

3 March 2023

Communications | Telecommunications

Telekom Malaysia (T MK)

Buy (Maintained)

Still Positive Levers; Keep BUY

Target Price (Return): MYR6.20 (+24%)
Price (Market Cap): MYR5.02 (USD4,290m)
ESG score: 3.00 (out of 4)
Avg Daily Turnover (MYR/USD) 19.3m/4.42m

Analyst

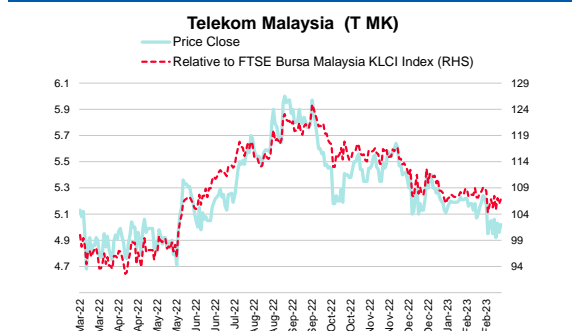
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- Maintain BUY, with new DCF-derived TP of MYR6.20 from MYR5.90, 24% upside and c.4% yield.** At its post 4Q22 results call yesterday, Telekom Malaysia downplayed the risk from lower access prices but expects capex spending to remain elevated. Management also expects staff cost to taper down in FY23F on lower voluntary separation scheme (VSS) cost with the recovery in TM One to continue. We lift FY23F-24F core earnings by 2-4% on lower financing cost and opex efficiencies. TM remains our preferred sector pick.
- Access pricing impact difficult to quantify, guidance to be offered upon greater clarity.** TM expects to conclude the discussions on the new commercial agreements with access seekers by 1H23. While access prices have declined by 51-65% (Level 3 service gateway) for the 2023-2035 regulatory period, commercial agreements are based on the new reference access offer (RAO) framework and are contingent on the type of high-speed broadband access (HSBA) services required by customers. We see risk to internet and wholesale revenues from the revised mandatory standard on access pricing (MSAP) as policy initiatives continue to be tilted towards greater broadband affordability and accessibility. To ease the impact on ARPU, TM intends to bundle more value added services (content, mobile etc.). For the 2018 access price revision, UniFi ARPU fell some 21% between 2018-2020, with the impact partially mitigated by stronger subs growth. We have assumed a 5-10% impact on uniFi ARPU for 2023-2025 from the new MSAP. Management said it would reinstate the guidance upon greater clarity obtained on policy developments (including 5G).
- High capex spending to continue.** TM's expects its capex to remain elevated to drive the next stage of growth and fulfil its commitment under the Government's digitalisation agenda. The company spent MYR2.4bn in FY22 (20% capex/sales), its highest since FY17. Of the amount, c.73% (MYR1.8bn) was for the core and access network. TM has rolled out fibre (HSBA) to more than 6.3m premises at end-2022, ahead of its commitment under the national digital and infrastructure plan (JENDELA) plan. We expect the momentum to continue under the second phase of JENDELA which has a target of 9m fibre premises by 2025 (2022: 7.5m).
- TM One recovery looks to be sustained; wholesale business momentum supported by accelerated 5G backhaul fiberisation.** TM believes the turnaround in TM One's revenue (FY22: +0.5% YoY) is sustainable going forward with the lower contract value of the Government Integrated Telecommunications Network (MyGov*Net) (signed for another 10 years at a MYR4.9bn cap vs MYR6bn concession previously), offset by higher ICT and bespoke solutions (including contributions from its digital services arm, Credence).
- Key risks** are competition, weaker-than-expected earnings/margin and regulatory setbacks. Our TP has incorporated a 0% ESG premium/discount.

