

Malaysia Overweight

(previously Underweight)

Highlighted Companies

Maxis Berhad

ADD, TP RM3.60, RM3.31 close

We see core EPS sliding 3.8% in FY22F (due to Makmur tax), before rebounding 18.8% in FY23F (post-Makmur tax, as well as full recovery in roaming and migrant/tourist prepaid SIM sales) and rising 10.0% in FY24F. We have an Add rating on Maxis, as we think the earnings risk from 5G wholesale fees is more than priced in.

Telekom Malaysia

ADD, TP RM6.75, RM5.29 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	20.58	17.32	15.74
Telekom Malaysia	16.86	12.25	11.47

P/BV (x)	Dec-22F	Dec-23F	Dec-24F
Maxis Berhad	4.04	4.08	4.03
Telekom Malaysia	2.50	2.31	2.14

Dividend Yield	Dec-22F	Dec-23F	Dec-24F
Maxis Berhad	6.04%	6.04%	6.04%
Telekom Malaysia	3.56%	4.90%	5.23%

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Telco - Overall

5G clarity may lift telcos off oversold position

- We raise our sector rating to Overweight. Maxis is upgraded to Add, with an 8% lower TP of RM3.60. TM stays our top Malaysian telco pick (RM6.75 TP).
- We believe telcos are oversold on 5G fears. Greater clarity on the 5G situation may emerge in early-Jul and could be a re-rating catalyst.
- We believe there is now some upside and, given historical-low valuation, telcos may also relatively outperform from hereon in a weak market.

Raise sector to Overweight & Add for Maxis; top pick is still TM

We raise the Malaysian telco sector's rating from Underweight to Overweight. We think the potential earnings hit from 5G wholesale fees are already more than factored in telcos' share prices, which have fallen by an average of 17% YTD. Maxis' and TM's DCF-based fair value (FV) in three possible scenarios are all higher than their current share prices by 8-32% and 27-28%, respectively. Greater clarity on the 5G situation may emerge in early-Jul and could be a potential re-rating catalyst, in our view. We upgrade Maxis from Hold to Add, with an 8% lower TP of RM3.60 (higher risk-free rate), which is still based on a 20% discount to its DCF-based FV of RM4.53 (ex-5G fees). We reiterate Add on TM, with an unchanged DCF-based TP of RM6.75. Our earnings forecasts (ex-5G fees) are unchanged, pending better clarity. Downside risk: delays in final resolution.

Scenario 1: Core EPS hit in FY22-24F but is more than priced in

We assume telcos sign 5G wholesale agreements with Digital Nasional Bhd (DNB) based on its current offer, with no equity stakes in DNB. We estimate Maxis' FY22-24F core EPS to be hit by 1-19% and its DCF-based FV at RM3.57. Its EV/OpFCF is at the bottom of its 12-year trading band even if we stretch this out to end-FY24F. With FCFE/share at 20-23 sen, we see Maxis sustaining its FY22-24F DPS at 20 sen p.a.; its 6.0% dividend yield is at 0.8 s.d. above its 12-year mean and a decent 182bps above the 10-year government bond yield. For TM, we estimate the net impact to its FY22F/23F/24F core EPS at +4%/neutral/-7%, as it will also receive fibre lease revenue from DNB. Coupled with 4G capex savings, its DCF-based FV is little changed at RM6.70.

Scenario 2: Rosier FY22-24F core EPS vs. Scenario 1

We assume telcos take up c.12% stakes each in DNB for RM200m and that wholesale fees are charged based on actual traffic (instead of sites rolled out) in 2022-24F (reverting to the Coverage and Capacity fee structure from 2025F onwards). We estimate Maxis' FY22-24F core EPS to be hit by just 1-6%. However, its DCF-based FV is largely unchanged at RM3.57, as the lower wholesale fee in 2022-24 is offset by the RM200m investment in DNB. Maxis' FY22-24F FCFE/share would be 20-25 sen, in our estimates. For TM, we see FY22-24F core EPS boosted by 4-8% as fibre lease revenue from DNB will now be much more than 5G wholesale fees. Its DCF-based FV would be the same at RM6.75. If we assume DNB offers a 20% discount on wholesale fees for 2025F onwards, Maxis' and TM's DCF-based FV would be higher at RM3.94 and RM6.95, respectively.

Scenario 3: Near-term jitters, but may not be worse in the longer run

We cannot fully rule out a potential new government (post-GE15) reviewing DNB's SWN. Any signs of this may cause jitters and keep telcos' share prices depressed until full clarity emerges. In the extreme case where Malaysia reverts to telcos rolling out their own 5G networks, Maxis' FY22-24F core EPS may be hit by 0-6% and its DCF-based FV would be RM4.37, including estimated 5G spectrum fees. TM's core EPS forecasts and FV may not be impacted as we do not expect it to roll out its own 5G network.

Figure 1: Impact of Scenarios 1-3 on Maxis's & TM's DCF-based FV & dividend yield

Telco/Scenario	DCF-based FV (RM)			FY24F dividend yield		
	Scenario 1	Scenario 2	Scenario 3	Scenario 1	Scenario 2	Scenario 3
TM	6.70	6.75	N/A	4.9%	5.6%	N/A
Maxis	3.57	3.57	4.37	6.0%	6.0%	6.0%

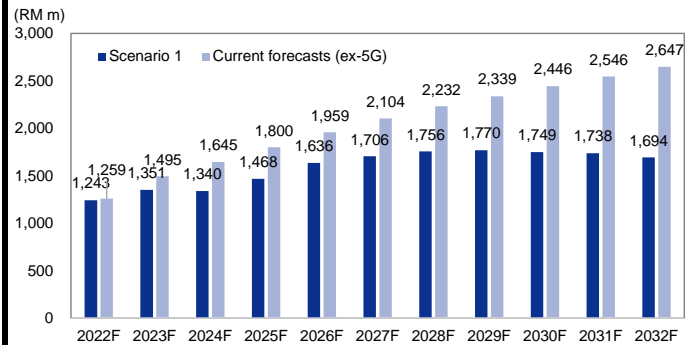
SOURCE: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

KEY CHARTS

Scenario 1: Maxis' FY22-24F core EPS hit ... ➤

For Scenario 1, we estimate Maxis may have to pay a small 5G wholesale fee of RM24m to DNB in FY22F, which then jumps substantially to RM192m/403m/432m/432m in FY23F/24F/25F/26F, before rising further to RM586m-RM1.69bn p.a. in FY27-32F. We do not expect telcos to be able to generate much incremental revenue from 5G in the near- to mid-term due to a lack of new business cases, while telcos' capex is unlikely to decline substantially in FY22-24F (4G capex). Thus, we predict Maxis' FY22-32F core net profit may be lower by 1.2-36.0%, vs. our current forecasts (ex-5G basis), and its DCF-based FV at RM3.57.

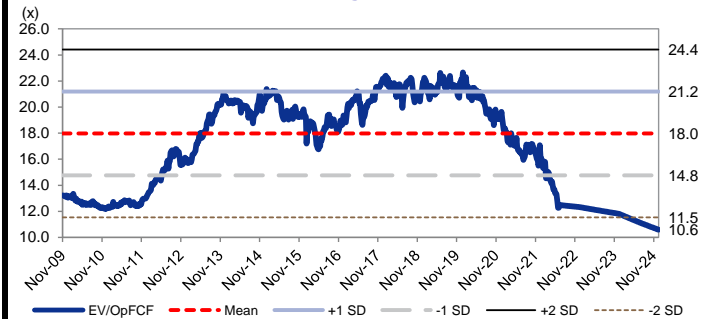
Maxis' core net profit under Scenario 1 vs. our current forecasts



... likely priced in, in our view ➤

While we expect Maxis' earnings to get hit in Scenario 1, we believe this has been more than priced in as its EV/OpFCF is now at the bottom of its 12-year trading band, even if we stretch this out to end-FY24F. Its FY23F EV/OpFCF is also now at a 28% discount to the ASEAN telco average.

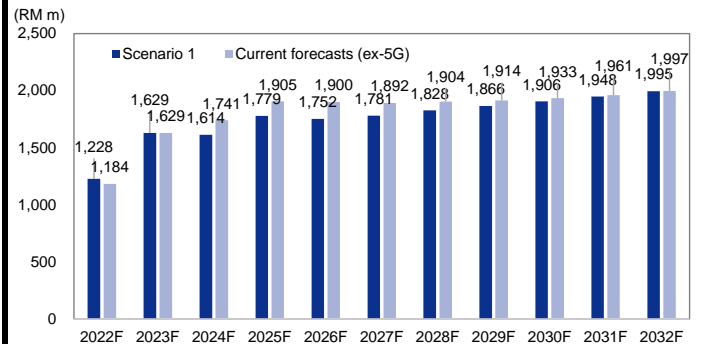
Maxis' EV/OpFCF is near a 12-year low even after including 5G wholesale fees



Much smaller core EPS impact for TM ➤

For Scenario 1, we estimate TM's core net profit to be boosted by 3.7% in FY22F, as the fibre lease revenue from DNB will be more than the 5G wholesale fees. For FY23F, we see the net impact as being neutral, before a net -7.3% impact in FY24F. We believe the net negative impact will then reduce through to 2032F as: a) 5G wholesale fees may max out at RM432m p.a. from FY25F onwards, b) fibre lease revenue should continue to rise as DNB rolls out more 5G sites beyond the 80% coverage targeted by end-2024, and c) 4G roaming fees to Celcom would reduce as more traffic is offloaded to DNB's 5G network. Squaring the earnings impact and 4G capex savings, TM's DCF-based fair value is largely unchanged at RM6.70, in our estimates.

TM's core net profit under Scenario 1 vs. our current forecasts



Maxis & TM offer decent yields above the 10-year MGB, even in Scenario 1 ➤

Despite the earnings hit in Scenario 1, Maxis should be able to sustain FY22-24F DPS at 20 sen p.a., as we project its FCFE/share at 20-23 sen. This puts its dividend yield at 6.0%, or well into the upper half (+0.8 s.d.) of its 12-year range and at a decent 182 bps above the 10-year Malaysian government bond (MGB) yield. For TM, we forecast its DPS based on a 60% payout ratio. Based on TM's earnings in Scenario 1, we estimate FY22F/23F/24F DPS at 19.5/25.9/25.7 sen, or a yield of 3.7-4.9% p.a.

Maxis' & TM's dividend yields vs. 10-year MGB yields

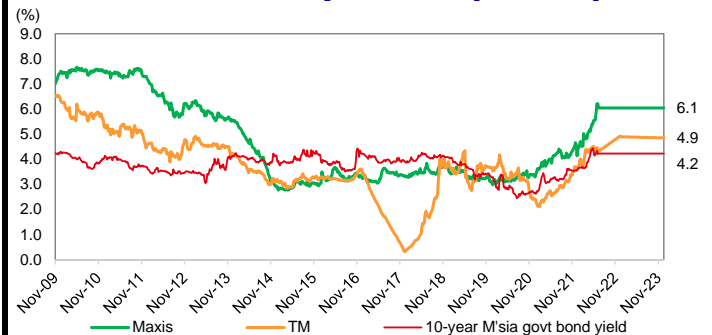


Figure 2: ASEAN telco sector comparison

Company	Bloomberg Ticker	Recom.	Closing Price (local curr)	Target Price (local curr)	Mkt 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	ADD	3.31	3.60	5,881	20.6	17.3	8.6	8.2	12.5	11.5	7.9	4.0	6.0	6.0
Telekom Malaysia	T MK	ADD	5.29	6.75	4,530	16.9	12.3	5.3	5.0	8.7	8.3	12.1	2.8	3.6	4.9
MY telcos average (ex-outliers)						20.2	17.4	7.2	6.8	11.4	10.6	10.3	3.5	4.6	5.2
SingTel	ST SP	ADD	2.55	3.20	30,136	16.9	13.9	7.7	13.3	18.4	17.3	21.9	3.9	4.4	5.4
Starhub	STH SP	HOLD	1.23	1.40	1,524	26.8	21.7	7.8	6.6	20.5	11.9	(9.9)	1.6	4.1	4.1
SG telcos average (ex-outliers)						21.8	17.8	7.7	9.9	19.4	14.6	6.0	2.7	4.3	4.7
Telkom Indonesia	TLKM IJ	ADD	4,020	5,000	26,650	14.4	13.4	6.6	6.2	11.0	10.2	10.6	4.6	5.0	5.6
XL Axiata	EXCL IJ	ADD	2,560	3,650	1,837	18.4	13.4	4.3	3.9	10.6	8.9	36.5	7.3	3.3	5.2
Indosat	ISAT IJ	HOLD	6,325	7,100	3,413	99.8	31.9	5.3	4.8	nm	77.4	44.1	19.9	0.5	1.6
Link Net	LINK IJ	ADD	4,670	5,200	895	14.0	12.8	5.2	4.7	14.5	13.9	5.8	8.6	2.1	3.9
Indo telcos average (ex-outliers)						15.6	17.9	5.3	4.9	12.0	11.0	24.2	10.1	2.7	4.1
Advanced Info Services	ADVANC TB	ADD	197.50	254.00	16,459	21.7	21.2	6.9	6.5	10.1	9.3	3.8	3.5	4.2	4.2
Total Access Communication	DTAC TB	ADD	44.75	53.60	2,969	37.6	54.0	5.5	5.7	11.2	12.2	(24.2)	2.0	3.3	3.0
True	TRUE TB	HOLD	4.64	5.24	4,338	nm	nm	6.7	6.8	13.0	11.7	28.1	3.1	1.5	1.5
Digital Telecommunications Infrastructure Fund	DIF TB	ADD	13.50	17.20	4,022	11.5	11.4	11.7	11.5	11.7	11.5	0.2	0.2	7.7	7.8
Intouch	INTUCH TB	HOLD	68.75	73.00	6,177	20.4	20.2	20.5	20.3	20.5	20.3	2.0	1.9	4.4	4.4
Thai telcos average (ex-outliers)						19.9	23.1	10.0	9.9	12.6	12.3	1.9	2.0	5.1	5.2
ASEAN Telcos average (ex-outliers)						19.4	18.6	7.9	7.9	13.1	16.0	7.8	4.5	4.3	4.8

Note: Share prices as of 1 Jul 2022; operating FCF (OpFCF) is calculated as EBITDA minus average 3-year forward capex; core P/E is share price divided by core EPS (i.e. reported EPS excluding one-off extraordinary items); included only P/E ratios ranging between c.10-40x, EV/OpFCF of c.5-25x & EPS/EBITDA 3-year CAGR of -100% to +100% in our calculation of sector averages
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

5G clarity may lift telcos off oversold position

Raise to sector **Overweight** & Add for Maxis; top pick is still TM

Sector rating raised to Overweight as we think telco shares are oversold >

We raise the Malaysian telco sector rating from Underweight to Overweight. We think the potential earnings hit from 5G wholesale fees have already been more than factored into telcos' share prices, which have fallen by an average 17% YTD. In our analysis, Maxis' and TM's DCF-based FV in 3 possible scenarios are all higher than their current share prices by 8-32% and 27-28%, respectively.

Greater clarity on the 5G situation could emerge by early-Jul >

We believe greater clarity on the 5G situation may emerge in early-Jul, given recent comments from the Communications and Multimedia Minister and press reports. On 30 Jun, an Edge Markets report cited the Communications and Multimedia Minister Tan Sri Annuar Musa saying that six local telcos have agreed to take up the 70% stake in Digital Nasional Bhd (DNB; Unlisted) ahead of the end-Jun deadline and that an official announcement will be made in another 7-8 days. He also shared that everything is according to plan, and issues pertaining to transparency and the pricing involved have all been sorted out.

In addition, based on a Singapore's Straits Times (ST) news report on 29 Jun, its sources said that Malaysia's Ministry of Finance (MOF) will inject RM500m for its 30% stake, while each telco will cough up RM200m for an equal 11.7% stake. In addition, a wholesale price review will be overseen by the Malaysian Communications & Multimedia Commission (MCMC) every three years and the wholesale pricing will be discounted until DNB achieves 80% nationwide coverage by end-2024.

Greater clarity on the 5G situation could be a re-rating catalyst, in our view. Even if telcos were to sign-up on DNB's current wholesale terms, it would still help to provide certainty and dispel fears over potentially even worse-case scenarios, while more favourable outcomes could lead to more significant upsides, in our view.

Upgrade Maxis to Add, with an 8% lower DCF-based TP of RM3.60 (WACC: 7.6%); TM is still our top pick, with an unchanged DCF-based TP of RM6.75 (WACC: 7.9%) >

We upgrade Maxis from Hold to Add, with an 8% lower TP of RM3.60 (after raising the risk-free rate by 50bps to 4.5%, owing to the recent rise in Malaysian government bond yields), which is still based on applying a 20% discount to its DCF-based FV of RM4.53 (ex-5G fees). We maintain Add on TM, with an unchanged DCF-based TP of RM6.75 (already assuming a risk-free rate of 4.5%). TM is our top Malaysian telco pick as we view it is a beneficiary of the structural demand for fibre, data centres and cloud services, and due to its bigger upside potential. Our earnings forecasts are unchanged (i.e. excludes 5G wholesale fees), pending better clarity.

Figure 3: Our revised DCF-based TP for Maxis is RM3.60 (WACC: 7.6%, terminal growth: 2.0%)

FYE 31 Dec (RM m)	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
EBIT (1-T)	1,710	1,872	2,007	2,145	2,270	2,379	2,465	2,551	2,629	2,706
Depreciation & Amortisation	1,463	1,457	1,442	1,420	1,402	1,388	1,377	1,367	1,360	1,354
Capex (including upfront spectrum fee)	-1,250	-1,250	-1,150	-1,150	-1,150	-1,150	-1,150	-1,150	-1,150	-1,150
Annual FCFF	1,923	2,079	2,299	2,415	2,522	2,617	2,692	2,769	2,839	2,910
Terminal value										53,191
Present value of cash flow	1,788	1,796	1,846	1,803	1,750	1,688	1,614	1,543	1,471	27,018
Value of firm	42,318									
Net cash/(debt) at end-2022F	-6,882									
Value of Equity	35,436									
Value of Equity per share (RM)	4.53									
Discount to equity value	20%									
Target price (RM)	3.60									
Key DCF assumptions										
Cost of equity										
					WACC					
Risk-free rate	4.5%					Ratio				Cost of Capital
Market Risk Premium	7.0%					Equity	60.0%			10.1%
Beta	0.80					Debt	40.0%			3.8%
Cost of equity	10.1%					WACC				7.6%
Terminal growth rate	2.0%									
Effective tax rate	24.0%									

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 4: Sensitivity of Maxis' TP to changes in WACC and terminal growth rate

WACC	Terminal growth rate				
	1.0%	1.5%	2.0%	2.5%	3.0%
6.5%	4.01	4.31	4.69	5.16	5.76
7.0%	3.60	3.84	4.14	4.50	4.95
7.6%	3.20	3.40	3.60	3.89	4.23
8.0%	2.96	3.12	3.31	3.54	3.81
8.5%	2.70	2.84	2.99	3.18	3.39

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 5: TM's DCF-based TP is unchanged at RM6.75 (WACC: 7.9%, terminal growth: 1.0%)

FYE 31 Dec (RM m)	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
EBIT (1-T)	1,830	1,910	2,048	2,030	1,996	1,984	1,968	1,962	1,964	1,975
Depreciation & Amortisation	1,928	1,932	1,936	1,939	1,941	1,944	1,946	1,947	1,949	1,950
Capex	-1,851	-1,851	-1,851	-1,851	-1,851	-1,851	-1,851	-1,851	-1,851	-1,851
Annual FCFF	1,907	1,992	2,133	2,118	2,086	2,077	2,063	2,058	2,062	2,075
Terminal value										30,182
Present value of cash flows	1,767	1,709	1,696	1,560	1,424	1,313	1,208	1,117	1,037	15,022
Value of firm	27,852									
Net cash/(debt) at end-2022F	-2,358									
Value of equity	25,494									
No of shares (m)	3,774									
Value of equity/share (RM)	6.75									
Key DCF assumptions										
Cost of equity										
						WACC				
Risk-free rate	4.5%						Ratio			Cost of Capital
Market Risk Premium	7.0%						Equity	60.0%		10.5%
Beta	0.85						Debt	40.0%		4.2%
Cost of equity	10.5%						WACC			7.9%
Terminal growth rate	1.0%									
Effective tax rate	24.0%									

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 6: Sensitivity of TM's TP to changes in WACC and terminal growth rate

WACC	Terminal growth rate				
	0.0%	0.5%	1.0%	1.5%	2.0%
7.0%	7.19	7.51	7.90	8.35	8.89
7.5%	6.66	6.94	7.25	7.62	8.05
7.9%	6.25	6.49	6.75	7.06	7.43
8.5%	5.80	5.99	6.21	6.47	6.76
9.0%	5.44	5.61	5.79	6.00	6.24

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Key downside risks for TM include less-than-expected cost savings in FY22-24F and adverse regulatory developments (e.g. Mandatory Standard on Access Pricing or MSAP review). The latter could possibly result in lower revenues for TM in future.

Key sector risks ►

While there are signs that the relevant parties will soon come to an agreement on 5G, we cannot rule out the risks that the final resolution may take longer than expected, if there are changes in the political landscape. In mid-Jun 2022, Youth Wing leaders of United Malays National Organisation (UMNO; the key component party of the Barisan National coalition) handed over a memorandum to Deputy Communications and Multimedia Minister Datuk Zahidi Zainul Abidin, expressing concerns about Malaysia's 5G rollout through an SWN via DNB. If there is a change in the political landscape, a potential new government may take time to review or even change plans. If so, the uncertainties over 5G may persist for longer, during which time, telco share prices may continue to stay depressed, in our view.

Scenario 1: Core EPS hit in FY22-24F, but more than priced in

Minimum wholesale fees will rise to an estimated RM432m p.a. in FY25F ►

For Scenario 1, we assume mobile network operators (MNO) sign 5G wholesale agreements with DNB based on its current offer, with no equity stakes in DNB. Based on DNB's published Reference Access Offer, the current rate is set at:

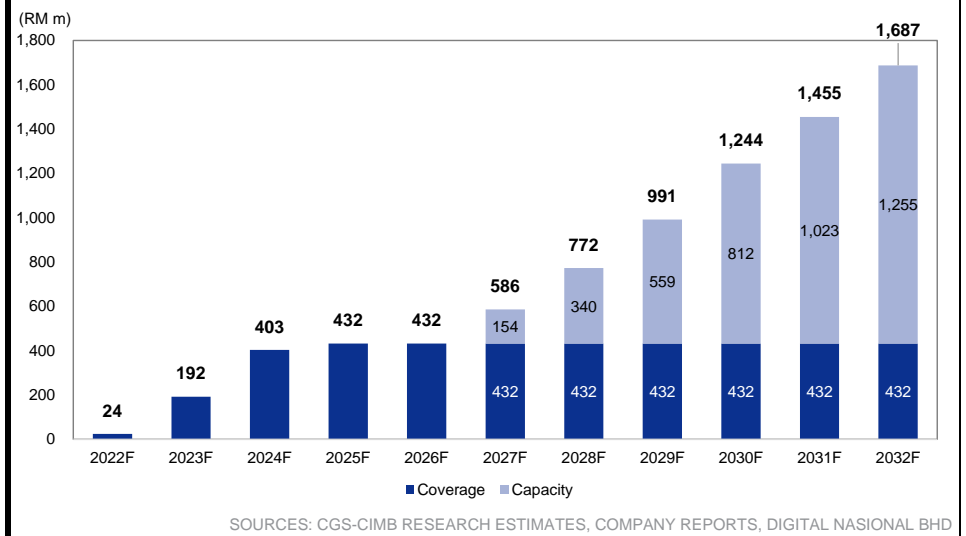
- RM30k/Gbps/month for the Coverage fee, which is based on a minimum volume commitment per site and number of sites rolled out. With DNB expecting to roll out 7,509 sites (80% coverage) by end-2024, the Coverage fee to be paid by each MNO would rise to an estimated RM432m p.a. (i.e. RM30k x 1,200Gbps x 12 months) from FY25 onwards, based on our estimates; and
- RM22k/Gbps/month for Capacity fee, which is charged based on additional capacity required on top of the minimum volume commitment. We expect Capacity charges to kick in only from FY27F as it would take time for 5G device penetration and data usage to rise.

To ease telcos into the wholesale agreement, DNB is offering to charge on a pay per use basis for Year 1, then revert to the Coverage and Capacity fee structure above for future years. For greater detail on DNB's 5G coverage rollout plans and its commercial wholesale offer, please see our earlier report "[Potential 5G pains for MNOs](#)".

Assuming the wholesale agreements take effect from 1 Jul 2022, we estimate Maxis may have to pay a small 5G wholesale fee of RM24m to DNB in FY22F, which then jumps substantially to RM192m/403m/432m/432m in FY23F/24F/25F/26F, based on our estimates. Thereafter, we estimate it would rise further to RM586m-RM1.69bn p.a. in FY27-32F, once Capacity charges kick-in. For TM, we estimate its 5G wholesale fees will rise in a similar pattern to reach RM432m in FY25F, but thereafter not rise further as we do not expect it to burst the

minimum volume commitment given its small mobile subs base (under Unifi mobile).

