



AmInvestment Bank

Sector report
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TELECOMMUNICATION

Transitioning to 5G with Jendela

OVERWEIGHT

(Maintained)

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Rationale for report: Sector update

Investment Highlights

- **Phase 1 on track.** We attended the Malaysia Communications and Multimedia Commission's (MCMC) 2nd Quarterly Report on the National Digital Infrastructure Plan (Jendela) yesterday, presented by its chairman Dr Fadhlullah Suhaimi Abdul Malek. Jendela's phase 1 progress is currently on track to reach its national target to fiberise 7.5mil premises, achieve mobile broadband speed of 35Mbps and 4G coverage of 96.9% by the end of 2022.

QoQ, fiberised premises increased by 5% QoQ to 5.7mil, 4G coverage rose 1.5 percentage points to 93.5% while mobile broadband speeds slid slightly by 0.6% to 25.4Mbps in 1Q2021 (Exhibit 2). During the quarter, fixed broadband premises increased by 293K, surpassing the MCMC's target by 32% while new mobile sites rose by 29 (vs. a target of 25) and upgraded sites by 3,278 (+1.7%). With 629K 3G customers migrating to 4G and 20K carriers switched off in 1Q2021, the MCMC has ceased the certification and importation of 3G and 4G equipment without VoLTE from 1 January 2021.

- **Engaging with states to reduce tower permit costs.** The MCMC revealed that state permits for tower deployment in Malaysia currently has a 6-year median cost of RM42K/site with the most expensive in Johor (RM117K) followed by Melaka (RM105K) and Sarawak (RM65K) (Exhibit 4). As such, the MCMC plans to engage with the states to reduce permit costs, which are different across the states, and speed up 4G coverage expansion.

Recall that Jendela aims to improve 4G connectivity for all Malaysians and prepare the nation for a steady transition to 5G technology under the 12th Malaysia Plan (2021–2025), which will be implemented over 2 phases (Exhibit 3). The recent tender, potentially worth RM4.6bil, to construct 1,661 new sites across the country for 4G expansion has closed on 31 March 2021 with the results expected to be announced by the end of 2Q2021.

- **Transitioning to 5G.** Under phase 1, the sector will upgrade 12,499 2G/3G base stations to 4G, retire the 3G network and migrate the spectrum for 4G usage while fiberising 1.2mil additional premises by the end of 2021. This lays down the foundation for 5G, driven by the wholly government-owned special purpose vehicle Digital Nasional, which will own, execute and manage 5G spectrum together with the infrastructure that is expected to cost RM15bil. This is envisaged to allow licensed telcos with equal access to the infrastructure at transparent wholesale prices, facilitating an expedited rollout of 5G services nationwide, expected to begin in stages by the end of this year.

As 5G investments are expected to cost 25%–75% more than 4G infrastructure, this structure aims to eliminate duplication of resources and allow operators to compete on service quality as opposed to facilities-based differentiation. The MCMC refrained from commenting on Digital Nasional's funding structure, which is expected to be from the private sector.

- **Celco collaboration.** Recently, the 3 largest cellular operators (celcos) in the country, Axiata Group's wholly-owned Celcom, Digi.Com and Maxis, have agreed to jointly develop and share fibre infrastructure which will facilitate faster and more efficient backhaul deployment to their base stations as well as avoid duplication. The collaboration could still mean a single-hop system by complementing fibre technology with microwave, which allows faster deployment.

Even so, fibre infrastructure upgrades will accommodate accelerating internet traffic growth, especially in high-impact areas, extending 4G mobile backhaul to eventually support 5G new sites and fibre-to-home services. Hence, over the longer term, the operators could potentially deploy fibre broadband service directly to consumers, bypassing TM's High-Speed Broadband and Sub-Urban Broadband networks.

- **Differentiating to monetise 5G.** As Maxis has shown its successful drive to differentiate through superior network quality, customer care and convergence strategy by bundling with fibre solutions, competitors have also begun similar marketing campaigns. Recently, Celcom introduced its Max bundled package with fibre speeds starting at 100Mbps for postpaid mobile plans starting from RM80/month.

Increasingly, operators agree that ongoing intense competition globally will obviate any attempt to charge premium prices for 5G branding unless the provision of managed services and attractive solutions are offered to customers. As such, we believe that 5G marketing campaigns are likely to follow the earlier 4G models in offering unlimited data limited by speed caps that will depend on the evolution of the ecosystem involving the innovation of new applications, devices and content.

- **Consolidation possibilities still on.** Notwithstanding efforts to reduce capex deployment by the regulator and amongst operators, we still expect declining data yields amid intense competition from among themselves, further exacerbated by U Mobile, unifi Mobile and MVNOs, to drive operators to seek consolidation for greater cost optimisation, economies of scale and reduce rivalry. Even though the MCMC has shown a preference for maintaining competitive pressures to reduce broadband prices for consumers, we maintain our view that the industry's stagnant revenue trajectory could eventually drive the sector towards more merger and acquisition activities.
- **Maintain OVERWEIGHT with BUY calls for TM,** which has shown significant cost improvements together with more compelling dividend yields, and **Axiata,** which offers bargain EV/EBITDA valuations with multiple opportunities for monetisation as the group aims for higher dividend payout policies. These valuations are even more compelling given their ESG scoring of 3–4-stars. Our HOLDs are maintained for Maxis and Digi given the sector's intense competition which has constrained revenue and margin growth prospects.

EXHIBIT 1: VALUATION MATRIX

Stocks	Call	Price	FV	Up/down side (%)	Mkt Cap (RMmil)	Enterprise Val. (RMmil)	EV/EBITDA (x)		EPS growth (%)		PE (x)		ROE (%)	NDPS (sen)	Div Yld (%)	Net debt/ EBITDA (x)
		(RM)	(RM)				CY21F	CY22F	CY21F	CY22F	CY21F	CY22F	CY21F	CY21F	CY21F	
Axiata	BUY	3.80	4.50	18.4	34,822	22,227	1.9	1.8	171.4	27.5	35.2	27.6	4.5	9.5	2.5	1.3
Maxis	HOLD	4.60	5.10	10.9	35,986	45,328	11.6	11.0	19.8	20.6	23.2	22.3	20.6	17.0	3.7	2.4
Digi	HOLD	3.75	4.05	8.0	29,156	33,848	11.1	10.7	(1.3)	6.5	24.2	22.7	217.7	15.5	4.1	1.3
Telekom	BUY	6.12	7.10	16.0	22,999	27,917	6.6	6.4	28.2	29.7	21.7	20.6	13.2	14.3	2.3	0.7

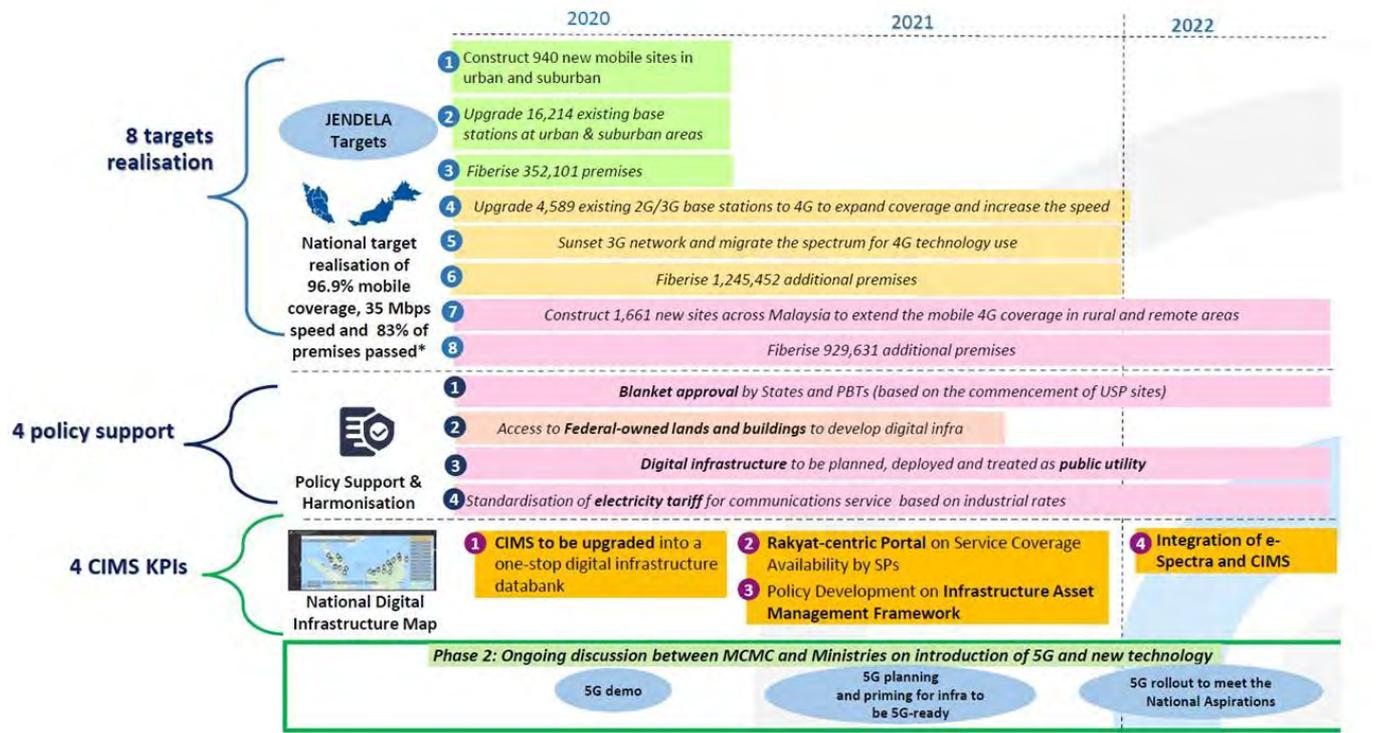
Source: AmInvestment Bank

EXHIBIT 2: JENDELA PHASE 1 PROGRESS AS AT 31 MARCH 2021

	Baseline	Status as at 31 Dec 2020	Status as at 31 Mar 2021	JENDELA Phase 1 Targets (end of 2022)
	4.957 million premises passed	5.414 million premises passed	5.707 million premises passed	7.5 million premises passed
	25 Mbps* Mobile Broadband Speed	25.6 Mbps* Mobile Broadband Speed	25.44 Mbps* Mobile Broadband Speed	35 Mbps Mobile Broadband Speed
	91.8% 4G Coverage	92.03% 4G Coverage	93.51%** 4G Coverage	96.9% 4G Coverage

