

27 November 2018 | 3QFY18 Results Review

## Telekom Malaysia Berhad

*Revised dividend policy unappealing*

**Reiterate SELL**

**Revised Target Price (TP): RM1.89**  
(previously RM3.02)

### INVESTMENT HIGHLIGHTS

- **3QFY18 normalised earnings improved to RM266.4m (+30.9%yoy) supported by cost savings initiatives**
- **Nonetheless, 9MFY18 normalised earnings was down by -17.7%yoy due to lower revenue and higher D&A charges**
- **Lower capital spending of RM1,315m (-19.5%yoy) in order to maintain a healthy cash level**
- **Downward revision in dividend policy of 40% to 60% of PATAMI signalling tough market condition to persist**
- **Reiterate SELL with a revised target price of RM1.98 based on DDM valuation methodology**

**Recovery in 3QFY18 normalised earnings.** Telekom Malaysia Bhd's (TM) 3QFY18 normalised earnings came in at RM266.4m. This translates into an increase of +30.9%yoy as compared to 3QFY17. Higher normalised earnings were mainly led by the improvement in cost management as 3QFY18 revenue growth was minimal at +0.2%yoy.

**Lower 9MFY18 normalised earnings.** Despite better 3QFY18 normalised earnings, TM's 9MFY18 normalised earnings was still down by -17.7%yoy to RM527.5m. This was mainly due to lower contributions from TM ONE and TM Global (*refer to table 2*) as well as higher depreciation and amortisation charges. All in, this came in better than ours and consensus' expectations, accounting for 105.2% and 89.1% of full year FY18 earnings estimates respectively. Nonetheless, we are expecting 4QFY18 results to trend lower sequentially as it will account for the full impact of the revised broadband package offering.

**Broadband.** As at 3QFY18, the total broadband customer base dwindled by -2.7%yoy and -0.7%qoq to 2,2286k customers. This was mainly caused by -20.4%yoy reductions in Streamyx customer base to 1,025k customers. Fortunately, unifi customers base expanded to 1,261k customers (+18.7%yoy) as more customers are moving up the value chain with convergence. At present, the convergence/TM households are at 48%. Meanwhile, unifi ARPU is holding up at trended lower to RM193/mth from RM199/mth as at 3QFY17.

RETURN STATS	
Price (27 <sup>th</sup> November 2018)	RM2.32
Target Price	RM1.89
Expected Share Price Return	-18.5%
Expected Dividend Yield	+3.6%
<b>Expected Total Return</b>	<b>-14.9%</b>

STOCK INFO	
KLCI	1,701.99
Bursa / Bloomberg	4863 / T MK
Board / Sector	Main/ Services
Syariah Compliant	Yes
Issued shares (mil)	3,757.9
Market cap. (RM'm)	13,491.0
52-wk price Range	RM3.00 – RM6.50
Beta (against KLCI)	1.43
3-mth Avg Daily Vol	2.2m
3-mth Avg Daily Value	RM13.7m
Major Shareholders (%)	
Khazanah	26.21
EPF	17.74
PNB and its associated funds	17.92
KWAP	4.10

**Capital expenditure (capex).** TM eased its 9MFY18 capital spending to RM1,315m (-19.5%yoy) as the group is more selective on critical projects. This led to lower capex-to-revenue ratio of 15.1% as compared to 18.4% recorded for 9MFY17. We view that the lower capital spending helps the group to maintain a healthy level of cash and bank balance. As at 3QFY18, the cash and bank balances stands at RM2,191.4m, an increase of +9.9%yoy.

**Impact on earnings.** We are maintaining our FY18 and FY19 revenue estimates at this juncture. However, we are estimating lower manpower cost, marketing expenses and other operating cost to better reflect the group's financial performance thus far. As a result, we are revising FY18 and FY19 earnings higher to RM720.8 and RM692.9m respectively.

**Dividend.** The group revised its dividend policy to 40% to 60% of PATAMI. To recall, based on previous dividend policy, TM intends to distribute yearly dividends of RM700m or up to 90% of normalised PATAMI, whichever is higher. Premised on this, we are revising downwards FY18 and FY19 dividend estimates to 4.3sen and 8.2sen respectively. Note that the group has yet declared any dividend for 9MFY18.

**Target price.** Subsequent to the revision in dividend policy, we are reducing our target price to **RM1.89** (previously RM3.02). This based on Dividend Discount Model valuation methodology.

**Reiterate 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 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. The cost as a percentage of revenue has increase steadily to around 90%. Due to the earnings pressure and the group's commitment capex commitment for long-term growth, we expect the dividend payment to decline as well. All factors considered, we are reiterating our **SELL** recommendation on the stock.

