

Company Result

Telekom Malaysia Bhd

Below expectation

23 May 2018

HOLD
Maintained

Share Price	RM4.20
Target Price	RM4.58

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.	RM15.8n
52-week price Range	RM4.12 – 6.69
Beta (against KLCI)	0.70
3-m Average Daily Volume	2.96m
3-m Average Daily Value^	RM16.02m
Price over NTA	2.25

Share Performance

	1m	3m	12m
Absolute (%)	-23.6	-19.5	-35.4
Relative (%-pts)	-21.9	-30.2	-37.8

Major Shareholders

	%
Khazanah Nasional Bhd	26.21
Employees Provident Fund	17.74
Skim Amanah Saham Bumiputera	11.73

Historical Chart



Source: Bloomberg

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Results

- **Lower earnings** - TM's 1Q18 normalised PATAMI declined 50% YoY to RM115.3m due to higher cost from its Mobile unit and higher tax. Reported PATAMI dropped 27.5% YoY to RM167.1m.
- **Decline in revenue** - 1Q18 revenue declined 4% YoY to RM2.85b as higher contribution from Internet (+5.2% YoY) was unable to fully offset declines in Data (-5.3% YoY), Voice (-6.3% YoY) and Others (-15.7% YoY). This was due to decline in subscribers and ARPU, lower data usage by public sector, less customer projects and lower tuition fees at its university.
- **Lower QoQ** - 1Q18 reported PATAMI dropped 40% QoQ while normalised PATAMI tumbled 48% QoQ. Quarterly revenue lost 11% QoQ following decline in most product segments (Internet +0.1%, Voice -5.8%, Data -13% and Others +32.4%).
- **Margins eroded** - 1Q18 normalised EBITDA margin declined to 27.8% from 28.8% in 4Q17 while normalized PATAMI margin dropped to 4.1% from 6.9% in the previous quarter following higher tax rate and higher operating costs.
- **Drop in subscribers** - Total broadband subscribers dropped 7.2% YoY and 2.6% QoQ to 2.3m as growth UniFi subscribers of 20% YoY and 4.5% QoQ to 1.18m was unable to compensate for decline in Streamyx subs by -18.8% YoY and -6.5% QoQ to 1.13m.
- **Lower ARPU** - TM's Average Revenue Per User (ARPU) for Streamyx broadband was flat at RM90 while ARPU for UniFi declined to RM194 vs RM197 in 4Q17.
- **Higher gearing** - Cash reserves dwindled to RM1.46b from RM1.72b in 4Q17. As a result, gross debt/EBITDA soared to 2.64x (from 2.31x in 4Q17) and exceeded management's internal guideline of 2.5x, raising concern on its dividend policy of RM700m or 90% of normalized PATAMI, whichever higher.

Earnings Outlook/Revision

- **Earnings below expectation** - 1Q18 normalized PATAMI and revenue accounted for 12.3% and 22.5% of our full year estimates respectively.
- **Estimates slashed** - We are lowering our revenue and EPS forecast for FY18 by 3.5% and 30 % while FY19 estimates are reduced by 4.4% and 14% respectively.

Valuation & Recommendation

- **Maintain HOLD** with a lower target price of RM4.58 (from RM6.31 previously) based on DDM valuation after reducing dividend assumption to 18.7 sen/share (from 23.8 sen/share).

Quarterly Performance

RM million	1Q18	4Q17	QoQ	1Q17	YoY
Voice	753	800	-5.9%	804	-6.3%
Internet	1019	1018	0.1%	969	5.2%
Data	622	715	-13.0%	657	-5.3%
Others	451	667	-32.4%	535	-15.7%
TOTAL REVENUE	2845.3	3199.9	-11.1%	2964.6	-4.0%
Normalised EBITDA	790.8	922.3	-14.3%	957.7	-17.4%
Normalised EBIT	219.7	299.1	-26.5%	311.9	-29.6%
PBT	207.3	307.6	-32.6%	263.7	-21.4%
PATAMI	167.1	277.0	-39.7%	230.4	-27.5%
Normalised PATAMI	115.3	222.0	-48.1%	229.8	-49.8%
EBIT margin	7.7%	9.3%	-	10.5%	-
EBITDA margin	27.8%	28.8%	-	32.3%	-
PBT margin	7.3%	9.6%	-	8.9%	-
PATAMI margin	4.1%	6.9%	-	7.8%	-
<u>SUBSCRIBERS ('000)</u>					
UniFi	1177	1126	4.5%	979	20.2%
Streamyx	1129	1207	-6.5%	1391	-18.8%
<u>ARPU (RM)</u>					
UniFi	194	197	-1.5%	201	-3.5%
Streamyx	90	90	0.0%	90	0.0%

Financial Summary (RM million)

Year to 31 Dec	2011	2012	2013	2014	2015	2016	2017	2018F	2019F
Revenue	9151	9994	10629	11235	11722	12061	12085	12192	12380
EBITDA	3373	3232	3532	3636	3694	3789	3576	3475	3714
Operating profit	1245	1187	1372	1294	1257	1154	1093	1327	1424
PATAMI	1237	1264	1012	827	700	776	930	660	865
EPS (sen)	31.7	33.6	26.9	22.0	18.6	20.6	24.7	17.6	23.0
P/E (x)	13.3	12.5	15.6	19.0	22.5	20.3	17.0	23.9	18.3
DPS (sen)	19.6	22	26.1	22.9	21.4	21.5	21.5	18.7	21.9
Dividend yield	4.7%	5.2%	6.2%	5.5%	5.1%	5.1%	5.1%	4.5%	5.2%
EBITDA margin	34%	32%	33%	32%	32%	31%	30%	29%	30%
Operating margin	14%	12%	13%	12%	11%	10%	9%	8%	10%
Net margin	13%	13%	10%	7%	6%	6%	8%	5%	7%

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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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