

1 March 2021

Communications | Telecommunications

Time dotCom (TDC MK)

Neutral (Maintained)

4Q20 Beat, But Margins Look To Have Peaked

- **Still NEUTRAL, new DCF-based MYR13.80 TP from MYR13.00, 1% downside.** Results were a mild beat on stronger-than-expected EBITDA margin. While earnings prospects will continue to be driven by the fibre broadband segment and new investments in the data centre (DC), EBITDA margins appear to have peaked. The stock trades at a 40% premium to local peers' EV/EBITDA, which suggests the upside is largely in the price. Other key risks: Weaker-than-expected earnings/margins and competition.
- **4Q20 core earnings surged 24.4% QoQ** as EBITDA (+7% QoQ) reached a new quarterly high alongside lower tax expense – this was partially offset by higher financing costs. FY20 core earnings were marginally ahead of our and consensus estimates at 106%, with the normalisation of tax rates following the exhaustion of previous tax credits. An interim (12.5 sen/share) and final special tax exempt DPS (20.6 sen/share) were declared – a 47% payout based on core earnings.
- **Recurring revenue growth slowed to 8% YoY and 1% QoQ in 4Q20...** This reflects a further moderation in wholesale and enterprise recurring revenues sequentially, down 3% and 1%. The retail (fibre broadband) segment remained the fastest growing – up 11% QoQ in 4Q20 from +7% in 3Q20 – on higher broadband take-up and plan upgrades. FY20 wholesale, enterprise, and retail recurring revenues increased 8%, 2%, and 36%.
- **...but core EBITDA grew 14% YoY to a record high** on good cost discipline and the retail (fibre broadband) business achieving scale. EBITDA margin inched up >2ppts QoQ to 51% (also a new high) on some seasonality and lower bad debt provisions. The margin level is possibly “as good as it can get”, given the tight competition in the market.
- **DC revenue grew 3% QoQ (flat after excluding non-recurring revenue) and 8% in FY20.** We see TDC benefitting from accelerated demand for cloud services, as more enterprises intensify their digitalisation initiatives. On the new DC in Cyberjaya (60,000sq ft under Phase 1), management said the type of customers takes precedence over floor space utilisation, which suggests that ramp-up is likely to be gradual with minimal impact on near-term earnings.
- **Forecast.** We raise FY21F-22D earnings by 2-4%, mostly to build in lower tax expenses and a more measured growth for its DC segment (AIMS@Cyberjaya). We have also lowered our capex assumptions to MYR350-380m from MYR400m previously. FY23 estimates are introduced. Our DCF-based TP (WACC: 8%) is raised to MYR13.80 after rolling forward our base year and adjusting for the latest net cash position. We keep our NEUTRAL call.

Target Price (Return): MYR13.80 (-0.7%)
Price: MYR13.90
Market Cap: USD2,074m
Avg Daily Turnover (MYR/USD): 7.83m/1.93m

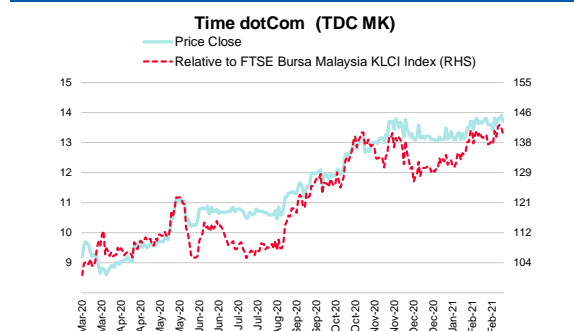
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	4.8	3.7	(0.7)	20.7	49.0
Relative	7.8	3.5	1.4	18.9	43.5
52-wk Price low/high (MYR)				8.78	14.1



Source: Bloomberg

Overall ESG Score: 3.0 (out of 4)

E: Good

The group's extensive fibre-optic submarine cables require little maintenance and bears little emission risks. TDC operates DCs, which are key consumers of power. Energy consumption for its DCs has continued to increase due to strong demand and capacity additions, although the use of power-saving solutions has enabled more efficient usage of power. The group is exploring the use of renewable energy sources such as solar as an alternative form of energy.

S: Good

As a technology and communications enabler, TDC helps in meeting the nation's digital inclusion agenda.

G: Good

The board is made up of nine directors, of which five are independent (56%). The percentage of female board representation is below the recommended threshold (30%), for which the board hopes to address in the medium term. TDC has an in-house investor relations unit, which provides frequent updates to the investment community via face-to-face meetings and conference calls.

