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Published: Tuesday September 17, 2013 MYT 12:00:00 AM

Updated: Tuesday September 17, 2013 MYT 7:10:27 AM

GST will enable celcos to pass on prepaid revenue tax

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PETALING JAYA: The likely introduction of the goods and services tax (GST) will be positive for mobile operators, as they would be able to pass on the similar tax or sales tax on prepaid revenue that they have been absorbing for customers all along.

Analysts covering the industry said in recent reports that the GST would be bottomline-positive for the three main telcos in the country – Axiata Group Bhd, Maxis Bhd and DiGi.Com Bhd.

CIMB Research analyst Kelvin Goh said in a report last week that DiGi would stand to benefit the most from a GST imposition on consumers, followed by Maxis and Axiata, via Celcom.

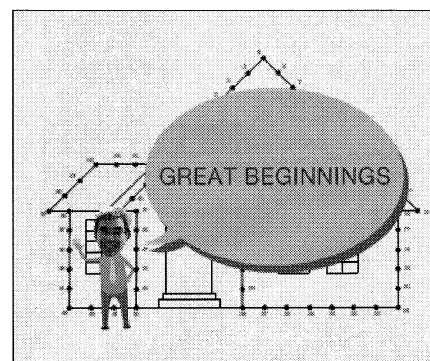
“Prepaid revenue makes up 71% of DiGi’s total revenue versus an estimated 55% for Maxis and 58% for Celcom. The telcos currently book only 94% of prepaid revenues as they absorb the 6% sales tax.

Prepaid users may cut back on usage when the GST is introduced, as they are generally price-sensitive and have tighter budgets,” Goh added.

Goh said DiGi’s financial year 2015 (FY15) core net profit could be lifted by 6% versus 4% for Maxis and about 3% for Axiata should telcos recover only half the tax since some consumers would reduce their spending.

“We estimate a 4.6% or 21 sen rise in our target price for DiGi and a 2.9% or 21 sen increase for Maxis. Axiata’s sum-of-parts-based target price would rise by 2.9% or 20 sen. We have not built this into our forecasts,” he added.

Hong Leong Investment Bank Research analyst Tan J. Young said the telcos could benefit in terms of greater cost savings. He also noted that DiGi would be the biggest benefitor.



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“Based on our estimation using second-quarter 2013 operating data, DiGi would possibly enjoy the most with 13.6% in earnings uplift (based on a FY15 estimated profit after tax), followed by Maxis and Axiata with 7.8% and 6%, respectively, provided competition and usage remain status quo,” he said.

Despite the potential lower usage due to the pass-through in taxes to consumers, Tan noted that telcos may also use the same opportunity to intensify competition through the introduction of new packages with extra airtime or download quota to prepaid users, which may also neutralise part of the gains from these tax savings.

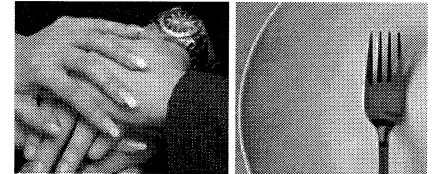
Both research houses have rated the sector “neutral”.

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