

23 November 2022

Communications | Telecommunications

Telekom Malaysia (T MK)

Buy (Maintained)

Belated Upgrade In Guidance/KPIs; Maintain BUY

Target Price (Return): MYR7.40 (+36%)
 Price (Market Cap): MYR5.45 (USD4,548m)
 ESG score: 3.00 (out of 4)
 Avg Daily Turnover (MYR/USD) 23.2m/5.03m

- **Keep BUY and DCF-based TP of MYR7.40, 36% upside with c.3% FY23F yield.** Telekom Malaysia's 3Q/9M22 results tracked in line with our forecast, albeit, a slight consensus beat. Growth continued to be led by the wholesale and uniFi segments with the tight lid on opex driving double-digit EBIT and core PAT expansion. Management has belatedly raised revenue and EBIT guidance. Our forecast and TP are unchanged pending the results call. TM remains our preferred sector pick.
- **Broadly in line.** 3Q22 core PAT fell 29.8% QoQ on higher direct cost and tax expense. This brought 9M22 core PAT to MYR983.1m (+21% YoY), at 73% of our forecast (consensus: 79%). YTD EBIT of MYR1.87bn (+32%) has surpassed management's prior guidance of "over MYR1.8bn" for the full year despite the seasonally stronger opex.
- **Overall revenue was up 9.1% YTD.** Growth was driven by: i) Strong wholesale growth (+18%) from higher broadband access and mobile 5G backhaul fiberisation revenues, ii) a turnaround in enterprise revenue (+3%), and iii) higher uniFi revenue (+9.3%) from the expanding fibre footprint under the JENDELA programme. Internet revenue growth eased further QoQ as more workers adopted hybrid work models with quarterly subs net-adds at the lowest level since 3Q20. After seeing an uptick in 2Q22, uniFi ARPU fell 4% to a low of MYR132 due to heightened competition from mobile operators, promotional offers and stronger acquisition activities.
- **Direct cost surged 20% QoQ** (9M22: +12.2%), likely due to lumpy customer enterprise project recognition during the quarter and investments to scale Credence, the independent digital services arm. This led to the 3% sequential decline in EBITDA margin. YTD opex growth at 3.1% still trailed revenue growth (+9.1%) on lower staff cost and opex savings which form part of the group's performance improvement programme.
- **Guidance bumped up.** Management has raised FY22 guidance with revenue now expected to grow at "mid-to-high single digit" from "low-to-mid single digit" previously while EBIT is projected to surpass MYR2.3bn (from >MYR1.8bn). Our forecasts and BUY call are unchanged pending the results call later this morning. Our TP incorporates a parity ESG score based on our in-house methodology, in line with the country median.
- **Key risks** are competition, weaker-than-expected earnings, and stronger-than-expected decline in broadband access prices pursuant to the review of the mandatory standard on access pricing or MSAP.

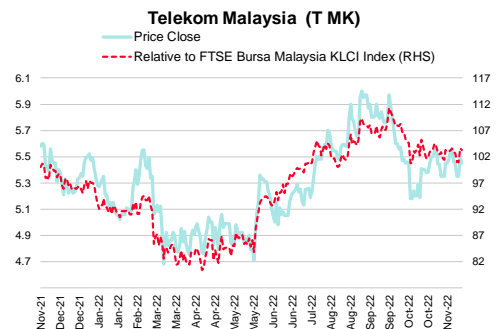
Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(0.9)	1.3	(4.4)	11.2	(2.3)
Relative	7.2	1.7	(1.3)	18.2	3.3
52-wk Price low/high (MYR)	4.68 – 6.00				



Source: Bloomberg

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	10,840	11,529	12,617	13,098	13,664
Recurring net profit (MYRm)	991	1,240	1,357	1,467	1,609
Recurring net profit growth (%)	(1.7)	25.1	9.4	8.1	9.7
Recurring P/E (x)	20.66	16.51	15.09	13.96	12.73
P/B (x)	2.9	2.7	2.2	2.0	1.9
P/CF (x)	6.17	6.14	4.03	5.01	4.91
Dividend Yield (%)	2.6	2.4	3.1	3.3	3.3
EV/EBITDA (x)	6.06	5.34	4.62	4.22	3.82
Return on average equity (%)	14.0	12.2	16.1	15.1	15.3
Net debt to equity (%)	47.6	40.7	16.1	1.1	net cash

Source: Company data, RHB

Overall ESG Score: 3.00 (out of 4)

E: GOOD

Committed to the reduction in overall carbon footprint with a target to reduce 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. 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).

