

Telekom Malaysia Bhd

9MFY21 Within Expectations

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TM's 3QFY21 CNP of RM304m brought 9MFY21 CNP to RM891m, within expectation at 78% of our FY21E CNP. Unifi subs continued its strong QoQ growth at 10%, outweighing the declining ARPUs, and lifting overall Unifi revenue. Looking ahead, we expect continued growth across all three business segments in 4QFY21 and into FY22. Post results, we lowered FY21E PATAMI and raised FY22E PATAMI on early provisioning of the Cukai Makmur tax. Reiterate **OUTPERFORM** with unchanged DCF-TP of RM7.00.

9MFY21 within estimates. 3QFY21 CNP of RM304m brought 9MFY21 CNP to RM891m, within our/street's expectation at 78% each. No dividends in 3QFY21, as expected.

YoY, 9MFY21 revenue rose 7% driven by growth across all segments and products. Notably, Unifi revenue rose 10% on continued strong subs growth, and TM Wholesale revenue rose 15% on a lumpy IRU revenue recognition in 1QFY21. On continued cost-saving initiatives, CNP rose 12%, with management guiding more savings to come.

QoQ, 3QFY21 revenue inched up 1%, driven by Unifi and TM Wholesale. On lower manpower, D&A and interest expenses, PBT rose by 18% and CNP rose in tandem by 19%.

Long-term plans for Unifi. While Unifi subs have been growing at a strong 10% QoQ for three consecutive quarters, its ARPU has been declining, as expected. While ARPU is expected to continue trending down as more new subscribers opt for entry-level packages, TM looks to continue pushing its convergence proposition to support ARPU. The convergence proposition is further strengthened by Unifi's offering of 5G services, as it could leverage on DNB's 5G SWN, putting Unifi on even grounds with the other 3 MNOs.

Outlook. We expect continued growth across TM's business segments, with continued demand for home broadband driving Unifi's growth, resumption of customer projects (after lockdowns) to lift TM One, and continued IRU deals with OTTs to fuel TM Wholesale's growth.

Guidance revision. As the continued growth across TM's segments and cost savings are bearing fruits, outperforming management's previous guidance, management has raised its guidance for FY21 revenue and EBIT. (refer to Figure 1). Management has guided that in 4QFY21, it will make a provision for the Cukai Makmur tax for YA22. While they did not guide on the amount, we are assuming that, in FY21, they will provide for half of the incremental tax. We estimate TM's incremental Cukai Makmur tax to be RM47m. Thus, TM could incur an additional RM23.4m in tax expense in FY21, and bear the other half in FY22.

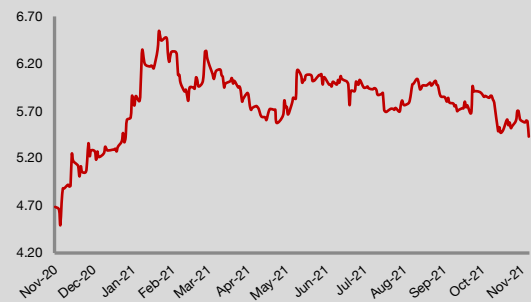
Post results, guidance revision, and Cukai Makmur provision, we reduce our FY21E CNP by 5% and raise FY22E CNP by 5%, purely on the early provision of the Cukai Makmur tax. As this is purely an accounting adjustment, it does not change our view of TM's underlying fundamentals. We maintain the other estimates as we deem our existing estimates in-line with the new guidance of low-to-mid single digit revenue growth (vs. our 4%) and EBIT of RM1.7b~RM1.8b (vs. our RM1.7b).

Maintain OUTPERFORM with unchanged DCF-TP of RM7.00. Our TP implies an EV/FY22 EBITDA of 6.6x, close to +0.5SD of its 5-year mean, which we think is justified given the tailwinds behind TM's numerous business segments. We think that the correction in its share price is overdone and unjustified, given TM's consistently strong quarterly results.

