

PP14767/09/2012(030761)

Monday, June 01, 2015

Telekom Malaysia Berhad

“Rough Start to the Year”

Results Review

- Actual vs. expectation.** Telekom Malaysia Bhd (TM) 1Q15 net profit to equity holders of RM128.9 million (-63.4% y-o-y) missed ours and consensus estimates respectively, representing 12.5% and 13.5% of ours and consensus full year net profit forecast. Disappointing earnings were driven by higher operating costs on the back of consolidation of P1 into TM financials. Nevertheless, operational-wise, TM made progressive steps on internet and data segments with strong net addition reported.
- Dividend.** No dividend was declared during the quarter.
- Topline vs. Bottom line.** For a fair comparison, we would only compare the result in 4Q14 as that marked P1 financial consolidation into TM financials. Sequential-wise, 1Q result was rough ride for TM as revenue plunged 12% y-o-y on slower contribution from data segment (-18.6% q-o-q), voice segment (-3.9% q-o-q) and others segment (-30.9% q-o-q). On y-o-y basis, revenue grew satisfactorily by 6% y-o-y driven by P1 revenue contribution.
- Segment review.** Overall, all segment registered higher revenue except for voice. Internet segment's 1Q15 of RM830 million (+14.3% y-o-y), data segment of RM627 million (+3.6% y-o-y) and others segment revenue of RM463 million (+11.8% y-o-y). However, higher operating cost of RM1.96 million (+10% y-o-y) pushed EBIT margin to only 9% in 1Q15 vs. 10% in 4Q14 and 12% in 1Q14 despite softening in depreciation charge. On business line, revenue across all segment was disappointed, with global and wholesale business plunged the most by 32% q-o-q.

HOLD (TP:RM6.87)

Current Price (RM)	RM7.28
New Fair Value (RM)	RM6.87
Previous Fair Value (RM)	RM6.95
Previous Recommend.	HOLD
Upside To Fair Value	-6%
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)	3,719.4	
Market Cap (RM mn)	27,077	
YTD Chg In Share Price	5.8%	
Beta (x)	0.80	
52-week Hi/Lo (RM)	RM7.79	RM6.08
3M Average Volume (shrs)	6.94mn	
Estimated Free Float	30.2%	

Major Shareholders

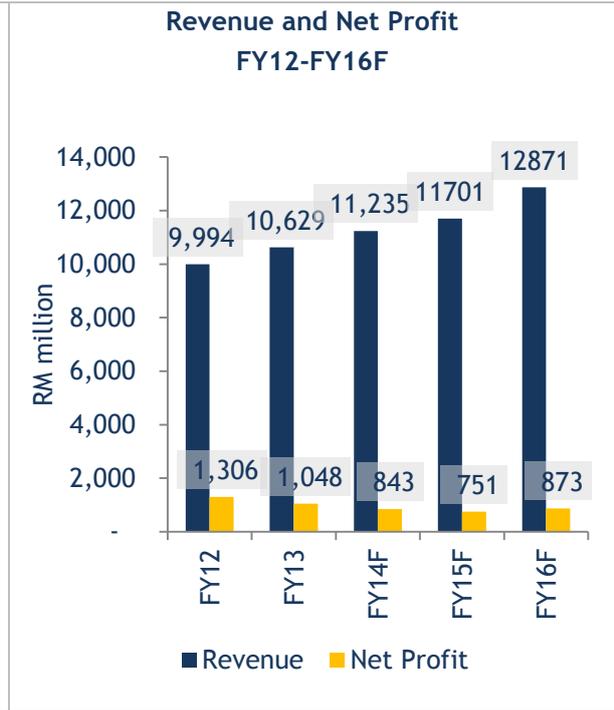
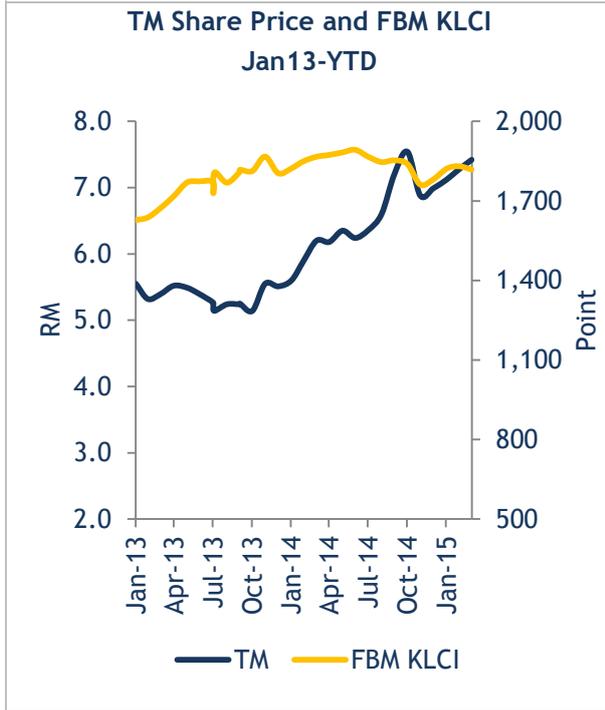
Khazanah	28.9%
EPF	13.7%
ASB	12.7%

