

SECTOR UPDATE

Telecommunications – Malaysia

9M24: In Line; Rollout Of A Second 5G Network In 2025

9M24 results came in broadly within expectations, with sector earnings growing 4% yoy, driven by: a) 2% yoy service revenue growth, with Maxis achieving 4% yoy growth; b) strong underlying demand for home broadband; and c) good cost discipline. Key events to look out for in 1H25 include: a) fixed line competition; b) U Mobile potential 5G consortium; c) government’s exit from DNB, and d) CelcomDigi’s synergistic savings in 2025. Maintain MARKET WEIGHT. Our top pick is CelcomDigi.

WHAT’S NEW

- 9M24: Largely within expectations.** Sector earnings came in broadly within our expectations, expanding 4% yoy to RM4,662m. TM reported earnings that were ahead of expectations on the back of lower interest costs and cost discipline. Within the mobile segment, Maxis showed strong performance across its postpaid and fixed-mobile convergence strategy, registering robust net profit growth of 8% ytd. We note that competition remained stiff in the home broadband market as TM’s net subscriber growth has remained at low single digit since 4Q23. This is the result of aggressive bundling services from both CelcomDigi and Maxis.
- All in all, 9M24 saw:** a) 2% yoy service revenue growth, with Maxis achieving 4% yoy growth and flat growth for CelcomDigi, b) strong underlying demand for home broadband services from TM and TIME dotCom (TIME) despite stiff competition, and c) CelcomDigi lifting 2024 gross synergy savings from RM700m to RM1.1-1.2b. We expect sequentially stronger 4Q24 earnings for CelcomDigi as the bulk of integration costs was booked in 2Q24 and 3Q24.
- Key events to look out for in 1H25 include:** a) fixed-line price competition – given intense competition from CelcomDigi, b) clarity and guidance on the terms offered to build the second 5G network – especially on the partnership between U Mobile and CelcomDigi/Maxis/TM, and c) synergistic savings from the merger of Celcom and Digi in 2025-27. To recap, the total synergistic savings (from both opex and capex) are estimated at RM8b by 2027. About 65% of the savings will come from network integration, ie phasing out of duplicated towers and ytd, CelcomDigi has achieved close to 70% of the overall network integration targets, with more than 10,500 sites modernised as of end-Oct 24. This allowed CelcomDigi to generated gross synergy savings of RM1.0b in the first nine months of 2024 (vs 1H24: RM727m) and lifted the guidance to RM1.1b-1.2b for 2024.
- Second 5G network offered to U Mobile.** On 1 Nov 24, the Malaysian Communications and Multimedia Commission (MCMC) announced U Mobile Sdn Bhd as the winner for the second 5G network bid (700MHz and 3.5GHz spectrum). According to the statement, U Mobile is allowed to collaborate with other mobile network operators (MNOs) to implement the second 5G network. Subsequent to the award, U Mobile’s largest shareholder Singapore Technologies Telemedia Pte Ltd (ST Telemedia) announced that it will sell a majority stake in U Mobile to Mawar Setia Sdn Bhd – a company owned by Tan Sri Vincent Tan and Johor princess Tunku Tun Aminah Sultan Ibrahim. Upon completion, ST Telemedia will own a 20% minority stake in U Mobile.

PEER COMPARISON

Company	Tickers	Rec	Share Price 9 Dec 24 (RM)	Target Price (RM)	Market Cap (RMm)	PE		EV/EBITDA		Dividend Yield	
						FY24F (x)	FY25F (x)	FY24F (x)	FY25F (x)	FY24F (%)	FY25F (%)
Axiata Group	Axiata MK	BUY	2.36	2.90	21,396	33.5	30.6	4.2	3.9	4.2	4.2
CelcomDigi	CDB MK	BUY	3.65	4.50	42,820	23.0	19.6	8.4	8.2	4.3	5.0
Maxis	Maxis MK	BUY	3.50	4.20	27,416	20.7	17.9	8.7	8.2	4.4	5.1
Telekom Malaysia	T MK	HOLD	6.60	7.00	24,715	15.5	14.0	5.4	4.7	2.8	3.1
TIME dotCom	TDC MK	BUY	4.80	6.00	8,689	18.7	16.8	10.9	10.8	6.5	7.5

