MBSB RESEARCH

SECTOR REPORT Friday 5th. June 2026

Telecommunication

POSITIVE (Upgrade)
(from NEUTRAL)

DNB's Financial Condition to Steadily Improve

Analyst
Foo Chuan Loong, **Martin**
martin.foo@mbsb.com
03-2173 8353

HIGHLIGHTS

- Upgrading our sector recommendation to POSITIVE from NEUTRAL previously
- Our preference resides with the Mobile Number Operator (MNOs) i.e. Maxis Bhd and Celcomdigi Bhd
- Having a favourable cost structure remains a key factor to profitability as revenue is expected to see steady improvement. Celcomdigi should see the most notable structural cost transformation in 2026 as compared to its peers
- Steady earnings would translate into sustainable and healthy dividend with yield of at least five percent
- We also see dwindling earnings risk emanating from DNB to Maxis and CDB

More rational competition in the mobile market. In the recently concluded 1QCY26 quarterly earnings season, telcos have displayed commendable resilience in the service revenue performance. Maxis and CDB reported service revenue growth of +3.3%yoy and +1.6%yoy respectively while Telekom Malaysia (TM) revenue grew by +2.9%yoy. Only Axiata posted a slightly weaker revenue growth of -3.2%yoy as a result of unfavourable forex. Referring to CDB's revised mobile offering early this year, competition appear to be more rational. This shows that more emphasis is place on giving more value rather than focusing on unsustainable price wars. We view that the risk of price wars, if any, would primarily come from Umobile as it seeks to grow its customer base.

Beneficiary of convergence strategy. On the home and fibre business segment, Unifi remains the market leader with 3229k home subs (+44k yoy net adds) as at 1QCY26. Celcomdigi's home customer based grew at a faster pace with year-on-year net adds of 92k to 297k home subs while Maxis has the lowest net adds among its peers with additional 20k subs. These showed that the fibre business remains a growth area for the telcos. Similarly, we observed that TM and CDB posted sustainable ARPU of RM132 (+3.9%yoy) and RM102 (+1.0%yoy) while there was some pressure seen for Maxis as ARPU declined slightly to RM108.5 (-1.5%yoy). Execution of convergence strategy remains crucial in growing this segment.

Better demand from enterprise solutions. In 1QCY26, the MNOs posted higher revenue growth from the provision of enterprise solutions at +12.4%yoy and 29.8%yoy. For Maxis, the group saw higher subscription in IoT and other fixed network solutions while the higher momentum for CDB was supported by IoT, cloud and cybersecurity services as well as low base effect. TM's B2B segment saw a marginal +0.4%yoy revenue expansion as the group maintain its leadership in the Government segment as well as shift in focus for the enterprise segment on recurring and higher-value new core. Moving forward, the telcos would continue to benefit from 5G monetisation effort, data centre and cloud demand as well as converged solutions.

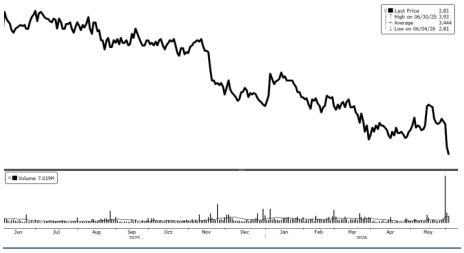
COMPANY *IN FOCUS*

Celcomdigi

Maintain BUY | Unchanged Target Price: RM3.54
Price @ 4th June 2026: RM2.81

- Resilient service revenue
- Commendable operational excellence target for 2026
- Current EV/EBITDA valuation is undemanding

SHARE PRICE CHART

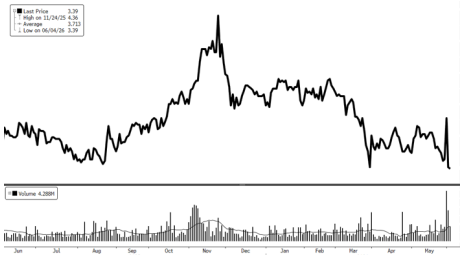


Maxis Bhd

Maintain BUY | Unchanged Target Price: RM4.05
Price @ 4th June 2026: RM3.39

- Market leader in the premium postpaid segment
- Consistent cost discipline
- Potential earnings accretive M&A to sustain earnings growth

SHARE PRICE CHART



Spend where it matters. To show notable improvement in profitability, telcos are emphasising on having a more favourable cost structure. This is seen in the careful capex spending as well as controlled cost operational expenses. For 2026, capex-to-revenue ratio for CDB, Maxis and TM stand at range between 10% to 20%. Generally, TM capex will be higher as compared to its peers as it is the primary fixed-line and national fibre infrastructure provider. The MNOs will focus its attention on the mobile network infrastructure.

On the operational aspect, we note that post integration, Celcomdigi is going through a structural cost transformation across COGS and opex that will lead to savings of RM450m. The bulk of the savings will primarily come from opex saving, amounting to RM390m, which mainly derived from site operating cost optimisation and procurement. Maxis has shown continuous operational efficiencies since 2023 in-tandem with management and operational reboot. Meanwhile, for Telekom Malaysia, the cost to revenue has been stable at slightly above 80%. We believe there should be no let-up in terms of the managements effort to retain a favourable and sustainable cost structure. We note that Axiata Group rebased its quarterly profit more than one-fold in 1QFY26, notably due to lower depreciation and amortistion cost as well as lower net finance cost. Given the mature local telecommunication market, annual revenue growth is forecasted to be within low to mid-single digit band. Hence, profitability improvement would largely depend on the management's ability to maximise opex and capex efficiencies.

Manageable setback. Digital National Bhd (DNB) is undergoing structural shift when the Ministry of Finance (MOF) Inc fully exited DNB. Originally, the transaction is expected to be completed by mid-2026. This has been now pushed back to early 4QCY26. To recap, DNB reported a net loss of RM1.2b for FY24. Following the shift in DNB's shareholding, we view that Maxis, CDB and YTL would be in a better position to drive the operation and performance of DNB. For FY26, Maxis and CDB only need to apply the equity accounting for one quarter only i.e. in 4QFY26. Conservatively, we anticipate DNB's losses to narrowed to around RM900m to RM1b in FY26. The impact to Maxis and CDB should come in around -RM80m. In this regard, we opine that Maxis and CDB's FY26 earnings would potentially be at similar level to that of FY25.

For 2027, the full year impact for each of the telco should came in less than -RM250m which should be manageable for both Maxis and CDB. Maxis has been exercising good cost discipline since 2023. If there is no let-up, this would help to partially made up for the inclusion of DNB's losses. In addition, we do not discount the possibility that Maxis could potentially be looking for earnings-accretive M&A opportunities to further boost the profitability. To recall, in recent weeks, Maxis has issued two new series of Sukuk Murabahah worth RM1b. This comprises of two RM500m Sukuk Murabahah, with a tenure of seven years and 10 years. The proceeds will be used for debt refinancing, capital expenditure and general working capital requirements. Meanwhile, for CDB, we view that it would primarily hinge on the ongoing structural cost transformation across COGS and Opex. During the 1QFY26 quarterly briefing, the management has guided that it envisages to achieve RM450m cost optimisation target for 2026. For 2027, we estimated the cost saving effort could increase to more than RM600m. This should be sufficient to negate the earnings loss emanating from DNB.

Note that pending the completion of the transaction, we have yet input the above into our assumptions.

MNOs valuations are undemanding. On a year-to-date basis, the telcos' share price has underperformed. Axiata, Maxis, CDB and Telekom Malaysia has declined by -23.6%, -10.8%, -12.4% and -6.4% respectively. Correspondingly, from valuation perspective, we view that both Maxis and Celcomdigi's current EV/EBITDA of 8.0x is notably below the five-year mean. Meanwhile, Axiata and Telekom Malaysia are currently trading nearer to the five-year mean.

Figure 1: Valuation comparison

Company	EV/EBITDA	
	Current	5-year mean
Axiata	6.0	5.8
Celcomdigi	8.0	10.5
Maxis	8.0	9.6
Telekom Malaysia	6.5	5.8

Source: Bloomberg, MBSB Research

Commitment to good dividend payout. Given the nature of the industry, much attention has been on dividend. In view of this, some of the telcos made some changes to the dividend payout plan. On a recent note, Telekom Malaysia has revised upward its dividend policy to at least 75% from previously 40% to 60% of PAT which takes effect from 2026 onwards. In addition, the dividend payment will be declared and paid quarterly which mimicked that of the MNOs. Meanwhile, Axiata, via its "Axiata28" roadmap, is targeting a continuous 10% annual increase in dividend per share from FY26 onwards. Nonetheless, the dividend payment is still made bi-annually. With the changes above, we view that telcos' dividend is now attractive with yield of at least five percent.

Peers Comparison

Stocks	Rec.	Last closing price	Target price (RM)	Core EPS (sen)		PE (x)		Net DPS (sen)		Div Yield (%)	
				FY26	FY27	FY26	FY27	FY26	FY27	FY26	FY27
Axiata	NEUTRAL	1.95	2.07	12.3	14.3	16.8	14.5	11.0	12.1	5.6	6.2
CelcomDigi	BUY	2.81	3.54	15.0	17.0	23.6	20.8	14.2	15.9	5.1	5.7
Maxis	BUY	3.39	4.05	20.5	21.9	19.8	18.5	17.0	17.0	5.0	5.0
Telekom Malaysia	BUY	7.40	8.31	48.9	50.3	17.0	16.5	37.5	38.8	5.1	5.2

Source: MBSB Research

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BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
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	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.

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