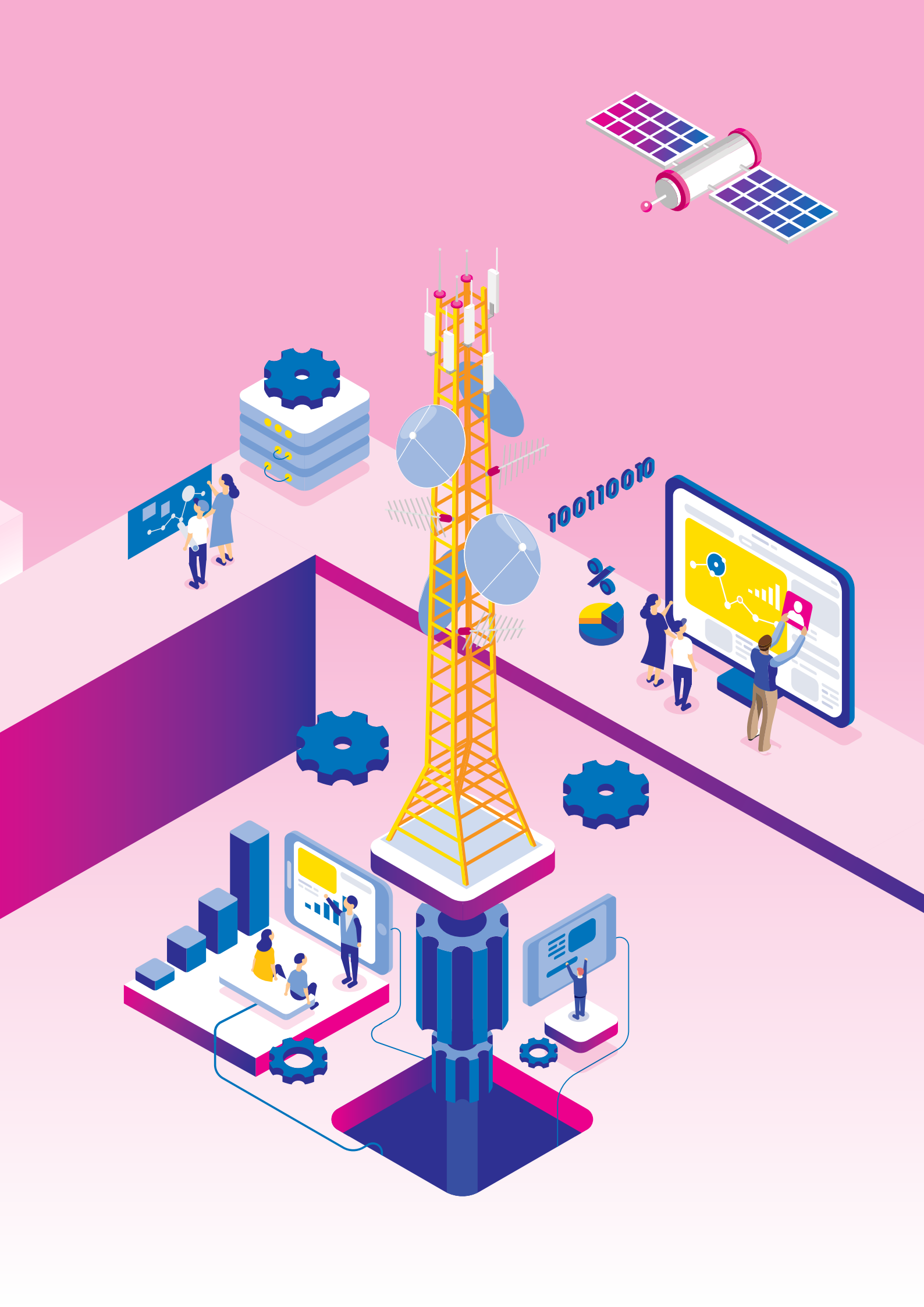




CHAPTER 2 : ECONOMIC PERFORMANCE OF C&M INDUSTRY

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- 34 *Telecommunications Sector*
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- 42 **ACE Market Overview and Performance**

This chapter reports on the economic performance of the C&M industry, mainly on the market capitalisation including Bursa Malaysia market capitalisation by sector; telecommunications, broadcasting, postal and courier. This chapter also analyses the financial performance including industry revenue by sector, capital expenditure and ARPU. In addition, it also provides an overview and performance of the ACE Market.



KEY HIGHLIGHTS 2019



Market Capitalisation

RM144.01 billion ↑ **4.6%**
(2018: RM137.73 billion)

8.4%
of Bursa Malaysia market capitalisation of RM1,711.84 billion
(2018: 8.1%)



Telecommunications Sector
RM134.01 billion ↑ **5.4%**
(2018: RM127.19 billion)



Broadcasting Sector
RM7.29 billion ↓ **5%**
(2018: RM7.67 billion)



Postal and Courier Sector
RM2.71 billion ↓ **5.6%**
(2018: RM2.87 billion)



Revenue

RM43.37 billion ↓ **3.7%**
(2018: RM45.02 billion)



Telecommunications Sector
RM34.8 billion ↓ **2.8%**
(2018: RM35.8 billion)



Broadcasting Sector
RM5.88 billion ↓ **8.6%**
(2018: RM6.43 billion)



Postal and Courier Sector
RM2.69 billion ↓ **3.6%**
(2018: RM2.79 billion)



Capital Expenditure

RM4.61 billion ↓ **11.5%**
(2018: RM5.21 billion)

13%
capex to revenue ratio, below the global average of 17%
(2018: Malaysia 15%, Global 17%)



65% from mobile service providers
RM2.98 billion ↑ **6.8%**
(2018: RM2.79 billion)

13% capex to revenue ratio
(2018: 12%)



35% from fixed service providers
RM1.63 billion ↓ **32.6%**
(2018: RM2.42 billion)

13% capex to revenue ratio
(2018: 19%)

