

Malaysia

Underweight (no change)

Highlighted Companies
Maxis Berhad
HOLD, TP RM3.90, RM3.59 close

We see core EPS sliding 3.8% in FY22F (due to Makmur tax), before rebounding 18.8% in FY23F (post-Makmur tax, and full recovery in roaming and migrant/tourist prepaid SIM sales) and rising 10.0% in FY24F. There is risk of our FY22-24F core EPS being 2.9-24.5% lower if the government proceeds with its 5G single wholesale network (SWN) plans based on the current commercial wholesale offer.

Telekom Malaysia
ADD, TP RM6.75, RM5.31 close

We expect core EPS to ease 4.1% in FY22F (due to Makmur tax), before rebounding 37.6%/6.8% in FY23F/24F post-Makmur tax. Ex-Makmur tax, core EPS may rise 9.4%/20.7% in FY22F/23F on the back of Internet, ICT and data services revenue growth, with cost-saving initiatives helping to buffer any pressure from its fibre rollout acceleration.

Summary Valuation Metrics

P/E (x)	Dec-22F	Dec-23F	Dec-24F
Maxis Berhad	22.32	18.79	17.08
Telekom Malaysia	16.92	12.30	11.51
P/BV (x)	Dec-22F	Dec-23F	Dec-24F
Maxis Berhad	4.38	4.42	4.37
Telekom Malaysia	2.51	2.32	2.15
Dividend Yield	Dec-22F	Dec-23F	Dec-24F
Maxis Berhad	5.57%	5.57%	5.57%
Telekom Malaysia	3.55%	4.88%	5.21%

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Telco - Overall

State of the market (Mar-May 22)

- Telcos' tactical offers kept competition stiff in Mar-May, plus U Mobile restored its low-end appeal. Positively, Maxis dialed back on unlimited.
- 1Q22 industry mobile revenue rose 1% yoy (-1% qoq). Maxis' RMS rose 0.7% pt qoq. TM's revenue climbed a decent 3% yoy.
- Reiterate sector Underweight, with TM (Add, TP: RM6.75) as our top pick.

Postpaid: Big 3 ran tactical offers; U Mobile restores low-end appeal

Despite already rich quotas, the Big 3 continued to introduce limited-time, tactical offers to entice subs to sign up/port in/upgrade from prepaid. Both Maxis and Celcom extended, and in some instances raised, their attractive monthly rebates (over 2-6 months) for online sign-ups again, while Digi ran a promotion in Apr that offered 10GB/month bonus quota and RM15/month rebate (selected plans) for a year. Meanwhile, U Mobile replaced outdated offers with its new Postpaid 38 plan, which keeps it a notch more attractive vs. the Big 3 at the low-end, following the latter's revisions in Jan-Mar.

Prepaid: Stays competitive; Maxis dials back slightly on unlimited

There were no major prepaid moves by the Big 4 in Mar-May, though competition remains tight. Positively, Maxis dialed back on its unlimited offer slightly, by raising the prices of the 3/6Mbps speed cap variants by 14%/11%. Celcom and Digi kept their foot on the pedal, with the former doubling the high-speed quota for Xpax unlimited plans (>RM35) till end-Jun, while the latter launched an attractive NEXT 20 offer (valid for 2 months) and offered 5GB/month bonus quota for a year for new/port-in NEXT 35 subs (only for sign-ups in Apr).

Broadband: Astro launches fibre plans; TIME dials back on offers

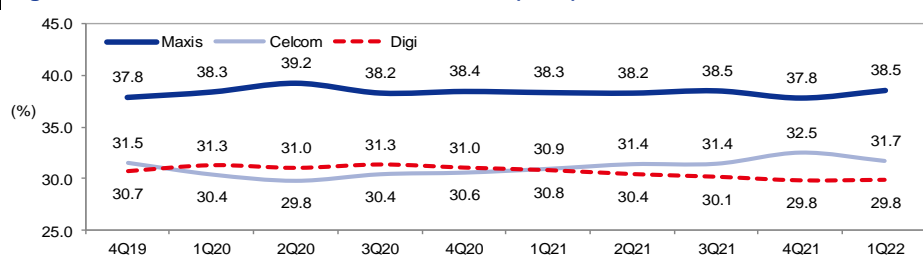
Astro launched its own fibre plans/fibre-pay TV bundles in early-May/end-Mar, which are on par with peers and thus should not disrupt incumbents in the near term. TIME dialled back on its previous promotion (since Oct 21), offering a one-month fee waiver and a free Mesh Wi-Fi unit (for 500Mbps/1Gbps plans) for all 24-month contract subs. Meanwhile, TM upped the appeal of its Unifi offers by incorporating more channels and streaming services, including Disney+ Hotstar. For the new Celcom Max bundles, as the discount is not huge, we believe it is unlikely to cause significant switchovers from other fibre service providers.

Mobile revenue fell 1% qoq, while fixed was up a decent 3% yoy

1Q22 mobile industry service revenue eased 1.1% qoq (+0.9% yoy), partly due to weaker seasonality and tighter competition. Maxis' revenue market share (RMS) rose 0.7% pt qoq to 38.5%, arresting the gradual increase in Celcom's RMS over the past 6 quarters. In the fixed-line business, TM's revenue was up a decent 2.9% yoy (-8.3% qoq). Unifi net adds softened further qoq but stayed robust vs. pre-pandemic levels, while ARPU slid qoq.

Regulatory concerns overhang the sector; top pick: TM

Pending the conclusion of the negotiations on DNB's stake sale (by end-Jun), we stay sector Underweight. We prefer the fixed to mobile segment due to better revenue growth prospects, more benign competition and less regulatory risk. Upside risks: MNOs take equity stakes in DNB at fair valuations and are able to lower total 5G rollout costs and reduce 5G wholesale fees.

