

15 September 2020

Time Dotcom Bhd

It Is Time

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INVESTMENT MERIT

We call a “Trading Buy” on TIMECOM with a DCF-driven FV of RM14.00 (WACC: 7.3%, TG: 1.5%). Our call is merited by TIMECOM’s: (i) resilient and lean business model; (ii) growth prospects helmed by increasing demand for internet and data services; and (iii) growing regional synergies via associates. We also believe TIMECOM will not lose out from the eventual deployment of our national 5G but is likely limited to only the rolling out of infrastructure.

High recurring income cements resiliency. TIMECOM’s revenue stream is almost entirely recurring, from their provision of data (i.e. fibre internet, data centre space) and voice services. In FY20, management aims to enter at least 1m retail/household premises (from 790k in FY19, although this might be deterred by the MCO) with a fibre broadband footprint mostly encompassing high rise buildings in the Klang Valley and Penang. Presently, TIMECOM household packages are the most competitive in the market based on the respective speeds offered which we believe gives existing customers little incentive for migration. This puts the group in a favourable position during this MCO period where homebound work arrangements is more prevalent and the need for home internet becomes more pressing, possibly nudging ARPU higher.

More data needs more data centres. The group also holds a strong presence in hosting data centres, where prospects are helmed by the increase in dependency of cloud computing and data storage outsourcing becoming commonplace and cost efficient for corporations. Hence, we opine the segment could face little resistance for growth plus the lack of large-scale competition locally. By end-FY20, a new Cyberjaya site would add 10k sqft of net lettable area (+13% from an existing 78.2k sq ft locally), which we understand is scalable when capacity becomes utilised.

Tapping into the broader ASEAN market. The group has entered into strategic partnerships with CMC Telecom from Vietnam and Symphony Communication and KIRZ Holdings, Thailand. With this, the group gains land access into other neighbouring ASEAN countries which are seeing an expanding data centre market. At the same time, this provide a gateway to the group’s submarine cables (AAE-1, APG, FASTER, Unity/EAC-Pacific, SKRIM) for the benefit of larger hyperscale tech companies. As of 1HFY20, associates contributed RM8.5m (+21% YoY) to profits.

Steady revenue complimented by healthy margins. For FY20E/FY21E, we pencil in a 10%/9% revenue growth on better data demand, slightly offsetted by the diminishing use of voice services for communication. EBITDA margins of c.45% (vs other operators at c.40%) could be sustained by leaner fixed cost management which we believe should translate to net earnings growth of 5%/9%. Estimating payouts to remain above 50% (more than the established 25%), dividend yields could translate to 2.5%/2.7%.

“Trading Buy” with a FV of RM14.00. Our target price is DCF-derived with an assumed WACC of 7.3% and TG of 1.5%. This also implies an EV/Fwd EBITDA of 14.0x (close to the stock’s 5-year mean) which is a premium from the peer average of 9.0x. As mentioned above, we anticipate little factors that could cause customers to deviate away from the TIMECOM brand, with its almost entirely recurring income mix to boast its sustainable business model. Meanwhile, other spaces (i.e. mobile) are only experiencing heightening competition which threatens earnings. The group also is the only large cap telco with a net cash position (RM420.3m per 2QFY20 results). While we do not anticipate the group to be a key participant in future nationwide 5G plans, it could still meaningfully contribute in fiberising our national network.

	Rating	Fair Value
Last Price	-	RM11.80
Kenanga	Trading Buy	RM14.00
Consensus	Trading Buy	RM12.60

Stock Information

Shariah Compliant	Yes
Stock Name	Time Dotcom Bhd
CAT Code	5031
Industry	Telecommunications
Industry Sub-sector	Telecom Services
YTD stock price chg	30.76%
Market Cap (RM'm)	7,130.29
Shares Outstanding (m)	604.26
52-week range (Hi)	11.98
52-week range (Low)	8.3
3-mth avg daily vol:	948,666
Free Float	38.6%
Beta	0.52
Altman’s Z-score	7.10

Major Shareholders

Pulau Kapas Ventures Sdn Bhd	29.3%
Khazanah Nasional Bhd	11.3%
Employees Provident Fund	10.8%

