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Telekom Malaysia

Priority Lane for Bandwidth

By Kylie Chan Sze Zan | kyliechan@kenanga.com.my

The TM-Nxera JV has initiated pre-sales for co-location services at its upcoming data center (DC). It is also exploring the prospect of offering GPU-as-a-service in future. TM will likely prioritize this JV over other DCs when supplying wholesale bandwidth connectivity. Margins are expected to be robust, matching that of Singapore DCs. We maintain our forecasts, TP of RM7.53 and OUTPERFORM call.

TM hosted a conference call to provide more clarity on its 51:49 joint venture (JV) with Nxera, a unit of SingTel, to build greenfield DCs in Malaysia. To recap, this JV will develop a 64MW sustainable, AI-ready DC in Johor. The key takeaways are as follows:-

Co-location model initially. The TM-Nxera JV will offer co-location services at its DC following its expected completion by 2QCY26. Initially, it targets to offer 5% of its total capacity for AI workloads. Nevertheless, this may potentially expand, based on current demand traction. The JV has initiated pre-sales efforts, by offering contracts with tenures starting from three years with optional extensions. This is for potential clients that include hyperscalers, multinationals, and enterprises. This “sales funnel” is expected to convert into firm commitments once the DC achieves key milestones (eg. procurement of utilities and development land).

May offer GPU services in future. The JV is exploring the prospect of acquiring graphics processing units (GPU) from multiple vendors, including NVIDIA. These GPUs may be for internal use, or offered to clients via GPU-as-a-service (GPUaaS) in future. To recap, Nxera’s parent, Singtel, is a member of the NVIDIA Partner Network Cloud Programme. It will launch GPUaaS in Singapore and Southeast Asia in 3QCY24, powered by highly sought-after NVIDIA H100 Tensor Core GPU-powered clusters.

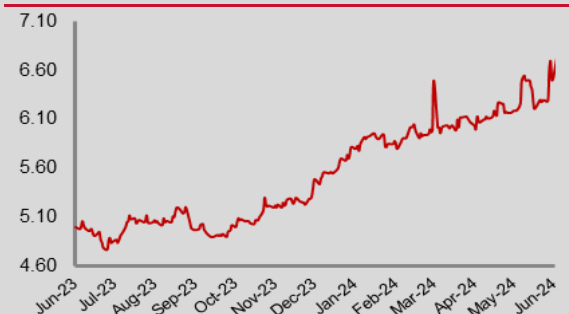
Advantages from not leasing bandwidth. One of the JV’s key competitive advantages lie in its superior connectivity via TM and Singtel’s extensive network of submarine cables, fiber backhaul, and landing stations. In terms of bandwidth availability, TM will likely prioritize this JV over other Malaysian DCs that lease wholesale capacity from TM. Moreover, lower bandwidth costs vis-à-vis its peers may translate to more competitive rates. Additionally, this JV will also offer multiple alternative fiber routes for redundancy to its clients. Nevertheless, TM-Nxera’s DC will be carrier neutral, thus allowing flexible connectivity options for clients.

Comparable margins with Singapore DCs. TM is confident that this JV will achieve “healthy” EBITDA margin that approximates Nxera’s margins. This is underpinned by expectations that it will secure rates that are comparable to those secured by international DCs. We estimate potential earnings contribution of RM45m and RM112m from the first phase (64MW) of TM-Nxera’s DC in FY26 and FY27, respectively. Our underlying key assumptions include:- (i) capex per MW: USD7m, (ii) 95% 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) 10% step-down in rental rates every 5-years, (vi) 18-month construction period, (vii) asset useful life: 20 years, and (viii) application of preferential tax rates and investment tax allowances.

OUTPERFORM ↔

Price: **RM6.70**
Target Price: **RM7.53** ↔

Share Price Performance



KLCI	1,592.69
YTD KLCI chg	9.5%
YTD stock price chg	20.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	T MK Equity
Market Cap (RM m)	25,712.6
Share Outstanding	3,837.7
52-week range (H)	7.02
52-week range (L)	4.77
3-mth avg. daily vol.	7,794,237
Free Float	38%
Beta	0.9

Major Shareholders

Khazanah Nasional Bhd	19.7%
Employees Provident Fund	17.4%
Amanah Saham Nasional	12.5%

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	-	1,607	1,625
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)	12.8	14.7	14.5
PBV (x)	2.8	2.5	2.4
Net Gearing (x)	0.2	0.2	0.1
Div. Yield (%)	3.7	3.5	4.1

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Forecasts. Maintained as earnings contribution from this JV stretches beyond our forecast horizon.

Valuations. We also keep 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.

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Income Statement						Financial Data & Ratios					
FYE Dec (RM m)	2021	2022	2023	2024F	2025F	FYE Dec	2021	2022	2023	2024F	2025F
Revenue	11,529	12,118	12,256	10,761	11,029	Growth					
EBITDA	4,386	4,960	4,931	4,121	4,246	Revenue	6.4%	5.1%	1.1%	-12.2%	2.5%
Depreciation	-2,635	-2,863	-2,796	-1,937	-2,095	EBITDA	10.4%	13.1%	-0.6%	-16.4%	3.0%
EBIT	1,751	2,097	2,135	2,184	2,151	EBIT	3.8%	19.8%	1.8%	2.3%	-1.6%
Net Interest Inc/(Exp)	-411	-312	-255	-187	-125	PBT	-2.5%	35.3%	7.2%	11.2%	1.5%
Associates	12	11	13	13	15	Core PATAMI	-6.0%	25.2%	58.5%	-13.2%	1.5%
Exceptionals	-105	-109	-85	0	0	Profitability					
Profit Before Tax	1,247	1,687	1,809	2,011	2,040	EBITDA Margin	38.0%	40.9%	40.2%	38.3%	38.5%
Taxation	-369	-542	77	-302	-306	EBIT Margin	15.2%	17.3%	17.4%	20.3%	19.5%
Minority Interest	17	-1	15	13	13	PBT Margin	10.8%	13.9%	14.8%	18.7%	18.5%
PATAMI	895	1,143	1,900	1,722	1,748	Core Net Margin	8.7%	10.3%	16.2%	16.0%	15.8%
Core PATAMI	1,001	1,252	1,985	1,722	1,748	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)	25.3	20.2	12.8	14.7	14.5
						Div. Yield (%)	1.9	2.5	3.7	3.5	4.1
						PBV (x)	3.4	3.2	2.8	2.5	2.4
						EV/EBITDA (x)	5.4	4.7	5.3	6.7	6.4
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						

Source: Kenanga Research

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Peer Comparison – Telecommunication

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RMm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
Telecommunication																	
AXIATA GROUP BHD	OP	2.65	3.00	13.2%	24,332.1	Y	12/2024	7.1	7.2	19.6%	1.7%	37.5	36.9	1.3	3.0%	10.0	3.8%
CELCOMDIGI BHD	OP	3.71	5.97	60.9%	43,523.9	Y	12/2024	17.2	18.8	6.4%	9.0%	21.5	19.7	2.6	11.4%	14.0	3.8%
MAXIS BHD	OP	3.55	5.30	49.3%	27,803.9	Y	12/2024	16.7	17.9	6.2%	7.2%	21.3	19.9	4.9	22.7%	20.0	5.6%
OCK GROUP BHD	OP	0.575	0.860	49.6%	613.4	Y	12/2024	4.8	5.2	21.4%	8.1%	11.9	11.0	0.9	7.7%	1.5	2.6%
TELEKOM MALAYSIA BHD	OP	6.70	7.53	12.4%	25,712.6	Y	12/2024	45.6	46.2	-13.2%	1.5%	14.7	14.5	2.5	18.0%	23.5	3.5%
SECTOR AGGREGATE					121,985.9					0.9%	5.5%	21.2	20.1	2.4	12.6%		3.9%

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

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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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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my