



## Company report

Alex Goh

alexgoh@ambankgroup.com

03-2036 2280

(T MK EQUITY, TLMM.KL)

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Expect strong 1Q from cost optimization and IRU sale

**BUY**

(Maintained)

Rationale for report: Company update

Price	RM5.71
Fair Value	RM7.10
52-week High/Low	RM6.82/RM3.66

### Key Changes

Fair value	↕
EPS	↕

YE to Dec	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	10,840.3	11,133.8	11,420.8	11,661.8
Core net profit (RM mil)	991.0	1,065.9	1,120.6	1,173.6
FD Core EPS (sen)	26.3	28.2	29.7	31.1
FD Core EPS growth (%)	(1.4)	7.6	5.1	4.7
Consensus Net Profit (RM mil)	-	1,096.8	1,180.4	1,262.0
DPS (sen)	14.3	14.3	15.0	15.5
PE (x)	21.7	20.2	19.2	18.4
EV/EBITDA (x)	6.4	5.8	5.2	4.7
Div yield (%)	2.5	2.5	2.6	2.7
ROE (%)	14.0	13.2	12.1	12.0
Net Gearing (%)	46.6	33.0	14.0	nm

### Stock and Financial Data

Shares Outstanding (million)	3,758.0
Market Cap (RM mil)	21,458.2
Book Value (RM/share)	1.89
P/BV (x)	3.0
ROE (%)	14.0
Net Gearing (%)	46.6

Major Shareholders	Khazanah (20.1%) EPF (18.1%) ASB (9.8%)
Free Float	30.0
Avg Daily Value (RM mil)	46.1

Price performance	3mth	6mth	12mth
Absolute (%)	(10.1)	36.3	41.7
Relative (%)	(12.1)	27.2	22.1



— T MK — FBMKLCI Index

### 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%, terminal growth rate of 2% and neutral ESG rating of 3 stars. This implies an FY21F EV/EBITDA of 6.6x, which is over 40% below Maxis and Time dotCom.
- Our forecasts are unchanged following our recent MS Teams discussions with management. Here are the salient highlights:
  - Its 1QFY21 results, expected to be announced on 27 May 2021, could be a strong quarter given the group's continued cost optimization initiatives and lumpy sale of indefeasible rights of use (IRU) of wholesale submarine connectivity. As an indication of the wide variation in the past, 1Q accounted for 17%-30% of FY18-FY20 normalised net profit.
  - The proposed Celcom-Digi merger is unlikely to substantively affect TM's earnings given that Unifi Mobile does not significantly contribute to the group's revenue at this stage. Although TM does not provide any subscriber details, we understand that Unifi Mobile was slightly FY20 EBIT positive and continued to fare well in 1QFY21.
  - While TM is guiding for flat to low single-digit FY21F revenue growth, this will be supported by strong FY17-FY20 Unifi subscriber CAGR of 16% and rapid data demand escalation. Recall Unifi contributed 42% of FY20 revenue while TM Wholesale 20%.
  - Notwithstanding the 20-year fibre collaboration arrangement between Celcom, Digi and Maxis, the likelihood of celcos bypassing TM to offer fibre-to-home services directly is currently uncertain given the government's efforts to minimise duplication of resources for 5G deployment. Currently, TM continues to support the government's MyDigital Initiative via its extensive fibre connectivity under the High Speed Broadband (HSBB) and Sub-Urban Broadband (SUBB) networks.

Recall that the government plans to invest RM15bil over 10 years via a special purpose vehicle (SPV) Digital Nasional Bhd, which will be the owner and wholesaler of 5G infrastructure, spectrum and connectivity. This is envisaged to allow licensed telecommunication companies (telcos) with equal access to the infrastructure to focus more on customer support services and roll out 5G services nationwide in stages by the end of this year.

TM has been recommending this structure to the Malaysian Communication and Multimedia Commission for years. As the owner of the nationwide HSBB and SUBB fiberised networks, we expect TM Wholesale to be pivotal in providing the critical backhaul system for 5G networks.

- Over the longer term, TM One, the group’s enterprise and public sector business solutions arm, is expected to gather momentum given that TM has been selected to be the government’s only domestic cloud service provider together with international operators Microsoft, Google and Amazon.
  - TM One accounted for 34% of the group’s FY21 revenue while these cloud services are indicatively valued at RM12bil–RM15bil over the next 5 years. Recall that in 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.
  - Given that TM’s data centre utilization is currently at 50%, we expect the group to be cautious in driving capacity expansion over the near term. Additionally, TM could leverage its fixed play dominance provided by its national fibre-optic network and extensive partnerships to support third-party data centre providers, thus alleviating high capex requirements on its own.
  - The group continues to expect significant FY21F cost savings given that the overall trend remains on a downward trajectory as FY20 opex decreased by 7% YoY in tandem with management’s ongoing cost optimisation drive.
- The stock currently trades at an unjustified FY21F EV/EBITDA of 6x vs 12x for both Maxis and TIME dotCom, given its improving cost structure underpinned by a national dominance in fibre networks which provides multiple avenues for above-peer growth in residential, retail, enterprise and wholesale segments. It also offers a fair dividend yield of 3%.

EXHIBIT 1: PB BAND CHART

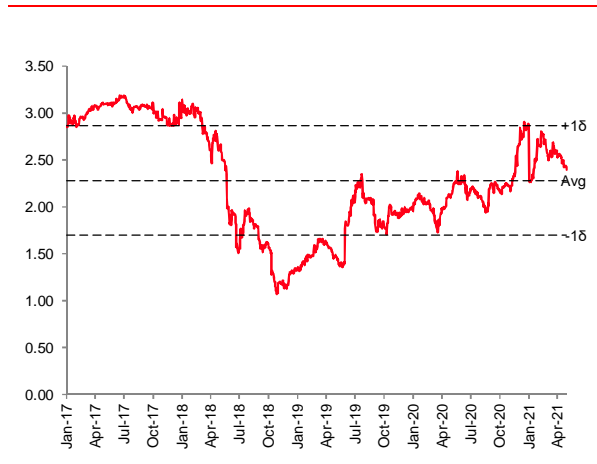


EXHIBIT 2: PE BAND CHART

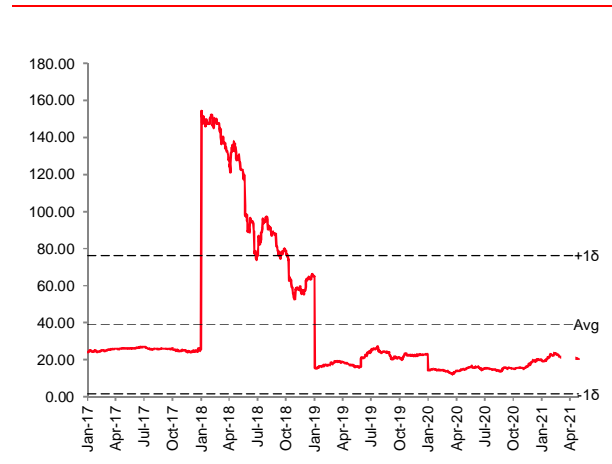


EXHIBIT 3: ESG RATING

<b>Overall</b>	★	★	★		
Zero-carbon initiatives	★	★	★	★	
Health & Safety Compliance	★	★	★	★	
Independent BOD	★	★	★		
Corporate social responsibility	★	★	★	★	
Pollution control	★	★	★	★	
Supply chain auditing	★	★	★		
Corruption-free pledge	★	★			
Accessibility & transparency	★	★	★	★	

