Telecoms | ASIA PACIFIC

2011 Outlook

NOMURA

NOMURA INTERNATIONAL (HK) LIMITED

Sachin Gupta, CFA +65 6433 6968 sachin.gupta@nomura.com

NEUTRAL

ANCHOR REPORT

Will telcos run on 3D?

After yet another disappointing year for Asian telcos in 2010, we look through our 3D themes to see if there are reasons to be more excited in 2011. Data growth, Diversification and Dividends should generate some appeal in the sector, but perhaps not enough to see share prices run much above our current average expected return of 9%, plus another 5% in dividend yields. Hence, a NEUTRAL sector view is our call for 2011. Macro industry/market views will remain a bigger driver for telco stocks overall, but operationally, we see relatively more growth and upside in China and Indonesia within the region, also balanced by a stable mix of competitive and regulatory risks. Meanwhile, we turn more cautious on Singapore and the Philippines, downgrading both to Bearish, and PLDT to NEUTRAL. Wider availability of mid-range smartphones (US$150-200) looks like an emerging area, which should accelerate data take-up rates to 25% of revenues in 2011, on our estimates. We believe that ZTE stands to benefit from this theme, along with its expanding network reach – thus, we add it to our key regional picks. Our other key BUYs are Axiata, China Unicom, M1 and SK Telecom. We also add AIS to our key picks given its attractive 11% yield and stable operating trends. Stocks to avoid are Globe, RCOM and StarHub.

① **Looking down the value chain**

② **Diversification and dividends**

③ **Key stock picks and markets**

Nomura Anchor Reports examine the key themes and value drivers that underpin our sector views and stock recommendations for the next 6 to 12 months.

Stocks for action

Our key picks reflect a combination of cash and earnings growth.

Stock	Rating	Price	Price target
AIS (ADVANC TB)	BUY	87	108
Axiata (AXIATA MK)	BUY	4.74	5.90
China Unicom (762 HK)	BUY	11.24	13.50
M1 (M1 SP)	BUY	2.41	2.90
SK Telecom (017670 KS)	BUY	172,500	223,000
ZTE (763 HK)	BUY	31.85	36.00

Pricing as of 5 January, 2011; local currency

Analysts

Sachin Gupta, CFA
+65 6433 6968
sachin.gupta@nomura.com

Danny Chu, CFA
Stanley Yang
Leping Huang, PhD
Piyachat Ratanasuvan
(Capital Nomura Securities)
B. Roshan Raj
Neeraja Natarajan
Pankaj Suri
Eric Cha

Any authors named on this report are research analysts unless otherwise indicated.
See the important disclosures and analyst certifications on pages 69 to 72.

Telecoms | ASIA PACIFIC

2011 Outlook

NOMURA
NOMURA INTERNATIONAL (HK) LIMITED

Sachin Gupta, CFA +65 6433 6968 sachin.gupta@nomura.com

NEUTRAL

Action

In 2011F, data growth, diversification and dividends will be in focus for Asian telecom operators. But these drivers alone may not bring the sector back into favour, as we believe macros will remain a bigger catalyst. With an expected average share price gain of 9% in 2011F, we stay Neutral. Ongoing competitive and regulatory risks limit the scope for P/E re-rating or positive EPS revisions. We expect bigger positive operational surprises from mid-tier operators and equipment makers. China and Indonesia are our preferred markets, while Singapore and the Philippines are not. Key BUYs are AIS, Axiata, China Unicom, M1, SKT and ZTE.

Catalysts

Competition, regulations, capex, dividend surprises and M&A are key catalysts.

Anchor themes

Data growth, revenue diversification and dividends will likely be in focus in 2011F.

Stocks for action

Our key picks reflect a combination of cash and earnings growth.

Stock	Rating	Price	Price target
AIS (ADVANC TB)	BUY	87	108
Axiata (AXIATA MK)	BUY	4.74	5.90
China Unicom (762 HK)	BUY	11.24	13.50
M1 (M1 SP)	BUY	2.41	2.90
SK Telecom (017670 KS)	BUY	172,500	223,000
ZTE (763 HK)	BUY	31.85	36.00

Pricing as of 5 January, 2011; local currency

Will telcos run on 3D?

① Looking down the value chain

2010 was another disappointing year for Asia ex-Japan telcos, with the index up by only 8% and underperforming most markets and other sectors. EPS revisions were a negative 5% excluding XL Axiata. Unfortunately, 2011F is unlikely to have many fireworks, as we expect competition, regulations, capex and margin volatility to limit operational surprises and keep a lid on share prices.

So where is the excitement? Smartphones and data will be the buzz words, with entry-level smartphones (sub US$200) likely to be an emerging area in the APAC region considering different affordability levels. This should see data grow to around 25% of total revenues this year (from 17% in 2010). ARPUs could surprise positively, but margins may not. Hence, players down the value-chain stand to gain more than the operators. ZTE should be a beneficiary of handsets, 3G/4G and fixed network expansion.

② Diversification and dividends

Moderation in revenue and earnings growth rates to 5% and 9%, respectively, in FY11F are hardly appealing for emerging markets. Hence, we see a rising focus on growth in adjacent industries this year, such as media and health. This may provide revenue surprises, but incremental returns will be questionable. Otherwise, dividends will be a focus; we see our 2011F forecasts for 7% FCF yield over 5% dividend yield providing enough buffer for capital management or even to absorb capex surprises from 3G/4G rollouts.

③ Key stock picks and markets

China and Indonesia should fare better than others in the region in 2011F, on growth, valuations, competition and regulations, while Singapore and the Philippines could lag. We expect upside ARPU and net-add surprises from Unicom. We still like Axiata's diversity in cash and earnings, and 67% exposure to XL. Despite our cautious stance on Singapore, we expect M1 to gain further from the NBN rollout. SKT should benefit from rising smartphone penetration in Korea. We add ZTE into our key picks, along with AIS for its strong 11% yield (2011F) and stable operating trends. Stocks to avoid are Globe, RCOM, and StarHub.

Analysts

Sachin Gupta, CFA
+65 6433 6968
sachin.gupta@nomura.com

Danny Chu, CFA
+852 2252 6209
danny.chu@nomura.com

Stanley Yang
+82 2 3783 2331
stanley.yang@nomura.com

Leping Huang, PhD
+852 2252 1598
leping.huang@nomura.com

Piyachat Ratanasuvan
Capital Nomura Securities
+66 2 638 5776
piyachat.ratanasuvan@nomura.com

B. Roshan Raj
+65 6433 6961
broshan.raj@nomura.com

Eric Cha
+82 2 3783 2337
eric.cha@nomura.com

Neeraja Natarajan
+91 22 6723 5231
neeraja.natarajan@nomura.com

Pankaj Suri
+91 22 4053 3724
pankaj.suri@nomura.com

Contents

Latest company views

Countries

For more on the underlying Anchor themes, see ZTE — *Three drivers in 2011F* (2 December, 2010)

Also see our Anchor Report: *4G – little excitement for big potential* (7 December, 2010)

2011 outlook

Top-20 questions for 2011

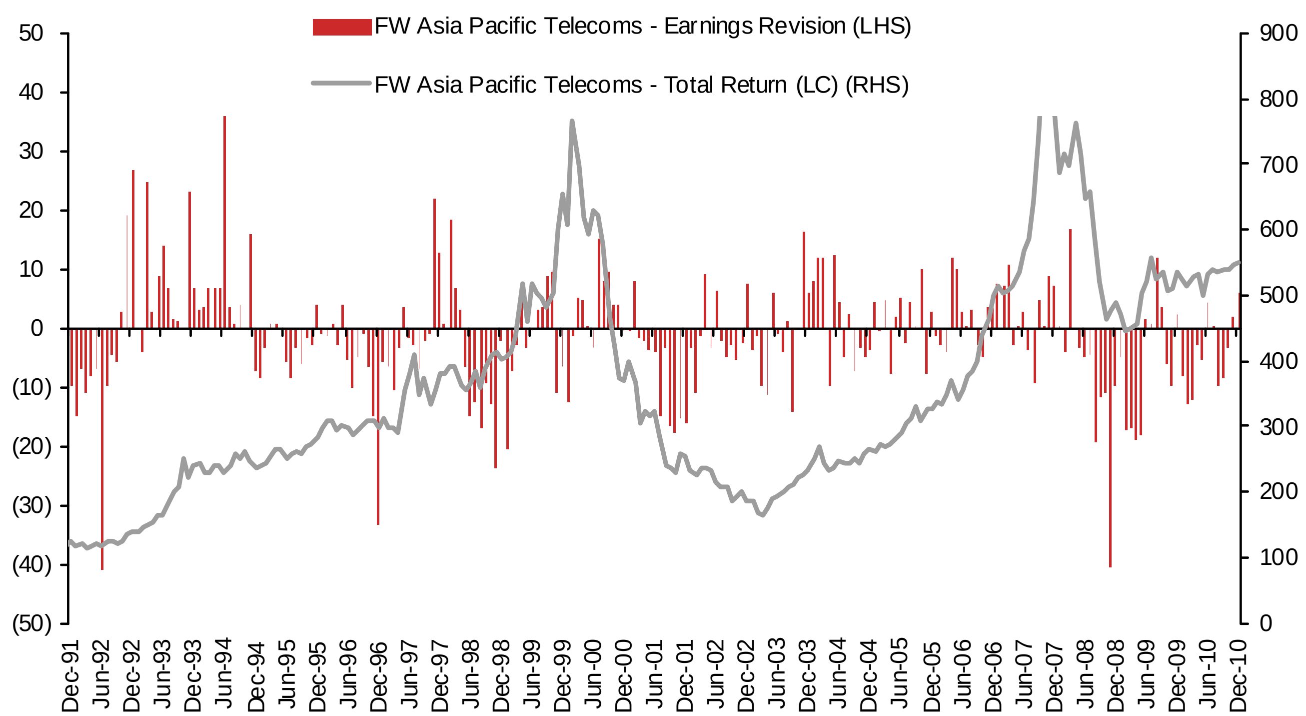
We summarise our team's views on the top-20 questions for Asia-ex Japan telcos in 2011 in exhibit below.

Exhibit 1. Our expectations of key trends and issues

Sector view for 2010	**NEUTRAL**
The best markets	China and Indonesia
The worst markets	Singapore and the Philippines
Key sub-sectors	Mid-cap operators and equipment manufacturers
Key themes	The 3Ds - data, diversification, dividends
Key share price drivers	EPS growth rate, liquidity, data trends
Biggest growth driver in the sector	Data
Biggest concerns	Network quality (capex), regulations, competition (margins)
More or less risk of competition this year	Same to more
Could data surprise on the upside	Yes, more likely in North Asia
Can companies cut costs further to maintain margins	Yes, but only marginally
Are we more concerned about capex	Yes
Are we more concerned about regulations	Yes
What is the biggest regulatory uncertainty	MNP, interconnect rates, service quality
EPS revision trends	Flat to down
Any risks to dividends	Upside risks
Any capital management potential	Yes for Thailand, Singapore, Taiwan, Malaysia, Korea
Potential for M&A	Adjacent markets likely, in-market less likely
Key BUYs	AIS, Axiata, China Unicom, M1, SKT and ZTE
Key SELLs	StarHub, Globe, RCOM
Which stock could surprise the most?	Maxis, Telstra, China Mobile, FET

Source: Nomura research

Exhibit 2. Telecoms earnings revision index – positive sector returns, but downward EPS revisions continue



Source: FTSE, MSCI, I/B/E/S, Nomura International (Hong Kong) Limited - Equity Quantitative Strategies

Exhibit 3. Expected returns

Company	Bloomberg tickers	Mkt cap (US$mn)	Currency	Rating	Price target	Current price	Upside/ downside (%)	Dividend yield (%)	Total returns (%)
SK Telecom	017670 KS	12,361	W	BUY	223,000	172,500	29	5	35
AIS	ADVANC TB	8,574	THB	BUY	108	87	24	11	35
KT Corp	030200 KS	10,382	W	BUY	58,000	44,800	29	4	34
PT XL Axiata	EXCL IJ	5,497	RP	BUY	7,500	5,800	29	2	31
Total Access	DTAC TB	3,394	THB	BUY	52.0	43.3	20	9	29
Axiata Group	AXIATA MK	13,042	RM	BUY	5.90	4.74	24	3	28
China Mobile	941 HK	206,098	HK$	BUY	95	77	23	4	27
MobileOne	M1 SP	1,669	S$	BUY	2.90	2.41	20	6	26
PT Indosat	ISAT IJ	3,420	RP	BUY	7,000	5,650	24	2	26
Digi.com	Digi MK	6,307	RM	BUY	30.0	24.9	20	5	25
China Unicom	762 HK	35,510	HK$	BUY	13.50	11.24	20	1	22
China Telecom	728 HK	43,892	HK$	NEUTRAL	4.80	4.08	18	2	20
Taiwan Mobile	3045 TT	8,858	NT$	BUY	77	68	13	6	19
TM	T MK	4,121	RM	BUY	4.00	3.57	12	6	18
PT Telkom	TLKM IJ	17,598	RP	NEUTRAL	9,000	8,000	13	5	17
Telstra	TLS AU	34,677	A$	NEUTRAL	2.96	2.79	6	9	15
PLDT	TEL PM	10,803	PHP	NEUTRAL	2,760	2,532	9	6	15
SingTel	ST SP	37,921	S$	NEUTRAL	3.35	3.07	9	6	15
ZTE	763 HK	11,748	HK$	BUY	36.0	31.9	13	1	14
Chunghwa*	2412 TT	26,648	NT$	BUY	75.0	73.0	3	7	10
Maxis	Maxis MK	13,097	RM	NEUTRAL	5.45	5.36	2	6	8
LG Uplus	032640 KS	3,267	W	NEUTRAL	7,400	7,150	3	3	6
Far EasTone	4904 TT	4,661	NT$	NEUTRAL	40.0	41.8	(4)	6	1
Globe Telecom	GLO PM	2,480	PHP	REDUCE	760	821	(7)	7	0
Bharti Airtel	BHARTI IN	29,170	INR	NEUTRAL	332	349	(5)	1	(4)
Idea Cellular	IDEA IN	5,051	INR	REDUCE	65	70	(6)	0	(6)
StarHub	STH SP	3,472	S$	REDUCE	2.25	2.62	(14)	8	(6)
SK Broadband	033630 KS	1,382	W	REDUCE	4,600	5,260	(13)	0	(13)
Reliance Com	RCOM IN	6,368	INR	REDUCE	120	140	(14)	2	(13)
True	TRUE TB	1,653	THB	REDUCE	4.10	7.05	(42)	0	(42)

Note: AIS, Total Access and True are covered by Capital Nomura Securities; pricing as of 5 January, 2011; * price target under review

Source: Capital Nomura Securities estimates, Nomura estimates

3Ds in 2011

2011 – watch for the 3D effect?

In 2010, NJA Telcos underperformed with 8% returns, driven by negative EPS revisions

2010 was another disappointing year for Asia ex-Japan telcos. The NJA index was up 8%, and the average price increase for telcos was 7%, excluding XL, SmarTone and True (all up >100%), or 20% including these. This compared to our expected average return of 14% for 2010. Asian telcos were the second-worst performing sector in the region and most of the large cap names underperformed local markets, except for the Chinese. Key reasons for underperformance appear to be ongoing competition and regulatory concerns, as well as rising data growth (and subsidies) which compressed margins and consistently led to negative EPS revisions.

Exhibit 2 highlights the consensus earnings revision ratio and total return trends for Asian telcos since 1999. The earnings revision ratio is computed as the number of stock upgrades divided by the number of downgrades; that is, a ratio of >1 implies more upgrades than downgrades. As in 2009, this ratio remained negative in most months in 2010, and average EPS revisions were negative 5%, excluding XL.

2011F won't be stellar either; key drivers and issues

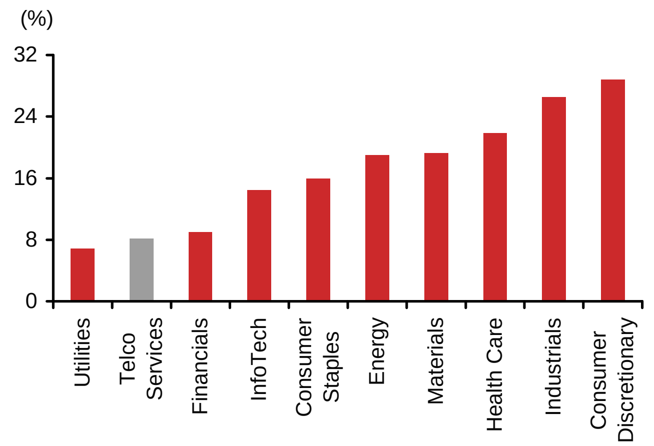
In our opinion, 2011F is not likely to be a stellar year too. We expect an average share increase of 9% and average dividend yield of 5% for 2011F and, hence we maintain a NEUTRAL view on the sector.

The three key themes to focus on:

- Data growth and its impact on profitability – every market will have distinct challenges;
- Revenue diversification from carriage to non-carriage businesses – we think telcos in Korea and Singapore could lead the way; and
- Dividends – 7% FCF yields versus 5% dividend yields suggest some capital management upside, but we also need to watch for capex risks more this year.

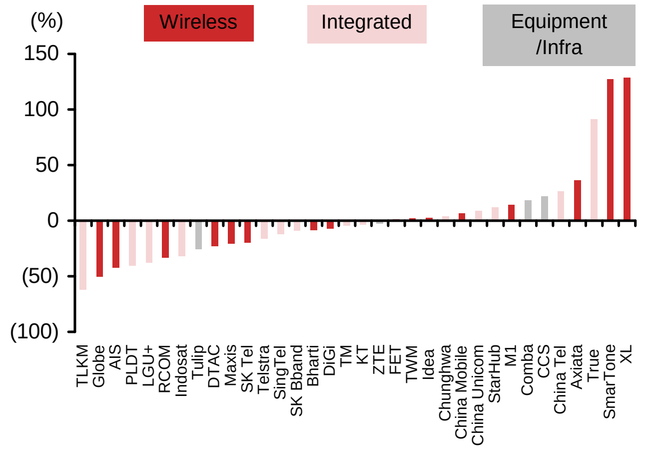
The fundamental issues and concerns are still looming: 1) we expect average revenue and earnings growth to moderate to 5% and 9%, respectively, in 2011F; 2) the data outlook is strong, in our opinion, but voice still constitutes around 80% of total revenue and voice to data inflexion is still a few years away; 3) cost reduction is an ongoing focus but around 60% of costs in the sector are fixed and these can't be reduced much without impacting the operating leverage; 4) the cash outlook is solid, in our view, but excess returns over the average 5% yield have been rare; 5) although capex surprises have been limited, we think the risk remains to the upside with impending 3G/4G launches and FTTx rollouts; and 6) regulations remains a key overhang.

Exhibit 4. Asia ex-Japan sector performances (2010)



Source: Company data, Nomura estimates

Exhibit 5. Relative performances to local markets (2010)



Source: Company data, Nomura estimates

Exhibit 6. NJA Telcos – relative positioning

		FY11F												
		P/E (x)	EV / EBITDA (x)	Div yield (%)	FCF yield (%)	Revenue growth (%)	EBITDA growth (%)	EBITDA mrgn chg (%)	Valuation	B/S strength	Cash return potential	Regulatory outlook	Competitive outlook	Upside from data growth
BUY	AIS	12.7	5.5	10.9	11.8	1.6	(1.7)	(1.49)	√	√	√√	x	√	√
	Axiata group	13.2	5.5	3.4	8.7	10.4	8.9	(0.65)	√√	√	√√	√	√	√
	China Mobile	10.4	4.4	4.4	10.6	5.9	1.8	(1.88)	√√	√√	√√	√	x	√
	China Unicom	28.1	4.5	1.1	(4.9)	7.2	10.1	1.20	√	x	√	√	x	√
	Chunghwa	15.6	8.0	7.1	6.8	(0.3)	(1.3)	(0.47)	x	√√	√	√	√	√√
	Digi.com	16.3	7.9	4.9	6.8	5.7	4.5	(0.49)	x	√√	√√	√	√	√
	KT Corp	7.4	4.0	4.5	7.1	0.5	2.8	0.58	√	x	√√	√	x	√√
	MobileOne	13.5	7.1	5.9	7.9	4.5	3.7	(0.26)	√√	√	√	√	√	√√
	PT Indosat	15.6	5.0	2.3	0.6	10.6	10.5	(0.05)	x	x	√	√	x	√
	PT XL Axiata	12.4	5.6	2.0	9.6	15.4	12.7	(1.24)	√	√	√√	√	x	√
	SK Telecom	7.3	3.6	4.9	18.1	6.1	11.1	1.63	√√	√	√√	√	x	√√
	Taiwan Mobile	14.1	9.1	6.4	6.5	0.3	(1.7)	(0.85)	x	√	√	√	√	√√
	TM	22.0	5.3	5.5	7.0	2.9	3.6	0.21	√	√	√	√	√	√
	Total Access	11.3	4.6	8.8	12.6	2.7	(4.1)	(2.34)	√√	√	√√	x	√	√
NEUTRAL	Bharti Airtel	16.4	7.6	0.9	3.9	18.6	22.3	1.10	x	x	√	x	xx	√
	China Telecom	16.4	4.1	2.2	11.6	4.2	(0.6)	(1.57)	x	√	√	√	x	√
	Far EasTone	15.7	5.9	5.7	8.8	0.0	(2.3)	(0.84)	x	√	x	√	√	√
	LG Uplus	8.5	3.4	2.7	9.7	4.7	16.2	2.07	√√	x	√	√	x	√√
	Maxis	17.0	9.4	6.0	5.4	5.4	3.2	(1.01)	xx	√	√	√	x	√
	PLDT	11.7	6.2	6.0	8.4	1.2	(0.6)	(1.00)	√	√	√	√	xx	√
	PT Telkom	13.1	4.2	4.6	11.0	6.4	8.2	0.86	√	√	√	√	x	√
	SingTel	12.9	7.1	5.5	5.9	3.1	4.6	0.57	x	√	√√	√	x	√
	Telstra	9.8	4.7	9.3	11.8	(1.2)	(6.4)	(2.19)	√	√	√√	xx	x	√
REDUCE	Globe Telecom	12.1	4.7	7.3	5.9	2.0	0.9	(0.54)	√	x	√	√	xx	√
	Idea Cellular	24.3	8.1	0.0	(2.2)	15.7	20.2	0.97	xx	xx	x	x	xx	x
	Reliance Com	16.2	7.5	1.6	2.4	9.3	14.8	1.66	xx	x	x	x	xx	x
	SK Broadband	37.5	5.0	0.0	2.8	6.2	26.6	4.05	xx	xx	x	√	x	√
	StarHub	16.3	8.1	7.6	6.5	3.9	5.3	0.38	xx	x	x	√	x	√
	True	n/m	6.0	0.0	3.0	2.8	1.9	(0.27)	x	xx	xx	x	x	√

Source: Bloomberg, Nomura research; Note: AIS, Total Access and True are covered by Capital Nomura Securities

Stock picks

Key stock picks

- We segregate all our regional stocks in four baskets – quality names, hopefuls, defensive yields and earnings risks candidates. Our preferred basket of stocks is highlighted in the box below.
- Based on the key drivers discussed above, along with a mix of growth and upside in operational trends, our key regional picks for 2011 are AIS, Axiata, China Unicom, M1, SKT and ZTE.

Exhibit 7. Segregating stocks into baskets

Quality at reasonable price	Hopefuls	High defensive yield	Earnings risks
AIS **Axiata** **China Unicom** **M1** **SK Telecom** **ZTE**	**Indosat** **TM**	**Chughwa** **DiGi** **DTAC**	Globe RCOM StarHub Telstra IDEA True
SingTel Bharti China Mobile XL Axiata KT Corp PLDT PT Telkom	LGU+ SK Broadband China Telecom	FET Maxis Taiwan Mobile	
Valuations range from 7-15x P/E FY12F, with 9% EPS growth over the next 2 years.	*Turn-around/ execution stories. If successful, annual returns should exceed 20%.*	*Defensive plays with benign competition and earnings risks.*	*Yields may be strong, but so is earnings risks.*

Source: Nomura research, Capital Nomura Securities

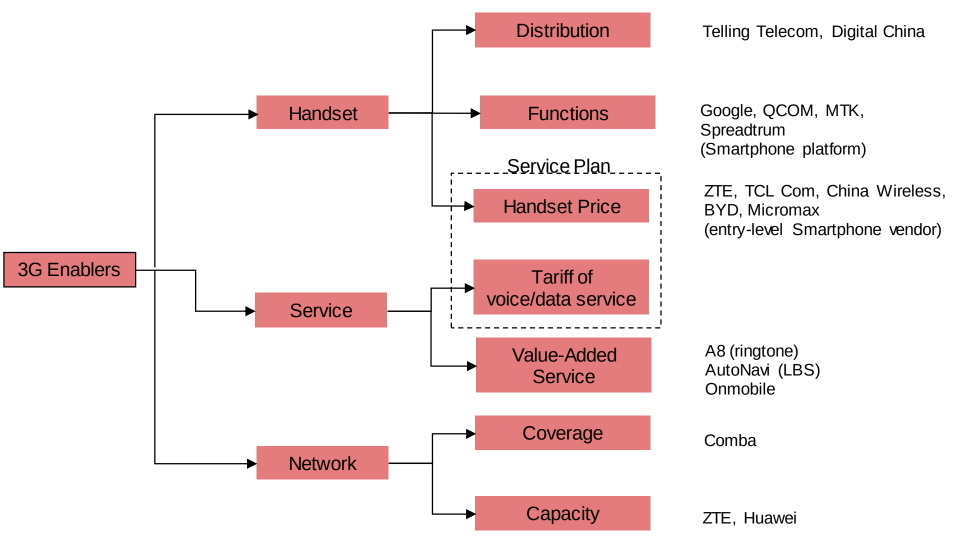
Exhibit 8. Telco top picks: 2011F

Stock	Key investment thesis
AIS	1) Stable operating trends and reasonable valuation at ~13x FY12F P/E; 2) Strong financial position with sustainable profit and excess cash; and 3) Expect special dividend to continue in 2011-2012F
Axiata	1) Strong 17% growth in normalized earnings; 2) Proxy for XL (Indonesia); 3) Upside to 4-5% yield; and 4) Attractive valuation at 13x FY11F PE.
China Unicom	1) Beneficiary of iPhone's demand in China; 2) Launch of iPad and uplift in 3G net-adds and data revenue; 3) Handset variety on WCDMA; and 4) Solid earnings growth in FY11F.
M1	1) NBN rollout to improve M1's bundling appeal with limited cannibalization; 2) Potential subscriber gains on Pay-TV; and 3) Attractive valuations at 13x FY11F PE and 6% yield.
SK Telecom	1) 100% pure Smartphone play – estimate 6% revenue and 17% OP growth in FY11; 2) The latest interconnection rate adjustment favourable to SKT, 3) Substantial cashflow growth in 2011 may support larger share buyback and dividend increase next year, 4) 10% EPS upside from adopting IFRS accounting in 2011 mainly due to reduction of depreciation costs.
ZTE	1) Potential to improve presence in the smart phone segment – 15% revenue contribution in FY11 versus 5% in FY10; 2) Opportunity from 3G rollout in India and TD-LTE in China; and 3) Network convergence.

Source: Nomura research

- Our preferred markets are China and Indonesia, while Singapore and the Philippines as our least preferred.
  - In China, when compared to 2010, we expect the variety of smartphones to increase in 2011F. At the same time, due to improved economies of scale, we expect ASP of smartphones to decline further. This should lower switching costs for the mass market segment of 2G subscribers and drive up volume of 2G mobile subscribers migrating to the 3G mobile platform. China Unicom is our key BUY, and we also maintain BUY on China Mobile and NEUTRAL on China Telecom.
  - In Indonesia, we expect competition to be relatively benign (in a regional context) during the year and also be a beneficiary of strong data and voice growth (in Java and other islands). There are some near-term concerns about increasing promotional packages, led by the incumbent Telkomsel, but we don't expect full fledged price wars. See our recent note, *Incumbent leading the charge on promotions,* dated 5 January for more details. We maintain BUY on Indosat and XL, and NEUTRAL on Telkom.
  - We expect much more open competition in Singapore this year, as NBN moves in the mass market (retail and enterprise) and content cross-carriage regulation kicks in. We maintain NEUTRAL on SingTel, REDUCE on StarHub and BUY on M1.
  - Similarly in the Philippines, we expect more aggressive promotions and price-cuts, which coupled with VOIP substitution, could erode margins for all carriers. We downgrade PLDT to NEUTRAL and maintain REDUCE on Globe.
- We believe equipment vendors will continue to benefit, driven by the rising demand for optical network equipment because of the optical network rollout in major countries such as China, Australia and Singapore. On the handset side, entry-level smartphones (ASP below US$200) will become a major theme in 2011F, in our view. Hence, we add ZTE to our key regional picks.

Exhibit 9. List of 3G/ data enablers



Source: Nomura research

Revisions

Key rating and earnings changes

- We add AIS to our key regional picks following an upgrade to BUY, with a price target of THB108. See *4Q10F NP to drop q-q due to seasonal factors,* published on 10 January, 2011 for more details.
- We add ZTE to our key regional picks with a price target of HK$36.
- We downgrade Singapore to Bearish, but maintain our BUY rating on M1 with a revised S$2.90 price target. We maintain NEUTRAL on SingTel, but reduce our price target to S$3.35 (see *Singapore heating* up, published 11 January, 2011, for more details). We maintain REDUCE on StarHub with a downward bias to earnings and our price target.
- We downgrade the Philippines market to Bearish, and cut PLDT to NEUTRAL with a revised price target of PHP2,760. See *Rising headwinds*, 11 January, 2011 for more details. We maintain REDUCE on Globe.
- We cut RCOM earnings by 16-40% and maintain REDUCE with INR120 price target. See our report *Under scrutiny still*, published 11 January, 2011 for details.

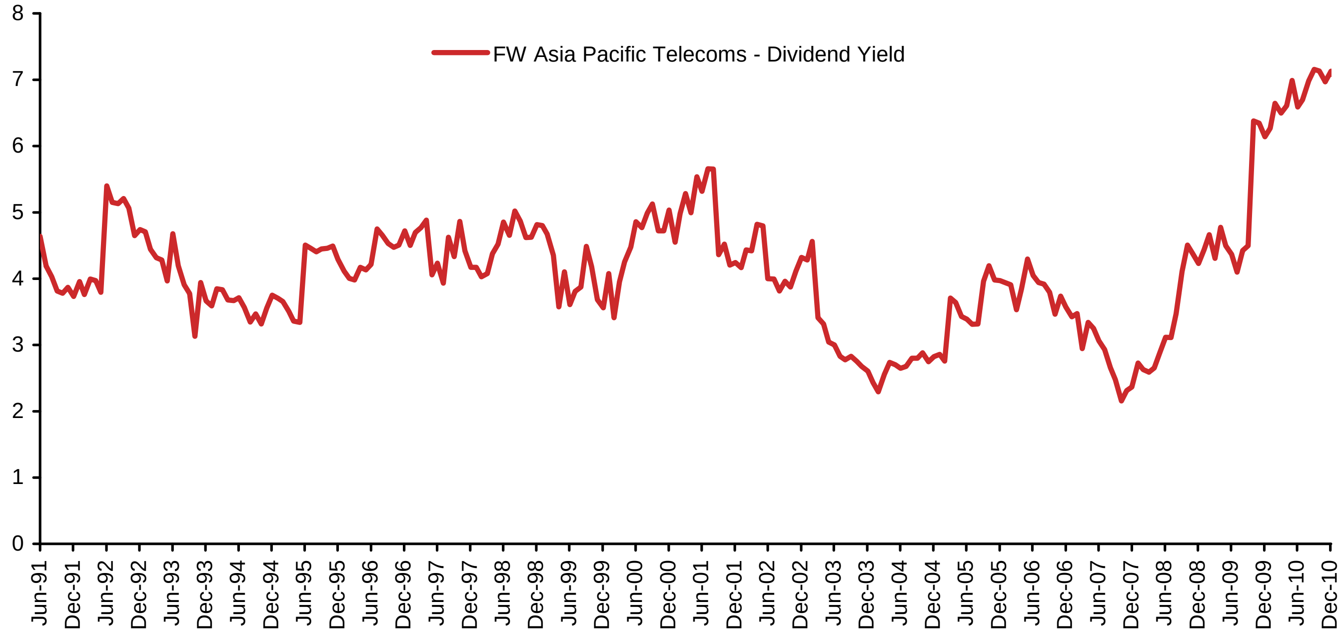
Exhibit 10. Asia ex- Japan valuation comparison

	Bloomberg			Local	Mkt cap	P/E (x)		EV/EBITDA (x)		Div yield (%)		FCF yield (%)	
	ticker	Rating	Currency	price	(US$mn)	10F	11F	10F	11F	10F	11F	10F	11F
Wireless													
AIS	ADVANC TB	BUY	THB	87	8,574	12.4	12.7	5.4	5.5	14.3	10.9	13.0	11.8
Axiata Group	AXIATA MK	BUY	RM	4.7	13,042	15.4	13.2	6.3	5.5	0.0	3.4	12.5	8.7
Bharti Airtel	BHARTI IN	NEUTRAL	INR	349	29,170	19.5	16.4	9.5	7.6	0.5	0.9	(40.2)	3.9
China Mobile	941 HK	BUY	HK$	77	206,098	10.6	10.4	4.7	4.4	4.2	4.4	8.8	10.6
Digi.com	Digi MK	BUY	RM	25	6,307	16.8	16.3	8.3	7.9	5.9	4.9	8.0	6.8
Far EasTone	4904 TT	NEUTRAL	NT$	42	4,661	15.5	15.7	5.9	5.9	5.8	5.7	6.9	8.8
Globe Telecom	GLO PM	REDUCE	PHP	821	2,480	11.7	12.1	4.7	4.7	8.7	7.3	6.2	5.9
Idea Cellular	IDEA IN	REDUCE	INR	70	5,051	30.0	24.3	9.8	8.1	0.0	0.0	(28.2)	(2.2)
Maxis	Maxis MK	NEUTRAL	RM	5.4	13,097	17.5	17.0	9.7	9.4	6.0	6.0	3.8	5.4
MobileOne	M1 SP	BUY	S$	2.41	1,669	14.0	13.5	7.5	7.1	5.7	5.9	7.4	7.9
PT XL Axiata	EXCL IJ	BUY	Rp	5,800	5,497	17.3	12.4	6.3	5.6	0.0	2.0	6.8	9.6
Reliance Com	RCOM IN	REDUCE	INR	140	6,368	16.9	16.2	8.7	7.5	0.7	1.6	(32.4)	2.4
SK Telecom	017670 KS	BUY	W	172,500	12,361	9.8	7.3	4.3	3.6	4.9	4.9	15.4	18.1
Taiwan Mobile	3045 TT	BUY	NT$	68.1	8,858	14.4	14.1	9.0	9.1	6.3	6.4	7.5	6.5
Total Access	DTAC TB	BUY	THB	43.3	3,394	10.2	11.3	4.4	4.6	7.2	8.8	13.3	12.6
Average						**15.5**	**14.2**	**7.0**	**6.4**	**4.7**	**4.9**	**0.6**	**7.8**
Median						**15.4**	**13.5**	**6.3**	**5.9**	**5.7**	**4.9**	**7.4**	**7.9**
Integrated													
China Telecom	728 HK	NEUTRAL	HK$	4.1	43,892	18.0	16.4	4.5	4.1	1.7	2.2	10.4	11.6
China Unicom	762 HK	BUY	HK$	11.24	35,510	41.4	28.1	4.9	4.5	1.6	1.1	(10.6)	(4.9)
Chunghwa*	2412 TT	BUY	NT$	73	26,648	15.4	15.6	7.9	8.0	9.9	7.1	7.3	6.8
KT Corp	030200 KS	BUY	W	44,800	10,382	8.6	7.4	4.1	4.0	4.5	4.5	5.9	7.1
LG Uplus	032640 KS	NEUTRAL	W	7,150	3,267	8.5	8.5	3.9	3.4	2.8	2.7	5.5	9.7
PLDT	TEL PM	NEUTRAL	PHP	2,532	10,803	11.4	11.7	6.3	6.2	6.2	6.0	8.1	8.4
PT Indosat	ISAT IJ	BUY	Rp	5,650	3,420	20.1	15.6	5.5	5.0	1.4	2.3	(8.1)	0.6
PT Telkom	TLKM IJ	NEUTRAL	Rp	8,000	17,598	15.0	13.1	4.4	4.2	3.4	4.6	9.2	11.0
SingTel	ST SP	NEUTRAL	S$	3	37,921	13.1	12.9	7.5	7.1	4.9	5.5	5.8	5.9
SK Broadband	033630 KS	REDUCE	W	5,260	1,382	n/m	37.5	6.3	5.0	0.0	0.0	(3.3)	2.8
StarHub	STH SP	REDUCE	S$	2.6	3,472	17.5	16.3	8.6	8.1	7.6	7.6	7.0	6.5
TM	T MK	BUY	RM	3.6	4,121	25.4	22.0	5.5	5.3	5.5	5.5	2.4	7.0
Telstra	TLS AU	NEUTRAL	A$	2.8	34,677	9.0	9.8	4.5	4.7	10.0	9.3	13.5	11.8
True	TRUE TB	REDUCE	THB	7.1	1,653	n/m	n/m	6.1	6.0	0.0	0.0	6.1	3.0
Average						**14.7**	**14.8**	**5.7**	**5.4**	**4.3**	**4.2**	**4.2**	**6.2**
Median						**15.0**	**14.4**	**5.5**	**5.0**	**3.9**	**4.5**	**6.0**	**6.9**

Note: AIS, Total Access and True are covered by Capital Nomura Securities; prices as of 5 January, 2011; PT under review; figures for RCOM and Singtel adjusted to December year end.

