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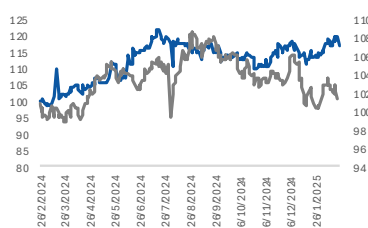
|                                |              |
|--------------------------------|--------------|
| <b>Recommendation:</b>         | <b>BUY</b>   |
| Current Price:                 | RM 6.70      |
| Previous Target Price:         | RM 7.20      |
| Target Price:                  | ↑ RM 7.40    |
| Capital Upside/ Downside:      | 10.4%        |
| Dividend Yield (%):            | 3.8%         |
| <b>Total Upside/ Downside:</b> | <b>14.3%</b> |

**Stock information**

|                           |                   |
|---------------------------|-------------------|
| Board                     | MAIN              |
| Sector                    | Telecommunication |
| Bursa/ Bloomberg Code     | 4863/ TMK         |
| Syariah Compliant         | Yes               |
| ESG Rating                | ★★★               |
| Shares issued (m)         | 3,837.7           |
| Market Cap (RM' m)        | 25,712.6          |
| 52- Week Price Range (RM) | 7.19- 5.84        |
| Beta (x)                  | 0.8               |
| Free float (%)            | 66.9              |
| 3M Average Volume (m)     | 4.2               |
| 3M Average Value (RM' m)  | 27.9              |

**Top 3 Shareholders**

|                                |      |
|--------------------------------|------|
|                                | (%)  |
| Khazanah Nasional Bhd          | 19.7 |
| Employees Provident Fund Board | 16.9 |
| Amanah Saham Nasional Bhd      | 10.4 |

**Share Price Performance**

|              | 1M  | 3M  | 12M  |
|--------------|-----|-----|------|
| Absolute (%) | 3.1 | 5.0 | 11.3 |
| Relative (%) | 3.5 | 7.4 | 9.8  |

# Telekom Malaysia Bhd

## Earnings Surge Fueled by One-Off Tax Credit

### Executive Summary

- TM's 4QFY24 CNP jumped +45.6% yoy and +16.7% qoq to RM669.2m, bringing FY24 CNP at RM2.0bn, which was above expectations, accounted to 125% of ours and consensus expectations respectively.
- Conservative outlook for FY25 at i) single digit revenue growth, ii) flattish EBIT and ii) 14%-16% capex/revenue. Key growth drivers in 3QFY25 include: i) upgrading of existing submarine cable and ii) the launching of IPDC and KVDC
- Re-iterate our BUY recommendation with a higher target price of RM7.40, based on DCF valuation (WACC of 8.3% with a long-term growth rate of 0.5%).

**Results above expectations.** FY24 CNP at RM2.0bn (+9.9% yoy) came above expectations, accounting to 125% of both ours and consensus forecasted CNP of RM1.6bn. The variance was due to lower-than-expected opex and the recognition of one-off tax credit related to previously unrecognised capital allowances in FY23. That said, we gather that the tax reversal seen in 4QFY24 is non-recurring in nature, hence, earnings should normalise going forward.

**YoY.** 4QFY24 CNP jumped +45.6% yoy to RM669.2m, buoyed by lower D&A costs coupled with a significant one-off tax credit of c.RM370m. Revenue for the quarter added +24.1% yoy to RM58.3m led by higher subscribers and device sales coupled with improving ARPU. During the quarter, ARPU maintained an upward trend, finishing strong as a result of increased adoption of Unifi lifestyle bundle packages.

**YTD.** CNP rose by +9.9% yoy to RM2.0bn backed by lower operating expenses and tax credits. Meanwhile, revenue remained nearly flat, down -0.2% yoy to RM11.7bn, reflecting subdued performance across all segments. Notably, Unifi experienced a decline in ARPU in 1H24, as the Group launched an aggressive campaign to attract new subscribers at lower entry-level prices amid intense market competition.

**Outlook.** Conservative outlook for FY25 at i) single digit revenue growth, ii) flattish EBIT and ii) 14%-16% capex/revenue. The Group plans to upgrade its existing submarine cable in 3QFY25, which is expected to lead to a significant capacity expansion, driving strong revenue growth in FY25. Furthermore, new cables including ALC and SeaMeWe 6 are scheduled for completion in FY26. On the data centre space, both KVDC and IPDC are expected to commence operations in 3QFY25, and Nxera's data centre is targeted for completion in FY26.

**Earnings Revision.** We raised our earnings forecast for FY25/FY26 by 3.2%/3.1% respectively, after reducing our operating expense assumptions in line with the latest EBIT guidance. Declared a second interim dividend of 12.5 sen and a special dividend of 6 sen, bringing total dividend for FY24 at 31 sen. This represents a dividend yield of 4.6% at current share price of RM6.70.

**Valuation.** Re-iterate our **BUY** recommendation on **TM** with a higher target price of **RM7.40 (previously RM7.20)**, based on DCF valuation (WACC of 8.3% with a long-term growth rate of 0.5%).

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

# Results Note

Wednesday, 26 Feb, 2025

## Earnings Summary

| FYE Dec (RM m)     | FY23    | FY24    | FY25F    | FY26F    | FY27F    |
|--------------------|---------|---------|----------|----------|----------|
| Revenue            | 11690.2 | 11712.4 | 12066.6  | 12279.8  | 12146.8  |
| EBITDA             | 4525.0  | 4467.0  | 4670.7   | 4755.8   | 4713.0   |
| Pre-tax profit     | 1808.0  | 2177.2  | 2266.6   | 2404.7   | 2398.0   |
| Net profit         | 1870.0  | 2016.9  | 1789.9   | 1897.7   | 1892.5   |
| Core net profit    | 1853.4  | 2037.7  | 1789.9   | 1897.7   | 1892.5   |
| Core EPS (sen)     | 48.3    | 53.1    | 46.6     | 49.4     | 49.3     |
| P/E (x)            | 13.9    | 12.6    | 14.4     | 13.6     | 13.6     |
| P/B (x)            | 2.8     | 2.5     | 2.3      | 2.2      | 2.0      |
| EV/EBITDA (x)      | 5.3     | 5.7     | 5.6      | 5.6      | 5.8      |
| Dividend Yield (%) | 3.7%    | 4.6%    | 3.8%     | 4.1%     | 4.0%     |
| Net Gearing (%)    | 19.4%   | 3.8%    | Net Cash | Net Cash | Net Cash |

Source: Company, Apex Securities

# Results Note

Wednesday, 26 Feb, 2025

## Results Comparison

| FYE Dec (RM m)             | 4QFY24  | 4QFY23  | yoy (%) | 3QFY24  | qoq (%) | 12MFY24  | 12MFY23  | yoy (%) | Comments  |
|----------------------------|---------|---------|---------|---------|---------|----------|----------|---------|---|
| Revenue                    | 3,050.4 | 2,992.0 | 2.0     | 2,917.1 | 4.6     | 11,712.4 | 11,690.2 | 0.2     |   |
| EBITDA                     | 1,045.9 | 1,039.6 | 0.6     | 1,072.2 | (2.5)   | 4,467.0  | 4,525.5  | (1.3)   |   |
| Pre-tax profit             | 371.4   | 393.7   | (5.7)   | 668.2   | (44.4)  | 2,177.2  | 1,808.5  | 20.4    | one-off man power provision cost in 4Q c.RM100m |
| Net profit                 | 730.6   | 433.5   | 68.5    | 465.1   | 57.1    | 2,016.9  | 1,870.5  | 7.8     |   |
| Core net profit            | 669.2   | 459.5   | 45.6    | 573.3   | 16.7    | 2,037.6  | 1,853.9  | 9.9     |   |
| Core EPS (sen)             | 17.4    | 12.0    | 45.6    | 14.9    | 16.7    | 53.1     | 48.3     | 9.9     |   |
| EBITDA margin (%)          | 34.3    | 34.7    |         | 36.8    |         | 38.1     | 38.7     |         |   |
| PBT margin (%)             | 12.2    | 13.2    |         | 22.9    |         | 18.6     | 15.5     |         |   |
| Core net profit margin (%) | 21.9    | 15.4    |         | 19.7    |         | 17.4     | 15.9     |         |   |

