



AmInvestment Bank

Sector report
3 June 2020

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TELECOMMUNICATION

U-turn on 5G assignment?

NEUTRAL

(Maintained)

Rationale for report: Sector update

Investment Highlights

- *The Edge Markets* reported that Telekom Malaysia, Axiata Group's Celcom, Maxis, Digi.Com and Altel Communications have been assigned the 700 megahertz (MHz) band of 5G network by the Ministry of Communications and Multimedia (KKMM).

The 5 companies were awarded the 5G spectrum bands of 703MHz to 743MHz, and 758MHz to 798MHz as follows:

- TM: 2 x 5MHz blocks of 718MHz–723MHz and 773MHz–778 MHz.
 - Maxis : 2 x 10MHz blocks of 733MHz–743MHz and 788MHz–798MHz
 - Digi: 2 x 10MHz blocks of 703MHz–713MHz and 758MHz–768MHz
 - Axiata's Celcom: 2 x 10MHz blocks of 723MHz–733MHz and 778MHz–788MHz.
 - Altel Communications: 2 x 5MHz blocks of 713MHz–718MHz and 768MHz–773MHz.
- **U-turn from collaborative approach?** Recall that instead of allocating the 700MHz and 3.5GHz bands to individual licensees as for the 900MHz and 1,800MHz spectrums, the Malaysian Communications and Multimedia Commission (MCMC) had earlier planned to assign these bands to a single entity comprising of a consortium of multiple licensees. This was to encourage the sharing of resources to build and operate the required 5G infrastructure, while facilitating a faster rollout.

This single-entity approach was envisioned to minimise costs and prevent duplication of infrastructure against the backdrop of additional spending requirements to enhance 4G networks. In the MCMC's final report on the rollout of 5G spectrum networks, the 700MHz, 3.5 gigahertz (GHz) and 26/28GHz bands have been identified as pioneer spectrum bands for the implementation of 5G networks in Malaysia.

- **Negative on the individual assignment.** For now, we are uncertain if the MCMC has discontinued its pragmatic approach to encourage collaboration amongst operators. If so, this means that capex for the sector will be higher than earlier expectations while competition amongst players will heighten even further, similar to the free 4G promotions which had been offered in the past. As such, we are negative on this development, pending further clarification from the MCMC.
- **No changes to 4G licences.** Meanwhile, there is no change to the existing allocation for 2300MHz for WiMax and 2600MHz bands for 4G, which will be maintained until 31 December 2021 as all operators are urged to continue deploying mobile broadband services using existing technology in parallel to the necessary preparation towards 5G. The MCMC will undertake the necessary review of the bands in 2021.
- **Total subscriber trajectory continued its downward trend** after a brief uptick in 2Q2019 amid the still intense mobile competition. Mobile subscribers decreased by 580K QoQ as the prepaid declines of 704K were only able to be partially offset by postpaid additions of 124K. Only Maxis registered a 91K net increase while Celcom fell by 390K and Digi by 281K.
- **Intense mobile competition with unlimited data.** Earlier this year, Celcom introduced a postpaid plan with unlimited data with its MEGA product launch at RM98/month with a hotspot quota of 5GB/month. U Mobile also has a new GX38 prepaid plan which offers unlimited data at a promotional price of RM35/month with a speed cap of 6Mbps, compared with 3Mbps for its existing GX30 plan priced at RM30/month.

For comparison, Digi currently offers its Infinite online plan with unlimited data and calls at RM100/month while Unifi Mobile is priced at RM99/month. Maxis currently does not have an unlimited data plan, with the highest MaxisOne quota of 60GB priced at RM188/month. However, with Maxis planning to double data quotas for all postpaid plans, we do not preclude future erosion in ARPUs from new pricing challenges.

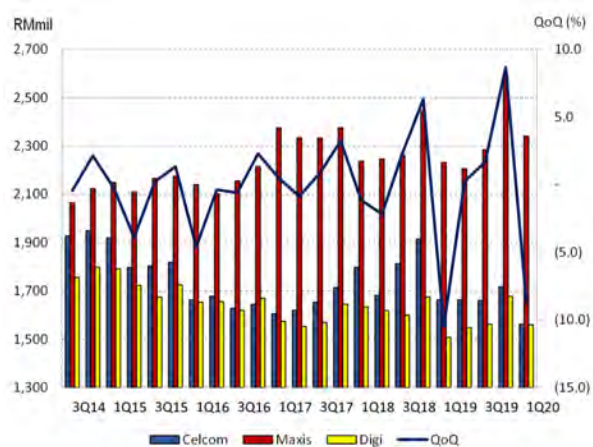
- **Maintain NEUTRAL** outlook on the sector given the unmitigated mobile competition amid escalating capex requirements against the backdrop of the National Fiberisation and Connectivity Plan (NFCP) agenda to improve national connectivity and affordability. Our only **BUY** currently is **Axiata**, given its low EV/EBITDA valuations and rising prospects for monetisation of its multiple businesses.

