

23 November 2022

Telekom Malaysia Bhd

Raises Top Line and Profit Guidance

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TM's 9MFY22 results beat our expectations. It revised its guidance for FY22 topline growth to mid-to-high-single-digit (from low-to-mid-single-digit) on the back of positive momentum from the reopening of the economy. We raise our FY22-23F net profit forecasts by 24-9%, lift our TP by 4% to RM8.30 (from RM7.95) and maintain our OUTPERFORM call.

Results met consensus estimate but above ours. 9MFY22 PATAMI beat our expectation at 84% of our full-year forecast but met market expectation at 79% of the full-year consensus estimate. The positive variance from our forecast came largely from a lower-than-expected operating expenses. No DPS was declared for the quarter.

Results' highlight. YoY, 9MFY22 revenue improved 9% underpinned by strong performance from internet (+9%) and data (+14%) with voice moderating at 3%. Earnings before interest and tax saw a 32% growth driven by manpower and cost optimisation. Core net profit ended 10% higher on account of a higher effective tax rate (33%) due to the implementation of Cukai Makmur. QoQ, revenue moderated 2% but earnings before interest and tax fell 13% on account of higher operating and depreciation costs. PATAMI ended 30% lower on higher effective tax rate (42%).

Its internet customers continued to show solid growth (+4% YoY) with Home and SME segments up by 3% YoY and 5% YoY, respectively. Fixed broadband customers growth remained solid at 17% YoY and 2% QoQ. Blended ARPU however saw RM1 YoY and RM4 QoQ decline to RM131 as competition increased.

Solid top-line ahead. We expect robust topline to extend into 2023 as economic activities continue to normalise. Its Unifi revenue should still be sustainable by tapping into the mass market as its nationwide network expansion is complete and on further coverage of 4G. The reopening of the economy is boosting its B2B revenue as corporates, SMEs and the government sector continue to upgrade their digitalization. The 5G deployment is expected to further boost its sales ahead being the nation's preferred network infrastructure provider. The proposed revision under MSAP will likely reduce wholesale prices in FY23 but mitigate by higher demand due to the 5G deployment and attractive bundling. TM revised up its guidance for: (i) its FY22 top line growth to mid-to-high-single-digit (from low-to-mid-single-digit), and (ii) a FY22 EBIT of more than RM2.3b (from RM1.8b).

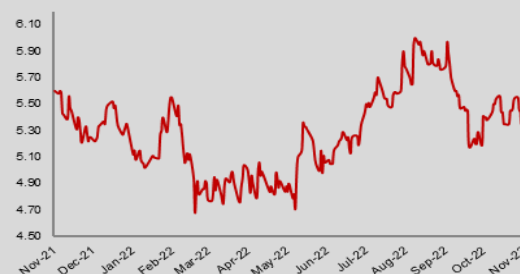
Post results, we raised FY22F earnings by 24% on account of: (i) revenue growth of 8% (from 4% previously), and (ii) operating expense margin at 60% (from 63% previously). FY23F earnings are raised by 9% on these assumptions; (i) revenue growth of 3% (from 4%), (ii) operating expense margin at 60% (from 63% previously), and (iii) earnings before interest and tax margin at 16% (from 19% previously) on account of 5G leasing charges.

We like TM on account of: (i) positive tailwinds on the digital space as economies reopen, (ii) the enhanced network coverage nationwide boosting internet demand from both the public and businesses, and (iii) competitive offering with the added 5G availability. **Reiterate OUTPERFORM.**

OUTPERFORM ↔

Price: RM5.45
Target Price: RM8.30 ↑

Share Price Performance



KLCI	1,441.29
YTD KLCI chg	-8.1%
YTD stock price chg	-0.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	T MK Equity
Market Cap (RM m)	20,824.5
Share Outstanding	3,821.0
52-week range (H)	6.10
52-week range (L)	4.68
3-mth avg daily vol:	4,536,494
Free Float	34%
Beta	0.8

Major Shareholders

Khazanah Nasional Bhd	20.2%
Employees Provident Fund	15.7%
Amanah Saham Nasional	15.1%

Summary Earnings Table

FYE Dec (RMm)	2021A	2022F	2023F
Revenue	11,529	12,424	12,822
EBITDA	4,329	4,969	4,841
EBIT	1,694	2,360	2,020
PBT	1,247	2,099	1,733
PATAMI	895	1,440	1,439
Core PATAMI	1,181	1,440	1,439
Consensus (NP)	N.M.	1,252	1,429
Earnings Revision	N.M.	+24%	+9%
Core EPS (sen)	31.3	38.2	38.1
Core EPS growth (%)	19	22	0
NDPS (sen)	13.0	21.0	21.0
BVPS (RM)	1.9	2.0	2.2
PER (x)	17.4	14.3	14.3
PBV (x)	2.8	2.7	2.5
Net Gearing (x)	0.4	0.4	0.3
Net Div. Yield (%)	2.4	3.9	3.9

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Correspondingly, we **raise our TP by 4% to RM8.30** (from RM7.95) on a 7x FY23F EV/EBITDA (in line with the average historical forward EV/EBITDA of the broadband sector). There is no adjustment to TP based on ESG given a 3-star rating as appraised by us (see Page 4).

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

Results Highlight								
FYE Dec (RM m)	3Q22	2Q22	Chg	3Q21	Chg	9M22	9M21	Chg
Revenue	3,158.1	3,089.3	2%	2,803.3	13%	9,139.8	8,375.9	9%
EBITDA	1,261.2	1,319.5	-4%	1,025.0	23%	3,737.7	3,174.2	18%
EBIT	607.1	697.8	-13%	437.5	39%	1,858.4	1,408.4	32%
PBT	460.3	545.0	-16%	352.7	31%	1,472.5	1,058.4	39%
Taxation	(195.5)	(165.7)	18%	(81.7)	139%	(488.7)	(241.8)	102%
Minority Interest	(0.4)	1.3	-131%	(0.5)	-20%	0.7	(4.5)	-116%
PATAMI	265.2	378.0	-30%	271.3	-2%	983.1	820.9	20%
Core PATAMI	265.2	378.0	-30%	304.3	-13%	983.1	890.7	10%
Core EPS (sen)	7.0	10.0	-30%	8.1	-13%	26.1	23.6	10%
DPS (sen)	-	9.0	-	-	-	9.0	7.0	-
EBITDA margin	39.9%	42.7%	-	36.6%	-	40.9%	37.9%	-
N. EBIT margin	0.0%	0.0%	-	0.0%	-	0.0%	0.0%	-
PBT margin	14.6%	17.6%	-	12.6%	-	16.1%	12.6%	-
Core PATAMI margin	8.4%	12.2%	-	10.9%	-	10.8%	10.6%	-
Effective tax and zakat rate	-42.5%	-30.4%	-	-23.2%	-	-33.2%	-22.8%	-

Source: Company, Kenanga Research

Segmental Breakdown								
	3Q22	2Q22	Chg	3Q21	Chg	9M22	9M21	Chg
Product revenue (RM m)								
Voice	616	624	-1%	636	-3%	1,824	1,776	3%
Internet	1,092	1,089	0%	1,017	7%	3,258	2,985	9%
Data	903	877	3%	717	26%	2,574	2,264	14%
Others	548	500	10%	433	27%	1,484	1,350	10%
Total	3,158	3,089	2%	2,803	13%	9,140	8,376	9%
Segment revenue (RM m)								
Unifi	1,401	1,403	0%	1,273	10%	4,181	3,749	12%
TM ONE	892	855	4%	847	5%	2,540	2,580	-2%
TM Wholesale	770	740	4%	597	29%	2,135	1,780	20%
Others	96	92	4%	87	10%	284	268	6%
Total	3,158	3,089	2%	2,803	13%	9,140	8,376	9%

Source: Company, Kenanga Research

Fixed Broadband ARPU and Subs								
	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22
Unifi -Fixed Broadband ARPU (RM/mth)	153	144	141	138	141	136	137	132
Streamyx-Fixed Broadband ARPU (RM/mth)	92	91	91	92	93	95	97	100
Weighted Blended ARPU (RM/mnth)	138	133	133	132	136	133	135	131
Unifi-Fixed Broadband Subs ('000)	1,776	1,951	2,139	2,347	2,501	2,635	2,760	2,875
Streamyx-Fixed Broadband Subs ('000)	557	492	416	342	278	214	157	106
Total Subs ('000)	2,264	2,333	2,443	2,555	2,689	2,779	2,917	2,981
Unifi Customers (000)		3,126	3,205	3,307	3,359	3,386	3,412	3,428
Home		N.a	2,752	2,830	2,982	3,002	3,023	3,037
SME		N.a	374	375	371	384	389	391

Source: Company, Kenanga Research

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Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net. Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
STOCKS UNDER COVERAGE																	
AXIATA GROUP BHD	OP	2.80	3.65	30.36%	25,695.7	Y	12/2022	14.0	15.0	-3.1%	7.0%	20.0	18.7	1.4	7.2%	12.0	4.3%
DIGI.COM BHD	OP	3.79	4.25	12.14%	29,467.3	Y	12/2022	12.7	16.3	-12.7%	27.7%	29.8	23.3	45.8	155.3%	12.6	3.3%
MAXIS BHD	OP	3.73	4.07	9.12%	29,206.5	Y	12/2022	16.1	16.8	-3.8%	4.5%	23.2	22.2	4.5	19.1%	19.0	5.1%
OCC GROUP BHD	OP	0.415	0.950	128.92%	437.6	Y	12/2022	3.0	5.2	36.6%	74.4%	13.8	7.9	0.6	4.6%	0.5	1.2%
TELEKOM MALAYSIA BHD	OP	5.45	8.30	52.29%	20,824.5	Y	12/2022	38.2	38.1	21.9%	-0.1%	14.3	14.3	2.7	19.2%	21.0	3.9%
Simple Average								16.8	18.3	7.8%	22.7%	20.2	17.3	11.0	41.1%		3.6%

Source: Bloomberg, Kenanga Research

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	★	
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	★		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
	SPECIFIC	Cyber Security	★	★	★	
Employee Training		★	★	★		
Energy Efficiency		★	★	★		
Digital Transformation		★	★	★		
Protection of Customer Data		★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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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