

Lee Cherng Wee

(603) 7890 8888 (ext 2067)

leecw@apexsecurities.com.my

Recommendation:	BUY
Current Price:	RM 5.23
Previous Target Price:	RM 6.31
Target Price:	RM 6.50
Upside/Downside:	24.3%

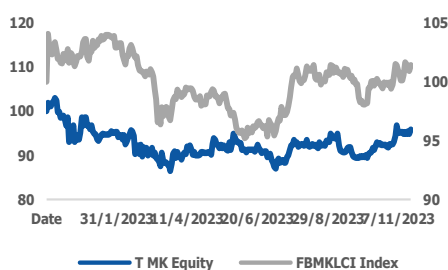
Stock information

Board	MAIN
Sector	Telecommunication
Bursa / Bloomberg Code	4863 / T MK
Syariah Compliant	Yes
FTSE4Good Index	Yes
FTSE ESG Rating	★★★★
Bloomberg ESG Rating	N/A
Shares issued (m)	3,836.6
Market Cap (RM' m)	20,065.4
52-Week Price Range (RM)	4.74-5.7
Beta (x)	0.9
Free float (%)	33.2
3M Average Volume (m)	2.5
3M Average Value (RM' m)	12.9

Top 3 Shareholders (%)

Khazanah Nasional Bhd	20.1
Employees Provident Fund Board	17.2
Amanah Saham Nasional Bhd	15.1

Share Price Performance



	1M	3M	12M
Absolute (%)	3.4	3.4	-6.3
Relative (%)	2.1	2.7	-3.1

Telekom Malaysia Berhad

Boosted by tax reversal

Summary

- Telekom Malaysia's 9MFY23 net profit of RM1.44b was above our expectations due to reversal of tax losses.
- Looking ahead, we opine that Broadband revenue from Unifi will continue to lead TM's growth despite the recent revision of MSAP.
- We maintain our BUY recommendation with a higher target price of RM6.50 (WACC 9.6%, terminal growth 0.5%).

Results Review

- **Results review.** 3QFY23 net profit doubled yoy to RM538.0m, thanks to lower finance cost and tax reversal. Revenue for the quarter, however, fell 2.6% yoy to RM3.08b as decline in Voice (-11% yoy to RM546.6m), Data (-1.6% yoy to RM887.8m) and Others (-11% yoy to RM487.9m) overshadowed higher revenue from Internet (+5.7% yoy to RM1.15b).
- **Above expectations.** In 9MFY23, cumulative net profit at RM1.44b accounted to 107% and 94% of our and consensus forecasts. The variance was mainly due to reversal of tax losses from a subsidiary following an internal restructuring. Management, however, did not guide about the remaining unutilised tax losses. Nevertheless, 9MFY23 revenue was in line with expectations after hitting 74% of our estimate and consensus.
- **Operations Highlights.** Unifi continues to lead growth after subscribers climbed 19k to 3.08m while ARPU edged higher to RM131 vs RM130 in 2Q23. Meanwhile, Streamyx subscribers continue to decline (-9k to 37k) following customer migration to Unifi.
- **Industry Highlights.** Competition in the broadband segment has intensified after the government lowered the mandatory standard on access pricing (MSAP) in September 2023. We expect minimal impact on TM in 4Q23 given its position of market leader.
- **Outlook.** Despite the recent price reduction to their packages, the management is confident in achieving 2023 guidance of flat revenue, EBIT of RM1.8b-RM2.0b and capex/revenue of 18%-20%.
- **Valuation.** Lifted our FY23 earnings forecast by 37% to adjust for the tax reversal. Re-iterate our **BUY** recommendation with a higher target price of RM6.50 (previously RM6.31).
- **Risk.** Price slashing by competitors. Changes in government regulations. Higher-than-expected capex affecting cashflow and dividend.

Figure 1: Results Comparison

FYE Dec (RM m)	3QFY23	3QFY22	YoY (%)	2QFY23	QoQ (%)	9MFY22	9MFY23	YoY (%)	5 Quarters Trend	Comments
Revenue	3,076.3	3,158.1	(2.6)	3,098.5	(0.7)	9,139.4	9,126.3	(0.1)		All segments lower except Internet
EBITDA	1,235.6	1,258.9	(1.9)	1,282.5	(3.7)	3,747.3	3,767.4	0.5		
Pre-tax profit	505.0	460.3	9.7	488.8	3.3	1,472.5	1,414.8	(3.9)		
Net profit	538.2	265.2	102.9	569.0	(5.4)	983.2	1,437.3	46.2		Tax reversal
Core net profit	538.2	265.2	102.9	569.0	(5.4)	983.2	1,437.3	46.2		
Core EPS (sen)	14.0	6.9	102.9	14.8	(5.4)	25.6	37.5	46.2		
EBITDA margin (%)	40.2	39.9		41.4		41.0	41.3			
PBT margin (%)	16.4	14.6		15.8		16.1	15.5			
Core PATAM margin (%)	17.5	8.4		18.4		10.8	15.7			

