Telecommunication

NEUTRAL

Uncertainties Linger but Core Biz Stays Firm

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

We maintain our NEUTRAL sector view. Commencement of DNB's equity accounting for DNB marks the next key milestone for mobile network operators (MNO), and we expect it to affect FY27F earnings for both CDB (OP; TP: RM3.28) and MAXIS (MP; TP: RM3.70) by 8%, with the impact widening up to 12% should DNB's losses sustain. Near-term funding looks manageable: even if DNB called on further shareholder advances, both MNOs would stay comfortably below a healthy leverage ceiling - leaving dividend capacity intact. The greater concern is a prolonged cycle of recurring capital calls before DNB reaches sustainable cash-flow breakeven.

From here, earnings delivery should increasingly set the two MNOs apart, with CDB better placed for positive surprises as its merger synergies are not yet reflected in estimates. Operationally, refreshed mobile plans and new SIM registration rules should lift ARPUs over time, while a growing enterprise business and AI-driven cost efficiencies provide further support for MNOs.

Against this uncertain backdrop for MNOs, we prefer, fixed-line operators as they remain relatively insulated from regulatory developments. Furthermore, they stand to benefit from the structural rise in demand for data-centre and enterprise connectivity.

Our sector pick remains TIMECOM (OP; TP: RM6.60) – mainly for its robust dividend prospects from balance sheet optimization, earnings upside from AIMS' upcoming 200MW hyperscale AI data center (DC), and steady growth in its retail broadband segment.

1. MOBILE

DNB privatization is the next key milestone. As implementation of the 5G Dual Network (5GDN) policy progresses, the commencement of DNB's equity accounting by MNO shareholders in 4QFY26 will mark an important milestone. Beyond this accounting transition, investors are seeking greater granularity on DNB's pace of financial and operational improvements. Clarity on the latter would shed light on: (1) whether DNB will require further shareholder advances before reaching sustainable cash-flow breakeven; and (2) the magnitude and duration of DNB's losses once equity accounting begins.

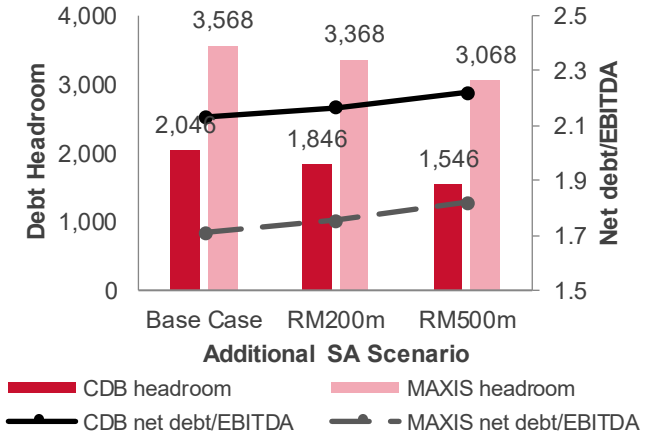
Estimated 8%-12% earnings impact post-equity accounting starts. Based on CDB's guidance, the initial impact of equity accounting is expected to be non-material in FY26, at less than 5% of annual group PAT. We therefore incorporate associate losses of RM62m for both MAXIS and CDB in FY26, based on our assumption that DNB's net loss narrows to RM750m in FY25F-26F from RM1.2bn in FY24. For FY27F, we assume a further 33% YoY reduction in net loss to RM500m, implying an 8% earnings impact for both MNOs. However, under a black-skies scenario, assuming DNB's FY24 loss of RM1.2bn persists through FY25-27F, the FY27F earnings impact would rise to 12% for CDB and 11% for MAXIS.

Near-term funding appears manageable, but recurring shareholder calls would be the bigger concern. Looking ahead, we do not rule out the possibility of DNB requiring additional shareholder funding beyond the amounts received in 2024–26, following three capital calls of RM117m–RM233m per MNO. Potential funding requirements could arise from vendor and equipment payments, site and tower leases, spectrum fees and other network operating costs. In addition, DNB may require further capex for ongoing network expansion and modernization, including in-building coverage rollout and targeted capacity enhancements at selected sites. That said, we believe DNB could fund a meaningful portion of its network capex through a combination of borrowings and other funding sources.

