



# TELECOMMUNICATION

Seasonally slower 1Q2021

**OVERWEIGHT**

(Maintained)

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*Rationale for report: Sector update*

## Investment Highlights

- **Largely within market expectations...** While the telco sector's 1Q2021 results were generally in line with our expectations, Maxis underperformed market estimates by 5%–6% due to lower enterprise fixed revenues. TM's results, while delivering an outstanding 38% YoY earnings growth from indefeasible rights of use sales and lower seasonal opex, were also in line with our expectations. Time dotCom (UNRATED) likewise registered 1QFY21 results that were within expectations notwithstanding above-industry revenue growth of 13%.
- **... even though celco earnings contracted.** Sequentially, 1Q2021 cellular operators (celco) core net profit decreased by 28% to RM668mil despite a flattish revenue of RM5.4bil. Maxis' 1QFY21 increased 5% QoQ instead of lower operating expenditures.
- **Seasonally lower margin.** Higher seasonal operating expenses largely caused 1QFY21 celco EBITDA margin to contract 1 percentage point QoQ to 43%. On a YoY comparison, the sector's EBITDA margin rose 2 percentage points instead from lower operation & maintenance, traffic and device costs of Maxis.
- **Supported by higher users.** Overall, cellular net subscribers increased by 361K QoQ due to both prepaid (+221K) and postpaid (+140K) segments. The proportion of postpaid users has gradually risen to 33% in 1Q2021 from 25% in 4Q17, as celcos have been encouraging subscribers to migrate to higher priced postpaid plans. However, this has been partly offset by a RM1/month QoQ decline in average postpaid revenue per user to RM75/month.
- **Maxis regains market leader in both postpaid and prepaid.** In 1Q2021, Maxis' overall subscriber market share rose slightly to 37%, retaining its pole position. Besides its continued lead in the postpaid segment, Maxis has regained its pole position in the prepaid category at a market share of 36%. All in, Maxis' postpaid subscriber focus and convergence strategy with its fibre broadband services has proven to be effective with a blended 1Q2021 ARPU of RM47/month.
- **Unrelenting competition in mobile and rising for fibre.** In our view, U Mobile's RM30 prepaid package, which offers unlimited data and 6GB hotspot with speed cap of 6Mbps together with RM5/month top-up for unlimited calls, remains the frontline in the mobile wars. In the fibre broadband market, TM's unifi remains aggressively competing for market share with recent promotions of free 42" Sharp TV sets and redemption of the RM500 penalty fee for switching from Maxis Home Fibre.
- **Only Maxis has not provided FY21F guidance.** Since April-May last year when telcos withdrew or were reviewing their guidance to investors, Maxis continues to refrain from providing any FY21F guidance due to the uncertain economic impact of the ongoing Covid-19 pandemic. TM is projecting flat to low single-digit revenue growth.
- **MyDigital boost to TM.** The government's MyDigital initiative involves investing RM15bil over 10 years via a wholly government-owned special purpose vehicle (SPV) called Digital Nasional, which will own, execute and manage 5G spectrum and infrastructure. This is envisaged to allow licensed telcos with equal access to the infrastructure to rollout 5G services nationwide, which is expected to begin in stages by the end of this year.

Hence, we view this as being neutral to cellular operators who will not be burdened by the 5G capex. However, being the owner of the nationwide High-Speed Broadband fiberised network, we believe that this is positive for TM and to a lesser extent, Time dotcom, in providing the critical backhaul backbone system for 5G networks.

The government has also given conditional approvals for Microsoft, Google, Amazon and TM to build and manage hyper-scale data centres as well as provide hybrid cloud services, valued between RM12bil and RM15bil over the next 5 years. While this will benefit TM One's data centre operations, we expect TM to leverage its fixed play dominance provided by its national fibre-optic network and extensive partnerships to support the building of third-party data centres, thus partly alleviating high capex requirements.

- **Maintain OVERWEIGHT** rating on the sector with **BUY** call for **TM**, which has shown significant cost improvements and poised under brighter prospects under the government's MyDigital initiatives. **Maxis**, currently trading at its 3-year EV/EBITDA average of 12x, continues to be a **HOLD**.

## EXHIBIT 1: VALUATION MATRIX

Stocks	Call	Price	FV	Up/	Mkt Cap	Enterprise Val.	EV/EBITDA (x)		EPS growth (%)		PE (x)		ROE (%)	NDPS	Div Yld	EBITDA (x)
		(RM)	(RM)	down			(RMmil)	(RMmil)	CY21F	CY22F	CY21F	CY22F	CY21F	CY22F	CY21F	
Maxis	HOLD	4.57	5.00	9.4	35,751	45,093	12.0	11.3	18.5	19.1	24.7	23.9	19.5	17.0	3.7	2.5
Telekom	BUY	6.10	7.10	16.4	22,924	27,842	6.6	6.3	28.2	29.7	21.6	20.5	13.2	14.3	2.3	0.7

Source: AmInvestment Bank

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