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Telekom Malaysia

Secured RM1.25b Digital Platform Contract

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TM has secured a RM1.25b contract from the government to implement the Next Generation Emergency Services 999 (NG999) strategic digital platform for 12 years until 2036. It is a continuation of the existing Malaysia Emergency Response Services 999 (MERS999), which integrated all emergency numbers with a single number '999'. We maintain our forecasts, TP of RM7.53 and OUTPERFORM call.

Redialling 999. The more advanced NG999 will replace MERS999 to enhance efficiency and response time. To recap, the 999 number is for the public to call during emergencies and access services offered by five key emergency agencies, including: (i) Polis DiRaja Malaysia, (ii) Kementerian Kesihatan, (iii) Jabatan Bomba dan Penyelamat Malaysia, (iv) Agensi Penguatkuasaan Maritim Malaysia, and (v) Angkatan Pertahanan Awam Malaysia.

Connecting the public with help in emergencies. The contract's job scope consists of: (i) call management services, (ii) infrastructure and platform services, (iii) connectivity services, (iv) NG999 support services, (v) NG999 continuous improvement, and (vi) other NG999 added services upon the government's request. The NG999 platform also integrates response centres operated by TM with the control and operation centres of the emergency agencies.

Neutral due to marginal contribution. We are neutral on this announcement, as we have earlier assumed that TM will secure an extension for this existing contract. Based on our estimates, this contract will contribute 0.3% and 1.4% to FY24F and FY25F earnings, respectively.

Forecasts. Maintained.

Valuations. We also keep our TP of RM7.53 based on 7.0x FY25F EV/EBITDA. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 3).

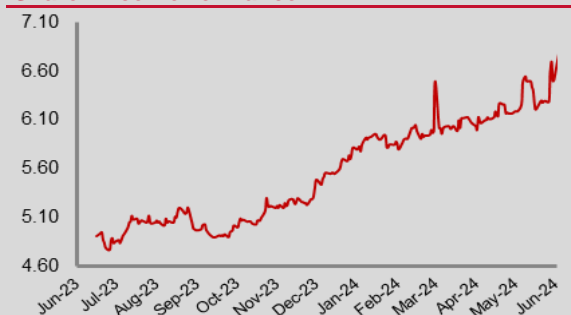
Investment case. We like TM on account of: (i) it being leveraged towards secular data growth on the back of current trends such as digital transformation, proliferation of internet of things (IoT), cloud-based applications powered by generative AI, etc, (ii) it benefitting from JENDELA phase 2 projects via roll-out and monetization opportunities, (iii) earnings accretion from new DC business, and (iv) higher demand for data transmission via its network of digital infrastructure that includes submarine cables and landings as well as fiber optics backhaul. Maintain **OUTPERFORM**.

Risks to our call include: (i) cost drag from Unifi Mobile due to lack of scale, (ii) pricing pressures at the retail segment arising from policy-led directives, and (iii) irrational competition in the retail fiber broadband space.

OUTPERFORM ↔

Price: **RM6.78**
Target Price: **RM7.53** ↔

Share Price Performance



KLCI	1,598.20
YTD KLCI chg	9.9%
YTD stock price chg	22.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	T MK Equity
Market Cap (RM m)	26,019.6
Share Outstanding	3,837.7
52-week range (H)	7.02
52-week range (L)	4.77
3-mth avg. daily vol.	8,586,271
Free Float	39%
Beta	0.9

Major Shareholders

Khazanah Nasional Bhd	19.7%
Employees Provident Fund	17.0%
Amanah Saham Nasional	11.7%

Summary Earnings Table

FYE Dec (RM m)	2023A	2024F	2025F
Revenue	12,256	10,761	11,029
EBITDA	4,931	4,121	4,246
EBIT	2,135	2,184	2,151
PBT	1,809	2,011	2,040
Net Profit	1,900	1,722	1,748
Core PATAMI	1,985	1,722	1,748
Consensus NP	-	1,621	1,652
Earnings Revision	-	-	-
Core EPS (sen)	52.5	45.6	46.2
Core EPS Growth (%)	58.5	-13.2	1.5
DPS (sen)	25.0	23.5	27.5
BVPS (RM)	2.4	2.6	2.8
PER (x)	12.8	14.7	14.5
PBV (x)	2.8	2.5	2.4
Net Gearing (x)	0.2	0.2	0.1
Div. Yield (%)	3.7	3.5	4.1

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Peer Comparison – Telecommunication

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RMm)	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.
Telecommunication																	
AXIATA GROUP BHD	OP	2.66	3.00	12.8%	24,423.9	Y	12/2024	7.1	7.2	19.6%	1.7%	37.6	37.0	1.3	3.0%	10.0	3.8%
CELCOMDIGI BHD	OP	3.69	5.97	61.8%	43,289.3	Y	12/2024	17.2	18.8	6.4%	9.0%	21.4	19.6	2.6	11.4%	14.0	3.8%
MAXIS BHD	OP	3.58	5.30	48.0%	28,038.8	Y	12/2024	16.7	17.9	6.2%	7.2%	21.5	20.0	4.9	22.7%	20.0	5.6%
OCK GROUP BHD	OP	0.575	0.860	49.6%	613.5	Y	12/2024	4.8	5.2	21.4%	8.1%	11.9	11.0	0.9	7.7%	1.5	2.6%
TELEKOM MALAYSIA BHD	OP	6.78	7.53	11.1%	26,019.6	Y	12/2024	45.6	46.2	-13.2%	1.5%	14.9	14.7	2.6	18.0%	23.5	3.5%
SECTOR AGGREGATE					122,385.1					0.9%	5.5%	21.3	20.2	2.5	12.6%		3.8%

Source: Bloomberg, Kenanga Research

Stock ESG Ratings:

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