For our forecasts, we do not incorporate any future shareholder funding requirements, as we assume a significant portion of DNB's future capex will be debt-funded rather than financed through incremental equity or shareholder advances. Under a scenario where DNB requires up to RM500m in additional shareholder advances (SA) from each MNO in FY27F, we estimate CDB/MAXIS' FY27F net debt/EBITDA would rise only marginally, to 2.22x/1.82x from 2.13x/1.70x (Exhibit 1). While CDB has an internal net debt/EBITDA ceiling of 2.5x, we apply this same threshold to assess MAXIS' borrowing capacity. For both MNOs, gearing remains below our 2.5x reference ceiling, leaving estimated debt headroom of RM1.6bn/RM3.1bn for CDB/MAXIS. As such, near-term funding should be comfortably absorbed without materially constraining dividend capacity. The more consequential risk would be a prolonged pattern of recurring shareholder funding until DNB reaches sustainable cash-flow breakeven.

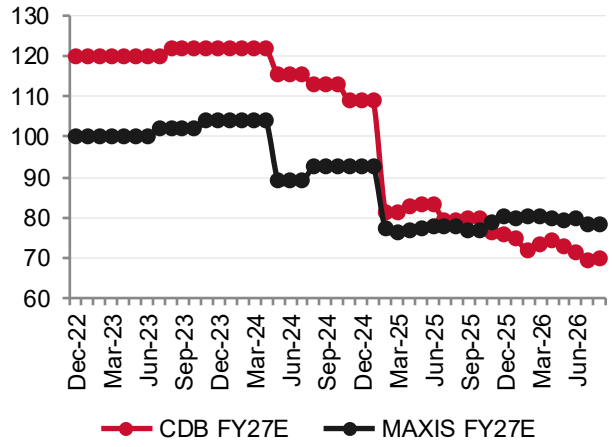
Earnings delivery should increasingly differentiate the MNOs. From here, we expect share-price performance to be driven by a combination of 5G DN developments and the delivery of underlying earnings. Note that consensus EPS downgrades for MAXIS inflected in early-2025 (Exhibit 2), while CDB has yet to show a comparable turning point. Furthermore, CDB's targeted post-merger synergies are also not fully reflected in our forecasts or consensus estimates. Faster-than-expected delivery of these savings could therefore provide a catalyst for earnings upgrades and a recovery in valuation multiples for CDB. Therefore, CDB has greater potential for positive earnings surprises, whereas MAXIS' investment case is more dependent on continued earnings delivery and benign DNB-related risks.

Exhibit 1: Debt Headroom and Net Debt/EBITDA



Source: Companies, Kenanga Research

Exhibit 2: Consensus FY27E EPS rebased to 100 in Dec 2022

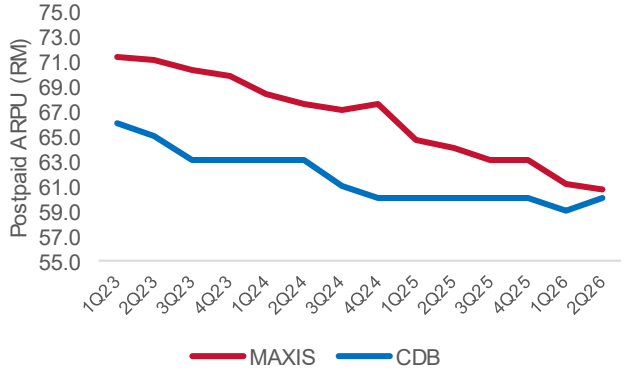


Source: Companies, Kenanga Research

ARPU to benefit from refreshed mobile plans. For both MAXIS and CDB, we believe ARPUs (Exhibit 3) will trend higher following the launch of refreshed postpaid and prepaid plans in 2QCY26. We also expect the new mandatory prepaid SIM registration requirements implemented by MCMC in Feb 2026 to support prepaid ARPU (Exhibit 4) over time, as users consolidate multiple redundant or excess SIMs onto fewer active lines. The near-term benefit, however, may be partly offset by subscriber churn during the initial SIM clean-up.

