Telekom Malaysia Berhad

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

***Maintain* BUY**

Surpassed Expectation Again

***Revised* Target Price: RM7.10**

(Previously: RM6.91)

KEY INVESTMENT HIGHLIGHTS

- **TM's 9MFY22 normalised earnings of RM345.3m exceeded ours and consensus expectations**
- **Highest revenue recorded in the last ten quarters**
- **Continuous growth across all customer segments**
- **Maintain BUY with revised TP of RM7.10**

Highest revenue recorded in the last ten quarters. Telekom Malaysia Bhd's (TM) recorded 3QFY22 topline of RM3.2b (+12.7%yoy), marking its highest revenue in the last ten quarters. The growth was mostly contributed from better TM One and TM Wholesale performance as well as growth in revenue from almost all lines of services, notably Data (+25.8%). TM achieved a normalised PATAMI of RM345.3 (+21.2yoy). This success was supported by better cost efficiency from prudent operational spending as well as increased demand for connections, services, and digital solutions.

Above expectation. TM's 9MFY22 normalised earnings of RM1.1b came in above our and the consensus expectations, representing 104% and 92% of full-year FY22 earnings estimates, respectively. The normalised earnings for 9MFY22 increased by +33.0%yoy from RM864.6m in 9MFY21. The positive divergence can be ascribed to better-than-expected growth momentum from the core business segments; Unifi, TM Wholesale, and TM One.

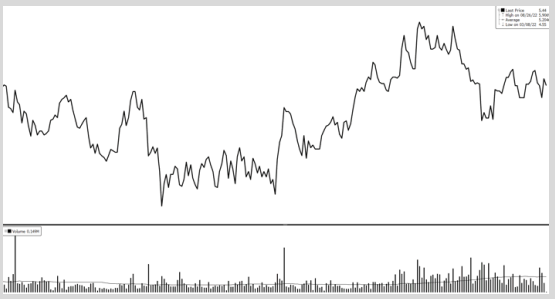
Unifi. Unifi's revenue grew by RM1.4b from RM1.3b, or +7.0%yoy. This was mostly due to higher cumulative fixed broadband subscribers driven by aggressive sales, promotions and retention programs, with fixed broadband users growing +10.9%yoy in the current quarter compared to the same quarter last year.

TM One. Revenue increased by +11.9%yoy from RM796.9m to RM891.9m in the current quarter. This was contributed by growth in both recurring business and one-off customer projects across large enterprise and government sector.

TM Wholesale. The topline of RM769.9m in 3QFY22 rose by +26.0yoy from RM610.9m in 3QFY21, contributed mostly to greater income from domestic data, IRU, colocation and CDN. Domestic revenue increase by +28.8%yoy on the back of better demand for High-Speed Broadband (Access), 5.4k 4G and 5G backhaul sites deployment and new deal for comprehensive solutions comprises colocation and Data services.

RETURN STATISTICS	
Price @ 22nd November 2022 (RM)	5.46
Expected share price return (%)	+30.0
Expected dividend yield (%)	+3.6
Expected total return (%)	**+33.6**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	1.3	1.9
3 months	-0.4	-1.1
12 months	-2.3	3.7

KEY STATISTICS	
FBM KLCI	1,441.29
Syariah compliant	Yes
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	3773.70
Estimated free float (%)	34.15
Market Capitalisation (RM'm)	20,824.51
52-wk price range (RM)	4.68 - 6.1
Beta vs FBM KLCI (x)	0.81
Monthly velocity (%)	0.00
Monthly volatility (%)	34.15
3-mth average daily volume (m)	4.54
3-mth average daily value (RM'm)	25.32
Top Shareholders (%)	
Khazanah Nasional Bhd	20.19
Employees Provident Fund	15.73
Amanah Saham Nasional Bhd	15.12

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3QFY22 revenue breakdown by product category

Products	3QFY22	3QFY21	% YoY	Remarks
Voice	616.1	636.3	-3.2	Lower contribution from TM Wholesale
Internet	1091.7	1017.3	7.3	Higher cumulative Unifi and fixed broadband subscribers
Data	902.5	717.2	25.8	Higher international and domestic data at TM and TM Wholesale
Others	547.8	432.5	26.7	Higher bespoke solutions and ICT services at TM One and higher revenue from infra sharing, colocation and CDN at TM Wholesale

Source: Company, MIDFR

Capital expenditure (Capex). TM 9MFY22 invested higher capex, 15.9% of revenue, at RM1.4b (+51.1%yoy) as the group continued to modernize its network and technology platforms. To note, 53% of the amount invested was allocated for the network access JENDELA, 27.5% for core network and 19.5% for support system.

Impact on earnings. As earnings came in higher than expected, we raise our earnings estimate for FY22/23F by +18.3%/+15.6% to account for the Group's steadfast in delivering another solid quarter in 2022. We expect the growth momentum to continue for the next quarter driven by stronger domestic demand. We revised our target price from RM6.90 to **RM7.10** 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 +33.6%.

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	12,126.0	12,869.1
Normalised EBITDA	4,029.3	3,896.2	4,433.8	4,668.5	4,954.6
Normalised EBIT	1,699.6	1,612.3	1,799.10	2,061.4	2,187.7
Normalised PATAMI	1,000.8	991.4	1,019.30	1,306.0	1,506.8
Normalised EPS (sen)	26.4	26.4	29.7	34.3	39.6
EPS growth (%)	57.9	-0.2	12.6	15.5	15.4
PER(x)	20.7	20.7	18.4	15.9	13.8
Net Dividend (sen)	10.0	13.2	16.6	19.6	23.0
Net Dividend Yield (%)	1.8	2.4	3.0	3.6	4.2

Source: Company, MIDFR

TELEKOM MALAYSIA BHD: 3QFY22 RESULTS SUMMARY

Financial year ending 31st December	Quarterly Results			Cumulative		
(in RM'm, unless otherwise stated)	3Q22	YoY (%)	QoQ (%)	9M2022	9M2021	YoY (%)
Revenue	3158.1	12.7	2.2	9139.8	8375.9	9.1
EBITDA	1203.4	17.1	-9.1	3639.6	3180.9	14.4
Depreciation and Amortization	-654.1	11.3	5.2	-1879.3	-1765.8	6.4
EBIT	549.3	24.7	-21.8	1760.3	1415.1	24.4
Net finance cost	-89.0	1.5	-43.2	-287.8	-362.3	-20.6
PBT	460.3	30.5	-15.5	1472.5	1052.8	39.9
Taxation	-194.2	141.5	17.2	-483.4	-237.7	103.4
PATAMI	266.1	-2.3	-29.8	989.1	815.1	21.3
Normalised PATAMI	345.3	21.2	-23.1	1149.7	864.6	33.0
EPS (sen)	9.1	21.3	-23.1	30.2	22.7	33.1
		+/- ppts	+/- ppts			+/- ppts
EBITDA margin (%)	38.1	1.4	-4.8	39.8	38.0	1.8
EBIT margin (%)	17.4	1.7	-5.4	19.3	16.9	2.4
Normalised PATAMI margin (%)	10.9	0.8	-3.6	12.6	10.3	2.3
Effective tax rate (%)	42.2	19.4	11.8	32.8	22.6	10.3

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