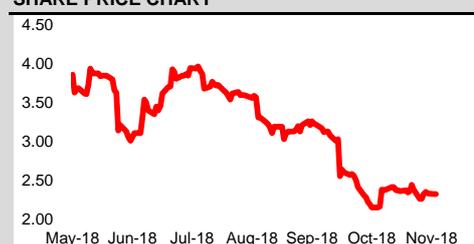


**DESCRIPTION**

A leading Malaysian telco player with dominant market share in fixed line and broadband services.

12-Month Target Price	RM3.60
Current Price	RM2.32
Expected Return	55%

Market	Main
Sector	Telecommunications
Bursa Code	4863
Bloomberg Ticker	T MK
Shariah-compliant	Yes

**SHARE PRICE CHART**


52 Week Range (RM)	2.11-6.50
3-Month Average Vol ('000)	9,098.2

**SHARE PRICE PERFORMANCE**

	1M	3M	6M
Absolute Returns	7.9	-35.4	-42.1
Relative Returns	6.7	-30.6	-38.9

**KEY STOCK DATA**

Market Capitalisation (RMm)	8,718.4
No. of Shares (m)	3,757.9

**MAJOR SHAREHOLDERS**

	%
Khazanah Nasional	26.2
Employees Provident Fund	15.7
Skim Amanah Saham Bumiputera	11.8

**Eltricia Foong**  
T 603 2268 3000  
F 603 2268 3014  
E eltriciafoong@publicinvestbank.com.my

## Underlying Performance Better-Than-Expected

Telekom Malaysia (TM) reported headline net loss of RM175.6m in 3QFY18 (3QFY17 net profit was RM211.8m), predominantly due to an impairment loss on wireless and fixed network assets. Stripping out this one-off impairment and other non-operational items, 9MFY18 core earnings stood at RM527.5m, down 17.7% YoY due to the adverse impact from the implementation of the Mandatory Standard on Access Pricing (MSAP) as well as higher direct costs. The results were in line with consensus estimate but beat our expectation (87% of our full-year estimates) due to better-than-expected contribution from data and internet segments. We raise our FY18-20F core earnings by 6-10% after factoring in higher ARPU for Unifi and higher data revenue. Our DCF-based TP is revised to RM3.60 from RM3.40 previously. We upgrade TM to **Trading Buy**. We have, however, reduced our DPS forecasts (c.4% yield) following the revision in dividend payout policy to 40-60% of earnings.

§ **3QFY18 revenue was stable** as the decline in voice and data revenues were offset by higher internet and others revenues. Internet revenue improved marginally by 2% YoY due to higher Unifi TV premium channel buys and higher customer base for Unifi mobile. Unifi ARPU fell 3% YoY but its customer base continued to expand (+18.7% YoY). Meanwhile, data revenue fell 5.4% YoY following the implementation of MSAP.

§ **3QFY18 normalised net profit jumped 30.9% YoY.** Despite flattish revenue, TM was able to chalk higher normalised net profit due to its cost-cutting efforts which resulted in a decline in manpower cost (-6.9% YoY), marketing cost (-48.8% YoY) and depreciation charges (-6.4% YoY). It posted a headline net loss of RM175.6m in the current quarter mainly due to RM995.4m impairment loss on wireless and fixed network assets, which we believe to be in relation to its out-dated copper cable network.

§ **Upgrading to Trading Buy.** Following the enforcement of the MSAP, we project FY18F core earnings to fall by 26% YoY due to lower Unifi ARPU and revenue from wholesale business. Meanwhile, TM could be excluded as a component stock of the FBMKLCI in the upcoming review. All said, we believe its share price has priced in all the negative news. Potential re-rating catalyst includes TM continuing its cost-cutting efforts that could lead to greater margin improvement. Also, given the decline in future earnings, TM's capex is likely to be reduced and this should lead to lower depreciation charges in the future. Although the government has hinted on the possibility of foreign participation, without providing any significant incentives we reckon that it would be a challenge to attract foreign competition into the sub-urban/rural connectivity projects (considering that such projects require heavy capex and has low return on investment). Trading at only 14x forward PER and 1.2x P/BV, TM's valuation looks compelling. We upgrade the stock to **Trading Buy** with a revised TP of RM3.60.