Financials

FYE Dec (RM m)	2019A	2020E	2021E
Revenue	1,113.9	1,224.8	1,330.5
EBITDA	479.8	519.3	564.1
Profit Before Tax	328.1	366.5	398.7
Net Profit	314.0	329.9	358.8
EPS (sen)	53.7	56.4	61.4
BV/Share (RM)	4.7	5.0	5.3
PER (x)	22.0	20.9	19.2
Price/BV (x)	2.5	2.4	2.2
Net Gearing (x)	-0.1	-0.2	-0.2
DPS (sen)	29.0	30.0	32.0
Div Yield (%)	2.5	2.5	2.7

Quarterly Financial Data

(RM'm)	4Q19	1Q20	2Q20
Revenue	295.3	293.9	304.8
PBT	79.9	125.6	97.9
Net Profit	75.4	98.0	69.8
Basic EPS (sen)	12.9	16.7	11.6
Revenue Growth (QoQ)	6.2%	-0.5%	3.7%
EPS growth (QoQ)	-9.2%	29.9%	-30.5%
Net Profit Margin	25.5%	33.3%	22.9%

Peers Comparisons	EV/ EBITDA (1y-fwd)	Div. Yld	Mkt Cap (RM'b)
AXIATA	5.3	1.8%	28.15
DIGI	11.9	4.4%	32.27
MAXIS	13.0	3.6%	39.66
TM	5.6	3.1%	15.89
KLTEL	24.4	3.8%	125.90



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Daily Charting – Time Dotcom Bhd



Comment: TIMECOME has been trading between a range of RM10.60 and RM11.30 since June this year. The 20-Day SMA has recently started to pull away from the 50-Day SMA, which is significantly above the 200-Day SMA, suggesting that the stock is still currently trending upwards. While the MACD line has started to approach the signal line since the start of September, it appears to be trending upwards again, potentially signalling more upside. From the current level, the stock may face resistance at RM12.00 (R1) and RM12.80 (R2). Conversely, key support levels can be found at RM11.30 (S1) and RM10.60 (S2).

About the stock:

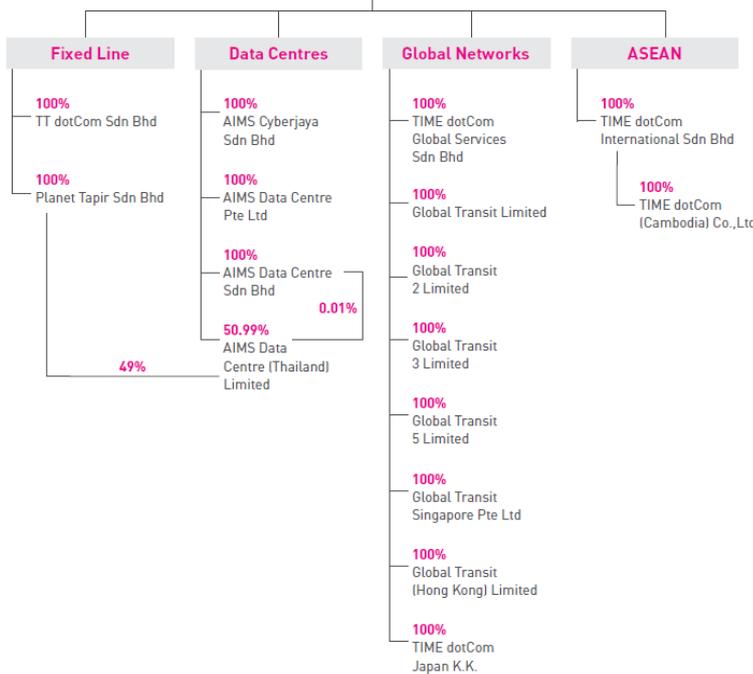
Name : Time Dotcom Bhd
 Bursa Code : TIMECOM
 CAT Code : 5031

Key Support & Resistance level

Resistance : RM12.00 (R1) RM12.80 (R2)
 Support : RM11.30 (S1) RM10.60 (S2)
 Outlook : Bullish

Source: Kenanga Research

CORPORATE STRUCTURE



Source: Company

BUSINESS OVERVIEW

TIME dotCom Bhd is a fixed line telecommunications provider with fibre network solutions supporting retail household and enterprise (SMEs, large corporations) needs. The group also has a presence in Thailand and Vietnam via their associate investments in Symphony Communication, KIRZ Holdings and CMC Telecom.

BUSINESS SEGMENTS

TIMECOM operates within three core business segments, being:

- (i) data (fibre broadband internet);
- (ii) data centre services; and
- (iii) voice.

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