

**Steven Chong**  
 (603) 7890 8888 (ext 2068)  
[stevenchong@apexsecurities.com.my](mailto:stevenchong@apexsecurities.com.my)

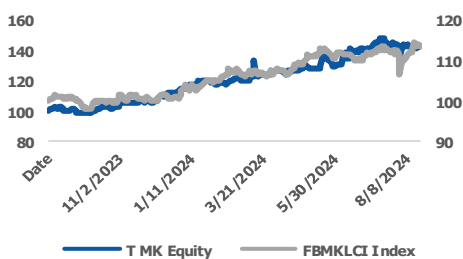
<b>Recommendation:</b>	<b>HOLD</b>
<b>Current Price:</b>	<b>RM 6.76</b>
<b>Previous Target Price:</b>	<b>RM 6.48</b>
<b>Target Price:</b>	<b>RM 7.21</b>
<b>Upside/Downside:</b>	<b>6.7%</b>

**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)	3,837.7
Market Cap (RM' m)	25,942.9
52-Week Price Range (RM)	7.19-4.85
Beta (x)	0.9
Free float (%)	66.9
3M Average Volume (m)	10.0
3M Average Value (RM' m)	67.3

<b>Top 3 Shareholders</b>	<b>(%)</b>
Khazanah Nasional Bhd	19.7
Employees Provident Fund Board	17.7
Amanah Saham Nasional Bhd	10.4

**Share Price Performance**



	<b>1M</b>	<b>3M</b>	<b>12M</b>
Absolute (%)	-2.0	4.0	33.6
Relative (%)	-3.6	2.7	17.7

# Telekom Malaysia Berhad

## Within expectations

### Summary

- Telekom reported 2QFY24 core net profit of RM397.8m (+0.1% qoq, -26.5% yoy) and 1HFY24 core net profit of RM795.1m (-8.4% yoy), which was in-line with ours and consensus' expectations, accounting for 50% of both forecasts respectively.
- Kept our earnings forecast unchanged for FY24 but revised our FY25-FY26 earnings by +2.7%/+2.5%, incorporating the earlier-than-anticipated earnings contribution from the data center.
- Re-iterate our HOLD recommendation with a higher target price of RM7.21 based on DCF valuation (WACC of 8.3% with a long-term growth rate of 0.5%).



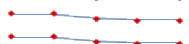






### Results Review

- **Results review.** 2QFY24 core net profit stands at RM397.8m, fell -26.5% yoy but flat qoq. The tepid yoy performance stemmed from higher manpower cost (+22.8% yoy) due to salary adjustment as well as increase in provision for labour settlement. Similarly, revenue declined by -1.7% yoy (+2.5% qoq) attributed to lackluster performance across all TM's business division.
- **Results within expectations.** 1HFY24 CNP of RM795.1m came within expectations, making up to 50% of both our and consensus expectations.
- **Operations Highlights.** During the quarter, Unifi revenue growth momentum halted (-1.6% yoy) after ARPU slipped to RM128 (vs RM130 in 2Q23) due to fierce competition. The pressure in ARPU is expected to stabilise in the upcoming months following the introduction of its own bundle campaign, UniVerse, UNI5G Wow, and UNI5G 39. TM One revenue grew +4.9% yoy in 2Q24 due to one-off settlement with MYTV (c.RM37m-RM74m). Meanwhile, TM Global's revenue dropped -8.6% yoy led by slowdown in international voice traffic.
- **Industry Highlights.** While TM is no longer a potential shareholder of DNB following the termination of the SSA, the Group remains committed to support the 5G ecosystem. The SSA termination will not impact its current 5G offerings to the customers, as the ongoing 5G access agreement with DNB remains valid for next 10 years. In regards to the JV with Nxera to construct a data center, the agreement is expected to be finalised in 4QFY24, with potential earnings contributions in the following year.
- **Outlook.** Moving forward, we foresee manpower cost to accelerate in 3QFY24 driven by another round of salary adjustment. Nevertheless, the Group is maintaining its full-year guidance for EBIT at RM2.1bn-RM2.2bn, as the impact of the salary increments has already been factored into projections.
- **Valuation.** We re-iterate our **HOLD** recommendation with a higher target price of RM7.21 based on DCF valuation (WACC of 8.3% with a long-term growth rate of 0.5%). We kept our earnings forecast for FY24 unchanged but revised our FY25-

FY26 earnings by +2.7%/+2.5% due to the earlier-than-anticipated earnings contribution from the data center.

- **Risk.** Price slashing by competitors. Changes in government regulations. Higher-than-expected 5G capex affecting cashflow and dividend.

