

TELEKOM MALAYSIA

(T MK EQUITY, TLMM.KL)

22 Feb 2021

MyDigital boost for wholesale business

BUY

(Maintained)

Company report

Alex Goh

alexgoh@ambankgroup.com

03-2036 2280

Rationale for report: Company update

Price	RM6.48
Fair Value	RM7.10
52-week High/Low	RM6.82/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	1,024.1	1,048.1	1,101.1
FD Core EPS (sen)	26.6	27.3	27.9	29.3
FD Core EPS growth (%)	58.3	2.3	2.3	5.1
Consensus Net Profit (RM mil)	-	1,019.2	1,102.7	1,144.0
DPS (sen)	10.0	17.0	17.0	17.0
PE (x)	24.3	23.8	23.2	22.1
EV/EBITDA (x)	7.9	7.7	7.2	6.6
Div yield (%)	1.6	2.7	2.7	2.7
ROE (%)	8.2	12.6	12.4	12.5
Net Gearing (%)	88.4	67.4	53.1	35.6

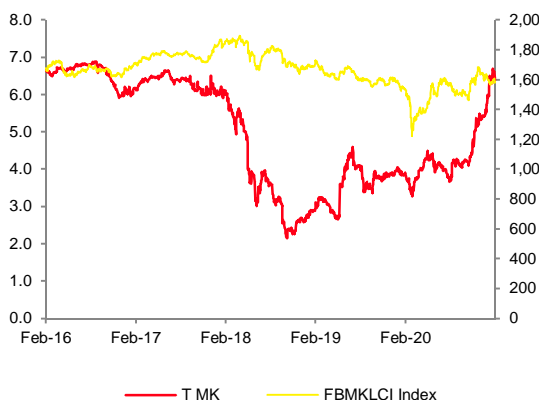
Stock and Financial Data

Shares Outstanding (million)	3,758.0
Market Cap (RM mil)	24,351.8
Book Value (RM/share)	2.13
P/BV (x)	3.0
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)	46.9

Price performance	3mth	6mth	12mth
Absolute (%)	35.0	73.3	67.0
Relative (%)	35.8	72.4	61.3



Investment Highlights

- We maintain our BUY call on Telekom Malaysia (TM) with an unchanged DCF-based fair value of RM7.10/share based on a WACC of 6.2% and terminal growth rate of 2%. This implies an FY21F EV/EBITDA of 7.4x – which is 43% below Maxis.
- Last Friday, Prime Minister Tan Sri Muhyiddin Yassin revealed the MyDigital initiative, which will be executed via the Malaysia Digital Economy Blueprint, comprising three phases to be completed by 2030. The blueprint provides the objectives and targets of the government to build a sustainable nationwide digital ecosystem.
- The government plans to invest RM15bil over 10 years via a special purpose vehicle (SPV), which will own, execute and manage 5G spectrum and infrastructure. This is envisaged to allow licensed telecommunication companies (telcos) with equal access to the infrastructure to roll out 5G services nationwide, which is expected to begin in stages by the end of this year.
- We view this as positive for TM, which has been recommending this structure to the Malaysian Communication and Multimedia Commission for 2 years. Being the owner of the nationwide High Speed Broadband fiberised network, TM is pivotal in providing the critical backhaul backbone system for 5G networks. While other telcos could be invited to the SPV, we expect TM to be the key driver for the 5G rollout implementation.
- As part of the government's Cloud First strategy under the MyDigital blueprint, the government aims to migrate 80% of public data to the hybrid cloud system by end-2022.
- Hence, the government has given conditional approvals for Microsoft, Google, Amazon and TM to build and manage hyper-scale data centres as well as provide hybrid cloud services, valued RM12bil–RM15bil over the next 5 years.
- We expect TM to leverage its fixed play dominance provided by its national fibre-optic network and extensive partnerships to support the building of these data centres, thus alleviating high capex requirements on its own.
- These developments support stronger growth prospects for TM Wholesale, the domestic and international wholesale arm of the group, which accounted for 20% of 9MFY20 group revenue (See our Update on 29 January 2021).
- With this segment's 9MFY20 revenue growing by a slight 1% YoY, we maintain our forecasts for now pending TM's upcoming 4QFY20 results announcement on 24 February 2021.
- The stock currently trades at an attractive FY21F EV/EBITDA of 7x vs. Maxis's 13x. 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). It also offers a fair dividend yield of 3%. TM is also ESG compliant with a 4-star rating on the FTSE4GOOD Index.