Financial Exhibits

Asia	Financial summary (MYR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Malaysia	Recurring EPS	0.26	0.33	0.36	0.39	0.43
Communications	DPS	0.14	0.13	0.17	0.18	0.18
Telekom Malaysia	BVPS	1.90	2.00	2.49	2.67	2.92
T MK	Return on average equity (%)	14.0	12.2	16.1	15.1	15.3
Buy						
	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Valuation basis	Recurring P/E (x)	20.66	16.51	15.09	13.96	12.73
DCF methodology (WACC : 7.7%, TG: 0.5%)	P/B (x)	2.9	2.7	2.2	2.0	1.9
	FCF Yield (%)	8.9	8.0	15.1	10.2	10.6
	Dividend Yield (%)	2.6	2.4	3.1	3.3	3.3
Key drivers	EV/EBITDA (x)	6.06	5.34	4.62	4.22	3.82
i. Higher fibre broadband adoption and premises passed;	EV/EBIT (x)	14.68	13.57	10.05	9.24	7.87
ii. Cost efficiencies;						
iii. Stronger wholesale and enterprise growth.						
	Income statement (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Key risks	Total turnover	10,840	11,529	12,617	13,098	13,664
i. Competition from new/existing access seekers;	Gross profit	7,920	8,554	9,274	9,614	10,029
ii. Weaker-than-expected earnings;	EBITDA	3,889	4,345	4,682	4,794	4,916
iii. Adverse regulatory developments.	Depreciation and amortisation	(2,284)	(2,635)	(2,529)	(2,603)	(2,533)
	Operating profit	1,605	1,710	2,153	2,191	2,383
	Net interest	(372)	(411)	(282)	(287)	(295)
Company Profile	Pre-tax profit	1,279	1,247	1,884	1,917	2,103
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)	Taxation	(283)	(369)	(554)	(479)	(526)
	Reported net profit	1,016	895	1,357	1,467	1,609
	Recurring net profit	991	1,240	1,357	1,467	1,609
	Cash flow (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Change in working capital	322	(231)	1,237	63	74
	Cash flow from operations	3,317	3,338	5,084	4,090	4,170
	Capex	(1,486)	(1,701)	(2,000)	(2,000)	(2,000)
	Cash flow from investing activities	(1,334)	(1,625)	(1,914)	(1,914)	(1,914)
	Dividends paid	(537)	(489)	(639)	(676)	(676)
	Cash flow from financing activities	(1,928)	(2,916)	(952)	(933)	(946)
	Cash at beginning of period	4,918	4,304	2,734	4,304	5,779
	Net change in cash	55	(1,204)	2,218	1,243	1,310
	Ending balance cash	4,965	3,125	4,952	5,547	7,088
	Balance sheet (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total cash and equivalents	4,306	2,736	4,306	5,781	7,323
	Tangible fixed assets	13,752	13,356	14,810	14,107	13,574
	Total investments	85	90	103	117	132
	Total assets	24,279	22,831	25,071	26,010	27,211
	Short-term debt	831	382	341	317	295
	Total long-term debt	6,796	5,338	5,434	5,575	5,708
	Total liabilities	17,303	15,503	15,922	16,200	16,500
	Total equity	6,975	7,328	9,149	9,810	10,711
	Total liabilities & equity	24,279	22,831	25,071	26,010	27,211
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	(5.2)	6.4	9.4	3.8	4.3
	Recurrent EPS growth (%)	(1.7)	25.1	9.4	8.1	9.7
	Gross margin (%)	73.1	74.2	73.5	73.4	73.4
	Operating EBITDA margin (%)	35.9	37.7	37.1	36.6	36.0
	Net profit margin (%)	9.4	7.8	10.8	11.2	11.8
	Dividend payout ratio (%)	52.9	54.6	47.1	46.1	42.0
	Capex/sales (%)	13.7	14.8	15.9	15.3	14.6
	Interest cover (x)	3.06	3.52	5.85	5.87	6.26

Source: Company data, RHB

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Figure 1: Results review table

