

**Telekom Malaysia Berhad**

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

Maintain NEUTRAL**Saved by Lower Depreciation and Amortisation Cost****Revised Target Price: RM6.15***(Previously RM5.58)***KEY INVESTMENT HIGHLIGHTS**

- **Maintain NEUTRAL with a revised target price of RM6.15 following the 1QFY24 results announcement**
- **1QFY24 earnings came in at RM424.8m (+28.7%yoy), in-line with our expectation**
- **Earnings was mainly boosted by the lower depreciation and amortisation cost as growth in revenue was only marginal**
- **Low capex to start off FY24 which should gradually pick up pace in the coming quarters, in-line with the usual trend**

Marginal revenue growth. We are keeping our **NEUTRAL** recommendation on Telekom Malaysia (TM) with a **revised target price of RM6.15** (previously RM5.58) pursuant to the release of 1QFY24 results. 1QFY24 financial performance came in within our expectations. Only TM Global contributed to the revenue growth while unifi and TM One saw contraction in revenue. Nonetheless, the earnings improved mainly attributable to the lower depreciation and amortisation cost. While there has been various initiative being carried out to improve the revenue, our main concern lies on unifi in view of the intense competition. Meanwhile, depreciation and amortisation costs should creep up in the coming quarters premised on higher sequential capex.

Better quarterly performance. TM's 1QFY24 earnings grew by +28.7%yoy RM424.8m. This was mainly attributable to the decline in depreciation and amortization to RM538.3m (-19.6%yoy).

Meanwhile, 1QFY24 revenue was up marginally by + 1.8%yoy to RM2,837m. This was solely supported by higher contributions from TM Global as both unifi and TM One saw a contraction in revenue (*refer to Figure 1*).

Figure 1: 1QFY24 revenue performance

Segment	1QFY24	1QFY23	Change (%)	Remark
unifi	1,396	1,436	-2.7	Lower ARPU of RM130 vs RM133 a year ago
TM One	673	678	-0.8	Price adjustment for certain service contracts renewal and some deferment in customer projects
TM GobaI	743	662	12.1	Higher revenue from manage wavelength, HSBA and IRU

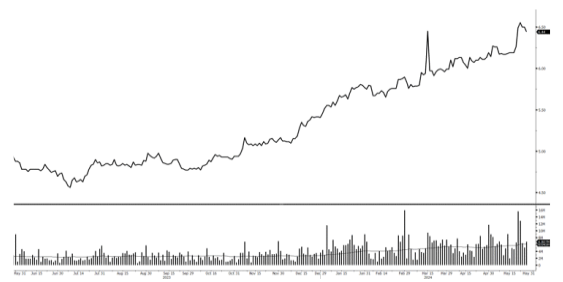
Source: Company, MIDFR

All in, 1QFY24 financial performance came in within our expectation, making up 25.2% of our full year FY24 earnings estimates.

Cost ratio came in below 80% The total cost to revenue ratio for 1QFY24 stood at 78.0%, down from 83.7% a year ago which was mainly due to lower depreciation and amortization cost (-19.6%). This was reflective of the accelerated depreciation experienced in the earlier financial year as well as the lower capex for the quarter. Excluding this, other costs were down marginally by -1.2% due to lower operational costs. On the contrary, direct and manpower cost saw a slight increase of +3.0%yoy and 4.8%yoy.

RETURN STATISTICS

Price @ 30 th May 2024 (RM)	6.26
Expected share price return (%)	-1.8
Expected dividend yield (%)	+3.0
Expected total return (%)	+1.2

SHARE PRICE CHART

Price performance (%)	Absolute	Relative
1 month	5.1	2.9
3 months	6.6	2.2
12 months	23.8	7.7

