

Telekom Malaysia (TMK)

Effectively a speed upgrade

Pre-emptive move?

TM has pre-emptively lowered prices of its retail fibre broadband plans. Based on the price design, we view this effectively as a speed upgrade, and remain hopeful that ARPUs would be largely maintained. The revised plans would also require access seekers to commit to higher volume, possibly negating the impact of lower unit prices. Reiterate BUY with an unchanged MYR6.50 DCF-based TP.

Price revisions

TM has revised its product pricing for fibre broadband. The lowest 30Mbps plan is now only available as a “Rahmah” initiative. The 100Mbps plan is lowered to MYR99/month (from MYR129) along with an incremental MYR10/month limited-time discount, while the 300Mbps plan is lowered to MYR139/month (from MYR149). Prices for the remaining higher-speed plans are reduced by 17-24%. Separately, TM will offer a complimentary speed upgrade to the next speed tier for existing users of the 800Mbps plans and below, to be rolled out in stages over the next 3 months.

No updates yet on access seekers negotiations

TM has not yet made any announcement on the finalization of commercial negotiations with access seekers. We note that Maxis (MAXIS MK, HOLD, CP: MYR3.99, TP: MYR4.00) has not yet made any revisions to its fibre broadband package prices at the time of writing. In our view, TM's product revisions would mean access seekers would have to commit to higher volumes, thus potentially offsetting the impact of lower unit prices.

Reiterate BUY

Our net profit forecasts and MYR6.50 TP (DCF-based assuming 8.6% WACC and 2% LT growth) are unchanged. We continue to expect TM to largely sustain its fibre broadband revenue (both retail and wholesale) through the offering of higher-speed plans. Affirmation of this thesis would only manifest in 1H24, in our view.

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	11,529	12,118	12,376	12,509	12,600
EBITDA	4,434	4,953	4,953	5,062	5,196
Core net profit	1,019	1,246	1,795	1,831	1,677
Core EPS (sen)	27.0	32.9	47.0	47.9	43.9
Core EPS growth (%)	2.7	21.8	42.7	2.0	(8.4)
Net DPS (sen)	13.0	16.5	18.8	19.2	19.8
Core P/E (x)	20.4	16.4	10.5	10.3	11.2
P/BV (x)	2.8	2.6	2.1	1.9	1.7
Net dividend yield (%)	2.4	3.1	3.8	3.9	4.0
ROAE (%)	12.2	14.8	21.2	19.1	15.9
ROAA (%)	4.3	5.4	7.6	7.5	6.6
EV/EBITDA (x)	5.8	5.0	4.6	4.4	4.1
Net gearing (%) (incl perps)	63.6	55.4	42.8	32.0	24.3
Consensus net profit	-	-	1,387	1,494	1,527
MIBG vs. Consensus (%)	-	-	29.4	22.5	9.8

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BUY

Share Price	MYR 4.92
12m Price Target	MYR 6.50 (+36%)
Previous Price Target	MYR 6.50

Company Description

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

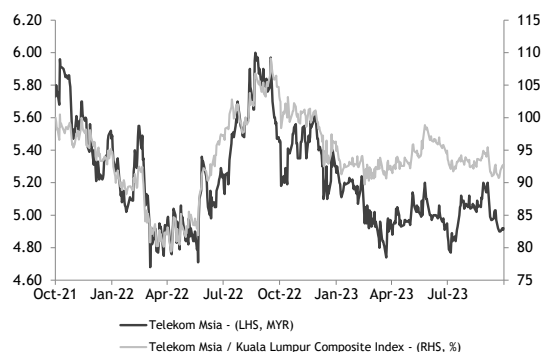
Statistics

52w high/low (MYR)	5.64/4.74
3m avg turnover (USDm)	2.8
Free float (%)	62.3
Issued shares (m)	3,822
Market capitalisation	MYR18.8B
	USD4.0B

Major shareholders:

Khazanah Nasional Bhd. (Investment Compa	20.2%
Employees Provident Fund	16.7%
Kumpulan Wang Persaraan	11.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(5)	(1)	(10)
Relative to index (%)	(2)	(3)	(10)

Source: FactSet

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Risk Rating & Score ¹	25.8 (Medium)
Score Momentum ²	-0.2
Last Updated	16 Nov 2022
Controversy Score ³ (Updated: 18 Nov 2022)	1 - Business ethic (bribery & corruption) incidents