EXHIBIT 1: VALUATION MATRIX

Stocks	Call	Market		EV/EBITDA		PE		Div yield		ROE		Net debt/ FY20F EBITDA
		capitalisation	Fair value	FY20F	FY21F	CY20F	CY21F	CY20F	CY21F	CY20F	CY21F	
		RMmil	RM/share	x	x	x	x	%	%	%	%	
Axiata	BUY	34,630	4.50	4.5	4.3	49.2	42.8	2.5	2.5	3.3	3.8	1.7
Maxis	HOLD	41,683	6	13	12	28.3	26.7	3.4	3.6	20.9	22.1	2.4
Digi	HOLD	35,454	4.55	11.9	11.7	25.5	24.6	3.9	4.1	251.2	260.6	1.3
Telekom	HOLD	16,535	4.2	6.1	5.9	18.7	18.1	2.3	2.3	10.2	10.1	1.6

Source: AmlInvestment Bank

EXHIBIT 2: REVENUE BREAKDOWN



Source: Bursa Malaysia

EXHIBIT 3: REVENUE CHANGES

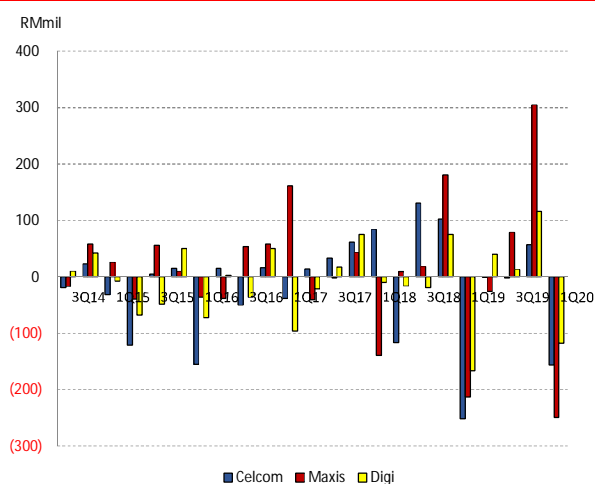
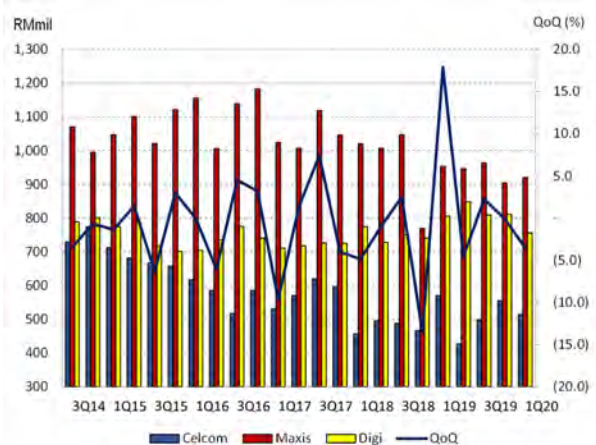
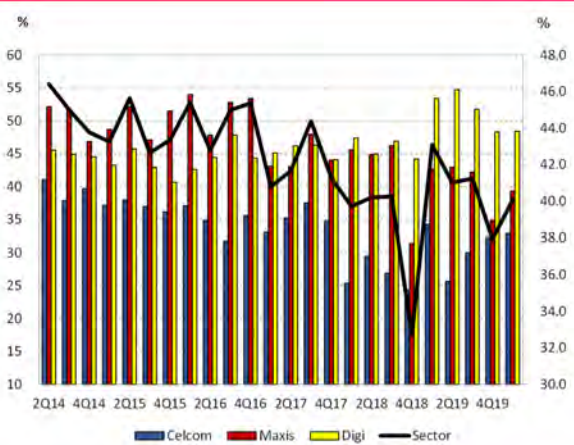


