

16 January 2024

Communications | Telecommunications

Telecommunications

Neutral (Maintained)

Not a Clear Line

Stocks Covered 5
 Rating (Buy/Neutral/Sell): 3 / 2 / 0
 Last 12m Earnings Revision Trend: Negative

- Fixed wins.** The telcos delivered a meagre 0.6% mean share price return in 2023 with fixed/integrated plays again eclipsing its mobile contemporaries' performance. We continue to see sector core earnings being spearheaded by fixed plays for FY24F, supported by structural growth prospects. Overall, we deem sector valuation (-1.5SD from historical EV/EBITDA mean) as fair and reflective of the still tight competition, with 5G monetisation and capex as headwinds. Stay NEUTRAL; preferred picks: Time dotCom and OCK Group. We also like Axiata Group as a key big cap telco laggard.
- Competition tightened further in December.** On top of the aggressive upselling and cross-selling of fixed broadband (FBB)-mobile bundles by the mobile network operators (MNOs), competition in the mobile segment has remained tight, with Maxis dishing out 2-10x more data on its new 5G postpaid plans in mid-December. CelcomDigi (CDB) also marked the first anniversary of its merger with new unified 5G postpaid plans introduced. CDB is currently offering unlimited hotspot and 300Mbps FBB for its top tier bundled plan priced at MYR260/month (MYR200/month for existing customers). We do not rule out the extension of policy-centric campaigns to stoke 5G adoption in 2024.
- Access price concerns are behind.** A key overhang on the sector has been the protracted discussions on broadband access prices (following the implementation of new mandatory access pricing framework in Mar 2023). With the MNOs having inked new wholesale agreements, new retail FBB prices unveiled and existing customers feted with complementary speed upgrades, the risk of ARPU compression in the market has been minimised, in our view. There is upside to industry FBB subs growth and ARPU from greater FBB adoption (lower price point of MYR89-99/month for entry level 100Mbps FBB plans).
- ...but 5G policy uncertainties linger on.** Regulatory issues have hogged the limelight for the better part of last year. The Government and four MNOs have since entered into conditional agreements to acquire a 14% stake each of DNB which has fulfilled its 80% population coverage mandate. Uncertainties however remain on: i) The structure of the second consortium (exclusive to MNOs that have taken up stakes in DNB) and ii) 5G-related capex (yet to be guided by telcos) with MNOs expected to incur higher DNB wholesale charges from FY24F. A provision in the 5G wholesale agreements with DNB allows for MNOs to terminate the agreement when DNB is no longer the single 5G wholesale network provider.
- We continue to like fixed line plays** given the more discernible structural and secular earnings drivers, and promising dividend prospects. Preferred picks are Time dotCom and OCK Group. Our BUY call on Axiata Group is also in line with our broad market strategy focus on deep sector laggards, with the stock down a hefty 23% in 2023 – the worst performing among the ASEAN-4 telcos. Key risks for the sector/stocks are competition, weaker-than-expected earnings, capex, and adverse regulatory developments.

Top Picks

Target Price

Time dotCom (TDC MK) – BUY MYR6.00
 OCK Group (OCK MK) – BUY MYR0.65

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CDB's new 5G plans unveiled in early Dec 2023



Source: Company data

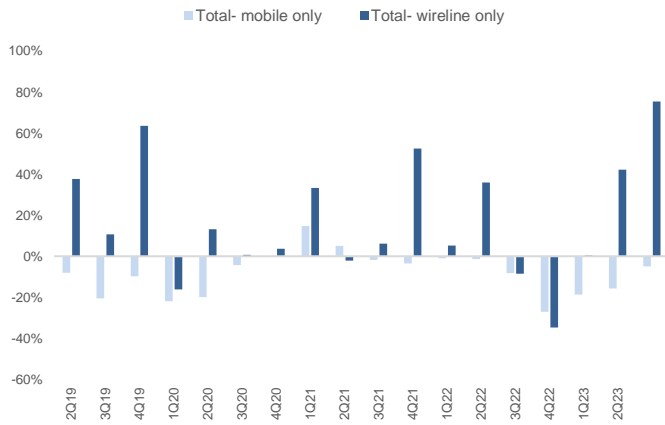
Company Name	Rating	Target (MYR)	% Upside (Downside)	P/E (x) Dec-24F	P/B (x) Dec-24F	ROAE (%) Dec-24F	Yield (%) Dec-24F
Axiata Group	Buy	3.03	18.4	33.9	1.0	0.5	3.9
CelcomDigi	Neutral	4.70	11.1	29.4	3.0	10.2	3.1
Maxis	Neutral	3.90	1.0	25.1	4.8	18.8	5.2
OCK Group	Buy	0.65	32.7	11.5	1.1	10.0	1.9
Time dotCom	Buy	6.00	9.9	19.4	2.6	13.3	4.1

