

Telekom Malaysia (TMK)

Healthy EBITDA delivery

BUY

Share Price MYR 5.35
 12m Price Target MYR 7.50 (+43%)
 Previous Price Target MYR 7.40

Overshadowed by asset write-down

4Q21 core net profit was below our/consensus forecasts due to higher-than-expected D&A in relation to the mobile assets. This overshadowed the healthy EBITDA delivery in FY21. The overall outlook remains favourable in our view, with TM potentially benefitting from work-from-home / 5G-deployment themes, and ongoing cost optimisation. Reiterate BUY with a higher MYR7.50 (+1%) TP.

Below expectation

TM's 4Q21 core net profit of MYR129m (-34% YoY, -58% QoQ) brings FY21 core net profit to MYR1,019m (+3% YoY), 9%/10% below our/consensus forecasts. While we had expected possible cost loading in 4Q21, TM surprised us by booking c.MYR122m of impairment/accelerated depreciation in relation to the mobile assets. A 6.0sen DPS was declared, bringing full year DPS to 13sen (-9% YoY), representing a 48% payout ratio.

EBITDA performance was healthy

4Q21 revenue grew 12% QoQ driven by higher contribution from internet (+3% QoQ), data (+24% QoQ) and others (+42% QoQ). Unifi continue to post strong subscriber net adds. All customer segments posted sequential revenue growth. Opex meanwhile was up 10% QoQ on higher direct and other costs (typical cost loading in 4Q). This resulted in 4Q21 normalised EBITDA margin expanding by 1.6ppt QoQ to 39.0%. Meanwhile, D&A was up sharply QoQ as TM booked c.MYR122m of impairment/accelerated depreciation in relation to the mobile assets.

Raising earnings

For FY22, management is guiding for: 1) low to mid single-digit revenue growth, 2) EBIT of >MYR1.8b and 3) capex-to-sales of 14%-18%. We raise our FY22/FY23 net profit by 8%/9% to reflect latest guidance, and introduce FY24 forecasts. Our TP (DCF-based assuming 8.0% WACC and 2% growth) is raised marginally to MYR7.50 (+1%).

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	10,840	11,529	11,946	12,107	12,224
EBITDA	3,896	4,434	4,619	4,675	4,749
Core net profit	991	1,019	1,174	1,303	1,344
Core EPS (sen)	26.3	27.0	31.1	34.5	35.6
Core EPS growth (%)	(1.1)	2.7	15.2	11.0	3.2
Net DPS (sen)	14.3	13.0	15.6	17.3	17.8
Core P/E (x)	20.6	20.4	17.2	15.5	15.0
P/BV (x)	2.9	2.8	2.5	2.3	2.1
Net dividend yield (%)	2.6	2.4	2.9	3.2	3.3
ROAE (%)	14.0	12.2	15.1	15.5	14.8
ROAA (%)	4.0	4.3	5.1	5.5	5.6
EV/EBITDA (x)	6.5	5.8	5.3	5.2	5.0
Net gearing (%) (incl perps)	71.1	63.6	54.1	45.1	37.3
Consensus net profit	-	-	1,168	1,349	na
MKE vs. Consensus (%)	-	-	0.5	(3.4)	na

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Company Description

Telekom Malaysia is the dominant fixed-line telecommunication company in Malaysia

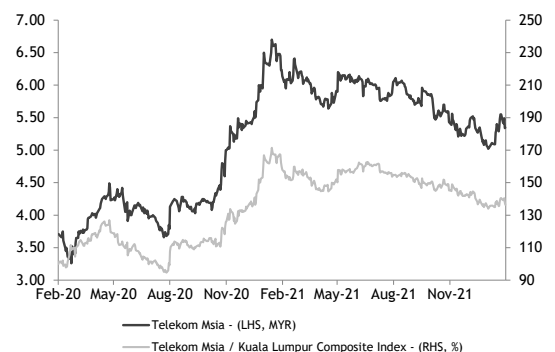
Statistics

52w high/low (MYR)	6.41/5.02
3m avg turnover (USDm)	3.1
Free float (%)	59.6
Issued shares (m)	3,774
Market capitalisation	MYR20.2B USD4.8B

Major shareholders:

Khazanah Nasional Bhd. (Investment Compa	20.1%
Employees Provident Fund	18.7%
Kumpulan Wang Persaraan	10.4%

Price Performance



	-1M	-3M	-12M
Absolute (%)	5	(1)	(14)
Relative to index (%)	(0)	(6)	(15)

Source: FactSet

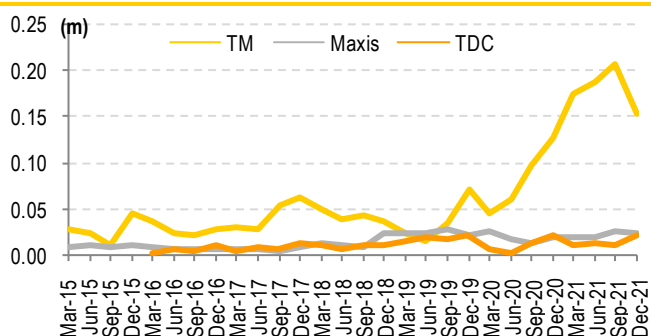
Summary Results Table - Telekom Malaysia

FY Dec (MYR m)	Quarterly					Cumulative		
	4Q21	4Q20	%YoY	3Q21	%QoQ	FY21	FY20	%YoY
Revenue	3,153.1	3,001.3	5.1	2,803.3	12.5	11,529.0	10,840.3	6.4
EBITDA	1,163.7	1,003.0	16.0	1,021.8	13.9	4,329.1	3,894.8	11.2
EBIT	294.8	411.5	(28.4)	434.3	(32.1)	1,694.4	1,610.9	5.2
Net interest	(103.9)	(94.8)	9.6	(72.2)	43.9	(410.7)	(372.1)	10.4
Pre-tax profit	194.0	358.8	(45.9)	352.7	(45.0)	1,246.8	1,278.5	(2.5)
Tax	(126.9)	(99.6)	27.4	(81.9)	54.9	(368.9)	(282.5)	30.6
Minority Interests	12.8	0.1	12700.0	0.5	2460.0	17.3	20.0	(13.5)
Net Profit	79.9	259.3	(69.2)	271.3	(70.5)	895.2	1,016.0	(11.9)
Recurring Net Profit	128.6	194.1	(33.7)	304.3	(57.7)	1,019.3	991.4	2.8
Recurring EBITDA	1,230.2	968.6	27.0	1,049.4	17.2	4,433.8	3,896.2	13.8
Recurring EBITDA margin	39.0	32.3	6.7	37.4	1.6	38.5	35.9	2.5
Pre-ex EPS (sen)	3.4	5.1	(33.9)	8.0	(57.7)	26.8	26.1	2.6
Net DPS (sen)	6.0	7.5	(20.0)	0.0	N/A	13.0	14.3	(9.1)
Net cash/(debt)	(4,772.9)	(5,064.8)	(5.8)	(5,464.9)	(12.7)	(4,772.9)	(5,064.8)	(5.8)
Gearing (%)	63.6	67.3		73.7		63.6	67.3	
Capex	573.5	416.0	37.9	392.9	46.0	1,903.7	1,437.1	32.5
Revenue	4Q21	4Q20	%YoY	3Q21	%QoQ	FY21	FY20	%YoY
Voice	596.0	617.0	(3.4)	636.0	(6.3)	2,372.0	2,367.0	0.2
Internet	1,050.0	949.0	10.6	1,017.0	3.2	4,035.0	3,744.0	7.8
Data	891.0	787.0	13.2	717.0	24.3	3,155.0	2,842.0	11.0
Others	616.1	648.3	(5.0)	433.3	42.2	1,967.0	1,887.3	4.2
Total	3,153.1	3,001.3	5.1	2,803.3	12.5	11,529.0	10,840.3	6.4
Broadband Streamyx	4Q21	4Q20	%YoY	3Q21	%QoQ	FY21	FY20	%YoY
Subscribers, period end (m)	0.28	0.56	(50.1)	0.34	(18.7)	0.28	0.56	(50.1)
Net additions (m)	(0.06)	(0.06)	8.5	(0.07)	(13.5)	(0.28)	(0.18)	51.6
Subscribers, average (m)	0.31	0.59	(47.1)	0.38	(18.2)	0.42	0.66	(36.5)
ARPU (RM/month)	93.0	92.0	1.1	92.0	1.1	91.6	91.5	0.1
Revenue	86.5	161.9	(46.6)	104.6	(17.3)	458.2	721.0	(36.4)
Broadband Unifi	4Q21	4Q20	%YoY	3Q21	%QoQ	FY21	FY20	%YoY
Subscribers, period end (m)	2.50	1.78	40.8	2.35	6.6	2.50	1.78	40.8
Net additions (m)	0.15	0.13	20.3	0.21	(26.0)	0.73	0.33	118.4
Subscribers, average (m)	2.42	1.71	41.6	2.24	8.1	2.14	1.58	35.5
ARPU (RM/month)	141.0	153.0	(7.8)	138.0	2.2	140.9	150.3	(6.2)
Revenue	1,025.4	785.8	30.5	928.6	10.4	3,624.0	2,853.6	27.0

Note: One-offs include impairments, forex and other fair value adjustments.

