

Headline	TM could face challenges with more telcos given access to fibre		
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TM could face challenges with more telcos given access to fibre

Telekom Malaysia Bhd
(Aug 30, RM3.31)

Downgrade to neutral with a lower target price (TP) of RM3.83: Telekom Malaysia Bhd (TM) reported a 51.5% year-on-year (y-o-y) decline in net profit for second quarter of financial year 2018 (2QFY18) net profit to RM102 million. Stripping out non-operating items, normalised net profit dropped 25.1% y-o-y to RM155.8 million, mainly due to lower voice revenue while data services were affected by a provision made on estimated impact of regulatory mandated access pricing. For cumulative six months of FY18 (1HFY18), the results were below expectations as they only accounted for 39% and 36% of our and market's full-year estimates, respectively. TM is now extending the affordable entry-level broadband plan to all households effective September. Previously, the Unifi basic plan was only made available to the bottom 40% segment. In view of a challenging environment in the broadband space with increasing regulatory pressure and market



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competition, we cut our FY18-FY20 earnings forecasts by 9%-14% to account for lower data revenue. As such, our discounted cash flow-based TP is reduced from RM4.65 to RM3.83. We downgrade our rating from "trading buy" to "neutral". No interim dividend was declared and we cut our dividend forecasts accordingly, which translate into a yield of about 3% per annum.

1HFY18 revenue fell 2.7% y-o-y mainly due to lower revenue from voice, data, and other telecommunications-related services. Data

services were affected by a provision amounting to RM88.4 million arising from the estimated impact of the Mandatory Standard on Access Pricing (MSAP). Only the Internet segment delivered a higher revenue on the back of higher contribution from Unifi fixed and Unifi mobile. Unifi achieved a customer base of about 1.22 million, up 20.9% y-o-y. Meanwhile, voice revenue was down 8.4% y-o-y due to lower traffic minutes and lower cumulative customers.

1HFY18 normalised net profit

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FYE DEC (RM MIL)	2016A	2017A	2018F	2019F	2020F	CAGR (%)
Revenue	12,060.9	12,085.1	11,871.5	11,649.6	11,584.0	-1.4
Operating profit	1,201.2	1,101.2	801.7	800.7	884.4	-7.0
Pre-tax profit	918.5	1,048.0	593.7	596.9	656.9	-14.4
Core NP profit	847.9	863.2	604.6	575.2	594.7	-11.7
EPS (sen)	22.8	23.2	16.3	15.5	16.0	-11.7
PER (x)	15.7	15.4	22.0	23.1	22.3	
DPS (sen)	21.5	21.5	12.2	11.6	12.0	
Dividend yield (%)	6.0	6.0	3.4	3.2	3.4	

Sources: Company, PublicInvest Research estimate

dropped 40.4% y-o-y mainly on a lower revenue and a higher effective tax rate (49.5% versus 32.5%) due to loss from its mobile unit for which no corresponding tax loss or deferred tax asset was recognised. Meanwhile, total cost to revenue increased from 90.7% in 1HFY17 to 92.4% in 1HFY18, mainly due to a higher manpower cost and a direct cost in 1QFY18 and 2QFY18 respectively.

Following the implementation of the MSAP in June, TM and Maxis Bhd have cut their broadband prices

to reflect the drop in network access pricing. Going forward, we believe competition in the broadband space will intensify with more players be given access to fibre. This could potentially threaten TM's monopoly in providing high-speed broadband services nationwide. Also, given the likelihood of Tenaga Nasional Bhd opening up its fibre network to other telcos, we think there is room for further decline in fixed-line broadband prices in the long run. — *PublicInvest Research, Aug 30*