Figure 1: Mobile service revenue market share (RMS) trend


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

State of the market (Mar-May 22)

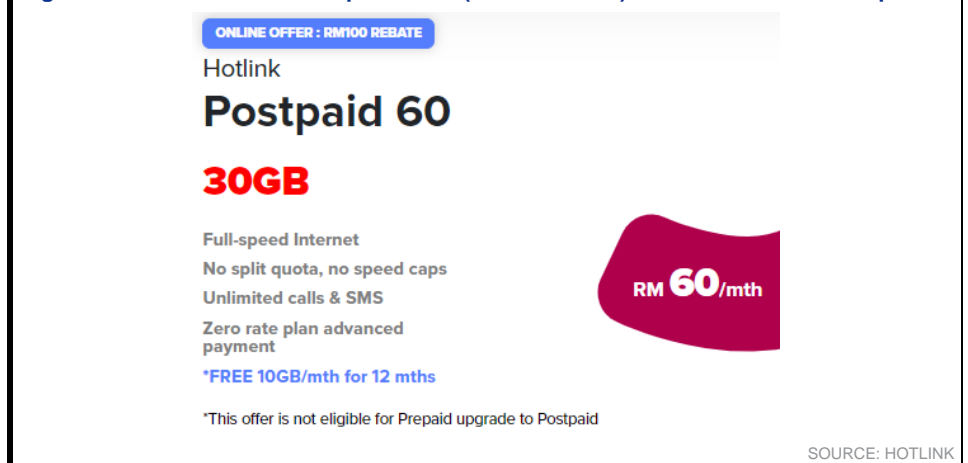
Competition stays tight, albeit with no major uptick

Postpaid: Big 3 ran tactical offers; U Mobile restores its low-end appeal ➤

Despite already rich quotas, the Big 3 continued to introduce limited-time, tactical offers to entice subs to sign up/port in/upgrade from prepaid. Both Maxis and Celcom extended, and in some instances raised, their attractive monthly rebates (over 2-6 months) for online sign-ups again, while Digi ran a promotion in Apr that offered 10GB/month bonus quota and RM15/month rebate (selected plans) for a year. Meanwhile, U Mobile replaced outdated offers with its new Postpaid 38 plan, which keeps it a notch more attractive vs. the Big 3 at the low-end, following the latter's revisions in Jan-Mar.

Maxis has extended until end-Jul 22 (vs. end-Mar/Apr previously) its: i) RM50/month rebate offer (over 4 months) for new/port-in online Postpaid 98-188 subs, and ii) RM20/month rebate (over 5 months) for Hotlink Postpaid 60. It is also offering an additional 10GB/month of bonus quota over 12 months for new/port-in Hotlink Postpaid 60 subs until end-Jun. As highlighted previously, we think that these offers — likely Maxis's attempt to acquire higher-average revenue per user (ARPU) postpaid subs (Maxis's 1Q22 ARPU: RM54) — are fairly aggressive and signify still-stiff competition, though they are partly mitigated by zero dealer commissions for online sign-ups.

Figure 2: 10GB/month bonus quota offer (for 12 months) for Maxis' Hotlink Postpaid 60



Similar to Maxis, Celcom has extended the following rebates for online sign-ups until further notice (previous: end-May): i) cumulative RM200 (16-38%) rebate offer (over 6 months) for new/port-in/prepaid subs who subscribe to Mega (with higher rebates vs. the previous cumulative RM90 [over 6 months] for Mega 80), and ii) cumulative RM30 rebate (over 6 months) for existing Mega subs who upgrade to higher-priced plans. Also until end-Jun, it is offering a larger RM20/month rebate over 6 months for each family line (if 2-6 family lines are added; previous: one-time RM20 rebate for principal line and RM30 rebate [over 6 months] per family line). Moreover, Celcom offered cumulative RM30 rebate (over 2 months; 38% off; previous: none) for Xpax Postpaid 40, and RM60 rebate (over 6 months; 17% off; previous: RM30 total) for Postpaid 60, for online sign-ups from early-Apr till end-May.

Figure 3: Celcom's total rebates of RM30/RM60 for Xpax Postpaid 40/60 online signups

Online Offer: Get up to RM60 rebate with Celcom XPAX POSTPAID™

Enjoy RM60 rebate for Celcom XPAX POSTPAID™ 60 and RM30 rebate for Celcom XPAX POSTPAID™ 40. Enjoy unlimited YouTube, Facebook, Whatsapp, Instagram and WeChat on-the-go!

Xpax Postpaid™ 60

Xpax Postpaid™ 40



SOURCE: CELCOM XPAX

As part of its Ramadan promotion (1 Apr-1 May), Digi offered i) 10GB/month bonus quota (11-100%) for 12 months for postpaid sign-ups, and ii) RM15/month rebate (10-17%) over 12 months for Postpaid 90-150 subs (new, port-in or upgrade from prepaid), and iii) 300Mbps fibre plan for RM100/month (normal: RM150) if bundled with Postpaid 90-150. While only offered for a short one-month period, the promotion was fairly aggressive and makes up the various promotions (limited-time or permanent) launched by mobile operators from time to time that contributes to the overall competitive intensity.

At end-Mar 22, U Mobile launched a new Postpaid 38 plan, which offers 30GB quota and unlimited all-net calls for RM38/month. This replaces its outdated P38 plan, which came with just 4GB and unlimited calls for the same price; existing P38 subs will be automatically upgraded to the new Postpaid 38 plan. It has also removed its GX50 (RM40/month for the first 12 months, unlimited quota with 5Mbps speed cap) and U28 (RM28/month, 3/3GB base/video quota) plans. While U Mobile seems to be attempting to lift ARPU by nudging GX50/U28 subs up to the higher-priced GX68/Postpaid 38 plans, it has nonetheless enhanced the attractiveness of its RM38 offer substantially. We see this as a move to restore its position (i.e. a notch more attractive) at the low-end vs. the Big 3 (following the latter's enhancements of their offers in Jan-Mar), as Postpaid 38 offers much more quota than comparable plans from the Big 3.

Figure 4: SIM-only postpaid plan comparison

Plan	Maxis Postpaid			Hotlink Postpaid			Celcom MEGA				Xpax Postpaid		Digi Postpaid					U Mobile					
	98	128	158	188	30	40	60	80	98	128	158	188	40	60	40	60	90	120	150	38	GX68	P79	
Monthly fees (RM)	98	128	158	188	30	40	60	80	98	128	158	188	40	60	40	60	90	120	150	38	68	79	
Data quota (GB)	50	70	90	110	2	12	30	40	50/UL (10Mbps)	70/UL (15Mbps)	90/UL (20Mbps)	120/UL (30Mbps)	10	20	10	30	50	70	90	30	UL (40Mbps)	20	
Calls (min)	UL			UL																			
Other benefits	Free 30-day access to Viu, iQiyi, WeTV, iflix etc.			N/A	N/A	10/20/30/50GB hotspot (for UL plans only)							UL YouTube, Facebook, Instagram (3Mbps)	UL HD YouTube, Facebook, Instagram (6Mbps)	Free 5/10/20/30GB quota if 12-month contract taken			Free UL quota/hotspot if 12-month contract taken		N/A	1GB Roam-Onz to 12 countries		
						N/A							UL roaming calls & SMS in 23 countries		N/A					N/A		UL Video-Onz (SD)	
						N/A							100GB roaming data		N/A					N/A		UL chat, Music-Onz & Waze	
						N/A							N/A					N/A		5GB hotspot		N/A	

Note: UL: Unlimited; PPU: Pay-per-use; SD: standard definition
SOURCES: CGS-CIMB RESEARCH, MAXIS, CELCOM, DIGI, U MOBILE

At end-May, Yes launched new Infinite 5G plans, offering both unlimited 4G and 5G quota (no fair usage policy [FUP] or speed cap) and 10-40GB of hotspot for RM58-178/month. While the RM58 plan is cheaper vs. U Mobile's GX68 and

comes with 5G access and more hotspot quota, we do not see any competitive threat from them in the medium-term as: i) Yes has essentially raised its postpaid entry-level price plan to RM58 (from RM48 previously, as Kasi Up 48 has been removed), ii) DNB's 5G coverage will still be quite limited in 2022-24, based on its rollout timeline, and iii) Yes's 4G network is inferior to the Big 4's.

