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Asia telecoms

EQUITY: TELECOMS

1H14 report card

More splendour than reasoning

Global Markets Research

11 September 2014

Stocks running ahead of earnings…reviewing key picks

- In the first six months of this year, there hasn't been much joy in operating trends with a 4% average service revenue growth, a 2% EBITDA growth and a 2% NPAT growth, yet YTD the AEJ telco index is up 17% or 7% including Japan. Most of this rally has been in the past two months and driven by Chinese and Indian telcos. The sentiment has improved, but not really matched by earnings growth. In fact, 80% of telcos have seen consensus EPS cuts this year – and this has been a common trend for over three years now. Hence, with the sector now trading at 19-20x P/E, it is hard to be excited or find easy value. Recently we have downgraded stocks/price targets in Taiwan, Philippines, Thailand, Singapore and Indo towers, while upgrading these in China, Japan and for PT Telkom and Telstra.
- For the rest of the year, our preference is for large-cap integrated telcos given their earnings resilience, valuations and good dividends. Our key picks: AIS, Bharti Infratel, China Mobile, KDDI, NTT, SingTel, SKT, and Tel Malaysia. We remove XL from our key picks list, after a 30% rally this year.

Key highlights from the first six months this year

- There are now 2.9bn mobile subs in Asia – with 70mn additions in 2014.
- The average revenue growth was 4% for Asian telcos, EBITDA growth of 2% and margins fell 82bps to 32%. Indians had the highest EBITDA growth of 16%. Koreans were the weakest, down 24%, or down 5% ex-ERP.
- Earnings growth was only 2% y-y – with the highest for Indians (after three years of declines for Bharti) and KT and XL the lowest (Axis deal related).
- Only 13 out of 30 stocks delivered results ahead of market expectations.
- Only two telcos increased their guidance – AIS on EBITDA margin and KT on wireless ARPU rise. Telcos in Thailand and Malaysia cut their guidance.

What to expect for the rest of the year?

- Key focus: 1) improving data prices/ARPUs, which aren't straightforward; 2) iPhone-6 launch and impact on subsidies; 3) M&As – more telcos are likely to expand into non-traditional areas, and tower sales; 4) 4G rollouts, VoLTE and carrier-aggregations; 5) general competition/OTT issues; and 6) Not much expected on regulations for the rest of the year, expect for Thailand.
- More competition expected in Australia, Singapore, Malaysia, and Taiwan. Improvement expected in India, China and Indonesia. Rest no change.
- Capex risks remain, and this isn't necessarily bad given network investment is critical for data profitability. No change expected on dividends.

Fig. 1: Summary of key picks

Telco	Ticker	Rating	TP (lcl cncy)	Price (lcl cncy)	Upside
AIS	ADVANC TB	BUY	225	207	9%
Bharti Infratel	BHIN IN	BUY	280	293	-4%
China Mobile	941 HK	BUY	115	101	14%
KDDI	9433 JP	BUY	7,710	6,259	23%
NTT	9432 JP	BUY	7,910	6,959	14%
SingTel	ST SP	BUY	4.15	3.92	6%
SKT	017670 KS	BUY	310,000	286,500	8%
TM	TMK	BUY	7.00	6.42	9%

Source: Nomura research. Note: share prices as of 9 September 2014; we are reviewing our TP for Bharti Infratel.

Anchor themes

For the rest of 2014, focus will be on data prices, competition, M&A, 4G rollout...and slightly less on regulations.

Nomura vs consensus

Stocks have moved up this year, but earnings haven't. P/E of 19-20x is expensive. So we are cautious. We prefer select large-cap telcos with earnings, dividend and valuation support.

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Our sector view – relatively cautious

- In the first six months of this year, there hasn't been much joy in the operating trends with a 4% average service revenue growth, a 2% EBITDA growth and a 2% NPAT growth, yet the AEJ telco index was up 17% ex-Japan or 7%, including Japan YTD.
  - Most of this rally has been in the past two months and largely driven by Chinese and Indian telcos. The sentiment has improved, but not really matched by earnings growth. In fact, 80% of telcos have seen consensus EPS estimate cuts this year – and this has been a common trend for over three years now. So with the sector now trading at 19-20x P/E, it is hard to be excited or find easy value, in our view.
- For the rest of the year, our preference is for large-cap integrated telcos given their earnings resilience, better valuations and good dividends/ prospects. Our key picks are: AIS, Bharti Infratel, China Mobile, KDDI, NTT, SingTel, SKT, and Tel Malaysia. We remove XL from our key picks list, after a 30% rally this year.

Fig. 2: Reviewing our key picks

Top Down	Bottom up	Defensives with some risks	Structural / turnaround potential	Expensive – with risks
China Mobile – *Buy*	Axiata – *Buy*	Chunghwa – *Neutral*	Bharti – *Buy*	Globe – *Reduce*
NTT – *Buy*	**AIS – *Buy***	DiGi – *Neutral*	China Tel – *Neutral*	FET – *Reduce*
PLDT – *Reduce*	China Unicom – *Buy*	M1 – *Neutral*	IDEA – *Neutral*	Indosat – *Neutral*
PT Telkom – *Neutral*	DTAC – *Buy*	StarHub – *Neutral*	KT Corp – *Neutral*	Maxis – *Reduce*
SingTel – *Buy*	**KDDI – *Buy***		NTT DoCoMo – *Buy*	RCOM – *Neutral*
Telstra – *Buy*	LG Uplus – *Buy*		Protelindo – *Buy*	TWM – *Neutral*
	SK Telecom – *Buy*		TBIG – *Neutral*	
	Bharti Infratel – *Buy*		**Tel Malaysia – *Buy***	
			XL – *Buy*	
Index weighting, liquidity, good cash and stable earnings	*Earnings growth potential, reasonable valuation*	*Good yields but some earnings concerns*	*Structural plays*	*Risks on the horizon, or inconsistent execution*

Source: Nomura research

Fig. 3: Our thoughts on each market and key drivers

Market	Key themes for 2014	Competition	Data economics	Regulatory risk	Capex risks	Dividend outlook	Consensus EPS revision trends	M&A	Key stock
Australia	Wireless competition, data monetisation & NBN	Higher	No change, but yield focus	Medium	Flat	TLS up	Flat	Unlikely	Telstra
China	4G rollout (TD/FDD), lower subsidies, capex, tower set-up	Lower	Better	Low	Up	No change	Flat to up	Unlikely	China Mobile
India	Spectrum auctions, pricing trends, 3G take-up, R-Jio	Improving (R-Jio is a risk)	No change	Medium	Up	No change	Flat to up	Likely	Bharti, Bharti Infratel
Indonesia	Competition, consolidation, data growth, tower sale	Improving	Likely to improve	Medium	Flat	Specials from Telkom	Flat	Likely in CDMA, towers	XL
Japan	Data growth, cash return, overseas expansion	No change	No change	Low	Down	No change	Flat	Likely	KDDI, NTT
Malaysia	Data economics, LTE rollout, HSBB trends	Higher	No change	Low	Up	No change	Flat to down	Unlikely	TM, Axiata
Philippines	Data adoption, network upgrades, voice/ SMS cannabalisation	Mixed	Challenges from subsidies	Low	Up	No change	Flat to down	Likely (Digital services / media)	PLDT
Singapore	Data repricing, wireless competition, broadband pressure	Higher	Better	Higher	Flat	M1 specials	Flat to down	Likely (SingTel Digital Life)	SingTel
South Korea	ARPU focus, handset dist'b bill, marketing intensity, regulations	Improving	No change	Moderate	Flat	KT no dividend	Up	Unlikely	SKT
Thailand	3G handset uptake, capex and competition, auctions	Mixed	Better	High	Up	No change	Flat to down	Unlikely	AIS DTAC
Taiwan	4G launch and promotions, voice/data competition, bundling	Higher	Challenging with promotions	Moderate	Up	Earnings decline a risk	Down	Unlikely	CHT

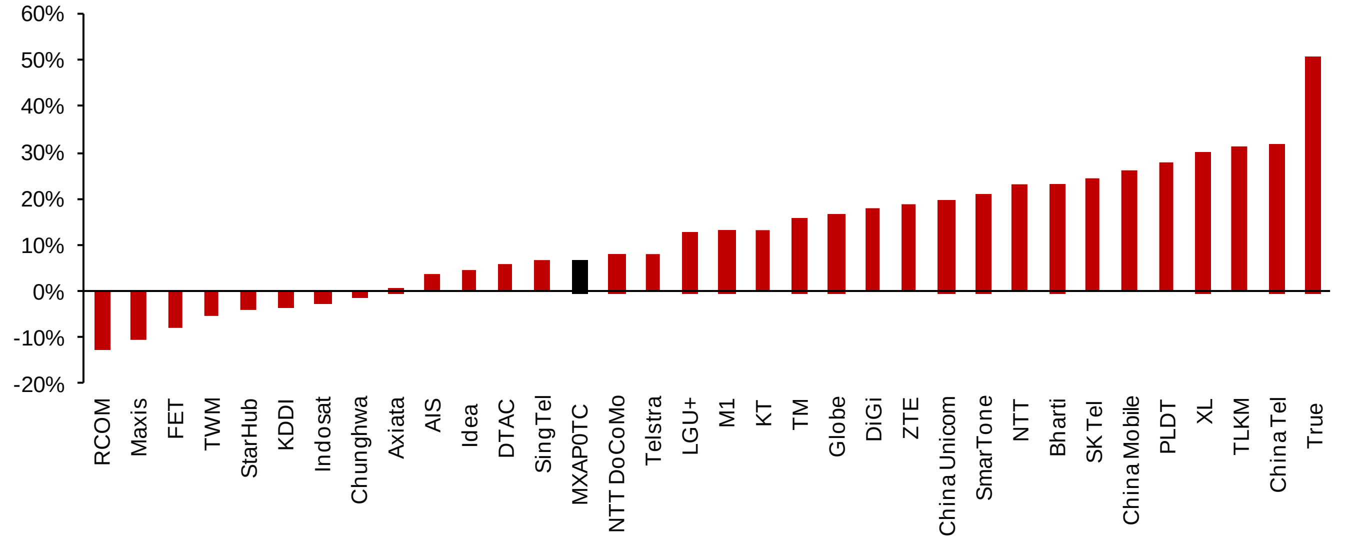
Source: Nomura research

Fig. 4: Summary of key picks

Telco	Ticker	Rating	TP (lcl cncy)	Price (lcl cncy)	Upside
AIS	ADVANC TB	BUY	225	207	9%
Bharti Infratel	BHIN IN	BUY	280	293	-4%
China Mobile	941 HK	BUY	115	101	14%
KDDI	9433 JP	BUY	7710	6,259	23%
NTT	9432 JP	BUY	7910	6,959	14%
SingTel	ST SP	BUY	4.15	3.92	6%
SKT	017670 KS	BUY	310000	286,500	8%
TM	T MK	BUY	7.0	6.4	9%

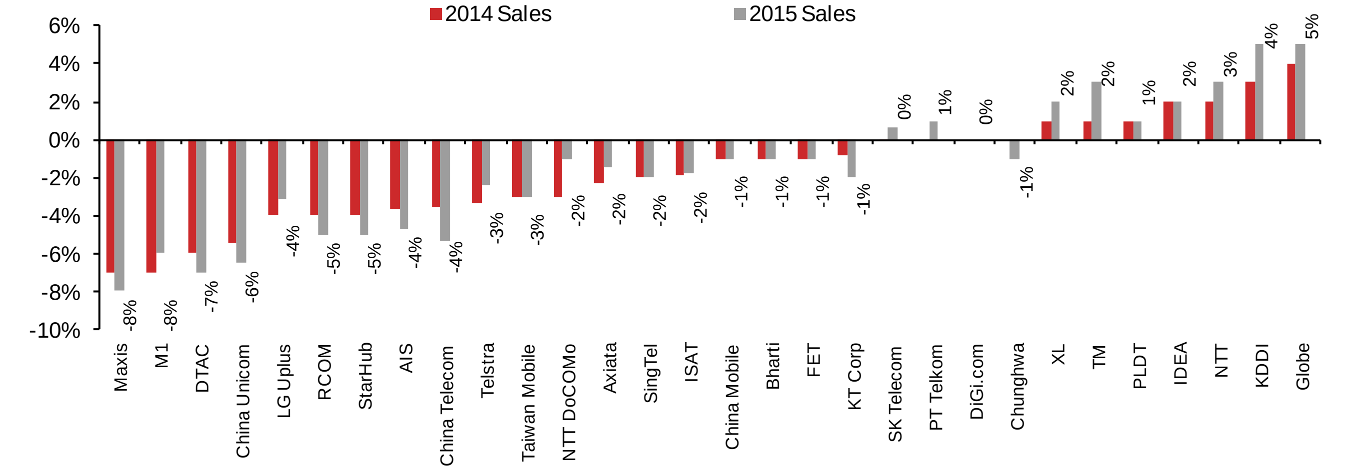
Source: Nomura research. Note: share prices as of 9 September 2014; we are reviewing our TP for Bharti Infratel.

Fig. 5: YTD absolute share price performances



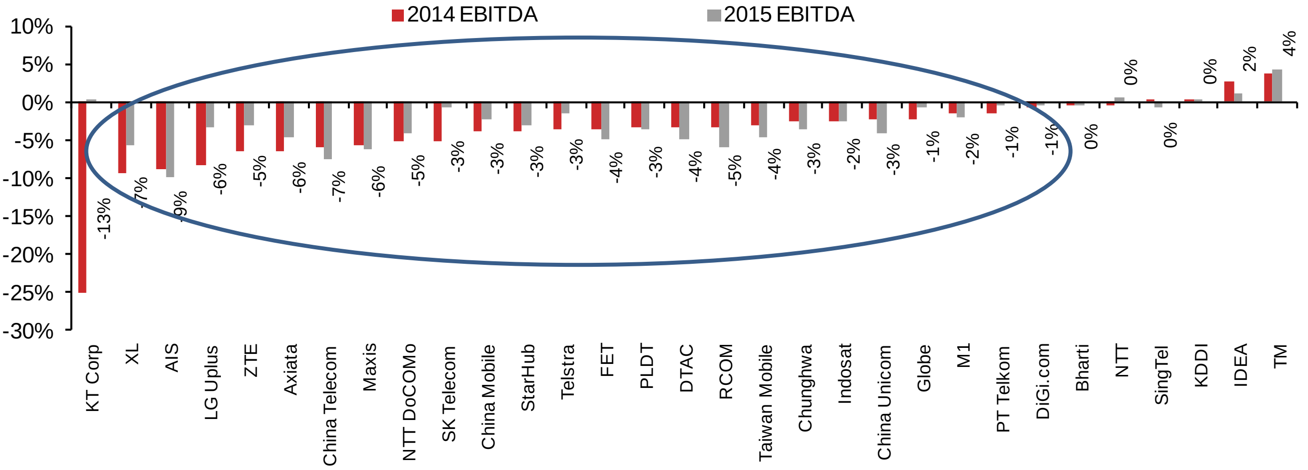
Source: Bloomberg, Nomura research

Fig. 6: Asia telcos – Changes to consensus revenue estimates – YTD



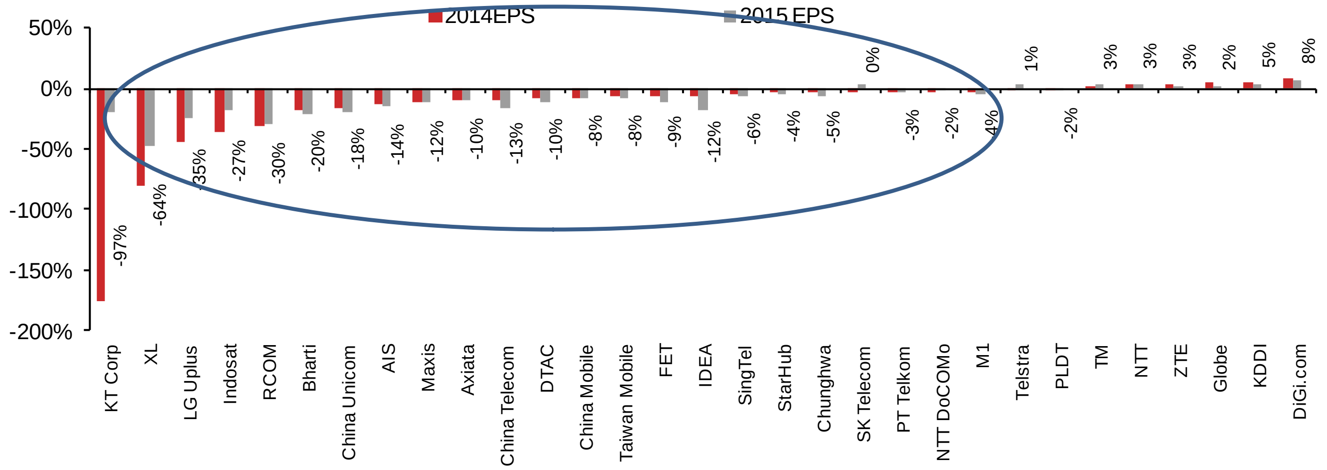
Source: Bloomberg consensus, Nomura research

Fig. 7: Asia telcos – Changes to consensus EBITDA estimates – YTD



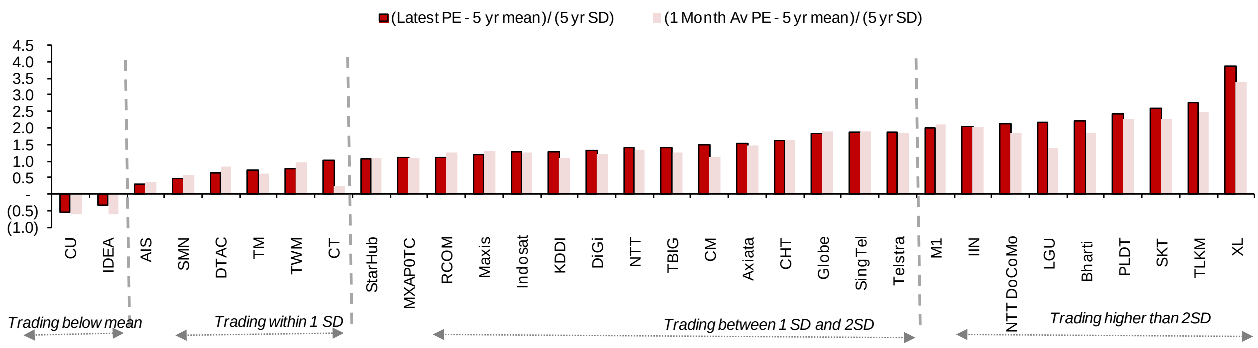
Source: Bloomberg consensus, Nomura research

Fig. 8: Asia telcos – Changes to consensus EPS estimates– YTD



Source: Bloomberg consensus, Nomura research

Fig. 9: Asian telcos - consensus P/E estimates vs. five-year means



Source: Bloomberg, Nomura research

Recent key changes to our views after results

- **Australia** – **We increased Telstra's earnings estimates and target price to AUD5.90** given the operational momentum (Telstra - Impressive).
- **China** - **We have increased our target prices for Chinese telcos** given easing concerns around marketing and subsidies. CM (Buy) is our preferred pick as we think that it is about to enter a major turning point, in reversing its declining profit and ARPU trends. (China Mobile - Raise TP by 28% to HKD115, reiterate Buy)
- **Indonesia** – **We increased Telkom's target price to IDR2.7k** post good results.
- **Philippines** – **We downgraded both Philippines telcos to Reduce** following the recent share price runs. These stocks are trading at 18-20x P/E with some operational risks ahead. (The Philippines telecoms - Lock in the gains)
- **Singapore** – **We downgraded M1 to Neutral** given the recent stock performance and lack of incremental positive surprises. (M1 -Downgrade to Neutral)
- **Japan** – **We have increased price targets for Japanese telcos** given market P/E multiple increase and strong cash return to shareholders. We expect higher dividends from 16/3 for NTT DoCoMo and upgraded the rating to Buy.
- **Taiwan** – **We turned more cautious on Taiwanese telcos** and downgraded FET to Reduce and TWM to Neutral. (Downgrade FET and Taiwan Mobile)
- **Thailand** – **We cut our target prices for Thai telcos due to auction delays** and the macro slowdown seen in 1H. But, we remain positive over the longer-term still. (Thailand telecoms - Hold your nerve)
- **Towers** – **We downgraded TBIG to Neutral** given the recent share price strength. We had upgraded TP for Bharti Infratel to INR280 on expectations of higher tenancies (from R-Jio and recent cancellation of 3G-ICR bans). (Reaffirm Buy with a TP upgrade to INR280). We are again reviewing our price target.