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 (%)	2.7	3.0	3.1


KEY STATISTICS

FBM KLCI	1,604.26
Issue shares (m)	3,837.60
Estimated free float (%)	37.06
Market Capitalisation (RM'm)	24,714.33
52-wk price range	RM4.77 -RM6.59
3-mth average daily volume (m)	6.04
3-mth average daily value (RM'm)	37.13
Top Shareholders (%)	
Khazanah Nasional Bhd	19.65
Employees Provident Fund Board	17.55
Amanah Saham Nasional Bhd	13.32

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More cautious capital spending. 1QFY24 capex shrunk by almost half to RM204m (-49.5%yoy), led by lower capex spend on access (-26.5%yoy) and core (-6.7%yoy). Premised on this, we view that FY24 capex could come at the lower end of the management guidance of between 14% and 18% of revenue. Nonetheless, we expect the usual seasonality in capex to remain, whereby quarterly capex will peak in the fourth quarter.

Revision of target price. We are rolling forward our valuation-based year to FY25 and derived a new DCF target price of **RM6.15** (previously RM5.58) while maintaining our valuation parameters. 

TELEKOM MALAYSIA BHD: 1QFY24 RESULTS SUMMARY

Financial year ending 31 st December (in Rm'm, unless other stated)	1Q24	1Q23	YoY (%)	4Q23	QoQ (%)
Revenue	2837	2785.9	1.8	3129.3	-9.3
EBITDA	1156	1146.2	0.9	1150.4	0.5
Depreciation and amortisation	-538.3	-669.3	-19.6	-707.6	-23.9
EBIT	617.7	476.9	29.5	442.8	39.5
Finance costs	-79	-79	0.0	-93.6	-15.6
Finance income	31.1	20.3	53.2	41.3	-24.7
Associate contribution	2.3	2.8	-17.9	3.2	-28.1
Profit before tax	572.1	421	35.9	393.7	45.3
Taxation	-144.3	-89.6	61.0	46.3	-411.7
Profit after tax	427.8	331.4	29.1	440	-2.8
Non-controlling interest	3	1.3	130.8	6.5	-53.8
PATANCI	424.8	330.1	28.7	433.5	-2.0
EPS (sen)	11.1	8.6	28.6	11.3	-1.7
					+/-ppts
EBITDA margin (%)	41	41	+/-ppts	37	-2.9
EBIT margin (%)	22	17	-6.0	14	-4.1
PATANCI margin (%)	15	12	4.4	14	-3.6
Effective tax rate (%)	25	21	8.5	-12	-4.4

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024E	2025F	2026F
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)	21	13	14	16	15
Dividend Per Share (sen)	16.5	25	17	18.5	19.5
Dividend yield (%)	2.6	4.0	2.7	3.0	3.1
Balance Sheet (RM'm)	2022A	2023A	2024E	2025F	2026F
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
Non-current assets	16,731.9	16,420.8	15,758.9	15,266.4	14,903.8
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
Current assets	6,399.4	6,515.0	8,279.3	9,651.0	10,930.2
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
Current liabilities	5,457.3	5,874.2	5,925.6	5,972.0	6,011.2
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
Non-current liabilities	9,584.9	7,739.0	7,739.0	7,739.0	7,739.0
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
Equity	8,089.1	9,322.6	10,373.5	11,206.4	12,083.8
Cash Flow (RM'm)	2022A	2023A	2024E	2025F	2026F
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
Operating cash flow	3,265.8	3,686.1	4,464.6	4,106.0	4,075.5
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
Investing cash flow	-1,334.9	-1,643.9	-2,089.9	-2,062.2	-2,079.9
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
Financing cash flow	-1,465.6	-1,687.8	-1,687.8	-652.5	-710.0
Net cash flow	465.3	354.4	1,722.3	1,333.7	1,247.2
Effect of exchange rate changes	-1.0	0.0	0.0	0.0	1.0
Beginning cash flow	1,880.0	2,344.8	2,697.9	4,420.2	5,753.9
Ending cash flow	2,344.8	2,697.9	4,420.2	5,753.9	7,001.1
Profitability Margins	2022A	2023A	2024E	2025F	2026F
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