TELECOMMUNICATION

TELEKOM MALAYSIA

(T MK EQUITY, TLMM.KL)

29 May 2025

Some catching up to do

HOLD

(Maintained)

AmInvestment Bank

Company Report

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Rationale for report: Company Result

Price	**RM6.85**
Fair Value	**RM6.60**
52-week High/Low	RM7.17/RM6.12

Key Changes

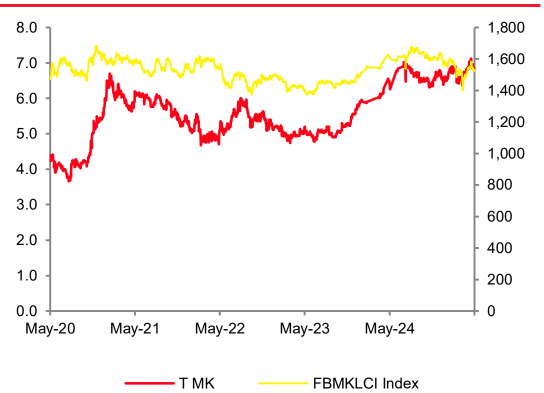
Fair value	⇔
EPS	⇔

YE to Dec	FY24	FY25F	FY26F	FY27F
Revenue (RM mil)	11,712.4	11,832.8	11,989.1	12,136.0
Core net profit (RM mil)	1,980.2	1,707.8	1,715.0	1,745.5
FD Core EPS (sen)	51.6	44.5	44.7	45.5
FD Core EPS growth (%)	(10.0)	(13.8)	0.4	1.8
Consensus Net Profit (RM mil)	-	-	-	-
DPS (sen)	31.0	26.7	26.8	27.3
PE (x)	13.3	15.4	15.3	15.1
EV/EBITDA (x)	6.3	6.1	6.0	5.8
Div yield (%)	4.6	4.0	4.0	4.1
ROE (%)	20.9	16.4	15.5	14.9
Net Gearing (%)	20.7	18.2	14.5	11.0

Stock and Financial Data

Shares Outstanding (million)	3,837.6
Market Cap (RMmil)	26,287.8
Book Value (RM/Share)	2.63
P/BV (x)	2.6
ROE (%)	20.9
Net Gearing (%)	20.7
Major Shareholders	Khazanah (19.7%) EPF (16.9%) Amanah Saham Nasional (10.4%)
Free Float	66.9
Avg Daily Value (RMmil)	43.2

Price performance	3mth	6mth	12mth
Absolute (%)	1.2	8.9	7.3
Relative (%)	4.6	14.2	13.9



Investment Highlights

TM's 1Q25 revenue growth was in line with guidance, but Ebit trailed due to higher customer acquisition costs. Construction of its DC (data centre) in Johor is on track, albeit only expected to be completed in 2H26. Meanwhile, growth prospects for its core segments are flattish due to mature markets and intense competition. We retain HOLD at a TP of RM6.60/share. Dividend yield is decent at 4%.

- **Reiterate HOLD at TP of RM6.60/share.** This is based on a target EV/Ebitda multiple of 5x and CY26 EPS. Our valuation includes its 51% JV stake with Nxera MY to construct a 64MW DC in Johor. Our HOLD call is premised on flattish earnings prospects, due to intense competition within its core businesses.

- **Revenue in line, but Ebit trailed guidance.** 1Q25 earnings declined 15% YoY to RM391mil. This is within expectations, forming 23% of ours and consensus estimates. Revenue growth of +0.5% YoY was within guidance, but Ebit (-16% YoY) was held back by higher costs. Recall, management guided for revenue growth of low single digit and flat Ebit.

- **Margins contracted on customer acquisition cost.** Cost as a % of revenue increased +3.7pp YoY to 82%. Direct cost rose 11% YoY, due to higher 5G traffic and device cost. Device cost was attributed to both its fixed and mobile business. On top line, growth was driven by TM Global (+2% YoY), offsetting slight declines at unifi (-0.7% YoY) and TM One (-0.6% YoY). unifi net adds slowed to +9k QoQ, while ARPU moderated 2% YoY to RM127/month.

- **Backhaul partner for second 5G network.** The group was appointed by U Mobile to provide 5G mobile backhaul services, with a value totaling RM2.4bil over ten years. Targets are to achieve an 80% coverage of populated areas within 12 months. The value of the contract is higher than the one signed with DNB in Dec 2021, which was worth RM2bil over ten years, as it includes other value-added services. While sizeable in value, this is within our assumptions, forming 2% of FY26F revenues.

