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Telecommunication Sector

Neutral (↘)

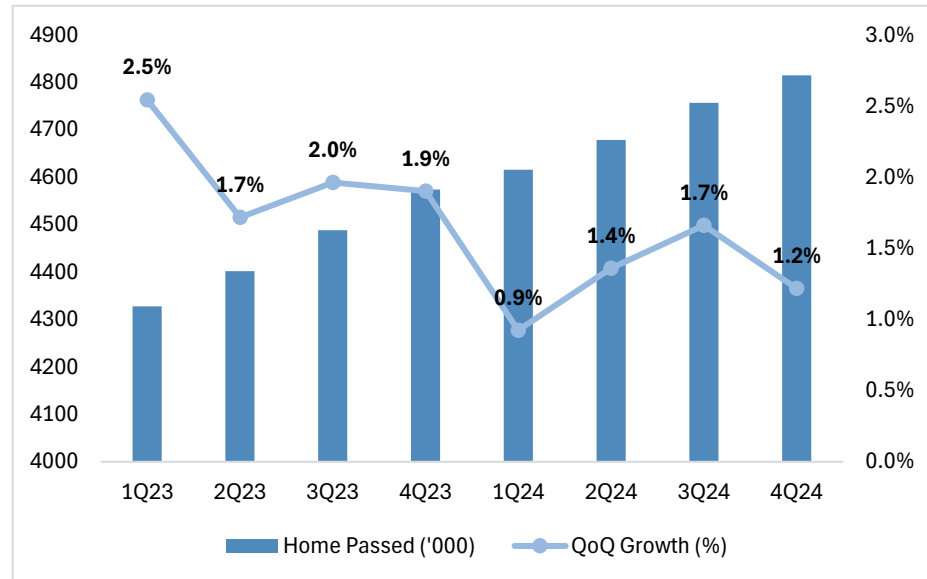
Neutral Amid Capex & ARPU Challenges

Executive Summary

- Jendela P2 is scheduled to roll out in 2025, with the tender process expected to take place latest by end-2025.
- Mixed 4QCY24 results with most MNOs under our coverage guided tepid EBIT growth for FY25 due to rising cost from higher capex.
- Downgrade to Neutral rating on the sector in view of high capex pressures, combined with stagnant ARPU and reduced optimism over the data centre boom. Top pick: RIB (BUY; TP: RM0.95) and TM (BUY; TP: RM7.40).

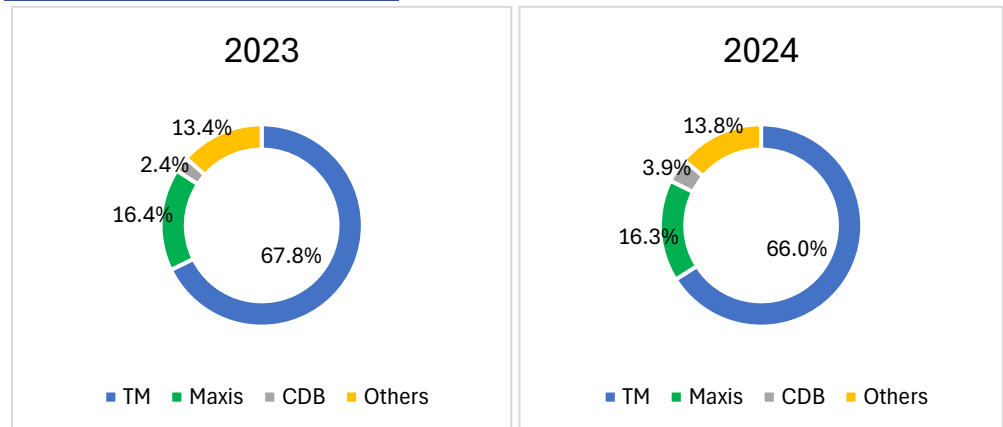
Fixed broadband growth expanded. Fixed broadband adoption remained strong, with subscribers rising +5.3% yoy and +1.2% qoq to 4.8m, led by increasing demand for high-speed connectivity for remote work, online learning, and streaming. The Jendela initiative continues to expand fiber coverage, while providers like Telekom, Maxis, and CelcomDigi (CDB) attract customers with affordable plans, unlimited data, and bundled services.

