

Telekom Malaysia Berhad

FY18: A Challenging Year

TP: RM2.15 (-28.8%)

Last Traded: RM3.02

SELL

Wilson Loo, CFA

Tel: +603-2167 9606

wilsonloo@ta.com.my

www.taonline.com.my

Review

- TM reported FY18 net profit of RM153mn (-83.5% YoY). However, excluding exceptional items amounting to RM695mn mainly relating to the impairment of legacy network assets (RM983mn), core net profit of RM632mn (-26.7% YoY) came within ours but above consensus estimates at 99.2% and 107.3% respectively.
- An interim dividend of 2.0sen/share (-90.7% YoY) was declared. This translates to a dividend payout of 49.5% over FY19's reported EPS which is line with management's revised dividend policy to 40-60% of PATAMI.
- YoY.** FY18's core net profit declined 26.7% YoY mainly due to lower data (-8.7% YoY) and voice (-5.3% YoY) revenue. Data revenue was weighted by a provision of RM169.2mn to reflect the enforcement of the Mandatory Standard on Access Pricing while voice revenue was affected by lower traffic minutes on the back of a lower customer base. On the other hand, internet revenue grew (+3.6% YoY) on higher subscription to unifi tv content. Meanwhile, cost was well contained with cost as a percentage of revenue at 90.8% (-0.3pp YoY) with notable savings in the area of manpower (-5.3% YoY) and marketing (-17.7% YoY).
- QoQ.** Revenue climbed 4.9% QoQ, driven by voice (+7.9% QoQ) and data (+10.7% QoQ) while internet fell (-2.3% QoQ). Of note, despite heightened competition within the broadband segment during the quarter, subscriber trends continued with unifi net adds of 37k QoQ and Streamyx net churns of 89k QoQ. However, in our view, it is rather preliminary to ascertain if the trend will sustain into the coming quarters. This is in consideration that in FY18, while 239k Streamyx subscribers were upgraded to unifi, overall unifi net adds were lower at 172k, suggesting some migration of unifi subscribers to competitors.
- As for the group's financial position, gross debt to EBITDA improved further from 2.5x as at 3QFY18 to 2.4x as at 4QFY18.

Impact

- Our FY19/FY20 earnings are adjusted by +4.5%/+1.1% to RM629mn/RM715mn after adjusting our cost assumptions to in tune with management's guidance and imputing FY18 figures into our model. We also introduce our FY21 earnings estimates of RM803mn.

Outlook

- Expecting FY19 to be another challenging year, management guided for revenue to decline by low-to-mid single digit, EBIT to be higher than FY18 (FY18 normalised EBIT: RM1,070mn), customer satisfaction measure at 74, and CAPEX as a percentage of revenue at ~18% (similar to FY18).
- Meanwhile, management also alluded that in 2019 to 2021 it will continue to focus on 1) revenue preservation and uplift, 2) sustained profitability, 3) improved cash flow and 4) increased productivity while also focusing

Share Information

Bloomberg Code	T MK
Stock Code	4863
Listing	Main Market
Share Cap (mn)	3757.9
Market Cap (RMmn)	11,349.0
52-wk Hi/Lo (RM)	6.09/2.11
12-mth Avg Daily Vol ('000 shrs)	7,326.8
Estimated Free Float (%)	28.6
Beta	1.8

Major Shareholders (%)

Khazanah Nasional Bhd	26.2
EPF	17.0
Skim Amanah Saham Bumiputera	11.8

Forecast Revision

	FY19	FY20
Forecast Revision (%)	4.5	1.1
Net profit (RMmn)	629	715
Consensus	560	571
TA's / Consensus (%)	112.3	125.2
Previous Rating	Sell (Maintained)	

Financial Indicators

	FY19	FY20
Net debt/EBITDA (x)	1.5	1.1
CFPS (sen)	80.3	85.3
P/CFPS (x)	3.8	3.5
ROAA (%)	2.6	2.9
ROAE (%)	8.8	9.5
NTA/Share (RM)	1.8	1.9
Price/ NTA (x)	1.7	1.6

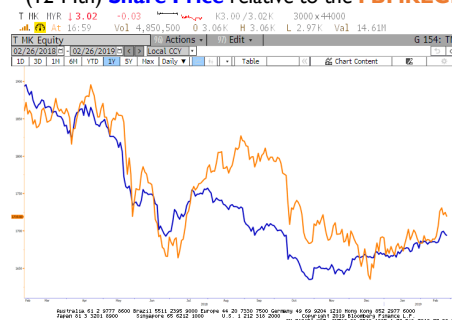
Scorecard

	% of FY	
vs. TA	99.2	Within
vs. Consensus	107.3	Above

Share Performance (%)

Price Change	T	FBM KLCI
1 mth	6.3	1.1
3 mth	34.2	2.0
6 mth	(15.2)	(5.1)
12 mth	(49.9)	(8.1)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

on 5) accelerating convergence, 6) simplification and digitalisation, and 7) leaner cost.

- Shedding some light, management highlighted the group is orienting itself to be more customer centric (e.g., with optimised offerings to meet the demands of various users in the household) while also keeping a lid on investments (i.e., investing in network expansion only when feasible) and sweating existing assets.

Valuation

- Our TP for TM is revised to RM2.15/share (previously RM2.10/share) based on DCF valuation with a WACC of 14.1% and long-term growth rate of 1.0%. Reiterate **Sell**. Key risks include heightening competition and unprecedented downtrading activities within the broadband segment.

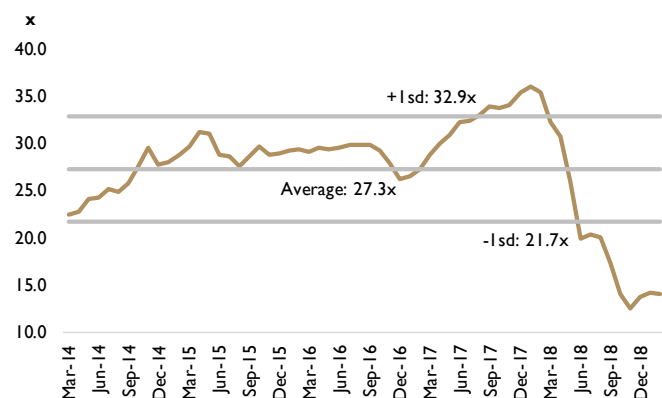
Table 1: Earnings Summary (RMmn)

FYE Dec	FY17	FY18	FY19F	FY20F	FY21F
Revenue	12,085	11,819	11,417	11,586	11,602
EBITDA	3,680	2,756	3,571	3,810	3,999
EBITDA margin (%)	30.4	23.3	31.3	32.9	34.5
Dep. & amortisation	(2,484)	(2,380)	(2,590)	(2,662)	(2,739)
EBIT	1,196	376	981	1,149	1,260
Net finance costs	(255)	(348)	(299)	(263)	(215)
Forex	175	(31)	0	0	0
Associates	28	21	22	23	24
EI	(95)	0	0	0	0
Profit before tax	1,048	17	704	909	1,069
Taxation	(318)	(278)	(194)	(250)	(257)
MI	199	414	119	56	(9)
Profit after tax	930	153	629	715	803
Core net profit	863	632	629	715	803
Core EPS (sen)	23.0	16.8	16.7	19.0	21.4
EPS growth (%)	1.8	(26.7)	(0.5)	13.7	12.3
PER (x)	13.1	17.9	18.0	15.9	14.1
EV/EBITDA (x)	4.2	5.5	4.3	4.0	3.8
DPS (sen)	21.5	2.0	8.4	9.5	10.7
Dividend yield (%)	7.1	0.7	2.8	3.2	3.5

Table 2: FY18 Results Analysis (RMmn)