EXHIBIT 1: 1Q25 EARNINGS SUMMARY

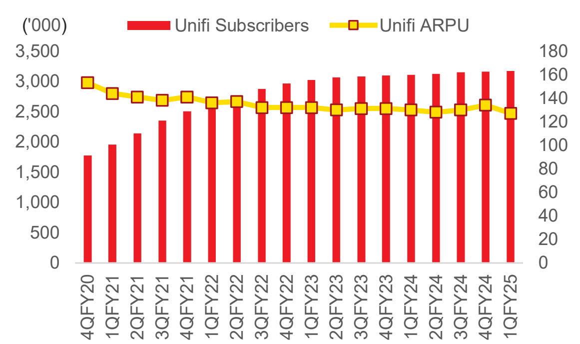
FYE Dec	1QFY25	1QFY24	% YoY	4QFY24	% QoQ
Revenue	2,852	2,837	0.5	3,050	-6.5
EBITDA	**1,089**	**1,189**	**-8.4**	**1,060**	**2.7**
Margin (%)	38.2	41.9	-8.9	34.8	9.9
Depreciation and amortisation	-539	-538	-0.1	-548	1.6
EBIT	**550**	**651**	**-15.5**	**512**	**7.4**
Finance income	32	31	3.5	37	-12.0
Finance cost	-62	-79	21.4	-71	13.0
Forex	11	-34	nm	-92	nm
Associates	1	2	-73.9	3	-81.8
EI	3	1	>100	-18	nm
Profit before tax	**534**	**572**	**-6.7**	**371**	**43.8**
Tax	-131	-144	9.1	372	nm
Effective tax rate (%)	24.6	25.2	-2.6	-100.0	nm
MI	-2	-3	46.7	-12	87.0
Net profit	**401**	**425**	**-5.6**	**731**	**-45.1**
Core net profit	**391**	**459**	**-14.8**	**823**	**-52.5**
Capex	280	205	36.6	822	-65.9
EPS (sen)	10.5	11.1	-5.4	19.0	-44.7
Core EPS (sen)	10.5	11.1	-5.4	19.0	-44.7
DPS (sen)	0.0	0.0	nm	18.5	nm

FYE Dec	1QFY25	1QFY24	% YoY	4QFY24	% QoQ
Revenue					
Voice	469	520	-9.9	477	-1.7
Internet	1,112	1,158	-4.0	1,125	-1.2
Data	861	827	4.1	891	-3.4
Others	411	332	23.7	557	-26.3
Unifi	1,386	1,396	-0.7	1,455	-4.7
TM ONE	669	673	-0.6	782	-14.5
TM GLOBAL	761	743	2.4	780	-2.5
Others	74	65	14.1	78	-4.9
Costs					
Direct cost	723	654	10.6	802	-9.7
Manpower	653	653	-0.1	748	-12.7
Other opex	416	367	13.2	510	-18.6
Depreciation and amortisation	539	538	0.1	548	-1.6
Capex					
Access	124	84	47.6	234	-47.0
Core network	20	69	-71.0	199	-89.9
Support system	136	52	>100	389	-65.0

FYE Dec	1QFY25	1QFY24	% YoY	4QFY24	% QoQ
Broadband					
Unifi subs (k)	3,170	3,108	2.0	3,161	0.3
Unifi ARPU (RM)	127	130	-2.3	134	-5.2

