

09 May 2024

# Telekom Malaysia

## A Winner of Microsoft's Investment

By Kylie Chan Sze Zan | [kyliechan@kenanga.com.my](mailto:kyliechan@kenanga.com.my)

We did a deep dive into Microsoft's recently announced USD2.2b (RM10.4b) investment in Malaysia in cloud computing and related advanced technologies, including Generative AI (GenAI). We identified TM as a key beneficiary as this will result in a surge in data transmission for data centres (DC) that host public and private clouds. Acknowledging that the earnings impact may not be immediate, we keep our forecasts and TP of RM7.22. Maintain **OUTPERFORM**.

**Multibillion cloud and AI investments.** Microsoft's investments include: (i) building cloud and AI infrastructure in Malaysia, (ii) establishing the national AI Centre of Excellence to drive AI adoption across key industries, (iii) collaboration with the government via the Perisai Siber initiative to enhance cybersecurity, and (iv) supporting the growth of Malaysia's developer community. This is coherent with Microsoft's earlier plans back in 2021 to establish its first DC region in Malaysia under its Bersama Malaysia initiative.

**Hot on the heels of Amazon's outlay.** Meanwhile, Amazon Web Services (AWS) announced last month that it plans to invest USD6b over 14 years (until 2037) to build the AWS Infrastructure Region in Malaysia. This is in-line with Amazon's plans to spend almost USD150b in the coming 15 years on DCs globally, according to Bloomberg. We believe this recent stream of multi-billion investments by hyperscalers are in anticipation of strong take-up of new cloud offerings powered by GenAI.

**GenAI cloud services are hungry for storage.** To recap, with the dawn of GenAI, organizations are accumulating and archiving vast amounts of data. GenAI-powered applications are able to analyze large data sets to generate outputs that enhance business, operational and research processes. Malaysian enterprises that have subscribed for cloud-based Gen AI solutions include:

(i) Petronas - Adopted Copilot for Microsoft 365 to enhance employee productivity and creativity. It has also leveraged on Azure OpenAI Service to boost operational efficiency, reliability, and employee safety.

(ii) Prudential Malaysia - Embedded an in-house AI tool in its call center via Azure OpenAI Service. Following this, the time required by the servicing team to gather product information for agents was reduced to less than 30 seconds (from 4 minutes previously).

**Ramp up in DC capacity to cater to GenAI cloud.** Nevertheless, even before the onset of GenAI, the proliferation of DCs in Malaysia to host private or public clouds has been ongoing since before 2020. This was after the Singapore government imposed a moratorium on new DC builds in 2019, in our view. Evidently, according to Structure Research, there is a substantial pipeline of new DC capacity in Johor and Cyberjaya in 2023-28, amounting to 331MW and 255MW, respectively. This translates to a multi-fold expansion from total current live capacity of 141MW for both regions.

**High demand for submarine cables.** Against this backdrop, we anticipate sustained strong demand for submarine cables and landings that connect DCs to global networks. Therefore, TM is able to capitalize on this via its established network of digital infrastructure. This includes: (i) 32 submarine cable systems covering 340k km with over 80 Tbps capacity, (ii) 29 global Points of Presence (PoPs), (iii) 90 in-country cache nodes, and (iv) 690k km of domestic fiber optics backhaul.

**OUTPERFORM** ↔

Price: **RM6.17**  
Target Price: **RM7.22** ↔

### Share Price Performance



KLCI	1,604.75
YTD KLCI chg	10.3%
YTD stock price chg	11.2%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	T MK Equity
Market Cap (RM m)	23,678.2
Share Outstanding	3,837.6
52-week range (H)	6.50
52-week range (L)	4.77
3-mth avg. daily vol.	5,472,863
Free Float	36%
Beta	0.9

### Major Shareholders

Khazanah Nasional Bhd	19.7%
Employees Provident Fund	17.5%
Amanah Saham Nasional	14.0%

### Summary Earnings Table

FYE Dec (RMm)	2023A	2024F	2025F
Revenue	12,256	13,053	13,759
EBITDA	4,931	5,195	5,476
EBIT	2,135	2,180	2,298
PBT	1,809	2,006	2,160
<b>Net Profit</b>	<b>1,900</b>	<b>1,718</b>	<b>1,741</b>
<b>Core PATAMI</b>	<b>1,985</b>	<b>1,718</b>	<b>1,741</b>
Consensus NP	-	1609.9	1588.0
Earnings Revision	-	-	-
Core EPS (sen)	52.5	45.5	46.1
Core EPS Growth (%)	58.5	-13.4	1.4
DPS (sen)	25.0	23.0	27.5
BVPS (RM)	2.4	2.6	2.8
PER (x)	11.9	13.7	13.6
PBV (x)	2.6	2.4	2.2
Net Gearing (x)	0.2	0.1	0.0
Div. Yield (%)	4.0	3.7	4.4



09 May 2024

As a prelude to this, recall that in FY23, TM Global's 9% YoY topline growth was mainly driven by increased managed wavelength services for hyperscalers. Key mega deliveries in FY23 by this segment include the provision of 35 Tbps of long-term leased connectivity for a US-based hyperscaler.

**DC capacity expected to play catch-up.** As illustrated above, hyperscalers are investing in DCs to cater to the surge in storage capacity requirements required by GenAI cloud offerings. Therefore, we believe this largely mitigates concerns of DC oversupply in Malaysia. Moreover, according to Cushman & Wakefield, co-location vacancy rates for DCs at Malaysia remain well below its regional peers at 17% currently. This is relatively healthy in comparison to Manila (55%), Ho Chi Minh (49%), Greater Jakarta (34%) and Bangkok (23%).

**Timely to expand into hyperscale DC.** Given the above, we believe the timing is ripe for TM is to embark on a significant expansion of its DC business. This is because new hyperscale DCs could leverage on TM Global's extensive network of digital infrastructure assets. To recap, TM One's existing portfolio comprises eight tier-3 DCs in Malaysia and one in Hong Kong. This translates to total capacity of 46MW over total white space of 269k sqft. The key centers include: (i) Klang Valley Core Data Centre (20MW) in Cyberjaya, and (ii) Iskandar Puteri Core Data Centre (20MW) in Johor.

**Expect double-digit project IRR.** For TM's potential new hyperscale DC, we estimate project IRR of 12.6%, project payback period of circa 8 years and project NPV of 13 sen/share. This is underpinned by the following key assumptions:- (i) Tier-3 with 50MW capacity, (ii) capex per MW: USD7m, (iii) 90% leased out capacity based on co-location model, (iv) 80% debt financing over 10 years, (v) lease rate at 20% discount to Singapore market rates, (vi) lease tenure: 8-years (fixed) + 5 years (3 extensions each), (vii) 10% step-down in rental rates during each 5-year contract extension period, (ix) 18 month construction period, and (x) asset useful life: 20 years.

**Forecasts.** Maintained as the earnings impact from these recent opportunities is not immediate.

**Valuations.** We also keep our TP of RM7.22 based on 5.5x FY24F EV/EBITDA. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

**Investment case.** We like TM on account of: (i) it being leveraged towards secular data growth on the back of current trends such as digital transformation, proliferation of internet of things (IoT), Gen AI etc, (ii) it benefitting from JENDELA phase 2 projects via roll-out and monetization opportunities, and (iii) sustained traction in its cost optimisation initiatives. Maintain **OUTPERFORM**.

**Risks to our call include:** (i) higher-than-expected erosion in wholesale revenues from new Reference Access Offer prices, (ii) pricing pressures at the retail segment arising from policy-led directives, and (iii) irrational competition in the retail fiber broadband space.

