

PP14767/09/2012(030761)

Telekom Malaysia Berhad

“Operating Cost Still High”

Results Review

- **Actual vs. expectation.** Telekom Malaysia Bhd (TM) 6M15 net profit to equity holders of RM341 million (-26% y-o-y) came in line with our estimates, but missed consensus expectation, accounting 45% and 36% of ours and consensus full year net profit forecast. TM’s lower earnings were injured by higher operating cost, forex losses and consolidation of P1 into TM financials
- **Dividend.** TM announced lower dividend of 9.3 cent vs. 9.50 cent in 6M14, translating into 101.4% payout ratio.
- **Topline vs. Bottom line.** TM revenue gained to RM5.6 billion in 6M15 (+3% y-o-y) lifted by the consolidation of P1. Nevertheless, 2Q15 revenue recovered marginally by 1% y-o-y after the rough ride in 1Q15. 2Q15 revenue was propelled by contribution from internet and multimedia (+14.3% y-o-y). Similarly, EBIT for 2Q15 gained by 20bps q-o-q to 10.8%. However, 6M15’s EBIT weakened by 22bps to 9.8% on the back of higher operating cost.
- **Segment review.** Overall, all segments registered higher revenue except for voice in 6M15. Internet segment’s 6M15 revenue jumped toRM1.66 million (+14.3% y-o-y) in addition to other segment revenue that rose toRM982 million (+1.1% y-o-y). However, in line with the industry norm, voice weakened by 2.1% y-o-y. Service revenue in global and wholesale segment also dropped byby 0.8% y-o-y. On business line, revenue across all segment was disappointing, with only mass market recorded growth of 3.4% y-o-y, while global and wholesale business plunged by 4% y-o-y.

Wednesday, August 26, 2015

HOLD (TP:RM6.87)

Current Price (RM)	RM6.48
New Fair Value (RM)	RM6.87
Previous Fair Value (RM)	RM6.87
Previous Recommend.	HOLD
Upside To Fair Value	-6%
Dividend Yield (FY15)	3.1%

Stock Code

Bloomberg	T MK
-----------	------

Stock & Market Data

Listing	MAIN MARKET	
Sector	Telco	
Shariah Compliance	Yes	
Issued Shares (mn)	3,757	
Market Cap (RM mn)	23,675	
YTD Chg In Share Price	-8.43%	
Beta (x)	0.87	
52-week Hi/Lo (RM)	RM7.79	RM6.00
3M Average Volume (shrs)	6.94mn	
Estimated Free Float	30.2%	