**KEY FORECAST TABLE**

FYE Dec (RM m)	2016A	2017A	2018F	2019F	2020F	CAGR (%)
Revenue	12,060.9	12,085.1	12,049.0	11,827.5	11,715.6	-1.0%
Op. Profit	1,201.2	1,101.2	850.3	828.3	861.2	-7.9%
Pre-tax Profit	918.5	1,048.0	642.3	672.8	733.2	-
Core NP	847.9	863.2	641.1	632.1	651.9	-8.9%
EPS (Sen)	22.8	23.2	17.2	17.0	17.5	-8.9%
P/E (x)	10.2	10.0	13.5	13.7	13.2	
DPS (Sen)	21.5	21.5	8.6	8.5	8.8	
Div Yield (%)	9.3	9.3	3.7	3.7	3.8	

Source: Company, PublicInvest Research estimate

**Table 1: Results Summary**

<u>FYE 31 Dec</u> <u>(RM m)</u>	<u>3Q18</u>	<u>3Q17</u>	<u>YoY</u> <u>chg</u> <u>(%)</u>	<u>QoQ</u> <u>chg</u> <u>(%)</u>	<u>9M18</u>	<u>YoY</u> <u>chg</u> <u>(%)</u>	<u>Comments</u>
Operating Revenue	2,946.0	2,940.4	0.2	0.3	8,730.4	(1.7)	The decline in voice & data revenue was offset by higher internet & others revenue
Operating cost	(3,609.4)	(2,720.9)	32.7	32.4	(9,017.3)	10.0	Mainly due to network impairment amounting to RM995.4m. Otherwise, manpower & depreciation costs have improved
Other income	31.6	42.0	(24.8)	(19.0)	99.6	(28.0)	
Other gains/(losses)	312.0	(1.9)	>100	>100	310.1	>100	
<b>Operating profit</b>	<b>(319.8)</b>	<b>259.6</b>	>(100)	>(100)	<b>122.8</b>	(85.0)	Mainly dragged by impairment
Net interest cost	(117.3)	(31.9)	>100	(19.5)	(268.3)	>(100)	
Associates	5.5	7.8	(29.5)	0.0	16.5	(26.0)	
Taxation & zakat	2.1	(68.1)	>100	>100	(147.6)	(36.4)	
Minorities	253.9	44.4	>100	>100	360.1	>100	
<b>Net profit</b>	<b>(175.6)</b>	<b>211.8</b>	>100	>(100)	<b>83.5</b>	(87.2)	
<b>Normalised Net profit</b>	<b>266.4</b>	<b>203.5</b>	30.9	71.0	<b>527.5</b>	(17.7)	Lifted by cost rationalisation

Source: Company, PublicInvest Research estimates

**Table 2: Operating Statistics**

<u>Revenue breakdown</u> <u>(RM m)</u>	<u>3Q18</u>	<u>3Q17</u>	<u>YoY</u> <u>chg</u> <u>(%)</u>	<u>QoQ</u> <u>chg</u> <u>(%)</u>	<u>9M18</u>	<u>YoY</u> <u>chg</u> <u>(%)</u>	<u>Comments</u>
Voice	750.0	783.0	(4.2)	8.2	2,204.0	(7.4)	Lower traffic minutes & customer base
Internet	1,026.0	983.0	4.4	(4.9)	3,117.0	5.4	Higher unifi TV premium channel buys & customer base for unifi mobile
Data	600.0	669.0	(10.3)	7.5	1,779.0	(9.2)	Impacted by MSAP implementation
Others	571.0	545.0	4.8	(5.6)	1,630.0	2.6	Higher customer projects
<b>Customer base ('000)</b>	<b>2Q17</b>	<b>3Q17</b>	<b>4Q17</b>	<b>1Q18</b>	<b>2Q18</b>	<b>3Q18</b>	
Streamyx	1,352	1,288	1,207	1,129	1,085	1,025	
Unifi	1,007	1,062	1,126	1,177	1,217	1,261	
<b>ARPU (RM/month)</b>							
Streamyx	90	91	90	90	88	87	
Unifi	200	199	197	194	191	193	

