

04 July 2018 | Corporate Update

Telekom Malaysia Berhad

Meeting the manifesto

Revert to NEUTRAL
(previously SELL)

Unchanged Target Price (TP): RM3.02

INVESTMENT HIGHLIGHTS

- **TM introducing new broadband plan for the B40 segment while increasing the existing broadband speed at the same price point**
- **The moves conform to the government initiative of making internet services more accessible to the masses**
- **Negativity surrounding the broadband pricing has been priced in**
- **Difficult for the group to maintain its dividend policy given the challenging market environment**
- **Revert to NEUTRAL with unchanged target price of RM3.02**

Revision in broadband plan. Telekom Malaysia Bhd (TM) is introducing a new affordable entry level unifi package at 30Mbps only for the B40 segment at a price point below RM100. The pricing is more than 40% below the existing 30Mbps package. For the M40 and T20 segment, TM will gradually upgrade the broadband speed at more than double the speed while maintaining the respective price point. Meanwhile, for new customers subscribing to existing unifi plans before 31st December 2018 will also be upgraded accordingly in 2019. For pre-unifi customers, TM will introduce special package upgrade. On a separate note, existing TM customers will also be offered 'unlimited' unifi Mobile postpaid plan.

Lowering headline KPI. Telekom Malaysia Bhd (TM) is revising downwards 2018 headline KPIs given the evolving market dynamics and operational environment.

Table 1: 2018 headline KPIs

KPI	After	Before
Revenue Growth (%)	-1.0 to flat	3.5 – 4.0
EBIT (RM)	Approximately 1.0b	Maintain 2017 EBIT of 1.2b
Customer Satisfaction Measure	72	74

Source: Company, MIDFR

RETURN STATS	
Price (3 rd July 2018)	RM3.31
Target Price	RM3.02
Expected Share Price Return	-8.8%
Expected Dividend Yield	+3.6%
Expected Total Return	-5.2%


STOCK INFO	
KLCI	1,680.37
Bursa / Bloomberg	4863 / T MK
Board / Sector	Main/ Services
Syariah Compliant	Yes
Issued shares (mil)	3,757.9
Market cap. (RM'm)	12,438.8
52-wk price Range	RM3.00 – RM6.66
Beta (against KLCI)	1.49
3-mth Avg Daily Vol	3.1m
3-mth Avg Daily Value	RM16.7m
Major Shareholders (%)	
Khazanah	26.21
PNB and its associated funds	20.76
EPF	17.90
KWAP	3.78

Meeting the manifesto. The introduction of new broadband package for the B40 and upgrading of the broadband speed conform to the Pakatan Harapan Manifesto. While we expect little impact from the launch of new entry level unifi plan, we do not discount the possibility that the existing customer base from the M40 and T20 segments to downgrade their respective broadband plans, should they do not require such speed. On a separate note, we expect muted impact from the relaunching of 'unlimited' unifi mobile postpaid plan as similar offering can be found from its peers. For instance, U mobile launched 'Giler Unlimited' postpaid plan for RM50/mth which offer unlimited data and unlimited calls to all networks.

Impact. No change to our earnings estimates at this juncture.

Dividend. The group maintained its stance that it will adhere to its dividend policy of distributing RM700m or up to 90% of normalised PATAMI, whichever is higher. However, we are of the view that it would be difficult for the group to maintain the dividend policy given in the long term due to the weak cash generating ability and dwindling cash reserve. Note that as at 1Q17, the group's cash balance stands at RM1,426.m.

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

Revert to NEUTRAL. We view that the market has reacted to the development surrounding the broadband price. On a year-to-date basis, the share price has retraced by -46.3%ytd. As such, we view that the negativity has been priced in. Moving forward, we expect challenging market environment will continue to negatively impact the group's voice, data and other revenues. Moreover, we remained concerned on the group's ability to manage its operating expenses efficiently. The cost as a percentage of revenue has increased steadily beyond 90% for the past few quarters. Due to the earnings pressure and the group's commitment capex commitment for long-term growth, we expect it would difficult for the group to maintain its current dividend policy. All factors considered, we are reverting our call recommendation to **NEUTRAL** from sell previously. 

DIVIDEND DISCOUNT MODEL ASSUMPTIONS

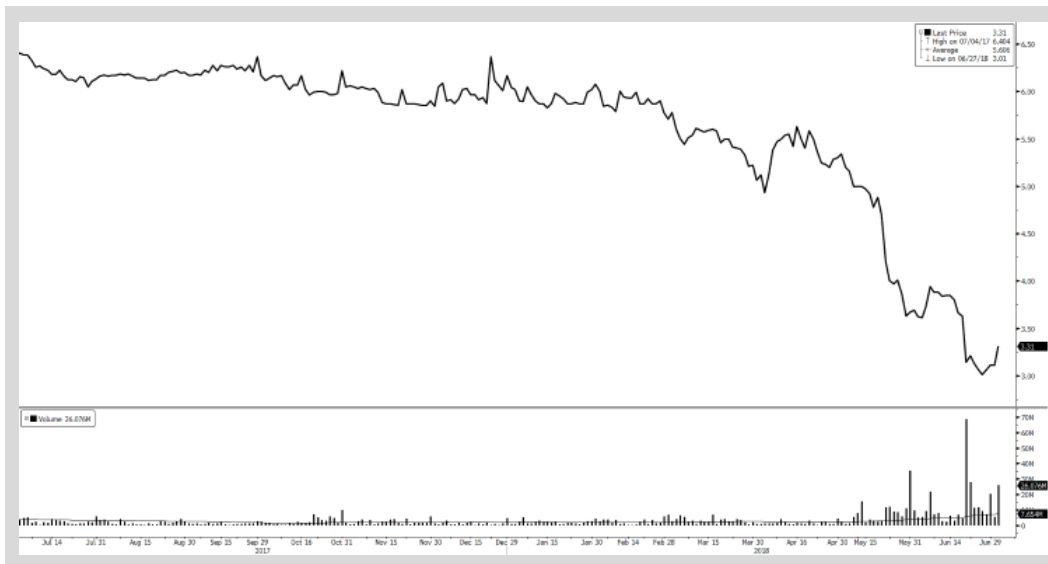
Expected market return	10.0%
Risk free rate	4.0%
Beta	0.7
Terminal growth	5.0%
Cost of equity	8.4%

INVESTMENT STATISTICS

FYE 31 st 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)	14.2	13.9	24.1	24.9
Net Dividend (sen)	21.5	21.1	11.9	11.6
Net Dividend Yield (%)	6.7	6.5	3.7	3.6

Source: Company, MIDFR

DAILY PRICE CHART



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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.