

06 July 2025

Telecommunication

NEUTRAL

Fixed Telcos Ride Connectivity Wave



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We maintain our NEUTRAL view on the telecommunications sector as we await greater clarity on the execution of Malaysia's dual 5G network (5GDN) policy. While it is encouraging that the mobile network operator (MNO) shareholders of Digital Nasional Berhad (DNB) are currently focused on "rebuilding" the company, we believe the restructuring process may take time to materialize. On the fixed-line front, we remain cautious of ongoing ARPU pressure amid intense competition for convergence customers. That said, we expect pricing aggression to ease over time, as prolonged price wars are ultimately unsustainable and value-destructive for all players. On a brighter note, U Mobile has officially commenced the roll-out of Malaysia's second 5G network (NW2) - unlocking infrastructure deployment opportunities for key players including TM (OP; TP: RM8.15), AXIATA (MP; TP: RM2.15), OCK (MP; TP: RM0.39), and TIMECOM (OP; TP: RM5.91). We also see early signs of rising demand for terrestrial fiber connectivity from hyperscalers and global content providers as they seek to interconnect their digital assets in Malaysia with global network backbones. Our sector top picks are TM and TIMECOM.

1. Mobile

U Mobile Exits DNB after securing NW2. In May 2025, U Mobile fully disposed its 100k shares in DNB to the remaining MNO shareholders. This is in line with shareholding restructuring arrangements outlined in the share sale agreement signed in late 2023. This follows after U Mobile secured the mandate from the Malaysian Communications and Multimedia Commission (MCMC) to implement NW2. While **MAXIS (MP; TP: RM3.80)**, **CDB (OP; TP: RM4.50)** and **YTL PWR (OP; TP: RM4.73)** each acquired 33,333 shares for RM33k, the Ministry of Finance (MoF) acquired the remaining 1 share for RM1. Upon completion, each MNO holds 19.44% stake in DNB (collectively amounting to 58.32%), while MoF retains the remaining 41.67% stake. Additionally, MoF extended the exercise window for its put option (allowing it to sell its stake to the MNOs) within one month after 12 Nov 2025. If MoF does not exercise this option within the timeframe, each MNO will then have a one-month window to exercise their call options to acquire additional shares. These rights will lapse if not exercised within the designated periods.

MNO shareholders and consultants driving DNB's restructuring. We understand that the MNO shareholders of DNB are currently focused on "rebuilding" the company. This follows after DNB initiated a corporate restructuring exercise in Feb 2025 which entails a comprehensive revamp of its business plan, funding strategy, and operational framework, alongside substantial and "radical" cost-optimisation measures. As part of this process, DNB is working closely with its shareholders and consultants to ensure the company's long-term sustainability and success.

NW2's deployment has finally kick started. U Mobile has commenced the roll-out of NW2 with technology partners Huawei leading deployments in Peninsular Malaysia, and ZTE handling East Malaysia. The group has also appointed CIMB Bank as their loan coordinator and mandated lead arranger to facilitate and arrange financing for up to RM4b for NW2's roll-out. Over the next 12 months, U Mobile plans to roll out between 4,000-4,500 5G sites - forming the first phase of a broader network deployment totalling 7,000 sites in total. The telco has set a target to reach 80% coverage of populated areas (CoPA) by 2HCY26, with a goal to increase this to 90% within the following year. The network roll-out includes plans to implement in-building coverage (IBC) systems in 400 buildings over the next 2-3 years to improve indoor connectivity.

NW2 deployment: A boon for infrastructure players. Several industry players stand to benefit from NW2's roll-out, including: (i) tower infrastructure providers such as **OCK**, **AXIATA** (via Edotco), and **REACHTEN (NOT RATED)**, which will support site leasing and IBC deployment, (ii) fiber backhaul providers like **TM** and **TIMECOM**, and (iii) telco engineering firms such as **OCK**, **REDTONE (NOT RATED)**, **HEXCAP (NOT RATED)**, and **THETA (NOT RATED)** which are expected to secure contracts for network-contracting works.

Major contracts and collaborations drive NW2 execution. Recall that **TM** was awarded a major 10-year contract worth RM2.4b to provide fiber connectivity for nearly 70% of U Mobile's 5G sites in May 2025. Separately, U Mobile signed an MoU with **TIMECOM** in July 2024 to co-develop customized fiber backhaul solutions for NW2. More recently, **AXIATA** and **OCK** were appointed as official preferred partners for delivering 5G IBC infrastructure for NW2.

OCK is currently engaged in active discussions to secure multiple work scopes linked to NW2's roll-out. These include potential agreements to: (i) upgrade existing IBC systems from 4G to 5G standards, (ii) develop new build-to-suit (BTS) tower sites, (iii) secure infrastructure co-sharing arrangements across 160 towers within its existing portfolio, and (iv) partner with 5G technology vendors to support end-to-end infrastructure deployment ranging from tower provisioning and IBC installations to related contracting services.

