

TELECOMMUNICATIONS (NEUTRAL)

Maxis launches HSDPA broadband

Maxis officially launched Malaysia's fastest mobile broadband service on High Speed Download Packet Access (HSDPA) yesterday. The service is the first in the world to be commercially deployed for residential customers. HSDPA is a 3.5G technology with a maximum theoretical speed of 14.4MB. It is 3x and 15x faster than 3G and traditional dial-up respectively although experiential speed is typically 2-3MB on best effort basis. The service will be initially available in the Klang Valley (Damansara, Petaling Jaya, Subang Jaya, USJ, Puchong, Cheras and Wangsa Maju areas) and will be extended to Penang in October.

Comment

Premium pricing over fixed alternatives. Maxis' broadband rates appear to be less attractive at RM10.42 per 100kb versus TM Net's Streamyx's RM7.70 (latest promotion) and Jaring's RM9.90 for 1MB lines. It is charging RM68/mth for a 384kb package and RM98/mth for 768kb line (see table below). The packages include a RM18 monthly modem rental fee which is also available for separate purchase at RM299. Subscribers will have to sign an 18 month contract and pay RM188 for installation and activation that will be reflected in the first bill. The key difference between Maxis' offerings and its fixed access competitors is that it does not require connection to a fixed line.

We expect the service to cannibalize its existing wired broadband offerings at selected residential enclaves in the Klang Valley which is priced at RM80/mth (512kb) and RM100/mth (1MB). That said, we do not believe it would be an immediate threat to TM's *Streamyx* due to the latter's lower pricing and wider coverage. TM Net had earlier pre-empted Maxis' launch by reducing the monthly access for its 1MB line to RM77 from RM88 previously.

Residential broadband packages	Maxis HSDPA	TM Streamyx	JARING Flite
Monthly Access (RM/mth)	80 [^]	77*	99
Monthly Access (RM/per 100kb)	10.42	7.70	9.90
Bandwidth	768kbps	1MB	1MB
Usage	Unlimited	Unlimited	Unlimited
Type	Wireless	Fixed	Wireless
Modem Rental (RM)	18	F.O.C.	25 (f.o.c. for wired package)
One-time charges (RM)~	188	163	75
Contract lock-in period	18mths	24mths	24mths

[^]768kbps package * 1ST 24mths, RM88 after 24 mths ~ activation & installation fees

Source : OSK Research, Telcos,

Longer-term positive. We do not expect material earnings contribution from broadband in the medium-term as (i) the service is confined to selected areas and where (ii) a cheaper alternative is available in the market in the form of fixed broadband. Additionally, we think customers will likely adopt a wait-and-see attitude in the face of new services to be launched by potential entrants (both wired and wireless) before committing to a service provider.

More to come. Few telcos are expected to introduce new broadband services over the next 6-12 months. Timedotcom (TDC) had indicated it will launch 3G/HSDPA broadband by 2Q07 while MiTV is expected to unveil its service in 4Q06. TM is also believed to be conducting trials on high-speed wireless broadband and has indicated plans to offer a 4MB ADSL package in the near future.

Additionally, tier-2 telcos such as Green Packet, Mobif and Nasioncom have made public their intentions to rollout wireless broadband services over the next 6 months using proprietary or commercially available technology. We understand Mobif is currently testing its mobile broadband services in the Klang Valley based on the '*iBurst*' (HC-SDMA) platform developed by Arraycom and Japan's Kyocera. Green Packet is making its proprietary SONMETRO broadband last mile technology available to Klang Valley customers in 1Q07 while Nasioncom plans to launch high speed fixed broadband access on fixed WIMAX by end-2006.

A feather in the cap for Malaysia's broadband aspirations. The launch of more broadband packages by both Tier-1 and Tier 2 players in the near future will encourage price competition and in turn boost broadband demand and penetration (currently a paltry 16%). However, we think the country has a long way to go in developing a critical mass of broadband users given that PC usage remains an issue, especially in the rural areas.

RM850m broadband capex for the next 3 years. This includes RM150m to widen its coverage to Penang and Johor Bahru by end-2006. Aside from the capex committed for residential broadband, Maxis has also committed RM2.15bn for the expansion of mobile 3G to achieve over 90% population coverage by 2009. We are maintaining our Malaysian operations capex assumptions at RM1.1bn and RM1bn for FY06 and FY07 respectively.

