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The 4G game plan

When the MCMC awarded 4G spectrum to nine companies, the big question was how the smaller players would finance the rollout of the infrastructure. An imminent tie-up between REDtone International and several established players provides an answer. See our Cover Story on **Pages 54 to 56.**

Collaborating on LTE rollout

The big mobile service providers are finding it necessary to tie up with smaller players as the 4G/LTE rollout picks up pace

When the Malaysian Communications and Multimedia Commission (MCMC) split up the 4G/Long Term Evolution (LTE) network among nine companies, eyebrows were raised.

The question asked was, how would allocating spectrum to small players in the telecommunications industry help the rollout of the 4G network? The answer perhaps lies in REDtone International Bhd's imminent partnership with two more established mobile service providers. This arrangement, observers say, will be a precursor to more collaboration among those awarded the 2.6GHz spectrum.

REDtone's two partners are believed to be DiGi.Com Bhd and Celcom Axiata Bhd. However, this is not the first time telecommunications companies have joined forces. There are two existing tie-ups — between Maxis Bhd

and U Mobile Sdn Bhd and between DiGi and Celcom — that may concern the 4G/LTE rollout or the sharing of back-end services.

But the REDtone joint effort is expected to be a game-changer in a way because it resolves the funding problem that the smaller players face in rolling out 4G/LTE.

"REDtone is likely to receive upfront payment from sharing its portion of the spectrum with the more established players. This solves the funding issue for the network rollout from the perspective of smaller companies such as REDtone," says an industry observer.

To recap, the MCMC allocated nine companies a total of 180MHz of the LTE spectrum. On one side were the more established cellular service providers with a growing pool of subscribers and war chest — Celcom, Maxis and DiGi — while on the other were the smaller companies — U Mobile, REDtone, Packet One Sdn Bhd (P1), Asiaspace Sdn Bhd, YTL Commu-

nications Sdn Bhd and Puncak Semangat Sdn Bhd. The latter do not have the sort of subscriber base that could generate the kind of cash flow needed to put them in the big league.

In November last year, *The Edge* reported that the MCMC was considering two options. However, in both Puncak Semangat would receive the lion's share of the spectrum while the remainder would be split among several or all of the remaining operators.

The result, which emerged a month later, saw Puncak Semangat receiving 30MHz while Celcom, DiGi, Maxis, U Mobile, P1, REDtone and YTL were allotted 20MHz each and Asiaspace 10MHz.

Why Puncak Semangat — an entity said to be linked to Tan Sri Syed Mokhtar Al-Bukhary — was allocated a bigger slice of the spectrum is a question that has gone unanswered until today. What has been reported so far is that the company is the front-runner to clinch a

RM2 billion job to build the infrastructure to facilitate the transmission of digitalised free-to-air television.

Coming back to the allocation of spectrum to the smaller telcos, observers asked if companies such as REDtone and Asiaspace possessed the financial resources and technical know-how to take full advantage of what has been awarded to them.

"Our belief is that the spectrum should be given to operators who can best utilise it in order to deliver value to their customers. That should take into consideration their track record and ability to invest large sums of capital to establish the infrastructure," says an official linked to one of the established telcos.

The deal by REDtone addresses the funding issue and in some ways allows smaller companies to survive by way of collaboration.

This seems to be the sector's best bet for a win-win situation whereby both the big boys and smaller entities are able to co-exist in a competitive environment.

"All the players have said that through working together, they can save billions of ringgit. What it will mean to smaller players compared to the big boys is that the latter will always seek to expand bandwidth to cope with growing appetite for data, but they can only do so through collaboration," says an observer.

In fact, this was emphasised as an option. "In the letter of award given to the telcos by the MCMC, it was stated that collaborations between the providers were allowed. This would then result in a new kind of collaborative rollout between the players and thus fulfil the MCMC's goal of maximising the use of available resources," REDtone managing director Datuk Wei Chuan Beng told *The Edge* in an interview.

For the MCMC, splitting the spectrum nine ways may be its way of getting the job done

Poised for a turnaround

By Nadia S Hassan

REDtone International Bhd, which has been on a losing streak for the past four years, is on track for a profitable year, driven by its government projects and WiFi infrastructure business. According to group managing director Datuk Wei Chuan Beng, he is looking at a turnaround in the current year of operations.

"We are aiming to make a profit in FY2012, and all the signs are pointing in that direction. In fact, the recent results are a strong indication that the company is turning around," he says in an interview.

