

Telekom Malaysia Berhad

(4863 | T MK) Telecommunications & media | Telecommunications service providers

Revenue pressure to persist

KEY INVESTMENT HIGHLIGHTS

- **Significant improvement on FY19 financial performance was mainly due to the cost rationalisation programme**
- **Nonetheless, main concern lies on the group's ability to generate revenue, especially for the Unifi segment**
- **FY19 dividend amounted to 10sen, in-line with its dividend policy**
- **Anticipating future capital spending to be elevated in the foreseeable years**
- **Downgrade to SELL with a revised TP of RM3.15**

Expansion in profit margin. Telekom Malaysia Bhd's (TM) 4QFY19 normalised earnings increased by +189.9%yoy to RM189.9m. This was mainly attributable to significant cost reduction. Note that the profit margin improved to 6.3% from 3.4% as at 4QFY18.

In-line with expectations. Cumulatively, full year FY19 normalised earnings surged by +58.3%yoy to RM1,000.8m, premised on drastic cost reduction across all cost elements with the exception of manpower. This came in within ours and consensus expectations, accounting for 97.1% and 102.1% of full year FY19 earnings estimates.

Opex/revenue ratio improves further. TM's FY19 total cost came in at RM10,001m, a decline of -15.9%yoy. This led to healthier opex/revenue ratio of 87.5% (vs FY18: 100.6%). The reduction in costs mainly stem from lower direct cost (-14.3%yoy) and other opex (-28.1%yoy)

Broadband. The total broadband customer contracted by -2.2%yoy to 2,184k customers as at 4QFY19. This was mainly caused by the reduction in Streamyx customers base to 741k customers (-20.8%yoy). On the contrary, unifi customer based expanded to 1,444k customers (+11.2%yoy). Meanwhile, Streamyx and Unifi ARPU dropped to RM93/mth (4QFY18: RM113/mth) and RM153/mth (4QFY18: RM177/mth) respectively due to Streamyx price and adjustment and year-end promotion.

Capital expenditure (Capex). TM's 4QFY19 capex decreased by -23.6%yoy to RM621m. This led to full year FY19 capex of RM1,363m, a decline of -36.1%yoy. There was lower spending across segment which encompasses core network (-35.7%yoy), access (-40.9%yoy) and support system (-21.6%yoy).

Impact to earnings. Premised on the group's guidance on future financial performance, we are revising downward FY20 and FY21 earnings by -13.2% and -15.7%yoy to RM935.7m and RM948.3m respectively. Note that we are revising downward the contribution from Unifi and TM ONE.

Downgrade to SELL

(previously NEUTRAL)

Revised Target Price: RM3.15

(previously RM3.54)

RETURN STATISTICS

Price @ 21 st Feb 2020 (RM)	3.82
Expected share price return (%)	-17.5
Expected dividend yield (%)	+3.0
Expected total return (%)	-14.5

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-4.5	-1.9
3 months	0.0	6.2
12 months	22.8	38.1

KEY STATISTICS

FBM KLCI	1,531.20
Syariah compliant	Yes
Issue shares (m)	3,758.00
Estimated free float (%)	26.23
Market Capitalisation (RM'm)	14,835.27
52-wk price range (RM)	2.60– 4.68
Beta vs FBM KLCI (x)	2.10
Monthly velocity (%)	18.34
Monthly volatility (%)	21.35
3-mth average daily volume (m)	3.18
3-mth average daily value (RM'm)	12.49
Top Shareholders (%)	
Khazanah Nasional Bhd	26.15
Employees Provident Fund	15.70
Skim Amanah Saham Bumiputera	11.82

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Target Price. We are rolling forward our valuation based year to FY21. Coupled with our earnings adjustment, we derive a new target price of **RM3.15** (previously RM3.54). This is premised on Dividend Discount Model valuation methodology with an unchanged WACC of 8.3%.