Source: MCMC

EXHIBIT 3: JENDELA ACTION PLAN



Source: MCMC

EXHIBIT 4: PERMIT COST OF TOWER STRUCTURES

No.	State	Cost of deployment for new tower (RM)	Cost of renewal for existing towers (RM)						State	Total cost for 6 years (RM)
			Year 1	Year 2	Year 3	Year 4	Year 5	Year 6		
1	Sarawak	37,600	2,880	2,880	2,880	2,880	2,880	15,380	Johor	116,750
2	Johor	26,750	18,000	18,000	18,000	18,000	18,000	18,000	Melaka	105,135
3	Melaka	16,085	17,810	17,810	17,810	17,810	17,810	17,810	Sarawak	64,500
4	Terengganu	14,378	9,900	9,900	9,900	9,900	9,900	9,900	Terengganu	63,878
5	Kedah	12,910	3,635	3,635	3,635	3,635	3,635	3,635	Perlis	51,900
6	Kelantan	12,700	3,000	3,000	3,000	3,000	3,000	3,000	N. Sembilan	47,400
7	Perlis	12,400	7,900	7,900	7,900	7,900	7,900	7,900	Selangor	43,100
8	WP Putrajaya	11,350	1,350	1,350	1,350	1,350	1,350	1,350	Perak	42,425
9	Pulau Pinang	10,500	5,000	5,000	5,000	5,000	5,000	5,000	Sabah	41,000
10	N. Sembilan	10,400	7,400	7,400	7,400	7,400	7,400	7,400	WP KL	37,800
11	Perak	9,925	6,500	6,500	6,500	6,500	6,500	6,500	Pulau Pinang	35,500
12	WP KL	9,800	5,600	5,600	5,600	5,600	5,600	5,600	Kedah	31,085
13	Selangor	8,600	6,900	6,900	6,900	6,900	6,900	6,900	Kelantan	27,700
14	Sabah	8,500	6,500	6,500	6,500	6,500	6,500	6,500	WP Putrajaya	18,100
15	Pahang	7,150	1,000	1,000	1,000	1,000	1,000	1,000	Pahang	12,150
16	WP Labuan	2,065	2,000	2,000	2,000	2,000	2,000	2,000	WP Labuan	12,065

High Cost (> RM10,000 for new towers and > RM40,000 for total cost for 6 years)
 Low cost (< RM10,000 for new towers and < RM40,000 for total cost for 6 years)

Source: MCMC

EXHIBIT 5: PERMIT COST OF ROOFTOP STRUCTURES

No.	State	Cost of deployment for new rooftop structure (RM)	Cost of renewal for existing rooftop structure (RM)					State	Total cost for 6 years (RM)
		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6		
1	Sarawak	12,500	0	0	0	0	12,500	Melaka	39,500
2	WP Putrajaya	12,000	2,000	2,000	2,000	2,000	2,000	N. Sembilan	37,750
3	Johor	11,540	5,000	5,000	5,000	5,000	5,000	Johor	36,540
4	Kedah	11,260	2,000	2,000	2,000	2,000	2,000	Terengganu	33,100
5	Kelantan	11,200	3,000	3,000	3,000	3,000	3,000	WP KL	32,900
6	Terengganu	10,100	4,600	4,600	4,600	4,600	4,600	Pulau Pinang	32,500
7	Perlis	9,500	3,000	3,000	3,000	3,000	3,000	Sabah	31,000
8	Sabah	8,500	4,500	4,500	4,500	4,500	4,500	Selangor	28,500
9	WP KL	7,900	5,000	5,000	5,000	5,000	5,000	Perak	27,425
10	N. Sembilan	7,750	6,000	6,000	6,000	6,000	6,000	Kelantan	26,200
11	Pulau Pinang	7,500	5,000	5,000	5,000	5,000	5,000	Sarawak	25,000
12	Perak	7,425	4,000	4,000	4,000	4,000	4,000	Perlis	24,500
13	Melaka	7,000	6,500	6,500	6,500	6,500	6,500	WP Putrajaya	22,000
14	Pahang	6,150	1,000	1,000	1,000	1,000	1,000	Kedah	21,260
15	Selangor	6,000	4,500	4,500	4,500	4,500	4,500	Pahang	11,150
16	WP Labuan	1,500	1,500	1,500	1,500	1,500	1,500	WP Labuan	9,000

High Cost (> RM8,000 for new rooftop structure and > RM30,000 for total cost for 6 years)
Low cost (< RM8,000 for new rooftop structure and < RM30,000 for total cost for 6 years)

Source: MCMC

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