



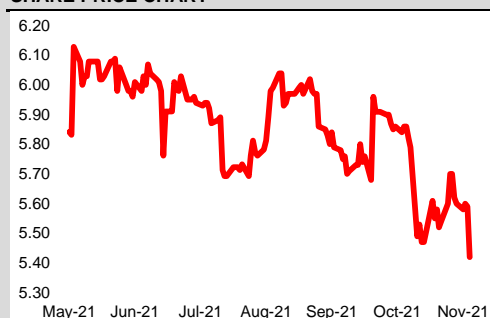
DESCRIPTION

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

12-Month Target Price RM6.70
Current Price RM5.43
Expected Return 23.3%

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

SHARE PRICE CHART



52 Week Range (RM) 4.60-6.82
3-Month Average Vol ('000) 3,714.9

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	-4.6	-3.8	-3.3
Relative Returns	-1.2	-4.3	-3.0

KEY STOCK DATA

Market Capitalisation (RMm)	20,490.6
No. of Shares (m)	3,773.6

MAJOR SHAREHOLDERS

	%
Khazanah Nasional	20.1
Employees Provident Fund	18.3
Amanah Saham Nasional	12.2

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Spurred By Stronger Unifi Revenue

Telekom Malaysia (TM) reported a 17.7% YoY decline in 3QFY21 headline net profit to RM271.3m, mainly due to higher operating costs. Stripping out non-operating items, normalised net profit was at RM304.3m, improving by 5.3% YoY. For 9MFY21, normalised net profit of RM890.7m was within both our and market expectations. As we factor in the impact of *Cukai Makmur*, which will be introduced next year, our FY22F forecast is reduced by 6.6%. Hence, our DCF-based TP is revised from RM6.90 to RM6.70. We maintain our **Outperform** rating. We believe that TM, being the country's largest telco service provider, should benefit from the growing demand for fibre leasing and data centre solutions in Malaysia.

§ **3QFY21 revenue rose 4.2% YoY** due to higher contribution from unifi and TM Wholesale. Unifi revenue increased by 11.1% YoY due to a 42.4% jump in unifi customer base on a lower ARPU of RM138 (-6.8% YoY). We attribute this to stronger demand for home connectivity during the lockdown period as people were mostly working from home. Streamyx, however, saw its subscriber base continuing to decline (-44.4% YoY) though on a more stable ARPU of RM92. TM Wholesale posted a 4.9% increase in revenue, driven by higher IRU (indefeasible right of use) and stronger demand for data services. However, contribution from TM One was down 4.3% YoY as project rollouts were delayed during the lockdown.

§ **3QFY21 normalised net profit improved by 5.3% YoY** as the increase in revenue was partly offset by higher operating costs. The percentage of total cost to revenue increased from 84.8% in 3QFY20 to 86.6% in the current quarter. This was driven by higher direct cost (+10.2%), manpower cost (+4.0%), depreciation & amortisation charges (+2.6%) and other opex (+9.0%).

§ **Earnings adjustment.** The introduction of *Cukai Makmur* in 2022 is expected to impact most key players in the telco sector given their high chargeable income of above RM100m. However, the taxes will be levied on individual operating entities and with TM's earnings distributed across many operating entities in several segments, the potential impact may be more muted. We lower our FY22F earnings forecast by 6.6% as we raise our effective tax rate to account for the impact of the prosperity tax.

KEY FORECAST TABLE

FY Dec (RM(RMm))	2019A	2020A	2021F	2022F	2023F	CAGR (%)
Revenue	11,434.3	10,840.0	11,189.1	11,434.8	11,805.8	2.9%
Op Profit	1,299.8	1,610.6	1,871.9	1,940.8	1,996.0	7.4%
Pre-tax Profit	925.2	1,278.2	1,481.0	1,597.4	1,678.5	9.5%
Core NP Profit	1,000.8	991.4	1,127.8	1,132.6	1,271.2	8.6%
EPS (Sen)	26.9	26.7	30.3	30.5	34.2	8.6%
P/E (x)	20.2	20.4	17.9	17.8	15.9	
DPS (Sen)	10.0	14.3	15.2	15.2	17.1	
Dividend Yield (%)	1.8	2.6	2.8	2.8	3.1	

