

Telekom Malaysia Berhad

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

Maintain NEUTRAL

A More Competitive Unifi Offering

Unchanged Target Price: RM5.22

KEY INVESTMENT HIGHLIGHTS

- **Maintain NEUTRAL with an unchanged TP of RM5.22 post the group's briefing on the downward revision to the fibre broadband pricing**
- **TM refreshed its unifi offering with more competitive pricing and higher entry level plan of RM99/month**
- **We foresee minimal impact to ARPU with management remain steadfast on their FY23 market guidance**
- **There is also effort to reinvigorate the mobile business via the offering of the RM149/mth bundle pack**

Not that big of a concern. We are keeping our **NEUTRAL** recommendation on Telekom Malaysia Bhd (TM) with an unchanged **target price of RM5.22**. This is subsequent to the group briefing on the recent revision to the unifi broadband plan. We view that the downward revision in unifi price offering will translate into minimal impact on the ARPU and thus earnings. This is premised on: i) higher entry level plan of RM99/month, ii) low risk of downgrade in broadband plan, and iii) free speed upgrade for existing subscriber. Our view is also in tandem with the management decision to retain the existing market guidance for FY23.

New price offerings. Premised on the revised Mandatory Standard on Access Pricing (MSAP), Telekom Malaysia (TM) has introduced a new set of fibre broadband pricing for new subscribers. Under the revised offerings, the entry level plan is 100mbps at RM99 per month. The 30mbps plan @ RM69/mth is no longer available to the masses. It, rather, has been put under the "Rahmah" package which primarily caters to the B40 communities, senior citizens, persons with disabilities and veterans of the armed forces and police. On another note, existing users will be entitled to free speed upgrade. The upgrade will be rolled out in phases and will be completed in three months.

Figure 1: Price comparison

Plan	New Price (RM)	New rate (RM/mbps)	Old price (RM)	Old rate (RM/mbps)	Price reduction (%)	Price reduction (RM)
30mbps	n.a.	n.a.	79	n.a.	n.a.	n.a.
100mbps	99	0.99	129	1.29	-23.3	30
300mbps	139	0.46	149	0.50	-6.7	10
500mbps	159	0.32	209	0.42	-23.9	50
1gbps	289	0.29	289	0.29	n.a.	n.a.
2gbps	319	0.16	319	0.16	n.a.	n.a.

Source: Company, MIDFR

Lower fibre broadband rate. Under the revised plan, the 100mbps and 500mbps plan saw a price reduction of between -23% to -24%. While the 300mbps plan only saw a -6.7% reduction in price. On another note, the 1gbps and 2gbps have been made available for standalone option.

Based on the price reduction, it seems that the group seems to focus on the 100mbps and 500mbps plan. We view that this could be for competitive reasons. For context, Time dotcom's is offering 100mbps at RM99/month and 500mbps at RM139/month. It does not have a 300mbps plan.

RETURN STATISTICS

Price @ 6 th October 2023 (RM)	4.93
Expected share price return (%)	+5.9
Expected dividend yield (%)	+3.3
Expected total return (%)	+9.2

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-4.5	-1.6
3 months	0.2	-0.9
12 months	-9.9	-9.8

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	3.7


KEY STATISTICS

FBM KLCI	1,416.88
Issue shares (m)	3,821.00
Estimated free float (%)	33.10
Market Capitalisation (RM'm)	18,837.70
52-wk price range	RM4.74 -RM5.70
3-mth average daily volume (m)	2.61
3-mth average daily value (RM'm)	13.11
Top Shareholders (%)	
Khazanah Nasional Bhd	20.180
Employees Provident Fund Board	17.03
Amanah Saham Nasional Bhd	15.06

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Minimal impact to ARPU. We do not foresee the revised offering will lead to greater ARPU dilution on several grounds. The entry plan has been raised to RM99/month while the RM69/month plan is limited to a targeted set of subscribers. Existing unifi subscribers are also entitled to free speed upgrade. For instance, those on the 30mbps plan will be upgraded to 100mbps while maintaining their subscription price. Moreover, we foresee little risk for customers who have been upgraded to 300mbps plan and above to downgrade their plan. Should the risk arise, we believe that TM will put in place its customer retention strategies.

All factors considered; we are keeping our earnings estimates unchanged at this juncture. This is also in tandem with the management's view to retain their existing market guidance for FY23 which includes: i) flat revenue growth, ii) EBIT of around RM1.8b to RM2.0b and iii) capex to revenue ratio of between 18% to 20%.

Reigniting the mobile business. On a separate note, TM also introduced a RM149 package which consists of 100mbps home fibre broadband, unlimited 4G+5G postpaid and a free 5G smartphone. This, however, comes with a 36-month contract. We view that TM is taking this opportunity to reignite their mobile business which has better network proposition. This will also provide another avenue for the group to diversify its revenue stream. For context, the group has tapped into Maxis' 4G network to improve its nationwide mobile coverage as well as DNB's 5G network. Prior to this, TM also appointed Jasmine Lee, who was previously the Chief Digital Officer and Chief Marketing Officer of U Mobile, to spearhead the mobile division. 

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)	21	16	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	3.7
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
Non-current assets	16,657.9	16,731.9	17,416.2	17,018.7	16,669.5
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
Current assets	6,173.2	6,399.4	7,345.3	8,809.0	10,101.1
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
Current liabilities	5,433.7	5,457.3	5,622.7	5,669.4	5,729.7
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
Non-current liabilities	10,069.5	9,584.9	10,069.5	10,069.5	10,069.5
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
Equity	7,327.9	8,089.1	9,069.3	10,088.8	10,971.3
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
Operating cash flow	2,975.6	3,265.8	4,135.3	4,176.2	4,058.9
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
Investing cash flow	-2,320.2	-1,334.9	-2,099.5	-2,113.0	-2,118.6
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
Financing cash flow	2,946.1	1,465.6	-533.0	-590.1	-628.1
Net cash flow	-2,290.7	465.3	1,445.7	1,435.1	1,255.1
Effect of exchange rate changes	24.3	-1.0	0.0	0.0	0.0
Beginning cash flow	4,146.4	1,880.0	2,344.3	3,790.0	5,225.1
Ending cash flow	1,880.0	2,344.3	3,790.0	5,225.1	6,480.2
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