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (MYRm)	1,114	1,223	1,367	1,529	1,701
Recurring net profit (MYRm)	344	348	377	421	446
Recurring net profit growth (%)	22.5	1.1	8.2	11.6	5.9
Recurring P/E (x)	23.67	23.41	21.63	19.37	18.28
P/B (x)	2.9	2.7	2.5	2.4	2.2
P/CF (x)	8.75	8.63	7.83	7.34	7.00
Dividend Yield (%)	1.9	2.0	2.3	2.6	2.7
EV/EBITDA (x)	15.21	12.31	11.08	9.95	9.24
Return on average equity (%)	11.9	11.3	12.0	12.6	12.5
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (MYR)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Malaysia	Recurring EPS	0.59	0.59	0.64	0.72	0.76
Communications	DPS	0.27	0.28	0.32	0.36	0.38
Time dotCom	BVPS	4.72	5.19	5.52	5.87	6.25
TDC MK	Return on average equity (%)	11.9	11.3	12.0	12.6	12.5
Neutral						
	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Valuation basis	Recurring P/E (x)	23.67	23.41	21.63	19.37	18.28
DCF methodology	P/B (x)	2.9	2.7	2.5	2.4	2.2
	FCF Yield (%)	7.5	8.1	8.1	9.0	9.6
Key drivers	Dividend Yield (%)	1.9	2.0	2.3	2.6	2.7
i. Expansion of retail fibre footprint;	EV/EBITDA (x)	15.21	12.31	11.08	9.95	9.24
ii. Margins expansion;	EV/EBIT (x)	22.10	16.81	15.16	13.55	12.71
iii. Stronger take-up of DC services.						
	Income statement (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Key risks	Total turnover	1,114	1,223	1,367	1,529	1,701
i. Retail competition;	Gross profit	657	726	820	917	1,015
ii. Weaker-than-expected margins;	EBITDA	480	567	633	704	753
iii. Higher-than-expected capex.	Depreciation and amortisation	(149)	(152)	(170)	(187)	(206)
	Operating profit	330	415	463	517	548
Company Profile	Net interest	(17)	(10)	11	11	11
TDC owns extensive sub-sea and land-based cable infrastructure with extensive points-of-presence overseas. It also has an expanding regional presence and is the challenger fibre broadband brand in Malaysia with a dominant share in multi-dwelling units.	Pre-tax profit	328	423	495	553	586
	Taxation	(14)	(96)	(119)	(133)	(141)
	Reported net profit	314	328	377	421	446
	Recurring net profit	344	348	377	421	446
	Cash flow (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Change in working capital	(1)	(21)	(12)	(13)	1
	Cash flow from operations	931	944	1,041	1,111	1,163
	Capex	(318)	(283)	(380)	(380)	(380)
	Cash flow from investing activities	(368)	(320)	(411)	(399)	(388)
	Dividends paid	(120)	(156)	(165)	(188)	(210)
	Cash flow from financing activities	(270)	(363)	(323)	(369)	(403)
	Cash at beginning of period	389	507	749	715	719
	Net change in cash	293	261	307	343	372
	Ending balance cash	683	768	1,055	1,058	1,092
	Balance sheet (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total cash and equivalents	507	749	715	719	769
	Tangible fixed assets	1,587	1,690	1,900	2,092	2,267
	Total investments	460	473	473	473	473
	Total assets	3,521	3,901	4,130	4,387	4,674
	Short-term debt	70	18	18	18	18
	Total long-term debt	43	29	29	29	29
	Total liabilities	754	850	891	938	1,003
	Total equity	2,767	3,050	3,238	3,449	3,671
	Total liabilities & equity	3,521	3,901	4,130	4,387	4,674
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	13.3	9.8	11.8	11.8	11.3
	Recurrent EPS growth (%)	22.5	1.1	8.2	11.6	5.9
	Gross margin (%)	59.0	59.3	60.0	60.0	59.7
	Operating EBITDA margin (%)	43.1	46.4	46.3	46.1	44.3
	Net profit margin (%)	28.2	26.8	27.5	27.5	26.2
	Dividend payout ratio (%)	49.6	50.3	50.0	50.0	50.0
	Capex/sales (%)	28.6	23.1	27.8	24.9	22.3
	Interest cover (x)	12.4	19.3			

Source: Company data, RHB

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Figure 1: Results review table