Source: Capital Nomura Securities estimates, Nomura estimates

Exhibit 11. NJA Telcos – 1 year-forward dividend yield



Source: FTSE, MSCI, I/B/E/S, Nomura International (Hong Kong) Limited - Equity Quantitative Strategies

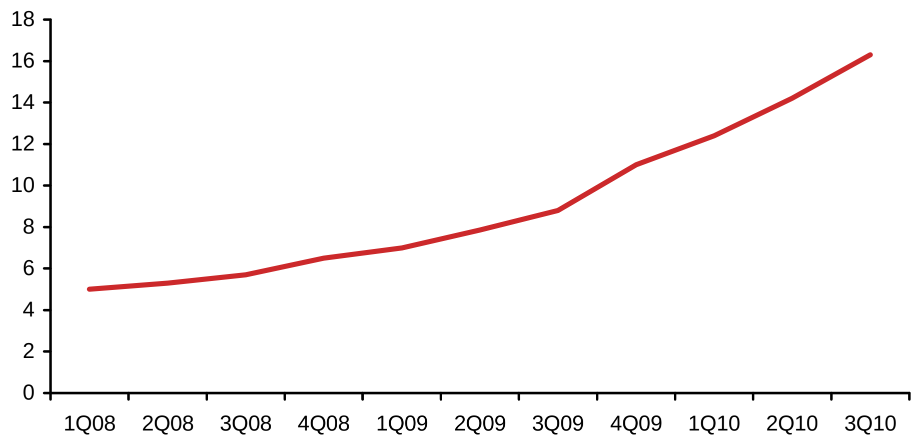
Themes

Three key themes for 2011

Data – have to have or nice to have?

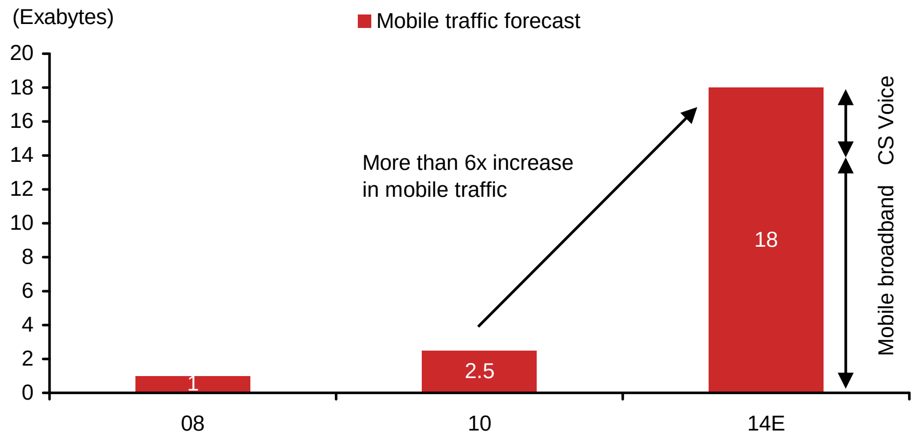
- As of 3Q10, data was around 17% of total revenue, up from 11% at end-2009, and we expect this to increase to around 25% by end-2011F. The drivers of this include 3G rollouts in China, India and Indonesia, a wider range of mid-range smartphones and rising consumer awareness of applications. The demand-supply equation for these services (and devices) is improving, as operators (and other value chain providers) are willing to support these services by improving/expanding their 3G/HSPA devices and network coverage.

Exhibit 12. Data as % of revenues – quarterly trends for the sector



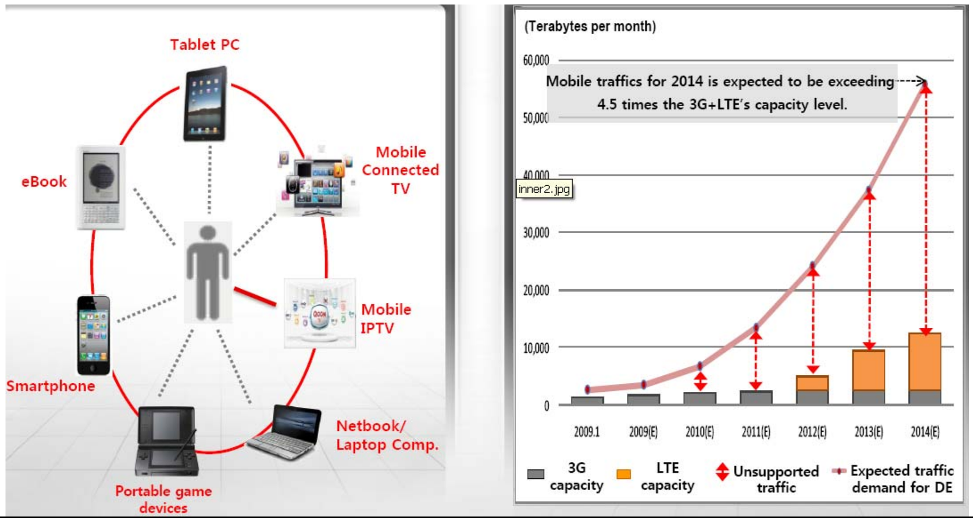
Source: Company data, Nomura research

Exhibit 13. Data to drive solid traffic growth



Source: Global Mobile Suppliers Association (GSA)

Exhibit 14. Expected trends in data traffic



Source: KT Corp

Impact on margins and returns …

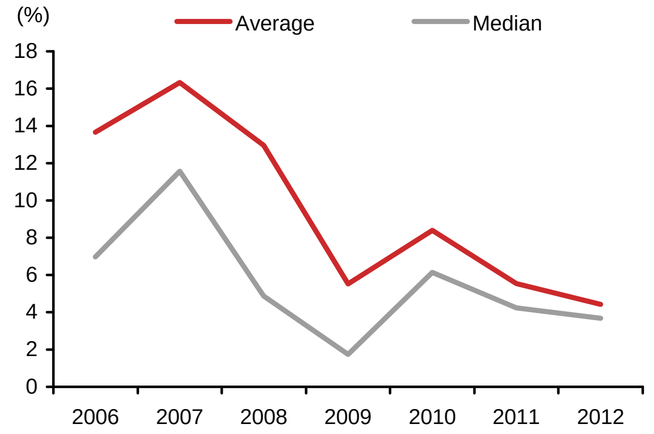
- Within the emerging markets, we expect a faster 3G take-up rate in China, India and Indonesia and see upside risks to our current average revenue growth of 10% in FY11F. We don't envisage significant margin pressures – our current EBITDA margin forecasts for these countries range between 32% and 51%. We expect majority of data growth to be via handsets rather than wide-screen Internet. Also, we expect most telcos to identify incremental areas of cost savings, which might lead to a lower-than-expected increase in cost and hence, surprise on margins.
- Rising data usage continues to raise questions on its impact on networks (capex implications) and traffic costs and subsidies (opex implications). There is mixed evidence so far in the region. Overall, we continue to believe data is margin dilutive on average, as ARPU uplift has not yet fully compensated the higher associated costs.
- In the exhibit overleaf, we break down our ROIC calculations into operating margins and asset turnover. On average, we see returns improving slightly in 2011F, largely due to improving asset turnover, as incremental capex is spent more on capacity upgrades rather than on coverage increase.

Exhibit 15. China, Indonesia and India telcos – revenue, EBITDA, EBITDA margins trends

		Unit	2006	2007	2008	2009	2010F	2011F	2012F
Revenue									
China	China Mobile	RMBmn	295,358	356,959	412,343	461,651	497,865	527,303	554,348
	% chg y-y	%		*21*	*16*	*12*	*8*	*6*	*5*
	China Telecom	RMBmn	170,122	175,362	184,779	216,796	230,273	240,048	247,687
	% chg y-y	%		*3*	*5*	*17*	*6*	*4*	*3*
	China Unicom	RMBmn	94,294	99,539	148,906	157,600	169,195	181,294	194,677
	% chg y-y	%		*6*	*50*	*6*	*7*	*7*	*7*
Indonesia	PT Telkom	Rpbn	53,909	62,495	63,953	67,526	71,161	75,743	79,207
	% chg y-y	%		*16*	*2*	*6*	*5*	*6*	*5*
	PT Indosat	Rpbn	12,240	16,224	18,658	18,393	20,214	22,361	24,184
	% chg y-y	%		*33*	*15*	*(1)*	*10*	*11*	*8*
	PT XL Axiata	Rpbn	5,778	7,990	12,061	13,706	17,441	20,122	22,345
	% chg y-y	%		*38*	*51*	*14*	*27*	*15*	*11*
India	Bharti Airtel	INRmn	185,196	270,250	369,615	396,149	581,601	689,535	770,961
	% chg y-y	%		*46*	*37*	*7*	*47*	*19*	*12*
	RCOM	INRmn	144,683	190,678	229,141	222,503	206,420	225,565	252,251
	% chg y-y	%		*32*	*20*	*(3)*	*(7)*	*9*	*12*
	IDEA Cellular	INRmn	43,873	67,375	101,484	124,471	147,081	170,139	188,457
	% chg y-y	%		*54*	*51*	*23*	*18*	*16*	*11*
EBITDA									
		Unit	2006	2007	2008	2009	2010F	2011F	2012F
China	China Mobile	RMBmn	159,574	194,003	216,487	233,915	240,722	245,024	252,579
	% chg y-y	%		*22*	*12*	*8*	*3*	*2*	*3*
	China Telecom	RMBmn	84,911	85,974	81,170	78,589	78,115	77,654	77,938
	% chg y-y	%		*1*	*(6)*	*(3)*	*(1)*	*(1)*	*0*
	China Unicom	RMBmn	31,689	33,005	67,834	69,288	74,551	82,067	90,327
	% chg y-y	%		*4*	*106*	*2*	*8*	*10*	*10*
Indonesia	PT Telkom	Rpbn	31,716	37,067	34,621	36,560	38,102	41,208	41,498
	% chg y-y	%		*17*	*(7)*	*6*	*4*	*8*	*1*
	PT Indosat	Rpbn	7,052	8,450	9,288	8,774	9,713	10,733	11,524
	% chg y-y	%		*20*	*10*	*(6)*	*11*	*11*	*7*
	PT XL Axiata	Rpbn	2,554	3,510	5,131	6,204	9,219	10,388	11,446
	% chg y-y	%		*37*	*46*	*21*	*49*	*13*	*10*
India	Bharti Airtel	INRmn	74,508	113,715	151,678	160,268	201,840	246,851	285,539
	% chg y-y	%		*53*	*33*	*6*	*26*	*22*	*16*
	RCOM	INRmn	57,209	81,989	92,875	78,870	67,953	78,007	91,546
	% chg y-y	%		*43*	*13*	*(15)*	*(14)*	*15*	*17*
	IDEA Cellular	INRmn	14,862	22,693	28,353	34,072	36,595	43,991	49,688
	% chg y-y	%		*53*	*25*	*20*	*7*	*20*	*13*
EBITDA margin									
		Unit	2006	2007	2008	2009	2010F	2011F	2012F
China	China Mobile	%	54	54	53	51	48	46	46
	China Telecom	%	50	49	44	36	34	32	31
	China Unicom	%	34	33	46	44	44	45	46
Indonesia	PT Telkom	%	59	59	54	54	54	54	52
	PT Indosat	%	58	52	50	48	48	48	48
	PT XL Axiata	%	44	44	43	45	53	52	51
India	Bharti Airtel	%	40	42	41	40	35	36	37
	RCOM	%	40	43	41	35	33	35	36
	IDEA Cellular	%	34	34	28	27	25	26	26

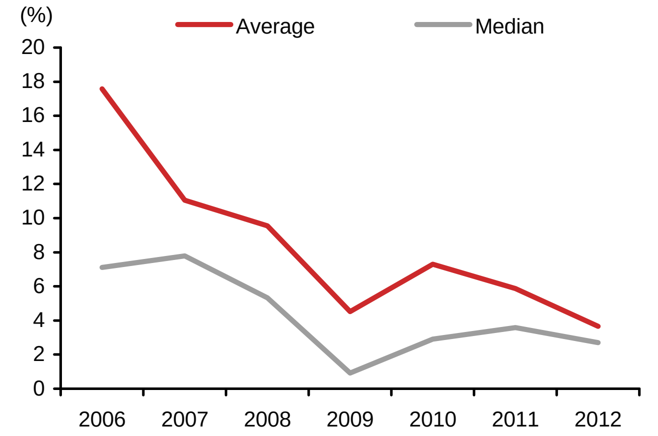
Source: Company data, Nomura estimates

Exhibit 16. Telecoms: sector revenue growth



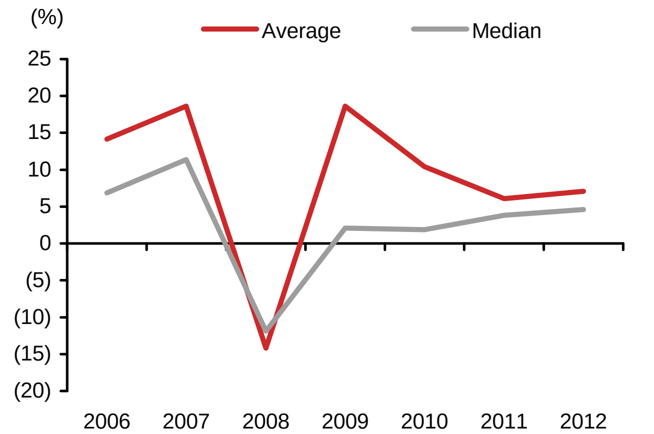
Source: Company data, Nomura estimates

Exhibit 17. Telecoms: sector EBITDA growth



Source: Company data, Nomura estimates

Exhibit 18. Telecoms: sector earnings growth



Source: Company data, Nomura estimates

Exhibit 19. ROIC

Stock	Bloomberg ticker	Currency	Operating profit margin (%) 2010F	Operating profit margin (%) 2011F	Operating asset T/O 2010F	Operating asset T/O 2011F	ROIC (%) 2010F	ROIC (%) 2011F
Wireless								
AIS	ADVANC TB	THB	28.2	27.3	1.6	1.9	31.0	36.0
Axiata Group	AXIATA MK	RM	22.3	20.5	0.6	0.6	12.4	12.5
Bharti Airtel	BHARTI IN	INR	13.5	15.2	0.8	0.6	10.6	9.8
China Mobile	941 HK	HK$	22.9	22.1	1.0	1.0	22.7	21.8
Digi.com	Digi MK	RM	22.0	21.2	3.4	4.0	74.1	84.4
Far EasTone	4904 TT	NT$	15.3	15.2	0.9	0.9	13.8	13.7
Globe Telecom	GLO PM	PHP	18.8	19.3	1.4	1.4	26.5	27.2
Idea Cellular	IDEA IN	INR	8.4	9.8	0.7	0.7	5.7	6.5
Maxis	Maxis MK	RM	28.0	27.0	0.7	0.7	19.0	19.0
MobileOne	M1 SP	S$	16.6	16.5	2.0	2.1	32.7	34.9
PT XL Axiata	EXCL IJ	IDR	27.7	27.0	0.8	1.0	23.0	27.5
Reliance Com	RCOM IN	INR	15.3	16.3	0.4	0.5	5.9	7.4
SK Telecom	017670 KS	W	12.3	13.4	0.8	0.8	9.8	11.2
Taiwan Mobile	3045 TT	NT$	23.0	22.8	1.1	1.1	25.0	25.6
Total Access	DTAC TB	THB	19.6	18.1	1.0	1.1	14.7	13.7
Average			**19.6**	**19.4**	**1.1**	**1.2**	**21.8**	**23.4**
Median			**19.6**	**19.3**	**0.9**	**1.0**	**19.0**	**19.0**
Integrated								
China Telecom	728 HK	HK$	7.9	8.2	0.8	0.8	6.1	6.9
China Unicom	762 HK	HK$	4.0	5.2	0.6	0.6	2.4	3.3
Chunghwa	2412 TT	NT$	15.4	15.6	0.7	0.7	15.4	15.6
KT Corp	030200 KS	W	10.4	11.3	0.9	0.9	9.6	9.9
LG Uplus	032640 KS	W	7.2	7.2	1.0	1.0	7.1	7.2
PLDT	TEL PM	PHP	30.0	28.9	1.1	1.1	33.4	31.9
PT Indosat	ISAT IJ	IDR	10.8	12.4	0.5	0.5	4.9	6.1
PT Telkom	TLKM IJ	IDR	22.6	23.0	1.1	1.2	24.8	27.2
SingTel	ST SP	S$	23.4	23.7	0.6	0.6	12.8	12.6
SK Broadband	033630 KS	W	0.6	5.5	0.8	0.8	0.5	4.6
StarHub	STH SP	S$	12.1	11.3	2.2	2.2	27.1	25.0
Telekom Malaysia	T MK	RM	9.3	8.2	0.8	0.9	7.8	7.3
Telstra	TLS AU	A$	18.2	16.9	1.0	1.0	17.6	16.5
True Corporation	TRUE TB	THB	13.2	12.9	0.8	0.9	7.6	7.9
Average			**13.2**	**13.6**	**0.9**	**0.9**	**12.7**	**13.0**
Median			**11.4**	**11.9**	**0.8**	**0.9**	**8.7**	**8.9**

Note: AIS and Total Access (DTAC) and True are covered by Capital Nomura Securities

Source: Capital Nomura Securities estimates, Nomura estimates

Exhibit 20. Data as a % of mobile service revenue

		1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10
Australia	Optus	29.0	31.0	32.0	34.0	35.0	35.0	35.0	36.0	38.0	40.0	40.0
	Telstra	na	29.4	na	31.9	na	34.6	n/a	36.9	n/a	39.6	n/a
Singapore	SingTel	31.0	32.0	34.0	32.0	32.0	32.0	34.0	35.0	36.0	37.0	38.0
	StarHub	20.9	21.8	22.7	22.5	24.4	25.7	26.2	27.4	29.5	29.5	30.6
	MobileOne	23.2	22.7	23.8	24.1	25.1	25.1	26.4	27.1	29.8	31.8	32.7
Korea	SKT	21.0	20.5	21.3	20.9	21.7	21.9	21.6	22.7	22.1	23.1	24.1
	LGU+	8.5	9.2	9.4	9.2	12.6	12.9	13.1	13.6	14.3	15.0	15.9
	KT	16.8	16.9	17.4	17.2	18.0	18.0	18.5	18.8	19.7	20.3	21.0
Malaysia	Maxis	27.8	28.4	29.4	30.5	30.7	31.4	32.9	34.4	34.8	36.6	39.2
	Digi	19.3	18.7	18.6	19.7	20.1	19.4	19.2	19.8	20.6	21.2	23.2
	Celcom	23.0	24.0	25.0	26.0	27.0	28.0	29.0	30.0	31.5	32.5	35.0
India	Bharti Airtel	9.4	9.7	10.0	9.5	9.3	9.3	9.8	11.0	11.8	11.6	12.7
	RCOM	6.9	7.6	7.3	7.4	7.4	-	-	-	-	-	-
	IDEA	8.2	8.9	9.8	9.5	9.6	10.1	10.6	11.2	12.4	12.6	12.9
China	China Mobile	na	27.0	na	28.0	na	28.1	na	29.1	na	29.5	na
	China Telecom	na	na	na	na	na	29.4	na	33.3	na	38.1	na
	China Unicom	na	24.1	na	26.1	na	26.8	na	27.3	na	28.5	na
Taiwan	Chunghwa	9.5	9.3	9.5	9.7	9.6	9.9	9.8	10.6	11.4	12.0	12.5
	Far EasTone	12.5	12.3	12.3	12.5	14.2	14.2	14.1	14.4	15.2	15.9	16.5
	Taiwan Mobile	9.3	9.0	9.4	10.7	12.1	12.0	12.4	13.4	14.2	15.0	15.8
Indonesia	Telkomsel	31.8	26.4	18.6	24.3	25.7	27.1	28.5	28.5	28.0	28.0	30.1
	Indosat	30.0	30.0	30.0	30.0	31.0	31.0	32.0	32.0	32.0	32.0	35.0
	XL Axiata	34.2	31.8	31.6	31.5	34.2	36.0	38.2	38.9	39.0	40.6	41.3
Philippines	PLDT	55.4	55.1	54.3	53.7	54.6	54.1	52.9	51.3	47.7	47.2	48.6
	Globe Telecom	47.6	47.9	47.3	47.3	51.6	50.4	51.3	48.2	49.7	47.7	47.9
Thailand	True	10.6	11.8	12.5	12.3	12.7	12.3	13.4	14.6	13.9	14.7	15.6
	AIS	12.5	12.7	13.5	12.7	12.8	13.5	14.9	15.5	16.5	17.0	17.3
	DTAC*	11.4	13.8	14.8	16.1	11.9	11.8	12.6	12.8	12.8	13.3	14.4

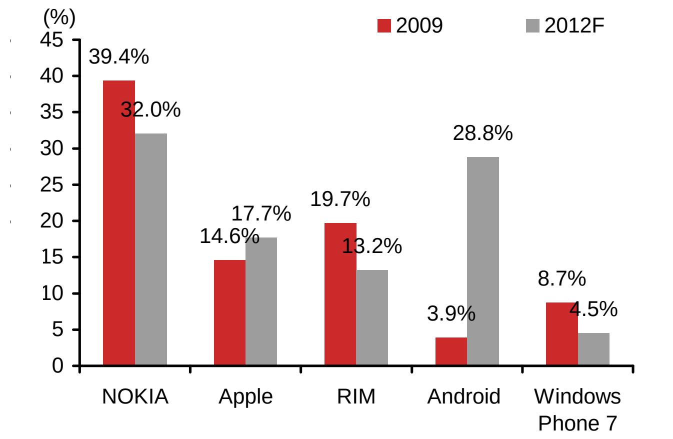
Note: AIS, Total Access and True are covered by Capital Nomura Securities. * Change in definition from 1Q09

Source: Capital Nomura Securities estimates, Nomura estimates

Mid range smart-phones a key driver

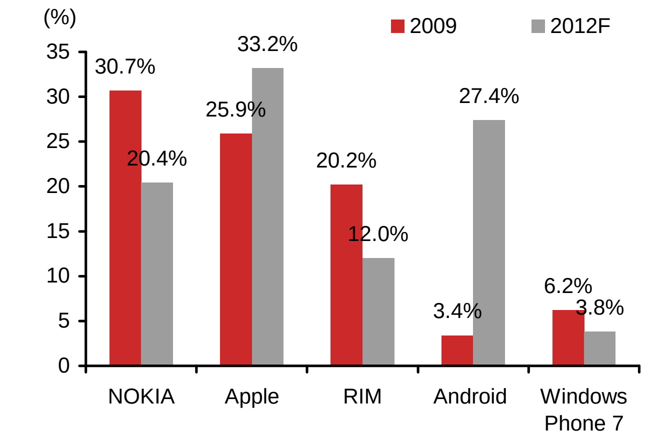
- Our tech team forecasts smartphones to grow 69% in FY10F, and 42% in FY11F to 415mn, with a total 23% penetration rate. With this, they expect the Android market share to rise from 21% in FY10F to 28% in FY11F, while that of Apple to increase from 16% in FY10F to 18% in FY11F. A number of operators continue to look for ways to diversify away from iPhones, where they appear to have much less bargaining power.
- Given different affordability levels in Asia comparing with the US and Europe, we believe sub US$200 smartphones will be the key driver for smartphone growth in APAC region. We expect to see growth first in China in 2011F, and then in India in 2012F after completion of the 3G network rollout.
- ZTE is likely to expand in the low-end smart-phone market dominated by Nokia, as it recently launched compelling low-end Android phones.

Exhibit 21. Smartphone unit share (2009/2012F)



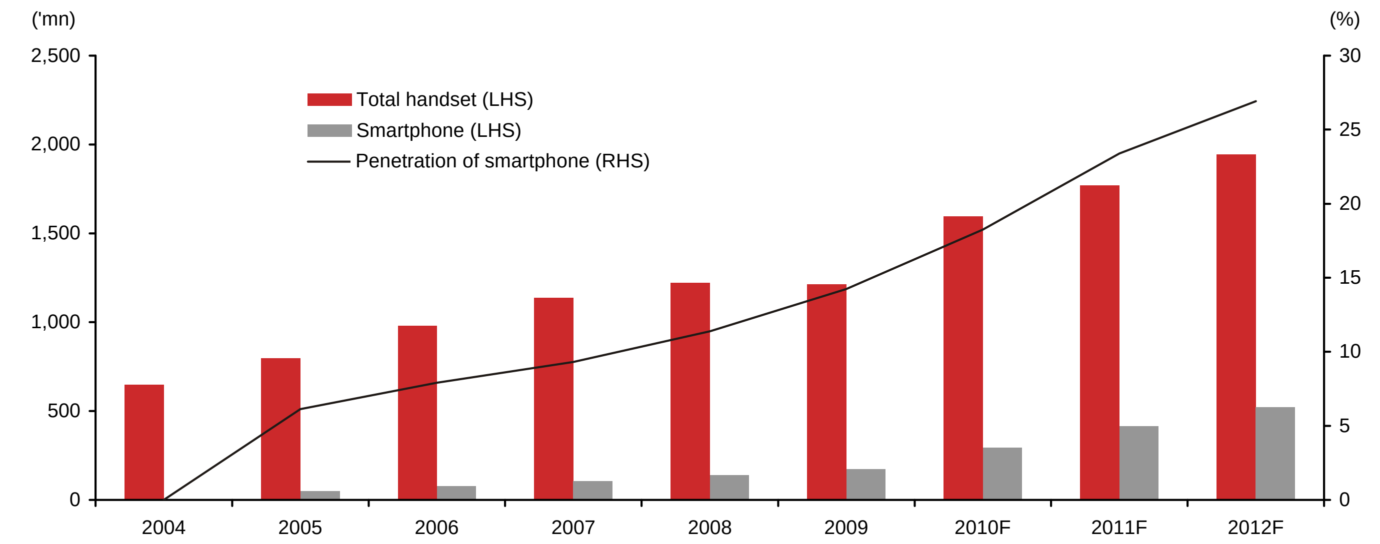
Source: Gartner Group, Nomura estimates

Exhibit 22. Smartphone revenue share (2009/2012F)



Source: Gartner Group, Nomura estimates

Exhibit 23. Mobile vs smartphone demand



('000)	2004	2005	2006	2007	2008	2009	2010F	2011F	2012F
Total handset	647,800	797,500	978,000	1,137,000	1,222,253	1,211,240	1,595,766	1,769,000	1,943,000
y-y (%)	505	23	23	16	7	(1)	32	11	10
Smartphone		48,800	77,500	106,000	139,288	172,376	291,496	414,000	523,000
y-y (%)			59	37	31	24	69	42	26
Smartphone penetration (%)		6	8	9	11	14	18	23	27
Normal feature phone		748,700	900,500	1,031,000	1,082,965	1,038,864	1,304,270	1,355,000	1,420,000
y-y (%)			20	14	5	(4)	26	4	5

Source: IDC, Nomura estimates

Watch for capex surprises; LTE/4G is a variable

- We did not see too many capex surprises in 2010 – with an average capex to sales of 21%; however, we think it is entering a period where carriers will need to review their LTE/4G rollout plans, which could see some capex allocations, or in anticipation of the rollout, they may look to further upgrade their backhaul and transmission assets before access issues are addressed. There are many variables to consider for LTE/4G capex, including: 1) spectrum availability and harmonisation; 2) location and density of cell-sites; 3) deployment frequencies; 4) device/ terminal availability; and 5) backhaul capacity. Data for all these isn't readily available (or not always consistent). A rollout in the 2.6GHz could be three times more expensive than the 700MHz, but it also depends on the quality of the existing networks, along with backhaul requirements.

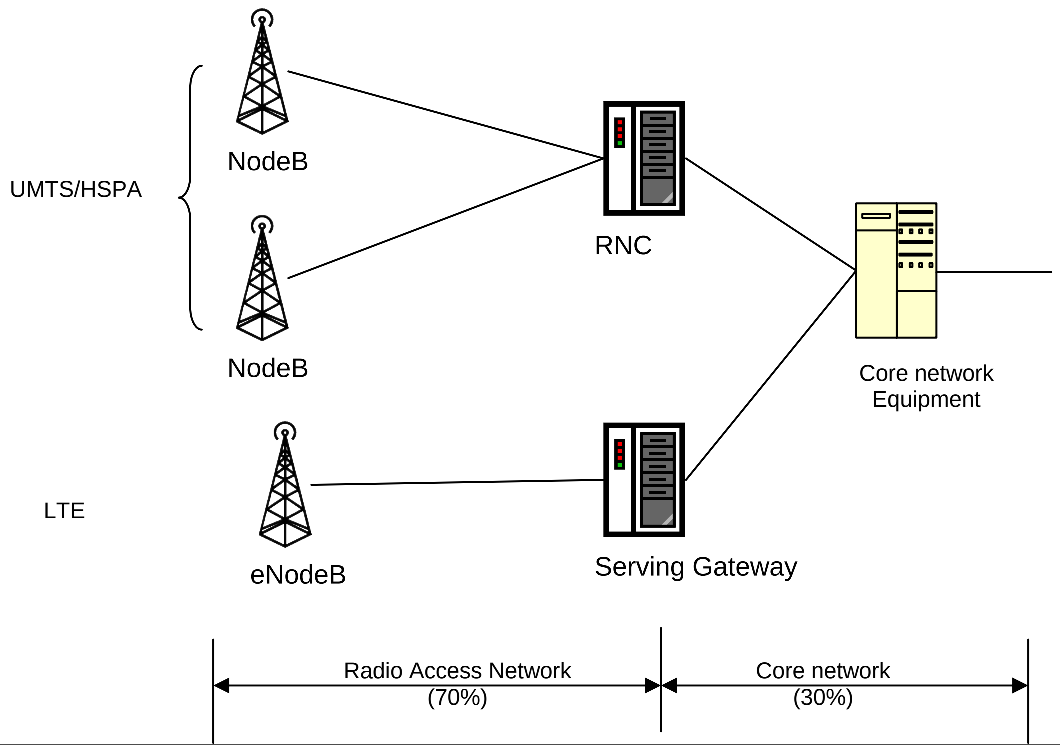
- Based on preliminary numbers from the US, Japan, Scandinavia, Korea and China, we estimate at US$100k per BTS, total spend will be US$18bn, or 22% of our cumulative capex over the next three years for Asia ex-Japan telcos, also excluding India, Indonesia and Thailand, where even 2G/3G will be the main focus in the near term. China Mobile's trials in six cities have a projected capex of RMB1.5bn (US$225mn) for 3,000 base stations, which is around US$75k per BTS. We understand this will be funded by parentco. Again, there will be specific company and country differences for each rollout, including the possibility of spectrum auctions. It is likely that capex will be re-allocated between 2G and 3G to LTE, and we have not made any changes to our forecasts at this stage – but will continue to monitor these developments closely. *See our recently published report on 4G/LTE for more details.*

Exhibit 24. Asian markets: who is likely to rollout LTE?

