Telecommunications

Much Work Ahead of Us

Neutral

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MCMC hosted an analysts' briefing, chaired by its Chairman, Dr Fadhlullah Suhaimi to discuss several communications and multimedia related-matters, particularly with regards to JENDELA (Jalinan Digital Negara). Positioned as an industry-led initiative, MCMC highlighted that the targets set are the aspirations of industry players, as opposed to previous goals which were set by regulators. Our key take on the RM21b plan is boosting the efficiency of the national infrastructure and optimising of spectrum usage. Going through the Covid-19 induced MCO has also exposed several limitations to industry capabilities, especially in maintaining network performance for a more home-bound population. To recap, main deliverables by 2022 are to: (i) increase the number of premises passed to 7.5m (from 4.95m at present), (ii) widen national 4G coverage in populated areas to 96.9% (currently 92.0%), and (iii) to achieve average mobile broadband speeds of 35 Mbps (from 25 Mbps). We maintain our NEUTRAL rating on the sector with no changes to our existing calls. TM (OP; TP: RM4.95) continues to be our top pick for the sector as a safer bet against the highly competitive mobile landscape. Its cost efficiencies should also translate to a more cash-rich book, potentially fuelling management's ambition to be more yield-centric.

1HCY20 held up fairly well. The Covid-19 induced MCO in March 2020 left the nation with only selected businesses allowed to operate which coupled with movement restrictions left the economic activity at a virtual standstill. That said, the telecommunications industry proved resilient given the highly essential nature of its services. While industry players saw some shifts in their Postpaid/Prepaid mix and ARPUs with it, total subscriptions at 1HCY20 stood at 43.4m (closely similar to 1HCY19), with some set-backs from lower foreign subscriptions and multiple sim card users, presumably to save cost. On the flipside, fixed line subscriptions (+6% vs 1HCY19) persisted to grow as broadband plans became more necessary due to higher home-bound arrangements.

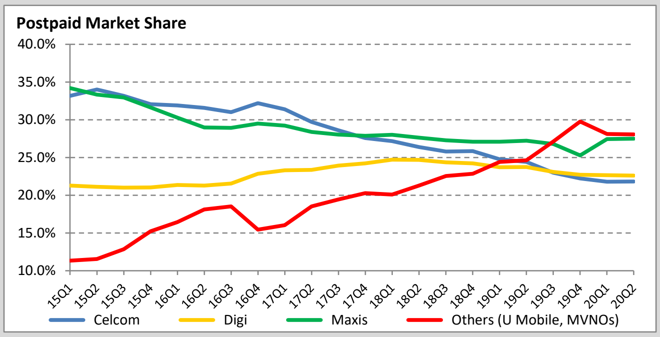
In this together. Of the RM21b budgeted for JENDELA, 40% is derived from MCMC's Universal Service Provision (USP) funds with the remaining 60% is to be funded by industry players. In clarifying, JENDELA does not demand additional capex from telcos and its ambitions have been laid out according to the existing capex plans of the telcos. That said, to achieve the new objectives, some plans have been accelerated which we reckon are for more urgent maintenance works and expansion in high traffic zones from the concentrated surge of usage in residential areas. For its part, MCMC will help to manage the delivery of JENDELA's targets by telcos by setting up a Specialised Project Management Service unit where it will closely monitor industry progress with respective managements and provide solutions to resolve any hiccups. With regards to achieving a national coverage of 96.9% by 2022, MCMC represented that it would be spearheaded by existing market leaders (Celcom, Digi, Maxis, U Mobile). Meanwhile, the fibre network expansion of up to 7.5m premises will likely be helmed by broadband leaders (TM, TIMECOM, Maxis).

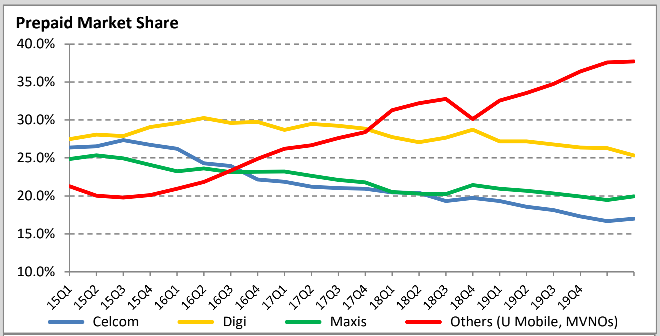
Spectrum in the belt for now. Dr Fadhlullah highlighted that MCMC will be withholding further spectrum allocation for the time being, prioritising for incumbents to optimise the use of its existing spectrums. The awarded-then-retracted 700MHz spectrum is expected to be brought back into discussion only when the JENDELA targets are achieved, as MCMC hopes for more effective network coverage via technological adoption. The spectrum which was previously allocated for the national 5G network could also be veered into improving the 4G network. The shutdown of the 3G network by 2021 (freeing up the 900MHz and 2100MHz bands) could also be used to relieve network capacity and further boost 4G coverage, if needed.