EXHIBIT 1: PB BAND CHART



EXHIBIT 2: PE BAND CHART

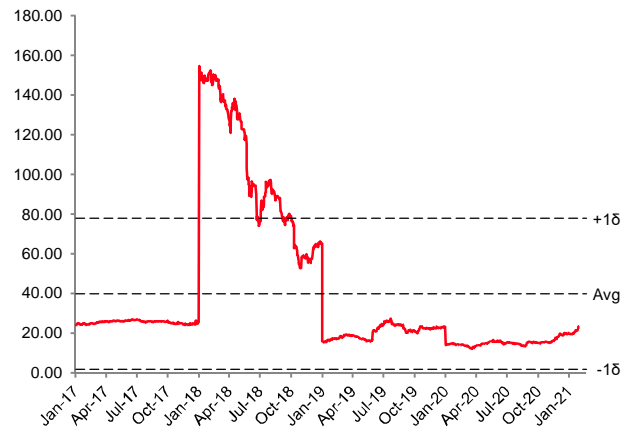


EXHIBIT 3: FINANCIAL DATA

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	3,901.1	4,037.8	4,205.5
Depreciation/Amortisation	(2,370.0)	(2,331.0)	(2,411.2)	(2,481.2)	(2,623.3)
Operating income (EBIT)	823.4	1,668.9	1,489.9	1,556.6	1,582.2
Other income & associates	21.0	15.0	15.8	16.5	17.4
Net interest	(347.8)	(390.7)	(294.0)	(303.3)	(265.4)
Exceptional items	(479.2)	(368.1)	-	-	-
Pretax profit	17.4	925.1	1,211.6	1,269.8	1,334.1
Taxation	(277.9)	(367.7)	(266.6)	(304.8)	(320.2)
Minorities/pref dividends	413.7	75.3	79.1	83.0	87.2
Net profit	153.2	632.7	1,024.1	1,048.1	1,101.1
Core net profit	632.4	1,000.8	1,024.1	1,048.1	1,101.1
Balance Sheet (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Fixed assets	15,263.3	15,301.4	13,911.9	13,014.7	11,814.0
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	16,017.4	15,155.0	13,990.0
Cash & equivalent	2,826.3	706.9	2,204.8	3,233.5	4,620.8
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	7,479.6	8,557.2	10,013.9
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	8,295.3	8,612.6	8,978.6
Minority interests	(509.7)	(565.7)	(644.8)	(727.8)	(815.0)
BV/share (RM)	2.00	2.13	2.21	2.29	2.39
Cash Flow (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Pretax profit	17.4	925.1	1,211.6	1,269.8	1,334.1
Depreciation/Amortisation	2,370.0	2,331.0	2,411.2	2,481.2	2,623.3
Net change in working capital	(121.5)	15.8	3.7	(3.0)	(5.3)
Others	1,042.9	(2,314.8)	118.4	72.9	34.8
Cash flow from operations	3,308.8	957.1	3,744.9	3,820.9	3,987.0
Capital expenditure	(2,363.9)	(2,058.2)	(1,701.8)	(2,283.8)	(2,078.5)
Net investments & sale of fixed assets	-	-	-	-	-
Others	(153.3)	32.2	(45.5)	(40.9)	9.6
Cash flow from investing	(2,517.2)	(2,025.9)	(1,747.3)	(2,324.7)	(2,068.9)
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)	925.6	438.6	873.8
Net cash/(debt) b/f	1,740.8	2,841.3	722.7	2,221.3	3,250.9
Net cash/(debt) c/f	2,172.7	(44.5)	1,648.3	2,660.0	4,124.7
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	(2.5)	3.5	4.2
Pretax margin (%)	0.1	8.1	10.7	11.1	11.6
Net profit margin (%)	1.3	5.5	9.0	9.2	9.5
Interest cover (x)	2.4	4.3	5.1	5.1	6.0
Effective tax rate (%)	1,597.1	39.7	22.0	24.0	24.0
Dividend payout (%)	49.1	59.4	62.4	61.0	58.0
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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