	Country	Data as % of revenues	Stage in technology evolution	LTE tests started/ done	LTE tests planned	Spectrum constraints?	Cellular penetration (pop) (%)
	Australia	34	3/3.5G	Yes	Yes	No	114
	China	25-30	3G	Yes	Yes	No	54
Front runners	Hong Kong	30	3/3.5G	Yes	Yes	Yes	149
	Korea	22	3/3.5G	No	Yes	No	103
	Singapore	27	3/3.5G	Yes	Yes	No	141
Laggards	Malaysia	25	3/3.5G	Yes	Yes	No	107
	Taiwan	12	3/3.5G	Yes	Yes	No	110
	Philippines	<10	3/3.5G	Yes	Yes	No	75
	India	<10	2G, 3G in near future	No	No	Yes	45
	Indonesia	<10	2G/3G	No	Yes	Yes	65

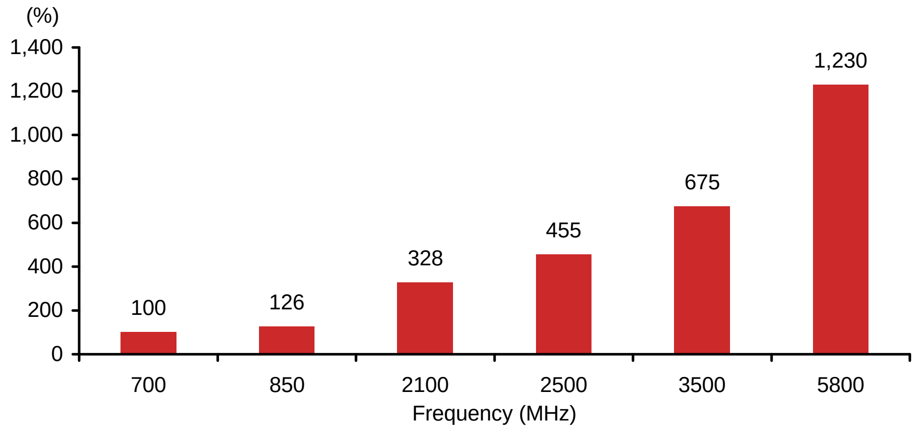
Source: Company data, Nomura estimates

Exhibit 25. UMTS/LTE Network Architecture



Source: Nomura

Exhibit 26. Relative capex, as a %, required for network infrastructure



Source: GSMA

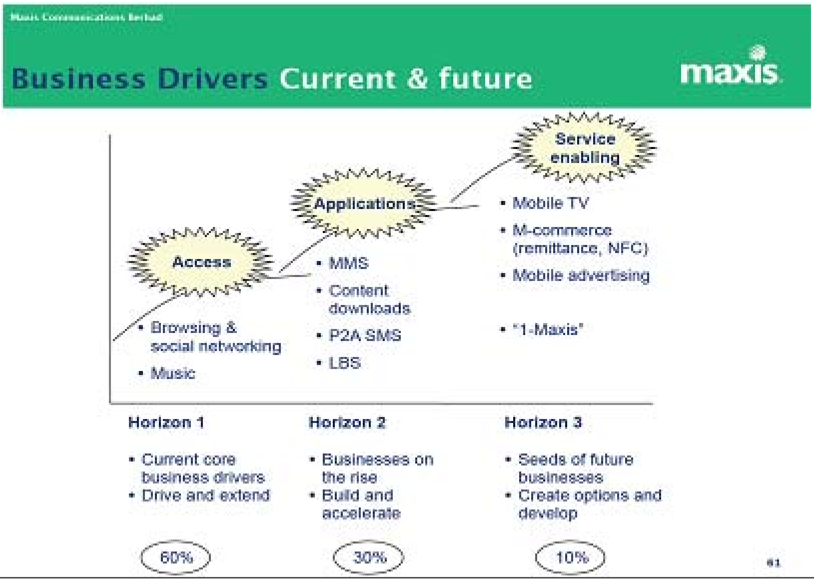
Revenue diversification

- As competition remains intense and regulatory risks remain high in most markets, the carriers are constantly looking to diversify their revenue stream away from pure voice and data businesses. We expect to hear a lot more from a number of Asian operators on their plans to diversify into adjacent services like media or health etc.

Exhibit 27. SingTel's diversification plans

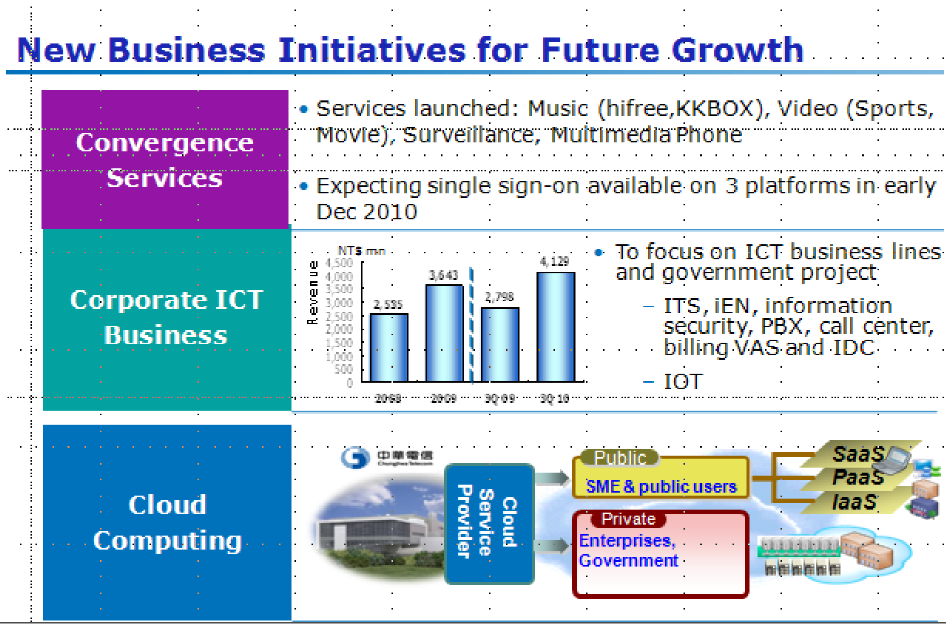
Source: SingTel

Exhibit 28. Maxis's diversification plans



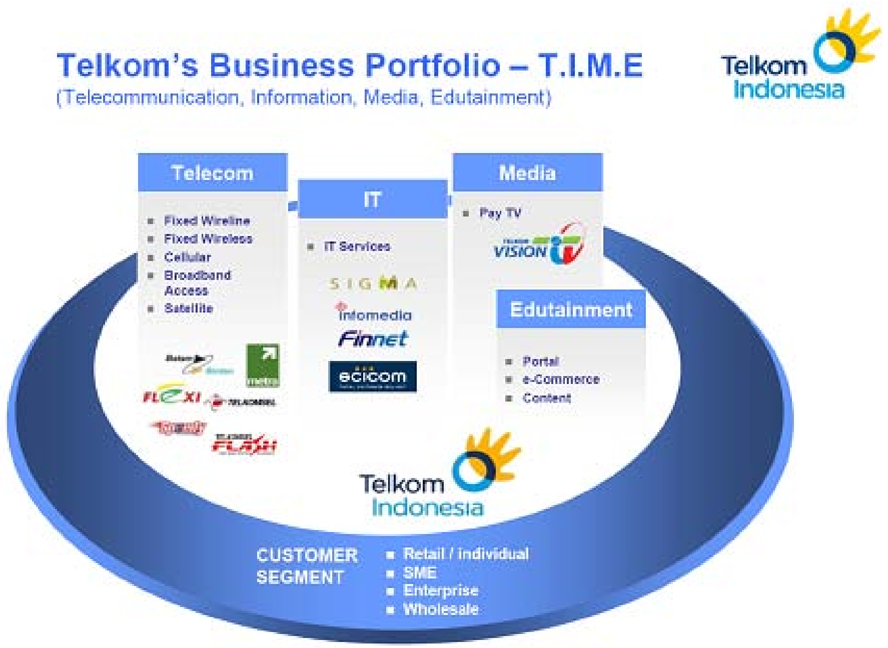
Source: Maxis

Exhibit 29. Chunghwa's diversification plans



Source: Chunghwa

Exhibit 30. Telkom's diversification plans



Source: PT Telkom

Regulatory risks will not go away

- On regulations, we expect the concerns to shift from one market to another in 2011F. India, Australia and Thailand could be relatively better off in 2011F, while Singapore, Malaysia, and the Philippines could be worse off. We believe risks in China and Korea remain the same as last year. Regardless, regulations are an on-going concern in the sector, which are not easy to forecast or capture in earnings. The table below highlights possible regulatory developments in various markets during the course of 2011.
- In Australia, progress on NBN will be a focus. In India, MNP will be implemented throughout the country, and a review of 2G license allocations will remain a feature. In Korea, regulations will continue to drive IT spend, and we see spectrum re-farming of 900Mhz a risk (in most regional markets). In Singapore, content cross-carriage is likely. In China, although we expect to hear sporadic news flow on mobile number portability, given the government's reliance on China Mobile to promote home-grown technologies (TD-SCDMA on 3G standards, TD-LTE on 4G standards), we do not expect any imminent changes in the regulatory landscape to hamper the developments of China Mobile.

Exhibit 31. Asian Telcos - 2011 Regulatory Outlook

Country	Potential regulatory events
Australia	1) Legislation on NBN; and 2) Guidelines prices for fibre-based services
China	1) MNP 2) Network convergence
India	1) Decision on previously issued 2G licenses; and 2) impact from introduction of MNP
Indonesia	1) Spectrum fee linked to bandwidth of spectrum from # of BTS; and 2) Revision of Interconnect rates
Korea	1) Tariff cut pressure, 2) Introduction of wireless MVNO
Malaysia	1) Spectrum re-farming will be the key development
Philippines	Benign regulatory environment should continue
Singapore	1) Impact of mandatory cross-carriage of content
Taiwan	Nothing material
Thailand	1) The establishment of new regulatory body; 2) impact from introduction of MNP; and 3) revision of Interconnect rates

Source: Company reports, Nomura research

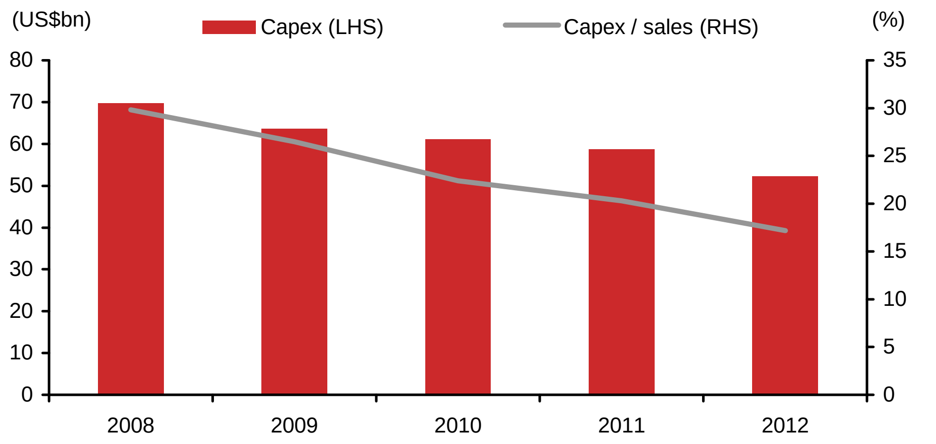
Dividends and capital management

- We expect cashflow trends to continue to improve for Asian telcos in 2011F with an average FCF yield of 7%. This is higher than our dividend yield forecasts of 5%. Therefore, we see scope for further potential capital management this year. We expect Taiwanese to be the most active this year on capital management, followed by the Korean, Malaysian and Thai telcos. Unlike last year, we expect little from the Philippines telcos, and in Singapore, SingTel could surprise in May this year. The hope of China Mobile raising its payout ratio is there, but we ascribe a low probability to it in 2011.

M&A – some actions likely

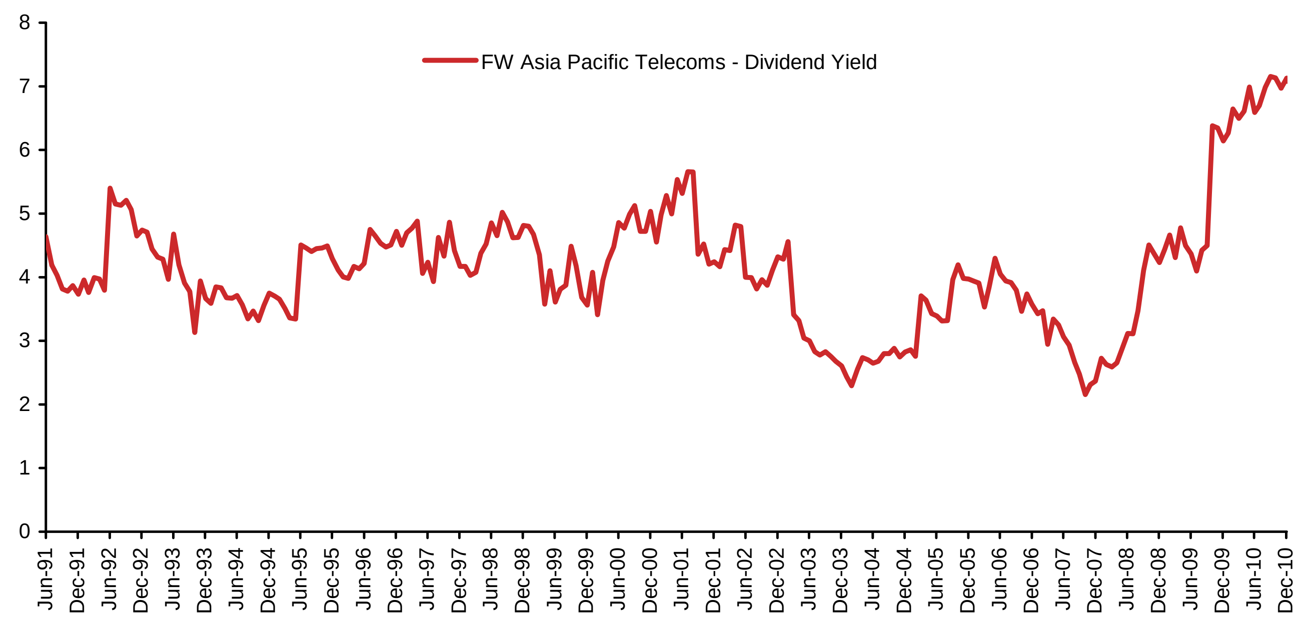
- Strategically, we see more M&A in 2011F. This will be a mix of activities within telco companies (India, Indonesia) and non-telco companies (Singapore, Indonesia). M&A activities within telcos will be driven by concerns over the lower profitability for some small-size operators, while activities outside telcos could be triggered by a desire to increase non-carriage exposure and diversify revenue streams.

Exhibit 32. ASIAN telcos - Capex outlook



Source: Company data, Nomura estimates

Exhibit 33. NJA Telcos – dividend yield



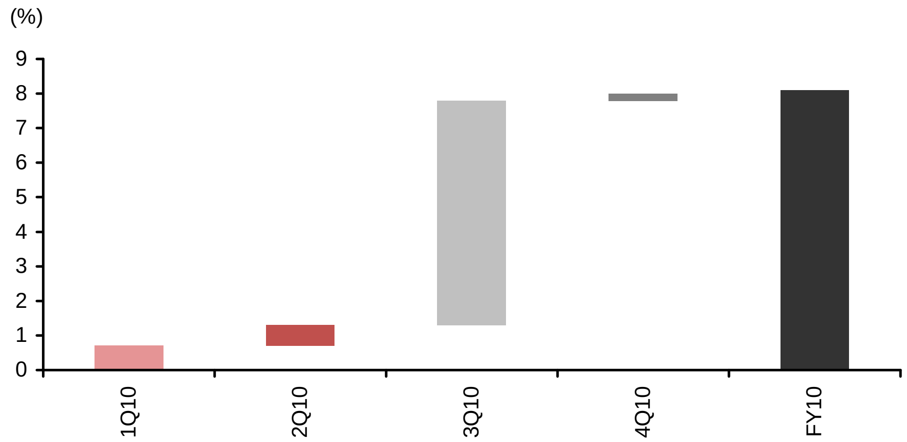
Source: FTSE, MSCI, I/B/E/S, Nomura International (Hong Kong) Limited - Equity Quantitative Strategies

2010 in review

Reviewing 2010 versus expectations

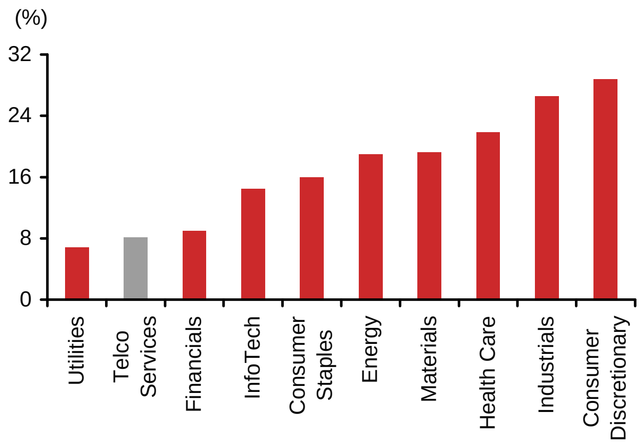
- The NJA index was up 8%, and the average price increase for telcos was 7%, excluding XL, SmarTone and True (all up >100%), or 20% including these. This compared to our expected average return of 14% in 2010. Asian telcos were the second-worst performing sector in the region and most of the large cap names underperformed local markets, except for the Chinese.
- The best performing stock in 2010 is XL, and the worst performing is Telstra.
- Relative to local markets, the best performer is XL and the worst is PT Telkom.
- On 2010 EPS revisions, XL saw the highest consensus upgrades, while RCOM had the most downgrades.

Exhibit 34. NJA Telcos rose the most in 3Q10



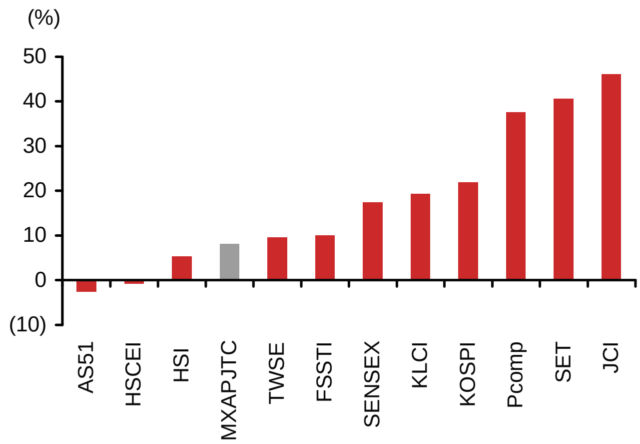
Source: Bloomberg, Nomura research

Exhibit 35. Asia ex-Japan sector performance (2010)



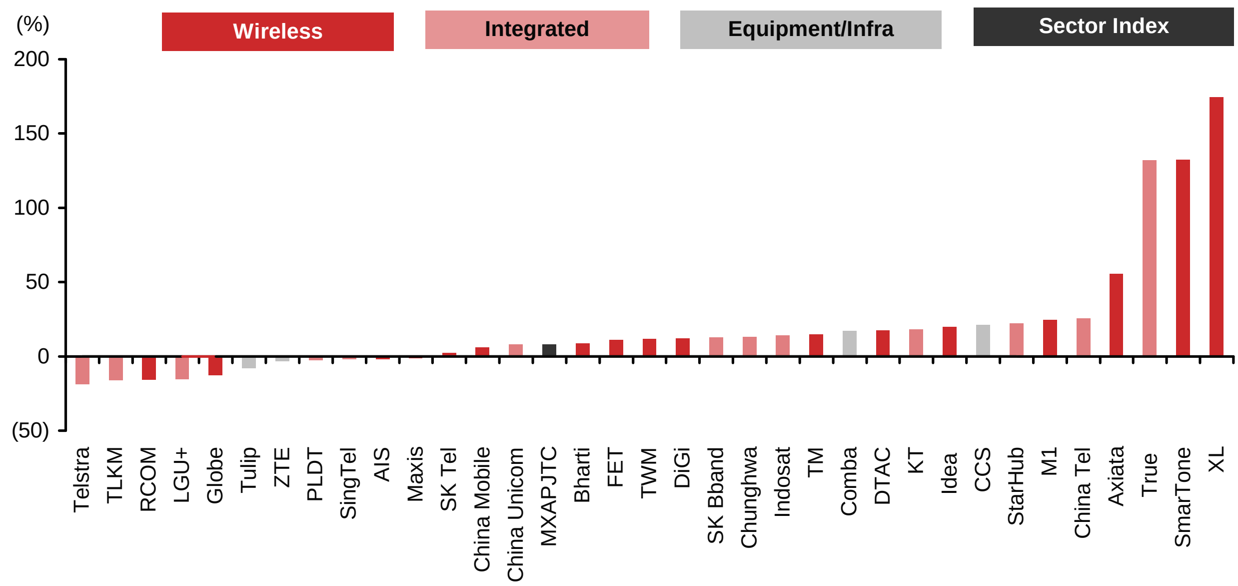
Source: Company data, Nomura research

Exhibit 36. Telecos versus local markets (2010)



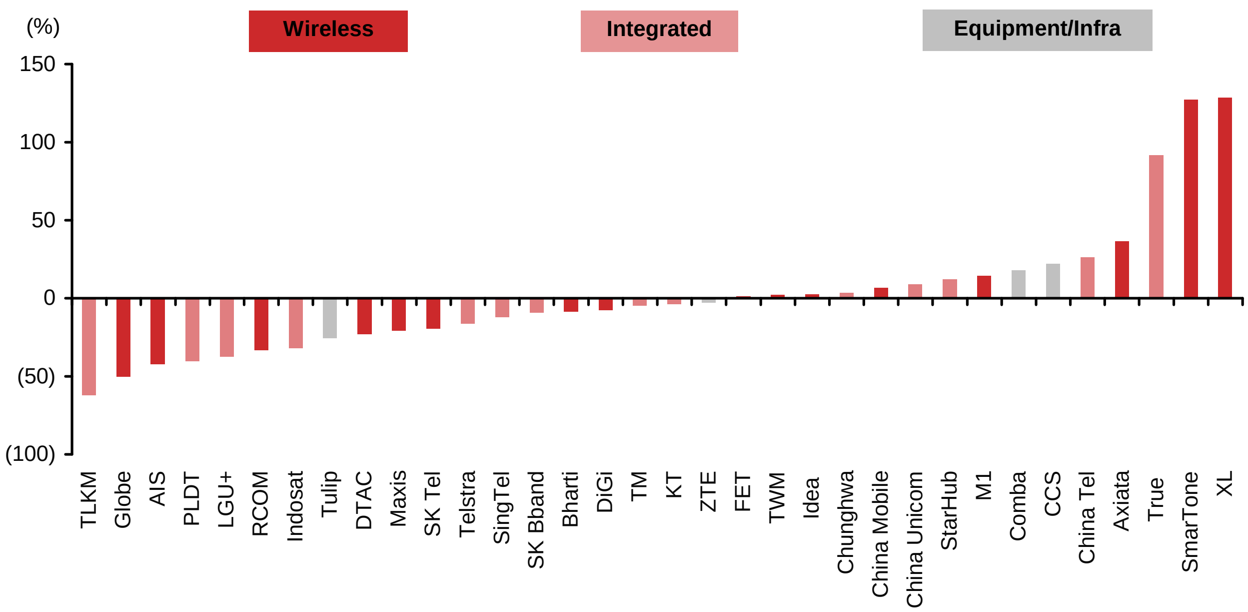
Source: Company data, Nomura research

Exhibit 37. NJA Telcos - absolute returns (2010)



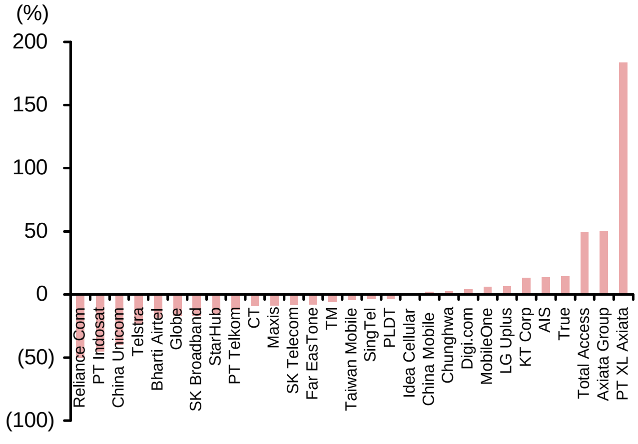
Source: Bloomberg

Exhibit 38. NJA Telcos – returns relative to local markets (2010)



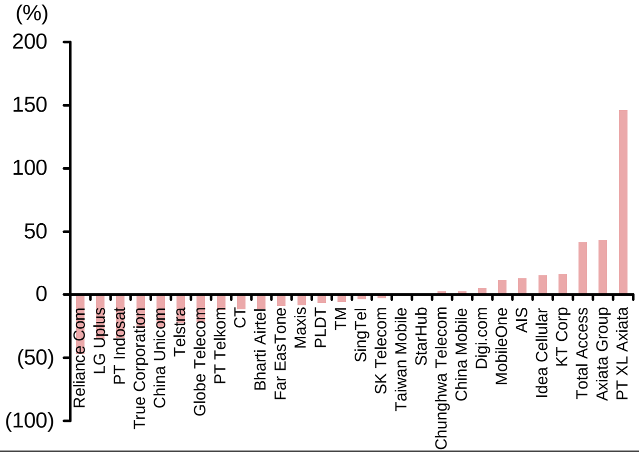
Source: Bloomberg

Exhibit 39. Consensus 2010F EPS revisions



Source: Company data, Nomura estimates

Exhibit 40. Consensus 2011F EPS revisons



Source: Company data, Nomura estimates

What key trends we expected from 2010 and what did we see?

- ***We expected* earnings revisions to be flat to mildly positive.** YTD consensus EPS estimates have moved up 1% on average for FY10F.
- ***We expected* competition to be strong, but not as aggressive as 2009.** While competition remained relatively benign in most NJA countries, it worsened in some others – particularly in India, as new players began to attract customers, and the Philippines. Indonesia experienced some price cuts on SMS in the beginning of the year, but showed no major threats of tariff wars. Separately, Singapore's NBN launch was accompanied by announcement of packages by the three players – M1's plans appeared aggressive. In Korea, wireless handset subsidy costs remain high but saw a declining trend near end-2010 on the government's marketing costs cap regulation at 22%. Malaysia remained reasonably stable for most part, although there was some noise around YTL's WiMAX launch towards the year end.

Exhibit 41. Asian telcos - quarterly revenue share trends

	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
Mobile revenue share (%)							
StarHub	34	34	34	34	34	34	34
SingTel	48	48	49	49	49	50	50
M1	18	18	17	17	17	17	16
Total Revenue - Singapore	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Telstra	41	39	40	39	40	39	39
Optus	34	35	34	36	35	34	36
VHA	25	26	26	25	25	26	26
Total Revenue - Australia	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Bharti	30	32	31	30	30	31	30
IDEA	11	11	11	12	12	13	13
RCOM	17	18	15	15	15	14	14
Vodafone	20	20	20	21	20	21	21
Others	23	18	22	22	23	21	22
Total Revenue - India	**100**	**100**	**100**	**100**	**100**	**100**	**100**
PT Telkom	61	62	62	60	58	58	58
Indosat	21	19	19	20	20	20	21
XL Axiata	18	19	19	20	22	22	22
Total Revenue - Indonesia	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Celcom	31	32	32	33	33	33	32
Maxis	44	43	43	43	42	42	42
DiGi	25	25	25	24	25	25	26
Total Revenue - Malaysia	**100**	**100**	**100**	**100**	**100**	**100**	**100**
PLDT	63	64	64	66	65	66	65
Globe	37	36	36	34	35	34	35
Total Revenue - Philippines	**100**	**100**	**100**	**100**	**100**	**100**	**100**
AIS	52	52	51	52	52	53	53
True	15	15	15	15	15	14	14
DTAC	33	33	33	33	33	33	33
Total Revenue - Thailand	**100**	**100**	**99**	**100**	**100**	**100**	**100**
China Mobile	82	82	82	82	79	78	77
China Tel	5	5	6	6	7	8	9
China Unicom	14	13	12	12	14	14	14
Total Revenue - China	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Chunghwa	52	40	39	38	36	36	36
FET	24	30	30	31	32	32	32
Taiwan Mobile	24	30	30	31	32	32	32
Total Revenue - Taiwan	**100**	**100**	**100**	**100**	**100**	**100**	**100**
SK Telecom	55	55	55	55	54	54	55
LGU	16	16	16	16	16	16	15
KT Corp	29	29	29	30	30	31	30
Total Revenue - Korea	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: Company data, Nomura research

- ***We expected* proliferation of smart-phones and relevant applications, along with wider availability of dongles and data-cards.** Korea led the region in the adoption of smartphones, while Singapore and Taiwan registered strong pick-up. Devices such as iPhone4, iPad, Galaxy S phone and tablets were launched in almost all the developed markets with reasonable traction so far.

Exhibit 42. Global handset market sales trends

Global handset market	2004	2005	2006	2007	2008	2009	2010F	2011F	2012F	2013F
Handset sales	**674**	**817**	**991**	**1,153**	**1,222**	**1,214**	**1,595**	**1,769**	**1,943**	**2,081**
- y-y growth (%)	29.6	21.1	21.4	16.3	6.0	-0.7	31.4	10.9	9.8	7.1
Voice centric phone units	**655**	**763**	**909**	**1,031**	**1,083**	**1,046**	**1,304**	**1,355**	**1,420**	**1,445**
Smartphone units	**19.6**	**53.7**	**81.8**	**122.3**	**139.3**	**171.9**	**291.3**	**414.5**	**522.9**	**635.9**
- smartphone share of annual sales (%)	2.9	6.6	8.3	10.6	11.4	14.2	18.3	23.4	26.9	30.6
- smartphone growth (%)	151.7	174.4	52.2	49.5	13.9	23.4	69.5	42.3	26.2	21.6
Market growth by region (%)										
APAC	14.8	19.7	39.8	30.2	9.0	4.3	52.2	13.7	11.6	7.8
Eastern Europe	47.6	19.2	9.3	1.2	11.0	(15.5)	29.9	22.3	10.0	8.0
Western Europe	20.9	10.9	6.9	9.0	(8.6)	7.2	6.4	1.9	5.0	3.0
North America	24.6	10.2	10.6	7.4	3.3	0.2	5.9	0.5	3.5	2.5
Latin America	89.5	39.8	16.0	7.6	12.0	(15.9)	28.6	10.5	11.0	9.0
Middle East & Africa	77.1	66.5	32.7	19.1	12.2	(3.4)	24.3	14.0	12.0	10.0
Voice ASP	168	159	148	133	116	106	94	86	80	74
Smartphone ASP	451	412	378	358	359	339	328	300	277	258
Total ASP	176	176	167	157	144	139	136	136	133	130
- voice change y-y (%)	(12)	(5)	(7)	(10)	(12)	(9)	(12)	(8)	(7)	(7)
- s/phone change y-y (%)	(3)	(9)	(8)	(5)	0	(6)	(3)	(9)	(7)	(7)
- total change y-y (%)	(9)	0	(5)	(6)	(8)	(3)	(2)	0	(2)	(2)
Voice revenue	110	121	135	137	126	111	122	116	113	107
Smartphone revenue	9	22	31	44	50	58	96	124	145	164
Total revenue	119	143	165	181	176	169	218	241	258	271
- voice growth (%)	13	10	11	2	(8)	(12)	10	(5)	(3)	(6)
- smartphone growth (%)	143	151	40	42	14	16	64	30	17	13
- total revenue growth (%)	18	21	15	9	(3)	(4)	29	11	7	5

Source: Gartner Group, Nomura estimates

- ***We expected* carriers to venture into multi-media and managed services.** Only limited evidence of this so far – but continues to remain a focus for all carriers.
- ***We expected* some relief from regulations.** Regulatory developments remained mixed across the region. Key developments included an interconnect rate reduction in Malaysia, mandated non-exclusivity of pay-TV content in Singapore and the approval of Telstra's separation ahead of the NBN rollout in Australia. The Indian landscape remained the most volatile – 3G hogged the headlines and also saw the introduction of MNP and reviews 2G license allocations.
- ***We expected* less likelihood of upward revision to capex guidance.** Capex trends for the region have remained stable and in fact guidance has actually been revised down by a few operators such as TM, PT Telkom. FY10F capex to sales for the region is 21% versus 23% in FY09.