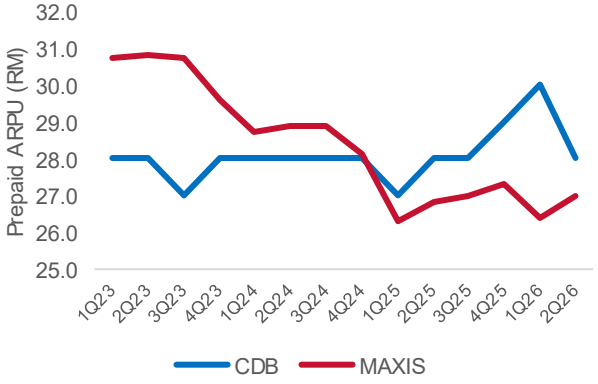
Subscriber trends: Postpaid growth should remain resilient, while prepaid churn normalizes. We expect continued postpaid subscriber base growth (Exhibit 5), supported by (i) ongoing traction in converged plans, and (ii) the ongoing structural migration from prepaid to postpaid. Meanwhile, for prepaid (Exhibit 6), we anticipate an initial decline in subscribers as SIM consolidation takes place following the registration requirement. Nevertheless, once the base normalizes, we gauge that subscriber trends will more accurately reflect underlying demand.

Exhibit 3: Postpaid ARPU



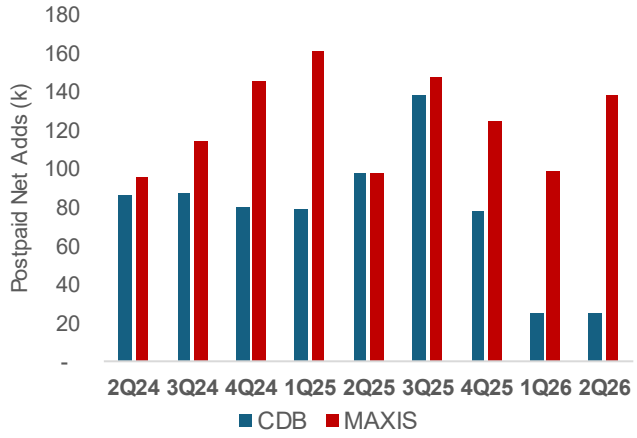
Source: Companies, Kenanga Research

Exhibit 4: Prepaid ARPU



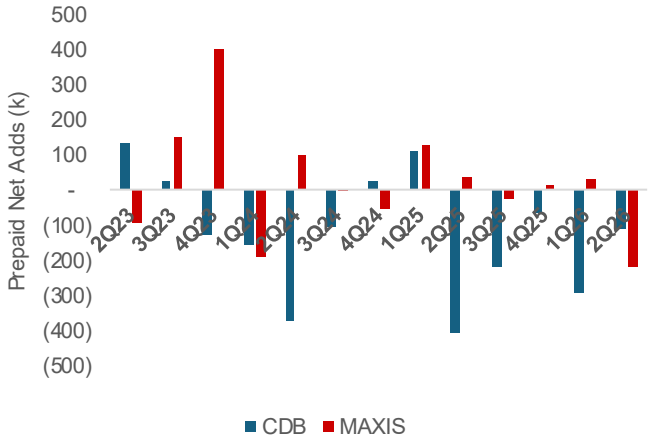
Source: Companies, Kenanga Research

Exhibit 5: Postpaid Net Adds



Source: Companies, Kenanga Research

Exhibit 6: Prepaid Net Adds



Source: Companies, Kenanga Research

Enterprise contribution continues to build. We project the enterprise segment will sustain its positive YTD trajectory (CDB: +24%; MAXIS: +3.7%), driven by demand for services such as cybersecurity, digital solutions, managed services, cloud connectivity etc. At this nascent stage, while enterprise growth is not yet sufficient to deliver a meaningful boost to overall service revenues , it should serve as an incremental source of growth and help diversify MNOs' revenue mix.

