Sector Update | Tuesday, 11 October 2022

TELECOMMUNICATION

***Maintain* NEUTRAL**

Long-Awaited Deal

KEY INVESTMENT HIGHLIGHTS

- **MNOs have entered into a conditional SSA with DNB**
- **5G access agreement still in discussion**
- **DNB to spend RM1.3b to achieve 70% 5G population coverage**
- **Maintain NEUTRAL stance on this sector, given the competitive environment**

Conditional SSA. The mobile network operators (MNOs) have officially signed into a conditional Subscription Share Agreement (SSA) with DNB for the planned subscription. The four MNOs will own 65% of DNB's stake, with Celcom Axiata and Digi owning 12.5% each, and YTL Communication (Yes) and Telekom Malaysia (TM) holding 20% each. The Government will keep ownership of the remaining 35% and hold a Golden Share, which offers certain rights and benefits and covers areas such as ownership, sale, or transfer of shares on the part of the Government. The 12.5% stake each in Celcom Axiata and Digi is in consideration of their impending merger, as the merged entity cannot own more than a 25% stake in DNB under the terms of the SSA and the agreed governance structure. If the proposed merger between Celcom Axiata and Digi is not completed by mid-2023, both organisations would increase their participation in DNB to 17.5% to be equivalent with the other MNOs' stakeholders, while the government's equity holding will reduce to 30%.

5G access agreement. The negotiation with the relevant parties about the access agreement and regulatory framework is still ongoing. The major MNOs have yet to complete the 5G access agreements and subject to final board approvals. The cost for 5G wholesale access, which is mentioned at RM30,000 per Gbps per month for a 10-year term, is the main concern for MNOs. The current Reference Access Offer (ROA), which outlines the costs, deliverables, and requirements, as well as the terms and conditions of using the 5G network, has not yet been revised and the MNOs acknowledge that the current ROA is unable to provide Malaysians with affordable and high-quality 5G services.

Opinion. The government is committed to 5G deployment and has allotted RM1.3b to DNB for infrastructure development to expand 5G internet coverage nationwide. As for the signed telco, the subscription consideration will be funded via internally generated funds and/or external borrowings. The total consideration of transactions for Digi and Axiata is RM178.57m, while RM285.61m for TM. Referring to the 2QFY22, Digi had the highest net gearing ratio at 7.00x, followed by Celcom Axiata and Telekom Malaysia at 1.12x and 0.44x respectively. We suggest maintaining exposure in Telekom Malaysia as its balance sheet would be the least impacted by this transaction, while TM is the nation's main fixed-line player and has stronger potential with MyDigital's initiatives.

COMPANY IN FOCUS

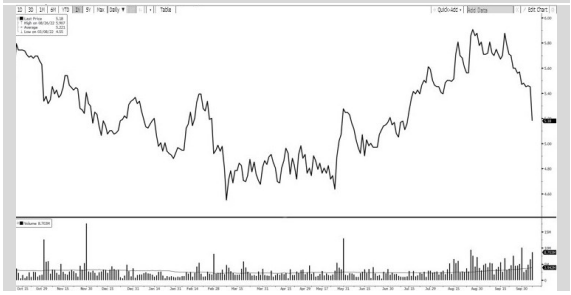
Telekom

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

Price @ 7th October 2022: RM5.18

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

Share price chart



MIDF Research
research@midf.com.my

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. Over the longer term, the emergence of 5G technology definitely will bring new products and services which will have a positive impact on the economy. 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 **Neutral** 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 (%)	
			7-Oct-22	(RM)	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
Telekom	Dec	BUY	5.18	6.91	29.0	34.2	17.9	15.1	16.5	19.9	3.2	3.8
Axiata	Dec	BUY	2.65	4.59	18.6	27.4	14.2	9.7	9.5	10.0	3.6	3.8
Maxis	Dec	NEUTRAL	3.53	3.78	16.4	18.3	21.5	19.3	17.0	18.0	4.8	5.1
Digi	Dec	NEUTRAL	3.45	3.59	14.7	16.9	23.5	20.4	14.6	16.8	4.2	4.9

Source: MIDF Research

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077(23878 – X)).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related companies and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loess, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such companies mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

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