



AmInvestment Bank

Sector report

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TELECOMMUNICATION

Increasing subscribers while maintaining ARPU

OVERWEIGHT

(Maintained)

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Rationale for report: Sector update

Investment Highlights

- **1H2021 within expectations.** The telco sector's 1H2021 results were in line with our expectations notwithstanding higher employee-related resizing costs and lower lumpy contract sales of indefeasible rights of use which dampened Telekom Malaysia's (TM) 2Q2021 bottom line. Time dotCom (UNRATED) likewise registered 1HFY21 results that were within expectations notwithstanding above-industry revenue growth of 13%.
- **Improving celco earnings.** Sequentially, 2Q2021 cellular operators' (celco) core net profit rose by 20% to RM804mil on the back of a 4% increase in revenue to RM2.4bil. While Maxis' 2QFY21 core earnings growth of 8% QoQ was still commendable, this was outpaced by the other operators' lower operating costs.
- **Seasonally slightly higher margin.** Lower seasonal operating expenses largely caused 2QFY21 celco EBITDA margin to inch higher by 0.9%-point QoQ to 44%. On a YoY comparison, the sector's EBITDA margin was flat.
- **Supported by higher users.** Overall, cellular net subscribers increased by 351K QoQ due to both postpaid (+266K) and prepaid (+51K) segments. The proportion of postpaid users has gradually risen to 34% in 1Q2021 from 32% in 2Q2020 and 24% in 1Q2017, as celcos have been encouraging subscribers to migrate to higher priced postpaid plans. This was achieved with blended 2Q2021 average revenue per user (ARPU) remaining largely stable at RM45/month, almost the same level in 1Q2017 as postpaid price declines were mostly offset by the segment's increased subscribers.
- **Maxis regains market leader in both postpaid and prepaid segments.** In 2Q2021, Maxis' pole position in terms of subscriber market share inched higher to 37.5%. Besides its continued lead in the postpaid segment, Maxis also retained its top position in the prepaid category at a market share of 36%; albeit lower than 38% in 2Q2020 as other operators gained faster traction in this segment. Nevertheless, Maxis' postpaid subscriber focus and convergence strategy with its fibre broadband services have proven to be effective with a stable blended 2Q2021 ARPU of RM47/month.
- **Rising competition in bundled mobile and fibre propositions.** Joining the other celcos, U Mobile has recently launched plans to bundle with fibre in Melaka, Cyberjaya, Perak and Kedah starting at attractive discounted rates of RM64.50/month for speeds of 100Mbps. 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 2Q2021 unifi subscriber growth has reached a record 188K – 8.5x Maxis' 22K – from aggressive promotional campaigns and focused plans to expand distribution networks and direct connectivity to homes.
- **Only Maxis has not provided FY21F guidance.** Since April–May last year when telcos withdrew or were reviewing their guidance to investors, Maxis has continued to refrain from providing any FY21F guidance due to the uncertain economic impact of the ongoing Covid-19 pandemic while 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 roll out 5G services nationwide, 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. We have downgraded **Maxis** to **HOLD** from **BUY** given its recent share price recovery which yields a slight upside of 6% currently to our unchanged fair value of RM5.00/share. **Maxis** currently trades at a fair CYF22 EV/EBITDA of 12x, at parity to its 3-year average of 12x.

EXHIBIT 1: VALUATION MATRIX

Stocks	Call	Price	FV	Up/ down side (%)	Mkt Cap (RMmil)	Enterprise		EPS growth (%)		PE (x)		ROE (%)	NDPS	Div Yld	Net debt/	
		(RM)	(RM)			Val.	EV/EBITDA (x)	CY21F	CY22F	CY21F	CY22F	CY21F	CY21F	(sen)	(%)	CY21F
Maxis	HOLD	4.72	5.00	5.9	36,925	46,267	12.3	11.6	18.5	19.1	25.6	24.7	19.5	17.0	3.6	2.5
Telekom	BUY	6.07	7.10	17.0	22,811	27,729	6.6	6.3	28.2	29.7	21.5	20.4	13.2	14.3	2.4	0.7

Source: AmlInvestment Bank

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