Source: Company, Apex Securities

Financial Highlights
Income Statement

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Revenue	11529.0	12118.1	12350.9	12741.2	13054.6
EBITDA	4344.8	4953.1	5094.7	5255.8	5417.6
Depreciation & Amortisation	-2635.0	-2862.9	-2964.2	-2930.5	-3067.8
EBIT	1709.8	2090.2	2130.5	2325.3	2349.8
Net Finance Income/ (Cost)	-40.7	-312.3	-296.4	-305.8	-326.4
Associates & JV	12.0	11.2	12.4	12.7	13.1
Pre-tax Profit	1246.5	1686.5	1846.5	2032.2	2036.5
Tax	-368.9	-542.3	0.0	-548.7	-509.1
Profit After Tax	877.9	1144.2	1846.5	1483.5	1527.4
Minority Interest	17.3	-0.9	0.0	0.0	0.0
Net Profit	895.2	1143.3	1846.5	1483.5	1527.4
Exceptionals	0.0	1.0	2.0	3.0	4.0
Core Net Profit	895.2	1143.3	1846.5	1483.5	1527.4

Key Ratios

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
EBITDA margin	37.7%	40.9%	41.3%	41.3%	41.5%
EBIT margin	14.8%	17.2%	17.3%	18.3%	18.0%
PBT margin	10.8%	13.9%	15.0%	16.0%	15.6%
PAT margin	7.6%	9.4%	15.0%	11.6%	11.7%
NP margin	7.8%	9.4%	15.0%	11.6%	11.7%
Core NP margin	7.8%	9.4%	15.0%	11.6%	11.7%
ROE	12.2%	14.1%	20.5%	15.2%	14.6%
ROA	5.4%	6.8%	10.2%	8.4%	8.7%
Net gearing	64.9%	54.2%	27.0%	27.7%	15.7%

Key Assumptions

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Unifi subscribers ('000)					
Streamyx subscribers ('000)					
Unifi ARPU (RM)					
Streamyx ARPU (RM)					

Valuations

	FY24f
Terminal growth rate	0.50%
WACC	9.60%

Fair Value (RM) 6.50

Source: Company, Apex Securities

Balance Sheet

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Cash	2846.7	2658.6	3699.7	2272.4	1723.8
Receivables	825.6	910.7	1235.1	1274.1	1305.5
Other current assets	2830.1	4144.9	4154.6	3206.6	0.0
Total Current Assets	9079.7	7701.2	6235.8	0.0	0.0
Fixed Assets	14564.3	14700.7	14333.2	14261.5	14332.8
Receivables	588.0	311.6	617.5	637.1	652.7
Other non-current assets	1505.6	1719.6	3087.7	2866.8	2610.9
Total Non-current assets	16657.9	16731.9	18038.4	17765.4	17596.5
Short-term Debt	711.9	540.0	1445.0	1878.4	255.5
Payables	3618.0	3833.3	3087.7	3185.3	3590.0
Other Current Liabilities	1103.8	1084.0	617.5	637.1	652.7
Total Current Liabilities	5433.7	5457.3	6595.2	7579.2	4753.8
Long-term Debt	6891.8	6503.8	4685.9	3087.6	3111.1
Other non-current liabilities	3177.7	3081.1	2161.4	2229.7	2610.9
Total Non-current Liabilities	10069.5	9584.9	11533.2	8404.9	8833.1
Shareholder's equity	7502.5	7936.5	8839.7	9581.5	10345.2
Minority interest	-174.6	152.6	150.0	150.0	150.0
Equity	7327.9	8089.1	8989.7	9731.5	10495.2

Cash Flow

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Operating cash flow	3052.3	3323.3	4786.6	4063.5	3951.8
Net capex	-1777.8	-2415.1	-2572.6	-2508.3	-2495.8
Others	-635.7	1006.1	0.0	0.0	0.0
Investing cash flow	-2396.9	-1392.4	-2572.6	-2508.3	-2495.8
Dividends paid	-547.2	-386.9	-923.2	-741.8	-763.7
Debt drawdown	0.0	1.0	2.0	3.0	4.0
Debt repayment	-2390.9	-1071.0	-250.0	-1200.0	-1627.6
Others	-8.0	-7.7	0.0	0.0	0.0
Financing cash flow	-2946.1	-1465.6	-1173.2	-1941.8	-2391.3
Net cash flow	-2266.4	464.3	1040.7	-386.6	-935.2
Forex	24.3	-1.0	0.0	0.0	0.0
Beginning cash	4484.9	2846.7	2659.0	2659.0	2659.0
Ending cash	2846.7	2658.6	3699.7	2272.4	1723.8

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD	DEALING TEAM	RESEARCH TEAM
<p>Head Office: 6th Floor, Menara Apex, Off Jalan Semenyih, Bukit Mewah 43000 Kajang, Selangor Darul Ehsan, Malaysia</p> <p>General Line: (603) 8736 1118</p> <p>Mutiara Damansara Office: 5th Floor Menara UAC, 12, Jalan PJU 7/5, Mutiara Damansara, 47800 Petaling Jaya, Selangor Darul Ehsan, Malaysia</p> <p>General Line: (603) 7890 8899</p>	<p>Head Office: Kong Ming Ming (ext 2002) Shirley Chang (ext 2026) Norisam Bojo (ext 2027) Ahmad Mujib (ext 2028)</p> <p>Institutional Dealing Team: Siti Nur Nadhirah (ext 2032)</p> <p>PJ Office: General Line: (603) 7620 1118 Azfar Bin Abdul Aziz (Ext 822)</p>	<p>Mutiara Damansara Office: Kenneth Leong (ext 2093) Lee Cherng Wee (ext 2067) Steven Chong (ext 2068) Jayden Tan (ext 2069)</p>

RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY: Total returns* are expected to exceed 10% within the next 12 months.
HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.
SELL: Total returns* are expected to be below -10% within the next 12 months.
TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.
TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.
 *Capital gain + dividend yield

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.
NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

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