FYE Dec (MYRm)	3Q21	2Q22	3Q22	QoQ (%)	YoY (%)	9M21	9M22	YoY (%)	Comments
Revenue	2,803.3	3,089.3	3,158.1	2.2	12.7	8,375.9	9,139.8	9.1	Internet and wholesale revenues remain key drivers
Operating costs	(1,839.9)	(1,777.1)	(1,952.3)	9.9	6.1	(5,314.6)	(5,477.2)	3.1	Direct cost picked-up QoQ due to one-off project revenue recognition and investments to scale Credence
Other operating income	61.6	12.2	53.1	>100	(13.8)	119.3	84.6	(29.1)	
Reported EBITDA	1,025.0	1,324.4	1,258.9	(4.9)	22.8	3,180.6	3,747.2	17.8	
Core EBITDA	1,049.4	0.0	0.0	nm	(100.0)	3,203.6	0.0	(100.0)	Opex efficiency from the transformation programme
<i>EBITDA Margin (%)</i>	<i>37.4</i>	<i>0.0</i>	<i>0.0</i>			<i>37.7</i>	<i>0.0</i>		
Depreciation	(587.5)	(621.7)	(654.1)	5.2	11.3	(1,765.8)	(1,879.3)	6.4	
Reported EBIT	437.5	702.7	604.8	(13.9)	38.2	1,414.8	1,867.9	32.0	
<i>EBIT Margin (%)</i>	<i>15.6</i>	<i>22.7</i>	<i>19.2</i>			<i>16.9%</i>	<i>20.4%</i>		
Net interest expense	(72.2)	(86.7)	(69.7)	(19.6)	(3.5)	(306.8)	(234.8)	(23.5)	Redemption of medium-term notes (MTN) in 2Q21
Associates	3.1	3.9	2.1	(46.2)	(32.3)	9.5	9.5	0.0	
Exceptional items	(15.7)	(74.9)	(76.9)	2.7	>100	(64.7)	(170.1)	>100	
Reported PBT	352.7	545.0	460.3	(15.5)	30.5	1,052.8	1,472.5	39.9	
<i>Pretax Margin (%)</i>	<i>12.6</i>	<i>17.6</i>	<i>14.6</i>			<i>12.6%</i>	<i>16.1%</i>		
Tax	(81.9)	(165.7)	(195.5)	18.0	>100	(242.0)	(488.7)	>100	Cukai Makmur impact reflected
<i>Effective tax rate (%)</i>	<i>23.2</i>	<i>30.4</i>	<i>42.5</i>			<i>23.0</i>	<i>33.2</i>		
Minority interests	0.5	(1.3)	0.4	(130.8)	(20.0)	4.5	(0.7)	(115.6)	
Net Profit	271.3	378.0	265.2	(29.8)	(2.2)	815.3	983.1	20.6	
Core Profit	304.3	378.0	265.2	(29.8)	(12.8)	890.7	983.2	10.4	In line with our expectations but a slight consensus beat
<i>Net Margin (%)</i>	<i>10.9</i>	<i>12.2</i>	<i>8.4</i>			<i>10.6</i>	<i>10.8</i>		

Source : Company data, RHB

Figure 2: Revenue breakdown and key statistics

FYE Dec (MYR m)	3Q21	2Q22	3Q22	QoQ (%)	YoY (%)	9M21	9M22	YoY (%)	Comments
By Cluster									
uniFi	1,309.5	1,402.6	1,400.7	(0.1)	7.0	3,825.2	4,180.6	9.3	Expanded footprint from the JENDELA programme and more aggressive customer acquisitions Higher project recognition from the government and private sector Higher domestic wholesale access and 5G fibre backhaul revenues
TM One	796.9	854.6	891.9	4.4	11.9	2,475.5	2,540.2	2.6	
Wholesale	610.9	739.9	769.9	4.1	26.0	1,808.6	2,134.8	18.0	
Others	87.0	92.2	95.6	3.7	9.9	267.6	284.2	6.2	
Total	2,803.3	3,089.3	3,158.1	2.2	12.7	8,376.9	9,139.8	9.1	
Broadband									
Streamyx subs (m)	0.34	0.16	0.11	(32.5)	(69.0)	0.34	0.11	(69.0)	
Net-addition	(0.07)	(0.06)	(0.05)			(0.2)	(0.2)		
Streamyx ARPU (MYR)	92	97	100	3.1	8.7	91.5	98.0	7.1	
uniFi subs (m)	2.35	2.76	2.88	4.2	22.5	2.35	2.88	22.5	
Net-addition (m)	0.21	0.13	0.12	(8.0)	(44.7)	0.57	0.37		
uniFi ARPU (MYR)	138	137	132	(3.6)	(4.3)	140	134	(4.3)	Higher mix of entry level plans

Source: Company data, RHB

Recommendation Chart

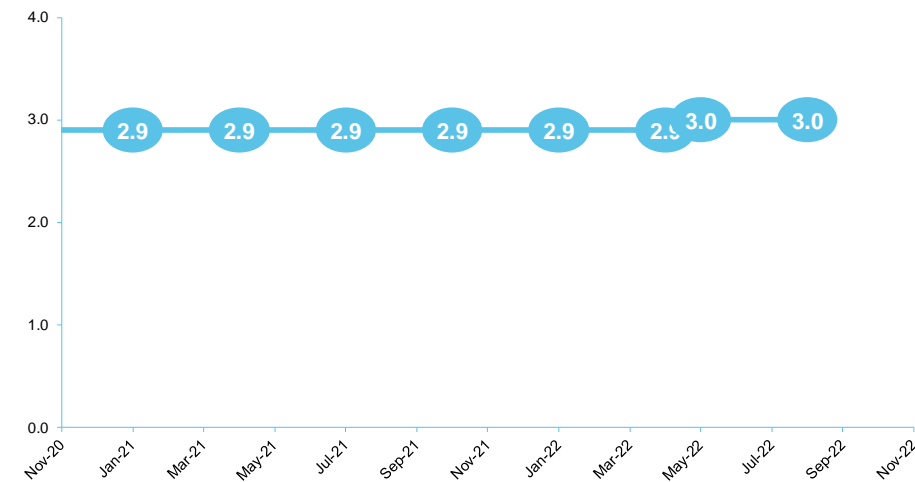


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2020-02-12	Neutral	4.19	3.85
2019-11-27	Neutral	4.19	3.85
2019-08-29	Neutral	4.28	3.74

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
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Not Rated:	Stock is not within regular research coverage

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