

# Telekom Malaysia Bhd

## 1H19 Within Expectations

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**1H19 core PATAMI of RM523.3m (+100% YoY) and absence of dividends came as expected. The group sees challenges across its voice and internet revenue streams, but will reap earnings growth from cost rationalisation initiatives. The latter has stirred excitement in the stock's price, which we believe had the positives well priced in at current levels. Having already performed well, we downgrade to MP but maintain our DCF-driven TP of RM3.95 (based on WACC: 9.7%, TG: 1.5%).**

**1H19 came stronger, as expected.** 1H19 core PATAMI of RM523.2m made up 62% and 60% of our and consensus respective full-year estimates. 2H period earnings are expected to be softer as investment-heavy roll-outs could bump up operating expenses. No dividend was announced, as expected.

**YoY**, 1H19 revenue dipped by 4% to RM5.55b, seeing lower contributions from voice (-9% on both lower usage and customer base) and internet demand (-7%, weaker Streamyx performance cushioned by improvements in Unifi). On the other hand, the demand for data saw an uptick driven by a better share from TM Global's wholesale and TM One's private domestic network segments. Operationally, 1H19 normalised EBIT swelled to RM900.4m (+108%), materialising from its Performance Improvement Program (PIP) to drive cost efficiencies. This translated to a core PATAMI of RM523.2m (+100%), after adjusting for one-off items (mainly impairments on its network assets for Streamyx).

**QoQ**, 2Q19 top-line was stagnant, similarly a result of softer voice and internet business but made up by higher data contributions. However, core PATAMI registered at RM226.8m (-24%) as the quarter saw higher overall expenses, typically seen progressively during later periods.

**Laying the bricks.** Post-2Q19 results, management remains firm in delivering per its FY19 guidance, being: (i) keeping revenue decline at low to mid-single digit levels, and (ii) registering normalised EBIT greater than FY18 of c.RM1.0b. At the meantime, sticking with the targeted capex spend of 18% of revenue in FY19 would mean a highly aggressive ramping in network infrastructure during 2H19, which could include upgrading its copper network. At present, we believe the group could well deliver its guidance as the PIP appears to continue demonstrating sustainable results. This could sufficiently buffer top-line challenges with pressures to provide more accessible products to the broader consumer market.

**Post-results**, we made minor tweaks to our FY19E/FY20E numbers as we incorporate 2Q19's results numbers.

**Downgrade to MARKET PERFORM (from OUTPERFORM) with an unchanged DCF-driven TP of RM3.95.** Our target price (based on WACC: 9.7%, TG: 1.5%) implies an EV/Fwd. EBITDA of 5.5x against our FY20E earnings. Post-1Q19 results, sentiment for the stock surged in anticipation of promised earnings expansion from TM's cost saving efforts. However, we believe that the potential has been well priced in, factoring in expectations for guided weaker sequential quarterly results going forward.

**Risks to our call include:** (i) better/weaker-than-expected voice and internet demand, (ii) changes in regulations, and (iii) higher/lower-than-expected operating expenses.

## MARKET PERFORM ↓

Price : **RM4.08**  
Target Price : **RM3.95** ↔

### Share Price Performance



KLCI	1,589.82
YTD KLCI chg	-6.0%
YTD stock price chg	53.4%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	T MK Equity
Market Cap (RM m)	15,360.0
Share Outstanding	3,764.7
52-week range (H)	4.68
52-week range (L)	2.11
3-mth avg daily vol:	11,399,860
Free Float	46%
Beta	2.1

### Major Shareholders

Khazanah Nasional Bhd	26.2%
Employees Provident Fund	16.1%
Skim Amanah Saham Bumiputera	11.8%

### Summary Earnings Table

FYE Dec (RM'm)	2018A	2019E	2020E
Turnover	11,819	11,234	11,302
EBITDA	3,933	3,753	3,769
EBIT	344	1,298	1,395
PBT	17	1,034	1,153
<b>PATAMI</b>	<b>153</b>	<b>749</b>	<b>888</b>
<b>Core PATAMI</b>	<b>632</b>	<b>850</b>	<b>888</b>
Consensus (NP)	-	879	883
Earnings Revision	-	0.4%	0.1%
Core EPS (sen)	16.7	22.5	23.5
Core EPS growth (%)	-25.5	34.4	4.5
NDPS (sen)	2.0	10.0	12.0
BVPS (RM)	2.0	2.1	2.2
PER (x)	24.4	18.1	17.4
PBV (x)	2.0	2.0	1.9
Net Gearing (x)	0.8	0.7	0.6
Net Div. Yield (%)	0.5	2.5	2.9

29 August 2019

Results Highlight								
	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
<b>Turnover</b>	<b>2,768.6</b>	<b>2,778.9</b>	<b>-0.4%</b>	<b>2,936.4</b>	<b>-5.7%</b>	<b>5,547.5</b>	<b>5,784.4</b>	<b>-4.1%</b>
EBITDA	971.0	1,065.2	-8.8%	845.9	14.8%	2,036.2	1,612.6	26.3%
EBIT	273.1	504.8	-45.9%	248.9	9.7%	777.9	444.5	75.0%
N. EBIT	387.4	513.0	-24.5%	226.4	71.1%	900.4	433.0	107.9%
PBT	147.5	437.2	-66.3%	108.4	36.1%	584.7	302.6	93.2%
Taxation	(59.9)	(136.3)	56.1%	(63.1)	5.1%	(196.2)	(149.7)	-31.1%
<b>PATAMI</b>	<b>114.2</b>	<b>308.3</b>	<b>-63.0%</b>	<b>102.0</b>	<b>12.0%</b>	<b>422.5</b>	<b>259.1</b>	<b>63.1%</b>
<b>Core PATAMI</b>	<b>226.8</b>	<b>296.4</b>	<b>-23.5%</b>	<b>155.8</b>	<b>45.6%</b>	<b>523.2</b>	<b>261.1</b>	<b>100.4%</b>
EPS (sen)	6.0	7.9	-23.5%	4.1	45.6%	13.9	6.9	100.4%
DPS (sen)	-	-	-	-	-	-	-	-
EBITDA margin	35.1%	38.3%		28.8%		36.7%	27.9%	
N. EBIT margin	14.0%	18.5%		7.7%		16.2%	7.5%	
PBT margin	5.3%	15.7%		3.7%		10.5%	5.2%	
Core PATAMI margin	8.2%	10.7%		5.3%		9.4%	4.5%	
Effective tax rate	40.6%	31.2%		58.2%		33.6%	49.5%	

Source: Company, Kenanga Research

Segmental Breakdown								
	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
Product revenue (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
- Voice	656.2	674.3	-2.7%	692.5	-5.2%	1,330.5	1,453.5	-8.5%
- Internet	967.7	977.1	-1.0%	1,079.0	-10.3%	1,944.8	2,091.0	-7.0%
- Data	678.7	665.6	2.0%	559.0	21.4%	1,344.3	1,180.0	13.9%
- Others	466.0	461.9	0.9%	605.9	-23.1%	927.9	1,059.9	-12.5%
<b>Total</b>	<b>2,768.6</b>	<b>2,778.9</b>	<b>-0.4%</b>	<b>2,936.4</b>	<b>-5.7%</b>	<b>5,547.5</b>	<b>5,784.4</b>	<b>-4.1%</b>
<b>Subscribers</b>								
Streamyx ('000)	823	872	-5.6%	1,085	-24.1%			
Streamyx ARPU (RM)	86	87	-1.1%	88	-2.3%			
Unifi ('000)	1,339	1,323	1.2%	1,217	10.0%			
Unifi ARPU (RM)	177	179	-1.1%	190	-6.8%			

Source: Company, Kenanga Research

29 August 2019

## Peer Table Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
<b>Stocks Under Coverage</b>																	
AXIATA GROUP BERHAD	5.00	45,643.4	Y	12/2019	4.8%	-0.9%	3.9%	22.7%	44.8	43.1	35.2	2.0	1.9	4.5%	2.0%	4.55	UP
DIGI.COM BERHAD	5.03	39,108.3	Y	12/2019	-6.3%	3.1%	-9.2%	0.9%	25.4	27.9	27.7	58.1	56.9	205.7%	3.5%	4.70	MP
MAXIS BERHAD	5.41	42,308.8	Y	12/2019	-1.7%	0.6%	-11.1%	4.4%	23.9	26.9	25.8	5.9	5.7	21.6%	3.1%	4.90	UP
OCC GROUP BERHAD	0.590	514.2	Y	12/2019	8.3%	12.5%	15.0%	7.8%	19.3	16.8	15.6	1.0	1.0	6.0%	0.0%	0.630	MP
TELEKOM MALAYSIA BERHAD	4.08	15,360.0	Y	12/2019	-4.9%	0.6%	34.4%	4.5%	24.4	18.1	17.4	2.2	2.1	11.8%	2.5%	3.95	MP
<b>Simple Average</b>					<b>0.0%</b>	<b>3.2%</b>	<b>6.6%</b>	<b>8.0%</b>	<b>27.6</b>	<b>26.6</b>	<b>24.3</b>	<b>13.8</b>	<b>13.5</b>	<b>49.9%</b>	<b>2.2%</b>		
<b>Stocks Not Under Coverage - Consensus</b>																	
TIME DOTCOM BERHAD	9.11	5,334.2	Y	12/2019	11.3%	11.2%	11.2%	9.3%	18.5	16.6	15.2	2.2	1.9	12.1%	2.2%	10.28	BUY

Source: Kenanga Research

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29 August 2019

**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Published and printed by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**

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