

07 June 2024

# Telecommunications

## 1QCY24 Report Card: All Aligned

OVERWEIGHT



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The sector's earnings delivery in the 1QCY24 reporting season was in-line with our forecasts, where all the companies under our coverage came in within expectations. For mobile players, service revenue expansion was driven by postpaid subscriber base expansion at MAXIS (OP; TP: RM5.30). QoQ trends for the postpaid segment remained encouraging in 1QCY24 on continued subscriber net adds traction. However, the steady deterioration of postpaid ARPUs prevailed, possibly due to the introduction of cheaper entry level plans. On the other hand, the prepaid market continues to be challenging in 1QCY24, as subscriber base and ARPUs declined in tandem. We maintain OVERWEIGHT on emerging opportunities to monetize 5G from enterprises. Furthermore, looming announcement of the official 5G Dual Network policy directive would finally remove uncertainty. Our sector top picks are CDB (OP; TP: RM5.97) and TM (OP; TP: RM7.53).

**Healthy service revenue expansion driven by MAXIS.** The sector's earnings delivery in the 1QCY24 reporting season was in-line with our expectations, where all the companies under our coverage came in within our forecasts. For the mobile players, service revenue inched up by 1% YoY, driven by postpaid subscriber base expansion at MAXIS. This more than offset weakness at CDB's mobile segment, that was dragged by reductions in interconnect rates, bulk messaging traffic and usage. Meanwhile, for fixed player TM, its revenue growth was propelled by the surge in demand for global and domestic wholesale bandwidth services.

**Earnings soar as CDB's merger synergies unfold.** The sector's core net profit surged by 34% YoY in 1QCY24, mainly driven by CDB as its core profit almost doubled YoY. This was underpinned by: (i) improved economies of scale as merger synergies unfolded, (ii) reduced accelerated depreciation charges post-merger, and (iii) writeback of tax provisions. To a smaller extent, sector earnings were boosted by AXIATA (OP; TP: RM3.00), with YoY profit growth across all OpCos except for Dialog and Link Net, which remain loss-making. In particular, profits were driven by XL's multi-year record quarterly earnings as ARPU reached an all-time high on easing competition.

**ARPU compression sustains.** Prepaid APRUs inched down sequentially in 1QFY24, except for Celcom where it held stable. The sequential downtrend sustained for MAXIS (since 3QCY23) and Digi (since 2QCY22) – which reflected extended competitive headwinds. Meanwhile, the steady deterioration of postpaid ARPUs also sustained in 1QCY24, which led to declines that ranged from RM3 (MAXIS) to RM7 (Celcom) compared to a year ago. In MAXIS's case, the compression was likely due to the introduction of entry level Hotlink postpaid plans, where monthly prices start as low as RM30.

**Postpaid net adds expand as prices drop.** QoQ subscriber base trends for the postpaid segment remained encouraging in 1QFY24, where all three major operators achieved net adds ranging from 13k (Celcom) to 111k (MAXIS). In particular, MAXIS' postpaid net adds momentum averaged at an impressive 89k since 1QCY22 due to sustained popularity of its convergence offerings and new Hotlink plans. Meanwhile, Celcom and Digi also achieved commendable net adds since the past three quarters, averaging at 38k per quarter. We believe all this suggests market expansion given the introduction of cheaper entry level postpaid plans with prices as low as RM30-RM40 per month.

**Prepaid subscriber churn in 1QCY24.** On the other hand, in 1QCY24, all operators incurred QoQ subscriber net losses in the prepaid segment, ranging from 55k (Digi) to 192k (MAXIS). In particular, this translates to the third consecutive quarter of customer churn at Celcom, averaging at 110k since 3QCY23. We believe this is partially explained by the pre-to-postpaid customer migration following the introduction of low-cost postpaid plans (as highlighted above). Overall, the prepaid market remains challenging, as subscriber base and ARPUs declined in tandem.

**Fixed market chugging along.** For the fixed segment, sequential net adds for TM's Unifi Home subscribers narrowed to 9k in 1QFY24 (4QFY23: RM19k). This implies a sustained downtrend after having peaked at 208k back in 3QCY21. Its ARPU also contracted slightly to RM130 (4QFY23: RM131) on the back of competitive intensity. Meanwhile, MAXIS' home fiber net adds tapered off QoQ to 14k (4QFY23: 20k), but ARPU expanded to RM110 (4QFY23: RM108). These recent trends suggest that the fixed broadband market continues to grow steadily, albeit at a stabilized rate, as growth has plateaued. Nevertheless, the market remains rational on pricing in spite of regulatory pressure.

**Maintain overweight.** We believe that investors are more upbeat on 5G as monetization opportunities emerge from selling managed solutions to enterprise clients that leverage on 5G technology. Furthermore, as adoption of generative artificial intelligence (Gen AI) gains momentum across enterprises, this could emerge as a future earnings growth driver via cloud offerings with integrated Gen AI tools. On top of that, the looming announcement of the official 5G Dual Network policy directive would finally resolve uncertainty that has dragged sentiment on the sector. We maintain our OVERWEIGHT recommendation on the sector with our top picks being TM and CDB.

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We like **TM** on account of: (i) it being leveraged towards secular data growth on the back of current trends such as digital transformation, proliferation of internet of things (IoT), cloud-based applications powered by generative AI, etc, (ii) it benefitting from JENDELA phase 2 projects via roll-out and monetization opportunities, (iii) earnings accretion from potential development of new hyperscale data center, and (iv) higher demand for data transmission via its network of digital infrastructure that includes submarine cables and landings as well as fiber optics backhaul.

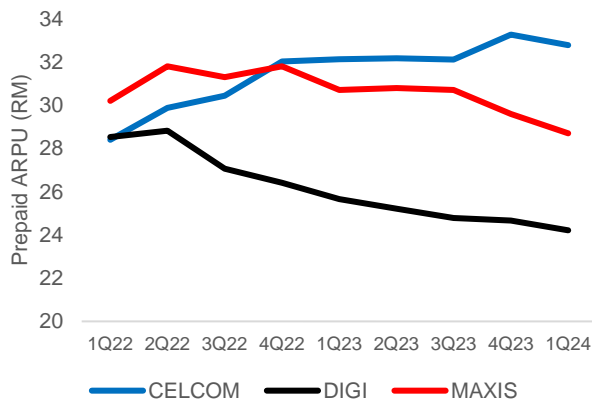
We like **CDB** for the following reasons: - (i) merger synergies are expected to amount to NPV of RM8b over 5 years – emanating from network (RM5.5b), IT (RM1.1b) and others (RM1.4b), (ii) robust average FCF yield of 7.9% in FY24-25 implies capacity to pay steady dividends, and (iii) leading subscriber base share of 39% and 20% in the postpaid and prepaid segments, respectively, translating to economies of scale.

Quarterly Results Performance

	1QCY24						4QCY23					
	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
OCC		1			1		1			1		
TELEKOM		1			1		1			1		
<b>Total</b>	<b>0</b>	<b>5</b>	<b>0</b>	<b>0</b>	<b>5</b>	<b>0</b>	<b>4</b>	<b>0</b>	<b>1</b>	<b>4</b>	<b>0</b>	<b>1</b>
<b>Total (%)</b>	<b>0</b>	<b>100</b>	<b>0</b>	<b>0</b>	<b>100</b>	<b>0</b>	<b>80</b>	<b>0</b>	<b>20</b>	<b>80</b>	<b>0</b>	<b>20</b>

