

27 November 2015 | 3Q15 Results Review

Telekom Malaysia Berhad P1 yet to turn profitable

INVESTMENT HIGHLIGHTS

- **3Q15 normalised earnings of RM200.2m grew +4.4%yoy attributable to better revenue contribution**
- **However, the loss-making P1 and higher effective tax rate impacted the group's 9M15 financial performance**
- **Growth in Unifi's customer base remains encouraging**
- **Maintain NEUTRAL recommendation on TM with a revised target price of RM7.01 per share**

Higher 3Q15 normalised earnings. Telekom Malaysia Bhd (TM) reported 3Q15 earnings of RM166.8m. After adjusting for exceptional items amounting to RM33.4m, normalised PATAMI improved by +4.4%yoy to RM200.2m. The growth in the normalised PATAMI was mainly supported by an increase in revenue contribution which expanded by +10.9%yoy to RM2.9b.

9M15 normalised earnings came in slightly weaker than expected. For 9M15, TM's normalised earnings remained relatively flat at RM591.2m as compared to RM591.0m in 9M14. This is despite higher revenue recorded during the period-in-review. The normalised profit was impacted mainly by the operating loss of P1 as well as higher effective tax rate. Note that the segmental loss attributable to P1 amounted to -RM185.5m for 9M15. All in, TM's 9M15 financial performance came in slightly below ours and consensus' estimates, accounting for 69.9% and 66.8% of full year earnings respectively.

Mixed topline performance. TM's 9M15 revenue grew by +5.7%yoy to RM8,537.2m. This was mainly attributable to higher revenue from internet and multimedia, data and voices services. However, this was partially offset by the decline in other telecommunication-related services and non telecommunication-related services.

Broadband customers continue to grow. In total, the broadband customer base expanded by +3.7%yoy in 3Q15 to 2,294k customers. This was mainly driven by the higher Unifi take-up rate where its subscriber base grew by +13.3%yoy to 793k from 700k. However, the overall growth in broadband subscribers was partially offset by lower Streamyx customers which declined by -0.8%yoy to 1,501k.

Higher average revenue per user (ARPU). The ARPU of both Streamyx and UniFi increased marginally by RM6 and RM3 to RM87 and RM192 respectively. Meanwhile, the fixed line segment experienced a slight decline in ARPU to RM29 from RM30.

Maintain NEUTRAL

**Revised Target Price (TP): RM7.01
(previously RM7.10)**

RETURN STATS

Price (26 th November 2015)	RM6.59
Target Price	RM7.01
Expected Share Price Return	+6.4%
Expected Dividend Yield	+3.2%
Expected Total Return	+9.6%

STOCK INFO

KLCI	1,683.09
Bursa / Bloomberg	4863 / T MK
Board / Sector	Main/ Services
Syariah Compliant	Yes
Issued shares (mil)	3,757.9
Par Value (RM)	0.70
Market cap. (RM'm)	24,764.8
Price over NA	3.3X
52-wk price Range	RM6.00 – RM7.79
Beta (against KLCI)	0.81
3-mth Avg Daily Vol	7.1m
3-mth Avg Daily Value	RM47.1m
Major Shareholders (%)	
Khazanah	28.65
EPF	16.36
ASB	14.23
KWAP	3.05


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Moderately lower profit margin. In 9M15, TM recorded a normalised PATAMI margin of 6.9% as compared to 7.0% in 9M14. This was caused by higher proportion of operating cost which made up 88.4% of revenue as compared to 88.2% in 9M14. Higher depreciation and amortisation costs and direct costs related to the acquisition of P1 were incurred during the period.

Higher capital spending in 9M15. TM's increased its capital spending in 9M15 by +21.9%yoy or RM207m to RM1,153m from RM946m in 9M14. This has led to higher capex-to-revenue ratio of 13.5% from 11.7% in 9M14. More than 70% of the capex was allocated to improve its access and core network.

Impact on earnings estimate. We are cutting FY15 and FY16 earnings estimates by -5.2% and -3.9% respectively as we are assuming higher effective tax rate of more than 25% for both financial years.

Maintain NEUTRAL recommendation. Year-to-date, TM's financial performance is still negatively impacted by the consolidation of the operational loss at P1. The group also incurred higher effective tax rate which further reduced the bottomline. However, we view that the high speed broadband (HSBB) phase 2 and sub urban broadband (SUBB) projects will act as catalysts to further boost TM's broadband coverage area while offering higher internet surfing speed. At current share price level, we believe the potential dividend payout will act as an additional sweetener for investor to remain invested in the stock. This is supported by healthy cash holdings of more than RM2.9b as at 3Q15. All in, we reiterate our **NEUTRAL** recommendation on TM with a revised target price of **RM7.01** per share (previously RM7.10) based on Dividend Discount Model valuation methodology. Our target price implies a forward FY16 PER of 28.2x. 

DIVIDEND DISCOUNT MODEL ASSUMPTIONS

Expected market return	10.00%
Risk free rate	4.16%
Beta	0.72
Terminal growth	5.00%
Cost of equity	8.36%

INVESTMENT STATISTICS

FYE 31 st Dec	FY13	FY14	FY15F	FY16F
Revenue (RM'm)	10,628.7	11,235.1	11,545.1	12,255.1
EBIT (RM'm)	1,373.6	1,294.3	1,323.1	1,431.6
PBT (RM'm)	1,046.0	1,105.5	1,112.1	1,189.9
Normalised PATAMI (RM'm)	1,038.5	941.2	801.3	869.0
Normalised EPS (sen)	29.0	25.9	21.6	23.4
EPS growth (%)	17.9	-10.7	-16.6	8.5
PER(x)	22.7	25.4	30.5	28.1
Net Dividend (sen)	26.1	22.9	19.4	21.1
Net Dividend Yield (%)	4.0	3.5	3.0	3.2

Source: Company, MIDFR

Telekom Malaysia: 3Q15 RESULTS SUMMARY

(All in RM'm unless stated otherwise)	Quarterly Results					
FYE Dec	3Q15	% YoY	% QoQ	9M15	9M14	% YoY
Revenue	2,922.5	10.9	2.9	8,537.2	8,077.8	5.7
EBITDA	1,037.7	18.0	11.7	2,814.7	2,675.2	5.2
Depreciation and amortisation	-588.7	3.2	-5.6	-1,816.8	-1,710.3	6.2
EBIT	449.0	45.2	47.0	997.9	964.9	3.4
Other gains/losses	-0.5	-106.1	-37.5	-1.9	6.5	-129.2
Net finance cost	-195.9	250.4	256.8	-327.0	-123.8	164.1
Associate income	6.4	392.3	1.6	18.2	4.2	333.3
PBT	259.0	-1.4	1.1	687.2	851.8	-19.3
Taxation	-123.8	73.6	67.1	-254.1	-217.0	17.1
MI	31.6	-1,270.4	5.0	74.7	-21.3	-450.7
PATAMI	166.8	-11.7	-21.4	507.8	613.5	-17.2
Normalised PATAMI	200.0	4.4	-8.9	591.2	591.0	0.0
EPS (sen)	5.32	1.9	-9.7	15.8	16.4	-3.3
		+/- ppts	+/- ppts			+/- ppts
EBITDA margin (%)	35.5	2.1	2.8	33.0	33.1	-0.1
EBIT margin (%)	15.4	3.6	4.6	11.7	11.9	-0.3
Normalised PATAMI margin (%)	6.8	-0.4	-0.9	6.9	7.3	-0.4
Effective tax rate (%)	47.8	20.7	18.9	37.0	25.5	11.5

Source: Company, MIDFR

DAILY PRICE CHART



Source: MIDFR, Company

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.