Fig. 10: Recent changes to our views / stock basket after results

Market	Company	Change	Ticker	Rating		TP		Currency
Thailand	AIS	More cautious in the near-term on regulatory noise	ADVANC TB	Buy		225	↓	THB
	DTAC		DTAC TB	Buy		120	↓	THB
Philiipines	PLDT	More cautious on Philippines following strong share price performance and margin/cannibalisation risks	TEL PM	Reduce	↓	3,000		PHP
	Globe		GLO PM	Reduce	↓	1,700	↑	PHP
Singapore	M1	Post a strong run, further positive catalyts for upside surprises could be limited	M1 SP	Neutral	↓	3.9		SGD
Taiwan	CHT	ARPU concern as 4G competition picked up - incumbent telcos reacting more aggressively than expected; Hon Hai's launch could see further price cuts	2412 TT	Neutral		91	↓	TWD
	FET		4904 TT	Reduce	↓	55	↓	TWD
	TWM		3045 TT	Neutral	↓	89	↓	TWD
China	China Mobile	We think CM is about to enter a major turning point, in reversing its declining profit and ARPU trends	941 HK	Buy		115	↑	HKD
Australia	Telstra	Strong operational momentum for TLS should continue; Growing NAS revenue – domestically and within Asia a focus	TLS AU	Buy		5.9	↑	AUD
Japan	NTT	Buy on NTT in view of structural reforms at its telecom business in Japan and shareholder returns	9432 JP	Buy		7,910	↑	JPY
	NTT Docomo	With earnings likely to recover from 16/3, we think management will 1) start to hike DPS for the first time in three years from 16/3 as well as 2) do substantial share buybacks.	9437 JP	Buy	↑	2,080	↑	JPY
	KDDI	Increasingly undervalued; au Wallet e-money service, entry into Myanmar and expansion of overseas data centers could add ¥20bn in total to operating profits in 17/3.	9433 JP	Buy		7,710	↑	JPY
India	BHIN	Expecting higher tenancies and sound cashflows	BHIN IN	Buy		280	↑	INR
Indonesia	TLKM	Single digit EPS growth and good share price performance	TLKM IJ	Neutral		2,700	↑	IDR
	TBIG	Lack of new catalysts coupled with storng price performance	TBIG IJ	Neutral	↓	8,300	↑	IDR

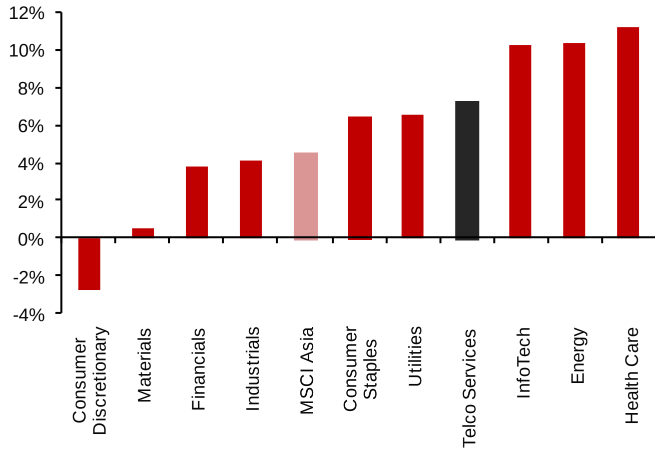
Source: Nomura research

Fig. 11: Asia telcos – Valuation comps

	Bloomberg ticker	Rating	Cncy	Local price	Mkt Cap (US$ mn)	PE (x)		EV/EBITDA (x)		Div Yield (%)		FCF Yield (%)		Revenue growth		EBITDA growth		NI Growth		Net Debt/EBITDA	
						14E	15E	14E	15E	14E	15E	14E	15E	14E	15E	14E	15E	14E	15E	14E	15E
Wireless																					
AIS	ADVANC TB	Buy	THB	207	19,173	17.0	16.9	9.7	9.4	5.9%	5.9%	1.7%	2.5%	-1%	3%	1%	4%	-1%	1%	0.5	0.8
Axiata	AXIATA MK	Buy	MYR	6.94	18,380	21.5	19.9	8.9	8.3	3.7%	4.5%	-1.1%	4.3%	6%	6%	2%	7%	0%	8%	1.3	1.2
Bharti Airtel	BHARTI IN	Buy	INR	406	25,445	29.5	23.0	7.3	6.6	0.8%	1.3%	5.3%	7.3%	10%	9%	11%	10%	31%	28%	2.5	2.0
CM	941 HK	Buy	HK$	101	262,288	13.8	13.3	4.8	4.4	3.1%	3.3%	0.9%	3.9%	1%	6%	3%	11%	-4%	4%	-1.5	-1.4
DiGi	Digi MK	Neutral	MYR	5.85	14,264	22.9	22.6	14.3	13.8	4.4%	4.4%	3.5%	4.2%	5%	5%	5%	4%	17%	2%	0.2	0.2
FET	4904 TT	Reduce	NT$	60.20	6,547	17.7	18.3	8.5	8.5	5.6%	5.5%	4.9%	5.3%	2%	3%	0%	1%	-6%	-3%	0.8	0.9
Globe	GLO PM	Reduce	PHP	1,911	5,777	18.4	17.8	8.3	7.7	4.3%	4.7%	0.2%	2.0%	8%	8%	4%	7%	18%	3%	1.9	1.9
IDEA	IDEA IN	Neutral	INR	175	9,526	25.5	23.0	8.2	7.3	0.4%	0.7%	3.7%	4.6%	13%	13%	15%	11%	13%	11%	1.9	1.5
Maxis	Maxis MK	Reduce	MYR	6.49	15,264	22.5	21.9	12.1	11.8	6.2%	6.2%	5.2%	5.3%	4%	2%	2%	3%	1%	3%	1.5	1.6
MobileOne	M1 SP	Neutral	S$	3.70	2,662	19.6	18.2	10.7	10.0	4.1%	4.1%	3.9%	5.8%	8%	5%	7%	6%	8%	8%	0.7	0.5
XL	EXCL IJ	Buy	IDR	6,750	4,880	nm	nm	8.5	7.4	0.2%	0.4%	-14.5%	1.4%	12%	9%	0%	14%	-84%	114%	2.9	2.5
RCOM	RCOM IN	Neutral	INR	114	3,878	24.4	18.9	8.4	8.0	0.6%	0.8%	n/a	n/a	3%	5%	2%	6%	37%	29%	5.0	4.4
SKT	017670 KS	Buy	KRW	286,500	22,393	10.9	9.0	5.9	5.3	3.3%	3.3%	7.1%	8.9%	5%	4%	0%	12%	14%	20%	1.0	0.7
TWM	3045 TT	Neutral	NT$	91	8,171	21.3	21.6	9.3	9.2	5.4%	5.3%	4.5%	4.6%	3%	4%	0%	2%	-6%	-2%	1.5	1.6
DTAC	DTAC TB	Buy	THB	103	7,561	19.9	19.6	8.4	8.0	4.5%	4.6%	4.7%	3.1%	-5%	2%	7%	5%	9%	1%	0.7	0.8
Average						**19.7**	**18.5**	**8.6**	**8.1**	**3.5%**	**3.7%**	**2.2%**	**4.6%**	**4.7%**	**5.4%**	**3.4%**	**6.7%**	**9.1%**	**8.6%**	**1.1**	**1.0**
Median						**19.9**	**18.9**	**8.5**	**8.0**	**3.9%**	**4.2%**	**3.7%**	**4.6%**	**4.5%**	**4.6%**	**2.1%**	**6.3%**	**6.8%**	**6.1%**	**1.1**	**1.0**
Integrated																					
CT	728 HK	Neutral	HK$	5.17	53,985	20.0	19.7	4.7	4.3	1.7%	1.8%	3.0%	-1.3%	0%	5%	-2%	11%	-5%	1%	1.0	0.9
CU	762 HK	Buy	HK$	13.90	42,261	21.5	19.6	4.4	4.2	1.8%	1.9%	-3.5%	2.7%	6%	4%	4%	5%	21%	10%	1.4	1.2
CHT	2412 TT	Neutral	NT$	92.30	23,899	19.8	20.7	9.2	9.3	4.5%	4.3%	4.7%	4.8%	0%	1%	-4%	-1%	-9%	-4%	-0.2	-0.2
KDDI	9433 JP	Buy	JPY	6,259	49,215	12.2	10.6	4.8	4.3	2.6%	3.0%	4.3%	6.3%	7%	4%	8%	8%	17%	15%	0.5	0.4
KT Corp	030200 KS	Neutral	KRW	35,750	9,036	n/m	10.0	6.4	4.2	2.2%	2.2%	-2.8%	16.9%	0%	0%	-24%	52%	n/m	10%	3.0	1.7
LG Uplus	032640 KS	Buy	KRW	12,100	6,030	19.6	12.3	5.2	4.6	2.1%	2.5%	-4.7%	8.2%	1%	2%	7%	13%	-4%	60%	2.2	1.9
NTT	9432 JP	Buy	JPY	6,959	69,832	13.6	11.4	4.3	4.1	2.6%	2.7%	6.5%	8.0%	3%	14%	1%	2%	3%	14%	1.3	1.2
PLDT	TEL PM	Reduce	PHP	3,404	16,793	18.7	18.4	10.3	10.2	5.4%	5.4%	5.3%	5.4%	3%	3%	1%	1%	2%	2%	0.9	0.9
Indosat	ISAT IJ	Neutral	IDR	4,060	1,875	25.2	21.3	5.7	6.7	2.0%	2.1%	0.8%	1.2%	6%	6%	5%	6%	-21%	18%	1.9	1.8
TLKM	TLKM IJ	Neutral	IDR	2,820	24,156	18.7	17.4	6.4	5.9	3.7%	4.0%	5.9%	7.2%	9%	8%	9%	7%	5%	8%	0.0	-0.1
SingTel	ST SP	Buy	S$	3.90	49,361	17.0	16.0	9.0	8.6	4.4%	4.6%	3.9%	5.8%	0%	2%	1%	5%	1%	6%	1.0	0.9
StarHub	STH SP	Neutral	S$	4.12	5,605	18.8	19.1	10.1	10.1	4.9%	4.9%	4.6%	4.6%	2%	2%	1%	0%	1%	-1%	0.6	0.6
TM	T MK	Buy	MYR	6.42	7,200	27.3	30.7	7.3	7.3	3.3%	3.0%	1.8%	1.2%	7%	7%	6%	2%	-22%	-11%	1.2	1.3
Telstra	TLS AU	Buy	A$	5.68	65,567	17.0	16.1	7.4	7.4	5.2%	5.4%	7.0%	5.6%	2%	1%	2%	0%	6%	4%	1.1	1.0
Average						**19.0**	**17.1**	**6.8**	**6.5**	**3.1%**	**3.2%**	**2.5%**	**5.1%**	**4.9%**	**4.2%**	**2.9%**	**7.9%**	**-0.4%**	**####**	**1.3**	**1.1**
Median						**18.8**	**17.4**	**6.4**	**6.2**	**2.6%**	**3.0%**	**3.9%**	**5.4%**	**2.7%**	**3.4%**	**2.4%**	**5.2%**	**1.5%**	**7.6%**	**1.1**	**1.0**

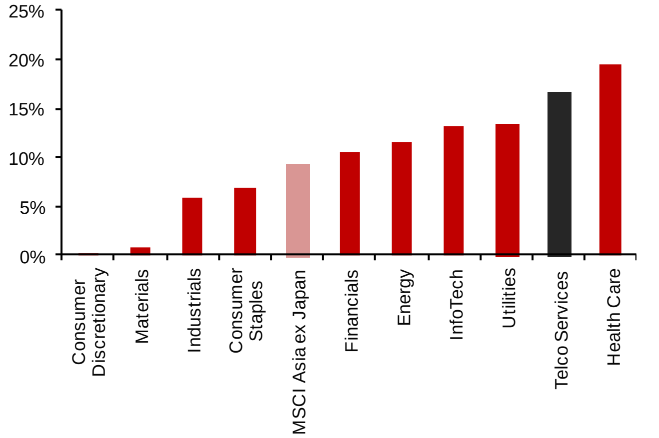
Source: Bloomberg, company data, Nomura estimates. Pricing as on 9 September 2014

Fig. 12: MSCI Asia sector indices: YTD performance



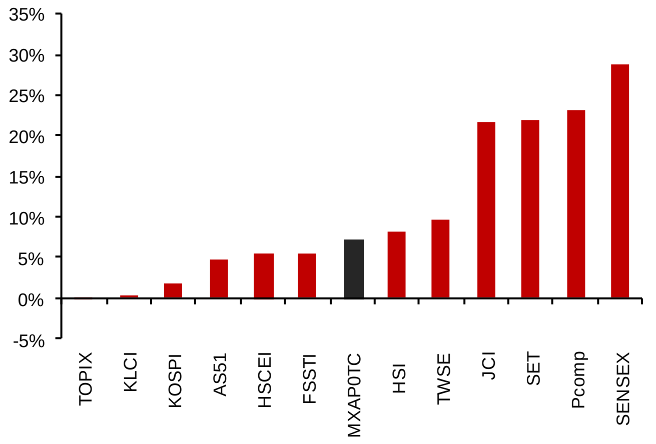
Source: Bloomberg, Nomura research

Fig. 13: MSCI Asia ex-Japan sector indices: YTD performance



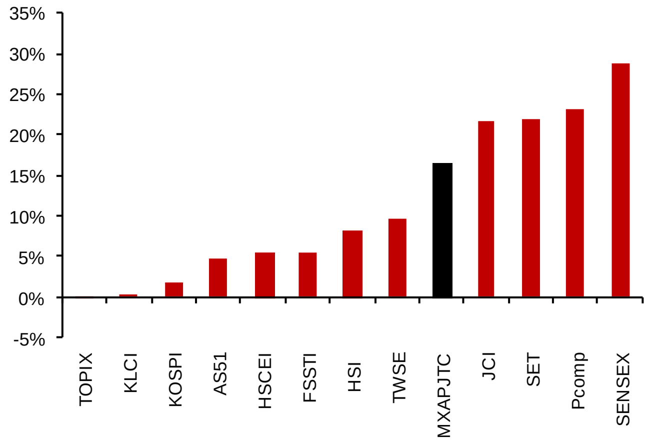
Source: Bloomberg, Nomura research

Fig. 14: Asia telecom services vs. indices: YTD performance



Source: Bloomberg, Nomura research

Fig. 15: AEJ telecom services vs. indices: YTD performance



Source: Bloomberg, Nomura research

First-half 2014 report-card

- **For 1H14,** the **average service revenue growth was 4% for Asian telcos, EBITDA growth of 2% and margins fell by 82bps to 32%.**
  - CU, CT, XL and IDEA led with +10% service revenue growth.
  - Indian telcos had the highest EBITDA growth of 16% on an average.
  - South Koreans were the weakest (driven by ERP expenses), down 24%, or down 5% excluding ERP.
  - Thai telcos reported around 200bps EBITDA margin improvement, Indians and the Taiwanese had 130-140bps increase. Margins fell for Korean, Chinese and Philippines telcos.
- **Earnings growth was only 2%** y-y – with the highest for Indians (after three-four years of declines for Bharti) and KT and XL the lowest (Axis deal-related).
- **Only 13 out of 30 stocks delivered results ahead of expectations**.
- **Around 80% of telcos had negative consensus EPS revisions.**
  - Biggest negative consensus revisions were seen for KT Corp, XL, LGU and ISAT, while DiGi, TM, GLO, KDDI and NTT had positive earnings revisions YTD.
- **Only two telcos increased their guidance** – AIS on EBITDA margin and KT on wireless ARPU increase.
- The following cut their revenue guidance – Thailand telcos (due to slow macro), Malaysia telcos (competition, mature market), Indosat (because of weak 1H and network issues) and StarHub (competition in broadband), while TM and TWM revised their capex outlook.
- **No material changes to the dividend policy** either.
- **There are now 2.9bn mobile subscribers in Asia** – with 70mn additions in 2014.
  - Korea still leads with 59% of subscribers for 4G.

Fig. 16: Telco – 1H14 Snapshot

1H14 Snapshot							
	June quarter - Above or below expectations	1H14-1H13 Revenue trends	1H14-1H13 EBITDA growth	1H14-1H13 EBITDA margin	1H14-1H13 EBITDA margin change (bps)	Guidance changes	Changes in our views
Australia	Telstra above, Optus inline	1%	2%	40%	40	TLS FY15 guidance – low single digit growth	More positive on Telstra
China	Above	6%	0%	34%	(189)	Selling expenses (including handset subsidy) to decrease by ~20% y-y for FY14F	More positive on China Mobile
India	Bharti - India above and Africa weak IDEA above; RCOM below	11%	16%	33%	131	No specific operastional guidance Capex guidance - Bharti FY15 capex of USD2.2bn, of which USD700-800mn for Africa IDEA FY15 capex - INR35bn	Market stability seems to be returning; positive on operational improvement but remains cautious on competition
Indonesia	TLKM inline XL - topline above ISAT - Below	7%	6%	47%	(72)	ISAT cut revenue guidance low single digit rev growth vs inline or ahead or market	We remove XL from key regional picks
Philippines	PLDT below and GLO above	5%	-2%	42%	(307)	PLDT raised regular div payment	Turn more cautious on SMS cannibalisation risks and margin pressure from subsidies
Malaysia	DiGi, TM inline, Celcom, Maxis below	0%	0%	42%	(3)	Axiata, Maxis cut revenue guidance TM cut capex outlook	Positive on TM - on fiber driven upside
Singapore	M1 above, SingTel inline, StarHub below	2%	-1%	32%	(103)	StarHub cut revenue guidance	Cautious on competition - in wirelss and broadband
South Korea	KT above, LGU+ below, SKT inline	1%	-24%	18%	(592)	KT raised the wireless ARPU guidance to exceed 6%	Handset distribution bill set to launch from Oct and we see improving fundamentals from 4Q
Taiwan	Above	0%	4%	34%	137	Higher capex outlook from TWM;	Cautious on competition impact - ARPU and margins
Thailand	Below	-2%	3%	35%	198	AIS, DTAC cut revenue guidance; AIS raised margin outlook	Cautious on regulation, but remain positive on eventual transition to concession