Business Model & Industry Issues

- The ESG pressure faced by telcos is overall benign. Telcos are not major emitters and thus do not pose a significant threat to the environment. Major social issues relate to digital inclusion and data protection, and can generally be well-managed from an operational perspective.
- Apart from capacity superiority, fibre is also less energy intensive relative to copper as data is transmitted by light. Transitioning from copper to fibre is thus an easy way for telcos to reduce carbon footprint. TM presently operates both copper (Streamyx) and fibre (Unifi) last-mile networks, and has already begun moving its copper broadband subscribers to fibre (where there is overlap) or mobile networks. We expect TM to continue expanding its fibre last-mile coverage, and believe TM would eventually shut down its copper broadband network.
- As the national telecom infrastructure company, TM is the quintessential government-linked company with implicit nation-building responsibilities. Its operations and investments are thus not always solely driven by commercial viability. The acquisition of mobile broadband company P1 (now renamed Webe) in 2014 was contentious, with Webe having not been profitable since being acquired.
- TM scores above-average in our proprietary scoring methodology (see next page) with an overall score of 60/100.

Material E issues

- Environmental risks are inherently less pertinent for telcos, with operations being neither energy nor emission intensive.
- TM's ongoing transition from copper (Streamyx) to fibre (Unifi) networks is not merely business-driven (higher capacity and speeds, lower unit cost, improved user experience) - fibre optics networks also consume less energy as data is transmitted by light. We believe TM would eventually shut down its copper network.
- TM achieved a 8% YoY decline in carbon emissions in 2021. Initiatives undertaken include optimising its vehicle fleet, implementing energy saving measures at its buildings and data centres, and promoting reduced air travel.

Material S issues

- Being the national telecom infra-co, TM has implicit nation-building responsibilities. Its investments (such as on-land fibre and submarine cables) are thus not always solely driven by commercial viability. In Malaysia, most rural investments are financed by the USP fund, which telcos contribute 6% of revenue to annually.
- TM's mobile arm also provided free data (1GB/day) to subscribers during the recent MCO.
- TM is a major employer in Malaysia, with a staff count of about 21,000 people. The male-female split of TM's workforce stood at 60%-40% as at 2021. Female representation among management stood at 31%. Meanwhile, 37% of TM's workforce is union-represented.
- TM owns and operates a university in Malaysia which enrolls c.13,000 students in 3 campuses

Key G metrics and issues

- TM's constitution stipulates Ministry of Finance Inc as a special shareholder, with the power to appoint Directors (including Executive Directors) to the Board.
- The Board currently has 11 Directors, comprising 1 Executive Director, 4 Non-Independent Non-Executive Directors (including the chairman) and 6 Independent Non-Executive Directors.
- There are presently 4 women on the Board (36% representation). TM has thus fulfilled its 30% female board representation target.
- CEO remuneration accounted for 0.3% of TM's 2021 normalised net profit.
- TM has been audited by PricewaterhouseCoopers for at least the past decade.
- TM has in recent years adopted a more conservative stance (40-60% payout ratio) with capital management, having previously committed the higher of 90% of normalised net profit or MYR700m as dividends.
- The acquisition of mobile broadband company P1 (now renamed Webe) in 2014 was TM's only notable M&A transaction in recent years. The foray into the already crowded mobile space (in the aim of achieving convergence) was contentious, with Webe having not been profitable since being acquired.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Quantitative parameters (Score: 36)						
	Particulars	Unit	2019	2020	2021	TIME (TDC MK)
E	Scope 1 emissions	k tCO2e	13.39	11.53	11.00	N/A
	Scope 2 emissions	k tCO2e	30.91	27.04	24.55	N/A
	Scope 3 emissions	k tCO2e	0.06	0.04	0.01	N/A
	Total	k tCO2e	44.36	38.60	35.55	N/A
	Waste generated per employee	kg	43	21	22	N/A
S	% of women in workforce	%	38.6%	39.0%	39.8%	40.0%
	% of women in management roles	%	32.0%	27.5%	31.0%	38.0%
	Average training hours per employee	Hours	22.0	25.0	41.0	8.1
	Lost time injury frequency (LTIF)	Number	0.81	0.76	0.85	0.40
	Data-related incidents	Number	N/A	11	13	N/A
G	Key management salary as % of net profit	%	2.4%	1.9%	2.2%	N/A
	Independent directors on the Board	%	55%	55%	55%	50%
	Female directors on the Board	%	18%	27%	36%	30%
	Customer satisfaction	%	N/A	11	23	N/A