REDtone has been loss-making over the past four years, reporting a net loss of RM11.7 million in FY2011 ended May 31. However, the losses have been narrowing based on its recent quarterly earnings.

Nonetheless, it will be FY2013 that will prove fruitful for the company, says Wei. This is when the company expects to see the positive impact from its collaboration with other players in 4G/LTE to come through.

To recap, Wei said previously that REDtone had entered into a 4G/LTE network collaboration and partnership agreement with at least two other telcos. Although he is still tight-lipped about their identities, sources indicate that DiGi.Com Bhd and Celcom Axiata Bhd could be the company's potential partners, with possibly a third cellular provider waiting in the wings.

Wei does go on to explain, however, that the collaboration agreement will ultimately help reduce capital expenditure and operating expenditure in the long run. "Our capital expenditure through collaboration could be as low as 5% of what we would have spent had we decided to go ahead alone. It can be as simple as

inserting a card into the existing infrastructure, and the service is already available for both our partners and customers," he says.

At this juncture however, Wei says the final details are still being worked on and will include a commercial agreement. According to analysts, such agreements usually involve a minimum guaranteed payment, which means that even if the bandwidth is not used, there will still be some cash flow for the companies.

"The company can then go to the bank and use the agreement to raise funds for future capital expenditure. If there is any excess, there is a possibility that it could eventually be returned to shareholders," says an analyst.

Wei admits that if REDtone had chosen to roll out the 4G/LTE services on its own steam, the expansion would have been slower. "It would be limited and to a much smaller extent. It would also not be nationwide," he says.

Aside from the 4G/LTE collaboration, REDtone has other plans up its sleeve that will help return the group to the black. Like its peers, REDtone is shifting away from the traditional voice business to data.

The company's current focus is offering its data services to the government and the small and medium enterprises (SMEs), which often have a more complex requirement when it comes to managing their bandwidth, which requires multiple types of connectivity.

"We have the in-depth capability to bring together various infrastructure for data, which includes fibre, high-speed wireless, DSL, satellite and even some backup services that run on 3G. This clearly shows that for the government and SMEs, there isn't just one type of technology that suits their needs," says Wei, adding that REDtone is currently bidding for RM800 mil-

lion worth of government jobs. Its order book currently comprises around 10 government contracts worth about RM20 million.

REDtone's other earnings driver going forward is its WiFi infrastructure business, whereby the company helps to set up Internet hotspots that help cater for the nomadic broadband segment. Wei says REDtone is currently building 4,500 hotspots, 1,500 of which are in Penang, while the rest are spread across the country.

"These hotspots are to be used by both us and our partners, which are the other telcos," says Wei. This gels with what the three big telcos said previously about their intention to grow their nomadic broadband segment in order cater for the growing number of WiFi-enabled devices.

"We see that Malaysia will eventually have more than 100,000 hotspots over the next five years. At the moment, we have just over 10,000. Hence, we would like to actively participate in this [growth of WiFi]," says Wei.

In addition to a one-off lump sum payment for building the network, REDtone will also generate recurring income from managing the sites. The company is also making inroads into China where it offers not only voice services but also a prepaid shopping card, says Wei.

"We currently have about two million customers for our voice service in Shanghai. As for our prepaid shopping card business, that business requires more nurturing. We have applied for a third-party payment licence, for which the outcome is pending, and is expected to be announced in May," he adds.

The Syed All factor

Wei points out that REDtone's current ma-

ior shareholder, deputy chairman Datuk Wira Syed Ali Syed Abbas Alhabshie, has extensive experience in the industry and is extremely hands-on in the running of the company. Syed Ali holds an indirect stake of 28.6% in REDtone.

The company's strategy to focus on data has already started to show in its earnings. REDtone managed to pare its losses for 1HFY2012 to RM751,000, from RML8 million in the previous corresponding period.

Aside from banking on data, REDtone's board of directors recently passed a mandate to rationalise the business. "We are in the midst of identifying the businesses under REDtone that are not profitable and non-core, and the mandate is to divest them," says Wei.

The rationalisation started with REDtone reducing its stake in REDtone Mobile Sdn Bhd, which offers Mobile Virtual Network Operator (MVNO) services, on Jan 3. REDtone had entered into a share-sale agreement with two individuals to divest 75% of REDtone Mobile, which turned the latter from a wholly-owned subsidiary to a 35%-owned associate.

"We believe the partner that was brought in can add value to the company. So, holding a minority stake could actually result in bigger returns for us," says Wei.