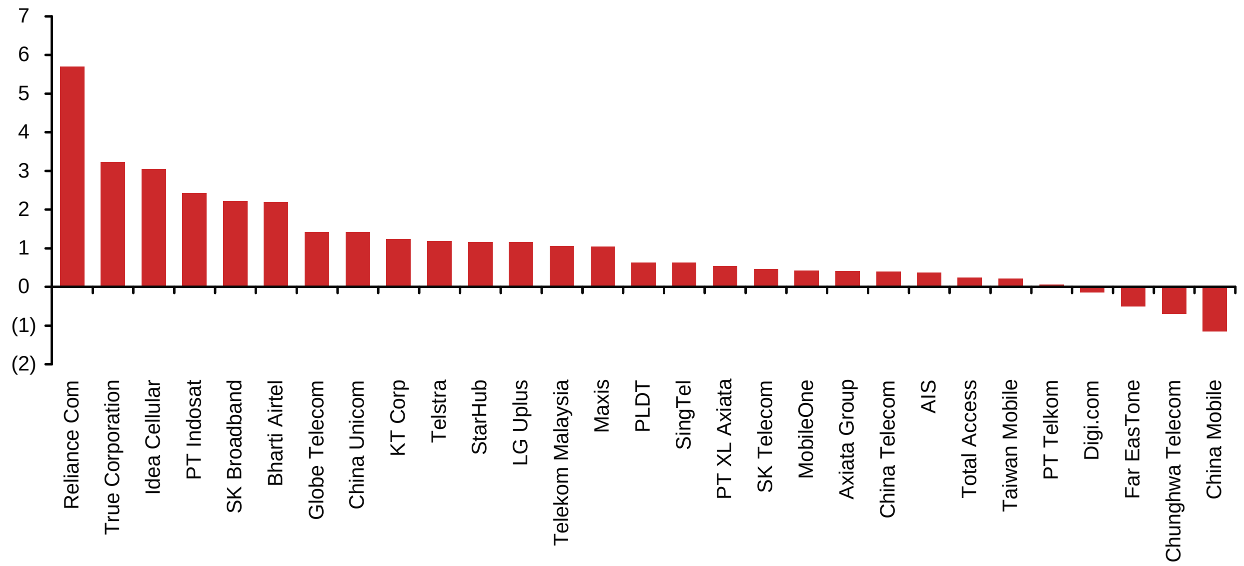
Exhibit 43. Asian telcos – capex/sales trends

(%)	2008	2009	2010	2011	2012
AIS	15	12	7	9	11
Axiata Group	50	23	23	20	17
Bharti Airtel	41	25	21	16	13
China Mobile	33	29	25	19	15
Digi.com	19	15	14	14	13
Far EasTone	12	11	15	14	13
Globe Telecom	31	39	35	34	32
Idea Cellular	59	32	29	28	24
Maxis	9	14	15	13	13
MobileOne	12	15	13	12	12
PT XL Axiata	90	31	22	19	18
Reliance Com	114	41	49	29	20
SK Telecom	17	15	15	15	16
Taiwan Mobile	11	9	10	10	10
Total Access	23	12	8	10	11
China Telecom	25	18	19	19	14
China Unicom	47	73	44	45	37
Chunghwa Telecom	15	13	14	14	14
KT Corp	17	16	15	16	16
LG Uplus	27	16	16	16	16
PLDT	17	19	20	20	19
PT Indosat	66	63	43	35	30
PT Telkom	34	27	23	23	21
SingTel	13	12	12	13	12
SK Broadband	27	29	22	22	21
StarHub	10	11	14	13	12
Telekom Malaysia	23	22	25	19	19
Telstra	19	16	14	14	14
True Corporation	14	12	13	12	11
Average	**31**	**23**	**21**	**19**	**17**

Source: Company data, Nomura estimates

- ***We expected* M&A initiatives.** India was in the spotlight, with Bharti acquiring Zain's Africa business.
- ***We expected* capital management.** Disappointingly, there wasn't much capital management this year. SingTel raised its pay-out ratio to 55-70% and Telstra reaffirmed a A28c fully-franked dividend for the next two years.
  - Malaysia – Based on the trends for 9M10, we had expected Maxis, TM and Digi to undertake capital management exercises during 4Q10. Digi, which changed its dividend policy to quarterly payouts (from interim + final), could pay >80% in 4Q and not necessarily term it as a special dividend. Regardless, we see upside bias to our ordinary 6% dividend forecasts for these three Malaysian telcos.
  - Korea – SKT is set to increase its share buyback (non-cancellable) with improved cashflow from transferring W3.5tn account receivable for handset allotment costs to Hana-SK Card. For KT, with the 49% foreign ownership limit filled, the company will not be able to do any share buybacks.
  - Thailand – The minimum pay-out ratio was raised to 50% in February 2010 by DTAC and to 100% in November 2010 by AIS. DTAC announced its first special dividend (THB0.56) in October 2010, while AIS announced a special dividend twice in 2010: THB5/share for 2009 and THB6/share for 9M10.
- ***We expected* more improvement in balance sheet capacities.** Average net debt-to-EBITDA for the region was 1.3x in FY10F, an increase from 1.1x in FY09. This largely includes higher 3G (and acquisition) related debt for the Indian telcos, excluding which net debt-to-EBITDA would be 0.9x in FY10F.

Exhibit 44. Net debt to EBITDA ratios (2011F)



Note: AIS, Total Access and True are covered by Capital Nomura Securities.

Source: Capital Nomura Securities estimates, Nomura estimates

Exhibit 45. ARPU, MoU and RPM trends

			ARPU					y-y chg %				MoU					Chg (% y-y)				RPM
Countries	Stocks	Cur-rency	2008	2009	2010F	2011F	2012F	2009	2010	2011	2012	2008	2009	2010F	2011F	2012F	2009	2010	2011	2012	(US$¢) 2011F
Thailand	AIS	THB	270	242	242	235	232	(10)	0	(3)	(1)	286	272	299	293	291	(5)	10	(2)	(1)	2.7
	TAC		250	226	220	212	207	(10)	(3)	(4)	(2)	258	252	261	258	256	(2)	4	(1)	(1)	2.7
	TRUE		142	129	122	119	117	(9)	(5)	(3)	(1)	150	166	161	160	160	10	(3)	(1)	0	2.5
India	Bharti	INR	328	244	202	193	188	(26)	(17)	(5)	(3)	513	459	463	467	471	(10)	1	1	1	0.9
	RCOM		257	165	133	125	125	(36)	(19)	(6)	0	407	338	321	328	334	(17)	(5)	2	2	0.8
	IDEA Cellular		268	206	166	159	157	(23)	(19)	(5)	(1)	416	390	397	401	405	(6)	2	1	1	0.9
Singapore	SingTel	S$	40	42	41	41	41	4	(2)	(1)	0	347	347	350	369	381	0	1	6	3	8.6
	M1		33	29	27	27	27	(12)	(5)	1	0	327	332	335	337	338	2	1	1	0	6.2
	StarHub		51	49	48	47	47	(3)	(3)	(2)	1	n/a	n/a	n/a	n/a	n/a					
Indonesia	PT Telkom	Rp	66,219	49,884	42,712	40,994	39,770	(25)	(14)	(4)	(3)	245	281	322	371	426	14	15	15	15	1.2
	XL		37,000	36,000	37,296	34,304	31,829	(3)	4	(8)	(7)	221	254	259	264	270	15	2	2	2	1.4
	Indosat		38,639	37,330	38,265	35,474	32,789	(3)	3	(7)	(8)	n/a	n/a	n/a	n/a	n/a					
Australia	Telstra	A$	51	52	52	52	53	2	0	1	1	92	93	95	100	105	1	2	6	5	52.4
Malaysia	Celcom	RM	58	55	52	51	50	(5)	(5)	(3)	(1)	205	209	211	211	214	2	1	0	1	7.8
	Maxis		64	58	57	56	55	(9)	(2)	(1)	(2)	184	175	193	197	201	(5)	10	2	2	9.3
	DiGi		59	55	54	53	53	(7)	(2)	(1)	(1)	214	220	217	219	223	3	(1)	1	2	
Korea	SKT	W	37,046	36,757	35,791	36,812	37,990	(1)	(3)	3	3	199	197	196	198	199	(1)	0	1	0	16.5
	KT		30,496	30,346	31,208	32,030	33,105	0	3	3	3	184	192	194	195	196	5	1	1	0	14.6
	LGU+		28,130	27,644	27,093	27,213	28,041	(2)	(2)	0	3	200	204	203	207	211	2	0	2	2	11.7
China	China Mobile	RMB	83	78	74	72	70	(6)	(4)	(3)	(3)	493	496	504	509	516	1	2	1	1	2.1
	China Telecom		52	51	48	46	44	(2)	(6)	(5)	(3)	256	284	309	313	316	11	9	1	1	2.2
	China Unicom		42	42	44	47	49	(2)	7	6	3	247	244	252	259	266	(1)	3	3	3	2.7
Taiwan	CHT	NT$	683	653	650	647	651	(4)	0	0	1	189	185	183	181	179	(2)	(1)	(1)	(1)	12.2
	TWM		748	720	712	707	710	(4)	(1)	(1)	0	200	208	210	212	214	4	1	1	1	11.4
	FET		767	732	722	717	718	(5)	(1)	(1)	0	221	211	215	218	220	(5)	2	1	1	11.3
Philippines	PLDT	PHP	217	187	163	147	140	(14)	(13)	(10)	(5)	17	29	46	54	59	69	58	17	11	6.3
	Globe		205	183	170	155	143	(11)	(8)	(8)	(8)	n/a	n/a	n/a	n/a	n/a					

Note: XL only for o/g. PT Telkom MoU excludes incoming and free minutes. ARPU for Korean telcos is net of interconnection. AIS, Total Access and True are covered by Capital Nomura Securities

Source: Capital Nomura Securities estimates, Nomura estimates

Country by country

Country-specific trends in 2011F

China: Variety and affordability of smart-phones to continue to improve

China 2011 – relatively more positive on data

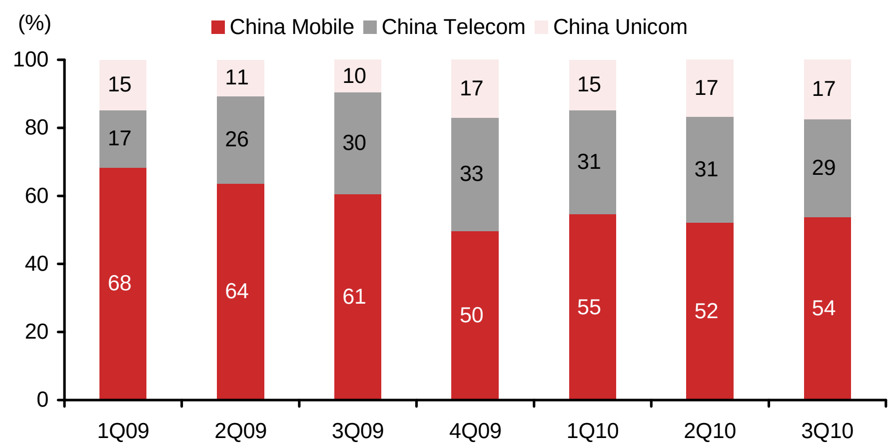
- We believe a higher adoption of smart-phones could drive up ARPU of data-savvy subscribers. This effect will be particularly obvious at China Unicom, given that the company's 3G monthly net adds is exceeding its 2G monthly net adds.
- Also, due to higher data usage of smartphones and 3G mobile phones, the increased pressure on operators' networks could bring pressure to revise up capex for FY11F. Also, with the government mainly focusing on 3G and 4G developments, we do not expect the government to launch any aggressive regulatory measure.
- Potential catalysts are: 1) higher adoption of 3G mobile services; 2) stabilisation of the blended ARPU trend due to the higher 3G adoption rate; and 3) stabilisation of EBITDA margins.

Exhibit 46. Mechanism for commercialised MNP in Hainan and Tianjin

	Porting out	Porting in
Hainan province		
China Mobile (CM)	2G	CM (3G), CT (2G / 3G), CU (2G / 3G)
China Mobile (CM)	3G	No porting
China Telecom (CT)	2G / 3G	CM (3G)
China Unicom (CU)	2G / 3G	CM (3G)
Tianjin		
China Mobile (CM)	2G	CM (3G), CT (2G / 3G), CU (2G / 3G)
China Mobile (CM)	3G	No porting
China Telecom (CT)	2G / 3G	CM (2G / 3G), CU (2G / 3G)
China Unicom (CU)	2G / 3G	CM (2G / 3G), CT (2G / 3G)

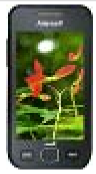
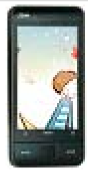
Source: Ministry of Industry and Information Technology (MIIT)

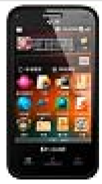
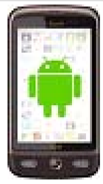
Exhibit 47. Market share of monthly net adds



Source: Company data

Exhibit 48. Specifications of RMB1,000-priced smartphones currently available via China Unicom

Brand	**Nokia**	**Samsung**	**Samsung**	**Samsung**	**Motorola**	**Sony Ericsson**	**ZTE**
Model	**5235**	**B6520**	**i5508**	**s5750e**	**XT300**	**M1i**	**X876**
							
Screen size (inch)	3.2	2.4	2.8	3.2	3.0	2.4	3.2
Dimensions (mm)	111 x 51.7 x 15.5	116.5 x 61.8 x 11.5	108 x 56 x 12.7	109.5 x 55 x 11.7	90 x 55 x 20	117 x 60 x 12.5	113 x 56.5 x 13.8
Camera (pixels)	2.0 mega	2.0 mega	2.0 mega	3.0 mega	3.0 mega	3.0 mega	3.0 mega
Touch screen	Y	N	Y	Y	Y	Y	Y
Keyboard	N	Y	N	N	Y	Y	N
OS	Symbian	Win Mobile 6.5	Android 2.1	Bada	Android 2.1	Win Mobile 6.5	Android 2.1

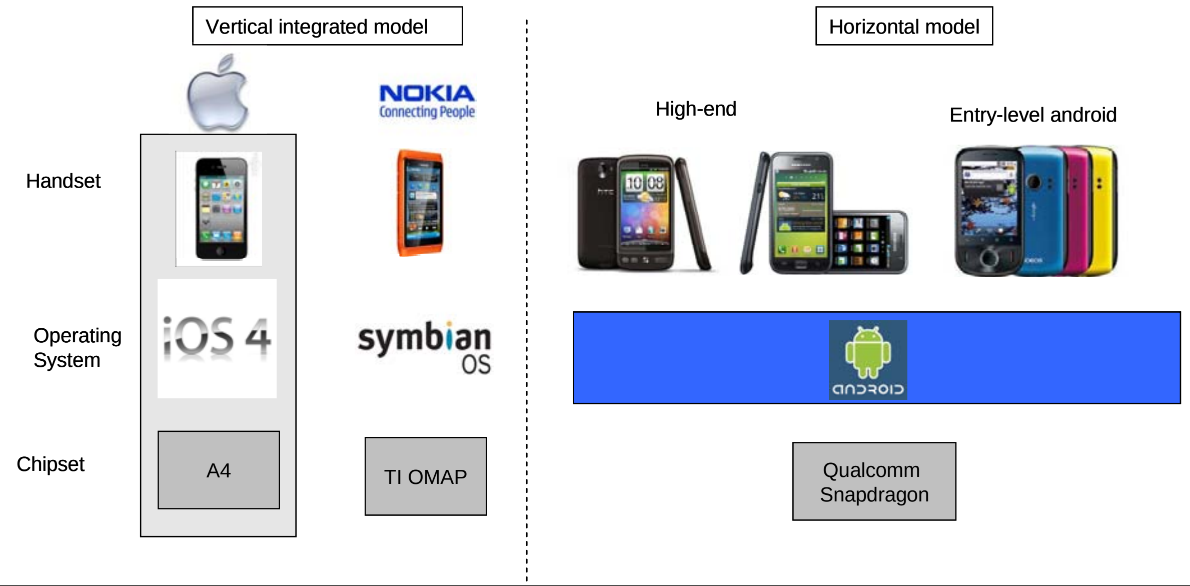
Brand	**ZTE**	**Huawei**	**Huawei**	**Huawei**	**Coolpad**	**K-Touch**	**K-Touch**
Model	**X850**	**U8110**	**U8100**	**U8500**	**W711**	**W366**	**W606**
							
Screen size (inch)	2.8	2.8	2.8	3.2	3.5	3.2	3.5
Dimensions (mm)	102 x 55 x 14.5	106 x 57 x 14	na	112 x 58 x 12.8	115.5 x 62 x 12.9	117 x 57 x 14.4	na
Camera (pixels)	3.0 mega	3.0 mega	3.0 mega	3.0 mega	2.0 mega	2.0 mega	2.0 mega
Touch screen	Y	Y	Y	Y	Y	Y	Y
Keyboard	N	N	N	N	N	N	N
OS	Android 2.1	Android 2.1	Android 2.1	Android 2.1	Android 2.1	Win Mobile 6.5	Android 2.1

Source: Company data

Equipment: more excitement down the value chain

- We expect robust growth on the demand for optical network equipment, driven by: 1) the optical-fiber based broadband network rollout in China, Australia and other Asian countries, and 2) shortage of network capacity due to the strong smartphone trend. Network equipment vendors, especially those with large exposure to optical-related products such as ZTE, O-Net will benefit most from this trend, in our view.
- We expect entry-level smartphones (ASP below US$200) to become a big trend in 2011F, driven by the popularity in China and other Asia Countries. Chinese handset vendors have been focusing on the low-end handset market till now because of the high technology entrance barrier in middle-end handsets and smartphones. Major handset vendors such as Nokia and Apple are adopting vertical-integrated business models between chipset, operating system and handset. Although there are some open operating systems such as Window Mobile, they are not good enough to compete with mainstream products. The lauch of Android by Google opened the pandora's box in the handset operating system, and established a horiziontal busienss model from the perspective of a handset vendor. Samsung and HTC are the early adopters of Android OS and are gaining market share in the high-end market by leveraging the leadership of Android against Nokia's Symbian in smartphone OS. Major Chinese handset vendors are now leveraging the Android platform and their low-cost manufacturing knowhow to enter the entry-level smartphone market in China and globally.
- Wireless capex will continue to decline in China due to the complete of the 3G network rollout. On the other side, India 3G network rollout is the next big thing for global telecom equipment vendors.

Exhibit 49. Smartphone business model



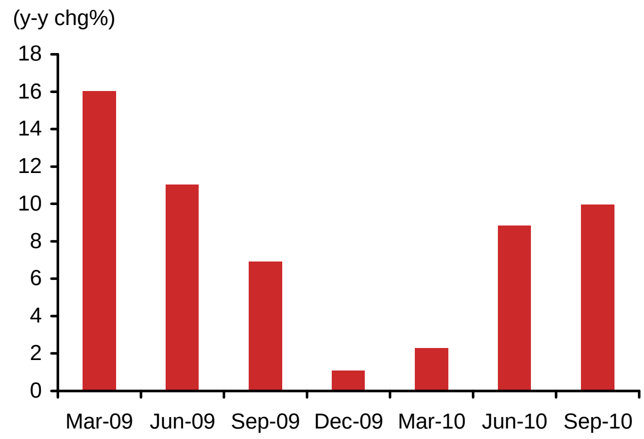
Source: Nomura research

India: some improvement, but still not exciting

India 2011 – rational competition, but risks from regulation and political interventions continue to remain

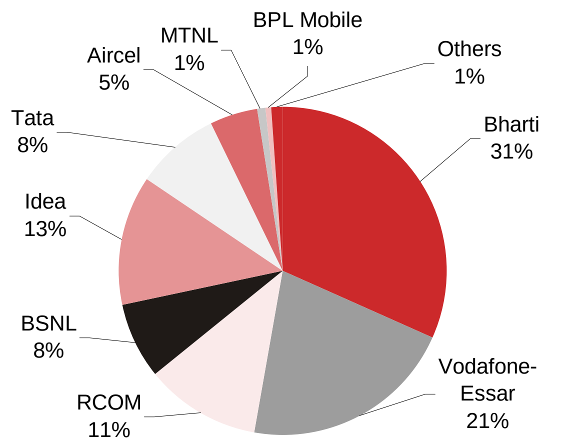
- After a disappointing 2010 (with the sector up 4% on average, underperforming the local market by 13%), we don't expect too many positive surprises in 2011F either. For 2010, positive operational surprises had been rare, and incremental traffic was highly sought after. The 3G auctions have stretched balance sheets, limiting their capacity to cut prices further, as did the Chinese equipment ban issues earlier in the 2010, which hampered the rollout plans of many carriers. Regulations were a key nemesis in 2010 too, and the new telecoms minister is now heavily focused on the legitimacy of 2G licence allocations – putting the overall sector under more scrutiny.
- For 2011F, we expect: 1) competition to be more rational in the wireless segment, but overall prices to remain under pressure; 2) data to surprise on the upside, which could provide resilience to ARPU; 3) more competition in the enterprise segment; 4) upside capex risks as 3G/backhaul is extended; 5) no real M&A, but potential exits by some newcomers; and 6) far more regulatory scrutiny.
- We have a NEUTRAL rating on Bharti, but see scope for upside surprises domestically, which could be offset by delays in operational turnaround in Africa. We believe operating trends from quarter to quarter will remain volatile in the coming year, which could see share price volatility, but on a fundamental basis any significant upside in the stock will likely be dependent on the African turnaround. We think Africa is a significant opportunity, but not without challenges, and it could take more than a year to realise the upside/downside potential. We have REDUCE ratings on IDEA and RCOM, due to expensive valuations and execution challenges. IDEA is well positioned to participate in potential M&A, in our view, but this needs regulatory amendments first, which could be a while away.

Exhibit 50. India: wireless industry growth trends



Source: TRAI

Exhibit 51. India: revenue market share (Sep 2010)



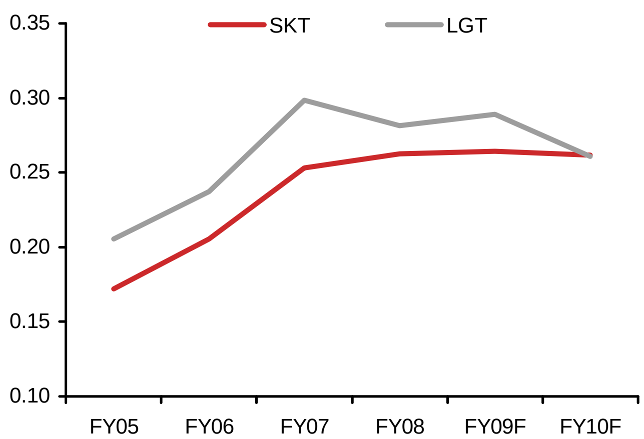
Source: TRAI

Korea: return profile of data growth strategies is the key

- With mass-market smartphone penetration in FY11F, we expect the smartphone billing ARPU to decline steadily. However, due to significantly higher smartphone ARPU over feature phones and accelerating smartphone penetration, overall ARPU should increase.
- We expect solid control of marketing costs in FY11F, owing to: 1) a "special tariff discount" plan to meet KCC 's 22% marketing cost guideline and subsidy cap; 2) significant local vendor subsidy for Android-based smartphones, and; 3) reasonably set smartphone subsidies compared with a strong payback profile.
- We expect limited capex growth in FY11F for Korea telcos despite early LTE roll out.

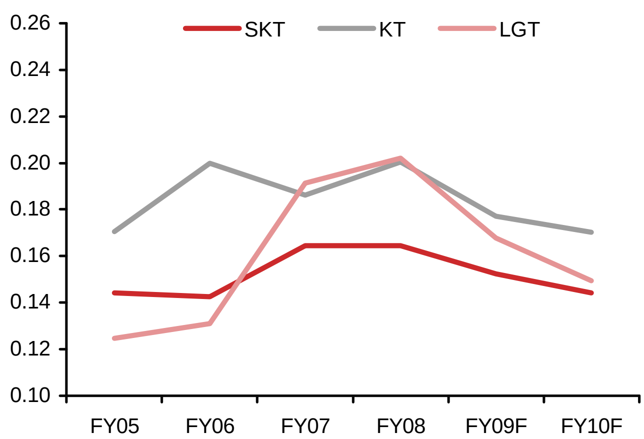
Korea 2011F – Smartphone-driven earnings growth will be mostly visible in 2011 with its penetration increasing from 15% in 2010 to 30% in 2011F

Exhibit 52. Korea: marketing cost/sales ratio



Source: Company data, Nomura estimates

Exhibit 53. Korea: capex/sales ratio



Source: Company data, Nomura estimates

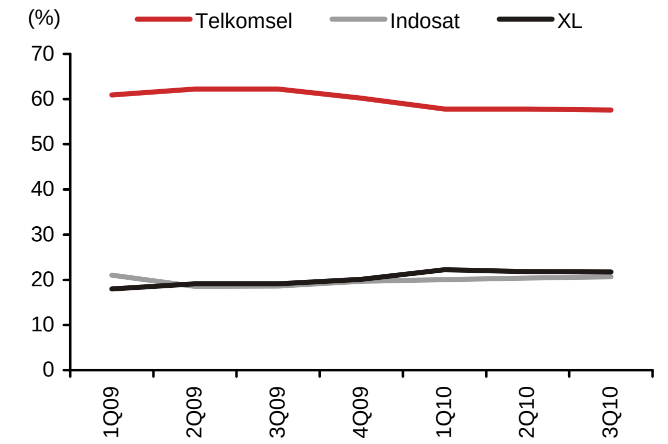
Indonesia: growth appeal remains intact

- Indonesia could continue to remain a key telco market in 2011F, we believe. The strong growth potential and not so detrimental regulatory / competitive risks are likely to support the market's appeal. While we expect tariffs to remain low on almost everything – voice, SMS, VAS, we do not see any major threat of cut-throat price wars in 2011F; network utilizations remain high and pricing does not lend a differentiating edge any more. On the regulatory front, revised interconnect rates came into effect at the beginning of the year. Data growth and ex-Java region would form the key focus areas for operators, in our view.

Indonesia 2011 - Still a relatively more appealing market

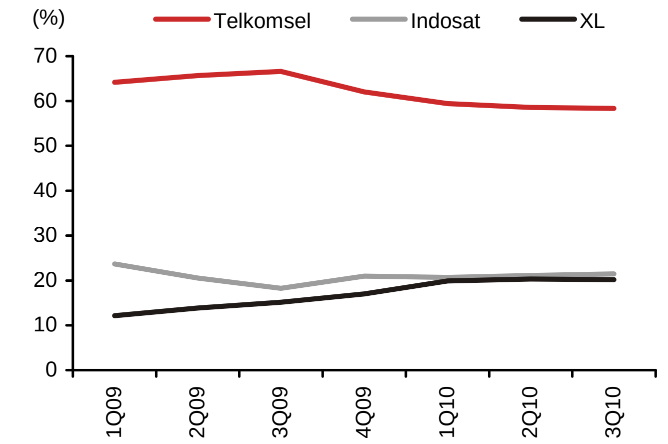
- We expect Telkomsel to regain some of its lost share (its revenue, EBITDA share fell by 5-8% in the past one year), especially during 1H11F. The company has already launched promotional packages, which should gain reasonable traction, and its networks and distribution remain extensive. Some consolidations are likely to take place, of which PT Telkom should be the key part. It could look to strengthen its T.I.M.E. portfolio and the tower assets, and potentially, the Bakrie-Flexi merger could materialise.
- Indosat's extensive network modernisation and vendor rationalization initiatives of 2009-2010 could benefit it in 2011F – we see further improvements in operational trends. We remain hopeful for a significant turnaround in the company's operations, and expect to see more of it spanning out in 2011F.
- XL would be primarily focussed on data segment in 2011F, in our view. Small screen data could be promoted actively, and capex allocation for data growth could rise to around 35-40% of total capex. On the growth metrics, given that XL touched encouraging highs in 2010, we think its growth could somewhat moderated in 2011F (relative to 2010).

Exhibit 54. Indonesia: revenue share trend



Source: Company data, Nomura estimates

Exhibit 55. Indonesia: EBITDA share trend



Source: Company data, Nomura estimates

Taiwan: stable is what we want today

- Taiwan players offer one of the highest dividend yields within the Asian telecom sector (FY10 median over Asia-ex-Japan telecom universe: 5.4%), but the sustainability of these dividends is an ongoing concern given the shrinking voice services market. We believe recent trends in smartphone and associated mobile data services will help operators stabilise their mobile voice revenue. On the other hand, we expect cable TV operators' ownership change in 2010 to intensify competition in the existing ADSL-based fixed-line broadband service in 2011F and stimulate the development of both optical fiber-based broadband and IPTV services.
- Telecom operators experienced significant EBITDA margin erosion in 2010 due to rising subsidies for smartphone/iPhone. For 2011F, we expect the ratio of smartphone shipment to total handset shipment to rise, but total expense for handset subsidies to be flattish y-y because of launches of middle-end smartphone based on Android OS. As a result, we think Taiwan's telecom sector will continue to enjoy above 20% y-y growth in mobile data revenue, which could help to offset the decline in mobile voice revenue due to the mandatory tariff cut and maintain a stable EBITDA margin.
- Regarding the fixed-line broadband service, we expect the competition to intensify in 2011F. We expect China Network Systems (CNS) and Kbro, the two major cable TV operators in Taiwan to accelerate their digital TV and cable broadband developments in 2011 after they has been acquired by Taiwanese entrepreneur in

2010. In preparation for intensifying competition, after CHT has migrated its customer base from ADSL to FTTx, which has higher bandwidth, it plans to improve its FTTx coverage and provide attractive IPTV (Multimedia on Demand, MOD) content. This should help the company to alleviate the impact of tariff cuts because only ADSL tariffs are regulated under the tariff cut scheme.

- CHT and TWM has already announced their capital management plan to be executed in 2011, while FET is pending any capital management action since its request for approval to place new share to China Mobile is still pending. As a result, we do not expect any new capital management actions in 2011.
- Since most of the tariff reduction scheme has been introduced, we expect limited regulatory risks in the telecom sector in 2011F. On the voice front, Taiwanese operators enjoy a much higher APRU and profit margin than peers in other Asian countries, given Taiwan's stable regulatory and moderate competitive environment. After the regulator's recent decision on mobile tariff cuts, we expect very little regulatory uncertainty in the voice segment over the next three years. This favourable regulatory environment, in our view, bodes well for market leader CHT.
- Because of the sensitive nature of the telecom business, we and the market do not expect significant progress in the cross-straits cooperation between Chinese and Taiwanese operators. If FET's application to place new share to Chinas Mobile is approved, this will be a big positive surprise to FET and the whole telecom sector, in our view.
- CHT has emphasized many times that its property business will focus on generating more rental revenue from the renewal of properties used to install telecom equipment. However, recent rallies in Taipei's property prices could attract investors' attention on the non-cash gain on revaluation of CHT's property, especially considering that CHT may need to disclose such information from 2012 due to the adoption of IFIS in Taiwan.

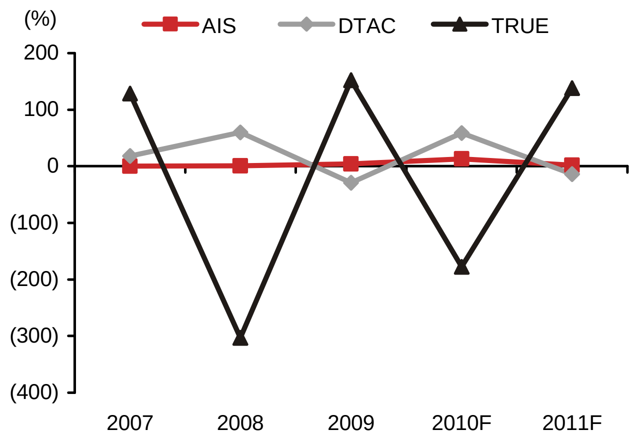
Thailand: Focus on dividend yield rather than profits

Focus on dividend yield rather than profits; 3G investments to have no significant impact

- Capital Nomura Securities (CNS) analyst, Piyachat Ratanasuvan, does not expect Thai telcos to report impressive rates of net profit (NP) growth in 2011F. Thai Telcos' earnings should be driven mainly by their service revenues growth and cost control. According to Mr Ratanasuvan, the revenues generated by non-voice services, following the surge smartphone sales, should be the major driver for telecom operators' total revenue growth. Meanwhile, Mr Ratanasuvan believes each operator should be able to control costs and expenses efficiently.
- Instead, investors should focus on telecom operators' ability to pay dividends in 2011F. Our forecasts call for AIS to raise its normal dividend in 2011F on a year-on-year basis and we also expect the company to pay a special dividend. Meanwhile, DTAC could also decide to raise its dividend payout ratio even though the company's NP is likely to decline in 2011F. AIS's and DTAC's dividend announcements for 2011F could surprise the market just like in 2010.
- Meanwhile, we do not expect telecom operators to make much progress on their 3G investments even though they have several options, i.e. upgrading their current spectrums, becoming a mobile virtual network operator (MVNO). We do not believe that the 3G license auctions, which will eventually be held by the National Broadcasting and Telecommunications Commission (NBTC), will happen in 2011F.
- AIS is our top pick. We have upgraded AIS to BUY, from Neutral, after the recent share price drop. We do not expect AIS to make significant investment on 3G and this should result in excess cash which will likely be paid out as a special dividend. The key catalyst for AIS shares is likely to be the size of the company's dividend payments, including normal dividend payments in February and August each year and special dividend payments for which the timing remains unclear.

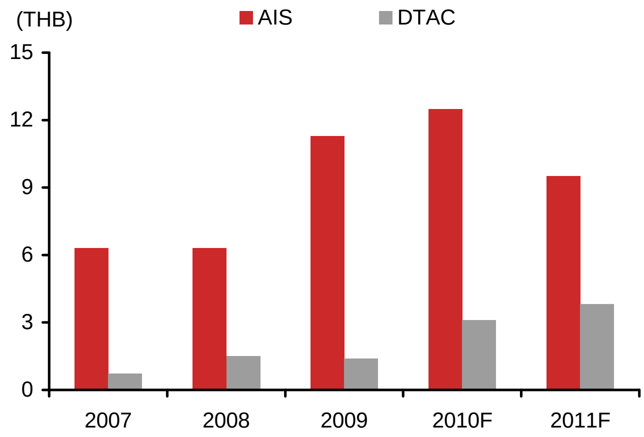
- Meanwhile, in order for DTAC's dividend payment to increase, it must first get approval from its creditors based on its debt covenants that still limit its dividend payout ratio to a maximum of 50% of its NP until 2015F. Finally, we do not expect TRUE to pay dividends during 2010-2012F, which would be consistent with its track record of never having paid a dividend before.