Qualitative Parameters (Score: 67)	
a) Is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?	<i>Yes. TM introduced its Sustainability Roadmap in 2021, and also established its Sustainability Action Working Group.</i>
b) Is the senior management salary linked to fulfilling ESG targets?	<i>Yes. ESG-related KPIs have been introduced for senior management.</i>
c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?	<i>Not yet. TM is targeting for TCFD disclosure in 2023.</i>
e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	<i>Yes, but on a limited basis. Air travel and waste-related emissions.</i>
f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>Implementing Environment Management Systems across TM's network, increasing RE consumption (solar), optimising vehicle fuel consumption.</i>
g) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>Yes</i>

Target (Score: 100)		
Particulars	Target	Achieved
Reduce emission by 30% in 2024 vs 2019 baseline	30%	N/A
Reduce emission by 45% in 2030 vs 2019 baseline	45%	N/A
Net-zero carbon emission by 2050	2050	N/A
Fibre premises passed by 2025	>70%	64%
Minimum 30% women Board representation by 2022	30%	36%
TCFD disclosure by 2023	2023	N/A
Impact		
NA		
Overall score: 60		
As per our ESG matrix, TM has an overall score of 60.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	36	18
Qualitative	25%	67	17
Target	25%	100	25
Total			60

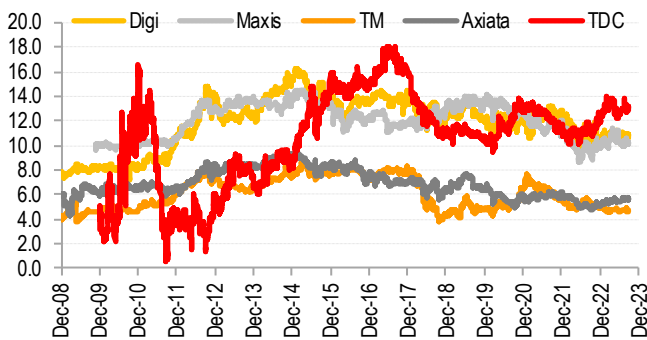
As per our ESG assessment, TM has an established framework, internal policies, and tangible mid/long-term targets. TM's overall ESG score is 60, which makes its ESG rating above average in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

Unifi price revisions

Current plan	Current price	New price	% change	Remarks
30 Mbps	89	69	-22%	Pakej Rahmah only RM10/month discount for 24 months
100 Mbps	129	99	-23%	
300 Mbps	149	139	-7%	
500 Mbps	209	159	-24%	
800 Mbps	299	N/A		
1000 Mbps	349	289	-17%	
2000 Mbps	399	319	-20%	

