

Telekom Malaysia Berhad

A Challenging Quarter
TP: RM4.05 (-3.6%)

Last Traded: RM4.20

SELL

Wilson Loo, CFA

Tel: +603-2167 9606

wilsonloo@ta.com.my

www.taonline.com.my

Review

- TM's reported IQFY18 core net profit of RM115.3mn (-48.1% QoQ, -49.8% YoY) came below ours and consensus estimates both at 13.4%. Similar to previous corresponding quarters, no dividend was declared.
- YoY, revenue declined by 4.0% mainly on lower contributions from TM ONE (-9.7% YoY) and TM GLOBAL (-6.8% YoY). TM ONE was affected by lower recognition of USP revenue as well as lower contracts from both public and enterprise customers leading to lower voice and data revenue. Whereas TM GLOBAL experienced lower STD/IDD traffic minutes and contribution from domestic leased revenue. Management, however, maintained its headline KPIs for FY18 revenue growth at 3.5-4.0%. While it is still early to guide on the trajectory of TM ONE, efforts have been made to drive the segment via the offering of customised solutions to respective industries (i.e. education, finance, oil & gas).
- QoQ, revenue declined by 11.1% mainly on lower contributions from TM ONE (-16.6% QoQ) and TM GLOBAL (-22.8% QoQ). By product, internet was the only product that registered growth, albeit marginally by 0.1% QoQ on the back of higher contributions from subscriber growth on unifi mobile and content uptake on unifi TV. Within the broadband space, subscriber trends and run rates sustained with net adds for unifi (51k QoQ) and net churns for Streamyx (78k QoQ). While Streamyx ARPU held steady at RM90, unifi ARPU declined marginally by 1.5% QoQ to RM194 due to higher uptake of lower entry packages like the unifi lite 10Mbps plan. Meanwhile, driven by positive uptake of unifi mobile on the back of the launch of its #BEBAS plan, the number of TM households on 3 or more of the group's services increased by 3pp QoQ to 45%.
- Normalised EBIT is lower by 26.5% QoQ and 29.6% YoY in tandem with the lower revenue. Overall costs as a percentage of revenue increased by 2.8pp YoY to 92.7% mainly due to higher network cost for mobile and higher rental for LTE sites.

Impact

- Taking a conservative stance, we have reduced our contributions from TM ONE and TM Global and now project revenue decline of 2.6% YoY in FY18 versus growth of 3.8% previously. Correspondingly, our FY18/FY19/FY20 earnings estimates are reduced by 23.3%/21.3%/20.3% to RM657.9mn/RM734.8mn/RM780.6mn.

Outlook

- Despite the challenging environment, 2018's headline KPIs were maintained with revenue growth at 3.5% to 4.0% (unchanged from FY17) and EBIT to sustain at FY17's level (RM1,187.4mn). CAPEX as a percentage of revenue is expected to be in the range of 25-30%. Meanwhile, management reiterated its dividend policy of RM700mn or up to 90% of normalised PATAMI.

Share Information

Bloomberg Code	T MK
Stock Code	4863
Listing	Main Market
Share Cap (mn)	3757.9
Market Cap (RMmn)	15,783.3
52-wk Hi/Lo (RM)	6.69/4.12
12-mth Avg Daily Vol ('000 shrs)	2,575.1
Estimated Free Float (%)	28.0
Beta	0.7

Major Shareholders (%)

Khazanah Nasional Bhd	26.2
EPF	17.7
Skim Amanah Saham Bumiputera	11.7

Forecast Revision

	FY18	FY19
Forecast Revision (%)	(23.3)	(21.3)
Net profit (RMmn)	658	735
Consensus	837	900
TA's / Consensus (%)	78.6	81.6
Previous Rating	Sell (Maintained)	

Financial Indicators

	FY18	FY19
Net debt/EBITDA (x)	1.8	1.7
CFPS (sen)	86.8	91.7
P/CFPS (x)	4.8	4.6
ROAA (%)	2.7	3.0
ROAE (%)	8.6	10.0
NTA/Share (RM)	1.9	1.9
Price/NTA (x)	2.2	2.2

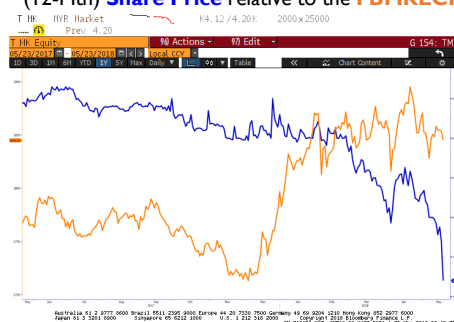
Scorecard

	% of FY	
vs. TA	13.4	Below
vs. Consensus	13.4	Below

Share Performance (%)

Price Change	T	FBM KLCI
1 mth	(21.8)	(1.9)
3 mth	(30.0)	(0.9)
6 mth	(30.0)	7.2
12 mth	(34.8)	4.4

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

- Focus will be placed on gaining a larger share of household wallet via its convergence strategy whereby efforts (i.e. sweating ports) are being made to increase the number of TM households on 3 or more of the group's services.
- Our concerns for the group surround the new government's approach towards halving the subscription costs and doubling the speeds of broadband. This will be a prelude to declining ARPU and incremental capex to support any unprecedented spur in data usage triggered by higher broadband speed. Management alluded that it is engaging with the government in hopes to work out a feasible solution.

Valuation

- Rolling forward our base year valuation to CY19, we raise our TP for TM to RM4.05/share – based on DCF valuation with a WACC at 9.9% and a long-term growth rate of 1.0%. Despite the group's dominant fixed broadband position and convergence aspirations, we reiterate our **SELL** recommendation in view of the challenging environment and downside risk to broadband ARPU.

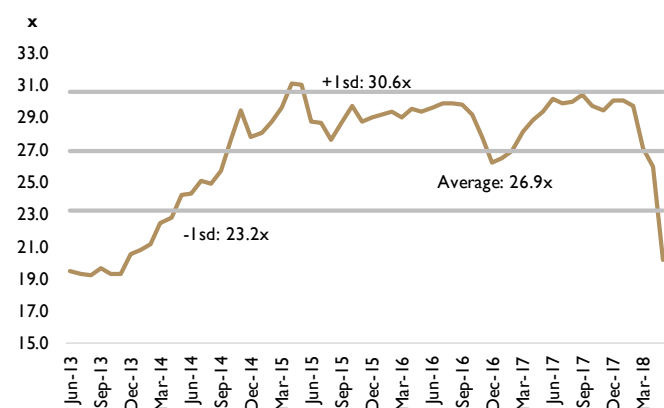
Table 1: Earnings Summary (RMmn)

FYE Dec	FY16	FY17	FY18F	FY19F	FY20F
Revenue	12,061	12,085	11,766	12,175	12,496
EBITDA	3,820	3,680	3,713	3,978	4,215
EBITDA margin (%)	31.7	30.4	31.6	32.7	33.7
Depreciation and amortisation	(2,635)	(2,484)	(2,778)	(2,873)	(2,985)
EBIT	1,185	1,196	935	1,106	1,230
Net finance costs	(225)	(255)	(311)	(317)	(316)
Forex	(87)	175	0	0	0
Associates	29	28	29	30	32
El	16	(95)	0	0	0
Profit before tax	918	1,048	653	819	946
Taxation	(305)	(318)	(180)	(225)	(260)
MI	163	199	184	141	95
Profit after tax	776	930	658	735	781
Core net profit	848	863	658	735	781
EPS (sen)	22.6	23.0	17.5	19.6	20.8
EPS growth (%)	(6.3)	1.8	(23.8)	11.7	6.2
PER (x)	18.6	18.3	24.0	21.5	20.2
EV/EBITDA (x)	7.5	7.8	7.7	7.2	6.8
DPS (sen)	21.5	21.5	20.0	20.0	20.0
Dividend yield (%)	5.1	5.1	4.8	4.8	4.8

Table 2: IQFY18 Results Analysis (RMmn)

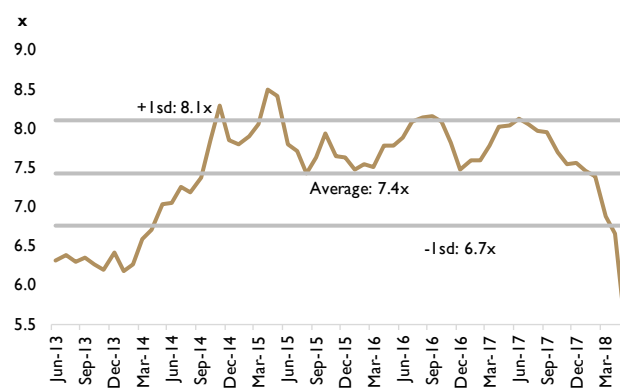
FYE Dec	IQFY17	4QFY17	IQFY18	QoQ (%)	YoY (%)
Revenue	2,965	3,200	2,845	(11.1)	(4.0)
Voice	804	800	753	(5.9)	(6.3)
Internet	969	1,018	1,019	0.1	5.2
Data	657	715	622	(13.0)	(5.3)
Others	535	667	451	(32.4)	(15.7)
EBITDA	958	922	791	(14.3)	(17.4)
Depreciation and amortisation	(646)	(623)	(571)	(8.4)	(11.6)
EBIT	312	299	220	(26.5)	(29.6)
Finance income	36	35	26	(25.4)	(27.5)
Finance cost	(100)	(91)	(100)	9.5	0.1
Forex	23	75	69	(7.6)	204.4
Associates	6	5	6	3.8	(12.7)
El	(13)	(15)	(13)	(14.2)	(0.8)
Profit before tax	264	308	207	(32.6)	(21.4)
Tax	(79)	(85)	(87)	1.4	9.2
MI	46	55	50	(9.7)	7.6
Net profit	230	277	167	(39.7)	(27.5)
Core net profit	230	222	115	(48.1)	(49.8)
Capex	352	1,122	327	(70.9)	(7.1)
EPS (sen)	6.1	7.4	4.2	(43.3)	(31.8)
DPS (sen)	0.0	12.1	0.0	(100.0)	-
Profitability ratios				PP	PP
EBITDA margin (%)	32.3	28.8	27.8	(1.0)	(4.5)
EBIT margin (%)	10.5	9.3	7.7	(1.6)	(2.8)
PBT margin (%)	8.9	9.6	7.3	(2.3)	(1.6)
Tax rate (%)	30.1	27.8	41.8	14.0	11.7
Net profit margin (%)	7.8	6.9	4.1	(2.9)	(3.7)
Costs	2,699	2,955		(100.0)	(100.0)
Direct costs	571	669	585	(12.5)	2.5
Manpower	652	579	655	13.1	0.5
Supplies and materials	194	236	172	(27.1)	(11.1)
Bad and doubtful debts	4	18	10	(47.5)	115.9
Marketing expenses	93	119	99	(16.8)	6.1
Maintenance costs	185	238	202	(15.1)	9.5
Other operating costs	354	473	372	(21.4)	5.0
Depreciation and amortisation	646	623	571	(8.4)	(11.6)
Operational metrics					
Broadband					
Subscribers ('000)				Net adds	Net adds
Unifi	979	1,126	1,177	51	198
Streamyx	1,391	1,207	1,129	(78)	(262)
ARPU (RM)					
Unifi	201	197	194	(1.5)	(3.5)
Streamyx	90	90	90	0.0	0.0
Fixed line					
Subscribers ('000)	4,163	4,086	4,030	(56)	(133)
ARPU (RM)	26	25	25	0.0	(3.8)

Figure 1: Forward PE



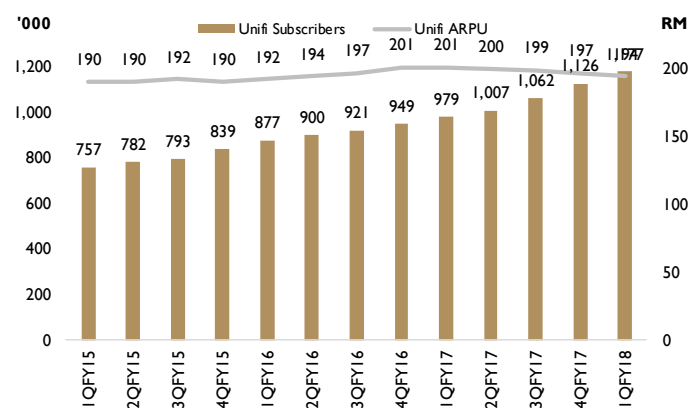
Source: Bloomberg, TA Securities

Figure 2: Forward EV/EBITDA



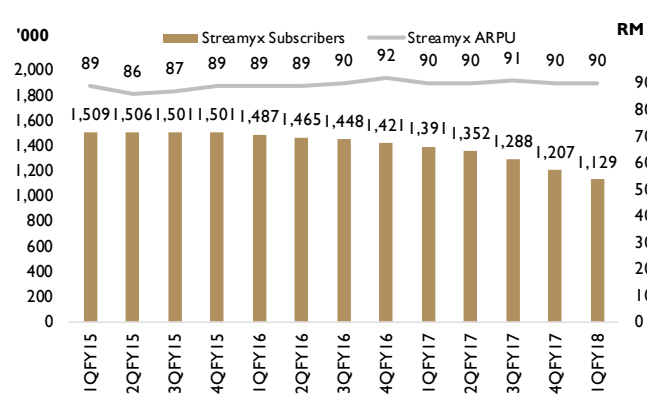
Source: Bloomberg, TA Securities

Figure 3: Unifi



Source: Company, TA Securities

Figure 4: Streamyx



Source: Company, TA Securities

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

Disclaimer

The information in this report has been obtained from sources believed to be reliable. Its accuracy and/ or completeness is not guaranteed and opinions are subject to change without notice. This report is for information only and not to be construed as a solicitation for contracts. We accept no liability for any direct or indirect loss arising from the use of this document. We, our associates, directors, employees may have an interest in the securities and/or companies mentioned herein.

As of Wednesday, May 23, 2018, the analyst, Wilson Loo, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

TA SECURITIES HOLDINGS BERHAD (14948-M)

A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048
www.ta.com.my