



Company report

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TELEKOM MALAYSIA

(T MK EQUITY, TLMM.KL)

TELECOMMUNICATION

13 Oct 2020

Navigating Covid-19 resurgence

BUY

(Maintained)

Rationale for report: Company update

Price	RM4.17
Fair Value	RM5.05
52-week High/Low	RM4.58/RM3.09

Key Changes

Fair value	↔
EPS	↔

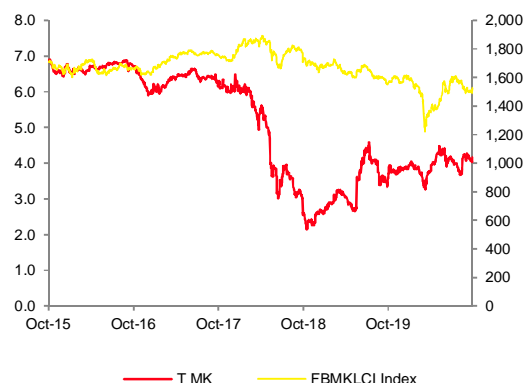
YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	11,434.2	11,345.2	11,419.1	11,547.2
Core net profit (RM mil)	1,000.8	1,058.1	1,062.9	1,107.1
FD Core EPS (sen)	26.6	28.2	28.3	29.5
FD Core EPS growth (%)	58.3	5.7	0.4	4.2
Consensus Net Profit (RM mil)	-	904.3	925.0	951.2
DPS (sen)	10.0	17.0	17.0	17.0
PE (x)	15.7	14.8	14.8	14.2
EV/EBITDA (x)	5.7	5.5	5.1	4.6
Div yield (%)	2.6	4.5	4.5	4.5
ROE (%)	8.2	13.0	12.5	12.5
Net Gearing (%)	88.4	74.7	59.6	41.5

Stock and Financial Data

Shares Outstanding (million)	3,758.0
Market Cap (RM mil)	15,708.4
Book Value (RM/share)	2.13
P/BV (x)	2.0
ROE (%)	8.2
Net Gearing (%)	88.4

Major Shareholders	Khazanah (26.2%)
	EPF (17.7%)
	ASB (15.7%)
Free Float	30.0
Avg Daily Value (RM mil)	16.5

Price performance	3mth	6mth	12mth
Absolute (%)	1.2	10.9	17.1
Relative (%)	5.3	(1.6)	19.1



Investment Highlights

- We maintain our BUY call on Telekom Malaysia (TM) with an unchanged DCF-based fair value of RM5.05/share based on a WACC of 7.4% and terminal growth rate of 2%. This implies an FY20F EV/EBITDA of 6x — at 1 standard deviation to its 3-year average of 5.5x.

- We maintain FY20F–FY22F earnings, which are 15%-17% above consensus, following a virtual engagement session with management yesterday. These are the salient highlights:

- Amid the rising Covid-19 cases nationally in a potential second wave, TM has activated its crisis management response with business continuing as usual together with work-from-home arrangements. To date, TM has cleared the backlogs in fibre wiring installations which occurred during the April-May travel restrictions.

So far, the group has not experienced any operational disruptions except for some service centres in malls or selected areas under currently enhanced movement control orders. Nevertheless, we are cautious on the viral resurgence which has led to additional movement restrictions in East Malaysia, Kedah, Putrajaya, KL and Selangor.

- TM's operating costs, which slid 4% QoQ in 2QFY20 despite a 1% revenue increase, surprisingly benefited from the Covid-19 movement control order in April-May this year which reduced marketing/customer acquisition costs, installation and maintenance requirements due to travel restrictions.

In the group's drive to regain fixed broadband market dominance, management expects 2HFY20 marketing costs to move in tandem with revenue trajectory while manpower costs, which accounted for 23% of 1HFY20 revenue, is expected to decline from natural attrition and redeployment.

- Management remains committed on TM's Performance Improvement Programme (PIP), which envisions the reduction of operating expenditure by RM500mil-600mil over 5 years. The current CEO, Imri Mokhtar, who rejoined TM on 1 August this year, was one of the architects of the PIP when it was launched back in mid-2018.

