Telekom Malaysia

Sustained Unifi Recovery Momentum

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OUTPERFORM ↔

Price: RM7.75

Target Price: RM8.86 ↔

TM's FY25 results slightly undershot our estimates but met consensus. Earnings growth was driven by topline expansion (from the Carrier-to Carrier segment) and augmented by copper cable sales. Unifi's recovery extended into 4QFY25 as ARPU soared and robust subscriber net adds sustained. This suggests a potentially sustainable turnaround.

We are positive on TM's switch of 5G access provider from DNB to U Mobile, underpinned by anticipated cost savings and a shorter contract tenure. We maintain our FY26F earnings (but raised dividend payout ratio to 70% from 60%), TP of RM8.86 and OUTPERFORM call.

Mixed performance with multi-year high payout. FY25 core net profit (CNP) of RM1.75b (+10% YoY) came in below our projection but was in-line with consensus estimate, representing 89% of our full-year forecast and 99% of the street's expectation. The variance against our forecast was primarily due to higher-than-expected device costs in 4QFY25.

Key non-recurring items excluded from CNP include: (i) costs associated with employee voluntary separation scheme (VSS) applications in 2HFY25, (ii) fair value gains from TM's investment in a technology fund, and (iii) foreign exchange fluctuations.

TM declared 4QFY25 DPS of 14.5 sen (4QFY24: 12.5 sen), along with a special DPS of 4 sen (4QFY24: 6 sen). This brings total FY25 DPS to 31 sen (FY24: 31 sen), translating to a payout ratio of 70% (FY24: 59%). This represents its highest payout ratio since 2018, and exceeds its dividend policy (40%-60% of reported PATAMI).

Topline growth driven by hyperscalers, U Mobile and data centers. FY25 revenue expansion (1.4% YoY) tracked TM's FY25 guidance of low single-digit growth. The growth was primarily driven by the Carrier-to-Carrier (C2C) segment, supported by higher contributions from: (i) rollout of the RM2.4b 5G fibre backhaul contract for U Mobile, (ii) data centre (DC) connectivity, and (iii) international data capacity demand from hyperscalers.

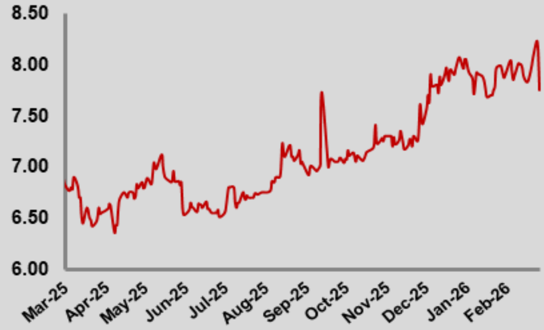
Stronger C2C performance more than offset weaker contribution from the Business-to-Business (B2B) segment, which was affected by the absence of a one-off arbitration settlement recognized in FY24.

Unifi sustains strong traction. Unifi maintained its QoQ momentum in 4QFY25, as ARPU surged to RM137 (3QFY25: RM130) and net adds rose to 23k (3QFY25: 21k). This suggests that the 2QFY25 lows (ARPU: RM127; net adds: 5k) may have marked the trough, signalling a sustainable recovery in progress.

ARPU improvement was underpinned by a shift toward premium plans, and supported to a lesser degree by higher device sales. Meanwhile, subscriber base expansion was driven by stronger uptake of converged service bundles and sustained momentum from targeted device campaigns.

While major mobile network operator (MNO) peers also reported improved sequential net adds (CDB: +25k; MAXIS: +11k), these were primarily driven by fixed wireless and wireless broadband products. In contrast, we believe TM's net adds were driven by pure fixed fibre offerings, reinforcing our view that Unifi remains the market leader in the fibre-to-the-home segment.

Share Price Performance



KLCI	1,747.81
YTD KLCI chg	4.0%
YTD stock price chg	-3.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	T MK EQUITY
Market Cap (RM m)	29,742.5
Share Outstanding	3,837.7
52-week range (H)	8.30
52-week range (L)	6.19
3-mth avg. daily vol.	5,581,883
Free Float	68%
Beta	0.8

Major Shareholders

Employees Provident Fund Board	22.9%
Khazanah Nasional Bhd	20.1%
Kumpulan Wang Persaraan	10.3%

Summary Earnings Table

FYE Dec (RM m)	2025A	2026F	2027F
Revenue	11,872	12,207	12,339
EBITDA	4,567	4,700	4,788
EBIT	2,388	2,460	2,535
PBT	2,126	2,254	2,350
PATAMI	**1,713**	**1,803**	**1,811**
Core Net Profit (NP)	**1,750**	**1,803**	**1,811**
Consensus (NP)	-	1,769	1,775
Earnings Revision	-	-	NEW
Core EPS (sen)	46.3	47.7	47.9
Core EPS Growth (%)	10.4	3.1	0.4
DPS (sen)	31.0	33.0	33.5
BVPS (RM)	2.8	2.9	3.1
Core PER (x)	16.7	16.2	16.2
PBV (x)	2.8	2.6	2.5
Net Gearing (x)	-0.1	-0.1	-0.1
Div. Yield (%)	4.0	4.3	4.3

