

21 August 2023

Communications | Telecommunications

Time dotCom (TDC MK)

Buy (Maintained)

Time For Another Special Dividend; Keep BUY

- **Keep BUY and MYR6 DCF TP, 11% upside, c. 16% FY23F yield.** Results were broadly in line, with another positive dividend surprise. We remain upbeat on Time dotCom's prospects, premised on structural drivers (data centres (DC), fibre broadband) and strong commercial execution. The stock offers a double-digit 2-year earnings CAGR with a solid net cash balance sheet. This vindicates the valuation premium over domestic peers.
- **Within expectations; another bumper DPS of 16.25 sen.** Revenue and core earnings were up 9% and 10% YoY in 1H23 on decent double-digit growth across the retail (fibre broadband) and enterprise lines. The quarter saw the divestment of AIMS Group (DC business), which was equity accounted from 21 Apr (30% share). This contributed to revenue and EBITDA declines of an estimated 7% and 18% QoQ, while associate contributions (1-month impact from AIMS) rose 46% YoY in 2Q23 (-2% QoQ). Management had previously guided for the earnings 'slack' to be made up for over the next 12 months. Shareholders are rewarded generously with another special DPS of 16.25 sen (ex date: 4 Sep, payable on 15 Sep) as management opted to optimise the under-levered balance sheet. The latest payout follows the recent 54 sen special DPS paid in May from proceeds of the sale of AIMS. This brings YTD DPS to a record 85.3 sen, with dividend yield in excess of 15%. We make no changes to our forecasts.
- **Cloud solutions growing nicely.** Cloud and other solutions revenue (under AVM Cloud), which were previously subsumed under the DC segment, delivered a strong 35% QoQ rebound (+15% excluding one-offs), making up c.12% of 1H23 consolidated revenue.
- **Aiming high.** A recent visit to the Cyberjaya DC (AIMS@CJ) highlighted that demand for co-location services remains robust, with TDC having secured off-takes for the second phase extension (60,000 sq ft), which is on track for completion by the year-end. With DigitalBridge as its new strategic investor and partner, we see good opportunities for the regionalisation of TDC's DC business, leveraging on strong enterprise demand for DC co-locations and cloud services (digitalisation, proliferation of data from 5G, and artificial intelligence). The group would look to aggressively expand its fibre footprint (currently >1.3m premises) with the MYR1bn proceeds from the sale of AIMS.
- **Key risks:** Weaker-than-expected margins/earnings, retail fiber broadband competition, and higher-than-expected capex. Our TP includes a 0% ESG premium/discount, with our ESG rating of 3.0 being in line with the country median. The company had zero incidents of data breaches in FY22.

Target Price (Return): MYR6 (10.5%)
Price (Market Cap): MYR5.43 (USD2,157m)
ESG score: 3.00 (out of 4)
Avg Daily Turnover (MYR/USD) 11.9m/2.59m

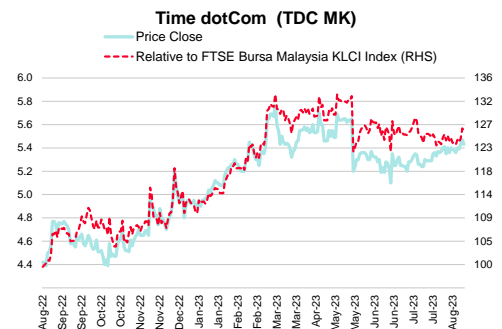
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	10.8	2.6	2.5	0.2	20.9
Relative	14.1	(0.5)	1.2	2.3	25.6
52-wk Price low/high (MYR)				4.39 – 5.76	



Source: Bloomberg

Overall ESG Score: 3.00 (out of 4)

E: GOOD

TDC's extensive fibre-optic cables require little maintenance and bear little emission risk although its data centre (DC) business is a major consumer of energy. Energy consumption for its DC has continued to increase due to strong demand and capacity expansion albeit the application of power savings solutions has enabled more efficient power usage. The group will explore alternative mechanisms such as the purchase of carbon credits/offsets to reduce its carbon footprint

