

Telecommunication

NEUTRAL

DNB Transition Steady, Dividends Support



By Kylie Chan Sze Zan I kyliechan@kenanga.com.my

We maintain our NEUTRAL sector view, as sentiment remains weighed down by lingering uncertainties over DNB's ownership transition to MNOs—clouding the outlook for earnings, capex, and dividends. On a brighter note, DNB's privatisation could be completed soon, with cumulative shareholder advances from each MNO rising to RM552m following a recent capital call. Additionally, improving dividend prospects offer a silver lining, with TIMECOM (OP; TP: 6.60) benefitting from balance sheet optimization while MAXIS (MP; TP: RM3.63) and TM (OP; TP: RM8.86) are supported by strong FCF and subdued capex.

Having surpassed the 80% CoPA milestone, U Mobile is increasingly focused on wholesale monetisation of its 5G network. Recent MVNO partnerships with VIBE Mobile, Eastel and TM underscore this strategy. Further additions could help improve network utilisation, defray fixed costs and enhance returns on its capital-intensive rollout.

Structural migration from prepaid to postpaid continues, underpinned by upselling, converged offerings, and rising disposable incomes. Meanwhile, in the prepaid space, new MVNO entrants and U Mobile's refreshed ULTRA5G plans signal rising competitive intensity. However, we expect competition to remain concentrated at the lower end of the market and centred on data allowances.

In the fixed-line segment, competition remains largely benign. Incumbents are holding headline pricing, while relying on localised guerrilla tactics to defend market share. Meanwhile, 5G FWA is unlikely to pose a material long-term threat to fiber - given structural limitations in uptime reliability and speed consistency (particularly in dense urban environments). As 5G traffic volumes increase, we also expect MNOs to gradually moderate their FWA push to avert congestion risks.

We look forward to further disclosures on Phase 1 of TM-Nxera's 64MW hyperscale DC (commercial operations: 2HCY26) and a potential final investment decision on Phase 2 (136MW). TIMECOM also remains steadfast in its DC ambitions, with AIMS progressing on its 200MW AI-focused DC (target completion: 2027)

JENDELA Phase 2 is finally underway, with Batch 1 contract awards anticipated as early as 3QCY26. The program focuses on 4G coverage expansion, selective 5G deployment, satellite-enabled Wi-Fi in remote areas, and implementation of the Neutral Host Platform (NHP). We believe OCK (OP; TP: RM0.50) and REACHTEN (NOT RATED) are well-positioned to benefit, given their established track records in Phase 1 and prior USP projects.

1. MOBILE

DNB's privatization advances with 3rd injection of shareholders' advances. Progress on the rollout of the 5G Dual Network (5GDN) framework remain ongoing, where in the latest development, in end-April 2026, the three mobile network operators (MNOs) — YTL PWR, CDB (OP; TP: RM3.35), and MAXIS have each injected an additional RM202m in shareholders' advances (SA) to Digital Nasional Berhad (DNB). The additional SA will be utilised by DNB to pay upfront spectrum fees and to meet working capital requirements. Similar to prior tranches of SA, key salient terms of the additional SA include: (i) non-interest bearing, (ii) not repayable on demand, (iii) each Ringgit of SA carries voting rights equivalent to one ordinary share in DNB, and (iv) treated as prepayments under the access agreements between the MNOs and DNB.

To recap, this is the 3rd tranche of SA granted by the MNOs to DNB, following the 1st and 2nd tranches of RM233.2m and RM116.7m, respectively, bringing cumulative SA to RM552m each. Beyond the SA, each MNO had earlier acquired U Mobile's stake in DNB for a nominal RM33,333 in May 2025, following U Mobile's exit from DNB. Additionally, each MNO has also paid RM327.9m to acquire MoF Inc.'s stake in DNB (expected completion: 2HCY26), which included the assumption of MoF Inc.'s residual shareholder loan and accrued interest of ~RM161.2m. In aggregate, at this juncture, each MNO's total cash outlay to DNB stands at approximately RM880m, excluding the nominal U Mobile acquisition cost.

