

12 September 2023

Telecommunications

2QCY23 Report Card: Positive Earnings Signals

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OVERWEIGHT



We remain **OVERWEIGHT** on the telecommunications sector. There was a slight sequential improvement in earnings delivery (against our expectations) by the sector in the recently-concluded 2QCY23 results season. Similarly, operationally, all players saw improvement in subscription and ARPU, both locally and regionally. We view positively the change in the roll-out model for 5G services in Malaysia to a more market-driven dual network model, from a monopolistic single wholesale network model. Our sector top picks are **CDB (OP; TP: RM5.06)**, **MAXIS (OP; TP: RM5.30)** and **OCK (OP; TP: RM0.73)**.

Better earnings delivery. There was a slight sequential improvement in earnings delivery (against our expectations) by the sector in the recently-concluded 2QCY23 results season with 20%/60%/20% coming in above/within/below our forecasts vs. 60%/40% coming in within/below in the preceding quarter (see table on Page 2). **TM (OP; TP: RM6.23)** beat expectations on higher-than-expected tax credit utilised. **AXIATA (OP; TP: RM3.60)** disappointed given the higher-than-expected depreciation and funding costs, notably from its regional operating companies. There was a surprise in terms of dividend payments - **CDB**, **MAXIS** and **TM** declared higher DPS for the quarter (5%, 3% and 14% YoY, respectively), and **CDB** reiterated its commitment to giving out a higher progressive dividend in FY23. The telcos as a whole saw resilient top line growth in 2QCY23, driven by the reopening of the domestic and regional economies as life returned to normalcy, coupled with consumers embracing digitalisation on affordable and flexible packages and as they increasingly use digital platforms to socialise, look for entertainment and perform tasks. In the meantime, business and enterprises are accelerating their digitalisation for sustainable growth.

Operating numbers remained resilient. Subscribers' growth saw improvements YoY both regionally and domestically. **AXIATA's** subscription was boosted by DIALOG (Sri Lanka) and Robi (Bangladesh), growing at 3% and 3%, respectively, despite inflationary pressures. Local subscribers for **CDB** and **MAXIS** saw 3% and 2% uptick, respectively, with **CDB's** subscriptions underpinned by Digi (+7%). Domestic market ARPUs remained resilient YoY (both postpaid and prepaid). **AXIATA's** blended ARPU was mixed with XL and Robi showing improvement YoY (+8% and +18%, respectively) but Dialog and Ncell declined (-1% and -6%, respectively). In the broadband subscription, **TM** was still ahead of the pack in terms of market share followed by **MAXIS** but both CDB and MAXIS's subscribers surged, 25% and 15%, respectively. Broadband ARPUs were still robust but **TM** might suffer erosion once the revised MSAP is implemented.

No let-up in wider and efficient coverage. We remain positive on the sector's outlook premised on resilient demand from both consumers and business, locally and regionally. Players like **CDB** looks set to benefit from return of migrant workers, wider coverage and larger Point of Presence. Demand for local mobile and broadband will be supported by wider and efficient coverage with the start of Phase 2 of the Jendela initiative. The promise of a 80% COPA and JENDELA 2 will accelerate demand further with players like **AXIATA** and **OCK** benefitting from the construction, upgrading and fiberization of towers.

We reiterate our **OVERWEIGHT** call for the sector as we believe valuations are still undemanding as we view positively the change in the roll-out model for 5G services in Malaysia to a more market-driven dual network model from a monopolistic single wholesale network model, wider and efficient coverage and affordable and flexible packages for consumers. Our top picks are:

- **CDB** for: (i) being an entity that will become well entrenched in the public sector and migrant worker space, dominating the mobile market share at 43% and dwarfing other MNOs, (ii) its competitive pricing and attractive bundling to attract migrant and domestic customers and (iii) its foothold in the roll-out of 5G base from its nearest competitor and at affordable and flexible packages.
- **MAXIS** for: (i) its expanded 4G coverage, (ii) its 5G roll-out where its interim access costs would likely be lower than peers, (iii) its 5G roll-out attracting both corporates and SMEs as they accelerate their digitalisation into the digital age, (iv) its margins that are likely to improve on account of higher-end products and services being offered, and (v) brand loyalty from its premium customers.
- **OCK** for: (i) the tremendous growth opportunities in the telco infrastructure space both at home and abroad especially in the under-served areas, (ii) being well positioned to benefit from Jendela 2 and 5G roll-out domestically and other ASEAN markets, (iii) its earnings stability and visibility with about 53% of its revenue being recurring from telco tower maintenance and telco tower leasing, and (iv) its potential expansion to other new markets in the region i.e. Indochina, Kalimantan and the Philippines.

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Quarterly Results Performance

	2QCY23						1QCY23					
	KENANGA			CONSENSUS			KENANGA			CONSENSUS		
	Above	Within	Below	Above	Within	Below	Above	Within	Below	Above	Within	Below
AXIATA			1			1			1			1
CDB		1				1			1			1
MAXIS		1			1			1			1	
OCK		1			1			1			1	
TELEKOM	1			1				1			1	
Total	1	3	1	0	3	2	0	3	2	0	3	2
Total (%)	20	60	20	0	60	40	0	60	40	0	60	40

Source: Kenanga Research, Bloomberg

Table 1: Mobile Subscribers ('000)

	2QCY22	3QCY22	4QCY22	1QCY23	2QCY23
CELCOM	9,295	9,171	9,015	9,057	9,091
DIGI	10,492	10,698	10,970	11,127	11,272
MAXIS	11,547	11,666	11,738	11,789	11,753
CDB	19,787	19,869	19,985	20,184	20,363

