

Company Update

25 October 2016

Telekom Malaysia Bhd

Budget 2017: TM to upgrade broadband speed next year

HOLD

Maintained

Share Price	RM6.58
Target Price	RM6.66

Company Description

Malaysia's largest fixed line and broadband telecommunications company.

Stock Data

Bursa / Bloomberg code	4863 / T MK
Board / Sector	Main / Telco
Syariah Compliant status	Yes
Issued shares (m)	3757.94
Par Value	RM0.70
Market cap.	RM24.73bn
52-week price Range	RM6.31 – 6.90
Beta (against KLCI)	0.76
3-m Average Daily Volume	5.90m
3-m Average Daily Value^	RM40.05m
Price over NTA	3.48

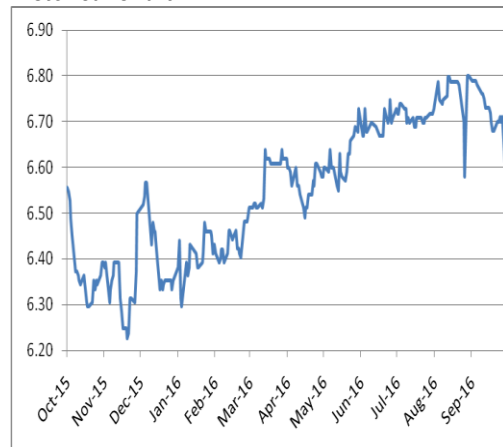
Share Performance

	1m	3m	12m
Absolute (%)	-3.2	-2.9	-3.4
Relative (%-pts)	-3.6	-4.4	-1.5

Major Shareholders

	%
Khazanah Nasional Bhd	28.65
Employees Provident Fund	15.44
Skim Amanah Saham Bumiputera	11.71

Historical Chart



Source: Bloomberg

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Update

- During the announcement of Budget 2017 last Friday, the government announced that fixed line broadband service providers will offer services at a higher speed for the same price.
- In response to the government's call, TM has announced its "Broadband Improvement Plan" where eligible subscribers will see their broadband speed doubled at the same price beginning next year subject to technical availability.
- The management does not expect extra capex to be incurred as the infrastructure is well supported by HSBB2 and SUBB projects. As such, its dividend policy is expected to remain intact.
- TM has seen subscriber mix in 1H16 improved to 60% with speed of 4Mb/s and above vs 41% in 2013. Out of 2.37m total broadband customers, 900,000 are UniFi users. For UniFi customers, 68% of them are using 10Mb/s and above in 1H16 compared to 12% in 2013.
- We expect the trend of customers upgrading to higher speed packages to continue in line with better value packages introduced by TM to entice customers by offering higher Mb/s.

Earnings Outlook/Revision

- **Estimates maintained**– We are maintaining our EPS forecast for FY16 and FY17. Despite the free upgrade, we do not expect ARPU to be significantly affected as offering of lower speed UniFi packages such as 5Mb/s, 10Mb/s and 20Mb/s have been phased out with 30Mb/s being the entry package now.

Valuation & Recommendation

- **Maintain HOLD** with an unchanged target price of RM6.66 based on DDM valuation.

Financial Summary (RM million)

Year to 31 Dec	2009	2010	2011	2012	2013	2014	2015	2016F	2017F
Revenue	8608	8791	9151	9994	10629	11235	11722	12266	12764
EBITDA	3103	3298	3373	3232	3532	3636	3694	3833	4116
Operating profit	1065	1302	1245	1187	1372	1294	1257	1257	1436
PATAMI	673	1245	1237	1264	1012	827	700	826	938
EPS (sen)	35.2	19.0	19.2	18.2	22.6	28.3	28.3	28.3	28.3
P/E (x)	40.0	21.3	21.6	20.3	25.4	31.1	36.7	31.1	27.4
DPS (sen)	24.3	26.0	19.6	22.0	26.1	22.9	21.4	20.9	23.7
Dividend yield	3.5%	3.8%	2.9%	3.2%	3.8%	3.3%	3.1%	3.1%	3.5%

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JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK
STOCK RECOMMENDATIONS

- BUY** : The stock's total returns* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

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