Telekom Malaysia

SALAM to East Malaysia's Data Center Boom

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OUTPERFORM ↔

Price: **RM7.70**

Target Price: **RM9.11** ↔

TM has been appointed by MCMC as the universal service provider for the RM2.7b SALAM submarine cable linking Peninsular Malaysia, Sarawak and Sabah. The project, funded by the Universal Service Provision (USP) Fund, is scheduled to commence in Dec 2026, with phased completion by 1QCY30. We view this positively as it positions TM to capitalize on rising demand for data centre (DC) connectivity amid the anticipated expansion of AI infrastructure in East Malaysia.

We maintain our forecasts as we expect SALAM to be earnings-neutral during the construction phase. Our project-level DCF valuation of SALAM translates to RM523m, or 13.6 sen/share (1.5% of our TP), which we do not impute for now.

Maintain OUTPERFORM with an unchanged TP of RM9.11. We will revisit our valuation once greater clarity emerges on the project's commercial terms following TM's formal acceptance of this project.

Landmark USP award. MCMC (Malaysian Communications and Multimedia Commission) has designated TM as the universal service provider for SALAM (Sambungan Kabel Dasar Laut MADANI) Part 1. Subject to formal acceptance, TM will undertake end-to-end project delivery, encompassing: (i) planning, design and engineering, (ii) manufacturing, supply and installation of the cable across all four segments, (iii) associated marine works, land cable installation, transmission systems, power feeding equipment and network management systems, and (iv) deployment of network facilities and services.

The project has a maximum approved cost of RM2.7b, to be funded through the Universal Service Provision (USP) Fund. Construction is scheduled to start in Dec 2026, with completion targeted in phases by 1QCY30.

A bigger and longer cable. SALAM will span c.5,500km with 10 new cable landing stations across Peninsular Malaysia, Sarawak and Sabah (Exhibit 1). The system will utilise Alcatel Submarine Networks' (ASN) technology, with four fibre pairs reserved for national strategic requirements, including sovereign cloud infrastructure, government digital services and cybersecurity.

Déjà vu with SKR1M. SALAM will run alongside SKR1M (Sistem Kabel Rakyat 1Malaysia), TM's existing domestic submarine cable connecting Peninsular Malaysia and East Malaysia. To recap, TM secured the USP-funded SKR1M project in Dec 2014 through an open tender under a public-private partnership (PPP) with MCMC. SKR1M commenced commercial operations in 2017 and is currently operating at c. 85% capacity utilisation.

For SKR1M, TM partnered TIME via a 20-year construction and maintenance agreement, with an estimated 83.6%:16.4% ownership split. The arrangement was based on cost reimbursement, with no profit-sharing mechanism. By comparison, SALAM is c. 1.4x longer and 3.8x costlier than SKR1M, while covering 10 landing stations (vs. six for SKR1M).

Resilience as a hyperscaler draw. According to MCMC, SALAM will provide an alternative route for data traffic, enhancing network resilience by reducing the risk of service disruptions arising from interference or damage to existing submarine cables. We believe this additional route

Share Price Performance



KLCI	1,575.15
YTD KLCI chg	-6.2%
YTD stock price chg	-3.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	T MK Equity
Market Cap (RM m)	29,550.6
Share Outstanding	3,837.7
52-week range (H)	8.23
52-week range (L)	6.95
3-mth avg. daily vol.	3,814,743
Free Float	76%
Beta	0.86

Major Shareholders

Employees Provident Fund	24.1%
Khazanah Nasional Bhd	20.1%
Kumpulan Wang Persaraan	10.2%

Summary Earnings Table

FYE Dec (RM m)	2025A	2026F	2027F
Revenue	11,872	12,304	12,637
EBITDA	4,567	4,737	4,865
EBIT	2,388	2,479	2,540
PBT	2,126	2,273	2,351
Net Profit	**1,713**	**1,820**	**1,812**
Core PATAMI	**1,750**	**1,820**	**1,812**
Consensus NP	-	1,691	1,855
Earnings Revision	-	-	-
Core EPS (sen)	45.6	47.4	47.2
Core EPS Growth (%)	8.7	4.0	-0.4
DPS (sen)	31.0	35.5	35.5
BVPS (RM)	2.8	2.9	3.0
PER (x)	16.9	16.2	16.3
PBV (x)	2.8	2.7	2.6
Net Gearing (x)	-	-	-
Div. Yield (%)	4.0	4.6	4.6

diversity will be an important consideration for hyperscalers evaluating East Malaysia as a potential cloud region and data centre destination.