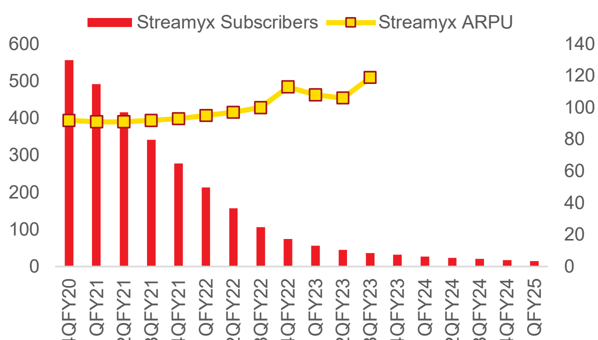
Source: Company, AmInvestment Bank

EXHIBIT 2: UNIFI SUBSCRIBERS AND ARPU



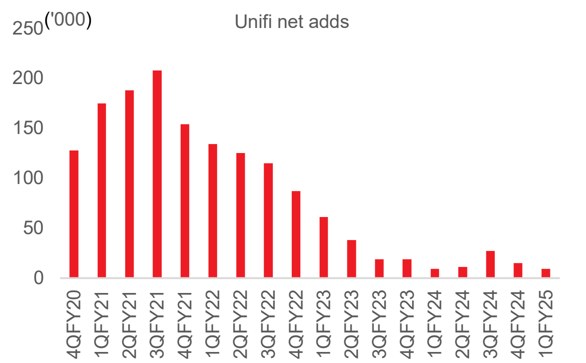
Source: Company, AmInvestment Bank

EXHIBIT 3: STREAMYX SUBSCRIBERS AND ARPU



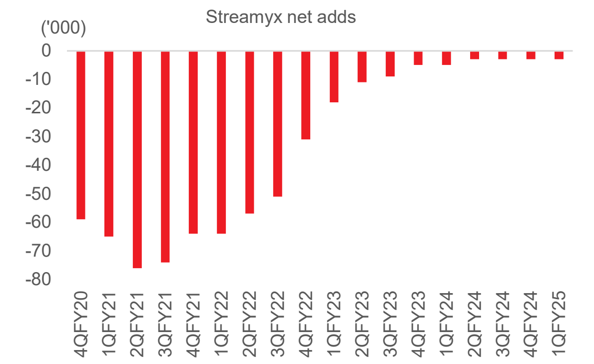
Source: Company, AmInvestment Bank

EXHIBIT 4: UNIFI SUBSCRIBER CHANGE



Source: Company, AmInvestment Bank

EXHIBIT 5: STREAMYX SUBSCRIBER CHANGE



Source: Company, AmInvestment Bank

EXHIBIT 6: VALUATIONS

Target EV/Ebitda (x) – 1sd to sector 5-year average	5.0x
CY26 Ebitda (RMmil)	RM4,676mil
Enterprise value (RMmil)	RM23,379mil
Less: Borrowings (RMmil)	(RM5,191mil)
Add: Cash (RMmil)	RM3,096mil
Equity value (RMmil)	RM21,284mil
51% stake in JV with Nxera MY to develop DC	RM4,063mil
Shares outstanding (mil shares)	3,838mil
12-month target price	**RM6.60**

Source: AmInvestment Bank

Company profile

Telekom Malaysia (TM) is the country's leading fixed network operator. Its largest shareholder is Khazanah (20%) and the Ministry of Finance holds one golden share in the company, giving the government special rights to overrule decisions made.

TM has three main business divisions, unifi, TM One and TM Global. unifi is its retail arm, responsible for providing telco services and solutions to individuals, households and SMEs. TM One is responsible for SMEs, corporate and government customers. Meanwhile, TM Global is its wholesale arm, serving domestic and international carriers.

The group's assets include >720,000 km of domestic fibre optic cables, >340,000km of submarine cables and eight data centres. Its total workforce stands at 19k people.

Investment thesis and catalysts

Partnering Singtel for new data centre in Johor. TM entered into a 51:49 JV with Nxera MY to develop a data centre in Johor. The four storey 64MW data centre will cost RM1.2bil and can potentially be scaled up to 200MW over several phases. Targeted to be operational by 2H26, we estimate the business to form 10% of 2030 profits.

Challenges at unifi and TM One. Data centre aside, prospects for its core business are relatively flattish. unifi faces increased competition, which has impacted net adds, as mobile players penetrate into the fixed broadband segment. Upside to ARPU (average revenue per user) may also be capped, as the MSAP (Mandatory Standard on Access Pricing) is reviewed every three years, to ensure wholesale access prices are fair and reflective of market conditions. Meanwhile, TM One revenues have been on a declining trajectory (since FY17), as it faces price pressures from contract renewals.

Valuation methodology

Our target price is based on an EV/Ebitda multiple of 5.0x, which is consistent with the group's 5-year average. Our valuation also includes the group's 51% stake in its JV with Nxera MY to construct a 64MW DC in Johor.

Risk factors

Under the Mandatory Standard on Access Pricing (MSAP), wholesale prices are regulated, opening the door to heightened competition in the fixed broadband space and enterprise segment. Every 1% decrease in unifi ARPU lowers our earnings by 2%.

Its dividend policy is based on 40-60% of reported Patami, which may be influenced by one-off items.

EXHIBIT 7: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Revenue	11,690.2	11,712.4	11,832.8	11,989.1	12,136.0
EBITDA	4,502.0	4,474.5	4,614.8	4,675.8	4,733.0
Depreciation/Amortisation	(2,413.6)	(2,149.4)	(2,175.4)	(2,253.6)	(2,322.9)
Operating income (EBIT)	2,088.4	2,325.1	2,439.4	2,422.2	2,410.1
Other income & associates	(35.6)	44.8	1.6	18.9	59.6
Net interest	(254.7)	(177.1)	(171.1)	(157.6)	(142.1)
Exceptional items	10.4	(15.6)	-	-	-
Pretax profit	**1,808.5**	**2,177.2**	**2,269.9**	**2,283.5**	**2,327.6**
Taxation	76.5	(138.3)	(544.8)	(548.0)	(558.6)
Minorities/pref dividends	(14.5)	(22.0)	(17.3)	(20.5)	(23.4)
Net profit	**1,870.5**	**2,016.9**	**1,707.8**	**1,715.0**	**1,745.5**
Core net profit	2,201.2	1,980.2	1,707.8	1,715.0	1,745.5