EXHIBIT 4: EBITDA BREAKDOWN



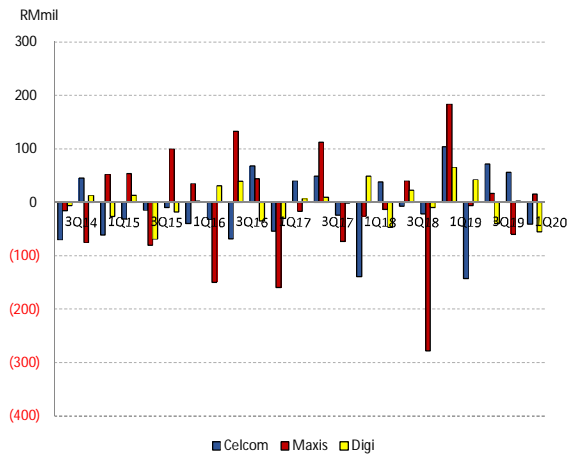
Source: Bursa Malaysia

EXHIBIT 5: EBITDA MARGIN



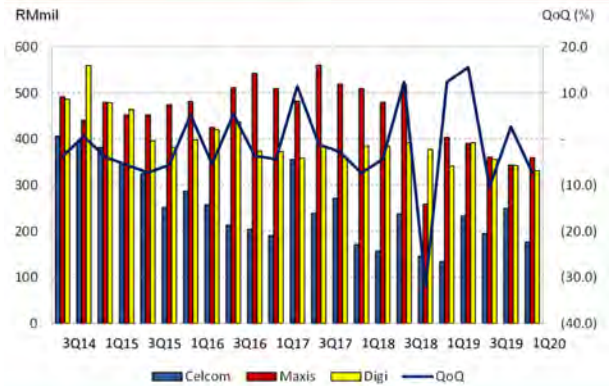
Source: Bursa Malaysia

EXHIBIT 6: EBITDA CHANGES



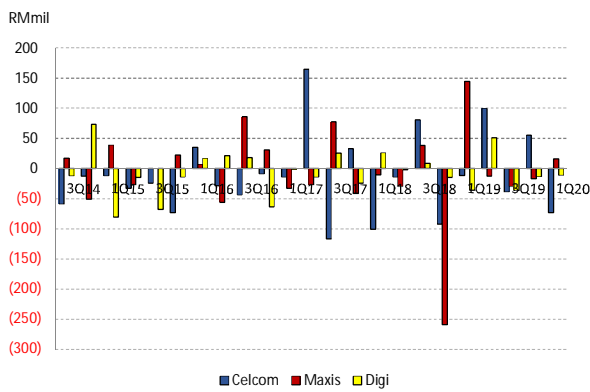
Source: AmInvestment Bank

EXHIBIT 7: PATAMI BREAKDOWN



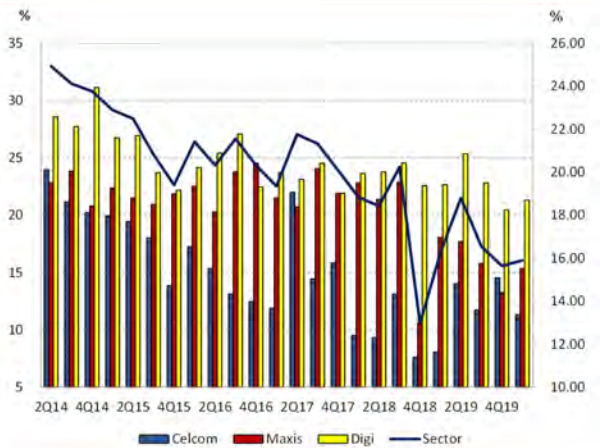
Source: AmInvestment Bank

EXHIBIT 8: PATAMI CHANGES



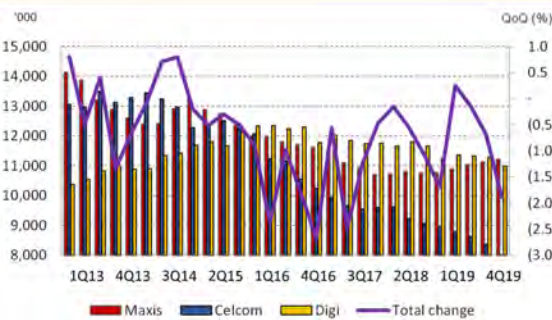
Source: AmInvestment Bank

EXHIBIT 9: PATAMI MARGIN



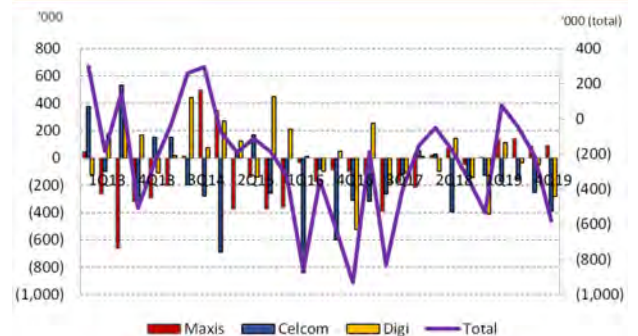
Source: AmInvestment Bank

EXHIBIT 10: MOBILE SUBSCRIBERS