Figure 5: Yes's new Infinite 5G plans

	Yes Infinite Basic RM58/mth BUY NOW	Yes Infinite Standard RM88/mth BUY NOW	Yes Infinite Premium RM118/mth BUY NOW	Yes Infinite Ultra RM178/mth BUY NOW
Data	Unlimited 5G + 4G*	Unlimited 5G + 4G*	Unlimited 5G + 4G*	Unlimited 5G + 4G*
Speed	Uncapped	Uncapped	Uncapped	Uncapped
Calls	Infinite	Infinite	Infinite	Infinite
Validity	30 days	30 days	30 days	30 days
Hotspot	10GB	40GB	70GB	100GB

*Yes Unlimited 5G is only available within selected coverage areas. Outside of the coverage area, you will be running on your 4G data. Terms & Conditions apply.

SOURCE: YES

Prepaid: Stays competitive; Maxis dials back slightly on unlimited >

There were no major prepaid moves by the Big 4 in Mar-May, though competition remains tight. Positively, Maxis dialled back on its unlimited offer slightly, by raising the prices of its 3/6Mbps speed cap variants by 14%/11%. Celcom and Digi kept their foot on the pedal, with the former doubling the high-speed quota for its Xpax unlimited plans (>RM35) till end-Jun, while the latter launched an attractive NEXT 20 offer (valid for 2 months) and offered 5GB/month bonus quota for a year for new/port-in NEXT 35 subs (only for sign-ups in Apr).

Positively, Maxis raised the prices of its Hotlink Unlimited plans with 3/6Mbps speed caps by 14%/11% to RM40/RM50 for the first time since they were launched in Jun 20, albeit with additional high-speed quota (2am-2pm daily) and unlimited hotspot quota.

Figure 6: Prepaid tariff comparison

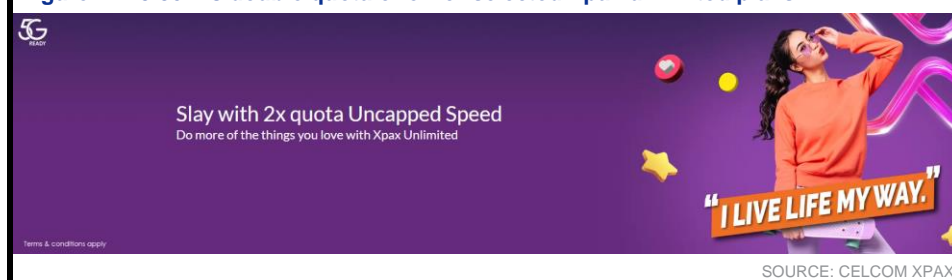
Telco	Maxis	Celcom	Digi	U Mobile	unifi Mobile
Package	Unlimited/Fast	Xpax	NEXT	Unlimited	#bebas
Starter pack price (RM)	10.0	10.0	15.0	10.0	10.0
Preloaded credit (RM)	5.0	6.0	0.0	6.0	
Bonus upon activation					
Data (MB)	500	300	3000	1000	3100 (4G)
Voice tariff (sen)					
- on-net (per min)					
- off-net (per min)	0.30	0.30	0.10	0.30	0.20
Data tariffs (RM per month)					
- 2GB	4	-	-	20 (1.5GB+0.5GB ⁺) 38 (2GB+2GB ⁺)	15
- 3GB	-	-	-	26 (2.5GB+2.5GB ⁺)	29
- 4GB	-	-	-	-	30
- 5GB	10	30 ^{##}	-	-	39
- 6GB	-	-	15 [^]	-	-
- 8GB	15	-	-	30 (7.5GB+2.5GB ⁺) 36 (7.5GB+7.5GB ⁺)	-
- 10GB	-	50 ^{##}	-	-	59
- 12GB	-	-	-	50 (12GB+10GB ⁺)	-
- 15GB	-	79 ^{**}	-	-	-
- 20GB	30	-	30 [^]	-	-
- 30GB	-	-	35 [^]	-	-
- 50GB	-	-	68 (RDY) [#]	-	-
- Unlimited	40 (3Mbps) 50 (6Mbps) 60 (18Mbps) All 50GB FUP, high-speed quota from 2am-2pm daily, UL hotspot, free Viu premium	35 (3Mbps, 3GB hotspot) 38 (3Mbps, 3GB hotspot, 5GB base)* 45 (6Mbps, 6GB hotspot, 5GB base) 48 (6Mbps, 6GB hotspot, 10GB base) All 60GB FUP	-	20 (3Mbps, 1 hr/day high-speed quota, FUP: 30GB) 35 (6Mbps, 3GB hotspot, UL calls, 1 hr/day high-speed quota, FUP: 100GB)	79 (10GB hotspot, UL calls)
Freebies					
Data	-	10GB/mth of Facebook, Instagram & Games Walla	UL Facebook, Instagram & Twitter	UL chat (UMI 26 & 36), Waze & Music-Onz	Includes 5G access (soon)
Voice (min)/SMS	UL calls	UL calls	100 on-net mins/week	Free calls (UMI 20, 30, 38, 50)	Free calls (RM19/29/39/59 plans)
Others	-	-	-	UL YouTube, tonton & KKBox (2-10am) streaming ^{#@}	-

Note: UL: Unlimited; ^{##}Rollover up to 10GB base data, UL YouTube (1-7am); ^{**}15GB Video Walla, rollover up to 10GB base data, UL YouTube (1-7am); *Free 6-mth iQiyi VIP access; [^]UL all-net calls (RM35), social quota & 1/2/3GB hotspot (latter 2 only with auto-renewal); ^{*}Video-Onz data; [#]Not applicable to UMI 26, UL tonton & KKBox streaming not applicable to UMI 36; [^]UL all-net calls (RM35), social quota (3Mbps speed cap) & 1/2/3GB hotspot (latter 2 only with auto-renewal); [#]UL calls (all-net), UL gaming quota with optimised latency, promo valid until further notice (normal: RM88)

SOURCES: CGS-CIMB RESEARCH, HOTLINK, CELCOM XPAX, DIGI, U MOBILE, UNIFI MOBILE

In contrast, from mid-Apr till end-Jun, Celcom is offering all new and existing Xpax subs double the high-speed quota (10-20GB now) for its RM38-RM53 unlimited plans. We believe Celcom may be trying to incentivise its existing prepaid subs to upgrade to higher priced unlimited plans (1Q22 prepaid ARPU: RM29). It may also be to enhance the attractiveness of its unlimited plans, in reaction to the first prepaid subs loss Celcom suffered (since 1Q20) of -22k (-0.3%) in 1Q22, albeit mild. Celcom had said during its 1Q22 results conference call that peers had launched more aggressive promotions in early-2022 that had led to its softer performance for the quarter.

