

Company Update

Telekom Malaysia Bhd

Government announces lower broadband prices

21 June 2018

HOLD
Maintained

Share Price	RM3.63
Target Price	RM3.90

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.	RM13.64n
52-week price Range	RM3.60 – 6.69
Beta (against KLCI)	1.22
3-m Average Daily Volume	4.84m
3-m Average Daily Value^	RM21.15m
Price over NTA	1.94

Share Performance

	1m	3m	12m
Absolute (%)	-25.6	-30.5	-45.1
Relative (%-pts)	-19.3	-27.8	-42.8

Major Shareholders

	%
Khazanah Nasional Bhd	26.21
Employees Provident Fund	18.1
Skim Amanah Saham Bumiputera	11.86

Historical Chart



Source: Bloomberg

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What's New

- **Communications and Multimedia Minister Gobind Singh Deo announced that fixed broadband prices are expected to drop by at least 25% by year end** following the implementation of the Mandatory Standard on Access Pricing on June 8.
- The wholesale prices are still being finalized pending commercial discussions among relevant parties, which could conclude in July or August.

Comment

- **The announcement could be viewed positively** as the reduction of 25% is lower than the expected 50% stated in Pakatan Harapan's manifesto, which could have been factored in by the sell-down in share price.
- Internet revenue contributed 36% of 1Q18 revenue and is the main growth driver for TM.
- **ARPU threatened** – TM's Average Revenue Per User (ARPU) for Streamyx broadband is at RM90 while ARPU for UniFi stands at RM194.
- **More subscribers to come?** – As a result of the government's announcement, TM could roll out more affordable packages to attract new subscribers as well as upselling to current Streamyx subscribers. Higher subscribers could help cushion the drop in ARPU. Total broadband subscribers stands at 2.3m with UniFi subscribers at 1.18m and Streamyx at 1.13m.
- **Dividend policy in danger?** - 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 estimates slashed** – To account for the upcoming ARPU reduction, we are lowering our revenue and EPS forecast for FY18 by 5% and 10% while FY19 estimates are reduced by 5% and 9% respectively.

Valuation & Recommendation

- **Maintain HOLD with a lower target price of RM3.90** (from RM4.58 previously) based on DDM.

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	11596	11754
EBITDA	3373	3232	3532	3636	3694	3789	3576	3247	3467
Operating profit	1245	1187	1372	1294	1257	1154	1093	870	1090
PATAMI	1237	1264	1012	827	700	776	930	597	784
EPS (sen)	31.7	33.6	26.9	22.0	18.6	20.6	24.7	15.9	20.9
P/E (x)	11.5	10.8	13.5	16.4	19.5	17.6	14.7	22.9	17.4
DPS (sen)	19.6	22	26.1	22.9	21.4	21.5	21.5	15.9	18.8
Dividend yield	4.7%	5.2%	6.2%	5.5%	5.1%	5.1%	5.1%	4.4%	5.2%
EBITDA margin	34%	32%	33%	32%	32%	31%	30%	28%	30%
Operating margin	14%	12%	13%	12%	11%	10%	9%	8%	9%
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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JF Apex Securities Berhad (47680-X)
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