

Malaysia Telcos

NEUTRAL

[Unchanged]

Challenges possibly priced-in

2025 - Balancing uncertainties and synergies

The overall outlook for the sector remains challenging in our view, plagued by extended uncertainty in 5G (second network) and elevated competition in fixed broadband. Nevertheless, risks are somewhat priced-in given mobile telcos' share price corrections in 2024. We maintain our NEUTRAL stance on the sector, with our preferred pick being CelcomDigi (realisation of merger synergies). We also have BUY ratings on Axiata (earnings recovery and balance sheet repair) and TM (cost optimization with data centre exposure).

Analyst

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5G overhang to remain, but it is priced-in

We believe mobile operators could continue to be plagued by regulatory uncertainty and 5G capex risk in 2025. UMobile is unlikely to deploy the second 5G network by itself in our view, and could potentially collaborate with either CelcomDigi or Maxis (thus 5G capex concerns could resurface for these two). We are also unsure if the present DNB access fees would be revised as part of the process of setting up the second 5G network. Nevertheless, given the share price correction of mobile telcos in recent years, some of the 5G capex risk could have been priced-in in our view.

Elevated fixed broadband competition

We expect competitive intensity in fixed broadband to remain elevated in 2025 as mobile players continue to use fixed broadband as a lever for subscriber retention. Both TM and TDC have thus far held their ground with regards to subscriber acquisitions, but the overall competitive situation remains fluid. We estimate every MYR10/month ARPU erosion could lower our TM/TDC FY25F net profit forecasts by 19%/9% respectively. Separately, both fixed-line incumbents continue to have exposure to the data centre theme, mainly through ownership (connectivity contribution remains insignificant per checks for now). A successful delivery of the new data centre venture is a potential rerating catalyst for TM.

CelcomDigi to drive FY25 sectorial earnings growth

For the telcos sector, we project core net profit growth to surge from 5% in FY24F to 26% in FY25F respectively. Driving the strong FY25F sectorial net profit growth is CelcomDigi, whose net profit we project to step up by 50% in FY25F as merger synergies manifest more meaningfully (recall initial synergy guidance of c.MYR8b NPV). Note that CelcomDigi is also represented through Axiata's associate income line, thus its contribution to sectorial earnings is amplified. CelcomDigi (CDB MK, BUY, CP: MYR3.65, TP: MYR4.50) is our top pick.

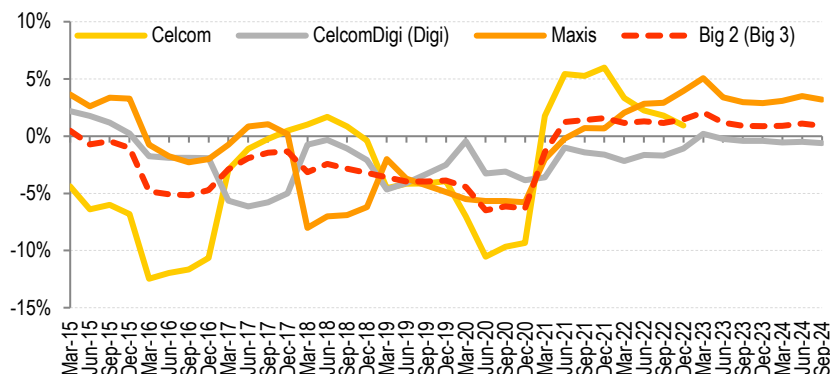
Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x)		P/B (x)		Div yld (%)	
							24E	25E	24E	25E	24E	25E
CelcomDigi	CDB MK	9,492	Buy	3.65	4.50	26	27.1	18.0	2.6	2.6	3.5	5.0
Maxis	MAXIS MK	6,338	Hold	3.65	3.70	6	20.4	19.4	4.9	4.7	4.4	4.4
Telekom Msia	T MK	5,490	Buy	6.59	7.50	17	17.0	15.5	2.6	2.4	2.9	3.2
Axiata	AXIATA MK	4,904	Buy	2.41	3.20	36	29.7	18.9	1.0	1.0	4.1	4.1
TIME dotCom	TDC MK	1,926	Hold	4.70	5.10	14	18.9	18.1	2.1	2.1	5.3	5.5

1. Mobile

1.1 A recap of 9M24

In the mobile space, cumulative Big 2 service revenue was up 0.9% YoY in 9M24, on course for a fourth consecutive year of growth. 2024 has seen Maxis continuing to gain revenue share (9M24 service revenue up 3.2% YoY) at the expense of CelcomDigi (9M24 service revenue down 0.6% YoY, some typical post-merger churn).

