Telekom Malaysia Berhad (TM)

Maintain BUY

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

Stay Proactive

Unchanged Target Price: RM6.60

KEY INVESTMENT HIGHLIGHTS

- **TM likely to experience less substantial ARPU impact compared to the situation in 2018 with larger than expected cut in MSAP been priced in**
- **The Fibre Leasing Service agreement with DNB to supply the 5G provider connectivity options is still ongoing**
- **No FY23 guidance, awaiting certainty on MSAP and 5G rollout plan**
- **Maintain BUY with an unchanged TP of RM6.60**

We attended Telekom Malaysia Berhad's (TM) results briefing and came away feeling reaffirmed on the outlook of the company. Some of key highlights are as follow: -

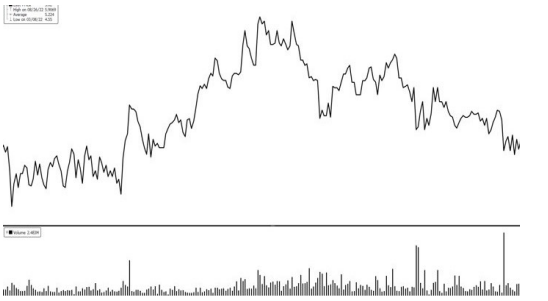
Mandatory Standard on Access Pricing (MSAP). Management commented that the recently announced MSAP is currently undergoing negotiation and due to be concluded by 1HFY23. Nonetheless, TM is looking to retain their existing subscribers, as we expected, without reducing their prices. One of the ways TM could retain their subscribers is by offering complementary speed upgrades to their subscribers. We reckon that larger than expected cut in MSAP has been priced in and TM to likely experience less substantial ARPU impact compared to the situation in 2018.

5G Rollout with DNB. Management reiterated that the Fibre Leasing Service agreement with Digital Nasional Berhad (DNB) to supply the 5G provider connectivity options is still ongoing. To recall, the term sheet agreement with a total contract value of RM2.0b over 10 years will require TM to provide DNB with 5G fibre leasing services for connectivity between DNB's 5G mobile sites and nodes, leveraging on its domestic fibre cable network which spans over 640,000 km across the country. Given DNB's new deadline to reach 80% coverage by the end of 2023, up from 50% at the end of 2022, TM's site fiberisation team will have a demanding year ahead. We believe TM will continue to be a reliable wholesale infrastructure provider, given their significant role is to drive the digital industry and 5G ecosystem.

2023 Guidance. Management do not provide any guidance on their FY23, awaiting MSAP conclusion which is due in 1HFY23 and 5G rollout plan from the Government due this month. Nonetheless, they plan to continue investing in their capex not only on the core business but also beyond the organic growth to ensure the continuity improvement across all lines of business in the Group. We opine the capex spending will be around 18-20% of the Group's revenue, at max, equivalent to FY22 spending. On a side note, the management stated that the dividend policy remains intact at 60% of the Group's PATAMI.

RETURN STATISTICS	
Price @ 2nd March 2023 (RM)	5.02
Expected share price return (%)	+31.5
Expected dividend yield (%)	+3.90
Expected total return (%)	**+35.4**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-8.2	-5.7
3 months	-2.2	-9.8
12 months	1.1	11.4

INVESTMENT STATISTICS

FYE Mar	2022A	2023F	2024F
Revenue	12,118.1	12,869.1	13,602.3
Operating Profit	2,090.2	2,187.7	2,312.4
Profit Before Tax	1,677.5	1,826.7	1,932.4
Core PATAMI	1,237.3	1,506.8	1,591.7
Core EPS	32.7	39.6	41.8
DPS	16.5	19.8	20.9
Dividend Yield	3.3	3.9	4.2

KEY STATISTICS	
FBM KLCI	1,455.49
Issue shares (m)	3773.7
Estimated free float (%)	32.71
Market Capitalisation (RM'm)	19,224.55
52-wk price range	4.68-6.1
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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Maintain Buy. Post the company briefing, we keep our estimates unchanged and maintain our **target price of RM6.60** based on DDM valuation methodology. As the favored fiber service provider, we believe 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 will provide 5G fiber leasing services for DNB's 5G infrastructure requirements also demonstrates TM's dedication to infrastructure sharing and their role in facilitating exceptional wireless solutions and services. All in all, we maintain **Buy** recommendation on TM with an expected upside of+35.4%.

FINANCIAL SUMMARY

Income Statement (RM'm)	2020A	2021A	2022A	2023F	2024F
Revenue	10,840.3	11,529.0	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	1,710.1	2,090.2	2,187.7	2,312.4
Normalised PATAMI	991.4	1,019.3	1,237.3	1,506.8	1,591.7

Balance Sheet (RM'm)	2020A	2021A	2022A	2023F	2024F
PPE	14,766.0	14,564.3	13,547.0	14,292.4	14,134.6
Others	2,071.8	2,093.6	3,184.9	2,450.1	2,576.2
Total Non-Current Asset	16,837.8	16,657.9	16,731.9	16,742.5	16,710.8
Cash and Bank Balances	4,304.4	2,733.8	2,579.4	3,205.9	3,847.0
Others	12,533.4	13,924.1	14,152.5	13,536.7	12,863.7
Total Current Asset	7,440.7	6,173.2	6,399.4	6,671.1	6,414.6
Total Asset	**24,278.5**	**22,831.1**	**23,131.3**	**23,413.6**	**23,125.3**
LT Borrowings	11,495.6	10,069.5	9,584.9	9,393.2	9,111.4
ST Borrowings	5,807.6	5,433.7	5,457.3	5,454.9	5,448.6
Total Liability	**17,303.2**	**15,503.2**	**15,042.2**	**14,848.1**	**14,560.0**
Share Capital	3,698.6	3,698.6	3,986.5	3,986.5	3,986.5
Other Equity	3,276.7	3,629.3	3,694.0	4,974.7	4,578.8
Total Equity	**6,975.3**	**7,327.9**	**8,089.1**	**8,565.6**	**8,565.3**
Liability + Equity	**24,278.5**	**22,831.1**	**23,131.3**	**23,413.6**	**23,125.3**

Cash Flow (RM'm)	2020A	2021A	2022A	2023F	2024F
Pretax Profit	1,272.30	1,239.70	1,677.50	1,826.70	1,932.40
Cash flow from operation	2,686.40	2,975.60	3,265.80	3,167.83	3,104.47
Cash flow from investing	- 1,246.70	- 2,320.20	- 1,334.90	- 1,334.90	- 1,334.90
Cash flow from financing	- 2,071.40	- 2,946.10	- 1,465.60	- 1,538.88	- 1,615.82
Net decrease in Cash and Cash Equivalents	- 631.70	- 2,290.70	465.30	294.05	153.75
Effect of exchange rate changes	- 8.00	24.30	- 1.00	- 1.00	- 1.00
Beginning cash flow	**4,786.10**	**4,146.40**	**1,880.00**	**2,344.30**	**2,637.35**
Ending cash flow	**4,146.40**	**1,880.00**	**2,344.30**	**2,637.35**	**2,790.09**

Profitability Margins (%)	2020A	2021A	2022A	2023F	2024F
EBITDA	35.9	37.7	40.9	38.5	38.5
EBIT	14.9	14.8	17.2	17.0	17.0
Normalised PATAMI	9.1	8.8	10.2	11.7	11.7

Source: Bloomberg, 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