



# Telekom Malaysia Berhad

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

**Maintain NEUTRAL**

## Effective Tax Rate to Normalise in FY24

**Unchanged Target Price: RM5.58**  
(Previously RM5.22)

### KEY INVESTMENT HIGHLIGHTS

- **Maintain NEUTRAL with a revised target price of RM5.58 following 4QFY23 results announcement**
- **FY23 financial performance come in slightly better than expected due to favourable taxation**
- **Effective tax rate should return to normalcy from FY24**
- **Anticipating earnings to trend lower for the next two years as the future revenue growth unable to make up for the normalization of effective tax rate**

**Earnings pressure in FY24.** We are keeping our **NEUTRAL** recommendation on Telekom Malaysia (TM) with a **revised target price of RM5.58** (previously RM5.22) after taking into consideration 4QFY23 results and FY24 guidance from the management. We anticipate steady revenue from across all the segments. However, we view that it would be insufficient to make up for the normalization of tax rate in FY24 following the utilization of the tax credit as seen in FY23.

**Quarterly earnings doubled.** TM's 4QFY23 earnings grew by more than +100%yoy RM433.5m. This was mainly attributable to the tax credit of RM46.3m as opposed to tax charge of -RM53.6m for 4QFY22.

Notwithstanding this, profit before tax expanded by +84.0%yoy to RM 393.7m in view of lower depreciation and amortization charges of RM707.6m (-28.1%yoy).

**Better-than-expected annual performance.** The above led to better-than-expected FY23 earnings of RM1,870.5m (+46.2%yoy). In absence of the tax credit, we deduced that the earnings would only improve by about +6.5%yoy. The profit before tax only grew by +7.2%yoy to RM1,686.5m. as revenue remains stagnant at RM12.2b (+1.1%yoy).

All in, FY23 financial performance came in slightly better than expected at 107.2% of our FY23 full year earnings estimates.

**Figure 1: FY23 revenue performance**

Segment	FY23	Fy22	Change (%)	Remark
unifi	5,664	5,648	0.3	Higher fixed broadband subscribers
TM One	3,142	3,470	-9.5	Deferred customer project opportunities and price adjustments for certain service contracts
TM Gopal	3,099	2,852	8.7	Higher domestic and international data

Source: Company, MIDFR

**Cost ratio remains elevated.** The total cost to revenue ratio for FY23 stood at 84.2%, up from 83.9% a year ago. This was mainly due to higher operational cost of RM2.0b (+16.0%). Meanwhile, the direct cost, manpower and depreciation and amortization costs declined between -0.5%yoy to -2.3%yoy.

### RETURN STATISTICS

Price @ 23 <sup>rd</sup> February 2024 (RM)	5.91
Expected share price return (%)	-5.6
Expected dividend yield (%)	+2.9
<b>Expected total return (%)</b>	<b>-2.7</b>

### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.0	-3.0
3 months	6.5	6.4
12 months	17.7	-12.1

### INVESTMENT STATISTICS (RM)


FYE December	2024E*	2025F	2026F
Revenue	12,463.3	12,650.9	12,809.1
Operating Profit	2,161.7	2,323.6	2,431.4
Profit Before Tax	1,980.7	2,204.1	2,322.6
Core PATAMI	1,688.9	1,528.4	1,611.3
Core EPS (sen)	44.0	39.8	42.0
DPS (sen)	17.0	18.5	19.5
Dividend Yield (%)	2.9	3.1	3.3

### KEY STATISTICS

FBM KLCI	1,549.11
Issue shares (m)	3,821.0
Estimated free float (%)	33.47
Market Capitalisation (RM'm)	22,680.38
52-wk price range	RM4.74 -RM6.08
3-mth average daily volume (m)	4.11
3-mth average daily value (RM'm)	23.24
Top Shareholders (%)	
Khazanah Nasional Bhd	20.10
Employees Provident Fund Board	17.38
Amanah Saham Nasional Bhd	15.06

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**Capex takes a back seat in FY23.** FY23 capex tapered off by -20.0%yoy to RM1,944m due to lower spending across access (-2.4%yoy), core (-34.6%yoy) and support (-37.4%yoy). This led to a lower capex-to-revenue ratio of 15.9% from 20.0% achieved in FY22. Nonetheless, given the group's FY24 capex-to-revenue ratio guidance of 14% to 18%, capex could potentially come in at above RM2b.

