

26 August 2022

Communications | Telecommunications

## Telekom Malaysia (T MK)

**Buy** (Maintained)

Going ONE Up; Stay BUY

Target Price (Return): MYR7.40 (+31%)  
 Price (Market Cap): MYR5.65 (USD4,771m)  
 ESG score: 3.00 (out of 4)  
 Avg Daily Turnover (MYR/USD) 13.7m/3.08m

- **Stay BUY, with new DCF-derived TP of MYR7.40 from MYR7.80, 31% upside and c.3% FY23F dividend yield.** We see the structural growth story continuing for Telekom Malaysia, our preferred large-cap telco pick, with management executing well on its transformation programme. There is upside risk to its earlier guidance even with opex and capex picking up in 2H22. Post results call, we raise FY22F-24F core earnings and DPS, with TP lowered slightly to account for a higher cost of equity.

- **Things may be finally looking up for TM One (enterprise and public sector arm).** TM is confident the turnaround in TM One revenue (+7.7% QoQ/+4.1% YoY) can be sustained on the back of recurring connectivity revenue and enterprise digitalisation efforts with a good funnel of projects. It expects the newly set-up digital and cloud services outfit (Credence) to contribute in the medium term, having added 10 customers (across various industries) in a short span of time with a headcount support of 146. TM said the 39% jump in account receivables (c. MYR800m) over the past six months is mostly related to government projects undertaken at TM One for which it expects payment to be made in 2H22.

- **Upside risk to guidance even with seasonally stronger 2H opex.** TM's guidance of low- to mid-single digit revenue growth and EBIT exceeding MYR1.8bn looks conservative, in our view, with 1H22 topline growth coming in at 7.3% and EBIT growth of 29.2% YTD (c.70% of the base guidance). Even with the seasonally higher opex and capex (inflationary pressures), and taking into account that the bulk of FY22F VSS cost has been booked in 1Q-2Q22 (1H22: MYR110.5m), we see upside risk to the EBIT guidance.

- **Earnings and DPS forecasts raised.** We lift FY22F-24F core earnings by 5-15% after factoring in the latest opex run-rates and stronger growth for TM One, which includes Credence. Aside from internet services, we expect TM's wholesale business to remain a key earnings driver, backed by the aggressive 5G rollout (fibre backhaul), and the robust demand for domestic wholesale access given the still modest FBB penetration in the country (1Q22: 41%). We also raise our FY22F-23F DPS to 17-18 sen (from 16 sen). Our DCF-based TP is lowered slightly after imputing a higher cost of equity from the rise in bond yields. With an ESG score that is in line with the country median (3.0) as per our proprietary methodology, we attribute a zero discount/premium to our TP

- **Key risks** are competition, weaker-than-expected earnings, and regulatory setbacks. TM has registered its interest to take up an equity stake in Digital Nasional Berhad (DNB), the single wholesale network access provider for 5G.

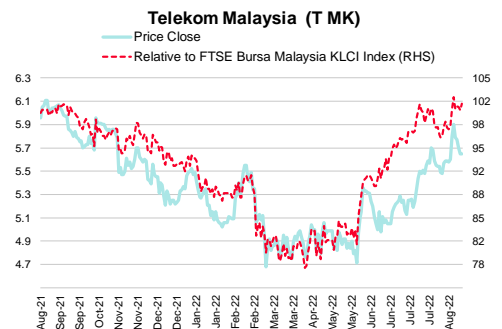
### Analyst

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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	2.7	3.1	17.2	5.8	(3.9)
Relative	9.1	3.0	21.4	12.6	1.7
52-wk Price low/high (MYR)	4.68 – 6.11				



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)	21.42	17.12	15.65	14.48	13.20
P/B (x)	3.0	2.8	2.3	2.1	1.9
P/CF (x)	6.40	6.36	4.18	5.19	5.09
Dividend Yield (%)	2.5	2.3	3.0	3.2	3.2
EV/EBITDA (x)	6.25	5.51	4.78	4.38	3.97
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
<b>Telekom Malaysia</b>	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						
	<b>Valuation metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
<b>Valuation basis</b>	Recurring P/E (x)	21.42	17.12	15.65	14.48	13.20
DCF methodology (WACC : 7.7%, TG: 0.5%)	P/B (x)	3.0	2.8	2.3	2.1	1.9
	FCF Yield (%)	8.6	7.7	14.5	9.8	10.2
	Dividend Yield (%)	2.5	2.3	3.0	3.2	3.2
	EV/EBITDA (x)	6.25	5.51	4.78	4.38	3.97
	EV/EBIT (x)	15.15	14.01	10.40	9.58	8.19
<b>Key drivers</b>						
i. Higher fibre broadband adoption and premises passed;						
ii. Cost efficiencies;						
iii. Stronger wholesale and enterprise growth.						
<b>Key risks</b>						
i. Competition from new/existing access seekers;						
ii. Weaker-than-expected earnings;						
iii. Adverse regulatory developments.						
<b>Company Profile</b>						
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).						
	<b>Income statement (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Total turnover	10,840	11,529	12,617	13,098	13,664
	Gross profit	7,920	8,554	9,274	9,614	10,029
	EBITDA	3,889	4,345	4,682	4,794	4,916
	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)
	Pre-tax profit	1,279	1,247	1,884	1,917	2,103
	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
	<b>Cash flow (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	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
	<b>Balance sheet (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	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
	<b>Key metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	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

### Recommendation Chart

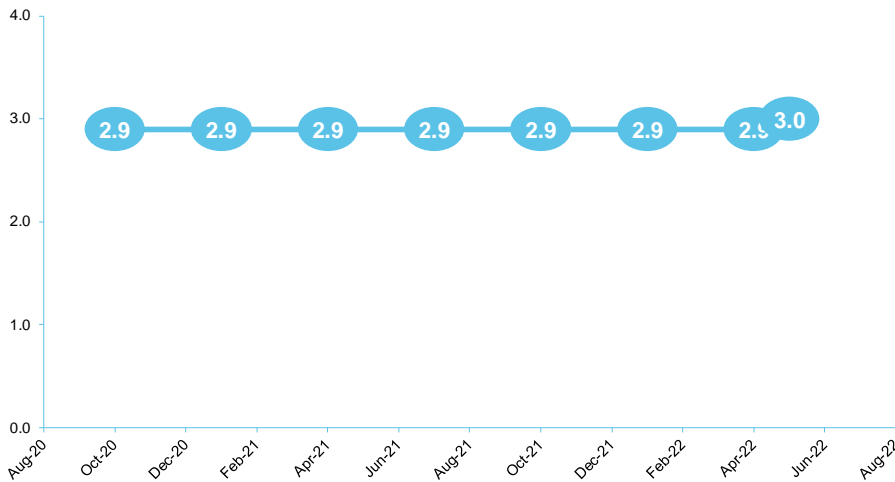


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2019-07-19	Neutral	3.90	4.50

Source: RHB, Bloomberg

### ESG Rating History



Source: RHB

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
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<b>Not Rated:</b>	Stock is not within regular research coverage

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