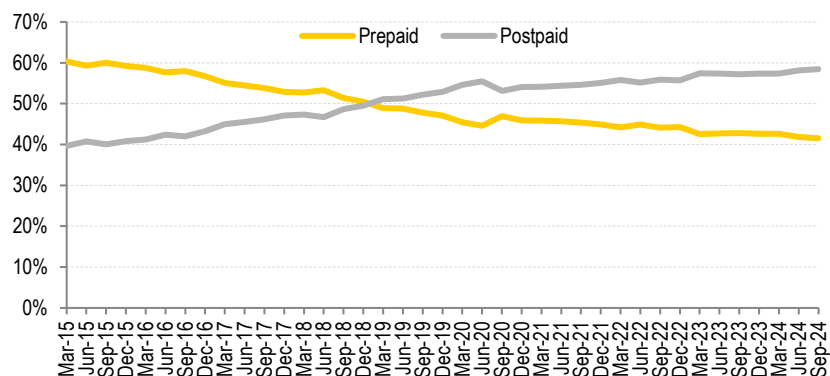
Fig 1: Big 2 quarterly service revenue (YTD cumulative)



Source: Companies

Prepaid to postpaid migration continues to be prevalent for both CelcomDigi and Maxis as avenues for both revenue uplift and subscriber retention. Postpaid accounted for c.60% of Big 2's cumulative service revenue as at Sep 2024. Postpaid also offers opportunities for bundling (both CelcomDigi and Maxis have been aggressively promoting their respective fibre broadband services), thus further aiding in subscriber retention.

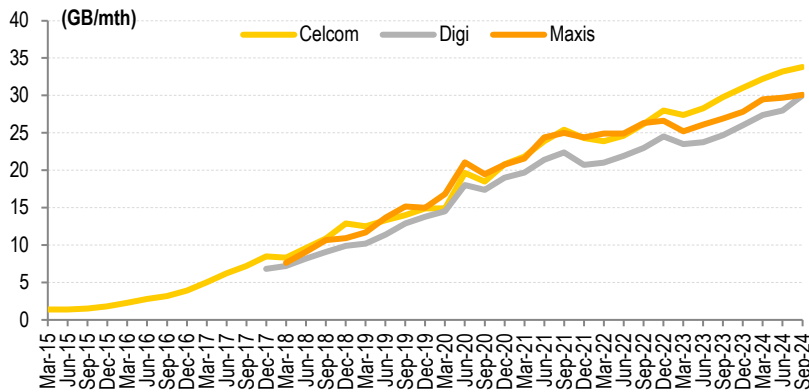
Fig 2: Big 2 cumulative prepaid-postpaid split



Source: Companies

Meanwhile, subscribers' thirst for data shows no signs of abating. Subscribers' average monthly data consumption has been on an uptrend over the years. As at Sep 2-24, subscribers of the Big 2 now consume >30GB/month on average.

