Telecommunication

POSITIVE (Maintain)

Fortifying the Telco's Bundling Proposition

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HIGHLIGHTS

- Maintain POSITIVE on the telecommunication sector
- Astro's market capitalisation has drastically eroded over the years in view of the challenging operating environment. It appears that operating on a standalone basis may no longer seem to be a viable path
- We view that there is value in Astro's stronghold in creating content and intellectual property. This may place the group as a potential acquisition target
- From the telco's perspective, we view that Astro would better complement fixed line player such as Telekom Malaysia as compared to the mobile number operators (MNOs)

Fallen media giant. When Astro Malaysia Holdings Bhd (Astro) relist in October 2012, the share price peak at RM3.68 on 13 June 2014. Since then, it has been on a declining trend, with the stock now trading at a new low of RM0.06. Astro has been facing a heightened challenge in the modern streaming era. Due to the proliferation of the internet, consumers have been spoilt with the availability of free or on-demand content especially from global streaming giants such as YouTube and Netflix. On a more recent note, Astro has lost the broadcasting right to the FIFA World Cup following rising costs as well as rampant inability to effectively monetise the content due to widespread piracy. Thereafter RTM is set to discontinue broadcasting its channels, namely TV1, TV2 and TV Okey, on Astro from 1 July 2026 over price disagreement. Moreover, apart from content cost, Astro is also faced with sizeable, fixed costs which primarily pertained to the transponders and satellite fees to MEASAT. The tough operating environment also adversely Astro' dividend capacity.

A conceivable M&A target? At this juncture, we view that Astro may seem to be a potential M&A target due to several reasons. Astro currently has a palatable market capitalisation of around RM300m from a peak of about RM18b.The group also has notable spread of original content and intellectual property which is protected by the Copyright Act 1987. Despite the adverse operating environment, the group remains profitable. To recall, Astro reported 1QFY27 profit of RM1.6m.

Potential suitors. The market has long speculated about a potential merger between Maxis and Astro due to the common shareholder. However, this may no longer be an impetus, following the passing of the common major shareholder, Tan Sri T. Ananda Krishnan. On another note, we observed that the Co-Marketing Agreement (CMA) between Astro and Maxis remains active, strictly to serve the existing CMA based of subscribers. We view that this further diffuses the possibility of a merger between Maxis and Astro from a strategic point-of-view. Maxis' current bundling proposition for content includes only Sooka which is rather limited.

Moreover, looking at Maxis's M&A trail for the past eight years, it is primarily centred around the enterprise business. To recall, as early as 2018, Maxis has begun its acquire-hire strategy to expand its enterprise and digital. Thus, we view that any future M&A would serve to further strengthen its offering in the enterprise segment.

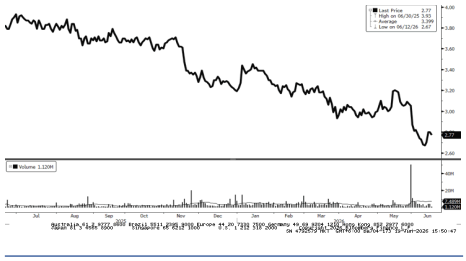
COMPANY *IN FOCUS*

Celcomdigi

Maintain BUY | Unchanged Target Price: RM3.54
Price @ 22nd June 2026: RM2.75

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

SHARE PRICE CHART

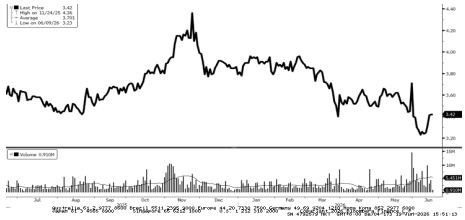


Maxis Bhd

Maintain BUY | Unchanged Target Price: RM4.05
Price @ 22nd June 2026: RM3.38

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

SHARE PRICE CHART



Meanwhile, we view that there is more strategic value to be gained for an amalgamation between Astro and Telekom Malaysia (TM). This was mainly due to the former's stronghold on the home fibre business. Apart from the provision of broadband, TM also offer a variety of bundled apps under the Unifi TV PACK. The options start from Star Pack which start from RM16/month up to Super-Star Pack which is available at RM181/month. Thus, the inclusion of Astro's content could further fortify the bundling proposition for TM. Nonetheless, we understand that Astro has stopped new sales and subscriber acquisitions for Astro Fibre effective 1 February 2026, following a strategic review of its businesses. On another note, we view that there is little M&A appetite for TM as the group continues to focus on its capital spending into fibre expansion and 5G backhaul under access as well as renewed dividend commitment when the group upgraded its dividend policy to a minimum payout of 75% of PATAMI which is payable on a quarterly basis. TM currently has a more favourable net debt / EBITDA of 0.56x as at 1Q26 (vs 1Q25: 0.77x). This indicates that there could be more room for the group to increase its borrowings.

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	2.02	2.07	12.3	14.3	16.8	14.5	11.0	12.1	5.4	6.0
CelcomDigi	BUY	2.75	3.54	15.0	17.0	23.6	20.8	14.2	15.9	5.2	5.8
Maxis	BUY	3.38	4.05	20.5	21.9	19.8	18.5	17.0	17.0	5.0	5.0
Telekom Malaysia	BUY	7.52	8.31	48.9	50.3	17.0	16.5	37.5	38.8	5.0	5.2

Source: MBSB Research

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STOCK RECOMMENDATIONS

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