

# Telekom Malaysia Berhad

(4863 | T MK) Telecommunications & media | Telecommunications service providers

**Maintain NEUTRAL**

## Saved by Recognition of Tax Credits

**Revised Target Price: RM5.22**  
(Previously: RM5.17)

### KEY INVESTMENT HIGHLIGHTS

- **Maintain NEUTRAL with a slight revision on TP of RM5.22 to account for 2QFY23 financial performance**
- **The outperformance seen in 2QFY23 earnings of RM568.7m (+50.5%yoy) was mainly attributable to recognition of tax credit**
- **That said, 2QFY23 EBIT was under pressure (-9.3%yoy) as stagnant revenue was impacted by higher operating costs**
- **Anticipating a more challenging 2HFY23 on concern of escalating cost as well as potential downside from the new MSAP**

**Expecting earnings pressure in 2HFY23.** We are keeping our **NEUTRAL** recommendation on Telekom Malaysia (TM) with a revised **target price of RM5.22** after taking into consideration 2QFY23 financial performance. The surge in the quarterly earnings was mainly driven by the recognition of tax credits as the profit before tax was down by -10.3%yoy. Moreover, we anticipate a more challenging 2HFY23 due to higher operating costs as well as potential downside from the new MSAP.

**Highest quarterly earnings.** TM's 2QFY23 earnings surged by more than +50.4%yoy to RM568.7m. The overperformance was mainly in view of the recognition of tax credits from the utilization of previously unrecognized tax losses.

Notwithstanding this, the profit before tax fell by -10.3%yoy to RM488.8m, impacted by higher operating costs. Meanwhile, 2QFY23 revenue was stagnant at RM3.1b. (+0.3%yoy) due to dwindling revenue from TM One.

**Better-than-expected cumulative performance.** The positive 2QFY23 earnings performance pushed up 1HFY23 earnings to RM898.8m, an increase of +25.2%yoy. Note that the marginal increase in revenue to RM6.0b (+1.1%yoy) was insufficient to make up for the higher operating cost, leading to -10.6%yoy reduction in EBIT to RM1,046.2m.

All in, 1HFY23 financial performance surpass our expectation, making up 72.2% of our FY23 full year earnings estimates.

Figure 1: 1HFY23 revenue performance

Segment	6MFY23	6MFY22	Change (%)	Remark
unifi	2,845	2,779	2.4	Higher subscribers driven by enhanced campaigns and offerings that suit customer needs
TM One	1,454	1,600	-9.1	Price reduction from large contracts
TM Gobal	1,463	1,365	7.2	Higher domestic data, international managed wavelenght and global co-location

Source: Company, MIDFR

**Higher cost ratio.** The total cost to revenue ratio for 1HFY23 stood at 82.6%, up from 79.4% a year ago. This was mainly due to higher cost across direct cost (+1.0%yoy), operational cost (+23.5%) and depreciation and amortization cost (+16.6%). Only the manpower cost saw a reduction of -10.3%yoy due to manpower rationalisation exercise.

RETURN STATISTICS	
Price @ 25 <sup>th</sup> August 2023 (RM)	5.08
Expected share price return (%)	+2.8
Expected dividend yield (%)	+3.3
<b>Expected total return (%)</b>	<b>+6.1</b>

### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.0	0.4
3 months	3.1	-3.3
12 months	-15.7	-12.4

### INVESTMENT STATISTICS (RM)

FYE December	2023E*	2024F	2025F
Revenue	12,128.6	12,276.7	12,468.3
Operating Profit	2,000.2	2,077.4	2,116.2
Profit Before Tax	1,644.0	1,734.3	1,802.0
Core PATAMI	1,579.1	1,664.9	1,585.1
Core EPS (sen)	41.5	43.7	41.6
DPS (sen)	15.5	16.5	18.0
Dividend Yield (%)	3.1	3.3	3.6