Source: Company, PublicInvest Research estimates

**KEY FINANCIAL DATA**
**INCOME STATEMENT DATA**

FYE Dec (RM m)	2016A	2017A	2018F	2019F	2020F
<b>Revenue</b>	<b>12,060.9</b>	<b>12,085.1</b>	<b>12,049.0</b>	<b>11,827.5</b>	<b>11,715.6</b>
Operating Profit	1,201.2	1,101.2	850.3	828.3	861.2
Finance income/(cost)	-312.1	-80.8	-258.0	-205.4	-178.0
Others	29.4	27.6	50.0	50.0	50.0
<b>Pre-tax Profit</b>	<b>918.5</b>	<b>1,048.0</b>	<b>642.3</b>	<b>672.8</b>	<b>733.2</b>
Income Tax	-305.1	-317.5	-160.6	-168.2	-183.3
Effective Tax Rate (%)	33.2	30.3	25.0	25.0	25.0
Minority Interest	162.6	199.2	159.4	127.5	102.0
<b>Reported Net Profit</b>	<b>776.0</b>	<b>929.7</b>	<b>641.1</b>	<b>632.1</b>	<b>651.9</b>
<b>Core Net Profit</b>	<b>847.9</b>	<b>863.2</b>	<b>641.1</b>	<b>632.1</b>	<b>651.9</b>
<b>Growth</b>					
Revenue (%)	2.9	0.2	-0.3	-1.8	-0.9
Operating Profit (%)	-2.4	-8.3	-22.8	-2.6	4.0
Net Profit (%)	-6.3	1.8	-25.7	-1.4	3.1

Source: Company, PublicInvest Research estimates

**BALANCE SHEET DATA**

FYE Dec (RM m)	2016A	2017A	2018F	2019F	2020F
Fixed assets	16,010.6	16,540.7	16,519.4	16,291.8	16,078.2
Other long-term assets	2,103.5	2,088.0	1,073.0	1,053.0	1,033.0
Cash at bank	2,926.0	1,719.8	3,201.2	4,179.9	5,301.2
Other current assets	3,961.5	4,413.3	3,838.4	3,776.0	3,744.5
<b>Total Assets</b>	<b>25,001.6</b>	<b>24,761.8</b>	<b>24,632.0</b>	<b>25,300.7</b>	<b>26,156.9</b>
Borrowings	8,363.3	8,150.2	8,000.0	8,500.0	9,000.0
Payables	4,103.0	3,934.2	3,966.3	3,758.3	3,669.2
Other liabilities	4,702.8	4,910.6	5,732.7	5,920.8	6,142.2
<b>Total Liabilities</b>	<b>17,169.1</b>	<b>16,995.0</b>	<b>17,699.0</b>	<b>18,179.1</b>	<b>18,811.3</b>
Shareholders' Equity	7,832.5	7,766.8	6,933.0	7,121.6	7,345.5
<b>Total Equity and Liabilities</b>	<b>25,001.6</b>	<b>24,761.8</b>	<b>24,632.0</b>	<b>25,300.7</b>	<b>26,156.9</b>

Source: Company, PublicInvest Research estimates

**PER SHARE DATA & RATIOS**

FYE Dec	2016A	2017A	2018F	2019F	2020F
Book Value Per Share (RM)	2.1	2.1	1.9	1.9	2.0
EPS (sen)	22.8	23.2	17.2	17.0	17.5
DPS (sen)	21.5	21.5	8.6	8.5	8.8
Payout ratio (%)	94.3	92.6	50.0	50.0	50.0
Net debt/EBITDA (x)	2.1	2.3	2.3	2.4	2.5
ROE (%)	9.9	12.0	9.2	8.9	8.9
ROA (%)	3.1	3.8	2.6	2.5	2.5

Source: Company, PublicInvest Research estimates

## **RATING CLASSIFICATION**

### STOCKS

<b>OUTPERFORM</b>	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
<b>NEUTRAL</b>	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
<b>UNDERPERFORM</b>	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
<b>TRADING BUY</b>	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
<b>TRADING SELL</b>	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
<b>NOT RATED</b>	The stock is not within regular research coverage.

### SECTOR

<b>OVERWEIGHT</b>	The sector is expected to outperform a relevant benchmark over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform a relevant benchmark over the next 12 months.

## **DISCLAIMER**

This document has been prepared solely for information and private circulation only. It is for distribution under such circumstances as may be permitted by applicable law. The information contained herein is prepared from data and sources believed to be reliable at the time of issue of this document. The views/opinions expressed herein are subject to change without notice and solely reflects the personal views of the analyst(s) acting in his/her capacity as employee of Public Investment Bank Berhad ("PIVB"). PIVB does not make any guarantee, representations or warranty neither expressed or implied nor accepts any responsibility or liability as to its fairness liability adequacy, completeness or correctness of any such information and opinion contained herein. No reliance upon such statement or usage by the addressee/anyone shall give rise to any claim/liability for loss of damage against PIVB, Public Bank Berhad, its affiliates and related companies, directors, officers, connected persons/employees, associates or agents.

This document is not and should not be construed or considered as an offer, recommendation, invitation or a solicitation of an offer to purchase or subscribe or sell any securities, related investments or financial instruments. Any recommendation in this document does not have regards to the specific investment objectives, financial situation, risk profile and particular needs of any specific persons who receive it. We encourage the addressee of this document to independently evaluate the merits of the information contained herein, consider their own investment objectives, financial situation, particular needs, risks and legal profiles, seek the advice of their, amongst others, tax, accounting, legal, business professionals and financial advisers before participating in any transaction in respect of any of the securities of the company(ies) covered in this document.

PIVB, Public Bank Berhad, our affiliates and related companies, directors, officers, connected persons/employees, associates or agents may own or have positions in the securities of the company(ies) covered in this document or any securities related thereto and may from time to time add or dispose of, or may be materially interested in, any such securities. Further PIVB, Public Bank Berhad, our affiliates and related companies, associates or agents do and/or seek to do business with the company(ies) covered in this document and may from time to time act as market maker or have assumed an underwriting commitment in the securities of such company(ies), may sell them or buy them from customers on a principal basis, may have or intend to accommodate credit facilities or other banking services and may also perform or seek to perform investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment advisory or other services from any entity mentioned in this document. The analyst(s) and associate analyst(s) principally responsible for the preparation of this document may participate in the solicitation of businesses described aforesaid and would receive compensation based upon various factors, including the quality of research, investor client feedback, stock pickings and performance of his/her recommendation and competitive factors. The analyst(s) and associate analyst(s) may also receive compensation or benefit (including gift and company/issuer-sponsored and paid trips in line with the Bank's policies) in executing his/her duties. Hence, the addressee or any persons reviewing this document should be aware of the foregoing, amongst others, may give rise to real or potential conflicts of interest.

### **Published and printed by:**

**PUBLIC INVESTMENT BANK BERHAD (20027-W)**

9<sup>th</sup> Floor, Bangunan Public Bank

6, Jalan Sultan Sulaiman

50000 Kuala Lumpur

T 603 2268 3000

F 603 2268 3014

Dealing Line 603 2268 3129