09 May 2024

Income Statement						Financial Data & Ratios					
FYE Dec (RM m)	2021	2022	2023	2024F	2025F	FYE Dec	2021	2022	2023	2024F	2025F
Revenue	11,529	12,118	12,256	13,053	13,759	<b>Growth</b>					
EBITDA	4,386	4,960	4,931	5,195	5,476	Revenue	6.4%	5.1%	1.1%	6.5%	5.4%
Depreciation	-2,635	-2,863	-2,796	-3,015	-3,178	EBITDA	10.4%	13.1%	-0.6%	5.4%	5.4%
<b>EBIT</b>	<b>1,751</b>	<b>2,097</b>	<b>2,135</b>	<b>2,180</b>	<b>2,298</b>	EBIT	3.8%	19.8%	1.8%	2.1%	5.4%
Net Interest Inc/(Exp)	-411	-312	-255	-187	-152	PBT	-2.5%	35.3%	7.2%	10.9%	7.7%
Associates	12	11	13	13	15	Core PATAMI	-6.0%	25.2%	58.5%	-13.4%	1.4%
Exceptionals	-105	-109	-85	0	0						
<b>Profit Before Tax</b>	<b>1,247</b>	<b>1,687</b>	<b>1,809</b>	<b>2,006</b>	<b>2,160</b>	<b>Profitability</b>					
Taxation	-369	-542	77	-301	-432	EBITDA Margin	38.0%	40.9%	40.2%	39.8%	39.8%
Minority Interest	17	-1	15	13	13	EBIT Margin	15.2%	17.3%	17.4%	16.7%	16.7%
<b>PATAMI</b>	<b>895</b>	<b>1,143</b>	<b>1,900</b>	<b>1,718</b>	<b>1,741</b>	PBT Margin	10.8%	13.9%	14.8%	15.4%	15.7%
<b>Core PATAMI</b>	<b>1,001</b>	<b>1,252</b>	<b>1,985</b>	<b>1,718</b>	<b>1,741</b>	Core Net Margin	8.7%	10.3%	16.2%	13.2%	12.7%
						Effective Tax Rate	29.6%	32.2%	-4.2%	15.0%	20.0%
						ROA	3.9%	4.9%	8.3%	7.3%	7.2%
						ROE	13.3%	15.8%	21.7%	17.2%	16.3%
						<b>DuPont Analysis</b>					
						Net Margin	8.7%	10.3%	16.2%	13.2%	12.7%
						Assets Turnover (x)	0.5	0.5	0.5	0.6	0.6
						Leverage Factor (x)	3.0	2.9	2.5	2.4	2.3
						ROE	13.3%	15.8%	21.7%	17.2%	16.3%
						<b>Leverage</b>					
						Debt/Asset (x)	0.3	0.2	0.2	0.2	0.2
						Debt/Equity (x)	0.8	0.7	0.5	0.5	0.4
						Net Debt (RM m)	2,986	2,690	1,808	896	-71
						Net Debt/Equity (x)	0.4	0.3	0.2	0.1	0.0
						<b>Valuations</b>					
						Core EPS (sen)	26.5	33.1	52.5	45.5	46.1
						DPS (sen)	13.0	16.5	25.0	23.0	27.5
						BV/share (RM)	2.0	2.1	2.4	2.6	2.8
						Core PER (x)	23.6	18.9	11.9	13.7	13.6
						Div. Yield (%)	2.1	2.6	4.0	3.7	4.4
						PBV (x)	3.1	3.0	2.6	2.4	2.2
						EV/EBITDA (x)	5.9	5.4	4.7	4.2	4.3

  

