



Telekom Malaysia Berhad

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

New DC Set Up in Johor with Singtel

KEY INVESTMENT HIGHLIGHTS

- **Maintain NEUTRAL with a revised target price of RM7.03 following the group's JV in data centre project**
- **TM is partnering with Singtel, which has DC presence in the region, to set up a new DC in Johor**
- **Apart from proximity to Singapore, Johor is a strategic location given the extensive submarine cable network**
- **The four-storey building will house an initial phase of 64MW targeted which is scalable up to 200MW**

Looking at non-unifi avenue for growth. We are keeping our **NEUTRAL** recommendation on Telekom Malaysia (TM) with a **revised target price of RM7.03** (previously RM6.15) pursuant to the announcement on data centre (DC) project. We are comforted by TM active effort to grow its non-Unifi revenue following the group's JV with Singtel's digital infraco unit, Nxera. Nonetheless, the DC will only commence operation in 2026 with an initial phase of 64MW. In view of the fact that there could potentially be a gestation period, we are keeping our earnings estimate unchanged at this juncture. Nonetheless, we are factoring higher terminal growth of 2% to reflect the group's effort to grow its non-Unifi revenue.

JV with Singtel. TM is partnering Nxera, the regional data centre arm of Singapore's Singtel's Digital InfraCo unit, to develop data centres in Malaysia starting with a sustainable, hyper-connected artificial intelligence (AI)-ready data centre campus at Iskandar Puteri, Johor which is 16km from Singapore. Under the JV entity named ST Dynamo DC, TM will own 51% of the JV company. Premised on the 51% stake, TM will invest approximately RM588m over a period of five years using internally generated fund. This, however, may change depending on the business plan.

Strategic location. As part of the JV, ST Dynamo will acquire a freehold land spanning 168.9k sq m from River Retreat for RM178.23m. This is below the market value of RM229.15m. River Retreat, which is involved in property investment and property development, is wholly owned by Iskandar Coast Sdn Bhd which in turn is an 80%-owned subsidiary of Iskandar Investment Bhd (IIB). Khazanah Nasional Bhd is the largest shareholder in both IIB with a 60% stake and TM with 19.65% stake.

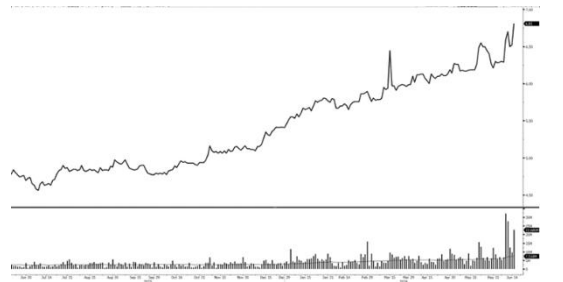
The strategic partnership aims to serve the needs of hyperscalers, next-generation AI application providers and enterprises pursuing accelerated digitalisation and cloud in the region. The joint venture is a unique proposition, bolstered by the extensive subsea cable networks of TM and Singtel's Digital InfraCo which provide global connectivity and enhanced network performance with lower latency and improved reliability.

Maintain NEUTRAL**Revised Target Price: RM7.03***(Previously RM6.15)*

RETURN STATISTICS

Price @ 18 th June 2024 (RM)	6.81
Expected share price return (%)	+3.2
Expected dividend yield (%)	+2.7
Expected total return (%)	+5.9

SHARE PRICE CHART



Price	Absolute	Relative
1 month	10.0	10.7
3 months	12.7	8.8
12 months	36.7	18.1

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 (%)	2.5	2.7	2.9

KEY STATISTICS


FBM KLCI	1,606.13
Issue shares (m)	3,837.60
Estimated free float (%)	37.78
Market Capitalisation (RM'm)	26,134.77
52-wk price range	RM4.77 -RM6.94
3-mth average daily volume (m)	7.52
3-mth average daily value (RM'm)	47.35
Top Shareholders (%)	
Khazanah Nasional Bhd	19.65
Employees Provident Fund Board	17.61
Amanah Saham Nasional Bhd	12.62

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Tier 3 data centre. The JV entails building a four-storey building which will be built according to the latest standards and will offer one of the widest and largest fibre connectivity in Malaysia. It will be equipped with high power density and feature advanced technologies such as liquid cooling and large computing capabilities to support heavy workloads and operations and is envisaged to be a cloud-enabled Tier 3 facility. The initial phase is planned for 64MW. However, depending on market demand, the data centre can achieve a targeted capacity of up to 200MW in the long term.

Keeping earnings estimates unchanged at this juncture. The proposed JV is expected to be completed in 2HCY24 while the land acquisition is expected to be completed in 1HCY25. The data centre is expected to be operational in 2026 with an initial capacity of 64MW. Since there could potentially be a gestation period, we are keeping our earnings unchanged at this juncture. Nonetheless, given TM's active effort to grow its revenue base away from Unifi, we are adjusting our terminal growth assumption to 2% from 1% previously. As a result, our DCF-Derived target price has been revised to RM7.03 from RM6.15 previously. For context, premised on 1QCY24 quarterly result, Unifi revenue made up 49% of the group revenue.

Key risks. Some of the key risks associate include: i) increasing competition from other data centre players, ii) longer-than-expected completion date, and iii) securing external funding. 

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)	23	14	15	17	16
Dividend Per Share (sen)	16.5	25	17	18.5	19.5
Dividend yield (%)	2.4	3.7	2.5	2.7	2.9
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