**Figure 1: Results Comparison**

FYE Dec (RM m)	2QFY24	2QFY23	YoY (%)	1QFY24	QoQ (%)	1HFY23	1HFY24	YoY (%)	5 Quarters Trend	Comments
Revenue	2,907.9	2,958.6	(1.7)	2,837.0	2.5	5,744.5	5,744.9	0.0		Revenue dragged by lackluster performance across all
EBITDA	1,156.9	1,188.9	(2.7)	1,192.0	(2.9)	2,334.9	2,348.9	0.6		
Pre-tax profit	564.0	553.2	2.0	608.1	(7.3)	974.0	1,172.1	20.3		Manpower cost increase from salary adjustment and provision in labour settlement
Net profit	402.5	635.8	(36.7)	463.8	(13.2)	967.0	866.3	(10.4)		
Core net profit	397.8	541.4	(26.5)	397.3	0.1	867.7	795.1	(8.4)		
Core EPS (sen)	10.4	14.1	(26.5)	10.4	0.1	22.6	20.7	(8.4)		
EBITDA margin (%)	39.8	40.2		42.0		40.6	40.9			
PBT margin (%)	19.4	18.7		21.4		17.0	20.4			
Core PATMI margin (%)	13.7	18.3		14.0		15.1	13.8			

Source: Company, Apex Securities

**Financial Highlights**
**Income Statement**

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
<b>Revenue</b>	<b>12118.0</b>	<b>12255.6</b>	<b>12497.0</b>	<b>12730.4</b>	<b>12922.9</b>
<b>Operating Profit</b>	<b>19283.0</b>	<b>19627.1</b>	<b>20057.7</b>	<b>20445.0</b>	<b>20754.2</b>
<b>EBITDA</b>	<b>4955.6</b>	<b>4907.6</b>	<b>4960.5</b>	<b>5040.7</b>	<b>5117.3</b>
Depreciation & Amortisation	-2862.9	-2795.7	-2688.3	-2623.5	-2581.2
<b>EBIT</b>	<b>2092.7</b>	<b>2111.9</b>	<b>2272.3</b>	<b>2417.2</b>	<b>2536.1</b>
Net Finance Income/ (Cost)	-406.3	-303.4	-247.8	-187.6	-206.5
Associates & JV	11.2	13.1	13.5	13.9	14.3
<b>Pre-tax Profit</b>	<b>1686.4</b>	<b>1808.5</b>	<b>2024.5</b>	<b>2229.6</b>	<b>2329.6</b>
Tax	-542.3	76.5	425.1	468.2	489.2
<b>Profit After Tax</b>	<b>1142.3</b>	<b>1856.0</b>	<b>1599.3</b>	<b>1761.4</b>	<b>1840.4</b>
Minority Interest	0.9	14.5	14.5	14.5	14.5
<b>Net Profit</b>	<b>1143.2</b>	<b>1870.5</b>	<b>1613.8</b>	<b>1775.9</b>	<b>1854.9</b>
Exceptionals	0.0	0.0	0.0	0.0	0.0
<b>Core Net Profit</b>	<b>1143.2</b>	<b>1870.5</b>	<b>1613.8</b>	<b>1775.9</b>	<b>1854.9</b>

**Key Ratios**

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
EBITDA margin	40.9%	40.0%	39.7%	39.6%	39.6%
EBIT margin	17.3%	17.2%	18.2%	19.0%	19.6%
PBT margin	13.9%	14.8%	16.2%	17.5%	18.0%
PAT margin	9.4%	15.1%	12.8%	13.8%	14.2%
NP margin	9.4%	15.3%	12.9%	13.9%	14.4%
Core NP margin	9.4%	15.3%	12.9%	13.9%	14.4%
ROE	14.1%	20.1%	15.7%	15.4%	14.6%
ROA	4.9%	8.2%	7.0%	7.0%	6.9%
Net gearing	32.0%	19.4%	8.8%	Net Cash	Net Cash