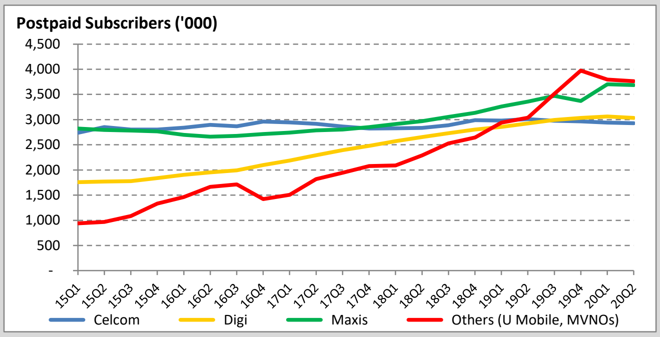
NEUTRAL view maintained. Overall, the JENDELA initiative could bring more benefits to consumers as the necessity of 5G in the country might not be that urgent at the moment. On hindsight, building a stronger backbone would enhance the national 5G preparedness and enable a more seamless adoption. Also, as network capabilities become more all-encompassing, it is possible that we could see greater converged offerings in the future. For the time being, the industry is challenged by affordability being a pressing concern for consumers and loss of customers (namely enterprises) which could be a result of slowing economic activity. For that, **TM (OP; TP: RM4.95)** stays as our favourite pick for the sector, as the fixed-line/broadband space stands on firmer ground against heavy price competition in the mobile space. Additionally, on the path of wider premise coverage as outlined in JENDELA, TM could be poised to tap into a wider market share. We also anticipate TM to be more cash accretive from cost saving initiatives anticipated from potential plans by new management. We envisage these to include contract re-negotiations with vendors and manpower re-organisation to boost efficiencies in certain business units. Additionally, though only likely down the longer road ahead, TM could play a meaningful role in the eventual deployment of the 5G network on the back of its extensive fibre network to support its backhaul.

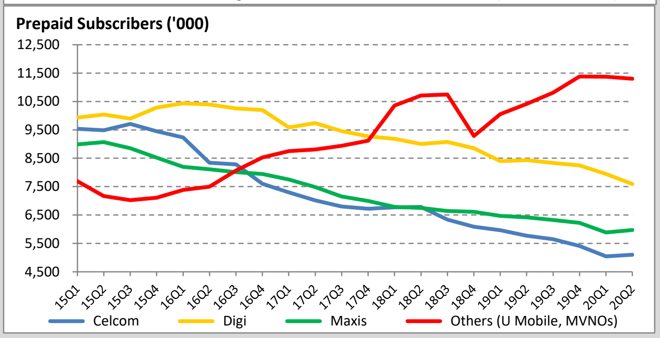
Appendix

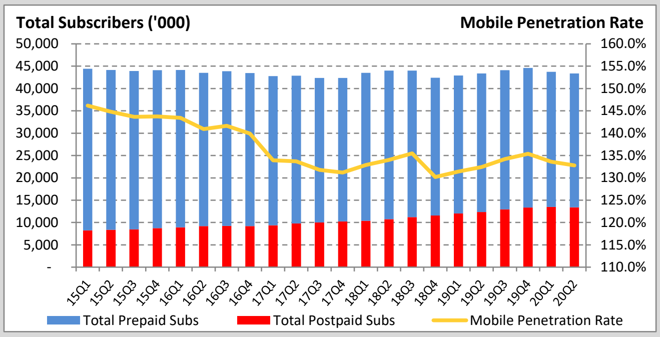
1H20 Mobile Market Share and Penetration Rate





