

30 August 2018 | 2QFY18 Results Review

Telekom Malaysia Berhad

Downward pressure on unifi ARPU to persist

Downgrade to SELL
(previously NEUTRAL)

Unchanged Target Price (TP): RM3.02

INVESTMENT HIGHLIGHTS

- **2QFY18 normalised earnings down by -25.1%yoy mainly due to lower contribution from voice and data services**
- **Consequently, 1HFY18 normalised earnings reduced to RM261.1m, in-line with our expectation**
- **Availability of unifi 30Mbps basic plan to all segments of the market exerts downward pressure on unifi ARPU**
- **Downgrade to SELL with an unchanged target price of RM3.02 base on DDM valuation methodology**

Subdued 2QFY18 normalised earnings. Telekom Malaysia Bhd's (TM) 2QFY18 normalised earnings came in at RM155.8m. This translates into a decrease of -25.1%yoy as compared to 2QFY17. The reduction in normalised earnings was mainly led by decline in voice and data services (*Refer to Appendix*). In addition, higher provision for bad debt and higher direct costs also led to lower profit margin of 5.3% from 7.0% achieved in 2QFY17.

1HFY18 normalised earnings came in expected. The weaker 2QFY18 financial performance led to lower 1HFY18 normalised earnings of RM261.1m (-40.4%yoy). All in, TM's 1HFY18 financial performance came in within ours but fell below consensus' expectations, accounting for 52.1% and 40.2% of full year FY18 earnings estimates respectively.

Broadband. As at 2QFY18, the total broadband customer base dwindled by -2.4%yoy and -0.2%qoq to 2,302k customers. This was mainly caused by -19.7%yoy reductions in broadband (Streamyx) customer base to 1,085k customers. Fortunately, unifi customer base expanded to 1,217k customers (+20.9%yoy) as more customers are moving up the value chain with convergence. At present, the convergence/TM households are at 47%. Meanwhile, unifi ARPU trended lower to RM191/mth from RM200/mth as at 2QFY17.

Capital expenditure (capex). TM eased its 1HFY18 capex to RM710m (-7.1%yoy) as the group is more selective on critical projects. This led to lower capex-to-revenue ratio of 12.3% as compared to 15.1% recorded in 1HFY17. Breakdown on 1HFY18 capex includes core network (18%), access (59%) and support systems (23%). We view that the lower capital spending helps to maintain the group's cash balance. Note that 2QFY18 cash and bank balances stands at RM1,605.7m, a slight increase of +3.3%yoy (vs 2QFY17: RM1,554.5m).

RETURN STATS

Price (29 August 2018)	RM3.57
Target Price	RM3.02
Expected Share Price Return	-15.4%
Expected Dividend Yield	+3.2%
Expected Total Return	-12.2%

STOCK INFO

KLCI	1,820.64
Bursa / Bloomberg	4863 / T MK
Board / Sector	Main/ Services
Syariah Compliant	Yes
Issued shares (mil)	3,757.9
Market cap. (RM'm)	13,415.8
52-wk price Range	RM3.00 – RM6.50
Beta (against KLCI)	1.43
3-mth Avg Daily Vol	11.6m
3-mth Avg Daily Value	RM41.8m
Major Shareholders (%)	
Khazanah	26.21
PNB and its associated funds	20.74
EPF	17.97
KWAP	3.78

Target price. We are maintaining our target price of **RM3.02**. This based on Dividend Discount Model valuation methodology.

Downgrade to SELL. The increasing regulatory and competitive pressures have negatively impacted all the group's business segments. We foresee these pressures to persist in the immediate term. Our main concern lies with unifi, the group's largest revenue contributor. We view that the availability of unifi 30Mbps basic plan to all segments of the market could lead to TM's unifi customers downgrading their respective broadband packages should the monthly usage does not exceed 60GB. This would put downward pressure on unifi ARPU. Note that the unifi 30Mbps basic plan is available at RM79/mth while unifi lite plan 10Mbps starts from RM129/mth. Meanwhile, we are concerned on the group's ability to manage its operating expenses efficiently. Its total cost as a percentage of revenue has increase steadily beyond 90%. Due to the earnings pressure and the group's capex commitment for long-term growth, we expect its dividend payment to decline as well. At this juncture, we view that dividend yield to hover around three percent only. All factors considered, we are downgrading our call recommendation to **SELL** from NEUTRAL previously.

DIVIDEND DISCOUNT MODEL ASSUMPTIONS

Expected market return	10.0%
Risk free rate	4.0%
Beta	0.7
Terminal growth	5.0%
Cost of equity	8.4%

INVESTMENT STATISTICS

FYE 31st Dec	2016	2017	2018F	2019F
Revenue (RM'm)	12,060.9	12,085.1	11,419.6	10,812.0
EBIT (RM'm)	1,185.4	1,092.7	719.4	681.2
PBT (RM'm)	1,018.0	1,048.0	574.1	555.6
Normalised PATAMI (RM'm)	847.9	863.2	501.4	485.2
Normalised EPS (sen)	22.6	23.2	13.3	12.9
EPS growth (%)	-6.6	2.5	-42.4	-3.2
PER(x)	15.8	15.4	26.8	27.6
Net Dividend (sen)	21.5	21.1	11.9	11.6
Net Dividend Yield (%)	6.0	5.9	3.3	3.2

Source: Company, MIDFR

DAILY PRICE CHART



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TELEKOM MALAYSIA: 2QFY18 RESULTS SUMMARY

<i>(All in RM'm unless stated otherwise)</i>	Quarterly Results			Cumulative		
FYE 30 th June	2Q18	YoY (%)	QoQ (%)	2018	2017	YoY (%)
Revenue	2,936.4	-1.5	3.1	5,784.4	5,944.8	-2.7
Normalised EBITDA	823.4	-8.7	5.9	1,601.1	1,859.7	-13.9
Normalised EBIT	226.4	-25.6	9.6	560.9	616.4	-9.0
EBIT	248.9	-3.2	27.2	444.5	560.9	-20.8
Other gains/losses	-0.2	n.m.	n.m.	-1.9	-3.6	n.m.
Net finance cost	-145.8	478.6	2,703.8	-151.0	-66.9	125.7
Associate income	5.5	-32.9	0.0	11.0	14.5	-24.1
PBT	108.4	-55.1	-44.2	302.6	504.9	-40.1
Taxation	-63.1	-25.5	-27.1	-149.7	-164.0	-8.7
MI	56.7	5.0	14.5	106.2	-100.0	-206.2
PATAMI	102.0	-51.5	-35.1	259.1	240.9	7.6
Normalised PATAMI	155.8	-25.1	48.0	261.1	437.8	-40.4
EPS (sen)	4.12	-25.3	48.0	6.9	11.6	-40.5
		+/- ppts	+/- ppts			+/- ppts
Normalised EBITDA margin (%)	28.0	-2.2	0.7	27.7	31.3	-3.6
Normalised EBIT margin (%)	7.7	-2.5	0.5	9.7	10.4	-0.7
Normalised PATAMI margin (%)	5.3	-1.7	1.6	4.5	7.4	-2.9
Effective tax rate (%)	58.2	23.1	13.6	49.5	32.5	17.0

Source: Company, MIDFR

APPENDIX

Table 1: 1HFY18 revenue breakdown by product category

Product	Revenue (RM'm)	% YoY	Remarks
Voice	1,454	-8.4	- Lower traffic minutes and lower cumulative customers
Internet	2,091	+7.2	- Higher contribution mainly from unifi mobile in line with higher customer base
Data	1,179	-11.1	- Lower domestic leased bandwidth, price revision upon contract anniversary and MSAP impact
Others	1,059	-1.9	- Lower USP revenue recognition and BPO, partially offset with higher ICT

Source: Company, MIDFR

Table 2: 1HFY18 revenue breakdown by customer clusters

Cluster	Revenue (RM'm)	% YoY	Remarks
Unifi	2,658	+1.6	- Higher unifi fixed, content and mobile revenue, in line with higher customer base
TM ONE	2,016	-5.7	- Lower USP revenue recognition and other data services
TM GLOBAL	871	-7.0	- MSAP impact at Wholesale
Others*	239	-5.9	- Lower tuition fees and student intake

Source: Company, MIDFR

* Others comprises other telco and non-telco services (i.e. ICT_BPO, UTSB tuition fees, customer projects)

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.