

## Telekom Malaysia Berhad

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

### Earnings Boosted by Tax Credit

#### KEY INVESTMENT HIGHLIGHTS

- **Maintain NEUTRAL with an unchanged target price of RM5.22 following 3QFY23 results announcement**
- **The quarterly performance continues to be buoyed by the utilisation of deferred tax asset**
- **Earnings adjustment was made for FY23 only to account for the current run rate of deferred tax asset**
- **Anticipating a challenging 4QFY23 resulting from the revision in MSAP**

**Yet to feel full quarterly impact on the revised MSAP.** We are keeping our **NEUTRAL** recommendation on Telekom Malaysia (TM) with an unchanged **target price of RM5.22** after taking into consideration 3QFY23 financial performance. The surge in the quarterly earnings was mainly driven by the recognition of tax credits. Nonetheless, we anticipate a more challenging time from 4QFY23 onwards due to the revision in MSAP as well as higher operating costs.

**Quarterly earnings doubled.** TM's 3QFY23 earnings grew by more than +100%yoy RM538.2m. This was mainly attributable to the tax credit of RM37.2m as opposed to tax charge of RM195.5m for 3QFY22. Note that the group utilised deferred tax assets amounting to RM114.5m.

Notwithstanding this, profit before tax grew by +9.7%yoy due to the improvement in cost structure as revenue dipped -2.6%yoy to RM3,076.3m.

**Better-than-expected cumulative performance.** The above led to better-than-expected 9MFY23 earnings of RM1,437.0m (+46.2%yoy). The profit before tax dwindled by -3.9%yoy to RM1,414.8m as revenue remains stagnant at RM9.1b (-0.1%yoy).

All in, 9MFY23 financial performance came in slightly better than expected at 90% of our FY23 full year earnings estimates.

**Figure 1: 9MFY23 revenue performance**

Segment	9MFY23	9MFY22	Change (%)	Remark
unifi	4,255	4,179	1.8	Higher subscribers driven by enhanced convergence campaigns and aggressive retention services
TM One	2,166	2,459	-11.9	Price reduction from large contracts, deferred customer projects and projects in delivery
TM Global	2,271	2,135	6.4	Higher domestic and international data

Source: Company, MIDFR

**Cost ratio remains elevated.** The total cost to revenue ratio for 9MFY23 stands at 82.8%, up from 80.5% a year ago. This was mainly due to higher operational cost (+23.7%) and depreciation and amortization cost (+11.1%). The direct cost and manpower cost saw a reduction of -7.5%yoy and -10.3%yoy respectively.

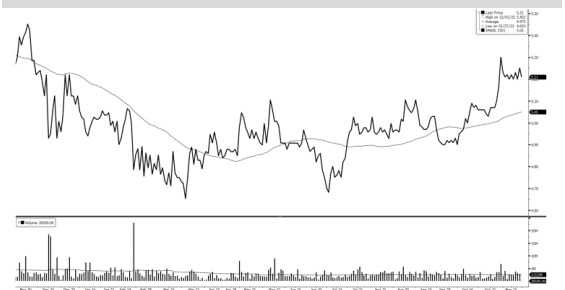
**Maintain NEUTRAL**

**Unchanged Target Price: RM5.22**

#### RETURN STATISTICS

Price @ 23 <sup>rd</sup> November 2023 (RM)	5.23
Expected share price return (%)	-0.2
Expected dividend yield (%)	+3.3
<b>Expected total return (%)</b>	<b>+3.1</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	2.6	1.4
3 months	6.3	2.0
12 months	-4.4	-5.4

#### 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	1,645.8	1,737.9	1,805.7
Core PATAMI	1,745.4	1,668.3	1,588.3
Core EPS (sen)	45.8	43.8	41.7
DPS (sen)	15.5	16.5	18.0
Dividend Yield (%)	3.0	3.2	3.4

#### KEY STATISTICS

FBM KLCI	1,453.29
Issue shares (m)	3,821.98
Estimated free float (%)	33.19
Market Capitalisation (RM'm)	19,988.68
52-wk price range	RM4.74 - RM5.70
3-mth average daily volume (m)	2.54
3-mth average daily value (RM'm)	12.87
Top Shareholders (%)	
Khazanah Nasional Bhd	20.10
Employees Provident Fund Board	17.17
Amanah Saham Nasional Bhd	15.06

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**Capex will continue to grow.** 9MFY23 capex rose tapered off by -4.7%yoy to RM1381m due to lower spending on core(-37.2%yoy) and support (-23.7%yoy). This led to a slightly lower capex-to-revenue ratio of 15.1%. Nonetheless, given the group's FY23 capex-to-revenue ratio guidance of 18% to 20%, there should be a surge in 4Q23. This should also center around improving access which normally forms more than half of total capital spending.

