Telekom Malaysia Berhad

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

***Maintain* BUY**

Better Operation Across All Segments

***Revised* Target Price: RM6.60**

(Previously: RM7.10)

KEY INVESTMENT HIGHLIGHTS

- **TM's FY22 normalised earnings of RM1.2b met our and consensus expectations.**
- **TM Global's great performance boost the Group's FY22 performance.**
- **Capex is the highest in 5 years to support growth in fiber service and network expansion.**
- **Maintain BUY with a revised TP of RM6.60**

Quarterly. Telekom Malaysia Bhd' (TM) 4QFY22 topline was recorded at RM3.0b (-5.5%yoy). The decline was mostly attributable to lower solutions-based revenue earned compared to FY21. To note, the decline is from other telecommunication related services, voice and data while internet keep steady record of +5.5% revenue growth from greater cumulative subscribers. TM achieved a normalised PATAMI of RM93.6m (+18.0%yoy). The higher earnings were mainly supported by the decline in finance cost from RM124.0m to RM99.3m.

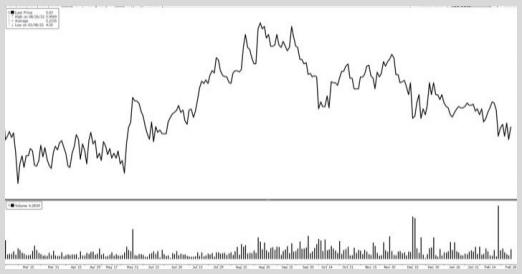
Cumulatively. TM's FY22 topline recorded at RM12.1b or +5.1%yoy, which resulted in slightly better normalised earnings of RM1.2b or +0.3%yoy. The cumulatively better performance was mainly attributed to better operation across all lines of business. Overall, the Group's FY22 normalised earnings came in line with our and the consensus expectations, representing 95% and 94% of full-year FY22 earnings estimates, respectively.

Unifi. Cumulatively, Unifi's revenue continues to grow by +7.5%yoy to RM5.6b from RM5.2b in FY21 This was mostly due to higher number of home and MSME customer. Additionally, the fixed broadband subscribers rose by +9.3% and surpassed the 3m mark in FY22. The greater cumulative fixed broadband subscribers were driven by aggressive sales and Year End promotions and retention programs.

TM One. Revenue increased marginally by +0.5%yoy from RM3.32b to RM3.34b in FY22 after few years of decline in the topline amidst the change in market dynamics and competitive environment. This is due to better recurring revenue and customized solutions implementation, on the back of their reputation as a reliable technology provider for big businesses and the government. On a side note, there was a rise in the usage of both data centre area and electricity as well.

RETURN STATISTICS	
Price @ 28th February 2023 (RM)	5.03
Expected share price return (%)	+31.2
Expected dividend yield (%)	+3.9
Expected total return (%)	**+35.1**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-3.6	-1.6
3 months	-6.9	-8.5
12 months	-1.2	8.5

KEY STATISTICS	
FBM KLCI	1,454.19
Syariah compliant	Yes
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	3773.7
Estimated free float (%)	32.71
Market Capitalisation (RM'm)	19,224.55
52-wk price range (RM)	4.68-6.1
Beta vs FBM KLCI (x)	0.97
3-mth average daily volume (m)	4.22
3-mth average daily value (RM'm)	21.86
Top Shareholders (%)	
Khazanah Nasional Bhd	20.18
Employees Provident Fund	16.70
Amanah Saham Nasional Bhd	15.12

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TM Global (formerly known as TM Wholesale). TM Global's recorded better performance. Revenue of TM Global increased by +7.8%yoy to RM2.78b, driven by higher demand for domestic data and international digital services. In the domestic market, TM Global is the preferred partner for High-Speed Broadband Access (HSBA) and had the highest number of new installations in the 4Q22. Additionally, TM Global completed almost 4,000 fiberisation sites to advance the country's 5G rollout. Meanwhile, in the international market, TM Global secured deals with US-based hyperscalers and Asia-Pacific carriers for its wholesale data centre solutions and international data services, which positioned Malaysia as a trusted digital hub for the ASEAN region.