Exhibit 1: SALAM vs. SKR1M

	SKR1M	SALAM (Part 1)
Length	c.3,800km	c.5,500km
Landing stations	6: Kuantan, Mersing, Kuching, Bintulu, Miri, Kota Kinabalu	10: Cherating, Sedili, Kuching, Sibu (Matu), Bintulu (Samalaju), Kota Kinabalu, Kudat, Pulau Banggi, Sandakan, Tawau
Project cost	RM720m	Up to RM2.7b
Funding	PPP with MCMC (USP Fund)	USP Fund
Cable vendor	NEC	ASN technology
Ownership	TM (83.63%), TIME (16.37%)	TM*
In service	Sept 2017	Phased, by 1Q30

Source: Company, MCMC, NEC, various media, Kenanga Research.
** Assumption as ownership has not been disclosed.*

East Malaysia data centres: The bigger prize. We view SALAM as a key connectivity enabler for the emerging wave of AI data centre investments in Sarawak. In Nov 2026, SoftBank Group, Grab and Petroleum Sarawak (PETROS) signed joint development agreements to develop AI infrastructure in Malaysia. This consortium is backed by proposed initial seed capital of US$1.85b, of which USD1b has been earmarked for the Sarawak project (SoftBank: USD800m, Grab: USD100m, PETROS: USD100m). The broader initiative targets more than 5GW of AI compute capacity over the longer term, supported by renewable energy.

Separately, Sarawak Premier Tan Sri Abang Johari has confirmed that an unnamed major international company plans to develop an AI data centre in Tanjung Embang, near Kuching. The proposed investment forms part of the USD50b (RM204b) investment announced by the Prime Minister, although the project remains at the proposal stage.

Relieving a near-full SKR1M. AI data centres require substantial bandwidth capacity, low-latency connectivity and resilient network infrastructure to support data transmission to users across Peninsular Malaysia and international gateways. With existing SKR1M capacity utilisation already at c. 85%, SALAM will provide additional capacity to support the expansion of broadband and 5G networks, cloud services, AI applications and DCs in East Malaysia. Its landing stations in Kuching and Bintulu (Samalaju) are also strategically located near Sarawak's emerging DC hubs.

TM as East Malaysia's gateway. Through SALAM, we believe TM is well-positioned to capture incremental demand for domestic, regional and international connectivity arising from these upcoming DC developments. Beyond basic bandwidth provision, TM could serve as an interconnection partner, linking these facilities to internet exchange points (IXPs), submarine cable systems and global connectivity ecosystems. This would create opportunities to cross-sell its broader suite of connectivity solutions, including Indefeasible Right of Use (IRU), Hot Standby Bandwidth Allocation (HSBA) and Managed Wavelength services.

SALAM will further strengthen TM's existing international network, which spans more than 400,000km across 39 submarine cable systems. While we expect the immediate earnings contribution to be limited during the construction and initial operational phases, SALAM could become a more meaningful earnings contributor beyond 2030. This is driven by higher demand for international and regional connectivity as East Malaysia's DC capacity comes onstream.

Valuing SALAM. Our project-level DCF valuation of SALAM's potential spare capacity sales yields RM523m, equivalent to 13.6 sen/share (1.5% of our TP). Our valuation is based on the following key assumptions: (i) TM has full ownership of SALAM; (ii) 90% of the RM2.7b project allocation is used for construction, with the remaining 10% allocated towards operations under a fixed-fee arrangement; (iii) the operational fee covers the first five years of operations (2030–34); (iv) only capacity on fibre pairs beyond the four reserved for national strategic requirements is available for commercialisation; (v) revenue ramps up progressively to reach a steady-state RM150m in 2034, followed by 3% annual growth; (vi) a weighted average cost of capital (WACC) of 7.0%; and (vii) a 20-year cable lifespan through 2049, with no terminal value assumed.

