

25 September 2020

Telekom Malaysia Bhd

On the Mend

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We upgrade our call to OP (from MP) on the back of a higher DCF-driven TP of RM4.95 (from RM4.20, WACC: 7.8%, TG: 1.5%). With the return of a management figurehead, we anticipate TM could realise more cost saving initiatives in the future. Additionally, we expect the JENDELA target to increase broadband premises passed to 7.5m (from 4.95m) to bode well for TM. While the mobile space is seeing heightening competition, investors might seek fixed-line players being more resilient with homebound work arrangements becoming more commonplace.

Hopes to front more cost savings. The return of Imri Mokhtar now as group Managing Director and CEO could spur some positive tailwinds for the group's profitability. Recall that he led various efforts in moving the 3-year Performance Improvement Plan 2018 forward during his earlier tenure. As businesses progressively reopen and customer acquisitions pick up pace, we do not discount opportunities for streamlining as inefficiencies surface. Efforts may include contract re-negotiations with vendors and manpower reorganisation to boost efficiencies in certain business units. Further, past administration's goals to extend Unifi mobile's presence could be shelved, leaving the group with more resources to focus on key products.

Laying down more cables. The JENDELA Phase 1 initiative by MCMC aspires for wider fixed broadband availability from 4.95m premises passed in CY20 to 7.5m premises by CY22. As part of the initiative, the new cable lines could also be a determinant of the national 5G readiness by Phase 2 in 2022. This would open a wider customer base for TM in the underserved areas, but without the expectation of low entry-level priced plans from the previous NFPCP (1% of GNI, or c.RM40/mth). The wider access would also present a strong case for TM to play a prominent role in the eventual deployment of 5G given the heavy reliance on an extensive fibre network to support the backhaul infrastructure.

Less precarious situation. Mobile players have been marketing "unlimited" data packages or the likes to tap into customers whom are more budget cautious and willing to compromise speed for longer accessibility. Adding to this, expectations of U Mobile's long-awaited listing to materialise in the coming quarters could influence the appetite and valuations for mobile players. On the flipside, fixed-line players (especially TM) are less susceptible to changes in the competitive landscape. While ARPUs may see some minor swings from the MCO, overall long-term demand should remain sticky, particularly with the rise of homebound work arrangements. Granted, TM has the widest outreach amongst other available offerings in the market.

Upgrade to OUTPERFORM (from MARKET PERFORM) with a higher TP of RM4.95 (from RM4.20, previously). Post-update, while we leave our FY20E assumptions unchanged, we tweak our FY21E earnings by 3% and 10-year DCF assumptions to account for a more cash accretive outlook. Our new DCF assumptions also consist of WACC of 7.8% (from 9.2%) with an unchanged terminal growth of 1.5%. To recap the abovementioned, this is on the back of leaner cost structures paired with progressively broader market penetration. Though visibility of the allocation for the 5G spectrum is still lacking, we reiterate our previous thesis that even if TM is not awarded a piece of the spectrum, it is likely to have to lease its fibre footprint to serve the new network, therefore still playing an important role in 5G development.

Risks to our call include: (i) weaker-than-expected voice and internet demand, (ii) stronger-than-expected OPEX, and (iii) stiffer competition.

OUTPERFORM ↑

Price : RM4.13
Target Price : RM4.95 ↑

Share Price Performance



KLCI	1,500.80
YTD KLCI chg	-5.5%
YTD stock price chg	8.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	T MK Equity
Market Cap (RM m)	15,584.9
Shares Outstanding	3,773.6
52-week range (H)	4.49
52-week range (L)	3.26
3-mth avg daily vol	4,387,308
Free Float	33%
Beta	1.0

Major Shareholders

Khazanah Nasional Bhd	21.5%
Employees Provident Fund	17.4%
Amanah Saham Nasional	14.7%

Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Turnover	11,434	10,130	10,486
EBITDA	4,061	3,624	3,775
EBIT	1,569	1,360	1,363
PBT	925	1,058	1,230
PATAMI	633	814	974
Core PATAMI	1,001	896	974
Consensus (NP)	-	887	912
Earnings Revision	-	0%	3%
Core EPS (sen)	26.5	23.7	25.8
Core EPS growth (%)	58.3	-10.5	8.8
NDPS (sen)	10.0	13.0	15.5
BVPS (RM)	1.9	2.0	2.1
PER (x)	15.9	17.7	16.3
PBV (x)	2.2	2.1	2.0
Net Gearing (x)	0.5	0.5	0.3
Net Div. Yield (%)	2.4	3.1	3.7

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Income Statement

FY Dec (RM m)	2017A	2018A	2019A	2020E	2021E
Revenue	12,085	11,819	11,434	10,130	10,486
EBITDA	3,817	3,622	4,061	3,624	3,775
Depreciation	-2,484	-3,405	-2,454	-2,265	-2,412
Operating Profit	1,276	33	1,569	1,360	1,363
Interest Inc/(Exp)	-255	-348	-391	-212	-153
Associate Earnings	28	332	-254	-90	20
Profit Before Tax	1,048	17	925	1,058	1,230
Taxation	-318	-278	-368	-317	-344
Minority Interest	199	414	75	74	89
PATAMI	930	153	633	814	974
Core PATAMI	849	632	1,001	896	974

Balance Sheet

FY Dec (RM m)	2017A	2018A	2019A	2020E	2021E
Fixed Assets	16,541	15,263	14,260	13,495	12,683
Intangible Assets	539	490	493	493	493
Other Fixed Assets	1,549	1,548	2,256	2,256	2,256
Inventories	259	135	102	139	144
Receivables	3,710	2,405	2,435	2,775	2,873
Other Current Assets	445	1,037	1,137	1,137	1,137
Cash	1,720	2,826	4,918	5,071	6,265
Total Assets	24,762	23,705	25,600	25,366	25,850
Payables	3,934	3,610	3,604	3,047	3,143
ST Borrowings	1,119	234	1,034	1,034	1,034
Other ST Liability	1,230	1,354	1,838	1,838	1,838
LT Borrowings	7,031	8,337	7,699	7,699	7,699
Other LT Liability	3,681	3,154	4,871	4,871	4,871
Net Assets	7,767	7,016	6,553	6,876	7,265
Shareholders' Equity	7,844	7,525	7,353	7,676	8,065
Minority Interests	-77	-510	-800	-800	-800
Total Equity	7,767	7,016	6,553	6,876	7,265

Cashflow Statement

FY Dec (RM m)	2017A	2018A	2019A	2020E	2021E
Operating CF	2,418	2,585	3,502	2,446	3,513
Investing CF	-2,783	-1,477	-1,184	-1,590	-1,580
Financing CF	-803	-82	-285	-703	-739
Change In Cash	-1,168	1,026	2,033	153	1,194
Free CF	-901	309	2,003	946	1,913

Source: Kenanga Research

Financial Data & Ratios

FY Dec	2017A	2018A	2019A	2020E	2021E
Growth					
Turnover	0.2%	-2.2%	-3.3%	-11.4%	3.5%
EBITDA	1.8%	-5.1%	12.1%	-10.8%	4.2%
Operating Profit	14.5%	-97.4%	N.M.	-13.4%	0.3%
PBT	14.1%	-98.3%	N.M.	14.3%	16.3%
Core Net Profit	0.1%	-25.5%	58.3%	-10.5%	8.8%
Profitability					
Operating Margin	10.6%	0.3%	13.7%	13.4%	13.0%
PBT Margin	8.7%	0.1%	8.1%	10.4%	11.7%
Core Net Margin	7.0%	5.4%	8.8%	8.8%	9.3%
Effective Tax Rate	30.3%	N.M.	39.7%	30.0%	28.0%
ROA	3.7%	0.6%	2.6%	3.2%	3.8%
ROE	12.0%	2.0%	8.5%	10.8%	12.4%

DuPont Analysis

Net Margin	7.0%	5.4%	8.8%	8.8%	9.3%
Assets Turnover (x)	0.5	0.5	0.4	0.4	0.4
Leverage Factor (x)	3.2	3.2	3.5	3.3	3.2
ROE	12.0%	2.0%	8.5%	10.8%	12.4%

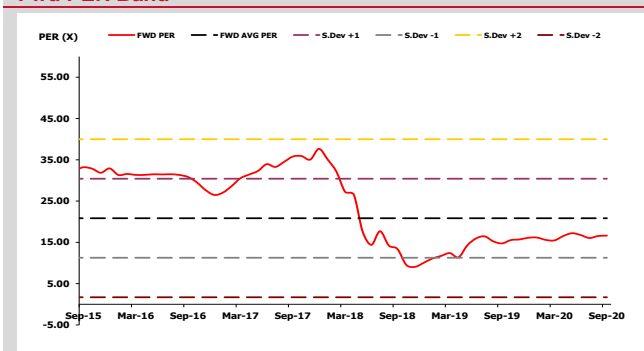
Leverage

Debt/Asset (x)	0.3	0.4	0.3	0.3	0.3
Debt/Equity (x)	1.0	1.1	1.2	1.1	1.1
Net (Cash)/Debt	6,430	5,745	3,815	3,662	2,468
Net Debt/Equity (x)	0.8	0.8	0.5	0.5	0.3

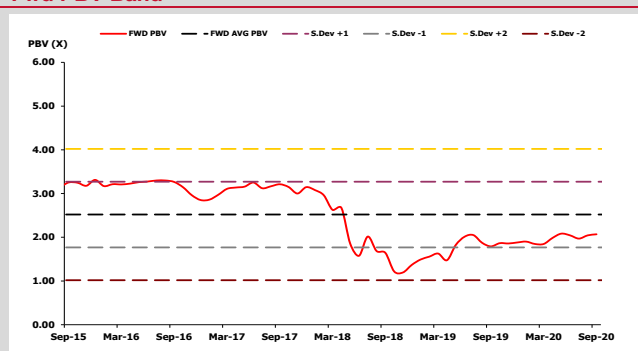
Valuations

Core EPS (sen)	22.5	16.7	26.5	23.7	25.8
NDPS (sen)	21.5	2.0	10.0	13.0	15.5
BV/sh (RM)	2.1	2.0	1.9	2.0	2.1
PER (x)	18.7	25.1	15.9	17.7	16.3
Div. Yield (%)	5.1%	0.5%	2.4%	3.1%	3.7%
PBV (x)	2.0	2.1	2.2	2.1	2.0
EV/EBITDA (x)	4.5	1.0	2.5	2.5	3.1

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

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Peer Table Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div (%)	Yk (%)	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.	1-Yr. Fwd.			
Stocks Under Coverage																		
AXIATA GROUP BERHAD	2.99	27,416.8	Y	12/2020	-10.0%	-2.9%	-44.7%	2.4%	28.5	51.6	50.3	1.2	1.2	2.4%	1.8%		3.35	MP
DIGI.COM BERHAD	4.03	31,333.3	Y	12/2020	-3.0%	1.5%	-7.2%	1.8%	20.1	21.7	21.3	47.5	47.3	218.4%	4.6%		4.65	OP
MAXIS BERHAD	4.96	38,802.3	Y	12/2020	-0.7%	4.2%	1.2%	2.8%	25.8	25.5	24.8	5.5	5.4	21.3%	3.6%		4.90	MP
OCC GROUP BERHAD	0.440	421.8	N	12/2020	5.2%	9.7%	7.8%	13.2%	15.0	13.9	12.3	0.7	0.7	5.1%	0.0%		0.610	OP
TELEKOM MALAYSIA BERHAD	4.13	15,584.9	Y	12/2020	-11.4%	3.5%	-10.5%	8.8%	15.6	17.4	16.0	2.4	2.3	13.3%	3.1%		4.95	OP
Simple Average					-4.0%	3.2%	-10.7%	5.8%	21.0	26.0	25.0	11.5	11.4	52.1%	2.6%			
Stocks Not Under Coverage																		
TIME DOTCOM BERHAD	11.80	7,130.3	Y	12/2020	12.3%	9.7%	4.5%	10.1%	22.7	21.7	19.7	2.5	2.4	11.5%	2.3%		12.60	BUY

Source: Kenanga Research

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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.**

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Published and printed by:

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