Fig 3: Data consumption

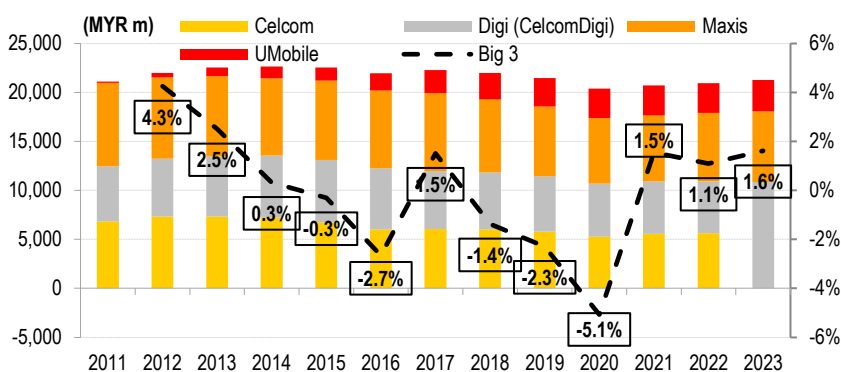


Source: Companies

1.2 Including UMobile

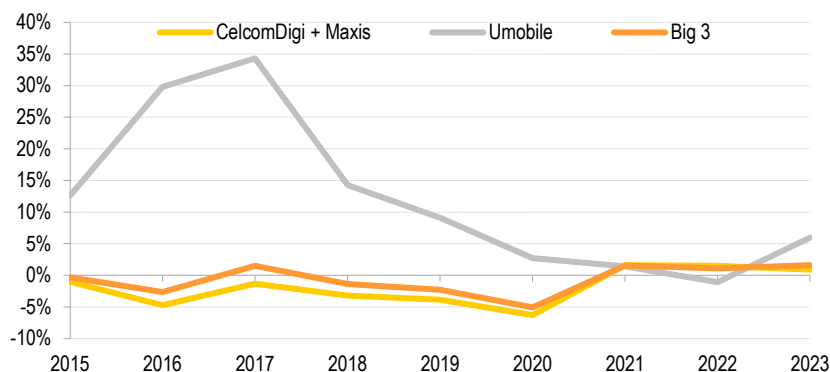
Combining Big 2 with UMobile, total (Big 3) mobile service revenue would have been up 1.6% YoY in 2023 (Big 2 revenue was up 0.9% YoY in 2023). UMobile posted an above-industry 6% service revenue growth in 2023, commanding c.15% revenue share (+0.7ppt YoY). UMobile reported MYR102m of net profit in FY23, which included MYR33m tax credit and MYR18m reversal of provision.

Fig 4: Mobile service revenue (including UMobile)



Source: Companies

Fig 5: Mobile service revenue growth



Source: Companies

1.3 5G overhang to remain, but it is priced-in

Recall 4 telcos (CelcomDigi, Maxis, UMobile and YTL Comm) have taken a cumulative 65% stake in DNB, with MoF Inc holding the remaining 35%. The general view among investors was for 2 telcos to stay on as shareholders of DNB (Entity A) and the 2 other telcos to leave to become shareholders of Entity B, with the regulator “equalizing” risk-reward between the two entities.

The timing of the step-up in DNB lease payments (upon fulfillment of 80% coverage and other conditions) remains uncertain. We are unsure if these fees would be revised when the process of setting up Entity B kicks off, possibly in 2025. Telcos continue to pay nominal access fees to DNB in 2024 (<MYR50m by our estimates), which suggest there are other conditions outside coverage (already exceeded the 80% coverage target) that have not yet been met. Recall when the required conditions are fulfilled, the minimum annual fee would rise to MYR360m for Maxis, and MYR288m per telco for each of the other telcos (we have yet to incorporate these costs into our telcos’ earnings forecasts).

Fig 6: DNB shareholding at Jun-2024

(MYR m)	Issued share cap	Shareholder Advance	Total	%
MOF Inc	500,000,000		500,000,000	34.9%
TM	100,000		100,000	0.0%
YTL	100,000	233,333,333	233,433,333	16.3%
CelcomDigi	100,000	233,333,333	233,433,333	16.3%
Maxis	100,000	233,333,333	233,433,333	16.3%
U Mobile	100,000	233,333,333	233,433,333	16.3%
Total	500,500,000	933,333,332	1,433,833,332	100.0%

Source: Companies

The regulator announced in Nov 2024 that the second 5G network would be implemented by UMobile, with UMobile being allowed to collaborate with other telcos (subject to regulatory approval). Recall 3 of the 4 DNB shareholders (CelcomDigi, Maxis and UMobile) had previously submitted bids for the second 5G network (YTL Comm being the exception). No details on rollout, timelines and corporate structures were disclosed.

The surprising choice of UMobile to implement the second 5G network does not materially change our expectation for a 2-stay-2-leave scenario (among DNB’s telco shareholders), in our view. We believe UMobile is unlikely to deploy a 5G network by itself, and would eventually choose to collaborate with either CelcomDigi or Maxis. UMobile, previously in a press release, had listed CelcomDigi and TM among companies that it would collaborate with. UMobile has also since reduced its foreign shareholding to c.20% (from c.48% previously).

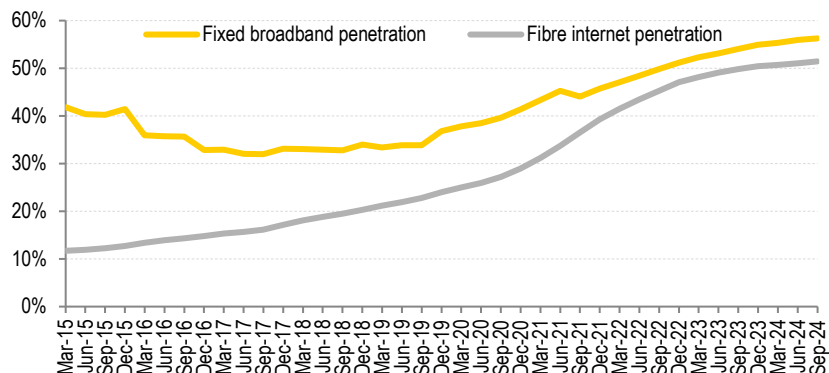
Until eventual clarity is achieved, we expect 5G uncertainty to continue being an overhang to the sector. Nevertheless in our view, this overhang is largely priced-in, with the c.MYR7b value erased from the cumulative market capitalization of CelcomDigi and Maxis in 2024 being more than sufficient to fund a hypothetical participation into a consortium for the second 5G network (recall DNB had initially budgeted c.MYR12b for network / infrastructure costs).

2. Fixed-line

2.1 Fibre broadband competition

Home fibre broadband has been the main growth driver for both TM and TDC in recent years. However, fibre broadband penetration (among households) has breached the 50% mark in 2024, and is showing signs of plateauing in our view as fibre rollout increasingly extends away from the urban centres.

Fig 7: Fibre broadband penetration

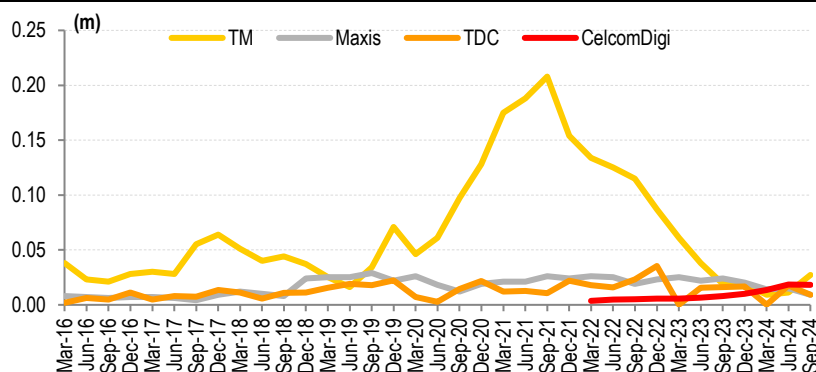


Source: MCMC, Companies

Competition in the home fibre broadband segment intensified in 2024 as mobile operators (both CelcomDigi and Maxis are access seekers on TM's network) offered greater discounts. Mobile operators (CelcomDigi in particular) are increasingly using fixed broadband as a subscriber retention tool. While bundling of services has long been prevalent, mobile operators are offering greater discounts off their home fibre plans, with CelcomDigi being particularly aggressive (subsidizing c.MYR1,000/subscriber over 24 months).

Fixed line operators somewhat benefit via increased wholesale fees through access arrangements with mobile operators, but rates are capped by MSAP to some extent. Fixed-line incumbents have had to react through discounting too. TM has attempted to bundle content (Netflix) and its mobile product more aggressively since network quality is no longer perceived to be an issue (TM's mobile product now rides on Maxis' network).

Fig 8: Quarterly fibre broadband subscriber additions



Source: Companies

Both TM and TDC have thus far held their ground with regards to subscriber acquisitions, but the overall competitive situation remains fluid. By our estimates, every MYR10/month ARPU erosion could potentially lower our TM/TDC FY25F net profit forecasts by 19%/9% respectively.