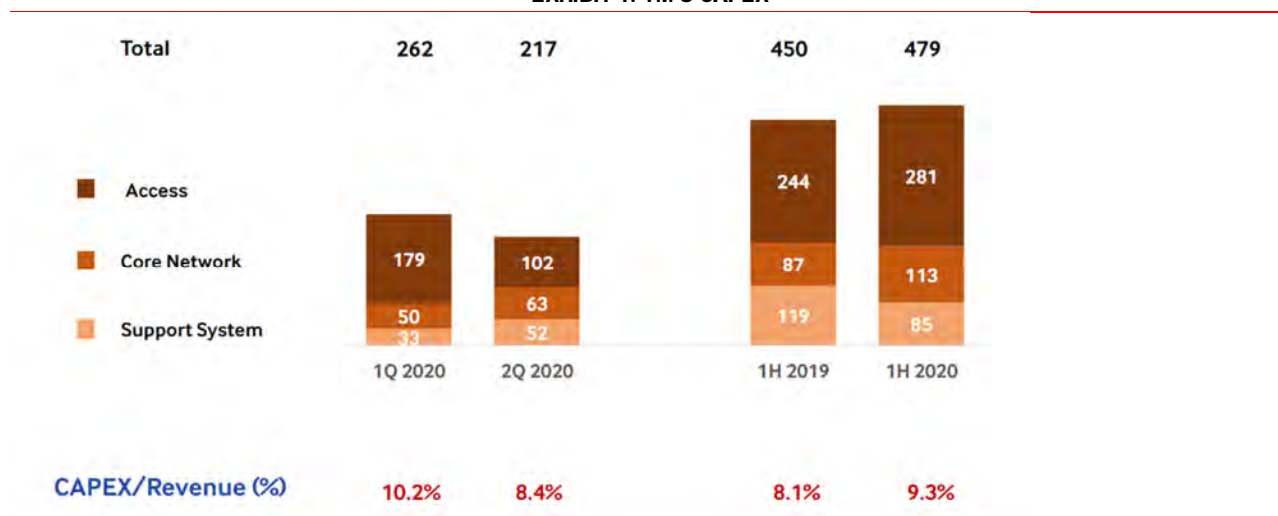
Recall that PIP focused on cost optimisation in content/sponsorship costs, contract renegotiations, marketing, business procurement and Unifi Mobile's domestic roaming arrangements.

- The government's Jalanan Digital Negara (JENDELA) infrastructure plan has deferred the start of 5G to 2023 with copper-based connectivity being phased out by 2025. This is likely to mitigate substantive capex increases as the programme over the next 2 years will be focused on expanding 4G coverage from 5mil currently to 7.5mil premises, which is already incorporated in TM's capex plans.

Additionally, as TM has already incorporated accelerated depreciation of RM150mil/year (6% of FY20F depreciation) for its copper infrastructure since late last year, management does not expect any significant impairment impact going forward.

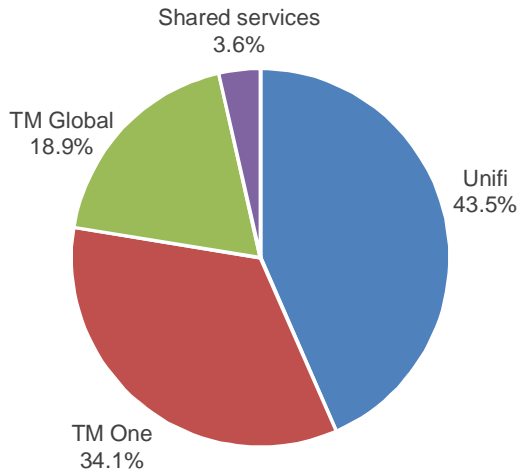
- The group aims to cushion the industry-wide pressure on average revenue per user (ARPU) by offering better quality services via bundling of quad-play services, additional virtual marketing options for small-medium enterprises and customer care improvement. Recall TM's 2QFY20 unifi ARPU slid 11% YoY to RM150/month.
- TM expects to secure sales of indefeasible rights of use of submarine connectivity in November and December, which is when the group usually closes such deals. As in the past, this is likely to drive a strong 4QFY20 bottomline as the fourth quarter accounted for 26%-27% of FY17-FY19 revenue.
- Management reaffirmed that while TM was revisiting its 2020 guidance, the group has not withdrawn its expectations for a low to single digit revenue decline, EBIT of over RM1bil and capex of low-mid 20% of revenue. Additionally, its 1HFY20 dividend payout of 60% could be sustained in 2HFY20 on the current earnings trajectory.
- The stock currently trades at an attractive FY21F EV/EBITDA of 5x with a decent dividend yield of 4.5%. In our view, TM can be re-rated even further if it opts to consolidate with mobile and fibre players (See our Sector Update on 11 August).

