

TELECOMMUNICATION SECTOR

Maintain NEUTRAL

Long Awaited SSAs are Signed

DEVELOPMENT & VIEW

- **One step closer to DWN.** Five MNOs has finally signed share subscription agreements (SSAs) to acquire a collective 70% equity stake in Digital Nasional Bhd (DNB) from the Ministry of Finance Incorporated (MOF Inc). We view this positively as the new shareholder structure would put DNB in a better position to drive the development of the 5G infrastructure, in particular its near-term goal of achieving 80% 5G coverage in populated areas. The latter would also lead to the creation of the second wholesale 5G network operator i.e., "Entity B". Note that as at end of Octobe 2023, 5G coverage has reached 73%.
- Nonetheless, we remain **NEUTRAL** on the telecommunication sector at this juncture. This is pending the achievement of the 80% target, possible changes to DNB's mandate, divulgement on the details of the second network operator as well as the exit clause for MNOs to divest DNB.
- **DNB is valued at more than RM2b.** Five MNOs which comprises of CelcomDigi Bhd, Maxis Bhd, Telekom Malaysia Bhd, U Mobile Sdn Bhd and YTL Communications Sdn Bhd finally inked share subscription agreements (SSAs) with DNB and the Ministry of Finance Incorporated (MOF Inc) to subscribe to a 14% stake each in the government-owned 5G network infrastructure outfit for RM233.2m. MOF Inc will hold 30% stake in DNB.
- **MOF Inc potential full divestment in DNB.** In addition, there is also a put option that MOF Inc can exercise should it decide to totally divest its stake in DNB once the 80% milestone is achieved. As a result, each of the MNOs would need to fork out an additional RM190m for the remainder 6% stake. This will boost the respective MNOs stake to 20%. Premised on this, DNB will be valued at approximately RM2.1b. The SSAs are expected to be completed between February and April 2024, subject to a due diligence process being completed by the MNOs.
- **Funding not a major issue.** The proposed transaction is expected to be funded via a combination of internally generated fund and/or borrowings. Looking at the respective balance sheet, we do not see much issue for the MNOs to come up with the required funding. However, we are concern if there are additional funding required for DNB to meet its targets.
- **Better resources to complete the task.** To recall, during the early days, DNB managed to secure a working capital financing package worth RM400m from Deutsche Bank (Malaysia) Bhd. It has also secured a loan worth RM800m from United Oversea Bank to finance its first tranche with Ericsson (Malaysia) Sdn Bhd. Thus, we view that the SSAs will provide better resources to help DNB achieved the 5G goal.
- **Details on Entity B is scarce at this juncture.** There has not been much detail on the formation of Entity B. Nonetheless, the Government will hold no stake in the second entity. It will be entirely commercial. Also, at this juncture, we are only aware that China's Huawei may participate as the network provider for the Entity B. MCMC also guided that the wholesale prices for 5G will not increase with the second network rollout.
- To recall, a second network would provide redundancy and counter any issues of DNB as a monopoly given its position as the 5G single wholesale network. This is apart from providing an alternative to access seekers.



Analyst

Foo Chuan Loong, Martin
marti.foo@midf.com.my
03-2173 8394

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 – X)).
 (Bank Pelaburan)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related BNM and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loss, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such BNM mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology