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Telekom Malaysia

DWN Drives Fibre Demand

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TM's 1QFY23 results met expectations. It is in favour of the Dual Wholesale Network (DWN) as the second network will translate to more demand for its fibre. We maintain our forecasts but rationalise down our TP by 19% to RM6.23 (from RM7.69) to be in-line with the average historical discount to its pure-play broadband peer. Maintained at OUTPERFORM.

1QFY23 core net profit met expectations, coming in at 29% and 24% of our full-year forecast and the full-year consensus estimate, respectively. As expected, no dividend was declared during the quarter.

Results' highlight. 1Q23 revenue inched up 2% YoY, underpinned by steady performance from all product segments other than voice (-1%). However, EBIT fell 14% on higher depreciation and amortisation, as well as impairments. Core net profit only dropped 3% in the absence of *Cukai Makmur*.

QoQ, 1QFY23 revenue fell 1% dragged primarily by TM ONE (-9% on price reduction and less customer projects). However, core net profit more than doubled due to the low base in the preceding quarter stemming from lower depreciation and amortisation, impairments and *Cukai Makmur*.

Its internet customers continued to show solid growth (+2% YoY) with Home and SME segments up by 2% and 3%, respectively. Fixed broadband customers growth remained solid at 11% YoY and 1% QoQ. Blended ARPU remained stable YoY and QoQ, at RM132.

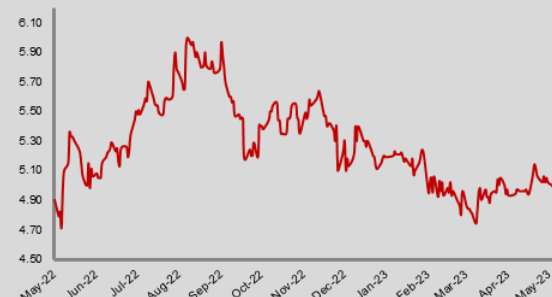
The key takeaways from TM's analyst briefing yesterday are as follows:

1. TM together with other telco operators will participate in the Dual Network Implementation Task Force to facilitate meeting the 80% population coverage (COPA) target by end-2023 (Phase 1) so that they can embark on dual networks (Phase 2). The task force covers all aspects of legislation, technical and finance. Composition of Entity A and B will be determined later. Entity A will operate DNB's network.
2. TM is in favour of the DWN as the second network will translate to more demand for its fibre. In the current 5G rollout, TM is playing the role of: (i) fibre provider, and (ii) access seeker to provide services to the market and network owner through DNB. Its current 5G access agreement with DNB remains intact. No details were given on 5G access booked in 1Q except that it was minimal. It expects access costs to rise as coverage and demand widen.
3. The commercial agreement of the new MSAP are yet to be negotiated due to the absence of the Reference Access Offer (RAO). The RAO will be basis for the new commercial agreements. At this moment, the RAO is still being finalized with the regulators. No timeline was provided as to when the RAO will be out.
4. It reiterated that capex level will be at 14%-18% of revenue (1QFY23: 14%), focusing on access and support.
5. Tax rate for FY23 is expected to be lower than the statutory rate due to the presence of tax credits.

OUTPERFORM ↔

Price: RM5.00
Target Price: RM6.23 ↓

Share Price Performance



KLCI	1,402.48
YTD KLCI chg	-6.2%
YTD stock price chg	-7.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	T MK Equity
Market Cap (RM m)	19,109.9
Share Outstanding	3,822.0
52-week range (H)	6.10
52-week range (L)	4.70
3-mth avg daily vol:	2,397,156
Free Float	33%
Beta	0.9

Major Shareholders

Khazanah Nasional Bhd	20.2%
Employees Provident Fund	16.4%
Amanah Saham Nasional	15.1%

Summary Earnings Table

FYE Dec (RMm)	2022A	2023F	2024F
Revenue	12,118	11,968	12,323
EBITDA	4,945	4,499	4,641
EBIT	2,082	1,627	1,684
PBT	1,687	1,388	1,449
PATAMI	1,143	1,150	1,212
Core PATAMI	1,143	1,150	1,212
Consensus (NP)		1,370	1,353
Earnings Revision	N.A.	N.A.	9%
Core EPS (sen)	30.3	30.5	32.1
Core EPS growth (%)	-3%	1%	5%
NDPS (sen)	16.5	17.0	17.5
BVPS (RM)	2.2	2.2	2.4
PER (x)	16.6	16.5	15.6
PBV (x)	2.3	2.3	2.1
Net Gearing (x)	0.3	0.3	0.2
Net Div. Yield (%)	3.3	3.4	3.5

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6. TM maintains its view that 2023 will be challenging year due to changes in the regulatory landscape, heightened competition and other market dynamic uncertainties. As mitigation, it will continue to (i) increase fixed broadband subscriber base, while (ii) TM Global pursues opportunities to capture demand in both domestic and international segments. To manage the effects from the new MSAP, it will exercise prudence in operational spending and prioritize investments that promotes growth i.e cloud services, data centers and expansion of submarine cables.