He adds that REDtone is also looking at adopting a slightly similar strategy for its IPTV service eTV, which specialises in offering content from China. "We are on the lookout for a strategic partner to come in and help to expand the business."

After a number of years of being in the red, REDtone certainly seems poised to make a comeback. However, it has another six months to see whether the change to its strategy truly pays off.

faster. This is because a problem with network rollouts in the past was execution.

It was reported that the regulator fined three of four 2.3GHz WiMAX licensees a total of RM3.8 million for failing to meet a key performance indicator (KPI). In this respect, the three companies — YTL e-Solutions, Asiaspace and REDtone — were not able to meet the 25% population coverage required by the end of March 2009.

Various technical issues were said to be the cause of the delay in implementation and some believed the time given to assess the feasibility of the rollout was inadequate. While this may have been true, working in partnership may pressure companies to work more diligently.

"Without a collaboration in place, telcos may take their time with the network's rollout. They would choose to wait for demand to build up, which may not bode well for the government's aim to implement such services by a certain time," says an observer.

In the case of LTE, large telcos may act with urgency in rolling out the network to accommodate growing demand for data services.

Pressure on larger players

The LTE network will only be made available for commercial use at the start of 2013, although there is market talk that the date could be brought forward by the MCMC if the requisite infrastructure is in place.

There is pressure on the large telcos to open up bandwidth for data and free up their 3G networks to serve voice only. While this may prove to be a natural push for the LTE rollout, it is also why some of the large telcos are unhappy at the way the spectrum has been allocated.

"These collaborations take time to form and may be a hindrance to the large telcos that

were prepared to fork out the cash and roll out the network swiftly. So, these large telcos are asking, why were the smaller telcos given the spectrum when they don't have the finances to support it?" says an insider.

Historically, the large telcos have been at the losing end when it comes to spectrum allocation. This was most apparent in the case of 3G spectrum and DiGi.

The 3G spectrum was no doubt a key part of DiGi's long-term growth strategy, but the company lobbied for the licence numerous times to no avail. It finally leased the rights to use the spectrum that had been awarded to Time dotCom (TdC) for a mere RM50 million.

Observers questioned the award of the licence to TdC, which did little with the spectrum.

TdC signed a 10-year lease for the bandwidth rights and this was paid for with 27.5 million new DiGi shares valued at RM654 million. At the time, only three other companies had the licence — Telekom Malaysia Bhd, Maxis and MiTV Corp Bhd.

MiTV enjoyed a short stint as the country's second pay-TV operator after Astro All Asia Networks plc. It was later transformed into U Television Sdn Bhd, which is the major shareholder of U Mobile, which is now establishing itself in the 3G market.

The fact of the matter is that the large telcos — having built a large subscriber base and financial strength over the years — developed considerable bargaining power with the MCMC and end-users.

It may be this situation that the MCMC is trying to change.

In the case of LTE, large telcos may act with urgency in rolling out the network to accommodate growing demand for data services

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REDtone
You Count On

Wei: Often, we need to deploy multiple technologies, and that is where our competency in integration becomes very useful

Catering for the government and SMEs

In an interview with *The Edge* recently, Datuk Wei Chuan Beng talked about how he plans to position the company amid the increasing competition in the industry and with the 4G dynamics being thrown into the picture.

The Edge: REDtone's recent 2Q earnings showed its losses are definitely narrowing. What is the company's focus when it comes to growth?

Datuk Wei Chuan Beng: We are aiming to cater mostly for the government and small and medium enterprises (SMEs). We have a strong capability to put together solutions for customers from these segments. Usually their requirements are more complex when it comes to managing their bandwidth across multiple types of connectivity. They also demand a high level of service and technical capability.

It clearly shows that for the government and SMEs, there is not just one technology that suits all their needs. Often, we need to deploy multiple technologies, and that is where our competency in integration becomes very useful. Thus, we continue to bring in new customers, which is in line with the growth of data around the world.

I want to emphasise that both the government and SMEs are now relying more on the Internet to deliver their business. This ranges from the back-end operations, such as putting together their inventory system, all the way to the front-end, such as communicating with their customers. All of these rely heavily on access to broadband and data, thus demand is always on the increase.

Aside from the government and SME contracts, what else is helping to contribute to REDtone's earnings?

The second contributor is the building and management of WiFi networks. That has now become a core part of our business, and we are currently building 4,500 hotspots. Of that, we are completing 1,500 hotspots in Penang, along with 3,000 other hotspots in various parts of the country. Given that capability, we are the largest WiFi builder in the country.

Are these hotspots only for REDtone's services?

The hotspots are for us and our partners, who are the other telcos. You have to understand that the majority of devices used today are either on 3G or WiFi, and eventually 4G/LTE. Of the three, WiFi is known to have high bandwidth and stability and hence, is very popular. We foresee that Malaysia will eventually have 100,000 hotspots over the next five years. At the moment, the number is over 10,000.

There is high market demand for WiFi hotspots from both the enterprise and consumer segments, which want access no matter where they are. This is happening globally as well. China, for example, has more than two million hotspots, and it is building more.

So we would like to actively participate in this, and we have the strong capability to do so. One of the unique offerings that we have here is the entire back-end system that is developed in-house through our R&D. So it allows the end-user to be authenticated across multiple hotspots and use the service seamlessly.

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Final plans still pending approval from the MCMC

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"Being allocated parts of the spectrum, the smaller players now have the leverage to negotiate a better deal for themselves. It will break the dominance of the big three telcos," says the insider. "The industry incumbents are also able to drive down prices to a level that makes it impossible for the smaller ones to compete."

The smaller telcos now have the heft to survive in a competitive field.

The road to integration

The sharing of infrastructure, from basic equipment such as radio electronics to towers, means resources are pooled to allow a more efficient rollout of the LTE network.

A joint statement by Maxis and U Mobile on an agreement signed last year stated that partnerships among telcos are a response to the government's call to "reduce the duplication of network assets" and allow "increased competition at the service level rather than the infrastructure level".

"Some of the existing players have already installed multiple different brands of equipment that make integration challenging but still possible. However, if you look at the smaller players that have probably not invested as much in infrastructure, it becomes a fresh possibility ... so, it makes a lot of sense from day one to collaborate," says an observer.

One operator, U Mobile, has made collaboration a prominent part of its strategy. The company first signed a domestic roaming arrangement with Celcom in 2007 to ride the latter's 2G network for its services. It later entered into a partnership with Maxis for the sharing of 3G infrastructure.

U Mobile said the agreement with Maxis

enabled it to expedite the rollout of its 3G network by four to five times. For Maxis, the agreement provided cost savings by way of network sharing.

More importantly, the agreement was extended to cover the sharing of LTE infrastructure, although it was penned months before the final spectrum winners were announced. This agreement may even be extended to other players.

"As for extending active sharing of LTE spectrum, we are working closely [with U Mobile] to finalise our rollout plans, joint trials and vendor selection as well as aligning with additional players to extend the sharing of the LTE space to potentially three or four players," says Maxis COO Mark Dioguardi in an email interview with *The Edge*.

This suggests that companies will work less as standalone entities in the future as collaborations extend into long-term partnerships to cover more areas of business.

"This form of sharing is a trend that leading operators around the world are progressively doing as ownership is not necessarily a differentiating factor anymore. Increasingly, customers expect network quality and coverage as a basic service before looking for more value-added differentiators such as data speed, innovative pricing plans and so on," says U Mobile CEO Kaizad Heerjee in an email response to questions.

Another large operator, Celcom, says it would have preferred to be allocated 40MHz (it received only half of this) to realise the full capabilities of the LTE spectrum.

However, the company concurs that collaboration is vital. "We fully support the MCMC's initiative to encourage spectrum and infrastructure sharing among industry players. Therefore, we are open to industry cooperation



SUBRAMANIAM VIGNESHWAR



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Dioguardi: We are working closely [with U Mobile] to finalise our rollout plans, joint trials and vendor selection

to ensure better service to customers," it says in an official statement.

A local analyst says large telcos require more than 20MHz bandwidth to support their long-term data growth, although the minimum amount required to support 4G devices (such as dongles) is 20MHz. This becomes a predicament for Asiaspace, which was allocated only 10MHz.

"They were allocated only half the amount promised to them. So they have no choice but to partner another player. They are in the process of evaluating this," says a source.

YTL Communications, which won 20MHz, has the advantage of a cash-rich parent — YTL International Power Bhd — and may not need to resort to collaboration to roll out its LTE network.

Kaizad: This form of sharing is a trend that leading operators around the world are progressively doing

Puncak Semangat's strategy remains unknown, although with 30MHz of the spectrum, it will surely play a role in the future LTE network.

The competitive nature of the telecoms sector has been gruelling for the smaller telcos. For example, U Mobile struggled for years to expand its market share, which could have been the reason behind the exit of two foreign strategic shareholders — Japan's NTT DoCoMo and South Korea's KT Freetel — in 2009. Hence why collaborating among themselves could prove to be a lifeline.

