

13 July 2023

Telecommunications

OVERWEIGHT

So Far So Good and Can Only Get Better

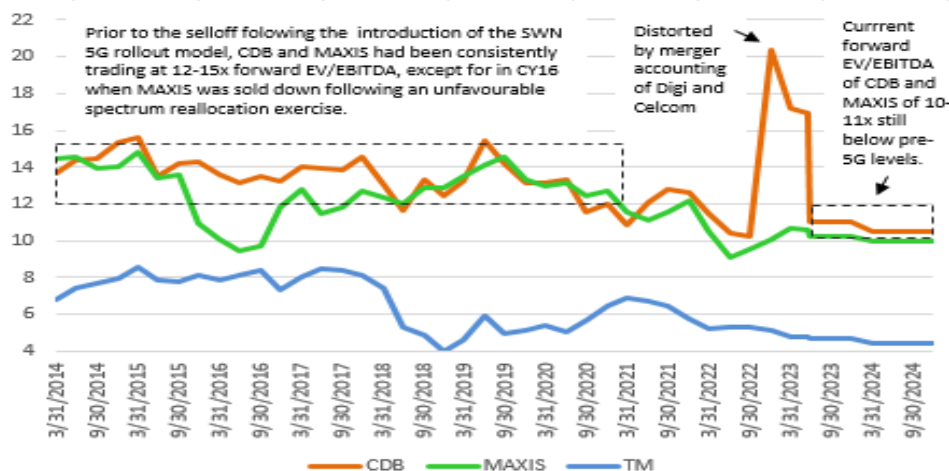


By Ahmad Ramzani Ramli | ahmadramzani@kenanga.com.my

We maintain OVERWEIGHT on the sector. Despite the significant outperformance in 1HCY23, valuations of key players are still noticeably below levels prior to the selloff triggered by the introduction of the Single Wholesale Network (SWN) model for the 5G roll-out in Malaysia in late-CY21. We see room for upwards valuation re-rating as the plan for a second 5G network firms up under the new market-driven Dual Network model. Also, backed by the break-neck speed of technological advancement in telecommunications resulting in faster speed and wider coverage but at cheaper cost, the demand for broadband Internet and mobile communications will continue to rise regardless of economic cycles. Our sector top picks remain CDB (OP; TP: RM5.15) and MAXIS (OP; TP: RM5.30).

We hold the view that the sector's fundamentals have improved significantly following the government's decision to abandon the monopolistic SWN model for the 5G roll-out, replacing it with a more market-driven Dual Network model which is very likely to result in lower 5G access charges. Despite their strong share price performance YTD, most telcos under our coverage universe are still trading at a steep discount to their historical average EV/EBITDA. CDB and MAXIS currently trade at 10x-11x forward EV/EBITDA vs. 12x-15x historically. Similarly, TM (OP; TP: RM6.23) currently trades at 4x-5x forward EV/EBITDA vs. 6x-8x historically (see Exhibit 1).

Exhibit 1: Historical and Forecast 1-Year Forward EV/EBITDA of Key Players (x)



Source: Bloomberg, Kenanga Research

We see room for valuations to re-rate upwards further as the plan for a second 5G network firms up under the new market-driven Dual Network model. Also, backed by the break-neck speed of technological advancement in telecommunications resulting in faster speed and wider coverage but at cheaper cost, the demand for broadband Internet and mobile communications will continue to rise regardless of economic cycles.

The last few years have seen an unwavering commitment to build a robust digital infrastructure that is vital to Malaysia's digital transformation and the push for Industry Revolution 4.0. Under JENDELA, the digital transformation includes bridging the digital divide for rural, urban and B40 communities. At the same time, vital facilities are built, skills training enhanced in the hope everyone will have the opportunity to flourish in the digital economy.

Seamless and efficient network connectivity has evolved into a necessity of modern life given increased digitalization in business and everyday life. Technological advancement in telecommunications can lower the cost of doing business, as well as enabling families and individuals to enjoy cheaper entertainment in the comfort of their homes. According to the government's projection, a digital economy with adoption of e-commerce amongst MSME (medium and small micro-entrepreneurs) can result in a 30% uplift in productivity. By 2025, Malaysia's digital economy is expected to contribute 23% to the GDP and create half a million jobs.