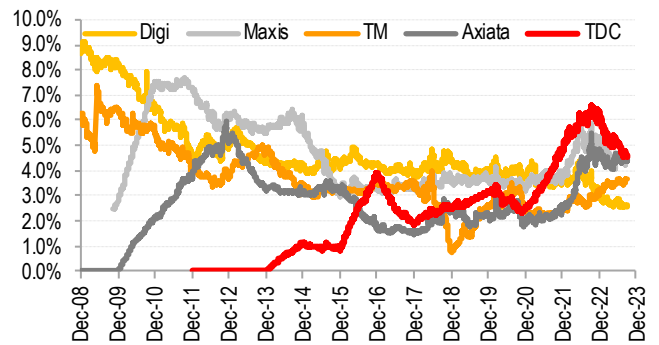
Source: Company

EV/EBITDA - Malaysia telcos



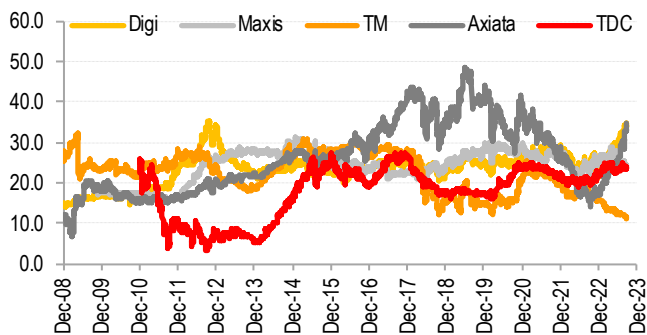
Source: Bloomberg, Maybank IBG Research

Net dividend yield - Malaysia telcos



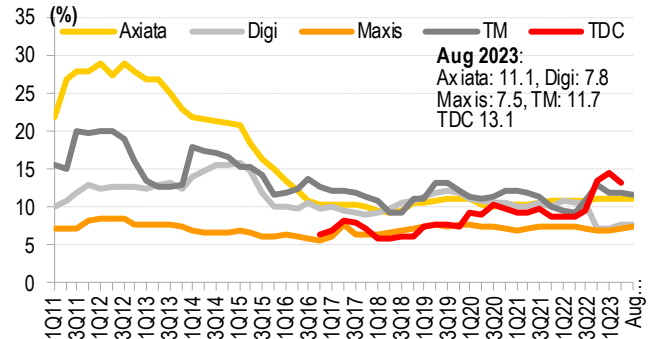
Source: Companies

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	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	24.8	17.5	10.5	10.3	11.2
Core P/E (x)	20.4	16.4	10.5	10.3	11.2
P/BV (x)	2.8	2.6	2.1	1.9	1.7
P/NTA (x)	3.7	3.4	2.7	2.4	2.2
Net dividend yield (%)	2.4	3.1	3.8	3.9	4.0
FCF yield (%)	7.7	5.6	11.0	11.7	11.4
EV/EBITDA (x)	5.8	5.0	4.6	4.4	4.1
EV/EBIT (x)	14.2	11.9	10.8	10.4	9.8
INCOME STATEMENT (MYR m)					
Revenue	11,529.0	12,118.1	12,376.2	12,508.6	12,600.2
EBITDA	4,433.8	4,953.1	4,953.0	5,062.2	5,195.9
Depreciation	(2,634.7)	(2,862.9)	(2,848.1)	(2,934.8)	(3,010.4)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	1,799.1	2,090.2	2,104.9	2,127.4	2,185.5
Net interest income / (exp)	(459.6)	(406.3)	(321.2)	(307.8)	(292.1)
Associates & JV	12.0	11.2	12.0	12.0	12.0
Exceptionals	(104.7)	(8.6)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	1,246.8	1,686.5	1,795.8	1,831.5	1,905.4
Income tax	(368.9)	(542.3)	0.0	0.0	(227.2)
Minorities	17.3	(0.9)	(0.9)	(0.9)	(0.9)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	895.2	1,143.3	1,794.9	1,830.6	1,677.3
Core net profit	1,019.3	1,245.9	1,794.9	1,830.6	1,677.3
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	2,830.8	2,650.2	3,182.5	3,811.3	4,360.7
Accounts receivable	3,149.6	3,435.4	3,542.5	3,614.7	3,675.6
Inventory	176.9	305.4	325.6	343.4	358.9
Property, Plant & Equip (net)	13,356.1	13,547.0	13,640.8	13,676.3	13,614.2
Intangible assets	1,873.6	1,899.5	2,057.6	2,212.2	2,365.3
Investment in Associates & JVs	89.9	94.3	102.9	111.5	120.1
Other assets	1,354.2	1,199.5	1,199.5	1,199.5	1,199.5
Total assets	22,831.1	23,131.3	24,051.4	24,968.9	25,694.4
ST interest bearing debt	711.9	540.0	540.0	540.0	540.0
Accounts payable	4,712.5	4,739.6	4,776.4	4,769.6	4,727.2
LT interest bearing debt	6,891.8	6,503.8	6,503.8	6,503.8	6,503.8
Other liabilities	3,012.0	3,411.0	3,218.0	3,044.0	2,889.0
Total Liabilities	15,328.6	15,194.8	15,038.0	14,857.1	14,660.1
Shareholders Equity	7,502.5	7,936.5	9,013.4	10,111.8	11,034.3
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	7,502.5	7,936.5	9,013.4	10,111.8	11,034.3
Total liabilities and equity	22,831.1	23,131.3	24,051.4	24,968.9	25,694.4
CASH FLOW (MYR m)					
Pretax profit	1,246.8	1,686.5	1,795.8	1,831.5	1,905.4
Depreciation & amortisation	2,634.7	2,862.9	2,848.1	2,934.8	3,010.4
Adj net interest (income)/exp	459.6	406.3	321.2	307.8	292.1
Change in working capital	(309.4)	(387.2)	(90.6)	(96.8)	(118.9)
Cash taxes paid	(342.5)	(452.3)	0.0	0.0	(227.2)
Other operating cash flow	(337.7)	(572.7)	(308.8)	(289.2)	(269.9)
Cash flow from operations	3,351.5	3,543.5	4,565.7	4,688.2	4,591.9
Capex	(1,763.2)	(2,395.5)	(2,490.0)	(2,490.0)	(2,440.0)
Free cash flow	1,588.3	1,148.0	2,075.7	2,198.2	2,151.9
Dividends paid	(547.2)	(386.9)	(718.0)	(732.2)	(754.8)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(1,953.0)	(571.1)	0.0	0.0	0.0
Other invest/financing cash flow	(1,378.8)	275.3	(825.5)	(837.1)	(847.7)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(2,290.7)	465.3	532.3	628.8	549.5