Fixed broadband subscribers



Source: MCMC

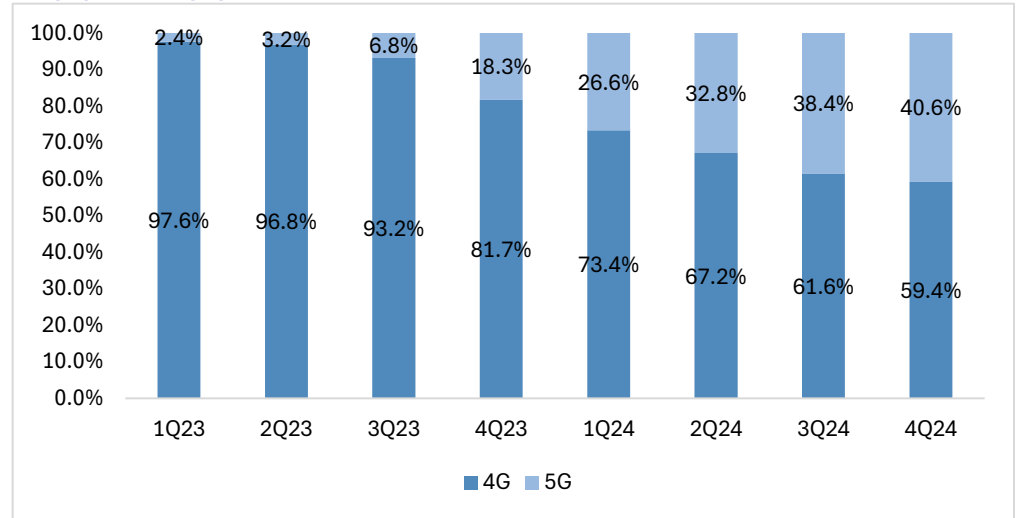
Market share in Fixed Broadband



Source: MCMC, Apex Securities

A gradual shift from 4G to 5G. 5G adoption surged by +119.9% yoy to 18.2m subscribers in CY24, while 4G subscriptions declined by 28.1% yoy, reflecting a significant shift in consumer preference. The transition was boosted by faster speeds, lower latency, and wider 5G network coverage, making it the preferred choice for mobile users. Telecom providers are accelerating adoption by offering competitive pricing, bundling 5G with postpaid plans, and providing free upgrades, while the increasing availability of affordable 5G smartphones further supports migration.

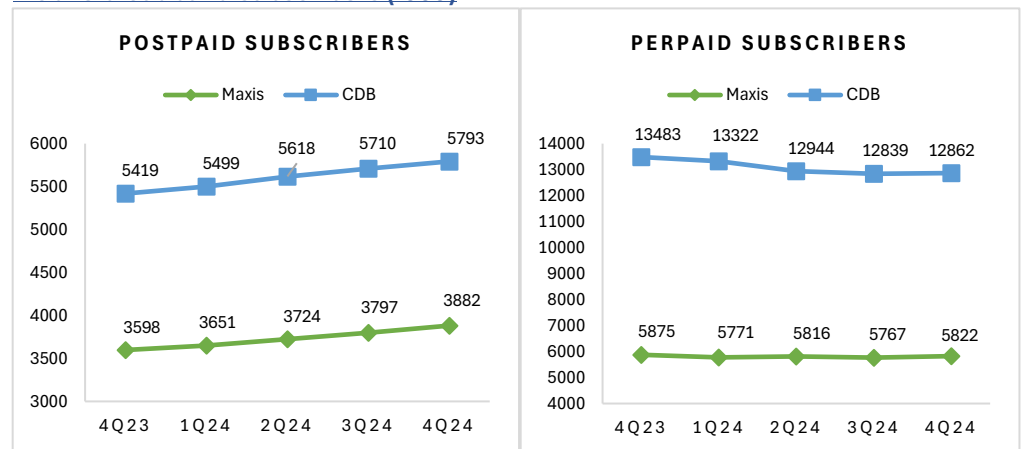
4G (%) and 5G (%) of total subscribers



Source: MCMC

MNOs are recording net adds in fixed broadband, while the mobile segment remains competitive. We note that CDB's prepaid subscriber base declined by -4.6% yoy in CY24, in line with the Group's strategy to reduce reliance on dual SIM customers. Meanwhile, Maxis prepaid subscribers are relatively more stable, only sliding marginally by -0.9% yoy as part of its pre-to-post migration strategy. During the quarter, both Maxis and CDB postpaid subscribers has demonstrated healthy growth at +7.9% yoy and +6.9% yoy respectively as both telcos focus on higher-value postpaid customers for stronger revenue stability.

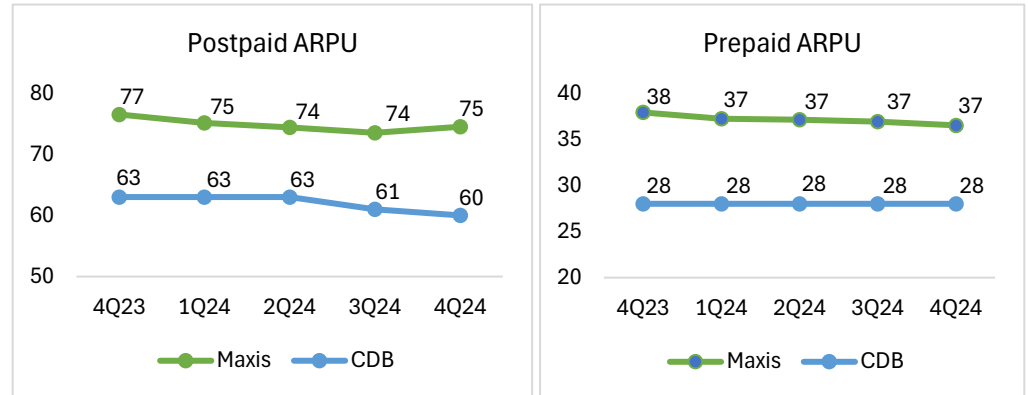
Mobile broadband subscribers ('000)



