TELECOMMUNICATION

***Maintain* NEUTRAL**

5G is Coming!

KEY INVESTMENT HIGHLIGHTS

- **Five MNOs agreed to execute the 5G Access Agreements**
- **The lock period is 10 years, commencing on October 7**
- **Final determination on Access Prices is still pending**
- **Maintain NEUTRAL stance on this sector**

5G Access Agreement. As to date, Telekom Malaysia (TM), Celcom Axiata Bhd (Celcom) and Digi Telecommunications Sdn Bhd (Digi), YTL Communications Sdn Bhd (YTL) and U Mobile Sdn Bhd (U Mobile) have finally executed their respective access agreements (AAs) with Digital Nasional Bhd (DNB) to lease the 5G network. The access agreements are for the period of 10 years, commencing on October 7, 2022 to October 6, 2032. Following the signing of 5G AAs, Celcom's customers who own compatible 5G phones on selected Celcom and Xpax postpaid and prepaid plans will automatically be able to enjoy 5G services within DNB's coverage areas. Meanwhile, U Mobile users can enjoy 5G services from November 3 onwards. Unlike TM, Celcom, Digi, and YTL, both U Mobile and Maxis Berhad (Maxis) have decided not to take an equity stake in DNB. Thereby, U Mobile will offer 5G services without investing in DNB meanwhile Maxis is still underway to evaluate the 5G AAs' requirements.

Figure 1. MNOs and their Executions.

MNO's	Share Subscription Agreements (SSAs)	5G Access Agreements (AAs)	Equity Stake in DNB (%)*
TM	✓	✓	20.0
Celcom	✓	✓	12.5
Digi	✓	✓	12.5
Maxis		A	-
U Mobile		✓	-
YTL	✓	✓	20.0
MOF			35.0
Total			**100.0**

Note:
✓ *- Executed*
A - Assessing
** In the event of merger, the merged entity is capped at 25% stake in DNB*

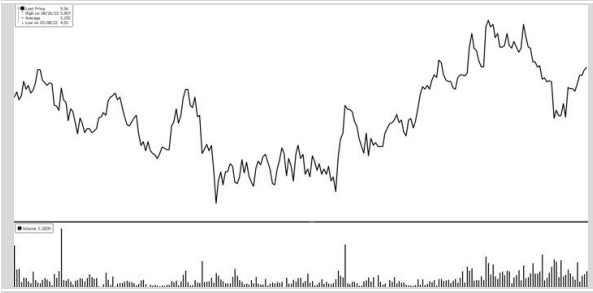
Source: Companies, MIDFR

COMPANY IN FOCUS

Telekom
Maintain **BUY** | Target price: RM6.91
Price @ 31st October 2022: RM5.56

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

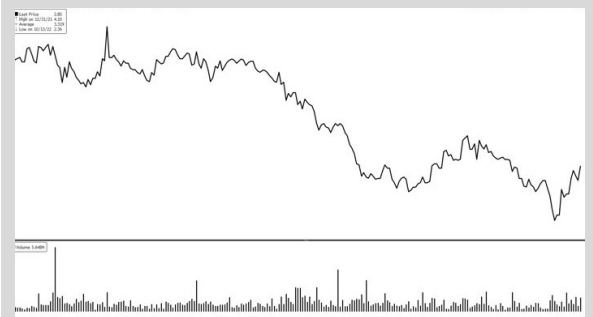
Share price chart



Axiata
Maintain **BUY** | Target price: RM4.59
Price @ 31st October 2022: RM2.85

- 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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Final determination on Access Prices is still pending. The Malaysian Communications and Multimedia Commission (MCMC) has extended the Mandatory Standard on Access Pricing (MSAP) public inquiry (PI) to early next year from the initial deadline of November 21, 2022. Under the PI issued on October 5, the regulator had proposed 41% to 52% lower high-speed broadband access (HSBA) prices for Layers 2 and 3 compared to current prices (2018-2022). The low proposed access pricing for high-speed broadband (HSBB) may be negative for TM. Yet, it is still uncertain as the final access prices could still be higher than initial proposed, similar to the previous MSAP review in 2017 whereby the finalizes HSBA prices were 2-4x higher than the regulatory proposals.

Maintain NEUTRAL. Pending MCMC's final decision on access prices and the upcoming general election; which bring uncertainty to regulatory development, we maintain **NEUTRAL** view on the sector with top picks of **TM (BUY, TP:RM6.91)** and **AXIATA (BUY, TP:RM4.59)**. Even though the yet-to-be-released new prices pose uncertainty on the future earnings of TM which controls the bulk of fixed broadband subscriptions, we still prefer this fixed line player to mobile segment as the Group owns comprehensive fiber infrastructure, has robust demand for fixed broadband services and has plenty of business opportunities under MyDigital Intiatives. We like the later due to its regional exposures in the emerging markets.

Figure 2: Peer comparison table

Stock	FYE	Rec.	Price @ 31-Oct-22	Target Price (RM)	Core EPS (sen)		Core PE (x)		Net DPS (sen)		Net Dvd Yield (%)	
					FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
Telekom	Dec	BUY	5.6	6.9	29.0	34.2	19.5	16.5	16.5	19.9	3.0	3.6
Axiata	Dec	BUY	2.9	4.6	18.6	27.4	16.6	11.3	9.5	10.0	3.3	3.5
Maxis	Dec	NEUTRAL	3.9	3.8	16.4	18.3	23.2	20.8	17.0	18.0	4.4	4.7
Digi	Dec	NEUTRAL	3.8	3.5	13.8	16.4	25.5	21.4	13.7	16.3	3.6	4.3

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