

27 July 2023

Communications | Telecommunications

## Time dotCom (TDC MK)

**Buy** (from Neutral)

### Up Close With The Magic Box; U/G To BUY

Target Price (Return): MYR6.0 (+13%)  
 Price (Market Cap): MYR5.33 (USD2,154m)  
 ESG score: 3.0 (out of 4)  
 Avg Daily Turnover (MYR/USD) 14.8m/3.23m

• **Upgrade to BUY from Neutral, with a higher DCF-derived TP of MYR6.0 from MYR5.80, 13% upside and c.13% FY23F yield.** We turn more positive on Time dotCom following a recent visit to the Cyberjaya data centre (AIMS@CJ). Our renewed optimism is supported by its timely capacity expansion to meet structural demand, data centres (DC) being a core economic imperative, and the higher premiums accorded for infrastructure assets in the new normal. We also see continued robust growth for the group's retail broadband segment, helping to fuel its 11% FY23-25F earnings CAGR. Our TP includes a parity ESG score.

• **Aiming high.** AIMS@CJ is the extension to TDC's fully tenanted flagship DC site in downtown Kuala Lumpur (Menara AIMS@KL1). With a tier-3 certification, it appeals to a slightly different clientele base where the central location is not a key prerequisite. The first phase (6.5MW/60,000sq ft) was commissioned in 3Q21 with capacity taken up in less than 12 months (over 20 tenants), ie ahead of our expectations. Construction work for phase 2 (8MW/60,000 sq.ft.) should be completed by year-end, with capacity pre-sold for the first two floors. AIMS is also retrofitting the new KL2 site (previously Bangunan KWSP), located opposite Menara AIMS to meet overflow demand with a single floor being operational (~1MW).

• **Some concerns on incoming inventories but risks are manageable.** Given the heightened news flow on new DC investments in recent months, there are concerns that the local DC market may eventually see a supply glut. Based on press announcements made, up to 1m MW (Figure 5) of additional capacity is expected to come on-stream over the next 2-3 years, with Johor's Sedenak Technology Park (STP) and Cyberjaya being the two hotspots for newbuilds. Management nonetheless sees the risks as manageable given: i) The strong structural drivers at play, ie robust demand for cloud, managed solutions and disaster recovery services, ii) the phased approach typically undertaken for upgrades, and iii) Singapore's tightened conditions for DC builds which have contributed positively to the inventory overflows to Malaysia. We also view the notable investments by hyperscalers benefitting co-location DC providers, with pre-committed take-ups of capacity.

• **Strong earnings momentum to continue.** We lift FY24-25F core earnings by 3-7% after factoring in incrementally stronger growth for the broadband segment and DC share of profits (previously adjusted for the DC sale to DigitalBridge). Note that the stock's foreign shareholding level has crept up from under 9% a year ago to c. 13% at end-June. TDC is slated to announce its 2Q23/1H23 results on 18 Aug.

• **Key downside risks** are weaker-than-expected earnings, retail broadband competition and lower than expected dividends.

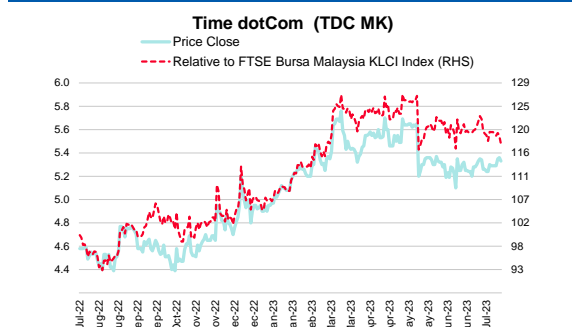
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	8.8	1.5	(3.1)	2.5	16.4
Relative	11.9	(2.8)	(5.6)	5.8	17.4
52-wk Price low/high (MYR)				4.39 – 5.76	



Source: Bloomberg

#### Overall ESG Score: 3.0 (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, but 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 programme to extend fibre broadband connectivity to less urban areas. There was zero incidence of data breaches in FY22

##### G: GOOD

The Board is made up of 11 directors of which six are independent (55%) and four are women (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)	25.87	22.84	21.20	18.96	17.21
P/B (x)	3.1	3.1	2.4	2.3	2.3
P/CF (x)	21.50	16.40	15.63	15.20	14.37
Dividend Yield (%)	4.0	5.8	12.9	4.2	4.6
EV/EBITDA (x)	12.46	11.73	10.79	10.10	9.59
Return on average equity (%)	12.8	14.2	12.7	12.3	13.2
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

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
Malaysia	Recurring EPS	0.21	0.23	0.25	0.28	0.31
Communications	DPS	0.21	0.31	0.69	0.22	0.25
<b>Time dotCom</b>	BVPS	1.72	1.71	2.25	2.31	2.37
TDC MK	Return on average equity (%)	12.8	14.2	12.7	12.3	13.2
Buy						
	<b>Valuation metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
<b>Valuation basis</b>	Recurring P/E (x)	25.87	22.84	21.20	18.96	17.21
DCF	P/B (x)	3.1	3.1	2.4	2.3	2.3
	FCF Yield (%)	1.6	1.0	2.3	3.5	3.9
<b>Key drivers</b>	Dividend Yield (%)	4.0	5.8	12.9	4.2	4.6
i. Strong retail/fibre broadband growth;	EV/EBITDA (x)	12.46	11.73	10.79	10.10	9.59
ii. Higher utilisation of data centre capacity;	EV/EBIT (x)	16.33	15.63	14.60	13.49	12.71
iii. Enterprise digitalisation initiatives						
	<b>Income statement (MYRm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
<b>Key risks</b>	Total turnover	1,396	1,576	1,584	1,697	1,889
i. Retail/FBB competition;	Gross profit	837	981	960	1,049	1,135
ii. Weaker-than-expected earnings and margins;	EBITDA	689	747	737	789	830
iii. Higher-than-expected capex.	Depreciation and amortisation	(163)	(187)	(192)	(198)	(204)
	Operating profit	526	560	545	591	626
<b>Company Profile</b>	Net interest	(17)	(17)	10	10	10
Time dotCom (TDC) wholesales bandwidth capacity via	Pre-tax profit	533	566	588	658	724
its ownership of sub-sea submarine cables with	Taxation	(136)	(123)	(129)	(145)	(159)
extensive points-of-presence (POPs). It also has an	Reported net profit	397	443	459	513	565
expanding regional data centre presence, and is a	Recurring net profit	376	426	459	513	565
leading provider of retail broadband services for multi-						
dwelling units.	<b>Cash flow (MYRm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	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)	(1,056)	(462)	(445)
	Cash at beginning of period	749	796	485	1,465	1,401
	Net change in cash	(154)	(564)	1,186	(111)	(58)
	Ending balance cash	595	232	1,670	1,354	1,343
	<b>Balance sheet (MYRm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Total cash and equivalents	796	485	1,465	1,401	1,421
	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	5,381	5,459	5,644
	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	4,112	4,215	4,327
	Total liabilities & equity	4,121	4,189	5,381	5,459	5,644
	<b>Key metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	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	273.4	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: Aerial view of AIMS@CJ



Source: Company data

Figure 2: Main entrance security checkpoint



Source: Company data

Figure 3: Side view



Source: Company data

Figure 4 : Loading bay with 13.6 tonnes of capacity



Source: RHB

**Figure 5: Pipeline of incoming DCs (list not exhaustive)**

Company/Investor/ Partner	Location	Total Power (MW)	Size (sq.ft.)	Est. launch	Comments
YTL Power	Kulai, Johor	500	530k	1Q24	Largest green DC in Malaysia. First phase to be ready in 1Q24 with SEA as the anchor tenant
Yondr Group	STP, Johor	200	n.a.	2024	First DC in Malaysia
AirTrunk	Johor Bahru	150	235k	2024	Maiden investment. Initial phase to provide 50MW
MN Holdings	STP, Johor	120	n.a.	1H24	Maiden investment In collaboration with Shanghai DC Science Co. Ltd.
GDS Holdings	Nusajaya Tech Park, Johor	54	242k	1Q24	First phase will be 18MW
NTT	Cyberjaya	22	200k	n.a.	6th DC (CBJ6) to complement CBJ5
Equinix	Nusajaya Tech Park, Johor	n.a.	21k	1Q24	Equinix's first DC in Malaysia
Open DC	Delapan Economic Zone, Perlis	n.a.	n.a.	2024	A Tier 3 DC
NEXTDC	Petaling Jaya, Selangor	65	452k	2025	Australia's first Tier-4 facility
Vantage	Cyberjaya	256	2.75m	4Q25	Second DC campus in Cyberjaya

Note: Est. launch refers to the initial phase and capacity, while total power refers to the expected full capacity when all phases are commissioned

Source: Various media

**Figure 6: AIMS is the winner of multiple DC awards**

2020 Frost & Sullivan Award:  
Data Centre Service Provider  
of the Year



2019 Frost & Sullivan Award:  
Cloud Infrastructure Services  
Provider of the Year



DCD APAC  
Awards Finalist  
in 2018 & 2019



BestBrands in Enterprise –  
Data Centre Solutions  
2017-2018



2017 Frost & Sullivan Award:  
Data Centre Service Provider  
of the Year



2015 Computerworld  
Malaysia Readers'  
Choice Awards



2014 Frost & Sullivan Award:  
Data Centre Service Provider  
of the Year



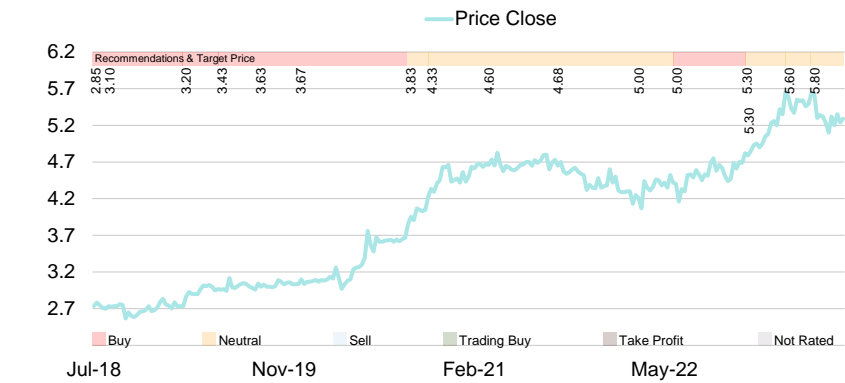
2011 Outsourcing Malaysia Excellence Awards for  
'Best Data Centre  
Engagement of the Year'



2006 Frost & Sullivan Award:  
Data Centre Service Provider  
of the Year

Source: Company data

Recommendation Chart

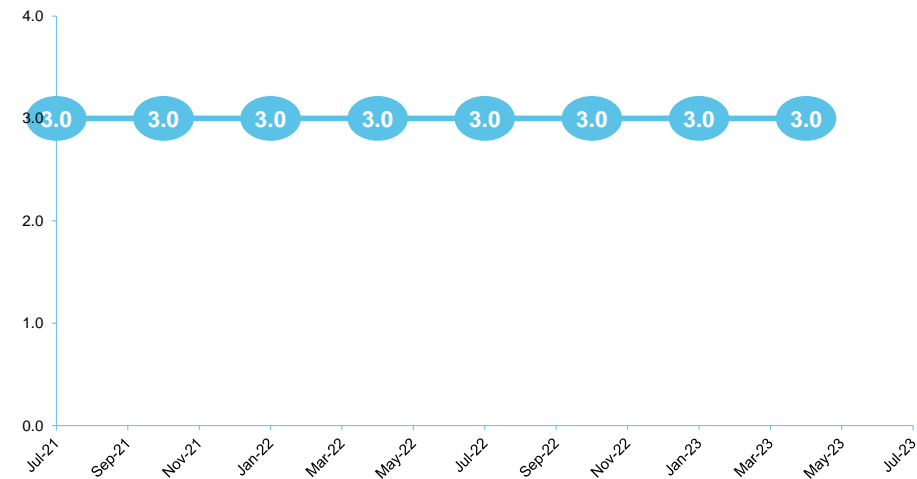


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2020-03-02	Buy	3.67	3.13

Source: RHB, Bloomberg

ESG Rating History



Source: RHB



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

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