

PP14767/09/2012(030761)

Telekom Malaysia Berhad

“Hampered by Forex Translation Loss”

Results Review

- **Actual vs. expectation.** Telekom Malaysia Bhd (TM) 9M15 net profit of RM508 million (-17% y-o-y) came in below from ours and consensus forecast accounting 68% and 54% of ours and consensus full year net profit forecast. The subdued earnings performance was hampered by higher forex losses of RM209 milion (+4347% y-o-y). If we were to exclude forex impact, TM’s earning for 9M15 registered at commendable of RM591 million (0% y-o-y)
- **Dividend.** No dividend declared in this quarter.
- **Topline vs. Bottom line.** 9M15 revenue climbed by 6% to RM8.5 billion, driven by higher segmental contribution from Internet (+15.6% to RM2.5 billion) and data (+5.1% y-o-y to RM1.92 billion). Voice revenue recovered to RM2.6 billion (+1.8% y-o-y) due to higher bilateral revenue from Global & Wholesale. The group’s EBIT recovered by 3% y-o-y in 9M15 despite rising in opex that was mainly driven by higher direct cost (due to higher traffic minutes, infra & VOIP costs), manpower cost (due to higher staff benefits) and consolidation of P1.
- **Underlying broadband trends stable.** Streamyx subscribers weakened by 5k q-o-q on subscriber migration into higher package that brought UniFi net addition by 11k q-o-q. ARPU rising to RM192 for Unifi and RM87 respectively as management removed previously accrued revenue from non-paying subscribers.

Friday, November 27, 2015

HOLD (TP:RM6.87)

Current Price (RM)	RM6.59
New Fair Value (RM)	RM6.87
Previous Fair Value (RM)	RM6.87
Previous Recommend.	HOLD
Upside To Fair Value	4.2%
Dividend Yield (FY15)	3.1%

Stock Code

Bloomberg	T MK
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Stock & Market Data

Listing	MAIN MARKET	
Sector	Telco	
Shariah Compliance	Yes	
Issued Shares (mn)	3,757	
Market Cap (RM mn)	24,764	
YTD Chg In Share Price	-4.22%	
Beta (x)	0.81	
52-week Hi/Lo (RM)	RM7.79	RM6.00
3M Average Volume (shrs)	7.06mn	
Estimated Free Float	30.2%	