AI and efficiency gains to deliver opex savings. We anticipate cost controls to remain firm in 4QCY26 as MNOs deepen the use of AI across operations and network infrastructure. In particular, for CDB, we believe its Operational Excellence (OE) programme will continue to generate savings – that will be reflected in lower leased-line costs, procurement efficiencies, and improvements in infrastructure projects, among others.

2. FIXED-LINE

Converged offerings should support retail growth. We expect retail subscriber base (Exhibit 7) will continue growing as converged plans improve customer retention. In particular, TM Unifi Business' increasing customer focus on small and medium-sized enterprises (MSMEs) should support both ARPU (Exhibit 8) and subscriber growth. Moreover, the addition of Smart Home AI and digital solutions such as cloud and cybersecurity services broadens TM's value proposition. Meanwhile, TIMECOM continues to expand its nationwide network, targeting an additional 200k-300k premises passed annually.

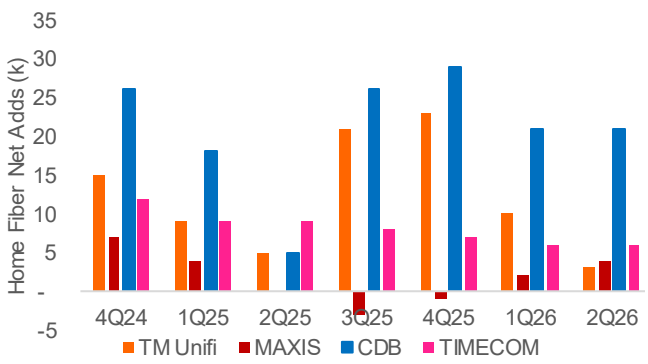
Structural data growth and DC connectivity should boost wholesale demand. Fixed-line operators remain key beneficiaries of the structural increase in data consumption associated with generative, inference and agentic AI. This should support demand for wholesale data-transmission from hyperscalers, MNOs and OTT players.

On the other hand, YTD momentum in DC-to-DC connectivity remains subdued - reflecting the fact that demand typically ramps up closer to DC completion and customer onboarding. While a large majority of Malaysian DC projects are still under construction, we see scope for a meaningful increase in demand as more capacity comes online. Key offerings for DC-to-DC connectivity include managed wavelength services, dark fibre, hot standby bandwidth allocation (HSBA) and indefeasible rights of use (IRUs), which facilitate high-capacity, low-latency connectivity across DCs and cloud environments.

Hyperscale DC tenant onboarding should lift enterprise demand. As an increasing number of new hyperscale co-location (co-lo) DCs go live in Malaysia, the onboarding of enterprise tenants should drive demand for international and domestic private leased circuits (PLCs), Metro Private Line, Metro Ethernet, IP VPN, SD-WAN and cloud on-ramps. These services enable enterprises to establish secure, high-speed private links between co-lo DCs, branch networks and hyperscale cloud environments without relying on the public internet.

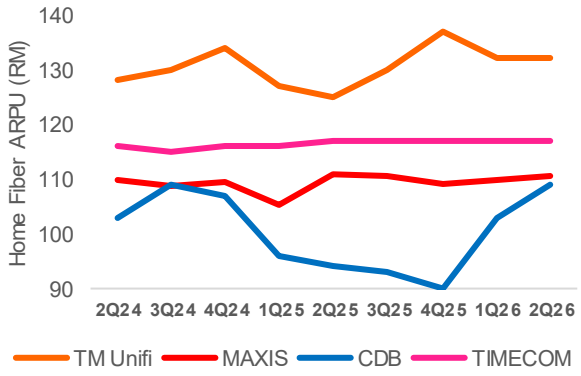
DC expansion remains a key catalyst for fixed-line operators. We expect fixed-line players to remain committed to their aggressive DC expansion plans. Recall that TIMECOM's associate AIMS is developing a USD1bn, 200MW AI-focused DC in Cyberjaya, which is currently under construction and targeted for completion in 2027. Meanwhile, TM-Nxera's 64MW Phase 1 campus in Iskandar, Johor continues to progress, with the initial 16MW scheduled for commissioning in Oct 2026 and the remaining 48MW, comprising three 16MW data halls, expected by Apr 2027. Phase 1 is effectively sold out, with 56MW (88% of total capacity) already leased. Revenue recognition from the initial 16MW should begin in late 2026, although the broader financial contribution is expected to become meaningful only in 2027. We estimate TM-Nxera could contribute approximately 4% of group earnings in FY27F. On the back of robust demand, TM could also accelerate Phase 2, which would add 136MW of capacity and is currently under active planning. Subject to development progress, Phase 2's operational launch could be brought forward to within 18–24 months.