The key swing factor underpinning our valuation is the pace of capacity take-up, which will largely depend on the timing and scale of East Malaysia's DC roll-outs. For sensitivity, every RM50m change in steady-state revenue translates into an estimated 6–7 sen/share change in our SALAM valuation.

Earnings-neutral during construction. We assume the project will be accounted for in accordance with TM's existing accounting treatment for government grants, with the USP Fund covering the associated construction and opex. On this basis, we do not expect SALAM to result in a material incremental earnings impact during the construction phase. Accordingly, we have not factored any earnings contribution from the project into our forecasts.

Forecasts. Maintained as SALAM will not contribute within our forecast horizon.

Valuations. We maintain our TP of RM9.11 based on an unchanged 7.0x FY27F EV/EBITDA. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

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 services powered by generative AI, etc., (ii) earnings accretion

from TM-Nxera joint venture's new hyperscale data centre in Johor, (iii) higher demand for data transmission via its network of digital infrastructure that includes global submarine cables and domestic fibre optics backhaul, and (iv) SALAM, which positions TM as the key connectivity provider for the upcoming AI data centres in East Malaysia beyond 2030. Maintain **OUTPERFORM**.

Risks to our call include: (i) cost drag from Unifi Mobile due to its lack of scale and high customer acquisition costs to grow its nascent subscriber base, (ii) pricing pressure in the retail segment driven by policy directives and heightened competition as mobile operators vie for convergence customers, (iii) tapering demand for global IP transit services, as internet traffic becomes increasingly dominated by Tier-1 hyperscalers leveraging their own proprietary global submarine cable networks, and (iv) execution risks on SALAM, including cost overruns above the fixed project cost and slower-than-expected take-up of East Malaysia DC capacity.

Income Statement

FYE Dec (RM m)	2023	2024	2025	2026F	2027F
Revenue	11,690	11,712	11,872	12,304	12,637
EBITDA	**4,549**	**4,063**	**4,567**	**4,737**	**4,865**
Depreciation	-2,414	-2,149	-2,179	-2,258	-2,325
EBIT	**2,135**	**1,914**	**2,388**	**2,479**	**2,540**
Net Interest Exp	-255	-177	-229	-210	-193
Associates	13	8	4	4	4
Exceptionals	-85	432	-37	0	0
Profit Before Tax	**1,809**	**2,177**	**2,126**	**2,273**	**2,351**
Taxation	77	-138	-392	-431	-516
Minority Interest	15	-22	-21	-22	-22
PATAMI	**1,900**	**2,017**	**1,713**	**1,820**	**1,812**
Core PATAMI	**1,985**	**1,585**	**1,750**	**1,820**	**1,812**

Balance Sheet

FYE Dec (RM m)	2023	2024	2025	2026F	2027F
Fixed Assets	11,797	11,429	11,408	11,734	12,062
Intangible Assets	896	840	775	775	775
Other Fixed Assets	2,480	1,956	2,072	2,076	2,080
Inventories	205	202	321	325	358
Receivables	2,275	2,518	2,307	2,277	2,342
Other Current Assets	1,080	1,122	954	954	954
Cash	2,955	3,096	2,623	2,665	2,477
Total Assets	**21,688**	**21,163**	**20,459**	**20,806**	**21,048**
Payables	3,033	2,518	3,611	3,578	3,448
ST Borrowings	1,226	1,381	511	486	461
Other ST Liability	1,614	2,386	1,609	1,609	1,609
LT Borrowings	3,537	2,110	1,551	1,476	1,400
Other LT Liability	2,954	2,501	2,416	2,416	2,416
Net Assets	**9,323**	**10,266**	**10,761**	**11,241**	**11,713**
Shareholders' Equity	9,163	10,100	10,587	11,045	11,495
Minority Interests	160	166	174	196	219
Total Equity	**9,323**	**10,266**	**10,761**	**11,241**	**11,713**

