

28 February 2018 | 4Q17 Results Review

Telekom Malaysia Berhad

Unifi continues to be the growth driver in FY18

Maintain BUY

Unchanged Target Price (TP): RM7.72

INVESTMENT HIGHLIGHTS

- **4Q17 normalised earnings trended higher sequentially, in-line with the grow in revenue**
- **As expected, FY17 normalised earnings grew marginally supported by stronger revenue from unifi**
- **Unifi customer grew to 1.1m customer, representing 48.3% of total broadband customer**
- **Maintain BUY on TM with an unchanged target price of RM7.72**

4Q17 normalised earnings trended higher. Telekom Malaysia Bhd's (TM) 4QFY17 normalised earnings came in at RM222.0m. This translates into an increase of +9.1%qoq as compared to 3Q17. The improvement in earnings was mainly driven by stronger 4Q17 revenue growth of +8.8%qoq. Higher revenue was recorded across all services.

FY17 normalised earnings came in within expectation.

Cumulatively, TM's FY17 normalised earnings improved by +1.8%yoy to RM863.2m from RM847.9m as compared to the previous year corresponding period. This was premised on resilient revenue performance (+0.2%yoy) and slight expansion in profit margin. All in, the results came in within our and consensus expectations, accounting for 100.9% and 99.8% of full year FY17 earnings estimates respectively.

Broadband. As at 4Q17, the broadband customer base remained resilient at 2,333k customers (4Q16: 2,370k customers). Nonetheless, TM managed to grow its Unifi customer base to 1,126k (+18.7%yoy). The Unifi customer base constitutes 48.3% of total broadband customer base in 4Q17 (4Q16: 40.0%). In addition, approximately 98% of the Unifi customers are on broadband packages of at least 10mbps.

Capital expenditure (capex). TM reduced its 4Q17 capital spending by -32.4%yoy to RM1,122m. This translates into capex-to-revenue ratio of 35.1% (4Q16: 51.3%). Cumulatively, the group's FY17 capex came in -16.9%yoy lower to RM2,756m or capex-to-revenue ratio of 22.8% (vs FY16: 27.5%). The lower capex utilisation was mainly led by internal re-prioritisation of projects. Breakdown on FY17 capex includes core network (34%), access (42%) and support systems (24%). For FY18, management guided that capex-to-revenue ratio is expected to trend higher towards 30%.

RETURN STATS	
Price (27 nd February 2018)	RM6.03
Target Price	RM7.72
Expected Share Price Return	+28.0%
Expected Dividend Yield	+3.7%
Expected Total Return	+31.7%

STOCK INFO	
KLCI	1,871.46
Bursa / Bloomberg	4863 / T MK
Board / Sector	Main/ Services
Syariah Compliant	Yes
Issued shares (mil)	3,757.9
Market cap. (RM'm)	22,660.3
52-wk price Range	RM5.85 – RM6.69
Beta (against KLCI)	0.63
3-mth Avg Daily Vol	1.9m
3-mth Avg Daily Value	RM11.8m
Major Shareholders (%)	
Khazanah	26.21
EPF	17.92
PNB and its associated funds	16.14
KWAP	4.10

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Impact. No change to our earnings estimates at this juncture

Target price. We are maintaining our target price of **RM7.72**. This based on Dividend Discount Model valuation methodology.

Maintain BUY. Despite the challenging market environment, we are comforted by the fact that UniFi's customer base and ARPU continue to increase at a steady pace. Moving forward, we view that the progressive growth in TM's broadband customer base would be further driven by the HSBB phase 2 and SUBB projects. Coupled with generous capex undertaking, TM would be able to remain committed to its pledge of providing higher speed broadband access more affordable to the masses. On the mobility segment, the management is planning to launch more "unifi mobile" (previously called webe) services in FY18. Meanwhile, the addition of two new data centres in Cyberjaya and Iskandar Puteri as well as three new subsea cables would further reinforce TM's identity as a convergence player. All factors considered, we reiterate our **BUY** recommendation on TM. 

DIVIDEND DISCOUNT MODEL ASSUMPTIONS

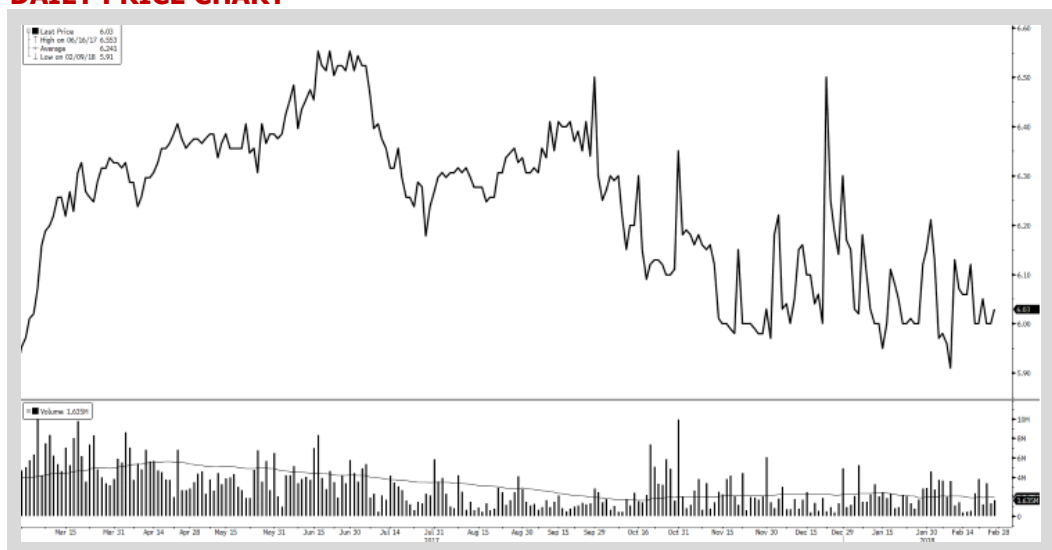
Expected market return	10.0%
Risk free rate	4.0%
Beta	0.7
Terminal growth	5.5%
Cost of equity	8.4%

INVESTMENT STATISTICS

FYE 31 st Dec	2016	2017	2018F	2019F
Revenue (RM'm)	12,060.9	12,085.1	12,750.0	13,192.4
EBIT (RM'm)	1,185.4	1,092.7	1,244.4	1,287.6
PBT (RM'm)	1,018.0	1,048.0	1,077.1	1,123.9
Normalised PATAMI (RM'm)	847.9	863.2	940.7	981.5
Normalised EPS (sen)	22.6	23.6	25.0	26.1
EPS growth (%)	-6.6	4.2	6.3	4.3
PER(x)	26.6	25.6	24.0	23.0
Net Dividend (sen)	21.5	21.4	22.4	23.4
Net Dividend Yield (%)	3.6	3.6	3.7	3.9

Source: Company, MIDFR

DAILY PRICE CHART



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TELEKOM MALAYSIA: 4Q17 RESULTS SUMMARY

<i>(All in RM'm unless stated otherwise)</i>	Quarterly Results					
FYE 30 th June	4Q17	YoY (%)	QoQ (%)	2017	2016	YoY (%)
Revenue	3,199.9	-1.1	8.8	12,085.1	12,060.9	0.2
Normalised EBITDA	922.3	-6.4	2.6	3,671.1	3,820.0	-3.9
Normalised EBIT	299.1	-0.4	10.0	1,092.7	1,154.0	-5.3
EBIT	270.3	-5.5	3.4	1,187.4	1,185.4	0.2
Other gains/losses	14.0	n.m.	n.m.	8.5	47.2	n.m.
Net finance cost	18.0	-109.8	-156.4	-80.8	-312.1	-74.1
Associate income	5.3	-24.3	-32.1	27.6	29.4	-6.1
PBT	307.6	178.1	30.6	1,048.0	918.5	14.1
Taxation	-85.4	1,425.0	25.4	-317.5	-305.1	4.1
MI	54.8	11.2	23.4	199.2	162.6	22.5
PATAMI	277.0	79.5	30.8	929.7	776.0	19.8
Normalised PATAMI	222.0	-17.7	9.1	863.2	847.9	1.8
EPS (sen)	5.87	-18.2	9.1	22.9	22.6	1.4
		+/- ppts	+/- ppts			+/- ppts
Normalised EBITDA margin (%)	28.8	-1.6	-1.8	30.4	31.7	-1.3
Normalised EBIT margin (%)	9.3	0.1	0.1	9.0	9.6	-0.5
Normalised PATAMI margin (%)	6.9	-1.4	0.0	7.1	7.0	0.1
Effective tax rate (%)	27.8	22.7	-1.2	30.3	33.2	-2.9

Source: Company, MIDFR

APPENDIX

Table 1: FY17 revenue breakdown by product category

Product	Revenue (RM'm)	% YoY	Remarks
Voice	3,180	-4.5	- Lower traffic minutes and lower customer base mainly at TM ONE and unifi
Internet	3,974	+8.3	- Higher unifi mobile customer base coupled with higher unifi TV Premium Channel buys
Data	2,675	-2.6	- Lower data revenue at TM ONE and lower one-off IRU (Indefeasible Rights of Use) at TM GLOBAL
Others	2,256	-2.6	- Lower customer projects at TM ON E& lower tuition fees at UTSB

Source: Company, MIDFR

Table 2: FY17 revenue breakdown by customer clusters

Cluster	Revenue (RM'm)	% YoY	Remarks
Unifi	5,282	+3.5	- Increase in customer base
TM ONE	4,305	-4.0	- Lower contribution across all sectors. Nonetheless, recovery was seen in 4Q17
TM GLOBAL	1,956	+1.5	- Higher domestic Ethernet
Others*	542	-0.4	- Lower tuition fee at UTSB which was partially offset by higher share of GDV on property

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.