Expect more clarity as MoF fully exits DNB by 2H. The exercise of the Ministry of Finance's (MoF) put option to fully divest its stake in DNB is expected to be completed by 2HCY26. Following this, each MNO is expected to begin recognising its share of DNB's contribution (or losses) as an associate under the equity accounting method. We have earlier trimmed our FY26F/FY27F earnings for CDB and MAXIS by 5%/5% and 5%/9%, respectively. This is to reflect our expectations that equity accounting for DNB will commence from 2HFY26F for both MNOs. We have also baked in our assumption that DNB's financial performance may potentially improve in the coming years (FY24 loss: RM1.2b). This is driven by its earlier restructuring exercise and ongoing initiatives from its MNO shareholders to strengthen the company's long-term sustainability. The latter includes renegotiation of supplier contracts and potential network expansion and optimization by leasing existing sites from its MNO shareholders to yield

14 July 2026

capex and opex savings. Looking ahead, we anticipate more clarity on the implications of the takeover on earnings as well as dividend and capex plans.

MNO Cash Commitments to DNB — Summary

Event	Date	Amount per MNO (RM m)	Cumulative per MNO (RM m)	Notes
Shareholder Advance (SA) — Tranche 1	Jun 2024	233.2	233.2	Converted from access agreement prepayments upon share sale completion; carries 1 vote per RM1
U Mobile stake acquisition	May 2025	~0.03	~233.3	Nominal; 33,333 DNB shares at RM1/share
Additional SA — Tranche 2	Aug 2025	116.7	350.0	For DNB working capital requirements
MoF Inc. put option exercise	Mar 2026	327.9	677.9	Includes assumption of ~RM161.2m MoF loan + accrued interest
Additional SA — Tranche 3	Apr 2026	202.0	~880.0	For spectrum fees & working capital
Total			~RM880m	Excl. nominal U Mobile cost

Anticipate U Mobile's network to host more MVNOs. In May 2026, U Mobile added VIBE Mobile as its latest MVNO partner following a series of 4G and 5G wholesale agreements inked in recent months, including with Eastel (Oct 2025) and TM (Feb 2026). We believe U Mobile's growing wholesale focus enables it to monetise its substantial 5G investments, with higher network utilisation helping to improve returns and economics of its capital-intensive rollout.

Foresee postpaid will continue to propel growth. We expect postpaid service revenues to remain the primary growth engine for MNOs, underpinned by ongoing subscriber base expansion. This is supported by upselling and the strategic rollout of converged solutions. In turn, this should accelerate the ongoing structural shift in revenue mix from prepaid to postpaid services. The trend is already evident: Over FY23–25, postpaid service revenue recorded a 2-year CAGR of +3.7% (MAXIS) and +3.3% (CDB), while prepaid service revenue declined 3.4% and 4.0%, respectively, over the same period.

Upselling and converged strategies will continue to drive postpaid. This transition also reflects MNOs' strategic focus to lock-in stickier postpaid subscribers to support ARPU growth and revenue stability. It also reduces exposure to the highly competitive prepaid segment, where low entry barriers result in intense price competition. The migration towards postpaid is a natural evolution of Malaysia's maturing mobile market, supported by rising disposable incomes as the economy continues to develop. Although total industry mobile subscribers have remained broadly flat at c. 49.7–50.1m between 2023–25 (YoY: -0.9% to +0.3%), the underlying subscriber composition is shifting towards postpaid. Postpaid subscribers grew from 14.8m in 2023 to 16.9m in 2025, increasing their share of total subscribers from 29.6% to 33.8%. Over the same period, prepaid subscribers contracted by more than 2.4m.

Evolving competitive prepaid landscape. In the prepaid segment, we believe competitive intensity has heightened, driven by two key factors: (i) DNB's ownership restructure - which compels incumbents to monetise newly available 5G capacity; and (ii) U Mobile's 5G rollout surpassing the 80% CoPA (coverage of populated areas) milestone. Against this backdrop, operators face mounting pressure to expand their wholesale and retail subscriber bases in order to improve network utilisation and enhance returns on their capital-intensive 5G investments. That said, we do not expect competition to escalate into an outright price war. Rather, competition will likely centre on richer data quotas, supported by the abundance of 5G capacity available across both networks.

