

# Telekom Malaysia Bhd

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

**Maintain SELL**

## Revenue declined at a faster pace as compared to cost

**Unchanged Target Price: RM3.15**

### KEY INVESTMENT HIGHLIGHTS

- **Weaker 1QFY20 normalised earnings of RM240.8m (-18.8%yoy) in view of lower revenue generated**
- **Opex-to-revenue ratio remains elevated at 88.1% which could signify limitation in cost savings effort**
- **Total broadband customer base remained resilient at 2.2m customer while ARPU contracted to RM91/mth**
- **Higher capital spending of RM621m (+73.5%yoy), mainly to improve the network access**
- **Maintain SELL with an unchanged TP of RM3.15**

**Weaker quarterly earnings.** Telekom Malaysia Bhd's (TM) 1QFY20 normalised earnings reduced by -18.8%yoy to RM240.8m after excluding exceptional items which mainly pertained to forex loss on borrowings of -RM80.1m. The lower earnings was mainly attributable to lower revenue generated during the quarter-in-review. Noted that lower revenue was recorded across all customer clusters (*refer to Table 2*). Nonetheless, TM's 1QFY20 financial performance came in within ours and consensus expectations, accounting for 25.7% and 28.5% of full year FY20 earnings estimates.

**Opex/revenue ratio remains elevated.** TM's 1QFY20 total cost came in at RM2,252m, a slight decline of -1.9%yoy. As such, the cost to revenue ratio came in at 88.1% (vs QFY19: 82.7%). The reduction in costs mainly stem from lower direct cost of RM658m (-5.5%yoy) and other opex of RM382m (-6.1%yoy).

**Broadband.** The total broadband customer contracted marginally by -0.5%yoy to 2,185k customers as at 1QFY20. This was mainly caused by the reduction in Streamyx customers base to 694k customers (-20.4%yoy). On the contrary, Unifi customer based expanded to 1,490k customers (+12.6%yoy). Meanwhile, Streamyx and Unifi ARPU dropped to RM91/mth (1QFY19: RM114/mth) and RM153/mth (1QFY19: RM172/mth) which was mainly due to the downward price adjustment exercise.

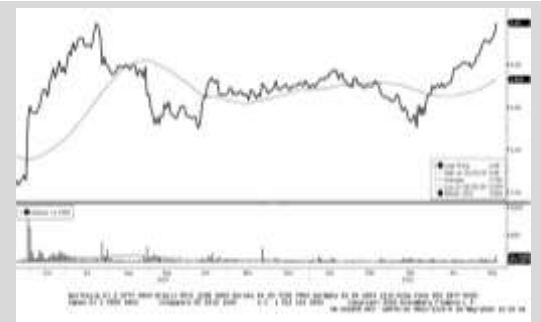
**Capital expenditure (Capex).** TM's 1QFY20 capex increased by +73.5%yoy to RM262m as compared to 1QFY19 capex of RM151. This was mainly spent on the provision of access amounting to RM179m. (+79.0%yoy). Meanwhile, capex for system support and core network also climb to RM33m (+43.5%yoy) and RM50m (+85.2%yoy) respectively.

**Impact to earnings.** No change to our earnings estimates at this juncture.

### RETURN STATISTICS

Price @ 20 <sup>th</sup> May 2020 (RM)	4.49
Expected share price return (%)	-29.8
Expected dividend yield (%)	+2.5
<b>Expected total return (%)</b>	<b>-27.3</b>

### SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	12.8	11.1
3 months	19.7	23.8
12 months	63.3	82.6

### KEY STATISTICS

FBM KLCI	1,435.12
Syariah compliant	Yes
Issue shares (m)	3,765.7
Estimated free float (%)	31.2
Market Capitalisation (RM'm)	16,908.3
52-wk price range (RM)	2.64– 4.68
Beta vs FBM KLCI (x)	1.38
Monthly velocity (%)	11.02
Monthly volatility (%)	34.1
3-mth average daily volume (m)	3.9
3-mth average daily value (RM'm)	14.6
Top Shareholders (%)	
Khazanah Nasional Bhd	26.15
Employees Provident Fund	16.10
Skim Amanah Saham Bumiputera	12.47

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**Target Price.** We are maintaining our target price of **RM3.15**. This is premised on Dividend Discount Model valuation methodology with an unchanged WACC of 8.3%.

**Maintain Sell.** We commend the group's cost rationalisation programme which has 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 be reduced. Nonetheless, our main concern resides with the group's ability to grow its revenue as evident in the group's 1QFY20 results. 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 31<sup>st</sup> December 2020. Thus, we do not discount the possibility that the new MSAP for 2021 onwards 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 maintaining our **SELL** recommendation on TM. 

**Table 1: 1QFY20 revenue breakdown by product category**

Product	Revenue (RM'm)	% YoY	Remarks
Voice	544	-11.2	- Lower voice customer base and traffic minutes
Internet	936	-7.4	- Lower customer base from Streamyx
Data	635	16.9	- Lower domestic data
Others	442	-6.9	- Lower ICT

Source: Company, MIDFR

**Table 2: 1QFY20 revenue breakdown by customer clusters**

Cluster	Revenue (RM'm)	% YoY	Remarks
Unifi	1,121	-8.5	- Lower voice due to lower voice customer base
TM ONE	892	-5.7	- Lower voice and data
TM GLOBAL	440	-11.3	- Lower international voice
Others	104	-7.1	- Lower ticket sales from MKL

Source: Company, MIDFR

## INVESTMENT STATISTICS

Financial year ending 31 <sup>st</sup> 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)	26.8	17.0	18.1	17.9	17.6
Net Dividend (sen)	2.0	10.0	10.0	11.3	12.7
Net Dividend Yield (%)	0.4	2.2	2.2	2.5	2.8

Source: Company, MIDFR

**TELEKOM MALAYSIA BHD: 1QFY20 RESULTS SUMMARY**

Financial year ending 31 <sup>st</sup> December (in RM'm, unless otherwise stated)	Quarterly				
	1Q20	1Q19	% YoY	4Q19	% QoQ
Revenue	2,557.1	2,778.9	-8.0	3,034.1	-15.7
Normalised EBITDA	918.5	1,073.4	-14.4	1,000.9	-8.2
Normalised EBIT	334.9	513.0	-34.7	377.1	-11.2
EBIT	326.1	504.8	-35.4	365.9	-10.9
Other gains/losses	-4.5	0.8	n.m.	-254.5	n.m.
Net finance cost	-164.8	-74.0	122.7	-75.7	117.7
Associate income	3.3	5.6	-41.1	3.2	3.1
PBT	160.1	437.2	-63.4	38.9	311.6
Taxation	-19.5	-136.3	-85.7	-106.4	-81.7
MI	11.9	7.4	60.8	16.4	-27.4
PATAMI	152.5	308.3	-50.5	-51.1	-398.4
Normalised PATAMI	240.8	296.4	-18.8	189.9	26.8
EPS (sen)	6.35	7.84	-19.1	5.01	26.8
			+/- ppts		+/- ppts
Normalised EBITDA margin (%)	35.9	38.6	-2.7	33.0	2.9
Normalised EBIT margin (%)	13.1	18.5	-5.4	12.4	0.7
Normalised PATAMI margin (%)	9.4	10.7	-1.2	6.3	3.2
Effective tax rate (%)	12.2	31.2	-19.0	273.5	-261.3

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

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