Fig 9: 300Mbps home fibre broadband plans

(MYR)	Monthly	Over 24 months	Promotion
CelcomDigi			
List price	139	3,336	
Rebate	-10	-240	MYR10/month rebate
Rebate		-774	Free 6 months
Total		2,322	
Average monthly		97	
Maxis			
List price	139	3,336	
Rebate	-10	-240	MYR10/month rebate
Rebate		0	Interest free installments for various electronics
Total		3,096	
Average monthly		129	
TM			
List price	139	3,336	
Rebate		0	
Rebate		-672	Free Netflix Basic over 24 months
Total		2,664	
Average monthly		111	
TIME (600Mbps)			
List price	139	3,336	
Rebate		0	
Rebate		-339	Reduced price for 6 months, free first month
Total		2,997	
Average monthly		125	

Source: Companies, Maybank IBG Research

2.2 Data centre involvement

Both the fixed-line incumbents own (TM wholly, while TDC retains a 30% stake in AIMS) and operate data centres in Malaysia, and are thus exposed to the data centre boom. Both historically have operated low-power facilities serving varying customer segments. TM has begun to foray into the high-power, hyperscale-oriented segment.

TM had in Jun 2024, announced a 51-49 JV with Nxera (Singtel's data centre arm) to develop data centres (potentially up to 200MW) in Iskandar Puteri, Johor. Phase 1 comprises 64MW, and is being planned to partly host AI servers (liquid-cooling). Initial customer enquiries have been encouraging (partly leveraging on Nxera's prevailing relationships), and management targets to complete construction of Phase 1 in 2026.

Management has yet to guide on financial details such as revenue/margins and project cost. Both shareholders will inject a cumulative MYR1.152bn of equity funding (TM's share is MYR588m) over 5 years into the JV. TM will equity-account for the JV. Assuming a 12% project IRR on a MYR2bn cost for Phase 1, we estimate annual JV income accretion of c.MYR65-100m to TM, and an equity value accretion of c.10sen/TM share. We note that data centres usually take a few years to be net profit accretive.

Fig 10: TM-Nxera data centre site



Source: Maybank IBG Research

On the connectivity front, fixed-line telcos TM and TIME dotCom to some extent, are the main owners of on-land fibre and offshore submarine cable systems in Malaysia, and thus are potential beneficiaries of the data centre boom. Conceptually, the higher traffic brought about by hyperscale data centres should result in an accretion in telcos' wholesale revenue. Quantifying the amount however is a challenge given limited disclosure on both volume and rates (wholesale terms are inherently customizable and confidential). Our channel checks indicate that the incremental connectivity revenue from data centres have not yet become significant in the overall scheme of things.

3. Sectorial earnings

We are projecting core net profit growth of 5% in FY24F to surge to 26% in FY25F. This is on EBITDA growth of 3% and 4% respectively in the same periods. Driving the strong FY25F sectorial net profit growth is CelcomDigi, whose net profit we project to grow 50% in FY25F as merger synergies manifest more meaningfully (recall initial synergy guidance of c.MYR8b NPV). 2025 represents the third year of integration since merger completion, with network integration (the largest avenue of synergies) already >70% completed in end-2024.

Recall Axiata also owns an associate 33% stake in CelcomDigi, thus the contribution of CelcomDigi to sectorial net profit is further amplified through Axiata's associate income line. Our sectorial growth forecasts would face downside risk if there are delays to the integration timeline. We expect CelcomDigi to provide further guidance on the quantum of synergy realization the upcoming 4Q24 results briefing in Feb 2025. We currently assume c.MYR900m of YoY cost reduction (including depreciation) in FY25.