S: GOOD

TDC helps in meeting the nation's digital agenda as a technology and communications enabler. The group is an active proponent of the government's JENDELA program to extend fiber broadband connectivity to the less urban areas. There was zero incidence of data breach in FY22

G: GOOD

The Board is made up of 11 Directors of which six are independent (55%) and four are females (36%). An in-house investor relations (IR) team organises meetings with quarterly results briefings held between the investment community and the management team

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	1,396	1,576	1,584	1,697	1,889
Recurring net profit (MYRm)	376	426	459	513	565
Recurring net profit growth (%)	8.0	13.3	7.7	11.8	10.1
Recurring P/E (x)	26.35	23.27	21.60	19.31	17.54
P/B (x)	3.2	3.2	2.6	2.5	2.5
P/CF (x)	21.91	16.71	15.92	15.48	14.64
Dividend Yield (%)	3.9	5.7	15.7	4.1	4.6
EV/EBITDA (x)	12.73	11.97	11.45	10.72	10.17
Return on average equity (%)	12.8	14.2	13.3	13.3	14.3
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

Financial Exhibits

Asia	Financial summary (MYR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Malaysia	Recurring EPS	0.21	0.23	0.25	0.28	0.31
Communications	DPS	0.21	0.31	0.85	0.22	0.25
Time dotCom	BVPS	1.72	1.71	2.08	2.14	2.20
TDC MK	Return on average equity (%)	12.8	14.2	13.3	13.3	14.3
Buy						
Valuation basis	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
DCF methodology	Recurring P/E (x)	26.35	23.27	21.60	19.31	17.54
	P/B (x)	3.2	3.2	2.6	2.5	2.5
	FCF Yield (%)	1.5	0.9	2.2	3.4	3.8
	Dividend Yield (%)	3.9	5.7	15.7	4.1	4.6
Key drivers	EV/EBITDA (x)	12.73	11.97	11.45	10.72	10.17
i. Strong retail/fiber broadband growth;	EV/EBIT (x)	16.68	15.96	15.49	14.31	13.49
ii. Higher utilisation of data centre capacity;						
iii. Enterprise digitalisation initiatives.						
Key risks	Income statement (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
i. Retail/FBB competition;	Total turnover	1,396	1,576	1,584	1,697	1,889
ii. Weaker-than-expected earnings/margins;	Gross profit	837	981	960	1,049	1,135
iii. Higher-than-expected capex.	EBITDA	689	747	737	789	830
	Depreciation and amortisation	(163)	(187)	(192)	(198)	(204)
	Operating profit	526	560	545	591	626
	Net interest	(17)	(17)	10	10	10
	Pre-tax profit	533	566	588	658	724
	Taxation	(136)	(123)	(129)	(145)	(159)
	Reported net profit	397	443	459	513	565
	Recurring net profit	376	426	459	513	565
Company Profile	Cash flow (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Time dotCom (TDC) wholesales bandwidth capacity via its ownership of sub-sea submarine cables with extensive points-of-presence (POPs). It also has an expanding regional data center presence and is a leading provider of retail broadband services for multi-dwelling units.	Change in working capital	(83)	(13)	5	(14)	(3)
	Cash flow from operations	453	593	623	640	677
	Capex	(300)	(500)	(400)	(300)	(300)
	Cash flow from investing activities	(334)	(490)	1,619	(290)	(290)
	Cash flow from financing activities	(273)	(667)	(1,359)	(462)	(445)
	Cash at beginning of period	749	796	485	1,162	1,098
	Net change in cash	(154)	(564)	882	(111)	(58)
	Ending balance cash	595	232	1,367	1,050	1,039
	Balance sheet (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	796	485	1,162	1,098	1,118
	Tangible fixed assets	1,822	1,574	1,781	1,883	1,979
	Total investments	499	542	542	542	542
	Total assets	4,121	4,189	5,077	5,155	5,341
	Short-term debt	22	17	16	15	14
	Total long-term debt	108	13	213	163	171
	Total liabilities	960	1,049	1,268	1,244	1,316
	Total equity	3,161	3,140	3,809	3,911	4,024
	Total liabilities & equity	4,121	4,189	5,077	5,155	5,341
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	14.2	12.9	0.5	7.1	11.3
	Recurrent EPS growth (%)	8.0	13.3	7.7	11.8	10.1
	Gross margin (%)	60.0	62.2	60.6	61.8	60.1
	Operating EBITDA margin (%)	49.3	47.4	46.6	46.5	44.0
	Net profit margin (%)	28.4	28.1	29.0	30.2	29.9
	Dividend payout ratio (%)	98.3	128.0	339.4	80.0	80.0
	Capex/sales (%)	21.5	31.7	25.3	17.7	15.9
	Interest cover (x)	18.9	20.6			