Balance Sheet					
FYE Dec (RM m)	2021	2022	2023	2024F	2025F
Fixed Assets	13,356	13,547	13,026	12,465	11,977
Intangible Assets	665	746	903	903	903
Other Fixed Assets	2,636	2,439	2,491	2,505	2,519
Inventories	177	305	205	358	415
Receivables	2,051	2,312	2,275	2,611	2,827
Other Current Assets	1,212	1,202	1,080	1,080	1,080
Cash	2,734	2,579	2,955	3,667	4,584
<b>Total Assets</b>	<b>22,831</b>	<b>23,131</b>	<b>22,936</b>	<b>23,588</b>	<b>24,305</b>
Payables	3,634	3,718	3,033	3,049	3,128
ST Borrowings	382	310	1,226	1,175	1,162
Other ST Liability	1,418	1,430	1,615	1,615	1,615
LT Borrowings	5,338	4,960	3,537	3,388	3,351
Other LT Liability	4,731	4,625	4,202	4,202	4,202
<b>Net Assets</b>	<b>7,328</b>	<b>8,089</b>	<b>9,323</b>	<b>10,159</b>	<b>10,847</b>
Shareholders' Equity	7,503	7,937	9,163	10,012	10,714
Minority Interests	-175	153	160	146	133
<b>Total Equity</b>	<b>7,328</b>	<b>8,089</b>	<b>9,323</b>	<b>10,159</b>	<b>10,847</b>

  

Cashflow Statement					
FYE Dec (RM m)	2021	2022	2023	2024F	2025F
Operating CF	2,976	3,266	3,686	4,422	4,849
Investing CF	-2,320	-1,335	-1,644	-2,453	-2,691
Financing CF	-2,946	-1,466	-1,688	-1,256	-1,242
<b>Change In Cash</b>	<b>-2,291</b>	<b>465</b>	<b>354</b>	<b>712</b>	<b>917</b>
Free CF	1,072	602	1,493	1,968	2,158

Source: Kenanga Research

09 May 2024

### 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)	
								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.	1-Yr. Fwd.	1-Yr. Fwd.
<b>Stocks Under Coverage</b>																			
AXIATA GROUP BHD	OP	2.89	3.05	5.5%	26,535.7	Y	12/2024	7.2	7.2	21.2%	0.6%	40.4	40.2	1.5	3.0%	10.0	3.5%		
CELCOMDIGI BHD	OP	4.13	5.83	41.2%	48,451.1	Y	12/2024	17.2	18.9	6.1%	10.1%	24.0	21.8	2.9	12.3%	13.8	3.3%		
MAXIS BHD	OP	3.60	5.30	47.2%	28,195.5	Y	12/2024	16.7	17.9	6.2%	7.2%	21.6	20.2	4.9	22.7%	20.0	5.6%		
OCK GROUP BHD	OP	0.645	0.795	23.3%	682.5	Y	12/2024	5.1	5.2	26.8%	3.1%	12.8	12.4	1.0	8.0%	1.5	2.3%		
TELEKOM MALAYSIA BHD	OP	6.17	7.22	17.0%	23,678.2	Y	12/2024	45.5	46.1	-13.4%	1.4%	13.6	13.4	2.3	17.9%	23.0	3.7%		
<b>SECTOR AGGREGATE</b>					<b>127,543.0</b>					<b>0.9%</b>	<b>5.7%</b>	<b>22.2</b>	<b>21.0</b>	<b>2.5</b>	<b>12.8%</b>		<b>3.7%</b>		

Source: Bloomberg, Kenanga Research

### Stock ESG Ratings:

	Criterion	Rating				
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	★	★	
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★		
<b>SPECIFIC</b>	Cybersecurity & Data Privacy	★	★	★		
	Network Quality & Coverage	★	★	★	★	
	Digitalisation & Innovation	★	★	★		
	Supply Chain Management	★	★	★		
	Talent Management	★	★	★		
Customer Satisfaction	★	★	★			
<b>OVERALL</b>		★	★	★		

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

28 February 2022

**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.***

---

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies. Kenanga Investment Bank Berhad being a full-service investment bank offers investment banking products and services and acts as issuer and liquidity provider with respect to a security that may also fall under its research coverage.

---

Published by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)