Major Shareholders

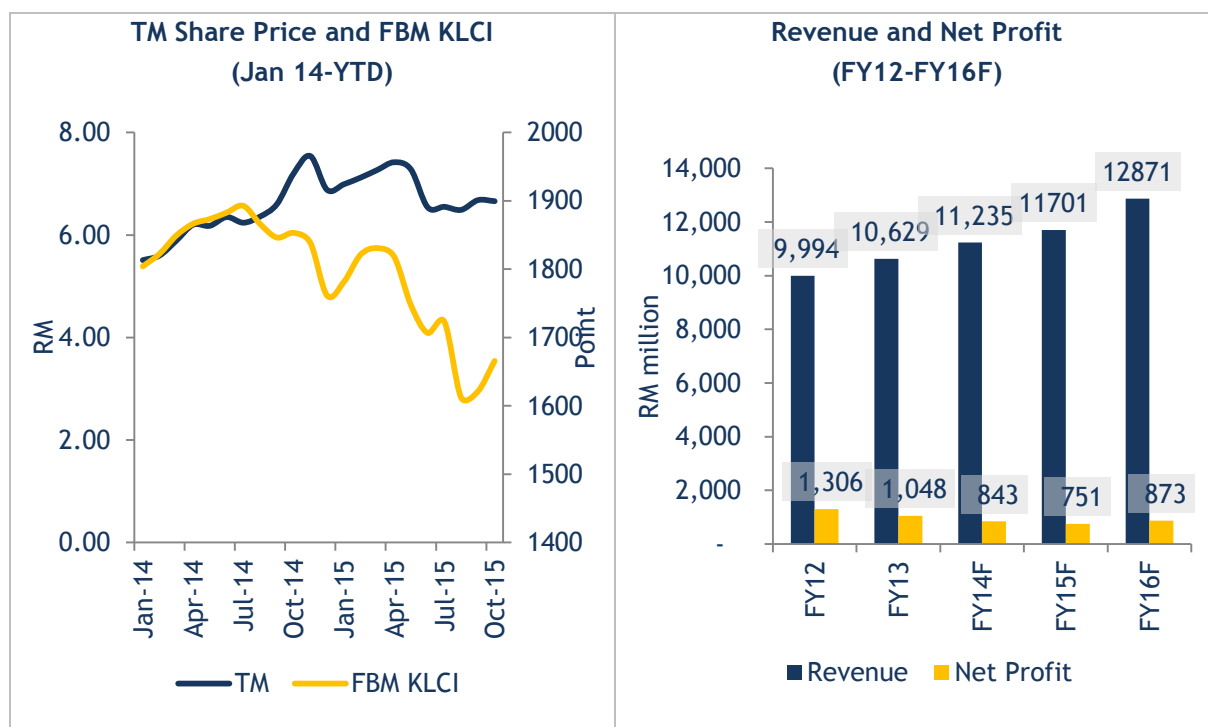
Khazanah	28.6%
EPF	13.7%
ASB	10.3%

- **Operating cost improving, but still high.** Opex slowed down in 3Q15 to RM2.5 billion, however on 9M15, opex gained to RM7.6 billion (+5.5% y-o-y). The improvement was seen in depreciation and amortisation as in 2Q15 TM incurred higher losses on impairment on Wimax site. Overhead trending down by RM2.6 million to RM53.3 million due to the expiration of Mesra skim offering.
- **Dividend policy is intact.** Management reiterated to maintain its dividend policy despite the large capex requirement for HSBB2 and SUBB given its free cash flow of RM1.66 billion in 9M15. However, no financial numbers as well as the targeted capex spend were provided by the management. To recap, TM has received a letter of award from the government of Malaysia on 25-March for the implementation of High-Speed Broadband Phase 2 (HSBB 2) and Sub Urban Broadband (SUBB) project to deliver an end-to-end HSBB infrastructure.
- **Outlook.** To compete with others mobile network operator (MNO), TM must speed up its wireless segment especially on P1 products. This to ensure TM brand on the same level with others MNO. Furthermore, TM aspiration to spent more capex in data segment should bolster HyppTV offering with various collaborations announced including mobile HyppTV viewing on the smartphone.
- **Change to forecast.** We revise lower our FY15 and FY16 earnings forecast by 23% and 12% due to higher forex losses incurred by TM in 3Q15. Nonetheless, FY15 earnings are projected to shed by 38% but jump by 27.5% in FY16 driven by i) steady UniFi take up rate ii) further saving in operating costs iii) banking on growing SME segment.
- **Valuation & recommendation.** We reduce our target price on TM at RM6.87 based on FY16 EV/EBITDA of 7.5x. Rating catalyst on TM could emanate from i) further M&A activity ii) announcement on P1 strategy iii) higher take-up rate for both UniFi and Streamyx.

Table 1: Peers Comparison

Company	FYE	Price (RM)	EPS (RM)		P/E (x)		P/B (x)		ROE (%)	Div Yield (%)	TP	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
Axiata	Dec	6.16	0.31	0.34	23	21	2.8	2.8	11.6	3.1	7.10	Buy
Maxis	Dec	6.58	0.27	0.28	27	25	12.0	12.6	32.1	4.5	7.00	Hold
Digi	Dec	5.14	0.27	0.28	23	22	65.3	62.1	301.5	4.2	6.10	Buy
Telekom	Dec	6.59	0.27	0.29	27	25	3.4	3.4	11.3	3.6	6.87	Buy
Time DotCom	Dec	6.71	0.28	0.32	21	18	1.3	1.2	8.0	1.0	NR	NR
Average			0.28	0.30	24	22	17.0	16.4	72.9	3.28		

Source: Bursa Malaysia, M&A Securities



Source: Bloomberg, M&A Securities

Table 2: Financial Summary

YE: Dec (RM million)	3Q15	2Q15	3Q14	y-o-y	q-o-q	9M15	9M14	y-o-y
Revenue	2,923	2,841	2,636	11%	3%	8,537	8,078	6%
Operating costs	-1,914	-1,941	-1,793	7%	-1%	-5,814	-5,519	5%
Other operating income	29	29	36	-19%	-1%	91	117	-22%
EBITDA	1,038	929	879	18%	12%	2,815	2,675	5%
Depreciation & Amortisation	-589	-624	-570	3%	-6%	-1,817	-1,710	6%
EBIT	449	306	309	45%	47%	998	965	3%
Other operating costs	-1	-1	8	-106%	-38%	-2	7	-129%
Finance income	43	38	35	21%	14%	119	103	16%
Finance cost	-85	-78	-77	11%	9%	-237	-222	7%
Forex loss	-153	-15	-15	943%	957%	-209	-5	4347%
Associates result	6	6	1	392%	2%	18	4	333%
Pre-tax profit	259	256	263	-1%	1%	687	852	-19%
Taxation	-124	-74	-71	74%	67%	-254	-217	17%
Profit after tax	135	182	192	-29%	-26%	433	635	-32%
Minority interest	30	30	(10)	-389%	0%	75	(21)	-451%
PATMI	165	212	181	-9%	-22%	508	614	-17%
EPS	4.4	5.7	5.1	-14%	-23%	13.6	17.0	-20%
Operating costs	(0.65)	(0.68)	(0.68)			(0.68)	(0.68)	
EBITDA margin	36%	33%	33.4%			33.0%	33.1%	
EBIT margin	15.4%	10.8%	11.7%			11.7%	11.9%	
Pre-tax margin	9%	9%	10.0%			8%	10.5%	
PAT Margin	5%	6%	7.3%			5%	7.9%	

Source: Bursa Malaysia

Table 3: Financial Forecast

YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	9,994	10,629	11,235	11,585	11,816
Other op income	165	122	154	93	91
Growth	37%	-27%	11%	-40%	-2%
Operating expenses	(6,926)	(7,219)	(7,754)	(7,504)	(7,957)
EBITDA	3,233	3,532	3,636	4,173	3,950
Depreciation	(2,046)	(2,160)	(2,341)	(2,857)	(2,847)
Amortisation	0	0	0	0	0
EBIT	1,187	1,372	1,294	1,316	1,103
Net interest income/(expenses)	-192	-226	-155	-164	-12
Interest expense	-332	-371	-292	-283	-244
Interest income	140	145	137	119	232
Forex gains	73	-105	-48	-344	-60
Other income	0.3	1.7	4.8	2.3	2.9
Associates	0.9	3.9	9.3	4.7	6.0
PBT	1,070	1,046	1,106	815	1,039
Taxation	236	2	(263)	(204)	(260)
PAT	1306	1048	842.5	611	779.3
EBIT Margin	12%	13%	12%	11%	9%
EBITDA Margin	32%	33%	32%	36%	33%
PBT Margin	11%	10%	10%	7%	9%
PAT Margin	13%	10%	7%	5%	7%

Source: Bursa Malaysia, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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M & A Securities SdnBhd (15017-H)

(A wholly-owned subsidiary of INSAS BERHAD)

A Participating Organisation of Bursa Malaysia Securities Berhad

Principal Office:

Level 1,2,3 No.45 & 47,43-6

The Boulevard, Mid Valley City,

Lingkaran Syed Putra,

59200 Kuala Lumpur

Tel: +603 - 2282 1820 Fax: +603 - 2283 1893

Website: www.mnaonline.com.my