Exhibit 7: Home Fiber Subscriber Net Adds



Source: Companies, Kenanga Research

Exhibit 8: Home Fiber ARPU



Source: Companies, Kenanga Research

3. SUMMARY

Still awaiting DNB clarity. We maintain our NEUTRAL outlook on the telco sector. We see firm mobile fundamentals, attractive dividend yields and structural DC connectivity demand as supportive factors. However, we believe greater clarity on DNB's financial and operational trajectory is still needed before the sector can be re-rated more broadly. This view is subject to any unexpected changes in policy on the 5G DN framework. In the meantime, we prefer fixed-line operators, which are relatively insulated from the DNB privatization process and its potential implications for MNO earnings and dividends.

Dividends provide a degree of downside support. Year-to-date, TM remains on track to deliver its enhanced payout policy of at least 75% of reported PATAMI. Additionally, TIMECOM also took a step towards balance-sheet optimisation recently by raising leverage to c. 0.4x-0.5x net debt/EBITDA through a RM500m sukuk issuance. This is consistent with management's longer-term objective of reaching 1.0x-1.5x net debt/EBITDA over the next 3-4 years under its balance sheet optimization plan. Against this backdrop, we believe the potential for further dividend sweeteners could provide additional support to valuations.

TIMECOM remains our preferred exposure within the sector, underpinned by: (i) growing enterprise demand for high-speed private connectivity as new hyperscale co-location data centres are built in Malaysia; (ii) AIMS' expansion into regional markets amid tightening domestic data-residency requirements; (iii) potential dividend upside from balance-sheet optimisation, (iv) resilient retail ARPUs and subscriber net adds, supported by ongoing network expansion; and (v) potential earnings accretion from AIMS' planned USD1bn, 200MW AI-focused data centre in Cyberjaya, targeted for launch in 2027.

Peer Comparison

Name	Rating	Last Price (25 Sep) (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.
Stocks Under Coverage																	
AXIATA GROUP BHD	MP	1.61	1.95	21.1%	14,801.2	Y	12/2026	13.1	13.4	85.8%	2.7%	12.3	12.0	0.8	3.9%	11.0	6.8%
CELCOMDIGI BHD	OP	2.50	3.28	31.2%	29,325.4	Y	12/2026	13.6	12.8	6.2%	-6.0%	18.4	19.6	1.9	9.9%	16.0	6.4%
MAXIS BHD	MP	3.53	3.70	4.8%	27,681.9	Y	12/2026	20.5	19.6	1.2%	-4.5%	17.2	18.0	4.3	25.6%	18.0	5.1%
OCK GROUP BHD	OP	0.410	0.550	34.1%	435.5	Y	06/2027	4.8	5.1	-1.4%	6.5%	8.6	8.1	0.7	8.1%	2.0	4.9%
TELEKOM MALAYSIA BHD	OP	7.78	9.11	17.1%	29,857.6	Y	12/2026	48.1	47.9	4.0%	-0.4%	16.2	16.2	2.7	16.8%	36.0	4.6%
TIME DOTCOM BHD	OP	5.29	7.26	37.2%	9,780.3	Y	12/2026	28.0	30.3	6.1%	8.1%	18.9	17.5	3.1	16.3%	33.6	6.4%
SECTOR AGGREGATE					**11,881.8**					**12.7%**	**-1.4%**	**16.5**	**16.7**	**2.3**	**13.5%**		**5.7%**

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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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