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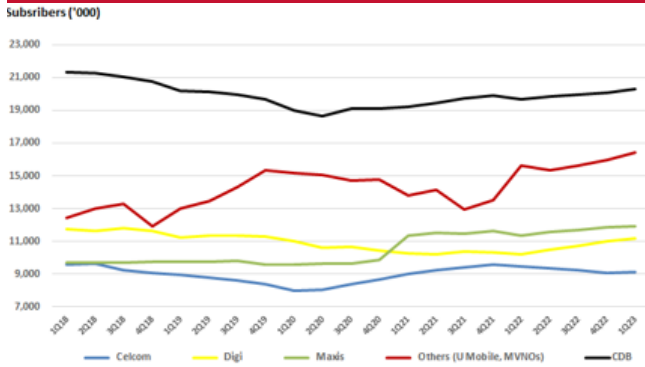
Our view of resilient earnings coming from a robust demand remains intact. Demand for connectivity will be supported by a rising population, wider and better coverage, and affordability in pricing. Thank to competitive pricing, widening coverage and expeditious technology, both mobile and broadband has seen consistent low to mid-single digit growth in subscribers, since 2018. The importance of connectivity saw internet traffic increased by 30-70% during the pandemic with residential internet traffic in residential areas up by 50%. At present Malaysians have access to average mobile broadband speed of 116 Mbps with 7.7m premises enjoying access to fibre connectivity. JENDELA 2 is expected to see up to 9m premises enjoying fibre connectivity with a consistent internet speed of 116 Mbps (above JENDELA's original target of 100 Mbps in Phase 2). Network related complaints are down by 68% in 2022 as consumers enjoy better and improved experience. An independent consultant rated **CDB** top in overall speed, consistency and consumer experience. Meanwhile, **MAXIS** led in video experience and stayed in the top three in terms of upload speed, availability and consistency. Following the introduction of the Unity package and revision to the MSAP recently, consumers can enjoy attractive prices for their telecommunication needs, while telcos benefit from higher subscriptions.

Our sector top picks are **CDB (OP; TP: RM5.15)** and **MAXIS (OP; TP: RM5.30)**.

We like CDB for the following reasons: (i) it is the market leader in the mobile market with a combined market share of 42%, (ii) it offers the best of both worlds - Celcom's wide network and DIGI's niche in urban areas (Celcom's 4G and 4G+ cover 96% and 90% of the population, while DIGI's 4G and 4G+ are at 95% and 80%, respectively), (iii) its competitive pricing and attractive bundling to attract migrant, domestic customers and the B40, (iv) superior EBITDA margins of both DIGI and Celcom of 48% which is above the industry average of 44%, and (v) the roll-out of 5G will boost subscribers given MAXIS's absence in this space currently.

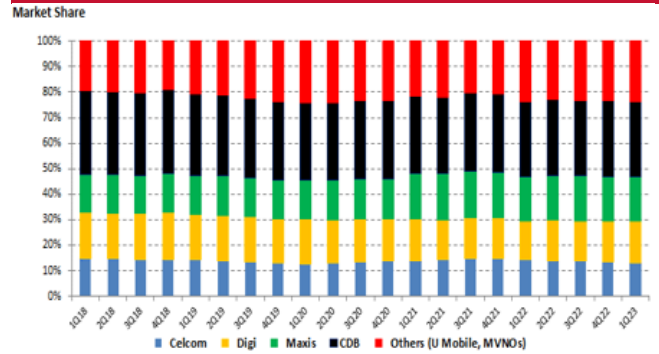
We are positive on **MAXIS** given: (i) its strong branding and customer loyalty, especially in the premium segment, and (ii) the resilient demand for its services as it is ahead of its competitors in terms of putting up new 4G towers, fiberisation of premises and upgrading of existing towers, thus boosting its B2B revenue as both corporates and SMEs continue to upgrade their digitalisation, and (iii) its potentially lower 5G access cost.

Exhibit 2: Subscribers



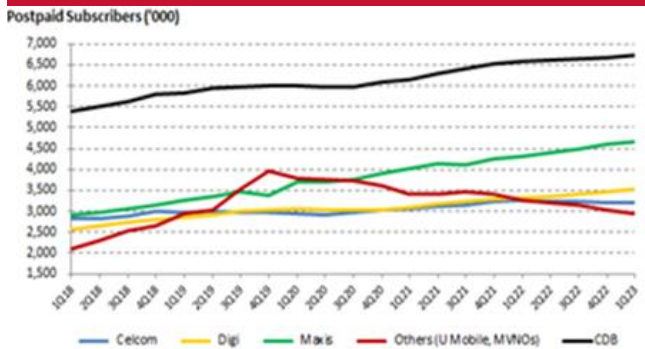
Source: MCMC, Companies, Kenanga Research

