Telekom Malaysia Berhad

***Maintain* NEUTRAL**

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

Revenue Pressure to Persist

***Revised Target* Price: RM6.78**
(Previously RM7.03)

KEY INVESTMENT HIGHLIGHTS

- **Maintain NEUTRAL with a revised target price of RM6.78 following the 3QFY24 results announcement**
- **In 3QFY24, higher taxation continues to negate the optimism brought about by effective cost management**
- **This, nonetheless, was within our expectation as 9MFY24 earnings of RM1.3b made up 76.2% of full year FY24 earnings estimates**
- **Main concern lies with the group's ability to grow the revenue**

Commendable cost control. We are keeping our **NEUTRAL** recommendation on Telekom Malaysia (TM) with a revised **target price of RM6.78** pursuant to the release of its 3QFY24 results. We continue to see some pressure to improve revenue, especially for unifi and TM Global. Nonetheless, due to stringent cost management, PBT has recorded a good double-digit improvement. The optimism was negated by the normalizing tax payment in absence of tax credit as seen in FY23. This has led to downward earnings pressure. We expect the trend to continue to be seen in 4QFY24.

Contraction in earnings. TM's 3QFY24 earnings declined by -13.6%yoy to RM465.1m. This was mainly attributable to the higher effective tax rate for the quarter-in-review in absence of tax credit observed in 3QFY23.

Meanwhile, 3QFY24 revenue was also down marginally by -1.2%yoy to RM 2.9b due to lower contributions from unifi and TM Global (*refer to Figure 1*). Despite this, 3QFY24 PBT came in higher at RM668.2m (+32.3%yoy) in view of lower cost across all line items, except for operational cost which increased by +24.3%yoy.

Figure 1: 3QFY24 revenue performance

Segment	3QFY24	3QFY23	Change (%)	Remark
unifi	1,396	1,410	-1.0	New subscriber at entry level prices, lower voice and mobile services and more promotional discounts
TM One	711	698	1.9	Higher customer projects and other telecommunication services
TM Gobal	787	819	-3.9	Lower global voice traffic and lower managed wavelength during the period

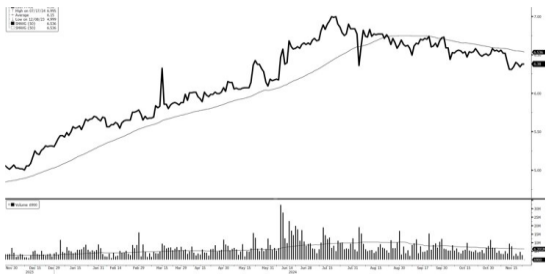
Source: Company, MIDFR

On track to meet full year estimates. On a cumulative basis, 9MFY24 earnings amounted to RM1,286.3m, a decline of -10.5%yoy. This came in at 76.2% of our full year FY24 earnings estimates of RM1.7b. Note that we have assumed FY24 earnings to reduced by -9.7%yoy premised on the higher effective tax rate. On another note, it came in at the higher end of consensus expectation at 79.4%.

Manpower cost remains the biggest component of total cost. The total cost to revenue ratio for 3QFY24 stood at 80.5%, which is an improvement from 82.7% observed in 3QFY23. The lower cost ratio was mainly caused by decline in direct cost (-9.8%), manpower (-6.3%yoy)

RETURN STATISTICS	
Price @ 25th November 2024 (RM)	6.38
Expected share price return (%)	+6.3
Expected dividend yield (%)	+2.9
Expected total return (%)	**+9.2**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-1.2	0.6
3 months	-4,8	-3.8
12 months	21.2	10.9

INVESTMENT STATISTICS (RM)

FYE December	2024E*	2025F	2026F
Revenue	12,463.3	12,650.9	12,809.1
Operating Profit	2,161.7	2,323.6	2,431.4
Profit Before Tax	1,980.7	2,204.1	2,322.6
Core PATAMI	1,688.9	1,528.4	1,611.3
Core EPS (sen)	44.0	39.8	42.0
DPS (sen)	17.0	18.5	19.5
Dividend Yield (%)	2.7	2.9	3.1

KEY STATISTICS	
FBM KLCI	1,603.15
Issue shares (m)	3837.60
Estimated free float (%)	66.90
Market Capitalisation (RM'm)	24561.31
52-wk price range	RM5.21 –
3-mth average daily volume (m)	6.41
3-mth average daily value (RM'm)	42.36
Top Shareholders (%)	
Khazanah Nasional Bhd	19.65
Employees Provident Fund Board	15.56
Amanah Saham Nasional Bhd	10.35

Foo Chuan Loong, Martin
martin.foo@midf.com.my

and depreciation and amortisation cost (-7.8%yoy). This was partially offset by the increase in operational cost (+24.3%yoy). Nonetheless, in absolute value term, manpower cost is the largest cost component, followed by direct cost.

Optimal capital spending. 3QFY24 capex shrunk by -29.9%yoy to RM307m, led by lower capex spend across access (-17.4%yoy), core (-51.1%yoy) and support (-38.5%yoy). Premised on this, we view that FY24 capex could come at the lower end of the management guidance of between 14% and 18% of revenue. Nonetheless, we expect the usual seasonality in capex to remain, whereby quarterly capex will peak in the fourth quarter.

Revision in target price. While earnings came in within our expectations, our target price has been adjusted lower to **RM6.78** from RM7.03 previously as we updated our WACC assumptions higher to 8.6% from 8.4% to better reflect the group's current cost of capital structure.

TELEKOM MALAYSIA BHD: 3QFY24 RESULTS SUMMARY

Financial year ending 31st December (in Rm'm, unless other stated	Quarterly			Cumulative		
	3Q24	YoY (%)	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue	2,917.1	-1.2	0.3	8,662.0	8,698.2	-0.4
EBITDA	1,230.5	8.9	6.2	3,544.9	3,400.7	4.2
Depreciation and amortisation	-524.8	-7.8	-2.5	-1,601.6	-1,793.4	-10.7
EBIT	705.7	25.8	13.8	1,943.3	1,607.3	20.9
Finance costs	-70.3	-19.7	-16.4	-233.4	-272.4	-14.3
Finance income	32.5	19.0	18.2	91.1	70.0	30.1
Associate contribution	0.3	-92.7	-86.4	4.8	9.9	-51.5
Profit before tax	668.2	32.3	18.2	1,805.8	1,414.8	27.6
Taxation	-204.0	-648.4	26.3	-509.8	30.2	-1788.1
Profit after tax	464.2	-14.4	14.9	1,296.0	1,445.0	-10.3
Non-controlling interest	-0.9	-122.5	-111.8	9.7	8.0	21.3
PATANCI	465.1	-13.6	17.3	1286.3	1437	-10.5
EPS (sen)	12.1	-13.6	17.3	76.2	37.4	103.4
		+/-ppts	+/-ppts			+/-ppts
EBITDA margin (%)	42.2	3.9	2.3	40.9	39.1	1.8
EBIT margin (%)	24.2	5.2	2.9	22.4	18.5	4.0
PATANCI margin (%)	15.9	-2.3	2.3	14.8	16.5	-1.7
Effective tax rate (%)	30.5	37.9	2.0	28.2	-2.1	30.4

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024E	2025F	2026F
Revenue	12,118.1	12,255.6	12,463.3	12,650.9	12,809.1
EBITDA	4,850.5	4,913.0	5,080.1	5,106.3	5,112.7
EBIT	1,987.6	2,050.1	2,161.7	2,323.6	2,431.4
Profit before tax	1,686.5	1,808.5	1,980.7	2,204.1	2,322.6
PATANCI	1,143.3	1,870.5	1,688.9	1,528.4	1,611.3
EPS (sen)	30.0	48.7	44.0	39.8	42.0
EPS Growth (%)	27.7	62.5	-9.7	-9.5	5.4
PER (x)	21	13	14	16	15
Dividend Per Share (sen)	16.5	25	17	18.5	19.5
Dividend yield (%)	2.6	3.9	2.7	2.9	3.1

Balance Sheet (RM'm)	2022A	2023A	2024E	2025F	2026F
Fixed assets	13,547.0	13,026.4	12,351.4	11,845.8	11,470.1
Intangible assets	745.8	903.0	903.0	903.0	903.0
Others	2,439.1	2,491.4	2,504.5	2,517.6	2,530.7
Non-current assets	**16,731.9**	**16,420.8**	**15,758.9**	**15,266.4**	**14,903.8**
Cash	2,579.4	2,955.2	4,677.5	6,011.2	7,258.4
Trade debtors	2,312.3	2,275.0	2,313.6	2,348.4	2,377.7
Others	1,507.7	1,284.8	1,288.3	1,291.4	1,294.0
Current assets	**6,399.4**	**6,515.0**	**8,279.3**	**9,651.0**	**10,930.2**
Trade creditors	3,718.0	3,033.3	3,084.7	3,131.1	3,170.3
Short-term debt	309.7	1,226.4	1,226.4	1,226.4	1,226.4
Others	1,429.6	1,614.5	1,614.5	1,614.5	1,614.5
Current liabilities	**5,457.3**	**5,874.2**	**5,925.6**	**5,972.0**	**6,011.2**
Long-term debt	4,959.6	3,536.8	3,536.8	3,536.8	3,536.8
Others	4,625.3	4,202.2	4,202.2	4,202.2	4,202.2
Non-current liabilities	**9,584.9**	**7,739.0**	**7,739.0**	**7,739.0**	**7,739.0**
Share capital	3,986.5	4,070.2	4,070.2	4,070.2	4,070.2
Retained earnings	3,730.0	4,950.9	5,987.3	6,805.7	7,668.6
Other reserve	220.0	141.9	141.9	141.9	141.9
Minority interest	152.6	159.6	174.1	188.6	203.1
Equity	**8,089.1**	**9,322.6**	**10,373.5**	**11,206.4**	**12,083.8**

Cash Flow (RM'm)	2022A	2023A	2024E	2025F	2026F
PBT	1,686.5	1,808.5	1,980.7	2,204.1	2,322.6
Depreciation & amortisation	2,795.7	2,862.9	2,918.4	2,782.7	2,681.3
Others	-1,216.4	-985.3	-434.5	-880.8	-928.4
Operating cash flow	**3,265.8**	**3,686.1**	**4,464.6**	**4,106.0**	**4,075.5**
Capital expenditure	-2,663.8	-2,193.1	-2,193.1	-2,243.4	-2,277.2
Others	1,328.9	549.2	103.2	181.2	197.2
Investing cash flow	**-1,334.9**	**-1,643.9**	**-2,089.9**	**-2,062.2**	**-2,079.9**
Debt raised/(repaid)	**-571.1**	0.0	0.0	0.0	1.0
Dividends paid	-386.9	-649.6	-649.6	-652.5	-710.0
Others	-507.6	-1,038.2	-1,038.2	0.0	-1.0
Financing cash flow	**-1,465.6**	**-1,687.8**	**-1,687.8**	**-652.5**	**-710.0**
Net cash flow	**465.3**	**354.4**	**1,722.3**	**1,333.7**	**1,247.2**
Effect of exchange rate changes	**-1.0**	**0.0**	**0.0**	**0.0**	**1.0**
Beginning cash flow	**1,880.0**	**2,344.8**	**2,697.9**	**4,420.2**	**5,753.9**
Ending cash flow	**2,344.8**	**2,697.9**	**4,420.2**	**5,753.9**	**7,001.1**

Profitability Margins	2022A	2023A	2024E	2025F	2026F
EBITDA margin	**40.0**	**40.1**	**40.8**	**40.4**	**39.9**
PBT margin	**13.9**	**14.8**	**15.9**	**17.4**	**18.1**
PATAMI margin	**9.4**	**15.3**	**13.6**	**12.1**	**12.6**

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