OVERVIEW

DOMESTIC GROWTH SOFTENED IN 2019, WITH MIXED PERFORMANCES ACROSS COMMUNICATIONS AND MULTIMEDIA (C&M) INDUSTRY

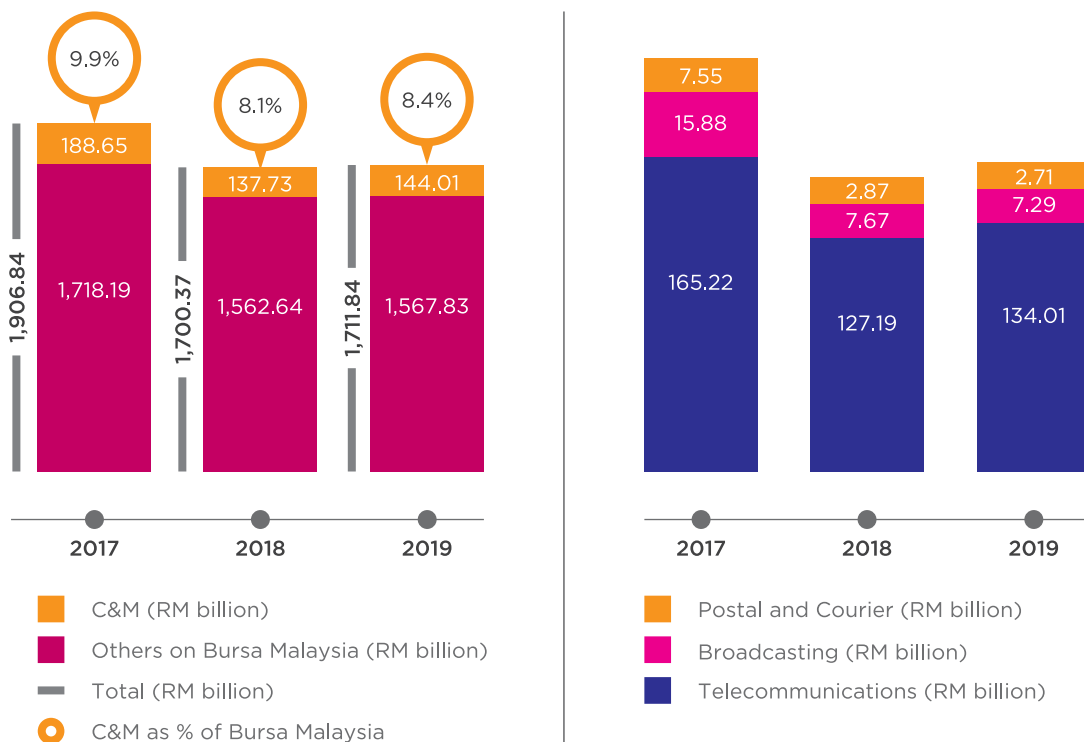
The C&M industry market capitalisation remained resilient despite the external headwinds and global economic uncertainties and continued to play a vital role in contributing to the domestic economy. Sector-wide cost rationalisation continues to be at the forefront of the C&M industry players' initiatives against the persistent and increasing stiff competitiveness in the market.

C&M INDUSTRY MARKET PERFORMANCE

The C&M industry represents 8.4% or RM144.01 billion of Bursa Malaysia total market capitalisation of RM1,711.84 billion as at end 2019 (2018: 8.1% or RM137.73 billion). The C&M industry market capitalisation has increased by 4.6%, spurred by telecommunications sector. This is due to telecommunication companies' share prices gaining momentum, driven by corporate announcements such as 5G initiatives, new product launch, collaborations and financial results.



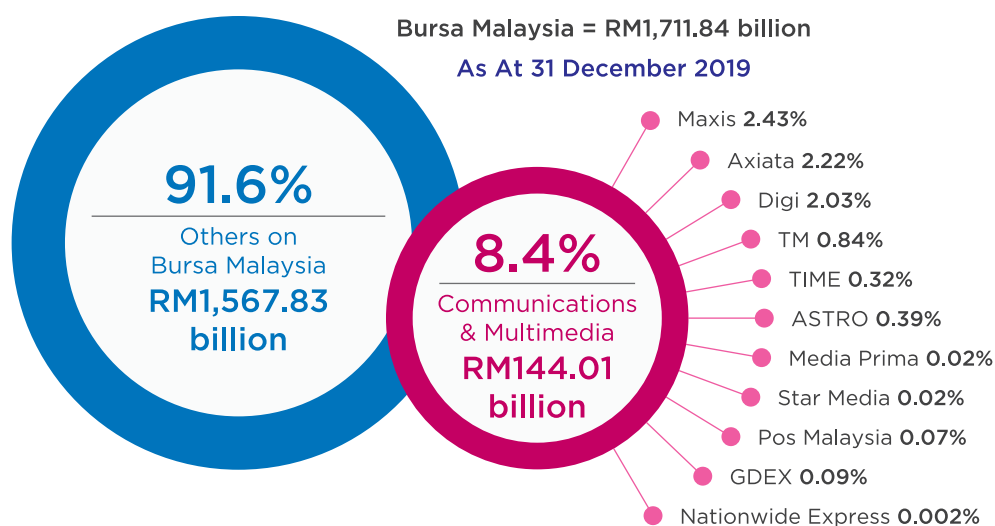
C&M INDUSTRY MARKET CAPITALISATION BY SECTOR 2017 – 2019



Source: Bloomberg, MCMC

Figure 2.1 C&M Industry Market Capitalisation by Sector 2017 – 2019

C&M COMPANIES' CONTRIBUTION TO BURSA MALAYSIA 2019



Source: Bloomberg, MCMC

Figure 2.2 C&M Companies Contribution to Bursa Malaysia 2019

C&M COMPANIES MARKET CAPITALISATION 2017 - 2019

Company	Market Capitalisation (RM billion)			Change (%)	
	2019	2018	2017	2019-2018	2018-2017
Maxis	41.61	41.82	46.94	-0.5%	-10.9%
Axiata	37.94	35.65	49.67	6.4%	-28.2%
Digi	34.68	34.99	39.65	-0.9%	-11.8%
TM	14.38	10.00	23.67	43.8%	-57.8%
TIME	5.40	4.73	5.29	14.2%	-10.6%
Telecommunications	134.01	127.19	165.22	5.4%	-23.0%
ASTRO	6.62	6.78	13.82	-2.4%	-50.9%
Media Prima	0.31	0.38	0.84	-18.4%	-54.8%
Star Media	0.36	0.51	1.22	-29.4%	-58.2%
Broadcasting	7.29	7.67	15.88	-5.0%	-51.7%
Pos Malaysia	1.16	1.35	4.11	-14.1%	-67.2%
GDEX	1.52	1.48	3.37	2.7%	-56.1%
Nationwide Express	0.03	0.04	0.07	-25.0%	-42.9%
Postal and Courier	2.71	2.87	7.55	-5.6%	-62.0%
TOTAL C&M	144.01	137.73	188.65	4.6%	-27.0%

Note: Axiata Group Bhd (Axiata), Maxis Bhd (Maxis), Digi.Com Bhd (Digi), Telekom Malaysia Bhd (TM), TIME dotCom Bhd (TIME), Astro Malaysia Holdings Bhd (ASTRO), Media Prima Bhd (Media Prima), Star Media Group Bhd (Star Media), Pos Malaysia Bhd (Pos Malaysia), GD Express Carrier Bhd (GDEX) and Nationwide Express Holdings Bhd (Nationwide Express)

Source: Bloomberg, MCMC

Figure 2.3 C&M Companies Market Capitalisation 2017 - 2019

The market capitalisation for the telecommunications sector has improved by 5.4% to RM134.01 billion in 2019 (2018: RM127.19 billion):

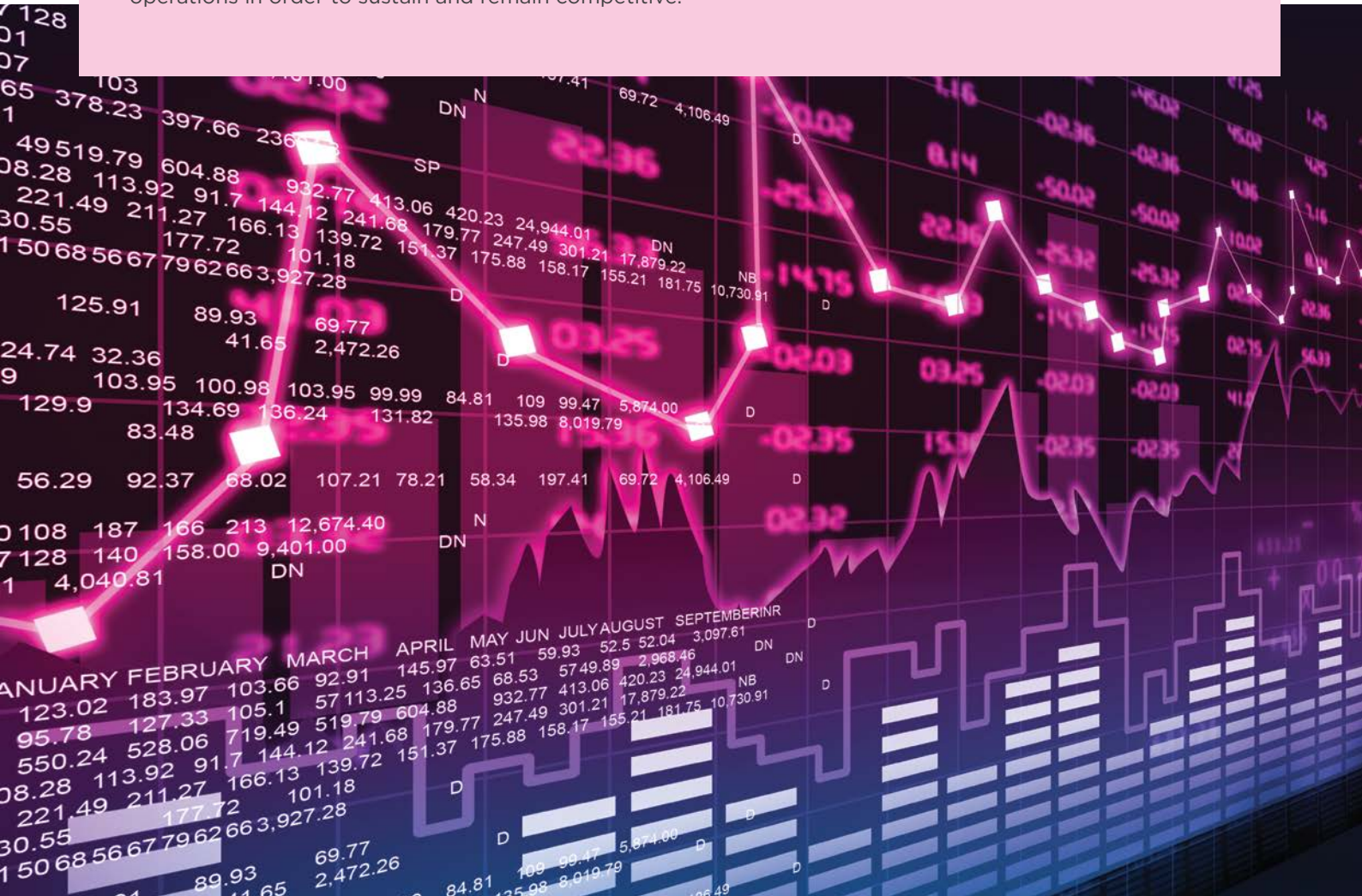
The top performer was TM, registering the sharpest growth compared to its peers, with market capitalisation improving by 43.8% to RM14.38 billion in 2019 (2018: RM10 billion). TM performance was driven by improved profitability as a result of ongoing cost optimisation initiatives

TIME market capitalisation gained 14.2% to RM5.4 billion in 2019 (2018: RM4.73 billion), due to its sustained growth momentum, subsequently achieving a robust financial profile

Axiata market capitalisation grew 6.4% to RM37.94 billion in 2019 (2018: RM35.65 billion), spurred by investors sentiment due to the group's efforts to maintain profitability. Additionally, their regional exposures with a focus on emerging countries contributes to long-term growth potential





















In contrast, the broadcasting sector posted a decline in market capitalisation by 5% to RM7.29 billion in 2019 (2018: RM7.67 billion). The decline is mainly due to the competitive market in the digital era. The rise in digital and streaming media resulted in the rapid shift of consumer preference for OTT platform.

Similarly, postal and courier sector market capitalisation also posted a decline of 5.6% to RM2.71 billion in 2019 (2018: RM2.87 billion). Service providers are facing challenges in a very competitive market despite the rapidly growing e-commerce parcel market. They are embracing digital solutions to their business and operations in order to sustain and remain competitive.



MAXIS AND AXIATA REMAIN ON TOP 10 MARKET CAPITALISATION

As shown in Figure 2.4, while the financial and utilities sectors continue to lead the market capitalisation ranking, the telecommunications sector is led by Maxis and Axiata. In 2019, Maxis maintained its position at 7th place as in 2018, while Axiata has moved two notch up to 8th place.

TOP 10 MARKET CAPITALISATION 2018 - 2019			
2019	Ranking	2018	
 MAYBANK RM97.13 billion	1	 MAYBANK RM104.83 billion	
 PUBLIC BANK RM75.47 billion	2	 PUBLIC BANK RM96.12 billion	
 TNB RM75.41 billion	3	 TNB RM77.34 billion	
 PETRONAS CHEMICALS RM58.80 billion	4	 PETRONAS CHEMICALS RM74.32 billion	
 CIMB RM51.10 billion	5	 CIMB RM54.61 billion	
 IHH HEALTHCARE RM47.99 billion	6	 IHH HEALTHCARE RM47.27 billion	
 MAXIS RM41.61 billion	7	 MAXIS RM41.82 billion	
 AXIATA RM37.94 billion	8	 HONG LEONG BANK RM41.73 billion	
 SIME DARBY PLANTATION RM37.52 billion	9	 PETRONAS GAS RM37.99 billion	
 HONG LEONG BANK RM37.50 billion	10	 AXIATA RM35.65 billion	

*As at 31 December

Note:

1. Top 10 largest stocks were from the largest 30 companies on FTSE Bursa Malaysia KLCI Index by market capitalisation
2. Malayan Banking Bhd (Maybank), Public Bank Bhd (Public Bank), Tenaga Nasional Bhd (TNB), Petronas Chemicals Group Bhd (Petronas Chemicals), CIMB Group Holdings Bhd (CIMB), IHH Healthcare Bhd (IHH Healthcare), Maxis Bhd (Maxis), Axiata Group Bhd (Axiata), Sime Darby Plantation Bhd (Sime Darby Plantation), Hong Leong Bank Bhd (Hong Leong Bank)

Source: Bloomberg, MCMC

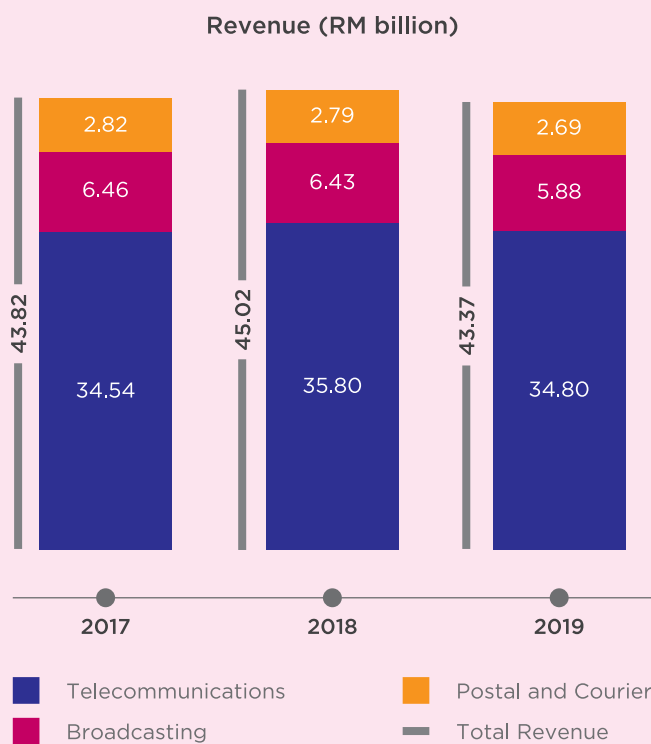
Figure 2.4 Top 10 Market Capitalisation 2018 - 2019

C&M INDUSTRY FINANCIAL PERFORMANCE



The domestic C&M industry aggregate revenue was at RM43.37 billion in 2019. This is a decline of 3.7% from RM45.02 billion in 2018.

DOMESTIC C&M INDUSTRY REVENUE 2017 - 2019



Note: Revenue from major public listed companies only

Source: Industry, MCMC

Figure 2.5 Domestic C&M Industry Revenue 2017 - 2019

By sector, telecommunications sector recorded RM34.8 billion revenue in 2019. This is a decline of 2.8% (2018: RM35.8 billion), due to intense competition coupled with OTT services eroding traditional revenues.

On the broadcasting front, the sector revenue decreased by 8.6% to RM5.88 billion in 2019 (2018: RM6.43 billion). The decline was due to lower

contribution from advertising revenue and Pay TV subscription revenue, mainly caused by consumers shifting to digital media and OTT services.

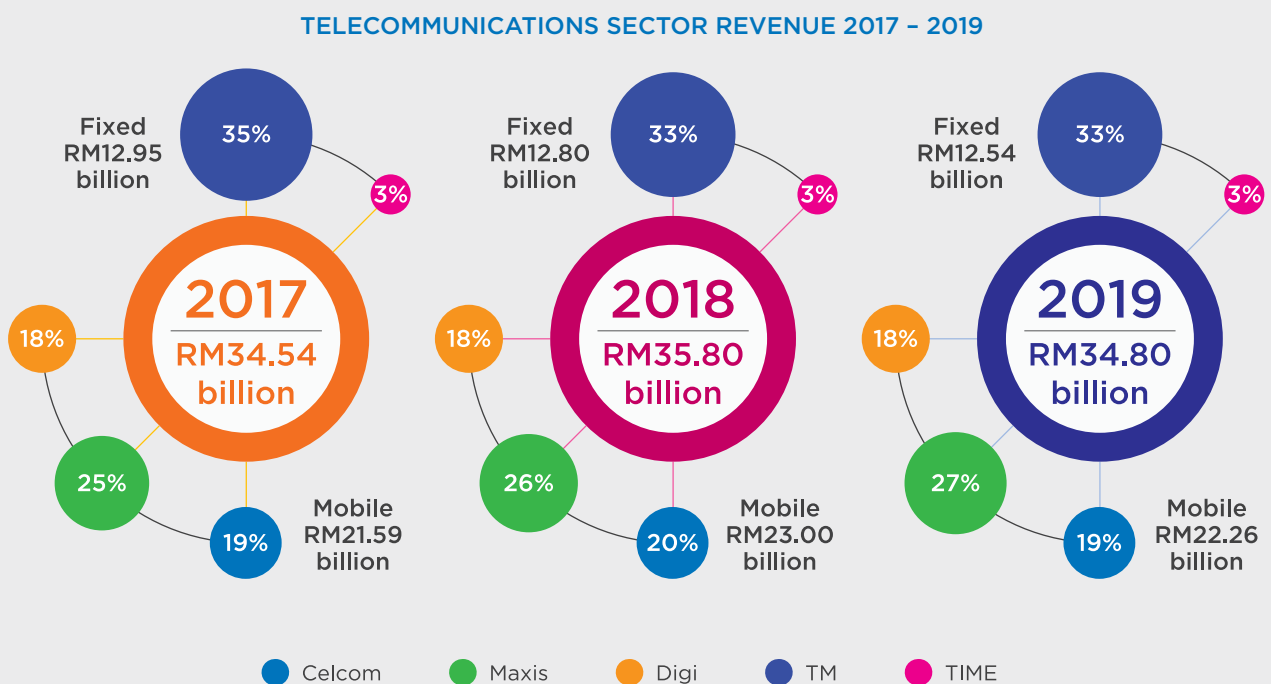
Meanwhile, postal and courier sector revenue was at RM2.69 billion in 2019, declined by 3.6% compared with RM2.79 billion in 2018. The sector revenue was lower as mail business continues to decline and intense competition in the courier segment.

TELECOMMUNICATIONS SECTOR

In 2019, telecommunications sector revenue recorded RM34.8 billion, with mobile service providers contributed a huge chunk equivalent to 64% of the total telecommunications revenue. The remaining 36% was generated by fixed service providers.

Mobile service providers (Celcom, Maxis and Digi) collectively recorded a decline of 3.2% in revenue to RM22.26 billion in 2019 (2018: RM23 billion). This is due to the decrease in legacy voice and SMS revenue. Traditional services revenue (voice and SMS) declined more than 60% for the past 10 years from RM16 billion in 2008 to RM5 billion in 2019¹.

As for fixed service providers (TM and TIME), their revenue declined 2% to RM12.54 billion in 2019 (2018: RM12.8 billion). This was due to lower revenue contribution from TM, on the back of declining voice services revenue and subscriber base.



Source: Industry, MCMC

Figure 2.6 Telecommunications Sector Revenue 2017 - 2019

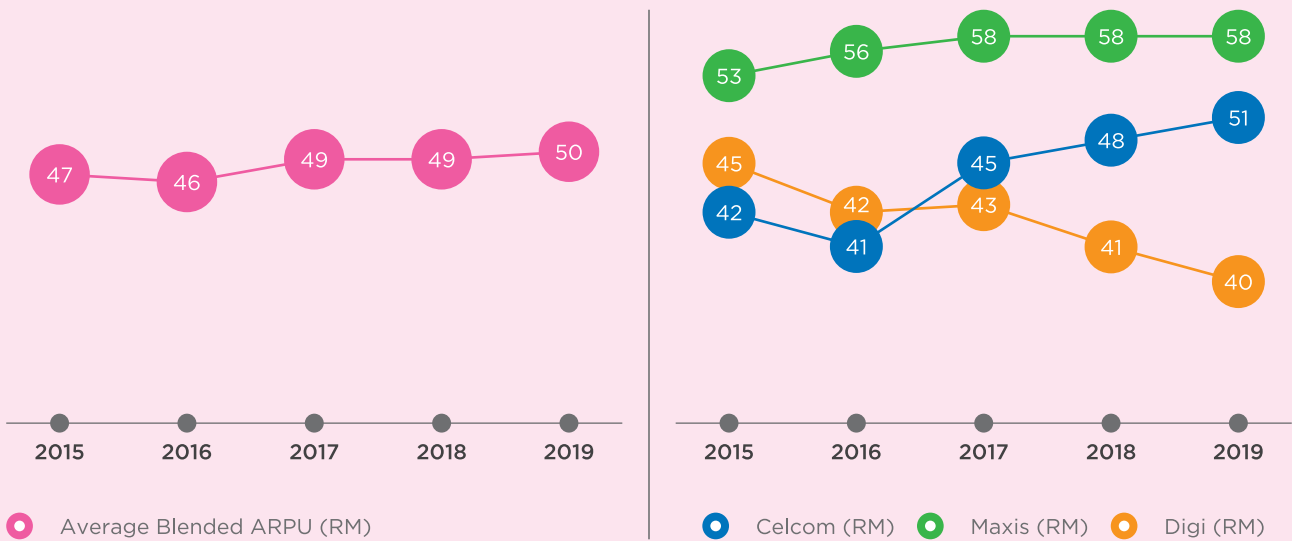
¹ Data extracted from Analysys Mason DataHub on 30 June 2020.

AVERAGE REVENUE PER USER (ARPU)

Blended ARPU for three mobile service providers averaged RM50 per month in 2019, which is a slight increase compared with 2018.

ARPU is resilient despite ongoing price competition between service providers. Service providers strive to grow ARPU and service revenue through price innovation that stimulates data usage and monetises data demand, pushing prepaid-to-postpaid migration or upgrading to premium plan and adding innovative services on top of connectivity (such as OTT, games, e-wallet etc).

AVERAGE BLENDED MOBILE ARPU 2015 - 2019



Source: Industry, MCMC
 Figure 2.7 Average Blended Mobile ARPU 2015 - 2019

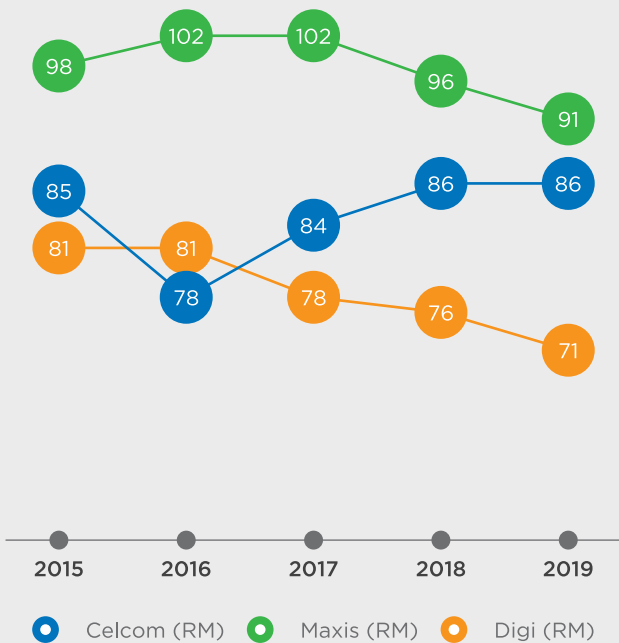




Looking specifically at the ARPU for the three main service providers for 2019, Maxis continue to lead with blended monthly ARPU of RM58, followed by Celcom at RM51. Higher ARPU for Maxis and Celcom was contributed by their focus on premium subscribers. As for Digi, its blended ARPU level was the lowest at RM40 per month in the market, largely due to its strong prepaid base and focus strategy on affordable packages.

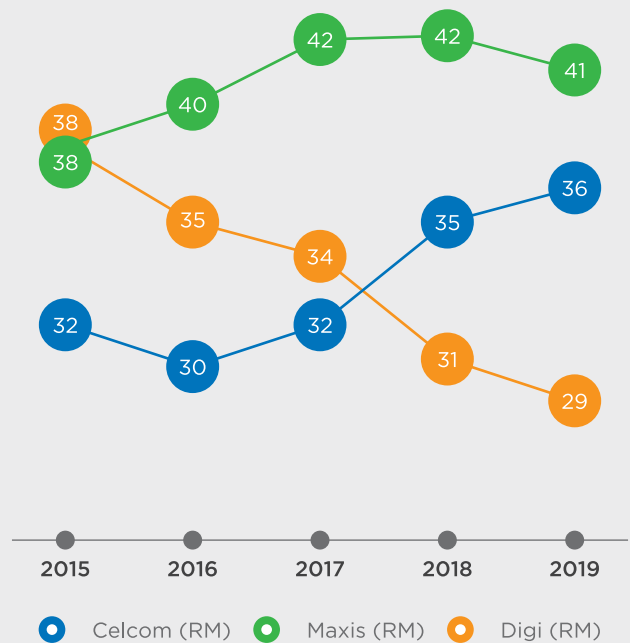
Based on the above findings, mobile service providers clearly strategised their ARPU differently such as utilising services that are of higher value and maintaining a strong level of customer focus.

POSTPAID ARPU 2015 - 2019



Source: Industry, MCMC
Figure 2.8 Postpaid ARPU 2015 - 2019

PREPAID ARPU 2015 - 2019

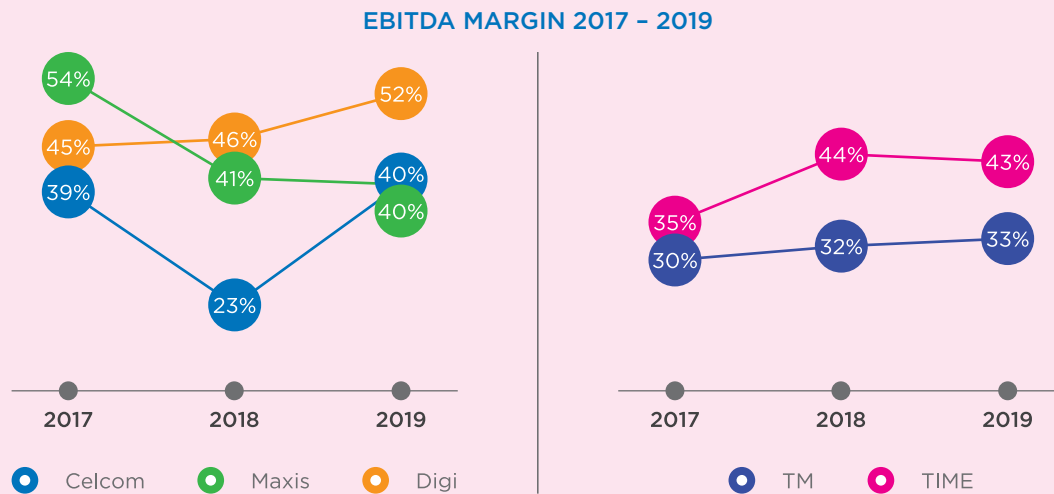


Source: Industry, MCMC
Figure 2.9 Prepaid ARPU 2015 - 2019

PROFITABILITY: EBIT AND EBITDA MARGINS

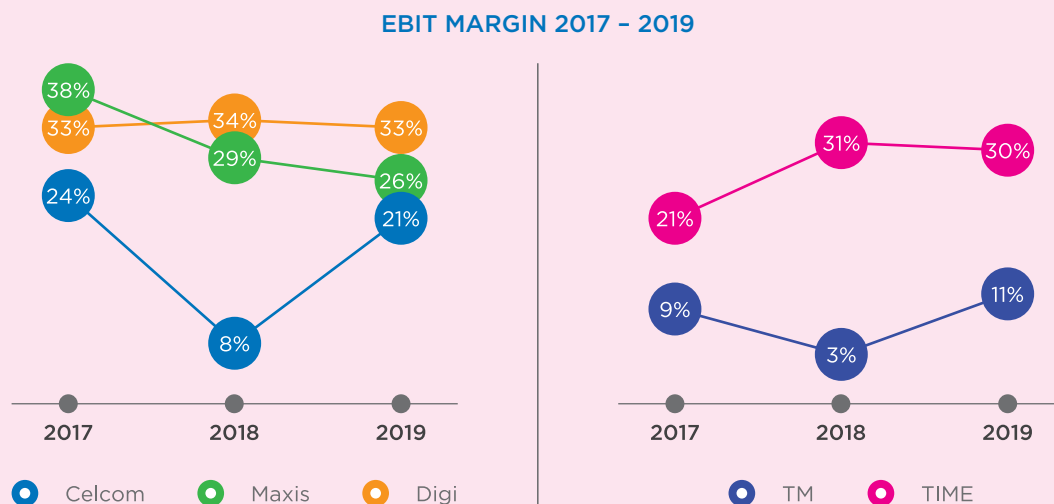
In 2019, the telecommunications sector EBITDA² margin averaged 42% (2018: 37%) and EBIT³ margin averaged 24% (2018: 21%). Margins have improved during this period due to cost optimisation initiatives resulting in reduction of operating costs.

Among the mobile service providers, Digi recorded EBITDA margin as high as 52% followed by Celcom and Maxis 41% and 40% respectively. As for fixed service providers, TIME has the highest EBITDA margin at 43% as compared with TM, which was at 33% in 2019. TIME has been charting revenue growth over the past three years and managed to retain lean operating cost structure, thus its EBITDA margin remained steady.



Source: Industry, MCMC
Figure 2.10 EBITDA Margin 2017 - 2019

In terms of EBIT, TM EBIT margin stood at 11% in 2019 (2018: 3%). In 2018, TM reported lower EBIT Margin due to impairment loss on network assets of almost RM1 billion. Such positive result in 2019 was driven by TM's ongoing cost optimisation and management initiatives implemented. The initiatives include focusing on simplification and digitalisation of TM's businesses and internal processes to lower cost of network infrastructure.

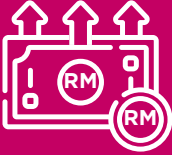


Source: Industry, MCMC
Figure 2.11 EBIT Margin 2017 - 2019


² EBITDA refers to Earnings Before Interest, Tax, Depreciation and Amortisation.
³ EBIT refers to Earnings Before Interest and Tax, also known as operating profit.

CAPITAL EXPENDITURE (CAPEX)


In 2019, total telecommunications capex was RM4.61 billion. About 70%-80% of the capex was spent on network to improve capacity to support rising data demands. Meanwhile, capex has declined 11.5% in 2019, due to service providers:



Rationalising and reprioritising spending

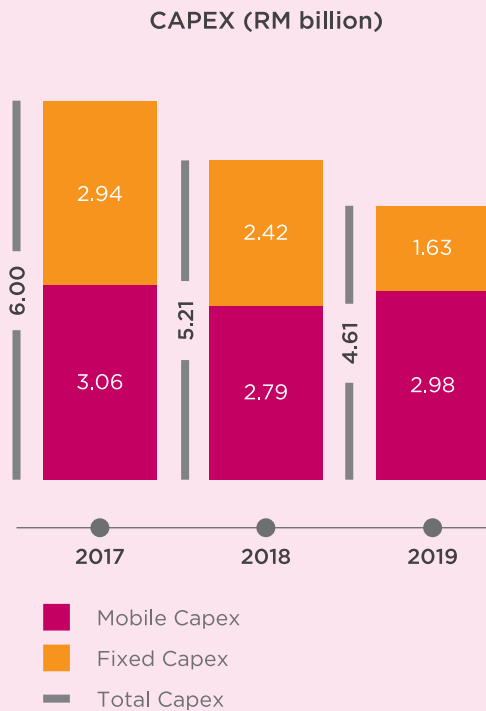


Squeezing and optimising the existing network assets



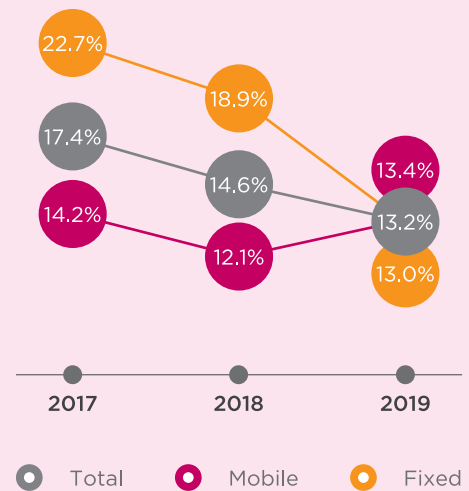
Preserving capital for full-scale 5G roll out

CAPEX 2017 - 2019



Source: Industry, MCMC
Figure 2.12 Capex 2017 - 2019

CAPEX TO REVENUE RATIO (CAPITAL INTENSITY)



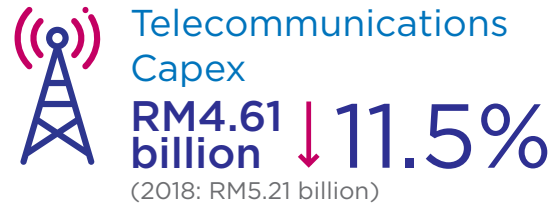
Source: Industry, MCMC
Figure 2.13 Capex to Revenue Ratio (Capital Intensity)

From the total capex, 65% (RM2.98 billion) was from mobile service providers (Celcom, Maxis and Digi). The remaining 35% (RM1.63 billion) was from fixed service providers (TM and TIME). Capex was mainly for upgrading mobile network and fibre to improve network quality and capacity to provide a better customer experience.

In terms of capex to revenue ratio (capital intensity), telecommunications sector spending was 13.2% of revenue for 2019 (2018: 15%), which was below the global average of 17%⁴.

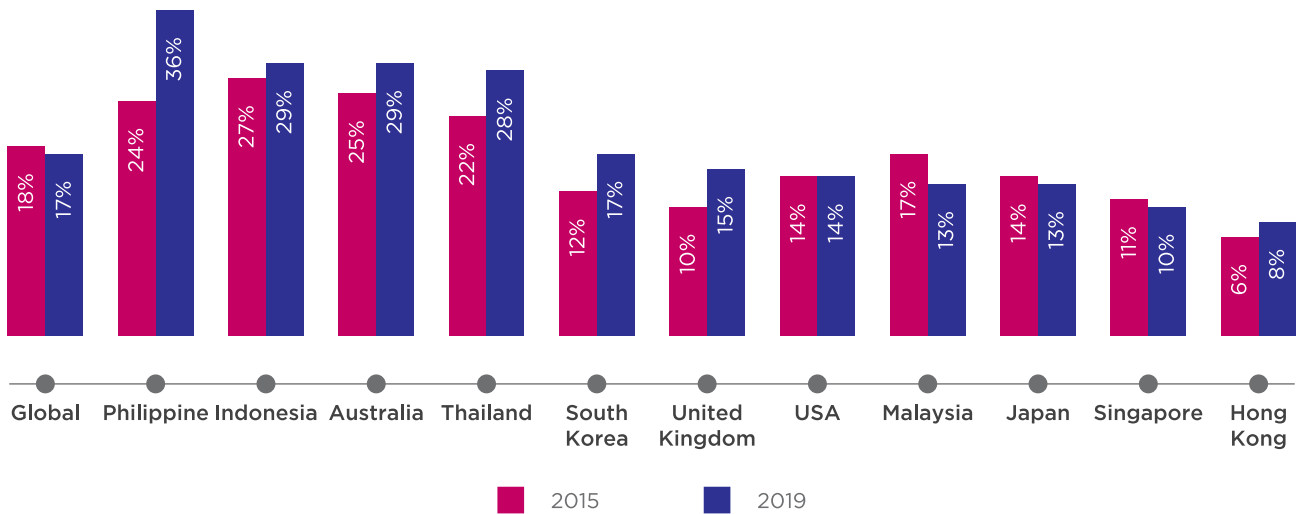
As shown in Figure 2.14, Philippines telecommunications companies have invested in network infrastructure at a level significantly higher than the global average in terms of capex to revenue ratio - spent 36% of their revenue on capex in 2019, which is the highest among the 11 countries.

Indonesia and Australia were the second highest countries with capex to revenue ratio at 29%. These countries ratio were high as they strengthened their 4G LTE networks in response to fast-growing data consumption and the rising importance of network quality, as well as to pave way for 5G.



Other countries such as Thailand allocated 28% of their revenue respectively into capex over the same period, while South Korea's was at 17%. United Kingdom, USA, Malaysia, Japan, Hong Kong and Singapore were even lower, with a capex level of less than 15%, below the global average.

CAPEX TO REVENUE RATIO (CAPITAL INTENSITY) 2015 VIS-À-VIS 2019



Source: OMDIA, Industry, MCMC

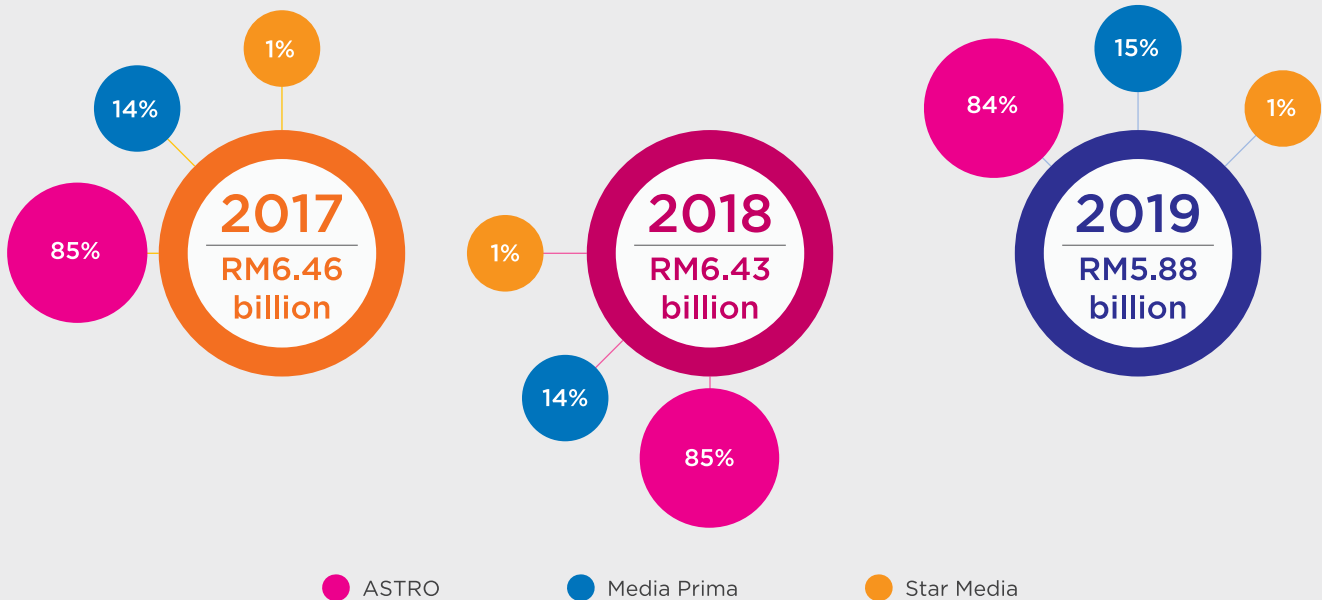
Figure 2.14 Capex to Revenue Ratio (Capital Intensity) 2015 vis-à-vis 2019

4 OMDIA, Communications Provider Revenue & Capex Tracker: 4Q19, April 2020.

BROADCASTING SECTOR

The broadcasting sector in 2019 has recorded RM5.88 billion in revenue, a decline of 8.6% compared with RM6.43 billion in 2018. Revenue continues to decline amid weaker traditional (TV and radio) advertising and Pay TV subscription revenue. In 2019, TV and radio advertising revenue declined by 8%, while Pay TV subscription revenue declined by 9%.

BROADCASTING SECTOR REVENUE 2017 - 2019



- Note 1. Media Prima excludes print revenue
- 2. ASTRO revenue adjusted by calendar year
- 3. Only radio broadcasting revenue is included for Star Media

Source: Industry, MCMC
 Figure 2.15 Broadcasting Sector Revenue 2017 - 2019

The broadcasting sector remains challenging due to the following:

Competition from both legal and illegal platforms (legal competition from OTT players; illegal competition from pirated contents)

Changing habits and preferences of consumers towards digital media consumption as compared to traditional media such as TV, print and radio

Broadcasters' reliance on an advertising-based business model is being challenged by changes in content distribution and consumer consumption. Advertisers are spending less on traditional media following the changing trend and allocating their budget to digital mediums, thus affecting traditional advertising revenue

Broadcasters have diversified their businesses by moving into events and digital initiatives (such as home/online shopping and digital advertising). These efforts begin to gain traction but revenue is insufficient to cushion the huge decline in their traditional business. In addition, digital initiatives require longer maturity period and incur start-up costs and higher operating costs.

POSTAL AND COURIER SECTOR

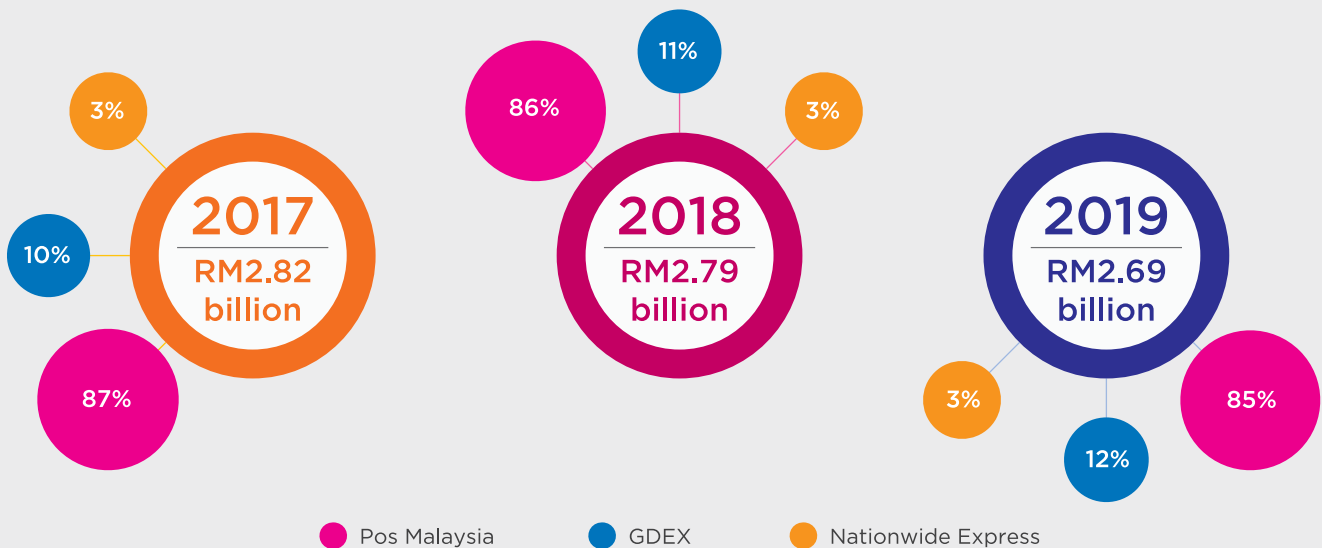
Postal and courier sector recorded revenue of RM2.69 billion in 2019, declined by 3.6% compared with RM2.79 billion in 2018. The sector revenue was lower, mainly impacted by:

Decline in traditional mail volume due to electronic substitution

Price competition in courier business following the emergence of start-ups/new players



POSTAL AND COURIER SECTOR REVENUE 2017 - 2019



Note: Revenue adjusted by calendar year

Source: Industry, MCMC

Figure 2.16 Postal and Courier Sector Revenue 2017 - 2019

ACE MARKET OVERVIEW AND PERFORMANCE

The ACE Market which stands for “Access, Certainty, Efficiency” is an alternative market for small and medium sized companies that are at growth stage and have business prospects. It replaced the formerly known MESDAQ (Malaysian Exchange of Securities Dealing and Automated Quotation) market in 2009⁵. The ACE Market is very much like the Growth Enterprise Market (GEM) in Hong Kong, Catalist in Singapore and Market for Alternative

Investment (MAI) in Thailand. It is viewed as the ideal market for promising and fast growing companies who are looking to raise capital through public listing exercise.

In 2019, there were 129 companies listed on ACE Market. From the total, 11 companies or 8.5% are licensees under the CMA.

LICENSEES ON ACE MARKET 2019

Company (ACE Listed)	Listing Date	Licensee (The company or subsidiary of ACE listed company)	Type of Licences*
Binasat Communications Bhd	2018	Satellite NOC Sdn Bhd	NFP (I) & NSP (I)
PUC Bhd	2015	Presto Mall Sdn Bhd	ASP (C)
ManagePay Systems Bhd	2011	MPay Mobile Sdn Bhd	ASP (C)
XOX Bhd	2011	XOX Com Sdn Bhd	NSP (I) & ASP (C)
Diversified Gateway Solution Bhd	2007	Diversified Gateway Bhd	ASP (C)
Privasia Technology Bhd	2006	Privanet Sdn Bhd Privasat Sdn Bhd	NFP (I) & NSP (I)
MNC Wireless Bhd	2005	MNC Wireless Bhd Moblife.TV Sdn Bhd	ASP (C)
mTouche Technology Bhd	2005	mTouche International Sdn Bhd	ASP (C)
N2N Connect Bhd	2005	N2N Global Solutions Sdn Bhd NGN Connection Sdn Bhd	ASP (C)
REDtone International Bhd	2004	Redtone Engineering and Network Services Sdn Bhd Redtone Telecommunications Sdn Bhd Redtone Data Centre Sdn Bhd Redtone Mytel Sdn Bhd Sea Telco Engineering Services Sdn Bhd	NFP (I) & NSP (I) & ASP (C)
M3 Technologies (Asia) Bhd	2003	M3 Technologies (Asia) Bhd	ASP (C)

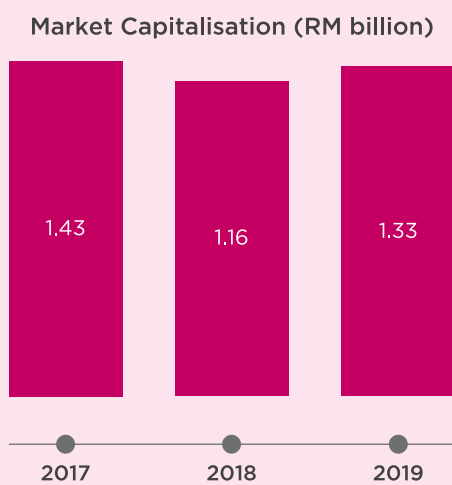
*ASP - Applications Service Provider; NSP - Network Service Provider; NFP - Network Facilities Provider; I - Individual; C - Class

Source: Bursa Malaysia ACE Market, Industry, MCMC
Figure 2.17 Licensees on ACE Market 2019



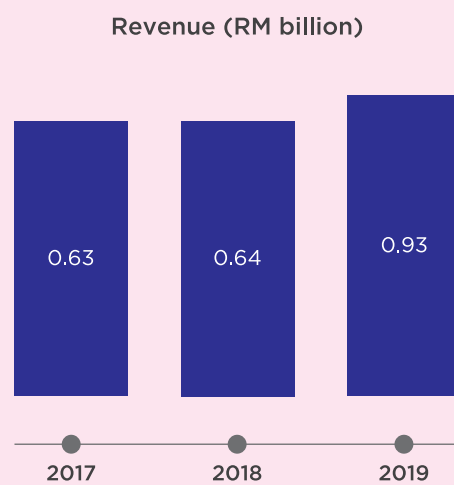
In 2019, market capitalisation for the 11 CMA licensees listed on ACE Market was RM1.33 billion (a growth of 14.7%) with revenue of RM0.93 billion (a growth of 45.3%). Note that, the value for market capitalisation and revenue were higher, partly due to the increased CMA licensees in ACE market to 11 companies (2018: 9).

**LICENSEES ON ACE MARKET
MARKET CAPITALISATION 2017 - 2019**



Source: Bloomberg, MCMC
Figure 2.18 Licensees on ACE Market: Market Capitalisation 2017 - 2019

**LICENSEES ON ACE MARKET
REVENUE 2017 - 2019**



Source: Industry, MCMC
Figure 2.19 Licensees on ACE Market: Revenue 2017 - 2019