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Telekom Malaysia Berhad

Flattish outlook ahead

Recommendation:	HOLD
Current Price:	RM 5.91
Previous Target Price:	RM 6.50
Target Price:	↔ RM 6.50
Upside/Downside:	10.0%

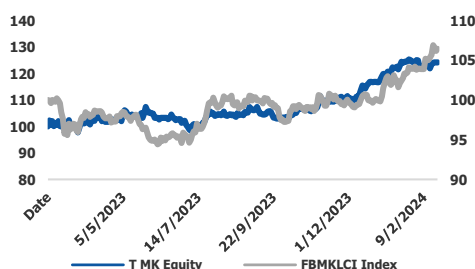
Stock information

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)	3,837.6
Market Cap (RM' m)	22,680.4
52-Week Price Range (RM)	4.74-6.08
Beta (x)	0.8
Free float (%)	33.6
3M Average Volume (m)	4.1
3M Average Value (RM' m)	23.5

Top 3 Shareholders (%)

Khazanah Nasional Bhd	20.1
Employees Provident Fund Board	17.3
Amanah Saham Nasional Bhd	15.1

Share Price Performance



	1M	3M	12M
Absolute (%)	-0.3	11.9	16.8
Relative (%)	-3.1	5.1	9.8










Summary

- **Telekom Malaysia's FY23 net profit of RM1.87b was within our expectations after another quarter of tax reversal.**
- **Looking ahead, we opine that Broadband revenue from Unifi will continue to lead TM's growth.**
- **Following the recent share price appreciation, we downgrade our recommendation to HOLD with an unchanged target price of RM6.50 (WACC 9.6%, terminal growth 0.5%).**

Results Review

- **Results review.** 4QFY23 net profit jumped 170.6% yoy to RM433.5m, mainly due to utilisation of tax losses from a subsidiary following an internal restructuring. Net profit, however, dropped -19.5% qoq due to higher direct and operational costs. Revenue for the quarter rose 5.1% yoy and 1.7% qoq to RM3.13b as growth in revenues from Internet (+4.9% yoy to RM1.16b), Data (+7% yoy to RM865.7m) and Others (+15.1% yoy to RM5673m) were able to cushion the decline in Voice (-6.1% yoy to RM533.2m).
- **Within expectations.** Despite the lower qoq performance, FY23 cumulative net profit grew 63.6% yoy to RM1.87b to meet our forecast of RM1.85b and exceeded consensus of RM1.69b. FY23 revenue of RM12.3b was in line with expectations after hitting 99% and 100% of our estimate and consensus.
- **Operations Highlights.** Unifi extended its growth momentum after subscribers grew by 19k to 3.1m while ARPU was steady at RM131. TM One rebounded in 4Q23 after deferred customer projects in 3Q23.
- **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.** After achieving its 2023 guidance, the management revealed a flattish 2024 guidance of low single digit revenue growth, EBIT of RM2.1b-RM2.2b (from RM1.8b-2.0b last year) and capex/revenue of 14%-18%.
- **Valuation.** Given that the reported results came within expectations, we maintained our FY24F and FY25F earnings forecast. Following the recent share price appreciation, we downgrade TM to **HOLD** with an unchanged target price of RM6.50 (WACC 9.6%, terminal growth 0.5%).
- **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)	4QFY23	4QFY22	YoY (%)	3QFY23	QoQ (%)	FY22	FY23	YoY (%)	5 Quarters Trend	Comments
Revenue	3,129.3	2,978.3	5.1	3,076.3	1.7	12,118.1	12,255.6	1.1		Led by higher Internet revenue
EBITDA	1,116.7	1,205.9	(7.4)	1,235.6	(9.6)	4,953.1	4,884.1	(1.4)		Higher direct and operational costs
Pre-tax profit	393.7	214.0	84.0	505.0	(22.0)	1,686.5	1,808.5	7.2		
Net profit	433.5	160.4	170.3	538.2	(19.5)	1,144.2	1,870.5	63.5		
Core net profit	433.5	160.4	170.3	538.2	(19.5)	1,143.2	1,870.5	63.6		
Core EPS (sen)	11.3	4.2	170.3	14.0	(19.5)	30.2	48.9	61.9		
EBITDA margin (%)	35.7	39.9		41.4		40.9	39.9			
PBT margin (%)	12.6	14.6		15.8		13.9	14.8			
Core PATAMI margin (%)	13.9	8.4		18.4		9.4	15.3			

Source: Company, Apex Securities

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)	-410.7	-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	0.0	0.0	0.0	0.0
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	3.5%	4.7%	7.6%	6.1%	7.4%
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	6753.1	3029.2
Fixed Assets	14564.3	14700.7	14333.2	14261.5	14332.8
Receivables	588.0	3116	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	7119	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
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

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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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