Exhibit 3: Market Share



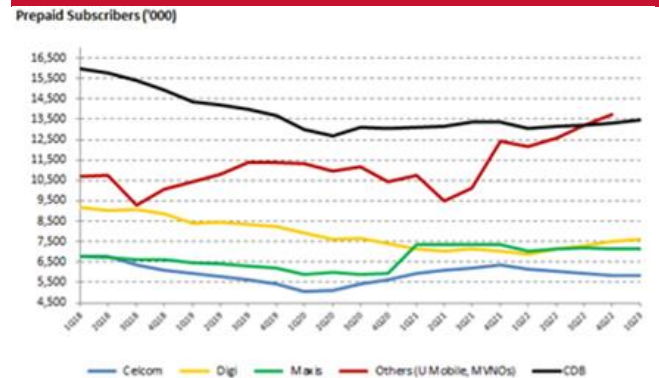
Source: MCMC, Companies, Kenanga Research

Exhibit 4: Postpaid Subscribers



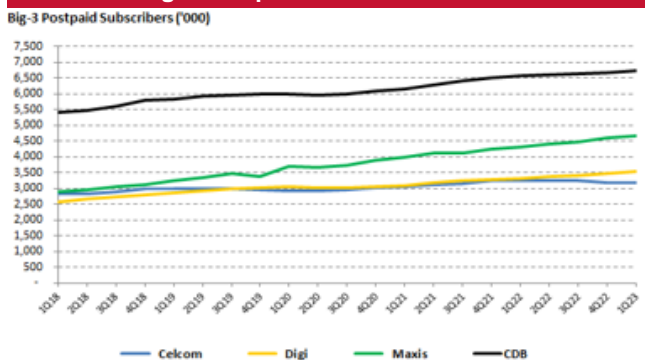
Source: MCMC, Companies, Kenanga Research

Exhibit 5: Prepaid Subscribers



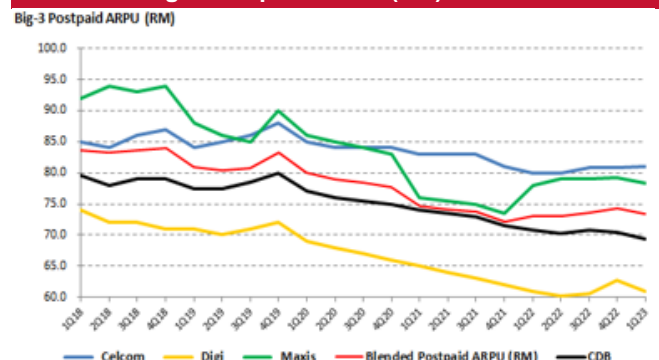
Source: MCMC, Companies, Kenanga Research

Exhibit 6: Big-3 Postpaid Subscribers



Source: MCMC, Companies, Kenanga Research

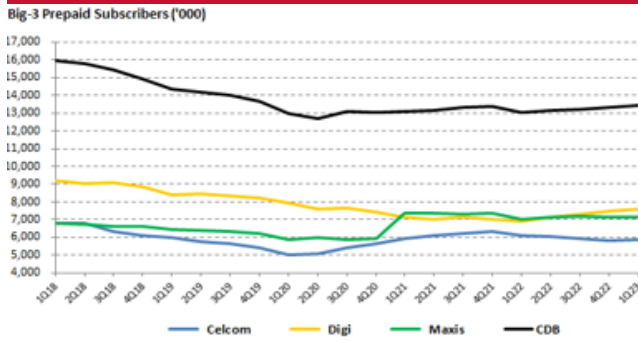
Exhibit 7: Big-3 Postpaid ARPU (RM)



Source: MCMC, Companies, Kenanga Research

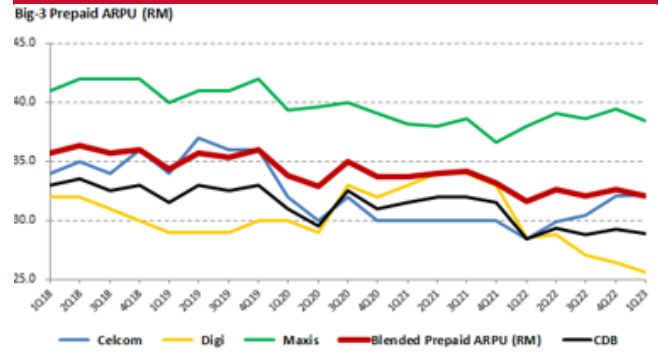
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Exhibit 8: Big 3 Prepaid Subscribers



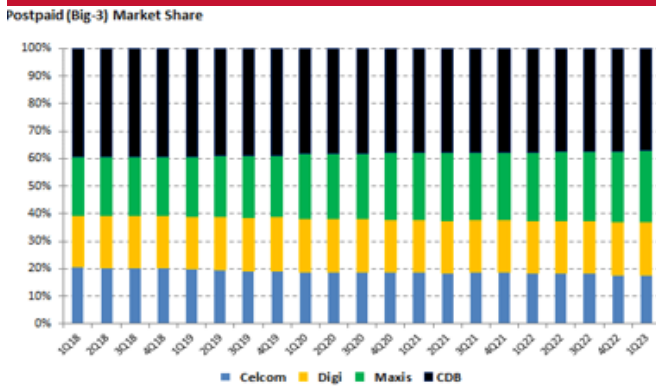
Source: MCMC, Companies, Kenanga Research

Exhibit 9: Big-3 Prepaid ARPU (RM)



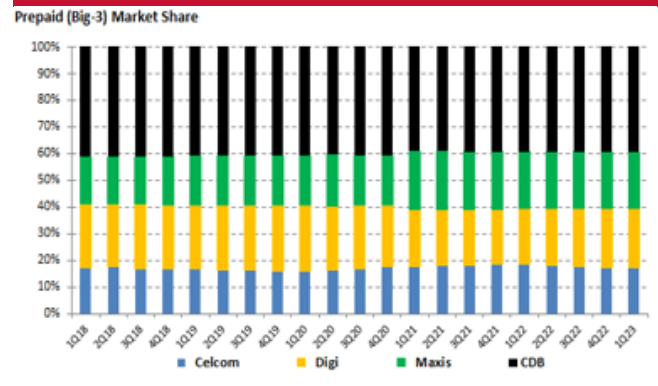
Source: MCMC, Companies, Kenanga Research

Exhibit 10: Postpaid Market Share



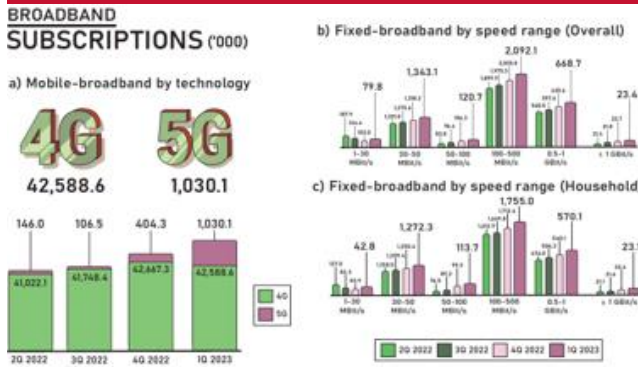
Source: MCMC, Companies, Kenanga Research

Exhibit 11: Prepaid Market Share



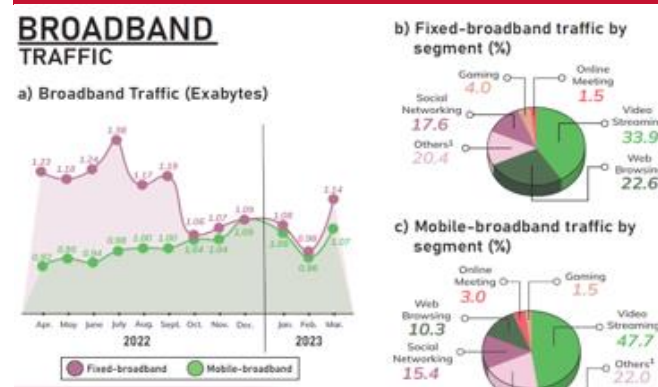
Source: MCMC, Companies, Kenanga Research

Exhibit 12: Broadband – Subscriptions & Traffic



Source: MCMC

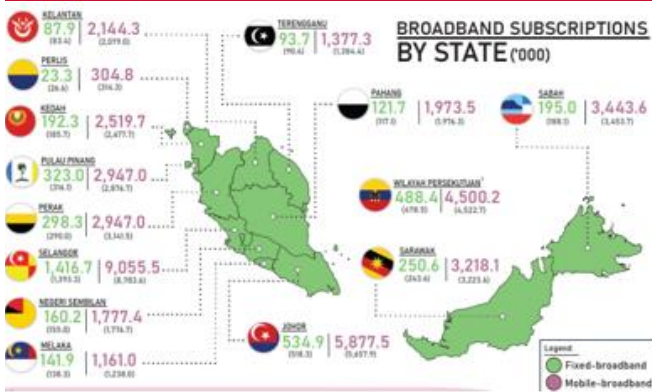
Exhibit 13: Broadband – Traffic & Segment



Source: MCMC

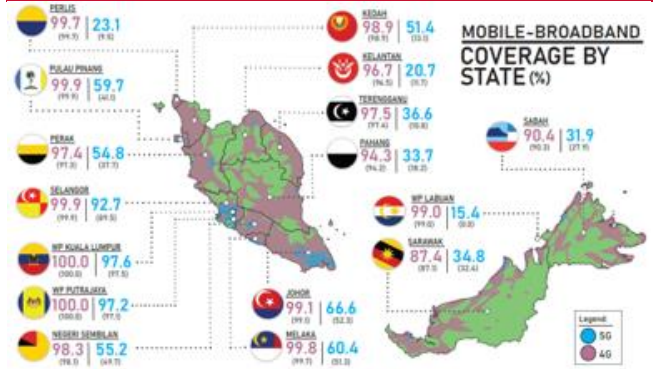
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Exhibit 14: Broadband – By State



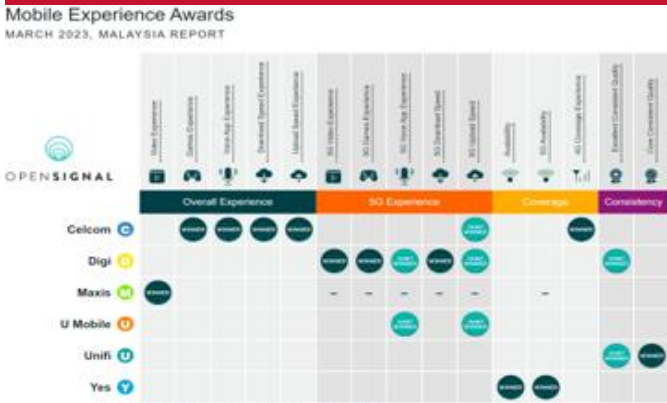
Source: MCMC

Exhibit 15: Broadband Coverage by State %



Source: MCMC

Exhibit 16: Malaysia's Mobile Experience



Source: OPENSIGNAL

Exhibit 17: Malaysia's revised 5G roll-out timeline

- End-2021** Launched 5G in Putrajaya, Cyberjaya and selected areas in Kuala Lumpur.
- 2022** Deployed 5G in 5 major cities and districts in Selangor, Penang, Johor, Sabah and Sarawak – 47 % nationwide coverage achieved.
- 2023** Achieve 80% 5G population coverage.
- 2024** Launch of 2nd 5G Network
- 2024-?** >90% coverage in populated areas.

Source: DNB, Kenanga Research, MCMC

Exhibit 18: SectorValuations 1: Valuations

Company	Valuation Basis	FY24 EV/EBITDA (x)	TP (RM)	Recommendation
AXIATA	Sum-of-parts (refer below)		4.18	OP
CDB	EV/EBITDA	12.0	5.15	OP
MAXIS	EV/EBITDA	12.0	5.30	OP
OCK	EV/EBITDA	7.0	0.73	OP
TM	EV/EBITDA	5.5	6.23	OP

Source: Kenanga Research

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Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
STOCKS UNDER COVERAGE																	
AXIATA GROUP BHD	OP	2.56	4.18	63.3%	23,498.1	Y	12/2023	9.5	10.5	-45.0%	10.3%	26.9	24.4	1.3	4.1%	12.0	4.7%
CELCOMDIGI BHD	OP	4.24	5.15	21.5%	49,741.6	Y	12/2023	10.6	8.7	3.8%	-18.2%	39.8	48.7	3.0	7.6%	9.0	2.1%
MAXIS BHD	OP	4.04	5.30	31.2%	31,641.6	Y	12/2023	17.2	16.7	14.1%	-3.2%	23.4	24.2	5.0	20.3%	16.0	4.0%
OCK GROUP BHD	OP	0.400	0.730	82.5%	421.9	Y	12/2023	3.6	5.4	13.6%	49.3%	11.0	7.4	0.6	6.3%	0.5	1.3%
TELEKOM MALAYSIA BHD	OP	4.89	6.23	27.4%	18,689.5	Y	12/2023	30.5	32.1	0.6%	5.3%	16.0	15.2	2.2	13.7%	17.0	3.5%
SECTOR AGGREGATE					123,992.6					-9.5%	-2.1%	26.6	27.2	2.4	10.4%		3.1%

Source: Bloomberg, 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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