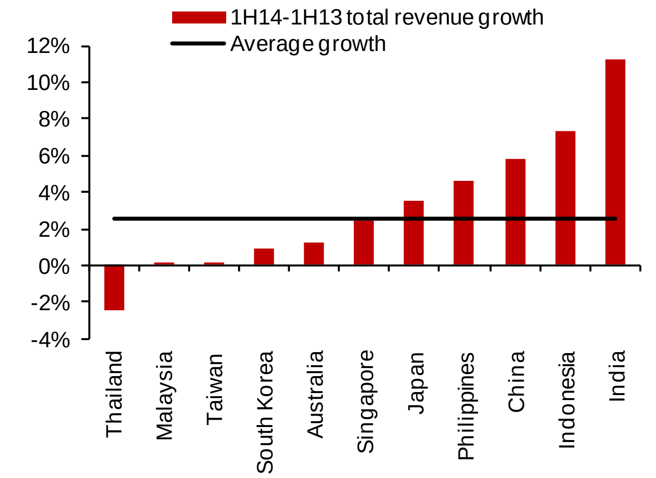
Source: Company data, Nomura research

Fig. 17: Asia telcos - June 2014 results vs. our/consensus expectations

Telco	Above/Below estimates	Comments	Guidance/Outlook
AIS	Below	Good 3G uptake and margins, however, slowing revenue in 1H	**Revised down** service revenue ex-IC growth guidance to 1-2% y-y **Revised up** 3G-2.1GHz subscriber target to 85% of total subs **Revised down** 3G device penetration to 45% using 3G devices EBITDA margin: service margin to improve 300bps y-y (maintained). Consolidated margin to increase 100bps y-y; Maintained THB40bn capex 100% dividend payout target maintained
DTAC	Below	Good 3G uptake and margins, however, slowing revenue in 1H	**Cut** service revenues ex IC - to be flat EBITDA margins guidance of 35-37% maintained Capex – minimum of THB13bn maintained
Bharti	Above	Healthy performance in domestic mobile	
IDEA	Above	Strong operational trends	FY15 capex of INR35bn (excluding spectrum related payments)
RCOM	Below	Lagged peers on trends. Focus on deleveraging	FY15F capex of INR15-20bn
Axiata	Inline	XL-Axis' integration ahead of expectations Strong performance at associates, Robi and Smart; weak Celcom	**Cut revenue** -- Mid-single-digit revenue growth Capex at MYR4.4bn
DiGi	Inline	Strong operational trends	4% - 6% revenue growth EBITDA margins to sustain at the 2013 levels Capex of MYR900mn, which includes 86% population coverage on 3G and 1.5k LTE sites.
Maxis	Below	Slowing revenues with transformation	**Cut** service revenue to be slightly lower than 2013 EBITDA margins to be similar to FY13 level (50%) Capex: MYR1.1bn; 1H14 capex was MYR273mn
TM	Revenue above EBITDA Below	Good HSBB/fiber upselling	Revenue growth of 5.0-5.5%. 5% EBIT growth, excluding HSBB-2. 2016F outlook: 6% revenue growth and 8% EBIT growth. **Cut** capex -- expected to be around 20% of sales
TLKM	Inline but still a commendable result	Performance and execution have improved Strong data growth, good sub trends and network advantage continue to expand	Revenues - in line or above market both at the group level and Telkomsel. Margins - flat to down. Capex to be 20-25% of sales for Telkom (60% of this is for Telkomsel).
XL	Revenue/EBITDA above	Axis' integration underway with margin improvement expected; Below EBITDA line adjustments for interest, FX and hedging will vary, which may lead to different interpretations on the underlying NPAT.	Low-teens revenue Mid-30s margin IDR7tn of capex
ISAT	Below	Revenue growth below peers - growth in Java regions where network modernisation hasn't been able to compensate for the decline outside Java	Cut revenue outlook - low single digit revenue growth vs inline or ahead or market
FET	Revenue below EBITDA/NPAT above	Good 4G takeup and decent cost controls in 1H	Total revenue growth of 2.8%; EBITDA growth of 1.5% with 30bp decline in EBITDA margin ; 7% decline in NPAT ; Capex of TWD13bn For 3Q14, it expects NPAT of TWD2.7bn
TWM	Revenue below EBITDA/NPAT above	Good 4G take up, continuing turnaround for momo	For 3Q14F, TWM expects 5% y-y revenue growth EBITDA to decline by 2% y-y on higher 4G opex, and EPS to decline 19% y-y For 2014F, **raised** capex of TWD15.4bn
CHT	Revenue below EBITDA/NPAT above	Mobile decent, fixed weak	FY14 :flat revenue and 3-10% decline in EBITDA and NPAT. Capex will be lilely cut by 5-10%
SingTel	Revenue/EBITDA above NPAT below	Not much excitement - Singapore decent; Australia losing share still; associates good	FY15 guidance is for stable group revenue, EBITDA and FCF. Capex of SGD2.3bn and this excludes SGD900mn for Optus 700MHz spectrum payment. Dividend payout maintained at 60-75% range for FY15 vs. 74% in FY14
StarHub	Below	Slow revenue growth continues with a decline in broadband and flat wireless	**Cut** 2014F service revenue -- now expected to be flat vs. low single-digit growth earlier. ~32% EBITDA margin on service revenue; cash capex at 13% of sales S20c DPS for FY14F maintained.
M1	Above	Continuing benefits from data repricing; postpaid good but prepaid was weak; decent fiber trends	Moderate growth in NPAT. Capex to be around SGD130mn
PLDT	Below	SMS decline not offset by mobile data. EBITDA decline is a concern	Regular dividend payout was raised to 75% of core net income vs. 70% (has paid 100% in div for the past seven years) Core net income of PHP39.5bn or 2% y-y growth; capex of PHP31-32bn
Globe	Above	Good revenue growth, while EBITDA is relatively slow. Core NI benefitting from low D&A; postpaid was weak with high churn	For 2014, revenue is expected to be up mid-to-high single digit – driven by sub growth, additional network capacity and robust economic outlook. EBITDA margins of high-30s to low-40s – it expects SACs to moderate somewhat. The IT transformation costs will be around PHP1bn this year. Accelerated depreciation of PHP1.5bn and capex of USD600-650mn.
SKT	Inline NPAT below	High SAC appeared to have pushed up marketing expenses despite MNP suspensions; NPAT lower than expected due to SK Hynix one-offs	6% revenue growth for FY14F. OP/EBITDA flat for NP double digit growth due to Hynix contribution Year-end dividend likely to remain at KRW8,400
KT corp	Above	OP loss which was widely expected owing to ERP. Wireless ARPU trend continued to show up-beat trend. Mgmt mentioned dividend unlikely for this year	Flat revenue for FY14F. Negative OP expected for FY14F due to ERP related expense. Dividend not likely for FY14F.
LGU+	Below	1) High marketing cost due to extreme competition; and 2) handset vendor related one-off expense led to earnings miss.	+5% service revenue growth for FY14F 1H14 EBITDA showed disappointing trend (2.1% vs. our estimate of 5.7% y-y growth in 1H14) but trend likely to improve in 2H14F, owing to benign competition in 3Q14 (vs. our expectations) and handset distribution bill from Oct
China Telecom	Inline with our forecast	Despite CT reporting outperforming revenue and profit growth in 1H14 driven by an unexpected 4% y-y ARPU uplift, we also see growth is actually stemming from its structurally declining voice business, and its supposedly high-growth data revenue is largely lagging that of CM and CU	Lower selling & subsidies expenses in 2014 by CNY7bn or 2% of revenues 2014 capex 80.3bn FY15F capex of ~CNY90bn, with the majority to be used for LTE and cloud. Fixed-line capex will decline and expects LTE capex to peak in 2015.
China Unicom	Broadly in line	CU is well positioned to benefit from the regulatory changes including sales and marketing expense cut, towerco, and SOE reform	Expects a decline in selling & handset expenses in 2H 2014 CAPEX CNY80bn, don't expect major uplift in 2015. 2014 4G capex budget is CNY11bn. Plans to deploy 100k BTS by end-2014. To cover 200 cities by FD-LTE and 300 cities by TD-LTE by end-2014. 3G/4G BTS: 491k BTS by June 2014 and more than 500k by end-2014
China Mobile	Above	Slowing ARPU decline a positive 4G migration in 2H14 should further accelerate data revenue growth; Network rollout faster than expected	CNY20bn reduction in selling & subsidy expenses, with further reduction in 2015/16 2014 capex of CNY225bn; capex will remain at high for 4G and may drop in 2016. 500k+ TD-LTE BTS on 4G this year

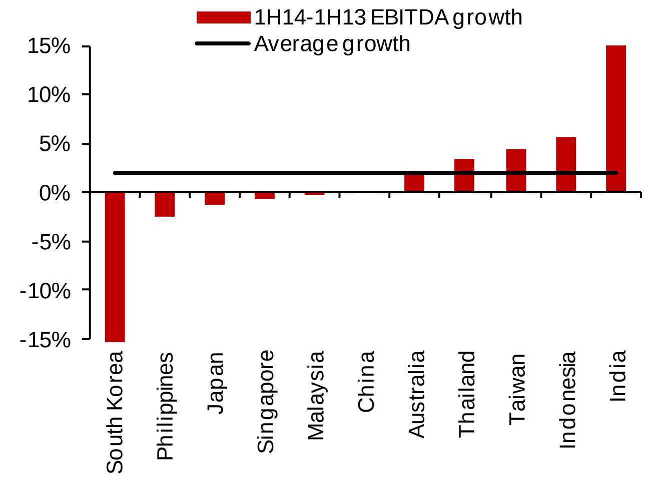
Source: Company data, Bloomberg, Nomura research

Fig. 18: Total revenue growth - marketwise



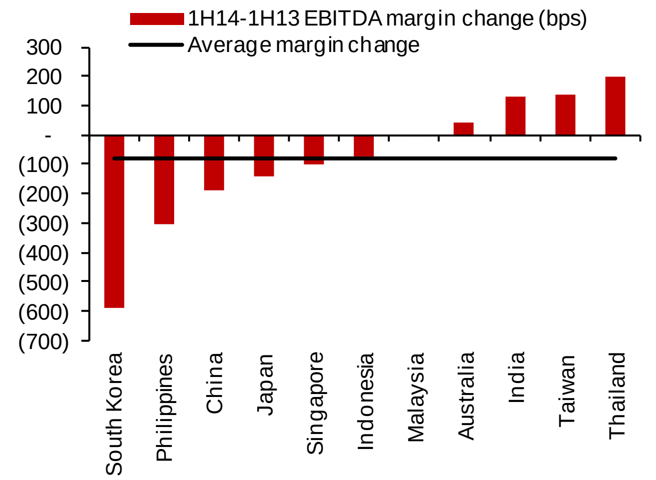
Source: Company data, Nomura research

Fig. 19: EBITDA growth - marketwise



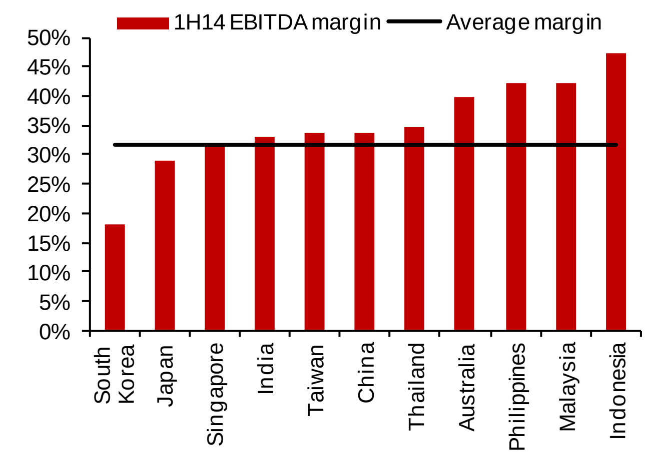
Source: Company data, Nomura research. Axis capped at +/-15%

Fig. 20: EBITDA margins change in 1H



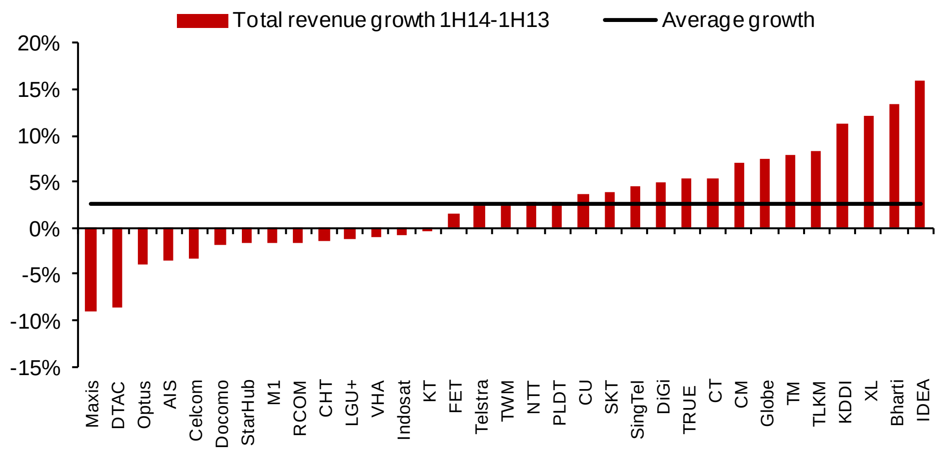
Source: Company data, Nomura research

Fig. 21: 1H14 EBITDA margins – Asian telcos



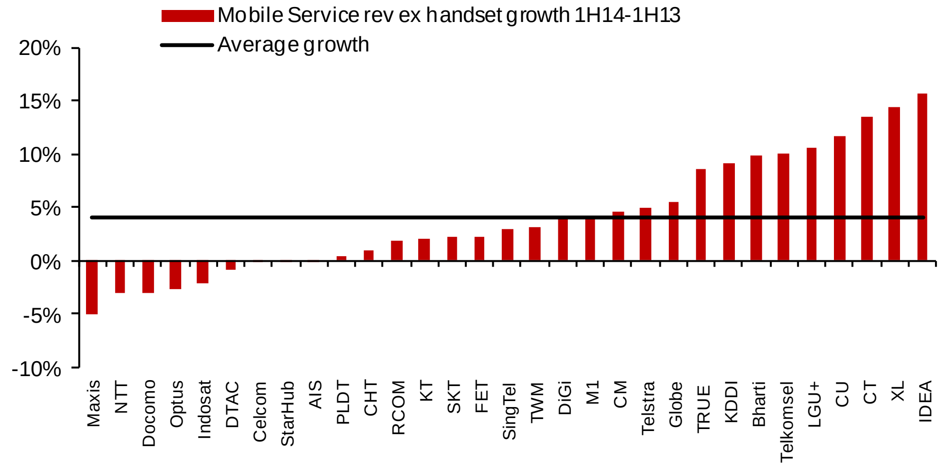
Source: Company data, Nomura research

Fig. 22: Total revenue trends – 1H13 to 1H14



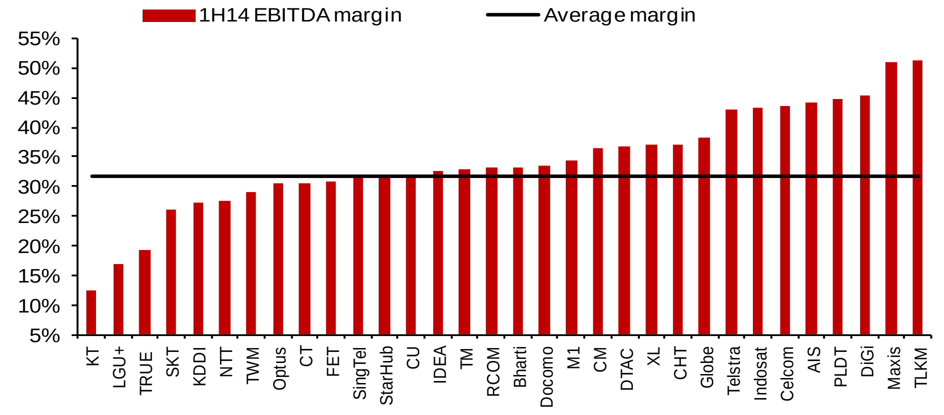
Source: Company data, Nomura research

Fig. 23: Service revenue growth – 1H13 to 1H14



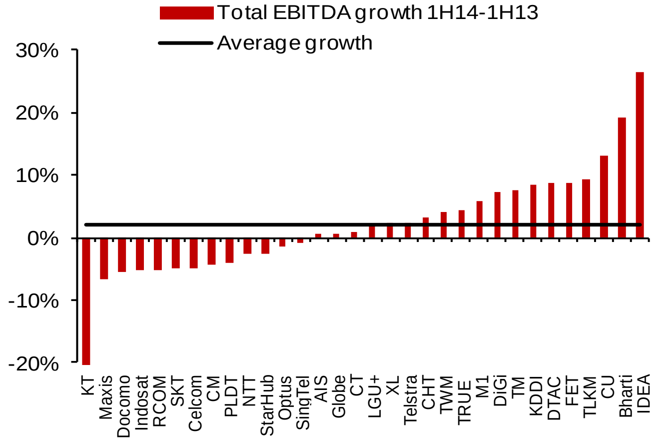
Source: Company data, Nomura research

Fig. 24: EBITDA margins in 1H14



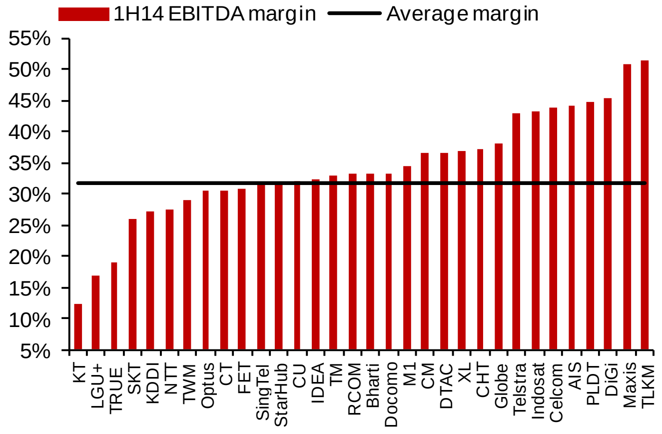
Source: Company data, Nomura research

Fig. 25: EBITDA growth – 1H14



Source: Company data, Nomura research. For KT, EBITDA declined by 51% in 1H

Fig. 26: EBITDA margins



Source: Company data, Nomura research.

Fig. 27: Asia telco – postpaid ARPU

	Units	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14
Telstra	A$	64.1	63.3	63.4	63.4	61.2	59.0	59.0	58.9	58.6	58.3	58.6	58.8	58.6	58.5
Optus	A$	68.0	66.0	67.0	66.0	62.0	60.0	59.0	58.0	54.0	54.0	54.0	54.0	52.0	53.0
SingTel	S$	87.0	87.0	85.0	86.0	82.0	80.0	80.0	81.0	78.0	79.0	79.0	78.0	75.0	76.0
StarHub	S$	72.0	73.0	74.0	76.0	69.0	71.0	69.0	70.0	68.0	72.0	70.0	69.0	66.0	68.0
M1	S$	63.8	64.0	63.3	64.0	63.3	63.3	62.0	62.1	61.1	62.3	61.8	62.2	62.3	62.3
Celcom	MYR	94.0	92.0	95.0	96.0	96.0	90.0	88.0	91.0	87.0	88.0	87.0	88.0	85.0	85.0
DiGi	MYR	83.0	84.0	85.0	86.0	85.0	85.0	82.0	83.0	82.0	83.0	82.0	83.0	81.0	83.0
Maxis	MYR	104.0	107.0	108.0	108.0	105.0	109.0	106.0	107.0	102.0	103.0	100.0	101.0	96.0	97.0
PT Telkom	IDR k	168.7	157.5	171.1	166.0	165.3	161.9	163.3	167.6	167.1	166.8	167.3	169.6	159.4	169.2
PT Indosat	IDR k	204.2	219.6	214.8	196.6	252.7	384.1	438.9	475.4	448.7	420.2	370.8	346.7	329.4	333.9
PT XL Axiata	IDR k	183.0	195.0	187.0	182.0	156.0	152.0	148.0	145.0	127.0	133.0	136.0	136.0	136.0	126.0
FET	NT$	808	826	851	854	871	885	897	882	864	872	875	867	849	856
Taiwan Mobile	NT$			781	770	789	795	806	806	799	829	847	840	831	837
Globe	Php	1,090	957	915	1,152	1,162	1,205	1,173	1,208	1,105	1,274	1,178	1,178	1,140	1,207
SK Telecom	KRW	33,317	33,592	33,214	32,587	32,151	32,923	33,135	33,761	33,668	34,012	34,909	35,650	35,309	36,013
KT Corp	KRW	30,247	30,178	29,609	28,826	28,722	29,447	29,970	30,697	31,117	31,615	31,332	32,160	32,902	33,619
LG U+	KRW	24,956	25,472	25,944	26,213	26,677	29,903	30,633	31,085	32,616	33,834	34,495	35,388	35,362	35,636
AIS	THB	646	642	647	687	672	674	676	683	683	686	698	658	639	647
DTAC	THB	557	555	568	580	581	592	589	592	611	605	589	591	600	596
True Corp	THB	548	605	593	574	540	539	524	550	552	555	582	568	555	na

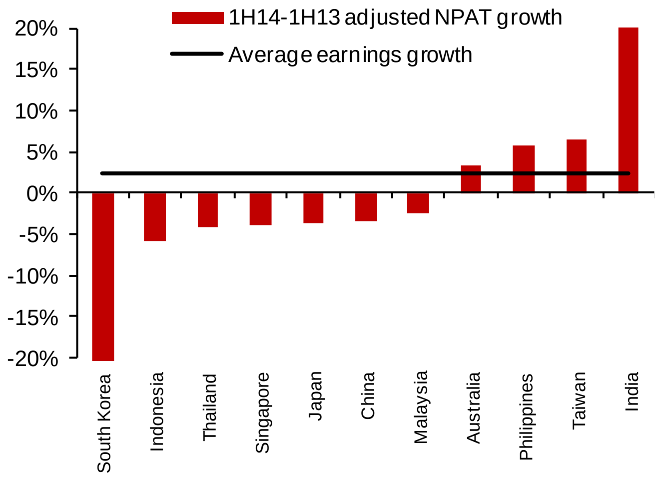
Source: Company data, Nomura estimates

Fig. 28: Asia telcos – implied blended ARPU

	Units	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14
Telstra	A$	49	48	48	48	46	44	44	44	44	43	43	43	43	42
Optus	A$	47	45	47	46	43	43	43	43	40	40	41	41	40	41
CM	RMB	67	72	71	75	65	69	69	72	63	66	66	68	62	64
CT	RMB	50	54	52	54	52	54	53	56	54	54	55	55	55	57
CU	RMB	45	48	48	47	48	49	49	46	48	49	49	47	48	47
SingTel	S$	53	53	52	53	51	51	50	51	50	50	50	50	49	49
StarHub	S$	45	46	46	46	43	44	44	45	44	45	44	44	42	44
M1	S$	40	40	39	40	40	41	40	40	40	40	40	40	39	42
Celcom	MYR	50	49	50	51	51	49	50	49	47	47	47	47	46	46
DiGi	MYR	50	50	50	50	49	48	48	47	47	48	48	48	47	48
Maxis	MYR	45	46	47	47	47	47	47	48	46	46	48	49	48	50
TLKM	000 IDR	35	36	38	37	35	35	36	36	34	36	37	37	35	36
ISAT	000 IDR	29	31	29	27	26	29	32	29	28	29	30	29	26	27
XL	000 IDR	32	32	32	32	30	30	31	32	28	28	28	27	27	25
Bharti	INR	194	190	183	187	189	185	177	185	193	200	192	195	196	202
RCOM	INR	107	103	101	100	99	98	102	119	128	119	120	125	128	136
IDEA	INR	161	160	155	159	160	156	148	158	167	174	164	169	173	181
CHT	NT$	606	591	610	590	584	596	606	595	601	612	623	609	588	590
FET	NT$	693	707	730	727	737	746	755	741	724	731	735	729	714	718
TWM	NT$	707	715	734	718	734	733	739	733	725	749	762	750	737	731
PLDT	Php	146	163	152	146	132	129	125	128	121	122	119	129	124	125
Globe	Php	194	188	181	186	181	178	173	177	167	175	167	166	155	154
SK Telecom	KRW	33,317	33,592	33,214	32,587	32,151	32,923	33,135	33,761	33,668	34,012	34,909	35,650	35,309	36,013
KT Corp	KRW	30,247	30,178	29,609	28,826	28,722	29,447	29,970	30,697	31,117	31,615	31,332	32,160	32,902	33,619
LG U+	KRW	24,956	25,472	25,944	26,213	26,677	29,903	30,633	31,085	32,616	33,834	34,495	35,388	35,362	35,636
AIS	THB	241	240	242	253	265	261	259	268	263	253	245	234	225	223
DTAC	THB	212	208	212	214	211	211	211	211	210	214	211	210	208	203
True Corp	THB	102	99	114	116	119	122	121	123	122	118	126	123	129	123