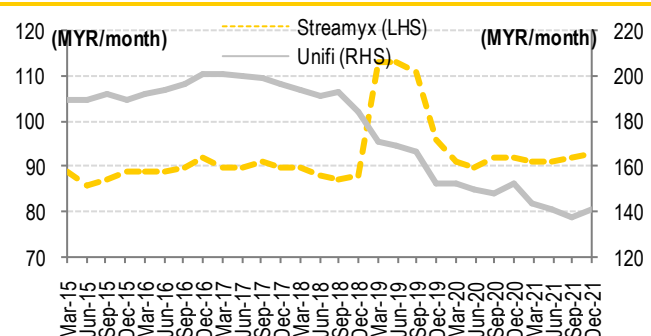
Source: Company, Maybank IBG Research

Fibre broadband net additions



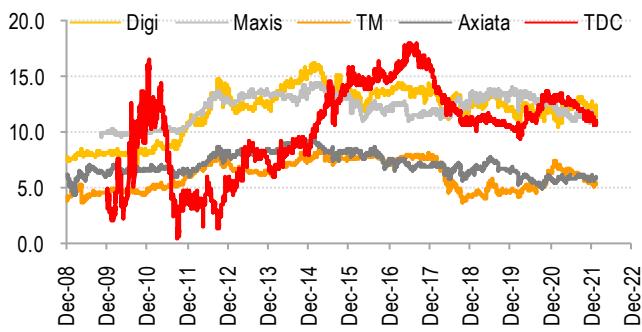
Source: Companies

Broadband ARPU (FY19 restated for voice)



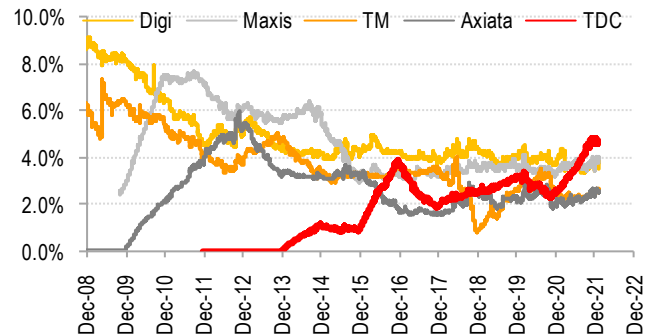
Source: Company

EV/EBITDA - Malaysia telcos



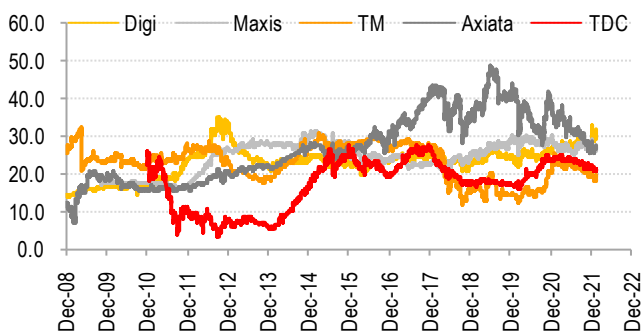
Source: Bloomberg, Maybank IBG Research

Net dividend yield - Malaysia telcos



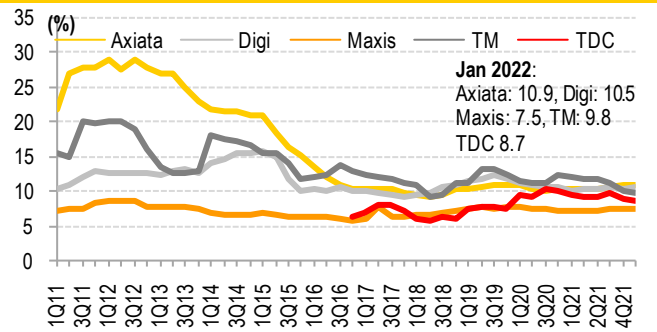
Source: Bloomberg, Maybank IBG Research

PER - Malaysia telcos



Source: Bloomberg, Maybank IBG Research

Foreign shareholding



Source: Companies

Risk statement

There are several risk factors for our earnings estimates, price target, and rating for TM. Competitive developments, such as price wars would adversely affect monetisation and thus profitability. Regulatory developments pertaining to taxation or product pricing also pose a risk to earnings.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	15.4	24.8	17.2	15.5	15.0
Core P/E (x)	20.6	20.4	17.2	15.5	15.0
P/BV (x)	2.9	2.8	2.5	2.3	2.1
P/NTA (x)	3.8	3.7	3.3	3.0	2.7
Net dividend yield (%)	2.6	2.4	2.9	3.2	3.3
FCF yield (%)	9.6	7.7	8.7	9.1	9.2
EV/EBITDA (x)	6.5	5.8	5.3	5.2	5.0
EV/EBIT (x)	15.8	14.2	12.2	11.8	11.3
INCOME STATEMENT (MYR m)					
Revenue	10,840.3	11,529.0	11,946.4	12,106.9	12,223.6
EBITDA	3,896.2	4,433.8	4,618.9	4,675.2	4,749.1
Depreciation	(2,283.9)	(2,634.7)	(2,607.8)	(2,629.6)	(2,655.4)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	1,612.3	1,799.1	2,011.1	2,045.6	2,093.7
Net interest income / (exp)	(344.6)	(459.6)	(375.7)	(369.8)	(363.3)
Associates & JV	12.2	12.0	12.0	12.0	12.0
Exceptionals	(1.4)	(104.7)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	1,278.5	1,246.8	1,647.4	1,687.8	1,742.4
Income tax	(282.5)	(368.9)	(490.6)	(402.2)	(415.3)
Minorities	20.0	17.3	17.3	17.3	17.3
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	1,016.0	895.2	1,174.1	1,302.9	1,344.4
Core net profit	991.4	1,019.3	1,174.1	1,302.9	1,344.4
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	4,469.7	2,830.8	3,229.6	3,658.1	4,094.2
Accounts receivable	2,856.6	3,149.6	3,305.7	3,383.3	3,449.4
Inventory	99.2	176.9	178.7	194.9	210.2
Property, Plant & Equip (net)	13,751.7	13,356.1	13,185.6	13,054.5	12,956.9
Intangible assets	1,715.0	1,873.6	1,936.4	1,987.8	2,030.0
Investment in Associates & JVs	84.7	89.9	89.0	88.1	87.2
Other assets	1,301.6	1,354.2	1,354.2	1,354.2	1,354.2
Total assets	24,278.5	22,831.1	23,279.1	23,720.8	24,182.1
ST interest bearing debt	1,151.2	711.9	711.9	711.9	711.9
Accounts payable	4,651.2	4,712.5	4,783.9	4,788.4	4,764.6
LT interest bearing debt	8,383.2	6,891.8	6,891.8	6,891.8	6,891.8
Other liabilities	2,968.0	3,012.0	2,802.0	2,588.0	2,401.0
Total Liabilities	17,153.9	15,328.6	15,189.6	14,979.8	14,768.9
Shareholders Equity	7,124.6	7,502.5	8,089.5	8,741.0	9,413.2
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	7,124.6	7,502.5	8,089.5	8,741.0	9,413.2
Total liabilities and equity	24,278.5	22,831.1	23,279.1	23,720.8	24,182.1
CASH FLOW (MYR m)					
Pretax profit	1,278.5	1,246.8	1,647.4	1,687.8	1,742.4
Depreciation & amortisation	2,283.9	2,634.7	2,607.8	2,629.6	2,655.4
Adj net interest (income)/exp	344.6	459.6	375.7	369.8	363.3
Change in working capital	202.8	(309.4)	(86.5)	(89.3)	(105.2)
Cash taxes paid	(418.3)	(342.5)	(457.9)	(402.2)	(415.3)
Other operating cash flow	(612.8)	(337.7)	(339.8)	(310.9)	(283.9)
Cash flow from operations	3,078.7	3,351.5	3,746.7	3,884.8	3,956.8
Capex	(1,131.3)	(1,763.2)	(1,990.0)	(2,040.0)	(2,090.0)
Free cash flow	1,947.4	1,588.3	1,756.7	1,844.8	1,866.8
Dividends paid	(633.2)	(547.2)	(587.0)	(651.5)	(672.2)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(1,034.9)	(1,953.0)	0.0	0.0	0.0
Other invest/financing cash flow	(911.0)	(1,378.8)	(770.8)	(764.9)	(758.4)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(631.7)	(2,290.7)	398.8	428.5	436.1

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(5.2)	6.4	3.6	1.3	1.0
EBITDA growth	(3.3)	13.8	4.2	1.2	1.6
EBIT growth	(5.1)	11.6	11.8	1.7	2.4
Pretax growth	38.2	(2.5)	32.1	2.5	3.2
Reported net profit growth	60.6	(11.9)	31.2	11.0	3.2
Core net profit growth	(0.9)	2.8	15.2	11.0	3.2
Profitability ratios (%)					
EBITDA margin	35.9	38.5	38.7	38.6	38.9
EBIT margin	14.9	15.6	16.8	16.9	17.1
Pretax profit margin	11.8	10.8	13.8	13.9	14.3
Payout ratio	53.0	54.8	50.0	50.0	50.0
DuPont analysis					
Net profit margin (%)	9.4	7.8	9.8	10.8	11.0
Revenue/Assets (x)	0.4	0.5	0.5	0.5	0.5
Assets/Equity (x)	3.4	3.0	2.9	2.7	2.6
ROAE (%)	14.0	12.2	15.1	15.5	14.8
ROAA (%)	4.0	4.3	5.1	5.5	5.6
Liquidity & Efficiency					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	102.1	93.8	97.3	99.4	100.6
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	nm	nm	nm	nm	nm
Dividend cover (x)	1.9	1.8	2.0	2.0	2.0
Current ratio (x)	1.3	1.1	1.2	1.3	1.4
Leverage & Expense Analysis					
Asset/Liability (x)	1.4	1.5	1.5	1.6	1.6
Net gearing (%) (incl perps)	71.1	63.6	54.1	45.1	37.3
Net gearing (%) (excl. perps)	71.1	63.6	54.1	45.1	37.3
Net interest cover (x)	4.7	3.9	5.4	5.5	5.8
Debt/EBITDA (x)	2.4	1.7	1.6	1.6	1.6
Capex/revenue (%)	10.4	15.3	16.7	16.8	17.1
Net debt/ (net cash)	5,064.7	4,772.9	4,374.1	3,945.6	3,509.5

Source: Company; Maybank

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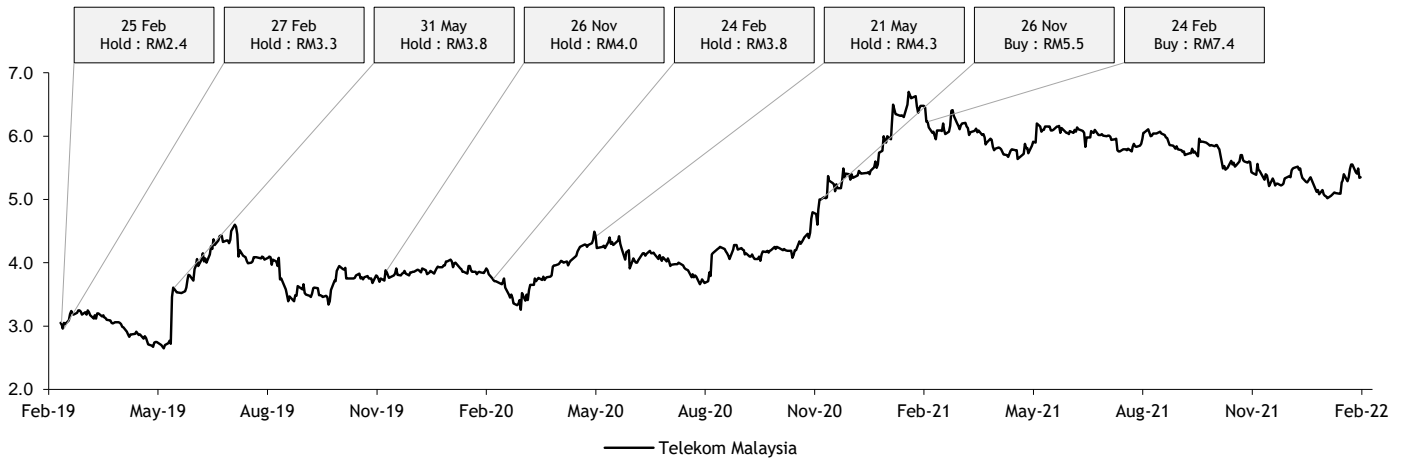
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