EXHIBIT 1: TM'S CAPEX



Source: TM IR slide

EXHIBIT 2: 1HFY20 REVENUE BREAKDOWN



Source: Bursa Malaysia

EXHIBIT 3: PB BAND CHART



EXHIBIT 4: PE BAND CHART

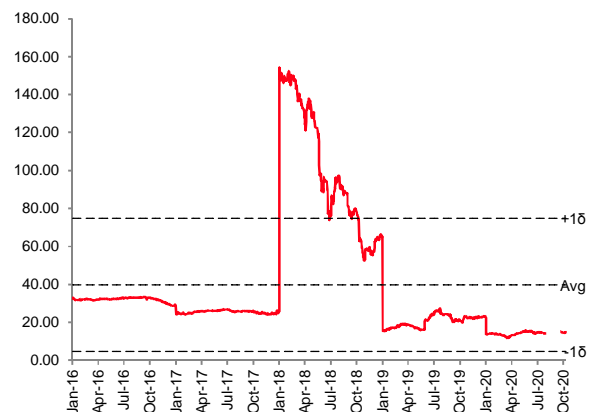


EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	11,819.3	11,434.2	11,345.2	11,419.1	11,547.2
EBITDA	3,193.4	3,999.9	3,956.7	4,090.6	4,256.2
Depreciation/Amortisation	(2,370.0)	(2,331.0)	(2,423.2)	(2,505.1)	(2,647.8)
Operating income (EBIT)	823.4	1,668.9	1,533.5	1,585.5	1,608.4
Other income & associates	21.0	15.0	15.8	16.5	17.4
Net interest	(347.8)	(390.7)	(294.0)	(312.8)	(283.7)
Exceptional items	(479.2)	(368.1)	-	-	-
Pretax profit	17.4	925.1	1,255.2	1,289.3	1,342.0
Taxation	(277.9)	(367.7)	(276.2)	(309.4)	(322.1)
Minorities/pref dividends	413.7	75.3	79.1	83.0	87.2
Net profit	153.2	632.7	1,058.1	1,062.9	1,107.1
Core net profit	632.4	1,000.8	1,058.1	1,062.9	1,107.1
Balance Sheet (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Fixed assets	15,263.3	15,301.4	14,577.3	13,649.4	12,418.2
Intangible assets	490.0	490.0	490.0	490.0	490.0
Other long-term assets	1,548.4	1,581.6	1,615.6	1,650.3	1,685.9
Total non-current assets	17,301.7	17,373.0	16,682.8	15,789.8	14,594.1
Cash & equivalent	2,826.3	706.9	1,573.4	2,647.6	4,071.5
Stock	134.6	250.6	248.7	250.3	253.1
Trade debtors	2,405.2	3,978.5	3,947.5	3,973.2	4,017.8
Other current assets	1,036.7	1,057.4	1,078.6	1,100.2	1,122.2
Total current assets	6,402.8	5,993.5	6,848.2	7,971.2	9,464.5
Trade creditors	3,610.3	3,759.2	3,729.9	3,754.2	3,796.3
Short-term borrowings	234.1	245.8	258.1	271.0	284.6
Other current liabilities	1,353.7	1,353.1	1,379.8	1,407.1	1,434.8
Total current liabilities	5,198.1	5,358.1	5,367.9	5,432.3	5,515.7
Long-term borrowings	8,337.2	7,535.0	7,535.0	7,535.0	7,535.0
Other long-term liabilities	3,153.7	3,040.9	2,943.5	2,860.2	2,789.4
Total long-term liabilities	11,490.9	10,575.9	10,478.5	10,395.2	10,324.4
Shareholders' funds	7,525.2	7,998.1	8,329.4	8,661.3	9,033.4
Minority interests	(509.7)	(565.7)	(644.8)	(727.8)	(815.0)
BV/share (RM)	2.00	2.13	2.22	2.30	2.40
Cash Flow (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Pretax profit	17.4	925.1	1,255.2	1,289.3	1,342.0
Depreciation/Amortisation	2,370.0	2,331.0	2,423.2	2,505.1	2,647.8
Net change in working capital	(121.5)	15.8	3.7	(3.0)	(5.3)
Others	1,042.9	(2,314.8)	112.2	65.5	20.8
Cash flow from operations	3,308.8	957.1	3,794.3	3,856.8	4,005.4
Capital expenditure	(2,363.9)	(2,058.2)	(2,382.5)	(2,283.8)	(2,078.5)
Net investments & sale of fixed assets	-	-	-	-	-
Others	(153.3)	32.2	(45.5)	(50.4)	(8.7)
Cash flow from investing	(2,517.2)	(2,025.9)	(2,428.0)	(2,334.2)	(2,087.2)
Debt raised/(repaid)	421.1	(790.5)	12.3	12.9	13.6
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(75.2)	(375.8)	(638.9)	(638.9)	(638.9)
Others	(705.7)	(650.7)	(445.5)	(431.6)	(419.0)
Cash flow from financing	(359.8)	(1,817.0)	(1,072.1)	(1,057.5)	(1,044.3)
Net cash flow	431.9	(2,885.8)	294.2	465.1	873.9
Net cash/(debt) b/f	1,740.8	2,841.3	722.7	1,590.0	2,664.9
Net cash/(debt) c/f	2,172.7	(44.5)	1,016.9	2,055.0	3,538.9
Key Ratios (YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth (%)	(2.2)	(3.3)	(0.8)	0.7	1.1
EBITDA growth (%)	(13.5)	25.3	(1.1)	3.4	4.0
Pretax margin (%)	0.1	8.1	11.1	11.3	11.6
Net profit margin (%)	1.3	5.5	9.3	9.3	9.6
Interest cover (x)	2.4	4.3	5.2	5.1	5.7
Effective tax rate (%)	1,597.1	39.7	22.0	24.0	24.0
Dividend payout (%)	49.1	59.4	60.4	60.1	57.7
Debtors turnover (days)	94	102	127	127	126
Stock turnover (days)	6	6	8	8	8
Creditors turnover (days)	116	118	120	120	119

Source: Company, AmInvestment Bank Bhd estimates

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