

08 May 2024

Telecommunication

OVERWEIGHT

AI Oversight to Uphold Cybersecurity



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We believe that artificial intelligence (AI) in the telco context requires regulatory oversight to ensure that ESG pillars in cybersecurity are upheld. This is to counter cybersecurity threats to telco users arising from AI that includes the perpetration of online scams, proliferation of deep fakes, phishing, etc. We remain OVERWEIGHT on the sector as we are optimistic on monetization opportunities from enterprise clients emanating from 5G solutions, managed services, and upcoming generative AI cloud offerings. Our sector top picks comprise TM (OP; TP: RM7.22) and CDB (OP; TP: RM5.83).

We attended MCMC's International Regulatory Conference 2024 that shed insights on the theme of "Charting the Future: Catalysing Breakthroughs in Emerging Technologies - Shaping the Future of Artificial Intelligence". The key takeaways are as follows:

1. According to Ms. Vanessa Wilfred of Infocomm Media Development Authority of Singapore, the development of AI governance policies is essential to inspire trust and displace suspicion surrounding AI. Therefore, legislation and guidelines should be in place to counter cybersecurity threats to the telco industry and its users arising from AI. This includes the perpetration of online scams, proliferation of deep fakes, phishing, etc. At this early juncture, only the European Union (EU) has implemented broad-based acts to regulate AI. For other countries, in order to kick start the journey of regulating AI, IMDA believes that AI providers should be transparent and forthcoming in their disclosures to highlight any risks presented by AI. Hence, this would result in better understanding, and thus enable organizations and regulators to work towards risk management measures in mitigating AI threats.
2. Other ways to combat cybersecurity threats are highlighted by Mr. Jonathan Jackson of Blackberry Cybersecurity. The latter believes that organizations and digital citizens should leverage on AI as an effective tool to enhance cybersecurity. In other words, this involves "using AI to fight AI".
3. Mr. Julian Gorman of GSMA believes that sustained traction in GSMA's efforts to develop a globally harmonized framework of principles and standards will result in sustainable and ethical use of AI. Its principles-based ethics framework applies a balanced approach where it acts as a guide to ensure that AI operates within its boundaries, without restricting its normal course of development.
4. Mr. Wing K Lee of YTL Communications is steering the group in playing its part in shaping the future of AI in Malaysia via its upcoming YTL AI Cloud service. It will be powered by Nvidia Grace Blackwell-powered DGX Cloud to accelerate the development of generative AI. Its AI compute power will surpass more than 300 exaflops, rendering it as one of the fastest supercomputers in the world.

Maintain overweight. We believe that investors are less cautious on 5G as monetization opportunities emerge from selling managed solutions and cloud offerings to enterprise clients in the immediate term. Furthermore, as adoption of generative AI cloud solutions gain momentum, this could emerge as an earnings growth driver for telco operators over the longer term. On top of that, the looming announcement of the official 5G Dual Network policy directive would finally resolve uncertainty that has weighed on sector sentiment. We maintain our OVERWEIGHT recommendation on the sector with our top picks being TM and CDB.

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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	2.91	3.05	4.8%	26,719.4	Y	12/2024	7.2	7.2	21.2%	0.6%	40.7	40.4	1.5	3.0%	10.0	3.4%
CELCOMDIGI BHD	OP	4.10	5.83	42.2%	48,099.2	Y	12/2024	17.2	18.9	6.1%	10.1%	23.8	21.6	2.9	12.3%	13.8	3.4%
MAXIS BHD	OP	3.60	5.30	47.2%	28,195.5	Y	12/2024	16.7	17.9	6.2%	7.2%	21.6	20.2	4.9	22.7%	20.0	5.6%
OCK GROUP BHD	OP	0.640	0.795	24.2%	677.2	Y	12/2024	5.1	5.2	26.8%	3.1%	12.7	12.3	1.0	8.0%	1.5	2.3%
TELEKOM MALAYSIA BHD	OP	6.26	7.22	15.3%	24,023.6	Y	12/2024	45.5	46.1	-13.4%	1.4%	13.8	13.6	2.4	17.9%	23.0	3.7%
SECTOR AGGREGATE					127,714.8					0.9%	5.7%	22.2	21.0	2.5	12.8%		3.7%

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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