Exhibit 56. Thailand: net profit growth



Source: Capital Nomura Securities research

Exhibit 57. Thailand: DPS + special DPS



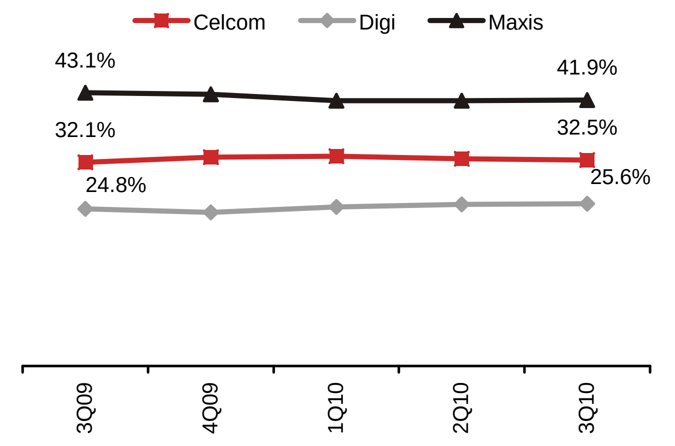
Source: Capital Nomura Securities research

Malaysia: Yield appeal expected to continue

Malaysia 2011– Yield appeal with some competitive and regulatory headwinds

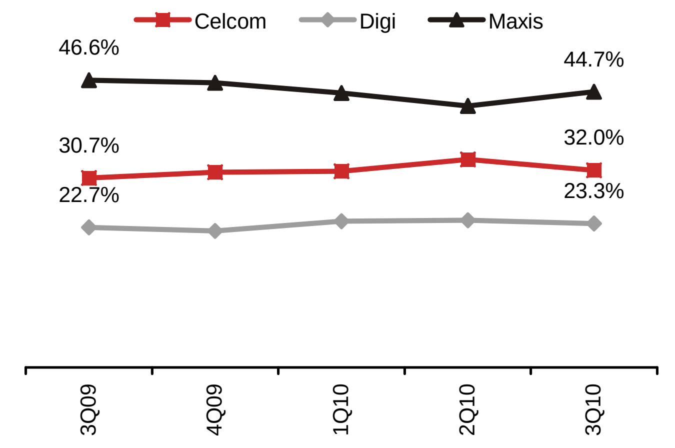
- For FY11F, we see a reasonable risk-return profile for Malaysian telcos. The key appeal for the telcos stems from: 1) 3-17% growth in revenue and earnings; and 2) 5-9% FY11F FCF yield, suggesting upside to our current dividend yield forecasts of 4-6%. Also, on average, we expect investment levels to remain stable or decline this year, providing scope for higher-than-expected free cash flow.
- Data (including broadband) is likely to see an elevated level of activity. With the recent WiMAX launch from YTL Comm. and expanded broadband footprint from cellular operators (and TM), we expect broadband pricing to remain competitive. At the same time, given the 11% per-user broadband penetration, elasticity in subscriber net-adds could offset some of the negative pricing impact.
- YLT Comm. remains a key variable and after having invested a reported RM2.5bn in WiMAX, any irrational initiatives (price packages) could be a negative development for the sector. However, we remain sceptical on the outlook for WiMAX technology and hence, not unduly concerned at this stage.
- On the regulatory front, MCMC's proposal on spectrum re-farming is expected to be a key development (around 1Q11). Depending on the outcome (auction, beauty pageant etc.) there could be medium-term implications for the wireless operators. A potential scenario, where Maxis and/or Celcom might have to let-go of some of their efficient 900MHz spectrum could imply negative capex and opex impacts.
- We prefer Axiata over DiGi and TM – all rated BUYs, followed by Maxis – rated NEUTRAL.

Exhibit 58. Malaysia: revenue share trend



Source: Company data, Nomura estimates

Exhibit 59. Malaysia: EBITDA share trends



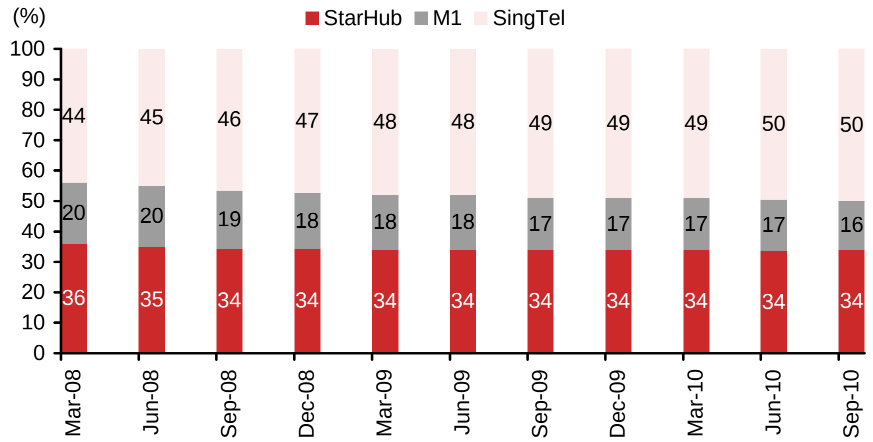
Source: Company data, Nomura estimates

Singapore: rising competitive pressures

Singapore 2011- emerging risks and opportunities from NBN

- In our FY10 outlook, we highlighted that 2010 would be about setting the groundwork for 2011, and we have already seen the carriers boost their integrated offers this year in the NBN environment. M1 now offers fixed broadband and pay-TV services too. The differences in content quality and NBN coverage are likely to be addressed progressively and the imposition of cross-carriage of content could level the playing field further.
- We see four key sector themes play out in FY11F: 1) the NBN rollout to become more ubiquitous, leading to further pressure on retail / enterprise APRUs; 2) rising smartphone and touchpad penetration could hurt operating margins; 3) potential legislation of cross-carriage of content; and 4) potential M&A with M1 in the picture. In terms of relative preference, we like M1 (also a regional pick) over SingTel (NEUTRAL) and StarHub (REDUCE).
- We like M1 due to its potential to surprise on subscriber, revenue and earnings growth on the NBN platform. Execution will be the biggest challenge and no doubt the incumbents won't cede share easily, but we think M1 will use a low-price strategy to win stand-alone broadband customers. Also, M&A potential continues remain for M1.
- While SingTel remains a solid defensive franchise, we expect higher earnings volatility in all its associate markets, with India and Indonesia providing the biggest variability. We don't see Singapore or Optus losing a significant share in 2011F, but margins will remain under pressure. A large capital return in May-2011 will be a key event; otherwise, we don't see other key catalysts.
- For StarHub, we think its strong outperformance in FY10 is unlikely to continue in FY11F. Its strong 7.5% dividend yield could be overshadowed by risks from: 1) the NBN impact on retail broadband prices; 2) risks to pay-TV subs from competition along with the possible impact of content cross-carriage regulations; and 3) expensive-looking valuations of 16.5x FY11F P/E. We do expect it to win an enterprise revenue share from NBN, but it is more likely to make meaningful contribution only FY12F onwards.

Exhibit 60. Singapore – revenue share trends



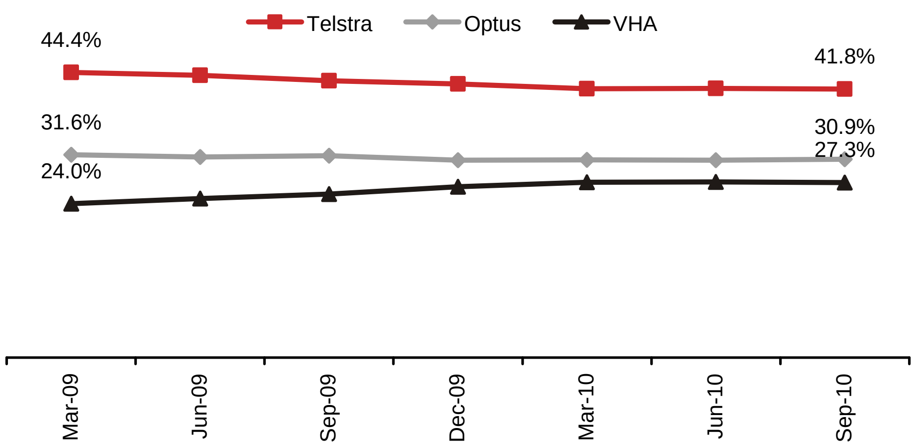
Source: Company data, Nomura research

Australia: getting close to NBN

Australia 2011 – Potential progress on the NBN debate

- The key focus once again will be on the progress of NBN, which has been in the making for over six years now. The definitive agreement has to be signed between Telstra and the government, then further legislative and shareholder approvals are necessary, which could take at least another six months. This will remain a key overhang. Operationally, we expect the wireless market to be much more competitive in 2011F as Telstra looks to regain share and Optus and VHA look to defend closely. Fixed line substitution will likely continue.

Exhibit 61. Australia – service revenue share trends



Source: Company data, Nomura research

Philippines: a year in transition?

Operational upgrades for Philippine telcos still not in sight

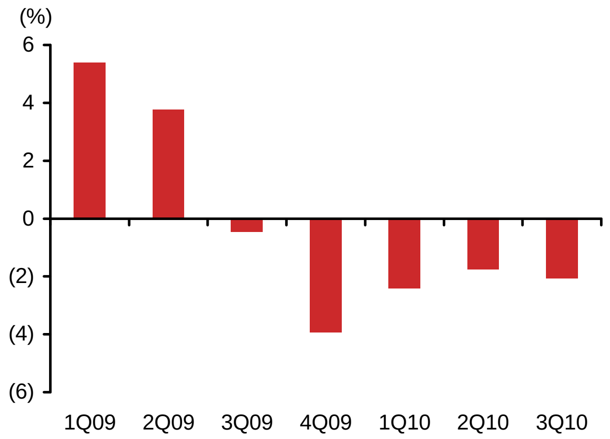
- We expect 2011 to be a tepid year for the Philippine telcos as they compete to defend market share in a declining wireless segment while seeking new areas in mobile internet/enterprise. The traditional wireless business has been going backwards in the past four quarters; moreover, competition doesn't appear to be moderating as yet. A reversal in these trends is therefore critical to trigger operational upgrades for the Philippine telcos.
- We believe the Philippine telcos will also look for new opportunities to drive growth. Mobile broadband has been gaining traction with mobile broadband subscribers nearly doubled (y-y) in 9M10. We also expect the telcos to focus on mobile internet and smartphones in 2011F – affordable devices, as well as content/mobile internet offerings are likely to be key focus areas for the telcos. Voice is also an opportunity to tap over the medium term. The enterprise data segment (or fixed line data) is

another growth area where we expect the telcos to focus on. The Philippine government is focusing on improving infrastructure and improving business confidence will likely offer a healthy backdrop for this segment.

- Network is increasingly becoming a larger differentiator for this market– with the business mix moving away from the highly efficient SMS traffic to voice and data, telcos are coming with network strategies to manage traffic growth in an efficient fashion while offering acceptable services levels for medium- to higher-end customers. We expect Globe and PLDT to continue investing in their networks. We also expect Sun Cellular to expand to new regions in a bid to expand coverage.

- Both Globe and PLDT have indicated that they may continue to invest in networks to cater to growth in voice and data traffic. With rising competition, rising capex and margin pressure, companies may chose to be more prudent and conserve cash rather than carry out capital management, we believe.

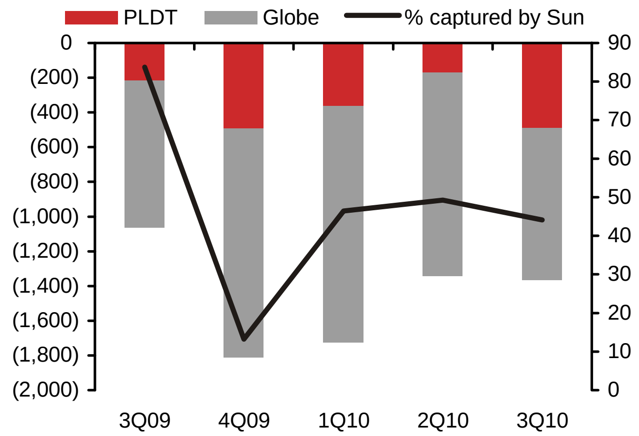
Exhibit 62. Industry growth – voice + SMS



Note: based on data from PLDT, Globe Telecom and Sun Cellular

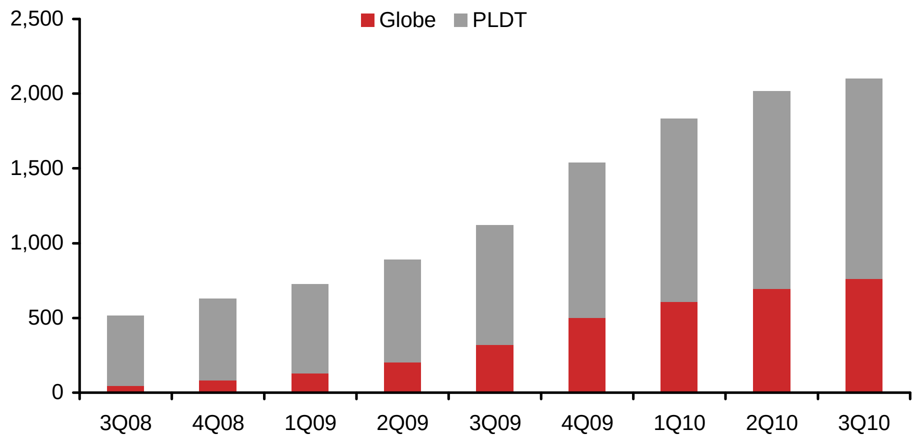
Source: Company data, Nomura estimates

Exhibit 63. Incumbents losing revenue in wireless



Source: Company data, Nomura estimates

Exhibit 64. Philippines: bbroadband subscriber trend



Source: Company data, Nomura estimates

Stock selection

Key stock picks

Axiata: Appealing growth with emerging yield profile

Axiata – solid growth + yield surprise

For FY11F, Axiata remains our preferred pick due to its strong earnings outlook led by: 1) solid revenue and earnings growth at XL; 2) potential upside to Celcom's data growth, as it gets more active with smartphones and broadband; and 3) possible upside surprise on margins, driven by continued cost saving initiatives. Axiata's 13% average earnings growth over FY11F-12F will be one of the highest in regional telcos, as per our estimates. At the same time, we see upside bias to our 4-5% dividend yield forecast.

China Unicom: 'i'- factor to deliver an edge

Unicom – iPhone & iPad advantage

We remain Bullish on China Unicom as: 1) it would be the major beneficiary of iPhone 4's popularity in China; 2) the likely launch of iPad by Unicom and corresponding benefits from 3G net adds and data revenue; 3) a more comprehensive handsets offering on WCDMA platform; 4) steady launch of WCDMA smartphones targeted at the mass market segment; and 5) relatively high (> 40%) earnings growth in FY11. Our order of preference remains China Unicom (BUY) > China Mobile (BUY) > China Telecom (NEUTRAL).

M1: 'Fixed' NBN to provide operational flexibility

M1 – NBN => broadband & Paytv opportunities

We think M1 stands to gain the most from the NBN rollout and expect it to further boost its bundled offers. In 2011F, we expect M1 to surprise on net-adds in both wireless and broadband, and it could also win some share of the pay-TV customers later in the year. Execution will be the biggest challenge, in our view, and no doubt the incumbents won't cede share easily, we think M1 will use a low-price strategy to win stand-alone broadband customers. Acquiring customers who are seeking bundled products will be a more difficult task. Either way, however, we see little revenue cannibalisation risks and incremental customers should add to the bottom-line.

SK Telecom: maintaining momentum with Smartphones

SKT – data upside from smartphones

SKT is our key pick on data upside on the back of rapidly increasing smartphone penetration in Korea. We expect SKT to emerge as a 100% pure smartphone play. For FY11F, we estimate 6% top-line growth and 17% OP growth, driven by lower smartphone-driven economics (high ARPU/lower subsidy). Besides, the shift in accounting standards to IFRS will likely provide additional earnings growth by approximately 10% for KT and SKT in 2011F, on our estimates. Also, the increasing premium for SKT's ADR versus the underlying stock does suggest potential upside for the underlying to see increased interest in the near term. Latest changes in top management will likely be more positive for operational performance despite heightened overseas appetite. SKT has turned out to be the biggest beneficiary (2% 2010F EBIT accretive) of KCC's latest interconnection rate adjustment.

AIS: Massive cash pile

AIS – insignificant 3G capex could lead to excess cash and special dividend

AIS has a solid financial position with a good track record of dividend payment. In 2009 and 2010, the company surprised the market by announcing special dividends of THB5/share and THB6/share, respectively. According to management, the timing of the payment of the special dividends remains unclear. However, we understand that the next special dividend payment will depend on the board's plans for investment in 3G on the 2.1 GHz spectrum. We believe that significant investment on 3G is unlikely over the next 12 months, and thus AIS should continue to have excess cash to be paid out as special dividend. We expect DPS of THB9.5 for 2011, implying a dividend payout of 144%.

ZTE: opportunities from convergence, smartphones and 3G/ 4G

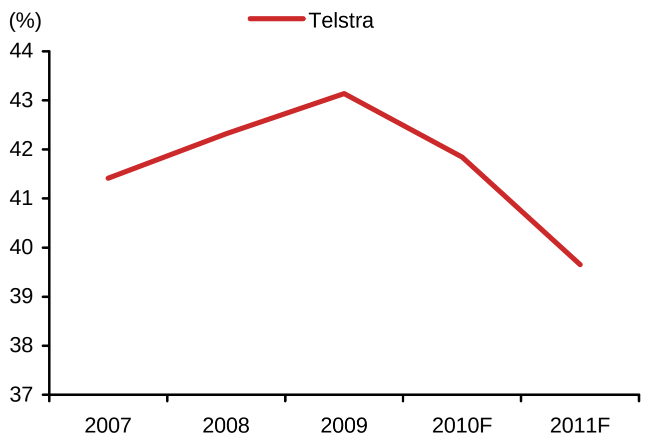
ZTE – Tapping demand from convergence, smartphones and 3G/4G rollouts

We see upside to ZTE from three key drivers: 1) Network convergence, which is likely to increase the demand for optical fibre and in turn provides a sustainable revenue source for ZTE. We forecast ~35% y-y growth in ZTE's optical and data communication revenue in FY11F. 2) Opportunity from entry-level smartphones, where ZTE can increase its relatively lower ASPs and penetrate the mid-range handset segment. By leveraging its strong ties with operators, we expect smartphone's sales to contribute 15% of total handset and data card sales in FY11F, from less than 5% in FY10F. 3) Mobile: India's 3G rollout and TD-LTE. Our initial analysis shows that over time, the TD-LTE capex in China will start improving, and partly compensate the decline in 3G capex. Incrementally, we note ZTE has secured several important contracts in the Indian 3G market, including RCOM and BSNL. We expect these overseas revenue contributions to offset the decline in China, and forecast 7% y-y growth in its wireless business in 2011F.

Appendix

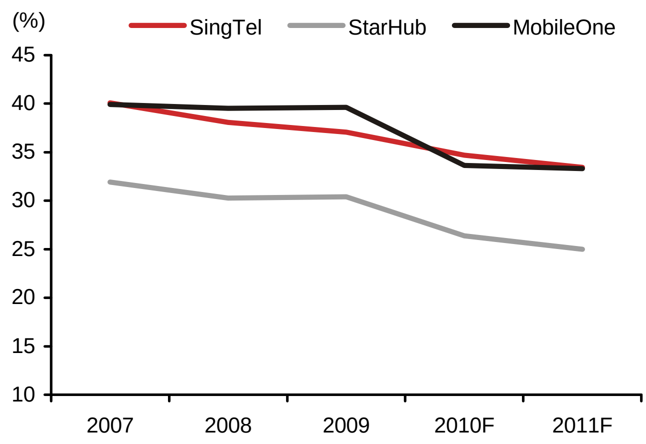
Appendix: EBITDA margin trends

Exhibit 65. EBITDA margin — Australia



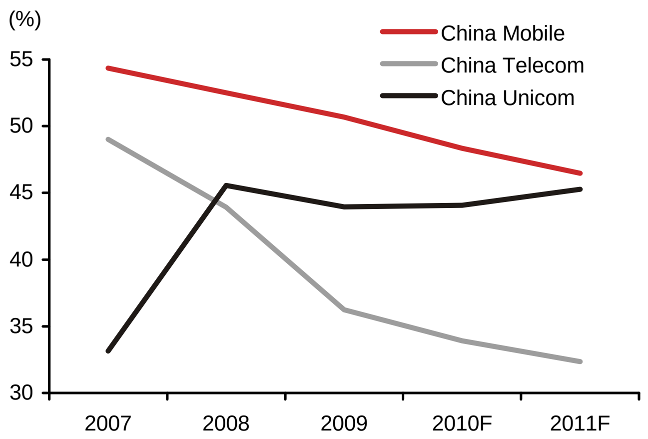
Source: Company data, Nomura estimates

Exhibit 66. EBITDA margin — Singapore



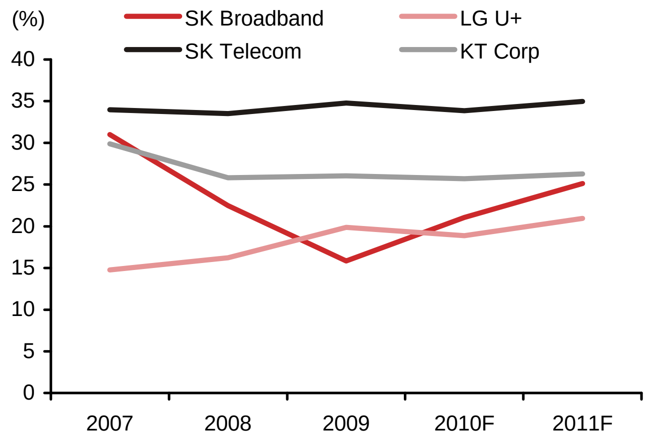
Source: Company data, Nomura estimates

Exhibit 67. EBITDA margin — China



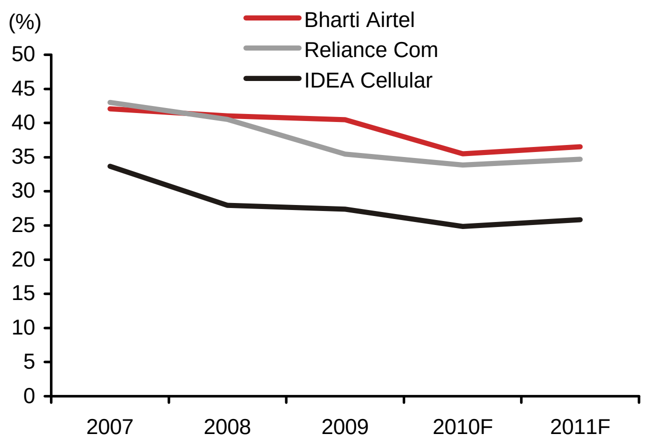
Source: Company data, Nomura estimates

Exhibit 68. EBITDA margin — Korea



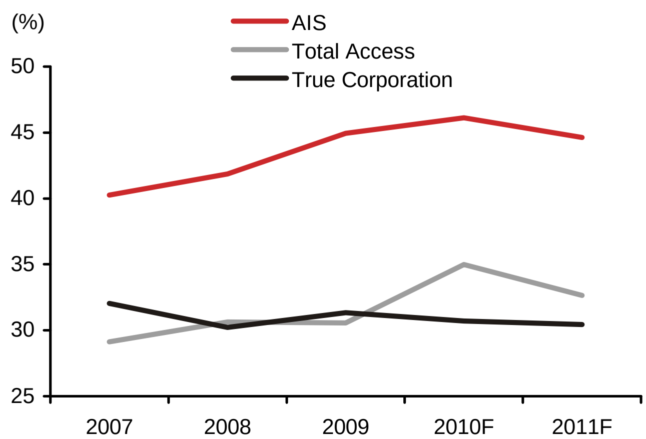
Source: Company data, Nomura estimates

Exhibit 69. EBITDA margin — India



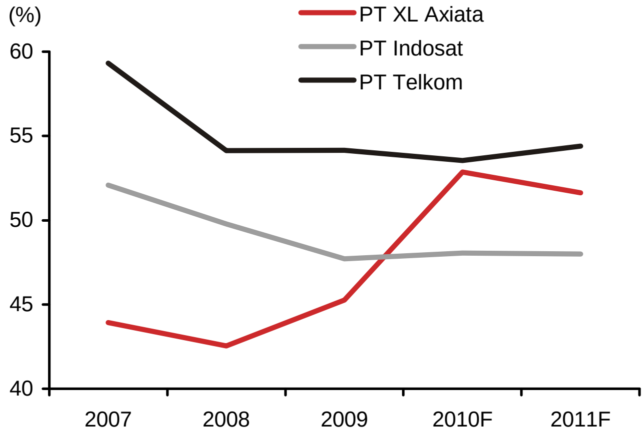
Source: Company data, Nomura estimates

Exhibit 70. EBITDA margin — Thailand



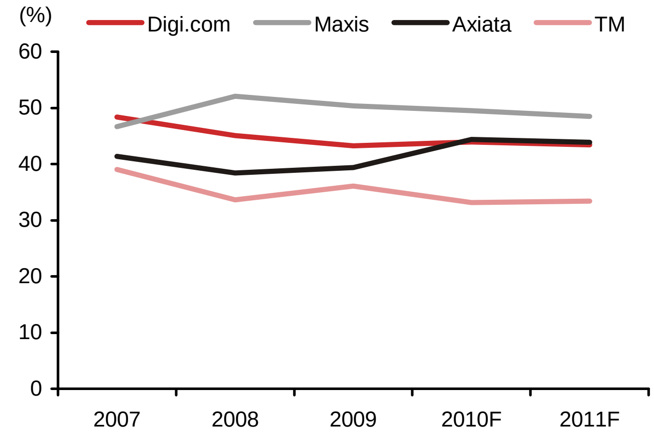
Source: Company data, Capital Nomura Securities estimates, Nomura estimates

Exhibit 71. EBITDA margin — Indonesia



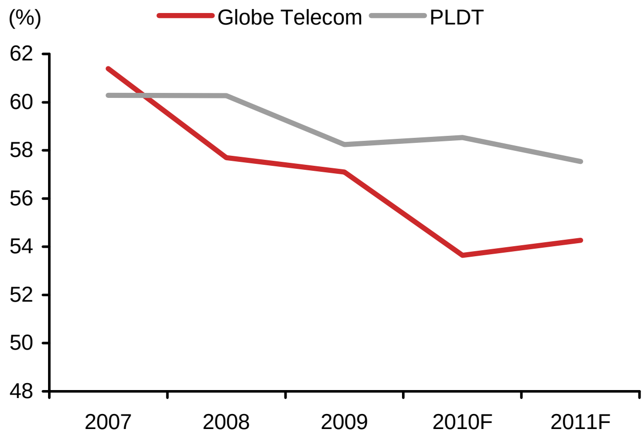
Source: Company data, Nomura estimates

Exhibit 72. EBITDA margin — Malaysia



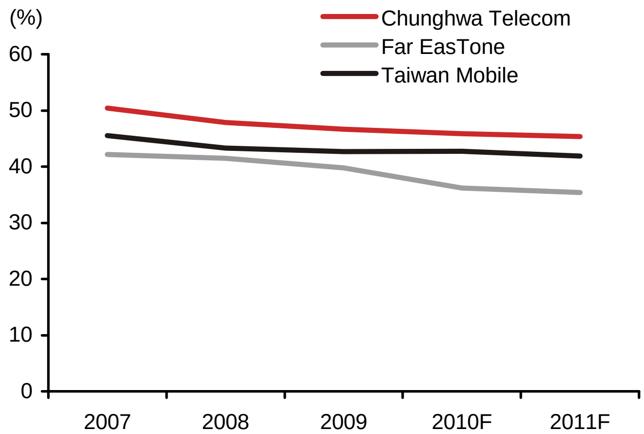
Source: Company data, Nomura estimates

Exhibit 73. EBITDA margin — Philippines



Source: Company data, Nomura estimates

Exhibit 74. EBITDA margin — Taiwan



Source: Company data, Nomura estimates

Appendix

Valuation methodology and risks

Company	Bloomberg code	Valuation methodology	Risks
AIS	ADVANC TB	Our DCF-based price target assumes a WACC of 9.8% and a terminal growth rate of 1%.	Downside risks include: a price war, lower-than-expected GDP growth for Thailand's economy and higher-than-expected capex.
Total Access	DTAC TB	Our DCF-based price target assumes a WACC of 11.9% and a terminal growth rate of 1%.	Downside risks include: a price war, lower-than-expected GDP growth for Thailand's economy and higher-than-expected capex.
PT Indosat	ISAT IJ	Our DCF-based valuation methodology is driven by a WACC of 11.8%, a 9.0% cost of debt, a 14.0% cost of equity and 30% gearing. The terminal growth rate estimate is 3.0%.	We believe key investment risks are: 1) potential sub-optimal execution from new management; 2) more aggressive competition; and 3) deterioration in macro conditions
KT Corp	030200 KS	Our DCF-based price target assumes a 9% WACC and 0% terminal growth after FY15F.	Risks include: 1) a steeper-than-expected decline in telephony revenues; and 2) higher-than-expected marketing costs.
China Telecom	728 HK	Our DCF-based price target assumes a WACC of 10.3% and a long-term growth-to-perpetuity rate of 0.5%.	Risks include: 1) irrational tariff competition − if China Mobile or China Unicom were to lower mobile tariffs in an attempt to gain market share, we believe China Telecom might respond by launching similar tariff plans; 2) the regulatory environment − any significant change in the regulatory environment could have important implications for mainland telecom operators; and 3) new technologies may disrupt the industry landscape − the introduction of new technologies could complement or cannibalise existing technologies (ie, GSM, GPRS and EDGE). Given that telecom operators have invested heavily in their existing networks, the potential obsolescence of networks could lead to asset write-offs, in our view. Upside risks include: China Telecom may report better-than-expected CDMA monthly net adds and reverse the flattish/declining trend of monthly net adds. If this happens, the market may take a more positive view.
SK Telecom	017670 KS	Our price target is based on an SOTP valuation, for which we use the DCF approach to value the parent company, assuming a 10.9% WACC and 0% terminal growth after FY15F.	Risks to our price target include: 1) less effective marketing cost regulations; and 2) financial burden associated with turning around SK Broadband and SK Communications.
LGU+	032640 KS	Our PT is based on the DCF valuation, assuming a 9.4% WACC and 0% terminal growth after FY15F.	Risks: 1) greater-than-expected negative impact from tariff discount/cannibalisation could pose downside risks for LG Uplus. On the flip side, potential take-up of the bundled product could provide upside risk.
China Mobile	941 HK	Our DCF-based price target assumes a WACC of 11.7% and a long-tem growth-to-perpetuity rate of 1.5%.	Risks include: 1) irrational tariff competition − if China Mobile or China Unicom were to lower mobile tariffs in an attempt to gain market share, we believe China Telecom might respond by launching similar tariff plans; 2) the regulatory environment − any significant change in the regulatory environment could have important implications for mainland telecom operators; and 3) new technologies may disrupt the industry landscape − the introduction of new technologies could complement or cannibalise existing technologies (ie, GSM, GPRS and EDGE). Given that telecom operators have invested heavily in their existing networks, the potential obsolescence of networks could lead to asset write-offs, in our view.
SingTel	ST SP	Our price target is based on our DCF sum-of-the-parts model. We use an average discount rate (WACC) of 8.26% for the Singapore and Optus businesses, with a terminal growth rate of 2.5%. Our discount rates for its associates are 10-12%, with terminal growth rates ranging from 2% to 4%.	More aggressive competition in Singapore and Australia, a macro slowdown, further appreciation of the Singapore dollar and slowing growth at associates.
Globe Telecom	GLO PM	Our 12-month price target is based on a DCF valuation, assuming a WACC of 11.7% and 2% terminal growth.	Risks: market share gains and margin improvements.
MobileOne	M1 SP	Our DCF-based 12-month price target uses a WACC of 7.7%, calculated using an 10% cost of equity, a 3% cost of debt and a terminal growth rate of 1.0%.	Downside risks to our investment view include: 1) more aggressive competition in Singapore; 2) limited ability to offer fixed mobile bundles; and 3) a macro slowdown in Singapore.
Far EasTone	4904 TT	Our 12-month price target is based on a DCF valuation, with a WACC of 10.4% and a long-term FCF growth rate of 0%.	Upside risk includes: 1) approval of FET's application of share placement by the government, which would accelerate cooperation with China Mobile. Downside risk includes: 1) higher- than-expected handset subsidies due to irrational competition.
Telekom Malaysia	T MK	Our DCF-based valuation methodology uses a WACC of 7.7%, a 9.0% cost of equity, 5% cost of debt, 1% terminal growth rate and 25% gearing.	Downside risks include: 1) competition from cellular operators and 2) a weaker-than-expected pick-up of HSBB.
Axiata	Axiata MK	We use the DCF methodology to value the four key subsidiaries: Celcom, XL, AxB, and Dialog using WACCs of 7.7%, 12.6%, 7.7%, and 8.0%, respectively; our terminal growth rates are 2.5%, 3%, 1.5%, and 1.5%, respectively	Key downside risks include: 1) aggressive price competition; a weaker-than-expected take-up of wireless broadband in Malaysia; and 3) tariff wars and regulatory risks in Indonesia, India, Sri Lanka and Bangladesh.
Taiwan Mobile	3045 TT	Our 12-month price target is based on DCF valuation, using a WACC of 8.1% and a long-term terminal growth rate of 0%.	Larger-than-expected EBITDA margin erosion because of smartphone subsidiaries.
Chunghwa Telecom	2412 TT	Our 12-month price target is based on DCF valuation, using a WACC of 9% and a long-term terminal growth rate of 0%.	Key risks: 1) lower-than-expected mobile data revenue growth due to changes in consumer behaviour and 2) a faster-than-expected drop in voice tariff because of competition.