Fig 11: Sector EBITDA

(MYR)	FY21	FY22	FY23	FY24F	FY25F
Axiata	11,404	12,434	10,560	11,520	11,823
% YoY	7%	9%	-15%	9%	3%
Digi	3,010	3,012	5,919	5,964	6,360
% YoY	-2%	0%	97%	1%	7%
Maxis	3,884	3,939	3,793	3,992	4,035
% YoY	3%	1%	-4%	5%	1%
TM	4,434	4,953	4,884	4,419	4,669
% YoY	14%	12%	-1%	-10%	6%
TDC	670	729	705	730	765
% YoY	15%	9%	-3%	4%	5%
Total	23,402	25,067	25,861	26,624	27,652
% YoY	6%	7%	3%	3%	4%

Source: Companies, Maybank IBG Research

Fig 12: Sector core net profit

(MYR)	FY21	FY22	FY23	FY24F	FY25F
Axiata	1,326	1,587	542	745	1,173
% YoY	53%	20%	-66%	37%	57%
Digi	1,162	763	1,552	1,581	2,373
% YoY	-5%	-34%	103%	2%	50%
Maxis	1,308	1,182	993	1,400	1,477
% YoY	-5%	-10%	-16%	41%	6%
TM	1,019	1,246	1,909	1,490	1,635
% YoY	3%	22%	53%	-22%	10%
TDC	374	421	406	463	483
% YoY	9%	13%	-3%	14%	4%
Total	5,189	5,199	5,403	5,678	7,139
% YoY	8%	0%	4%	5%	26%

Source: Companies, Maybank IBG Research

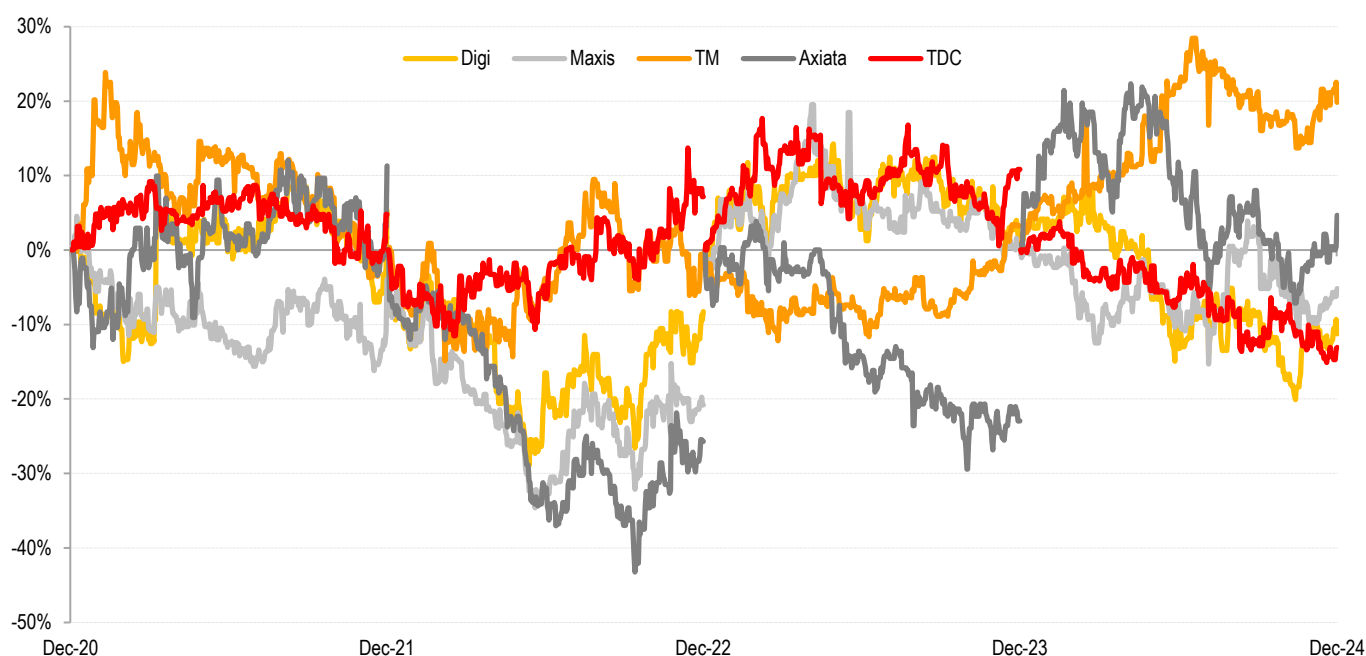
4. Valuation and recommendations

4.1 2024 share price performances

TM was the best performing telco stock in 2024, with share price having appreciated by 20% on the back of the data centre theme (subsequently offset by fibre broadband competition concerns). This was followed by Axiata (whose share price appreciated by 5% in 2024) on expectations of improved earnings delivery and balance sheet repair.

Share prices of pure play mobile operators CelcomDigi and Maxis declined by 11% and 5% respectively in 2024, due to a combination of monetization challenges and ongoing regulatory (5G) uncertainty. TDC's share price was down 13% in 2024 owing to a lack of new growth drivers following the divestment of its data centre business.

Fig 13: Share price performance (annual reset)

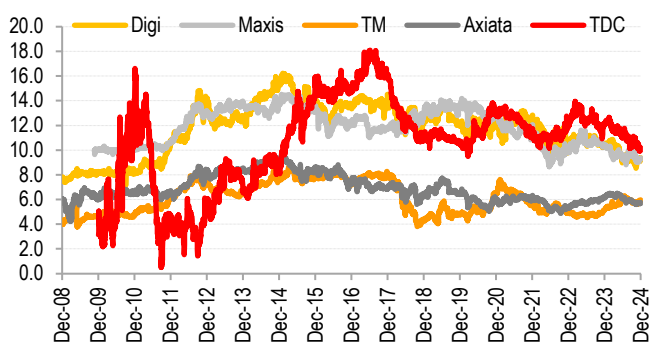


Source: Bloomberg, Maybank IBG Research

Individual stock valuations (EV/EBITDA and PER) are presently at around or below their respective 5-year mean. This implies that the various sectorial concerns have been priced-in to varying extent. On dividend yields, TDC is presently the only telco that yields c.5% in the sector. On foreign shareholding, TM was the only stock that saw a notable increase in FY24 (+3.5ppt).

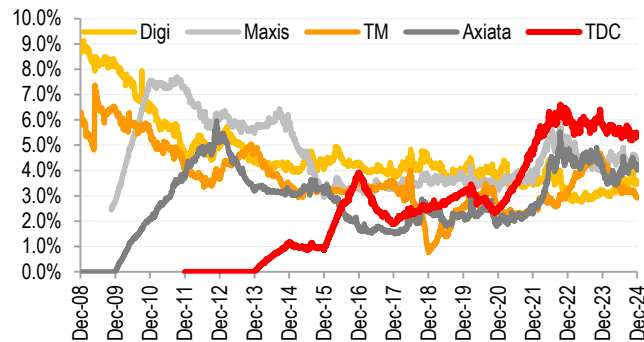
For 2025, we continue to maintain a NEUTRAL stance on the sector. The overall outlook for the sector remains challenging in our view, plagued by extended uncertainty in 5G (second network) and elevated competition in fixed broadband. Nevertheless, risks are somewhat priced-in given mobile telcos' share price corrections in 2024.

Fig 14: EV/EBITDA - Malaysia telcos



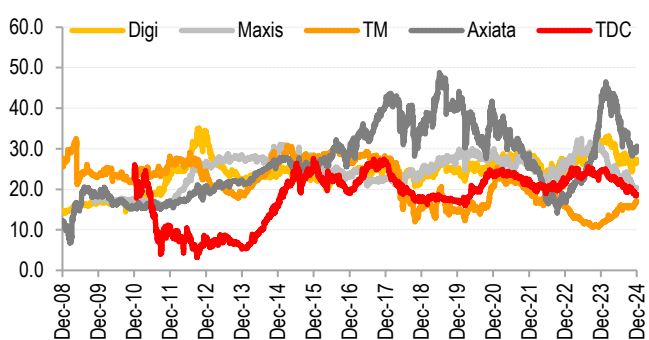
Source: Bloomberg, Maybank IBG Research

Fig 15: Net dividend yield - Malaysia telcos



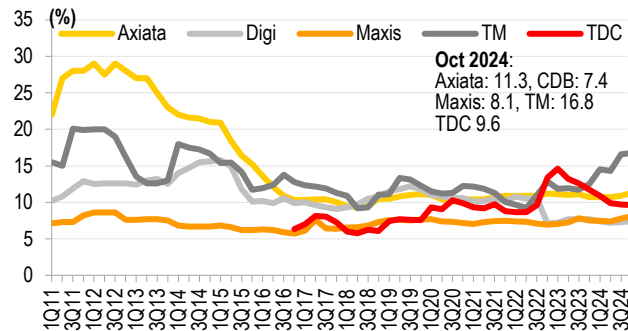
Source: Bloomberg, Maybank IBG Research

Fig 16: PER - Malaysia telcos



Source: Bloomberg, Maybank IBG Research

Fig 17: Foreign shareholding



Source: Companies

4.2 Stock picks

For 2025, our preferred stock pick is **CelcomDigi**. We believe merger synergies could begin to manifest more meaningfully in FY25, which in turn could trigger a re-rating of share price. We also have BUY ratings on **Axiata** and **TM**. Our individual stock views are summarised below:

- **CelcomDigi (CDB MK, BUY, CP: MYR3.65, TP: MYR4.50)**

Our preferred sector pick, we believe 5G-capex risk for CelcomDigi is largely priced-in, and the stock could re-rate when merger synergies begin to manifest more meaningfully (possibly from FY25 onwards). Network integration and modernisation was c.70% complete at 3Q24 (c.10,500 sites modernised), with management expecting to achieve 75% completion by end-FY24 (ahead of schedule).

- **Axiata (AXIATA MK, BUY, CP: MYR2.41, TP: MYR3.20)**

We continue to view Axiata's overall risk-reward favourably, with sequential net profit recovery and balance sheet repair being potential re-rating catalysts. Current share price only reflects its stakes in CelcomDigi and XL. A number of corporate exercises are ongoing (merger at XL, asset sale and potential fund raising at edotco and Linknet). Axiata remains committed to a minimum 10sen DPS annually

- **Telekom Malaysia (T MK, BUY, CP: MYR6.59, TP: MYR7.50)**

We remain positive on TM, which has thus far held its ground amid intensifying competition in the fibre broadband space. Longer-term, we note that TM is conceptually a beneficiary of Malaysia's data centre boom (through its connectivity and data centre offerings). Management is particularly upbeat on its data centre venture with Singtel.

- **Maxis (MAXIS MK, HOLD, CP: MYR3.65, TP: MYR3.70)**

We view risk-reward as being balanced presently, with Maxis' generally stable earnings delivery being offset by a conservative dividend outlook (4sen quarterly DPS) and overall 5G uncertainty. We see an absence of strong re-rating catalysts for the stock in the next 12 months.

- **TIME dotCom (TDC MK, HOLD, CP: MYR4.70, TP: MYR5.10)**

Management continues to prioritise the expansion of its fibre footprint for now, while taking an opportunistic stance towards new ventures. With tapering earnings growth and no stated timeline for new ventures, we see a lack of re-rating catalysts in the near-term. Nevertheless, the stock's relatively attractive dividend yield (c.5%) should provide downside support in our view.

4.3 Race to the bottom

Longer-term, we believe the telecom industry will likely continue to depict a long-drawn race to the bottom as competition hampers monetisation and regulatory demands intensify. As revenue stagnate, telcos can only rely on optimising costs (including engaging in mergers) to preserve earnings. In our view, telcos with headroom to optimise costs are: TM (high staff costs), Axiata (holding co and finance costs) and CelcomDigi (realization of merger synergies).

5. Key risks

There are several risk factors for our earnings estimates, price targets, and ratings for the Malaysia telcos. Competitive developments, such as price wars could adversely affect pricing and profitability. Regulatory developments pertaining to taxation, product pricing or spectrum also pose a risk to earnings. Developments pertaining to industry consolidation could also have an impact on share prices.

In the mobile space, 5G developments are still fluid and could have material implications to telcos' operations. Delays in merger integration and synergy realization would materially impact CelcomDigi's earnings. Currency is also a risk factor for Axiata, with sizable earnings being derived from outside Malaysia. In the fixed-line space, the broadband segment is getting increasingly competitive with encroachment from mobile operators. There remains a risk of retail subscribers potentially down-trading to cheaper plans

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