Corporate Update

Telekom Malaysia Berhad

(4863 | T MK) Main | Telco

SHARIAH Compliant | ESG 4 Stars | FTSE4Good

Upgrade to BUY

(from NEUTRAL)

Revised Target Price **RM9.04**
(from RM8.31)

On A Sounder Footing

Anticipating a steadier earnings growth. We are upgrading our recommendation for Telekom Malaysia to BUY from neutral with a revised target price of RM9.04 (previously RM8.31). Among the three revenue segments, we anticipate TM Global to grow at a faster pace. This will be supported by the optimism in Data Centre (DC) business which will also has positive spillover effect for TM One. Meanwhile, unifi remains a stable and growing segment which typically account for close to half of the group's revenue, sustained by the steady subscriber base and ARPU appreciation. On another note, we anticipate profit margin to expand steadily due to more favourable cost structure. Finally, dividend yield of close to five percent would add further appeal.

Growth from TM Global to outperform other segments. As at 1HFY26, revenue form TM Global recorded growth of +6.8%yoy. In comparison, revenue from unifi and TM One grew by + 5.2%yoy and +1.9%yoy respectively. Moving forward, we anticipate TM Global to remains the main growth driver. This will be supported by upbeat revenue contribution from its data centre business notably phase 2 of Klang Valley Data Centre (KVDC) and Iskandar Puteri Data Centre (IPDC) as well as the upcoming TM Nxera AI-ready DC. Due to overwhelming demand, we understand that management is actively looking into organic as well as inorganic growth to further grow the DC portfolio.

Apart from DC business, income from the submarine cable portfolio is expected to expand as well. The next addition would be the Asia Link Cable with RFS expected in 2Q27. Beyond this, the Candle submarine cable system is also scheduled to go live in 2028. Notwithstanding this, we view that TM could potentially won the SALAM Submarine Cable System which a new submarine cable system linking Peninsular Malaysia, Sabah and Sarawak. To recall, previously TM won the SKR1M submarine cable system which started operations in 2017.

Unifi remains the backbone of TM's revenue. As at 2Q26, unifi revenue made up 49.3% of the group's revenue. This was premised on the steady pool Unifi customer of around 3.2m (+1.9%yoy). Given the competitive landscape, we do not anticipate significant expansion in the subscriber base. However, we view that the revenue growth of Unifi would be supported by the ARPU growth which saw a +4.8%yoy in 2Q26 to RM132. At RM132/mth, this is slightly above the 100mpbs and 300mbps standalone broadband plan of RM89/mth and RM129/mth respectively. This shows that the converge strategies has been effective in improving the yield per customer. Thus, we anticipate the trend to continues, supported by expansion of the content bundling proposition as well as device bundling such as TV, laptop and tablet.

RETURN STATISTICS	
Price @ 3rd November 2026 (RM)	7.90
Expected share price return (%)	+14.4
Expected dividend yield (%)	+4.9
Expected total return (%)	+19.3

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.3	2.0
3months	-1.0	9.0
12 months	9.2	9.4

INVESTMENT STATISTICS

FYE Dec	2026E	2027F	2028F
Revenue	12,291.3	12,532.5	12,789.6
Operating Profit	2,486.6	2,616.2	2,746.0
Profit Before Tax	2,372.4	2,508.0	2,644.2
Core PATAMI	1,805.6	1,910.1	2,014.9
Core EPS	47.0	49.8	52.5
DPS	37.5	38.8	40.2
Dividend Yield	4.7	4.9	5.1

KEY STATISTICS

FBM KLCI	1,621.85
Issue shares (m)	3,837.70
Estimated free float (%)	76.17
Market Capitalisation (RM'm)	30,433.27
52-wk price range	RM6.93 – RM8.25
5.22	3.81
3-mth average daily value (RM'm)	29.97
Top Shareholders (%)	
Employees Provident Fund Board	24.34
Khazanah Nasional Bhd	20.10
Kumpulan Wang Persaraan Diperbadan	9.00

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Cost-to-revenue ratio to trend lower. As at 1H26, we note that the cost-to-revenue ratio has spike to 84.6. This was mainly led by the higher staff cost as a result of the VSS exercise, additional cost of broadcasting FIFA as well as 5G MOCN write-down. Moving forward, we anticipate the cost-to-revenue ratio to move toward the 80% mark. Manpower cost should trend lower as it reaps the benefit of the executed VSS programmed and expected lower uptake in future VSS programmed. Meanwhile, the group should also incur less 5G cost as it migrates its Unifi Mobile 5G services from Digital Nasional Bhd to U Mobile's 5G network.

Earnings and target price adjustment. Taking into consideration the above developments, we tweak FY26-28 earnings estimates higher by between +1.2% to +2.3%. Consequently, our DCF-derived target price has been revised upwards to RM9.04 while we maintain our DCF parameters.