Source: Company, Apex Securities

ARPU sliding downward throughout the year. The drop in postpaid ARPU for Maxis and CDB is mainly due to increased market competition and aggressive pricing strategies. Both MNOs are offering deeper discounts, bundled packages, and more generous data promotions to attract and retain subscribers, which puts downward pressure on ARPU.

Mobile broadband ARPU



Source: Company, Apex Securities

Jendela P2 is set to rollout in 2025. The government has identified locations for Jendela Phase 2 and is currently assessing the most suitable technologies for its implementation. Although a concrete timeline has yet to be determined, we believe the tender process should commence latest by end-2025. Furthermore, we also note that contractor performance from Phase 1 will play a crucial role in vendor selection, ensuring that only experienced and reliable contractors are appointed. This is expected to narrow down competition, favoring players with a strong track record in government projects.

4QCY24 earnings were mixed. Among the 5 companies we cover, Maxis and CDB met our expectations, while Axiata and TM outperformed due to better-than-expected opex. In contrast, Redtone fell short, impacted by lower MTNS revenue due to slower project deliveries. Most telcos remained cautious with capex spending in CY24, with Maxis maintaining the most prudent capex-to-sales ratio at 6.4%. However, this trend is shifting in CY25, as telcos are ready to ramp up infrastructure investments to support 5G network expansion and related services, following greater clarity on the 5G operating landscape after closer collaboration with DNB. We gather that most MNOs under our coverage has guided tepid EBIT growth for FY25, citing rising cost structure as key reason.

Revised to Neutral stance. We downgrade our rating on the sector to **Neutral (previously Overweight)**, as we expect significant capex for network upgrades to continue squeezing profitability. In addition, we believe that stagnant ARPU growth, coupled with fading optimism over the data centre boom, could lead to a de-rating in valuations.

Our top pick for the year will be **Redtone International Bhd (BUY, FV: RM0.95)** as it is well-positioned to benefit from Jendela P2, with the government prioritising nationwide network expansion. We opined a collaboration with UMobile for 5G infrastructure will drive new contract wins and topline growth. Besides that, we also favour **Telekom Malaysia Bhd (BUY, FV: RM7.40)** as a key asset owner, given its critical role in providing connectivity. Regardless of DNB or Umobile's plans for the second network, both will still need to rely on TM's fibre infrastructure in the near term to ensure seamless 5G service delivery. Meanwhile, we view **Axiata Bhd (BUY, FV RM2.10)** as a compelling value play, currently trading at 4.4x forward EV/EBITDA (-1 std), with strong potential to unlock synergies from the upcoming XL Axiata and Smartfren merger. For **Maxis Bhd (BUY, FV: RM4.00)** and **CelcomDigi Bhd (HOLD, FV: RM4.00)**, we expect opex to remain elevated, in line with FY24, due to the higher capex spending.

Peers Comparison

Company	FYE	Price (RM) as at 7Mar25	P/E (x)		P/B (x)		Dividend Yield (%)	Target Price (RM)	Potential Upside	ESG Rating
			2025F	2026F	2025F	2026F				
Redtone International Bhd	Jun	0.56	14.4	12.8	2.0	1.9	5.4	0.95	76.6%	★★★★
Maxis Bhd	Dec	3.37	18.9	17.7	4.5	4.3	4.7	4.00	23.4%	★★★★
CelcomDigi Bhd	Dec	3.56	21.8	20.1	2.6	2.6	4.4	4.00	16.8%	★★★★
Telekom Malaysia Bhd	Dec	6.90	14.4	13.6	2.3	2.2	3.9	7.40	11.1%	★★★★
Axiata Group Bhd	Dec	1.88	22.0	18.7	0.7	0.7	4.3	2.10	16.0%	★★★★

Source: Apex Securities Bhd

Recommendation Framework:

BUY: Total returns* are expected to exceed 10% within the next 12 months.

HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.

SELL: Total returns* are expected to be below -10% within the next 12 months.

TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.

TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.

*Capital gain

Sector Recommendations:

OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.

NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.

UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

ESG Rating Framework:

★★★★★ : Appraised with 3% premium to fundamental fair value

★★★★ : Appraised with 1% premium to fundamental fair value

★★★ : Appraised with 0% premium/discount to fundamental fair value

★★ : Appraised with -1% discount to fundamental fair value

★ : Appraised with -5% discount to fundamental fair value

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(a) nil.