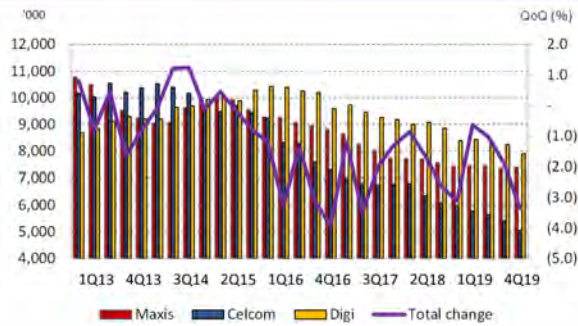
Source: Companies' investor presentation slides

EXHIBIT 11: MOBILE SUBSCRIBER CHANGES



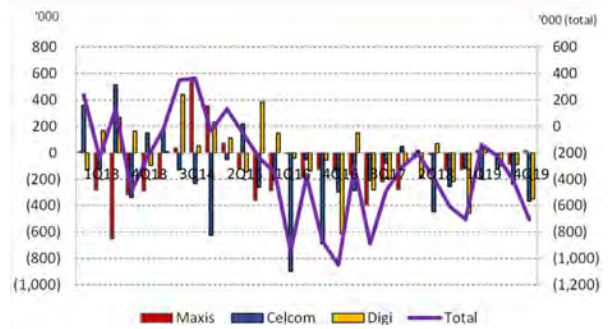
Source: Companies' investor presentation slides

EXHIBIT 12: PREPAID SUBSCRIBERS



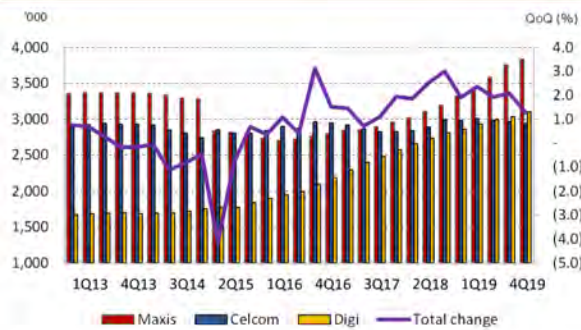
Source: Companies' investor presentation slides

EXHIBIT 13: PREPAID SUBSCRIBER CHANGES



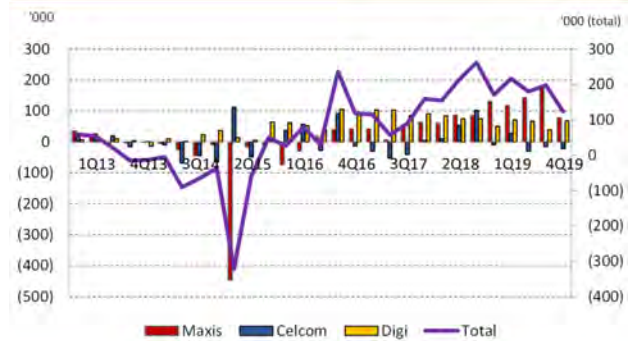
Source: Companies' investor presentation slides

EXHIBIT 14: POSTPAID SUBSCRIBERS



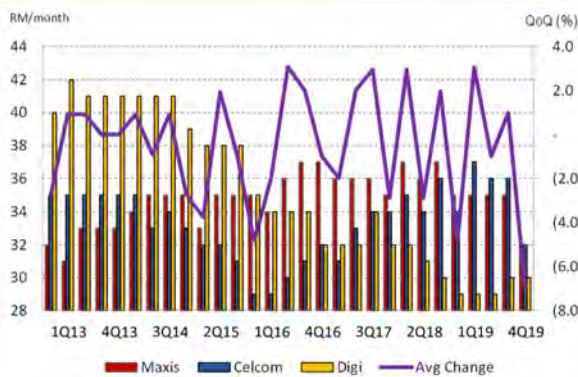
Source: Companies' investor presentation slides

