



Redtone International Berhad

Leveraging on Maxis' 4G advantage

THIS REPORT IS STRICTLY FOR INTERNAL CIRCULATION ONLY*

Indicative FV: **RM0.48** (+20%)

Last Traded: **RM0.40**

Not-rated

TA Research Team Coverage

+603-2072-1277 ext:1265

kyliechan@ta.com.my

www.taonline.com.my

Potentially wider coverage for 4G-LTE. A positive industry development has emerged whereby telco operators are seeking approval from MCMC to allocate a portion of their 1.8GHz spectrum for transmission of 4G services. To recap, MCMC had in December 2012 awarded 2.6GHz spectrum to industry players, including Redtone, for the rollout of 4G services. The lower frequency band offered by 1.8GHz allows for wider coverage, whereas the 2.6GHz spectrum band offers higher penetration and capacity. Therefore, telco operators will benefit from transmitting 4G via both 1.8GHz and 2.6GHz spectrum bands simultaneously as this would result in a larger nationwide footprint. In addition, the quality of 4G-LTE services in urban areas whereby there is high population density and multi-storey buildings will not be affected as telcos can transmit using 2.6GHz spectrum in these areas.

1.8GHz may be used for 4G. We believe that industry players will eventually get approval to carve-out a small block, say 1x10-15Mhz of their 1.8GHz spectrum for transmission of 4G services. Currently, 2G (GSM) services are transmitted via the 1.8GHz and 900MHz spectrums. However, due to the widespread adoption of 3G devices, 2G capacity is currently under-utilised. Therefore, it makes economic sense to allocate a portion of the 1.8GHz spectrum for 4G services, in anticipation of its rapid take-up, and to maximise utilisation of spectrum resources. In addition, cellphone users in rural areas, whom are the main subscribers of 2G services, would not be disadvantaged, as a scaled-down block of 1.8GHz spectrum would still be retained for 2G transmission.

Enhanced earnings potential from NSA. Redtone benefits indirectly as the group's Network Sharing and Alliance (NSA) Agreement with Maxis dictates that Redtone shall receive recurring usage fees from Maxis based on the number of unique subscriber devices that utilise 4G services. Therefore, wider coverage following the adoption of 1.8GHz spectrum implies accelerated take-up rate and increased subscribers for Maxis' 4G services, which would ultimately enhance Redtone's bottomline. On top of that, we anticipate that the widely-anticipated commercial launch of Samsung Galaxy S4 smartphone by end-April 2013 in Malaysia would provide a boost to 4G take-up rates as well. The S4, in addition to other new handsets launched in the market recently, are able to support multi-band frequencies, and thus are compatible with 4G networks running on both the 1.8GHz and 2.6GHz spectrum.

4G-LTE services launch soon. Redtone targets to launch 4G LTE services by 3QCY13 and intends to bundle its services with applications (e.g. cloud computing, and web-based applications) to enhance its value-add proposition to customers. Redtone will incur minimal expenses for its 4G services launch given that the group will not be embarking on a nationwide mass market launch, but will market its services via the group's existing network of sales agents instead.

Share Information

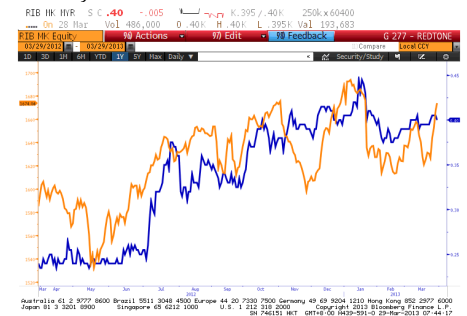
| | |
|----------------------------------|------------|
| Bloomberg Code | RIB MK |
| Stock Code | 0032 |
| Listing | ACE Market |
| Share Cap (mn) | 480 |
| Market Cap (RMmn) | 191 |
| Par Value (RM) | 0.10 |
| 52-wk Hi/Lo (RM) | 0.22/0.45 |
| 12-mth Avg Daily Vol ('000 shrs) | 1,826 |
| Estimated Free Float (%) | 43% |
| Beta | 1.30 |
| Major Shareholders (%) | |

| |
|----------------------|
| Indah Pusaka - 33% |
| Berjaya Group - 10% |
| Warisan Jutamas - 8% |

Share Performance

| Price Change (%) | Redtone | FBMKLCI |
|------------------|---------|---------|
| 1 mth | 2.6 | 2.2 |
| 3 mth | 1.3 | -0.4 |
| 6 mth | 21.2 | 2.3 |
| 12 mth | 66.7 | 5.6 |