However, their final plans are still pending approval from the MCMC. "The nine companies were asked to submit a final detailed business plan (DBP) in December, so things are still under review," says a source.

Businesses that are not profitable, non-core to be divested

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However, aren't all the telcos looking to tap into this segment, which is known as nomadic broadband?

That is where we work with them [the other telcos]. The difference is the number of hotspots you want to build. If you want to build 10 hotspots, that is easy to do. But if you want to build thousands, the whole operation is very different, and we are geared for that. This is called the mass deployment of WiFi, and we see it as a high-growth area. It will be a bigger contributor to REDtone in the future.

How does it work in terms of revenue? Is it a one-off payment or continuous?

We get continuous revenue because we manage the entire infrastructure, along with the one-off payment we receive for originally building the hotspot. These contracts usually last five years. Once we have the economies of scale, that is when it will become profitable. In fact, as it is, we have passed that point, so we are seeing a healthy business from that segment.

If that is the case, what is still dragging REDtone down? And how will the company overcome the problem?

This year, we have received a mandate from the board to rationalise the business. Business segments that are not profitable and non-core, it will be worthwhile for us to divest them.

Does this include your IPTV service, eTV? Would you consider eventually divesting that?

When it comes to eTV, we are looking for an interested party, possibly a technology partner

from China to come in and help grow the business. When it comes to Internet TV, it is definitely a business of the future, but we are still in the present. As such, we either need to be more patient or get a strategic partner. That is more our position, rather than divesting it.

So, what other segments is REDtone looking at divesting?

If another telco comes in and finds our voice business complementary to theirs and want to take up the entire segment, we will be happy to divest it.

The voice business is still an industry cash cow, and generates about RM10 million in gross profit a year. We have new customers, but the price competition has resulted in a margin squeeze. It's a steady business, but you can't grow if the top and bottom lines are stagnant.

What is REDtone's collaboration plans for the new 4G/LTE spectrum? And there has been a spate of consolidation among the players, do you see this trend continuing?

We do expect to see more collaboration between the players. It is the only way to get better service at lower cost. It would allow smaller players such as REDtone to share infrastructure, where the capital expenditure would be 5% of the normal capital expenditure cost.

There is also a possibility of sharing operating expenditure. The actual details are still being worked out, but the arrangement could entail paying only when the broadband is being used. This flexibility can be advantageous when it comes to designing different packages.

So what is the status now?

In early December, all the nine companies had to submit their detailed plans along with any collaboration agreements to the Malaysian Communications and Multimedia Commission. We have been made to understand that this is to ensure the resources made available can be maximised through collaboration. Commercially, this means two things: it means that REDtone is able to offer services nationwide in a very short amount of time, and that the other telco can enjoy a larger capacity.

If REDtone were not to collaborate with another telco, would the company still be able to manage the rollout on its own?

It would be limited, and to a much smaller extent, and not nationwide.

What has REDtone done to make the company 4G/LTE ready?

We have done an assessment on a test equipment basis, and the results have been very encouraging. We have also learnt from Japan's NTT DoCoMo's 4G rollout, which managed to show speeds of more than 20 times of what is currently available.

What about REDtone's business in China? How is that division faring?

Our China business is healthy and growing gradually. In Shanghai, we have our voice business that services two million customers.

Our other segment is the prepaid shopping card, which requires more nurturing. We have applied for a third-party payment licence, for which the outcome is pending. It is expected to be announced in May.

So, has REDtone truly turned around after making losses over the past four years?

Our recent results are a strong indication that REDtone has turned around. We are growing our data broadband segment and participating in more government projects. We have put in a bid for a few government projects amounting to about RM800 million. At the moment, we have about 10 different contracts from the government worth around RM20 million.

We are on track for a profitable year in FY2012. But it will be FY2013 before we see any contributions from the collaborations we have entered into.

Last October, REDtone saw the entry of a new substantial shareholder, deputy chairman Datuk Wira Syed Ali Syed Abbas Alhabshie. What has he brought to the company thus far?

He is very experienced in the business and with the government. We are tapping a lot through his experience. He is very active and constantly contributes to the running of the company.

What about your WIMAX service in Sabah and Sarawak, how is the business there faring?

We have initiated a concept called Borneo Telecom, whereby we are proposing to integrate multiple service providers under one entity, which will then offer a full range of services in Sabah and Sarawak. We are doing this with a partner, and looking for possibly another partner before moving forward. We are also shopping for a merchant bank to help us work out the structure.