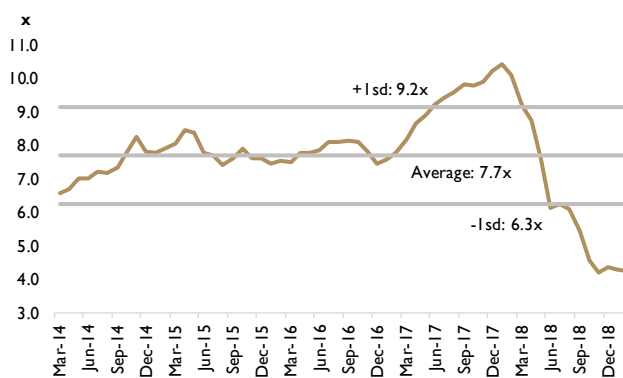
FYE Dec	4QFY17	3QFY18	4QFY18	QoQ (%)	YoY (%)	FY17	FY18	YoY (%)
Revenue	3,200	2,946	3,089	4.9	(3.5)	12,085	11,819	(2.2)
Voice	800	750	809	7.9	1.1	3,181	3,013	(5.3)
Internet	1,018	1,026	1,002	(2.3)	(1.6)	3,974	4,119	3.6
Data	715	600	664	10.7	(7.1)	2,675	2,443	(8.7)
Others	667	570	614	7.7	(7.9)	2,256	2,244	(0.5)
EBITDA	922	931	919	(1.3)	(0.3)	3,671	3,451	(6.0)
Depreciation and amortisation	-623	-615	-597	(3.0)	(4.2)	-2,484	-2,380	(4.2)
EBIT	299	316	322	2.1	7.7	1,187	1,071	(9.8)
Finance income	35	28	21	(23.6)	(38.2)	132	102	(22.4)
Finance cost	-91	-108	-135	24.5	47.2	-387	-450	16.3
Forex	75	-37	2	(106.2)	(96.9)	175	-31	(117.9)
Associates	5	6	5	(18.2)	(15.1)	28	21	(23.9)
El	-15	-635	-70	(89.1)	369.6	-86	-695	706.6
Profit before tax	308	-432	146	(133.9)	(52.4)	1,048	17	(98.3)
Tax	-85	2	-130	(6,304.8)	52.6	-318	-278	(12.5)
MI	55	254	54	(78.9)	(2.2)	199	414	107.7
Net profit	277	-176	70	(139.7)	(74.8)	930	153	(83.5)
Core net profit	222	266	105	(60.6)	(52.7)	863	632	(26.7)
Capex	1,122	605	821	35.7	(26.8)	2,756	2,136	(22.5)
Core EPS (sen)	5.9	7.1	2.8	(60.6)	(52.7)	23.0	16.8	(26.7)
DPS (sen)	12.1	0.0	2.0	-	(83.5)	21.5	2.0	(90.7)
Profitability ratios				PP	PP			PP
EBITDA margin (%)	28.8	31.6	29.8	(1.8)	0.9	30.4	29.2	(1.2)
EBIT margin (%)	9.3	10.7	10.4	(0.3)	1.1	9.8	9.1	(0.8)
PBT margin (%)	9.6	(14.7)	4.7	19.4	(4.9)	8.7	0.1	(8.5)
Tax rate (%)	27.8	0.5	89.0	88.5	61.2	30.3	1,597.1	1,566.8
Core net profit margin (%)	6.9	9.0	3.4	(5.6)	(3.5)	7.1	5.4	(1.8)
Costs								
Direct costs	669	577	692	19.9	3.4	1,732	1,833	5.8
Manpower	579	584	540	(7.5)	(6.7)	1,918	1,816	(5.3)
Supplies and materials	236	192	265	38.0	12.3	579	540	(6.8)
Bad and doubtful debts	18	50	26	(47.6)	43.6	40	125	217.5
Marketing expenses	119	63	51	(19.4)	(57.3)	321	264	(17.7)
Maintenance costs	238	202	223	10.7	(6.3)	595	631	6.1
Other operating costs	473	369	409	10.8	(13.5)	1,156	1,067	(7.7)
Depreciation and amortisation	623	578	624	8.0	0.2	1,861	1,746	(6.2)
Operational metrics								
Broadband								
Subscribers ('000)				Net adds	Net adds			
Unifi	1,126	1,261	1,298	37	172			
Streamyx	1,207	1,025	936	-89	-271			
ARPU (RM)				%	%			
Unifi	197	193	184	(4.7)	(6.6)			
Streamyx	90	87	88	1.1	(2.2)			

Figure 1: Forward PE



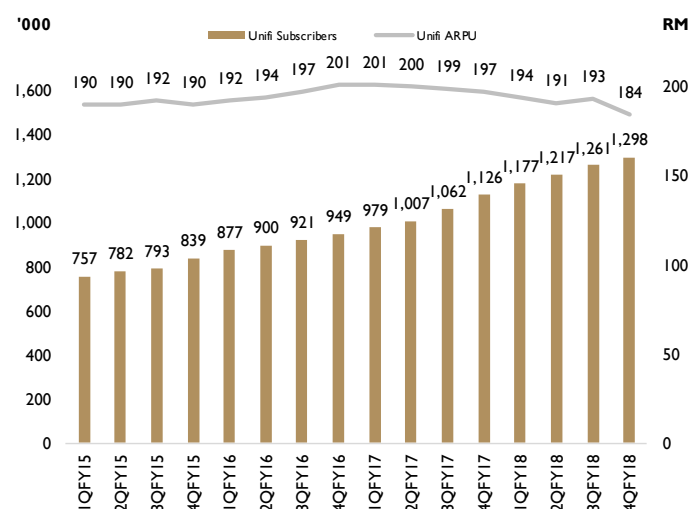
Source: Bloomberg, TA Securities

Figure 2: Forward EV/EBITDA



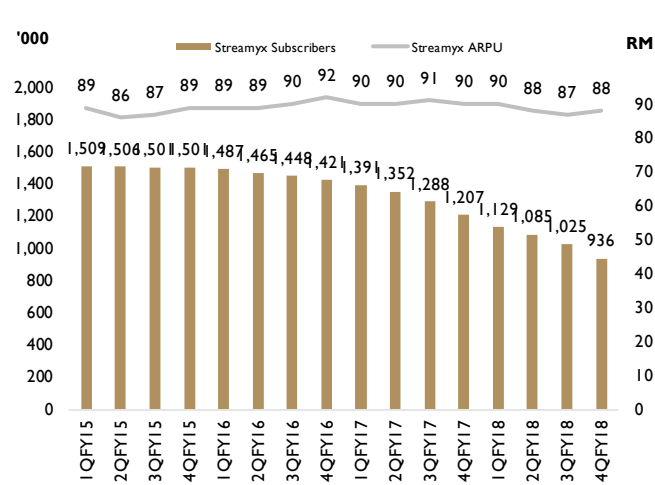
Source: Bloomberg, TA Securities

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, February 27, 2019, 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