21 April 2017

Investec Securities
Investec Bank plc (UK)

Company Research

Myanmar Investments International (MILM.L)

United Kingdom | Frontier Markets Investments

Opportunities abound

MIL issued a strategic and trading update on 10th Apr'17 detailing the company's performance for the year, and highlighting prospective growth areas. Both Apollo and MFIL continue to perform strongly with growth drivers in place. MIL has signed two MOUs with total initial commitment of $1.5mn - setting up a pharmacy/health/beauty product chain and entering into a JV with a local tour operator – both of which can be scaled up in the next few years. Moreover, the board is considering dual listing in the Asian region to improve liquidity, potentially expanding the investor base for MIL. We remain convinced on Myanmar's long term story and MIL, with its strong management and vast experience in the country, remains a superior play on this story. Reiterate BUY.

- **MIL enters into two promising sectors –** MIL has signed two MOUs with an initial commitment of under $2mn – a) to set up a green-field pharmacy/ health/beauty product chain and b) enter into a JV with a local tour operator. Both of these investments look promising and are a play on Myanmar's growing economy.
- **Apollo Towers to benefit from improving industry dynamics –** The entry of Mytel as the fourth mobile network operator is likely to result in higher tower sharing as co-location appears to be the quickest way for the MNO to launch its operations. Higher co-location would lead to significant improvement in profitability of towers as our analysis implies a 21% ROI for 2 tenants against only 6% ROI for a single tenant. In addition, tower roll-out is likely to continue at a fast pace with MNOs expanding 4G rollout to cover more regions and the potential widening of rural coverage on account of Mytel's strategy to focus on rural consumers and the eventual enforcement of the MNOs' licensing conditions around rural coverage.
- **Strong growth drivers in place for MFIL –** MFIL performance in FY17 was robust, with loan growth of 58% yoy and excellent asset quality (PAR1-30 & PAR30 at 0%). We believe it will only continue on this strong growth path with improving profitability given levers of its well capitalised balance sheet allowing it to take on significant debt; branch expansion; loan size increase; and addition of new loan products.
- **Board considering dual listing in Asian region –** We believe a dual listing could improve liquidity and expand the investor base for MIL facilitating not only a higher quantum of capital raising, but a more efficient one as well.
- **Valuations –** We value MIL on Net Asset Value basis ascribing the following valuations to its two investments – Apollo Towers and MFIL. MIL's stake in Apollo is valued at $42.6mn ($1.39 per share) and MFIL is valued at $6.0mn ($0.2 per share). Cash on balance sheet is $3.2mn ($0.1 per share). We arrive at a net valuation of $1.7 per share.

BUY

Price: US$1.27
Target: US$1.71
Forecast Total Return: 34.1%

Market Cap: US$39m
EV: US$34m
Average daily volume: 0k

Financials

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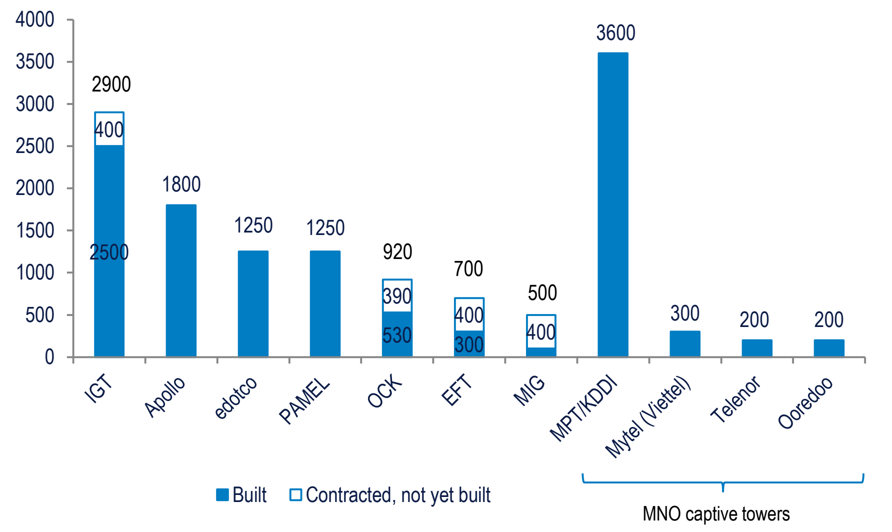
Apollo Towers

Apollo Towers Pte Ltd ("Apollo") has nearly doubled its tower portfolio to 1,800 towers since MIL's investment in 2015 and plans to construct 2,000 more towers in its next phase of development. Apollo is the second largest private telecom towers player with a market share of 23% (excluding the captive towers owned by MNOs). The Myanmar tower industry is in a rapid growth phase following the entry of the international mobile network operators (MNOs) in 2013. Since then, telecom towers have increased in number from 1,800 to c.12,000 (Figure 1: Estimated state of Myanmar tower rollout, Jan 2017). Industry players estimate a need for 30,000 towers by 2020, implying 2.5x growth potential.

Figure 1: Estimated state of Myanmar tower rollout, Jan 2017



Source: Towerxchange, Investec Securities research

Co-location set to improve with the entry of the fourth MNO

After the initial stage of rapid tower roll-outs, the Myanmar tower industry seems to have increased its focus on improving co-location/tenant ratios (tenancy) for better profitability, with several tower operators inking co-location deals with the MNOs. Apollo has already started sharing some of its towers (which were built with Telenor as the anchor tenant) with Ooredoo and MPT and expects to expand the sharing to the remaining sites as well. Viettel Global, which has won the fourth telecom license, is expected to launch its operations soon under the name Mytel. We believe that the entry of Mytel would further increase tenancy ratios as co-location appears to be the quickest way for Mytel to launch and expand its network.

Additionally, ISPs are now looking for space on towers in Myanmar and this will likely further increase the co-location ratio.

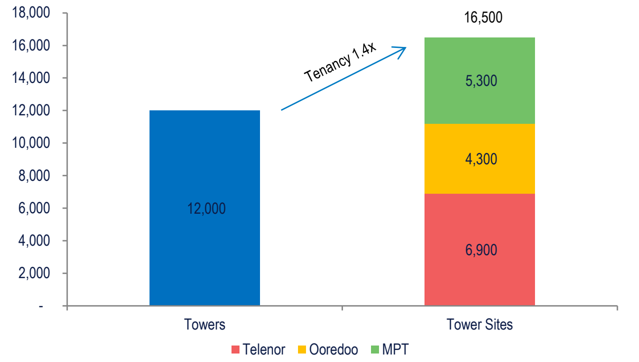
We expect the tenancy ratios to soon reach above 2x from the current rate of 1.4x (Table 1) with the entry of Mytel and the expansion of tower sites by the incumbent MNOs. This would result in better return metrics for the tower companies as illustrated in Table 2.

Figure 2: Tenancy ratios set to improve

"You hope to have a tenant on every tower apart from the anchor tenant. That's a simple rule of thumb for being commercially viable. The industry targets a 1.7-2.0 tenant ratio for towers - Suresh Sidhu" - Edotco Group CEO

Source: Investec Securities research

Table 1: Current tenancy of 1.4x is set to improve



Source: Towerxchange, Investec Securities research

Table 2: Significant potential to increase ROI with higher colocation

Fig in US$	One Tenant	Two Tenants	Three Tenants
Construction/Upgrade Cost	120,000	120,000	120,000
Tenant Revenue	18,000	37,800	57,600
Operating Expenses	10,800	12,474	13,248
Gross Margin	7,200	25,326	44,352
Gross Margin (%)	40%	67%	77%
Gross Margin Conversion		101%	106%
Return on Investment	6%	21%	37%

Source: Industry data, Investec Securities estimates

Tower roll-out set to pick up with 4G rollout and rural coverage

Mobile data usage has surged in Myanmar since 2014 with the launch of 3G and now 4G in select locations, affordable smartphones and falling data tariffs. Ooredoo, Telenor and MPT are already providing 4G services in the major cities (Yangon, Nay Pyi Taw and Mandalay) and intend to expand the same to other geographies, which would lead to higher demand for towers. All the three operators are expected to take part in the upcoming 1,800MHz spectrum auction to help with their 4G roll out.

Mytel's strategy to target rural markets would lead to an improved focus on improving tower infrastructure in rural areas, where the network coverage is far inferior to the urban areas. Further, the eventual enforcement of the operators' licensing conditions around rural coverage is expected to boost tower rollout in rural areas.

MFIL continues on a growth path…

MFIL's customer base and loan book grew by 30% and 58% respectively in FY17 with average loan size of just MMK183K ($134). The average loan size grew ~20% YoY leading to high loan growth. Though a high average ticket size growth could pose risks, we are not concerned as the average loan size is small at just ~$134 and see further scope of growth driven by loan size.

…asset quality remains strong

MFIL's PAR(1-30) and PAR30 remain at 0% highlighting strong asset quality. This is despite loan growth moderating slightly in FY17 to 58%YoY from 151%YoY in FY16. Its strong asset quality despite high growth in the past gives us comfort on the sustainability of growth and profitability of the company.

Strong growth drivers in place

- **Well capitalised –** MFIL is among the few MFIs in Myanmar which has access to institutional capital both in terms of debt and equity. MFIL has $2mn Kyat denominated debt facilities in place. We believe MFIL can raise additional debt as the loan book grows while the competition largely remains capital starved. Given the c17% spread between borrowing costs (c13%pa) and lending rates (30%) a further $10mn of borrowings will produce a c$1.7mn contribution to net interest income.
- **Group loans –** the core business of group lending continues to grow unabated. Management has advised that the recent slowdown in loan growth was whilst the debt facilities were being lined up and now that they are in place

growth should resume. As the country is coming from a low base the scope for a prolonged growth in group loans remains.

- **Individual loans –** MFIL has launched a micro-business individual loan product to complement the group loan product. We have always maintained that group loans are scalable up to a particular size as loan sizes cannot be increased perpetually. Moreover, as the client's business grows, the requirement of credit increases which cannot be fulfilled by group loans. We believe these individual loans will be a strong growth driver.
- **Low loan sizes –** MFIL's average loan size remains low at $134. We believe there is scope for loan sizes to grow without increasing credit risks leading to faster growth than customer base addition.
- **Branch expansion plans –** MFIL has added two branches in FY17 and increased the branch network to seven (four in Yangon and three in Bago). The company plans to open an additional branch in Yangon by May'17. We believe there is sizeable potential for branch expansion in the rest of Myanmar, which could sustain growth over next five to ten years.

MIL entering two additional promising sectors

MIL has signed two MOUs paving its entry to two promising sectors of consumer and tourism with strong growth tailwinds.

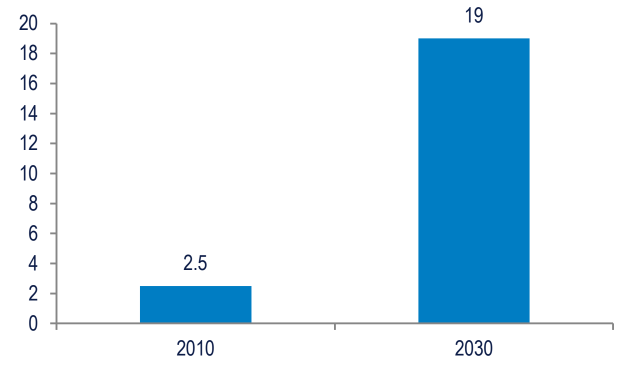
Greenfield pharmacy, healthcare and beauty products chain

MIL signed an MOU in February 2017 to set up a pharmacy, healthcare and beauty products joint venture in Myanmar. The two joint venture partners are (i) an experienced retail group (that runs over 50 pharmacy, health and beauty outlets in a neighbouring ASEAN country) and (ii) an industry veteran with significant experience leading Asian-based retail concepts including Wal-Mart in Korea and India, VinMart in Vietnam and Reliance Markets in India.