Major Shareholders

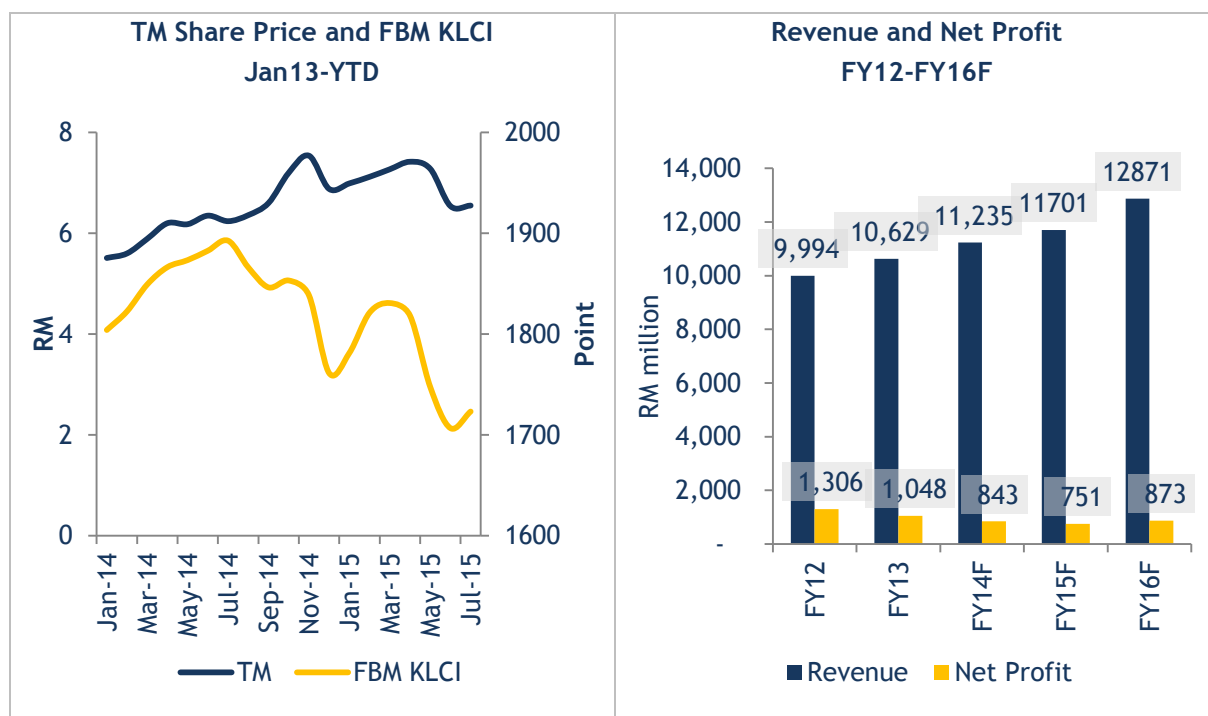
Khazanah	28.9%
EPF	13.7%
ASB	12.7%

- **Underlying broadband trends stable.** Unifi subscription trended up sequentially by 25k, meanwhile streamyx subscriber growth was halted, dropping by 3k q-o-q. Both Streamyx and Unifi subscribers are now stood at 1.5 million and 782k respectively. This was however offset by marginally lower ARPUs for both products, meaning the overall revenue accretion was not particularly substantial.
- **Operating cost still high.** Operating cost still not slowing down, rising marginally in 2Q15 as well as in 6M15, impacted by cost pressure due to higher direct cost (outbound traffic), higher bad debt provision, higher content cost (increase in channels and rights renewals), manpower (due to higher salaries) and maintenance cost (due to higher managed accounts) and timing of certain customer projects where costs were frontloaded. Positively, manpower cost in 2Q15 was trended down by 3.6% q-o-q due to the expiration of Mesra skim offering.
- **Hints of HSBB2 and SUBB.** No further details provided. Management reiterated the cost for both projects at RM1.8 billion and RM1.6 billion for HSBB2 and SUBB respectively. Of note, HSBB2 objective is to cover all state capitals and selected high-impact growth areas. This encompasses the installation of 250k ports passing through 410k premises, while SUBB will cover suburban and rural areas and encompasses the addition of 420k ports passing through 750k premises.
- **Outlook.** Entering 3Q15, we expect TM's high operational cost to persist. That said, TM opportunity growth will be limited especially on outbound cost that will weigh on TM cost. Nevertheless, we lauded TM initiative to accelerate the launch of P1 that will put TM on the same level with its competitor. 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 maintain our FY15 and FY16 earnings forecast. 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.** We maintain our target price on TM at RM6.87 based on FY16 EV/EBITDA of 7.5x and the stock is a **HOLD**. 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	6.12	0.31	0.34	23	21	2.8	2.8	11.6	3.1	7.10	Buy
Maxis	Dec	6.45	0.27	0.28	27	25	12.0	12.6	32.1	4.5	7.00	Hold
Digi	Dec	5.20	0.27	0.28	23	22	65.3	62.1	301.5	4.2	6.60	Buy
Telekom	Dec	6.48	0.27	0.29	27	25	3.4	3.4	11.3	3.6	6.87	Buy
Time DotCom	Dec	5.62	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)	2Q15	1Q15	2Q14	y-o-y	q-o-q	6M15	6M14	y-o-y
Revenue	2,841	2,774	2,822	1%	2%	5,615	5,442	3%
Operating costs	-1,941	-1,959	-1,953	-1%	-1%	-3,900	-3,727	5%
Other operating income	29	32	31	-4%	-9%	62	81	-23%
EBITDA	929	848	899	3%	10%	1,777	1,796	-1%
Depreciation & Amortisation	-624	-604	-560	11%	3%	-1,228	-1,140	8%
EBIT	306	243	339	-10%	26%	549	656	-16%
Other operating costs	-1	-1	-1	-33%	33%	-1	-2	-18%
Finance income	38	38	36	4%	-2%	76	67	13%
Finance cost	-78	-73	-74	6%	6%	-152	-145	4%
Forex loss	-15	-41	7	-304%	-65%	-56	10	-657%
Associates result	6	6	2	215%	15%	12	3	307%
Pre-tax profit	256	172	309	-17%	49%	428	589	-27%
Taxation	-74	-56	-85	-13%	32%	-130	-146	-11%
Profit after tax	182	116	225	-19%	57%	298	443	-33%
Minority interest	30		(10)	-389%	#DIV/0!	43	19	132%
PATMI	212	116	214	-1%	83%	341	462	-26%
EPS	5.7	3.5	6.0	-5%	63%	9.2	11.9	-23%
Operating costs	(0.68)	(0.71)	(0.69)			(0.69)	(0.68)	
EBITDA margin	33%	31%	31.9%			31.6%	33.0%	
EBIT margin	10.8%	8.8%	12.0%			9.8%	12.0%	
Pre-tax margin	9%	6%	11.0%			8%	10.8%	
PAT Margin	6%	4%	8.0%			5%	8.1%	

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.

DISCLOSURES AND DISCLAIMER

This report has been prepared by M&A SECURITIES SDN BHD. Readers should be fully aware that this report is for informational purposes only and no representation or warranty, expressed or implied is made as to the accuracy, completeness or reliability of the information or opinion contained herein. The recommendation and opinion are based on information obtained or derived from sources believed to be reliable.

This report contains financial forecast/projection based on our assumptions which may defer from the actual financial results announced by the companies under coverage. All opinions, estimates and assumptions are subject to change without notice. Analysts will initiate, update and cease coverage solely at the discretion of M&A SECURITIES SDN BHD.

Investors are to be cautioned that value of any securities invested may fluctuate from time to time. We advise investors to seek financial, legal and other advice for investing based on the recommendation of our report as we have not taken into account each investors' specific investment objectives, risk tolerance and financial position.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. M&A SECURITIES SDN BHD can accept no liability for any consequential loss or damage whether direct or indirect. Investment should be made at investors' own risks.

M&A SECURITIES SDN BHD and INSAS GROUP of companies, their respective directors, officers, employees and connected parties may have interest in any of the securities mentioned and may benefit from the information herein. M&A SECURITIES SDN BHD and INSAS GROUP of companies and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This report may not be reproduced, distributed or published in any form or for any purpose.

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