12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

Maxis obtained more 4G spectrum. As Redtone purchases wholesale LTE bandwidth from Maxis, we believe that the group benefits from Maxis' superior 4G coverage and speeds relative to competitors. Maxis has a leading advantage over its peers given that the company transmits 4G services over 3 blocks of contiguous 2x10MHz spectrum on the 2.6GHz bandwidth. To recap, Maxis had acquired an additional block of 4G spectrum from UMobile in 4QCY12. In contrast, Digi and Celcom currently have one block of 2x10MHz each, which implies limited throughput and capacity. Nevertheless, we do not discount the possibility of 4G spectrum sharing between Puncak Semangat, Digi and Celcom in future which will render the latter two's services more comparable to Maxis.

Figure 1: Spectrum Allocation

| Operator | 900MHz | 1800MHz | 2100MHz | 2300MHz | 2600MHz | Total Spectrum Allocation |
|---|------------|------------|---------------------|--------------------------------|------------|---------------------------|
|  | 2 x 17 MHz | 2 x 25 MHz | 2 x 15 MHz 5 MHz | | 2 x 10 MHz | 139MHz |
|  | 2 x 2MHz | 2 x 25 MHz | 2 x 15 MHz 5 MHz | | 2 x 10 MHz | 109MHz |
|  | 2 x 16 MHz | 2 x 25 MHz | 2 x 15 MHz 5 MHz | | 2 x 10 MHz | 137MHz |
|  | | | 2 x 15 MHz 5 MHz | | 2 x 10 MHz | 55MHz |
|  | | | | 30MHz (Peninsular Malaysia) | | 30MHz |
|  | | | | 30MHz | 20 MHz | 50 MHz |
|  | | | | | 2 x 20 MHz | 40MHz |
|  | | | | 30MHz (East Malaysia) | 2 x 10 MHz | 50MHz |
|  | | | | 30MHz | 20 MHz | 50MHz |

Source: MCMC

Valuation

We maintain our fair value of RM0.48 on Redtone based on 9x CY13 PER. Redtone's earnings prospects appear promising on the back of: 1) major earnings boost in FY13-14 from upfront spectrum sharing fees from Maxis, 2) multi-year earnings expansion from recurring spectrum resource sharing fees, 3) higher than expected dividend payout (official payout ratio: 30%) on the back of stable spectrum fees and minimal capex requirements, and 4) Redtone is a strong contender for government data and broadband projects with current tender book of RM500mn.

EARNINGS SUMMARY

| FYE 31 May | 2010 | 2011 | 2012 | 2013f | 2014f |
|---------------------|-------|--------|-------|-------|-------|
| Revenue | 82.2 | 89.6 | 107.0 | 153.3 | 202.5 |
| EBITDA | 1.6 | (2.3) | 12.3 | 25.4 | 28.0 |
| EBITDA margin (%) | 2.0 | (2.5) | 11.5 | 16.6 | 13.8 |
| Pretax Profit | (4.4) | (11.0) | 3.2 | 25.0 | 29.0 |
| Reported Net Profit | (4.6) | (11.7) | 1.6 | 23.0 | 27.0 |
| Core Net profit | (4.6) | (11.7) | (9.3) | 23.0 | 27.0 |
| Core EPS (sen) | (1.1) | (2.7) | (2.0) | 4.8 | 5.7 |
| EPS growth (%) | n.m. | n.m. | n.m. | >100% | 17.4 |
| PER (x) | n.m. | n.m. | n.m. | 8.3 | 7.1 |
| Gross Div/Shr (sen) | 0 | 0 | 0 | 1.4 | 1.7 |
| Divd Yield (%) | 0.0 | 0.0 | 0.0 | 3.6 | 4.3 |

(THIS PAGE IS INTENTIONALLY LEFT BLANK)

Disclaimer

The information in this report has been obtained from sources believed to be reliable. Its accuracy or completeness is not guaranteed and opinions are subject to change without notice. This report is for information only and not to be construed as a solicitation for contracts. We accept no liability for any direct or indirect loss arising from the use of this document. We, our associates, directors, employees may have an interest in the securities and/or companies mentioned herein.

for TA SECURITIES HOLDINGS BERHAD (14948-M)

MENARA TA ONE, 22 JALAN P. RAMLEE, 50250 KUALA LUMPUR, MALAYSIA TEL: +603-20721277 / FAX: +603-20325048

(A Participating Organisation of Bursa Malaysia Securities Berhad)

Kaladher Govindan – Head of Research