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Telekom Malaysia Berhad

Sued by Malaysian Football League
TP: RM2.15 (-33.2%)

Last Traded: RM3.22
SELL

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Telekom Malaysia Berhad (TM) has received from Malaysian Football League LLP (MFL) a writ of summons and statement of claim seeking reliefs in relation to a sponsorship deal which MFL claims TM to have breached. TM via its solicitors is taking the necessary action to defend its position. Among others, notable reliefs sought include orders for TM to pay RM428.5mn (excluding interest) mainly relating to sponsorship and broadcast consideration for the year 2018 to 2025 which we estimate could raise FY19F's gross debt/EBITDA ratio from 2.4x to 2.5x and reduce our TP of RM2.15/share by circa RM0.10/share or 5%. We maintain our earnings forecasts until further developments. Reiterate Sell.

Malaysian Football League Seeking Reliefs

Telekom Malaysia Berhad (TM) has received from Malaysian Football League LLP (MFL) a writ of summons and statement of claim dated 18 March 2019, seeking reliefs (see Appendix I) in relation to a sponsorship deal which MFL claims TM to have breached. TM via its solicitors is taking the necessary action to defend its position.

Among others, notable reliefs sought include orders for TM to pay RM428.5mn (excluding interest) mainly relating to sponsorship and broadcast consideration for the year 2018 to 2025. Note however that the amount could be offset against any other amount of sponsorship and broadcast consideration that MFL secures in place of TM's for the year 2020 to 2025.

To recap, TM and MFL had in January 2018 inked an 8-year sponsorship deal worth RM480mn that would see TM's unifi brand as the title sponsor for the Super League and Malaysia Cup as well as co-sponsor for the FA Cup lasting until 2025. Last week however, MFL announced that the sponsorship deal was off as TM failed to fulfil its RM60mn annual sponsorship obligations.

In response, TM clarified that the group was indeed no longer a sponsor from 2019 onwards but the breakdown of the sponsorship deal was due to both parties being unable to mutually agree on several fundamental commercial terms as opposed to MFL's claim that the group failed to meet its annual sponsorship obligations. In fact, TM had earlier on 1 November 2018 notified MFL in writing of the end of the sponsorship deal.

Our View

The latest development is a negative for TM as it presents downside risk to the group's financials. At this juncture, the financial impact cannot be ascertained pending legal proceedings which may or may not be ruled in TM's favour. However, in a worst-case scenario whereby TM pays the aforementioned RM428.5mn in one lump sum, we estimate: 1) FY19F's gross debt/EBITDA ratio to rise from 2.4x to 2.5x which is also the group's internal gearing threshold, and 2) reduce our TP of RM2.15/share by circa RM0.10/share or 5%. Meanwhile, from an operational standpoint, with TM no longer a sponsor, we

Share Information

Bloomberg Code	T MK
Stock Code	4863
Listing	Main Market
Share Cap (mn)	3757.9
Market Cap (RMmn)	12,100.6
52-wk Hi/Lo (RM)	5.67/2.11
12-mth Avg Daily Vol ('000 shrs)	7,373.6
Estimated Free Float (%)	28.2
Beta	1.8

Major Shareholders (%)

Khazanah Nasional Bhd	- 26.2
EPF	- 17.4
Skim Amanah Saham Bumiputera	- 11.8

Forecast Revision

	FY19	FY20
Forecast Revision (%)	-	-
Net profit (RMmn)	629.0	715.1
Consensus	604.7	613.9
TA's / Consensus (%)	104.0	116.5
Previous Rating	Sell (Maintained)	

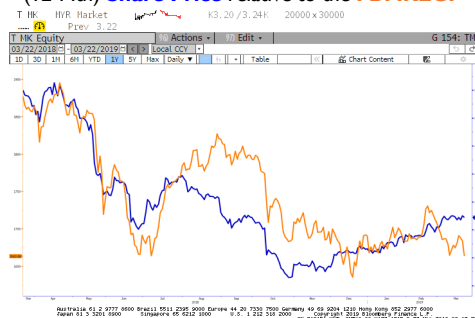
Financial Indicators

	FY19	FY20
Net debt/EBITDA (x)	1.5	1.1
CFPS (sen)	80.3	85.3
P/CFPS (x)	4.0	3.8
ROE (%)	2.6	2.9
ROA (%)	7.9	8.6
NTA/Share (RM)	1.8	1.9
Price/NTA (x)	1.8	1.7

Share Performance (%)

Price Change	T	FBMKLCI
1 mth	3.5	(3.4)
3 mth	20.1	(0.4)
6 mth	0.3	(8.1)
12 mth	(41.5)	(11.4)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

believe it could to an extent hurt the converged experience for some customers as the continuity of the live football telecast as a part of unifi TV's value proposition becomes a concern.

Impact

We maintain our earnings forecasts until further developments.

Valuation

Our TP for TM is maintained at RM2.15/share based on DCF valuation with a WACC of 14.1% and long-term growth rate of 1.0%. Reiterate **Sell**. Key risks include regulatory uncertainties and heightening competition.

Appendix 1: Reliefs Sought by Malaysian Football League LLP from Telekom Malaysia Bhd

1. A Declaration that the Term Sheet dated 29 January 2018 (Term Sheet) had not expired on 31 October 2018 and is subsisting beyond 31 October 2018;
2. A Declaration that TM had breached the Term Sheet;
3. A Declaration that MFL had lawfully terminated the Term Sheet by way of its Notice of Termination dated 16 March 2019;
4. An Order that TM is liable to pay MFL the amount of RM186,844.00 being the amount due for Season 2018 within seven (7) days of the date of this Judgment;
5. An Order that TM is liable to pay MFL the costs incurred by MFL for the removal of all TM's unifi marks and/or references to TM from all of MFL's property and merchandise for the year 2019 within seven (7) days of this Judgment;
6. An Order compelling TM to remove, take down and delete all references of TM as a sponsor or Official Telecommunication and Broadcast Partner of MFL in all TM's materials published or issued by TM or TM's directors, partners, officers, employees, representatives or agents within forty eight (48) hours from the date of this Judgment;
7. Pre-judgment interest at the rate of 5% p.a. on the amount in prayer (4) and (5) above from 18 March 2019 until the date of the judgment in accordance with section 11 of the Civil Law Act 1956;
8. An Order that TM is liable to pay MFL the amount of RM25,850,000.00 being Payment 1 for the Sponsorship and Broadcast Consideration for year 2019 within seven (7) days of the date of this Judgment;
9. Pre-judgment interest at the rate of 5% p.a. on the amount in prayer (8) above from 2 January 2019 until the date of the judgment in accordance with section 11 of the Civil Law Act 1956;
10. An Order that TM is liable to pay MFL the amount of RM25,850,000.00 being Payment 2 for the Sponsorship and Broadcast Consideration for 2019 on or before 2 June 2019;
11. An Order that TM is liable to MFL the amount of RM376,600,000.00 being the remaining Sponsorship and Broadcast Consideration for years 2020, 2021, 2022, 2023, 2024, and 2025 within seven (7) days of the date of this Judgment;
12. Damages for breach of contract to be assessed by Senior Assistant Registrar;
13. Alternatively, an Order that TM is liable to pay MFL the difference between the total amount of Sponsorship and Broadcast Considerations MFL is entitled to receive from TM under the Term Sheet and any other amount MFL secures in place of the Sponsorship and Broadcast Considerations for years 2020, 2021, 2022, 2023, 2024, and 2025;
14. Post-judgment interest at the rate of 5% p.a. on the judgment sum in prayers (4), (5), (8), (11), (12) and (13) above from the date of Judgment until the date of full and final satisfaction of the Judgment;
15. Costs; and
16. Any further reliefs and/or other Order that the Honourable Court deems fit and proper.

Source: Bursa Malaysia, TA Securities

Financial Summary

P&L

YE Dec 31 (RMmn)	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
Depreciation & amortisation	(2,484)	(2,380)	(2,590)	(2,662)	(2,739)
Net finance cost	(255)	(348)	(299)	(263)	(215)
Forex	175	(31)	0	0	0
Associates	28	21	22	23	24
Others	(95)	0	0	0	0
PBT	1,048	17	704	909	1,069
Taxation	(318)	(278)	(194)	(250)	(257)
MI	199	414	119	56	(9)
Net profit	930	153	629	715	803
Core net profit	863	632	629	715	803
EPS (sen)	23.0	16.8	16.7	19.0	21.4
DPS (sen)	21.5	2.0	8.4	9.5	10.7

