



Company report

Alex Goh

alexgoh@ambankgroup.com

03-2036 2280

TELEKOM MALAYSIA

TELECOMMUNICATION

(T MK EQUITY, TLMM.KL)

28 July 2020

unifi Mobile joins prepaid bandwagon

HOLD

(Maintained)

Rationale for report: Company update

Price	RM3.98
Fair Value	RM4.15
52-week High/Low	RM4.58/RM3.09

Key Changes

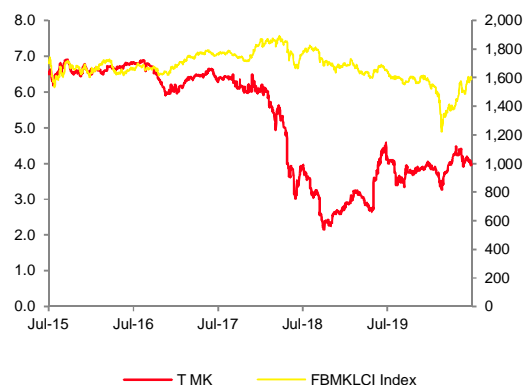
Fair value	↕
EPS	↕

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	833.1	862.6	904.4
FD Core EPS (sen)	26.6	22.2	23.0	24.1
FD Core EPS growth (%)	58.3	(16.8)	3.5	4.8
Consensus Net Profit (RM mil)	-	831.8	867.9	890.2
DPS (sen)	10.0	10.0	10.0	10.0
PE (x)	14.9	18.0	17.3	16.5
EV/EBITDA (x)	5.5	5.5	5.0	4.4
Div yield (%)	2.7	2.7	2.7	2.7
ROE (%)	8.2	10.2	10.1	10.1
Net Gearing (%)	88.4	73.9	57.7	39.0

Stock and Financial Data

Shares Outstanding (million)	3,758.0
Market Cap (RM mil)	14,956.8
Book Value (RM/share)	2.13
P/BV (x)	1.9
ROE (%)	8.2
Net Gearing (%)	88.4
Major Shareholders	Khazanah (26.2%) EPF (16.1%) ASB (15.7%)
Free Float	30.0
Avg Daily Value (RM mil)	21.9

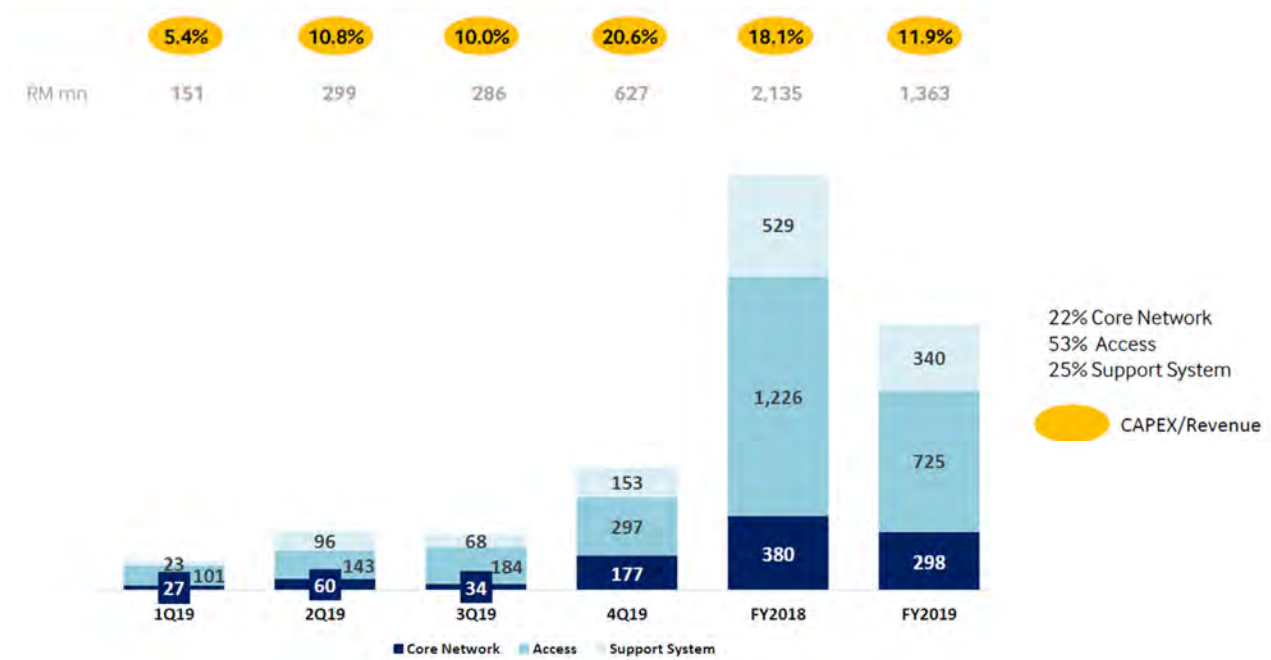
Price performance	3mth	6mth	12mth
Absolute (%)	(1.0)	(0.5)	(5.2)
Relative (%)	(14.8)	(1.7)	(1.9)