Figure 7: Celcom's double quota offer for selected Xpax unlimited plans



For a limited time (1 Jun-31 Jul), Digi is offering a new NEXT 20 plan, which comes with 15GB base quota, 1GB hotspot and unlimited social quota (if auto-renewal)

enabled, 3Mbps speed cap). As part of its Juara Internet Sinaranku Ramadan promotion (1 Apr-1 May), Digi also offered 5GB/month bonus quota over 12 months for new/port-in NEXT 35 (normal: 30GB, unlimited calls) subs. As the campaigns last for a short 1-2 months, we doubt that these offers alone will have a major bearing on competition. However, the launch and extension of such campaigns (especially NEXT 20, which is more attractive than comparable plans from peers) from time to time does add somewhat to the market’s overall competitive intensity.

Figure 8: Digi’s new limited-time NEXT 20 offer



Meanwhile, mobile virtual network operator Tune Talk ran a limited-time “Tarik 3 Bulan” campaign (28 Mar-27 Apr), where it offered a one-off extension of the validity of its Hi-25 and Hi-35 plans from 30 to 90 days for new/port-in subs. This sub acquisition initiative will likely not be very impactful towards overall competition, as it is valid for a short period and did not involve any changes in headline prices, in our view.

IDD market was broadly stable in Mar-May 22 ➤

Above-the-line competition in the international direct dial (IDD) market was fairly stable in Mar-May 22. Digi/Maxis were the only operators that made tariff changes, cutting their headline IDD rates to Myanmar from 120/86 sen to 47/60 sen. Tariffs to other destinations and from other operators were unchanged.

Figure 9: Only Digi & Maxis revised IDD rates in Mar-May 22

Countries (RM/min)	Digi	Celcom	Maxis	U Mobile	Tune Talk
Indonesia	0.28	0.28	0.18	0.24	0.22
Bangladesh	0.12	0.12	0.08	0.10	0.12
Myanmar	0.47	0.86	0.60	0.86	1.00
India	0.10	0.12	0.08	0.09	0.12
Nepal	0.60	0.58	0.50	0.60	0.58

SOURCES: CGS-CIMB RESEARCH, DIGI, CELCOM, MAXIS, U MOBILE, TUNE TALK

Broadband: Astro launches its own fibre plans; TIME dials back on offers

Astro’s fibre offers not a major threat for now ➤

After inking a wholesale High-Speed Broadband Access (HSBA) agreement with Telekom Malaysia (TM) in Sep 21, Astro Malaysia Holdings Bhd (ASTRO MK,

Add, TP: RM1.43, CP: RM0.98) in early-May launched standalone 50-800Mbps fibre plans, priced at RM99-249/month, which are largely on par with Celcom but slightly more attractive than Digi (Astro's is same price or cheaper, plus free Mesh WiFi) and Maxis (Astro is 17% cheaper for 800Mbps, though with one less Mesh WiFi unit).

Astro also rolled out its own fibre-pay TV bundles at end-Mar. They (with Movies Pack, which includes mainly entertainment content and Disney+ Hotstar as well as HBO GO subscription) are largely on par with comparable bundles from TM (which include content and Disney+ Hotstar subscription too), with the former's 100/500Mbps offers priced 8%/6% higher vs. TM but 800Mbps plan priced 7% lower.

Astro is yet another player to enter the fibre broadband market. However, based on its current offers, we do not see it significantly shaking up competition in the fibre broadband market in the near- to medium-term as its prices, especially for the lower- to mid-tier plans, are largely on par with existing offers.

Figure 10: Comparisons of key fibre broadband plans

Telco	TM						Maxis					TIME			Digi					Celcom				Astro			
	30	100	30	300	500	800	30	100	300	500	800	100	500	1000	50	100	300	500	800	30	100	300	500	50	100	500	800
Price (RM)	89	129	149	199	249	349	89	129	149	219	299	99	139	199	90	130	150	190	270	80	120	140	200	99	129	189	249
Price/Mbps (RM)	2.97	1.29	4.97	0.66	0.50	0.44	2.97	1.29	0.50	0.44	0.37	0.99	0.28	0.20	1.80	1.30	0.50	0.38	0.34	2.67	1.20	0.47	0.40	1.98	1.29	0.38	0.31
Price/Mbps (US\$)	0.68	0.29	1.13	0.15	0.11	0.10	0.68	0.29	0.11	0.10	0.09	0.23	0.06	0.05	0.41	0.30	0.11	0.09	0.08	0.61	0.27	0.11	0.09	0.45	0.29	0.09	0.07
Quota (GB)	UL						UL					UL			UL					UL							
Others																											
Voice (min)	PPU						PPU					PPU			N/A					N/A							
PayTV																											
Set top box	Yes (incl. access to Disney+ Hotstar, beIN Sports Connect, SPOTV NOW & BBC Player)						N/A					N/A			N/A					N/A							
Mobile	No						Yes					No			Yes					No							
Free Mesh WiFi	No						1 unit (WiFi 6)					No			2 units (WiFi 6)					N/A							
Free router	No						1 unit (WiFi 6)					1 unit (WiFi 5)			1 unit (WiFi 6)					1 unit (WiFi 6)							
OTT	N/A						6 mths Disney+ Hotstar sub					N/A			N/A					N/A							

SOURCES: CGS-CIMB RESEARCH, TM, MAXIS, TIME, DIGI, CELCOM, ASTRO

TIME dials back on fibre offers >

From 1 Apr-30 Jun, TIME is offering a one-month fee waiver (worth RM99-199) and one free Mesh Wi-Fi unit (only for 500Mbps and 1Gbps plans) for all subs who sign up for its 24-month contract fibre broadband plans. This is relatively less aggressive vs. its previous Kabel Besar offer (valid since Oct 21) of RM10/month discount (over 24 months; i.e. RM240 in total) for the 500Mbps plan, and RM50/month discount (over 6 months; i.e. RM300 in total) for the 1Gbps plan.

