Telecommunication

NEUTRAL

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5G: Endgame in Sight, But Questions Remain

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We maintain NEUTRAL on the sector amid uncertainty over the impact of the takeover of Digital Nasional Berhad (DNB) by the mobile network operators (MNO). In contrast, fixed-line players are more compelling, as they are largely insulated from this overhang that affects earnings, capex, and dividend outlooks for the MNOs. Our sector top pick remains TIMECOM (OP; TP: RM6.60).

We expect subscriber growth and ARPU trends to remain largely healthy across segments: (i) postpaid: supported by sustained popularity of converged bundles; (ii) prepaid: underpinned by subscriber clean-up and upselling; and (iii) home broadband: driven by stabilizing competition, strong uptake of entry-level offerings, and network coverage expansion.

As the retail market reaches maturity, fixed operators are expected to focus more on enterprise and wholesale segments. Enterprise demand is being boosted by the fast growth of co-location data centres in Malaysia, while the wholesale segment is gaining from hyperscaler investments in local campuses and cloud regions.

On a brighter note, sector sentiment could be boosted by potential yield upside from higher payouts or special dividends from TM (OP; TP: RM8.86), TIMECOM and MAXIS (MP; TP: RM3.63) amid subdued capex, robust cash flows, and balance sheet optimisation (for TIMECOM). Additionally, further updates on M&A activity may arise from AXIATA's (MP; TP: RM2.70) ongoing efforts to unlock value in edotco, potentially through a strategic divestment, sale of a partial stake, or other monetization measures.

1. MOBILE

Pending clarity on DNB takeover's financial and cashflow impact. Looking ahead, we anticipate greater clarity and further progress on the government's rollout of the 5G Dual Network (5GDN) framework. In the latest development, the three mobile network operators (MNOs) — YTLPWR, CDB (OP; TP: RM4.27), and MAXIS — have each paid RM327.9m to the Ministry of Finance Inc. (MoF), following the exercise of MoF's put option on Digital Nasional Berhad (DNB). However, we understand that the completion of the overall transaction is subject to several conditions precedent, which are expected to be fulfilled by 1HCY26. Upon completion, each MNO will take over a 33% stake in DNB together with MoF's remaining shareholder loan (including accrued interest) and additional shareholder advances (c. RM161.2m each). Depending on the final completion date, each MNO is expected to begin recognising its share of DNB's contribution (or losses) as an associate under the equity accounting method. Therefore, we await confirmation of the transaction's completion date, as it will determine the timing and extent of DNB's contribution to each MNO. The takeover may also have implications for the MNOs' dividend capacity, given that their cash flows could be affected by the need to commit additional capital to fund DNB's operational and capex requirements.

Awaiting further insight into DNB's financial prospects. Although DNB reported net loss of RM1.2b in FY24, we believe its financial performance may potentially improve in the coming years. This is driven by initiatives from its MNO shareholders to narrow losses and strengthen the company's long-term sustainability. Recall that DNB underwent a restructuring exercise in early 2025, involving a comprehensive overhaul of its business model, funding structure, and operational setup. Following this, we expect narrowed losses in FY26, supported by savings from manpower and operational streamlining. Looking ahead, further efficiencies could be realized through network improvements and renegotiation of supplier contracts. In line with this, DNB is exploring potential network expansion and optimization by leasing existing sites from its MNO shareholders to generate capex and opex savings.

NW2 Shaping Up Well. Meanwhile, control of U Mobile has transitioned to Mawar Setia Sdn. Bhd., a vehicle owned by Tunku Tun Aminah Binti Sultan Ibrahim and Tan Sri Dato' Seri Vincent Tan. This was following its acquisition of a majority stake (over 50%) from Temasek's ST Telemedia Pte Ltd. Subsequently, Tunku Tun Aminah has been appointed Chairman of U Mobile, succeeding Tan Sri Dato' Seri Vincent. The acquisition by Mawar Setia was partially financed via a RM3.8b syndicated facility arranged by Affin Group and MBSB Bank Bhd. We view this transition to local ownership as part of broader initiatives aimed at laying the groundwork for U Mobile's planned initial public offering.

U Mobile recently secured a major customer, TM, through a three-year 5G wholesale contract, under which it will provide end-to-end 5G Multi-Operator Core Network (MOCN) services. The scope includes provisioning, system integration, activation, testing, and ongoing service optimisation. This contract follows hot on the heels of a three-year access agreement awarded by Eastel, U Mobile's first 5G and 4G wholesale customer.

However, we do not rule out the possibility of potential delays or revisions to TM's contract with U Mobile. This is in light of DNB's announcement that it does not accept TM's notice to terminate its existing 10-year access agreement (end: Oct 2032).

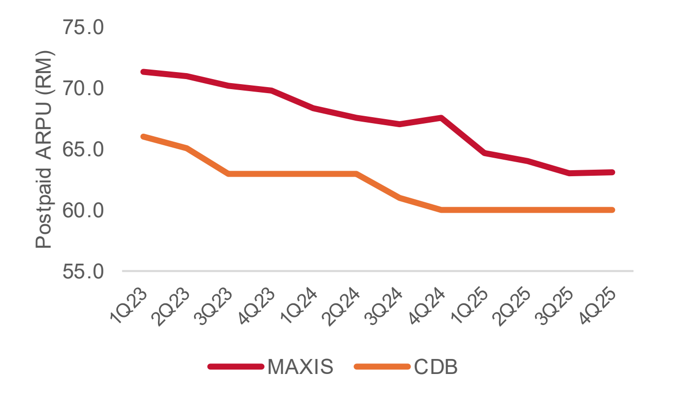
Expect convergence offerings to sustain postpaid subscriber base expansion. Looking ahead, we expect continued strong subscriber net adds in the postpaid segment for the major MNOs, supported by successful convergence strategies. This is because converged bundles strengthen subscriber stickiness while continuing to attract new users. Hence, this helps to mitigate competitive pressure from smaller players that lack comparable bundled offerings.

On postpaid ARPUs, we expect CDB to maintain stability in the coming quarters, following signs of a trough since 4QCY24. In contrast, we remain cautious on MAXIS, as its postpaid ARPUs could resume its prior decline, after a temporary respite in 4QCY25. This is underpinned by ongoing pre-to-postpaid migration trends.

Prepaid ARPU strength to persist but subs base could be volatile. In the prepaid segment, we expect subscriber trends to remain mixed, with heightened competition likely to drive continued volatility in net adds. While CDB's churn has moderated over the past 3 consecutive quarters, we believe this largely reflects the tail end of its post-merger subscriber base rationalisation. Recall that as part of this exercise, CDB deliberately phased out low-value, one-off SIM users that weighed on ARPU and contributed to fluctuations in subscriber net adds.

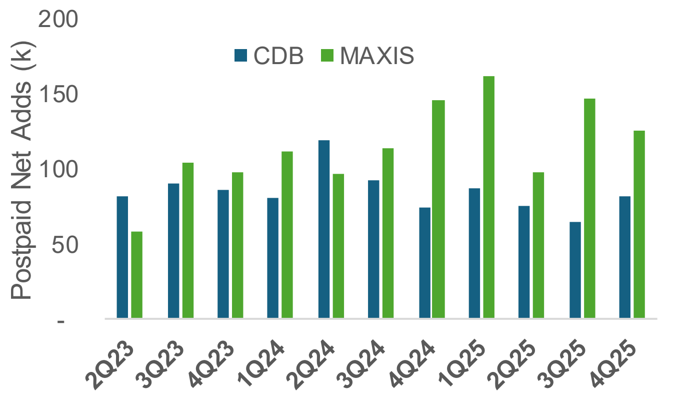
Whereas for prepaid ARPUs, we expect the current uptrend for both CDB and MAXIS to sustain in the near term, underpinned by: (i) CDB: a more stable subscriber mix post clean-up, and (ii) MAXIS: boosted by ongoing cross-selling and upselling initiatives.

Postpaid ARPU



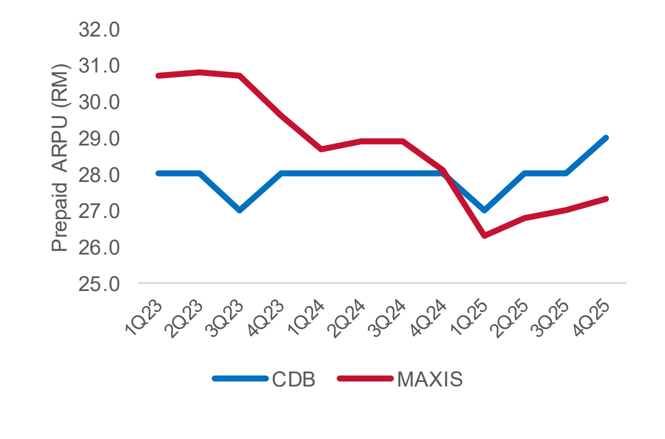
Source: Companies, Kenanga Research

Postpaid Net Adds



Source: Companies, Kenanga Research

Prepaid ARPU



Source: Companies, Kenanga Research

Prepaid Net Adds

Source: Companies, Kenanga Research

2. FIXED

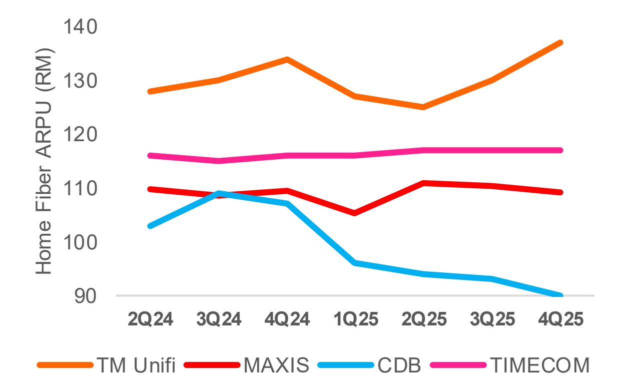
Retail landscape stabilizing and looking better. In the near term, we expect stabilizing competition in the retail fiber market to support broadly resilient ARPUs across the sector, with the exception of CDB. The recent softness in CDB's ARPUs likely reflects its push into lower-priced fixed wireless access (FWA) offerings to expand its subscriber base. As this strategy continues, we anticipate near-term pressure on ARPUs to persist, although an inflection point could emerge if upselling initiatives are successful, similar to TM's experience.

In terms of subscriber growth, we expect net adds to remain healthy for both TM and CDB, driven by sustained demand for competitively priced entry-level packages. For TIMECOM, steady growth should be supported by its focus on the less crowded premium segment, coupled with ongoing coverage expansion to single dwellings at suburban areas. In contrast, MAXIS' emphasis on preserving ARPUs will likely result in muted net adds, as customers gravitate towards lower-priced offerings from competitors.

Co-location DC boom lifts enterprise demand. We expect fixed operators to place greater emphasis on the enterprise and wholesale segments, as the retail market reaches maturity. Enterprise demand will likely be supported by the rapid expansion of co-location (co-lo) data centres (DCs) in Malaysia, which is driving demand for advanced, high-capacity connectivity. These include solutions such as international and domestic private leased circuits (PLCs), Metro Private Line, Metro Ethernet, IP VPN, software-defined WAN (SD-WAN), and cloud on-ramps. Such services enable secure, high-speed private connectivity that bypasses the public internet. Hence, enterprises may seamlessly interconnect their data centres, co-lo facilities, nationwide branch networks, and hyperscale cloud environments.

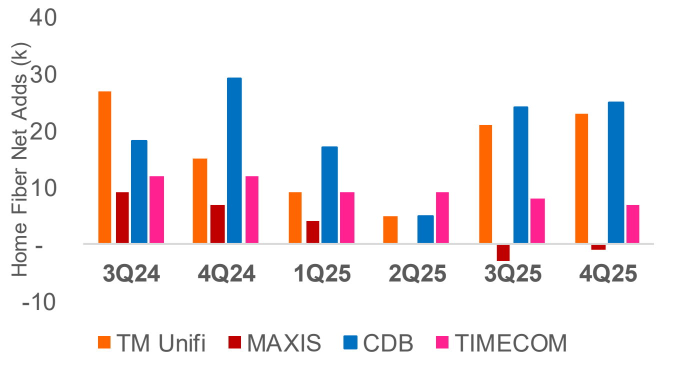
Wholesale market expands as hyperscalers invest in Malaysia. In parallel, the wholesale segment is well-positioned to benefit from ongoing hyperscaler investments in Malaysia as they establish and scale their campuses and cloud regions. Key offerings include managed wavelength services dark fibre, hot standby bandwidth allocation (HSBA), and indefeasible rights of use (IRUs). These solutions facilitate high-capacity, low-latency connectivity for DC-to-DC, as well as between DC-to-cloud (public or private).