Figure 7: Estimated 5G wholesale fees for Maxis under Scenario 1



Maxis' FY22-32F core EPS may be lower by 1-36% ... ➔

We do not expect telcos to be able to generate much incremental revenue from 5G in the near to mid-term due to a lack of new business cases, while telcos' capex is unlikely to decline substantially in FY22-24F as they need to continue investing in the 4G network to meet the National Digital Infrastructure Plan's (JENDELA) targets and to support growing 4G traffic. Thus, with the additional 5G wholesale fees, we estimate Maxis' FY22-32F core net profit may be lower by 1.2-36.0% vs. our current forecasts (which are on ex-5G basis), while its DCF-based FV is RM3.57.

Figure 8: Maxis' core net profit under Scenario 1 vs. our current forecasts

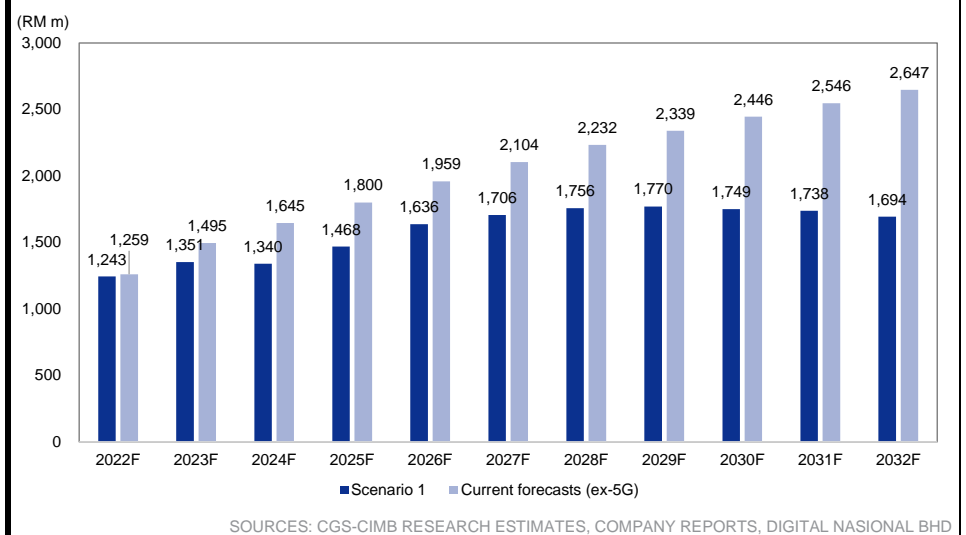


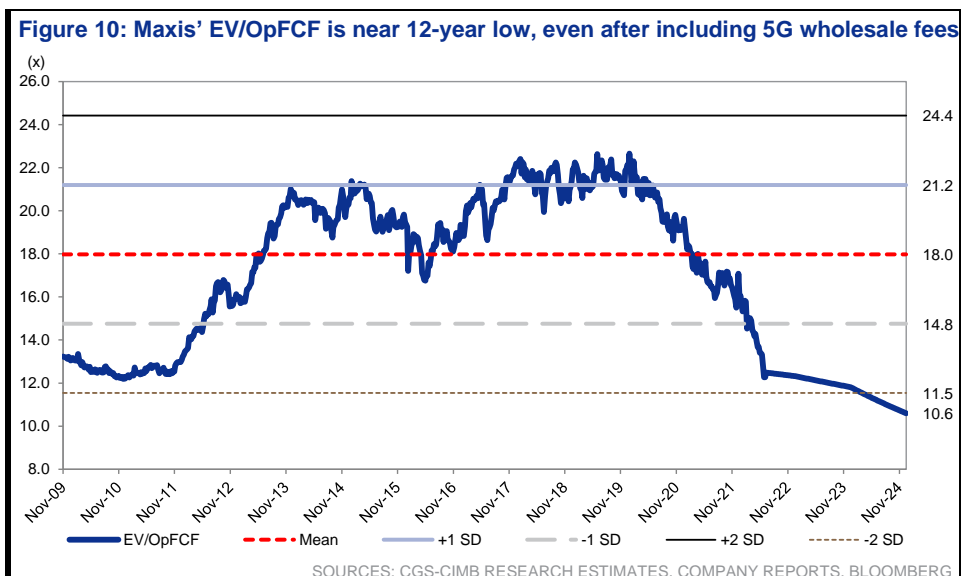
Figure 9: Maxis' DCF-based fair value would be RM3.57 under Scenario 1 (WACC: 7.6%, terminal growth: 2.0%)

FYE 31 Dec (RM m)	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
EBIT (1-T)	1,567	1,573	1,686	1,839	1,890	1,922	1,917	1,880	1,853	1,800
Depreciation & Amortisation	1,463	1,457	1,442	1,400	1,328	1,231	1,124	1,028	951	888
Capex (including upfront spectrum fee)	-1,250	-1,250	-1,150	-950	-750	-550	-450	-450	-450	-450
Annual FCFF	1,781	1,779	1,978	2,289	2,468	2,603	2,591	2,458	2,354	2,238
Terminal value										40,906
Present value of cash flow	1,655	1,537	1,589	1,709	1,713	1,679	1,554	1,370	1,220	20,778
Value of firm	34,804									
Net cash/(debt) at end-2022F	-6,898									
Value of Equity	27,906									
Value of Equity per share (RM)	3.57									
Key DCF assumptions										
Cost of equity	WACC		Ratio		Cost of Capital					
Risk-free rate	4.5%		Equity	60.0%	10.1%					
Market Risk Premium	7.0%		Debt	40.0%	3.8%					
Beta	0.80									
Cost of equity	10.1%		WACC		7.6%					
Terminal growth rate	2.0%									
Effective tax rate	24.0%									

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

... but this is priced in, as its EV/OpFCF is at 12-year low while dividend yield is the reverse ➤

While we expect Maxis' earnings to get hit in Scenario 1, we believe this has been more than priced in as its EV/OpFCF is now at the bottom of its 12-year trading band even if we stretch this out to end-FY24F.



In addition, we believe Maxis should be able to sustain FY22-24F DPS at 20 sen p.a., as we project its FCFE/share at 20-23 sen, under Scenario 1. This puts its dividend yield at 6.0%, or well into the upper half (+0.8 s.d.) of its 12-year range and a decent 182bps above the 10-year MGB yield.

Figure 11: Maxis' FCFE/share in Scenario 1 suggests it can sustain a 20 sen DPS p.a.

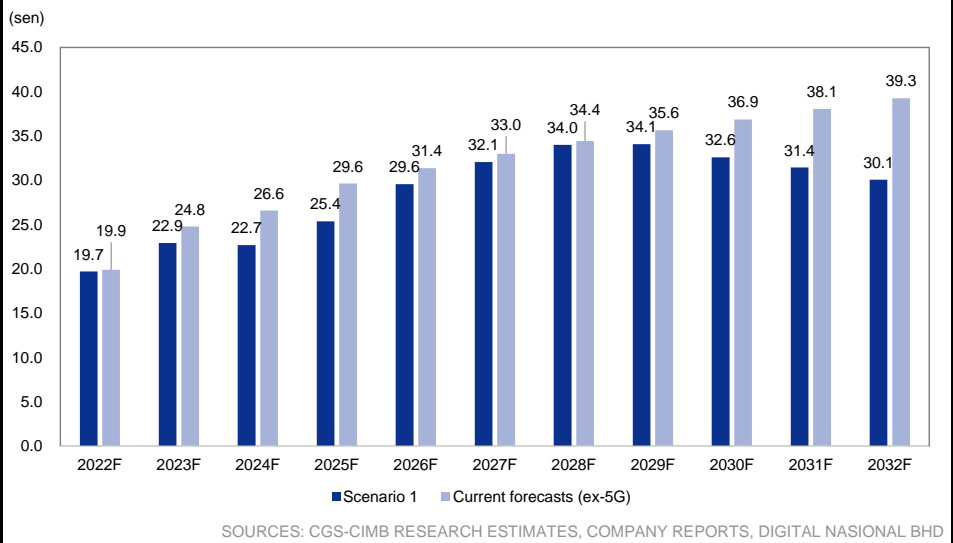


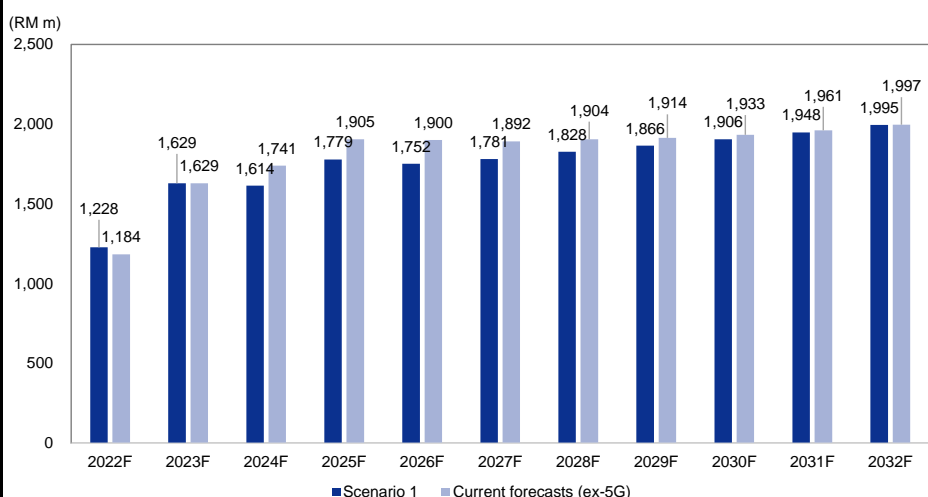
Figure 12: Maxis' dividend yield is now at the top-end of its 12-year range and at a decent premium to the 10-year Malaysia Government Bond yield



The core EPS impact for TM will be much smaller ... ➤

For TM, we estimate its core net profit will be boosted by 3.7% in FY22F in Scenario 1 as the fibre lease revenue from DNB will be more than the 5G wholesale fees, which is still low in Year 1 because it is charged on a pay-per-use basis. For FY23F, we see the net impact as being neutral, before a net -7.3% impact in FY24F. We believe the net negative impact will then reduce through to 2032F as: a) 5G wholesale fees may max out at RM432m p.a. from FY25F onwards for TM, b) fibre lease revenue should continue to rise as DNB rolls out more 5G sites beyond the 7,509 (80% coverage) targeted by end-2024 and c) 4G domestic roaming fees to Celcom would reduce as more traffic is offloaded to DNB's 5G network.

Figure 13: TM's core net profit under Scenario 1 vs. our current forecasts



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, DIGITAL NASIONAL BHD

...while DCF-based FV is largely unchanged to even higher if TM shuts down its own 4G network from FY26F ➤

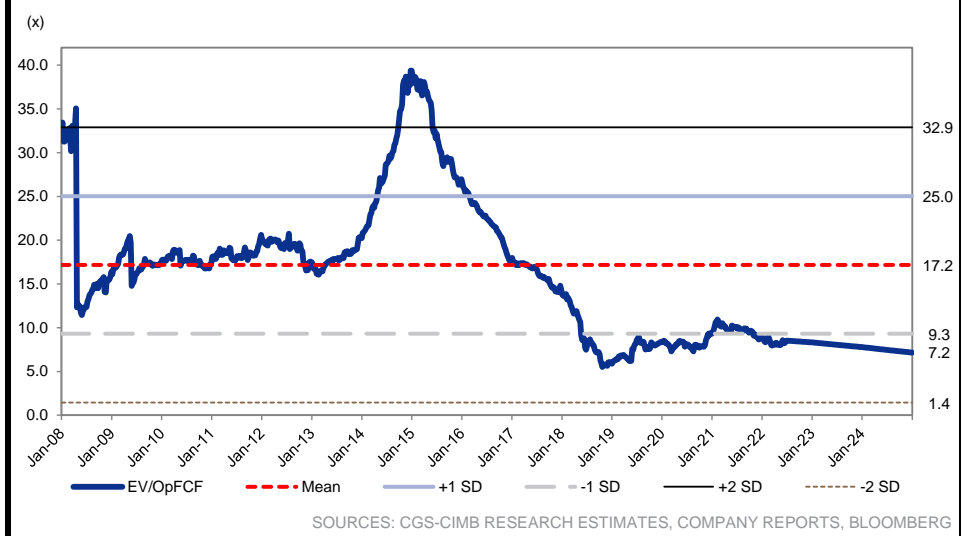
With DNB's 5G network, we believe TM will reduce the capex on its own 4G network to just maintenance level from hereon. Squaring the earnings impact and the 4G capex savings, TM's DCF-based fair value is largely unchanged at RM6.70. If we assume TM shuts down its own 4G network from FY26F onwards, the savings on operational & maintenance cost itself would further boost its DCF-based fair value to RM7.00, in our view.

Figure 14: TM's DCF-based fair value would be RM6.70 under Scenario 1 (without 4G network shutdown) (WACC: 7.9%, terminal growth: 1.0%)

FYE 31 Dec (RM m)	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
EBIT (1-T)	1,815	1,745	1,878	1,885	1,889	1,911	1,923	1,936	1,954	1,974
Depreciation & Amortisation	1,910	1,906	1,910	1,913	1,913	1,912	1,912	1,911	1,911	1,911
Capex	-1,751	-1,801	-1,851	-1,801	-1,801	-1,801	-1,801	-1,801	-1,801	-1,801
Annual FCFF	1,974	1,851	1,937	1,997	2,000	2,022	2,034	2,047	2,064	2,084
Terminal value										30,326
Present value of cash flows	1,829	1,588	1,540	1,471	1,365	1,278	1,191	1,110	1,037	15,093
Value of firm	27,503									
Net cash/(debt) at end-2022F	-2,219									
Value of equity	25,284									
No of shares (m)	3,774									
Value of equity/share (RM)	6.70									
Key DCF assumptions										
Cost of equity										
WACC										
Risk-free rate	4.5%									
Market Risk Premium	7.0%									
Beta	0.85									
Cost of equity	10.5%									
WACC										
Cost of equity	10.5%									
WACC	7.9%									
Terminal growth rate										
Terminal growth rate	1.0%									
Effective tax rate	24.0%									

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 15: TM's EV/OpFCF trading band under Scenario 1



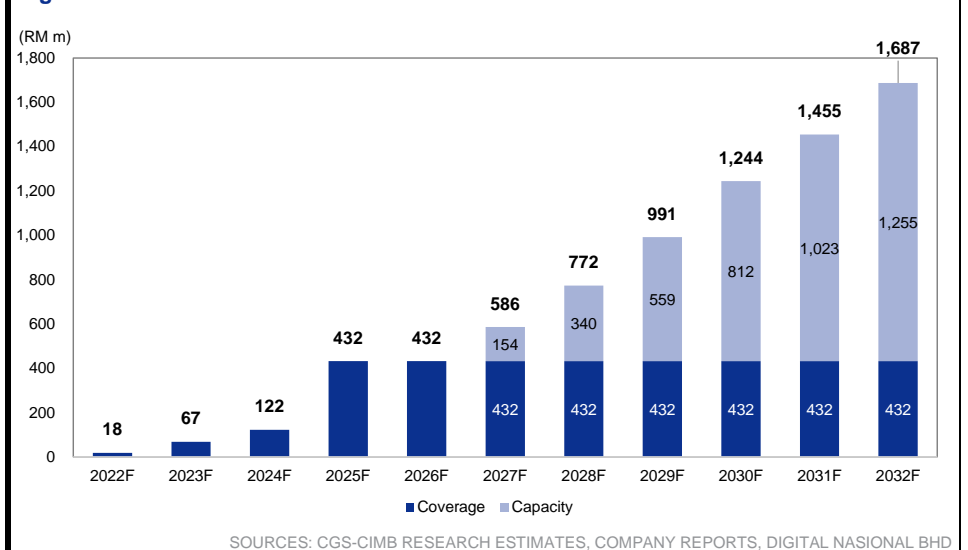
Scenario 2: Rosier FY22-24F core EPS vs. Scenario 1

Much smaller 5G wholesale fees in FY22F-24F if charges are based on traffic ➤

For scenario 2, we assume the MOF's offer of an up-to-70% stake in DNB is taken up equally by six telcos, each with an 11.7% stake for RM200m. Wholesale fees are also 'discounted' in 2022-24F, calculated based on traffic rather than sites rolled out, before reverting to the Coverage and Capacity fee structure from 2025F onwards.

In this case, we estimate Maxis may have to pay a smaller 5G wholesale fee of RM18m/RM67m/RM122m to DNB in FY22F/23F/24F, before jumping to RM432m in FY25F. For FY25-32F, the 5G wholesale fees would be the same as Scenario 1. For TM, we estimate its 5G wholesale fees will be very small at just RM2m-13m p.a. in FY22-24F, then jumping to RM432m p.a. for FY25F-32F (similar to Scenario 1).

Figure 16: Estimated 5G wholesale fees for Maxis under Scenario 2

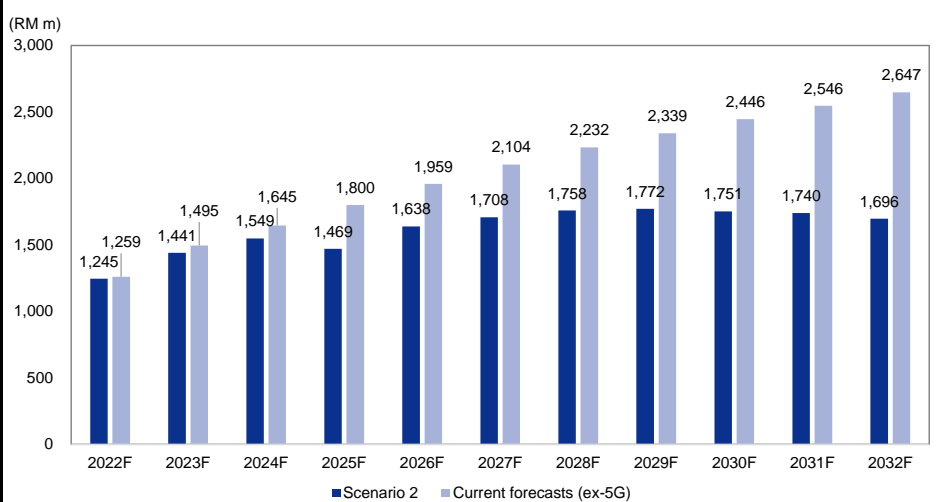


Maxis' FY22-24F core EPS to be hit by just 1.1-5.9% ➤

With the much smaller 5G wholesale fees, we estimate Maxis' FY22-24F core net profit will be hit by 1.1-5.9% vs. our current forecasts (ex-5G), lesser than the

impact in Scenario 1. However, its DCF-based FV is not much changed at RM3.57, as the wholesale fee discounts are only for 2022-24F and are offset by the RM200m investment in DNB. Maxis' FY22-24F FCFE/share would be at 20-25 sen, supportive of its annual DPS of 20 sen p.a.

Figure 17: Maxis' core net profit under Scenario 2 vs. our current forecasts



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, DIGITAL NASIONAL BHD

Figure 18: Maxis' DCF-based fair value would be RM3.57 under Scenario 2 (WACC: 7.6%, terminal growth: 2.0%)

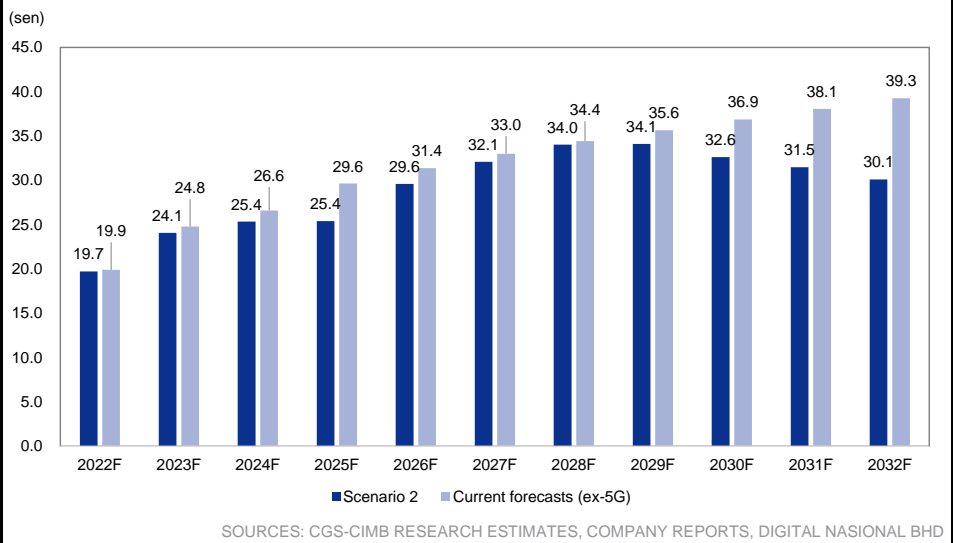
FYE 31 Dec (RM m)	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
EBIT (1-T)	1,660	1,781	1,686	1,839	1,890	1,922	1,917	1,880	1,853	1,800
Depreciation & Amortisation	1,463	1,457	1,442	1,400	1,328	1,231	1,124	1,028	951	888
Capex (including upfront spectrum fee)	-1,250	-1,250	-1,150	-950	-750	-550	-450	-450	-450	-450
Annual FCFE	1,873	1,988	1,978	2,289	2,468	2,603	2,591	2,458	2,354	2,238
Terminal value										40,906
Present value of cash flow	1,741	1,718	1,589	1,709	1,713	1,679	1,554	1,370	1,220	20,778
Value of firm	35,070									
Net cash/(debt) at end-2022F	-7,096									
Value of Equity	27,974									
Value of Equity per share (RM)	3.57									

Key DCF assumptions

Cost of equity		WACC		
			Ratio	Cost of Capital
Risk-free rate	4.5%	Equity	60.0%	10.1%
Market Risk Premium	7.0%	Debt	40.0%	3.8%
Beta	0.80			
Cost of equity	10.1%	WACC		7.6%
Terminal growth rate	2.0%			
Effective tax rate	24.0%			

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 19: Maxis' FCFE/share under Scenario 2 is supportive of its 20 sen DPS p.a.



TM's FY22-24F core EPS will be boosted by 4-8% ➤

For TM, we see FY22-24F core net profit actually boosted by 3.6-7.8%, vs. our current forecasts (ex-5G), as we estimate fibre lease revenue from DNB will now be much more than the minimal 5G wholesale fees it would have to pay. However, TM's DCF-based FV would be unchanged at RM6.75, for the same reason as Maxis above.

If we assume DNB also offers a 20% discount on the wholesale fees for 2025 onwards, Maxis' and TM's DCF-based FV would be higher, at RM3.94 and RM6.95, respectively.

Figure 20: TM's core net profit under Scenario 2 vs. our current forecasts

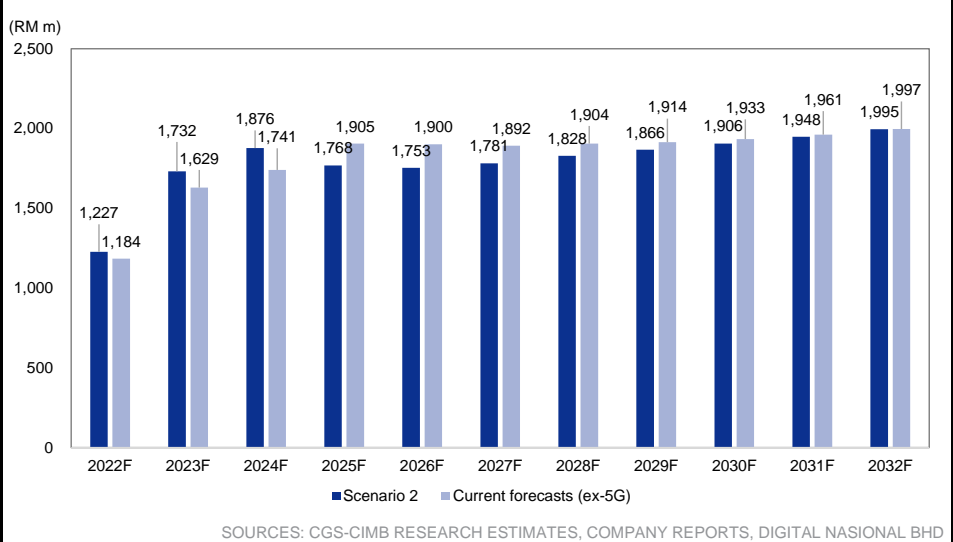


Figure 21: TM's DCF-based fair value would be RM6.75 under Scenario 2 (WACC: 7.9%, terminal growth: 1.0%)

FYE 31 Dec (RM m)	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
EBIT (1-T)	1,937	2,049	1,877	1,885	1,888	1,911	1,923	1,936	1,954	1,974
Depreciation & Amortisation	1,910	1,906	1,910	1,913	1,913	1,912	1,912	1,911	1,911	1,911
Capex	-1,751	-1,801	-1,851	-1,801	-1,801	-1,801	-1,801	-1,801	-1,801	-1,801
Annual FCFE	2,095	2,154	1,936	1,997	2,000	2,022	2,034	2,047	2,064	2,084
Terminal value										30,325
Present value of cash flows	1,941	1,849	1,540	1,471	1,365	1,278	1,191	1,110	1,037	15,092
Value of firm	27,875									
Net cash/(debt) at end-2022F	-2,420									
Value of equity	25,455									
No of shares (m)	3,774									
Value of equity/share (RM)	6.75									
Key DCF assumptions										
Cost of equity		WACC			Ratio		Cost of Capital			
Risk-free rate	4.5%									
Market Risk Premium	7.0%		Equity	60.0%						10.5%
Beta	0.85		Debt	40.0%						4.2%
Cost of equity	10.5%		WACC							7.9%
Terminal growth rate	1.0%									
Effective tax rate	24.0%									

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Scenario 3: Near-term jitters, but may not be worse in the longer run

Many possibilities if potential new government were to review the SWN model ➤

We cannot fully rule out a potential new government for Malaysia (after the 15th General Elections, GE15) reviewing DNB's SWN. Any signs of this may cause jitters and keep telcos' share price depressed until full clarity emerges, in our view.