Source: Company data, RHB

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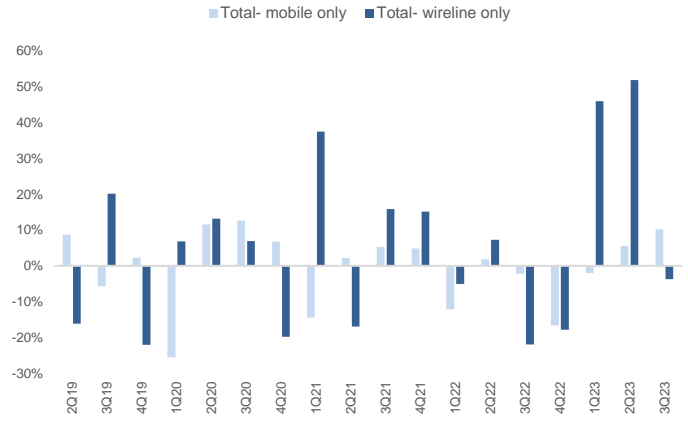
Market Dateline / PP 19489/05/2019 (035080)

Figure 1: Core earnings growth YoY



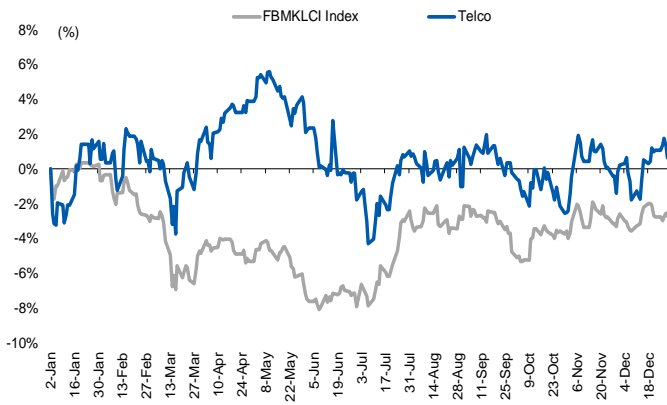
Source: Company, data, RHB

Figure 2: Core earnings growth QoQ



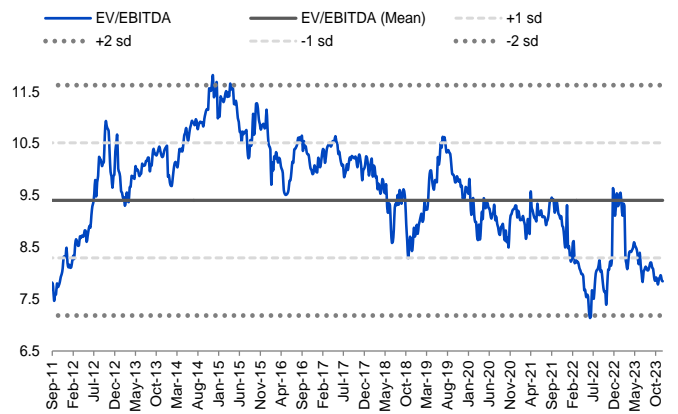
Source: Company, data, RHB

Figure 3: 2023 sector performance vs FBM KLCI



Source: Company, data, RHB

Figure 4: 1-year forward sector EV/EBITDA



Source: Company, data, RHB

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