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	6.4	5.1	2.1	1.1	0.7
EBITDA growth	13.8	11.7	(0.0)	2.2	2.6
EBIT growth	11.6	16.2	0.7	1.1	2.7
Pretax growth	(2.5)	35.3	6.5	2.0	4.0
Reported net profit growth	(11.9)	27.7	57.0	2.0	(8.4)
Core net profit growth	2.8	22.2	44.1	2.0	(8.4)
Profitability ratios (%)					
EBITDA margin	38.5	40.9	40.0	40.5	41.2
EBIT margin	15.6	17.2	17.0	17.0	17.3
Pretax profit margin	10.8	13.9	14.5	14.6	15.1
Payout ratio	54.8	54.6	40.0	40.0	45.0
DuPont analysis					
Net profit margin (%)	7.8	9.4	14.5	14.6	13.3
Revenue/Assets (x)	0.5	0.5	0.5	0.5	0.5
Assets/Equity (x)	3.0	2.9	2.7	2.5	2.3
ROAE (%)	12.2	14.8	21.2	19.1	15.9
ROAA (%)	4.3	5.4	7.6	7.5	6.6
Liquidity & Efficiency					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	93.8	97.8	101.5	103.0	104.1
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	nm	nm	nm	nm	nm
Dividend cover (x)	1.8	1.8	2.5	2.5	2.2
Current ratio (x)	1.1	1.2	1.3	1.4	1.5
Leverage & Expense Analysis					
Asset/Liability (x)	1.5	1.5	1.6	1.7	1.8
Net gearing (%) (incl perps)	63.6	55.4	42.8	32.0	24.3
Net gearing (%) (excl. perps)	63.6	55.4	42.8	32.0	24.3
Net interest cover (x)	3.9	5.1	6.6	6.9	7.5
Debt/EBITDA (x)	1.7	1.4	1.4	1.4	1.4
Capex/revenue (%)	15.3	19.8	20.1	19.9	19.4
Net debt/ (net cash)	4,772.9	4,393.6	3,861.3	3,232.5	2,683.1

Source: Company; Maybank IBG Research

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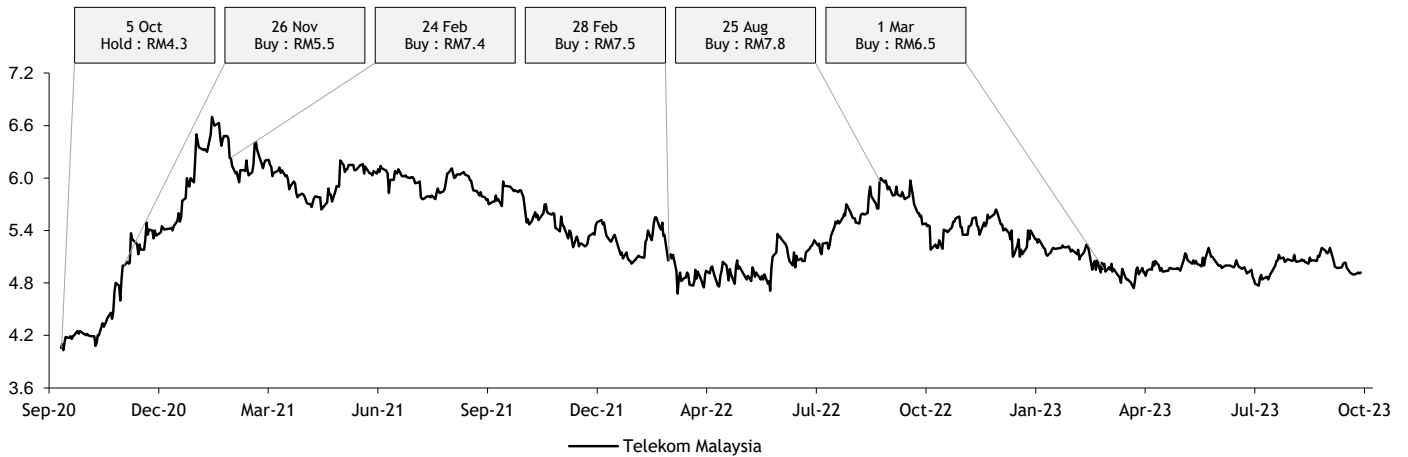
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