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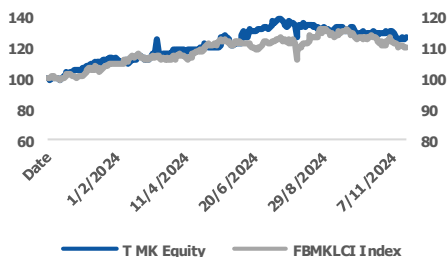
Recommendation:	BUY
Current Price:	RM 6.38
Previous Target Price:	RM 7.20
Target Price:	↔ RM 7.20
Upside/Downside:	12.9%

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)	24,484.6
52-Week Price Range (RM)	7.19-5.21
Beta (x)	0.9
Free float (%)	66.9
3M Average Volume (m)	6.5
3M Average Value (RM' m)	42.9

Top 3 Shareholders	(%)
Khazanah Nasional Bhd	19.7
Employees Provident Fund Board	15.5
Amanah Saham Nasional Bhd	10.4

Share Price Performance



	1M	3M	12M
Absolute (%)	-1.5	-5.6	20.8
Relative (%)	-0.6	-2.7	9.2

Telekom Malaysia Berhad

Earnings boosted by lower OPEX










Summary

- **Telekom reported 3QFY24 CNP of RM573.3m (+0.3% qoq, -1.2% yoy) and 9MFY24 CNP of RM1.4bn (-8.4% yoy), which was above ours and consensus' expectations, accounting for 85% of both forecasts respectively.**
- **Kept our earnings forecast unchanged for FY24 as we expect a dip in earnings in 4QFY24 due to higher depreciation expenses resulting from the increased capital expenditure.**
- **We upgrade our recommendation to BUY with unchanged target price of RM7.20 based on DCF valuation (WACC of 8.26% with a long-term growth rate of 0.5%).**

Results Review

- **Results review.** 3QFY24 CNP stood at RM573.3m (+8.8% yoy +44.1% qoq) after excluding foreign exchange losses (RM104.4m) and inventory write-off (RM3.8m). The strong yoy performance stemmed from reduced direct costs associated with voice services, along with a decrease in depreciation due to the absence of a one-time impairment charge in FY23. Revenue recorded at RM2.92bn (-1.2% yoy, +0.3% qoq) stayed mostly flat during the quarter.
- **Results above expectations.** 9MFY24 CNP of RM1.37bn, makes up to 85% of both our and consensus forecasted CNP, exceeding both of ours and consensus expectations. The variance was mainly due to lower-than-expected depreciation and operating expenses.
- **Operations Highlights.** During the quarter, Unifi revenue slid (-1.0% yoy) as ARPU was down to RM130 (vs RM131 in 3Q23) due to more promotional discounts. That said, Unifi subscribers has shown promising net adds to 3.1m (+1.6% yoy) following its successful Universe campaign. TM One revenue was up +1.9% yoy thanks to higher recognition of projects, particularly from government and other enterprise customers. Meanwhile, TM Global's revenue dropped -3.9% yoy as international voice traffic continue to trend downwards.
- **Outlook.** The Group is currently ahead of its full-year guidance, with an EBIT of RM1.8bn, representing 80% of the targeted amount. Meanwhile, capex may begin to ramp-up in 4QFY24, driven by key projects such as the data center expansion and submarine cable, which are expected to be delivered during the quarter.
- **Valuation.** Upgrade our recommendation to **BUY** (from HOLD) with unchanged target price of **RM7.20** based on DCF valuation (WACC of 8.26% with a long-term growth rate of 0.5%). We kept our earnings forecast for FY24 unchanged in anticipation of a dip in earnings in 4QFY24 due to higher depreciation expenses resulting from the increased capital expenditure.
- **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)	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	9MFY23	9MFY24	YoY (%)	5 Quarters Trend	Comments
Revenue	2,917.1	2,953.7	(1.2)	2,907.9	0.3	8,698.2	8,662.0	(0.4)		
EBITDA	1,072.2	1,151.0	(6.8)	1,156.9	(7.3)	3,485.9	3,421.1	(1.9)		
Pre-tax profit	668.2	505.0	32.3	565.5	18.2	1,414.8	1,805.8	27.6		
Net profit	465.1	538.2	(13.6)	396.4	17.3	1,437.0	1,286.3	(10.5)		Net profit was affected by massive forex losses due to strengthening of Ringgit
Core net profit	573.3	526.7	8.8	397.8	44.1	1,394.4	1,368.4	(1.9)		
Core EPS (sen)	14.9	13.7	8.8	10.4	44.1	36.3	35.7	(1.9)		
EBITDA margin (%)	36.8	39.0		39.8		40.1	39.5			
PBT margin (%)	22.9	17.1		19.4		16.3	20.8			
Core PATMI margin (%)	19.7	17.8		13.7		16.0	15.8			