RECOMMENDATION

Maintain NEUTRAL rating on Maxis based on target price of RM9.70 (7x CY07 EV/EBITDA). Maxis' HSDPA launch is merely a positioning strategy with little impact on earnings in the medium-term. While the stock should continue to find support from the generous dividend yield of 6-7% for FY06/07, Maxis is feeling the heat from the more aggressive marketing tactics deployed by its competitors. Its overseas ventures are also burdened with execution issues i.e. the delayed rollout of its 3G service in Indonesia (NTS) due to regulatory setbacks and potentially slower than expected rollout at Aircel for all 23 circles in India.

1

Connect the provided external antenna at the back of the modem

NOTE: Make sure the modem is free of obstruction.

2

Insert the Maxis Broadband SIM card at the bottom of the modem

NOTE: The provided Maxis Broadband SIM card can only be used for this specific modem and not with any other mobile device.

Step 1: Open the cover



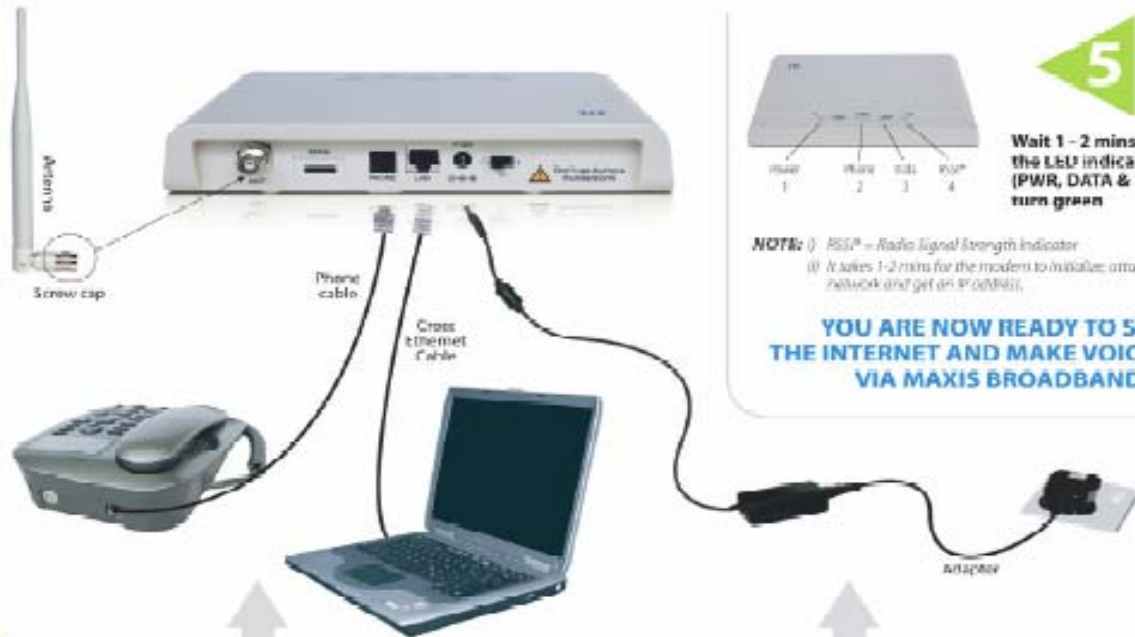
Step 2: Push SIM Card holder in the right & lift it up



Step 3: Insert the Maxis Broadband SIM Card into the holder with gold pins facing down



Step 4: Push holder in the left & close the cover



5

Wait 1 - 2 mins until the LED indicators (PWR, DATA & RSSI) turn green

*NOTE: (i) RSSI - Radio signal strength indicator
(ii) It takes 1-2 mins for the modem to initialize, attach itself to the network and get an IP address.*

YOU ARE NOW READY TO SURF THE INTERNET AND MAKE VOICE CALLS VIA MAXIS BROADBAND!

3

Connect your phone cable to your phone set and your provided Cross Ethernet cable to your PC

*NOTE: Phone cable and Cross Ethernet cable are provided. Please **DO NOT** use any other Ethernet cable to ensure the modem will work.*

4

1) Connect your power adapter to an external power supply.
2) Switch ON the modem.

*NOTE: Make sure the phone is **ON HOOK** when you power up the modem.*



OSK Research Guide to Investment Ratings

Buy: Total return of the stock may exceed 10% OR outperform the relevant benchmark index over the next 12 months, whichever is higher

Trading Buy: Total return of the stock may exceed 10% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Total return of the stock may fall within the range of +/- 10% (inclusive) over the next 12 months OR is not expected to outperform or underperform the relevant benchmark index by the same quantum over the same period

Take Profit: Target price has been attained. Look to accumulate at lower levels.

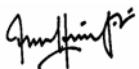
Sell: Total return of the stock may fall more than 10% OR underperform the underlying benchmark index over the next 12 months

* Total Return (capital gain + dividend yield)

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