Source: UOB Kay Hian

MARKET WEIGHT

(Maintained)

SECTOR TOP PICKS

Top pick	Rec	Target Price (RM)	EV/EBITDA (x)	Div Yield (%)
CD*	BUY	4.50	8.2	5.0
Axiata	BUY	2.90	3.9	4.2
TIME	BUY	6.00	10.8	7.5

*CelcomDigi

Source: Bloomberg, UOB Kay Hian

CORE NET PROFIT (3Q24)

	3Q24	% chg qoq	% chg yoy
Axiata	228.1	31.6	200.8
CelcomDigi	437.0	4.0	(26.5)
Maxis	366.0	2.8	6.4
TM	567.2	42.6	7.7
TIMEdotCom	111.9	4.8	5.3
Big 2*	803.0	3.5	(14.5)
Fixed Line	679.1	34.6	7.3
Sector Total	1,710.2	(2.9)	(5.0)

Source: UOB Kay Hian

*Big 2 stands for CelcomDigi and Maxis

CORE NET PROFIT (9M24)

	9M24	% chg yoy	Comment
Axiata	550.9	264.4	Inline
CelcomDigi	1,344.4	(17.7)	Inline
Maxis	1,075.0	8.3	Inline
TM	1,362.3	(2.3)	Above
TIMEdotCom	329.1	6.7	Inline
Big 2	2,419.4	(7.9)	
Fixed Line	1,691.4	(0.7)	
Sector Total	4,661.7	4.1	

Source: UOB Kay Hian

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ACTION

- Maintain MARKET WEIGHT.** The sector has underperformed the FBMKLCI by 17%. This is due in part to the long-drawn 5G DWN headwind and stiff competition in the home fibre segment. Trading at 6.5x EV/EBITDA, we opine the current valuation is fair and has largely factored in: a) stiff competition within the prepaid and fixed-line segments – to create stickiness in the consumer space, and b) overhang on DWN. We reiterate MARKET WEIGHT on the sector. Top picks: Axiata Group, CelcomDigi.
- Key risks to our investment thesis include:** a) earnings eroding for fixed-line operators due to stiff competition, b) lower-than-expected synergistic savings from the CelcomDigi merger exercise, and c) economic downturn which will lead to shrinking customer wallets and service revenue for the sector.
- CelcomDigi (CDB MK/BUY/Target: RM4.50).** We expect merger costs to peak this year and yield projected cost savings of RM800m annually by 2027 (steady state). This suggests a robust three-year earnings CAGR of 15% over 2023-26 as merger synergies materialise over time.
- Key re-rating catalysts for CelcomDigi.** While our BUY call is premised on attractive valuation (trading below mean valuation), we note that the following catalysts could lift share price in the medium term: a) clarity on 5G DWN will help lift an overhang on the industry, b) flow-through of synergistic savings from 2H25 onwards, c) potential monetisation of its 18,000 telco tower assets, and d) active capital management including return of cash flow from monetisation of tower assets via a special dividend. Our DCF-based target price is RM4.50. Our target price reflects potentially higher synergistic savings in 2025 after incurring significant integration costs in 2024. At our fair value, the stock trades at its mean EV/EBITDA of 10x.
- Axiata Group (AXIATA MK/BUY/Target: RM2.90).** In the telco universe, Axiata stands to benefit from a lower interest rate environment. With its cash pile rising from RM1b (1Q24) to RM1.3b (2Q24) and improved net debt/EBITDA ratio of 2.88x (2Q24), Axiata has taken the opportunity to repurchase some of its dollar-denominated bonds. A 1% change in interest rate can lift 2025 net profit by 12%, based on a 44% floating-rate debt profile. We expect to see a marginal drop in interest costs in 2H24 as a result of the US-dollar debt settlement. The stock is expected to re-rate in the presence of: a) better-than-expected OpCos performance, b) potential monetisation of Edotco, and c) an even lower interest rate environment. Our SOTP-based target price is RM2.90. The group currently trades at 3.9x 12-month forward EV/EBITDA, close to its five-year mean of 3.8x.

ESSENTIALS

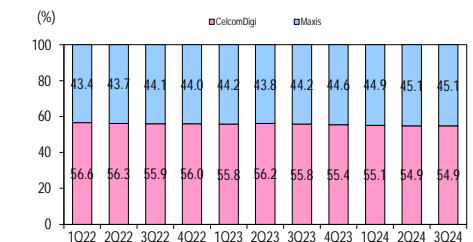
- Maxis may be U Mobile’s potential partner in Entity B – to build the second 5G network.** We expect U Mobile to work with Maxis to build a second 5G network. This may include many permutations, including an equity stake in a special purpose vehicle (SPV) that will eventually hold the 5G spectrum to be owned by Maxis and U Mobile. Other permutations include the potential merger of U Mobile and Maxis, although we believe this method is more complicated as it requires shareholders’ approval.
- CelcomDigi to take over Digital Nasional Berhad (DNB) and its RM4b debt?** Each mobile network operator (MNO) must choose to invest in Entity A (DNB) or Entity B within the dual network – see RHS. With U Mobile leading Entity B and a likely scenario where U Mobile and Maxis forms a consortium, CelcomDigi may be tasked to lead Entity A via share buyouts from the exiting MNOs (U Mobile and Maxis, for example) and Ministry of Finance’s (MOF) existing 30% equity stake in DNB. We understand that the shareholder advances of exiting MNOs (approximately RM1.2b from each MNO) will be converted to “pre-payment” for the use of the DNB 5G wholesale network. If CelcomDigi were to take over DNB and assume its debt of about RM4b, the focus will be to bring about good cost discipline in DNB to ensure Maxis’ network cost remains competitive.

CELCOMDIGI: RM800M COST REDUCTION EXPECTED IN STEADY-STATE AFTER 2027

RMm	CAPEX		P&L		Steady-state post 2027
	2023	YTD 2024	2023	YTD 2024	
Network	192	710	9	50	150
IT	8	-	4	-	140
People	-	-	21	10	160
Others	9	30	123	140	350
Gross Synergy	209	740	157	200	800
Integration Cost	(10)	(70)	(109)	(170)	
Net Synergy	199	670	48	30	

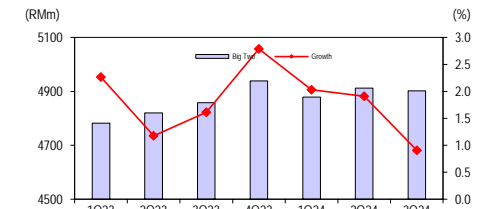
Source: CelcomDigi

TELCO REVENUE MARKET SHARE



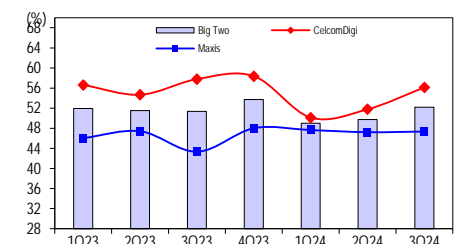
Source: Respective companies

BIG TWO’S QUARTERLY SERVICE REVENUE



Source: Respective companies

QUARTERLY EBITDA MARGIN



Source: Respective companies

MALAYSIA SHIFTS TO DUAL WHOLESALE NETWORK IN 2024



Source: MCMC, UOB Kay Hian

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