Ratios

YE Dec 31	FY17	FY18	FY19F	FY20F	FY21F
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Valuations

PER (x)	14.0	19.1	19.2	16.9	15.1
EV/EBITDA (x)	4.2	5.5	4.3	4.0	3.8
Dividend yield (%)	6.7	0.6	2.6	3.0	3.3
PBV (x)	1.6	1.7	1.7	1.6	1.5

Profitability ratios (%)

ROAE	11.0	8.4	7.9	8.6	9.2
ROAA	3.5	2.7	2.6	2.9	3.3
EBITDA margin	30.4	23.3	31.3	32.9	34.5
PBT margin	8.7	0.1	6.2	7.8	9.2

Liquidity ratios (x)

Current ratio	1.0	1.2	1.4	1.6	1.8
Quick ratio	0.9	1.2	1.4	1.6	1.8

Leverage ratios (x)

Total liabilities/equity	2.2	2.4	2.3	2.2	2.1
Net debt/equity	0.8	0.8	0.7	0.5	0.4
Int. coverage ratio	4.7	1.1	3.3	4.4	5.9

Growth ratios (%)

Sales	0.2	(2.2)	(3.4)	1.5	0.1
Pretax	14.1	(98.3)	3,945.8	29.1	17.6
Earnings	1.8	(26.7)	(0.5)	13.7	12.3
Total assets	1.5	1.6	1.0	1.5	1.1

Balance Sheet

YE Dec 31 (RMmn)	FY17	FY18	FY19F	FY20F	FY21F
Fixed assets	16,541	15,263	14,615	13,882	13,237
Associates + Subsidiaries	63	74	96	120	144
Goodwill	539	490	466	443	422
Others	1,487	1,474	1,303	1,311	1,312
LT assets	18,629	17,302	16,480	15,756	15,115
Inventories	259	135	190	193	193
Trade receivables	3,710	2,405	3,210	3,258	3,262
Cash	1,720	2,826	3,146	4,215	5,107
Others	445	1,037	1,037	1,037	1,037
Current assets	6,133	6,403	7,583	8,703	9,599
Total assets	24,762	23,705	24,063	24,459	24,713
Trade payables	3,934	3,610	3,474	3,526	3,530
ST borrowings	1,119	234	423	418	415
Others	1,230	1,354	1,354	1,354	1,354
Current liabilities	6,283	5,198	5,251	5,298	5,299
LT borrowings	7,031	8,337	8,034	7,947	7,878
Others	3,681	3,154	3,447	3,560	3,450
LT liabilities	10,712	11,491	11,481	11,507	11,328
Share capital	3,667	3,667	3,667	3,667	3,667
Reserves	4,176	3,858	4,292	4,671	5,095
Shareholders' funds	7,844	7,525	7,959	8,338	8,762
MI	(77)	(510)	(628)	(685)	(675)
Total liabilities and equity	24,762	23,705	24,063	24,459	24,713

Cash Flow

YE Dec 31 (RMmn)	FY17	FY18	FY19F	FY20F	FY21F
PBT	1,048	17	704	909	1,069
Depreciation & amortisation	2,484	2,380	2,502	2,552	2,629
Net interest	254	343	299	263	215
Other non-cash	91	(881)	(22)	(23)	(24)
Changes in WC	(866)	1,350	(664)	(5)	(0)
Tax paid & others	(594)	(625)	(627)	(679)	(682)
Operational cash flow	2,418	2,585	2,192	3,017	3,207
Capex	(3,319)	(2,276)	(1,918)	(1,906)	(2,073)
Interest received	96	88	134	166	210
Others	440	711	0	0	0
Investing cash flow	(2,783)	(1,477)	(1,783)	(1,740)	(1,863)
Net share issue	0	0	0	0	0
Dividend paid	(829)	(464)	(195)	(336)	(380)
Net change in debts	27	382	(114)	(91)	(73)
Others	(0)	69	220	220	0
Financial cash flow	(803)	(13)	(89)	(207)	(453)
Net cash flow	(1,168)	1,095	320	1,069	892
Opening cash flow	2,926	1,720	2,826	3,146	4,215
Forex	(38)	11	0	0	0
Closing cash flow	1,720	2,826	3,146	4,215	5,107

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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

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As of Friday, March 22, 2019, the analyst, Wilson Loo Jia Chern, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

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