Balance Sheet (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Fixed assets	14,301.6	12,612.2	12,844.0	13,058.2	13,257.8
Intangible assets	903.0	839.5	1,041.9	1,218.3	1,372.4
Other long-term assets	1,216.2	773.3	822.3	847.0	912.1
Total non-current assets	**16,420.8**	**14,225.0**	**14,708.3**	**15,123.6**	**15,542.3**
Cash & equivalent	2,955.2	3,096.2	2,933.8	2,959.3	3,031.4
Stock	204.6	201.7	258.1	261.5	264.7
Trade debtors	2,275.0	2,518.0	2,483.2	2,516.0	2,546.9
Other current assets	1,080.2	1,121.6	1,121.6	1,121.6	1,121.6
Total current assets	**6,515.0**	**6,937.5**	**6,796.7**	**6,858.5**	**6,964.6**
Trade creditors	3,033.3	3,270.4	3,270.3	3,313.5	3,354.1
Short-term borrowings	1,449.5	1,639.4	1,451.9	1,332.1	1,224.3
Other current liabilities	1,391.4	1,375.5	1,375.5	1,375.5	1,375.5
Total current liabilities	**5,874.2**	**6,285.3**	**6,097.7**	**6,021.1**	**5,953.9**
Long-term borrowings	5,171.3	3,551.4	3,430.5	3,273.2	3,132.3
Other long-term liabilities	2,567.7	1,059.9	1,093.0	1,095.3	1,097.4
Total long-term liabilities	**7,739.0**	**4,611.3**	**4,523.5**	**4,368.5**	**4,229.7**
Shareholders' funds	**9,163.0**	**10,099.7**	**10,700.3**	**11,388.5**	**12,095.9**
Minority interests	159.6	166.2	183.5	204.0	227.4
BV/share (RM)	2.39	2.63	2.79	2.97	3.15

Cash Flow (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Pretax profit	1,808.5	2,177.2	2,269.9	2,283.5	2,327.6
Depreciation/Amortisation	2,413.6	2,149.4	2,175.4	2,253.6	2,322.9
Net change in working capital	(581.9)	330.2	(36.1)	3.5	3.3
Others	45.9	(646.2)	(636.8)	(655.4)	(708.1)
Cash flow from operations	**3,686.1**	**4,010.6**	**3,772.4**	**3,885.2**	**3,945.7**
Capital expenditure	(2,193.1)	(1,380.9)	(2,129.9)	(2,158.0)	(2,184.5)
Net investments & sale of fixed assets	144.6	19.8	-	-	-
Others	404.6	358.9	90.4	88.4	89.9
Cash flow from investing	**(1,643.9)**	**(1,002.2)**	**(2,039.5)**	**(2,069.6)**	**(2,094.6)**
Debt raised/(repaid)	(1,030.7)	(1,618.6)	(788.2)	(763.2)	(740.8)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(657.1)	(1,089.9)	(1,107.2)	(1,026.8)	(1,038.2)
Others	29.4	(150.9)	-	-	-
Cash flow from financing	**(1,658.4)**	**(2,859.4)**	**(1,895.3)**	**(1,790.0)**	**(1,779.0)**
Net cash flow	**383.8**	**149.0**	**(162.4)**	**25.5**	**72.1**
Net cash/(debt) b/f	**2,579.4**	**2,955.2**	**3,096.2**	**2,933.8**	**2,959.3**
Net cash/(debt) c/f	**2,955.2**	**3,096.2**	**2,933.8**	**2,959.3**	**3,031.4**

Key Ratios (YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Revenue growth (%)	(3.5)	0.2	1.0	1.3	1.2
EBITDA growth (%)	(9.1)	(0.6)	3.1	1.3	1.2
Pretax margin (%)	15.5	18.6	19.2	19.0	19.2
Net profit margin (%)	16.0	17.2	14.4	14.3	14.4
Interest cover (x)	8.2	13.1	14.3	15.4	17.0
Effective tax rate (%)	4.2	6.4	24.0	24.0	24.0
Dividend payout (%)	34.7	53.3	64.8	59.9	59.5
Debtors turnover (days)	72	75	77	76	76
Stock turnover (days)	8	6	7	8	8
Creditors turnover (days)	105	98	101	100	100

Source: Company, AmInvestment Bank Bhd estimates

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