Downgrade to SELL. We commend the group's cost rationalisation programme which had significantly improves the group's FY19 financial performance. While we acknowledge there is still room to push cost down further, we view that the quantum of annual cost savings could notably reduce. Nonetheless, our main concern resides with the group's ability to grow its revenue, especially its unifi business. We expect the contraction in the unifi business to persist due to the impact of the Mandatory Standard on Access Pricing (MSAP). Note that the current MSAP will be effective until 31st December 2020. Thus, we do not discount the possibility that the upcoming MSAP could remains unfavourable to the group. On another note, we expect a strain on the group's cash position due to expectancy of higher capex spending to uphold its intention as the sole national infrastructure provider for 5G. All factors considered, we are downgrading our recommendation on TM to **SELL** from neutral previously. 

Table 1: FY19 revenue breakdown by product category

Product	Revenue (RM'm)	% YoY	Remarks
Voice	2,675.1	-11.2	- Lower traffic minutes and customer base across all segments
Internet	3,814.6	-7.4	- Lower fixed broadband revenue in view of Streamyx price adjustment and year end campaign
Data	2,855.0	16.9	- Higher contribution from domestic data at TM Global
Others	2,089.5	-6.9	- Reduction in ICT and BPO and USP maintenance revenue

Source: Company, MIDFR

Table 2: FY19 revenue breakdown by customer clusters

Cluster	Revenue (RM'm)	% YoY	Remarks
Unifi	4,713.9	-10.8	- Revenue impact from Streamyx price adjustment and year end promotion
TM ONE	3,931.3	-4.1	- Lower ICT and BPO revenue
TM GLOBAL	2,306.3	18.6	- Higher Domestic Wholesale revenue
Others	482.7	-1.5	- Lower revenue from MMU

Source: Company, MIDFR

INVESTMENT STATISTICS

Financial year ending 31 st December (in RM'm, unless otherwise stated)	2018	2019	2020E	2021F	2022F
Revenue (RM'm)	11,819.3	11,434.2	11,019.4	11,129.4	11,261.1
Normalised EBITDA (RM'm)	3451.2	4029.3	3,967.0	4,006.6	4,054.0
Normalised EBIT (RM'm)	1,070.8	1,699.6	1,597.8	1,558.1	1,576.6
Normalised PATAMI (RM'm)	632.4	1,000.8	935.7	948.3	962.9
Normalised EPS (sen)	16.7	26.4	24.8	25.1	25.5
EPS growth (%)	-26.9	57.9	-6.3	1.4	1.5
PER(x)	22.8	14.5	15.4	15.2	15.0
Net Dividend (sen)	2.0	10.0	10.0	11.3	12.7
Net Dividend Yield (%)	0.5	2.6	2.6	3.0	3.3

Source: Company, MIDFR

TELEKOM MALAYSIA BHD: 4QFY19 RESULTS SUMMARY

Financial year ending 31 st December (in RM'm, unless otherwise stated)	Quarterly			Cumulative		
	4Q19	% YoY	% QoQ	2019	2018	%
Revenue	3,034.1	-1.8	6.4	11,434.2	11,819.3	-3.3
Normalised EBITDA	1,000.9	8.9	0.7	4,029.3	3,451.2	16.8
Normalised EBIT	377.1	17.0	-10.7	1,699.6	1,070.8	58.7
EBIT	365.9	45.3	-13.8	1,568.3	64.6	2,327.7
Other gains/losses	-254.5	n.m.	n.m.	-268.6	310.9	n.m.
Net finance cost	-75.7	-31.7	-36.3	-389.6	-379.1	2.8
Associate income	3.2	-28.9	3.2	15.0	21.0	-28.6
PBT	38.9	-73.4	-87.1	925.1	17.4	5,216.7
Taxation	-106.4	-18.3	63.4	-367.7	-277.9	32.3
MI	16.4	-69.4	-34.1	75.3	413.7	-81.8
PATAMI	-51.1	-173.3	-119.6	632.7	153.2	313.0
Normalised PATAMI	189.9	81.0	-34.0	1,000.8	632.4	58.3
EPS (sen)	5.01	80.4	-33.9	26.4	16.7	57.9
		+/- pts	+/- pts			+/- pts
Normalised EBITDA margin (%)	33.0	3.2	-1.9	35.2	29.2	6.0
Normalised EBIT margin (%)	12.4	2.0	-2.4	14.9	9.1	5.8
Normalised PATAMI margin (%)	6.3	2.9	-3.8	8.8	5.4	3.4
Effective tax rate (%)	273.5	184.5	251.9	39.7	1,597.1	-1,557.4

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.