Investment Highlights

- We maintain our HOLD call on Telekom Malaysia (TM) with unchanged forecasts and DCF-based fair value of RM4.15/share based on a WACC of 7.4% and terminal growth rate of 2%. This implies an FY20F EV/EBITDA of 5x, at parity to its 2-year average.
- TM's unifi Mobile has cut its unlimited prepaid Internet data under its #BEBAS plan to RM35/month from RM55/month, joining the same price points initiated by Maxis last month, and followed subsequently by Axiata Group's Celcom.
- unifi Mobile is also offering weekly unlimited Internet pass for RM12, down from RM20. However, these unlimited passes appear to be only available for LTE data which means customers may need to purchase a separate data pass in areas outside of unifi Mobile's 4G coverage. Recall that unifi Mobile, under Webe Digital Sdn Bh (webe), has a 2G and 3G domestic roaming arrangement with Celcom.
- While both unlimited LTE passes are available until 31 December 2020, data sharing via hotspot tethering is allowed under these passes. Meanwhile, unifi's unlimited postpaid plan has been cut to RM59/month from RM99/month under a 12-month contract.
- For now, U Mobile, unifi Mobile and Digi are the only celcos offering stand-alone unlimited postpaid data plans. The most affordable postpaid plan is still U Mobile's GX50 postpaid plan, which offers unlimited data and calls plus 5GB of hotspot sharing at a discounted RM40/month (from RM50/month).
- Digi offers its Infinite online plan with unlimited data at speeds up to 10Mbps and calls at RM100/month. For over 2 years, Maxis has bundled its Home Fibre services by offering postpaid plans with unlimited data starting at RM98/month while Celcom does not have an unlimited postpaid package currently.
- Digi's newly launched prepaid package offers 3GB of data and unlimited social media for RM15/month. Meanwhile, Celcom offers unlimited calls at RM80/month with data quota of 30GB.
- As such, we await postpaid packages being launched by Maxis and Celcom over the next few months in tandem with the escalating cellular wars which will constrain any increase in average revenue per user.
- While u Mobile's subscriber base has risen to 1mil, this is still far behind Maxis' 11.3mil, Digi's 11mil and Celcom's 8mil. While TM aims to be EBITDA positive next year, we are conservative in our forecasts given the ongoing intense mobile competition. Recall that TM's stake in webe has recently risen to 91.8% from 72.9% with the exchange of its Green Packet's remaining shares and convertible unsecured MTNs.
- Against the backdrop of higher capex needs and weak near-term earnings outlook, the stock currently trades at a fair FY21F EV/EBITDA of 5x with a decent dividend yield of 3%.

