

SECTOR UPDATE

Telecommunications – Malaysia

2024: Earnings Within Expectations; Higher-than-expected Dividends

2024 earnings rose 9% yoy on Axiata's better-than-expected earnings. In addition, TIME continued to deliver a high single-digit earnings growth and special dividend. Amid balance sheet optimisation and robust cash flow, TIME, TM and Maxis declared higher dividends in 2024. Key events in 1H25 include the rollout of the 5G network by U Mobile and resolution of DNB's shareholding. Maintain MARKET WEIGHT. Our top picks are Axiata, CelcomDigi and TIME.

WHAT'S NEW

• **2024 earnings review: In line.** Full-year 2024 sector earnings expanded 9% yoy to RM6,167m. Axiata registered stronger-than-expected earnings, driven by revenue flowthrough from XL Axiata, Robi and Dialog as well as good cost control and lower interest charges. TIME dotCom (TIME) reported commendable bottom line growth of 8% yoy on the back of higher household penetration and enterprise cloud solution services. Additionally, CelcomDigi's earnings (excluding accelerated depreciation and impairment charges) grew 19% yoy despite higher network maintenance, site rental costs and higher 5G access costs. The year was characterised by: a) postpaid revenue continuing to grow on the back of pre-to-postpaid migration; b) prepaid churn remaining high amid intense competition; c) fixed home broadband competition abating modestly towards end-24; and d) higher dividend on the back of good cost control and balance sheet discipline across the sector. We ended the year with U Mobile being awarded the second 5G spectrum in Malaysia.

• **2024: Strong cashflow paved the way for attractive yields.** Of notable interest was TIME's higher-than-expected payout, declaring net DPS of 37.87 sen/share in 4Q24 (yield of 7.2%) on the back of a balance sheet optimisation exercise. This brings 2024 net DPS to 56.8 sen, ahead of UOB's (32.0 sen) and consensus (23.7 sen) forecast. In addition, Telekom Malaysia (TM) also announced a special dividend of 6 sen on the back of a strong FY24 cashflow, leading to full-year 2024 net DPS of 31 sen/share (4.5% yield). Maxis also declared higher-than-expected 5 sen net DPS in 4Q24, amid cost efficiencies and healthy growth momentum across postpaid and enterprise solutions. This led to a full-year 2024 net DPS to 17.0 sen/share with a net dividend yield of 5.0%.

• **Key events to look out for in 1H25 include:** a) edotco benefitting from U Mobile's capex spent to roll out 5G network; b) higher 5G access fee for CelcomDigi and Maxis; c) network expansion for TM and TIME; and d) shareholding outcome of Digital Nasional Berhad (DNB).

• **U Mobile to receive Letter of Award by 1Q25.** U Mobile, awarded in Nov 24 to build Malaysia's second 5G network, is expected to receive the official award from Malaysian Communications and Multimedia Commission (MCMC) to begin rollout of 7,000-8,000 5G radio stations. U Mobile has secured financial backing from CIMB to build the second network. As at end-Dec 24, Malaysia has 18.2m 5G service subscriptions, representing an adoption rate of 53.4%. U Mobile signed a MOU with edotco to effectively roll out 5G services in Malaysia.

MARKET WEIGHT

(Maintained)

SECTOR TOP PICKS

Top pick	Rec	Target Price (RM)	EV/ EBITDA (x)	Div Yield (%)
Axiata	BUY	2.90	3.8	5.3
CelcomDigi	BUY	4.30	8.9	4.0
TIME	BUY	6.00	13.3	10.9

Source: Bloomberg, UOB Kay Hian

CORE NET PROFIT (4Q24)

	4Q24 (RMm)	% chg qoq	% chg yoy
Axiata	169.2	(25.8)	(11.6)
CelcomDigi	404.8	(7.4)	(19.5)
Maxis	321.0	(12.3)	(10.8)
TM	359.1	(36.7)	(11.9)
TIMEdotCom	119.5	14.9	14.5
Big 2*	725.8	(9.6)	(15.9)
Fixed Line	478.6	(28.7)	(6.5)
Sector Total	1,373.6	(19.3)	(12.3)

Source: UOB Kay Hian

Big 2 stands for CelcomDigi and Maxis

CORE NET PROFIT (FY24)

	FY24 (RMm)	% chg yoy	Comment
Axiata	852.2	107.9	Above
CelcomDigi	1,748.7	12.7	Below
Maxis	1,396.0	3.2	Inline
TM	1,728.4	(4.0)	Inline
TIMEdotCom	441.8	8.0	Inline
Big 2	3,144.7	(8.2)	
Fixed Line	2,170.2	(1.8)	
Sector Total	6,167.1	9.1	

Source: UOB Kay Hian

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PEER COMPARISON

Company	Tickers	Rec	Share Price 7 Mar 24 (RM)	Target Price (RM)	Market Cap (RMm)	PE FY24 (x)	FY25F (x)	EV/EBITDA FY24 (x)	FY25F (x)	Dividend Yield FY24 (%)	FY25F (%)
Axiata Group	AXIATA MK	BUY	1.88	2.90	17,264	20.3	19.5	3.8	3.7	5.3	5.3
CelcomDigi	CDB MK	BUY	3.56	4.30	41,764	23.9	19.4	8.9	8.9	4.0	5.1
Maxis	MAXIS MK	BUY	3.37	4.20	26,398	18.9	17.6	8.5	8.1	5.0	5.2
Telekom Malaysia	T MK	HOLD	6.90	7.00	26,480	15.3	15.5	6.0	5.7	4.5	4.5
TIME dotCom	TDC MK	BUY	5.23	6.00	9,669	21.9	11.9	13.3	12.4	10.9	10.5

Source: UOB Kay Hian

ACTION

- **Maintain MARKET WEIGHT.** Amid market volatility in the past month, the sector underperformed the FBMKLCI by 1.6%. This is due in part to the long-drawn 5G DWN headwinds and stiff competition in the home fibre segment. Trading at 7.0x EV/EBITDA, we opine the current valuation is fair and has largely factored in: a) stiff competition within the prepaid and fixed-line segments to create stickiness in the consumer space, and b) overhang on DWN. We reiterate MARKET WEIGHT on the sector. Top picks: Axiata, CelcomDigi and TIME.
- **Key risks to our investment thesis include:** a) earnings eroding for fixed-line operators due to stiff competition, b) lower-than-expected synergistic savings from the CelcomDigi merger exercise, and c) economic downturn which will lead to shrinking customer wallets and service revenue for the sector.
- **Axiata (AXIATA MK/BUY/Target: RM2.90).** The group commands a three-year earnings CAGR of 7% for 2025-27F. Key re-rating catalysts include: a) stronger opco performance in the upcoming quarters; b) narrowed Link Net losses and future recapitalisation by potential investors; and c) the listing of edotco allowing for share price discovery. **Maintain BUY with an unchanged SOTP-based target price of RM2.90.** The group currently trades at 3.7x 2025 EV/EBITDA, below its five-year mean of 4.0x.
- **CelcomDigi (CDB MK/BUY/Target: RM4.30).** We expect merger synergies to yield projected cost savings of RM800m annually by 2027 (steady state), having sunk in elevated merger costs in 2024. Consequently, we project a three-year earnings CAGR of 10% over 2025-27F. Key re-rating catalysts include monetisation of tower assets (selling to edotco) and paying out special dividends in the near term.
- **TIME (TDC MK/BUY/Target: RM6.00),** offers a commendable three-year earnings CAGR of 13% for 2025-27F. Commanding a 15-17% share of household coverage, TIME targets to expand by an additional 200,000-250,000 home passes per annum. This is supported by their steady penetration rate in both greenfield and brownfield areas over the course of 2-3 years. The group reiterated their commitment in their balance sheet optimisation exercise and highlighted that debt (to a certain extent) may be a more optimal capital structure going forward. **Maintain BUY with a DCF-based target price of RM6.00** (WACC: 7%, terminal growth: 4%). At our target price, the stock will trade at 13.7x 2025 EV/EBITDA, +2SD from mean.

ESSENTIALS

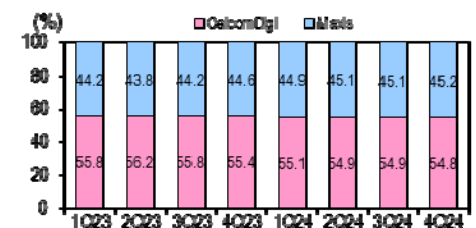
- **Growing postpaid base but ARPU remains muted.** Both CelcomDigi and Maxis saw net adds in postpaid subscribers of 83,000 and 85,000 in 4Q24, driven mainly by prepaid to postpaid migration. CelcomDigi's enhanced convergence plans may have strengthened its postpaid base, but their aggressive supplementary line discounts for family plans (50% off) have led to consecutive ARPU dilutions to RM60/month (-2% qoq). Maxis lauded their strategic product mix (device bundle and fibre convergence) for the favourable base growth and ARPU benefitting with a 1% increase to RM74.5/month following a year of decline.
- **A healthy turnaround in the prepaid segment.** 4Q24 saw CelcomDigi successfully achieving a net add of 23,000 prepaid subscribers to their base following a year-long downtrend of diminishing subscriber growth while successfully maintaining their ARPU at RM28/month. Main contributions came from dual-SIM consolidation and reduced reliance on one-time rotational SIM segment. The mobile operator has been strategically implementing their targeted retention campaigns to focus on quality acquisitions by introducing the right plans for their customers. In addition, Maxis has also been generating net additions of prepaid subscribers but ARPU has been declining to RM36.5/month. This is contributed by their focus on doubling speed and adding more internet data, contributing to Hotlink's dominance in the short term and Data Pass offerings due to their competitive pricing.
- **Maxis' new division: Maxis Home Solar.** During their analyst briefing, Maxis unveiled its newly minted Maxis Home Solar division. This business addition is stacked onto Maxis' home solutions offering, leveraging on an extensive 12.8m service customer and 750,000 home fibre customer base. We understand that an estimated RM100m capex over five years may be a reasonable assumption as we do expect subsidies to be introduced to encourage adoption. Maxis Home Solar will feature: a) a fixed monthly subscription fee; b) minimal upfront cost; and c) free maintenance, warranty and insurance.

CELCOMDIGI: RM700MIL TO RM800MIL STEADY-STATE OPEX SAVINGS POST-2027

	CAPEX Avoidance		P&L Savings		Expected 5-year savings & steady-state 2027
RM'm	2023	2024	2023	2024	
Network	192	1,350	9	70	150
IT	8	-	4	9	15
People	-	-	21	36	160
Others*	9	30	123	230	350
Gross Synergy	209	1,380	157	345	
Integration Cost	(10)	(230)	(109)	(155)	
Net Synergy	199	1,150	48	190	~700 to ~800

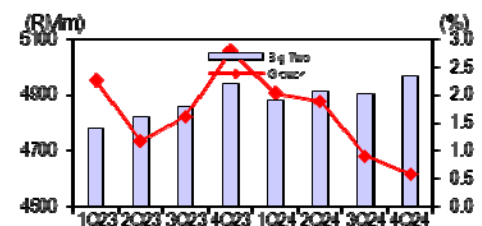
Source: CelcomDigi

TELCO REVENUE MARKET SHARE



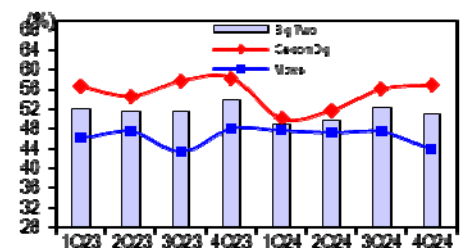
Source: Respective companies

BIG TWO'S QUARTERLY SERVICE REVENUE



Source: Respective companies

QUARTERLY EBITDA MARGIN



Source: Respective companies

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