Company	Bloomberg code	Valuation methodology	Risks
Maxis	MAXIS MK	Our DCF-based price target assumes a WACC of 7.4%, calculated using an 8.5% cost of equity, a 5% cost of debt, a 1.5% terminal growth rate and 20% gearing.	Key upside risks include: 1) a strong pick-up in broadband growth and active capital management. Key downside risks include: 1) aggressive price-based competition, 2) weaker-than-expected take-up of wireless broadband and 3) further sell-off by BGSM.
Digi.com	DIGI MK	Our DCF-based price target is based on a 7.8% WACC, 8.5% cost of equity, 5% cost of debt and 15% gearing. Our terminal growth rate is at 1%.	Key risks include: 1) a continued macro slowdown, 2) increased competition, 3) pricing pressure and 4) weaker-than-expected take-up of broadband services
PLDT	TEL PM	Our 12-month price target assumes a WACC of 9.8% and a terminal growth rate of 2%.	Upside risks: 1) faster-than-expected transition to new businesses and 2) solid market share gains. Downside risks: 1) a worse-than-expected operational outlook; and 2) margin/earnings pressure.
Telstra	TLS AU	Our price target is based on a 11x FY12F P/E, based on a 20% premium to the weighted average multiple for European telcos — their business mix is (relatively)more similar to that of Telstra than the Asian peers (methodology unchanged).	Upside risks include: 1) a better-than-expected regulatory outcome for Telstra and 2) a strong turnaround in operational trends. Downside risks include further deterioration in operating trends.
China Unicom	762 HK	For our DCF methodology, we use a WACC of 11.2% and a long-term growth-to-perpetuity rate of 1.0%	Risks include: 1) irrational tariff competition − if China Mobile or China Unicom were to lower mobile tariffs in an attempt to gain market share, we believe China Telecom might respond by launching similar tariff plans; 2) the regulatory environment − any significant change in the regulatory environment could have important implications for mainland telecom operators; and 3) new technologies may disrupt the industry landscape − the introduction of new technologies could complement or cannibalise existing technologies (ie, GSM, GPRS and EDGE). Given that telecom operators have invested heavily in their existing networks, the potential obsolescence of networks could lead to asset write-offs, in our view.
Bharti Airtel	BHARTI IN	Our DCF-based price target is based on a WACC of 9% and a terminal growth rate of 3%.	Downside risks to our price target include: 1) stronger-than-expected competition and 2) unfavourable regulatory developments related to various fees and charges. Upside risks include: 1) benign competition and 2) faster-than-expected stability in pricing.
PT Telkom	TLKM IJ	Our DCF-based price target assumes a WACC of 12.1%, beta of 1.0, risk free rate of 9%, an equity risk premium of 5%, cost of debt of 8.5% and 3% long-term growth.	Key downside risks include: 1) more aggressive competition, 2) fixed-to-mobile substitution and 3) limited access to capital. Key upside risks include: 1) poor execution from peers; and 2) favourable regulatory changes.
StarHub	STH SP	Our DCF-based 12-month price target assumes a WACC of 8.1%, with a terminal growth rate of 1%.	Upside risks include: 1) lower-than-expected loss of pay-TV subscribers, 2) limited ARPU dilution, 3) and higher-than-expected capital management.
True Corporation	TRUE TB	Our DCF-based price target assumes a WACC of 14% and a terminal growth rate of 1%.	Key upside risks include 1) finding a partner, 2) higher-than-expected revenues and 3) better than expected cost control
PT XL Axiata	EXCL IJ	Our DCF-based valuation methodology uses a WACC of 12.6%, driven by a 9% cost of debt, 14.0% cost of equity, 20% gearing and a terminal growth rate of 3.0%	Key downside risks to our rating are: 1) limited growth in non-voice services and 2) higher-than-expected competition.
Reliance Com	RCOM IN	Our DCF-based price target is based on a WACC of 10.9% and a terminal growth rate of 3%.	Key upside risks include: 1) lessening competitive activity and 2) potential M&A transactions.
SK Broadband	033630 KS	Our price target is based on DCF valuation, using an 8.5% WACC and a 1% terminal growth rate.	KT's reinforced post-merger marketing strategy in the fixed line sector remains a short-term upside risk factor that could result in better-than-expected performance.
IDEA Cellular	IDEA IN	Our PT is based on DCF with WACC of 9.8% and terminal growth of 4%.	Upside risks: 1) A favourable resolution of regulatory issues; and 2) faster- than-expected industry consolidation.
ZTE	763 HK	We derive our PT using a 24x P/E multiple.	Downside risks include: 1) any regulatory policy change that is unfavourable to Chinese vendors; 2) larger-than-expected capex reduction plans by Chinese and overseas operators; 3) mounting price competition in the 2G/3G market; and 4) a significant increase in bad debt and failure to control operating costs.

Source: Bloomberg, Nomura research

Axiata Group Berhad AXIATA MK

TELECOMS | MALAYSIA

B Roshan Raj +65 6433 6961 broshan.raj@nomura.com
Sachin Gupta, CFA +65 6433 6968 sachin.gupta@nomura.com
Pankaj Suri (Associate)

Maintained

BUY

NOMURA SINGAPORE LIMITED

Action

For FY11F, we continue to see growth in Axiata's earnings, driven by: 1) solid revenue and earnings growth at XL; 2) potential upside to Celcom's data growth as it gets more active with smartphones and broadband and 3) possible upside surprise in margins, driven by continued cost-saving initiatives. Axiata's 13% average earnings growth over FY10-12F will be one of the highest in regional telcos, according to our estimates. We also see upside bias to our 3-5% dividend yield forecast. BUY maintained.

Catalysts

Continued operational strength in domestic and overseas businesses remains a potential catalyst. FY11F dividend could positively surprise.

Anchor themes

Celcom is likely to provide a consistent cashflow stream; XL to provide the revenue / earnings growth appeal; trends at subsidiaries, associates can improve.

Closing price on 5 Jan	RM4.74
Price target	RM5.90
	(set on 15 Nov 10)
Upside/downside	24.5%
Difference from consensus	20.4%
FY11F net profit (RMmn)	3,044
Difference from consensus	0.1%

Source: Nomura

Nomura vs consensus

Our above-consensus price target is driven by the expectation of continued growth at Celcom and XL, and easing investment risks.

Consistent execution to continue

① Data growth remains a key for XL and Celcom

XL's strong execution in FY10F is likely to continue in FY11F, in our view, and we see another 13-15% growth in revenue and EBITDA with scope for upside surprises. Data is already a key revenue contributor – 41% of mobile revenue in 3Q10 versus 38% in 3Q09 – and we expect it to drive medium-term growth at XL. Barring a marked pick-up in cellular competition, we see limited risks to XL's operational outlook.

Celcom is likely to increase its visibility in the smartphone segment, where both Maxis and Digi have so far been more active. Increasing broadband coverage beyond current 70-75% levels and more aggressive broadband pricing appear likely, in our view, to drive broadband growth and offset competition from WiMAX operators.

Cost management will be a key focus area across the group and could be a driver for possible margin surprises ahead, in our view. We expect Celcom to progress on executing its network-sharing plans with Digi. In our opinion, XL could continue to drive revenue growth ahead of expenses – a further margin uplift, and margins at other subsidiaries could hold stable.

② Limited M&A initiatives, near term

Axiata sold its non-mobile operations in Thailand and Pakistan in 2010 and remains committed to focussing on mobile (as per the company's media release on 23 December, 2010). Hence, we believe it is likely to continue exploring disposal of non-mobile assets over the next 12-18 months. However, a material M&A initiative may not unfold in the near term. As such, we see limited cashflow risks over the medium term and see potential upside to our 3-5% yield forecasts.

③ Axiata remains our key regional pick

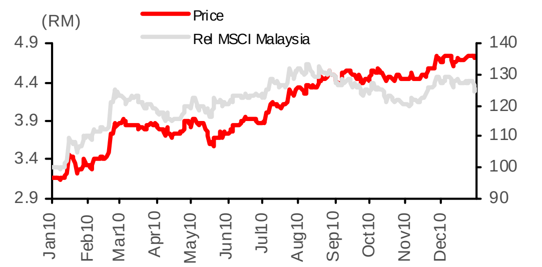
At 13x FY11F P/E, Axiata's valuation remains attractive compared to 13-14x for regional peers. It remains our key regional telco pick.

Key financials & valuations

31 Dec (RMmn)	FY09	FY10F	FY11F	FY12F
Revenue	13,105	15,638	17,266	18,644
Reported net profit	1,653	2,940	3,044	3,315
Normalised net profit	1,653	2,605	3,044	3,315
Normalised EPS (RM)	0.20	0.31	0.36	0.39
Norm. EPS growth (%)	226.4	57.6	16.8	8.9
Norm. P/E (x)	24.2	15.4	13.2	12.1
EV/EBITDA (x)	9.8	6.3	5.5	4.9
Price/book (x)	2.2	1.9	1.8	1.7
Dividend yield (%)	0.0	0.0	3.4	5.0
ROE (%)	11.2	15.0	13.9	14.1
Net debt/equity (%)	56.7	25.2	14.0	3.9
Earnings revisions				
Previous norm. net profit		2,605	3,044	3,315
Change from previous (%)		-	-	-
Previous norm. EPS (RM)		0.31	0.36	0.39

Source: Company, Nomura estimates

Share price relative to MSCI Malaysia

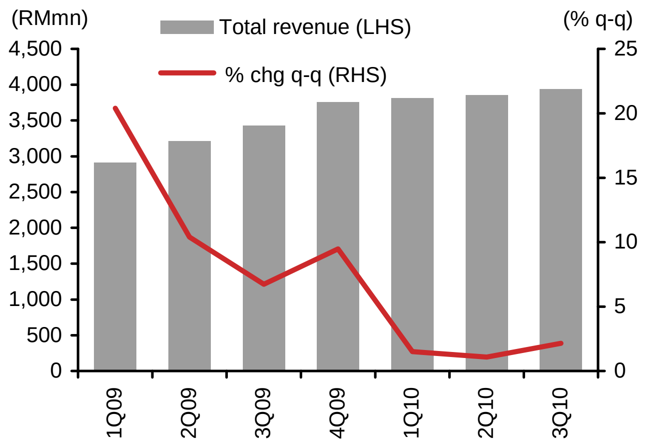


	1m	3m	6m
Absolute (RM)	0.2	7.0	22.5
Absolute (US$)	2.6	8.0	28.0
Relative to Index	(3.5)	1.1	1.5
Market cap (US$mn)			13,041
Estimated free float (%)			31.7
52-week range (RM)			4.76/3.13
3-mth avg daily turnover (US$mn)			19.53
Stock borrowability			Hard
Major shareholders (%)			
Khazanah Nasional Berhad			44.5
Employees Provident Fund Board			15.2

Source: Company, Nomura estimates

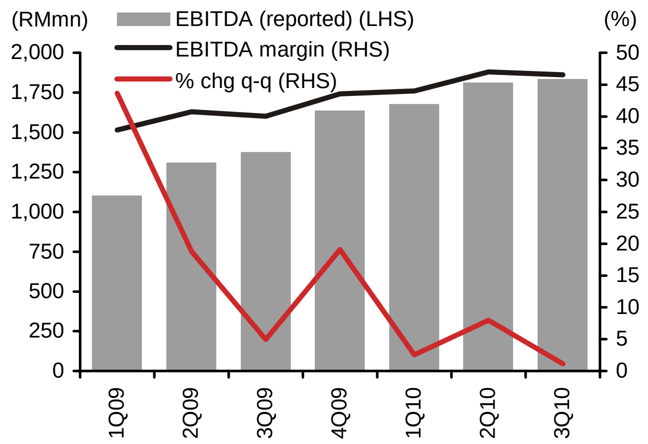
Axiata – sequential trends

Exhibit 75. Axiata – revenue trend



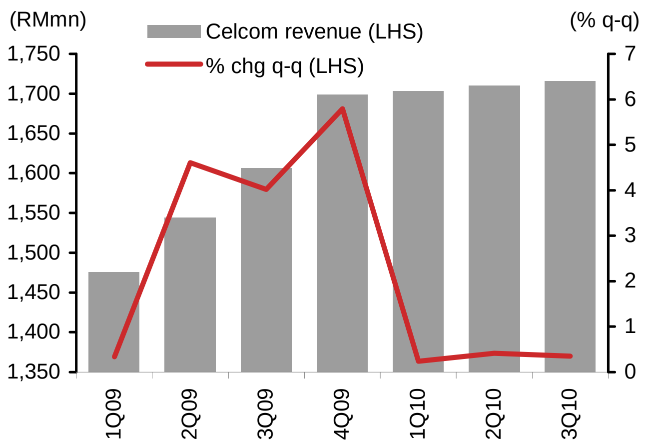
Source: Company reports, Nomura research

Exhibit 76. Axiata – EBITDA trend



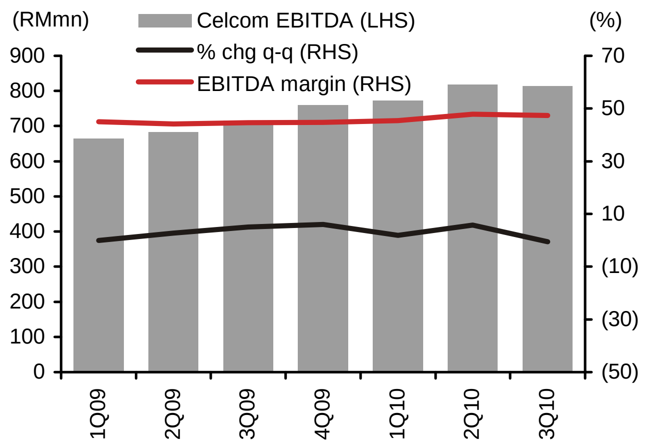
Source: Company reports, Nomura research

Exhibit 77. Celcom – revenue trend



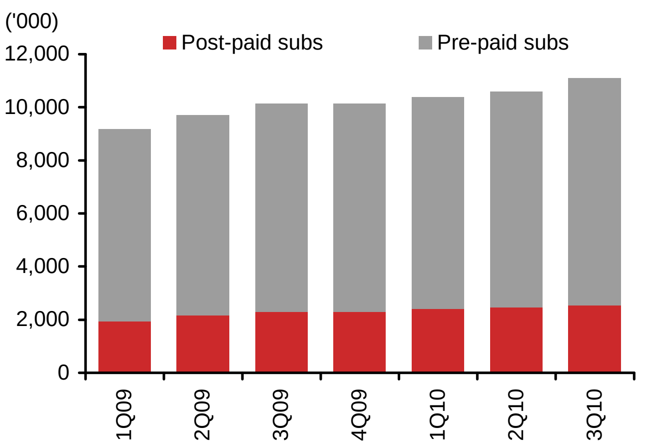
Source: Company reports, Nomura research

Exhibit 78. Celcom – EBITDA trend



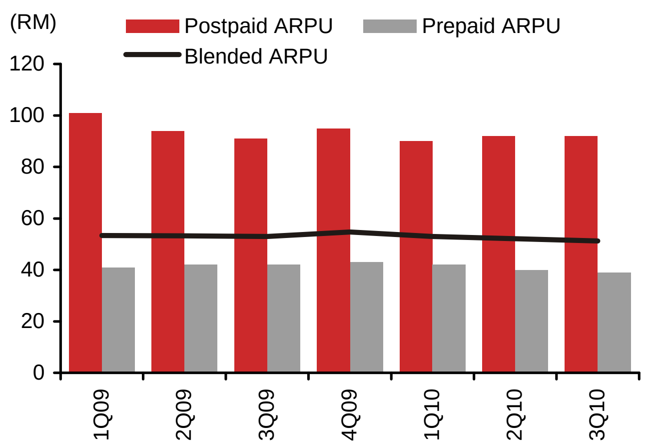
Source: Company reports, Nomura research

Exhibit 79. Celcom – subscriber trend



Source: Company reports, Nomura research

Exhibit 80. Celcom – ARPU trend



Source: Company reports, Nomura research

Financial statements

Income statement (RMmn)					
Year-end 31 Dec	FY08	FY09	FY10	FY11F	FY12F
Revenue	11,348	13,105	15,638	17,266	18,644
Cost of goods sold	(3,140)	(3,538)	(3,791)	(4,215)	(4,575)
Gross profit	**8,207**	**9,567**	**11,847**	**13,052**	**14,069**
SG&A	(6,190)	(7,270)	(7,652)	(8,343)	(9,019)
Employee share expense	(29)	918	400	200	200
Operating profit	**1,989**	**3,214**	**4,595**	**4,909**	**5,250**
EBITDA	**4,356**	**5,157**	**7,202**	**7,841**	**8,419**
Depreciation	(2,319)	(2,860)	(3,007)	(3,132)	(3,369)
Amortisation	(48)	918	400	200	200
EBIT	**1,989**	**3,214**	**4,595**	**4,909**	**5,250**
Net interest expense	(1,015)	(649)	(560)	(411)	(320)
Associates & JCEs	(59)	101	141	230	270
Other income	-	-	173	-	-
Earnings before tax	**914**	**2,666**	**4,349**	**4,728**	**5,200**
Income tax	(435)	(910)	(1,044)	(1,182)	(1,300)
Net profit after tax	**480**	**1,756**	**3,305**	**3,546**	**3,900**
Minority interests	27	(103)	(366)	(502)	(585)
Other items	-	-	(335)	-	-
Preferred dividends					
Normalised NPAT	**506**	**1,653**	**2,605**	**3,044**	**3,315**
Extraordinary items	-	-	335	-	-
Reported NPAT	**506**	**1,653**	**2,940**	**3,044**	**3,315**
Dividends	-	-	-	(1,370)	(1,989)
Transfer to reserves	**506**	**1,653**	**2,940**	**1,674**	**1,326**
Valuation and ratio analysis					
FD normalised P/E (x)	79.0	24.2	15.4	13.2	12.1
FD normalised P/E at price target (x)	98.4	30.1	19.1	16.4	15.0
Reported P/E (x)	79.0	24.2	13.6	13.2	12.1
Dividend yield (%)	-	-	-	3.4	5.0
Price/cashflow (x)	16.1	8.4	6.2	5.8	5.5
Price/book (x)	3.6	2.2	1.9	1.8	1.7
EV/EBITDA (x)	13.0	9.8	6.3	5.5	4.9
EV/EBIT (x)	28.5	15.7	9.9	8.8	7.8
Gross margin (%)	72.3	73.0	75.8	75.6	75.5
EBITDA margin (%)	38.4	39.4	46.1	45.4	45.2
EBIT margin (%)	17.5	24.5	29.4	28.4	28.2
Net margin (%)	4.5	12.6	18.8	17.6	17.8
Effective tax rate (%)	47.5	34.1	24.0	25.0	25.0
Dividend payout (%)	-	-	-	45.0	60.0
Capex to sales (%)	46.9	25.1	23.0	20.0	17.0
Capex to depreciation (x)	2.3	1.2	1.2	1.1	0.9
ROE (%)	4.8	11.2	15.0	13.9	14.1
ROA (pretax %)	6.8	9.6	13.6	14.7	15.6
Growth (%)					
Revenue	13.5	15.5	19.3	10.4	8.0
EBITDA	5.3	18.4	39.7	8.9	7.4
EBIT	(20.4)	61.6	43.0	6.8	6.9
Normalised EPS	(70.4)	226.4	57.6	16.8	8.9
Normalised FDEPS	(70.4)	226.4	57.6	16.8	8.9
Per share					
Reported EPS (RM)	0.06	0.20	0.35	0.36	0.39
Norm EPS (RM)	0.06	0.20	0.31	0.36	0.39
Fully diluted norm EPS (RM)	0.06	0.20	0.31	0.36	0.39
Book value per share (RM)	1.33	2.15	2.50	2.70	2.86
DPS (RM)	-	-	-	0.16	0.24

Source: Nomura estimates

Expect double-digit FY09-12F CAGR in revenue and EBITDA

Cashflow (RMmn)					
Year-end 31 Dec	FY08	FY09	FY10	FY11F	FY12F
EBITDA	4,356	5,157	7,202	7,841	8,419
Change in working capital	122	(195)	491	403	317
Other operating cashflow	(1,991)	(216)	(1,204)	(1,393)	(1,420)
Cashflow from operations	**2,487**	**4,746**	**6,489**	**6,851**	**7,316**
Capital expenditure	(5,324)	(3,290)	(3,597)	(3,453)	(3,169)
Free cashflow	**(2,837)**	**1,457**	**2,892**	**3,398**	**4,147**
Reduction in investments	(5,914)	5,734	-	-	-
Net acquisitions	(441)	(1)	-	-	-
Reduction in other LT assets	(5,914)	-	2,018	-	-
Addition in other LT liabilities	(71)	559	-	-	-
Adjustments	5,990	(6,304)	-	-	-
Cashflow after investing acts	**(9,188)**	**1,444**	**4,910**	**3,398**	**4,147**
Cash dividends	(30)	90	90	(1,280)	(1,899)
Equity issue					
Debt issue	10,477	(8,118)	(1,250)	(750)	(750)
Convertible debt issue					
Others	103	5,260	-	-	-
Cashflow from financial acts	**10,551**	**(2,768)**	**(1,160)**	**(2,030)**	**(2,649)**
Net cashflow	**1,363**	**(1,325)**	**3,750**	**1,368**	**1,498**
Beginning cash	1,968	3,331	2,006	5,756	7,125
Ending cash	3,330	2,006	5,756	7,125	8,623
Ending net debt	16,692	10,317	5,316	3,198	950

Source: Nomura estimates

Balance sheet (RMmn)					
As at 31 Dec	FY08	FY09	FY10	FY11F	FY12F
Cash & equivalents	3,331	2,006	5,756	7,125	8,623
Marketable securities					
Accounts receivable	1,540	1,559	2,142	2,365	2,554
Inventories	77	35	35	35	35
Other current assets	129	97	97	97	97
Total current assets	**5,077**	**3,698**	**8,031**	**9,622**	**11,309**
LT investments	5,914	181	181	181	181
Fixed assets	14,960	15,815	16,405	16,726	16,527
Goodwill					
Other intangible assets	8,326	8,563	8,563	8,563	8,563
Other LT assets	3,075	8,887	7,094	7,234	7,414
Total assets	**37,352**	**37,144**	**40,274**	**42,326**	**43,993**
Short-term debt	9,477	2,149	1,899	1,649	1,399
Accounts payable	4,538	4,263	5,337	5,963	6,469
Other current liabilities	195	221	221	221	221
Total current liabilities	**14,211**	**6,634**	**7,458**	**7,834**	**8,090**
Long-term debt	10,546	10,173	9,173	8,673	8,173
Convertible debt					
Other LT liabilities	898	1,457	1,457	1,457	1,457
Total liabilities	**25,655**	**18,264**	**18,088**	**17,964**	**17,720**
Minority interest	481	696	1,062	1,564	2,150
Preferred stock					
Common stock	3,753	8,445	8,445	8,445	8,445
Retained earnings	7,463	9,739	12,679	14,353	15,679
Proposed dividends					
Other equity and reserves					
Total shareholders' equity	**11,217**	**18,184**	**21,124**	**22,798**	**24,124**
Total equity & liabilities	**37,352**	**37,144**	**40,274**	**42,326**	**43,993**
Liquidity (x)					
Current ratio	0.36	0.56	1.08	1.23	1.40
Interest cover	2.0	5.0	8.2	12.0	16.4
Leverage					
Net debt/EBITDA (x)	3.83	2.00	0.74	0.41	0.11
Net debt/equity (%)	148.8	56.7	25.2	14.0	3.9
Activity (days)					
Days receivable	39.4	43.2	43.2	47.6	48.3
Days inventory	8.9	5.8	3.4	3.1	2.8
Days payable	494.5	454.0	462.1	489.3	497.3
Cash cycle	(446.2)	(405.1)	(415.5)	(438.6)	(446.2)

Source: Nomura estimates

China Unicom 762 HK

TELECOMS | CHINA

Danny Chu, CFA +852 2252 6209 danny.chu@nomura.com
Leping Huang, PhD +852 2252 1598 leping.huang@nomura.com

Maintained

BUY

NOMURA
NOMURA INTERNATIONAL (HK) LIMITED

Action

We reaffirm our bullish stance on China Unicom following our latest trip to Shenzhen, mainly on: 1) newly signed 3G subs with decent ARPU levels; 2) the abundance of RMB1,000-priced smartphones, which should capture demand in the switch to 3G; 3) increased customer traffic at Unicom shops. We take these as a sign of gradual improvement for the company. Any share price weakness would present an even stronger buying opportunity, in our view. Reiterate BUY.

Catalysts

Higher monthly net adds, shorter time to generate synergies from fixed-mobile convergence and stable growth in fixed-line revenue are share price catalysts.

Anchor themes

With the 3G rollout moving towards completion and improving availability of 3G handsets, we expect Chinese telecom operators to launch different campaigns to gradually migrate 2G subscribers onto a 3G platform.

Closing price on 5 Jan	HK$11.24
Price target	**HK$13.50**
	(set on 13 Oct 10)
Upside/downside	20.1%
Difference from consensus	**23.2%**
FY11F net profit (RMBmn)	8,284
Difference from consensus	**9.9%**

Source: Nomura

Nomura vs consensus

We expect a better-than-expected improvement in the company's 3G business.

3G helping to reshape Unicom

① Shenzhen trip reaffirms our bullish stance

As part of our effort to better understand Unicom's latest momentum in adding 3G mobile subscribers, we visited Shenzhen (Guangdong province) during the Christmas rush. We were encouraged to see: 1) Unicom still signing up new 3G mobile subs with respectable ARPUs; 2) a less severe-than-before iPhone 4 shortage in Guangdong; 3) Unicom offering 14 smartphone models at the RMB1,000-level in Guangdong; and 4) increased customer traffic at Unicom's shops.

② Need to promote user experience of Apple products on WCDMA network

Many mobile subscribers on the mainland have yet to fully realise the true performance of the iPhone 4 and the 3G iPad, given that so far this can only be done on Unicom's WCDMA (3G) network. We expect Unicom to invest resources (ie, advertising, consumer education) to reinforce this message to consumers, so as to encourage more mainland mobile subscribers to join its 3G network.

③ Recent tariff plan changes bode well

Unicom has made some changes to its 3G tariff plans by introducing a RMB48 monthly plan. In our view, the key takeaways from Unicom's recent revision of its 3G monthly subscription plans are: 1) management's timely response to a fast-changing operating environment; and 2) management's heightened commitment to improve and strengthen the operational/financial results of its 3G business.

④ Reaffirming BUY

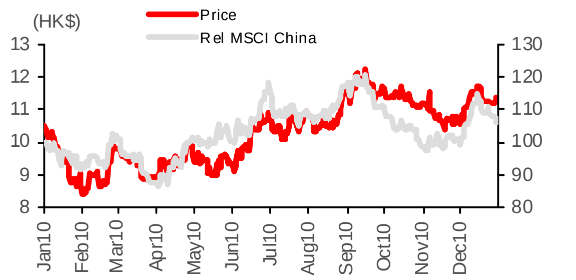
China Unicom shares are trading at 28.1x FY11F P/E. We maintain our BUY rating and price target of HK$13.50. We use a WACC of 11.2% and a long-term growth-to-perpetuity rate of 1.0% to derive our price target.

Key financials & valuations

31 Dec (RMBmn)	FY09	FY10F	FY11F	FY12F
Revenue	153,945	168,916	187,593	205,466
Reported net profit	9,556	5,625	8,284	11,702
Normalised net profit	9,556	5,625	8,284	11,702
Normalised EPS (RMB)	0.40	0.24	0.35	0.50
Norm. EPS growth (%)	50.6	(40.6)	47.3	41.3
Norm. P/E (x)	24.7	41.4	28.1	19.9
EV/EBITDA (x)	5.1	4.9	4.5	4.0
Price/book (x)	1.1	1.1	1.1	1.0
Dividend yield (%)	1.6	1.6	1.1	1.5
ROE (%)	4.6	2.7	3.9	5.4
Net debt/equity (%)	30.5	38.6	46.5	44.5
Earnings revisions				
Previous norm. net profit		5,625	8,284	11,702
Change from previous (%)		-	-	-
Previous norm. EPS (RMB)		0.24	0.35	0.50

Source: Company, Nomura estimates

Share price relative to MSCI China



	1m	3m	6m
Absolute (HK$)	5.8	(2.4)	4.3
Absolute (US$)	5.7	(2.6)	4.5
Relative to Index	5.4	(4.3)	(12.0)
Market cap (US$mn)			34,374
Estimated free float (%)			29.6
52-week range (HK$)			12.16/8.31
3-mth avg daily turnover (US$mn)			41.92
Stock borrowability			Easy
Major shareholders (%)			
Unicom Group			71.0
Telefonica			8.4

Source: Company, Nomura estimates

Drilling down

Catalysts

On a short-term basis (three months), we believe catalysts for China Unicom include:

- Monthly net adds, which reflect the company's ability to win market share;
- 4Q10F results, which should show progress in business integration;
- iPhone subscriptions, which reflect the company's ability to attract data-savvy subscribers and improve its blended ARPU;
- The ability to contain selling and marketing expenses, while growing 3G business.

On a longer-term basis (12 months), we believe catalysts for China Unicom include:

- ARPU of its mobile subscriber base, as this reflects the company's ability to attract high-ARPU subscribers;
- FY10F results, which should show financial and operational KPIs;
- China Unicom's brand perception among consumers, as this affects subscriber take-up and the customer profile;
- A regulatory roadmap drawn out by the Ministry of Industry and Information Technology (China's telecom regulator).

Exhibit 81. Recent publications on China telecom services sector

Date	Title of publication
1 Dec, 2010	China Mobile: Postcards from Shanghai & Beijing
17 Nov, 2010	China Mobile: Reporting live from MAC 2010
29 Oct, 2010	China Mobile: Scale of TD-LTE trial may exceed initial expectations
20 Oct, 2010	China Mobile: Review of 3Q10 results
13 Oct, 2010	China Mobile: Man vs machine
29 Sep, 2010	China Mobile: Happiness (LePhone) coming to TD-SCDMA; 3Q10 preview
8 Sep, 2010	China Mobile: Quick thoughts on placement
23 Aug, 2010	China Mobile: Friday morning with management
19 Aug, 2010	China Mobile: Elephant moving forward; one more new TD handset from Nokia
25 Nov, 2010	China Telecom: Postcards from Shanghai & Beijing
28 Oct, 2010	China Telecom: 3Q10 review – "CDMA express train" lost some steam
15 Oct, 2010	China Telecom: Preview of 3Q10 results
13 Oct, 2010	China Telecom: Catching breath before another dash
13 Sep, 2010	China Telecom: Back to school
27 Aug, 2010	China Telecom: Thursday morning with management
25 Aug, 2010	China Telecom: Better-than-expected results; investing for the future
26 Nov, 2010	China Unicom: All they want for X'mas is … iPhone 4 or iPad
15 Nov, 2010	China Unicom: Benefits from iPhone 4, iPad and smartphone not fully reflected
29 Oct, 2010	China Unicom: Driving a Ferrari (iPhone 4) through highway or local?
13 Oct, 2010	China Unicom: Revenge of the fallen
27 Aug, 2010	China Unicom: 1H10 review: Spring has not arrived yet
2 Dec, 2010	ZTE: Three drivers in 2011F
29 Nov, 2010	Telecoms | China: Monthly industry data
5 Nov, 2010	Telecoms | China: MNP commercial launch may start soon
28 Oct, 2010	ZTE: Sales recovery slower than expected
22 Oct, 2010	Telecoms | China: Monthly industry data
20 Oct, 2010	Telecoms | China: Spectrum availability, mid-air scare?
13 Oct, 2010	Comba: Takeaway from field trip and communication expo
29 Sep, 2010	Telecom Equipment | China: Rising with convergence

Source: Nomura research

Financial statements

Income statement (RMBmn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Revenue	148,906	153,945	168,916	187,593	205,466
Cost of goods sold	-	-	-	-	-
Gross profit	**148,906**	**153,945**	**168,916**	**187,593**	**205,466**
SG&A	(128,750)	(142,924)	(159,844)	(174,477)	(187,540)
Employee share expense	-	-	-	-	-
Operating profit	**20,156**	**11,021**	**9,072**	**13,116**	**17,926**
EBITDA	**67,834**	**58,608**	**63,836**	**75,032**	**83,771**
Depreciation	(47,678)	(47,587)	(54,764)	(61,915)	(65,845)
Amortisation	-	-	-	-	-
EBIT	**20,156**	**11,021**	**9,072**	**13,116**	**17,926**
Net interest expense	(2,172)	(945)	(2,307)	(2,843)	(3,134)
Associates & JCEs	-	-	-	-	-
Other income	(9,843)	2,201	735	772	810
Earnings before tax	**8,141**	**12,277**	**7,500**	**11,045**	**15,602**
Income tax	(1,801)	(2,721)	(1,875)	(2,761)	(3,901)
Net profit after tax	**6,340**	**9,556**	**5,625**	**8,284**	**11,702**
Minority interests	(1)	-	-	-	-
Other items	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Normalised NPAT	**6,339**	**9,556**	**5,625**	**8,284**	**11,702**
Extraordinary items	-	-	-	-	-
Reported NPAT	**6,339**	**9,556**	**5,625**	**8,284**	**11,702**
Dividends	(4,754)	(3,770)	(3,770)	(2,485)	(3,511)
Transfer to reserves	**1,585**	**5,786**	**1,855**	**5,799**	**8,191**
Valuation and ratio analysis					
FD normalised P/E (x)	37.4	24.7	41.4	28.1	19.9
FD normalised P/E at price target (x)	44.9	29.7	49.8	33.8	23.9
Reported P/E (x)	37.1	24.6	41.4	28.1	19.9
Dividend yield (%)	2.0	1.6	1.6	1.1	1.5
Price/cashflow (x)	2.5	2.6	3.9	3.3	3.0
Price/book (x)	1.1	1.1	1.1	1.1	1.0
EV/EBITDA (x)	3.8	5.1	4.9	4.5	4.0
EV/EBIT (x)	12.7	27.0	34.8	25.5	18.6
Gross margin (%)	100.0	100.0	100.0	100.0	100.0
EBITDA margin (%)	45.6	38.1	37.8	40.0	40.8
EBIT margin (%)	13.5	7.2	5.4	7.0	8.7
Net margin (%)	4.3	6.2	3.3	4.4	5.7
Effective tax rate (%)	22.1	22.2	25.0	25.0	25.0
Dividend payout (%)	75.0	39.5	67.0	30.0	30.0
Capex to sales (%)	47.3	73.1	44.4	45.3	36.5
Capex to depreciation (x)	1.5	2.4	1.4	1.4	1.1
ROE (%)	4.2	4.6	2.7	3.9	5.4
ROA (pretax %)	8.4	3.0	2.2	3.0	3.9
Growth (%)					
Revenue	49.6	3.4	9.7	11.1	9.5
EBITDA	105.5	(13.6)	8.9	17.5	11.6
EBIT	95.2	(45.3)	(17.7)	44.6	36.7
Normalised EPS	(62.6)	50.6	(40.6)	47.3	41.3
Normalised FDEPS	(62.5)	51.0	(40.3)	47.3	41.3
Per share					
Reported EPS (RMB)	0.27	0.40	0.24	0.35	0.50
Norm EPS (RMB)	0.27	0.40	0.24	0.35	0.50
Fully diluted norm EPS (RMB)	0.26	0.40	0.24	0.35	0.50
Book value per share (RMB)	8.70	8.76	8.84	9.03	9.42
DPS (RMB)	0.20	0.16	0.16	0.11	0.15

Source: Nomura estimates

Execution key to delivering earnings growth

Cashflow (RMBmn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
EBITDA	67,834	58,608	63,836	75,032	83,771
Change in working capital	37,752	37,478	646	(187)	112
Other operating cashflow	(10,530)	(6,257)	(5,028)	(4,718)	(5,896)
Cashflow from operations	**95,056**	**89,829**	**59,453**	**70,126**	**77,987**
Capital expenditure	(70,490)	(112,470)	(75,000)	(85,000)	(75,000)
Free cashflow	**24,566**	**(22,641)**	**(15,547)**	**(14,874)**	**2,987**
Reduction in investments	-	-	-	-	-
Net acquisitions	(7,492)	(7,307)	-	-	-
Reduction in other LT assets	(3,940)	(10,507)	-	-	-
Addition in other LT liabilities	4,992	(2,004)	-	-	-
Adjustments	-	-	-	-	-
Cashflow after investing acts	**18,126**	**(42,459)**	**(15,547)**	**(14,874)**	**2,987**
Cash dividends	(6,082)	(4,572)	(3,770)	(3,770)	(2,485)
Equity issue	-	(8,802)	-	-	-
Debt issue	26,135	41,737	15,541	20,000	-
Convertible debt issue	-	-	-	-	-
Others	(36,023)	13,436	1,751	57	(158)
Cashflow from financial acts	**(15,970)**	**41,799**	**13,521**	**16,287**	**(2,643)**
Net cashflow	**2,157**	**(660)**	**(2,026)**	**1,413**	**345**
Beginning cash	7,319	9,476	8,816	6,790	8,204
Ending cash	9,476	8,816	6,790	8,204	8,548
Ending net debt	20,517	62,914	80,480	99,067	98,722

Source: Nomura estimates

Balance sheet (RMBmn)					
As at 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Cash & equivalents	9,476	8,816	6,790	8,204	8,548
Marketable securities	-	-	-	-	-
Accounts receivable	8,587	8,825	9,683	10,754	11,778
Inventories	1,171	2,412	4,544	4,547	4,550
Other current assets	16,886	10,560	5,439	5,439	5,439
Total current assets	**36,120**	**30,613**	**26,457**	**28,944**	**30,316**
LT investments	-	-	-	-	-
Fixed assets	283,912	351,157	371,393	394,478	403,633
Goodwill	2,771	2,771	2,600	2,428	2,257
Other intangible assets	5,326	5,202	5,202	5,202	5,202
Other LT assets	16,795	27,302	27,302	27,302	27,302
Total assets	**344,924**	**417,045**	**432,953**	**458,353**	**468,710**
Short-term debt	21,996	63,971	63,971	63,971	63,971
Accounts payable	70,899	108,003	108,003	108,003	108,003
Other current liabilities	32,324	27,851	26,366	27,252	28,392
Total current liabilities	**125,219**	**199,825**	**198,340**	**199,226**	**200,366**
Long-term debt	7,997	7,759	23,300	43,300	43,300
Convertible debt	-	-	-	-	-
Other LT liabilities	4,998	2,994	2,994	2,994	2,994
Total liabilities	**138,214**	**210,578**	**224,634**	**245,520**	**246,659**
Minority interest	-	2	-	-	-
Preferred stock	-	-	-	-	-
Common stock	169,113	175,745	175,745	175,745	175,745
Retained earnings	60,780	48,808	50,663	55,177	64,393
Proposed dividends	-	-	-	-	-
Other equity and reserves	(23,183)	(18,088)	(18,088)	(18,088)	(18,088)
Total shareholders' equity	**206,710**	**206,465**	**208,320**	**212,834**	**222,050**
Total equity & liabilities	**344,924**	**417,045**	**432,953**	**458,353**	**468,710**
Liquidity (x)					
Current ratio	0.29	0.15	0.13	0.15	0.15
Interest cover	9.3	11.7	3.9	4.6	5.7
Leverage					
Net debt/EBITDA (x)	0.30	1.07	1.26	1.32	1.18
Net debt/equity (%)	9.9	30.5	38.6	46.5	44.5
Activity (days)					
Days receivable	14.5	20.6	20.0	19.9	20.1
Days inventory	na	na	na	na	na
Days payable	na	na	na	na	na
Cash cycle	na	na	na	na	na

Source: Nomura estimates

Company geared up post merger with China Netcom

M1 M1 SP

TELECOMS | SINGAPORE

Sachin Gupta, CFA +65 6433 6968 sachin.gupta@nomura.com
B Roshan Raj +65 6433 6961 broshan.raj@nomura.com
Neeraja Natarajan (Associate)

NOMURA
NOMURA SINGAPORE LIMITED

Maintained

BUY

Action

We expect 2011 to see M1 gain traction in building its integrated fixed-wireless customer base, leveraging from the NBN rollout. Late last year, it launched its first set of retail broadband and pay-TV offers. In the coming months, we look for more aggressive retail offers and M1 also stands to benefit from content cross-carriage regulations. Overall, we see upside risks to our revenue and EBITDA CAGR forecasts of 2-4% for FY10-12F. Dividend yield of 6% remains appealing in a regional context as does its M&A potential. Maintain BUY.

Catalysts

Improvement in operational trends, better-than-expected revenue and earnings upside from NBN are potential catalysts.

Anchor themes

Competition in mobile/ broadband/ pay-TV is strong, but focus on cost efficiencies should result in stable margins. The impact of fibre rollout is uncertain.

Closing price on 5 Jan	S$2.41
Price target	**S$2.90**
	(from S$2.65)
Upside/downside	20.3%
Difference from consensus	17.9%
FY10F net profit (S$mn)	153.6
Difference from consensus	-2.5%

Source: Nomura

Nomura vs consensus

Our price target is ahead of consensus as we take into account potential upside from NBN.

With NBN, the going gets better

① Steady progress on NBN

In 2H10, M1 introduced relatively aggressive broadband plans and closed the year with its preliminary pay-TV services, indicating the company's steady progress on NBN-based opportunities. We recognise that M1's inexperience in bundled services could make it difficult to acquire subscribers seeking bundled products. However, even minimal progress on this front will be revenue and earnings accretive, in our view, given limited risk of cannibalisation.

② Reasonable operational trends in 9M10

M1 recorded a reasonable performance for 9M10, with improvement in its revenue market share by 110bps to 10% and its cellular subscriber share by 80bps to 26%. Also, the company has been relatively more aggressive than peers with its smartphone strategy, letting go of near-term margins to drive longer-term data revenue upside and improving subscriber stickiness over time.

③ Potential M&A?

At 13.5x FY11F P/E, M1 is trading at a discount to its regional peers. Its 8% FCF yield also suggests upside risks to its 6% ordinary yield. We see a strong cash outlook for regional telcos, and balance sheets appear to be under-geared at an average 1.1x net debt/EBITDA. With a moderating capex and revenue outlook, we think consolidation could be a key theme over the medium term.

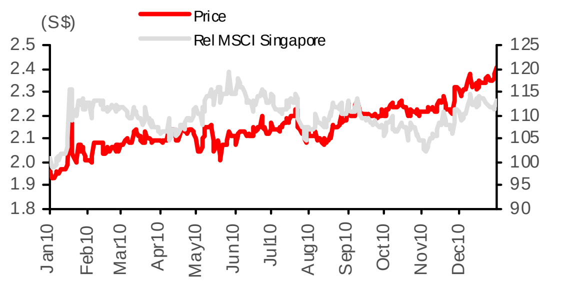
In Singapore, we don't expect in-market consolidation, and there could be regulatory hurdles, too. However, M1 is likely to be on the radar of other suitors. Keppel and SPH collectively hold about 34%; Keppel had previously stated its intent to shed non-core assets. We believe M1's current share price does not factor M&A upside — a possible catalyst. Our new revenue and earnings forecasts are 1-2% higher, driven by higher ARPU estimates. Our revised price target is S$2.90. Maintain BUY.

Key financials & valuations

31 Dec (S$mn)	FY08	FY09	FY10F	FY11F
Revenue	801	782	928	969
Reported net profit	150.1	150.3	153.6	159.6
Normalised net profit	150.1	144.8	153.6	159.6
Normalised EPS (S$)	0.168	0.162	0.172	0.178
Norm. EPS growth (%)	(1.8)	(3.6)	6.1	3.9
Norm. P/E (x)	14.4	14.9	14.0	13.5
EV/EBITDA (x)	7.5	7.8	7.6	7.2
Price/book (x)	9.8	8.4	7.5	6.7
Dividend yield (%)	5.6	5.6	5.7	5.9
ROE (%)	70.6	63.0	56.4	52.2
Net debt/equity (%)	105.3	102.1	77.7	55.5
Earnings revisions				
Previous norm. net profit		144.8	153.6	159.4
Change from previous (%)		-	-	0.1
Previous norm. EPS (S$)		0.162	0.172	0.178

Source: Company, Nomura estimates

Share price relative to MSCI Singapore



	1m	3m	6m
Absolute (S$)	3.9	8.6	12.6
Absolute (US$)	5.1	10.4	21.5
Relative to Index	1.6	5.7	(0.7)
Market cap (US$mn)			1,671
Estimated free float (%)			36.0
52-week range (S$)			2.41/1.93
3-mth avg daily turnover (US$mn)			1.65
Stock borrowability			Hard
Major shareholders (%)			
Axiata			29.7
Keppel Telecom			20.0

Source: Company, Nomura estimates

Financial statements

Income statement (S$mn)					
Year-end 31 Dec	**FY07**	**FY08**	**FY09**	**FY10F**	**FY11F**
Revenue	803	801	782	928	969
Cost of goods sold	(296)	(301)	(327)	(455)	(481)
Gross profit	**507**	**500**	**455**	**473**	**489**
SG&A	(306)	(308)	(275)	(281)	(288)
Employee share expense	3	1	2	-	-
Operating profit	**204**	**193**	**182**	**192**	**200**
EBITDA	**321**	**317**	**310**	**312**	**324**
Depreciation	(111)	(118)	(122)	(114)	(117)
Amortisation	(6)	(6)	(6)	(6)	(6)
EBIT	**204**	**193**	**182**	**192**	**200**
Net interest expense	(10)	(8)	(7)	(7)	(7)
Associates & JCEs	-	-	-	-	-
Other income	-	-	-	-	-
Earnings before tax	**195**	**185**	**175**	**185**	**193**
Income tax	(36)	(35)	(30)	(31)	(34)
Net profit after tax	**159**	**150**	**145**	**154**	**160**
Minority interests	-	-	-	-	-
Other items	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Normalised NPAT	**159**	**150**	**145**	**154**	**160**
Extraordinary items	13	-	6	-	-
Reported NPAT	**172**	**150**	**150**	**154**	**160**
Dividends	(143)	(120)	(120)	(123)	(128)
Transfer to reserves	**29**	**30**	**30**	**31**	**32**
Valuation and ratio analysis					
FD normalised P/E (x)	14.1	14.4	14.9	14.0	13.5
FD normalised P/E at price target (x)	17.0	17.3	17.9	16.9	16.3
Reported P/E (x)	13.0	14.4	14.4	14.0	13.5
Dividend yield (%)	6.4	5.6	5.6	5.7	5.9
Price/cashflow (x)	9.8	8.5	9.7	7.6	7.5
Price/book (x)	11.0	9.8	8.4	7.5	6.7
EV/EBITDA (x)	7.5	7.5	7.8	7.6	7.2
EV/EBIT (x)	11.9	12.4	13.3	12.4	11.7
Gross margin (%)	63.1	62.4	58.2	51.0	50.4
EBITDA margin (%)	39.9	39.5	39.6	33.6	33.4
EBIT margin (%)	25.4	24.1	23.2	20.7	20.7
Net margin (%)	21.4	18.7	19.2	16.6	16.5
Effective tax rate (%)	18.3	18.9	17.3	17.0	17.5
Dividend payout (%)	83.3	79.9	79.8	80.0	80.0
Capex to sales (%)	7.0	11.8	15.2	13.3	12.3
Capex to depreciation (x)	0.5	0.8	1.0	1.1	1.0
ROE (%)	58.5	70.6	63.0	56.4	52.2
ROA (pretax %)	24.1	24.2	22.6	23.0	23.8
Growth (%)					
Revenue	3.9	(0.3)	(2.4)	18.7	4.5
EBITDA	(3.3)	(1.3)	(2.1)	0.8	3.7
EBIT	(7.0)	(5.6)	(5.7)	5.8	4.2
Normalised EPS	2.7	(1.8)	(3.6)	6.1	3.9
Normalised FDEPS	2.7	(1.7)	(3.6)	6.1	3.9
Per share					
Reported EPS (S$)	0.18	0.17	0.17	0.17	0.18
Norm EPS (S$)	0.17	0.17	0.16	0.17	0.18
Fully diluted norm EPS (S$)	0.17	0.17	0.16	0.17	0.18
Book value per share (S$)	0.22	0.25	0.29	0.32	0.36
DPS (S$)	0.15	0.13	0.13	0.14	0.14

Source: Nomura estimates

Potential revenue upside from NBN

Cashflow (S$mn)					
Year-end 31 Dec	**FY07**	**FY08**	**FY09**	**FY10F**	**FY11F**
EBITDA	321	317	310	312	324
Change in working capital	(37)	(11)	(49)	9	6
Other operating cashflow	(54)	(51)	(39)	(39)	(41)
Cashflow from operations	**229**	**255**	**222**	**282**	**289**
Capital expenditure	(56)	(94)	(119)	(123)	(119)
Free cashflow	**173**	**161**	**103**	**159**	**170**
Reduction in investments	-	-	-	-	-
Net acquisitions	-	-	-	-	-
Reduction in other LT assets	-	-	-	-	-
Addition in other LT liabilities	-	-	-	-	-
Adjustments	5	(1)	(13)		
Cashflow after investing acts	**178**	**159**	**90**	**159**	**170**
Cash dividends	(97)	(130)	(120)	(121)	(125)
Equity issue	(261)	-	-	-	-
Debt issue	35	(35)	19	-	-
Convertible debt issue	-	-	-	-	-
Others					
Cashflow from financial acts	**(323)**	**(165)**	**(101)**	**(121)**	**(125)**
Net cashflow	**(145)**	**(5)**	**(11)**	**38**	**45**
Beginning cash	168	23	18	7	45
Ending cash	23	18	7	45	90
Ending net debt	262	233	262	224	179

Source: Nomura estimates

Limited capex risk

Balance sheet (S$mn)					
As at 31 Dec	**FY07**	**FY08**	**FY09**	**FY10F**	**FY11F**
Cash & equivalents	23	18	7	45	90
Marketable securities	-	-	-	-	-
Accounts receivable	90	80	108	114	120
Inventories	0	1	25	25	25
Other current assets	3	0	0	0	0
Total current assets	**115**	**98**	**141**	**185**	**235**
LT investments	-	-	-	-	-
Fixed assets	635	611	611	621	623
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Other LT assets	87	83	85	79	73
Total assets	**838**	**791**	**838**	**885**	**931**
Short-term debt	35	-	269	269	269
Accounts payable	182	169	184	199	211
Other current liabilities	59	52	41	41	41
Total current liabilities	**277**	**221**	**494**	**509**	**520**
Long-term debt	250	250	-	-	-
Convertible debt	-	-	-	-	-
Other LT liabilities	107	100	88	88	88
Total liabilities	**633**	**571**	**581**	**597**	**608**
Minority interest	-	-	-	-	-
Preferred stock	-	-	-	-	-
Common stock	114	116	117	117	117
Retained earnings	90	105	140	172	206
Proposed dividends	-	-	-	-	-
Other equity and reserves	-	-	-	-	-
Total shareholders' equity	**204**	**221**	**256**	**288**	**323**
Total equity & liabilities	**838**	**791**	**838**	**885**	**931**
Liquidity (x)					
Current ratio	0.42	0.44	0.28	0.36	0.45
Interest cover	21.5	25.3	27.9	27.0	29.1
Leverage					
Net debt/EBITDA (x)	0.82	0.73	0.84	0.72	0.55
Net debt/equity (%)	128.4	105.3	102.1	77.7	55.5
Activity (days)					
Days receivable	41.2	38.7	43.8	43.7	44.0
Days inventory	0.4	0.5	14.5	20.4	19.3
Days payable	223.5	213.9	197.2	153.9	155.7
Cash cycle	(181.9)	(174.6)	(138.9)	(89.8)	(92.3)

Source: Nomura estimates

SK Telecom 017670 KS

TELECOMS | SOUTH KOREA

NOMURA
NOMURA FINANCIAL INVESTMENT (KOREA) CO LTD

Stanley Yang +82 2 3783 2331 stanley.yang@nomura.com
Eric Cha +82 2 3783 2337 eric.cha@nomura.com

Maintained

BUY

Action

We remain positive over SKT's smartphone-driven profitable growth story in 2011. Changes in top management will likely be more positive for operational performance, despite heightened overseas appetite. We remain upbeat about its control over marketing costs in 2011, expecting improvement similar to the 4Q10 trend. SKT has turned out to be the biggest beneficiary (2% FY10F EBIT accretive) of the KCC's latest interconnection rate adjustment.

Catalysts

Sustainability of the >W55,000 unlimited data plan remains a key share price driver. The potential launch of new iPhones, if any, would also serve as a catalyst.

Anchor themes

We are bullish; smartphone-driven data revenue growth should accelerate over the next two years with a rapid shift into mass smartphone market penetration.

Closing price on 5 Jan	W172,500
Price target	W223,000
	(set on 28 Oct 10)
Upside/downside	29.3%
Difference from consensus	4.7%
FY11F net profit (Wbn)	1,681
Difference from consensus	-2.8%

Source: Nomura

Nomura vs consensus

We are more bullish on SKT's potential benefits (ie, ARPU expansion/profit growth) from rapidly increasing smartphone penetration.

Favourable 2011 outlook on new CEOs

① Top management changes

New CEO Ha, Sung Min had a good record on dividend policy during his tenure as CFO (FY04-FY07). Co-CEO Seo, Jin Woo will likely focus on the platform business and overseas investment strategies.

② Interconnection rate adjustment favourable to SKT

KCC finalised the interconnection rate adjustment for 2010/11 in late December, significantly narrowing the rate gap between SKT and KT/LGU+. We expect SKT's net interconnection profit to surge to W80bn in 4Q10F (or an addition of W40bn on a full-year basis in FY10F from FY09). KCC's decision to equalise interconnection rates in FY13 clearly implies the end of asymmetric regulation, in our view.

③ Improving marketing costs control in 2011F

SKT's marketing costs should drop significantly in 4Q10F on lower subsidies for surging smartphone subscriptions and subdued MNP. KCC's guideline-based marketing costs-to-sales ratio should drop to 20.6% in 4Q10F from 23.9% in 3Q10. We believe SKT's improved marketing costs control will be intact throughout 2011 thanks to an increasing percentage of smartphone out of total new subscriptions.

④ 10% 2011F EPS upside on IFRS adoption

SKT's adoption of IFRS accounting is likely to reduce depreciation costs by approximately W200bn in 2011, which offers approximately 10% potential upside to our current 2011F EPS of W20,815.

⑤ Attractive valuation

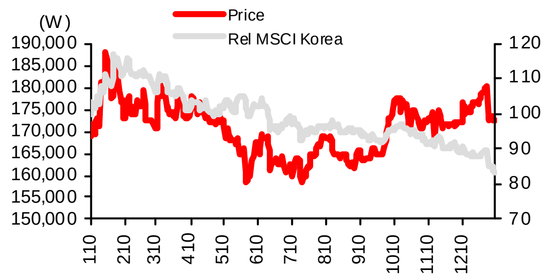
We remain positive on its significant earnings growth and share buybacks in 2011. SKT is trading at 7.3x FY11F P/E, a historical trough valuation (about a 40% discount to regional peers and the KOSPI), which we believe is unjustified.

Key financials & valuations

31 Dec (Wbn)	FY09	FY10F	FY11F	FY12F
Revenue	12,101	12,430	13,184	13,864
Reported net profit	1,288	1,253	1,681	1,940
Normalised net profit	1,288	1,253	1,681	1,940
Normalised EPS (W)	15,956	15,523	20,815	24,025
Norm. EPS growth (%)	13.7	(2.7)	34.1	15.4
Norm. P/E (x)	9.7	9.8	7.3	6.3
EV/EBITDA (x)	4.5	4.3	3.6	3.1
Price/book (x)	1.2	1.3	1.2	1.0
Dividend yield (%)	4.9	4.9	4.9	4.9
ROE (%)	11.7	11.2	14.5	15.3
Net debt/equity (%)	34.8	37.6	26.5	15.3
Earnings revisions				
Previous norm. net profit		1,253	1,681	1,940
Change from previous (%)		-	-	-
Previous norm. EPS (W)		15,523	20,815	24,025

Source: Company, Nomura estimates

Share price relative to MSCI Korea



	1m	3m	6m
Absolute (W)	0.3	(1.1)	6.2
Absolute (US$)	1.1	(1.0)	15.4
Relative to Index	(6.8)	(14.7)	(22.5)
Market cap (US$mn)			12,345
Estimated free float (%)			55.0
52-week range (W)			188,000/158,500
3-mth avg daily turnover (US$mn)			14.50
Stock borrowability			Easy
Major shareholders (%)			
SK Corp			23.1
Citibank ADR			21.0

Source: Company, Nomura estimates

Valuation methodology and risks

Our price target of W223,000 is based on a SOTP methodology, for which we use a DCF approach to value the parent company with 10.9% WACC and 0% terminal growth after FY15F.

Risks to our price target include less effective marketing cost regulations, coupled with the financial burden associated with turning around SK Broadband and SK Communications.

Financial statements

Income statement (Wbn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Revenue	11,536	12,101	12,430	13,184	13,864
Cost of goods sold					
Gross profit	**11,536**	**12,101**	**12,430**	**13,184**	**13,864**
SG&A	(9,615)	(9,922)	(10,447)	(10,830)	(11,266)
Employee share expense					
Operating profit	**1,922**	**2,179**	**1,984**	**2,355**	**2,598**
EBITDA	**3,865**	**4,209**	**4,281**	**4,756**	**5,140**
Depreciation	(1,943)	(2,030)	(2,298)	(2,401)	(2,542)
Amortisation					
EBIT	**1,922**	**2,179**	**1,984**	**2,355**	**2,598**
Net interest expense	(149)	(147)	(80)	20	69
Associates & JCEs	(217)	(232)	(82)	(34)	(8)
Other income	(188)	(143)	(171)	(186)	(172)
Earnings before tax	**1,368**	**1,657**	**1,650**	**2,155**	**2,487**
Income tax	(228)	(369)	(396)	(474)	(547)
Net profit after tax	**1,139**	**1,288**	**1,253**	**1,681**	**1,940**
Minority interests					
Other items					
Preferred dividends					
Normalised NPAT	**1,139**	**1,288**	**1,253**	**1,681**	**1,940**
Extraordinary items					
Reported NPAT	**1,139**	**1,288**	**1,253**	**1,681**	**1,940**
Dividends	(682)	(682)	(682)	(682)	(682)
Transfer to reserves	**457**	**606**	**571**	**998**	**1,257**
Valuation and ratio analysis					
FD normalised P/E (x)	11.0	9.7	9.8	7.3	6.3
FD normalised P/E at price target (x)	14.2	12.5	12.6	9.4	8.2
Reported P/E (x)	12.3	10.8	11.1	8.3	7.2
Dividend yield (%)	4.9	4.9	4.9	4.9	4.9
Price/cashflow (x)	5.0	5.0	3.5	3.0	2.8
Price/book (x)	1.3	1.2	1.3	1.2	1.0
EV/EBITDA (x)	4.8	4.5	4.3	3.6	3.1
EV/EBIT (x)	10.2	9.2	9.5	7.4	6.2
Gross margin (%)	100.0	100.0	100.0	100.0	100.0
EBITDA margin (%)	33.5	34.8	34.4	36.1	37.1
EBIT margin (%)	16.7	18.0	16.0	17.9	18.7
Net margin (%)	9.9	10.6	10.1	12.7	14.0
Effective tax rate (%)	16.7	22.3	24.0	22.0	22.0
Dividend payout (%)	59.9	53.0	54.4	40.6	35.2
Capex to sales (%)	16.6	14.6	14.9	15.5	16.0
Capex to depreciation (x)	1.0	0.9	0.8	0.9	0.9
ROE (%)	10.3	11.7	11.2	14.5	15.3
ROA (pretax %)	9.5	10.5	10.0	12.2	13.5
Growth (%)					
Revenue	4.9	4.9	2.7	6.1	5.2
EBITDA	3.4	8.9	1.7	11.1	8.1
EBIT	1.9	13.4	(9.0)	18.7	10.3
Normalised EPS	(16.1)	13.7	(2.7)	34.1	15.4
Normalised FDEPS	(16.0)	13.3	(1.0)	34.1	15.4
Per share					
Reported EPS (W)	14,032	15,956	15,523	20,815	24,025
Norm EPS (W)	14,032	15,956	15,523	20,815	24,025
Fully diluted norm EPS (W)	15,718	17,809	17,630	23,640	27,287
Book value per share (W)	132,141	139,227	137,978	149,659	164,551
DPS (W)	8,405	8,452	8,452	8,452	8,452

Source: Nomura estimates

Revenue growth driven by increasing smartphone penetration

Cashflow (Wbn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
EBITDA	3,865	4,209	4,281	4,756	5,140
Change in working capital	371	(969)	250	1,269	979
Other operating cashflow	(1,418)	(456)	(532)	(1,457)	(1,166)
Cashflow from operations	**2,819**	**2,784**	**4,000**	**4,568**	**4,952**
Capital expenditure	(1,919)	(1,769)	(1,850)	(2,050)	(2,214)
Free cashflow	**900**	**1,015**	**2,150**	**2,518**	**2,738**
Reduction in investments	646	560	(784)	(1,694)	(1,558)
Net acquisitions					
Reduction in other LT assets	(990)	(25)	27	132	237
Addition in other LT liabilities	(584)	(342)	21	22	23
Adjustments	(547)	(101)	271	1,039	774
Cashflow after investing acts	**(575)**	**1,107**	**1,685**	**2,017**	**2,215**
Cash dividends	(683)	(682)	(682)	(682)	(682)
Equity issue	-	-	-	-	-
Debt issue	1,586	108	(110)	(1,000)	(1,000)
Convertible debt issue					
Others	(469)	(546)	(500)	(400)	(400)
Cashflow from financial acts	**434**	**(1,120)**	**(1,292)**	**(2,082)**	**(2,082)**
Net cashflow	**(141)**	**(13)**	**393**	**(65)**	**133**
Beginning cash	576	434	421	814	748
Ending cash	434	421	814	749	882
Ending net debt	3,429	3,915	4,190	3,208	2,030

Source: Nomura estimates

Balance sheet (Wbn)					
As at 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Cash & equivalents	434	421	814	748	882
Marketable securities	370	370	555	611	672
Accounts receivable	2,802	3,590	3,231	2,036	1,080
Inventories					
Other current assets	384	602	662	675	743
Total current assets	**3,991**	**4,983**	**5,263**	**4,071**	**3,376**
LT investments	5,668	5,108	5,707	7,346	8,843
Fixed assets	4,698	5,197	5,147	5,100	5,057
Goodwill	1,439	1,308	1,168	1,028	888
Other intangible assets	1,502	1,358	1,235	1,112	1,001
Other LT assets	1,319	1,344	1,318	1,186	949
Total assets	**18,617**	**19,298**	**19,837**	**19,843**	**20,115**
Short-term debt	155	-	-	-	-
Accounts payable	1,040	1,136	1,159	1,182	1,206
Other current liabilities	2,218	2,158	2,087	2,151	2,218
Total current liabilities	**3,412**	**3,295**	**3,246**	**3,333**	**3,424**
Long-term debt	3,708	4,336	5,003	3,957	2,912
Convertible debt					
Other LT liabilities	768	426	447	469	493
Total liabilities	**7,888**	**8,056**	**8,697**	**7,759**	**6,828**
Minority interest					
Preferred stock					
Common stock	3,002	3,077	3,077	3,077	3,077
Retained earnings	9,501	9,959	10,553	11,551	12,809
Proposed dividends					
Other equity and reserves	(1,774)	(1,794)	(2,489)	(2,544)	(2,599)
Total shareholders' equity	**10,729**	**11,241**	**11,141**	**12,084**	**13,286**
Total equity & liabilities	**18,617**	**19,298**	**19,837**	**19,843**	**20,115**
Liquidity (x)					
Current ratio	1.17	1.51	1.62	1.22	0.99
Interest cover	12.9	14.8	24.7	na	na
Leverage					
Net debt/EBITDA (x)	0.89	0.93	0.98	0.67	0.40
Net debt/equity (%)	32.0	34.8	37.6	26.5	15.3
Activity (days)					
Days receivable	83.7	96.4	100.2	72.9	41.1
Days inventory	na	na	na	na	na
Days payable	na	na	na	na	na
Cash cycle	na	na	na	na	na

Source: Nomura estimates

ZTE Corp 763 HK

TELECOMS | CHINA

Leping Huang, PhD +852 2252 1598 leping.huang@nomura.com
Danny Chu, CFA +852 2252 6209 danny.chu@nomura.com

NOMURA

NOMURA INTERNATIONAL (HK) LIMITED

Maintained

BUY

Closing price on 5 Jan	HK$31.85
Price target	**HK$36.00**
	(set on 2 Dec 10)
Upside/downside	13.0%
Difference from consensus	16.8%
FY11F net profit (RMBmn)	3,700
Difference from consensus	-5.2%

Source: Nomura

Action

Looking to 2011F, we believe the network convergence policy in China, 3G network rollout in India and emergence of entry-level smartphones will drive ZTE's revenue and earnings growth to offset weakening 3G equipment demand in China. We believe revenue from TD-LTE will remain small in FY11F, but is important to its long-term growth. Reaffirming BUY, with a price target of HK$36.

Catalysts

Positive catalyst: further consolidation in the telecom equipment industry. Negative: any regulatory policy change that is unfavourable to Chinese vendors.

Anchor themes

The convergence of the telecom, Internet and television networks is an element of China's 12th Five-Year Plan. We believe this will spur both telecom and cable TV operators to accelerate optical-fibre network development, and benefit the whole optical network supplier chain in China.

Nomura vs consensus

FY11F earnings are -2% but rev. is +3% vs consensus. This reflects our view that low-margin smartphone business will grow faster than the market expects.

Three drivers in 2011F

① Network convergence: sustainable revenue driver

ZTE is the second largest optical vendor in China with a 22% market share in 1Q10. We expect the network convergence policy to generate sustainable demand for optical network equipment in the coming years, and believe ZTE can use its strong product portfolio and customer relations to capitalize on the business opportunities. We forecast ~35% y-y growth in ZTE's optical and data communication revenue in FY11F.

② Entry-level smartphone: chance to step up

ZTE is the fourth largest handset vendor by shipments in 3Q10, per iSuppli, but it is mainly a low-end vendor, with an ASP less than 1/4 the global average. We believe the emergence of entry-level smartphones in China and globally gives ZTE an opportunity to raise its ASP and penetrate the mid-range handset market. By leveraging its strong ties with operators, we expect smartphone sales to contribute 15% of total handset and data card sales in FY11F, from less than 5% in FY10F.

③ Mobile: India 3G rollout and TD-LTE

Our initial analysis shows the TD-LTE capex will be around RMB42bn over the next few years assuming similar coverage as TD-SCDMA today, but its contribution to ZTE's FY11F revenue is still too small to compensate for the decline in 3G, we believe. On the other hand, we note ZTE has secured several important contacts in the Indian 3G market, including Reliance Communications and BSNL. We expect these overseas revenue contributions to offset the decline in China, and forecast 7% y-y growth in its wireless business in 2011.

④ Maintain BUY; price target of HK$36

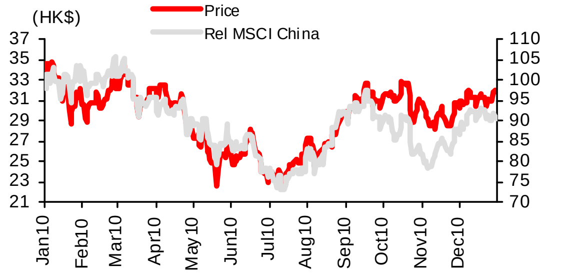
We call BUY for ZTE with PT of HK$36 based on 24x P/E of FY11 EPS RMB$1.29 (HK$1.50).

Key financials & valuations

31 Dec (RMBmn)	FY09	FY10F	FY11F	FY12F
Revenue	60,273	70,500	86,500	107,300
Reported net profit	2,458	2,900	3,700	4,600
Normalised net profit	2,458	2,900	3,700	4,600
Normalised EPS (RMB)	0.89	1.01	1.29	1.60
Norm. EPS growth (%)	41.2	13.0	27.6	24.3
Norm. P/E (x)	31.2	26.0	19.3	15.5
EV/EBITDA (x)	24.6	19.9	16.0	13.3
Price/book (x)	3.0	4.0	3.2	2.8
Dividend yield (%)	1.1	0.9	1.2	1.4
ROE (%)	15.8	16.1	18.0	19.3
Net debt/equity (%)	net cash	net cash	net cash	net cash
Earnings revisions				
Previous norm. net profit		2,900	3,700	4,600
Change from previous (%)		-	-	-
Previous norm. EPS (RMB)		1.01	1.29	1.60

Source: Company, Nomura estimates

Share price relative to MSCI China



	1m	3m	6m
Absolute (HK$)	3.4	3.4	38.5
Absolute (US$)	3.3	3.2	38.8
Relative to Index	2.9	1.5	22.2
Market cap (US$mn)			11,748
Estimated free float (%)			18.3
52-week range (HK$)			34.87/22.65
3-mth avg daily turnover (US$mn)			19.95
Stock borrowability			Hard
Major shareholders (%)			
Shenzhen Zhongxingxin			32.5
HKSCC Nominees Limited			18.3

Source: Company, Nomura estimates

Valuation methodology

Higher P/E than historical average reflects acceleration in EPS growth

We derive our PT using a 24x P/E multiple (unchanged). The stock has traded at 2.5x 12-month forward P/BV and 23x 12-month forward P/E on average since 2005. Since on our forecasts its net profit CAGR from FY10 to FY12F is higher (24%) than that from FY05 to FY09 (around 19%), we believe it is reasonable to apply a 24x P/E multiple to FY11F EPS of RMB1.29 (HK$1.50) to derive our price target of HK$36 per share.

Risks to our investment view

Downside risk: 1) unfavourable regulatory policy; 2) capex cut at operators

Downside risks include: 1) any regulatory policy change that is unfavourable to Chinese vendors; 2) larger-than-expected capex reduction plans by Chinese and overseas operators; 3) mounting price competition in the 2G/3G market; and 4) a significant increase in bad debt and failure to control operating costs.

