

# Telekom Malaysia Bhd (TM)

## A Pleasant Surprise

By Cheow Ming Liang | [cheowml@kenanga.com.my](mailto:cheowml@kenanga.com.my)

TM reported a pleasant positive earnings surprise in 1Q19, thanks to the effective cost rationalisation plan. Moving forward, the group is set to accelerate convergence and empower digital in line with its transformation that reinforces customer centricity. Post-review, we have raised our FY19-20E NP by 39%-45%. Raise the stock rating to **OUTPERFORM** with a higher DCF-driven TP of RM3.95.

**Exceptional strong quarter.** 1Q19 core PATAMI of RM296m (182% YoY) came in way above expectations and accounted for 49% each of our and the street's full-year estimate. The key positive variance on our end was mainly due to much lower-than-expected OPEX and the adoption of the MFRS 16. No dividend was announced, as expected.

**YoY,** 1Q19 revenue declined by 2% to RM2.8b, due to lower voice (-11% to RM674m, fewer traffic minutes and cumulative customers) and internet (-3% to RM1.0b, higher Streamyx churn partially offset by higher Unifi take-up) segments' contribution, partially mitigated by an increase in Data revenue (+7% to RM666m, thanks to higher contribution from International Leased Data at TM Global) as well as higher customer projects at TM One. EBIT, meanwhile, surged 158% to RM505m, thanks to reduction in all OPEXs followed the active cost rationalization as well as the adoption of the MFRS 16. Stripping off the non-operational items (i.e. unrealized forex loss on international trade settlement), group's normalized EBIT also more than double to RM513m vs. RM207m a year ago. **QoQ,** turnover softened by 10% while EBITDA enhanced by 16% as the cost rationalization under PIP yielding positive results, where OPEX/Revenue ratio has improved by 10.2pp to 82.7% in 1Q19.

**Positive impact from the adoption of MFRS 16,** where TM's EBITDA has been increased by 10% (or RM97m) to RM1.06b in 1Q19 but with higher D&A (+RM39m to RM560m) and finance cost (+RM26m to RM74m). All in, the new accounting standard has led the group to record higher PATAMI of RM308m vs. RM284m under the pre-MFRS 16 standard.

**Continued to transform into a "New TM" that reinforces customer centricity.** While the market is expected to remain competitive, the Performance Improvement Programme 2019-2021 (PIP2019-2021) yield improved profitability for the group in 1Q19. Moving forward, TM is set to continue accelerate Convergence and empower Digital in line with its transformation that reinforces Customer Centricity. Over the next 3 year, TM will continue to focus on 3 strategic pillars – converged services (solidifying convergence position and vertical focus to serve industries going digital), simplification & digitalization (product rationalization as well as simplify process & digitalization), and lean & lower cost (focus on core business & cost optimization), with its integrated network infrastructure to bring a convergence digital lifestyle to all Malaysians.

**Maintain FY19 KPIs, for now.** Despite recorded a sturdy performance in 1Q19, TM is keeping its FY19 KPIs unchanged for now, where the group is aiming to achieve a low to mid-single digit revenue decline (due to softer voice, data and managed services) with normalized EBIT target similar to FY18 level (at c.RM1b). We, however, believe the KPI targets are too conservative in view of the sustainable cost reduction arise from the PIP. Having said that, the degree of the cost saving moving forward may not be extensive as 1Q19 given a typical higher cost reduction tend to be recorded during the initial stage of each cost rationalization program.

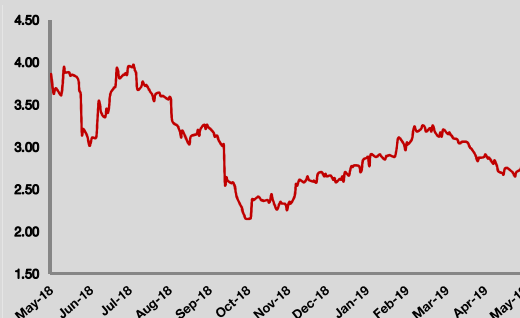
**Raise FY19-20E PATAMI** by 39%/45%, respectively, post reducing our OPEX assumptions to align with the latest trend. Key earnings assumptions for FY19/20E include: (i) Unifi/Streamyx ARPU of RM167/RM85 & RM151/RM80, (ii) Unifi subscribers' net add of 85k/80k, and (iii) 18-20% capex/revenue ratio.

**Upgraded to OP (vs. MP previously) with higher DCF-driven TP of RM3.95** (vs. RM3.10; WACC: 8.4%, TG: 1%), implied a 5.2x EV/fwd EBITDA (c.-1 S.D. below its 3-year mean). **Downside risks to our call include:** (i) unfavourable change in regulation, (ii) stiffer fixed broadband competition, and (iii) higher-than-expected OPEX.

## OUTPERFORM ↑

Price : **RM3.46**  
Target Price : **RM3.95** ↑

### Share Price Performance



KLCI	1,636.50
YTD KLCI chg	-3.2%
YTD stock price chg	30.1%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	T MK Equity
Market Cap (RM m)	13,002.5
Share Outstanding	3,757.9
52-week range (H)	4.13
52-week range (L)	2.11
3-mth avg daily vol:	2,957,687
Free Float	44%
Beta	1.7

### Major Shareholders

Khazanah Nasional Bhd	26.2%
Employees Provident Fund	17.5%
Skim Amanah Saham	11.8%