Source: Company data, RHB

Figure 1: Results review table

FYE Dec (MYR m)	2QFY22*	1QFY23*	2QFY23	QoQ(%)	YoY(%)	1H22	1H23	YoY(%)	Comments
Revenue	373.6	417.2	389.2	(6.7)	4.2	742.9	806.4	8.5	Deconsolidation of DC business from 21 Apr
EBITDA	201.7	196.7	68.5	(65.2)	(66.0)	366.6	265.2	(27.7)	Deconsolidation of DC business from 21 Apr
Core EBITDA	173.6	190.1	155.8	(18.0)	(10.3)	344.5	345.9	0.4	Higher customer acquisition and network costs QoQ from inflationary pressures
<i>EBITDA Margin (%)</i>	<i>46.5</i>	<i>45.6</i>	<i>40.0</i>			<i>46.4</i>	<i>42.9</i>		
Depreciation	(44.8)	(51.4)	(47.3)	(8.0)	5.5	(87.4)	(98.7)	12.9	In line with DC and fibre footprint expansion
EBIT	156.9	145.3	21.2	(85.4)	(86.5)	279.1	166.5	(40.4)	
<i>EBIT Margin (%)</i>	<i>42.0</i>	<i>34.8</i>	<i>5.5</i>			<i>37.6</i>	<i>20.6</i>		
Interest income	0.0	0.0	0.0			0.0	0.0		
Interest expense	(6.9)	(7.3)	(5.5)	(25.2)	(20.2)	(14.0)	(12.8)	(9.0)	
Investment income	2.4	2.4	12.6	419.4	n.a.	4.8	15.0	212.0	
Associate	4.7	7.0	6.9	(1.5)	46.3	10.6	13.9	31.7	AIMS' 30% contribution from 21 Apr
Exceptional items	(28.1)	(6.6)	(2,166.0)	32,718.2	7,608.2	(22.1)	(2,172.6)	nm	Mainly FX gains/losses
Pre-tax profit	157.0	147.4	35.2	(76.1)	(77.6)	280.0	182.6	(34.8)	
Core pre-tax profit	128.9	140.8	128.6	(8.6)	(0.2)	257.9	269.4	4.5	
<i>Pre-tax Margin (%)</i>	<i>34.5</i>	<i>33.7</i>	<i>33.1</i>			<i>34.7</i>	<i>33.4</i>		
Tax	(38.0)	(33.0)	2,229.5	(6,856.0)	(5,960.2)	(70.0)	2,196.5	(3,237.9)	
<i>Effective tax rate (%)</i>	<i>29.5</i>	<i>23.4</i>	<i>(1,733.2)</i>			<i>27.1</i>	<i>(815.2)</i>		
Minority interest	(0.9)	0.1	(2.1)	-	-	(1.6)	(2.0)	-	
Net Profit	118.1	114.5	2,262.6	1,876.2	1,816.1	208.5	2,377.1	1,040.2	
Core PAT	90.0	107.9	96.6	(10.5)	7.3	186.4	204.5	9.7	Broadly in line with our and consensus' estimates
<i>Net Core PAT Margin (%)</i>	<i>24.1</i>	<i>25.9</i>	<i>24.8</i>			<i>25.1</i>	<i>25.4</i>		

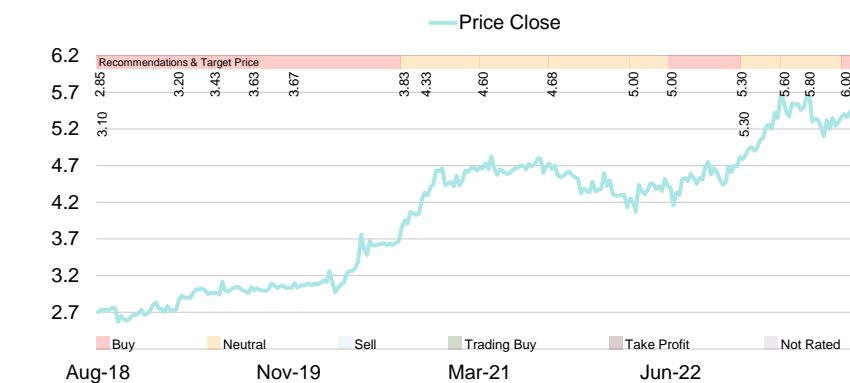
*AIMS consolidated
Source : Company data

Figure 2 : Segmental revenue (by product)

FYE Dec (MYR m)	2QFY22	1QFY23	2QFY23	QoQ(%)	YoY(%)
Voice	14.0	13.4	11.8	(12.3)	(15.5)
Data	286.0	316.0	325.2	2.9	13.7
Cloud and other solutions	50.9	38.6	51.9	34.5	2.0
Others	0.7	0.7	0.3	(60.3)	(61.1)
Total revenue	351.5	368.7	389.2	5.5	10.7

Source: Company data

Recommendation Chart

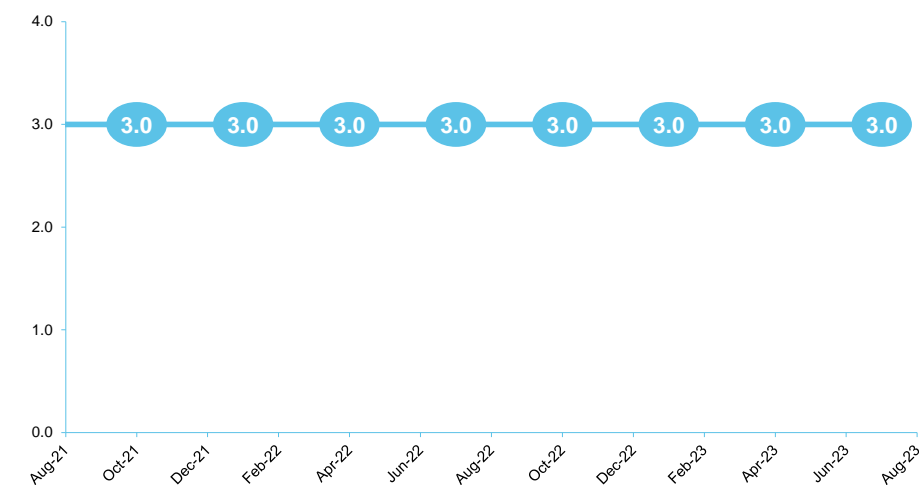


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-07-27	Buy	6.00	5.37
2023-05-01	Neutral	5.80	5.49
2023-02-28	Neutral	5.60	5.35
2022-11-23	Neutral	5.30	4.90
2022-11-17	Buy	5.30	4.69
2022-08-30	Buy	5.00	4.77
2022-05-31	Buy	5.00	4.37
2022-02-27	Neutral	5.00	4.13
2021-11-28	Neutral	4.68	4.34
2021-08-29	Neutral	4.68	4.65
2021-08-15	Neutral	4.68	4.69
2021-05-30	Neutral	4.60	4.66
2021-03-01	Neutral	4.60	4.72
2020-10-14	Neutral	4.33	4.27
2020-08-23	Neutral	3.83	3.67

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
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Not Rated:	Stock is not within regular research coverage

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