Operators may fight it out with data quotas. We expect these pressures to be most acute in the prepaid segment, where subscriber stickiness is lower and users are more sensitive to changes in price-to-quota value propositions. This segment also represents the most logical battleground for U Mobile and other MVNOs, given its fragmented market structure. Notably, CDB and MAXIS collectively account for only c.56% of prepaid subscribers, compared with a dominant ~87% of the postpaid market. Hence, this leaves limited scope for meaningful share gains by challengers in the postpaid segment.

Supporting this view, U Mobile refreshed its ULTRA5G prepaid and postpaid plans in April 2026. While the entry-level prepaid plan price edged up marginally from RM25 to RM28, the revision removed speed caps of 6–24Mbps and eliminated daily and weekend 5G restrictions. This suggests that U Mobile is competing on data quotas rather than undercutting on price—a strategy that could intensify competition around data allowances and accelerate market share shifts in the prepaid space.

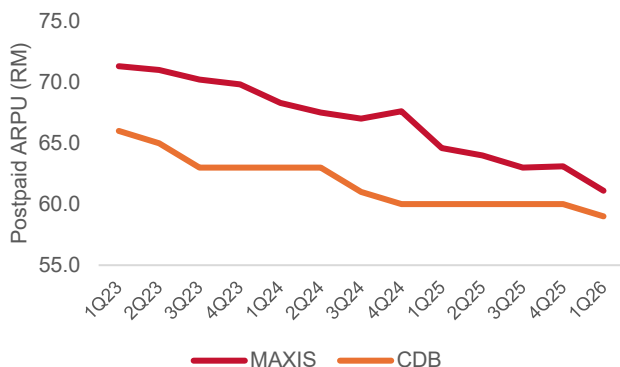
More and more MVNOs could pop up. The recent emergence of new MVNO players — including CMLink (China Mobile International's MVNO brand), Eastel and VIBE Mobile could also exert ARPU pressure on the lower end of the prepaid market. We also do not discount the possibility of further entrants being hosted by U Mobile, which would help the latter defray fixed network

14 July 2026

costs while driving incremental revenue. These new players add to an already competitive MVNO landscape that includes legacy operators such as ONEXOX, BeONE Mobile, Unifi Mobile, and redONE.

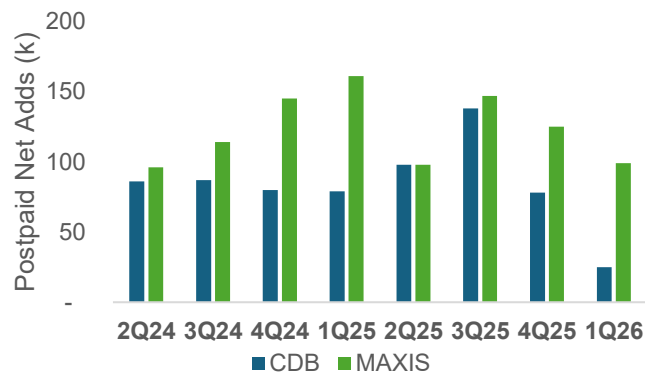
On a brighter note, MAXIS foresees limited competitive threat from MVNOs, as these players tend to target distinct niche segments rather than compete head-on with incumbent MNOs. For instance, CMLink primarily serves China-origin students and professionals travelling between China and Malaysia, on top of families residing in Malaysia under the MM2H programme. Meanwhile, BeONE (sub-brand under redONE) targets customers in the Malay heartlands through a multi-level marketing distribution model.

