Telekom Malaysia

To Build Data Centres with Singtel

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OUTPERFORM ↔

Price:	**RM6.81**
Target Price:	**RM7.53** ↔

TM has entered into a 51:49 JV with Nxera, a unit of SingTel, to build greenfield data centres (DC) in Malaysia. For a start, the JV will develop a 64MW DC in Johor, to be operational by 2026. We are positive as Nxera's customers in Singapore could potentially be long-term capacity offtakers for this JV. We maintain our forecasts, TP of RM7.53 and OUTPERFORM call.

Aiming to be leading Malaysian DC player. TM has formed a 51;49 JV with Nxera, a unit of Singtel, to build greenfield DCs in Malaysia. The JV will acquire a piece of land measuring 169k sq m for RM178.2m (RM98 psf) to build a 4-storey sustainable, artificial intelligence (AI) ready, Tier 3 cloud-enabled DC campus inIskandar Puteri, Johor, to be operational in 2026. Its initial capacity of 64MWmay be progressively scaled up to 200MW in several phases.

The campus will be hyper-connected and equipped with high power density and advanced technologies (eg. liquid cooling and large computing capabilities). Hence, it is able to support heavy AI workloads and cater to the needs of cloud hyperscalers, multinationals, enterprises, as well as providers of AI applications, GPU-as-a-Service, and over-the-topservices,etc.

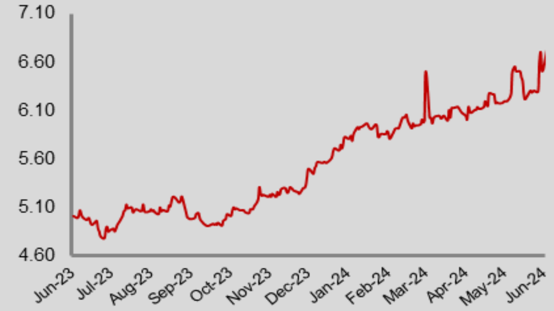
The JV partners will provide equity funding totalling RM1.15b over 5 years. Based on TM's 51% stake, it will inject c. RM588m into the JV company, funded by its internal monies. Assuming TM provides the cash outlay upfront, its current net debt/EBITDA will increase marginally to 0.3x (from 0.2x).

Partnership of giants. To recap,Singtel Group serves over 770m mobile customers in 21 countries, including Singapore, Australia (via Singtel Optus), India, Indonesia, Philippines, Thailand and Africa. It is listed on the Singapore stock exchange with market cap of SGD41b. Meanwhile, NXera is SingTel's 80%-owned data center unit, and is also a 20% associate of Kohlberg Kravis Roberts & Co. The latter is a global investment firm with assets under management in excess of USD553b. Nxera's current portfolio comprises: (i) two operational DCs in Singapore with cumulative capacity of 62MW, and (ii) three under-construction DCs at Singapore (58MW), Indonesia, and Thailand.

Significant ramp up in DC capacity. We are positive as we had earlier highlighted that it is timely for TM is to expand its DC portfolio. This is to leverage on TM Global's extensive network of digital infrastructure assets, including 32 submarine cable systems covering 340k km with over 80 Tbps capacity. To recap, TM One's current portfolio comprises seven Tier-3 DCs in Malaysia and one in Hong Kong. This translates to total capacity of 46MW, where the key centers include: (i) Klang Valley Core Data Centre (20MW) in Cyberjaya, and (ii) Iskandar Puteri Core Data Centre (20MW) in Johor.As such, following the completion of TM-Nxera'sDC, the group's DC capacity will surge by 70% to 78MW.

Long term capacity offtake likely assured. As part of Nxera's regional network, we do not discount the possibility that TM-Nxera's DC will host Singtel's NVIDIA-powered AI Cloud in future. In addition, given its strategic location, Nxera believes that this JV is well positioned to capture spill-over demand from its customers in Singapore. On the back of this, we are comfortably assured of long-term capacity offtake for this JV's facility. Furthermore, we believe it has a competitive edge (vis-à-vis its competitors in Johor) given that it will be served by TM and Singtel's extensive subsea cable networks, translating to superior low latency connectivity.

Share Price Performance



KLCI	1,606.13
YTD KLCI chg	10.4%
YTD stock price chg	22.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	T MK Equity
Market Cap (RM m)	26,134.8
Share Outstanding	3,837.7
52-week range (H)	6.94
52-week range (L)	4.77
3-mth avg. daily vol.	7,517,697
Free Float	38%
Beta	0.9

Major Shareholders

KhazanahNasionalBhd	19.7%
Employees Provident Fund	17.6%
AmanahSahamNasional	12.6%

Summary Earnings Table

FYE Dec (RMm)	2023A	2024F	2025F
Revenue	12,256	10,761	11,029
EBITDA	4,931	4,121	4,246
EBIT	2,135	2,184	2,151
PBT	1,809	2,011	2,040
Net Profit	**1,900**	**1,722**	**1,748**
Core PATAMI	**1,985**	**1,722**	**1,748**
Consensus NP	-	1,609	1,616
Earnings Revision	-	-	-
Core EPS (sen)	52.5	45.6	46.2
Core EPS Growth (%)	58.5	-13.2	1.5
DPS (sen)	25.0	23.5	27.5
BVPS (RM)	2.4	2.6	2.8
PER (x)	11.9	13.7	13.5
PBV (x)	2.6	2.4	2.2
Net Gearing (x)	0.2	0.2	0.1
Div. Yield (%)	4.0	3.8	4.4

Piggyback on Nxera's expansion. Additionally, we also believe there is minimal risk of development delays and cost overruns given Nxera's proven track record. The latter is currently constructing a 58MW DC in Tuas, Singapore, that will be based on Singtel's fourth generation design. Moving forward, we believe that TM is able to leverage on its partnership with Nxera for further domestic expansion. This is underpinned by Nxera's aggressive expansion plans, where its total pipeline capacity is set to increase to more than 200MW regionally in the next three years. This implies expansion of more than 4-fold from its current operational capacity of 62MW.

Expect double-digit project IRR. For TM-Nxera's DC, we estimate project IRR of 12.4%, project payback period of circa 8 years and net project NPV of 9 sen/share (for TM's 51% stake). This is underpinned by the following key assumptions:- (i) capex per MW: USD7m, (ii) 90% leased out capacity based on co-location model, (iii) 80% debt financing over 10 years, (iv) lease rate at 20% discount to Singapore market rates, (v) lease tenure: 8-years (fixed) + 5 years (3 extensions each), (vi) 10% step-down in rental rates during each 5-year contract extension period, (vii) 18 month construction period, and (ix) asset useful life: 20 years.

Forecasts. Maintained pending more details from an analyst briefing on 20 Jun and shareholders' approval at an EGM.

Valuations. We alsokeep our TP of RM7.53 based on 7.0x FY25F EV/EBITDA. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

Investment case. We like TM on account of: (i) it being leveraged towards secular data growth on the back of current trends such as digital transformation, proliferation of internet of things (IoT), cloud-based applications powered by generative AI, etc, (ii) it benefitting from JENDELA phase 2 projects via roll-out and monetization opportunities, (iii) earnings accretion from new DC business, and (iv) higher demand for data transmission via its network of digital infrastructure that includes submarine cables and landings as well as fiber optics backhaul. Maintain **OUTPERFORM.**

Risks to our call include: (i) cost drag from Unifi Mobile due to lack of scale, (ii) pricing pressures at the retail segment arising from policy-led directives, and (iii) irrational competition in the retail fiber broadband space.

Income Statement

FYE Dec (RM m)	2021	2022	2023	2024F	2025F
Revenue	11,529	12,118	12,256	10,761	11,029
EBITDA	4,386	4,960	4,931	4,121	4,246
Depreciation	-2,635	-2,863	-2,796	-1,937	-2,095
EBIT	**1,751**	**2,097**	**2,135**	**2,184**	**2,151**
Net Interest Inc/(Exp)	-411	-312	-255	-187	-125
Associates	12	11	13	13	15
Exceptionals	-105	-109	-85	0	0
Profit Before Tax	**1,247**	**1,687**	**1,809**	**2,011**	**2,040**
Taxation	-369	-542	77	-302	-306
Minority Interest	17	-1	15	13	13
PATAMI	**895**	**1,143**	**1,900**	**1,722**	**1,748**
Core PATAMI	**1,001**	**1,252**	**1,985**	**1,722**	**1,748**

Balance Sheet

FYE Dec (RM m)	2021	2022	2023	2024F	2025F
Fixed Assets	13,356	13,547	13,026	13,112	13,174
Intangible Assets	665	746	903	903	903
Other Fixed Assets	2,636	2,439	2,491	2,505	2,519
Inventories	177	305	205	295	332
Receivables	2,051	2,312	2,275	2,152	2,266
Other Current Assets	1,212	1,202	1,080	1,080	1,080
Cash	2,734	2,579	2,955	3,001	3,240
Total Assets	**22,831**	**23,131**	**22,936**	**23,048**	**23,515**
Payables	3,634	3,718	3,033	2,525	2,496
ST Borrowings	382	310	1,226	1,175	1,123
Other ST Liability	1,418	1,430	1,615	1,615	1,615
LT Borrowings	5,338	4,960	3,537	3,388	3,240
Other LT Liability	4,731	4,625	4,202	4,202	4,202
Net Assets	**7,328**	**8,089**	**9,323**	**10,144**	**10,839**
Shareholders' Equity	7,503	7,937	9,163	9,997	10,706
Minority Interests	-175	153	160	146	133
Total Equity	**7,328**	**8,089**	**9,323**	**10,144**	**10,839**

Cashflow Statement

FYE Dec (RM m)	2021	2022	2023	2024F	2025F
Operating CF	2,976	3,266	3,686	3,344	3,760
Investing CF	-2,320	-1,335	-1,644	-2,023	-2,157
Financing CF	-2,946	-1,466	-1,688	-1,275	-1,364
Change In Cash	**-2,291**	**465**	**354**	**46**	**239**
Free CF	1,072	602	1,493	1,321	1,603