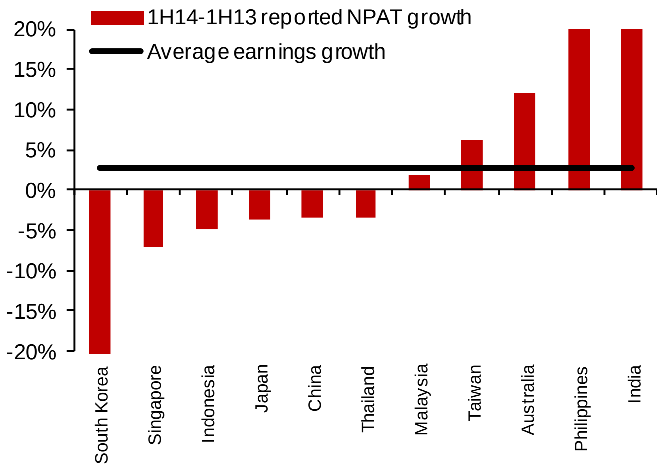
Source: Company data, Nomura research

Fig. 29: Adjusted earnings growth – 1H14-1H13



Source: Company data, Nomura research; Y axis capped at +/-20%

Fig. 30: Reported earnings growth – 1H14-1H13



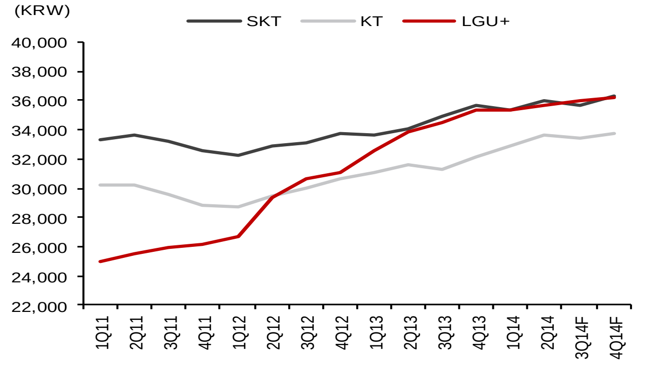
Source: Company data, Nomura research. Y axis capped at +/-20%

Topical issues with Asian telcos

Improving prices and ARPUs – Korea leading the charge

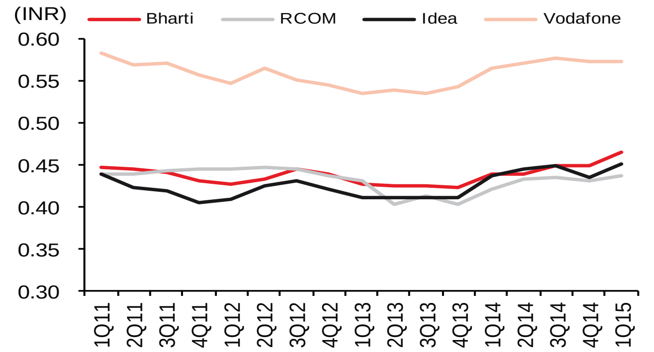
- Most telcos are focussing intensely on data price increases or similar adjustments (and far less discussion on voice except for India). Prices have been adjusted to move away from unlimited data in pretty much every market, including Taiwan recently (after promotions).
- However, not many telcos have reported ARPU increases, though – some of this is mathematical due to double-SIM phenomenon or data sharing plans impact. But in many cases customers have stuck with their original price plans and are moving more to WiFi.
- Going forward, though, there is still scope for ARPU increase, especially as data usage continues to rise in most countries. Increasingly, too, there is more and more discussion too on if/ how telcos can charge OTT players.
- In **Singapore,** SingTel recently adjusted its 4G plans (new and recontracts) to charge SGD3 extra for 2GB, but this additional data allowance is over WiFi hotspots, which the company is expecting to increase to over 1,000 by next year.
- **In Korea**, 59% of subscribers are on 4G, and this has also translated into decent ARPU trends. Wireless ARPU growth continues to be relatively strong, given high LTE penetration rate (1H14 ARPU up 6% vs. 1H13), driven by up-selling from unlimited LTE voice/data tariff plans.
- **In Taiwan,** while there was a case for ARPU increases with the launch of 4G, we have now turned more cautious given a pick-up in competition. With the recent launch of services by Taiwan Star, all incumbents have extended promotions and this could remain until we see a launch by Hon Hai.
- In **China**, 3G ARPUs continue to remain higher than blended ARPUs, however the challenge for blended ARPU's is more due to declines in voice which is still the largest contributor to mobile service revenue.
  - China Telecom has seen some blended ARPU improvements in 1H because of unexpected growth in voice revenue, which would raise some concerns especially when CT's data revenue growth significantly lagged behind CM and CU.
  - On the other hand, China Mobile's blended ARPU decline was not as steep because of faster-than-expected growth in mobile data revenue, which is a positive signal that CM's structural transition from 2G to 3G/4G is making solid progress.
- **In India,** revenue per minute (RPM) continue to firm up and are up by an average 8% y-y in 1H. The concern is more on what R-JIO will do.
- In **Malaysia**, with Maxis looking to defend share, we don't think there has been much in terms of price *increases*. However, all telcos remain focused on pricing data right and there are already usage caps for data in this market.
- **In the Philippines**, the focus is on stoking data take-up and not on re-pricing data as such. However, telcos are trying to offer bundles in a way that overall ARPUs/customer spend are maintained, if not improved.
- **In Indonesia,** XL and TSEL have both alluded to improving yields on data, especially as competition has remained relatively stable in the past one-two quarters.

Fig. 31: Korea ARPU trend



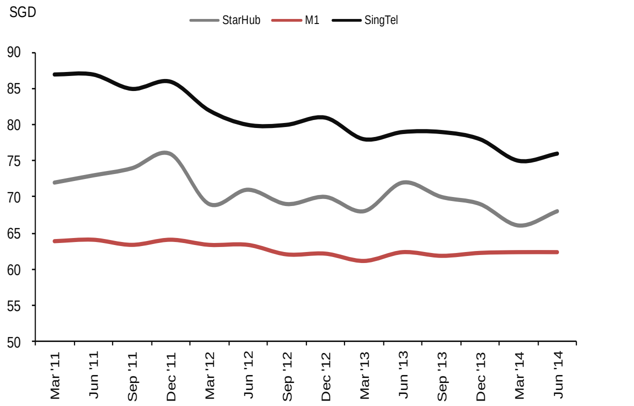
Source: Company data, Nomura estimates

Fig. 32: Indian RPM trend



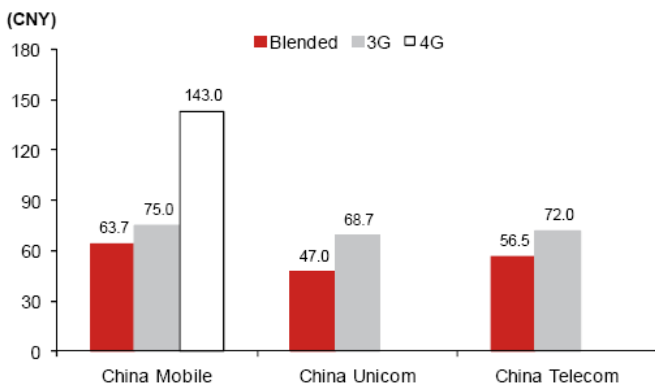
Source: Company data, Nomura research

Fig. 33: Singapore ARPU trends



Source: Company data, Nomura estimates

Fig. 34: China – ARPU comparison by telcos and user segment (1H14)

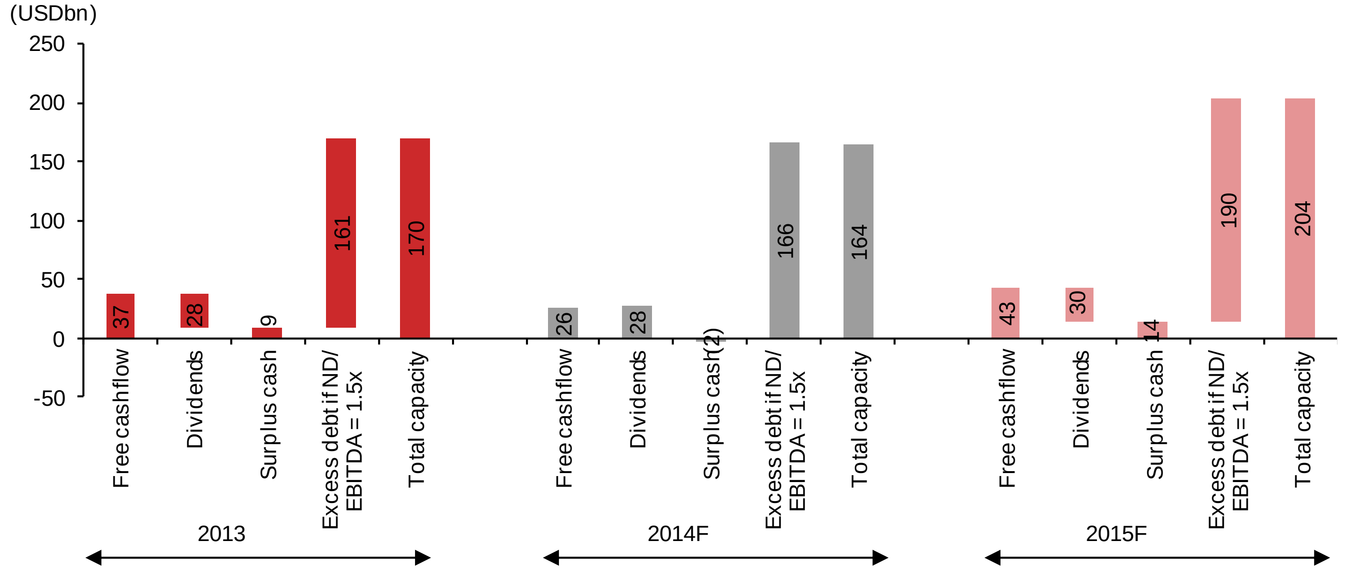


Source: Company data, Nomura estimates

M&As – more to come?

- **There has already been a fair bit of M&As for Asian telcos this year** – China Mobile with TRUE and SingTel expanding its digital businesses, PLDT with Rocket Internet, Tel Malaysia with P1, etc. Most of these investments don't look cheap to us and not even easy to analyse given majority of these are loss-making businesses. However, we can still expect a lot more M&As ahead, as: 1) organic growth is a struggle for telcos; 2) regardless of capex risks, there is plenty of cash still – the financial capacity of around USD50bn for Asian telcos, ex China-Mobile; and 3) business diversity is necessary for convergence, to manage OTT risks, and for ROIC enhancement.
- A number of Asian telcos already have a foreign partner or large government/SWF holdings, **so M&As are more likely to be in the form of**: 1) telcos buying minority stakes; and 2) buying non-traditional businesses. For the latter, considerations such as scale, cross-selling ability, finding a niche, control and management are very critical.
- **Stocks to watch:** Axiata (Buy, Axiata MK), China Mobile (Buy, 941 HK), PT Telkom (Neutral, TLKM IJ), PLDT (Reduce, TEL PM), SingTel (Buy, ST SP), SKT (Buy, 017670 KS), Telstra (Buy, TLS AU), NTT (9432 JP, Buy) and KDDI (Buy, 9433 JP).
- **Market wise,** we expect in-market consolidation in India and Indonesia, and tower deals too in these markets. Bharti is expected to offload more African towers, according to the company.

Fig. 35: Asian telecoms – Assessing financial capacity



Source: Company, Nomura estimates

Towers – kicking off regionally…

- There is a lot more chatter and developments on tower companies. So far only Indonesia and India have listed stand-alone tower companies, but other telcos in China, Malaysia, etc, are looking to set up such companies.
- **The big development in 1H** was the announcements around Chinese towercos, which will be responsible for construction, maintenance, and operation of telecom towers and ancillary facilities, and maintenance of base station equipment. We expect towercos to start building new towers by end-2014F; the injection of existing assets can be expected in 2015F. We think a detailed execution plan will be announced soon.
- **In India,** RJIO's entry has been a driver for tower sharing agreements in addition to 3G rollouts.
- **Bharti in Africa** is in the process of divesting its towers and to date has divested 7k in 10 markets (raising close to USD1bn, we estimate). It could also be looking to divest towers in Nigeria – this is largely in order to de-lever its balance sheet. Please see our notes titled, Another USD500mn tower sale and Africa tower sale kicks off.
- **Even in Indonesia**, all three telcos are looking to divest their tower portfolio – but since the Indosat -TBIG deal, there has been limited progress. XL has announced its intention to divest a portion of its towers by the year-end in order to de-lever its balance sheet.
- **Axiata** in Malaysia recently formed its regional tower company – E.co. At this stage, the towers in Malaysia have been fully carved out into E.co and the focus is on improving operational efficiencies here. In other markets like Sri Lanka and Bangladesh, progress has been slow due to regulatory and tax considerations. Axiata also continues to look for M&A opportunities in this space. Please see our note titled, AXIATA - Catching up with the GCFO and Head of IR, for details.

Fig. 36: China's telecom capex breakdown

(CNY bn)	FY11	FY12	FY13	FY14F	FY15F	FY16F	Companies with exposure
	A	A	A	NOM	NOM	NOM	
China Telecom industry CAPEX	333	361	384	425	432	413	
y-y	7%	8%	6%	11%	2%	-4%	
China Mobile (group)	160	173	215	249	237	217	
China Telecom (group)	72	73	80	80	100	100	
China Unicom (group)	77	100	73	80	80	80	
Others	25	16	16	16	16	16	
Total							
Mobile	131	142	148	185	212	203	
2G	76	59	46	24	20	10	ZTE, Huawei, Comba, Mobi, Fiberhome, Datang
3G	55	82	66	39	27	20	
4G	0	0	35	122	165	173	
Fixedline broadband	111	143	153	149	143	135	
Infrastructure/Others	91	77	83	91	77	75	CCS, Comba

Source: Company data, Nomura estimates

Fig. 37: Summary of Chinese operators' base station assets

k units	FY11	FY12	FY13	% of tower	FY14F	FY15F
GSM BTS	700	800	881		920	1,000
TD-SCDMA BTS	220	280	446		500	600
TD-LTE BTS		20	220		500	800
China Mobile's # of tower	700	800	881	57%	920	1,000
GSM BTS	350	360	360		360	360
WCDMA BTS	230	331	407		487	500
4G LTE BTS					50	100
China Unicom's # of towers	350	360	407	26%	487	500
CDMA	200	220	250		250	250
4G LTE BTS					60	120
China Telecom's # of towers	200	220	250	16%	250	250
Total number of telecom tower in China	1,250	1,380	1,538		1,657	1,750
new tower		130	158		119	93

Source: Company data, Nomura estimates

Competition risks – risks in Singapore, Taiwan and Malaysia

- We expect Singapore and Taiwan as two markets where competition will likely pick up in the next 12 months.
- **In Singapore,** broadband continues to be under pressure. This is reflected in the ARPU trends for StarHub which was down 18% y-y. There is some competition risk wireless too – the IDA is conducting a review of MVNOs (Mobile Virtual Network Operators) in the country and MyRepublic has indicated its interest to be a fourth-player in wireless.
  - We don't believe this task is easy for MyRepublic – regulatory developments around spectrum, roaming, access, etc, will be much more difficult, expensive and time consuming in wireless.
  - This wasn't necessarily the case for fixed (NBN), where MyRepublic has 4-5% market share now.
  - However, one shouldn't dismiss MyRepublic as a threat either in the wireless segment. As seen in the broadband segment, its sub-share scope/aspirations may be limited, but it can drive the market prices down or keep a lid, at least, in our view.
- **Taiwan** is another market where we are seeing a pickup in competition. The recent launch of 4G services by Taiwan Star has seen incumbents react aggressively, but offering unlimited data promotions. Hon Hai, with a wider network reach, is yet to launch 4G and we could see further price adjustments once that happens.
- **In Malaysia**, with TM's acquisition of P1 and the entry into wireless data, we believe the market landscape is set to change over time. More in the near-term, as Maxis focuses on defending market share, we expect current competitive intensity to remain.
- **In Thailand,** there is concern over what TRUE may do down the line and **in India**, RJIO's entry could likely create volatilities. Even in Australia, there are concerns in the wireless space given the recent price adjustments made by Optus.
- **In Korea,** marketing expense increased 16% y-y in 1H14, led by LGU+ (23% y-y) and KT (21% y-y). However, SKT continues to spend the most in absolute terms. However, 3Q14 trends indicate an improvement in competition – for eg. the MNP (mobile number portability) trend has remained low for 3Q14 so far. The trend provides a meaningful upside risk for 3Q14 earnings. The handset distribution bill in October 2014 will be positive for Korea telcos, we believe.

Regulations – keep an eye on Thailand and Singapore

- **In Thailand**, **the delay in 4G auctions has once again raised regulatory concerns.** This auction was critical to gain visibility on the spectrum roadmap where the concessions for AIS and TRUE over 1,800MHz have already ended and AIS' 900MHz license is set to expire in 2015. Also, with likely delays, there are other aspects such as reserve prices that could be reviewed. More importantly, it seems restructuring the SOEs (State Owned Enterprises) is now being made to be a priority, and is perhaps even the cause for delay.
  - Overall, we note regulatory uncertainty isn't entirely new to Thailand telcos (3G auctions, too, saw many delays with stock price volatility before they were successfully concluded in 2012). This time, too, we think the transition into the licensing regime should occur.
- **In India,** recent newsflow suggests overhauling some old telecom regulations and formation of a super-regulator (*Source: Govt mulls 'super regulator' to replace TRAI, TDSAT, Moneycontrol, 1 Sep 2014*). Among regional telcos, Indian regulations remain the most complex and confusing given different circle regimes and license and access fees. Also, the sector needs more clarity/action on a lot of pending issues such as the roadmap ahead for auctions, spectrum trading and sharing and M&A norms – the new communications bill could address these issues. The change in the government this year could see better regulatory clarity evolve, though these are early days, in our view.
- **In Korea,** Handset distribution bill is set to launch from October in Korea. The key factor from the handset distribution bill is that the telcos now have to disclose the subsidy level per handset. Korea telcos' profitability was often hit by extreme subsidy driven marketing cost, but with telcos bound by law to disclose subsidy level beforehand, the likelihood of guerrilla-type subsidy marketing (which is the key driver of marketing expense surges) is low and thus we see improving fundamentals from 4Q. Key risks from this bill are: 1) competition moving on to price and 2) telcos coming up with some other 'creative' means to provide extra subsidy.
- **In Malaysia,** clarity on HSBB phase 2 from the government/TM is awaited.
- **In Japan**, the Information and Communications Council will publish the draft report of 2020 basic ICT policy at the end of September or in early October. We think there is likely to be further progress toward the lifting of restrictions on NTT Docomo and approval of NTT's FTTH wholesaling services. The subcommittee agreed to revise and ensure the viability of guidelines to allow SIM unlocking. The focus of the debate is now likely to shift to the timetable for the new guidelines.
- In **Indonesia,** consolidation remains a focus – the regulator was supportive of XL-Axis deal, plus has made considerable progress for consolidation of Telkom's and Indosat's CDMA businesses with GSM. This would imply additional 2.5 – 3 MHz of 800 Mhz spectrum for both the companies, which is likely to be declared technology neutral too.
- **Across the region, one topical area of regulatory debate is around charging OTT** providers. This was recently taken up in India (though the regulator did not change its stance), and China as well. The Indonesian regulator is looking into it too, but not clear how and when it would be done.

Fig. 38: Regulatory events to be mindful of

Country	Risks?	Likely regulatory events
Australia	Medium	NBN structure and Telstra's (and others') involement
China	Low	Tower set-up details, VAT reform, FDD license issuance
India	Medium	Spectrum auctions roadmap; M&A regulations
Indonesia	Medium	Resale of 2100MHz spectrum returned by XL/ Axis, CDMA consolidation
Japan	Low	Allocation of 3.5GHz spectrum
Malaysia	Low	Update on business trust rules (DiGi); towerco rules (Axiata)
Phillipines	Low	Views on MVNOs
Singapore	Higher	MVNOs and wirless competition
South Korea	Moderate	Interconnection to be reset in 2H14F; handset distribution bill
Taiwan	Moderate	Spectrum, Pricing regulations
Thailand	High	Spectrum auctions; potential price-caps; SOE restructuring

Source: Nomura research

1H14 marketwise detailed trends

Australia – wireless focus

Key highlights from 1H

- The focus was again on the wireless segment where Telstra continues to gain ground with around 50% sub-share. Optus has adjusted prices recently (on shared-data plans) and is looking to boost share. VHA has also made network investments, we understand.
- Telstra seems more focussed on seeking Asian growth opportunities – especially in the NAS segment. It recently signed a JV with Telkom Indonesia.
- No further major developments on NBN.

Comparative analysis

- On wireless revenue, Telstra had 4% growth y-y vs. a 3% decline for Optus – but the Optus service revenue decline run-rate has improved in recent quarters.
- TLS is winning subscriber share, too. This year it has added 198k subs compared with 23k subscriber loss at Optus and 137k loss for VHA.
- TLS' EBITDA margins, too, are held stable at around 42% compared with 30% for Optus.

What to expect for the rest of the year?

- We expect some moderation in Telstra's wireless share, but no significant deterioration given its strong execution, extensive network reach and customer focus.
- Telstra's fixed declines will see some offset from NBN payments and management seems quite focussed on growing NAS revenue – domestically and within Asia.
- For Optus, there is still some work to be done to gain revenue/subscriber share – while its cost equation has improved significantly.
  - Optus has recently turned more aggressive, which should be good for revenue trends, on shared data plans and also offering incentives for customers to move from other operators' networks on its own (via AUD200 credits on contract break-fees) and around AUD250 for trade-ins on old smartphones.

Fig. 39: Optus vs. Telstra trends

		Jun-12	Dec-12	Jun-13	Dec-13	Jun-14
Revenue growth	Telstra	1%	-2%	-4%	4%	8%
	Optus	-2%	-5%	-5%	-5%	-4%
Wireless revenues	Telstra	6%	5%	7%	6%	4%
	Optus	-3%	-6%	-7%	-6%	-3%
Total margins	Telstra	42%	40%	42%	41%	43%
	Optus	27%	25%	30%	30%	30%
Sub adds	Telstra	610	608	649	739	198
	Optus	103	54	(33)	(102)	(23)

Source: Company data, Nomura research

China – much more action expected

Key highlights from 1H14

- **China Mobile:** ARPU decline slowed down from 3.7% in 2H14 to 2.6% in 1H14 due to the growth of data services (+52% y-y to 24% of service revenue). In addition, CM's network rollout is faster than expected, already reaching 410k units (500k target for 2014).
- **China Unicom**: 3G/4G mobile DOU increased 29% y-y to 217MB. The company will make reductions in selling expenses at a similar magnitude as CM/CT by 15~20% y-y, compared to last year's selling expenses.