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(7.0)	(2.7)	(10.5)	(14.9)	(2.2)
Relative	(4.3)	(0.4)	(8.7)	(12.5)	6.7
52-wk Price low/high (MYR)	4.68 – 6.00				



Source: Bloomberg

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	11,529	12,118	12,441	12,216	12,101
Recurring net profit (MYRm)	1,240	1,426	1,427	1,425	1,475
Recurring net profit growth (%)	25.1	15.0	0.1	(0.2)	3.6
Recurring P/E (x)	15.21	13.23	13.22	13.24	12.79
P/B (x)	2.5	2.4	1.9	1.8	1.6
P/CF (x)	5.65	5.14	3.37	4.82	4.84
Dividend Yield (%)	2.6	3.3	3.6	3.6	3.6
EV/EBITDA (x)	4.97	4.41	3.93	3.77	3.53
Return on average equity (%)	12.2	14.1	15.9	13.7	13.2
Net debt to equity (%)	40.7	33.2	2.1	net cash	net cash

Source: Company data, RHB

Overall ESG Score: 3.00 (out of 4)

E: GOOD

Committed to the reduction in carbon emissions by 30% in 2024 and by 45% by 2030.

S: GOOD

TM fulfils the key role of empowering the nation's digital connectivity agenda as a government-linked company (GLC). Its social obligations however may not commensurate or produce the desired commercial returns and/or ROIs.

G: GOOD

The Board is made up of individuals from diverse backgrounds, experience and skillsets with female representation at 36%. TM adopts best practises on Board appointments with the tenure of Independent directors not exceeding a cumulative term of nine years. The appointment of the Group CEO remains the prerogative of the Ministry of Finance (MOF).

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Financial Exhibits

Asia	Financial summary (MYR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Malaysia	Recurring EPS	0.33	0.38	0.38	0.38	0.39
Communications	DPS	0.13	0.17	0.18	0.18	0.18
Telekom Malaysia	BVPS	2.00	2.11	2.66	2.86	3.07
T MK	Return on average equity (%)	12.2	14.1	15.9	13.7	13.2
Buy						
Valuation basis	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
DCF methodology (WACC : 8.5%, TG: 0.5%)	Recurring P/E (x)	15.21	13.23	13.22	13.24	12.79
	P/B (x)	2.5	2.4	1.9	1.8	1.6
	FCF Yield (%)	8.7	6.6	18.0	9.1	10.1
	Dividend Yield (%)	2.6	3.3	3.6	3.6	3.6
Key drivers	EV/EBITDA (x)	4.97	4.41	3.93	3.77	3.53
i. Expanding fibre footprint and fibre broadband adoption;	EV/EBIT (x)	12.62	10.61	8.56	8.12	7.38
ii. Cost efficiencies;						
iii. Strong wholesale and enterprise growth.						
Key risks	Income statement (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
i. Competition from the new access. pricing framework,	Total turnover	11,529	12,118	12,441	12,216	12,101
ii. Weaker-than-expected earnings;	Gross profit	8,554	9,088	9,132	8,966	8,894
iii. Adverse regulatory developments.	EBITDA	4,345	4,899	4,855	4,779	4,759
	Depreciation and amortisation	(2,635)	(2,863)	(2,623)	(2,558)	(2,481)
	Operating profit	1,710	2,036	2,232	2,221	2,278
	Net interest	(411)	(312)	(245)	(238)	(224)
	Pre-tax profit	1,247	1,633	1,999	1,995	2,066
	Taxation	(369)	(542)	(600)	(599)	(620)
	Reported net profit	895	1,089	1,427	1,425	1,475
	Recurring net profit	1,240	1,426	1,427	1,425	1,475
Company Profile	Cash flow (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Telekom Malaysia is the incumbent fixed line and broadband provider in Malaysia with the most extensive fibre infrastructure and international sub-sea cable connectivity. As part of a converged strategy, TM offers a complementary mobile product which can be bundled with its home/fibre service alongside an IPTV offering (Unifi TV)	Change in working capital	(231)	(454)	1,585	(30)	(15)
	Cash flow from operations	3,338	3,672	5,595	3,913	3,900
	Capex	(1,701)	(2,429)	(2,200)	(2,200)	(2,000)
	Cash flow from investing activities	(1,625)	(2,354)	(2,087)	(2,087)	(1,887)
	Dividends paid	(489)	(620)	(676)	(676)	(676)
	Cash flow from financing activities	(2,916)	(1,282)	(900)	(883)	(878)
	Cash at beginning of period	4,304	2,734	2,579	5,191	6,348
	Net change in cash	(1,204)	37	2,607	943	1,134
	Ending balance cash	3,125	2,769	5,187	6,134	7,482
	Balance sheet (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	2,736	2,582	5,193	6,350	7,681
	Tangible fixed assets	13,356	13,547	14,708	14,350	13,869
	Total investments	90	94	106	118	131
	Total assets	22,831	23,131	25,596	26,385	27,252
	Short-term debt	382	310	287	267	248
	Total long-term debt	5,338	4,960	5,116	5,280	5,434
	Total liabilities	15,503	15,042	15,471	15,540	15,637
	Total equity	7,328	8,089	10,125	10,845	11,615
	Total liabilities & equity	22,831	23,131	25,596	26,385	27,252
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	6.4	5.1	2.7	(1.8)	(0.9)
	Recurrent EPS growth (%)	25.1	15.0	0.1	(0.2)	3.6
	Gross margin (%)	74.2	75.0	73.4	73.4	73.5
	Operating EBITDA margin (%)	37.7	40.4	39.0	39.1	39.3
	Net profit margin (%)	7.8	9.0	11.5	11.7	12.2
	Dividend payout ratio (%)	54.6	56.9	47.4	47.5	45.8
	Capex/sales (%)	14.8	20.0	17.7	18.0	16.5
	Interest cover (x)	3.52	5.26	6.24	6.34	6.76

Source: Company data, RHB

Recommendation Chart

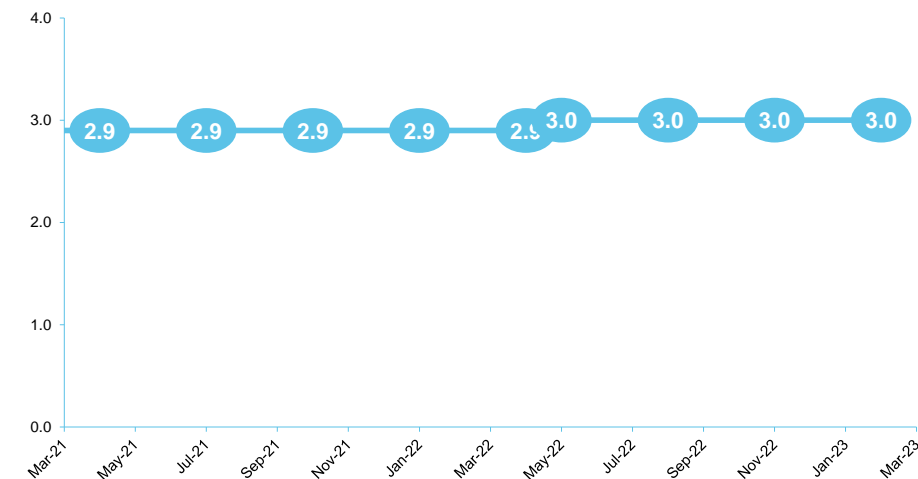


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-03-01	Buy	5.90	4.96
2023-02-20	Buy	5.90	4.95
2022-11-24	Buy	7.55	5.58
2022-08-25	Buy	7.40	5.95
2022-05-25	Buy	7.80	4.71
2022-05-22	Buy	7.65	4.90
2022-02-28	Buy	7.65	5.06
2021-11-26	Buy	7.75	5.42
2021-08-29	Buy	7.90	6.06
2021-05-27	Buy	7.90	5.90
2021-02-25	Buy	7.30	6.23
2021-01-27	Buy	7.20	6.50
2020-11-25	Buy	5.60	4.84
2020-08-28	Buy	4.90	4.15
2020-02-12	Neutral	4.19	3.85

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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