

Telekom Malaysia Bhd

Beneficiary of Extended Lockdowns

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We attended TM's briefing on unifi and came away feeling optimistic about TM's prospects, as our investment thesis remains intact. We continue to expect strong unifi subscriber growth in the coming quarters as home fibre continues to gain traction amidst extended lockdowns. Moving forward, despite future ARPU dilution, we think the strong subs base growth will continue to lift unifi's revenue. Reiterate **OUTPERFORM** with unchanged TP of RM7.00, as we believe TM deserves to be traded at a 7x Fwd. EV/EBITDA vs. the current 6.2x.

Unifi subs growth, ARPU dilution. From the recent JENDELA and unifi briefings, we gathered that the telcos have exceeded their JENDELA targets for premises which passed 85%, largely attributable to TM, which said the expedited rollout was mainly driven by strong fibre broadband demand. Thus, we expect a healthy portion of their new premises passed to translate into unifi subs. That said, TM is increasingly targeting the M40 group as the T20 group becomes saturated. This focus on the mass market will gradually dilute unifi ARPU as a larger customer base could skew towards entry level products.

Plan upgrades to cushion ARPU dilution. While TM is acquiring new fibre broadband subs, their expanding fibre coverage also allows existing Streamyx users to convert to unifi. This should provide cushion to said dilution, as unifi fetches c.60% higher ARPU than Streamyx. Furthermore, as unifi subs found themselves needing higher speeds and data quotas during lockdowns, there have been plan upgrades among the unifi subs, further lifting unifi's ARPU. Collectively, this ties in with our FY21E/FY22E unifi ARPU forecast of -4%/-3%.

FY21E/FY22E blended ARPU to decline 2% each. On a net basis, we have already accounted for a 2% decline each in the blended ARPU for FY21/FY22.

Subs growth to outweigh ARPU dilution. Despite said ARPU dilution, we foresee the strong unifi subs growth (average 8% Q/Q in coming quarters) to continue lifting TM's unifi revenue. For comparison, unifi subs base rose by an average of 3% Q/Q pre-Covid.

Investment thesis intact. Post-con call, we maintain our estimates as TM is performing as expected. We continue to favor TM as our top telco pick on the back of: (i) continued strong growth in its home broadband business, (ii) increased wholesale lease revenue from other telcos' FTTH growth, (iii) greater OTT reliance on its submarine cables, and (iv) growth in cloud and data centre services from enterprises' digital adoption.

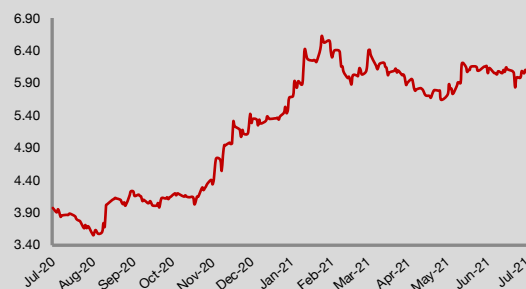
Reiterate OP with DCF-TP of RM7.00. We think the market is underappreciating the tailwind behind TM, as it stands to benefit from both extended lockdowns and from a secular growth trend, as TM's assets stand to benefit from consumers and enterprises' increasingly digital lifestyles and greater data consumption, respectively. Our DCF-TP implies a forward EV/EBITDA of 7x which is at +0.5SD of its 5-year mean.

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

OUTPERFORM ↔

Price : **RM6.02**
Target Price : **RM7.00** ↔

Share Price Performance



KLCI	1,519.97
YTD KLCI chg	-6.6%
YTD stock price chg	11.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	T MK EQUITY
Market Cap (RM m)	22,717.7
Shares Outstanding	3,773.7
52-week range (H)	6.82
52-week range (L)	3.66
3-mth avg daily vol	3,549,149
Free Float	36%
Beta	0.6

Major Shareholders

Khazanah Nasional Bhd	20.1%
Employees Provident Fund	17.4%
Amanah Saham Nasional	12.3%

Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Turnover	10,840	11,321	11,935
EBITDA	3,895	4,189	4,416
EBIT	1,611	1,698	1,790
PBT	1,279	1,403	1,465
PATAMI	1,016	1,142	1,193
Core PATAMI	991	1,142	1,193
Consensus (NP)	N.M.	1,136	1,214
Earnings Revision	N.M.	N.A.	N.A.
Core EPS (sen)	26.3	30.3	31.6
Core EPS growth (%)	-1	15	4
NDPS (sen)	14.3	16.5	17.5
BVPS (RM)	1.8	1.9	2.1
PER (x)	22.9	19.9	19.0
PBV (x)	3.3	3.1	2.9
Net Gearing (x)	0.5	0.4	0.3
Net Div. Yield (%)	2.4	2.7	2.9



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Income Statement

FY Dec (RM m)	2018A	2019A	2020A	2021E	2022E
Revenue	11,819	11,434	10,840	11,321	11,935
EBITDA	3,780	3,754	3,895	4,189	4,416
Depreciation	-3,405	-2,454	-2,284	-2,491	-2,626
Operating Profit	376	1,300	1,611	1,698	1,790
Interest Inc/(Exp)	-379	-390	-345	-315	-347
Associate Earnings	21	15	12	20	22
Profit Before Tax	17	925	1,279	1,403	1,465
Taxation	-278	-368	-283	-365	-381
Minority Interest	-414	-75	-20	-104	-108
PATAMI	153	633	1,016	1,142	1,193
Core PATAMI	632	1,001	991	1,142	1,193

Balance Sheet

FY Dec (RM m)	2018A	2019A	2020A	2021E	2022E
Fixed Assets	15,263	14,260	13,752	13,889	13,750
Intangible Assets	490	493	494	494	489
Other Fixed Assets	1,548	2,256	2,592	2,618	2,644
Inventories	135	102	99	98	97
Receivables	2,405	2,435	1,952	1,933	1,913
Other Current Assets	1,037	1,137	1,085	678	616
Cash	2,826	4,918	4,304	4,764	5,421
Total Assets	23,705	25,600	24,279	24,475	24,931
Payables	3,610	3,604	3,494	3,529	3,565
ST Borrowings	234	1,034	831	839	831
Other ST Liability	1,354	1,838	1,483	1,483	1,483
LT Borrowings	8,337	7,699	6,796	6,728	6,661
Other LT Liability	3,154	4,871	4,700	4,653	4,606
Net Assets	7,016	6,553	6,975	7,243	7,787
Shareholders' Equity	7,525	7,353	7,125	7,385	7,922
Minority Interests	-510	-800	-149	-142	-135
Total Equity	7,016	6,553	6,975	7,243	7,787

Cashflow Statement

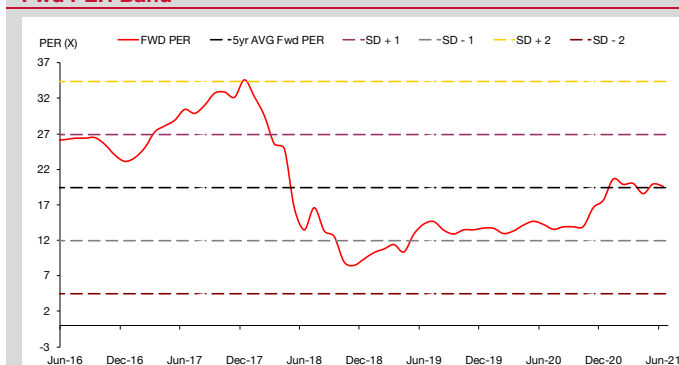
FY Dec (RM m)	2018A	2019A	2020A	2021E	2022E
Operating CF	2,585	3,502	2,686	3,057	3,223
Investing CF	-1,477	-1,184	-1,247	-1,811	-1,910
Financing CF	-82	-285	-2,071	-628	-656
Change In Cash	1,026	2,033	-632	617	657
Free CF	-6,430	2,327	1,657	1,630	1,698

Source: Kenanga Research

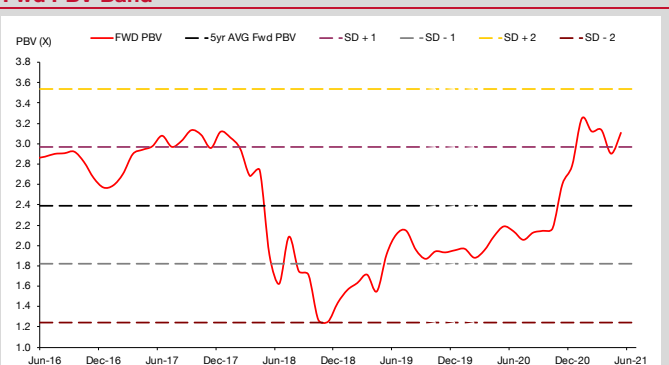
Financial Data & Ratios

FY Dec	2018A	2019A	2020A	2021E	2022E
Growth					
Turnover	-2%	-3%	-5%	4%	5%
EBITDA	5%	-1%	4%	8%	5%
Operating Profit	-66%	246%	24%	5%	5%
PBT	-98%	5217%	38%	10%	4%
Core Net Profit	-27%	58%	-1%	15%	4%
Profitability					
EBITDA Margin	32%	33%	36%	37%	37%
Operating Margin	3%	11%	15%	15%	15%
PBT Margin	0%	8%	12%	12%	12%
Core Net Margin	5%	9%	9%	10%	10%
Effective Tax Rate	-1597%	-40%	-22%	-26%	-26%
ROE	8%	13%	14%	16%	16%
ROA	3%	4%	4%	5%	5%
DuPont Analysis					
Net Margin	5%	9%	9%	10%	10%
Assets Turnover (x)	0.5	0.4	0.4	0.5	0.5
Leverage Factor (x)	3.4	3.9	3.5	3.4	3.2
ROE	8%	13%	14%	16%	16%
Leverage					
Debt/Asset (x)	0.4	0.3	0.3	0.3	0.3
Debt/Equity (x)	1.2	1.3	1.1	1.0	1.0
Net (Cash)/Debt	5,745	3,815	3,322	2,803	2,071
Net Debt/Equity (x)	0.8	0.6	0.5	0.4	0.3
Valuations					
Core EPS (sen)	16.8	26.5	26.3	30.3	31.6
NDPS (sen)	2.0	10.0	14.3	16.5	17.5
BV/share (RM)	1.9	1.7	1.8	1.9	2.1
Core PER (x)	35.9	22.7	22.9	19.9	19.0
Div. Yield (%)	0.3	1.7	2.4	2.7	2.9
PBV (x)	3.2	3.5	3.3	3.1	2.9
EV/EBITDA (x)	6.8	6.9	6.6	6.2	5.9

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 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.			
Stocks Under Coverage																	
AXIATA GROUP BERHAD	3.76	34,489.4	Y	12/2021	3.9%	4.3%	11.9%	21.5%	39.8	35.6	29.3	1.4	1.4	5.7%	2.1%	4.45	OP
DIGI.COM BERHAD	4.20	32,655.0	Y	12/2021	-1.6%	1.6%	-5.5%	2.1%	26.5	28.1	27.5	53.9	52.9	190.2%	3.6%	4.25	MP
MAXIS BERHAD	4.36	34,122.5	Y	12/2021	2.7%	5.3%	0.6%	6.0%	24.1	23.9	22.6	4.8	4.7	20.0%	3.7%	4.70	MP
OCK GROUP BERHAD	0.470	495.6	Y	12/2021	11.4%	8.3%	24.9%	11.7%	19.0	15.2	13.6	0.8	0.8	6.0%	0.0%	0.590	OP
TELEKOM MALAYSIA BERHAD	6.02	22,717.7	Y	12/2021	4.4%	5.4%	15.2%	4.4%	22.9	19.9	19.0	3.3	3.1	16.1%	2.7%	7.00	OP
Simple Average					4.2%	5.0%	9.4%	9.1%	26.5	24.5	22.4	12.8	12.6	47.6%	2.4%		

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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