More channels & streaming apps add to Unifi's appeal >

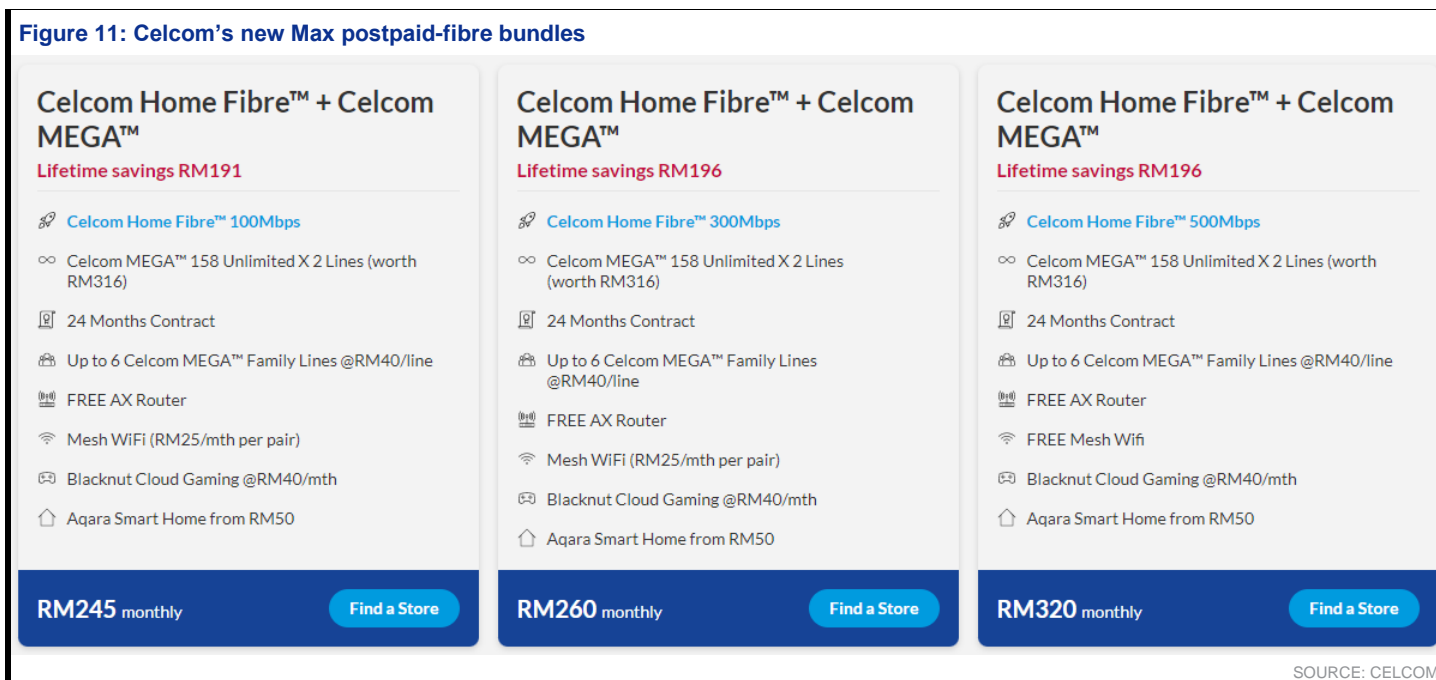
TM added five new channels to Unifi TV from early-May, which are BeIN Sports 1, BeIN Sports 3, CCTV-4, CGTN and Unifi's DEGUP (Asian action and horror content). Four streaming apps have also been added to Unifi TV, which are Disney+ Hotstar, MySing (local karaoke over-the-top app), BeIN Sports Connect and Spotv Now. Disney+ Hotstar (standalone subscription costs RM54.90 for 3 months) was available since mid-May and offered to Unifi TV Ultimate Pack subs for free, plus as an add-on at RM16/month for Varnam Plus, Aneka Plus and Ruby Plus Unifi TV Pack subs. Overall, we believe the addition of more channels and streaming platforms will help enhance the attractiveness of TM's bundled Unifi offerings.

Celcom Max bundles should not lead to much churn for existing fibre players ➤

In mid-Apr, Celcom introduced new Max bundles (24-month contract) with two unlimited postpaid lines and 100/300/500Mbps Home Fibre, priced at a total of RM245/RM260/RM320 per month. Interestingly, the price is largely the same if subs sign up for Celcom’s standalone plans (e.g. Mega 80 [RM80] + 1 family line [RM40] + 100Mbps fibre [RM120] = RM240), with Celcom throwing in the benefit of unlimited mobile data as an incentive for taking a bundle of the services. This is exactly what Maxis has been doing for some time, with its MaxisONE Prime bundles (comes with unlimited mobile data). Nonetheless, Celcom’s bundles are priced slightly more attractive vs. Maxis’s, which cost 12-14% more at RM275-RM365 (e.g. Postpaid 98 [RM98] + 1 share line [RM48] + 100Mbps fibre [RM129]). However, as the discount is not huge, we believe the chances of an entire Maxis household switching over to Celcom Max is low.

We think Celcom Max may appeal to existing Celcom primary line subs who have at least 1 family line and are subscribing to fixed broadband from another service provider (Unifi or Maxis). Even then, we find that the savings may not be sufficient for subs to endure the hassle of changing a fibre broadband provider (e.g. possible downtime without Internet, having to wait around at home for installers). For example, a Celcom Mega 80 sub (RM80, 40GB/month) with 1 family line (RM40) and a 100Mbps Unifi broadband subscription (RM129) will only save 2% by switching over to Celcom Max. There are bigger savings of 13-18% for higher speeds, but subs will lose Unifi TV when switching over.

Figure 11: Celcom’s new Max postpaid-fibre bundles



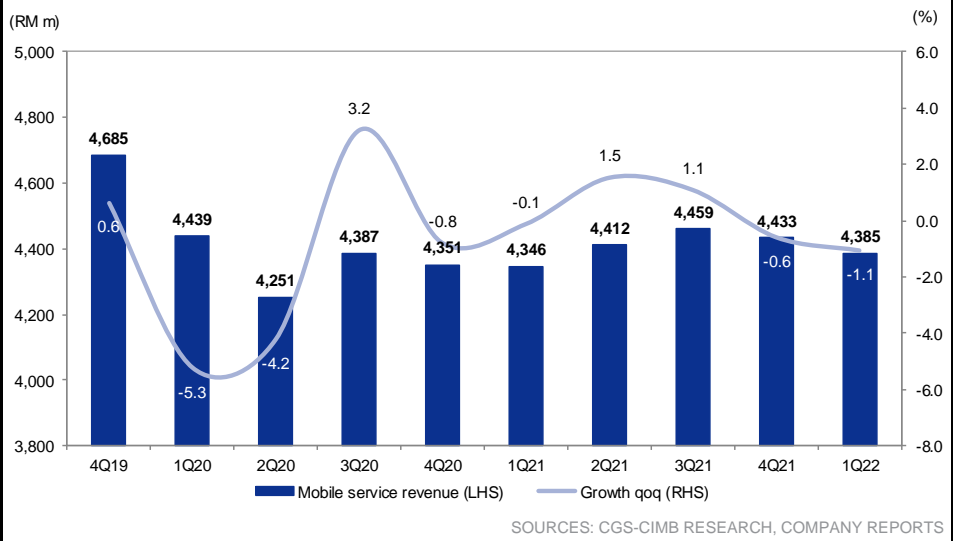
Read throughs from telcos’ 1Q22 results

Mobile revenue’s qoq decline driven by Celcom & Digi ➤

1Q22 mobile industry service revenue (based on the Big 3; i.e. Maxis, Digi and Celcom) rose yoy for the fourth consecutive quarter, albeit at a slower pace of 0.9%, driven by Celcom and Maxis. However, mobile industry service revenue eased 1.1% qoq, led by Celcom and Digi.