There are various possibilities if any changes in plans were made under this situation. It could be the case that the potential new government continues with the SWN model but allows the telcos to take control of DNB to steer the rollout. According to a news report from Free Malaysia Today on 16 Oct 2021, former Prime Minister Dato' Sri Najib Razak had said that telcos must be allowed to play an active role in managing and monitoring DNB so that the 5G infrastructure can be better implemented.

A potential new government could also move away from the SWN (monopoly) model to dual wholesale networks (DWN) or even, in the extreme case, revert to telcos rolling out their own 5G networks.

Let's take it to the extreme case ... ➤

As there are too many possibilities, we believe a useful scenario analysis would be to look at the extreme case of reverting to telcos rolling out their own 5G networks. In this situation, we think telcos' overall capex will not rise too substantially as we see: a) joint network rollout (among/between any of the Big 4 MNOs i.e. Maxis, Digi [DIGI MK, Restricted, CP: RM3.64], Axiata [AXIATA MK, Restricted, CP: RM2.83] and U Mobile [Unlisted]), b) telcos utilising their existing low-band spectrum in combination with new 5G spectrum to meet coverage obligations, and c) a slightly earlier drop off in 4G capex (as telcos will be rolling out 5G to exactly the areas where it is required by their subs base). However, we think they would have to pay upfront and annual licence fees for the 700MHz, 3.5GHz and millimetre wave (mmWave) spectrum bands (our estimations are in the section below).

... Maxis' FY23-24F core EPS may be hit by 6% p.a. ➤

Assuming this takes effect from FY23F, we estimate Maxis FY23-24F core EPS will be hit by c.6% p.a., due to the impact from the annual licence fee, additional spectrum amortisation and higher net interest cost from debt-funding the upfront spectrum payment. The forking out of cash to pay for the upfront spectrum fee and lower EBITDA would result in its net debt/EBITDA rising to 2.25x/2.04x at end-FY23F/24F (vs. our current forecasts of 2.03x/1.81x), based on our estimates. As it remains at manageable levels, we do not see a need for Maxis to do any equity funding in such a scenario.

Figure 22: Maxis' core net profit under Scenario 3 vs. our current forecasts

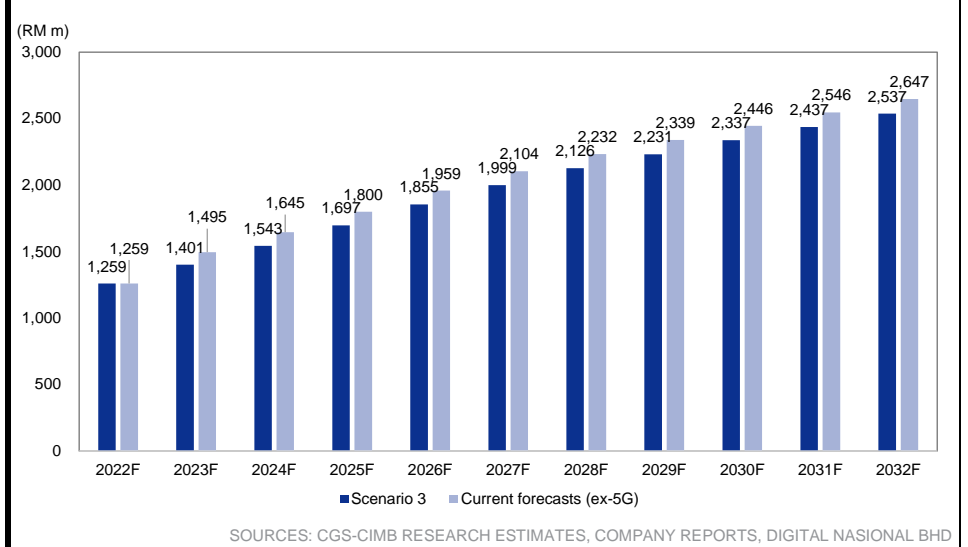
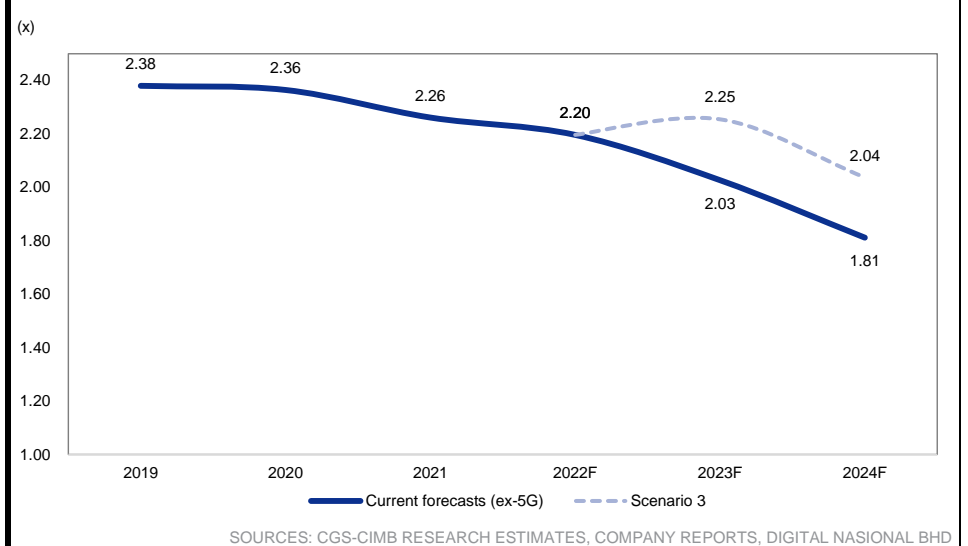


Figure 23: Maxis' net debt/EBITDA should stay manageable under Scenario 3



Maxis' DCF-based FV would be RM4.37; no impact on TM as we do not expect it to roll out its own 5G network ➤

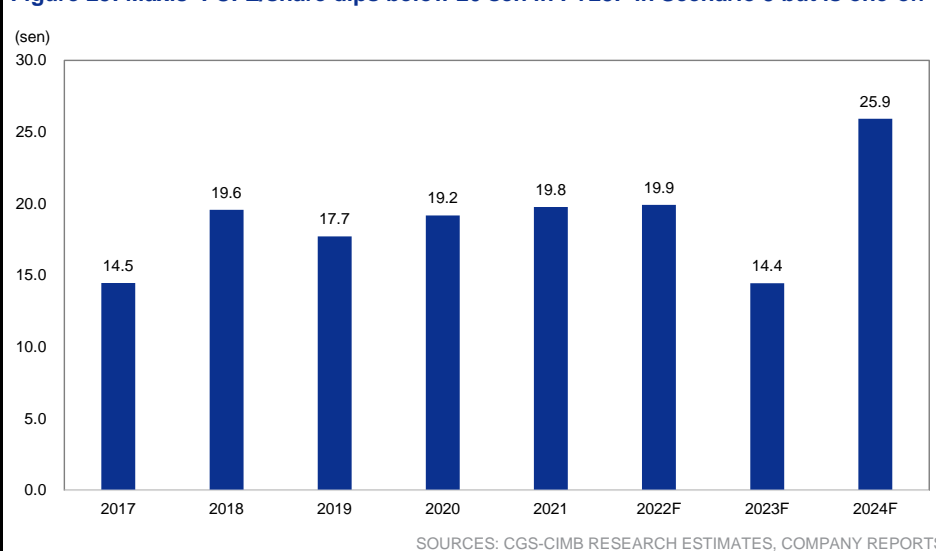
We estimate Maxis' DCF-based FV under scenario 3 would be RM4.37, lower than our current DCF-based FV (ex-5G) of RM4.53, with the main difference being the factoring in of 5G spectrum upfront and annual licence fees. For TM, we see no impact on its FY22-24F core EPS and DCF-based FV in Scenario 3 as we do not expect it to roll out its own 5G network. The latter is because we expect 5G spectrum to be allocated to only the Big 4 MNOs, given the limited bandwidth available.

Figure 24: Maxis' DCF-based fair value would be RM4.37 under Scenario 3 (WACC: 7.6%, terminal growth: 2.0%)

FYE 31 Dec (RM m)	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
EBIT (1-T)	1,623	1,785	1,920	2,058	2,183	2,292	2,379	2,465	2,543	2,619
Depreciation & Amortisation	1,514	1,508	1,493	1,471	1,453	1,439	1,428	1,418	1,411	1,405
Capex (including upfront spectrum fee)	-2,015	-1,250	-1,150	-1,150	-1,150	-1,150	-1,150	-1,150	-1,150	-1,150
Annual FCFE	1,122	2,043	2,263	2,379	2,486	2,581	2,656	2,733	2,804	2,874
Terminal value										52,535
Present value of cash flow	1,043	1,765	1,817	1,776	1,726	1,665	1,593	1,523	1,453	26,685
Value of firm	41,046									
Net cash/(debt) at end-2022F	-6,882									
Value of Equity	34,164									
Value of Equity per share (RM)	4.37									
Key DCF assumptions										
Cost of equity		WACC			Ratio		Cost of Capital			
Risk-free rate	4.5%				Equity	60.0%	10.1%			
Market Risk Premium	7.0%				Debt	40.0%	3.8%			
Beta	0.80									
Cost of equity	10.1%				WACC		7.6%			
Terminal growth rate	2.0%									
Effective tax rate	24.0%									

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 25: Maxis' FCFE/share dips below 20 sen in FY23F in Scenario 3 but is one-off



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

How much for the 5G spectrum? ➤

We estimate that telcos may have to pay a total of RM7.0bn to the government if they were to be allocated the 700MHz, 3.5GHz and mmWave spectrum. This could be split into an upfront fee of RM3.1bn and annual fee of RM264m over 15 years. Assuming the spectrum is allocated equally to four telcos, then each would have to pay RM765m upfront and RM66m p.a.

For the 700MHz spectrum fees, this is based on Malaysia's Ministerial Determination in Sep 2017, which had set an upfront fee of RM215.5m and an annual fee of RM18.5m over 15 years per 10MHz block. Based on the available 80MHz for allocation, the total upfront fee would be RM1.7bn, while the annual fee is RM148m.

For the 3.5GHz and mmWave, we have used Singapore as the benchmark and valued these spectrums at US\$4,930/MHz/year/population (m) and US\$64/MHz/year/population (m), respectively. Applying Malaysia's population size and the available bandwidth to be allocated (200MHz for 3.5GHz, 1.6GHz for mmWave), we derived a total present value of RM2.1bn for the 3.5GHz and RM220m for the mmWave. Splitting them into upfront/annual fees using a ratio of 44%/56% (on an undiscounted basis), we then arrive at RM1.2bn/RM104m for the 3.5GHz and RM126m/RM11m for the mmWave.



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 DNB could be a mid- to longer-term risk for incumbent 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 wholesale fees of RM192m/RM403m/RM432m/RM432m in FY23F/24F/25F/26F, before rising further to RM586m-RM1.69bn p.a. in FY27-32F.

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 FV. 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 these are 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

A horizontal bar consisting of a red segment on the left and a blue segment on the right.