EXHIBIT 1: TM'S CAPEX



Source: TM's IR slides

EXHIBIT 2: PB BAND CHART



EXHIBIT 3: PE BAND CHART

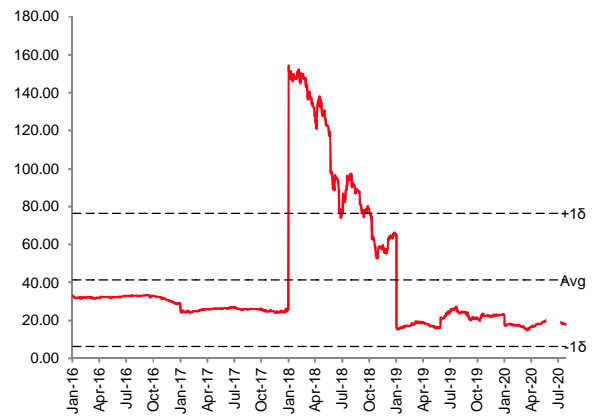


EXHIBIT 4: FINANCIAL DATA

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	3,861.5	4,000.2	4,169.4
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	1,438.3	1,495.1	1,521.6
Other income & associates	21.0	15.0	15.8	16.5	17.4
Net interest	(347.8)	(390.7)	(294.0)	(312.2)	(281.6)
Exceptional items	(479.2)	(368.1)	-	-	-
Pretax profit	17.4	925.1	1,160.1	1,199.4	1,257.3
Taxation	(277.9)	(367.7)	(406.0)	(419.8)	(440.1)
Minorities/pref dividends	413.7	75.3	79.1	83.0	87.2
Net profit	153.2	632.7	833.1	862.6	904.4
Core net profit	632.4	1,000.8	833.1	862.6	904.4
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	1,611.4	2,748.4	4,232.7
Stock	134.6	250.6	248.7	250.3	253.1
Trade debtors	2,405.2	3,978.5	3,975.5	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	6,886.2	8,072.1	9,625.8
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	3,943.5	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	8,367.4	8,762.2	9,194.7
Minority interests	(509.7)	(565.7)	(644.8)	(727.8)	(815.0)
BV/share (RM)	2.00	2.13	2.23	2.33	2.45
Cash Flow (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Pretax profit	17.4	925.1	1,160.1	1,199.4	1,257.3
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)	(17.7)	(44.3)	(95.1)
Cash flow from operations	3,308.8	957.1	3,569.2	3,657.2	3,804.8
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)	(49.8)	(6.6)
Cash flow from investing	(2,517.2)	(2,025.9)	(2,428.0)	(2,333.6)	(2,085.1)
Debt raised/(repaid)	421.1	(790.5)	12.3	12.9	13.6
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(75.2)	(375.8)	(375.8)	(375.8)	(375.8)
Others	(705.7)	(650.7)	(445.5)	(431.6)	(419.0)
Cash flow from financing	(359.8)	(1,817.0)	(809.0)	(794.5)	(781.2)
Net cash flow	431.9	(2,885.8)	332.2	529.1	938.5
Net cash/(debt) b/f	1,740.8	2,841.3	722.7	1,628.0	2,765.8
Net cash/(debt) c/f	2,172.7	(44.5)	1,054.9	2,157.0	3,704.3
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	(3.5)	3.6	4.2
Pretax margin (%)	0.1	8.1	10.2	10.5	10.9
Net profit margin (%)	1.3	5.5	7.3	7.6	7.8
Interest cover (x)	2.4	4.3	4.9	4.8	5.4
Effective tax rate (%)	1,597.1	39.7	35.0	35.0	35.0
Dividend payout (%)	49.1	59.4	45.1	43.6	41.6
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, AmlInvestment Bank Bhd estimates

DISCLOSURE AND DISCLAIMER

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad (“AmInvestment”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment’s views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment’s affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment’s prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.