**Limited revision in earnings estimates.** Taking cue from the FY23 results as well as the group's FY24 guidance, we are only adjusting FY24 and FY25 earnings estimates by +1.2% and -3.8% respectively. However, our DCF derived target price has been revised up to RM5.58 from RM5.22 previously. Note that beyond FY25 we have assumed better EBITDA performance. 

## TELEKOM MALAYSIA BHD: 4QFY23 RESULTS SUMMARY

Financial year ending 31 <sup>st</sup> December (in RM'm, unless otherwise stated)	Quarterly Results			Cumulative		
	4Q23	YoY (%)	QoQ (%)	2023	2022	YoY (%)
Revenue	3,129.3	5.1	1.7	12,255.6	12,118.1	1.1
EBITDA	1,150.4	-9.7	-5.8	4,845.8	4,850.5	-0.1
Depreciation and amortisation	-707.6	-28.1	7.3	-2,795.7	-2,862.9	-2.3
EBIT	442.8	52.8	-21.1	2,050.1	1,987.6	3.1
Finance costs	-93.6	-5.7	7.0	-366.0	-387.1	-5.5
Finance income	41.3	89.4	51.3	111.3	74.8	48.8
Associate contribution	3.2	88.2	-22.0	13.1	11.2	17.0
Profit before tax	393.7	84.0	-22.0	1,808.5	1,686.5	7.2
Taxation	46.3	-186.4	24.5	76.5	-542.3	-114.1
Profit after tax	440.0	174.3	-18.8	1,885.0	1,144.2	64.7
Non-controlling interest	6.5	3150.0	62.5	14.5	0.9	1511.1
PATANCI	433.5	170.6	-19.5	1,870.5	1,092.2	71.3
EPS (sen)	11.3	169.1	-19.7	48.7	28.7	70.1
		+/-ppts	+/-ppts			+/-ppts
EBITDA margin (%)	36.8	-6.0	-2.9	39.5	40.0	-0.5
EBIT margin (%)	14.2	4.4	-4.1	16.7	16.4	0.3
PATANCI margin (%)	13.9	8.5	-3.6	15.3	9.0	6.2
Effective tax rate (%)	-11.8	-36.8	-4.4	-4.2	32.2	-36.4