1Q22 prepaid revenue slid 1.2% qoq (-1.5% yoy), mainly due to weaker seasonality and tighter competition. The Big 3’s prepaid subs fell 2.0% qoq to 20.3m, led by Maxis’s and Digi’s subs loss, while ARPU also dipped. Meanwhile, 1Q22 postpaid revenue was up 0.7% qoq (+3.9% yoy) as subs growth was largely offset by lower ARPU. The latter was driven primarily by dilution from the increased take-up of entry-level postpaid/family plans for Maxis and Digi.

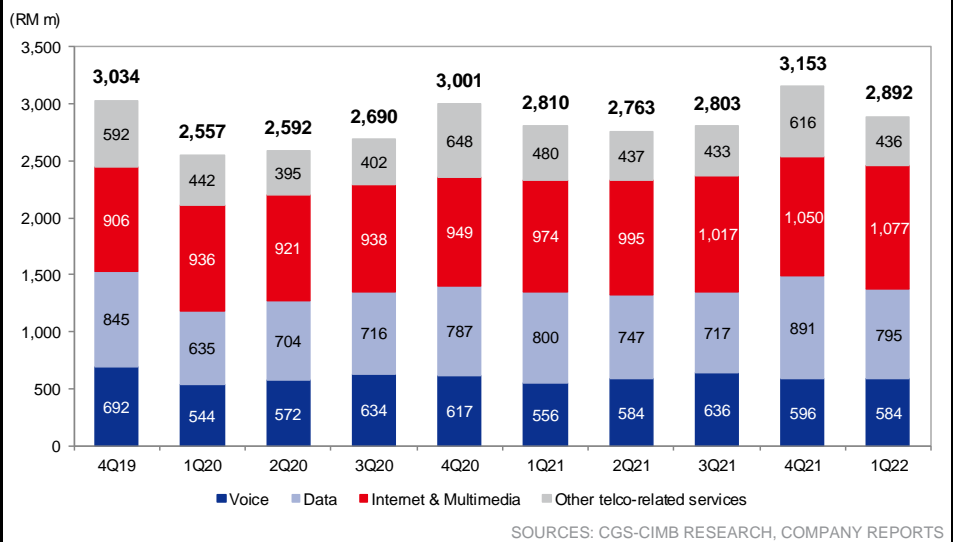
Figure 12: Industry mobile service revenue eased qoq, but was up yoy, in 1Q22



Decent yoy fixed-line revenue growth ➤

TM's 1Q22 revenue rose 2.9% yoy, led by Internet (+10.6%), voice (+5.0%) and domestic wholesale (+14.7%), partly offset by lower Indefeasible Right of Use (IRU) sales (lumpy bookings in 1Q21) and still-soft customer projects. Qoq, it was down 8.3% due to weaker seasonality, though Internet revenue continued to grow 2.6%. Unifi net adds softened further qoq to 134k (3Q21/4Q21: +208k/+154k) on slower fibre rollout and workers' return to offices, though this is still robust vs. pre-pandemic levels (1Q-4Q19: 16k-71k) and our estimated c.100k. Unifi's ARPU also slid 3.5% qoq (-5.6% yoy) on weaker seasonality and take-up of lower-priced plans by new subs.

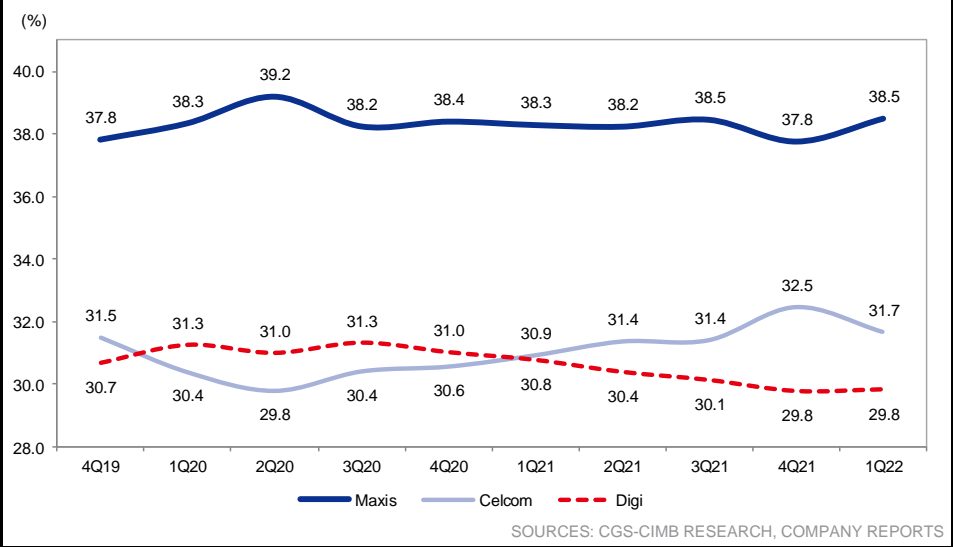
Figure 13: TM's quarterly revenue, by business segment



Maxis ceases Celcom's run of qoq RMS gains ➤

Maxis's mobile service revenue inched up by 0.8% qoq in 1Q22, outpacing Celcom and Digi, which both posted declines of 3.5% and 0.9%, respectively. Maxis's relative outperformance was thanks to healthy take-up of its entry-level postpaid and family offers. Accordingly, Maxis's RMS improved by 0.7% pt qoq to 38.5% (at the expense of Celcom), effectively arresting the gradual increase in Celcom's RMS over the past 6 quarters.

Figure 14: Mobile service revenue market share (RMS) trend



Celcom lost EMS to Maxis & Digi qoq ➤

Celcom was the only Big 3 telco that posted a qoq EBITDA drop in 1Q22, down 6.9% qoq (+13.6% yoy), with EBITDA margin (on service revenue) down 2.0% pts qoq on lower service revenue. Maxis's/Digi's EBITDA were stable qoq (-3.2%/+0.6%), with margins down 0.4% pt/up 0.6% pt. Thus, Maxis/Digi captured 0.8%/0.7% pt qoq EBITDA market share (EMS) from Celcom, which lost 1.5% pts EMS qoq.

