	155	171	217	251
EBITDA	253	248	295	356	397
Growth					
Revenue Gth (%)	8.8	14.4	16.0	17.1	12.3
EBITDA Gth (%)	12.6	(2.2)	19.0	20.6	11.7
Opg Profit Gth (%)	21.9	18.6	6.4	30.2	15.3
Net Profit Gth (Pre-ex) (%)	(44.2)	(4.8)	10.3	27.2	15.2
Margins & Ratio					
Gross Margins (%)	36.8	32.7	35.0	36.6	36.2
Opg Profit Margin (%)	24.1	25.0	23.0	25.5	26.2
Net Profit Margin (%)	29.2	68.4	41.5	23.5	24.1
ROAE (%)	8.0	21.0	15.9	10.2	10.8
ROA (%)	6.8	17.4	12.7	8.2	8.8
ROCE (%)	5.9	7.0	7.7	9.2	9.8
Div Payout Ratio (%)	18.5	98.9	106.6	25.0	25.0
Net Interest Cover (x)	1,396.7	NM	146.5	1,577.5	NM

Source: Company, AllianceDBS

Dividend policy is 25% payout ratio

Quarterly / Interim Income Statement (RMm)

FY Dec	3Q2015	4Q2015	1Q2016	2Q2016	3Q2016
Revenue	173	174	175	175	195
Cost of Goods Sold	(138)	(146)	(140)	(141)	(146)
Gross Profit	**35.1**	**27.9**	**35.5**	**34.3**	**48.6**
Other Oper. (Exp)/Inc	0.12	1.37	8.39	0.49	2.79
Operating Profit	**35.3**	**29.3**	**43.8**	**34.8**	**51.4**
Other Non Opg (Exp)/Inc	6.71	5.24	5.24	2.31	4.16
Associates & JV Inc	0.43	0.13	(0.1)	0.55	0.47
Net Interest (Exp)/Inc	(1.7)	(1.7)	(1.6)	(1.5)	(0.9)
Exceptional Gain/(Loss)	19.0	3.60	(8.1)	165	2.67
Pre-tax Profit	**59.7**	**36.6**	**39.3**	**201**	**57.8**
Tax	(1.4)	0.0	(1.7)	(1.4)	(2.4)
Minority Interest	0.75	(0.8)	0.0	0.0	0.0
Net Profit	**59.0**	**35.8**	**37.6**	**200**	**55.4**
Net profit bef Except.	40.0	32.2	45.7	34.8	52.7
EBITDA	66.2	58.4	70.8	59.7	79.2
Growth					
Revenue Gth (%)	5.9	0.1	1.0	0.1	11.0
EBITDA Gth (%)	7.2	(11.8)	21.1	(15.7)	32.7
Opg Profit Gth (%)	8.2	(17.0)	49.9	(20.6)	47.7
Net Profit Gth (Pre-ex) (%)	14.0	(19.6)	41.9	(23.8)	51.5
Margins					
Gross Margins (%)	20.3	16.1	20.2	19.6	25.0
Opg Profit Margins (%)	20.3	16.9	25.0	19.8	26.4
Net Profit Margins (%)	34.1	20.6	21.5	113.9	28.4

Higher IRU sales and non-recurring contract

Balance Sheet (RMm)

FY Dec	2014A	2015A	2016F	2017F	2018F
Net Fixed Assets	966	1,251	1,391	1,471	1,522
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	1,283	875	567	567	567
Cash & ST Invts	318	253	360	440	583
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	178	229	226	265	297
Other Current Assets	0.98	2.25	1.58	1.85	2.08
Total Assets	**2,745**	**2,610**	**2,546**	**2,746**	**2,972**
ST Debt	51.7	45.8	45.8	45.8	45.8
Creditor	218	349	257	294	332
Other Current Liab	0.75	1.21	1.21	1.21	1.21
LT Debt	88.5	102	152	152	152
Other LT Liabilities	27.5	29.0	29.0	29.0	29.0
Shareholder's Equity	2,357	2,083	2,061	2,224	2,412
Minority Interests	1.48	0.0	0.0	0.0	0.0
Total Cap. & Liab.	**2,745**	**2,610**	**2,546**	**2,746**	**2,972**
Non-Cash Wkg. Capital	(40.4)	(119)	(30.6)	(28.5)	(33.8)
Net Cash/(Debt)	177	105	162	243	386
Debtors Turn (avg days)	102.5	108.8	105.0	96.7	98.6
Creditors Turn (avg days)	246.6	283.1	273.9	214.6	211.8
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	0.2	0.3	0.3	0.4	0.4
Current Ratio (x)	1.8	1.2	1.9	2.1	2.3
Quick Ratio (x)	1.8	1.2	1.9	2.1	2.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	158.2	225.3	126.4	101.1	88.5
Z-Score (X)	6.9	5.0	5.6	5.4	5.3

Source: Company, AllianceDBS

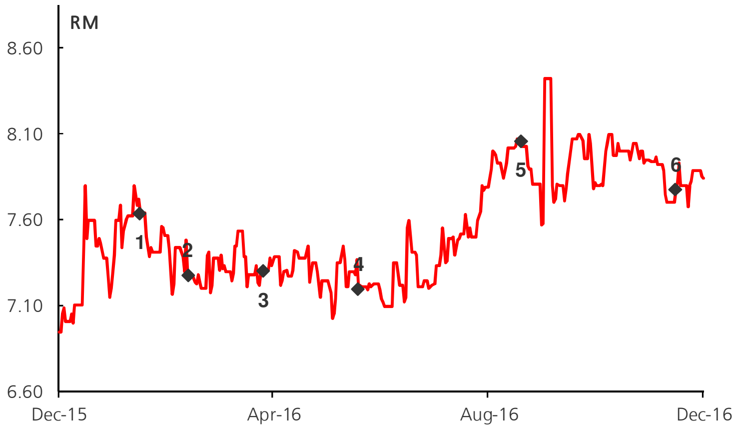
Cash Flow Statement (RMm)

FY Dec	2014A	2015A	2016F	2017F	2018F
Pre-Tax Profit	179	471	341	236	275
Dep. & Amort.	85.0	93.2	110	119	125
Tax Paid	(5.1)	(7.4)	(12.6)	(18.9)	(24.8)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	20.9	78.3	(88.6)	(2.1)	5.24
Other Operating CF	10.8	(297)	(10.6)	(9.7)	(12.5)
Net Operating CF	**291**	**338**	**339**	**325**	**368**
Capital Exp.(net)	(222)	(333)	(250)	(200)	(175)
Other Invts.(net)	0.0	(66.0)	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	42.9	461	318	9.74	12.5
Net Investing CF	**(179)**	**61.7**	**67.8**	**(190)**	**(162)**
Div Paid	0.0	(455)	(350)	(54.4)	(62.6)
Chg in Gross Debt	(33.4)	(20.9)	50.0	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(1.4)	0.0	0.0	0.0	0.0
Net Financing CF	**(34.9)**	**(476)**	**(300)**	**(54.4)**	**(62.6)**
Currency Adjustments	2.46	11.4	0.0	0.0	0.0
Chg in Cash	79.6	(65.0)	107	80.3	143
Opg CFPS (sen)	47.1	45.1	74.3	56.8	63.0
Free CFPS (sen)	12.0	0.88	15.5	21.7	33.5

Additional capex is for submarine cable investments

Source: Company, AllianceDBS

Target Price & Ratings History



***Note**: Share price and Target price are adjusted for corporate actions.*

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	29 Jan 16	7.64	6.80	HOLD
2:	25 Feb 16	7.28	6.80	HOLD
3:	08 Apr 16	7.30	6.80	HOLD
4:	01 Jun 16	7.20	7.15	HOLD
5:	01 Sep 16	8.06	7.50	HOLD
6:	28 Nov 16	7.78	7.50	HOLD

Source: AllianceDBS
Analyst: Woo Kim TOH

AllianceDBS recommendations are based an Absolute Total Return* Rating system, defined as follows:
STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return i.e. > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 14 Dec 2016 08:17:24 (MYT)
Dissemination Date: 15 Dec 2016 09:32:54 (MYT)

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8. Peter Seah Lim Huat, Chairman of DBS Group Holdings, is a Director of Starhub as of 3 Aug 2016. Nihal Vijaya Devadas Kaviratne CBE, a member of DBS Group Holdings Board of Directors, is a Director of Starhub as of 3 Aug 2016.

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