**Valuations**

	FY25F
Terminal growth rate	0.50%
WACC	8.26%
<b>Fair Value (RM)</b>	<b>7.21</b>

Source: Company, Apex Securities

**Balance Sheet**

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Cash	2579.4	2955.2	3213.8	5886.5	7478.6
Receivables	2312.3	2275.0	2319.8	2363.1	2398.9
Inventories	305.4	204.6	208.6	212.5	215.7
Other current assets	1202.3	1080.2	1080.2	1080.2	1080.2
<b>Total Current Assets</b>	<b>6399.4</b>	<b>6515.0</b>	<b>6822.4</b>	<b>9542.3</b>	<b>11173.4</b>
Fixed Assets	13547.0	13026.4	12712.6	12507.8	12382.0
Intangibles	745.8	903.0	903.0	903.0	903.0
Other non-current assets	2439.1	2491.4	2491.4	2491.4	2491.4
<b>Total Non-current assets</b>	<b>16731.9</b>	<b>16420.8</b>	<b>16107.0</b>	<b>15902.2</b>	<b>15776.4</b>
Short-term Debt	309.7	1226.4	0.0	0.0	0.0
Payables	3718.0	3033.3	3111.2	3174.5	3222.5
Other Current Liabilities	1429.6	1614.5	1214.5	814.5	414.5
<b>Total Current Liabilities</b>	<b>5457.3</b>	<b>5874.2</b>	<b>4325.7</b>	<b>3989.0</b>	<b>3637.0</b>
Long-term Debt	4858.6	3536.8	4114.7	5751.1	6370.2
Other non-current liabilities	4726.3	4202.2	4202.2	4202.2	4202.2
<b>Total Non-current Liabilities</b>	<b>9584.9</b>	<b>7739.0</b>	<b>8316.9</b>	<b>9953.3</b>	<b>10572.4</b>
Shareholder's equity	7936.6	9163.0	10127.2	11342.6	12580.8
Minority interest	152.6	159.6	159.6	159.6	159.6
<b>Equity</b>	<b>8089.2</b>	<b>9322.6</b>	<b>10286.8</b>	<b>11502.2</b>	<b>12740.4</b>

**Cash Flow**

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
<b>Pre-tax profit</b>	<b>1686.4</b>	<b>1808.5</b>	<b>2024.5</b>	<b>2229.6</b>	<b>2329.6</b>
Depreciation & amortisation	2862.9	2795.7	2688.3	2623.5	2581.2
Changes in working capital	-305.7	-546.6	29.0	16.1	9.1
Others	-977.8	-371.5	-518.1	-518.5	-517.0
<b>Operating cash flow</b>	<b>3265.8</b>	<b>3686.1</b>	<b>4331.1</b>	<b>4415.5</b>	<b>4445.2</b>
Net capex	-2663.8	-2193.1	-2374.4	-2418.8	-2455.4
Others	1328.9	549.2	0.0	0.0	0.0
<b>Investing cash flow</b>	<b>-1334.9</b>	<b>-1643.9</b>	<b>-2374.4</b>	<b>-2418.8</b>	<b>-2455.4</b>
Changes in borrowings	-419.9	-575.4	-648.5	1636.4	619.1
Issuance of shares	0.0	0.0	0.0	0.0	0.0
Dividends paid	-386.9	-649.6	-649.6	-560.5	-616.7
Others	-658.8	-462.8	-400.0	-400.0	-400.0
<b>Financing cash flow</b>	<b>-1465.6</b>	<b>-1687.8</b>	<b>-1698.1</b>	<b>675.9</b>	<b>-397.7</b>
<b>Net cash flow</b>	<b>465.3</b>	<b>354.4</b>	<b>258.6</b>	<b>2672.6</b>	<b>1592.2</b>
Forex	0.0	0.0	0.0	0.0	0.0
Others	-1.0	-0.8	0.0	0.0	0.0
Beginning cash	1880.0	2344.3	2955.2	3213.8	5886.5
<b>Ending cash</b>	<b>2344.3</b>	<b>2697.9</b>	<b>3213.8</b>	<b>5886.5</b>	<b>7478.6</b>

### APEX SECURITIES BERHAD – CONTACT LIST

#### APEX SECURITIES BHD

**Head Office:**

5th Floor Menara UAC, 12, Jalan PJU 7/5,  
Mutiara Damansara,  
47800 Petaling Jaya,  
Selangor Darul Ehsan, Malaysia

General Line: (603) 7890 8899

**Petaling Jaya Office:**

16th Floor, Menara Choy Fook Onn,  
No.1B Jalan Yong Shook Lin,  
46050 Petaling Jaya,  
Selangor Darul Ehsan, Malaysia

General Line: (603) 7620 1118

#### DEALING TEAM

**Head Office:**

Kong Ming Ming (ext 2002)  
Lee Chen Ming (ext 2029)  
Shirley Chang (ext 2026)  
Ahmad Mujib (ext 2028)  
Azfar Bin Abdul Aziz (ext 2031)  
Aizzat Bin Mohd Daud (ext 2030)

**Institutional Dealing Team:**

Low Jin Wu (ext 2109)

**PJ Office:**

General Line: (603) 7620 1118

#### RESEARCH TEAM

**Head Office:**

Kenneth Leong (ext 2093)  
Steven Chong (ext 2068)  
Jayden Tan (ext 2069)  
Chelsea Chew (ext 2070)  
Tan Sue Wen (ext 2095)

### 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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