Financial Data & Ratios

FYE Dec	2021	2022	2023	2024F	2025F
Growth					
Revenue	6.4%	5.1%	1.1%	-12.2%	2.5%
EBITDA	10.4%	13.1%	-0.6%	-16.4%	3.0%
EBIT	3.8%	19.8%	1.8%	2.3%	-1.6%
PBT	-2.5%	35.3%	7.2%	11.2%	1.5%
Core PATAMI	-6.0%	25.2%	58.5%	-13.2%	1.5%
Profitability					
EBITDA Margin	38.0%	40.9%	40.2%	38.3%	38.5%
EBIT Margin	15.2%	17.3%	17.4%	20.3%	19.5%
PBT Margin	10.8%	13.9%	14.8%	18.7%	18.5%
Core Net Margin	8.7%	10.3%	16.2%	16.0%	15.8%
Effective Tax Rate	29.6%	32.2%	-4.2%	15.0%	15.0%
ROA	3.9%	4.9%	8.3%	7.5%	7.4%
ROE	13.3%	15.8%	21.7%	17.2%	16.3%
DuPont Analysis					
Net Margin	8.7%	10.3%	16.2%	16.0%	15.8%
Assets Turnover (x)	0.5	0.5	0.5	0.5	0.5
Leverage Factor (x)	3.0	2.9	2.5	2.3	2.2
ROE	13.3%	15.8%	21.7%	17.2%	16.3%
Leverage					
Debt/Asset (x)	0.3	0.2	0.2	0.2	0.2
Debt/Equity (x)	0.8	0.7	0.5	0.5	0.4
Net Debt (RM m)	2,986	2,690	1,808	1,562	1,123
Net Debt/Equity (x)	0.4	0.3	0.2	0.2	0.1
Valuations					
Core EPS (sen)	26.5	33.1	52.5	45.6	46.2
DPS (sen)	13.0	16.5	25.0	23.5	27.5
BV/share (RM)	2.0	2.1	2.4	2.6	2.8
Core PER (x)	25.7	20.5	13.0	14.9	14.7
Div. Yield (%)	1.9	2.4	3.7	3.5	4.0
PBV (x)	3.4	3.2	2.8	2.6	2.4
EV/EBITDA (x)	5.4	4.7	5.3	6.7	6.4

Source: Kenanga Research

Peer Comparison – Telecommunication

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RMm)	Shariah Compliant	Current FYE	Core EPS (sen) 1-Yr. Fwd.	Core EPS (sen) 2-Yr. Fwd.	Core EPS Growth 1-Yr. Fwd.	Core EPS Growth 2-Yr. Fwd.	PER (x) - Core Earnings 1-Yr. Fwd.	PER (x) - Core Earnings 2-Yr. Fwd.	PBV (x) 1-Yr. Fwd.	ROE 1-Yr. Fwd.	Net. Div. (sen) 1-Yr. Fwd.	Net Div Yld 1-Yr. Fwd.
Telecommunication																	
AXIATA GROUP BHD	OP	2.75	3.00	9.1%	25,250.3	Y	12/2024	7.1	7.2	19.6%	1.7%	38.9	38.3	1.4	3.0%	10.0	3.6%
CELCOMDIGI BHD	OP	3.72	5.97	60.5%	43,641.2	Y	12/2024	17.2	18.8	6.4%	9.0%	21.6	19.8	2.6	11.4%	14.0	3.8%
MAXIS BHD	OP	3.64	5.30	45.6%	28,508.8	Y	12/2024	16.7	17.9	6.2%	7.2%	21.8	20.4	5.0	22.7%	20.0	5.5%
OCK GROUP BHD	OP	0.595	0.860	44.5%	634.8	Y	12/2024	4.8	5.2	21.4%	8.1%	12.3	11.4	0.9	7.7%	1.5	2.5%
TELEKOM MALAYSIA BHD	OP	6.81	7.22	6.0%	26,134.8	Y	12/2024	45.6	46.2	-13.2%	1.5%	14.9	14.7	2.6	18.0%	23.5	3.5%
SECTOR AGGREGATE					**124,169.8**					**0.9%**	**5.5%**	**21.6**	**20.5**	**2.5**	**12.6%**		**3.8%**

Source: Bloomberg, Kenanga Research

Stock ESG Ratings:

	Criterion	Rating
GENERAL	Earnings Sustainability & Quality	★★★★
	Community Investment	★★★
	Workers Safety & Wellbeing	★★★
	Corporate Governance	★★★
	Anti-Corruption Policy	★★★
	Emissions Management	★★★
SPECIFIC	Cybersecurity & Data Privacy	★★★
	Network Quality & Coverage	★★★★
	Digitalisation & Innovation	★★★
	Supply Chain Management	★★★
	Talent Management	★★★
	Customer Satisfaction	★★★
	OVERALL	★★★

☆ denotes half-star
★ -10% discount to TP
★★ -5% discount to TP
★★★ TP unchanged
★★★★ +5% premium to TP
★★★★★ +10% premium to TP

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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