NW2 execution risks: Tech and tender concerns. On a more cautious note, we see several risks tied to the implementation of NW2. A key concern is the possibility that contractors may secure significantly smaller contract values compared to those

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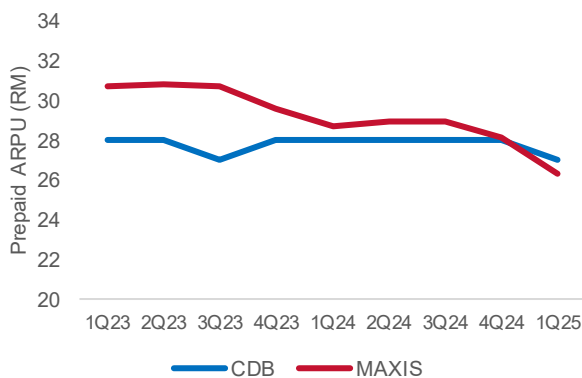
awarded under Malaysia’s first 5G network (NW1). This is largely due to the limited scope of greenfield deployments—where only c. 20% of NW2’s planned 7,000 sites (roughly 1,400) are new builds, with the remainder involving upgrades on existing 4G infrastructure, which may command lower contract values. In addition, U Mobile plans to launch NW2 using a 5G Standalone (SA) architecture from the outset - incorporating advanced features such as 5G-Advanced capability and network slicing. While this reflects a forward-looking approach, we remain cautious about the near-term user experience, given that 5G SA is a less mature technology and handset compatibility remains limited. This could pose challenges in delivering a seamless 5G experience, particularly during the early stages of adoption.

Postpaid: Expect continued net adds momentum, and ARPU weakness in the rear mirror. We anticipate that MNOs will maintain strong subscriber net adds in 2QFY25 - underpinned by sustained demand for competitively priced entry-level plans and improved customer stickiness. The latter is reinforced by successful convergence efforts, including the onboarding of **CDB’s** existing mobile users onto bundled service offerings. However, we expect postpaid ARPUs to remain stable QoQ as the impact from the change in revenue recognition related to the Maxis Device Care program (which weighed on 1QFY25 ARPU) has already been accounted for.

Prepaid: Sustained net adds recovery for CDB, but APRUs hit the floor. For the prepaid segment, we expect sustained QoQ recovery for **CDB’s** net adds - supported by the tail end of its ongoing effort to clean up low-value, single-use SIM users. In contrast, for **MAXIS**, its net adds remains unpredictable as it continues to fend off competition from aggressive mobile virtual network operators (MVNO) newcomers such as **TM**. For the latter, we expect it will continue its push into the mobile market through attractive pricing strategies and bundled device promotions to grow its subscriber base.

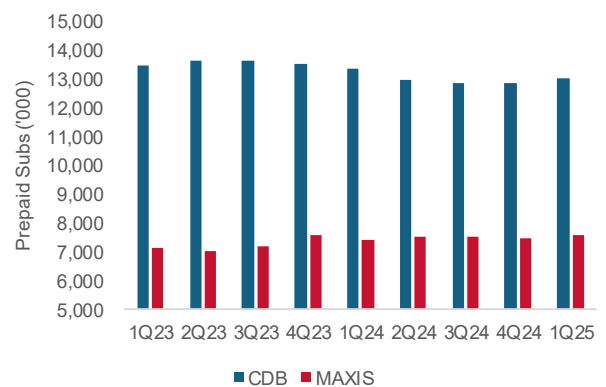
As for prepaid ARPUs, we believe they are likely to stabilise QoQ after the declines seen in 1QFY25 which appear to have reached a floor. This is especially evident in **MAXIS’** ARPU, which has hit a historical low, suggesting that the scope for further price discounting is approaching its limit and likely unsustainable. Additionally, we believe the trend of prepaid-to-postpaid migration has largely run its course as significant time has lapsed since Maxis introduced its entry-level Hotlink postpaid plans in 2018. Hence, we believe most price-sensitive subscribers have already shifted over, implying limited incremental impact from this conversion trend going forward.

Prepaid ARPU



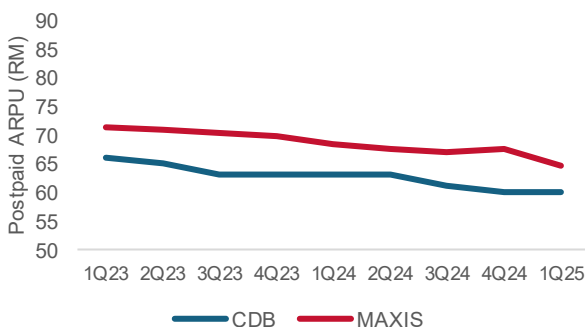
Source: Companies, Kenanga Research

Prepaid Subscribers



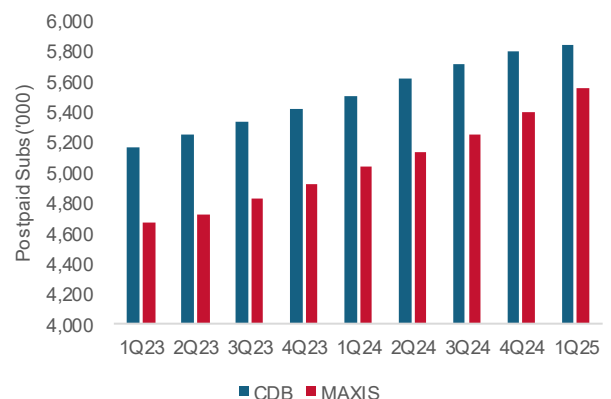
Source: Companies, Kenanga Research

Postpaid ARPU



Source: Companies, Kenanga Research

Postpaid Subscribers



Source: Companies, Kenanga Research

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2. FIXED

Convergence race drives fibre competition. We expect competitive intensity in the home fibre segment to persist into 3QFY25, though it may ease in subsequent quarters. This reflects our view that major players (particularly incumbent **TM**) may likely moderate their aggressive pricing strategies as extended price wars could erode long-term profitability for all players. In the near term, however, integrated (fixed + mobile) operators are expected to stay aggressive in targeting convergence customers to drive higher 5G traffic volumes. This urgency is amplified by the looming transition from usage-based billing to fixed minimum 5G access fees, a shift that has already taken effect for **TM** in 1QFY25. As competition persists, we anticipate continued pressure on ARPU or ARPA, stemming from steep discounts and increased device subsidies to drive uptake of bundled home-mobile plans. On the other hand, operators that refrain from participating in the ongoing competition may face subscriber attrition and risk ceding market share.

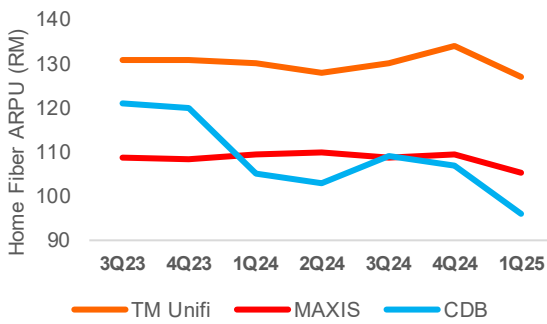
Hyperscalers and content giants scale and set-up shop in ASEAN. Over the medium to long term, we see meaningful growth opportunities arising from the continued expansion of digital infrastructure in ASEAN by global hyperscalers (e.g., Alibaba Cloud, Amazon Web Services, Microsoft Azure, Google Cloud, Tencent Cloud) and content providers (e.g., Netflix, Meta, ByteDance). These players have already established a strong regional foothold through cloud regions, hyperscale data centers (DC), Points-of-Presence (PoPs), and edge caching infrastructure in key markets such as Singapore, Malaysia, and Thailand.

Looking ahead, we expect further expansion of these digital assets as providers scale to meet rising demand for cloud, content delivery, and AI workloads. Moreover, the ASEAN region may attract new entrants due to its combination of cost-competitiveness and scalable resources including affordable energy, available land, water access, and strong connectivity infrastructure. Additionally, ASEAN benefits from a rapidly growing digital population and government policies designed to accelerate development of the digital economy.

Providing global connectivity for content providers. To operate effectively, these digital assets require end-to-end, full-circuit connectivity that integrates them into the broader global ecosystem. While Tier-1 hyperscalers (ie. Amazon, Microsoft and Google) operate their own global internet protocol (IP) backbones, most content providers lack similar investments in private submarine cable systems. Therefore, they rely on local carriers for global internet access and backbone connectivity. This drives rising demand for international connectivity services offered by domestic network operators (i.e. **TM** and **TIMECOM**) which are members of global submarine cable consortia. Key services typically procured include Managed Wavelength, Indefeasible Right of Use (IRU) agreements, Hot Standby Bandwidth Allocation (HSBA) and global IP transit.

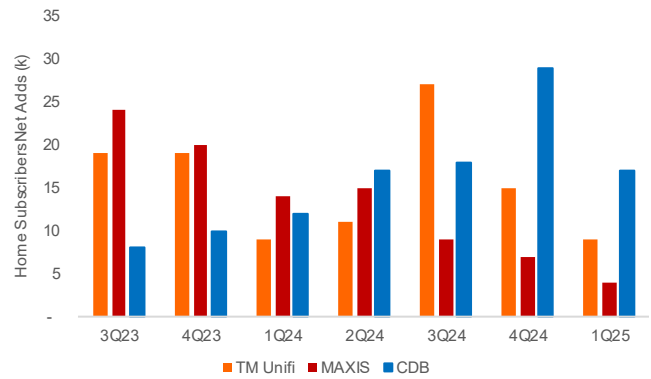
Domestic fiber operators fulfil hyperscalers' last-mile needs. Despite operating global IP backbones, Tier-1 hyperscalers rarely own terrestrial fiber networks in ASEAN due to strict local licensing regulations. Moreover, they often outsource the management of terrestrial networks to domestic providers as navigating regional regulatory, operational, and deployment challenges requires localized expertise. This creates opportunities for local fiber operators (i.e. **TM** and **TIMECOM**) to serve as last-mile and interconnection partners. These providers help link hyperscalers' and content providers' digital assets with internet exchange points (IXPs), submarine cable systems, and global network ecosystems. Main terrestrial connectivity solutions include: (i) half-circuit connectivity (e.g. Singapore to Malaysia cross-border links), (ii) co-location services at submarine cable landing stations (SCLS), and (iii) DC-to-DC connectivity. These solutions are supported by a suite of services, including: (i) fiber leasing (dark and lit), (ii) managed wavelength, (iii) IRU agreements, and (iv) HSBA.

Home Fiber ARPU



Source: Companies, Kenanga Research

Home Fiber Subscriber Net Adds



Source: Companies, Kenanga Research

3. SUMMARY

We retain our **NEUTRAL** view on the telecommunications sector - as we await greater clarity on the execution of 5GDN policy. The eventual alignment of MNOs to either NW2 or DNB’s existing network will be a key determinant of the sector’s earnings trajectory, capex commitments, and dividend-paying ability. In the interim, we prefer fixed-line operators, which are less exposed to near-term policy risks. On a brighter note, looking ahead, **TIMECOM** and **MAXIS** could continue distributing special dividends in FY25, supported by subdued capex requirements and sharper focus on balance sheet optimization (for **TIMECOM**).

We are positive on **TM** due to: (i) its strong positioning to benefit from structural data growth trends including: (i) digital transformation, proliferation of Internet of Things (IoT) and the rise of generative AI-driven cloud services, (ii) potential infrastructure project awards from the upcoming JENDELA Phase 2 program, (iii) earnings accretion from its upcoming hyperscale DC developed in partnership with Singtel, and (iv) increasing demand for terrestrial fiber connectivity from hyperscalers and global content providers as they seek to interconnect their digital assets in Malaysia with global network backbones.

We favour **TIMECOM** due to: (i) its well-placed position to fulfil the interconnection needs of hyperscalers and global content providers expanding across ASEAN by providing cross border as well as middle and last-mile fiber connectivity, (ii) its associate, AIMS actively scaling data center capacity into new regional markets, allowing it to tap into the accelerating co-location demand driven by tightening data residency regulations, and (iii) its standing to gain from increasing cloud and connectivity needs among local enterprises undergoing digital transformation.

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Peer Comparison

Name	Rating	Last Price as of 21 Mar (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	MP	2.10	2.15	2.4%	19,289.5	Y	12/2025	5.2	5.5	-44.0%	5.6%	40.4	38.2	1.1	2.3%	11.0	5.2%
CELCOMDIGI BHD	OP	3.79	4.50	18.7%	44,462.4	Y	12/2025	16.1	17.9	5.4%	11.5%	23.5	21.1	2.7	11.6%	13.0	3.4%
MAXIS BHD	MP	3.68	3.80	3.3%	28,825.9	Y	12/2025	18.4	18.7	1.5%	1.5%	20.0	19.7	4.7	24.0%	16.0	4.3%
OCK GROUP BHD	MP	0.420	0.380	-9.5%	441.5	Y	06/2025	3.9	2.7	30.1%	-31.9%	10.7	15.7	0.7	6.4%	2.0	4.8%
TELEKOM MALAYSIA BHD	OP	6.55	8.15	24.4%	25,137.2	Y	12/2025	47.4	47.6	-11.8%	0.4%	13.8	13.8	2.3	17.3%	33.0	5.0%
TIME DOTCOM BHD	OP	5.21	5.91	13.4%	9,632.3	Y	12/2025	26.3	28.9	11.1%	10.0%	19.8	18.0	2.5	12.6%	32.0	6.1%
SECTOR AGGREGATE					127,788.8					-6.7%	5.0%	20.9	19.9	2.3	12.4%		4.8%

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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