### Summary Earnings Table

FYE Dec (RM'm)	2018A	2019E	2020E
Turnover	11,819	11,341	11,213
EBITDA	3,470	3,717	3,755
EBIT	65	1,350	1,347
PBT	17	1,094	1,096
<b>PATAMI</b>	<b>153</b>	<b>858</b>	<b>887</b>
<b>Core PATAMI</b>	<b>632</b>	<b>846</b>	<b>887</b>
Consensus (NP)		599	619
Earnings Revision		39%	45%
EPS (sen)	16.8	22.5	23.6
EPS growth (%)	-25.5%	33.8%	4.9%
EBITDA Margin (%)	29.0%	32.5%	33.2%
DPS (sen)	2.0	11.4	11.8
NTA/Share (RM)	1.7	1.8	1.9
PER	20.7	15.5	14.7
Price/NTA (x)	2.0	1.9	1.8
G. Debt/EBITDA (x)	2.5	2.3	2.3
Dividend Yield (%)	0.6%	3.3%	3.4%

31 May 2019

## Results Highlights

Y/E : Dec (RM m)	1Q19**	4Q18	QoQ Chg	1Q18	YoY Chg	3M19	3M18	YoY Chg
<b>Turnover</b>	<b>2,779</b>	<b>3,089</b>	<b>-10.0%</b>	<b>2,848</b>	<b>-2.4%</b>	<b>2,779</b>	<b>2,848</b>	<b>-2.4%</b>
EBITDA	1,065	916	16.4%	767	38.9%	1,065	767	38.9%
EBIT	505	252	100.3%	196	158.1%	505	196	158.1%
N. EBIT	513	322	59.2%	207	148.3%	513	207	148.3%
PBT	437	146	198.6%	194	125.1%	437	194	125.1%
Taxation	(136)	(130)	-4.6%	(87)	57.4%	(136)	(87)	57.4%
<b>PATAMI</b>	<b>308</b>	<b>70</b>	<b>342.3%</b>	<b>157</b>	<b>96.2%</b>	<b>308</b>	<b>157</b>	<b>96.2%</b>
<b>Core PATAMI</b>	<b>296</b>	<b>105</b>	<b>182.6%</b>	<b>105</b>	<b>181.5%</b>	<b>296</b>	<b>105</b>	<b>181.5%</b>
Core EPS (sen)	7.8	2.8	182.6%	2.8	181.5%	7.8	2.8	181.5%
DPS (sen)	-	2.0	-100.0%	-	NM	-	-	NM
EBITDA margin*	38.0%	29.3%		26.6%		38.0%	26.6%	
EBIT margin*	18.0%	8.1%		6.8%		18.0%	6.8%	
PBT margin*	15.6%	4.7%		6.8%		15.6%	6.8%	
NP margin*	10.6%	3.4%		3.7%		10.6%	3.7%	
Effective tax rate	(31.2%)	(89.0%)		(44.6%)		(31.2%)	(44.6%)	

Source: Company, Kenanga Research

\*Total revenue = Op.Rev. + Oth. Op Inc.

\*\* Post MFRS16

## Segmental Breakdown

Y/E : Dec (RM m)	1Q19**	4Q18	QoQ Chg	1Q18	YoY Chg	3M19	3M18	YoY Chg
<b>Revenue by products</b>								
- Voice	674	809	-16.7%	761	-11.4%	674	761	-11.4%
- Data	666	664	0.2%	621	7.2%	666	621	7.2%
- Others	462	614	-24.8%	454	1.7%	462	454	1.7%
- Internet	977	1,002	-2.5%	1,012	-3.4%	977	1,012	-3.4%
<b>Total</b>	<b>2,779</b>	<b>3,089</b>	<b>-10.0%</b>	<b>2,848</b>	<b>-2.4%</b>	<b>2,779</b>	<b>2,848</b>	<b>-2.4%</b>
<b>Subscribers</b>								
Streamyx ('000)	872	936	-6.8%	1,129	-22.8%			
Streamyx ARPU (RM)	87	88	-1.1%	90	-3.3%			
Unifi ('000)	1,323	1,298	1.9%	1,177	12.4%			
Unifi ARPU (RM)	179	184	-2.7%	193	-7.3%			

Source: Company, Kenanga Research

\*\* Post MFRS16

31 May 2019

## Peer Table Comparison

Name	Last Price @ 30-May 2019 (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
<u>Stocks Under Coverage</u>																	
AXIATA GROUP BERHAD	4.65	42,081	Y	12/2019	1.2%	2.5%	-1.9%	18.0%	41.8	42.5	36.1	2.3	2.4	8.5%	2.2%	4.30	MP
DIGI.COM BERHAD	4.81	37,398	Y	12/2019	-7.6%	1.3%	-12.6%	3.7%	24.3	27.8	26.8	55.6	54.2	0.0%	3.6%	4.55	MP
MAXIS BERHAD	5.58	43,617	Y	12/2019	-1.2%	1.5%	-10.8%	3.8%	24.7	27.7	26.7	6.1	5.9	21.7%	3.0%	4.90	UP
OCK GROUP BERHAD	0.460	401	Y	12/2019	7.1%	12.7%	13.8%	8.6%	15.0	17.2	15.9	0.9	0.9	6.6%	0.0%	0.630	OP
TELEKOM MALAYSIA BERHAD	3.46	13,002	Y	12/2019	-4.0%	-1.1%	33.8%	4.9%	20.7	15.5	14.7	1.7	1.8	11.2%	3.3%	3.95	OP
Simple Average					-0.9%	3.4%	4.5%	7.8%	25.3	26.2	24.0	13.3	13.0	9.6%	2.4%		
<u>Stocks Not Under Coverage - Consensus</u>																	
TIME DOTCOM BERHAD	8.78	5,124.9	Y	12/2019	11.1%	11.0%	8.8%	9.5%	17.8	16.3	14.9	2.1	1.9	11.7%	2.2%	9.84	BUY

Source: Kenanga Research

31 May 2019

**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)



Chan Ken Yew  
Head of Research