Bottomline partly boosted by copper cable sales. FY25 normalized EBIT rose 2.6% YoY to RM2.47b, exceeding TM's FY25 EBIT guidance (similar level to FY24 reported EBIT of RM2.33b). EBIT and bottomline expansion were driven by topline growth and partly supported by the monetisation of copper cables under TM's ongoing network modernisation exercise. These factors more than outweighed drag from: (i) increased 5G network access fees paid to Digital Nasional Berhad (DNB), (ii) higher device spend for Unifi's promotional campaigns, and (iiii) the absence of a significant one-off tax credit recognised in FY24.

Switching from DNB to U Mobile's 5G network. TM announced the award of a 3-year contract to U Mobile for the provision of 5G Multi-Operator Core Network (MOCN) services. With U Mobile replacing DNB as TM's 5G access provider, the group exercised its right to terminate its 5G wholesale access agreement with DNB (subject to regulatory consent). Consequently, we understand that TM's unutilised prepaid capacity with DNB totalling RM127.3m will be forfeited and charged as a provision in FY26. The phased migration of Unifi Mobile subscribers to U Mobile's network is expected to conclude by end-2026.

We are positive on this new arrangement, particularly given its shorter 3-year term compared with DNB's long-term 10-year contract. We believe that TM is likely unable to fully utilize its fixed annual 5G capacity commitments with DNB. This is due to limited 5G traffic from its smallish Unifi Mobile subscriber base as the group continues to grow its nascent mobile service. While TM did not disclose the terms of its MOCN agreement with U Mobile, it reaffirmed that the new contract is expected to generate cost savings.

Conservative guidance mirrors industry peers. TM introduced FY26 guidance comprising: (i) revenue: low-single digit growth (FY25: 1.4%), (ii) EBIT: similar level to FY25 (reported EBIT: RM2.03b), and (iii) capex/revenue: 18%-20% (FY24: 13.6%). Expectations of subdued EBIT are in anticipation of escalated VSS costs and provisions for DNB prepayments (as described above). On the bright side, near-term earnings may be boosted by TM's ongoing VSS program that is expected to yield productivity and cost benefits, supported by a mid-single digit YoY reduction in work force size in FY25.

Forecasts. We maintain our FY26F earnings while introducing FY27F numbers.

Valuations. We also keep our TP of RM8.86 based on unchanged 7.0x FY26F 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 are positive on TM due to: (i) as a data bandwidth provider, it is leveraged toward structural data growth trends such as digital transformation, proliferation of Internet of Things (IoT) and the rise of generative AI workloads, (ii) earnings uplift from the targeted 3QCY26 launch of the first phase of its hyperscale DC (JV with Singtel's Nxera), and (iii) rising demand for enterprise connectivity services from co-location tenants at newly established data centres across Malaysia.

In addition, there could be stronger-than-expected near-term earnings contributions from new revenue streams, including: (i) proceeds from the sale of decommissioned copper cables from its legacy network, (ii) indefeasible right-of-use (IRU) contracts and other international data bandwidth services that leverage on the upcoming Asia Link submarine cable network, and (iii) provision of backhaul infrastructure services to U Mobile under a new contract valued at RM2.4b. Maintain **OUTPERFORM.**

Risks to our call include: (i) cost drag from Unifi Mobile due to its lack of scale, substantial fixed 5G access fees, and high customer acquisition costs to grow its subscriber base, (ii) pricing pressure in the retail segment driven by policy directives and heightened competition as mobile operators vie for convergence customers, and (iii) tapering demand for global IP transit services - as internet traffic is increasingly dominated by Tier-1 hyperscalers leveraging their own global submarine cable networks.