Source: Company, PublicInvest Research estimates

Table 1: Results Summary

FYE 31 Dec	3Q FY21	3Q FY20	YoY chg (%)	QoQ chg (%)	9M21	YoY chg (%)	Comment
Operating Revenue	2,803.3	2,689.9	4.2	1.5	8,375.9	6.8	Driven by higher unifi & Wholesale revenue
Operating cost	(2,425.4)	(2,280.2)	6.4	0.0	(7,086.4)	5.5	Higher direct, manpower, opex & depreciation costs
Other income	61.6	46.5	32.5	58.8	119.3	37.8	
Other gains/(losses)	(5.2)	3.6	(244.4)	(215.6)	(9.2)	0.0	
Operating profit	434.3	459.8	(5.5)	13.7	1,399.6	16.7	
Net interest cost	(84.7)	(47.7)	77.6	(8.5)	(356.3)	23.6	
Associates	3.1	2.3	34.8	(16.2)	9.5	10.5	
PBT	352.7	414.4	(14.9)	20.3	1,052.8	14.5	
Taxation & zakat	(81.9)	(93.8)	(12.7)	7.1	(242.0)	32.3	
Minorities	0.5	8.9	(94.4)	(73.7)	4.5	(77.4)	
Net profit	271.3	329.5	(17.7)	24.2	815.3	7.7	
Normalised Net profit	304.3	288.9	5.3	19.4	890.7	11.7	Higher revenue partly offset by higher costs

Table 2: Operating statistics

Revenue breakdown (RMm)	3Q FY21	3Q FY20	YoY chg (%)	QoQ chg (%)	9M21	YoY chg (%)	Comment
Unifi	1,272.6	1,145.7	11.1	3.3	3,708.4	9.6	Higher contribution from fixed broadband, voice, mobile & device sales
TM One	847.0	885.2	(4.3)	(3.2)	2,635.8	(0.2)	Lower voice usage, data & customer projects
TM Wholesale	597.1	569.1	4.9	4.6	1,764.1	14.5	Higher revenue from data & other telco services
Customer base ('000)	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	
Streamyx	676	616	557	492	416	342	
Unifi	1,551	1,648	1,776	1,951	2,139	2,347	
ARPU (RM/month)							
Streamyx	91	90	92	92	91	91	
Unifi	153	150	148	153	144	141	

Source: Company, PublicInvest Research

KEY FINANCIAL DATA

INCOME STATEMENT DATA

FYE Dec (RM m)	2019A	2020A	2021F	2022F	2023F
Revenue	11,434.3	10,840.0	11,189.1	11,434.8	11,805.8
Operating Profit	1,299.8	1,610.6	1,871.9	1,940.8	1,996.0
Finance income/(cost)	-389.6	-344.6	-410.9	-363.4	-337.5
Others	15.0	12.2	20.0	20.0	20.0
Pre-tax Profit	925.2	1,278.2	1,481.0	1,597.4	1,678.5
Income Tax	-367.7	-282.5	-370.3	-479.2	-419.6
Effective Tax Rate (%)	39.7	22.1	25.0	30.0	25.0
Minority Interest	75.3	20.0	17.0	14.5	12.3
Reported Net Profit	632.8	1,015.7	1,127.8	1,132.6	1,271.2

Growth

Revenue (%)	-3.3	-5.2	3.2	2.2	3.2
Operating Profit (%)	246.2	23.9	16.2	3.7	2.8
Net Profit (%)	58.3	-0.9	13.8	0.4	12.2

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Dec (RM m)	2019A	2020A	2021F	2022F	2023F
Fixed assets	14,259.5	13,751.7	13,151.4	12,647.2	12,423.6
Other long-term assets	2,748.8	3,086.1	3,066.1	3,046.1	3,026.1
Cash at bank	4,918.4	4,304.4	5,887.0	6,751.0	7,395.0
Other current assets	3,673.0	3,136.3	3,691.3	3,748.4	3,834.1
Total Assets	25,599.7	24,278.5	25,795.8	26,192.7	26,678.8
Borrowings	8,733.1	7,626.8	9,000.0	9,000.0	9,000.0
Payables	3,604.4	3,494.4	3,540.7	3,684.2	3,844.5
Other liabilities	6,709.1	6,182.0	5,733.0	5,434.5	5,137.0
Total Liabilities	19,046.6	17,303.2	18,273.7	18,118.7	17,981.5
Shareholders' Equity	6,553.1	6,975.3	7,522.2	8,074.0	8,697.3
Total Equity and Liabilities	25,599.7	24,278.5	25,795.8	26,192.7	26,678.8

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Dec	2019A	2020A	2021F	2022F	2023F
Book Value Per Share (RM)	1.8	1.9	2.0	2.2	2.3
EPS (sen)	26.9	26.7	30.3	30.5	34.2
DPS (sen)	10.0	14.3	15.2	15.2	17.1
Payout ratio (%)	37.2	53.6	50.0	50.0	50.0
Gross debt/EBITDA (x)	2.4	2.0	2.2	2.2	2.2
ROE (%)	15.3	14.2	15.0	14.0	14.6
ROA (%)	2.5	4.2	4.4	4.3	4.8

Source: Company, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	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.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

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

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