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Sector – Update | Malaysia

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Telecommunications

2Q26: Broadly In Line, Positive Price Hike Spillover In 3Q26

Highlights

- 2Q26 sector earnings came in within expectations, with Maxis and TIME delivering strong earnings. This was partly offset by Axiata's weak earnings due to lower ringgit translated earnings and high withholding tax expense.
- The quarter saw: a) a 2% yoy service revenue growth, driven by market-wide ARPU uplift; b) cost discipline; c) encouraging enterprise demand – especially for TM; and d) commendable home fibre growth.
- Maintain MARKET WEIGHT. Catalysts include Axiata's infrastructure asset monetisation and CelcomDigi's synergistic savings by 2027. Our sector top picks are Maxis and CelcomDigi.

Analysis

- **2Q26 results wrap: Wireless gained momentum.** The quarter's earnings moderated to RM1,444m (-7% yoy; -19% qoq) on the back of weak earnings from Axiata and TM. Axiata's 2Q26 net profit (-74% yoy; -89% qoq) was weighed down by lower ringgit translated earnings and elevated withholding tax expense while on a sequential basis, TM's earnings were partly dragged by high FIFA World Cup content cost (booked in Jun 26). Positively, TIME dotCom (TIME) reported commendable bottom line growth (+14% yoy), driven by strong retail and wholesale demand while Maxis' earnings uplift was attributed to margin expansion from good cost discipline. Broadly, earnings came in within expectations.
- **The quarter was characterised by:** a) a 2% yoy service revenue growth, driven by market-wide pricing revision in Feb 26 across post-and-prepaid products; b) good cost discipline; c) encouraging enterprise demand – especially for TM from the public sector segment; and d) robust home fibre demand, driven by fixed-mobile convergence strategies and home passes expansion.
- **ARPU uplift to drive 3Q earnings.** We note that 2Q26 reflected positive impact from a market-wide mobile price uplift executed sometime in Feb 26. CelcomDigi, Maxis and UMobile collectively raised postpaid and prepaid prices by 5-10%, signalling market repair and rational price competition. Consequently, Maxis saw improved 2Q26 ARPUs in prepaid (+1.4% qoq) and postpaid (+0.3% qoq) while CelcomDigi saw stable ARPUs. We expect positive spillover in 3Q26, driving earnings upside for both Maxis and CelcomDigi.
- **No cash call: Some clarity on DNB.** The consolidation of Digital Nasional (DNB) – as a 33% associate to CelcomDigi and Maxis – is slated for 4Q26, after a successful refinancing of the RM1.5b Ministry of Finance (MoF) loan. The DNB losses are not expected to materially impact 2026's earnings while no further earnings guidance was offered for 2027. Positively, the assurance is that there is no cash call or capital injection required for DNB's near-term capex requirements.

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MARKET WEIGHT (Maintained)

Sector Picks

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)
Maxis	Maxis MK	BUY	3.59	4.20
CelcomDigi	CDB MK	BUY	2.70	4.05

Source: Bloomberg, UOB Kay Hian

Core Net Profit (2Q26)

	2Q26 (RMm)	% chg qoq	% chg yoy
Axiata	42.5	(89.2)	(74.1)
CelcomDigi	430.0	2.9	(0.5)
Maxis	436.0	4.6	9.5
TM	406.4	(6.9)	4.6
TIME dotCom	129.0	2.9	13.8
Big 2*	866.0	3.7	4.3
Fixed Line	535.4	(4.7)	(2.9)
Sector Total	1,443.9	(19.4)	(6.6)

** Big 2 stands for CelcomDigi and Maxis*
Source: Respective companies, UOB Kay Hian

Core Net Profit (1H26)

	1H26 (RMm)	% chg yoy	Comment
Axiata	437.5	112.1	In line
CelcomDigi	848.0	(1.6)	In line
Maxis	853.0	10.9	In line
TM	842.7	7.0	In line
TIME dotCom	254.4	10.0	In line
Big 2	1,701.0	4.3	
Fixed Line	1,097.1	3.2	
Sector Total	3,235.6	11.6	

Source: Respective companies, UOB Kay Hian

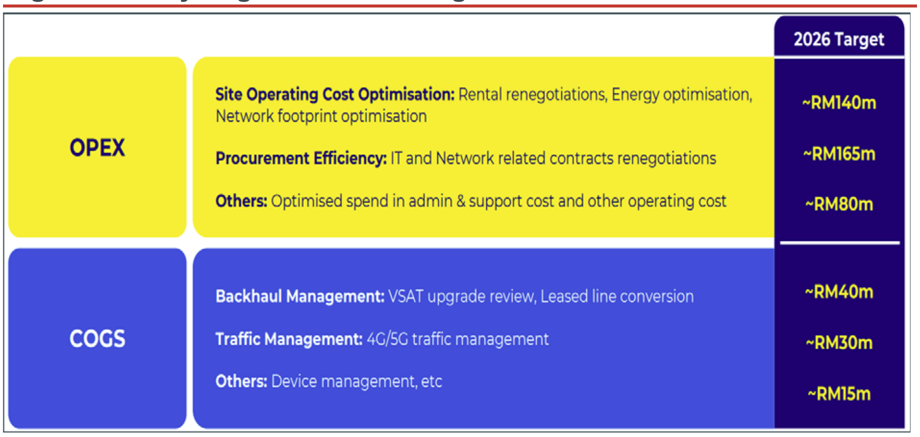
Peer Comparison

Company	Ticker	Rec	Price 4 Sep 26 (RM)	Target Price (RM)	Last Year End	PE 2026F (RM)	PE 2027F (RM)	EV/EBITDA 2026F (RM)	EV/EBITDA 2027F (RM)	Yield 2026F (%)	ROE 2026F (%)	Market Cap. (RMm)	Price/NAV (x)
Axiata Group	AXIATA MK	BUY	1.77	2.50	12/25	26.1	15.5	5.4	5.2	6.2	3.1	16,263	0.8
CelcomDigi	CDB MK	BUY	2.70	4.05	12/25	18.4	15.9	7.4	7.2	5.5	10.8	31,671	1.4
Maxis	MAXIS MK	BUY	3.59	4.20	12/25	17.5	16.8	8.1	7.9	5.0	25.4	28,152	4.4
Telekom Malaysia	T MK	HOLD	7.80	7.50	12/25	17.9	15.6	6.7	6.1	5.1	15.2	10,963	2.7
TIME dotCom	TDC MK	HOLD	5.93	6.50	12/25	20.2	18.5	12.8	12.4	5.6	17.0	29,934	3.4

Source: Bloomberg, UOB Kay Hian

- **DNB: Loss of RM400m in 2027, focus on network densification.** DNB is projected to direct its near-term capex towards scaling network capacity and enhancing traffic management. This is to help accommodation rising data consumption into 2027-28. Based on this trajectory, DNB's revenue base is expected to double in 2027, capturing rising 5G data consumption and helping to narrow 2026's estimated net loss of RM800m to RM400m in 2027. Maxis, CelcomDigi and YTL Power will likely work towards efficient use of assets (including towers) to optimise cost structure. We gathered that all parties involved are working aggressively to utilise the existing 30,000 base towers to help reduce the total cost of DNB's 5G operational cost (DNB on a standalone basis has 8,000 base stations).
- **Key events to look out for in 2H26** include: a) Edotco Group (edotco) benefitting from U Mobile's capex spent to roll out the second 5G network; b) gradual network expansion for Telekom Malaysia (TM) and TIME – with single dwelling offerings being the main focus; c) transfer of MOF Inc's share in DNB to CelcomDigi, Maxis and YTL Power (YTL) by end-3Q26; and d) potential partial monetisation of Axiata's 63% equity stake in edotco.
- **Growing dividends and special dividends.** During the quarter, TM declared a higher second interim dividend of 7.0 sen/share (1Q26: 6.5 sen/share), bringing 1H26 net DPS to 13.5 sen/share (75% payout). Axiata declared a 5.5 sen interim DPS, underpinned by its 10% yoy dividend growth commitment while TIME declared a special interim dividend of 5.41 sen/share (78% payout). CelcomDigi and Maxis announced their second interim dividend of 3.4 sen and 4.0 sen respectively, well within expectations. We forecast the sector delivering a net dividend yield of 5.5% in 2026.
- **CelcomDigi to see higher synergy savings in 2H26.** CelcomDigi has raised its 2026 opex and COGS savings target to RM470m (from RM460m), driven by network infrastructure-related operational efficiencies. The savings will help to buffer higher 5G wholesale costs (rising 25% yoy) amid rising 5G traffic consumption. 2Q26 saw an additional RM100m flow-through of synergistic cost savings, bringing cumulative savings to RM141m ytd and putting it on track to achieve RM700m-800m in annual cost savings by 2028.