- **China Telecom**: CT's outperforming revenue and profit growth were driven by an unexpected 4% y-y ARPU uplift and voice data revenue, despite its total subscriber declining by 5.3mn. However, its supposedly high-growth data revenue is lagging, in our view.

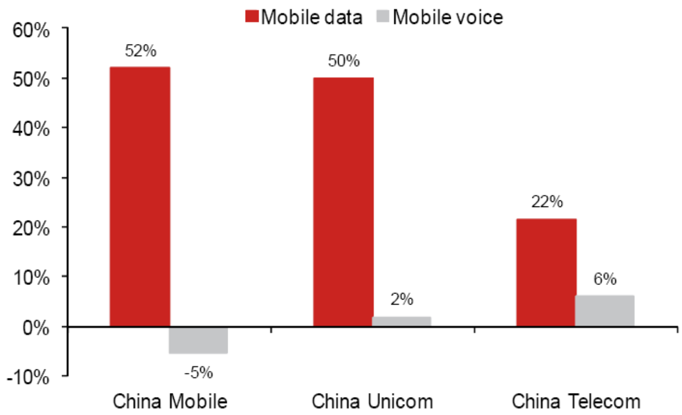
Comparative analysis

- **China Mobile**: CM's 4G subscribers are showing encouraging results, as each 4G user generates 8x and 4x more data traffic than a 2G and 3G user, respectively. As the timing for FD-LTE license issue remains uncertain, we think CM will continue to benefit from its first-mover advantage in 4G services.
- **China Unicom:** relatively better positioned than CT to benefit from its 3G (WCDMA) to 4G (hybrid-LTE) network upgrade, due to: 1) lower capex; and 2) better subscriber net add.
- **China Telecom**: Its data revenue growth lagged significantly CM and CU. We think CT is still in an unfavourable competitive position with its peers due to: 1) its technology disadvantages in 3G; and 2) the government's slower-than-expected official issue of FD-LTE license.

What to expect for the rest of the year?

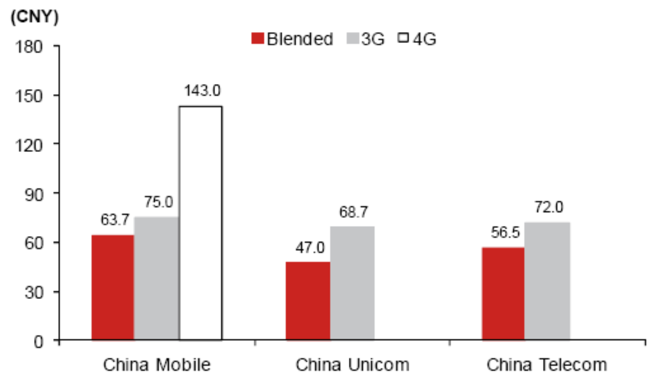
- **China Mobile:** to build a 500k+ TD-LTE network by end-2014. We think CM is about to enter a turning point. We expect CM's 3G/4G subscriber net add growth to accelerate in 2H14F, which will lead to improvements in ARPU. We believe the impact of VAT reform will begin to be felt in 2H14F, leading to downward pressure on revenue and earnings. The impact of VAT reform should begin to be felt in 2H14F, leading to downward pressure on revenue and earnings.
- **China Unicom/China Telecom**: to expand their TD/FD-LTE hybrid networks to 40 cities each, under the trial FD-LTE license. We expect their 3G/4G subscriber net add to finally pick up, after a weak 1H14F. The impact of VAT reform will begin to be felt in 2H14, leading to downward pressure on revenue and earnings.
- CT targets 140k LTE BTS in 2014 and 280k BTS in 2015; CU targets 100k LTE BTS in 2014.

Fig. 40: Comparison of mobile data and mobile voice y-y growth by telcos (1H14)



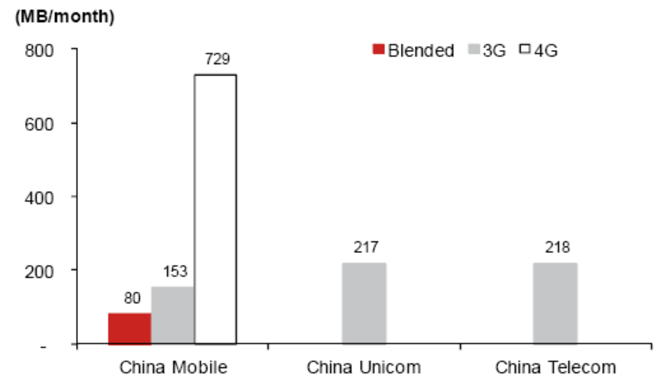
Source: Company data

Fig. 41: ARPU comparison by telcos and user segment (1H14)



Source: Company data

Fig. 42: DOU comparison by telcos (1H14)



Source: Company data

India – better operational trends

Key highlights from 1H14

- The wireless business has seen strong trends underpinned by RPM improvements. Bharti and IDEA reported 10-16% mobile service revenue growth in CY14. Vodafone had a 9% revenue growth, while RCOM lagged with ~2% growth.
- In June quarter – both RPMs and ARPUs have risen for the telcos along with the growth in minutes. On an average, ARPU rose 4% and RPMs were up 2% in June. Total minutes rose, too, by 3%, while MoUs held steady.
- Mobile EBITDA trends are strong, too, with ~26% EBITDA growth in 1H for telcos with strong margin improvement.
- RCOM has made progress in deleveraging – through QIPs and the issue of warrants to promoters – which should reduce the net debt to EBITDA (annualised) from ~5.4x to ~4.9x.
- Bharti, too, is focusing on deleveraging the debt at Africa and to this extent has divested around 7k towers for USD1bn, we estimate.

What do we expect for the rest of the year?

- For the rest of the year, **operational trends shouldn't derail much**. The focus is on maintaining/ increasing voice prices, while data continues to gain traction.
- **The key concern at this stage is from the potential entry of R Jio**. With R Jio acquiring 1,800Mhz spectrum in the auctions earlier this year, its ability to compete is a lot more serious. But its launches are not widely expected to be until CY15F, in our view.
- **On the regulatory front**, plentiful areas where we need more clarity on include M&As and next round of spectrum auctions. Recent news flow suggests overhauling some old telco regulations and the formation of a super-regulator.
  - Among regional telcos, Indian regulations remain the most complex and confusing given different circle regimes and license and access fees. So any clarity will be good, though perhaps still early days to know if this will be forthcoming soon.
- **Valuations** are not looking inexpensive once again after the recent run, but the sector as a whole isn't inexpensive either.

Fig. 43: Indian telcos- Summary trends

	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14
	1Q12	*2Q12*	*3Q12*	*4Q12*	*1Q13*	*2Q13*	*3Q13*	*4Q13*	*1Q14*	*2Q14*	*3Q14*	*4Q14*	*1Q15*
Implied service revenues													
q-q change %													
Bharti	*3%*	*-1%*	*4%*	*4%*	*1%*	*-3%*	*3%*	*5%*	*6%*	*-3%*	*4%*	*4%*	*6%*
RCOM	*3%*	*2%*	*1%*	*1%*	*0%*	*-3%*	*2%*	*1%*	*3%*	*-1%*	*0%*	*0%*	*1%*
Idea	*7%*	*2%*	*9%*	*7%*	*2%*	*-4%*	*5%*	*9%*	*9%*	*-4%*	*5%*	*6%*	*9%*
Vodafone	*6%*	*3%*	*2%*	*6%*	*2%*	*-2%*	*2%*	*6%*	*8%*	*-2%*	*3%*	*3%*	*3%*
Total mobile revenues	**5%**	**2%**	**4%**	**4%**	**2%**	**-3%**	**3%**	**5%**	**6%**	**-2%**	**3%**	**3%**	**5%**
ARPU (INR per sub per month)													
Bharti	190	183	187	189	185	177	185	193	200	192	195	196	202
RCOM	103	101	100	99	98	95	112	117	119	120	125	128	136
Idea	160	155	159	160	156	148	158	167	174	164	169	173	181
Vodafone	169	168	167	173	174	169	176	187	196	191	193	192	193
Average ARPU	**156**	**152**	**153**	**155**	**153**	**147**	**158**	**166**	**172**	**167**	**171**	**172**	**178**
q-q change %													
Bharti	*-2%*	*-4%*	*2%*	*1%*	*-2%*	*-4%*	*5%*	*4%*	*4%*	*-4%*	*2%*	*1%*	*3%*
RCOM	*-4%*	*-2%*	*-1%*	*-1%*	*-1%*	*-3%*	*18%*	*4%*	*2%*	*1%*	*4%*	*2%*	*6%*
Idea	*-1%*	*-3%*	*3%*	*1%*	*-3%*	*-5%*	*7%*	*6%*	*4%*	*-6%*	*3%*	*2%*	*5%*
Vodafone	*-1%*	*-1%*	*-1%*	*4%*	*1%*	*-3%*	*4%*	*6%*	*5%*	*-3%*	*1%*	*-1%*	*1%*
Average ARPU change	**-2%**	**-2%**	**1%**	**1%**	**-1%**	**-4%**	**8%**	**5%**	**4%**	**-3%**	**2%**	**1%**	**4%**
RPM (INR per min per sub)													
Bharti	0.43	0.43	0.45	0.44	0.43	0.42	0.43	0.42	0.44	0.44	0.45	0.45	0.46
RCOM	0.44	0.45	0.45	0.44	0.43	0.40	0.41	0.40	0.42	0.43	0.44	0.43	0.44
Idea	0.41	0.43	0.43	0.42	0.41	0.41	0.41	0.41	0.44	0.45	0.45	0.44	0.45
Vodafone	0.55	0.57	0.55	0.54	0.54	0.54	0.54	0.54	0.57	0.57	0.58	0.57	0.57
Average RPM	**0.43**	**0.44**	**0.44**	**0.43**	**0.42**	**0.41**	**0.42**	**0.41**	**0.43**	**0.44**	**0.44**	**0.44**	**0.45**
q-q change %													
Bharti	*-1%*	*1%*	*3%*	*-2%*	*-3%*	*-1%*	*0%*	*0%*	*4%*	*0%*	*2%*	*0%*	*4%*
RCOM	*0%*	*0%*	*0%*	*-2%*	*-1%*	*-7%*	*3%*	*-3%*	*4%*	*3%*	*0%*	*-1%*	*1%*
Idea	*1%*	*4%*	*1%*	*-2%*	*-3%*	*0%*	*0%*	*0%*	*6%*	*2%*	*1%*	*-3%*	*4%*
Vodafone	*-1%*	*3%*	*-3%*	*-1%*	*-2%*	*1%*	*-1%*	*1%*	*4%*	*1%*	*1%*	*-1%*	*0%*
Average RPM change	**0%**	**2%**	**0%**	**-2%**	**-2%**	**-2%**	**1%**	**0%**	**5%**	**1%**	**1%**	**-1%**	**2%**
MoU (minutes per sub per month)													
Bharti	445	423	419	431	433	417	435	455	455	437	434	437	435
RCOM	233	227	224	227	228	236	270	290	282	277	288	296	311
Idea	391	364	369	379	379	359	384	406	398	368	376	397	401
Vodafone	308	297	303	318	324	313	329	344	346	334	334	335	336
Average	**344**	**328**	**329**	**339**	**341**	**331**	**354**	**374**	**370**	**354**	**358**	**366**	**371**
q-q change %													
Bharti	*-1%*	*-5%*	*-1%*	*3%*	*0%*	*-4%*	*4%*	*5%*	*0%*	*-4%*	*-1%*	*1%*	*0%*
RCOM	*-3%*	*-3%*	*-1%*	*1%*	*0%*	*4%*	*14%*	*7%*	*-3%*	*-2%*	*4%*	*3%*	*5%*
Idea	*-2%*	*-7%*	*1%*	*3%*	*0%*	*-5%*	*7%*	*6%*	*-2%*	*-8%*	*2%*	*6%*	*1%*
Vodafone	*0%*	*-4%*	*2%*	*5%*	*2%*	*-3%*	*5%*	*5%*	*0%*	*-4%*	*0%*	*0%*	*0%*
Average	**-1%**	**-5%**	**0%**	**3%**	**1%**	**-3%**	**7%**	**5%**	**-1%**	**-4%**	**1%**	**2%**	**1%**

Source: Company data, Nomura research

Japan – iPhones and NTT's FTTH wholesaling in focus

Key highlights from first six months this year

- Key takeaways in first 6-months this year were sudden ease of aggressive MNP cashback from April, NTT DoCoMo's announcement of JPY 500bn share buybacks, and NTT's announcement of FTTH wholesaling. NTT's calculation appears to be that higher volumes and lower promotional spending as a result of increased FTTH demand and cost savings, for example no longer being responsible for FTTH installation costs, will fully offset the dent to revenues at NTT East and NTT West from existing FTTH cable users switching over to wholesaling services.

Comparative analysis

- In KDDI's 15/3 Q1, operating profit rose 9% y-y to ¥194.8bn, similar to our forecast of ¥194bn, and 27% of full-year guidance for ¥730bn. We made no change to our 15/3 operating profit estimate of ¥740.4bn. Mobile ARPU in the personal services segment rose 1.7% y-y and we expect this to continue rising.
- For NTT DoCoMo, we slightly lowered our near-term forecasts for mobile ARPU, but raised our forecasts for cost savings based on 15/3 Q1 results.
- In NTT's 15/3 Q1, operating profit was at ¥298.0bn, down 14.6% y-y, but not a surprise in light of the results already announced by its subsidiaries. The long distance and international communications segment saw sales rise by ¥48.9bn y-y, on acquisition benefits, but operating profit contract by ¥7.9bn. The regional communications segment saw sales fall ¥23.1bn y-y and operating profit decline ¥2.8bn.

What to expect for the rest of the year?

- We recommend KDDI because a drop in its share price has once again highlighted how undervalued it looks. We think its au Wallet prepaid e-money service, its entry into the Myanmar mobile phone market, and expansion of overseas data centers will add ¥20bn in total to the operating profit in 17/3. We also expect the company to keep increasing DPS by ¥30 per year and have a dividend yield higher than that of NTT in 17/3 (as on 1 September).

Indonesia

Key highlights from 1H

- Telkom (Neutral, TLKM IJ) was and continues to be one of preferred stocks for many investors – its revenue trends have exceeded peers for almost two years now, which is a reflection of its network advantage, stable market conditions and improved execution. However, operating leverage (at EBITDA level) has been somewhat limited (with low single digit growth).
- XL-Axis was also topical which closed in 1H. In recent results, it appears that most of the integration is already done and some network elements are pending. The recent 2Q results attracted a lot of attention, both on core trends and interest burden from Axis, which appears to be lower (around 6%) than what we or the market had expected.
- Indosat has been range-bound and its results have failed to meet our and market's expectations and below peers. There has been a lot of talk about 'network modernization' but it is hard to pin-point any benefits yet. Plus, its heavily geared USD balance sheet is not helping the financials either.
- On towers, TBIG and Protelindo reported strong tower additions. Protelindo regained momentum in 2Q after a slow 1Q and its 1H14 KPIs are trending ahead of full-year guidance – 1H revenue and EBITDA growth of 27-29% is ahead of 17-21% guidance, and 1H tower adds are at 1,060 vs. full-year guidance of 1,500-2,000.
- TBIG had a good half – 1H revenue and EBITDA growth of 24-25% y-y was decent and tenant growth of 1.6k+ is trending in line with its full-year guidance of 3.3k. Tenant additions in 2Q were strong, at 930 to a total of 17k now.

Comparative trends – 1H

- XL led the revenue growth on reported numbers with a 12% jump, TSEL had a 10% growth, while Indosat declined 2%. As a result, XL's and TSE's revenue market share expanded 80-110bps to 22% and 60%, respectively, whereas Indosat lost 190bps to 18%.
- Telkomsel reported the highest EBITDA growth of 9% followed by XL with a 2% growth, while Indosat reported a 5% drop. On reported numbers, EBITDA shares are: Telkomsel at 65% (+240bps y-y), Indosat at 19% (-200bps y-y) and XL at 16% (-40bps q-q).
- XL and TSEL added 2-6mn subs during 1H, while ISAT lost ~5mn subs.
  - XL gained 170bps subscriber market share to 25%, mainly driven by the acquisition of Axis, we think. TSEL gained 70bps y-y subs market share, while Indosat lost 240bps y-y.
- TSEL added the highest number of BTS (~10k) during 1H, followed by 4k additions by ISAT and ~3k additions by XL. TSEL now owns 80k BTS, while ISAT and XL have 28-48k BTS.

What to expect for the rest of the year?

- Current comments from the operators suggest stable market conditions for now and the focus is on increasing voice and data prices. These were specifically made by Telkom and XL, and even Indosat thinks 2Q14 should be the bottom. Indosat has struggled operationally in recent quarters and may look to be more aggressive to regain share. Hutch is always the other wildcard, but unfortunately we don't get much clarity on their intentions/ strategy until post the event, but we understand their network investment continues.
- We may also hear more on spectrum/ networks especially, as CDMA businesses are dissolved by operators and integrated into GSM.
- For towers, the most likely deal could be that XL could offload some of its towers in 2H, where the review is ongoing, we understand. This should be the next catalyst for the stock – and good for deleveraging. Indosat is also looking at its second round of tower sale, but seems to be more of a 2015-16 event. For Mitratel (unlisted) too, listing is slated for next year, we think.

Fig. 44: Quarterly summary

	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14
Revenues (Rpbn)														
Telkomsel	11,297	11,925	12,807	12,704	12,298	13,128	14,432	14,673	13,928	14,543	15,524	16,036	15,290	16,040
Indosat	3,964	4,262	4,360	4,164	4,080	4,406	5,035	5,034	4,751	4,821	4,908	4,895	4,651	4,714
XL Axiata	4,482	4,556	4,777	4,899	4,893	5,279	5,524	5,273	5,023	5,269	5,518	5,455	5,513	6,036
Total revenues	**19,743**	**20,743**	**21,944**	**21,767**	**21,271**	**22,813**	**24,991**	**24,980**	**23,702**	**24,633**	**25,950**	**26,386**	**25,454**	**26,790**
Revenue growth rates														
Telkomsel	-1.6%	5.6%	7.4%	-0.8%	-3.2%	6.7%	9.9%	1.7%	-5.1%	4.4%	6.7%	3.3%	-4.7%	4.9%
Indosat	-3.6%	7.5%	2.3%	-4.5%	-2.0%	8.0%	14.3%	0.0%	-5.6%	1.5%	1.8%	-0.3%	-5.0%	1.4%
XL Axiata	-3.6%	1.7%	4.9%	2.6%	-0.1%	7.9%	4.6%	-4.5%	-4.7%	4.9%	4.7%	-1.1%	1.1%	9.5%
Total revenue growth	**-2.5%**	**5.1%**	**5.8%**	**-0.8%**	**-2.3%**	**7.3%**	**9.5%**	**0.0%**	**-5.1%**	**3.9%**	**5.3%**	**1.7%**	**-3.5%**	**5.2%**
EBITDA (Rpbn)														
Telkomsel	6,245	6,877	7,428	6,999	7,075	7,347	8,272	7,870	7,838	8,119	9,256	8,656	8,465	8,928
Indosat	2,224	2,276	2,648	2,263	2,338	2,537	2,824	2,869	2,629	2,682	2,655	2,410	2,611	2,421
XL Axiata	2,362	2,396	2,272	2,320	2,392	2,546	2,505	2,302	2,025	2,139	2,255	2,239	2,201	2,064
Total EBITDA	**10,831**	**11,549**	**12,348**	**11,582**	**11,805**	**12,430**	**13,601**	**13,041**	**12,492**	**12,940**	**14,166**	**13,305**	**13,276**	**13,414**
EBITDA growth rates														
Telkomsel	-7.6%	10.1%	8.0%	-5.8%	1.1%	3.8%	12.6%	-4.9%	-0.4%	3.6%	14.0%	-6.5%	-2.2%	5.5%
Indosat	-9.8%	2.3%	16.4%	-14.6%	3.3%	8.5%	11.3%	1.6%	-8.4%	2.0%	-1.0%	-9.2%	8.3%	-7.3%
XL Axiata	-5.4%	1.4%	-5.2%	2.1%	3.1%	6.4%	-1.6%	-8.1%	-12.0%	5.6%	5.4%	-0.7%	-1.7%	-6.2%
Total EBITDA growth	**-7.6%**	**6.6%**	**6.9%**	**-6.2%**	**1.9%**	**5.3%**	**9.4%**	**-4.1%**	**-4.2%**	**3.6%**	**9.5%**	**-6.1%**	**-0.2%**	**1.0%**
EBITDA margin														
Telkomsel	55%	58%	58%	55%	58%	56%	57%	54%	56%	56%	60%	54%	55%	56%
Indosat	46%	44%	50%	43%	47%	48%	47%	47%	45%	45%	44%	40%	45%	41%
XL Axiata	53%	53%	48%	47%	49%	48%	45%	44%	40%	41%	41%	41%	40%	34%
Total margin	**55%**	**56%**	**56%**	**53%**	**55%**	**54%**	**54%**	**52%**	**53%**	**53%**	**55%**	**50%**	**52%**	**50%**

