

25 February 2021

# Telekom Malaysia Bhd

## Results Within; FY21 Turning Around

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**FY20 CNP of RM991m (-1%) came within but dividends missed. The Group could benefit from MyDigital through leasing its fibre network for 5G and Cloud applications, as well as growing adoption of cloud services/data centre usage, possibly attributing to management's FY21 guidance for low single-digit revenue growth. Upgrade to OP from MP with unchanged DCF-driven TP of RM6.85 (WACC: 8.3%, TG: 1.5%).**

**FY20 within.** FY20 CNP of RM991m came within our and consensus expectations both at 97%. FY20 top-line also came in within our estimate at 104%. A DPS of 7.5 sen was declared, bringing FY20 DPS to 14.3 sen, below our FY20E DPS of 15.5 sen, as the pay-out was lower than expected.

**YoY,** FY20 revenue fell by 5% to RM10.8b as TM's revenues across the board fell, with Voice falling the most (-11.5%) as demand for traffic minutes tapered off. Internet and data revenues were relatively shielded with falling 1.9% and 0.5%, respectively. Internet revenue dipped slightly as Streamyx faced diminishing subscribers and ARPU from migration to Unifi, which saw ARPU remaining at RM153. Normalised EBIT fell by 5% in tandem with revenue trend. PBT rose by 38%, boosted my lower interest expense as total borrowings fell from RM9b to RM8b.

**QoQ,** 4QFY20 revenue rose to RM3b (+12%) mainly from growth in Data (+10%) and "Others" (+61%), comprising of higher customer projects & retail device revenue. However, EBIT fell 13% on higher OPEX of RM2b (+19%) due to higher direct costs (+30%), which consists of devices sold. Consequently, Core CNP fell by 33%.

**MyDigital.** TM is expected to benefit from MyDigital in two main ways. Firstly, TM Wholesale is expected to benefit from leasing its extensive fibre network for the 5G rollout and US tech companies' usage for data centres (DC). Secondly, TM One stands to benefit from greater adoption of cloud services and DC usage. As the only home-based Cloud Service Provider (CSP), TM has an edge over Google, Microsoft and Amazon in housing cloud data in Malaysia, a crucial requirement to some users of cloud services and DCs.

**FY21 guidance.** Management guided flat to low single-digit revenue growth, signalling a turnaround from the previous years with single-digit declines. With continued cost optimisation, we anticipate FY21E EBIT to register close to RM1,672m, in line with management's guidance of greater than RM1.6b. Despite being involved with MyDigital, TM's capex/revenue is expected to be 14%/18%, far from the 20%/30% in previous years, as management prioritizes ROI and efficiency.

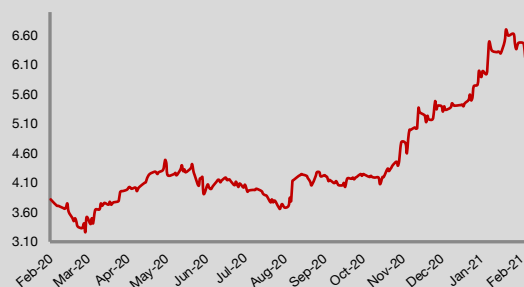
**Post-results,** we maintain FY21E CNP of RM1.1b and introduce FY22E CNP of RM1.1b (+2%), a conservative estimate. Decrease FY21E DPS to 16.5 sen (from 18.0 sen) on 55% payout with FY22E DPS of 16.5 sen on flat FY22 earnings growth. Should profitability and MyDigital-related earnings' visibility improve, we may raise our estimates.

**Upgrade to OUTPERFORM from MARKET PERFORM with unchanged DCF-TP of RM6.85.** We view the recent share price correction as an opportune time to accumulate, as TM's continued strive for profitability, coupled with its exposure to fibre broadband, 5G, cloud services, and data centres, provide growth opportunities. WACC and TG assumptions of 8.3% and 1.5%, respectively, remain intact. Our TP implies an EV/EBITDA of 7.4x, +0.5 SD above its 3-year mean of 6.6x.

**OUTPERFORM** ↑

Price: **RM6.23**  
Target Price: **RM6.85** ↔

### Share Price Performance



KLCI	1,557.55
YTD KLCI chg	-4.3%
YTD stock price chg	15.2%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	T MK Equity
Market Cap (RM m)	23,510.2
Share Outstanding	3,773.7
52-week range (H)	6.82
52-week range (L)	3.09
3-mth avg daily vol:	7,917,353
Free Float	36%
Beta	0.8

### Major Shareholders

Khazanah Nasional Bhd	21.5%
Employees Provident Fund	16.3%
Amanah Saham Bumiputera	13.2%

### Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
<b>Turnover</b>	<b>10,840</b>	<b>11,144</b>	<b>11,893</b>
EBITDA	3,889	4,123	4,400
EBIT	1,605	1,672	1,784
PBT	1,279	1,452	1,481
<b>PATAMI</b>	<b>1,016</b>	<b>1,118</b>	<b>1,140</b>
<b>Core PATAMI</b>	<b>991</b>	<b>1,118</b>	<b>1,140</b>
Consensus (NP)	1019	1,103	1,140
Earnings Revision	-	-	-
Core EPS (sen)	27.0	29.6	30.2
Core EPS growth (%)	1.8	9.0	2.0
NDPS (sen)	14.3	16.5	16.5
BVPS (RM)	1.9	2.2	2.3
PER (x)	23.1	21.0	20.6
PBV (x)	3.3	2.9	2.7
Net Gearing (x)	0.5	0.3	0.1
Net Div. Yield (%)	2.3	2.6	2.6

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

## Results Highlight

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
<b>Turnover</b>	3,001	2,690	11.6%	3,034	-1.1%	10,840	11,434	-5.2%
EBITDA	988	1,029	-4.1%	990	-0.2%	3,889	4,023	-3.3%
EBIT	396	456	-13.2%	366	8.3%	1,605	1,568	2.3%
N. EBIT	377	470	-19.8%	377	0.0%	1,612	1,700	-5.1%
PBT	359	414	-13.4%	39	822.4%	1,279	925	38.2%
Taxation and Zakat	-100	-94	-6.2%	-106	6.4%	-283	-261	-8.1%
Minority Interest	0	9	-98.9%	16	-99.4%	20	59	-66.0%
<b>PATAMI</b>	259	330	-21.3%	-51	607.4%	1,016	633	60.6%
<b>Core PATAMI</b>	194	289	-32.8%	190	2.2%	991	1,001	-0.9%
EPS (sen)	5.1	7.7	-33.0%	5.0	1.9%	26.3	26.6	-1.1%
DPS (sen)	7.5	0.0		10.0		14.3	10.0	
EBITDA margin	32.9%	38.3%		32.6%		35.9%	35.2%	
N. EBIT margin	12.6%	17.5%		12.4%		14.9%	14.9%	
PBT margin	12.0%	15.4%		1.3%		11.8%	8.1%	
Core PATAMI margin	6.5%	10.7%		6.3%		9.1%	8.8%	
Effective tax and zakat rate	27.8%	22.6%		273.5%		22.1%	28.2%	

Source: Company, Kenanga Research

## Segmental Breakdown

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
Product revenue (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
- Voice	617	634	-2.7%	692	-10.8%	2,367	2,675	-11.5%
- Internet	949	938	1.2%	906	4.7%	3,744	3,815	-1.9%
- Data	787	716	9.9%	845	-6.8%	2,842	2,855	-0.5%
- Others	648	402	61.2%	592	9.4%	1,887	2,090	-9.7%
<b>Total</b>	<b>3,001</b>	<b>2,690</b>	<b>11.6%</b>	<b>3,034</b>	<b>-1.1%</b>	<b>10,840</b>	<b>11,434</b>	<b>-5.2%</b>
<b>Subscribers</b>								
Streamyx ('000)	557	616	-9.6%	741	-24.8%			
Streamyx ARPU (RM)	92	92	0.0%	96	-4.2%			
Unifi ('000)	1,776	1,648	7.8%	1,444	23.0%			
Unifi ARPU (RM)	153	148	3.4%	153	0.0%			

Source: Company, 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 DivYld (%)	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.			
<b>Stocks Under Coverage</b>																	
AXIATA GROUP BHD	3.40	31,176.4	Y	12/2020	-5.3%	1.2%	-26.6%	26.6%	32.4	44.2	34.9	1.4	1.4	4.7%	2.1%	4.30	OP
DIGI.COM BHD	3.81	29,622.8	Y	12/2021	-1.6%	1.0%	-25.8%	3.7%	23.1	31.1	30.0	48.9	48.1	155.9%	3.2%	3.55	MP
MAXIS BHD	4.66	36,455.4	Y	12/2020	-0.7%	4.2%	1.2%	2.8%	24.3	24.0	23.3	5.2	5.1	21.3%	3.9%	4.90	MP
OCK GROUP BHD	0.500	527.2	Y	12/2020	1.7%	10.1%	-2.1%	20.1%	16.8	17.2	14.3	0.8	0.8	4.7%	0.0%	0.540	MP
TELEKOM MALAYSIA BHD	6.23	23,510.2	Y	12/2021	2.8%	6.7%	9.0%	2.0%	23.1	21.0	20.6	3.3	2.9	14.7%	2.6%	6.85	OP
<b>Simple Average</b>					<b>-0.6%</b>	<b>4.6%</b>	<b>-8.1%</b>	<b>11.0%</b>	<b>24.1</b>	<b>27.5</b>	<b>24.6</b>	<b>11.9</b>	<b>11.6</b>	<b>40.2%</b>	<b>2.3%</b>		
<b>Stocks Not Under Coverage</b>																	
TIME DOT COM BHD	14.00	8,254.2	Y	12/2020	10.0%	8.6%	5.0%	8.8%	25.4	24.2	22.2	2.9	2.7	11.6%	2.2%	14.00	Trading 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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