We maintain our forecasts but rationalise down our TP by 19% to RM6.23 (from RM7.69) to be in-line with the average historical discount to its pure-play broadband peer. We now apply a lower EV/EBITDA of 5.5x (previously 7x) on FY24F base year, at 50% discount to forward EV/EBITDA of pure-play broadband peer TIMECOM of 11x. We believe the market accords the discount to reflect TM's much higher regulatory risk vs. its peer. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

We continue to like TM on account of: (i) positive tailwinds on the digital space as economies reopen further, (ii) the enhanced network coverage nationwide boosting internet demand from both the public and business sector, (iii) competitive offerings with added 5G availability, and (iv) subscribers base expected to improve further given the expected lower broadband prices coming from the revised MSAP. Maintain **OUTPERFORM**.

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)	1Q23	4Q22	Chg	1Q22	Chg	3M23	3M22	Chg
Revenue	2,951.5	2,978.3	-1%	2,892.4	2%	2,951.5	2,892.4	2%
EBITDA	1,249.9	1,206.8	4%	1,157.0	8%	1,249.9	1,157.0	8%
EBIT	473.9	223.2	112%	553.5	-14%	473.9	553.5	-14%
PBT	421.0	214.0	97%	467.2	-10%	421.0	467.2	-10%
Taxation	(89.6)	(53.6)	67%	(127.5)	-30%	(89.6)	(127.5)	-30%
Minority Interest	1.3	0.2	550%	(0.2)	-750%	1.3	(0.2)	-750%
PATAMI	330.1	160.2	106%	339.9	-3%	330.1	339.9	-3%
Core PATAMI	330.1	160.2	106%	339.9	-3%	330.1	339.9	-3%
Core EPS (sen)	8.7	4.2	106%	9.0	-3%	8.7	9.0	-3%
DPS (sen)	0.0	7.5		0.0		0.0	0.0	
EBITDA margin	42.3%	40.5%		40.0%		42.3%	40.0%	
PBT margin	14.3%	7.2%		16.2%		14.3%	16.2%	
Core PATAMI margin	11.2%	5.4%		11.8%		11.2%	11.8%	
Effective tax and zakat rate	-21.3%	-25.0%		-27.3%		-21.3%	-27.3%	

Source: Company, Kenanga Research

Segmental Breakdown								
	1Q23	4Q22	Chg	1Q22	Chg	3M23	3M22	Chg
Product revenue (RMm)								
Voice	577	577	0%	584	-1%	577	584	-1%
Internet	1,109	1,109	0%	1,077	3%	1,109	1,077	3%
Data	809	809	0%	795	2%	809	795	2%
Others	493	493	0%	436	13%	493	436	13%
Total	2,952	2,978	-1%	2,892	2%	2,952	2,892	2%
Segment revenue (RM m)								
Unifi	1,434	1,430	0%	1,377	4%	1,434	1,377	4%
TM ONE	722	796	-9%	794	-9%	722	794	-9%
TM Wholesale	649	644	1%	625	4%	649	625	4%
Others	144	109	32%	96	50%	144	96	50%
Total	2,952	2,978	-1%	2,892	2%	2,952	2,892	2%

Source: Company, Kenanga Research

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Fixed Broadband ARPU and Subs

	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23
Unifi -Fixed Broadband ARPU (RM/mth)	141	138	141	136	137	132	132	132
Streamyx-Fixed Broadband ARPU (RM/mth)	91	92	93	95	97	100	113	108
Weighted Blended ARPU (RM/mnth)	133	132	136	133	135	131	131	132
Unifi-Fixed Broadband Subs ('000)	2,139	2,347	2,501	2,635	2,760	2,875	2,962	3,023
Streamyx-Fixed Broadband Subs ('000)	416	342	278	214	157	106	75	57
Total Subs ('000)	2,443	2,555	2,689	2,779	2,917	2,981	3,037	3,080
Unifi Customers (000)	3,205	3,307	3,359	3,386	3,412	3,428	3,448	3,451
Home	2,830	2,936	2,982	3,002	3,023	3,037	3,052	3,055
SME	375	371	377	384	389	391	396	396

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.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
STOCKS UNDER COVERAGE																	
AXIATA GROUP BHD	OP	2.96	4.18	41.22%	27,169.7	Y	12/2023	9.5	10.5	-45.0%	10.3%	31.1	28.2	1.5	4.1%	12.0	4.1%
CELCOMDIGI BHD	OP	4.46	5.15	15.47%	52,322.5	Y	12/2023	10.6	8.7	3.8%	-18.2%	41.9	51.2	3.2	7.6%	9.0	2.0%
MAXIS BHD	OP	4.22	5.30	25.59%	33,043.2	Y	12/2023	17.2	16.7	14.1%	-3.2%	24.5	25.3	5.2	20.3%	16.0	3.8%
OCK GROUP BHD	OP	0.380	0.690	81.58%	400.8	Y	12/2023	3.6	5.4	13.6%	49.3%	10.5	7.0	0.5	6.3%	0.5	1.3%
TELEKOM MALAYSIA BHD	OP	5.00	6.23	24.60%	19,109.9	Y	12/2023	30.5	32.1	0.6%	5.3%	16.4	15.6	2.2	13.7%	17.0	3.4%
SECTOR AGGREGATE					132,046.1					-9.5%	-2.1%	28.3	29.0	2.5	10.4%		2.9%

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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