Source: Company data, Nomura research

Fig. 45: Operational trends

	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14
Mobile subs ('000)														
Telkomsel	99,365	102,291	104,149	107,017	109,881	117,235	121,477	125,146	120,611	125,091	127,904	131,512	132,651	137,169
Indosat	45,700	47,300	51,500	51,700	52,100	50,900	55,400	58,500	55,900	56,500	53,800	59,600	59,800	54,900
XL Axiata	39,286	38,896	43,397	46,406	46,413	45,828	42,341	45,755	49,054	54,128	58,132	60,577	68,454	62,891
Total subs	**184,351**	**188,487**	**199,046**	**205,123**	**208,394**	**213,963**	**219,218**	**229,401**	**225,565**	**235,719**	**239,836**	**251,689**	**260,905**	**254,960**
Mobile subs share														
Telkomsel	54%	54%	52%	52%	53%	55%	55%	55%	53%	53%	53%	52%	51%	54%
Indosat	25%	25%	26%	25%	25%	24%	25%	26%	25%	24%	22%	24%	23%	22%
XL Axiata	21%	21%	22%	23%	22%	21%	19%	20%	22%	23%	24%	24%	26%	25%
Total subs	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
BTS														
Telkomsel	37,830	39,609	41,037	42,623	44,797	47,254	51,005	54,297	57,664	62,225	65,653	69,864	74,326	79,560
Indosat	18,368	18,408	18,776	19,253	20,063	21,039	21,642	21,930	22,097	22,449	23,207	24,280	26,255	28,439
XL Axiata	23,267	24,971	26,245	28,273	30,732	33,737	36,101	39,452	39,819	41,293	42,796	44,946	45,600	47,814
Total BTS	**79,465**	**82,988**	**86,058**	**90,149**	**95,592**	**102,030**	**108,748**	**115,679**	**119,580**	**125,967**	**131,656**	**139,090**	**146,181**	**155,813**
BTS additions														
Telkomsel	37,830	1,779	1,428	1,586	2,174	2,457	3,751	3,292	3,367	4,561	3,428	4,211	4,462	5,234
Indosat	260	40	368	477	810	976	603	288	167	352	758	1,073	1,975	2,184
XL Axiata	23,267	1,704	1,274	2,028	2,459	3,005	2,364	3,351	367	1,474	1,503	2,150	654	2,214
Total BTS additions	**61,357**	**3,523**	**3,070**	**4,091**	**5,443**	**6,438**	**6,718**	**6,931**	**3,901**	**6,387**	**5,689**	**7,434**	**7,091**	**9,632**

Source: Company data, Nomura research

Malaysia – wireless slow, fixed is strong

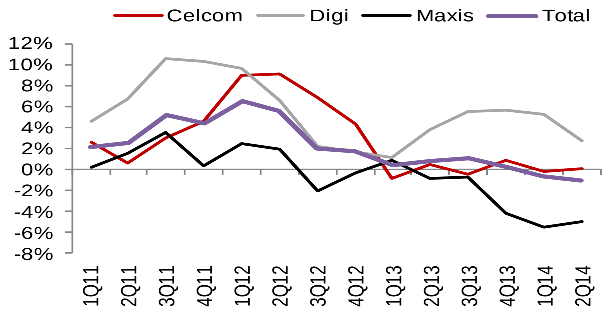
Key highlights from 1H

- **Wireless revenue growth** was down 1% y-y in 1H, mostly due to the weakness at Celcom (flat service revenue affected by its IT transformation) and Maxis (a 5% decline). DiGi, on the other hand, had a decent first half with a 4% service revenue growth.
  - Voice revenues are down 3%, while SMS is declining sharply by 18-30% across the three players.
  - Competition from U-Mobile appears to have picked up, too.
- **On EBITDA**, DiGi had a 7% growth in 1H compared with a 5-7% decline for Celcom and Maxis. EBITDA margins are up slightly at ~47% on an average.
- **In fixed,** TM's HSBB net adds have slowed down in the past few quarters (current conversion is 43% on 1.5mn premises) and TM noted a pickup in churn on which it is working to address. However, it is also focusing on up-selling services and ARPUs have risen nicely by 4-8% y-y ARPU on both fibre and DSL. HSBB 2 details should also help towards driving broadband growth, in our view.

What do we expect for the rest of the year?

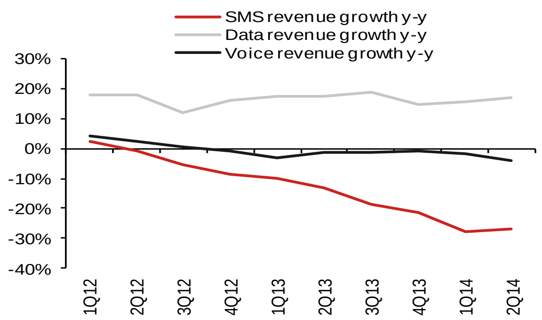
- Valuations are a key pushback for Malaysian telcos in general.
- Wireless trends should remain muted, though with some recovery in the in the second half.
- Competitive intensity will likely remain, though is not irrational either. TM's strategy after P1 is important, though we believe its LTE rollout will take time.
- On fixed line, we expect HSBB 2 details shortly – we understand delays are more administrative at this stage.

Fig. 46: Service revenue growth, y-y



Source: Company data, Nomura research

Fig. 47: Industry voice/SMS/pure data revenue trends



Source: Company data, Nomura research

Fig. 48: Revenue and EBITDA share in wireless

SERVICE REVENUES (RM mn)	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14
Service revenue market share														
Celcom	33%	33%	33%	33%	34%	34%	34%	34%	34%	34%	34%	34%	34%	34%
DiGi	27%	27%	27%	27%	27%	27%	27%	27%	28%	28%	29%	29%	29%	29%
Maxis	40%	40%	40%	40%	38%	39%	38%	39%	39%	38%	38%	37%	37%	37%
EBITDA (RM mn)	**1Q11**	**2Q11**	**3Q11**	**4Q11**	**1Q12**	**2Q12**	**3Q12**	**4Q12**	**1Q13**	**2Q13**	**3Q13**	**4Q13**	**1Q14**	**2Q14**
EBITDA market share														
Celcom	31%	31%	31%	31%	31%	32%	33%	32%	32%	32%	32%	32%	31%	31%
Digi	26%	26%	27%	27%	27%	28%	27%	27%	26%	27%	27%	29%	29%	29%
Maxis*	43%	43%	43%	42%	42%	41%	40%	40%	41%	41%	41%	39%	40%	39%
Margins														
Celcom	46%	45%	44%	43%	44%	45%	45%	44%	44%	44%	45%	44%	44%	43%
Digi	46%	46%	47%	47%	47%	48%	45%	44%	44%	45%	45%	47%	45%	46%
Maxis	51%	51%	50%	49%	51%	50%	48%	46%	48%	51%	52%	49%	51%	51%
Average	**48%**	**47%**	**47%**	**46%**	**47%**	**48%**	**46%**	**45%**	**45%**	**47%**	**47%**	**46%**	**47%**	**47%**

Source: Company reports, Nomura research

The Philippines – concerns remain

Key highlights from 1H

- **Cannibalisation risks:** Recent 1H numbers indicate weak SMS trends with SMS revenue dropping by 7% y-y. Importantly, total non-voice (SMS and mobile internet) declined 1% in 1H14 for the industry vs. an 8% growth in 2013. While temporary promos (Facebook in particular) could be the reason, this is a risk to watch for.
- **Margin decline continues**, **partly from subsidies:** In 1H14, we note that Globe's overall EBITDA margins declined by 253 bps y-y. Subsidy and marketing expenses were at 15% of service revenue vs. 13% a year ago. Despite slower net adds, SACs (as reported by the company) were up ~30% y-y. For PLDT, wireless margins declined 477bps y-y in 1H14, though this was only partly on account of subsidies. Subsidy + marketing expenses (in wireless) grew 14% y-y to 14% of service revenue (12% in 1H13). In 2013, subsidy + marketing were up to 13% from 11.6% in 2012.

Comparative trends

- PLDT's wireless revenue was flat vs. up 5% for Globe in 1H.
- Wireless EBITDA was down 5% y-y% for the industry with average margins at 45% vs. 46% in 2013.
  - PLDT's wireless EBITDA was down by 9% y-y, while Globe's wireless EBITDA was up by 2% y-y. Globe's EBITDA share is now at 40% vs. 37% in 2013.
- Voice trends were better and were up 6% y-y. While non-voice (data and SMS) was down 1% y-y. This is compared to an average 8% y-y growth seen in non-voice.
  - In 1H14, SMS revenue was down 7% y-y vs. a 2% y-y growth in 2013.
  - Mobile internet was up 29% vs. 47% the year before. Mobile internet revenue for PLDT was up 77% y-y, while for Globe it was up 11% y-y.
- On cost, selling and promotion expenses for Globe grew 29% y-y vs. a 15% y-y growth for PLDT. Subsidy cost is also witnessing increasing trends for both the telcos.
  - Subsidy and marketing cost for PLDT and Globe were 14-15% of service revenue during 1H vs. ~13% in 1H13.

What do we expect in 2014F?

- We expect Globe to continue outpacing PLDT in market share, as PLDT remains a price-follower.
- We still expect risks/volatility to EBITDA margins, given the ongoing focus on post-paid.

Fig. 49: The Philippines telcos – key trends

	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14
Wireless revenue share										
Globe	39%	39%	39%	40%	40%	41%	41%	40%	41%	42%
PLDT	61%	61%	61%	60%	60%	59%	59%	60%	59%	58%
VOICE VS DATA	**1Q12**	**2Q12**	**3Q12**	**4Q12**	**1Q13**	**2Q13**	**3Q13**	**4Q13**	**1Q14**	**2Q14**
Voice										
Globe	7,936	8,156	7,978	8,376	7,670	8,268	8,052	8,377	8,658	8,684
PLDT	12,493	12,207	12,175	12,751	12,187	12,869	12,733	13,595	12,868	13,049
Total	**20,429**	**20,363**	**20,153**	**21,127**	**19,857**	**21,137**	**20,785**	**21,972**	**21,526**	**21,733**
Chg % y-y										
Globe	*6%*	*5%*	*3%*	*5%*	*-3%*	*1%*	*1%*	*0%*	*13%*	*5%*
PLDT	*14%*	*12%*	*19%*	*7%*	*-2%*	*5%*	*5%*	*7%*	*6%*	*1%*
Total	***11%***	***9%***	***13%***	***7%***	***-3%***	***4%***	***3%***	***4%***	***8%***	***3%***
SMS										
Globe	6,745	6,693	6,452	6,662	6,961	7,349	7,097	7,387	7,008	7,233
PLDT	12,024	12,174	11,885	12,212	11,934	11,938	11,535	11,883	10,789	10,527
Total	**18,769**	**18,867**	**18,337**	**18,874**	**18,895**	**19,287**	**18,632**	**19,270**	**17,797**	**17,760**
Chg % y-y										
Globe					*3%*	*10%*	*10%*	*11%*	*1%*	*-2%*
PLDT					*-1%*	*-2%*	*-3%*	*-3%*	*-10%*	*-12%*
Total					***1%***	***2%***	***2%***	***2%***	***-6%***	***-8%***
Mobile Internet										
Globe	1,890	1,861	2,147	2,293	2,493	3,100	3,083	2,927	2,790	3,425
PLDT	688	725	768	940	979	1,126	1,283	1,580	1,769	1,957
Total	**2,578**	**2,586**	**2,915**	**3,233**	**3,472**	**4,226**	**4,366**	**4,507**	**4,559**	**5,382**
Chg % y-y										
Globe					*32%*	*67%*	*44%*	*28%*	*12%*	*10%*
PLDT					*42%*	*55%*	*67%*	*68%*	*81%*	*74%*
Total					***35%***	***63%***	***50%***	***39%***	***31%***	***27%***
Data (SMS + MI)										
Globe	8,635	8,554	8,599	8,955	9,454	10,449	10,180	10,314	9,798	10,658
PLDT	12,712	12,899	12,653	13,152	12,913	13,064	12,818	13,463	12,558	12,484
Total	**21,347**	**21,453**	**21,252**	**22,107**	***22,367***	***23,513***	***22,998***	***23,777***	***22,356***	***23,142***
Chg % y-y										
Globe					9%	22%	18%	15%	4%	2%
PLDT					2%	1%	1%	2%	-3%	-4%
Total					**5%**	**10%**	**8%**	**8%**	**0%**	**-2%**
MI as a % of total cellular revenues										
Globe		11%	13%	13%	15%	17%	17%	16%	15%	18%
PLDT		3%	3%	4%	4%	4%	5%	6%	7%	8%
Total		**6%**	**7%**	**7%**	**8%**	**9%**	**10%**	**10%**	**10%**	**12%**
EBITDA	**1Q12**	**2Q12**	**3Q12**	**4Q12**	**1Q13**	**2Q13**	**3Q13**	**4Q13**	**1Q14**	**2Q14**
Wireless margins										
Globe	*49%*	*49%*	*52%*	*42%*	*45%*	*49%*	*46%*	*41%*	*44%*	*47%*
PLDT	*50%*	*50%*	*49%*	*43%*	*50%*	*47%*	*45%*	*45%*	*46%*	*42%*
Average	**50%**	**49%**	**50%**	**43%**	**48%**	**48%**	**46%**	**43%**	**45%**	**45%**
Wireless EBITDA share										
Globe	36%	37%	38%	37%	35%	40%	39%	36%	38%	43%
PLDT	64%	63%	62%	63%	65%	60%	61%	64%	62%	57%

Source: Company data, Nomura research

Singapore – rising risks

Key highlights from 1H

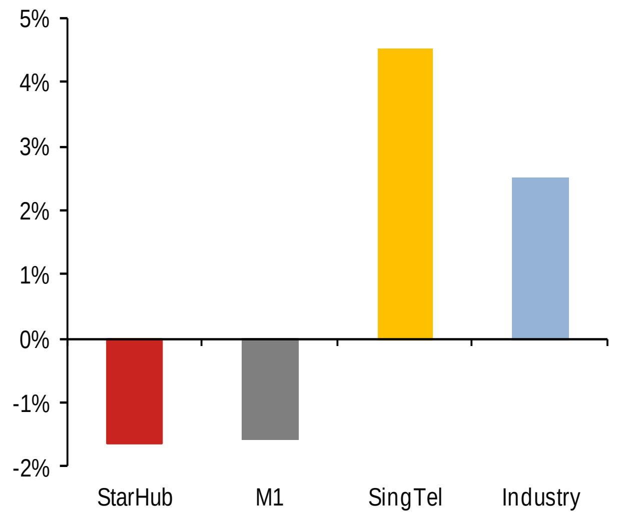
- In the first six months in 2014, total industry revenue for telcos was up 2%. SingTel (Singapore segment) had 5% revenue growth this year, while M1 and StarHub had a 2% revenue decline on the back of lower handset sales in the first half.
- The wireless service revenue rose 2%, which was, however, weaker than in the same period last year.

  – M1 had 4% growth, SingTel 3% growth, while StarHub remained flat.
- SingTel recently announced data-WiFi bundles for SGD3 extra and has also waived the 4G-VAS charge indefinitely. We may see others defer/ waive these charges, too, so the ARPU upside potential is more likely from higher usage rather than from direct price increases – the current usage is around 2.5-3.0GB.
- In wireless, the regulator is looking to increase competition and there is risk that MyRepublic could be looking to enter this space as well.
- Broadband has been competitive and prices/ARPU have continued to decline.
- In pay TV, telcos benefitted from some revenue/ARPU upside from FIFA package - which was part of the cross-carriage regulations.
- 1H14, industry EBITDA was down 1% - StarHub down 3%, SingTel down 1%, while M1 had a 6% EBITDA growth.
- On consolidated margins, M1 had 240bps improvement, while SingTel had 175bps decline. StarHub's EBITDA margins were down 30bps.

What do we expect for 2014?

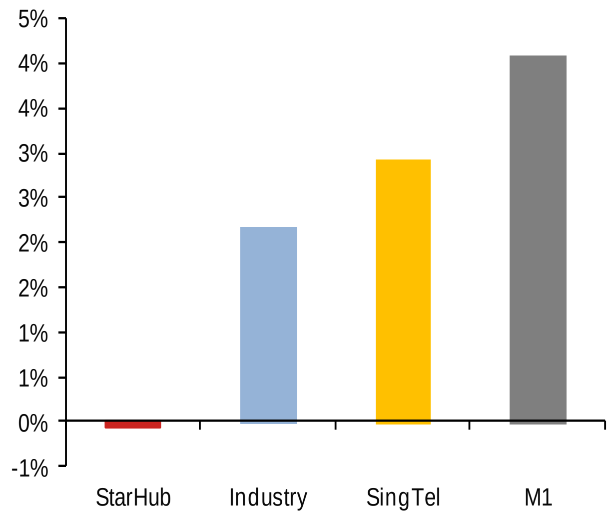
- In wireless, while one should not dismiss the MyRepublic as a threat in wireless, there are hurdles around networks, regulatory clarity on spectrum roaming, access, etc, which will be much more difficult, expensive and time consuming.
- In broadband, price decline will likely remain under pressure over coming quarters, especially as StarHub looks to regain market share and to maximize its adoption grants, in our view.

Fig. 50: Total revenue y-y growth – 1H14 from 1H13



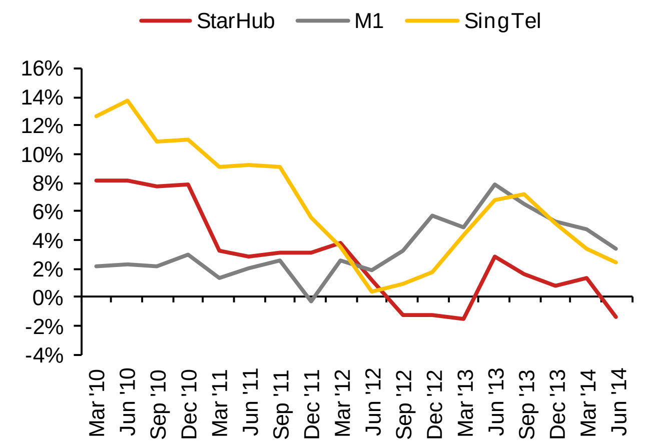
Source: Company data, Nomura research

Fig. 51: Mobile revenue y-y growth – 1H14 from 1H13



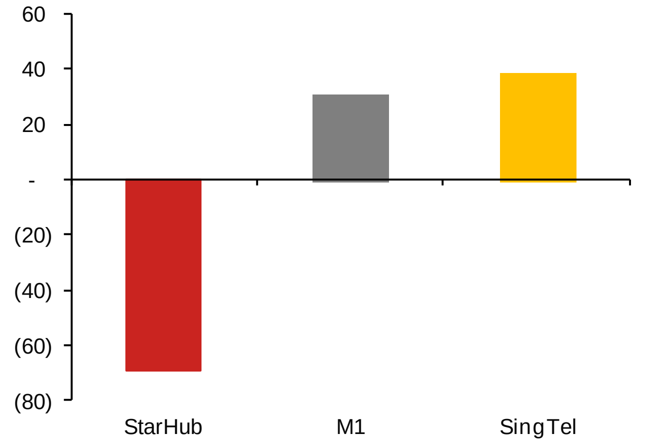
Source: Company data, Nomura research. Note – 1H14 - January to June 2014

Fig. 52: Mobile service revenue y-y growth



Source: Company data, Nomura research

Fig. 53: Mobile service revenue share change in 1H14 – 1H13



Source: Company data, Nomura research. Note – 1H14 - Jan to June 2014

South Korea – irrational marketing coming to an end?

Key highlights from 1H

- The mobile ARPU trend is continuing to show a solid trend despite rising LTE penetration with the introduction of unlimited LTE voice/data plan working well for Korea telcos.
- 1H14, EBITDA is not 'clean' as it is impacted by KT's one-off ERP expense of KRW1.05tn. If we adjust this cost, Korea telcos' 1H14 EBITDA declined c.5%, owing to intense competition.
- KT has done well in 1H14 in terms of blended mobile net additions by offering mid-end handset models at low prices, in our view. Blended subscriber (MNO + MVNO) net additions recorded 76K, 301K, and 132K for SKT, KT, LGU+, respectively, for 2Q14.
- Dividend has become a key focus for Korea telcos as the Korean government is emphasizing dividend increase as one of the key initiatives to boost domestic spending.
- Contrary to 1H14, the MNP (mobile number portability) trend has remained low for 3Q14 so far. The trend provides a meaningful upside risk for 3Q14 earnings. The market will also be focused on the marketing trend from October as the handset distribution bill will come into effect.
- SKT led EBITDA margins with 26% in 1H14, due to decreased marketing expense. KT's EBITDA came in low with 10.3% EBITDA margins, and LGU+'s EBITDA margins slightly increased at 16.8%. This trend of lower EBITDA margins for LGU+ and KT indicates that they have incurred higher marketing cost during 1H14.
- In total, the marketing expense increased by 16% y-y for Korea telcos during 1H14. The marketing cost for LGU+ increased the most at 23% y-y, and KT at 21% y-y during 1H14. SKT's marketing cost increased in a smaller percentage at 9% y-y, but its marketing cost was the largest at KRW1,925bn during 1H14.

What do we expect for 2014?

- For 2014F, we maintain our preference for SKT (Buy) and LGU+ (Buy). The handset distribution bill, to be introduced in October 2014, will be a positive for Korea telcos overall but we are especially positive on SKT (largely a market share player) and LGU+ (highest operating leverage in the event of lowered marketing expense). The market will continue to like SKT and LGU+ for their dividend merits, while on the other hand KT's lack of dividend may steer investors away, in our view. KT is showing signs of improvement in the mobile business, but a structural decline in the fixed business is keeping us at Neutral.
- Handset distribution bill is set to launch from October in Korea. Key factor from the handset distribution bill is that the telcos now have to disclose the subsidy level per handset. Korea telcos profitability was often hit by extreme subsidy driven marketing cost, but with telcos bounded by law to disclose subsidy level beforehand, the

likelihood of guerrilla-type subsidy marketing (which is the key driver of marketing expense surges) is low and thus we see improving fundamentals from 4Q. Key risks from this bill are: 1) competition moving on to price; and 2) telcos coming up with some other 'creative' means to provide extra subsidy.