Postpaid ARPU



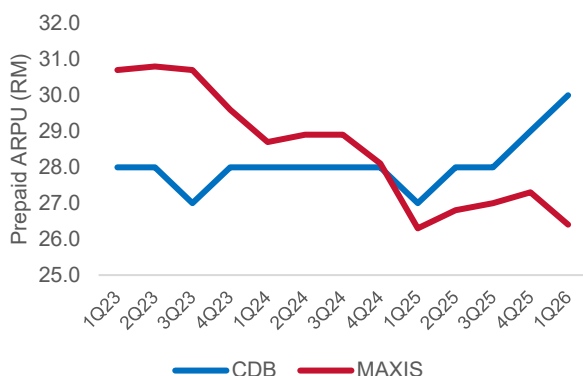
Source: Companies, Kenanga Research

Postpaid Net Adds



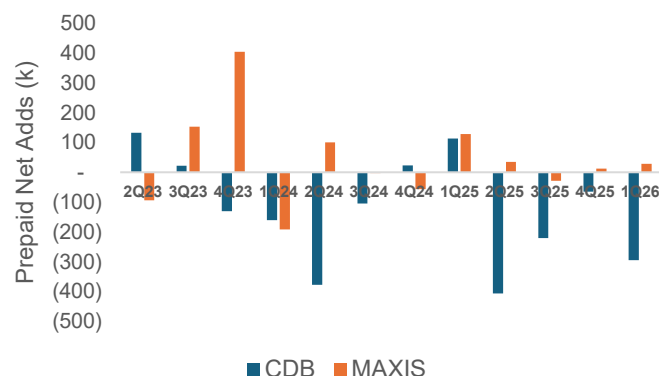
Source: Companies, Kenanga Research

Prepaid ARPU



Source: Companies, Kenanga Research

Prepaid Net Adds



Source: Companies, Kenanga Research

2. FIXED

Benign competition due to market discipline. In the near term, we believe competition in the retail market will continue to remain rational, as fixed players maintain headline pricing for nationwide fixed broadband (BB) plans to preserve ARPUs. That said, to defend market share, we understand that incumbents have adopted a more targeted, “guerrilla-style” approach, focusing on localized areas where competition is heated. This includes on-the-ground tactics such as setting up pop-up booths in selected neighbourhoods to offer rebates and promotional deals. Additionally, in response to the MNOs’ push for converged customer acquisition, incumbent fixed players are actively promoting their own integrated offerings, spanning mobile, IPTV, and solar services.

5G FWA targets a niche market. Despite the recent emergence of 5G fixed wireless access (FWA) offerings by the MNOs, we believe fiber connections have a theoretical advantage over 5G FWA in terms of uptime reliability and speed consistency. In particular, 5G FWA deployed in urban high-rise buildings are susceptible to: (i) physical obstructions such as walls, (ii) distance from 5G base stations, and (iii) network congestion (if capacity is not sufficiently upgraded as usage scales). Notably, 5G FWA signals tend to be weaker and less stable in buildings on higher floors or at areas where routers cannot be positioned near windows. Nevertheless, we also acknowledge that 5G FWA offers several advantages, including portability, faster deployment, and generally more affordable pricing.

FWA may not be a long-term competitive threat. In our view, MNOs may gradually moderate their push for 5G FWA as 5G traffic volumes scale up. The current emphasis on FWA is likely driven by efforts to monetise 5G investments and benefit from DNB's

14 July 2026

tiered wholesale pricing structure, whereby higher traffic volumes attract lower per-unit access charges. However, over time, rising network utilisation could raise the risk of congestion on 5G FWA connections. Hence, this may erode its service quality to justify 5G FWA as a fixed BB alternative. As such, we believe 5G FWA is primarily a near-term, temporary tool to accelerate 5G traffic growth for the MNOs.

Envision more details on AIM's data center expansion. We expect fixed-line players to remain committed to their data centre (DC) expansion plans. TIMECOM continues to support its associate, AIMS, through ongoing and future capital calls to fund growth. The group expects slightly higher capital injections into AIMS in FY26 (FY25: RM53m) as it progresses with plans to develop a USD1b, 200MW AI-focused DC in Cyberjaya by 2027. However, in the near term, we expect AIMS' earnings to remain weighed down by elevated finance costs arising from increased borrowings to fund the project.