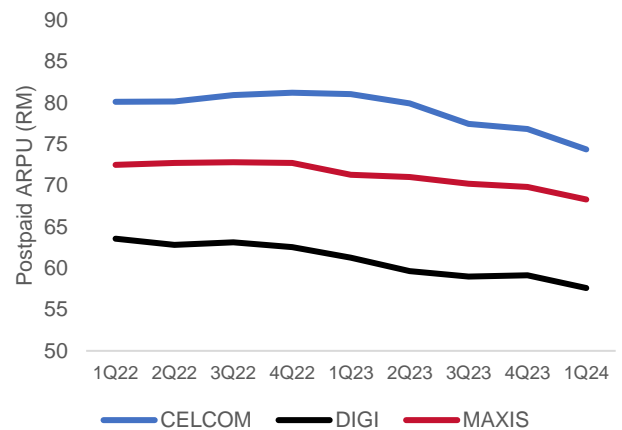
Source: Kenanga Research, Bloomberg

Prepaid Segment ARPU



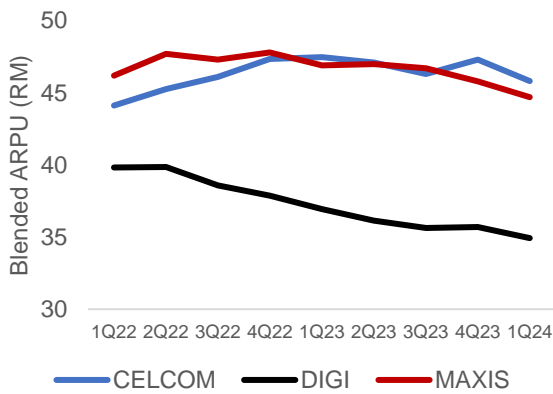
Source: Companies, Kenanga Research

Postpaid Segment ARPU



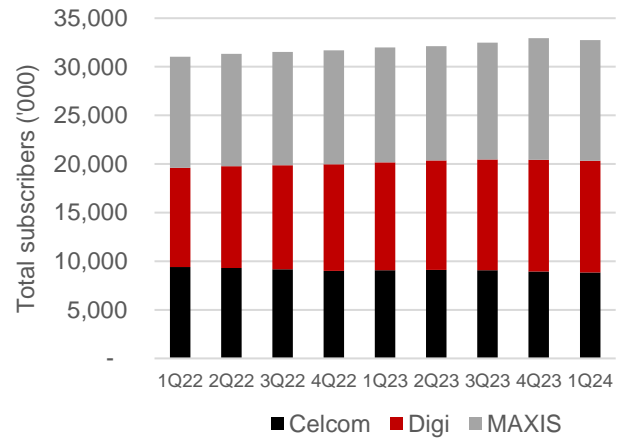
Source: Companies, Kenanga Research

Blended ARPU



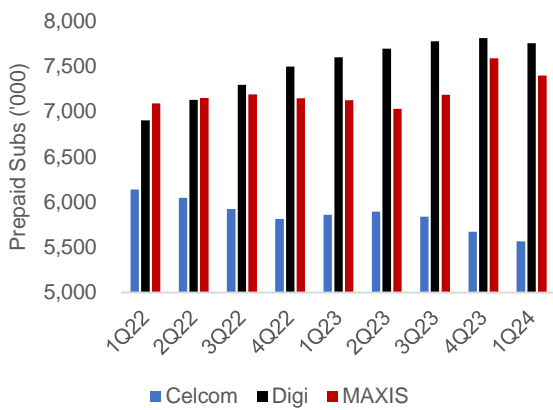
Source: Companies, Kenanga Research

Total Subscribers



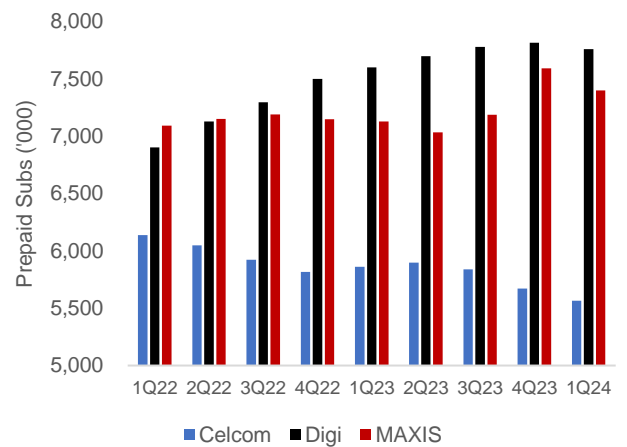
Source: Companies, Kenanga Research

Prepaid Subscribers



Source: Companies, Kenanga Research

Postpaid Subscribers



Source: Companies, 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	NetDiv. (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.
<b>Telecommunications</b>																	
AXIATA GROUP BHD	OP	2.75	3.00	9.1%	25,250.3	Y	12/2024	7.1	7.2	19.6%	1.7%	38.9	38.3	1.4	3.0%	10.0	3.6%
CELCOMDIGI BHD	OP	3.87	5.97	54.3%	45,400.9	Y	12/2024	17.2	18.8	6.4%	9.0%	22.4	20.6	2.7	11.4%	14.0	3.6%
MAXIS BHD	OP	3.65	5.30	45.2%	28,587.1	Y	12/2024	16.7	17.9	6.2%	7.2%	21.9	20.4	5.0	22.7%	20.0	5.5%
OCC GROUP BHD	OP	0.605	0.860	42.1%	644.3	Y	12/2024	4.8	5.2	21.4%	8.1%	12.5	11.6	0.9	7.7%	1.5	2.5%
TELEKOM MALAYSIA BHD	OP	6.29	7.22	14.8%	24,139.2	Y	12/2024	45.6	46.2	-13.2%	1.5%	13.8	13.6	2.4	18.0%	23.5	3.7%
<b>SECTOR AGGREGATE</b>					<b>124,021.8</b>					<b>0.9%</b>	<b>5.5%</b>	<b>21.6</b>	<b>20.4</b>	<b>2.5</b>	<b>12.6%</b>		<b>3.8%</b>

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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