Upside risk: 1) operators' active subsidiary strategy; 2) industry consolidation

Upside risks include: 1) a larger-than-expected volume of 3G handsets owing to operators' active subsidy strategy; 2) further consolidation in the telecom equipment industry; 3) stronger-than-expected recovery in the overseas infrastructure market; and 4) margin strength and better cost control.

Financial statements

Income statement (RMBmn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Revenue	44,293	60,273	70,500	86,500	107,300
Cost of goods sold	(29,493)	(40,623)	(47,300)	(58,500)	(73,000)
Gross profit	**14,801**	**19,649**	**23,200**	**28,000**	**34,300**
SG&A	(13,114)	(17,179)	(20,300)	(24,500)	(30,000)
Employee share expense					
Operating profit	**1,687**	**2,470**	**2,900**	**3,500**	**4,300**
EBITDA	**2,387**	**3,233**	**3,800**	**4,500**	**5,400**
Depreciation	(700)	(763)	(900)	(1,000)	(1,100)
Amortisation	-	-	-	-	-
EBIT	**1,687**	**2,470**	**2,900**	**3,500**	**4,300**
Net interest expense	(442)	(406)	(500)	(500)	(600)
Associates & JCEs	-	-	-	-	-
Other income	1,017	1,261	1,600	2,000	2,500
Earnings before tax	**2,263**	**3,325**	**4,000**	**5,000**	**6,200**
Income tax	(351)	(629)	(800)	(900)	(1,200)
Net profit after tax	**1,912**	**2,696**	**3,200**	**4,100**	**5,000**
Minority interests	(252)	(238)	(300)	(400)	(400)
Other items					
Preferred dividends					
Normalised NPAT	**1,660**	**2,458**	**2,900**	**3,700**	**4,600**
Extraordinary items					
Reported NPAT	**1,660**	**2,458**	**2,900**	**3,700**	**4,600**
Dividends	(403)	(552)	(652)	(832)	(1,034)
Transfer to reserves	**1,257**	**1,906**	**2,248**	**2,868**	**3,566**
Valuation and ratio analysis					
FD normalised P/E (x)	45.0	31.2	26.0	19.3	15.5
FD normalised P/E at price target (x)	50.9	35.2	29.4	21.8	17.5
Reported P/E (x)	45.0	31.2	26.0	19.3	15.5
Dividend yield (%)	1.1	1.1	0.9	1.2	1.4
Price/cashflow (x)	20.5	20.5	20.4	21.0	21.0
Price/book (x)	2.7	3.0	4.0	3.2	2.8
EV/EBITDA (x)	34.4	24.6	19.9	16.0	13.3
EV/EBIT (x)	48.6	32.2	26.1	20.5	16.8
Gross margin (%)	33.4	32.6	32.9	32.4	32.0
EBITDA margin (%)	5.4	5.4	5.4	5.2	5.0
EBIT margin (%)	3.8	4.1	4.1	4.0	4.0
Net margin (%)	3.7	4.1	4.1	4.3	4.3
Effective tax rate (%)	15.5	18.9	20.0	18.0	19.4
Dividend payout (%)	24.3	22.5	22.5	22.5	22.5
Capex to sales (%)	4.3	3.4	3.1	2.7	2.2
Capex to depreciation (x)	2.7	2.7	2.4	2.3	2.2
ROE (%)	12.6	15.8	16.1	18.0	19.3
ROA (pretax %)	4.7	5.3	5.2	5.7	6.1
Growth (%)					
Revenue	27.4	36.1	17.0	22.7	24.0
EBITDA	30.8	35.4	17.5	18.4	20.0
EBIT	38.9	46.4	17.4	20.7	22.9
Normalised EPS	32.6	41.2	13.0	27.6	24.3
Normalised FDEPS	32.6	41.2	13.0	27.6	24.3
Per share					
Reported EPS (RMB)	0.63	0.89	1.01	1.29	1.60
Norm EPS (RMB)	0.63	0.89	1.01	1.29	1.60
Fully diluted norm EPS (RMB)	0.63	0.89	1.01	1.29	1.60
Book value per share (RMB)	10.61	9.19	6.66	7.67	8.93
DPS (RMB)	0.30	0.30	0.23	0.29	0.36

Source: Nomura estimates

Margin declines due to growth in low-margin smartphone sales

Cashflow (RMBmn)					
Year-end 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
EBITDA	2,387	3,233	3,800	4,500	5,400
Change in working capital	1,365	(629)	(1,491)	(2,200)	(2,800)
Other operating cashflow	(104)	1,126	1,391	1,100	800
Cashflow from operations	**3,648**	**3,729**	**3,700**	**3,400**	**3,400**
Capital expenditure	(1,912)	(2,054)	(2,200)	(2,300)	(2,400)
Free cashflow	**1,736**	**1,675**	**1,500**	**1,100**	**1,000**
Reduction in investments	(115)	(274)	(6)	-	-
Net acquisitions					
Reduction in other LT assets					
Addition in other LT liabilities					
Adjustments	40	27	6	(1,000)	(600)
Cashflow after investing acts	**1,660**	**1,428**	**1,500**	**100**	**400**
Cash dividends	(830)	(1,045)	(552)	(652)	(832)
Equity issue	43	46	-	-	-
Debt issue	468	2,286	1,260	250	285
Convertible debt issue	3,961	-	-	-	-
Others	(306)	301	(4)	2	46
Cashflow from financial acts	**3,337**	**1,588**	**704**	**(400)**	**(500)**
Net cashflow	**4,997**	**3,017**	**2,204**	**(300)**	**(100)**
Beginning cash	6,483	11,480	14,497	16,700	16,400
Ending cash	11,481	14,497	16,700	16,400	16,300
Ending net debt	(1,009)	(1,621)	(1,300)	(800)	(400)

Source: Nomura estimates

Trend of positive operating cash will continue, in our view

Balance sheet (RMBmn)					
As at 31 Dec	**FY08**	**FY09**	**FY10F**	**FY11F**	**FY12F**
Cash & equivalents	11,480	14,497	16,700	16,400	16,300
Marketable securities	-	-	-	-	-
Accounts receivable	21,171	29,286	29,500	33,800	38,900
Inventories	8,978	9,325	11,300	14,000	17,400
Other current assets	1,659	2,870	2,900	2,900	2,900
Total current assets	**43,288**	**55,978**	**60,400**	**67,100**	**75,500**
LT investments	420	694	700	700	700
Fixed assets	4,103	4,715	5,886	7,086	8,286
Goodwill					
Other intangible assets	589	614	614	614	614
Other LT assets	2,466	6,342	6,300	6,300	6,300
Total assets	**50,866**	**68,342**	**73,900**	**81,800**	**91,400**
Short-term debt	5,664	6,846	6,100	6,500	6,500
Accounts payable	23,169	31,001	31,700	36,500	42,200
Other current liabilities	1,164	3,247	3,300	3,300	3,300
Total current liabilities	**29,997**	**41,095**	**41,100**	**46,300**	**52,000**
Long-term debt	1,293	2,396	5,700	5,500	5,800
Convertible debt	3,515	3,633	3,600	3,600	3,600
Other LT liabilities	878	3,269	3,300	3,300	3,300
Total liabilities	**35,682**	**50,393**	**53,700**	**58,700**	**64,700**
Minority interest	934	1,124	1,100	1,100	1,100
Preferred stock	-	-	-	-	-
Common stock	1,343	1,831	1,831	1,831	1,831
Retained earnings	12,906	14,994	17,269	20,169	23,769
Proposed dividends			-	-	-
Other equity and reserves					
Total shareholders' equity	**14,250**	**16,825**	**19,100**	**22,000**	**25,600**
Total equity & liabilities	**50,866**	**68,342**	**73,900**	**81,800**	**91,400**
Liquidity (x)					
Current ratio	1.44	1.36	1.47	1.45	1.45
Interest cover	3.8	6.1	5.8	7.0	7.2
Leverage					
Net debt/EBITDA (x)	net cash	net cash	net cash	net cash	net cash
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Activity (days)					
Days receivable	163.3	152.8	152.2	133.6	124.0
Days inventory	101.8	82.2	79.6	78.9	78.7
Days payable	252.0	243.4	241.9	212.8	197.3
Cash cycle	13.1	(8.4)	(10.2)	(0.3)	5.4

Source: Nomura estimates

Singapore

BEARISH

Action

Last year we said that 2010 will be about 2011, and we have already seen the carriers boost their integrated offers this year in the NBN environment. M1 now offers fixed broadband and pay-TV services too. The differences in content quality and NBN coverage will be addressed progressively and the imposition of cross-carriage of content could level the playing field further. Also watch for margin volatility from rising smart-phone/ touch-pad penetration along with the potential for M&A. M1 is our key pick in Singapore.

Catalysts

Fixed broadband prices and net-add share, impact of smart-phones on margins, capital management, and M&A.

Anchor themes

NBN will be a key focus across operators – better product variety, more bundles, and potential price pressure are likely as operators start to gain subscribers.

Stocks for action

Our BUY for M1 is due to the potential revenue and earnings upside from NBN; Neutral for Singtel is due to limited near-term catalysts; and REDUCE for Starhub is on potential risks to its hubbing strategy, post EPL loss.

Stock	Rating	Price (S$)	Price target (S$)
M1 (M1 SP)	BUY	2.41	2.90
Singtel (ST SP)	NEUTRAL	3.07	3.35
Starhub (STH SP)	REDUCE	2.62	2.25

Pricing as on 5 Jan 2011

The year of the consumer

① Sector themes for 2011 – is M&A likely?

Key sector themes in 2011: 1) NBN rollout to become more ubiquitous leading to further pressure on retail / enterprise APRUs; 2) rising smart-phone and touch-pad penetration could hurt operating margins; 3) potential legislation of cross-carriage of content; and 4) potential M&A with M1 in the picture.

② M1: is our key regional pick

In 2011, we expect M1 to surprise on net-adds in both wireless and broadband, and it could also win some share of the pay-TV customers later in the year. Execution will be the biggest challenge and no doubt the incumbents won't cede share easily, but we think M1 will use a low-price strategy to win stand-alone broadband customers. Acquiring customers who are seeking bundled products will be a more difficult task. Either way, however, we see little revenue cannibalisation risks and incremental customers should add to the bottom line. Maintain BUY with a revised S$2.90 price target.

③ SingTel: a diversified beast with overhangs

While SingTel remains a solid defensive franchise, we expect higher earnings volatility in all its Associate markets, with India and Indonesia providing the biggest delta. We don't see Singapore or Optus losing significant share in 2011, but margins will remain under pressure. A large capital return in May-2011 will be a key event; otherwise, we don't see other catalysts to break the trading range of S$3.00-3.50. Maintain NEUTRAL with a revised PT of S$3.35 (from S$3.45).

④ StarHub: risks should outweigh the dividend appeal

It is difficult to see StarHub matching its strong outperformance of 2010 in 2011. Its strong 7.5% dividend yield could be overshadowed by earnings risks from: 1) NBN impact on retail broadband prices; 2) risks to pay-TV subs from competition along with the possible impact of content cross-carriage regulations; and 3) expensive-looking valuations of 16.5x FY11F P/E. We do expect it to win enterprise revenue share from NBN, but it is more likely to make meaningful contribution only from 2012F onwards. Maintain REDUCE with S$2.25 PT.

Analysts

Sachin Gupta, CFA
+65 6433 6968
sachin.gupta@nomura.com

B Roshan Raj
+65 6433 6961
broshan.raj@nomura.com

Neeraja Natarajan (Associate)

Exhibit 82. Singapore market – mobile trends

(%)	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
Mobile revenue market share									
StarHub	**34**	**34**	**34**	**34**	**35**	**34**	**34**	**34**	**34**
M1	19	18	18	18	18	17	17	17	16
SingTel	**46**	**47**	**48**	**48**	**48**	**49**	**49**	**50**	**50**
ARPU									
StarHub	48	47	46	46	46	46	46	45	44
M1	49	48	46	47	46	46	45	44	43
SingTel	**51**	**52**	**50**	**50**	**50**	**51**	**51**	**53**	**53**
Mobile revenue									
StarHub	264	272	265	272	277	281	286	294	298
M1	149	146	140	142	141	143	143	145	144
SingTel	**356**	**373**	**370**	**380**	**384**	**406**	**405**	**432**	**437**
Mobile revenue y-y change %									
StarHub	(1)	(1)	(3)	1	5	3	8	8	8
M1	(2)	(6)	(8)	(8)	(6)	(2)	2	2	2
SingTel	**11**	**8**	**9**	**10**	**8**	**9**	**9**	**14**	**11**
Mobile revenue q-q change %									
StarHub	(2)	3	(3)	3	2	1	2	3	1
M1	(3)	(2)	(4)	1	0	2	0	1	(1)
SingTel	**3**	**5**	**(1)**	**3**	**1**	**6**	**0**	**7**	**1**
Subscriber (k)									
StarHub	1,742	1,766	1,815	1,849	1,884	1,918	1,975	2,056	2,121
M1	1,620	1,631	1,619	1,669	1,717	1,758	1,796	1,849	1,892
SingTel	**2,874**	**2,942**	**2,976**	**2,991**	**3,100**	**3,181**	**3,116**	**3,113**	**3,167**
Subscriber market share %									
StarHub	28	28	28	28	28	28	29	29	30
M1	26	26	25	25.6	25.6	25.6	26.1	26.3	26.4
SingTel	**46**	**46**	**46**	**46**	**46**	**46**	**45**	**44**	**44**
Net - adds (k)									
StarHub	(54)	24	49	34	35	34	57	81	65
M1	9	11	(12)	50	48	41	38	53	43
SingTel	**121**	**68**	**34**	**15**	**109**	**81**	**(65)**	**(3)**	**54**

Source: Company reports, Nomura research

Philippines

BEARISH

Action

2010 was disappointing for Philippine telcos, with operational downgrades for PLDT and Globe, and the stocks underperforming the local index by an average of 47%. We don't think the worst is over yet, as we expect competition to intensify and data growth could adversely impact margins. We think 2011 is likely to be a transitional year rather than a transformational one, and faster expansion into new businesses could bear fruit beyond the next 12M. We downgrade the Philippine telco sector to Bearish, cut our rating on PLDT to NEUTRAL and maintain REDUCE on Globe.

Catalysts

Stiffer competition and margin pressure are negative catalysts.

Anchor themes

BPO and broadband segment are key growth drivers, but competition and margin uncertainty persists.

Stocks for action

We downgrade PLDT to NEUTRAL and rate Globe as REDUCE.

Stock	Ticker	Rating	Price (5 Dec)	Price target
PLDT	TEL PM	NEUTRAL	2,532	2,760
Globe	GLO PM	REDUCE	821	760

Local currency: PHP; Pricing as of 5 Jan.

Competitive headwinds

① Underperformance likely to continue in 2011F

Philippine telcos had a disappointing 2010, with several rounds of downgrades for PLDT and Globe, and both stocks down by an average of 7%, versus a 40% gain for the PSEi. Within the region, Philippine telcos ranked in the bottom quartile for 2010. The characteristics that once made these stocks appealing — namely, the benign duopolistic competition, relatively higher margins and yields, and capital management — now face strong headwinds. Competition has intensified, with Globe looking to regain share and Sun cementing its position with revenue share of 8% and generating ~30% margins. The outlook for incremental profitability is also challenging, in our view, as data is now the main driver. Ordinary yield of 6-8% for PLDT and Globe is reasonable, but we see some risks to capital management for PLDT.

② Bearish sector outlook

We downgrade the Philippine telco sector to Bearish in a regional context. We also lower our PLDT rating to NEUTRAL, but among domestic peers, continue to prefer it over Globe given: 1) its relatively better ability to defend share; 2) its network advantage and 3) its cost advantage which has helped to buffer earnings downgrades. Globe has begun to show signs of a turnaround and could surprise operationally, but we think earnings recovery is key.

③ More headwinds, few opportunities

For the past four quarters, wireless revenue has declined at Globe and PLDT. This trend, combined with Globe's ongoing refresh of its pre-paid offering, Sun's potential coverage expansion, and SMC's progress into the market, points to further competitive challenges in 2011, in our view. A stronger peso could also add to headwinds. That said, we remain optimistic on mobile Internet and broadband. Globe and PLDT are both focusing on smartphones and this could lead to handset alliances and other tie-ups to boost smartphone adoption. Corporate data/ enterprise connectivity remains a growth opportunity as the Philippines becomes an important destination for BPOs. Government efforts to improve infrastructure and improving business confidence in the country also bode well.

Analysts

Neeraja Natarajan
+91 22 6723 5231
neeraja.natarajan@nomura.com

Sachin Gupta, CFA
+65 6433 6968
sachin.gupta@nomura.com

Danny Chu, CFA
+852 2252 6209
danny.chu@nomura.com

Any Authors named on this report are Research Analysts unless otherwise indicated

Analyst Certification

We, Sachin Gupta, Danny Chu, Stanley Yang, Leping Huang, B. Roshan Raj, Neeraja Natarajan, Pankaj Suri and Eric Minuh Cha, hereby certify (1) that the views expressed in this Research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of our compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

Important Disclosures

Conflict-of-interest disclosures

Important disclosures may be accessed through the following website: http://www.nomura.com/research/pages/disclosures/disclosures.aspx . If you have difficulty with this site or you do not have a password, please contact your Nomura Securities International, Inc. salesperson (1-877-865-5752) or email grpsupport@nomura.com for assistance.

Online availability of research and additional conflict-of-interest disclosures

Nomura Japanese Equity Research is available electronically for clients in the US on NOMURA.COM, REUTERS, BLOOMBERG and THOMSON ONE ANALYTICS. For clients in Europe, Japan and elsewhere in Asia it is available on NOMURA.COM, REUTERS and BLOOMBERG.
Important disclosures may be accessed through the left hand side of the Nomura Disclosure web page http://www.nomura.com/research or requested from Nomura Securities International, Inc., on 1-877-865-5752. If you have any difficulties with the website, please email grpsupport-eu@nomura.com for technical assistance.

The analysts responsible for preparing this report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by Investment Banking activities.

Industry Specialists identified in some Nomura International plc research reports are employees within the Firm who are responsible for the sales and trading effort in the sector for which they have coverage. Industry Specialists do not contribute in any manner to the content of research reports in which their names appear.

Distribution of ratings (Global)

Nomura Global Equity Research has 1937 companies under coverage.
48% have been assigned a Buy rating which, for purposes of mandatory disclosures, are classified as a Buy rating; 41% of companies with this rating are investment banking clients of the Nomura Group*.
38% have been assigned a Neutral rating which, for purposes of mandatory disclosures, is classified as a Hold rating; 50% of companies with this rating are investment banking clients of the Nomura Group*.
12% have been assigned a Reduce rating which, for purposes of mandatory disclosures, are classified as a Sell rating; 13% of companies with this rating are investment banking clients of the Nomura Group*.
As at 31 December 2010.
The Nomura Group as defined in the Disclaimer section at the end of this report.

Explanation of Nomura's equity research rating system in Europe, Middle East and Africa, US and Latin America for ratings published from 27 October 2008

The rating system is a relative system indicating expected performance against a specific benchmark identified for each individual stock. Analysts may also indicate absolute upside to price target defined as (fair value - current price)/current price, subject to limited management discretion. In most cases, the fair value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as discounted cash flow or multiple analysis, etc.

STOCKS
A rating of '**Buy**', indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months.
A rating of '**Neutral**', indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months.
A rating of '**Reduce**', indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months.
A rating of '**Suspended**', indicates that the rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the company.
Benchmarks are as follows: **United States/Europe**: Please see valuation methodologies for explanations of relevant benchmarks for stocks (accessible through the left hand side of the Nomura Disclosure web page: http://www.nomura.com/research);**Global Emerging Markets (ex-Asia):** MSCI Emerging Markets ex-Asia, unless otherwise stated in the valuation methodology.

SECTORS
A '**Bullish'** stance, indicates that the analyst expects the sector to outperform the Benchmark during the next 12 months.
A '**Neutral'** stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next 12 months.
A '**Bearish'** stance, indicates that the analyst expects the sector to underperform the Benchmark during the next 12 months.
Benchmarks are as follows: **United States**: S&P 500; **Europe**: Dow Jones STOXX 600; **Global Emerging Markets (ex-Asia)**: MSCI Emerging Markets ex-Asia.

Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

STOCKS

Stock recommendations are based on absolute valuation upside (downside), which is defined as (Price Target - Current Price) / Current Price, subject to limited management discretion. In most cases, the Price Target will equal the analyst's 12-month intrinsic valuation of the stock, based on an appropriate valuation methodology such as discounted cash flow, multiple analysis, etc.

A '**Buy'** recommendation indicates that potential upside is 15% or more.

A '**Neutral'** recommendation indicates that potential upside is less than 15% or downside is less than 5%.

A '**Reduce'** recommendation indicates that potential downside is 5% or more.

A rating of '**Suspended'** indicates that the rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the subject company.

Securities and/or companies that are labelled as '**Not rated'** or shown as '**No rating'** are not in regular research coverage of the Nomura entity identified in the top banner. Investors should not expect continuing or additional information from Nomura relating to such securities and/or companies.

SECTORS

A '**Bullish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation.

A '**Neutral'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation.

A '**Bearish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

Explanation of Nomura's equity research rating system in Japan published prior to 6 January 2009 (and ratings in Europe, Middle East and Africa, US and Latin America published prior to 27 October 2008)

STOCKS

A rating of '1' or '**Strong buy'**, indicates that the analyst expects the stock to outperform the Benchmark by 15% or more over the next six months.

A rating of '2' or '**Buy'**, indicates that the analyst expects the stock to outperform the Benchmark by 5% or more but less than 15% over the next six months.

A rating of '3' or '**Neutral'**, indicates that the analyst expects the stock to either outperform or underperform the Benchmark by less than 5% over the next six months.

A rating of '4' or '**Reduce'**, indicates that the analyst expects the stock to underperform the Benchmark by 5% or more but less than 15% over the next six months.

A rating of '5' or '**Sell'**, indicates that the analyst expects the stock to underperform the Benchmark by 15% or more over the next six months.

Stocks labeled '**Not rated'** or shown as '**No rating'** are not in Nomura's regular research coverage. Nomura might not publish additional research reports concerning this company, and it undertakes no obligation to update the analysis, estimates, projections, conclusions or other information contained herein.

SECTORS

A '**Bullish'** stance, indicates that the analyst expects the sector to outperform the Benchmark during the next six months.

A '**Neutral'** stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next six months.

A '**Bearish'** stance, indicates that the analyst expects the sector to underperform the Benchmark during the next six months.

Benchmarks are as follows: **Japan**: TOPIX; **United States**: S&P 500, MSCI World Technology Hardware & Equipment; **Europe**, by sector - *Hardware/Semiconductors*: FTSE W Europe IT Hardware; *Telecoms*: FTSE W Europe Business Services; *Business Services*: FTSE W Europe; *Auto & Components*: FTSE W Europe Auto & Parts; *Communications equipment*: FTSE W Europe IT Hardware; **Ecology Focus**: Bloomberg World Energy Alternate Sources; **Global Emerging Markets**: MSCI Emerging Markets ex-Asia.

Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published prior to 30 October 2008

STOCKS

Stock recommendations are based on absolute valuation upside (downside), which is defined as (Fair Value - Current Price)/Current Price, subject to limited management discretion. In most cases, the Fair Value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as Discounted Cash Flow or Multiple analysis etc. However, if the analyst doesn't think the market will revalue the stock over the specified time horizon due to a lack of events or catalysts, then the fair value may differ from the intrinsic fair value. In most cases, therefore, our recommendation is an assessment of the difference between current market price and our estimate of current intrinsic fair value. Recommendations are set with a 6-12 month horizon unless specified otherwise. Accordingly, within this horizon, price volatility may cause the actual upside or downside based on the prevailing market price to differ from the upside or downside implied by the recommendation.

A '**Strong buy'** recommendation indicates that upside is more than 20%.

A '**Buy'** recommendation indicates that upside is between 10% and 20%.

A '**Neutral'** recommendation indicates that upside or downside is less than 10%.

A '**Reduce'** recommendation indicates that downside is between 10% and 20%.

A '**Sell'** recommendation indicates that downside is more than 20%.

SECTORS

A '**Bullish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation.

A '**Neutral'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation.

A '**Bearish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

Price targets

Price targets, if discussed, reflect in part the analyst's estimates for the company's earnings. The achievement of any price target may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market, and may not occur if the company's earnings differ from estimates.

Disclaimers

This publication contains material that has been prepared by the Nomura entity identified on the banner at the top or the bottom of page 1 herein and, if applicable, with the contributions of one or more Nomura entities whose employees and their respective affiliations are specified on page 1 herein or elsewhere identified in the publication. Affiliates and subsidiaries of Nomura Holdings, Inc. (collectively, the 'Nomura Group'), include: Nomura Securities Co., Ltd. ('NSC') Tokyo, Japan; Nomura International plc, United Kingdom; Nomura Securities International, Inc. ('NSI'), New York, NY; Nomura International (Hong Kong) Ltd., Hong Kong; Nomura Financial Investment (Korea) Co., Ltd., Korea (Information on Nomura analysts registered with the Korea Financial Investment Association ('KOFIA') can be found on the KOFIA Intranet at http://dis.kofia.or.kr); Nomura Singapore Ltd., Singapore (Registration number 197201440E, regulated by the Monetary Authority of Singapore); Nomura Securities Singapore Pte Ltd., Singapore (Registration number 198702521E, regulated by the Monetary Authority of Singapore); Capital Nomura Securities Public Company Limited; Nomura Australia Ltd., Australia (ABN 48 003 032 513), regulated by the Australian Securities and Investment Commission and holder of an Australian financial services licence number 246412; P.T. Nomura Indonesia, Indonesia; Nomura Securities Malaysia Sdn. Bhd., Malaysia; Nomura International (Hong Kong) Ltd., Taipei Branch, Taiwan; Nomura Financial Advisory and Securities (India) Private Limited, Mumbai, India (Registered Address: Ceejay House, Level 11, Plot F, Shivsagar Estate, Dr. Annie Besant Road, Worli, Mumbai- 400 018, India; SEBI Registration No: BSE INB011299030, NSE INB231299034, INF231299034, INE 231299034).

THIS MATERIAL IS: (I) FOR YOUR PRIVATE INFORMATION, AND WE ARE NOT SOLICITING ANY ACTION BASED UPON IT; (II) NOT TO BE CONSTRUED AS AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY SECURITY IN ANY JURISDICTION WHERE SUCH OFFER OR SOLICITATION WOULD BE ILLEGAL; AND (III) BASED UPON INFORMATION THAT WE CONSIDER RELIABLE.

NOMURA GROUP DOES NOT WARRANT OR REPRESENT THAT THE PUBLICATION IS ACCURATE, COMPLETE, RELIABLE, FIT FOR ANY PARTICULAR PURPOSE OR MERCHANTABLE AND DOES NOT ACCEPT LIABILITY FOR ANY ACT (OR DECISION NOT TO ACT) RESULTING FROM USE OF THIS PUBLICATION AND RELATED DATA. TO THE MAXIMUM EXTENT PERMISSIBLE ALL WARRANTIES AND OTHER ASSURANCES BY NOMURA GROUP ARE HEREBY EXCLUDED AND NOMURA GROUP SHALL HAVE NO LIABILITY FOR THE USE, MISUSE, OR DISTRIBUTION OF THIS INFORMATION.

Opinions expressed are current opinions as of the original publication date appearing on this material only and the information, including the opinions contained herein, are subject to change without notice. Nomura is under no duty to update this publication. If and as applicable, NSI's investment banking relationships, investment banking and non-investment banking compensation and securities ownership (identified in this report as 'Disclosures Required in the United States'), if any, are specified in disclaimers and related disclosures in this report. In addition, other members of the Nomura Group may from time to time perform investment banking or other services (including acting as advisor, manager or lender) for, or solicit investment banking or other business from, companies mentioned herein. Further, the Nomura Group, and/or its officers, directors and employees, including persons, without limitation, involved in the preparation or issuance of this material may, to the extent permitted by applicable law and/or regulation, have long or short positions in, and buy or sell, the securities (including ownership by NSI, referenced above), or derivatives (including options) thereof, of companies mentioned herein, or related securities or derivatives. In addition, the Nomura Group, excluding NSI, may act as a market maker and principal, willing to buy and sell certain of the securities of companies mentioned herein. Further, the Nomura Group may buy and sell certain of the securities of companies mentioned herein, as agent for its clients.

Investors should consider this report as only a single factor in making their investment decision and, as such, the report should not be viewed as identifying or suggesting all risks, direct or indirect, that may be associated with any investment decision. Please see the further disclaimers in the disclosure information on companies covered by Nomura analysts available at www.nomura.com/research under the 'Disclosure' tab. Nomura Group produces a number of different types of research product including, among others, fundamental analysis, quantitative analysis and short term trading ideas; recommendations contained in one type of research product may differ from recommendations contained in other types of research product, whether as a result of differing time horizons, methodologies or otherwise; it is possible that individual employees of Nomura may have different perspectives to this publication.

NSC and other non-US members of the Nomura Group (i.e. excluding NSI), their officers, directors and employees may, to the extent it relates to non-US issuers and is permitted by applicable law, have acted upon or used this material prior to, or immediately following, its publication. Foreign-currency-denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of, or income derived from, the investment. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies, effectively assume currency risk.

The securities described herein may not have been registered under the US Securities Act of 1933, and, in such case, may not be offered or sold in the United States or to US persons unless they have been registered under such Act, or except in compliance with an exemption from the registration requirements of such Act. Unless governing law permits otherwise, you must contact a Nomura entity in your home jurisdiction if you want to use our services in effecting a transaction in the securities mentioned in this material.

This publication has been approved for distribution in the United Kingdom and European Union as investment research by Nomura International plc ('NIPlc'), which is authorized and regulated by the UK Financial Services Authority ('FSA') and is a member of the London Stock Exchange. It does not constitute a personal recommendation, as defined by the FSA, or take into account the particular investment objectives, financial situations, or needs of individual investors. It is intended only for investors who are 'eligible counterparties' or 'professional clients' as defined by the FSA, and may not, therefore, be redistributed to retail clients as defined by the FSA. This publication may be distributed in Germany via Nomura Bank (Deutschland) GmbH, which is authorized and regulated in Germany by the Federal Financial Supervisory Authority ('BaFin'). This publication has been approved by Nomura International (Hong Kong) Ltd. ('NIHK'), which is regulated by the Hong Kong Securities and Futures Commission, for distribution in Hong Kong by NIHK. This publication has been approved for distribution in Australia by Nomura Australia Ltd, which is authorized and regulated in Australia by the Australian Securities and Investment Commission ('ASIC'). This publication has also been approved for distribution in Malaysia by Nomura Securities Malaysia Sdn Bhd. In Singapore, this publication has been distributed by Nomura Singapore Limited ('NSL') and/or Nomura Securities Singapore Pte Ltd ('NSS'). NSL and NSS accepts legal responsibility for the content of this publication, where it concerns securities, futures and foreign exchange, issued by their foreign affiliates in respect of recipients who are not accredited, expert or institutional investors as defined by the Securities and Futures Act (Chapter 289). Recipients of this publication should contact NSL or NSS (as the case may be) in respect of matters arising from, or in connection with, this publication. Unless prohibited by the provisions of Regulation S of the U.S. Securities Act of 1933, this material is distributed in the United States, by Nomura Securities International, Inc., a US-registered broker-dealer, which accepts responsibility for its contents in accordance with the provisions of Rule 15a-6, under the US Securities Exchange Act of 1934.

Additional information available upon request

NIPlc and other Nomura Group entities manage conflicts identified through the following: their Chinese Wall, confidentiality and independence policies, maintenance of a Restricted List and a Watch List, personal account dealing rules, policies and procedures for managing conflicts of interest arising from the allocation and pricing of securities and impartial investment research and disclosure to clients via client documentation.

Disclosure information is available at the Nomura Disclosure web page:

http://www.nomura.com/research/pages/disclosures/disclosures.aspx

AP86b

NOMURA

Nomura Asian Equity Research Group

Hong Kong	Nomura International (Hong Kong) Limited 30/F Two International Finance Centre, 8 Finance Street, Central, Hong Kong Tel: +852 2536 1111 Fax: +852 2536 1820
Singapore	Nomura Singapore Limited 5 Temasek Boulevard #11-01, Suntec Tower Five, Singapore 038985, Singapore Tel: +65 6433 6288 Fax: +65 6433 6169
Taipei	Nomura International (Hong Kong) Limited, Taipei Branch 17th Floor, Walsin Lihwa Xinyi Building, No.1, Songzhi Road, Taipei 11047, Taiwan, R.O.C. Tel: +886 2 2176 9999 Fax: +886 2 2176 9900
Seoul	Nomura Financial Investment (Korea) Co., Ltd. 17th floor, Seoul Finance Center, 84 Taepyeongno 1-ga, Jung-gu, Seoul 100-768, Korea Tel: +82 2 3783 2000 Fax: +82 2 3783 2500
Kuala Lumpur	Nomura Securities Malaysia Sdn. Bhd. Suite No 16.5, Level 16, Menara IMC, 8 Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia Tel: +60 3 2027 6811 Fax: +60 3 2027 6888
India	Nomura Financial Advisory and Securities (India) Private Limited Ceejay House, Level 11, Plot F, Shivsagar Estate, Dr. Annie Besant Road, Worli, Mumbai- 400 018, India Tel: +91 22 4037 4037 Fax: +91 22 4037 4111
Indonesia	PT Nomura Indonesia Suite 209A, 9th Floor, Sentral Senayan II Building Jl. Asia Afrika No. 8, Gelora Bung Karno, Jakarta 10270, Indonesia Tel: +62 21 2991 3300 Fax: +62 21 2991 3333
Sydney	Nomura Australia Ltd. Level 25, Governor Phillip Tower, 1 Farrer Place, Sydney NSW 2000 Tel: +61 2 8062 8000 Fax: +61 2 8062 8362
Tokyo	Equity Research Department Financial & Economic Research Center Nomura Securities Co., Ltd. 17/F Urbannet Building, 2-2, Otemachi 2-chome Chiyoda-ku, Tokyo 100-8130, Japan Tel: +81 3 5255 1658 Fax: +81 3 5255 1747, 3272 0869

Caring for the environment: to receive only the electronic versions of our research, please contact your sales representative.