2QFY22 Results Review (Above) | Thursday, 25 August 2022

Telekom Malaysia Berhad

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

***Maintain* BUY**

Strong Quarter

***Unchanged* Target Price: RM6.91**

KEY INVESTMENT HIGHLIGHTS

- **TM's FY22 normalised earnings of RM449.3m came in above ours and consensus expectations**
- **Highest quarterly net profit in 10 years**
- **Good performance in all segments**
- **Maintain BUY with an unchanged TP of RM6.91**

Steady topline growth. Telekom Malaysia Bhd's (TM) 2QFY22 topline was RM3.09 billion (+11.8%yoy) due to robust performance across all customer segments and a rapid growth in revenue from all lines of services, notably Internet and Data. TM achieved a normalised PATAMI of RM449.3 (+76.3yoy), the highest quarterly net profit in ten years. This success was supported by cost-cutting efforts as well as increased demand for connections, services, and digital solutions.

Above expectation. TM's 1HFY22 normalised earnings of RM800.4m came in above our and the consensus expectations, representing 73% and 72% of full-year FY22 earnings estimates, respectively. The normalised earnings for 1HFY22 increased by more than +100%yoy to RM171.3m. The positive divergence can be ascribed to better-than-expected performance from Unifi, TM Wholesale, and TM One.

Unifi. Unifi's revenue grew by RM1.4m from RM1.2m, or +8.9%yoy. This was mostly due to an increase in internet and voice services, with fixed broadband users growing +14.1%yoy in the current quarter compared to the same quarter last year.

TM One. Revenue increased modestly year on year from RM900.8m to RM929.7m in the current quarter, owing to increasing revenue from other telecommunications related services from customer projects. However, reported EBIT declined by -12.9%yoy compared to the same quarter previous year due to greater direct and operational expenses.

TM Wholesale. The topline of RM761.2m in 2QFY22 rose by +26.4%yoy from RM602.2m in 2QFY21, owing mostly to greater income from voice and data services. The excellent sales performance combined with a lower percentage rise in operating costs resulted in a +134.7%yoy improvement in EBIT from RM69.8 million last year to RM163.8 million this quarter.

RETURN STATISTICS	
Price @ 24th August 2022 (RM)	5.65
Expected share price return (%)	+22.3
Expected dividend yield (%)	+3.5
Expected total return (%)	**+25.8**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	2.9	2.6
3 months	7.4	21.8
12 months	-4.1	1.3

KEY STATISTICS	
FBM KLCI	1,467.26
Syariah compliant	Yes
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	3773.70
Estimated free float (%)	30.98
Market Capitalisation (RM'm)	21,362.45
52-wk price range (RM)	4.68 – 6.17
Beta vs FBM KLCI (x)	0.84
Monthly velocity (%)	0.87
Monthly volatility (%)	11.39
3-mth average daily volume (m)	2.60
3-mth average daily value (RM'm)	13.93
Top Shareholders (%)	
Khazanah Nasional Bhd	20.03
Employees Provident Fund	18.75
Skim Amanah Saham Bumiputera	15.26

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2QFY22 revenue breakdown by product category

Product	2QFY22	2QFY21	% YoY	Remarks
Voice	624	584	+6.7%	Higher contribution from Unifi and international voice at TM Wholesale
Internet	1,089	995	+9.5%	Higher net add for fixed broadband subscribers
Data	877	746	+17.4%	Higher domestic data and international data at TM Wholesale including new IRU deals in the current quarter
Others	500	438	+14.2%	Higher business solutions and ICT services at TM One

Source: Company, MIDFR

Capital expenditure (Capex). TM 1HFY22 invested higher capex, 14.1% of revenue, at RM846.0m (+41.7%yoy) as the group continued to modernize its network and technology platforms. To note, 56.6% of the amount invested was allocated for the network access JENDELA, 24.9% for core network and 18.4% for support system.

Impact on earnings. As earnings came in higher than expected, we raise our earnings estimate for FY22/23F by between 1.4% to 2.2% as the Group remains steadfast to continue into the second year of transformation with the main focus in supporting the Government's effort to rebuild the nation post-pandemic and geared to seize opportunities in the Fourth Industrial Revolution. We maintain our target price of **RM6.91** premised on Dividend Discount Model valuation methodology with WACC of 6.7%.

Maintain BUY. As the preferred fibre service provider, TM will continue to pursue 4G and 5G fibre infrastructure deployment as well as promoting collaboration with domestic service providers, align with the Government's JENDELA initiative. The 5G fibre leasing services (worth RM2.0b over 10 years) for Digital Nasional Berhad (DNB)'s 5G infrastructure needs is a testament of TM's commitment to infrastructure sharing in enabling excellent wireless solutions and services. All factors considered, we are maintaining our **BUY** recommendation on TM with an upside of +25.8%.

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm, unless otherwise stated)	2019	2020	2021	2022F	2023F
Revenue	11,434.2	10,840.3	11,529.00	11,992.1	12,529.0
Normalised EBITDA	4029.3	3,896.2	4,433.80	4,377.1	4,610.7
Normalised EBIT	1,699.6	1,612.3	1,799.10	1,798.8	1,916.9
Normalised PATAMI	1,000.8	991.4	1,019.30	1,104.4	1,303.8
Normalised EPS (sen)	26.4	26.4	29.7	29.0	34.2
EPS growth (%)	57.9	-0.2	12.6	-2.3	18.0
PER(x)	21.4	21.4	19.0	19.5	16.5
Net Dividend (sen)	10.0	13.2	16.6	16.5	19.9
Net Dividend Yield (%)	1.8	2.3	2.9	2.9	3.5

Source: Company, MIDFR

TELEKOM MALAYSIA BHD: 2QFY22 RESULTS SUMMARY

Financial year ending 31st December (in RM'm, unless otherwise stated)	Quarterly Results			Cumulative		
	2Q22	YoY (%)	QoQ (%)	6M2022	6M2021	YoY (%)
Revenue	3089.3	11.8	6.8	5981.7	5572.6	7.3
EBIT	702.7	81.3	25.4	1263.1	977.4	29.2
Net finance cost	-156.7	69.2	74.5	-246.5	-99.1	148.7
PBT	545.0	85.9	16.7	1012.2	114.1	787.1
Taxation	-165.7	116.6	30.0	-293.2	-73.8	297.3
PATAMI	379.3	75.1	11.7	719.0	623.6	15.3
Normalised PATAMI	449.3	76.3	28.0	800.4	171.3	367.3
EPS (sen)	11.8	76.4	28.0	21.0	4.5	367.7
		+/- ppts	+/- ppts			+/- ppts
Normalised PATAMI margin (%)	14.5	5.3	2.4	13.4	3.1	10.3
Effective tax rate (%)	30.4	30.1	3.1	29.0	64.7	-35.7

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 *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology