

## SECTOR UPDATE

### Telecommunications – Malaysia

4Q22 Results Above Expectation; Special Interim Dividend From TIME

**4Q22 results beat our expectations except for Maxis (in line).** In essence, the quarter was characterised by: a) muted service revenue growth of 1% yoy, b) strong fixed-line take-up, c) better-than-expected cost control, and d) dividend surprises from TIME. After the results announcement, we raised 2023-24 net profit by 2% and 3% respectively. Maintain MARKET WEIGHT. The sector trades at five-year mean 7x EV/EBITDA. Prefer fixed over wireless. Top picks: TIME and Telekom Malaysia.

#### WHAT'S NEW

- 4Q22: Above expectation.** 4Q22 results came in above our expectation except for Maxis which came in within expectations. Within our telco universe, Telekom Malaysia (TM) gave us the biggest positive surprise due to good cost discipline, lower interest charge and positive operating leverage. In essence, TM booked strong underlying earnings – with normalised quarterly net profit of RM440m vs an average of RM300m quarterly net profit in the past eight quarters. All in all, 4Q22 sector core net profit rose 18% yoy and 16% qoq to RM1,619m. The quarter was characterised by: a) muted 1% yoy service revenue growth, with Maxis leading the pack, b) continuous focus on cost discipline despite rising capex and corresponding depreciation charges, c) strong underlying demand for home broadband services for TM and TIME dotCom (TIME), and d) a special interim dividend surprise from TIME.
- Robust operating matrix for fixed-line operators TM and TIME.** TM's UniFi revenue expanded 6% yoy thanks to year-end promotions and retention programmes. UniFi subscribers jumped 18% yoy to 2.96m while ARPU fell to RM132/month (3Q22: RM132/month, 4Q21: RM141/month) likely due to entry level packages. Similarly, TIME recorded a 30% yoy increase in retail revenue. This was attributable to strong performance in fixed broadband revenue as a result of expanded fibre footprint via the JENDELA initiative. The group maintains its target to expand by an additional 300,000 home passes in 2023. This is in line with the government's JENDELA initiatives.
- Post results, we raise 2023/24 sector earnings by 2% and 3% respectively.** Post results, we project a 8%/11% yoy increase in sector earnings for 2023/24 respectively. Key earnings drivers for 2023 are: a) 3% yoy service revenue growth amid rational market competition and the return of roaming revenue, b) good cost control to partly offset higher depreciation from increased capex intensity from CelcomDigi, and c) absence of prosperity tax for 2022. Fixed-line players will continue to demonstrate robust top-line (mid-teens subscriber growth despite ARPU dilution given more entry-level packages being sold) thanks to strong underlying demand for home broadband services and the expansion of fibre footprint under the JENDELA programme.
- Dividends exceeded expectations.** TIM declared a special interim DPS of 2.36 sen/share. This is a pleasant surprise to us and we now expect the stock to yield 12% and 5% over 2023 and 2024 respectively. Meanwhile CelcomDigi and Maxis paid out more than their profits, at 114% and 132% of net profit for 2022 respectively.

#### PEER COMPARISON

Company	Tickers	Rec	Share Price 15 Mar 23 (RM)	Target Price (RM)	Market Cap (RMm)	PE FY23F (x)	FY24F (x)	EV/EBITDA FY23F (x)	FY24F (x)	Dividend Yield FY23F (%)	FY24F (%)
CelcomDigi Berhad	CDB MK	HOLD	4.08	4.00	47,865.6	27.2	26.5	10.6	10.2	3.7	3.8
Maxis Berhad	MAXIS MK	HOLD	3.84	3.65	30,067.8	22.7	20.5	9.7	9.6	4.4	4.9
Axiata	AXIATA MK	HOLD	2.99	3.20	27,445.1	21.8	19.3	5.5	5.4	3.7	4.1
Telekom Malaysia	T MK	BUY	4.86	6.00	18,574.8	12.5	10.8	4.0	3.8	3.4	4.0
TIME dotCom	TDC MK	BUY	5.50	6.40	10,112.1	22.3	19.2	12.8	11.1	12.1	5.2

Source: UOB Kay Hian

## MARKET WEIGHT

(Maintained)

#### SECTOR TOP PICKS

Top pick	Rec	Target Price (RM)	EV/EBITDA (x)	Div Yield (%)
TIME	BUY	6.40	13.1	11.7
TM	BUY	6.00	4.8	2.9

Source: Bloomberg, UOB Kay Hian

#### 4Q22 CORE NET PROFIT

	4Q22	% chg qoq	% chg yoy
Axiata	510.0	36.0	24.0
Celcom	226.6	(27.8)	(35.3)
Digi	287.0	0.3	13.4
Maxis	240.0	(23.8)	(17.0)
TM	442.4	33.4	42.4
TIME dotCom	139.8	55.3	25.8
Big 3*	753.6	(17.6)	(15.6)
Fixed Line	582.2	38.1	38.1
Sector Total	1,619.2	15.8	17.8

\* Big 3 stands for Celcom, Digi and Maxis

Source: UOB Kay Hian

#### FY22 CORE NET PROFIT

	FY22	% chg yoy	comment
Axiata	1,587.2	19.7	Above
Celcom	1,082.0	32.3	Above.
Digi	1,122.0	(1.1)	Above
Maxis	1,182.0	(9.6)	Inline
TM	1,430.7	19.1	Above
TIME dotCom	417.1	10.1	Above
Big 3*	3,386.0	3.9	
Fixed Line	1,847.8	16.9	
Sector Total	5,739.0	7.3	

\* Big 3 stands for Celcom, Digi and Maxis

Source: UOB Kay Hian

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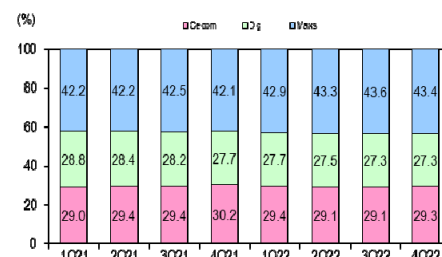
### ACTION

- **Maintain MARKET WEIGHT; prefer fixed over wireless.** We note that the sector has outperformed the FBMKLCI by 7% ytd. This is led by TIME (+16%), CelcomDigi (+6%) and Maxis (4%). The only loser in the sector is TM (-9% ytd). We believe current valuation and share price outperformance may point towards: a) expectation of 5G rollout in the consumer space, b) positive synergy between merger of Celcom and Digi, and c) potentially favourable regulatory framework. We reiterate MARKET WEIGHT on the sector. We prefer the fixed players over wireless. Our top picks are TIME and TM. Both stocks offer good growth prospects and earnings upside from core retail, data centres and wholesale businesses. Valuation for TM is also attractive, trading at -1SD below its mean EV/EBITDA of 5.0x.

### ESSENTIALS

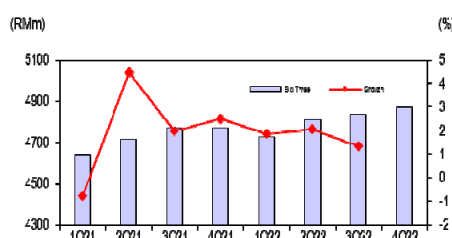
- **Key events to look out for in 1H23 include:** a) rollout of 5G to cover 70% of the population by end-23, b) transition to Phase 2 of JENDELA, c) data price competition to be partly mitigated by innovative product launches to sustain market share, d) synergistic savings from the merger of Celcom and Digi, and e) outcome of the review of 5G rollout via DNB by end-Mar 23.
- **A government initiative, JENDELA Phase 2** has set overarching targets for 2023-25, including: a) 9m fixed-broadband premises passed – from 7.44m currently, b) 100% 4G coverage, and c) 100Mbps mobile broadband speed. DNB also revealed that it would be spending RM1.3b in 2023 to achieve 70% 5G population coverage and targets to achieve 80% population coverage by end-24. As of end-22, 5G population coverage was at almost 50% (47%).
- **TIME's special dividend of 54 sen/share (net yield of 10%).** The cash proceeds from TIME's stake sale in AIMS are estimated at RM2b. TIME will utilise the proceeds to: a) reward shareholder with a special dividend of up to RM1b, and b) re-invest the remainder in the TIME group for further growth – this will include new growth businesses. The special dividend of RM1b works out to 54 sen/share or net dividend yield of 10%.
- **TIME dotCom (TDC MK/BUY/Target: RM6.40)** offers a three-year earnings CAGR of 10% (vs muted sector growth), underpinned by strong home fibre sales and data centre contribution. We view the 70% stake sale of AIMS positively. Given that the sale is valued at 37x EV/EBITDA while TIME currently trades at 13x 23F EV/EBITDA, the deal is both value- and earnings-accretive.
- Notably, we expect the robust retail and wholesale businesses to drive TIME's earnings in 2023/24, allowing the group to quickly replenish a 7% earnings vacuum after the 70% stake sale of AIMS data centre to Digital Bridge for RM3b valuation.
- **Telekom Malaysia (T MK/BUY/Target: RM6.00).** We see a favourable risk-reward profile given the attractive valuation. TM will continue to undertake good cost discipline and this will be offset by a 5% negative impact from the lower mandatory standard access pricing (MSAP) for wholesale fibre leasing over 2023-25. At our target price, the stock is trading at -1.0 SD below its mean EV/EBITDA of 5.0x. We also expect robust earnings profile as TM benefits from positive operating leverage. Dividend yield for the stock is 3%.

### TELCO REVENUE MARKET SHARE



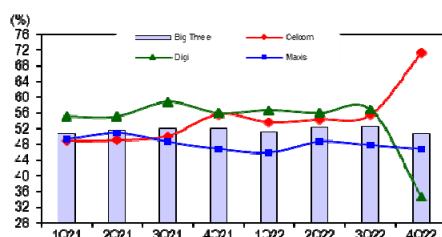
Source: Respective companies

### BIG THREE'S QUARTERLY SERVICE REVENUE



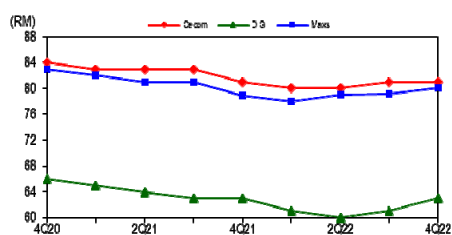
Source: Respective companies

### QUARTERLY EBITDA MARGIN



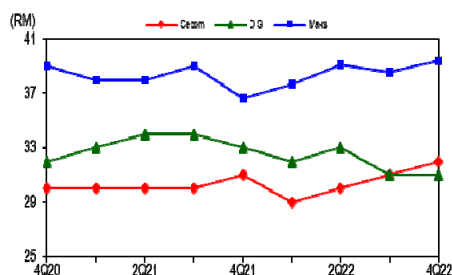
Source: Respective companies

### POSTPAID ARPU



Source: Respective companies

### PREPAID ARPU



Source: Respective companies

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