Awaiting greenlight for Phase 2 of TM's hyperscale DC. Phase 1 of the TM-Nxera 64MW hyperscale DC in Iskandar Puteri, Johor remains on track to commence commercial operations in 2HCY25. As the launch approaches, we expect greater disclosure on key operational and commercial metrics, including leasing rates, utilisation, customer commitments and capex. We also look forward to further clarity on the feasibility and potential final investment decision for Phase 2 (136MW). We estimate Phase 1 could contribute RM122m p.a. (c.7% of FY27F PATAMI) in JV earnings to TM. In addition, should Phase 2 proceed as planned, total annual contribution could rise to c.RM475m.

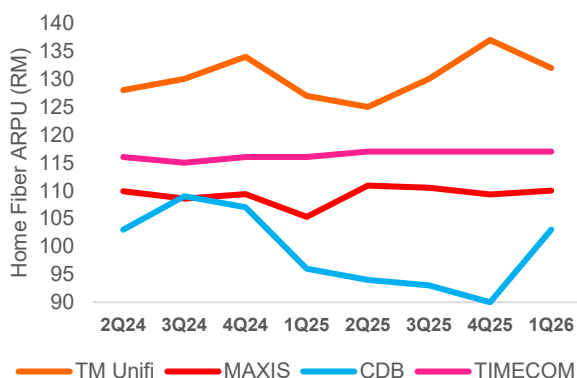
3. TELCO TOWERS

JENDELA Phase 2 finally takes-off. We look forward to further news flow on JENDELA Phase 2 (launch: Mar 2026), particularly the rollout of Batch 1 contracts, which are expected to commence as early as 3QCY26. To recap, Phase 2 adopts a fit-for-purpose connectivity approach, incorporating: (i) 4G/5G deployment (where viable), (ii) satellite-enabled Wi-Fi for underserved areas, and (iii) the inaugural implementation of the Neutral Host Platform (NHP). The NHP enables users to access Wi-Fi networks seamlessly using their existing mobile subscriptions, without requiring separate credentials or plans.

Phase 2 is East Malaysia-centric. The program targets 2,700 sites nationwide across two batches. Batch 1 comprises 1,000 sites, with a strong focus on East Malaysia (Sabah: 35%, Sarawak: 34%, Peninsular Malaysia: 31%), and is expected to benefit c.217k residents in rural and remote regions. The remaining 1,700 sites will be deployed under a subsequent phase. While the government has earmarked RM780m for Phase 2, we expect USP (Universal Service Provision) funds to also contribute towards project funding, consistent with the Phase 1 model.

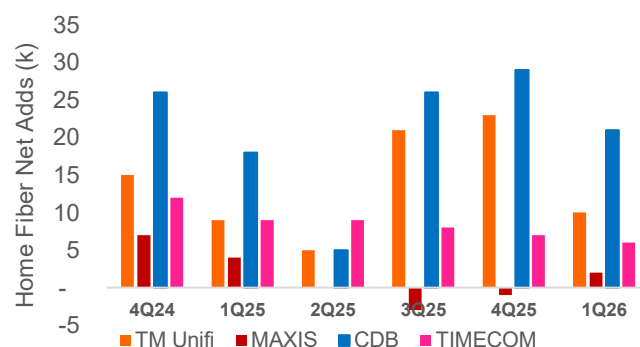
New tower sites and connectivity solutions needed at rural areas. Based on our channel checks, fixed-line operators are unlikely to participate in Batch 1. Nevertheless, we believe tower operators such as OCK and REACHTEN (NOT RATED) should benefit for contracts involving the deployment and maintenance of shared rural connectivity infrastructure under the NHP model. This includes Wi-Fi access points with satellite backhaul, compact telecom structures and edge connectivity solutions. These players have established track records from JENDELA Phase 1 and extensive experience in USP projects, positioning them favourably for upcoming awards. In particular, given REACHTEN's Sarawak heritage, we see it as a natural frontrunner for the Sarawak sites under Phase 2.