4QFY22 revenue breakdown by product category

Products	4QFY22	4QFY21	% YoY	Remarks
Voice	567.6	595.8	-4.7	Lower international voice at TM Global
Internet	1108.5	1050.4	5.5	Higher cumulative Unifi and fixed broadband subscribers
Data	809.4	891	-9.2	Lower IRU at TM Global
Others	492.8	615.9	-20.0	Lower ICT and Bespoke Solutions at TM One

Source: Company, MIDFR

Capital expenditure (Capex). TM's CAPEX in FY22 was the highest capex in 5 years which is at RM2.4b (+42.8%yoy) or equivalent to 20.0% of revenue as the group continued to grow in fiber service and network expansion. To note, 47.7% of the amount invested was allocated for the network access JENDELA, 25.4% for core network and 26.9% for support system.

Maintain BUY. We do not change our FY23 earnings estimate and introduce FY24F estimate. Nevertheless, we derived a lower DDM-based (WACC: 7.6%; terminal growth: 4.6%) fair value (FV) of **RM6.60**/share (from RM7.10/share) to account for the greater than expected price cut in the MSAP review. As the favored fiber service provider, we opine TM will persist in their efforts to expand the deployment of 4G and 5G fiber infrastructure while collaborating with local service providers in accordance with the Government's JENDELA initiative. The fact that TM has agreed to provide 5G fiber leasing services for Digital Nasional Berhad's (DNB) 5G infrastructure requirements, which is worth RM2.0b over 10 years, demonstrates TM's dedication to infrastructure sharing and their role in facilitating exceptional wireless solutions and services. All in all, we maintain **BUY** on TM with a revised target price of RM6.60.

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm, unless otherwise stated)	2020	2021	2022	2023F	2024F
Revenue	10,840.3	11,529.00	12,118.1	12,869.1	13,602.3
EBITDA	3,896.2	4,344.8	4,953.1	4,954.6	5,236.9
EBIT	1,612.3	1,710.10	2,090.2	2,187.7	2,312.4
Normalised PATAMI	991.4	1,019.30	1,237.3	1,506.8	1,591.7
Normalised EPS (sen)	26.4	29.7	32.7	39.6	41.8
EPS growth (%)	-0.2	12.6	10.0	21.1	5.6
PER(x)	19.1	16.9	15.4	12.7	12.0
Net Dividend (sen)	13.2	16.6	16.5	19.8	20.9
Net Dividend Yield (%)	2.6	3.3	3.3	3.9	4.2

Source: Company, MIDFR

TELEKOM MALAYSIA BHD: 4QFY22 RESULTS SUMMARY

Financial year ending 31st December	Quarterly Results			Cumulative		
(in RM'm, unless otherwise stated)	4Q22	YoY (%)	QoQ (%)	2022	2021	YoY (%)
Revenue	2978.3	-5.5	-5.7	12118.1	11529.0	5.1
EBITDA	1205.9	3.6	-4.2	4953.1	4344.8	0.1
Depreciation and Amortization	983.6	13.2	50.4	2862.9	2634.7	0.1
EBIT	222.3	-24.7	-63.2	2090.2	1710.1	0.2
Net finance cost	-99.3	-19.9	11.6	-387.1	-486.3	-0.2
PBT	214.0	10.3	-53.5	1686.5	1246.8	0.4
Taxation	-49.9	-59.8	-74.3	-533.3	-361.8	0.5
PATAMI	160.2	100.5	-39.6	1143.3	895.2	0.3
Normalised PATAMI	93.6	18.0	-72.9	1237.3	944.1	0.3
EPS (sen)	2.5	16.8	-72.9	32.7	25.0	30.6
		+/- ppts	+/- ppts			+/- ppts
EBITDA margin (%)	40.5	3.6	0.6	40.9	37.7	3.2
EBIT margin (%)	7.5	-1.9	-11.7	17.2	14.8	2.4
Normalised PATAMI margin (%)	3.1	0.6	-7.8	10.2	8.2	2.0
Effective tax rate (%)	23.3	-40.7	-18.9	31.6	29.0	2.6

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