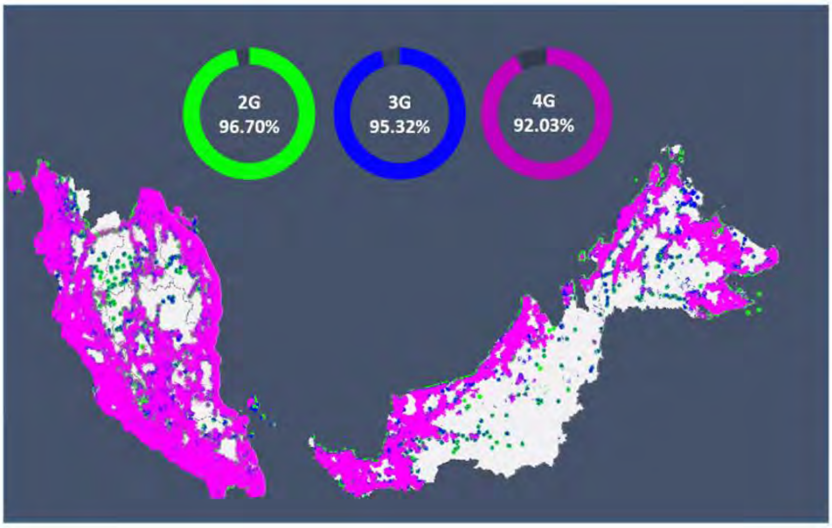






Source: MCMC, Companies, Kenanga Research

Mobile coverage in populated areas

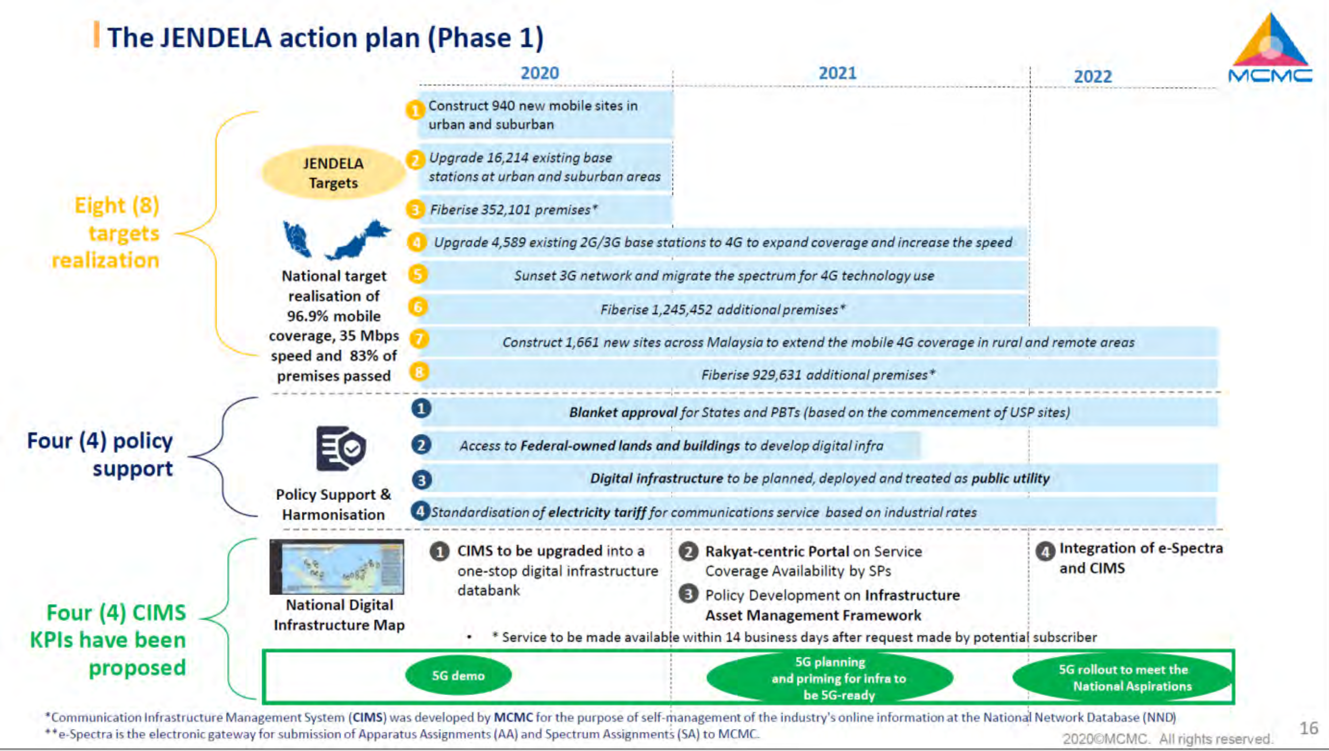


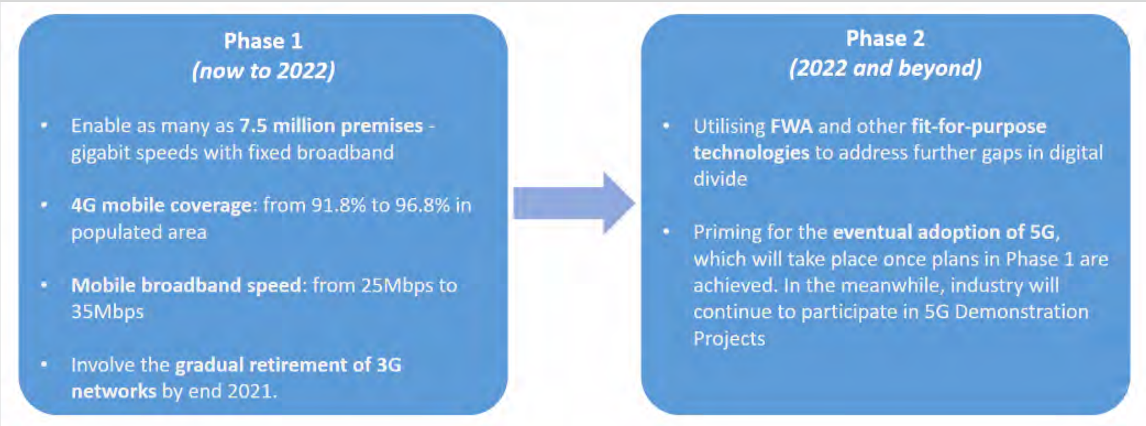
STATE	2G Coverage in Populated Area (%)	3G Coverage in Populated Area (%)	4G Coverage in Populated Area (%)
JOHOR	99.20	98.93	98.28
KEDAH	99.11	97.63	93.56
KELANTAN	97.84	95.98	91.87
MELAKA	100.00	99.80	98.82
N. SEMBILAN	99.33	97.92	96.18
PAHANG	95.10	92.57	89.10
PERAK	97.50	96.30	94.71
PERLIS	99.92	99.46	96.94
PULAU PINANG	100.00	99.78	99.58
SABAH	88.30	84.07	73.41
SARAWAK	88.10	84.62	73.67
SELANGOR	99.80	99.69	99.48
TERENGGANU	97.80	95.52	93.68
W.P. KUALA LUMPUR	100.00	100.00	100.00
W.P. LABUAN	97.70	98.00	97.40
W.P. PUTRAJAYA	100.00	100.00	100.00
Overall	96.70	95.30	92.03

** MCMC notes that Wilayah Persekutuan and Putrajaya registers 100% coverage for 2G, 3G and 4G*

Source: MCMC

JENDELA Action Plan





Source: MCMC

Peer Table Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net DivYld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
Stocks Under Coverage																	
AXIATA GROUP BHD	3.33	30,534.5	Y	12/2020	-10.0%	-2.9%	-44.7%	2.4%	31.8	57.4	56.1	1.4	1.4	2.4%	1.7%	3.20	MP
DIGI.COM BHD	4.03	31,333.3	Y	12/2020	-8.2%	6.7%	-16.5%	6.5%	20.1	24.1	22.6	47.5	47.4	196.8%	4.1%	4.25	OP
MAXIS BHD	5.15	40,288.6	Y	12/2020	-2.0%	5.2%	0.8%	3.0%	26.8	26.6	25.9	5.7	5.5	21.0%	3.1%	4.90	MP
OCK GROUP BHD	0.435	417.0	N	12/2020	5.2%	9.7%	7.8%	13.2%	14.8	13.8	12.2	0.7	0.7	5.1%	0.0%	0.610	OP
TELEKOM MALAYSIA BHD	4.39	16,566.3	Y	12/2020	-11.4%	3.5%	-10.5%	8.8%	16.6	18.5	17.0	2.5	2.4	13.3%	3.0%	4.95	OP
Simple Average					**-5.3%**	**4.5%**	**-12.6%**	**6.8%**	**22.0**	**28.1**	**26.7**	**11.6**	**11.5**	**47.7%**	**2.4%**		
Stocks Not Under Coverage																	
TIME DOT COM BHD	13.40	8,097.1	Y	12/2020	10.0%	8.6%	5.0%	8.8%	24.9	23.7	21.8	2.8	2.7	11.6%	2.2%	14.00	Trading Buy

Source: Kenanga Research

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Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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