Source: Company, Apex Securities

## Segmental Breakdown

| FYE Dec (RM m) | 4QFY24         | 4QFY23         | yoy (%)    | 3QFY24         | qoq (%)    | 12MFY24         | 12MFY23         | yoy (%)      | Comments                                     |
|----------------|----------------|----------------|------------|----------------|------------|-----------------|-----------------|--------------|--|
| <b>Revenue</b> |                |                |            |                |            |                 |                 |              |  |
| Unifi          | 1,454.6        | 1,409.7        | 3.2        | 1,396.3        | 4.2        | 5,633.3         | 5,664.0         | (0.5)        |  |
| TM One         | 781.9          | 803.4          | (2.7)      | 710.8          | 10.0       | 2,906.3         | 2,885.4         | 0.7          |  |
| TM Global      | 780.1          | 769.3          | 1.4        | 787.0          | (0.9)      | 3,061.4         | 3,073.0         | (0.4)        | new data centre to be operational in FY25/26 |
| Other          | 78.7           | 67.5           | 16.6       | 65.8           | 19.6       | 282.6           | 322.6           | (12.4)       |  |
| Inter-segment  | (44.9)         | (57.9)         | (22.5)     | (42.8)         | 4.9        | (171.2)         | (254.8)         | (32.8)       |  |
| <b>Total</b>   | <b>3,016.6</b> | <b>2,982.4</b> | <b>1.1</b> | <b>2,894.1</b> | <b>4.2</b> | <b>11,601.0</b> | <b>11,622.4</b> | <b>(0.2)</b> |  |

Source: Company, Apex Securities

# Results Note

Wednesday, 26 Feb, 2025

## Financial Highlights

### Income Statement

| FYE Dec (RM m)              | FY23           | FY24           | FY25F          | FY26F          | FY27F          |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Revenue</b>              | <b>11690.2</b> | <b>11712.4</b> | <b>12066.6</b> | <b>12279.8</b> | <b>12146.8</b> |
| <b>Operating Profit</b>     | <b>4308.9</b>  | <b>4266.9</b>  | <b>4464.6</b>  | <b>4543.5</b>  | <b>4494.3</b>  |
| <b>EBITDA</b>               | <b>4525.0</b>  | <b>4467.0</b>  | <b>4670.7</b>  | <b>4755.8</b>  | <b>4713.0</b>  |
| Depreciation & Amortisation | -2413.6        | -2149.4        | -2223.2        | -2166.3        | -2151.0        |
| <b>EBIT</b>                 | <b>2111.4</b>  | <b>2317.6</b>  | <b>2447.5</b>  | <b>2589.5</b>  | <b>2562.0</b>  |
| Net Finance Income/ (Cost)  | -303.4         | -140.4         | -181.0         | -184.8         | -164.0         |
| Associates & JV             | 13.1           | 8.1            | 8.3            | 8.6            | 8.9            |
| <b>Pre-tax Profit</b>       | <b>1808.0</b>  | <b>2177.2</b>  | <b>2266.6</b>  | <b>2404.7</b>  | <b>2398.0</b>  |
| Tax                         | 76.5           | -138.3         | 498.7          | 529.0          | 527.6          |
| <b>Profit After Tax</b>     | <b>1855.5</b>  | <b>1994.9</b>  | <b>1767.9</b>  | <b>1875.7</b>  | <b>1870.5</b>  |
| Minority Interest           | 14.5           | 22.0           | 22.0           | 22.0           | 22.0           |
| <b>Net Profit</b>           | <b>1870.0</b>  | <b>2016.9</b>  | <b>1789.9</b>  | <b>1897.7</b>  | <b>1892.5</b>  |
| Exceptionals                | -16.6          | 20.8           | 0.0            | 0.0            | 0.0            |
| <b>Core Net Profit</b>      | <b>1853.4</b>  | <b>2037.7</b>  | <b>1789.9</b>  | <b>1897.7</b>  | <b>1892.5</b>  |

### Key Ratios

| FYE Dec            | FY23  | FY24  | FY25F    | FY26F    | FY27F    |
|--------------------|-------|-------|----------|----------|----------|
| EPS (sen)          | 48.3  | 53.1  | 46.6     | 49.4     | 49.3     |
| P/E (x)            | 13.9  | 12.6  | 14.4     | 13.6     | 13.6     |
| P/B (x)            | 2.8   | 2.5   | 2.3      | 2.2      | 2.0      |
| EV/EBITDA (x)      | 5.3   | 5.7   | 5.6      | 5.6      | 5.8      |
| DPS (sen)          | 25.0  | 31.0  | 25.7     | 27.2     | 27.1     |
| Dividend Yield (%) | 3.7%  | 4.6%  | 3.8%     | 4.1%     | 4.0%     |
| EBITDA margin (%)  | 38.7% | 38.1% | 38.7%    | 38.7%    | 38.8%    |
| EBIT margin (%)    | 18.1% | 19.8% | 20.3%    | 21.1%    | 21.1%    |
| PBT margin (%)     | 15.5% | 18.6% | 18.8%    | 19.6%    | 19.7%    |
| PAT margin (%)     | 15.9% | 17.0% | 14.7%    | 15.3%    | 15.4%    |
| NP margin (%)      | 16.0% | 17.2% | 14.8%    | 15.5%    | 15.6%    |
| CNP margin (%)     | 15.9% | 17.4% | 14.8%    | 15.5%    | 15.6%    |
| ROE (%)            | 19.9% | 19.8% | 16.3%    | 15.9%    | 14.8%    |
| ROA (%)            | 8.5%  | 9.6%  | 8.1%     | 8.3%     | 8.0%     |
| Gearing (%)        | 51.1% | 34.0% | 37.1%    | 35.0%    | 35.0%    |
| Net gearing (%)    | 19.4% | 3.8%  | Net Cash | Net Cash | Net Cash |

| Valuations                     | DCF         |
|--------------------------------|-------------|
| WACC                           | 0.083       |
| LTG                            | 0.5         |
| <b>Fair Value (RM)</b>         | <b>7.40</b> |
| ESG premium/discount           | 0.0%        |
| <b>Implied Fair Value (RM)</b> | <b>7.40</b> |

Source: Company, Apex Securities

### Balance Sheet

| FYE Dec (RM m)                       | FY23           | FY24           | FY25F          | FY26F          | FY27F          |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Cash                                 | 2955.2         | 3096.2         | 4275.1         | 5019.1         | 5903.1         |
| Receivables                          | 2275.0         | 2518.0         | 2594.1         | 2640.0         | 2611.4         |
| Inventories                          | 204.6          | 201.7          | 207.8          | 211.5          | 209.2          |
| Other current assets                 | 1080.2         | 1121.6         | 1121.6         | 1121.6         | 1121.6         |
| <b>Total Current Assets</b>          | <b>6515.0</b>  | <b>6937.5</b>  | <b>8198.6</b>  | <b>8992.2</b>  | <b>9845.3</b>  |
| Fixed Assets                         | 11796.8        | 11429.3        | 11136.8        | 11058.0        | 10972.0        |
| Intangibles                          | 896.3          | 839.5          | 839.5          | 839.5          | 839.5          |
| Other non-current assets             | 2479.8         | 1956.2         | 1956.2         | 1956.2         | 1956.2         |
| <b>Total Non-current assets</b>      | <b>15172.9</b> | <b>14225.0</b> | <b>13932.5</b> | <b>13853.7</b> | <b>13767.7</b> |
| Short-term Debt                      | 1226.4         | 1381.0         | 0.0            | 0.0            | 0.0            |
| Payables                             | 3033.3         | 3270.4         | 3339.1         | 3398.1         | 3361.3         |
| Other Current Liabilities            | 1614.5         | 1633.9         | 1233.9         | 833.9          | 433.9          |
| <b>Total Current Liabilities</b>     | <b>5874.2</b>  | <b>6285.3</b>  | <b>4573.0</b>  | <b>4232.0</b>  | <b>3795.2</b>  |
| Long-term Debt                       | 3536.8         | 2109.9         | 4075.3         | 4177.3         | 4489.4         |
| Other non-current liabilities        | 2954.3         | 2501.4         | 2501.4         | 2501.4         | 2501.4         |
| <b>Total Non-current Liabilities</b> | <b>6491.1</b>  | <b>4611.3</b>  | <b>6576.7</b>  | <b>6678.7</b>  | <b>6990.8</b>  |
| Shareholder's equity                 | 9163.0         | 10099.7        | 10815.1        | 11769.0        | 12660.8        |
| Minority interest                    | 159.6          | 166.2          | 166.2          | 166.2          | 166.2          |
| <b>Equity</b>                        | <b>9322.6</b>  | <b>10265.9</b> | <b>10981.3</b> | <b>11935.2</b> | <b>12827.0</b> |

### Cash Flow

| FYE Dec (RM m)              | FY23           | FY24           | FY25F          | FY26F          | FY27F          |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Pre-tax profit</b>       | <b>1808.0</b>  | <b>2177.2</b>  | <b>2266.6</b>  | <b>2404.7</b>  | <b>2398.0</b>  |
| Depreciation & amortisation | 2413.6         | 2149.4         | 2223.2         | 2166.3         | 2151.0         |
| Changes in working capital  | -546.6         | -3.0           | -13.5          | 9.5            | -5.9           |
| Others                      | 11.1           | -313.0         | -402.9         | -563.9         | -520.9         |
| <b>Operating cash flow</b>  | <b>3686.1</b>  | <b>4010.6</b>  | <b>3999.6</b>  | <b>4073.5</b>  | <b>4037.5</b>  |
| Net capex                   | -2193.1        | -1380.9        | -1930.7        | -2087.6        | -2065.0        |
| Others                      | 549.2          | 378.7          | 0.0            | 0.0            | 0.0            |
| <b>Investing cash flow</b>  | <b>-1643.9</b> | <b>-1002.2</b> | <b>-1930.7</b> | <b>-2087.6</b> | <b>-2065.0</b> |
| Changes in borrowings       | -575.4         | -1618.6        | 584.4          | 102.0          | 312.1          |
| Issuance of shares          | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| Dividends paid              | -649.6         | -1074.5        | -1074.5        | -943.9         | -1000.7        |
| Others                      | -462.8         | -15.4          | -400.0         | -400.0         | -400.0         |
| <b>Financing cash flow</b>  | <b>-1687.8</b> | <b>-2708.5</b> | <b>-890.1</b>  | <b>-1241.9</b> | <b>-1088.5</b> |
| <b>Net cash flow</b>        | <b>354.4</b>   | <b>299.9</b>   | <b>1178.9</b>  | <b>744.0</b>   | <b>884.0</b>   |
| Forex                       | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| Others                      | -0.8           | -24.7          | 0.0            | 0.0            | 0.0            |
| Beginning cash              | 2344.3         | 2697.9         | 3096.2         | 4275.1         | 5019.1         |
| <b>Ending cash</b>          | <b>2697.9</b>  | <b>2973.1</b>  | <b>4275.1</b>  | <b>5019.1</b>  | <b>5903.1</b>  |

## ESG Matrix Framework:

## Environment

| Parameters       | Rating | Comments  |
|------------------|--------|---|
| Climate          | ★★★★   | Has demonstrated a consistent reduction in carbon emissions over the past three years, with a notable 22% sharp decline in FY23.  |
| Waste & Effluent | ★★★    | Solid waste generation rose to 1,013 mt in FY22 due to office relocations. However, it significantly decreased to 32.8 mt in FY23, attributed to the implementation of ongoing flexible working arrangements.   |
| Energy           | ★★★    | Despite the expansion of data center operations, energy consumption decreased from 430,414 MWh to 429,102 MWh, thanks to higher utilisation of renewable energy sources.  |
| Water            | ★★★    | To enhance water efficiency within its facilities, the Group has implemented smart solutions and water-saving initiatives, such as installing sensor-based faucets and optimizing cistern systems to minimize water wastage. These efforts have collectively resulted in a 26.7% reduction in water consumption across TM operations. |
| Compliance       | ★★★    | In compliance with local and international environmental regulations  |

## Social

|                                |     |  |
|--------------------------------|-----|--|
| Diversity                      | ★★  | 47% of average employees age below 40, 40% of employees are female   |
| Human Rights                   | ★★★ | Enforce and adopts Code of Ethics and Conduct  |
| Occupational Safety and Health | ★★  | Number of employees trained on health and safety standards declined from 15,119 to 2,829, 0 related fatalities in FY23   |
| Labour Practices               | ★★★ | Pay scale based on prevailing industry market rates as stipulated by the Act 732 National Wages Consultative Council Act |

## Governance

|              |     |   |
|--------------|-----|---|
| CSR Strategy | ★★★ | The Group awarded grants for various projects focused on rural empowerment, sustainable farming, youth engagement in global development, educational support for indigenous communities, technology education, mental health, and more. In FY23, eight projects were funded under YTM's Social Impact Grant, with a total allocation of RM1.5m. |
| Management   | ★★  | Average board members age @ 58, 4/13 female board composition, 6/13 Independent Directors   |
| Stakeholders | ★★★ | 4x analyst briefings per annum, 1x AGM per annum  |

Overall ESG Scoring: ★★★

## Recommendation Framework:

**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.

## ESG Rating Framework:

★★★★★ : Appraised with 3% premium to fundamental fair value

★★★★ : Appraised with 1% premium to fundamental fair value

★★★ : Appraised with 0% premium/discount to fundamental fair value

★★ : Appraised with -1% discount to fundamental fair value

★ : Appraised with -5% discount to fundamental fair value

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(a) nil.