- **Operating cost not slowing down.** Despite assurance to lower operating costs, operating costs still not showing any signs of trending down after reaching RM2.56 billion (+8.9% y-o-y), especially on manpower costs that rose 0.9% y-o-y pursuant to Mesra Skim offerings. However, we sense that the higher operating costs were due to P1 consolidation into TM and higher commission.
- **Needs more time for P1 to deliver.** At this stage, very little hints were provided and this including products, target market and capex guidance. We believe TM is still troubled by inadequate mobile ecosystem mentioned in 1Q15
- **Capex spent was higher as guided.** For FY15, TM implying a targeted capex of RM2.35 billion, translating into 18%-22% in service revenue. Capex for 1Q15 jumped 28.3% y-o-y where the majority of the capex were spent on HSBB at RM153 million.
- **Strong take-up rate for both UniFi and Streamyx.** As marketing activity gearing up, both UniFi and Streamyx registered strong net-add of 7k y-o-y and 28k y-o-y respectively. We expect that with TM's rising expenses on content cost, it should bolster HyppTV subscription in the next quarter.
- **Outlook.** Despite earnings disappointment, TM's business initiative was lauded with various ingenuity was announced capitalized on its "Innovation Exchange". 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.** Due to weak set of result, we lower our FY15 and FY16 earnings forecast in FY15 and FY16 by 26% and 19% respectively. Nonetheless, FY15 earnings are projected to shed by 12% but jump by 16% in FY16 driven by i) steady UniFi take up rate ii) further saving in operating costs iii) banking on growing SME segment.
- **Valuation & recommendation.** Due to trimming in our forecast, we cut our TP to RM6.87 from RM6.95 based on FY16 EV/EBITDA of 7.5. Rerating 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.

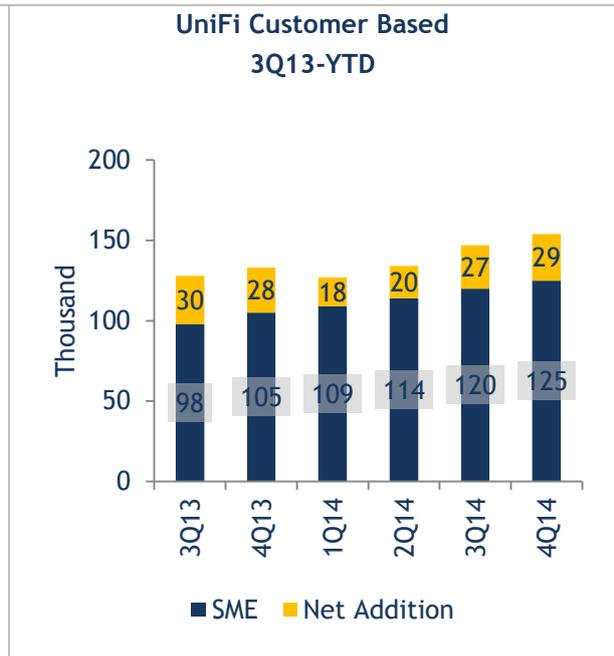
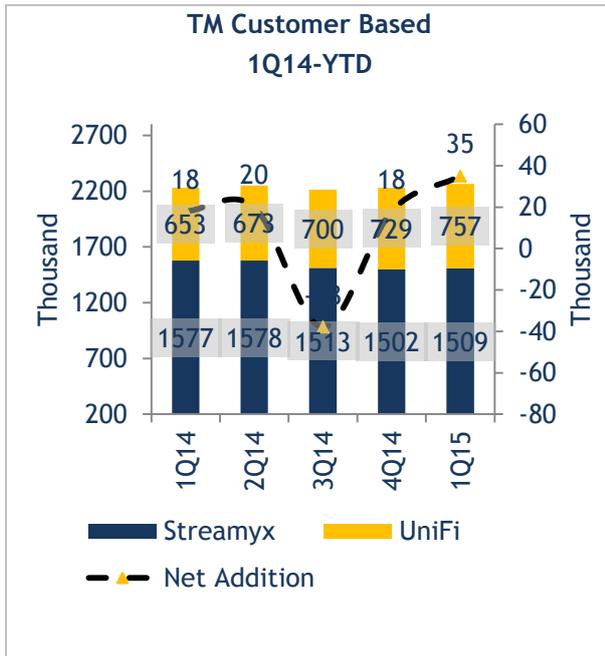
Table 1: Peers Comparison