Results Highlights

FYE Dec (RM m)	4Q FY25	3Q FY25	QoQ Chg	4Q FY24	YoY Chg	12M FY25	12M FY24	YoY Chg
Revenue	3,256.7	2,991.9	8.9%	3,050.4	6.8%	11,872.0	11,712.4	1.4%
EBITDA	**797.8**	**1,246.8**	-36.0%	**1,011.8**	-21.2%	**4,566.9**	**4,063.2**	12.4%
Depreciation	(611.6)	(531.5)	15.1%	(547.8)	11.6%	(2,178.7)	(2,149.4)	1.4%
Net Finance Costs	(25.3)	(39.3)	-35.6%	(34.8)	-27.3%	(229.4)	(177.1)	29.5%
JV	2.8	1.2	>100%	3.3	-15.2%	4.3	8.1	-46.9%
EI	140.7	49.2	>100%	(61.1)	-330.3%	(36.7)	432.4	>-100%
Pretax Profit	**304.4**	**726.4**	-58.1%	**371.4**	-18.0%	**2,126.4**	**2,177.2**	-2.3%
Taxation	(68.8)	(32.7)	>100%	371.5	-118.5%	(392.3)	(138.3)	>100%
Minority Interest	(13.1)	(7.4)	77.0%	(12.3)	6.5%	(21.1)	(22.0)	-4.1%
Reported Net Profit	**222.5**	**686.3**	-67.6%	**730.6**	-69.5%	**1,713.0**	**2,016.9**	-15.1%
Core Net Profit	**81.8**	**637.1**	-87.2%	**791.7**	-89.7%	**1,749.7**	**1,584.5**	10.4%
Core EPS (sen)	2.1	16.6	-87.2%	14.2	-85.0%	46.3	41.9	10.4%
DPS (sen)	18.5	0.0	nm	18.5	0.0%	31.0	31.0	0.0%
EBITDA margin	24.5%	41.7%		33.2%		38.5%	34.7%	
PBT Margin	9.3%	24.3%		12.2%		17.9%	18.6%	
Effective tax rate	22.6%	4.5%		nm		18.4%	6.4%	
Core Net margin	2.5%	21.3%		26.0%		14.7%	13.5%	

Source: Company, Kenanga Research

Segmental Highlights

FYE Dec (RM m)	4Q FY25	3Q FY25	QoQ Chg	4Q FY24	YoY Chg	12M FY25	12M FY24	YoY Chg
Revenue by Customer Segments								
Business-to-Consumer (B2C)	1,495.3	1,415.7	5.6%	1,454.6	2.8%	5,674.2	5,633.3	0.7%
Business-to-Business (B2B)	760.5	682.8	11.4%	781.9	-2.7%	2,782.8	2,906.3	-4.2%
Carrier-to-Carrier (C2C)	979.6	857.7	14.2%	780.1	25.6%	3,292.6	3,061.0	7.6%
Others/Shared Services	73.3	69.3	5.8%	78.7	-6.9%	284.7	282.6	0.7%
Inter-segment	(52.0)	(33.6)	54.8%	(44.9)	15.8%	(162.3)	(171.2)	-5.2%
Total	**3,256.7**	**2,991.9**	8.9%	**3,050.4**	6.8%	**11,872.0**	**11,712.0**	1.4%
Revenue by Business Segment								
Voice	475.3	454.3	4.6%	476.9	-0.3%	1,867.7	1,987.9	-6.0%
Internet	1,131.0	1,117.5	1.2%	1,125.4	0.5%	4,468.0	4,564.3	-2.1%
Data	1,061.2	967.3	9.7%	891.1	19.1%	3,695.6	3,480.7	6.2%
Others	589.2	452.8	30.1%	557.0	5.8%	1,840.7	1,679.5	9.6%

Source: Company, Kenanga Research

Operational Metrics

Subscribers ('000)	4Q FY25	3Q FY25	QoQ Chg	4Q FY24	YoY Chg
Unifi Home	3,219	3,196	23	3,161	58
Other Fixed Broadband	10	11	(1)	18	(8)
ARPU (RM)					
Unifi	137	130	7	134	3

Source: Company, Kenanga Research

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	MP	2.32	2.70	16.4%	21,312.1	Y	12/2025	5.8	5.9	-37.7%	2.8%	40.1	39.0	1.2	0.5%	11.0	4.7%
CELCOMDIGI BHD	OP	3.25	4.27	31.4%	38,127.4	Y	12/2026	13.6	13.6	6.2%	0.6%	24.0	23.8	2.4	10.1%	16.0	4.9%
MAXIS BHD	MP	3.92	3.63	-7.4%	30,713.5	Y	12/2026	20.5	21.3	1.3%	3.9%	19.1	18.4	4.8	25.6%	18.0	4.6%
OCK GROUP BHD	OP	0.370	0.430	16.2%	389.2	Y	06/2026	2.5	2.8	-12.6%	10.8%	14.6	13.1	0.6	4.4%	1.0	2.7%
TELEKOM MALAYSIA BHD	OP	7.75	8.86	14.3%	29,742.5	Y	12/2026	52.3	52.8	-2.7%	1.1%	14.8	14.7	2.7	19.2%	37.0	4.8%
TIME DOTCOM BHD	OP	6.08	6.12	0.7%	11,240.8	Y	12/2025	25.8	28.2	9.2%	9.1%	23.5	21.6	2.9	11.1%	28.0	4.6%
SECTOR AGGREGATE					**131,525.5**					**-3.5%**	**2.5%**	**21.2**	**20.7**	**2.4**	**11.8%**		**4.4%**

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

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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