**Limited revision in earnings estimates.** Taking cue from the 3QFY23 results, we are only adjusting FY23 earnings estimate higher by +10.5% as we adjust our tax assumption to reflect the usage of tax credit. No changes were made to FY24 and FY25 earnings estimates at this juncture. As such, our **target price** remains unchanged at **RM5.22**.

## TELEKOM MALAYSIA BHD: 3QFY23 RESULTS SUMMARY

Financial year ending 31 <sup>st</sup> December (in RM'm, unless otherwise stated)	Quarterly Results			Cumulative		
	3Q23	YoY (%)	QoQ (%)	2023	2022	YoY (%)
Revenue	3,076.3	-2.6	-0.7	9,126.3	9,139.8	-0.1
EBITDA	1,220.7	3.3	-0.1	3,695.4	3,577.1	3.3
Depreciation and amortisation	-659.6	0.8	1.1	-2,088.1	-1,879.3	11.1
EBIT	561.1	6.3	-1.4	1,607.3	1,697.8	-5.3
Finance costs	-87.5	-1.7	-17.4	-272.4	-287.8	-5.4
Finance income	27.3	41.5	21.9	70.0	53.0	32.1
Associate contribution	4.1	95.2	36.7	9.9	9.5	4.2
Profit before tax	505.0	9.7	3.3	1,414.8	1,472.5	-3.9
Taxation	37.2	-119.0	-55.0	30.2	-488.7	-106.2
Profit after tax	542.2	104.8	-5.1	1,445.0	983.8	46.9
Non-controlling interest	4.0	-1100.0	48.1	8.0	0.7	1042.9
PATANCI	538.2	102.9	-5.4	1,437.0	983.1	46.2
EPS (sen)	14.0	101.2	72.2	37.4	25.8	44.9
EBITDA margin (%)	-3.2			40.5	39.1	
EBIT margin (%)	18.2			17.6	18.6	
PATANCI margin (%)	17.5			15.7	10.8	
Effective tax rate (%)	-7.4			-2.1	33.2	

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	1,645.8	1,737.9	1,805.7
PATANCI	895.2	1,143.3	1,745.4	1,668.3	1,588.3
EPS (sen)	23.5	30.0	45.8	43.8	41.7
EPS Growth (%)	32.8	27.7	52.8	-4.4	-4.8
PER (x)	22	17	11	12	13
Dividend Per Share (sen)	13	16.5	15.5	16.5	18.0
Dividend yield (%)	2.5	3.2	3.0	3.2	3.4
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	3,956.3	5,394.8	6,653.1
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>7,511.6</b>	<b>8,978.7</b>	<b>10,274.0</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	5,432.6	6,472.8	7,375.8
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>9,235.6</b>	<b>10,258.5</b>	<b>11,144.2</b>
Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	1,246.8	1,686.5	1,645.8	1,737.9	1,805.7
Depreciation & amortisation	2,634.7	2,862.9	2,661.2	2,619.4	2,605.5
Others	-905.9	-1,283.6	-7.2	-181.3	-352.8
<b>Operating cash flow</b>	<b>2,975.6</b>	<b>3,265.8</b>	<b>4,299.7</b>	<b>4,176.0</b>	<b>4,058.4</b>
Capital expenditure	-1,903.7	-2,663.8	-2,050.8	-2,183.2	-2,209.8
Others	-416.5	1,328.9	-46.9	73.8	94.9
<b>Investing cash flow</b>	<b>-2,320.2</b>	<b>-1,334.9</b>	<b>-2,097.7</b>	<b>-2,109.4</b>	<b>-2,114.9</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>1,612.0</b>	<b>1,438.5</b>	<b>1,258.3</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>3,956.3</b>	<b>5,394.8</b>
<b>Ending cash flow</b>	<b>1,880.0</b>	<b>2,344.3</b>	<b>3,956.3</b>	<b>5,394.8</b>	<b>6,653.1</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	14.2	14.5
PATAMI margin	7.8	9.4	14.4	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