OUTPERFORM ↔

Price: **RM5.43**
Target Price: **RM7.00** ↔

Share Price Performance



KLCI 1,517.60
YTD KLCI chg -6.7%
YTD stock price chg 0.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	T MK EQUITY
Market Cap (RM m)	20,491.2
Share Outstanding	3,773.7
52-week range (H)	6.82
52-week range (L)	4.60
3-mth avg daily vol:	3,110,805
Free Float	35%
Beta	0.6

Major Shareholders

Khazanah Nasional Bhd	20.1%
Employees Provident Fund	18.3%
Amanah Saham Nasional	12.3%

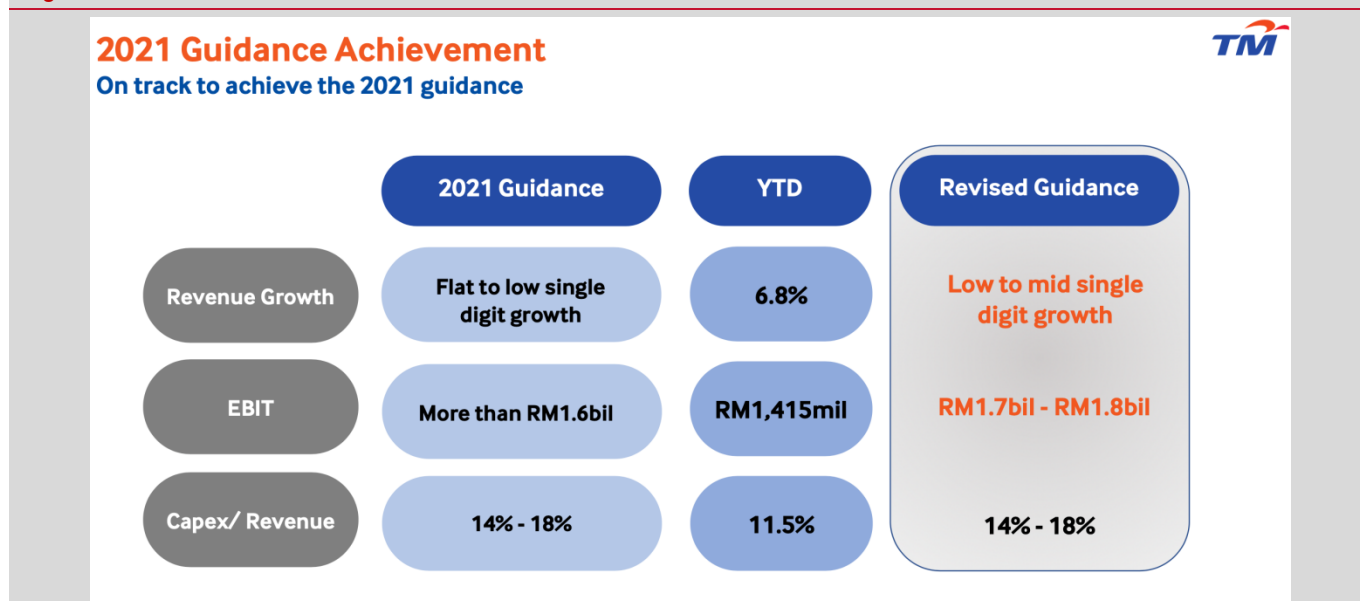
Summary Earnings Table

FYE Dec (RMm)	2020A	2021E	2022E
Revenue	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	1,091	1,141
Core PATAMI	991	1,091	1,141
Consensus (NP)	N.M.	1,144	1,239
Earnings Revision	N.M.	-5%	+5%
Core EPS (sen)	26.3	28.9	30.2
Core EPS growth (%)	-1%	10%	5%
NDPS (sen)	14.3	16.0	18.0
BVPS (RM)	1.8	1.9	2.0
PER (x)	21.1	19.2	18.3
PBV (x)	3.0	2.9	2.7
Net Gearing (x)	0.5	0.4	0.3
Net Div. Yield (%)	2.6	2.9	3.2