EXHIBIT 15: POSTPAID SUBSCRIBER CHANGES



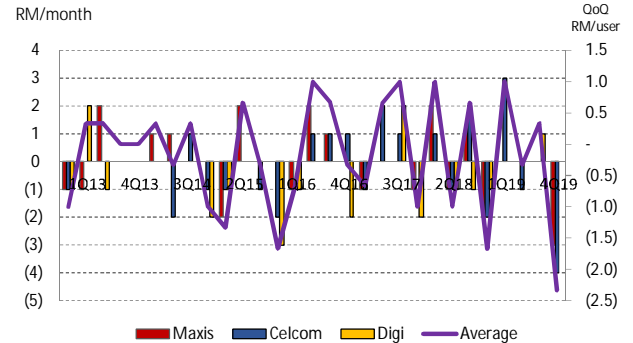
Source: Companies' investor presentation slides

EXHIBIT 16: PREPAID ARPU



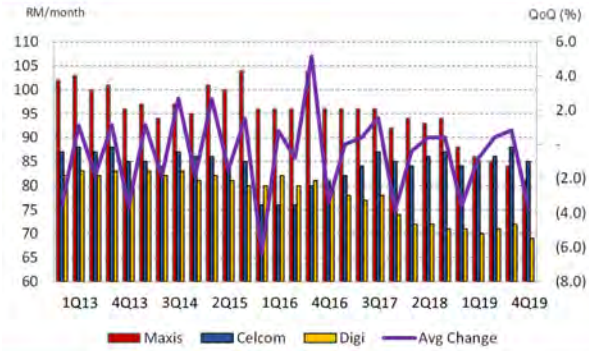
Source: Companies' investor presentation slides

EXHIBIT 17: PREPAID ARPU CHANGES



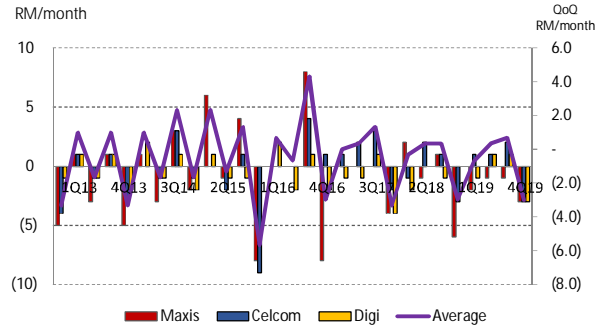
Source: Companies' investor presentation slides

EXHIBIT 18: POSTPAID ARPU



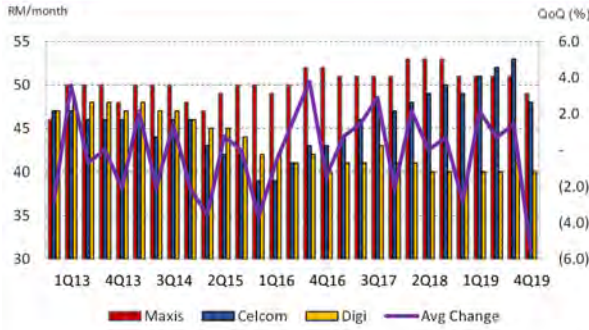
Source: Companies' investor presentation slides

EXHIBIT 19: POSTPAID ARPU CHANGES



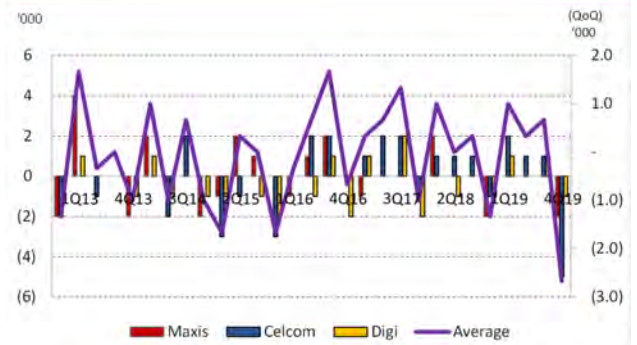
Source: Companies' investor presentation slides

EXHIBIT 20: BLENDED ARPU



Source: Companies' investor presentation slides

EXHIBIT 21: BLENDED ARPU CHANGES



Source: Companies' investor presentation slides

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