Taiwan – good 1H trends as expected, 4G competition in 2H

Key highlights from 1H

- For 1H14, Taiwan telcos reported 1-2% mobile service revenue growth, 3-9% EBITDA growth and 5-11% earnings growth. Both EBITDA and NPAT trends were ahead of guidance, while revenues were softer. This was due to the lower usage and softer handset sales in anticipation of 4G launches and should pick up in 2H, we think.
- The greater concern for the market is 4G competition in 2H - which was immediately visible after 4G launch from Taiwan Star. Telcos have extended their promotions and are now offering unlimited data for the whole contract period on select plans.
- For CHT, 1H14 revenue was down 1% vs. its flat full-year guidance. Mobile non-voice growth was offset by weak voice and another 5% decline in fixed where structural and regulatory issues should keep revenue under pressure.
  - Cost initiatives seem to be in place – EBITDA rose 3% YTD with 37% margins and 2Q EBITDA rose 1% with margins up 57bps. Earnings rose 5% in 1H and 4% q-q in 2Q.
- FET had a 2% revenue growth in 1H, which was slightly below its 3% guidance, while EBITDA/NPAT grew by a strong 9%/11%, which was considerably ahead of its outlook.
- TWM's revenue growth was weak in 2Q vs. its outlook, while EBITDA/earnings trends are strong. The momo segment had good revenue and margin improvement in 2Q. Its cable revenue trend is also reasonable.
  - EBITDA grew 4-5% with 230bps margin improvement, while earnings rose 5%. 4G rollout on 1800MHz should increase the handset support for both TWM and FET, in our view.

What do we expect for the rest of the year?

- The incumbent telco's reaction to TWS was aggressive and also surprising – and the next few quarters will remain choppy.
- Given the heightened competition, we are turning more cautious on stocks – there are earnings risks this year and next.
- The impending launch of Hon Hai's 4G is the next risk – which could see further pricing cuts.

Fig. 54: Taiwan telcos' summary

Taiwan Quarterly Summary	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14
Revenue % chg y-y										
CHT	6%	0%	-1%	2%	2%	3%	3%	5%	-3%	0%
TWM	36%	33%	14%	13%	7%	12%	10%	8%	4%	1%
FET	20%	16%	10%	12%	4%	3%	2%	4%	4%	0%
Total	**15%**	**10%**	**5%**	**7%**	**4%**	**5%**	**4%**	**5%**	**0%**	**0%**
% EBITDA margin										
CHT	35%	39%	38%	34%	34%	37%	36%	33%	37%	37%
TWM	31%	32%	31%	29%	28%	29%	29%	27%	28%	30%
FET	27%	30%	30%	26%	28%	30%	30%	27%	29%	32%
Total	**32%**	**36%**	**34%**	**31%**	**31%**	**33%**	**33%**	**30%**	**33%**	**34%**
Margin chg (bps)										
CHT	(126)	426	(197)	(338)	(10)	286	(51)	(339)	383	57
TWM	229	114	(52)	(224)	(70)	77	20	(272)	148	228
FET	(226)	269	(17)	(407)	217	171	94	(397)	279	284
Total	**(69)**	**316**	**(124)**	**(329)**	**25**	**206**	**(2)**	**(336)**	**292**	**158**
EBITDA % chg y-y										
CHT	-11%	-8%	-5%	-4%	-1%	-4%	-1%	1%	5%	1%
TWM	20%	15%	2%	15%	-1%	3%	3%	-1%	3%	5%
FET	10%	19%	9%	-3%	6%	2%	5%	8%	9%	8%
Total	**-2%**	**0%**	**-1%**	**0%**	**0%**	**-2%**	**1%**	**2%**	**6%**	**3%**
Voice revenue % chg y-y										
CHT	-7%	-4%	-8%	-7%	-8%	-6%	-7%	-8%	-10%	-12%
TWM	-1%	-2%	-3%	-2%	-7%	-4%	-5%	-5%	-6%	-7%
FET	-2%	-2%	-4%	-7%	-9%	-9%	-10%	-9%	-8%	-9%
Total	**-4%**	**-3%**	**-5%**	**-5%**	**-8%**	**-6%**	**-7%**	**-8%**	**-8%**	**-10%**
Data revenue % chg q-q										
CHT	14%	11%	6%	3%	18%	5%	7%	5%	4%	5%
TWM	13%	6%	6%	7%	9%	8%	6%	3%	6%	1%
FET	12%	7%	8%	7%	9%	4%	6%	5%	4%	4%
Total	**12%**	**7%**	**8%**	**7%**	**9%**	**4%**	**6%**	**5%**	**4%**	**4%**
Data revenue % chg y-y										
CHT	30%	34%	37%	38%	43%	35%	37%	39%	23%	24%
TWM	46%	42%	37%	35%	31%	33%	33%	29%	25%	17%
FET	47%	46%	42%	40%	36%	32%	29%	27%	21%	21%
Total	**40%**	**40%**	**39%**	**38%**	**37%**	**33%**	**33%**	**32%**	**23%**	**21%**

Source: Company data, Nomura research

Thailand – Regulations/weak macro play spoilsport in 1H14

Key highlights from 1H

- Service revenue rose 1% in 1H, though led by TRUE, while AIS/DTAC were more affected by macro weakness. Both AIS and DTAC have lowered the revenue growth outlook to 0-2% for this year.
- 3G migration trends have been decent with 70-80% 3G subs now. For AIS, 3G contributes ~77% of revenue.
- Regulatory costs are down to 18% for AIS (from 24% a year ago) and at 23% for DTAC (from 32% a year ago). We expect savings to flatten in another one-two quarters and improving 3G device penetration from ~35% now will be instrumental for incremental cost savings.
- We note that AIS has re-gained slight service revenue share (7-70bps) in the past two quarters following a relatively weak 2013.
- 1H14 EBITDA rose 8% with mobile margins improving by ~300bps on an average. AIS had 180bps EBITDA margin improvement, while DTAC had a stronger rise (~600bps) driven by a higher clip in regulatory cost savings. TRUE's mobile segment, too, saw EBITDA margins improving from sub-10% in 1H13 to ~14% now, which suggests some stability in competition.

What do we expect for 2014?

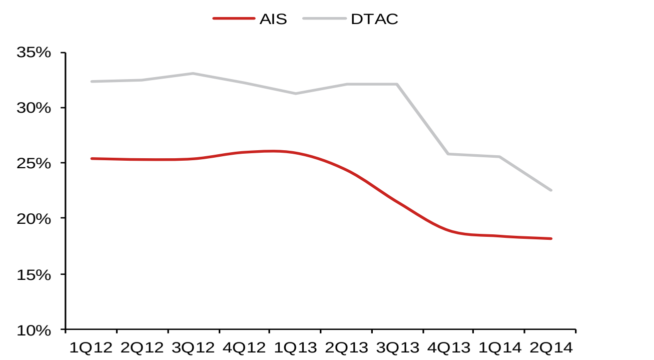
- Revenue growth is expected to improve in 2H, driven by better macro.
- Telcos' strategy to increase 3G device penetration will be key. This should help drive the next leg of regulatory cost savings.
- **Most important is clarity on spectrum auctions** – though this could be delayed into 2015F, we think.

Fig. 55: Thai telcos' summary

	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14
Serv rev chg YY										
AIS	16%	16%	15%	13%	7%	5%	4%	-1%	-2%	2%
DTAC	7%	8%	6%	12%	12%	14%	10%	6%	0%	-2%
TRUE Mobile	12%	15%	13%	18%	14%	11%	18%	10%	9%	8%
Serv rev share										
AIS	54.6%	54.4%	54.2%	53.9%	53.3%	52.6%	52.2%	52.0%	52.1%	52.7%
DTAC	30.7%	30.5%	30.7%	30.7%	31.3%	32.0%	31.4%	31.7%	31.3%	30.9%
TRUE Mobile	14.8%	15.1%	15.1%	15.3%	15.4%	15.3%	16.4%	16.3%	16.7%	16.3%
Voice rev chg YY										
AIS	13%	12%	12%	7%	0%	-1%	-3%	-9%	-12%	-12%
DTAC	1%	-1%	-4%	-3%	-3%	-1%	-4%	-9%	-13%	-12%
TRUE Mobile	6%	1%	2%	1%	-5%	-7%	-1%	-3%	6%	1%
Non voice rev chg YY										
AIS	32%	35%	32%	33%	29%	25%	23%	19%	24%	32%
DTAC	43%	51%	49%	53%	50%	51%	55%	42%	32%	28%
TRUE Mobile	60%	82%	66%	72%	71%	50%	50%	33%	27%	24%
EBITDA margin										
AIS	43.4%	42.7%	43.7%	39.3%	42.3%	42.5%	44.5%	44.3%	45.1%	43.3%
DTAC	29.9%	30.6%	31.4%	27.9%	29.2%	31.2%	33.5%	30.8%	36.8%	36.5%
TRUE Mobile	9.4%	8.8%	5.6%	9.7%	10.6%	8.4%	7.3%	5.0%	15.1%	13.7%

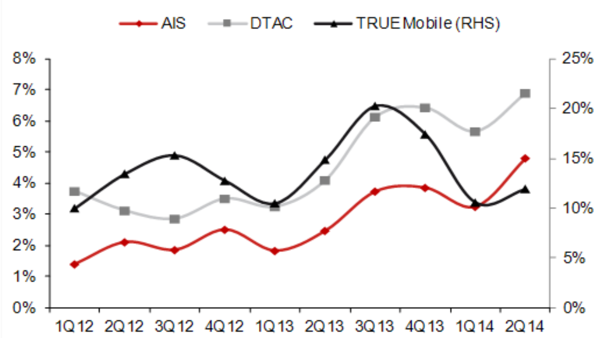
Source: Company data, Nomura research

Fig. 56: Regulatory costs as a % of revenue



Source: Company data, Nomura research

Fig. 57: Marketing costs as a % of revenue



Source: Company data, Nomura research

Asian telcos' June 2014 results – in detail

- In the first six months of 2014, the average industry revenue rose 3%, service revenue rose 4%, EBITDA rose 2%, while adjusted NPAT rose 2%.
- In revenue, Indian telcos had an 11% growth, while China and Indo grew 6-7%. Thailand lagged with a 2% decline in 1H, while Malaysia was flat.
- Service revenue rose 4% in 1H with CU, CT, XL and IDEA leading with +10% service revenue growth.
- Total EBITDA rose 2% on an average. Here, too, Indian telcos have led with a 16% growth in the first six months in 2014.
  - South Korea was weak – down 24% – driven by KT, where the EBIDTA was down by 51%, which was mostly due to the ERP expense reflected in 2Q. Adjusting for KT's KRW1.05tn ERP expense, Korea telcos' 1H14 EBITDA was down by 5% compared to last year, on the back of heavy subsidy-driven marketing which took place during January-February and May-June.
  - Philippine telcos, too, had EBITDA declining on the back of promotions and marketing expenses.
- EBITDA margins were down, however, by ~80bps. Thai telcos had ~200bps consolidated EBITDA margins improvement.
  - EBITDA margins for Taiwan and India too rose ~130-140bps.
  - Korea, Philippines and Chinese telcos had margin declining in 1H, we note.
- Adjusted NPAT rose 2% on an average. Profit growth was the highest at Indian telcos, CU and DiGi.
  - KT, XL and TM had the highest NPAT decline.
- There are ~2.9bn mobile subscribers now for Asian telcos – with ~70mn additions in 2014.
- On ARPUs, Korean telcos had the highest ARPU improvement compared with Jun-13. Indian telcos, too, had a decent ARPU growth.
  - Thai telcos, Globe and XL had ARPU declining from 2013.
- Taiwan also has launched 4G in 2Q14 and with this most of the Asian markets have 4G rolled out. Korea still leads with 59% of subscribers on 4G, which has also translated into decent ARPU trends.

Total revenue trends

- 1H14 industry revenue rose by 3% on an average. XL, Bharti and IDEA had the highest percentage growth of 12-16%, while revenue for Maxis and DTAC was down 9% and Optus down 4%.

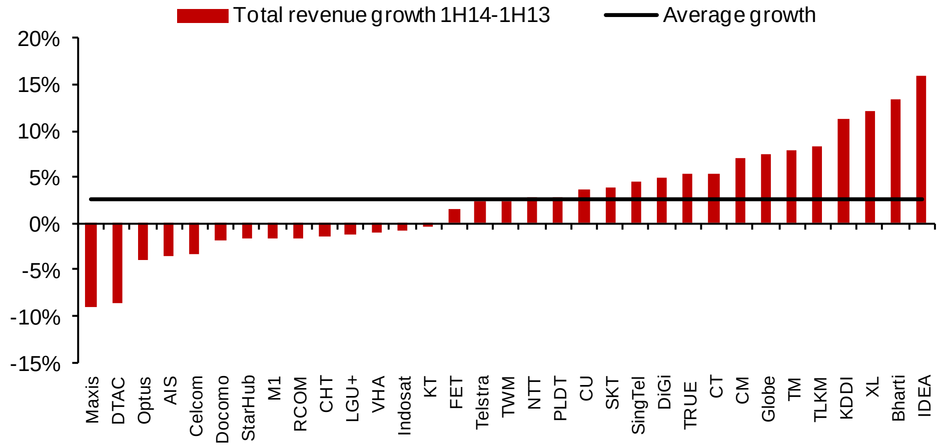
Marketwise

- In Australia, TLS had a 2% growth (normalised) compared with 1-4% decline for peers. TLS continued to gain overall market share on the back of strong wireless and NAS growth, while fixed was stable.
- Chinese telcos had ~6% revenue growth in 1H – CM had ~7% growth compared with 4-5% for CU and CT.
- Indian telcos had the highest revenue growth with an average of 11% - led by 13-16% growth for Bharti and IDEA in the first six months of this year.
- Indonesian telcos' revenue grew 7% in 1H. Within this, XL and TLKM grew 8-12%, whereas ISAT was weak with 1% decline.
- In Japan, KDDI had a 2% total revenue growth, while NTT showed 1% growth (y-y in 1Q).
- In Malaysian wireless, DiGi had a 5% growth in 1H compared with a 3% decline for Celcom and a 9% decline for Maxis. Part of the challenges at Celcom has been due to its billing/IT transformation which affected new product launches. Maxis continues to

face revenue weakness during its transformation. For TM, the growth was strong at 8%, driven by uspelling on fibre and DSL.

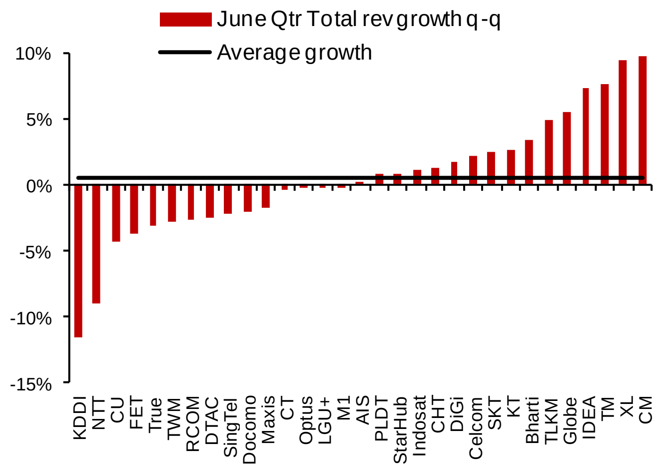
- Singapore telcos had a 2% revenue growth in 1H driven by a 5% growth for SingTel. M1 and StarHub had a 2% revenue decline on the back of lower handset sales.
- In South Korea, SKT had a 4% growth, KT was flat and LGU down 1%. SKT: despite a 3% wireless subscriber growth and a 5% wireless ARPU growth, SKT's parent revenue growth was 3%, largely due to the increase in MVNO's in subscriber mix. (SKT's reported wireless ARPU is only for MNOs).
  - KT saw revenue increase in wireless and non-telco business but was offset by a decline in the fixed business. LGU+'s wireless service revenue increased by 10%, but was offset by the decline in equipment revenue, owing to the decrease in handset price.
- Taiwan had flat revenue – driven by 1% decline at CHT. Compared to this, FET and TWM had 2-3% revenue growth in 1H.
- Thailand telcos had a 2% revenue decline driven by weaker macro and lower handset sales. Telcos, however, expect a recovery in 2H.

Fig. 58: Total revenue trends – 1H13 to 1H14



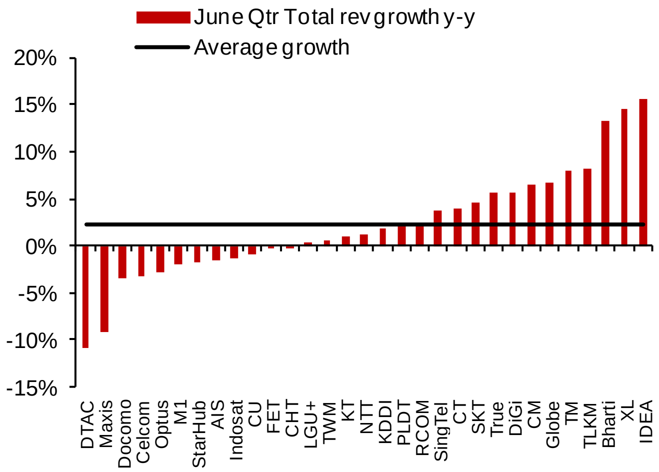
Source: Company data, Nomura research

Fig. 59: Total revenue growth – June-14 quarter q-q



Source: Company data, Nomura research

Fig. 60: Total revenue growth – June-14 quarter y-y



Source: Company data, Nomura research

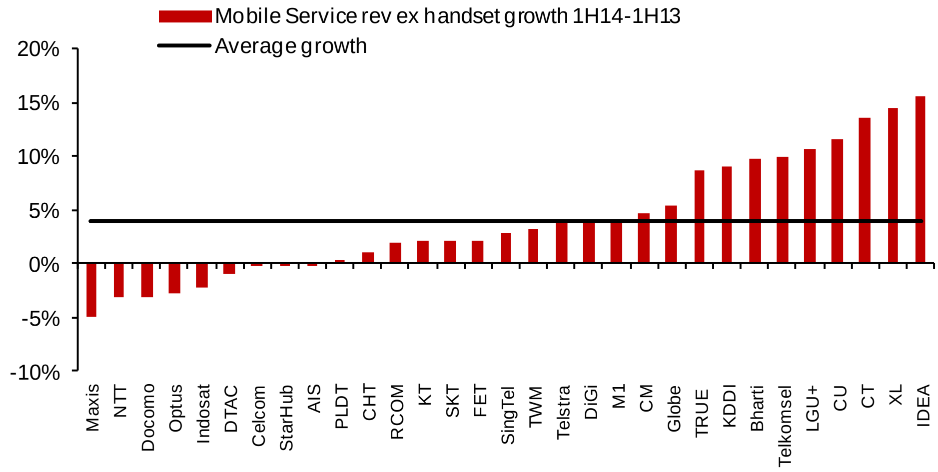
Service revenue trends

- 1H14 industry service revenue rose by 4% on an average. Of this, IDEA, XL and CT had the highest growth of 14-16%, while Maxis had the least service revenue growth – down 5% in 1H. Optus was down 3%.

Marketwise

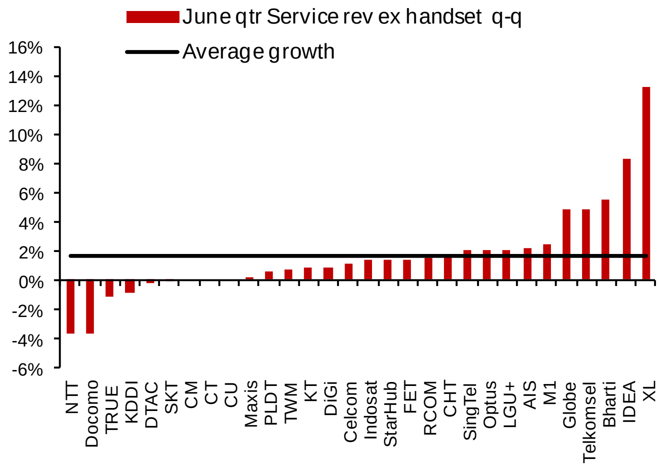
- In Australia, Telstra rose by a strong 4%, while Optus was down 3% in 1H. Telstra continues to gain share in wireless given its network superiority and customer focus.
- Indian telcos had strong service revenue growth – Bharti rose 10%, while IDEA was up 16% in the first six months this year (RCOM lagged peers). Some sense of stability has kicked into the market – in the June quarter, both RPMs and ARPUs have risen 2-4%. Total minutes rose, too, by 3%, while MoUs were up 1%.
- Indonesia - XL led the revenue growth on reported numbers with a 12% jump, Tsel had a 10% growth, while Indosat declined by 2%. As a result, XL's and Tsel's revenue market share expanded by 80-110bps to 22% and 60%, respectively, whereas Indosat lost 190bps to 18%.
- In Japan, KDDI had a 7% mobile service revenue growth due to sub growth and mobile ARPU increase, while NTT was down 4% (y-y in 1Q).
- In Malaysia, in 1H14, DiGi's service revenue rose 4%, Celcom was flat, while Maxis was down 5%. We note that the industry growth has struggled in the past couple of quarters. In 4Q13 and 1Q14, it was flat-to-negative for the industry as a whole – while SMS and VAS have been on a structural decline, voice has been weak recently.
- The Philippines - Wireless revenue growth for PLDT was flat y-y vs. up 5% for Globe - indicating strong market share gains for Globe. Voice trends were better and revenue was up 6% y-y. Non-voice (data and SMS) was down 1% y-y. This is compared to an average 8% y-y growth seen in non-voice in 1H14. The subdued trends in non-voice on the back of promotions running in the market (free Facebook, etc) not only subdued growth in mobile internet, but also triggered declines in SMS. 1H14, SMS revenue was down 7% y-y (-2% in 2013), while mobile internet was up 29% vs. up 47% the year before.
- Singapore wireless revenue rose 2% in 1H - M1 had a 4% growth, SingTel up 3%, while StarHub remained flat. Some benefits of data repricing have come in and now ~60% of subscribers are on tiered plans. SingTel's recent data-WiFi bundle (for SGD3 extra and no 4G-VAS charges) would imply that the ARPU upside could more likely come from higher usage rather than from direct price increases – if others too rollout similar plans. Broadband remains very competitive with declining ARPUs and there is risk of new competition in wireless with MyRepublic could be looking to enter this space as well.
- In South Korea, SKT and KT had a 2% mobile service revenue growth, while LGU was stronger at 11%. With higher MVNO penetration for SKT and KT, mobile service revenue growth is coming in lower than their mobile ARPU growth. LGU+ is less affected by low MVNO contribution.
- Taiwan telcos had an average 2% service revenue growth – CHT up 1% and FET/TWM up 2-3%. Though there is some decline in voice revenue, non-voice growth has held up, driving overall revenue growth. 4G launch from the new entrant and telcos extending promotions have raised competitive risks in the market which also could mean that ARPU uplift would likely get delayed.
- Thailand telcos had 1% service revenue growth – AIS was flat, DTAC was down 1% while TRUE had ~9% growth coming off a weak 2013. Within this, voice continues to be weak for telcos – down 10% - while non-voice was stronger at a 28% average growth. 37% of service revenue came from non-voice, we note.