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

Figure 1: TM's 2021 Guidance



Source: Telekom Malaysia Berhad

Results Highlight

FYE Dec (RM m)	3Q FY21	2Q FY21	QoQ Chg	3Q FY20	YoY Chg	9M FY21	9M FY20	YoY Chg
Revenue	2,803	2,763	1%	2,690	4%	8,376	7,839	7%
EBITDA	1,025	990	3%	1,029	0%	3,174	2,888	10%
EBIT	438	388	13%	456	-4%	1,408	1,196	18%
Normalised EBIT	438	425	3%	470	-7%	1,413	1,235	14%
PBT	353	299	18%	411	-14%	1,058	916	16%
Taxation	(82)	(77)	7%	(94)	-13%	(242)	(183)	32%
Minority Interest	1	2	-74%	9	-94%	5	20	-77%
PATAMI	271	224	21%	326	-17%	821	753	9%
Core PATAMI	304	255	19%	289	5%	891	797	12%
Core EPS (sen)	8.1	6.8	19%	7.7	5%	23.6	21.1	12%
DPS (sen)	-	7.0	-	-	-	7.0	6.8	-
EBITDA margin	36.6%	35.8%		38.3%		37.9%	36.8%	
N. EBIT margin	15.6%	15.4%		17.5%		16.9%	15.8%	
PBT margin	12.6%	10.8%		15.3%		12.6%	11.7%	
Core PATAMI margin	10.9%	9.2%		10.7%		10.6%	10.2%	
Effective tax and zakat rate	-23.2%	-25.6%		-22.8%		-22.8%	-20.0%	

Source: Company, Kenanga Research

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Segmental Breakdown								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Product revenue (RM m)								
Voice	636	584	9%	634	0%	1,776	1,750	1%
Internet	1,017	994	2%	938	8%	2,985	2,795	7%
Data	717	747	-4%	716	0%	2,264	2,055	10%
Others	433	437	-1%	402	8%	1,350	1,239	9%
Total	2,803	2,763	1%	2,690	4%	8,376	7,839	7%
Segment revenue (RM m)								
unifi	1,272	1,232	3%	1,147	11%	3,708	3,382	10%
TM ONE	847	875	-3%	885	-4%	2,636	2,642	0%
TM Wholesale	597	571	5%	569	5%	1,764	1,540	15%
Others	87	85	2%	88	-1%	268	274	-2%
Total	2,803	2,763	1%	2,690	4%	8,376	7,839	7%

Source: Company, Kenanga Research

Fixed Broadband ARPU and Subs								
	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21
Unifi ARPU (RM/mth)	153	153	150	148	153	144	141	138
Streamyx ARPU (RM/mth)	96	91	90	92	92	91	91	92
Unifi Subs ('000)	1,444	1,490	1,551	1,648	1,776	1,951	2,139	2,347
Streamyx Subs ('000)	741	694	676	616	557	492	416	342
Total Subs ('000)	2,185	2,184	2,227	2,264	2,333	2,443	2,555	2,689

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 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 BHD	4.00	36,699.9	Y	12/2021	3.9%	4.3%	15.0%	12.6%	42.4	36.8	32.7	1.5	1.5	5.7%	2.0%	4.20	MP
DIGI.COM BHD	4.18	32,499.5	Y	12/2021	2.5%	1.6%	-4.9%	-8.1%	26.4	27.8	30.2	53.6	52.6	191.4%	3.6%	3.80	UP
MAXIS BHD	4.59	35,922.6	Y	12/2021	2.7%	3.5%	0.6%	-6.6%	25.3	25.2	26.9	5.1	5.0	20.0%	3.5%	4.00	UP
OCC GROUP BHD	0.460	485.1	Y	12/2021	5.0%	4.1%	-12.6%	39.0%	18.6	21.3	15.3	0.8	0.7	4.4%	0.0%	0.500	MP
TELEKOM MALAYSIA BHD	5.43	20,491.2	Y	12/2021	4.4%	5.4%	10.0%	4.6%	20.7	18.8	18.0	2.9	2.8	15.4%	2.9%	7.00	OP
Simple Average					3.7%	3.8%	1.6%	8.3%	26.7	26.0	24.6	12.8	12.5	47.4%	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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