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TELEKOM MALAYSIA

(T MK EQUITY, TLMM.KL)

30 July 2020

Imri returns as CEO

HOLD

(Maintained)

Rationale for report: Company update

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

Key Changes

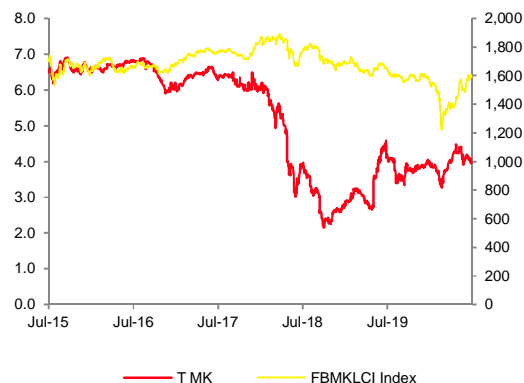
Fair value	↕
EPS	↕

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

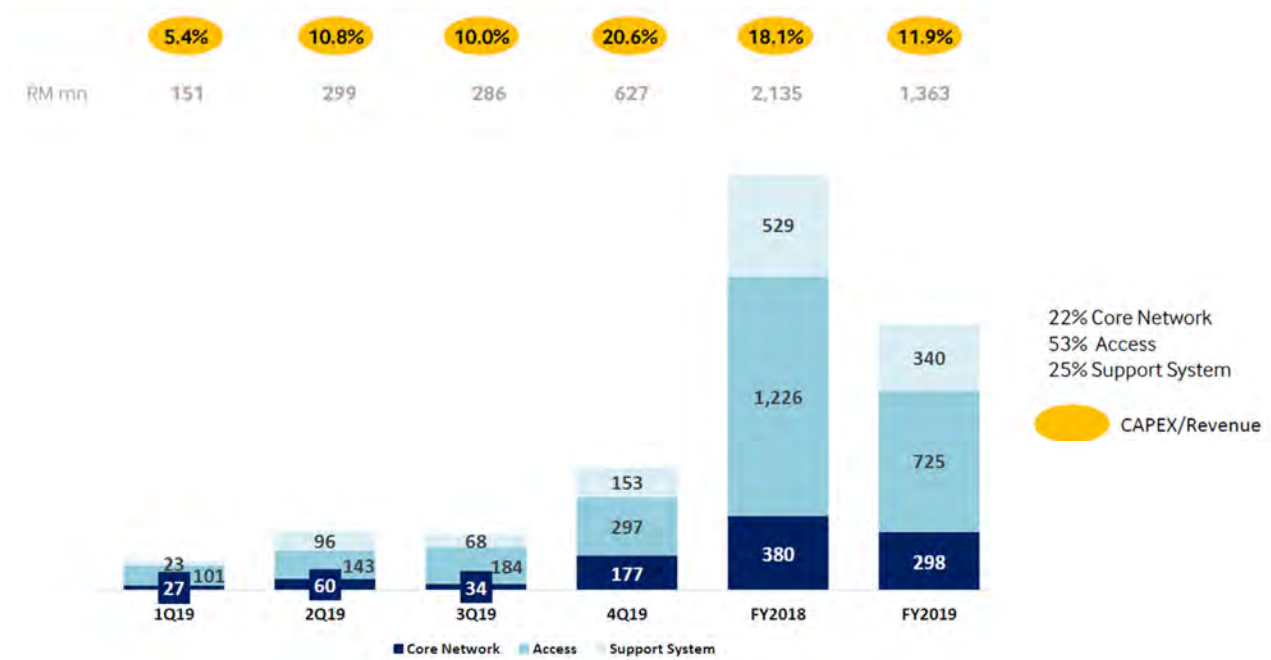
Price performance	3mth	6mth	12mth
Absolute (%)	(1.0)	(0.5)	(5.2)
Relative (%)	(14.8)	(1.7)	(1.9)



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 former acting chief executive officer (CEO) Imri Mokhtar has returned to helm the group as its managing director/group CEO, effective 1 August 2020. The current MD/group CEO Datuk Noor Kamarul Anuar Nuruddin has resigned effective 29 July 2020 after 13 months in his position.
- Recall that Imri, who was TM's acting CEO on November 2018 until June 2019 and originally chosen by the Ministry of Finance to be the CEO, eventually resigned from the group after being reassigned as its chief operating officer (COO) on 30 January this year.
- Imri, aged 47, was appointed as acting group CEO following the resignation of Datuk Bazlan Osman in November 2018. Following the appointment of Noor Kamarul as CEO in June last year, Imri resumed his post as TM's COO.
- According to media reports then, TM chairman Rosli Man had refused to proceed with Imri's appointment as group CEO despite the approval of the group's special shareholder, the Minister of Finance Inc.
- During his tenure as TM's COO, Imri was responsible for the business operations of unifi, TM ONE, TM Global clusters and IT & NT of TM Group. Having first started his career with TM in 1996 and rejoining the group in 2005, Imri has served in various positions, including programme and performance management office vice-president and consumer EVP.
- Prior to rejoining TM in 2005, Imri was at a pay-TV operator in Malaysia and before that a consultant at a global management consulting firm. He is also a director of Webe Digital Sdn Bhd (webe), now renamed unifi Mobile.
- While surprised by Imri's return to TM within just 6 months, we are positive that his years of experience with the group would support the necessary changes to spearhead the transition to a more competitive business model, as highlighted by its chairman Tan Sri Mohd Bakke Salleh, who was appointed just over 2 months ago.
- Against the backdrop of higher capex needs and flattish 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

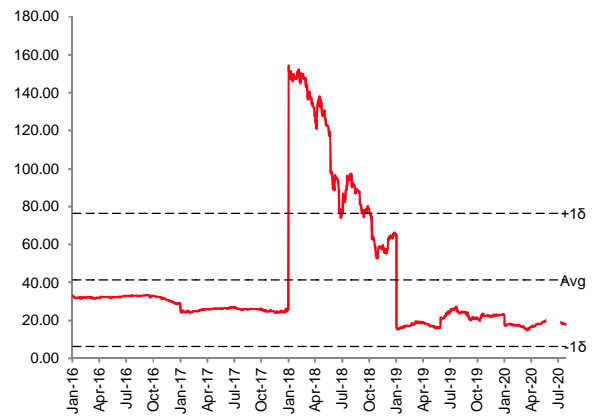


EXHIBIT 4: FINANCIAL DATA

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	3,947.5	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	6,886.2	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	3,043.5	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

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