

Telecommunication Sector

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Gearing up for 5G

- Review.** Bursa Malaysia Telecommunication Index has been on a downtrend since coming off its peak of near-640 pts in April 2023. However, the index saw some bargain hunting and rebounded off its bottom of 545 pts in December 2023 to 570 pts.

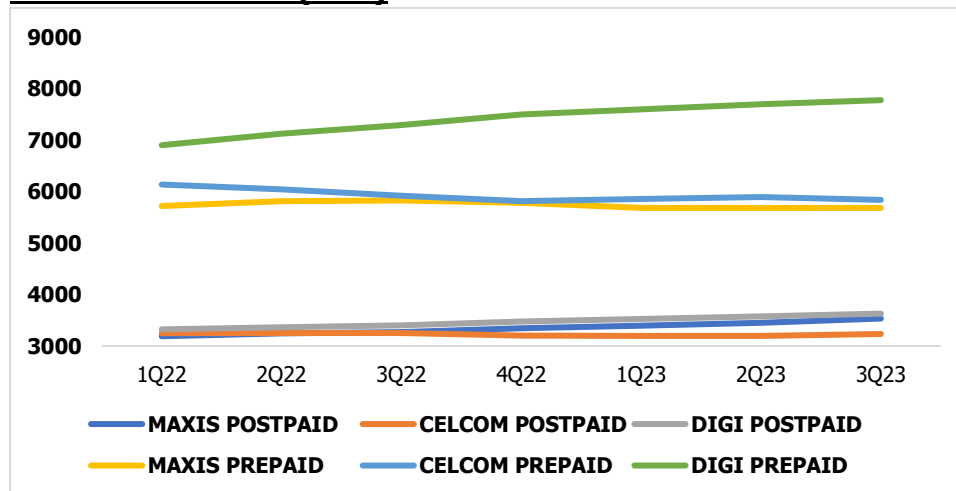
Bursa Malaysia Telecommunication Services & Media sector



Source: Bloomberg

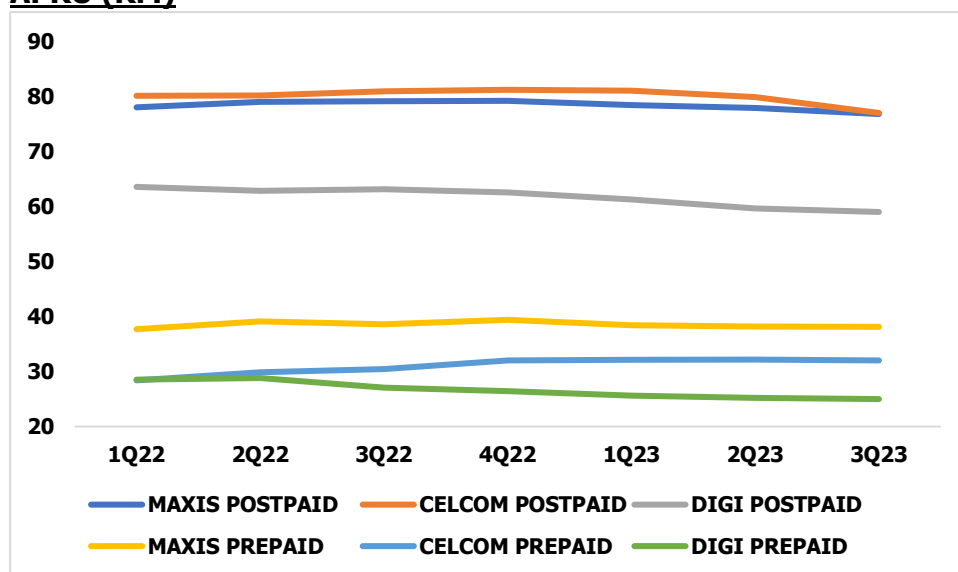
- Operation-wise, the industry remains steady with healthy subscriber and ARPU levels. Prepaid subscribers were supported by the return of foreign workers while Postpaid subscribers continue to see growth due to migration from Prepaid. Meanwhile, ARPU continue to inch lower gradually due to competitive pricing but remains steady.
- 3Q23 results were filled negative surprises from Maxis’s VSS and Axiata’s impairment on Nepal while CelcomDigi posted better earnings. Moving forward, 4Q23 earnings could be lifted by rebound in device sales with the launch of iPhone 15. For 2024, we expect competition to intensify in the home fibre segment after U-Mobile teamed up with TIME to introduce fibre packages from 100Mbps at RM79/month.

Mobile Subscribers ('000)



Source: Maxis, CelcomDigi

APRU (RM)



Source: Maxis, CelcomDigi

- Outlook.** In early December, all five major telcos (Maxis, CDB, YTL, U-Mobile and TM) have signed share subscription agreements to take up 14.0% equity stakes each in Digital Nasional Bhd (DNB) for RM233.0m. This will pave way for DNB to achieve its target of 80% coverage next year. However, we are concerned whether capex allocation for 5G rollout could affect dividend payouts as Maxis has reduced its dividend payments to conserve cash for 5G investment.
- Valuation & Recommendation.** Previous national budgets have seen the government allocating huge amounts to construct telecommunication infrastructure. As such, we expect Budget 2024 to benefit players such as **Opcom Holdings Bhd (NR)**, **OCC Group Bhd (NR)**, **Telekom Malaysia Bhd (BUY, FV: RM6.31)**, **ITMAX System Bhd (NR)**, and **Mestron Holdings Bhd (NR)**.
- Our top pick is **Telekom Malaysia Bhd** backed by its market leadership in the home fibre segment where it is operating in a less competitive landscape against the mobile segment.
- Key Risk.** Regulatory risk, higher-than-expected 5G capex affecting cashflow and dividend, excessive price competition.
- Summary.** All in all, we are **Neutral** on the telecommunication sector on the back of continuous demand for data. However, the prospects of unattractive dividend yields may discourage longer term investors.

Top Picks

Company	Price (RM)	2022	P/E (x)		Dividend Yield (%)	Target Price (RM)	Potential Upside
	as at 31Dec23		2023F	2024F			
Telekom Malaysia Bhd	5.55	18.38	11.53	14.35	3.60	6.50	17.1%
CelcomDigi Bhd	4.08	25.46	28.27	19.44	3.92	4.36	6.9%
Maxis Bhd	3.85	25.25	22.35	19.06	5.19	4.35	13.0%
Axiata Bhd	2.38	-	35.02	6.98	4.20	3.06	28.6%

Source: Apex Securities Bhd, Bloomberg