Home Fiber ARPU



Source: Companies, Kenanga Research

Home Fiber Subscriber Net Adds



Source: Companies, Kenanga Research

14 July 2026

4. SUMMARY

Ongoing DNB transition weighs on sentiment... We maintain our **NEUTRAL** stance on the telco sector, given limited clarity on DNB's financial position and the broader implications of its transition to MNO ownership. These uncertainties continue to cloud visibility on earnings, capex, and dividend trajectories for the mobile players. In contrast, we prefer fixed-line operators, which are relatively insulated from the ongoing DNB ownership transition and its associated uncertainties.

...but better dividend prospects the bright spot. On a more positive note, improving dividend prospects could provide a supportive backdrop for sector sentiment. TM recently took a concrete step in this direction, by lifting its minimum dividend payout ratio to 75% of reported PATAMI (previous: 40%-60%). Meanwhile, TIMECOM and MAXIS still have the headroom to deliver special dividends or uplift payout levels. This is supported by strong operating cash generation and relatively subdued capex requirements,

Balance sheet optimization will unlock dividends. In particular, TIMECOM's balance sheet optimisation remains on track, as reflected from the increase in its short-term borrowings to RM281.9m in 1QFY26 (1QFY25: RM2.9m). Correspondingly, net debt/EBITDA rose to 0.1x in 1QFY26 (from net cash in 1QFY25), bringing the group closer to its target net debt/EBITDA of 1.0x–1.5x over the next 3–4 years. Incremental borrowings will primarily be deployed towards capex and working cap in contrast to prior years, where capex was largely funded internally. In effect, this optimisation unlocks debt capacity to support shareholder distributions. As leverage rises, TIMECOM's capital structure should gradually converge towards that of its Malaysian telco peers (excluding TM: net cash), which currently operate at higher net debt/EBITDA levels of 2.0–2.3x. Meanwhile, the group's intention to conduct bi-annual reviews for potential special dividends remain intact. Against this backdrop, we estimate TIMECOM's dividend yields will range 6.7% and 7.3% in FY26 and FY27 (Bloomberg consensus: 6.5%-6.7%), respectively.

Our top pick is **TIMECOM** due to: (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 optimization and modest capex needs; and (iv) resilient retail ARPU and sustained subscriber net adds momentum driven by network coverage expansion.

14 July 2026

Peer Comparison

Name	Rating	Last Price (19 Jun) (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.				
Stocks Under Coverage																	
AXIATA GROUP BHD	MP	2.07	2.70	30.4%	19,019.7	Y	12/2026	5.8	5.9	-37.7%	2.8%	35.8	34.8	1.0	0.5%	11.0	5.3%
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	3.56	3.63	2.0%	27,917.2	Y	12/2026	20.5	21.3	1.3%	3.9%	17.3	16.7	4.4	25.6%	18.0	5.1%
OCK GROUP BHD	OP	0.370	0.430	16.2%	381.5	Y	06/2026	2.5	2.8	-12.6%	10.8%	14.6	13.1	0.6	4.4%	1.0	2.7%
TELEKOM MALAYSIA BHD	OP	7.55	8.86	17.4%	28,974.9	Y	12/2026	47.7	47.9	3.1%	0.4%	15.8	15.8	2.6	16.6%	33.0	4.4%
TIME DOTCOM BHD	OP	6.00	6.60	10.0%	11,092.9	Y	12/2026	28.0	30.2	6.3%	7.8%	21.4	19.9	3.8	16.8%	42.0	7.0%
SECTOR AGGREGATE					122,111.5					-2.0%	2.3%	20.1	19.6	2.4	12.3%		5.0%

Source: Bloomberg, Kenanga Research

14 July 2026

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may affect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies. Kenanga Investment Bank Berhad being a full-service investment bank offers investment banking products and services and acts as issuer and liquidity provider with respect to a security that may also fall under its research coverage.

Published by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my