

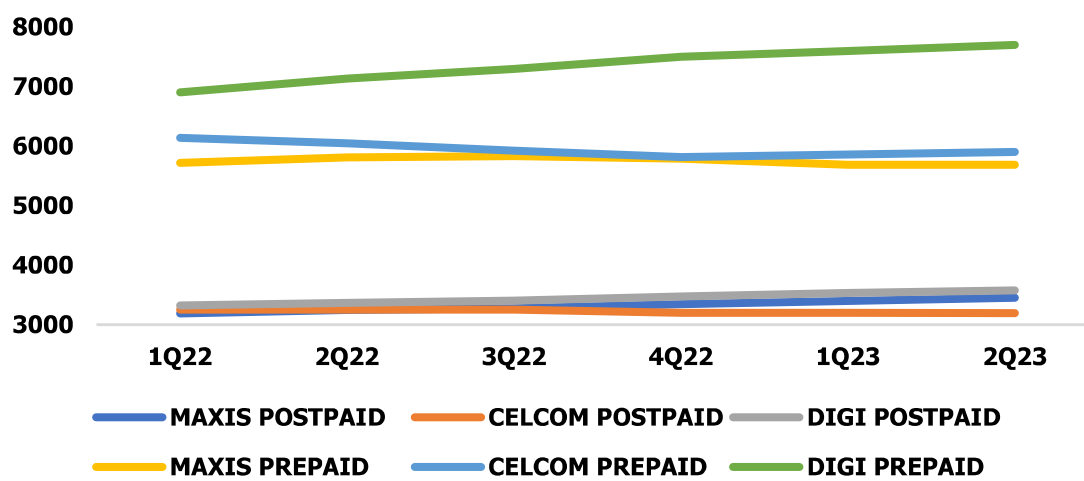
Telecommunication Sector

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Gearing up for 5G

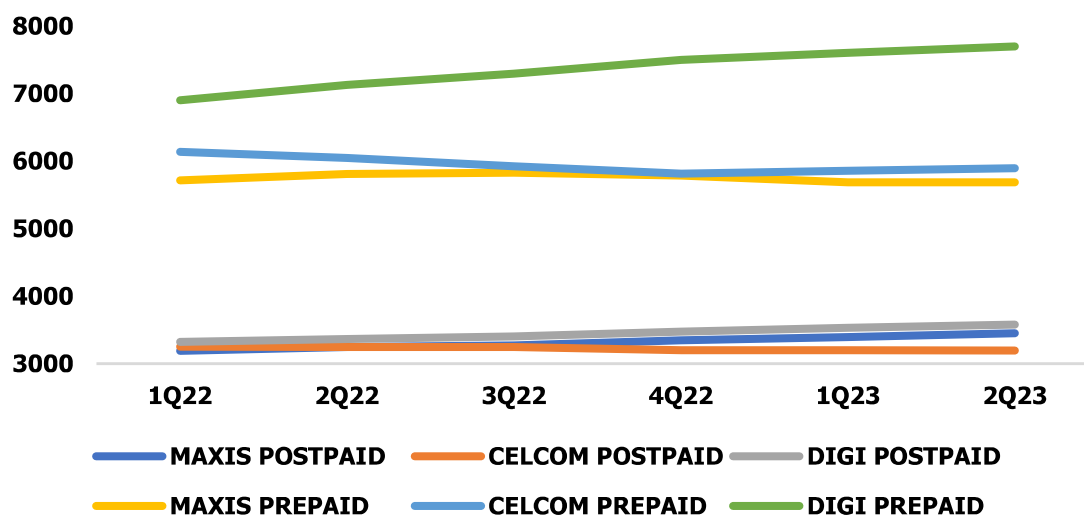
- **Review.** Bursa Malaysia Telecommunication Index was flat in 3Q23, hovering below 600 pts after coming off its peak of near-640 pts in 2Q23. Operation-wise, the industry remains steady with healthy subscriber and ARPU levels. Prepaid subscribers were supported by the return of foreign workers while 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.

Mobile Subscribers ('000)



Source: Maxis, CelcomDigi

APRU (RM)



Source: Maxis, CelcomDigi

- **Outlook.** After a long delay, **Maxis (HOLD, FV: RM4.44)** finally signed the 5G access agreement with DNB. Moving forward, telcos including **CelcomDigi (HOLD, FV: (RM4.08))** will now focus in rolling out 5G plans. 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)**, **OCK Group Bhd (NR)**, **Telekom Malaysia Bhd (BUY, FV: RM6.31)**, **ITMAX System Bhd (NR)**, and **Mestron Holdings Bhd (NR)**.

- Our top pick would be **Telekom Malaysia Bhd** backed by its market leadership in the home fibre segment which is operating in a less competitive landscape against the mobile segment. While **Axiata (BUY, FV: RM3.27)** continues to face challenges in its overseas operations, we opine the worst could be over as the situation stabilises in Sri Lanka.
- **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)		P/E (x)		Dividend Yield (%)	Target Price (RM)	Potential Upside / Downside
	as at 29Sep23	2022	2023F	2024F			
Telekom Malaysia Bhd	4.90	14.12	12.73	12.66	3.96	6.31	28.8%
CelcomDigi Bhd	4.370	45.86	30.56	26.01	2.91	4.08	-6.6%
Maxis Bhd	4.04	26.23	23.22	22.57	3.96	4.44	9.9%
Axiata Bhd	2.49	2.43	38.91	24.17	2.13	3.27	31.3%

Source: Apex Securities Bhd, Bloomberg