Fig. 61: Service revenue growth – 1H13 to 1H14



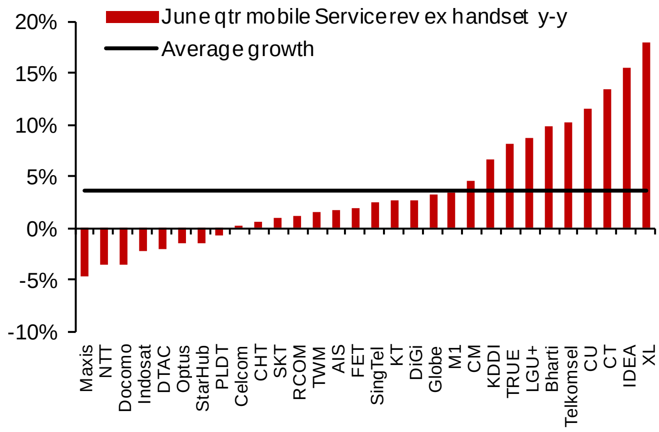
Source: Company data, Nomura research

Fig. 62: Service revenue growth – June-14 quarter q-q



Source: Company data, Nomura research

Fig. 63: Service revenue growth – June-14 quarter y-y



Source: Company data, Nomura research

EBITDA trends

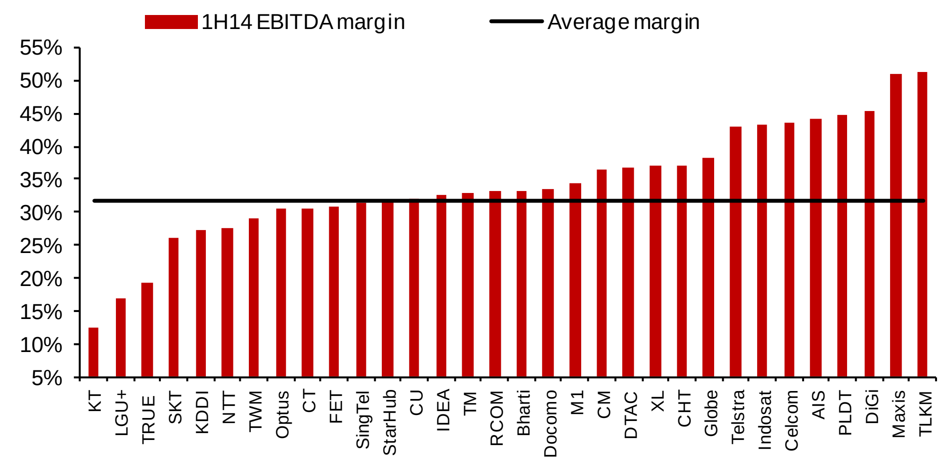
- Industry EBITDA rose 2% on an average. Bharti and IDEA had +20% growth in 1H. KT Corp's EBITDA was weak – down 51% in 1H. Maxis had a 7% EBITDA decline, but its margins of 51% are still one of the highest in the region. ISAT had a 5% EBITDA decline.
- On EBITDA margins, DATC had ~6pps margin improvement, while IDEA, FET, M1, AIS and CU had +200bps margin improvement in 1H14. KT Corp had 12pps decline on the back of weak EBITDA. XL's margins were lower by 350bps, while Globe and PLDT were down 260-300bps.

Marketwise

- In Australia, TLS had a 2% normalised EBITDA growth, while Optus had 1% decline. On total margins, Telstra is stable at around 42% vs. 30% for Optus.
- Bharti and IDEA had strong EBITDA growth in India, while RCOM was weak. For IDEA, June quarter margins rose 150bps, which were helped by SACs, which fell to 8.9% of revenue (from 9.8% in 4Q), network opex, which fell to 24% of revenue (from 24.8% in 4Q), and roaming & access charges, which fell to 15% (from 15.8% in 4Q). Compared to this, Bharti had 200bps margin expansion to 37% in the Indian business.
- In Indonesia, 1H EBITDA grew 2-9% for XL and TLKM, while it declined by 5% for Indosat. During 1H, TLKM's margins were flat y-y at 51% but XL's and ISAT's margins witnessed a decline of 200-350bps y-y to 37% and 43%, respectively.

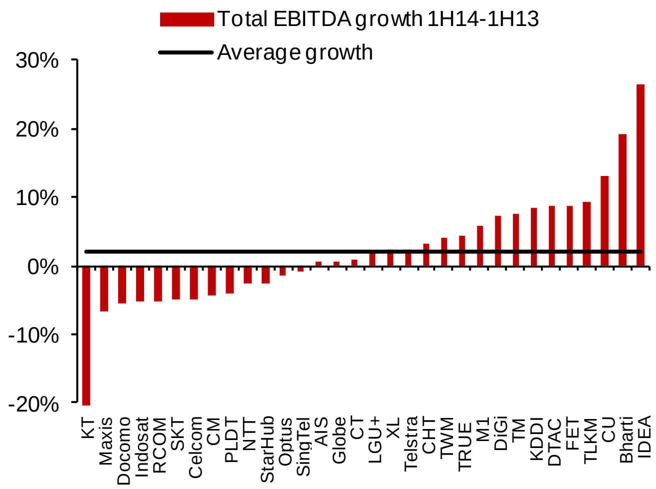
- In Japan, KDDI had a 7% EBITDA growth with margin improvement to 32% from 30%, while NTT's EBITDA was down 5%.
- On EBITDA, DiGi had a 7% growth in 1H compared with 5-7% decline for Celcom and Maxis. EBITDA margins were up slightly at ~47% on an average. TM had a strong 8% EBITDA growth, reaffirming its cost focus.
- The Philippines telcos had weak EBITDA margins – down 260-320bps in 1H. Globe's overall EBITDA margins declined by 253 bps y-y. Subsidy and marketing expenses were at 15% of service revenue vs. 13% a year ago. Despite slower net adds, SACs were up ~30% y-y. For PLDT, wireless margins declined 477bps y-y in 1H14, though this was only partly on account of subsidies. Subsidy + marketing expenses (in wireless) grew 14% y-y to 14% of service revenue (12% in 1H13). In 2013, subsidy + marketing were up to 13% from 11.6% in 2012.
- For Singapore, 1H14 industry EBITDA was down 1% - StarHub down 3%, SingTel down 1%, while M1 had a 6% EBITDA growth;
- In South Korea, KT had ~50% EBITDA decline in 1H. This was drive by one-off cost related to ERP cost, which reflected in 2Q. Adjusting for KRW1.05tn of ERP cost, KT's 1H14 EBITDA declined by 9%. SKT had a 5% decline, which LGU had a 2% growth.
- Taiwan telcos had a decent EBITDA growth and margin improvement in 1H14, driven by deferred 4G expenses. EBITDA rose 3-9%, while margins were up 40bps for TWM and 150-200bps for CHT and FET. Nevertheless, these trends would reverse in 2H14F, driven by higher costs of 4G and heightened competition pressure, in our view.
- Thailand - 1H14 EBITDA rose 8% for telcos with margins improving by ~300bps on an average. AIS had 180bps EBITDA margin improvement, while DTAC had a stronger 640bps rise driven by a higher clip in regulatory cost savings. TRUE's mobile segment, too, saw EBITDA margin improving from sub-10% in 1H13 to ~14% now, which suggests some stability in competition.

Fig. 64: EBITDA margins -- 1H14



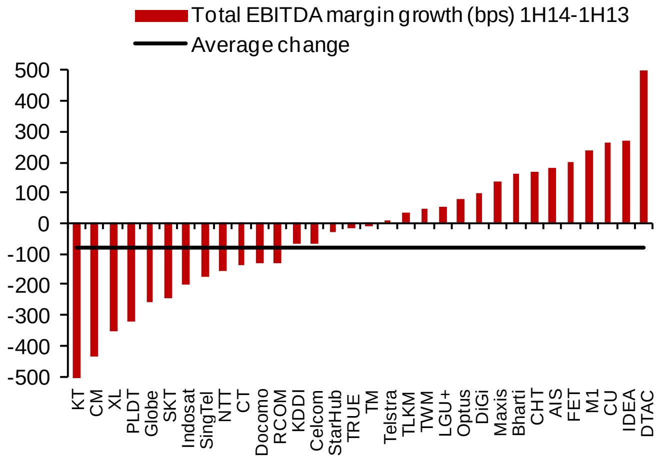
Source: Company data, Nomura research

Fig. 65: EBITDA growth – 1H14



Source: Company data, Nomura research. For KT, EBITDA declined by 51% in 1H

Fig. 66: EBITDA margins change -- 1H14

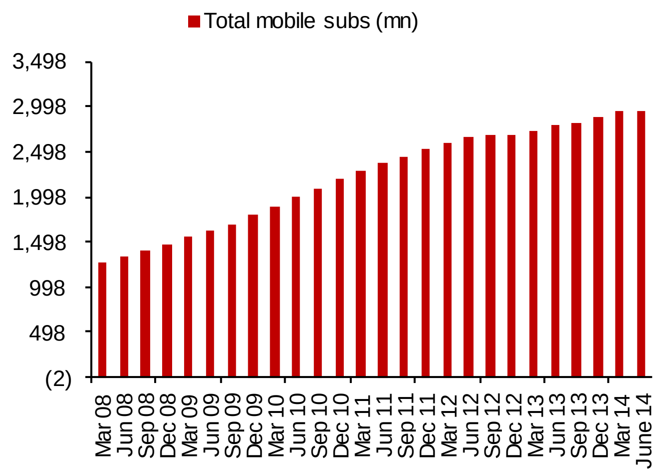


Source: Company data, Nomura research. KT had ~13pps margin decline in 1H, while DTAC had 6pps improvement

ARPU and subscriber trends

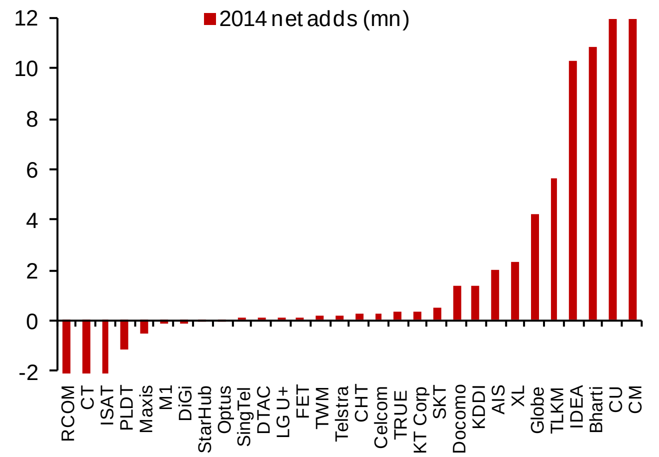
- Compared to June -13, Korean telcos had the highest ARPU improvement. Indian telcos, too, had a decent ARPU growth. Thai telcos, Globe and XL had ARPU decline y-y.
- M1, RCOM, ISAT and IDEA had the highest sequential ARPU improvement. ARPUs were down the most for XL, TRUE and DTAC. ~70% of telcos had sequential ARPU improvement.
- In Japan, KDDI had a 2% mobile consumer ARPU increase and a 7% total mobile sub-growth, while NTT's total mobile ARPU was down 7% with a 3% sub-growth.
- Telcos have added a total of around 70mn subscribers this year to a total of 2.9bn mobile subscribers.
- Taiwan telcos launched 4G in 2Q14 with telcos adding ~200k subscribers each within three months of 4G launch.
- Korean telcos still lead on 4G with 33mn subscribers (59% of total mobile subscribers). Mobile ARPU rose 5~7% in 1H14 for Korea telcos, driven by up-selling from unlimited LTE voice/data tariff plans.

Fig. 67: Asia telcos' subscriber trends



Source: Company data, Nomura research

Fig. 68: 2014 net adds

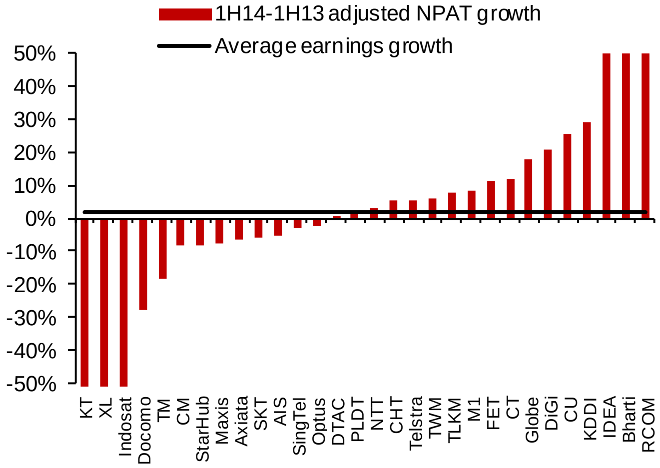


Source: Company data, Nomura research. Y axis capped at 12mn

Earnings trends

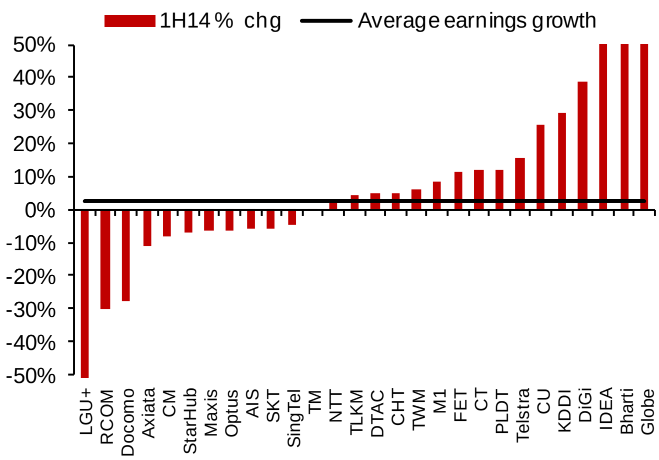
- Adjusted earnings rose 1% on an average in 1H14. Indian telcos had the highest NPAT growth coming from a weaker 2013. KT, XL and ISAT were at the bottom.
- Earnings of South Korea telcos fell by 98% y-y in 1H14 on the back of: 1) KT's one-off ERP cost in 2Q; 2) LGU+'s one-off additional corporate tax in 1Q; and 3) overall poor recurring profits due to heavy marketing expense during 1H14.
- Around 80% of telcos had negative consensus EPS revisions. Highest revisions were seen for KT Corp, XL and ISAT. DiGi, TM, KDDI and NTT had positive consensus earnings revisions this year.
- In Australia, TLS had a 5% growth, while Optus had a 2% decline.
- Thai telcos had ~12% negative consensus EPS revisions YTD. In 1H14, earnings were flat for DTAC and down 6% for AIS.
- In Taiwan, consensus downward EPS revisions were at 5-9%. 1H14 trends, however, were better (no impact of 4G) and earnings rose 5-11%. However, telcos are guiding for EPS declines in 2H14.
- In the Philippines, Globe had strong earnings growth – up 18%. PLDT was up 2%.
- In Singapore, SingTel had a 3% earnings decline compared with an 8% for StarHub. M1 had an 8% growth in 1H.

Fig. 69: Adjusted earnings growth – 1H14-1H13



Source: Company data, Nomura research; Y axis capped at +/-50%

Fig. 70: Reported earnings growth – 1H14-1H13



Source: Company data, Nomura research. Y axis capped at +/-50%

Appendix A-1

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SK Telecom	017670 KS	KRW 286,500	08-Sep-2014	Buy	Strong Buy	02-Dec-2008	N/A
KT Corp	030200 KS	KRW 35,750	08-Sep-2014	Neutral	Buy	06-Jan-2012	N/A
LG Uplus Corp.	032640 KS	KRW 12,100	08-Sep-2014	Buy	Neutral	06-Jan-2012	N/A
Chunghwa Telecom	2412 TT	TWD 91.9	10-Sep-2014	Neutral	Buy	22-Jul-2011	N/A
Taiwan Mobile	3045 TT	TWD 91.0	10-Sep-2014	Neutral	Buy	09-Sep-2014	N/A
Far EasTone Telecom	4904 TT	TWD 59.0	10-Sep-2014	Reduce	Neutral	09-Sep-2014	N/A
China Telecom	728 HK	HKD 4.99	10-Sep-2014	Neutral	Buy	08-Jan-2014	N/A
China Unicom	762 HK	HKD 13.44	10-Sep-2014	Buy	Neutral	11-Feb-2010	N/A
China Mobile	941 HK	HKD 98.70	10-Sep-2014	Buy	Neutral	03-Jun-2014	N/A
Nippon Telegraph and Telephone	9432 JP	JPY 7,060	10-Sep-2014	Buy	Neutral	12-Apr-2013	N/A
KDDI	9433 JP	JPY 6,305	10-Sep-2014	Buy	Neutral	07-Sep-2012	N/A
NTT Docomo	9437 JP	JPY 1,862.0	10-Sep-2014	Buy	Neutral	25-Jul-2014	N/A
Advanced Info Service	ADVANC TB	THB 209.00	10-Sep-2014	Buy	Not Rated	23-Aug-2012	N/A
Axiata Group Berhad	AXIATA MK	MYR 6.95	10-Sep-2014	Buy	Neutral	11-Sep-2012	N/A
Bharti Airtel	BHARTI IN	INR 407	10-Sep-2014	Buy	Neutral	06-Sep-2013	N/A
Bharti Infratel	BHIN IN	INR 284	10-Sep-2014	Buy	Not Rated	21-Apr-2014	N/A
DiGi.Com	DIGI MK	MYR 5.85	10-Sep-2014	Neutral	Buy	23-Jul-2012	N/A
Total Access Communication	DTAC TB	THB 105.00	10-Sep-2014	Buy	Not Rated	23-Aug-2012	N/A
XL Axiata	EXCL IJ	IDR 6,625	10-Sep-2014	Buy	Neutral	27-Jun-2013	N/A
Globe Telecom	GLO PM	PHP 1,899.00	10-Sep-2014	Reduce	Neutral	04-Sep-2014	N/A
Idea Cellular	IDEA IN	INR 170	10-Sep-2014	Neutral	Reduce	14-Jan-2014	N/A
Indosat	ISAT IJ	IDR 3,950	10-Sep-2014	Neutral	Buy	01-Nov-2013	N/A
M1	M1 SP	SGD 3.67	10-Sep-2014	Neutral	Buy	02-Sep-2014	N/A
Maxis Communications	MAXIS MK	MYR 6.49	10-Sep-2014	Reduce	Neutral	11-Sep-2012	N/A
Reliance Communications	RCOM IN	INR 111	10-Sep-2014	Neutral	Reduce	08-Sep-2011	N/A
Singapore Telecom	ST SP	SGD 3.90	10-Sep-2014	Buy	Neutral	30-Nov-2012	N/A
StarHub	STH SP	SGD 4.12	10-Sep-2014	Neutral	Reduce	07-Aug-2013	N/A
Telekom Malaysia	T MK	MYR 6.41	10-Sep-2014	Buy	Neutral	14-Jan-2014	N/A
Tower Bersama Infrastructure	TBIG IJ	IDR 8,300	10-Sep-2014	Neutral	Buy	13-Aug-2014	N/A
Philippine Long Distance Telephone	TEL PM	PHP 3,378.00	10-Sep-2014	Reduce	Neutral	04-Sep-2014	N/A
Telkom Indonesia	TLKM IJ	IDR 2,810	10-Sep-2014	Neutral	Buy	24-Feb-2012	N/A
Telstra Corporation	TLS AU	AUD 5.62	10-Sep-2014	Buy	Neutral	13-Feb-2014	N/A
Sarana Menara Nusantara	TOWR IJ	IDR 3,905	10-Sep-2014	Buy	Not Rated	11-Apr-2012	N/A

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