Source: Company, Apex Securities

Financial Highlights
Income Statement

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Revenue	12118.0	12255.6	12497.0	12730.4	12922.9
Operating Profit	19283.0	19627.1	20057.7	20496.0	20805.9
EBITDA	4955.6	4907.6	4960.5	4989.8	5065.6
Depreciation & Amortisation	-2862.9	-2795.7	-2688.3	-2623.5	-2581.2
EBIT	2092.7	2111.9	2272.3	2366.3	2484.4
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
Pre-tax Profit	1686.4	1808.5	2024.5	2178.7	2277.9
Tax	-542.3	76.5	425.1	457.5	478.4
Profit After Tax	1142.3	1856.0	1599.3	1721.1	1799.5
Minority Interest	0.9	14.5	14.5	14.5	14.5
Net Profit	1143.2	1870.5	1613.8	1735.6	1814.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Core Net Profit	1143.2	1870.5	1613.8	1735.6	1814.0

Key Ratios

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
P/E (x)	21.4	13.1	15.2	14.1	13.5
EBITDA margin	40.9%	40.0%	39.7%	39.2%	39.2%
EBIT margin	17.3%	17.2%	18.2%	18.6%	19.2%
PBT margin	13.9%	14.8%	16.2%	17.1%	17.6%
PAT margin	9.4%	15.1%	12.8%	13.5%	13.9%
NP margin	9.4%	15.3%	12.9%	13.6%	14.0%
Core NP margin	9.4%	15.3%	12.9%	13.6%	14.0%
ROE	14.1%	20.1%	15.7%	15.1%	14.3%
ROA	4.9%	8.2%	7.0%	6.8%	6.8%
Net gearing	32.0%	19.4%	8.8%	Net Cash	Net Cash

Valuations

	FY25F
Terminal growth rate	0.50%
WACC	8.26%
Fair Value (RM)	7.20

Source: Company, Apex Securities

Balance Sheet

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Cash	2579.4	2955.2	3213.8	5847.1	7399.2
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
Total Current Assets	6399.4	6515.0	6822.4	9502.9	11094.0
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
Total Non-current assets	16731.9	16420.8	16107.0	15902.2	15776.4
Short-term Debt	309.7	1226.4	0.0	0.0	0.0
Payables	3718.0	3033.3	3111.2	3195.4	3243.8
Other Current Liabilities	1429.6	1614.5	1214.5	814.5	414.5
Total Current Liabilities	5457.3	5874.2	4325.7	4009.9	3658.3
Long-term Debt	4858.6	3536.8	4114.7	5731.0	6336.6
Other non-current liabilities	4726.3	4202.2	4202.2	4202.2	4202.2
Total Non-current Liabilities	9584.9	7739.0	8316.9	9933.2	10538.8
Shareholder's equity	7936.6	9163.0	10127.2	11302.4	12513.7
Minority interest	152.6	159.6	159.6	159.6	159.6
Equity	8089.2	9322.6	10286.8	11462.0	12673.3

Cash Flow

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Pre-tax profit	1686.4	1808.5	2024.5	2178.7	2277.9
Depreciation & amortisation	2862.9	2795.7	2688.3	2623.5	2581.2
Changes in working capital	-305.7	-546.6	29.0	37.1	9.4
Others	-977.8	-371.5	-518.1	-507.8	-506.1
Operating cash flow	3265.8	3686.1	4331.1	4396.2	4404.6
Net capex	-2663.8	-2193.1	-2374.4	-2418.8	-2455.4
Others	1328.9	549.2	0.0	0.0	0.0
Investing cash flow	-1334.9	-1643.9	-2374.4	-2418.8	-2455.4
Changes in borrowings	-419.9	-575.4	-648.5	1616.3	605.6
Issuance of shares	0.0	0.0	0.0	0.0	0.0
Dividends paid	-386.9	-649.6	-649.6	-560.5	-602.8
Others	-658.8	-462.8	-400.0	-400.0	-400.0
Financing cash flow	-1465.6	-1687.8	-1698.1	655.8	-397.1
Net cash flow	465.3	354.4	258.6	2633.3	1552.2
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	5847.1
Ending cash	2344.3	2697.9	3213.8	5847.1	7399.2

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD

DEALING 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

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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