Source: Companies

Table 2: Mobile Subscribers ('000) - PostPaid

	2QCY22	3QCY22	4QCY22	1QCY23	2QCY23
CELCOM	3,249	3,249	3,200	3,198	3,195
DIGI	3,364	3,403	3,472	3,528	3,576
MAXIS	4,398	4,478	4,591	4,663	4,721
CDB	6,613	6,652	6,672	6,726	6,771

Source: Companies

Table 3: Mobile Subscribers ('000) - PrePaid

	2QCY22	3QCY22	4QCY22	1QCY23	2QCY23
CELCOM	6,046	5,922	5,815	5,859	5,896
DIGI	7,128	7,295	7,498	7,599	7,696
MAXIS	7,149	7,188	7,147	7,126	7,032
CDB	13,174	13,217	13,313	13,459	13,592

Source: Companies

Table 4: AXIATA OpCos Mobile Subscribers ('000)

	2QCY22	3QCY22	4QCY22	1QCY23	2QCY23
XL (Indonesia)	57,234	57,348	57,476	57,890	58,048
Dialog (Sri Lanka)	17,127	17,201	17,379	18,112	17,930
Robi (Bangladesh)	54,530	54,361	54,404	55,572	56,352
Ncell (Nepal)	16,817	17,213	17,145	16,929	16,707

Source: Companies

Table 5: AXIATA OpCos Blended ARPU (RM)

	2QCY22	3QCY22	4QCY22	1QCY23	2QCY23
XL (Indonesia)	39	40	40	40	42
Dialog (Sri Lanka)	375	389	398	373	370
Robi (Bangladesh)	124	129	133	138	146
Ncell (Nepal)	199	189	180	176	188

Source: Companies

Table 6: Postpaid ARPU (RM)

	2QCY22	3QCY22	4QCY22	1QCY23	2QCY23
CELCOM	80	81	81	81	80
DIGI	60	61	63	61	60
MAXIS	79	79	79	78	78
CDB	70	71	70	69	68

Source: Companies

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Table 7: Prepaid ARPU (RM)

	2QCY22	3QCY22	4QCY22	1QCY23	2QCY23
CELCOM	30	30	32	32	32
DIGI	29	27	26	26	26
MAXIS	39	39	39	38	38
CDB	29	29	29	29	29

Source: Companies

Table 8: Broadband Subscribers ('000)

	2QCY22	3QCY22	4QCY22	1QCY23	2QCY23
CELCOM	70	70	71	71	73
DIGI	21	25	30	36	41
MAXIS	586	605	627	651	673
CDB	91	95	101	107	114
TM	3,412	3,428	3,448	3,451	3,445

Source: Companies

Table 9: Broadband ARPU (RM)

	2QCY22	3QCY22	4QCY22	1QCY23	2QCY23
CELCOM	123	122	122	124	124
DIGI	127	130	130	132	133
MAXIS	111	110	110	108	108
CDB	124	124	124	126	127
TM	135	131	131	132	132

Source: Companies

Table 10: Sector Valuations abTabTable 1: Valuations

Company	Valuation Basis	FY24F EV/EBITDA (x)	TP (RM)	Recommendation
AXIATA	Sum-of-parts (refer below)		3.60	OP
CDB	EV/EBITDA	12.0	5.06	OP
MAXIS	EV/EBITDA	12.0	5.30	OP
OCC	EV/EBITDA	7.0	0.73	OP
TM	EV/EBITDA	5.5	6.23	OP

Source: Kenanga Research

Table 11: AXIATA's Sum-of-Parts Valuation

Unit	Valuation Basis	Multiple (x)	EV (RM m)	Axiata's Stake (%)	Value to Axiaata (RM m)
XL (Indonesia)	EV / EBITDA	5.0	19,010	11,691	13,779
Robi (Bangladesh)	EV / EBITDA	4.0	16,717	10,348	8,815
Dialog (Sri Lanka)	EV / EBITDA	8.0	2,555	2,128	3,200
Link Net (Indonesia)	EV / EBITDA	3.0	2,460	1,956	729
Ncell (Nepal)	EV / EBITDA	4.0	4,876	3,901	3,901
Smart (Cambodia)	EV / EBITDA	5.0	6,115	4,433	4,433
Axiata Digital Services	EV / Sales	6.0	2,310	2,310	2,310
edotco	EV / EBITDA	20.0	18,428	11,610	11,610
Total Enterprise Value					48,378
(-) FY22E Net Debt and Minority Interest					37,995
(+) Celcom Digi 33% Value to AXIATA					22,617
Total Equity Value					32,994
TP (RM)					3.60

Source: Kenanga Research

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Peer Table 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	2.45	4.18	70.6%	22,488.8	Y	12/2023	9.5	10.5	-45.0%	10.3%	25.8	23.3	1.2	4.1%	12.0	4.9%
CELCOMDIGI BHD	OP	4.40	5.06	15.0%	51,618.6	Y	12/2023	10.5	8.3	2.8%	-21.0%	41.8	52.9	3.2	7.6%	13.0	3.0%
MAXIS BHD	OP	4.14	5.30	28.0%	32,424.8	Y	12/2023	17.8	16.7	17.9%	-6.3%	23.2	24.8	5.0	21.0%	16.0	3.9%
OCC GROUP BHD	OP	0.420	0.730	73.8%	443.0	Y	12/2023	3.2	3.6	0.0%	13.6%	13.1	11.6	1.0	7.4%	0.0	0.0%
TELEKOM MALAYSIA BHD	OP	5.05	6.23	23.4%	19,301.0	Y	12/2023	43.2	41.8	44.3%	-3.2%	11.7	12.1	2.2	19.3%	21.0	4.2%
SECTOR AGGREGATE					126,276.1					0.7%	-5.9%	24.4	25.9	2.5	11.9%		3.2%

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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