Home Fiber ARPU



Source: Companies, Kenanga Research

Home Fiber Subscriber Net Adds



Source: Companies, Kenanga Research

3. SUMMARY

Overhang from DNB uncertainties… We retain a **NEUTRAL** view on the telco sector, given ongoing uncertainties surrounding DNB's financial outlook and the implications of its takeover by the MNOs. Further clarity on these developments will remove ambiguity surrounding the sector's earnings trajectory, capex requirements, and dividend outlook. In the interim, we favour fixed-line operators, which are comparatively less exposed to overhangs linked to the 5GDN framework.

…but dividend upside supports sentiment. On a brighter note, the potential for enhanced dividend distributions could support overall sector sentiment. TM, TIMECOM and MAXIS may have scope to declare special dividends or raise payouts, underpinned by robust cash flows coupled with muted capex needs. In particular, TIMECOM's ongoing balance sheet optimisation could provide a boost to payouts. This is reflected in its revised dividend policy, which targets a 50%–75% payout of normalized PATAMI (previous: 50% cap on normalised PAT). It has also introduced: (i) bi-annual cash review to assess special dividends, and (ii) plans to fund capex via debt, with a target net debt/EBITDA of 1.0x–1.5x over the next 2-3 years. Based on our estimates, FY26F dividend yield could increase by up to 3.3%, supported by improved free cash flow as the group targets to gear up to 1.5x net debt/EBITDA (current: net cash), with incremental borrowings used to fund capex.

Our top pick is **TIMECOM** underpinned by: (i) its ability to leverage on growing enterprise demand for bandwidth services at co-location hyperscale DCs; (ii) its exposure to AIMS' regional expansion into markets with rising demand amid tightening domestic data residency regulations; (iii) potential for higher dividends supported by balance sheet optimisation and modest capex needs; and (iv) resilient retail ARPUs and sustained subscriber net adds momentum driven by network coverage expansion.

Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen) 1-Yr. Fwd.	Core EPS (sen) 2-Yr. Fwd.	Core EPS Growth 1-Yr. Fwd.	Core EPS Growth 2-Yr. Fwd.	PER (x) - Core Earnings 1-Yr. Fwd.	PER (x) - Core Earnings 2-Yr. Fwd.	PBV (x) 1-Yr. Fwd.	ROE (%) 1-Yr. Fwd.	NetDiv. (sen) 1-Yr. Fwd.	Net Div. Yld. 1-Yr. Fwd.
<u>Stocks Under Coverage</u>																	
AXIATA GROUP BHD	MP	2.15	2.70	25.6%	19,754.7	Y	12/2026	5.8	5.9	-37.7%	2.8%	37.2	36.2	1.1	0.5%	11.0	5.1%
CELCOMDIGI BHD	OP	2.96	4.27	44.3%	34,725.3	Y	12/2026	13.6	13.6	6.2%	0.6%	21.8	21.7	2.2	10.1%	16.0	5.4%
MAXIS BHD	MP	3.54	3.63	2.5%	27,736.2	Y	12/2026	20.5	21.3	1.3%	3.9%	17.3	16.6	4.3	25.6%	18.0	5.1%
OCK GROUP BHD	OP	0.380	0.430	13.2%	392.6	Y	06/2026	2.5	2.8	-12.6%	10.8%	14.9	13.5	0.6	4.4%	1.0	2.6%
TELEKOM MALAYSIA BHD	OP	6.95	8.86	27.5%	26,672.3	Y	12/2026	47.7	47.9	3.1%	0.4%	14.6	14.5	2.4	16.6%	33.0	4.7%
TIME DOTCOM BHD	OP	5.89	6.60	12.1%	10,889.5	Y	12/2026	28.0	30.2	6.3%	7.8%	21.0	19.5	3.7	16.8%	42.0	7.1%
SECTOR AGGREGATE					**120,170.6**					**-2.0%**	**2.3%**	**19.8**	**19.3**	**2.4**	**12.3%**		**5.0%**

Source: Bloomberg, Kenanga Research

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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