MIL is in the process of negotiating final terms with the joint venture partners and is aiming to finalise contracts for this investment within the next few months.

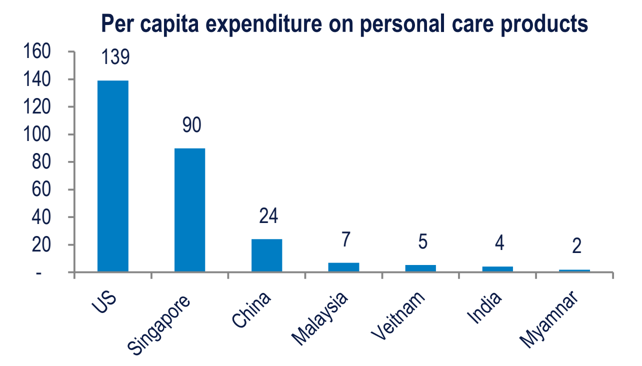
The prospects of a pharmacy, health and beauty products chain look promising given favourable demographics, increasing awareness for using western medicine and absence of quality pharmacy chains and growing consumer spending. McKinsey has predicted that the middle and affluent classes in Myanmar are set to boom in the coming years and this segment could grow to 19 million people by 2030, tripling consumer spending from US$35billion to US$100 billion.

Figure 3: Consuming (HH income >$10 per day) class is set to grow



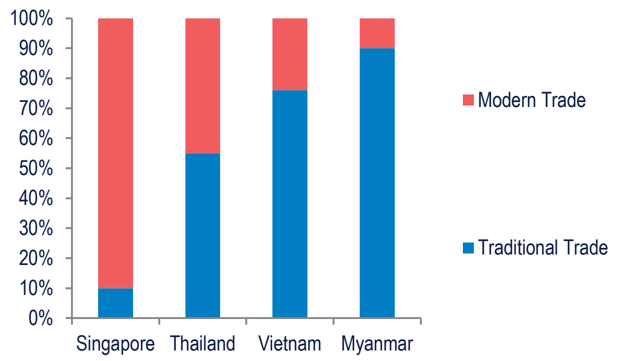
Source: McKinsey

Figure 4: Per Capita spend on personal care (USD, 2014)



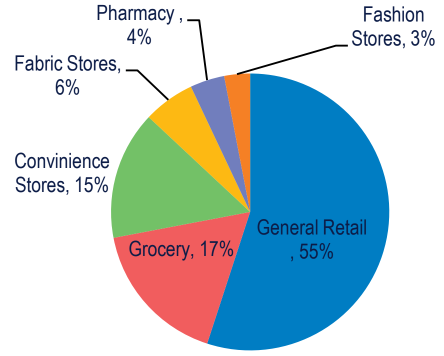
Source: US Department of Commerce estimates, Neilson

Figure 5: Myanmar retail sector is largely traditional



Source: Nielsen

Figure 6: Existing Pharmacy retail stores have very little market share



Source: Nielsen

Joint venture with an existing tour operator

In March 2017, MIL signed an MOU with a well-established and profitable local tour operator/travel agent to set up a joint venture company that will develop the business further as well as invest in tourism related assets.

The tourism sector in Myanmar is experiencing rapid growth with the number of arrivals growing at a CAGR of 40% between 2010 and 2016 to six million and continued growth over the next several years.