## DIVIDEND DISCOUNT MODEL ASSUMPTIONS

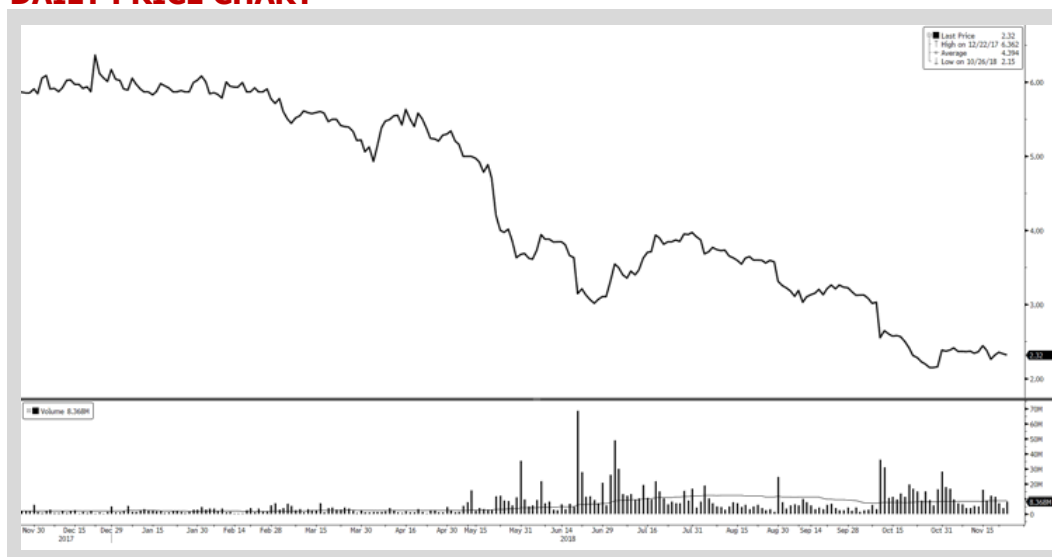
Expected market return	10.0%
Risk free rate	4.0%
Beta	0.7
Terminal growth	5.0%
Cost of equity	8.4%

## INVESTMENT STATISTICS

FYE 31 <sup>st</sup> 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	970.7	919.0
PBT (RM'm)	1,018.0	1,048.0	825.4	793.5
Normalised PATAMI (RM'm)	847.9	863.2	720.8	692.9
Normalised EPS (sen)	22.6	23.2	19.1	18.3
EPS growth (%)	-6.6	2.5	-17.7	-3.9
PER(x)	10.3	10.0	12.2	12.7
Net Dividend (sen)	21.5	21.1	4.3	8.2
Net Dividend Yield (%)	9.3	9.1	1.8	3.6

Source: Company, MIDFR

## DAILY PRICE CHART



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## TELEKOM MALAYSIA BHD: 3QFY18 RESULTS SUMMARY

<i>(All in RM'm unless stated otherwise)</i>	Quarterly Results			Cumulative		
<b>FYE 30<sup>th</sup> June</b>	<b>3Q18</b>	<b>YoY (%)</b>	<b>QoQ (%)</b>	<b>2018</b>	<b>2017</b>	<b>YoY (%)</b>
Revenue	2,946.0	0.2	0.3	8,730.4	8,885.2	-1.7
Normalised EBITDA	930.9	4.7	13.1	2,532.0	2,748.8	-7.9
Normalised EBIT	315.6	16.1	39.4	748.6	888.3	-15.7
EBIT	-829.1	-417.1	-433.1	-187.3	822.4	-122.8
Other gains/losses	312.0	n.m.	n.m.	310.1	-5.5	n.m.
Net finance cost	80.0	-350.8	-154.9	-268.3	-98.8	171.6
Associate income	5.5	-29.5	0.0	16.5	22.3	-26.0
PBT	-431.6	-283.3	-498.2	-129.0	740.4	-117.4
Taxation	2.1	-103.1	-103.3	-147.6	-232.1	-36.4
MI	253.9	471.8	347.8	360.1	144.4	149.4
PATAMI	-175.6	-182.9	-272.2	83.5	652.7	-87.2
Normalised PATAMI	266.4	30.9	71.0	527.5	641.3	-17.7
EPS (sen)	7.05	30.9	71.0	14.0	17.0	-17.9
		+/- ppts	+/- ppts			+/- ppts
Normalised EBITDA margin (%)	31.6	1.4	3.6	29.0	30.9	-1.9
Normalised EBIT margin (%)	10.7	1.5	3.0	8.6	10.0	-1.4
Normalised PATAMI margin (%)	9.0	2.1	3.7	6.0	7.2	-1.2
Effective tax rate (%)	0.5	-28.4	-57.7	-114.4	31.3	-145.8

Source: Company, MIDFR

## APPENDIX

**Table 1: 9MFY18 revenue breakdown by product category**

Product	Revenue (RM'm)	% YoY	Remarks
Voice	2,204	-7.4	- Lower traffic minutes and lower customers base
Internet	3,117	5.4	- Higher unifi TV premium channel buys and higher customer base in unifi mobile
Data	1,779	-9.2	- Lower data and leased services at TM Global due to MSAP
Others	1,630	2.6	- Higher customer projects at TM ONE

Source: Company, MIDFR

**Table 2: 9MFY18 revenue breakdown by customer clusters**

Cluster	Revenue (RM'm)	% YoY	Remarks
Unifi	4,010	0.1	- Higher unifi TV and unifi mobile, offset by the decline in pre-unifi
TM ONE	3,017	-2.3	- Lower USP revenue recognition and lower voice revenue
TM GLOBAL	1,337	-4.9	- Lower data and leased services
Others*	336	-5.0	- Lower tuition fees at UTSB

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.