Higher 2026 Synergistic Cost Savings of RM470m



Source: CelcomDigi

Valuation/Recommendation

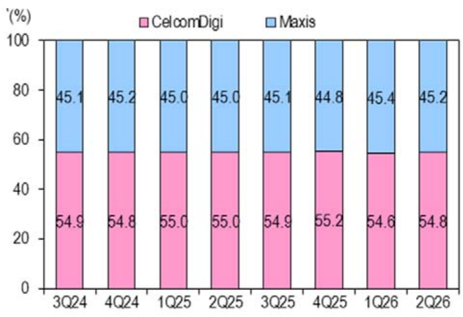
- **Maintain MARKET WEIGHT.** Ytd, share prices of telcos have corrected a fair bit (Axiata: -30%; CelcomDigi: -15%; Maxis: -5%; TM: -3%). This is due to: a) the deletion of Axiata from the Malaysia MSCI Global Standard Index, and b) losses from DNB. While we maintain our neutral stance on the sector vis-à-vis the broader market, we see positive risk-reward for Maxis and CelcomDigi amid the recent share price correction. Downside will be supported by dividend yields of 5.0% and 5.5% respectively.

1Q26 Mobile Price Uplift In The Market

MNO	Postpaid	Prepaid
CelcomDigi	- Discontinued the RM40 5G plan - Introduced a new RM190 Unlimited 5G plan	- Increased by 12.5-20% across all plans
Maxis	- Increased its cheapest postpaid plan by 13% - (RM79 to RM89)	- Increased its RM25 Unlimited 5G plan to RM30 (+20%) - Discontinued its RM50 Unlimited 5G plan
UMobile	- Increased its cheapest postpaid plan by 18% - (RM38 to RM45)	- Increased by 9.5-12% for its bottom-tier plans - Discontinued its ULTRA Prepaid 40 plan

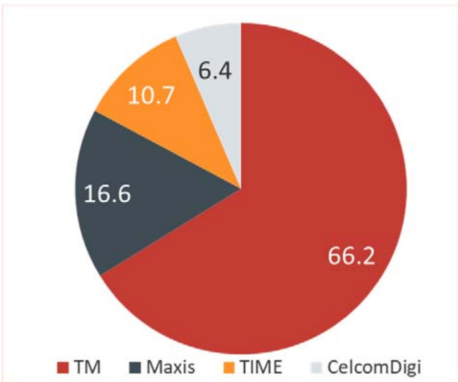
Source: UOB Kay Hian

Telco Revenue Market Share



Source: Respective companies, UOB Kay Hian

Home Fibre Subscribers Market Share (%)



Source: Respective companies, UOB Kay Hian

Impact Of DNB's Losses On CelcomDigi's And Maxis' Earnings

	2026F	2027F	2028F	Comment
CelcomDigi	(2.8%)	(3.6%)	(1.5%)	Synergistic savings to help offset the DNB losses over time.
Maxis	(2.8%)	(4.3%)	(2.0%)	Negative near-term impact.

Source: UOB Kay Hian