Cashflow Statement

FYE Dec (RM m)	2023	2024	2025	2026F	2027F
Operating CF	3,686	4,011	3,519	4,298	4,121
Investing CF	-1,644	-1,002	-1,197	-2,584	-2,654
Financing CF	-1,688	-2,709	-2,809	-1,672	-1,656
Change In Cash	**354**	**300**	**-488**	**42**	**-188**
Free CF	1,493	2,630	1,170	1,715	1,468

Financial Data & Ratios

FYE Dec	2023	2024	2025	2026F	2027F
Growth					
Revenue	-3.5%	0.2%	1.4%	3.6%	2.7%
EBITDA	-8.3%	-11%	12.4%	3.7%	2.7%
EBIT	1.8%	-10%	24.8%	3.8%	2.5%
PBT	7.2%	20.4%	-2.3%	6.9%	3.4%
Core PATAMI	58.5%	-20%	10.4%	4.0%	-0.4%
Profitability					
EBITDA Margin	38.9%	34.7%	38.5%	38.5%	38.5%
EBIT Margin	18.3%	16.3%	20.1%	20.1%	20.1%
PBT Margin	15.5%	18.6%	17.9%	18.5%	18.6%
Core Net Margin	17.0%	13.5%	14.7%	14.8%	14.3%
Effective Tax Rate	-4.2%	6.4%	18.4%	19.0%	22.0%
ROA	8.8%	9.5%	8.4%	8.7%	8.6%
ROE	21.7%	15.7%	16.5%	16.5%	15.8%
DuPont Analysis					
Net Margin	17.0%	13.5%	14.7%	14.8%	14.3%
Assets Turnover (x)	0.5	0.6	0.6	0.6	0.6
Leverage Factor (x)	2.4	2.1	1.9	1.9	1.8
ROE	21.7%	15.7%	16.5%	16.5%	15.8%
Leverage					
Debt/Asset (x)	0.2	0.2	0.1	0.1	0.1
Debt/Equity (x)	0.5	0.3	0.2	0.2	0.2
Net Debt (RM m)	1,808	395	-561	-703	-615
Net Debt/Equity (x)	0.2	0.0	-0.1	-0.1	-0.1
Valuations					
Core EPS (sen)	52.5	41.9	45.6	47.4	47.2
DPS (sen)	25.0	31.0	31.0	35.5	35.5
BV/share (RM)	2.4	2.7	2.8	2.9	3.0
Core PER (x)	14.7	18.4	16.9	16.2	16.3
Div. Yield (%)	3.2	4.0	4.0	4.6	4.6
PBV (x)	3.2	2.9	2.8	2.7	2.6
EV/EBITDA (x)	5.7	7.3	6.0	6.1	6.0

Source: Kenanga Research

Peer Comparison – Telecommunication

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.
Telecommunication																	
AXIATA GROUP BHD	MP	1.67	1.95	16.8%	15,352.8	Y	12/2026	13.1	13.4	85.8%	2.7%	12.8	12.4	0.8	3.9%	11.0	6.6%
CELCOMDIGI BHD	OP	2.43	3.28	35.0%	28,504.3	Y	12/2026	13.6	12.8	6.2%	-6.0%	17.9	19.1	1.8	9.9%	16.0	6.6%
MAXIS BHD	MP	3.59	3.70	3.1%	28,152.4	Y	12/2026	20.5	19.6	1.2%	-4.5%	17.5	18.3	4.4	25.6%	18.0	5.0%
OCK GROUP BHD	OP	0.380	0.550	44.7%	403.6	Y	06/2027	4.8	5.1	-1.4%	6.5%	8.0	7.5	0.6	8.1%	2.0	5.3%
TELEKOM MALAYSIA BHD	OP	7.70	9.11	18.3%	29,550.6	Y	12/2026	48.1	47.9	4.0%	-0.4%	16.0	16.1	2.6	16.8%	36.0	4.7%
TIME DOTCOM BHD	OP	5.46	7.26	33.0%	10,094.5	Y	12/2026	28.0	30.3	6.1%	8.1%	19.5	18.0	3.2	16.3%	33.6	6.2%
SECTOR AGGREGATE					**112,058.2**					**12.7%**	**-1.4%**	**16.5**	**16.8**	**2.3**	**13.5%**		**5.7%**

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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