Sector Update | Sunday, 04 September 2022

TELECOMMUNICATION

***Maintain* NEUTRAL**

DNB stake still in discussion

KEY INVESTMENT HIGHLIGHTS

- **Two telcos pull out of DNB Stake**
- **5G access agreements are still progressing well**
- **DNB remains on track to achieve 80% 5G population coverage by the end of 2024**
- **Maintain NEUTRAL stance on this sector, given the competitive environment**

DNB stake. The deadline of 31st August 2022 had passed while the discussion regarding equity stake in DNB remain up in the air. The latest developments where only four telcos out of six remain interested to take up equity stake in DNB. According to media reports, U Mobile and Maxis declined to take up equity stake in DNB. Meanwhile, Telekom Malaysia (TM) and YTL Communications (Yes) have obtained approval from its boards and ready to sign an agreement to take up shares in the Single Wholesale Network (SWN). Initially, 70% stake will share equally among the 6 telcos but the Share Subscription Agreement (SSAs) will have to revise again as the two telcos (U Mobile and Maxis) declined to proceed with the equity deal. We might see three scenarios for the redistribution of shares i) the four telcos will be given larger shares, 17.5% each (previously: 12%) ii) private telco companies to take up the remaining shares, and/or iii) the Government increase its stake, but not at the level of a majority shareholding in DNB. The deal is expected to conclude by end of September 2022.

5G access agreement. Telcos that did not want to take up an equity stake in DNB can still offer 5G access via the 5G access agreement. U Mobile and Maxis which we understand are the two telcos that declined to take up the equity stake are still committed to offering 5G services and continue to negotiate with DNB to get a 5G Access Agreement in place. It is worth noting that, as in the Reference Access Offer (RAO) terms, DNB need to offer the same services on the same terms and prices, using the same systems and processes to the same timescales (non-discriminatory basis) to all the telcos via the 5G access agreement.

Opinion. We opine that the implementation of the SWN model would increase the pressure on telcos to adjust shifting dynamics in an already competitive business. The companies may be required to pay upfront wholesale fees to DNB which is dependent on the revised equity stakes that will be announced soon. However, we continue to believe that the SWN model is more efficient for accelerating 5G network rollout and deployment for the country, as the continuation of SWN could avoid risks such as compensation costs, prolonged delays in 5G network rollout, negative impact on Foreign Direct Investment (FDI) into Malaysia, and a widening urban-rural digital divide to the sector, government, and nation.

COMPANY IN FOCUS

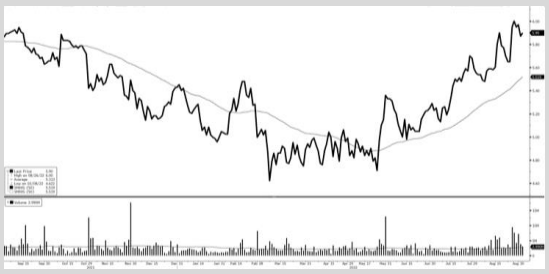
Telekom

Maintain **BUY** | Target price: RM6.91

Price @ 2nd September 2022: RM5.90

- Owing comprehensive fiber infrastructure
- Receive robust demand for fixed broadband services
- Gain business opportunities under MyDigital Intiatives

Share price chart



Axiata

Maintain **BUY** | Target price: RM4.59

Price @ 2nd September 2022: RM2.98

- Telco players' leader in region with operations spanning across nine countries.
- Celcom and most regional operating companies keep posting revenue growth accelerated by subs growth.
- All operating companies excluding Ncell (Nepal) are ahead of pre-pandemic levels in 2020.

Share price chart



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Maintain NEUTRAL. The 5G deployment is currently on pace, with the completion of Phase 1 by end of this year will cover 40% coverage in populated areas. The completion of the DNB stake will most likely help to reduce ambiguity around the rollout of 5G in Malaysia. Overall, with the emergence of the SWN model for 5G deployment, MNOs will need to continue to create appealing service value propositions in order to maintain their respective market share. Since the model may cause profit margin dilution, having an efficient cost management plan in place is critical to defending profit margins**.** All in all, we maintain **NEUTRA**L on the sector with top pick of **TM (BUY, TP:RM6.91)**, it being the nation's main fixed line player and has plenty of business opportunities under MyDigital Initiatives.

Figure 3: Peer comparison table

Stock	FYE	Rec.	Price @	Target Price	Core EPS (sen)		Core PE (x)		Net DPS (sen)		Net Dvd Yield (%)	
			2-Sep-22	(RM)	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
Telekom	Dec	BUY	5.90	6.91	29.0	34.2	19.5	16.5	16.5	19.9	2.8	3.4
Axiata	Dec	BUY	2.98	4.59	18.6	27.4	16.6	11.3	9.5	10.0	3.2	3.4
Maxis	Dec	NEUTRAL	3.73	3.78	16.4	18.3	23.2	20.8	17.0	18.0	4.6	4.8
Digi	Dec	NEUTRAL	3.61	3.59	14.7	16.9	23.3	20.3	14.6	16.8	4.0	4.7

Source: MIDF Research

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology