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| | |
|-------------------------------|----------------|
| Recommendation: | HOLD |
| Current Price: | RM 6.26 |
| Previous Target Price: | RM 6.50 |
| Target Price: | RM 6.48 |
| Upside/Downside: | 3.5% |

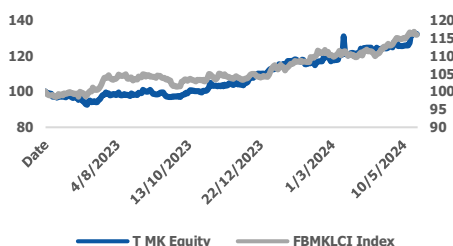
Stock information

| | |
|--------------------------|-------------------|
| 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) | 24,024.0 |
| 52-Week Price Range (RM) | 6.59-4.77 |
| Beta (x) | 0.9 |
| Free float (%) | 37.0 |
| 3M Average Volume (m) | 6.0 |
| 3M Average Value (RM' m) | 36.8 |

Top 3 Shareholders (%)

| | |
|--------------------------------|------|
| Khazanah Nasional Bhd | 19.7 |
| Employees Provident Fund Board | 17.6 |
| Amanah Saham Nasional Bhd | 13.3 |

Share Price Performance



| | 1M | 3M | 12M |
|--------------|------|-----|------|
| Absolute (%) | 1.1 | 3.5 | 22.7 |
| Relative (%) | -0.7 | 0.1 | 6.1 |

Telekom Malaysia Berhad

Still within expectation










Summary

- **1QFY24 net profit of RM424m was within both our and consensus expectation.**
- **Revenue jumped supported by strong growth in TM Global which offsets weaknesses in other segments.**
- **Re-iterate our HOLD recommendation with a target price of RM6.48 (WACC 8.26%, terminal growth 0.5%).**

Results Review

- **Results review.** 1QFY24 net profit stands at RM462.8m, grew by 28.7% yoy but dropped 2.0% qoq. The robust performance stemmed from lower operating expenses coupled with a drop in depreciation after the adjustment of new accounting treatment in grant income. Revenue for the quarter increased 1.8% yoy (-9.3% qoq) as growth at TM Global was offset by a contraction on the rest of TM's business division.
- **Within expectations.** 1QFY24 core net profit of RM424.8m was within expectations, making up to 26% of both our and consensus forecasted net profit.
- **Operations Highlights.** During the quarter, Unifi revenue growth momentum stalled (-2.7% yoy) after ARPU slipped to RM130 (vs RM133 in 1QFY23) despite recording 1.8% yoy subscriber's growth. TM One revenue fell in 1QFY24 due to deferred customer projects and price adjustment for certain contracts. TM Global's revenue increased 12.1% yoy led by growth in domestic and international segments. This was driven by the expansion of 4G and 5G backhaul sites for domestic service providers, strong growth in High Speed Broadband (HSBB), and increase in IRU capacity from global carriers.
- **Industry Highlight.** Despite the intensifying competition within the broadband space, the Group maintained net adds in subscriber growth. Going forward, TM's broadband will likely to further growth in the coming months following the introduction of its UniVerse campaign which offers integrated fixed-mobile convergence packages.
- **Outlook.** Guidance for 2024F turns to be flattish with low single digit revenue growth, EBIT of RM2.1b-RM2.2b and capex of 14%-18% to revenue. Moving forward, we expect depreciation to remain similar to 1QFY24 level following the incorporation of new accounting treatment in grant revenue.
- **Valuation.** We re-iterate our **HOLD** recommendation with a target price of RM6.48 based on DCF valuation (WACC of 8.26% with a long-term growth rate of 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) | 1QFY24 | 1QFY23 | YoY (%) | 4QFY23 | QoQ (%) | 3MFY23 | 3MFY24 | YoY (%) | 5 Quarters Trend | Comments |
|-----------------------|---------|---------|---------|---------|---------|---------|---------|---------|---|--|
| Revenue | 2,837.0 | 2,785.9 | 1.8 | 3,129.3 | (9.3) | 2,785.9 | 2,837.0 | 1.8 |  | Revenue boosted by growth in TM Global |
| EBITDA | 1,192.0 | 1,146.0 | 4.0 | 1,127.0 | 5.8 | 1,146.0 | 1,192.0 | 4.0 |  | |
| Pre-tax profit | 608.1 | 420.8 | 44.5 | 370.3 | 64.2 | 420.8 | 608.1 | 44.5 |  | |
| Net profit | 463.8 | 331.2 | 40.0 | 416.6 | 11.3 | 331.2 | 463.8 | 40.0 |  | Depreciation fell due to readjustment in accounting treatment for grant income |
| Core net profit | 424.8 | 330.1 | 28.7 | 433.5 | (2.0) | 330.1 | 424.8 | 28.7 |  | |
| Core EPS (sen) | 11.1 | 8.6 | 28.7 | 11.3 | (2.0) | 8.6 | 11.1 | 28.7 |  | |
| EBITDA margin (%) | 42.0 | 41.1 | | 36.0 | | 41.1 | 42.0 | |  | |
| PBT margin (%) | 21.4 | 15.1 | | 11.8 | | 15.1 | 21.4 | |  | |
| Core PATMI margin (%) | 15.0 | 11.8 | | 13.9 | | 11.8 | 15.0 | |  | |

Source: Company, Apex Securities

Financial Highlights
Income Statement

| FYE Dec (RM m) | FY21 | FY22 | FY23 | FY24F | FY25F |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|
| Revenue | 11529.0 | 12118.0 | 12255.6 | 12497.0 | 12730.4 |
| Operating Profit | 18713.2 | 19283.0 | 19627.1 | 19995.2 | 20381.4 |
| EBITDA | 4341.1 | 4955.6 | 4907.6 | 5023.0 | 5104.4 |
| Depreciation & Amortisation | -2634.7 | -2862.9 | -2795.7 | -2688.3 | -2623.5 |
| EBIT | 1706.4 | 2092.7 | 2111.9 | 2334.7 | 2480.9 |
| Net Finance Income/ (Cost) | -459.6 | -406.3 | -303.4 | -247.8 | -224.7 |
| Associates & JV | 12.0 | 11.2 | 13.1 | 13.5 | 13.9 |
| Pre-tax Profit | 1246.8 | 1686.4 | 1808.5 | 2087.0 | 2256.1 |
| Tax | -368.9 | -542.3 | 76.5 | 500.9 | 541.5 |
| Profit After Tax | 912.5 | 1142.3 | 1856.0 | 1586.1 | 1714.7 |
| Minority Interest | -17.3 | 0.9 | 14.5 | 14.5 | 14.5 |
| Net Profit | 895.2 | 1143.2 | 1870.5 | 1600.6 | 1729.2 |
| Exceptionals | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Core Net Profit | 895.2 | 1143.2 | 1870.5 | 1600.6 | 1729.2 |

Key Ratios

| FYE Dec (RM m) | FY21 | FY22 | FY23 | FY24F | FY25F |
|----------------|-------|-------|-------|-------|-------|
| EBITDA margin | 37.7% | 40.9% | 40.0% | 40.2% | 40.1% |
| EBIT margin | 14.8% | 17.3% | 17.2% | 18.7% | 19.5% |
| PBT margin | 10.8% | 13.9% | 14.8% | 16.7% | 17.7% |
| PAT margin | 7.9% | 9.4% | 15.1% | 12.7% | 13.5% |
| NP margin | 7.8% | 9.4% | 15.3% | 12.8% | 13.6% |
| Core NP margin | 7.8% | 9.4% | 15.3% | 12.8% | 13.6% |
| ROE | 12.2% | 14.1% | 20.1% | 15.6% | 15.1% |
| ROA | 3.9% | 4.9% | 8.2% | 7.1% | 7.7% |
| Net gearing | 38.0% | 33.4% | 20.7% | 13.3% | 4.8% |

Key Assumptions

| FYE Dec (RM m) | FY21 | FY22 | FY23 | FY24F | FY25F |
|--------------------------|-------|-------|-------|-------|-------|
| Unifi Subscribers ('000) | 2501 | 2962 | 3099 | 3192 | 3224 |
| ARPU | 141.0 | 132.0 | 131.0 | 131 | 131 |
| Capex as % sales | 16.5% | 22.0% | 17.9% | 19.0% | 19.0% |

Valuations

| | FY25F |
|------------------------|-------------|
| Terminal growth rate | 0.50% |
| WACC | 8.26% |
| Fair Value (RM) | 6.48 |

Source: Company, Apex Securities

Balance Sheet

| FYE Dec (RM m) | FY21 | FY22 | FY23 | FY24F | FY25F |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Cash | 2733.8 | 2579.4 | 2955.2 | 2823.3 | 2817.0 |
| Receivables | 2050.8 | 2312.3 | 2275.0 | 2319.8 | 2363.1 |
| Inventories | 176.9 | 305.4 | 204.6 | 208.6 | 212.5 |
| Other current assets | 1211.7 | 1202.3 | 1080.2 | 1080.2 | 1080.2 |
| Total Current Assets | 6173.2 | 6399.4 | 6515.0 | 6432.0 | 6472.8 |
| Fixed Assets | 13356.1 | 13547.0 | 13026.4 | 12712.6 | 12507.8 |
| Intangibles | 665.4 | 745.8 | 903.0 | 903.0 | 903.0 |
| Other non-current assets | 2636.4 | 2439.1 | 2491.4 | 2491.4 | 2491.4 |
| Total Non-current assets | 16657.9 | 16731.9 | 16420.8 | 16107.0 | 15902.2 |
| Short-term Debt | 381.6 | 309.7 | 1226.4 | 1226.4 | 1226.4 |
| Payables | 3633.7 | 3718.0 | 3033.3 | 3085.4 | 3148.3 |
| Other Current Liabilities | 1418.4 | 1429.6 | 1614.5 | 1214.5 | 814.5 |
| Total Current Liabilities | 5433.7 | 5457.3 | 5874.2 | 5526.3 | 5189.2 |
| Long-term Debt | 5338.4 | 4858.6 | 3536.8 | 2536.8 | 1536.8 |
| Other non-current liabilities | 4731.1 | 4726.3 | 4202.2 | 4202.2 | 4202.2 |
| Total Non-current Liabilities | 10069.5 | 9584.9 | 7739.0 | 6739.0 | 5739.0 |
| Shareholder's equity | 7502.3 | 7936.6 | 9163.0 | 10114.0 | 11287.3 |
| Minority interest | -174.6 | 152.6 | 159.6 | 159.6 | 159.6 |
| Equity | 7327.7 | 8089.2 | 9322.6 | 10273.6 | 11446.9 |

Cash Flow

| FYE Dec (RM m) | FY21 | FY22 | FY23 | FY24F | FY25F |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|
| Pre-tax profit | 1246.8 | 1686.4 | 1808.5 | 2087.0 | 2256.1 |
| Depreciation & amortisation | -2634.7 | 100.5 | 107.0 | 103.2 | 112.0 |
| Changes in working capital | -37.1 | -305.7 | -546.6 | 3.3 | 15.6 |
| Others | 4400.6 | 1784.6 | 2317.2 | 2098.7 | 1984.5 |
| Operating cash flow | 2975.6 | 3265.8 | 3686.1 | 4292.1 | 4368.3 |
| Net capex | -1903.7 | -2663.8 | -2193.1 | -2374.4 | -2418.8 |
| Others | -416.5 | 1328.9 | 549.2 | 0.0 | 0.0 |
| Investing cash flow | -2320.2 | -1334.9 | -1643.9 | -2374.4 | -2418.8 |
| Changes in borrowings | -1953.0 | -419.9 | -575.4 | -1000.0 | -1000.0 |
| Issuance of shares | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividends paid | -547.2 | -386.9 | -649.6 | -649.6 | -555.9 |
| Others | -445.9 | -658.8 | -462.8 | -400.0 | -400.0 |
| Financing cash flow | -2946.1 | -1465.6 | -1687.8 | -2049.6 | -1955.9 |
| Net cash flow | -2290.7 | 465.3 | 354.4 | -131.9 | -6.3 |
| Forex | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Others | 24.3 | -1.0 | -0.8 | 0.0 | 0.0 |
| Beginning cash | 4146.4 | 1880.0 | 2344.3 | 2955.2 | 2823.3 |
| Ending cash | 1880.0 | 2344.3 | 2697.9 | 2823.3 | 2817.0 |

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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