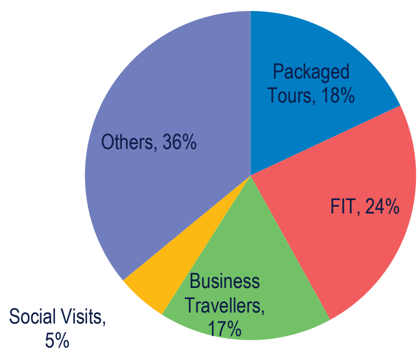
MIL is in the process of negotiating final terms and is aiming to finalise contracts for this investment within the next few months.

The existing tour operator and travel agency business that will be injected into the joint venture is well-established and profitable and will act as a spring board for further investments that will benefit from the growth in tourist arrivals.

Figure 7: Tourist arrival to Myanmar is growing

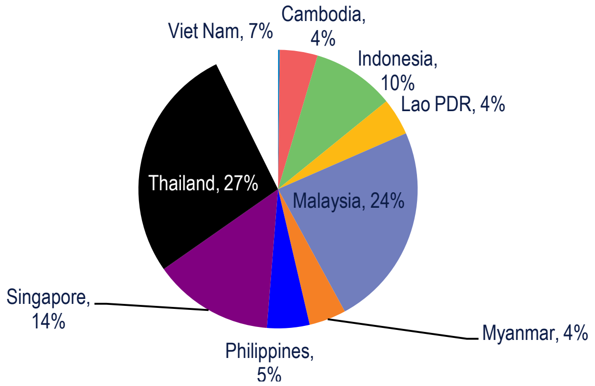
Source: Ministry of Hotels & Tourism Myanmar

Figure 8: Package tours form just 18% of foreign tourists in Myanmar



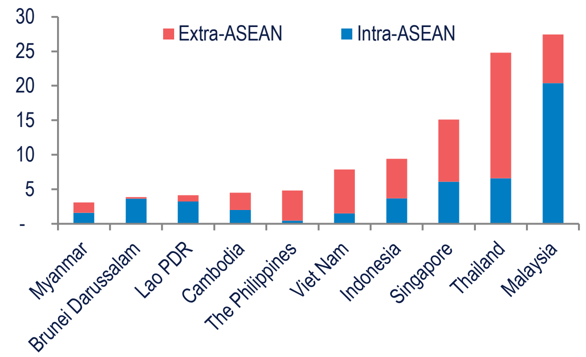
Source: Ministry of Hotels & Tourism Myanmar

Figure 9: Myanmar has 3% share in tourist arrivals to ASEAN (2015)



Source: ASEAN tourism statistics database

Figure 10: Myanmar has substantial potential to attract tourists



Source: ASEAN tourism statistics database

MIL's pipeline offers even more of the same

Leveraging off its network of relationships in Myanmar and the immediate Asia region, MIL has built up a pipeline of business opportunities which exploit an acute imbalance between the supply and demand of investment funding in their various sectors. Many of these potential investee businesses are in either the consumer or capacity-constrained sectors.

Many of the consumer opportunities offer the prospect of a modest initial investment with potential to scale-up once the business model has been proven, similar to the pharmacy MOU joint venture. The rise in spending power of the middle and affluent class in Myanmar makes this a very attractive sector, in our view.

Capacity-constrained opportunities benefit from the ability to partner with proven international operators as well as introduce significant offshore-sourced leverage, both of which MIL is able to source.

MIL is looking specifically at identified opportunities in the healthcare, retailing, fintech and traditional financial services platforms, technology and energy sectors.

Valuation

We value MIL on Net Asset Value basis ascribing the following valuations to its two investments – Apollo Towers and MFIL. MIL's stake in Apollo is valued at $42.6mn ($1.39 per share) and MFIL is valued at $6.0mn ($0.2 per share). Cash on balance sheet is $3.2mn ($0.1 per share). We arrive at a net valuation of $1.7 per share.

Table 3: MIL – SOTP Valuations

Segment	Valuation	MIL's stake	Value of stake	Value per share	Comments
Apollo Towers	458	9.3%	42.6	1.4	EV per tower of $0.23mn
MFIL	16.0	37.5%	6.0	0.2	3.0x FY19E Net worth
Cash	3.2	100%	3.2	0.1	1x Cash balance
Total Value			51.8	1.7	

Source: Investec Securities estimates

Target Price Basis

Net Asset Value basis; Sum-of-the-Parts (SOTP) valuation of holdings

Key Risks

Large trade deficit, with high dependence on Gas; Exchange rate risk; Tensions due to conflict between ethnic groups

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	Expected total return 12m performance	Count	All stocks % of total	Corporate stocks Count	Corporate stocks % of total
Buy	greater than 10%	200	64%	88	44%
Hold	0% to 10%	87	28%	5	6%
Sell	less than 0%	25	8%	0	0%

Source: Investec Securities estimates

Stock ratings for Indian stocks — Stock ratings for research produced by Investec Bank plc

	Expected total return 12m performance	Count	All stocks % of total	Corporate stocks Count	Corporate stocks % of total
Buy	greater than 15%	62	64%	1	2%
Hold	5% to 15%	23	24%	0	0%
Sell	less than 5%	12	12%	0	0%

Source: Investec Securities estimates

Stock ratings for African* stocks — Stock ratings for research produced by Investec Securities Limited

	Expected total return 12m performance	Count	All stocks % of total	Corporate stocks Count	Corporate stocks % of total
Buy	greater than 15%	34	47%	5	15%
Hold	5% to 15%	24	33%	2	8%
Sell	less than 5%	14	19%	2	14%

Source: Investec Securities estimates

*For African countries excluding South Africa, ratings are based on the 12m implied US dollar expected total return (ETR). This is derived from the expected local currency (LCY) ETR by making assumptions on the 12month forward exchange rates for the respective currencies. For South African stocks, ratings are based on the ETR in rand terms.

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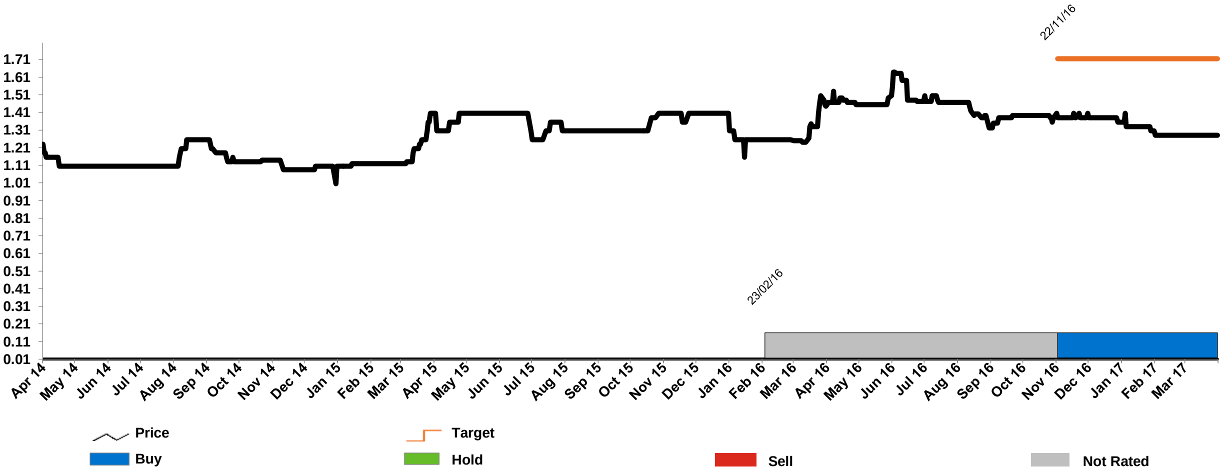
Recommendation history (for the last 3 years to previous day's close)

Myanmar Investments International (MILM.L) – Rating Plotter as at 21 Apr 2017



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