Source: Company, MIDFR

**FINANCIAL SUMMARY**

<b>Income Statement (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
Revenue	12,118.1	12,255.6	12,463.3	12,650.9	12,809.1
EBITDA	4,850.5	4,913.0	5,080.1	5,106.3	5,112.7
EBIT	1,987.6	2,050.1	2,161.7	2,323.6	2,431.4
Profit before tax	1,686.5	1,808.5	1,980.7	2,204.1	2,322.6
PATANCI	1,143.3	1,870.5	1,688.9	1,528.4	1,611.3
EPS (sen)	30.0	48.7	44.0	39.8	42.0
EPS Growth (%)	27.7	62.5	-9.7	-9.5	5.4
PER (x)	20	12	13	15	14
Dividend Per Share (sen)	16.5	25	17	18.5	19.5
Dividend yield (%)	2.8	4.2	2.9	3.1	3.3
<b>Balance Sheet (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
Fixed assets	13,547.0	13,026.4	12,351.4	11,845.8	11,470.1
Intangible assets	745.8	903.0	903.0	903.0	903.0
Others	2,439.1	2,491.4	2,504.5	2,517.6	2,530.7
<b>Non-current assets</b>	<b>16,731.9</b>	<b>16,420.8</b>	<b>15,758.9</b>	<b>15,266.4</b>	<b>14,903.8</b>
Cash	2,579.4	2,955.2	4,677.5	6,011.2	7,258.4
Trade debtors	2,312.3	2,275.0	2,313.6	2,348.4	2,377.7
Others	1,507.7	1,284.8	1,288.3	1,291.4	1,294.0
<b>Current assets</b>	<b>6,399.4</b>	<b>6,515.0</b>	<b>8,279.3</b>	<b>9,651.0</b>	<b>10,930.2</b>
Trade creditors	3,718.0	3,033.3	3,084.7	3,131.1	3,170.3
Short-term debt	309.7	1,226.4	1,226.4	1,226.4	1,226.4
Others	1,429.6	1,614.5	1,614.5	1,614.5	1,614.5
<b>Current liabilities</b>	<b>5,457.3</b>	<b>5,874.2</b>	<b>5,925.6</b>	<b>5,972.0</b>	<b>6,011.2</b>
Long-term debt	4,959.6	3,536.8	3,536.8	3,536.8	3,536.8
Others	4,625.3	4,202.2	4,202.2	4,202.2	4,202.2
<b>Non-current liabilities</b>	<b>9,584.9</b>	<b>7,739.0</b>	<b>7,739.0</b>	<b>7,739.0</b>	<b>7,739.0</b>
Share capital	3,986.5	4,070.2	4,070.2	4,070.2	4,070.2
Retained earnings	3,730.0	4,950.9	5,987.3	6,805.7	7,668.6
Other reserve	220.0	141.9	141.9	141.9	141.9
Minority interest	152.6	159.6	174.1	188.6	203.1
<b>Equity</b>	<b>8,089.1</b>	<b>9,322.6</b>	<b>10,373.5</b>	<b>11,206.4</b>	<b>12,083.8</b>
<b>Cash Flow (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
PBT	1,686.5	1,808.5	1,980.7	2,204.1	2,322.6
Depreciation & amortisation	2,795.7	2,862.9	2,918.4	2,782.7	2,681.3
Others	-1,216.4	-985.3	-434.5	-880.8	-928.4
<b>Operating cash flow</b>	<b>3,265.8</b>	<b>3,686.1</b>	<b>4,464.6</b>	<b>4,106.0</b>	<b>4,075.5</b>
Capital expenditure	-2,663.8	-2,193.1	-2,193.1	-2,243.4	-2,277.2
Others	1,328.9	549.2	103.2	181.2	197.2
<b>Investing cash flow</b>	<b>-1,334.9</b>	<b>-1,643.9</b>	<b>-2,089.9</b>	<b>-2,062.2</b>	<b>-2,079.9</b>
Debt raised/(repaid)	-571.1	0.0	0.0	0.0	1.0
Dividends paid	-386.9	-649.6	-649.6	-652.5	-710.0
Others	-507.6	-1,038.2	-1,038.2	0.0	-1.0
<b>Financing cash flow</b>	<b>-1,465.6</b>	<b>-1,687.8</b>	<b>-1,687.8</b>	<b>-652.5</b>	<b>-710.0</b>
<b>Net cash flow</b>	<b>465.3</b>	<b>354.4</b>	<b>1,722.3</b>	<b>1,333.7</b>	<b>1,247.2</b>
<b>Effect of exchange rate changes</b>	<b>-1.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>1.0</b>
<b>Beginning cash flow</b>	<b>1,880.0</b>	<b>2,344.8</b>	<b>2,697.9</b>	<b>4,420.2</b>	<b>5,753.9</b>
<b>Ending cash flow</b>	<b>2,344.8</b>	<b>2,697.9</b>	<b>4,420.2</b>	<b>5,753.9</b>	<b>7,001.1</b>
<b>Profitability Margins</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
EBITDA margin	40.0	40.1	40.8	40.4	39.9
PBT margin	13.9	14.8	15.9	17.4	18.1
PATAMI margin	9.4	15.3	13.6	12.1	12.6

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