FINANCIAL SUMMARY

Profit or Loss (RM'm)	2024A	2025A	2026E	2027F	2028F
Revenue	11,712.4	11,872.0	12,291.3	12,532.5	12,789.6
EBITDA	4,495.6	4,520.2	4,666.4	4,794.5	4,919.8
EBIT	2,346.2	2,341.5	2,486.6	2,616.2	2,746.0
Profit before tax	2,177.2	2,126.4	2,372.4	2,508.0	2,644.2
Normalised PATANCI	**1,584.5**	**1,713.0**	**1,805.6**	**1,910.1**	**2,014.9**
EPS (sen)	41.3	44.6	47.0	49.8	52.5
EPS Growth (%)	-15.3	8.1	5.4	5.8	5.5
PER (x)	19.1	17.7	16.8	15.9	15.1
Dividend Per Share (sen)	31.0	31.0	37.5	38.8	40.2
Dividend yield (%)	3.9	3.9	4.7	4.9	5.1

Balance sheet	2024A	2025A	2026E	2027F	2028F
Fixed assets	11,429.3	11,407.7	11,440.4	11,392.6	11,393.0
Intangible assets	839.5	775.2	775.2	775.2	775.2
Others	1,956.2	2,071.7	2,076.0	2,080.3	2,084.6
Non-current assets	**14,225.0**	**14,254.6**	**14,291.6**	**14,248.1**	**14,252.8**
Cash	3,096.2	2,622.8	3,007.8	3,513.0	4,024.3
Trade debtors	2,518.0	2,307.0	2,388.5	2,435.3	2,485.3
Others	1,323.3	1,274.8	1,286.1	1,292.6	1,299.6
Current assets	**6,937.5**	**6,204.6**	**6,682.4**	**7,241.0**	**7,809.2**
Trade creditors	3,270.4	3,610.9	3,738.4	3,811.8	3,890.0
Short-term debt	1,381.0	510.9	510.9	510.9	510.9
Others	1,633.9	1,609.1	1,609.1	1,609.1	1,609.1
Current liabilities	**6,285.3**	**5,730.9**	**5,858.4**	**5,931.8**	**6,010.0**
Long-term debt	2,109.9	1,550.9	1,550.9	1,550.9	1,550.9
Others	2,501.4	2,416.3	2,416.3	2,416.3	2,416.3
Non-current liabilities	**4,611.3**	**3,967.2**	**3,967.2**	**3,967.2**	**3,967.2**
Share capital	4,070.7	4,070.9	4,070.9	4,070.9	4,070.9
Retained earnings	5,893.3	6,428.2	6,794.3	7,215.0	7,688.7
Other reserve	135.7	88.1	88.1	88.1	88.1
Minority interest	166.2	173.9	195.0	216.1	237.2
Equity	**10265.9**	**10761.1**	**11148.3**	**11590.1**	**12084.9**

Cash Flow (RM'm)	2024A	2025A	2026E	2027F	2028F
PBT	2,177.2	2,126.4	2,372.4	2,508.0	2,644.2
Depreciation & amortisation	2,149.4	2,178.7	2,179.8	2,178.3	2,173.8
Others	-316.0	-786.2	-636.0	-688.0	-724.3
Operating cash flow	**4,010.6**	**3,518.9**	**3,916.2**	**3,998.4**	**4,093.7**
Capital expenditure	-2,193.1	-1,380.9	-1,736.5	-2,212.4	-2,130.5
Others	1,190.9	183.9	-355.2	208.7	89.4
Investing cash flow	**-1,002.2**	**-1,197.0**	**-2,091.7**	**-2,003.7**	**-2,041.1**
Debt raised/(repaid)	0.0	0.0	0.0	0.0	1.0
Dividends paid	-649.6	-1,074.5	-1,189.7	-1,439.5	-1,489.4
Others	-1,038.2	-1,634.0	-1,619.7	0.0	-1.0
Financing cash flow	**-1,687.8**	**-2,708.5**	**-2,809.4**	**-1,439.5**	**-1,489.4**
Net cash flow	299.9	-487.5	385.0	505.2	511.3
Effect of exchange rate changes	0.0	0.0	0.0	0.0	1.0
Beginning cash flow	**2,697.9**	**2,973.1**	**2,485.7**	**2,870.7**	**3,375.9**
Ending cash flow	**2,973.1**	**2,485.7**	**2,870.7**	**3,375.9**	**3,887.2**

Profitabily margins (%)	2024A	2025A	2026E	2027F	2028F
EBITDA margin	**38.4**	**38.1**	**38.0**	**38.3**	**38.5**
PBT margin	**18.6**	**17.9**	**19.3**	**20.0**	**20.7**
PATAMI margin	**13.5**	**14.4**	**14.7**	**15.2**	**15.8**

Source: Company, MBSBR

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MBSB INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
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	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.

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