Figure 15: EBITDA margin (on service revenue) trend

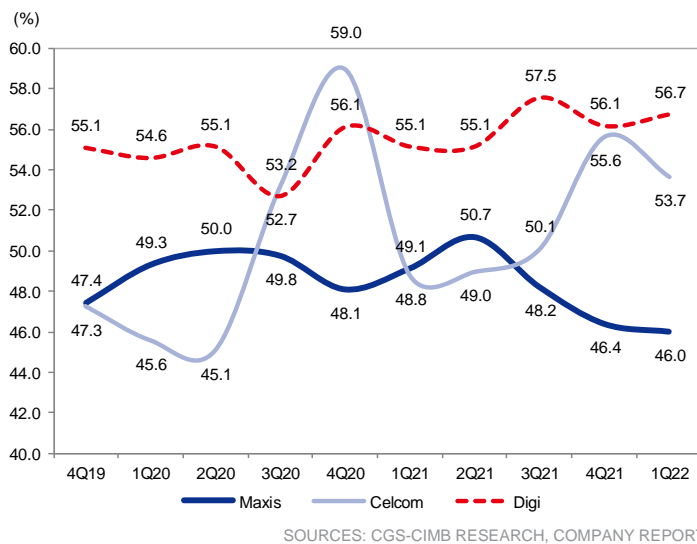
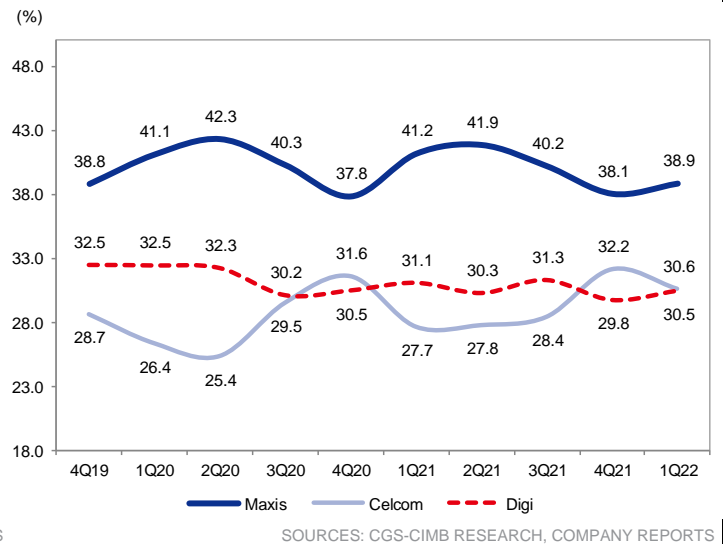


Figure 16: EBITDA market share of the Big 3



Telcos' share prices may continue to be lacklustre till regulatory clarity is attained, in our view

Mild industry mobile revenue growth in 2022F; still prefer fixed's secular growth story ➤

We currently have an Underweight rating on the Malaysian telco sector. Pending the conclusion of the negotiations on DNB's stake sale and signing of wholesale access agreements, we think telcos' share price performance may continue to be lacklustre as investors will be concerned over potential negative outcomes. A deadline of end-Jun has been set by the Ministry of Finance, but given the

complexity of the issues, there is a risk that it may have to be extended, in our view.

We see the Big 3's mobile service revenue growing by low single-digit yoy in 2022F (2021: +1.3%), due to a gradual recovery in roaming and migrant/tourist prepaid SIM sales as Covid-19 abates, partly offset by a fall-off in revenue boosted by PRIHATIN-led initiatives in 2021. Competition may also be more stable in 2022F, with potentially stronger consumer purchasing power and the Celcom-Digi merger alleviating some pricing pressure. However, we do not expect major market repair, as U Mobile will likely want to keep growing its revenue scale to achieve sustainable net profits/decent ROEs, while the Big 3 may continue to engage in sub acquisition/retention initiatives in a mature mobile market.

We are more positive on the revenue growth for the fixed business due to structural demand and relatively more benign competition. We project TM's revenue to rise further by 3.7%/2.1%/1.1% yoy in FY22F/23F/24F (FY21: +6.4% yoy), driven by robust demand for: i) fibre broadband (still relatively low penetration, further supported by TM's accelerated fibre rollout), ii) wholesale fibre leasing (for mobile backhaul and wholesale high-speed broadband access), and iii) data centre/cloud services (thanks to over-the-top firms locating their content locally and cloud migration of public data under MyDigital). Despite its accelerated fibre rollout plan, we expect TM's total opex to rise only marginally in FY22-24F, buffered by cost-saving initiatives, mainly from: i) its IT transformation programme, ii) natural staff attrition and voluntary separation schemes, iii) more efficient operations & maintenance cost, and iv) contract re-negotiations with vendors. Thus, we see its core EPS falling 4.1% yoy (Makmur tax), before rebounding 37.6% in FY23F (post-Makmur tax) and rising a further 6.8% in FY24F (ex-Cukai Makmur tax: +9.4%/+20.7% yoy in FY22F/23F), which is a potential re-rating catalyst. TM's FY22F EV/OpFCF of 8.8x is 29% below the mobile average, with decent FY22-24F yields of 3.6-5.2% p.a. (60% payout).

Meanwhile, we see Maxis' FY22F core EPS sliding 3.8% (Makmur tax), before rebounding 18.8% in FY23F (post-Makmur tax, full recovery in roaming and migrant/tourist prepaid SIM sales), and rising 10.0% in FY24F. Ex-Makmur tax, core EPS would rise 8.9%/5.2% yoy in FY22F/23F. There is risk of our FY22-24F core EPS being 2.9-24.5% lower if the government proceeds with its SWN plans based on the current commercial wholesale offer. Its FY22F EV/OpFCF is 1.5 s.d. below its 12-year mean, with reasonable FY22-24F yields of 5.6% p.a.

Key upside risks to our sector rating include MNOs taking up equity stakes in DNB at fair valuations and are able to lower total 5G rollout costs as well as reduce 5G wholesale fees. TM (Add, TP: RM6.75) remains our Malaysian telco top pick, while we have a Hold rating on Maxis (TP: RM3.90).

Figure 17: ASEAN telco sector comparison

Company	Bloomberg Ticker	Recom.	Current share price (local curr.)	Target price (local curr.)	Market cap (US\$ m)	Core P/E (x)		EV/EBITDA (x)		EV/OpFCF (x)		3-year CAGR (%)		Dvd Yield (%)	
						2022F	2023F	2022F	2023F	2022F	2023F	EPS	EBITDA	2022F	2023F
Maxis	MAXIS MK	HOLD	3.59	3.90	6,402	22.3	18.8	9.1	8.7	13.3	12.2	7.9	4.0	5.6	5.6
TM	T MK	ADD	5.31	6.75	4,566	16.9	12.3	5.3	5.1	8.8	8.3	12.1	2.8	3.5	4.9
MY telcos average (ex-outliers)						20.8	17.9	7.2	6.8	11.5	10.7	10.3	3.5	4.4	5.0
SingTel	ST SP	ADD	2.57	3.20	30,877	17.0	14.0	7.7	13.4	18.5	17.4	21.9	3.9	4.4	5.4
Starhub	STH SP	HOLD	1.24	1.40	1,563	27.0	21.9	7.8	6.6	20.6	12.0	(9.9)	1.6	4.0	4.0
SG telcos average (ex-outliers)						22.0	17.9	7.8	10.0	19.5	14.7	6.0	2.7	4.2	4.7
TLKM	TLKM IJ	ADD	4,340	5,000	29,761	15.5	14.5	7.1	6.7	11.8	11.0	10.6	4.6	4.6	5.2
XL Axiata	EXCL IJ	ADD	2,570	3,650	1,908	18.5	13.4	4.3	4.0	10.6	8.9	36.5	7.3	3.2	5.2
Indosat	ISAT IJ	HOLD	5,500	7,100	3,070	86.7	27.7	4.9	4.4	nm	72.2	44.1	19.9	0.6	1.8
Link Net	LINK IJ	ADD	4,580	5,200	908	13.8	12.6	5.1	4.6	14.2	13.6	5.8	8.6	2.2	4.0
Indo telcos average (ex-outliers)						15.9	17.1	5.4	4.9	12.2	11.2	24.2	10.1	2.6	4.0
AIS	ADVANC TB	ADD	214.00	254.00	18,551	23.5	23.0	7.4	7.0	10.8	10.0	3.8	3.5	3.8	3.9
DTAC	DTAC TB	ADD	43.75	53.60	3,020	36.7	52.8	5.5	5.6	11.1	12.0	(24.2)	2.0	3.4	3.1
True	TRUE TB	HOLD	4.50	5.24	4,377	nm	nm	6.7	6.7	12.8	11.6	28.1	3.1	1.6	1.6
Jasmine	JASIF TB	REDUCE	10.90	10.00	2,542	9.8	9.6	10.0	9.6	10.0	9.6	1.9	1.3	8.5	8.7
DIF	DIF TB	ADD	13.60	17.20	4,215	11.6	11.5	11.8	11.6	11.8	11.6	0.2	0.2	7.7	7.7
Intouch	INTUCH TB	HOLD	71.75	73.00	6,706	21.3	21.1	21.4	21.2	21.4	21.2	2.0	1.9	4.2	4.2
Thai telcos average (ex-outliers)						20.6	23.6	10.4	10.3	13.0	12.7	1.9	2.0	4.9	4.9
ASEAN Telcos average (ex-outliers)						19.9	19.0	8.0	8.0	13.3	15.9	7.8	4.5	4.1	4.7

Note: Share prices as of 6 Jun 2022; Operating FCF is calculated as EBITDA minus average 3-year forward capex
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG



ESG in a nutshell

All four Malaysian telcos have final scores above the mid-point (based on our estimates), indicating that the sector as a whole performed well from an ESG perspective. The higher-rated telcos showed: i) progressive network improvements, ii) industry-leading efforts in staff training, workforce diversity and positive workplace environment, iii) better board diversity, low-to-none material cases of corruption and broader disclosure, and iv) good progress on their carbon emission reduction targets.

Keep your eye on

The government's plan to accelerate the 5G SWN rollout via Digital Nasional Bhd (DNB) could be a mid- to longer-term risk for incumbent mobile network operators (MNOs). At end-Apr 22, a consortium comprising Boost Holdings Sdn Bhd and RHB Bank Bhd secured a digital banking licence in Malaysia, with operations to begin after a 12-24-month period of operational readiness.

Implications

If the government proceeds with its 5G SWN plan based on the current commercial offer, we estimate Maxis may be charged substantial minimum wholesale fees of RM303m/RM403m/RM432m/RM432m in FY23F/24F/25F/26F, which could further rise to RM591m-1.5bn p.a. in FY27-31F. Meanwhile, we think MNOs will not be able to generate much extra revenue from 5G in the near/mid-term, leading us to believe there could be downside risks to our core EPS forecasts for Maxis over the medium term. We have incorporated this potential earnings risk into our ESG score/ranking and valuation for Maxis by applying a 20% discount to its DCF-based fair value. However, we have not factored the upside risk from digital banking opportunities into our valuations/forecasts for telcos, as investors may only start to recognise their value in 2024-25F, when operating indicators are possibly disclosed, in our view.

ESG highlights

Overall, the Malaysian telco sector performed well from an ESG standpoint, as the companies have a relatively small impact on the environment, contribute significantly to community development (e.g. digital/financial inclusion) and are generally well-governed, in our view. Besides the potential 5G risk factor, Malaysian MNOs' performance in data privacy and security is below the overall score, due to a massive data breach affecting 46.2m subs from at least 12 MNOs and MVNOs in 2014.

Implications

We believe the telco sector's ESG performance is relatively better than other sectors, especially those in the natural resource, manufacturing, power generation (coal, natural gas) and sin sectors. On an absolute basis, we do not expect the good ESG performance to have a material positive impact on the sector's topline and earnings, as this is more likely to be driven by issues such as competition, M&As and regulatory developments, in our view.

Trends

In return for the licence to operate their networks, the public expects telcos to roll out their networks and provide good and reliable quality of service (QoS) at affordable prices. If telcos fail at this, there may be community calls on the regulator to intervene to correct a real/perceived market failure, perhaps with the setting of more stringent QoS/coverage targets (with fines imposed if key performance indicators are not met), imposition of tariff ceilings or the suspension of licence/issuance of additional licences to bring in new entrants to spur competition. Telcos that do not consistently provide good and reliable QoS/coverage and customer service may also, over the longer run, risk losing subs and incur additional costs to manage high subs churn rates.

Implications

Telcos' progressive network improvements may help improve its market traction over the medium term. We have factored this into our fundamental analysis for the respective telcos, by projecting mobile service revenue market share changes in FY22-24F.

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, OPENSIGNAL

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CGS-CIMB Thailand does not confirm nor certify the accuracy of such survey result.

Score Range:	90 - 100	80 - 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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Distribution of stock ratings and investment banking clients for quarter ended on 31 March 2022		
632 companies under coverage for quarter ended on 31 March 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	70.3%	0.8%
Hold	22.0%	0.0%
Reduce	7.8%	0.2%

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021

ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a **BH** – Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENDEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified,

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- CG Score 2021 from Thai Institute of Directors Association (IOD)

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Recommendation Framework

Stock Ratings

Definition:

Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.