Company Brief

Malaysia

ADD (previously HOLD)

Consensus ratings*: Buy 5 Hold 16 Sell 2

Current price:	RM3.31
Target price:	RM3.60
Previous target:	RM3.90
Up/downside:	8.8%
CGS-CIMB / Consensus:	-15.4%
Reuters:	MXSC.KL
Bloomberg:	MAXIS MK
Market cap:	US\$5,881m
	RM25,918m
Average daily turnover:	US\$2.10m
	RM9.17m
Current shares o/s:	7,809m
Free float:	37.7%

*Source: Bloomberg

Key changes in this note

No change.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-11.3	-16.4	-24.8
Relative (%)	-4.6	-6.9	-19.3

Major shareholders	% held
Binariang GSM	62.3
Employees Provident Fund	12.0
Amanah Saham Bumiputera	8.0

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Maxis Berhad

Risk-reward turns attractive; upgrade to Add

- TP cut by 8% to RM3.60 on higher risk-free rate, but upgrade from Hold to Add as we think earnings risk from 5G wholesale fees is priced in.
- Maxis's share price is down 28% YTD and is now even below its FV where it has to pay DNB's currently proposed 5G wholesale rates (Scenario 1).
- In Scenario 1, its EV/OpFCF is at a 12-year low, while dividend yield of 6.0% (+0.8 s.d.) is a decent 182bp above the 10-year MGB yield.

Upgrade to Add; DCF-based TP cut by 8% to RM3.60 (WACC: 7.6%)

We lower Maxis's TP by 8% to RM3.60 after raising the risk-free rate by 50bp to 4.5% (due to the recent rise in Malaysian government bond yields); the former is still based on a 20% discount to its DCF-based fair value (FV) of RM4.53 (ex-5G wholesale fees). We upgrade Maxis from Hold to Add, given a total potential return of c.15%. Its share price is down 28% YTD (-22% relative to FBM KLCI) and is now even below its FV where it has to pay the current 5G wholesale rates (Scenario 1). Our earnings forecasts are unchanged (i.e. ex-5G fees), pending better clarity/visibility. Downside risks: delays in 5G final resolution, more intense mobile competition, weak Enterprise earnings (see Page 2).

FY22-32F core EPS & FCFE may be hit in Scenario 1...

For Scenario 1, we assume Maxis signs a 5G wholesale agreement with Digital Nasional Bhd (DNB; Unlisted) based on its current offer, with no equity stake in DNB. Assuming the wholesale agreement takes effect from 1 Jul 2022, we estimate Maxis' FY22-32F core EPS may be lower by 1.2-36.0% vs. our current forecasts (ex-5G). We expect this to be partly offset by a substantial drop in 4G capex from FY25F onwards to just maintenance levels by FY29F. Thus, its FY22-32F FCFE may be lower by 1.0-23.4% vs. our current forecasts (ex-5G). Its DCF-based FV is RM3.57 in Scenario 1.

...but this has been more than priced in, in our view

While we expect Maxis's earnings to get hit in Scenario 1, we believe this has been more than priced in as its EV/OpFCF is now at the bottom of its 12-year trading band even if stretched out to end-FY24F (see Fig 3). We think Maxis should also be able to sustain FY22-24F DPS at 20 sen p.a., as we project its FCFE/share at 20-23 sen. This puts its dividend yield at 6.0%, or well into the upper half (+0.8 s.d.) of its 12-year range and a decent 182bp above the 10-year Malaysian government bond (MGB) yield (see Fig 5).

FY22-24F core EPS may be better in Scenario 2 vs. Scenario 1

For Scenario 2, we assume Maxis takes up an 11.7% stake in DNB for RM200m and that wholesale fees are based on actual traffic (instead of sites rolled out) in 2022-24F. Maxis's FY22-24F core EPS may be hit by a smaller 1-6% (Scenario 1: 1-19%) and FCFE/share may also be higher at 20-25 sen (Scenario 1: 20-23 sen), but its FV may not be much changed at RM3.57, as wholesale fee discounts (only for 2022-24F) are offset by the investment in DNB. However, if we assume DNB also offers a 20% discount on wholesale fees from 2025F, its FV would be higher at RM3.94, based on our estimates.

Financial Summary

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (RMm)	8,966	9,241	9,684	10,016	10,334
Operating EBITDA (RMm)	3,819	3,936	4,056	4,210	4,425
Operating EBITDA Margin	42.6%	42.6%	41.9%	42.0%	42.8%
Net Profit (RMm)	1,382	1,308	1,259	1,495	1,645
Core EPS (RM)	0.18	0.17	0.16	0.19	0.21
Core EPS Growth	(7.5%)	(5.4%)	(3.8%)	18.8%	10.0%
FD Core P/E (x)	18.73	19.80	20.58	17.32	15.74
DPS (RM)	0.17	0.17	0.20	0.20	0.20
Dividend Yield	5.14%	5.14%	6.04%	6.04%	6.04%
EV/EBITDA (x)	9.14	8.84	8.58	8.18	7.67
P/FCFE (x)	12.82	11.02	12.56	12.10	11.85
Net Gearing	106%	102%	107%	103%	93%
ROE	20.2%	19.5%	19.2%	23.4%	25.7%
% Change In Core EPS Estimates			0%	0%	0%
CGS-CIMB/Consensus EPS (x)			0.96	1.01	1.02

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Risk-reward turns attractive; upgrade to Add

Valuation assumptions >

We lower Maxis's DCF-based TP by 8% to RM3.60 (WACC: 7.6%, terminal growth: 2.0%) after raising the risk-free rate by 50bp to 4.5% (due to the recent rise in Malaysian government bond yields), still at a 20% discount to its DCF-based fair value. The discount is to account for the potential earnings risks arising from 5G wholesale fees paid to DNB based on the latter's current offer, the impact from which could be material if implemented, in our view.

Key re-rating catalyst >

We believe the key potential re-rating catalyst would be **greater clarity on the 5G situation in Malaysia**, which may emerge in early-Jul 2022 given recent comments from the Communications and Multimedia Minister and press reports. On 30 Jun, an Edge Markets report cited the Communications and Multimedia Minister Tan Sri Annuar Musa saying that six local telcos have agreed to take up the 70% stake in DNB ahead of the end-Jun deadline and that an official announcement will be made in another 7-8 days. He also shared that everything is according to plan, and issues pertaining to transparency and the pricing involved have all been sorted out.

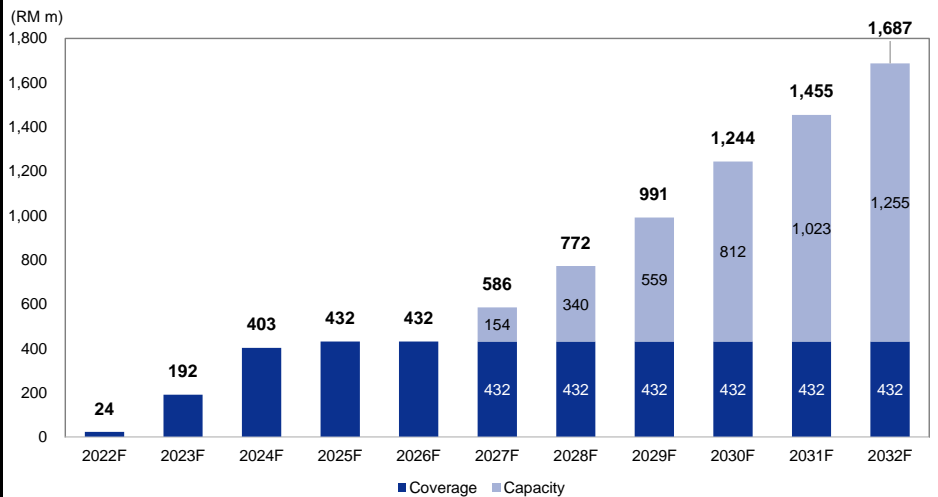
In addition, based on a Singapore's Straits Times (ST) news report on 29 Jun, its sources said that Malaysia's Ministry of Finance (MOF) will inject RM500m for its 30% stake, while each telco will cough up RM200m for an equal 11.7% stake. In addition, a wholesale price review will be overseen by the Malaysian Communications & Multimedia Commission (MCMC) every three years and the wholesale pricing will be discounted until DNB achieves 80% nationwide coverage by end-2024.

Even if telcos were to sign-up on DNB's current wholesale terms, it would still help to provide certainty and dispel fears over potentially even worse-case scenarios, while more favourable outcomes could lead to more significant upsides, in our view.

Key downside risks >

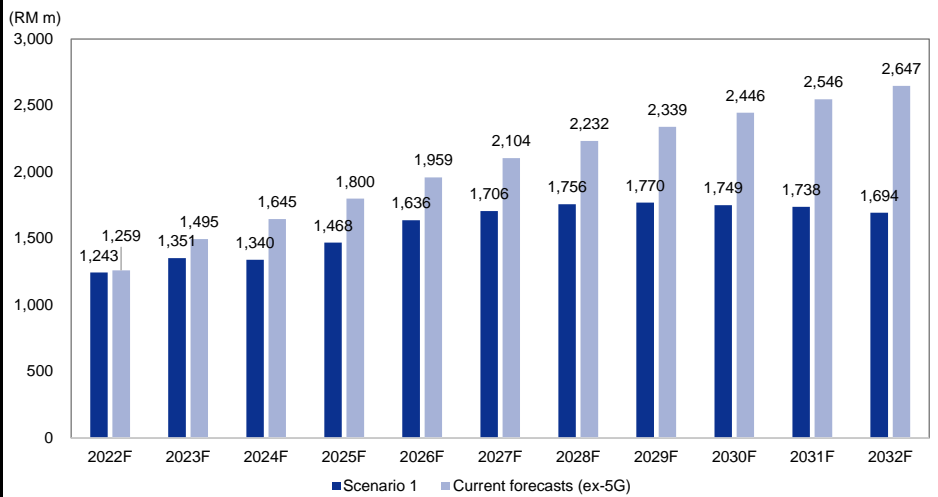
- While there are signs that the relevant parties will soon come to an agreement on 5G, we cannot rule out the risks that **the final resolution may take longer than expected, if there are changes in the political landscape**. In mid-Jun 2022, Youth Wing leaders of the United Malays National Organisation (UMNO; the key component party of the Barisan National coalition) handed over a memorandum to Deputy Communications and Multimedia Minister Datuk Zahidi Zainul Abidin, expressing concerns about Malaysia's 5G rollout through a single wholesale network (SWN) via DNB. If there is a change in the political landscape, a potential new government may take time to review or even change plans. If so, the uncertainties over 5G may persist for longer, during which time, Maxis's share price may continue to stay depressed, in our view.
- **More severe-than-expected competitive pressure in the mobile market**, which may dent Maxis's mobile revenue and earnings.
- **Weaker-than-expected Enterprise earnings growth**, which we believe may lead to investors being less optimistic about Maxis's future revenue/earnings prospects and thus weaken sentiment on the stock.
- **More adverse regulatory developments**, e.g. the imposition of more punitive Mandatory Standards for Quality of Service on telcos by MCMC, which could possibly result in Maxis having to incur higher-than-expected capex/costs going forward.

Figure 1: Estimated 5G wholesale fees for Maxis under Scenario 1



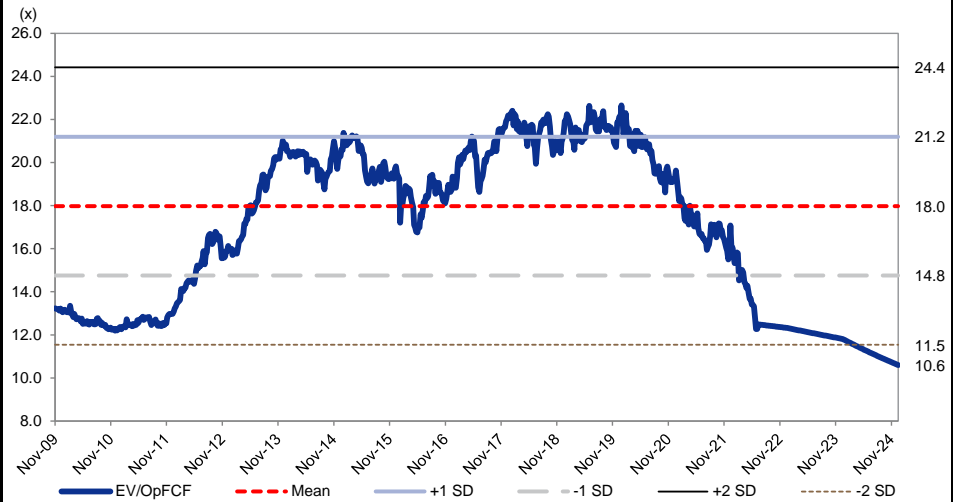
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, DIGITAL NASIONAL BHD

Figure 2: Maxis's core net profit under Scenario 1 vs. our current forecasts



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, DIGITAL NASIONAL BHD

Figure 3: Maxis's EV/OpFCF is near 12-year low, even after including 5G wholesale fees



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

Figure 4: Maxis's FCFE/share in Scenario 1 suggests it can sustain a 20 sen DPS p.a.

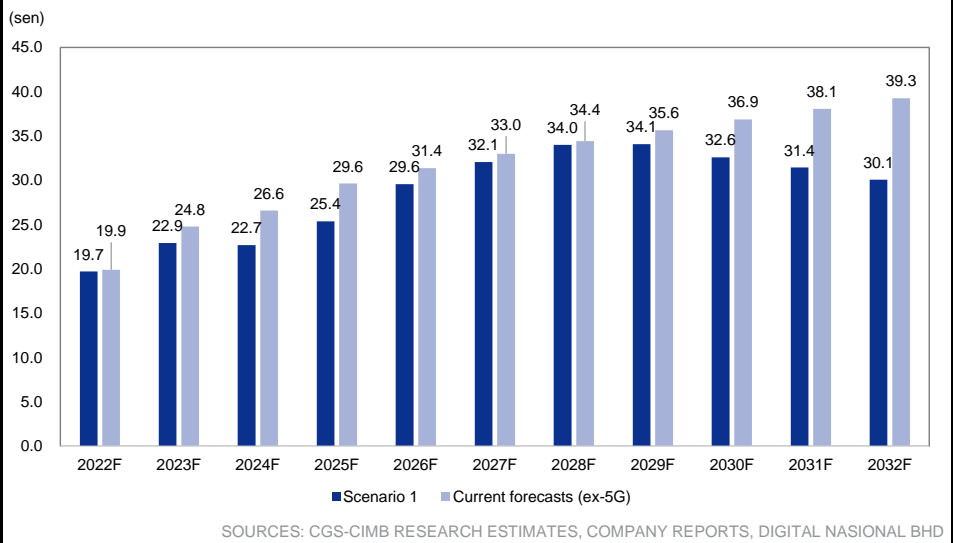


Figure 5: Maxis's dividend yield is now at the top-end of its 12-year range and at a decent premium to the 10-year Malaysia Government Bond yield



Figure 6: Our revised DCF-based TP for Maxis is RM3.60 (WACC: 7.6%, terminal growth: 2.0%)

FYE 31 Dec (RM m)	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
EBIT (1-T)	1,710	1,872	2,007	2,145	2,270	2,379	2,465	2,551	2,629	2,706
Depreciation & Amortisation	1,463	1,457	1,442	1,420	1,402	1,388	1,377	1,367	1,360	1,354
Capex (including upfront spectrum fee)	-1,250	-1,250	-1,150	-1,150	-1,150	-1,150	-1,150	-1,150	-1,150	-1,150
Annual FCFF	1,923	2,079	2,299	2,415	2,522	2,617	2,692	2,769	2,839	2,910
Terminal value										53,191
Present value of cash flow	1,788	1,796	1,846	1,803	1,750	1,688	1,614	1,543	1,471	27,018
Value of firm	42,318									
Net cash/(debt) at end-2022F	-6,882									
Value of Equity	35,436									
Value of Equity per share (RM)	4.53									
Discount to equity value	20%									
Target price (RM)	3.60									
Key DCF assumptions										
Cost of equity										
				WACC						
Risk-free rate	4.5%				Ratio		Cost of Capital			
Market Risk Premium	7.0%			Equity	60.0%		10.1%			
Beta	0.80			Debt	40.0%		3.8%			
Cost of equity	10.1%			WACC			7.6%			
Terminal growth rate	2.0%									
Effective tax rate	24.0%									

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 7: Sensitivity of Maxis's TP to changes in WACC and terminal growth rate

WACC	Terminal growth rate				
	1.0%	1.5%	2.0%	2.5%	3.0%
6.5%	4.01	4.31	4.69	5.16	5.76
7.0%	3.60	3.84	4.14	4.50	4.95
7.6%	3.20	3.40	3.60	3.89	4.23
8.0%	2.96	3.12	3.31	3.54	3.81
8.5%	2.70	2.84	2.99	3.18	3.39

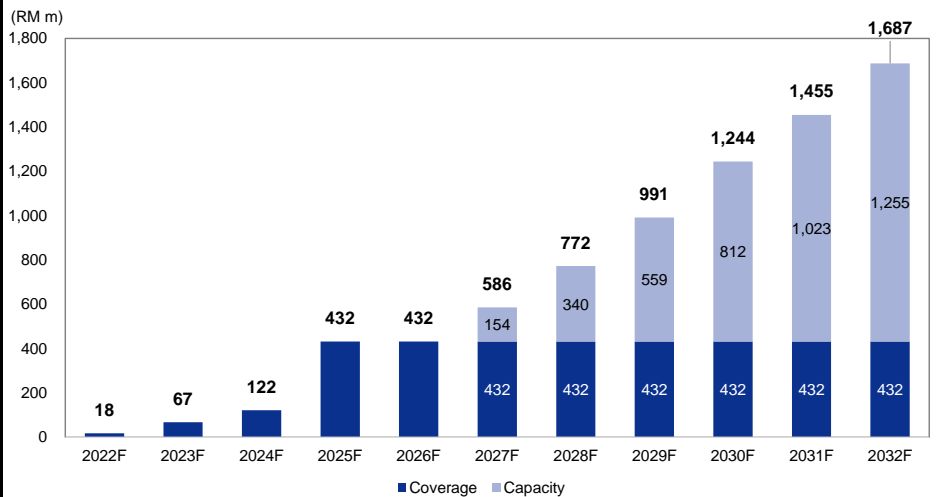
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 8: Maxis's DCF-based fair value would be RM3.57 under Scenario 1 (WACC: 7.6%, terminal growth: 2.0%)

FYE 31 Dec (RM m)	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
EBIT (1-T)	1,567	1,573	1,686	1,839	1,890	1,922	1,917	1,880	1,853	1,800
Depreciation & Amortisation	1,463	1,457	1,442	1,400	1,328	1,231	1,124	1,028	951	888
Capex (including upfront spectrum fee)	-1,250	-1,250	-1,150	-950	-750	-550	-450	-450	-450	-450
Annual FCFF	1,781	1,779	1,978	2,289	2,468	2,603	2,591	2,458	2,354	2,238
Terminal value										40,906
Present value of cash flow	1,655	1,537	1,589	1,709	1,713	1,679	1,554	1,370	1,220	20,778
Value of firm	34,804									
Net cash/(debt) at end-2022F	-6,898									
Value of Equity	27,906									
Value of Equity per share (RM)	3.57									
Key DCF assumptions										
Cost of equity										
				WACC						
Risk-free rate	4.5%				Ratio		Cost of Capital			
Market Risk Premium	7.0%			Equity	60.0%		10.1%			
Beta	0.80			Debt	40.0%		3.8%			
Cost of equity	10.1%			WACC			7.6%			
Terminal growth rate	2.0%									
Effective tax rate	24.0%									

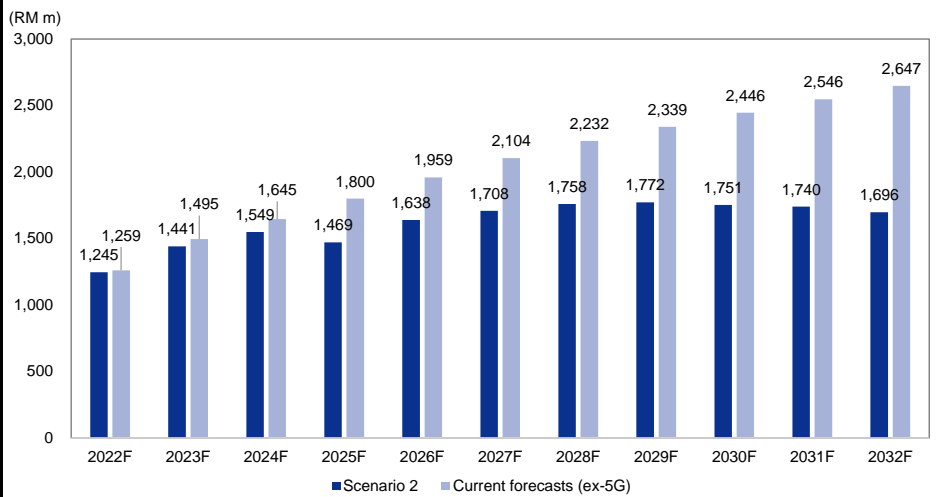
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 9: Estimated 5G wholesale fees for Maxis under Scenario 2



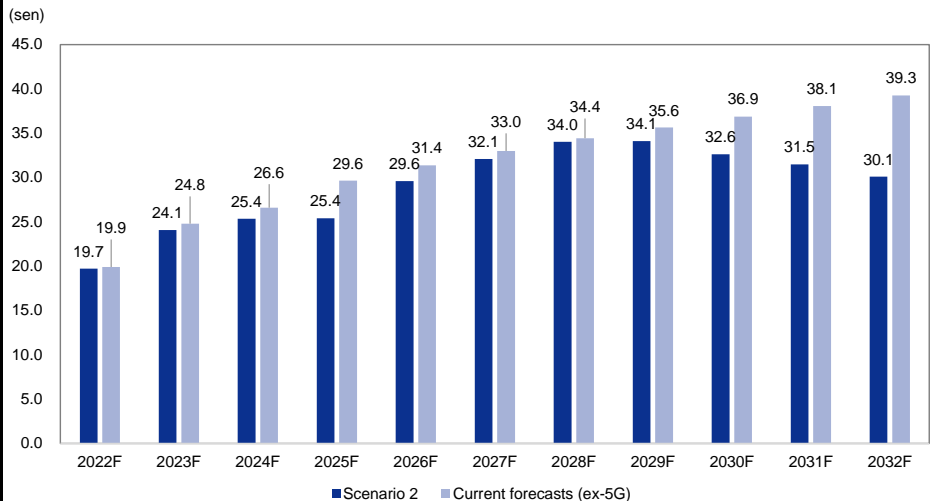
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, DIGITAL NASIONAL BHD

Figure 10: Maxis's core net profit under Scenario 2 vs. our current forecasts



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, DIGITAL NASIONAL BHD

Figure 11: Maxis's FCFE/share under Scenario 2 is supportive of its 20 sen DPS p.a.



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, DIGITAL NASIONAL BHD

Figure 12: Maxis's DCF-based fair value would be RM3.57 under Scenario 2 (WACC: 7.6%, terminal growth: 2.0%)

FYE 31 Dec (RM m)	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
EBIT (1-T)	1,660	1,781	1,686	1,839	1,890	1,922	1,917	1,880	1,853	1,800
Depreciation & Amortisation	1,463	1,457	1,442	1,400	1,328	1,231	1,124	1,028	951	888
Capex (including upfront spectrum fee)	-1,250	-1,250	-1,150	-950	-750	-550	-450	-450	-450	-450
Annual FCF	1,873	1,988	1,978	2,289	2,468	2,603	2,591	2,458	2,354	2,238
Terminal value										40,906
Present value of cash flow	1,741	1,718	1,589	1,709	1,713	1,679	1,554	1,370	1,220	20,778
Value of firm	35,070									
Net cash/(debt) at end-2022F	-7,096									
Value of Equity	27,974									
Value of Equity per share (RM)	3.57									
Key DCF assumptions										
Cost of equity										
						WACC				
Risk-free rate	4.5%						Ratio			Cost of Capital
Market Risk Premium	7.0%					Equity	60.0%			10.1%
Beta	0.80					Debt	40.0%			3.8%
Cost of equity	10.1%					WACC				7.6%
Terminal growth rate	2.0%									
Effective tax rate	24.0%									


SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 13: 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	ADD	3.31	3.60	5,881	20.6	17.3	8.6	8.2	12.5	11.5	7.9	4.0	6.0	6.0
TM	T MK	ADD	5.29	6.75	4,530	16.9	12.3	5.3	5.0	8.7	8.3	12.1	2.8	3.6	4.9
MY telcos average (ex-outliers)						20.2	17.4	7.2	6.8	11.4	10.6	10.3	3.5	4.6	5.2
SingTel	ST SP	ADD	2.55	3.20	30,136	16.9	13.9	7.7	13.3	18.4	17.3	21.9	3.9	4.4	5.4
Starhub	STH SP	HOLD	1.23	1.40	1,524	26.8	21.7	7.8	6.6	20.5	11.9	(9.9)	1.6	4.1	4.1
SG telcos average (ex-outliers)						21.8	17.8	7.7	9.9	19.4	14.6	6.0	2.7	4.3	4.7
TLKM	TLKM IJ	ADD	4,020	5,000	26,650	14.4	13.4	6.6	6.2	11.0	10.2	10.6	4.6	5.0	5.6
XL Axiata	EXCL IJ	ADD	2,560	3,650	1,837	18.4	13.4	4.3	3.9	10.6	8.9	36.5	7.3	3.3	5.2
Indosat	ISAT IJ	HOLD	6,325	7,100	3,413	99.8	31.9	5.3	4.8	nm	77.4	44.1	19.9	0.5	1.6
Link Net	LINK IJ	ADD	4,670	5,200	895	14.0	12.8	5.2	4.7	14.5	13.9	5.8	8.6	2.1	3.9
Indo telcos average (ex-outliers)						15.6	17.9	5.3	4.9	12.0	11.0	24.2	10.1	2.7	4.1
AIS	ADVANC TB	ADD	197.50	254.00	16,459	21.7	21.2	6.9	6.5	10.1	9.3	3.8	3.5	4.2	4.2
DTAC	DTAC TB	ADD	44.75	53.60	2,969	37.6	54.0	5.5	5.7	11.2	12.2	(24.2)	2.0	3.3	3.0
True	TRUE TB	HOLD	4.64	5.24	4,338	nm	nm	6.7	6.8	13.0	11.7	28.1	3.1	1.5	1.5
DIF	DIF TB	ADD	13.50	17.20	4,022	11.5	11.4	11.7	11.5	11.7	11.5	0.2	0.2	7.7	7.8
Intouch	INTUCH TB	HOLD	68.75	73.00	6,177	20.4	20.2	20.5	20.3	20.5	20.3	2.0	1.9	4.4	4.4
Thai telcos average (ex-outliers)						19.9	23.1	10.0	9.9	12.6	12.3	1.9	2.0	5.1	5.2
ASEAN Telcos average (ex-outliers)						19.4	18.6	7.9	7.9	13.1	16.0	7.8	4.5	4.3	4.8

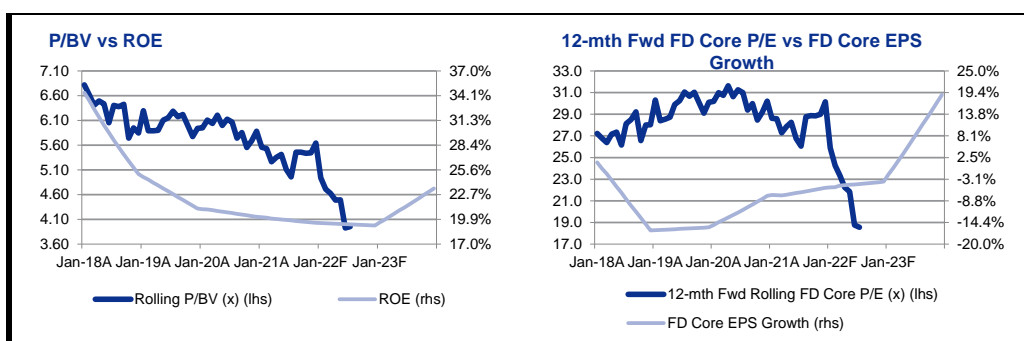
Note: Share prices as of 1 Jul 2022; operating FCF (OpFCF) is calculated as EBITDA minus average 3-year forward capex; core P/E is share price divided by core EPS (i.e. reported EPS excluding one-off extraordinary items); included only P/E ratios ranging between c.10-40x, EV/OpFCF of c.5-25x & EPS/EBITDA 3-year CAGR of -100% to +100% in our calculation of sector averages

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

Refinitiv ESG Scores	
 <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="background-color: #90EE90; padding: 5px; text-align: center;">C+ ESG Score</div> <div style="background-color: #228B22; color: white; padding: 5px; text-align: center;">A+ ESG Controversies Score</div> <div style="background-color: #90EE90; padding: 5px; text-align: center;">C+ ESG Combined Score</div> <div style="background-color: #FF8C00; padding: 5px; text-align: center;">D+ ESG Environment Pillar Score</div> <div style="background-color: #90EE90; padding: 5px; text-align: center;">B- ESG Social Pillar Score</div> <div style="background-color: #FFD700; padding: 5px; text-align: center;">C- ESG Government Pillar Score</div> </div>	
<p>ESG in a nutshell</p> <p>We rank Maxis fourth for sustainability among the Malaysian telcos under our coverage. We believe it is not a clear leader in any of the key material ESG matters for the sector, and has more room to improve in several aspects. Nonetheless, we note its ESG performance is still fairly decent on an absolute basis, with bright spots including its fairly high average learning and training hours per employee and good/improving workforce/management diversity in 2017-20.</p>	
<p>Keep your eye on</p> <p>The government’s plan to accelerate the 5G SWN rollout via Digital Nasional Bhd (DNB; Unlisted) could be a mid- to longer-term risk for incumbent mobile network operators (MNOs), including Maxis.</p>	<p>Implications</p> <p>If the government proceeds with its 5G SWN plan based on the current commercial offer, we estimate Maxis may be charged substantial wholesale fees of RM192m/RM403m/RM432m/RM432m in FY23F/24F/25F/26F, before rising further to RM586m-RM1.69bn p.a. in FY27-32F. 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.</p>
<p>ESG highlights</p> <p>We think that Maxis has more room to improve on: i) corporate governance/ethics (lags behind peers in terms of board diversity, number of directors exceeding the 9-year tenure limit and disclosure on individual remuneration of key management executives/directors as well as material corruption cases), ii) environmental impact, as it has not set any targets for the reduction of carbon emissions, and iii) data privacy/security.</p>	<p>Implications</p> <p>This leads us to rank Maxis fourth among Malaysian telcos from an ESG angle. On an absolute basis, we do not expect its ESG performance to have a material impact on revenue/earnings, as the latter is more likely to be driven by issues such as competition, M&A and regulatory developments.</p>
<p>Trends</p> <p>In return for the licence to operate their networks, society 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. Digi won the 4G download speed and video experience awards for two consecutive times in Opensignal’s Dec 20-Aug 21 tests, overtaking Maxis, which is now ranked second.</p>	<p>Implications</p> <p>We are of the view that Maxis losing its position as the leader in network quality in Malaysia is a potential threat that could reduce its market traction over the medium term. We have factored this into our forecasts by projecting a gradual mobile revenue market share erosion for Maxis over FY22-24F.</p>

SOURCES: CGS-CIMB RESEARCH, OPENSIGNAL, COMPANY REPORTS, REFINITIV

BY THE NUMBERS



Profit & Loss

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	9,240	9,512	9,955	10,287	10,605
Gross Profit	9,240	9,512	9,955	10,287	10,605
Operating EBITDA	3,819	3,936	4,056	4,210	4,425
Depreciation And Amortisation	-1,535	-1,709	-1,750	-1,794	-1,791
Operating EBIT	2,284	2,227	2,305	2,416	2,634
Financial Income/(Expense)	-405	-451	-389	-401	-418
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	1,879	1,776	1,916	2,014	2,216
Exceptional Items	-27	-14	0	0	0
Pre-tax Profit	1,852	1,762	1,916	2,014	2,216
Taxation	-470	-454	-657	-519	-571
Exceptional Income - post-tax					
Profit After Tax	1,382	1,308	1,259	1,495	1,645
Minority Interests	0	0	0	0	0
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	1,382	1,308	1,259	1,495	1,645
Recurring Net Profit	1,382	1,308	1,259	1,495	1,645
Fully Diluted Recurring Net Profit	1,382	1,308	1,259	1,495	1,645

Cash Flow

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	3,819	3,936	4,056	4,210	4,425
Cash Flow from Inv. & Assoc.					
Change In Working Capital	-207	101	101	101	101
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	647	455	447	445	443
Net Interest (Paid)/Received	-472	-452	-434	-446	-463
Tax Paid	-355	-301	-657	-519	-571
Cashflow From Operations	3,432	3,739	3,512	3,791	3,935
Capex	-1,396	-1,633	-1,350	-1,250	-1,250
Disposals Of FAs/subsidiaries	1	0	0	0	0
Acq. Of Subsidiaries/investments	-18	-10	0	0	0
Other Investing Cashflow	0	3	0	0	0
Cash Flow From Investing	-1,413	-1,640	-1,350	-1,250	-1,250
Debt Raised/(repaid)	0	250	-100	-400	-500
Proceeds From Issue Of Shares	0	0	0	0	0
Shares Repurchased					
Dividends Paid	-1,330	-1,330	-1,565	-1,565	-1,565
Preferred Dividends					
Other Financing Cashflow	-743	-727	-719	-729	-745
Cash Flow From Financing	-2,073	-1,807	-2,384	-2,694	-2,810
Total Cash Generated	-54	292	-222	-153	-125
Free Cashflow To Equity	2,019	2,349	2,062	2,141	2,185
Free Cashflow To Firm	2,508	2,572	2,610	2,999	3,160

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	735	1,191	1,084	1,058	1,073
Total Debtors	2,073	1,807	2,259	1,946	2,393
Inventories	3	5	3	5	4
Total Other Current Assets	11	0	0	0	0
Total Current Assets	2,822	3,003	3,347	3,009	3,469
Fixed Assets	4,931	5,193	5,292	5,258	5,230
Total Investments	0	0	0	0	0
Intangible Assets	11,461	11,474	11,358	11,229	11,099
Total Other Non-Current Assets	2,718	2,773	2,773	2,773	2,773
Total Non-current Assets	19,110	19,440	19,423	19,259	19,103
Short-term Debt	0	1,772	1,772	1,772	1,772
Current Portion of Long-Term Debt					
Total Creditors	3,997	4,055	4,465	4,311	4,613
Other Current Liabilities	464	447	447	447	447
Total Current Liabilities	4,461	6,274	6,684	6,530	6,832
Total Long-term Debt	7,821	6,294	6,194	5,794	5,294
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	2,935	3,150	3,473	3,596	4,017
Total Non-current Liabilities	10,756	9,444	9,667	9,390	9,311
Total Provisions	0	0	0	0	0
Total Liabilities	15,217	15,718	16,351	15,920	16,143
Shareholders' Equity	6,715	6,725	6,419	6,349	6,429
Minority Interests	0	0	0	0	0
Total Equity	6,715	6,725	6,419	6,349	6,429

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	(3.73%)	3.07%	4.80%	3.42%	3.17%
Operating EBITDA Growth	(2.73%)	3.06%	3.04%	3.80%	5.10%
Operating EBITDA Margin	42.6%	42.6%	41.9%	42.0%	42.8%
Net Cash Per Share (RM)	-0.91	-0.88	-0.88	-0.83	-0.77
BVPS (RM)	0.86	0.86	0.82	0.81	0.82
Gross Interest Cover	4.67	4.71	5.15	5.28	5.55
Effective Tax Rate	25.4%	25.8%	34.3%	25.8%	25.8%
Net Dividend Payout Ratio	94%	101%	124%	105%	95%
Accounts Receivables Days	91.09	76.63	76.63	76.63	76.84
Inventory Days	N/A	N/A	N/A	N/A	N/A
Accounts Payables Days	N/A	N/A	N/A	N/A	N/A
ROIC (%)	10.1%	10.0%	10.3%	10.8%	12.0%
ROCE (%)	16.1%	15.3%	16.2%	17.5%	19.6%
Return On Average Assets	7.74%	7.48%	6.86%	7.98%	8.73%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total RGS mobile subs ('000)	9,790.0	10,141.0	10,232.5	10,586.8	10,778.6
Postpaid RGS subs, ex-M2M ('000)	3,508.0	3,772.0	3,952.0	4,112.0	4,252.0
Postpaid M2M RGS subs ('000)	331.0	410.0	471.5	565.8	667.6
Prepaid RGS subs ('000)	5,951.0	5,959.0	5,809.0	5,909.0	5,859.0
Postpaid RGS ARPU, ex-M2M (RM/mth/sub)	85.0	81.0	78.0	76.0	74.0
Prepaid RGS ARPU (RM/mth/sub)	39.0	38.0	38.0	38.0	38.0
Wireless broadband subs ('000)	129.0	225.0	265.0	285.0	285.0
Home Fibre subs ('000)	402.0	494.0	579.0	649.0	714.0
Home Fibre ARPU (RM/mth/sub)	107.5	107.9	109.0	110.1	111.2

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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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, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** - Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** - Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, n/a, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** - Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** - Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified **TISCO** - Excellent, Certified, **TKN** – Very Good, n/a, **TOP** - Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** - Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

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

- Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of August 5, 2021) are categorised into: companies that have declared their intention to join CAC, and companies certified by CAC.

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.