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

Source: AmInvestment Bank

## EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	11,434.2	10,840.3	11,133.8	11,420.8	11,661.8
EBITDA	3,999.9	3,897.4	4,230.7	4,395.9	4,496.4
Depreciation/Amortisation	(2,331.0)	(2,284.0)	(2,445.8)	(2,520.0)	(2,591.9)
Operating income (EBIT)	1,668.9	1,613.4	1,784.9	1,875.9	1,904.4
Other income & associates	15.0	12.2	12.8	13.5	14.1
Net interest	(390.7)	(372.1)	(422.8)	(443.9)	(404.8)
<b>Exceptional items</b>	<b>(368.1)</b>	<b>25.0</b>	-	-	-
Pretax profit	925.1	1,278.5	1,374.9	1,445.5	1,513.7
Taxation	(367.7)	(282.5)	(330.0)	(346.9)	(363.3)
<b>Minorities/pref dividends</b>	<b>75.3</b>	<b>20.0</b>	<b>21.0</b>	<b>22.1</b>	<b>23.2</b>
Net profit	632.7	1,016.0	1,065.9	1,120.6	1,173.6
Core net profit	1,000.8	991.0	1,065.9	1,120.6	1,173.6
Balance Sheet (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Fixed assets	14,259.5	13,751.7	12,888.3	11,671.3	10,404.3
Intangible assets	493.2	493.8	493.8	493.8	493.8
<b>Other long-term assets</b>	<b>2,255.6</b>	<b>2,592.3</b>	<b>2,646.7</b>	<b>2,702.3</b>	<b>2,759.1</b>
Total non-current assets	17,008.3	16,837.8	16,028.8	14,867.4	13,657.2
Cash & equivalent	4,918.4	4,304.4	5,439.1	7,116.0	8,897.1
Stock	102.0	99.2	244.0	250.3	255.6
Trade debtors	2,434.5	1,952.1	3,873.9	3,973.8	4,057.7
<b>Other current assets</b>	<b>1,136.5</b>	<b>1,085.0</b>	<b>1,106.7</b>	<b>1,128.8</b>	<b>1,151.4</b>
Total current assets	8,591.4	7,440.7	10,663.7	12,468.9	14,361.8
Trade creditors	3,604.4	3,494.4	3,660.4	3,754.8	3,834.0
Short-term borrowings	1,034.3	830.7	872.2	915.8	961.6
<b>Other current liabilities</b>	<b>1,837.7</b>	<b>1,482.5</b>	<b>1,576.0</b>	<b>1,607.2</b>	<b>1,638.9</b>
Total current liabilities	6,476.4	5,807.6	6,108.7	6,277.8	6,434.6
Long-term borrowings	7,698.8	6,796.1	7,535.0	7,535.0	7,535.0
<b>Other long-term liabilities</b>	<b>4,871.4</b>	<b>4,699.5</b>	<b>4,652.2</b>	<b>4,625.5</b>	<b>4,618.0</b>
<b>Total long-term liabilities</b>	<b>12,570.2</b>	<b>11,495.6</b>	<b>12,187.2</b>	<b>12,160.5</b>	<b>12,153.0</b>
Shareholders' funds	7,353.3	7,124.6	9,003.3	9,526.8	10,083.3
Minority interests	(800.2)	(149.3)	(606.7)	(628.8)	(651.9)
BV/share (RM)	1.96	1.89	2.39	2.52	2.67
Cash Flow (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	925.1	1,278.5	1,374.9	1,445.5	1,513.7
Depreciation/Amortisation	2,331.0	2,284.0	2,445.8	2,520.0	2,591.9
Net change in working capital	15.8	24.4	(12.1)	(11.8)	(9.9)
<b>Others</b>	<b>644.6</b>	<b>(1,053.4)</b>	<b>(838.5)</b>	<b>97.6</b>	<b>129.6</b>
Cash flow from operations	3,916.6	2,533.5	2,970.1	4,051.2	4,225.4
Capital expenditure	(2,058.2)	(1,626.0)	(2,226.8)	(2,055.7)	(2,099.1)
Net investments & sale of fixed assets	-	-	-	-	-
<b>Others</b>	<b>182.1</b>	<b>34.0</b>	<b>8.6</b>	<b>32.9</b>	<b>90.0</b>
Cash flow from investing	(1,876.1)	(1,592.0)	(2,218.2)	(2,022.9)	(2,009.2)
Debt raised/(repaid)	161.8	(1,106.3)	780.4	43.6	45.8
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(375.8)	(539.6)	(539.6)	(566.0)	(584.9)
<b>Others</b>	<b>(500.8)</b>	<b>(641.5)</b>	<b>(690.9)</b>	<b>(703.3)</b>	<b>(691.5)</b>
<b>Cash flow from financing</b>	<b>(714.8)</b>	<b>(2,287.4)</b>	<b>(450.1)</b>	<b>(1,225.7)</b>	<b>(1,230.6)</b>
<b>Net cash flow</b>	<b>1,325.7</b>	<b>(1,346.0)</b>	<b>301.8</b>	<b>802.6</b>	<b>985.6</b>
<b>Net cash/(debt) b/f</b>	<b>2,841.3</b>	<b>4,930.6</b>	<b>4,317.2</b>	<b>5,452.5</b>	<b>7,130.1</b>
Net cash/(debt) c/f	4,167.0	3,584.6	4,619.0	6,255.1	8,115.7
Key Ratios (YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	(3.3)	(5.2)	2.7	2.6	2.1
EBITDA growth (%)	25.3	(2.6)	8.6	3.9	2.3
Pretax margin (%)	8.1	11.8	12.3	12.7	13.0
Net profit margin (%)	5.5	9.4	9.6	9.8	10.1
Interest cover (x)	4.3	4.3	4.2	4.2	4.7
Effective tax rate (%)	39.7	22.1	24.0	24.0	24.0
Dividend payout (%)	59.4	53.1	50.6	50.5	49.8
Debtors turnover (days)	77	74	95	125	126
Stock turnover (days)	4	3	6	8	8
Creditors turnover (days)	115	120	117	118	119

Source: Company, AmInvestment Bank Bhd estimates

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