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	6.58	0.31	0.34	23	21	2.8	2.8	11.6	3.1	7.40	Buy
Maxis	Dec	6.89	0.27	0.28	27	25	12.0	12.6	32.1	4.5	7.10	Hold
Digi	Dec	5.61	0.27	0.28	23	22	65.3	62.1	301.5	4.2	7.00	Buy
Telekom	Dec	7.28	0.27	0.29	27	25	3.4	3.4	11.3	3.6	6.87	Hold
Time DotCom	Dec	6.29	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



Source: Bursa Malaysia, M&A Securities

Table 2: Financial Summary

YE: Dec (RM million)	1Q15	4Q14	1Q14	y-o-y	q-o-q	3M15	3M14	y-o-y
Revenue	2,774	3,157	2,620	6%	-12%	2,774	2,620	6%
Operating costs	-1,959	-2,235	-1,773	10%	-12%	-1,959	-1,773	10%
EBITDA	848	960	897	-6%	-12%	848	897	-6%
Depreciation & amortization	-604	-631	-580	4%	-4%	-604	-580	4%
EBIT	243	329	317	-23%	-26%	243	317	-23%
Net Interest	-76	-79	-38	103%	-4%	-76	-38	103%
Results of associates	6	5	1	511%	8%	6	1	511%
PBT	172	254	280	-39%	-32%	172	280	-39%
Taxation	-56	-46	-61	-8%	22%	-56	-61	-8%
PAT	116	208	219	-47%	-44%	116	219	-20%
EPS (Sen)	3.5	5.9	5.9	-41%	-41%	3.5	5.9	-19%
EBITDA Margin	31%	30%	34.2%			31%	34.2%	
PBT Margin	6%	8%	10.7%			6%	10.7%	
PAT Margin	4%	7%	8.4%			4%	8.4%	

Source: Bursa Malaysia

Table 3: Financial Forecast

YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	9,994	10,629	11,235	11,701	12,871
EBITDA	3,066	3,532	3,481	3,076	3,548
Depreciation & Amortisation	-2,045	-2,160	-2,341	-2,053	-2,434
EBIT	1,022	1,372	1,140	1,013	1,214
Other operating income	166	2	154	170	150
Finance cost	-119	-332	-203	-210	-222
Associates result	1	4	4	5	5
PBT	1,070	1,046	1,106	988	1,149
PAT	1,306	1,048	843	751	873
EPS	35.3	28.3	22.9	20.2	22.4
EBITDA Margin	13%	13%	10%	9%	9%
PBT Margin	10.7%	9.8%	10%	8%	8%
PAT Margin	13.1%	9.9%	7%	6%	7%
PER (x)	17.1	19.61	31	26.7	24.6
P/BV (x)	3.13	2.96	2.85	2.84	3.43
EV/EBITDA	7.75	6.69	8.41	7.86	7.50

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