FYE Dec (MYRm)	4Q19	3Q20	4Q20	QoQ(%)	YoY(%)	FY19	FY20	YoY(%)	Comments
Revenue	295.3	309.5	314.9	1.7	6.6	1,113.9	1,223.2	9.8	Growth across all core product segments except for voice. Recurring revenue grew 1% QoQ and 10% YTD.
EBITDA	115.3	129.2	146.7	13.5	27.2	479.8	567.1	18.2	
Core EBITDA	140.9	149.8	160.5	7.1	13.9	510.0	590.3	15.7	Lower provision of bad debts QoQ. A new quarterly high.
<i>EBITDA margin (%)</i>	<i>47.7</i>	<i>48.4</i>	<i>51.0</i>			<i>45.8</i>	<i>48.3</i>		
Depreciation	(36.9)	(39.4)	(39.1)	(0.8)	5.9	(149.5)	(151.9)	1.6	
EBIT	78.3	89.8	107.6	19.8	37.3	330.3	415.2	25.7	
<i>EBIT margin (%)</i>	<i>26.5</i>	<i>29.0</i>	<i>34.2</i>			<i>29.7</i>	<i>33.9</i>		
Interest income	0.0	0.0	0.0			0.0	0.0		
Interest expense	(5.4)	(5.8)	(6.2)	6.4	14.1	(26.5)	(21.5)	(18.9)	
Investment income	3.3	1.8	3.0	68.6	n.a.	9.6	11.4	18.2	
Associate	3.7	4.5	5.0	10.5	35.8	14.7	18.0	22.5	
Exceptionals	25.6	20.6	13.8	(33.0)	(46.1)	30.2	20.6	nm	Mainly forex gains/losses.
Pretax profit	79.9	90.3	109.3	21.1	36.8	328.1	423.1	28.9	
Core pretax profit	105.5	110.9	122.6	10.6	16.2	358.3	443.2	23.7	
<i>Pretax Margin (%)</i>	<i>35.7</i>	<i>35.8</i>	<i>38.9</i>			<i>32.2</i>	<i>36.2</i>		
Tax	(4.5)	(24.4)	(16.1)	(34.0)	256.8	(14.1)	(96.2)	582.6	Previous tax losses have all been utilised.
<i>Effective tax rate (%)</i>	<i>4.3</i>	<i>22.0</i>	<i>13.1</i>			<i>3.9</i>	<i>21.7</i>		
Minority interest	0.0	0.0	1.1	-	-	0.0	1.1	-	
Net profit	75.4	65.9	94.4	43.1	25.1	314.0	328.0	4.5	
Core PAT	101.0	86.5	107.7	24.4	6.6	344.2	348.1	1.1	Slightly ahead of our/consensus forecasts
<i>Net core PAT margin (%)</i>	<i>34.2</i>	<i>28.0</i>	<i>34.2</i>			<i>30.9</i>	<i>28.5</i>		

Source: Company data

Fig. 2 : Segmental revenue (by product)

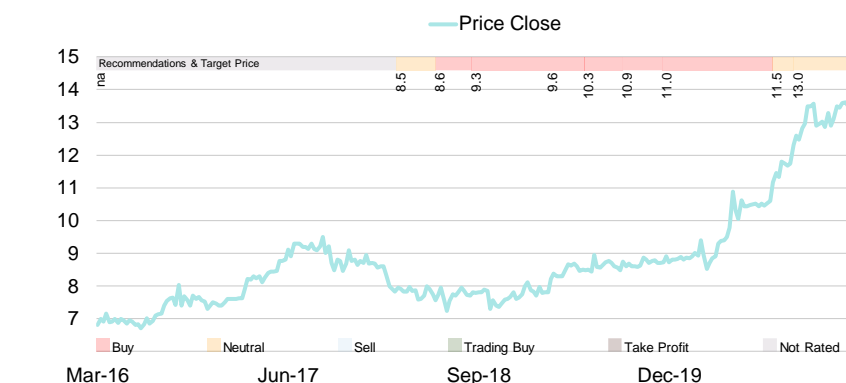
FYE Dec (MYRm)	4Q19	3Q20	4Q20	QoQ(%)	YoY(%)	FY19	FY20	YoY(%)
Voice	19.5	18.1	18.1	(0.0)	(7.5)	72.2	71.0	(1.7)
Data	239.9	251.9	255.8	1.5	6.6	901.8	996.5	10.5
DC	34.4	38.9	40.0	2.6	16.3	137.1	152.1	10.9
Others	1.6	0.6	1.1	67.7	(33.2)	2.7	3.56	31.1
Total revenue	295.3	309.5	314.9	1.7	6.6	1,113.9	1,223.2	9.8

Source: TDC

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Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-10-14	Neutral	13.0	12.8
2020-08-23	Neutral	11.5	11.0
2019-12-02	Buy	11.0	9.1
2019-08-28	Buy	10.9	9.1
2019-05-27	Buy	10.3	8.9
2019-03-01	Buy	9.6	8.2
2018-08-29	Buy	9.3	8.3
2018-06-01	Buy	8.6	8.0
2018-02-27	Neutral	8.5	8.2

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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