

## Business News

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# Cost optimisation key focus of telecoms sector

PETALING JAYA: The telecommunications industry's key focus for the year is cost optimisation, in expectations of a relatively flat service revenue due to growing smartphone penetration and successful data monetisation, said UOB KayHian.

The research house added that [Digi.com Bhd](#) aimed to achieve a 1-3 percentage points in cost reduction over 2017 and 2018 while [Axiata Group Bhd](#) aimed to achieve RM2.3bil cost savings over 2017 until 2019.

"We believe this will help lift 2017 sector core net profit by 2.5% year-on-year (y-o-y) to RM6.07bil with a price-earnings ratio of 24 times," said UOB KayHian in a sector report.

In the fourth quarter of 2016, [Maxis Bhd](#) experienced a 26% quarter-on-quarter (q-o-q) increase in data usage to 3.3GB per month, as smartphone penetration reached 75%.

Service revenue last year contracted 4% y-o-y as a result of a weak second quarter where service revenue contracted 2% q-o-q due to irrational competition.

"Nevertheless, service revenue subsequently recovered in the second half of 2016, driven by higher postpaid data allocation, and higher blended average revenue per user (Arpu), thanks to sequential price stabilisation within the international direct dialling (IDD) prepaid segment.

"Overall, Maxis continues to lead in terms of service revenue market share at 41%, while Digi expanded its postpaid footprint, leading to a market share of 30%," said UOB KayHian.

The research house maintains market weight on the sector, with Axiata and [OCK Group Bhd](#) as its top picks.

"We believe that Axiata's sell-off has largely priced-in near term earnings headwinds and dividend cut in 2017.

“We would accumulate Axiata on share price weakness for depressed valuations, stabilisation at Celcom and turnaround at XL Axiata within the next two years and with Axiata being a large-cap laggard with liquidity,” said UOB KayHian, adding that OCK would be a key beneficiary of rising data volume in frontier emerging markets.

The company can leverage on Telenor Myanmar’s rapid network expansion while the recent acquisition of SEATH (Southeast Asia Telecommunications Holdings) in Vietnam provides for a meaningful footprint in the country’s growing market.

Key re-rating catalysts include additional tower lease contracts secured in Myanmar and/or Vietnam, and higher tenancy ratio.

Beyond 2017, OCK will secure an additional 2,000 tower lease contract in Myanmar.

The telco industry’s key events slated for the year include potential spectrum re-allocation of 700, 2,300 and 2,600 MHz bandwidth in 2017 or 2018, potentially synergistic merger between Telekom Malaysia and Celcom or spin off of Celcom to Telekom Malaysia, as well as market consolidation with U-Mobile’s prized spectrum potentially up for sale to the highest bidder.

Read more at <http://www.thestar.com.my/business/business-news/2017/03/09/cost-optimisation-key-focus-of-telecoms-sector/#LmB8yjV2aKwJPPkl.99>