### KEY STATISTICS

FBM KLCI	1,444.41
Issue shares (m)	3,821.98
Estimated free float (%)	32.94
Market Capitalisation (RM'm)	19,339.20
52-wk price range	RM4.74 -RM6.06
3-mth average daily volume (m)	2.60
3-mth average daily value (RM'm)	13.06
Top Shareholders (%)	
Khazanah Nasional Bhd	20.18
Employees Provident Fund Board	16.69
Amanah Saham Nasional Bhd	15.12

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**Capex will continue to grow.** 1H FY23 capex rose by +11.5%yoy to RM943m which focuses mainly on expanding access (+42.0%yoy). This led to a higher capex-to-revenue ratio of 15.6%. Nonetheless, given the group's FY23 capex-to-revenue ratio guidance of 18% to 20%, there should be a surge in 2H FY22. This should also be centred on improving access.

**Upward revision in earnings estimates.** Taking cue from the 2Q FY23 results, we are adjusting our effective tax rate much lower to single digit. As a result, FY23 to FY24 earnings are revised to between RM1,579m to RM1,665m. As such, our target price has also been tweaked higher to RM5.22 from RM5.17 while we make no changes to our valuation parameters.

## TELEKOM MALAYSIA BHD: 2QFY23 RESULTS SUMMARY

Financial year ending 31 <sup>st</sup> December (in RM'm, unless otherwise stated)	Quarterly Results			Cumulative		
	2Q23	YoY (%)	QoQ (%)	2023	2022	YoY (%)
Revenue	3,098.5	0.3	5.0	6,050	5,982	1.1
EBITDA	1,221.8	-2.2	-2.5	2,474.7	2,395.1	3.3
Depreciation and amortisation	-652.5	5.0	-15.9	-1,429	-1,225	16.6
EBIT	569.3	-9.3	19.4	1,046.2	1,169.9	-10.6
Finance costs	-105.9	2.6	34.1	-185	-199	-7.0
Finance income	22.4	35.8	10.3	43	34	26.7
Associate contribution	3.0	-23.1	7.1	6	7	-21.6
Profit before tax	488.8	-10.3	16.1	910	1,012	-10.1
Taxation	82.6	-149.8	-192.2	-7	-293	-97.6
Profit after tax	571.4	50.6	72.4	902.8	719	25.6
Non controlling interest	2.7	107.7	107.7	4	1	263.6
PATANCI	568.7	50.4	72.3	898.8	717.9	25.2
EPS (sen)	14.8	49.2	72.2	23.4	7.8	200.3
EBITDA margin (%)	32.6			40.9	40.0	
EBIT margin (%)	11.5			17.3	19.6	
PATANCI margin (%)	18.4			14.9	12.0	
Effective tax rate (%)	-16.9			0.8	29.0	

Source: Company, MIDFR

## FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	11,529.0	12,118.1	12,128.6	12,276.7	12,468.3
EBITDA	4,280.2	4,850.5	4,661.4	4,696.7	4,721.7
EBIT	1,645.5	1,987.6	2,000.2	2,077.4	2,116.2
Profit before tax	1,246.8	1,686.5	1,644.0	1,734.3	1,802.0
PATANCI	895.2	1,143.3	1,579.1	1,664.9	1,585.1
EPS (sen)	23.5	30.0	41.5	43.7	41.6
EPS Growth (%)	32.8	27.7	38.3	5.4	-4.8
PER (x)	22	17	12	12	12
Dividend Per Share (sen)	13	16.5	15.5	16.5	18.0
Dividend yield (%)	2.6	3.3	3.1	3.3	3.6
Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Fixed assets	13,356.1	13,547.0	12,433.4	12,023.8	11,662.6
Intangible assets	665.4	745.8	665.4	665.4	665.4
Others	2,636.4	2,439.1	4,317.4	4,329.4	4,341.4
<b>Non-current assets</b>	<b>16,657.9</b>	<b>16,731.9</b>	<b>17,416.2</b>	<b>17,018.7</b>	<b>16,669.5</b>
Cash	2,733.8	2,579.4	3,790.0	5,225.1	6,480.2
Trade debtors	2,050.8	2,312.3	2,157.5	2,183.8	2,217.9
Others	1,388.6	1,507.7	1,397.8	1,400.1	1,403.0
<b>Current assets</b>	<b>6,173.2</b>	<b>6,399.4</b>	<b>7,345.3</b>	<b>8,809.0</b>	<b>10,101.1</b>
Trade creditors	3,633.7	3,718.0	3,822.7	3,869.4	3,929.7
Short-term debt	381.6	309.7	381.6	381.6	381.6
Others	1,418.4	1,429.6	1,418.4	1,418.4	1,418.4
<b>Current liabilities</b>	<b>5,433.7</b>	<b>5,457.3</b>	<b>5,622.7</b>	<b>5,669.4</b>	<b>5,729.7</b>
Long-term debt	5,338.4	4,959.6	5,338.4	5,338.4	5,338.4
Others	4,731.1	4,625.3	4,731.1	4,731.1	4,731.1
<b>Non-current liabilities</b>	<b>10,069.5</b>	<b>9,584.9</b>	<b>10,069.5</b>	<b>10,069.5</b>	<b>10,069.5</b>
Share capital	3,729.0	3,986.5	3,729.0	3,729.0	3,729.0
Retained earnings	3,490.3	3,730.0	5,266.3	6,303.1	7,202.9
Other reserve	283.2	220.0	283.2	283.2	283.2
Minority interest	-174.6	152.6	-209.2	-226.5	-243.8
<b>Equity</b>	<b>7,327.9</b>	<b>8,089.1</b>	<b>9,069.3</b>	<b>10,088.8</b>	<b>10,971.3</b>
Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	1,246.8	1,686.5	1,644.0	1,734.3	1,802.0
Depreciation & amortisation	2,634.7	2,862.9	2,661.2	2,619.4	2,605.5
Others	-905.9	-1,283.6	-169.9	-177.5	-348.6
<b>Operating cash flow</b>	<b>2,975.6</b>	<b>3,265.8</b>	<b>4,135.3</b>	<b>4,176.2</b>	<b>4,058.9</b>
Capital expenditure	-1,903.7	-2,663.8	-2,050.8	-2,183.2	-2,209.8
Others	-416.5	1,328.9	-48.7	70.2	91.2
<b>Investing cash flow</b>	<b>-2,320.2</b>	<b>-1,334.9</b>	<b>-2,099.5</b>	<b>-2,113.0</b>	<b>-2,118.6</b>
Debt raised/(repaid)	-1,953.0	-571.1	0.0	0.0	0.0
Dividends paid	-547.2	-386.9	-533.0	-590.1	-628.1
Others	5,446.3	2,423.6	0.0	0.0	0.0
<b>Financing cash flow</b>	<b>2,946.1</b>	<b>1,465.6</b>	<b>-533.0</b>	<b>-590.1</b>	<b>-628.1</b>
<b>Net cash flow</b>	<b>-2,290.7</b>	<b>465.3</b>	<b>1,445.7</b>	<b>1,435.1</b>	<b>1,255.1</b>
<b>Effect of exchange rate changes</b>	<b>24.3</b>	<b>-1.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Beginning cash flow</b>	<b>4,146.4</b>	<b>1,880.0</b>	<b>2,344.3</b>	<b>3,790.0</b>	<b>5,225.1</b>
<b>Ending cash flow</b>	<b>1,880.0</b>	<b>2,344.3</b>	<b>3,790.0</b>	<b>5,225.1</b>	<b>6,480.2</b>
Profitability Margins	2021A	2022A	2023E	2024F	2025F
EBITDA margin	37.1	40.0	38.4	38.3	37.9
PBT margin	10.8	13.9	13.6	14.1	14.5
PATAMI margin	7.8	9.4	13.0	13.6	12.7

Source: Company, MIDFR

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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.

#### ESG RECOMMENDATIONS\* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

\* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology