

17 February 2012 | 4Q11 Results Preview


Telekom Malaysia Berhad

Potential free top up

Maintain BUY

Unchanged Target Price (TP): RM5.20

INVESTMENT HIGHLIGHTS

- **Expect double digit growth in normalized earnings.** TM will be releasing its 4Q11 results on 24 Feb 2012. Lower earnings is widely expected due to the inflated earnings in FY10. We expect full year earnings to come fall -31.9%yoy to RM848.2m due to forex loss of approx. -RM70m in FY11 as opposed to the RM303.7m gains in FY10. However, discounting one-off gains, we estimate TM to post a strong growth of circa +19%yoy to RM711m on its normalized FY11 net profit coming from robust EBITDA growth.
- **Robust EBITDA growth.** We expect TM to be able to maintain its good operational performance and record RM3.1b on its FY11 EBITDA, showing a solid growth of +7.7%yoy. The EBITDA growth will be due to good cost management and revenue expansion especially internet revenue. EBITDA margin will be above its FY11 headline KPI at 35% vs. 32% targeted.
- **Revenue expected to grow +2.0%yoy.** We are anticipating that TM will post revenue expansion of +2.0%yoy to RM8.97b. However, we do not discount the possibility that revenue could come in higher and hitting its KPI target of +2.5%yoy growth as internet revenue continues to be a key driver. We expect internet revenue contribution to revenue to increase to circa 21% in FY11 from a double digit growth of 11% to RM1.8b.
- **Solid broadband and Unifi numbers.** Internet revenue growth is expected to be strong as broadband and Unifi subscriber expansion has continued to be encouraging. Streamyx registered +7.0%yoy increase in customer base to 1.87m in 3Q11, despite strong take up rates in its HSBB Unifi. We believe that similar trend to be repeated in 4Q11. Unifi customers are estimated to be 227,000 at the end of FY11, with a penetration of circa 20%, surpassing all expectations.
- **Potential bonus for shareholders.** We are not ruling out any possibility of TM announcing extra cash to its shareholders either via special dividend or redeemable preference shares similar to FY10 due to the gains on the sale of Axiata shares in Jul'11. Excluding any bonus payment, we are estimating a 5.8% dividend yield for FY11 based on current price.
- **Maintain BUY.** Pending the release of its results, we are maintaining our FY11 and FY12 earnings forecasts. We continue to like TM for its defensive qualities and the growth potential of Unifi, which may not be fully reflected in the stocks's valuation. Hence, we are maintaining our BUY recommendation for the stock, making an exception to our BUY definition (TM's potential upside of +13.2% is lower than our BUY threshold of >15%). Our unchanged target price of RM5.20 is based on the Discounted Dividend Model, with a WACC of 9.0%. 

| RETURN STATS | |
|------------------------------|----------------|
| Price (16 Feb. 2011) | RM4.84 |
| Target Price | RM5.20 |
| Expected Share Price Return | +7.5% |
| Expected Dividend Yield | +5.8% |
| Expected Total Return | +13.2%* |

* please refer to clarification on recommendation

| STOCK INFO | |
|-----------------------|-----------------|
| KLCI | 1,550.49 |
| Bursa / Bloomberg | 4863 / T MK |
| Board / Sector | Main/ Services |
| Syariah Compliant | Yes |
| Issued shares (mil) | 3577.402 |
| Par Value (RM) | 1.00 |
| Market cap. (RM'm) | 17,314.6 |
| Price over NA | 2.7 x |
| 52-wk price Range | RM3.53 – RM5.09 |
| Beta (against KLCI) | 0.84 |
| 3-mth Avg Daily Vol | 6.25m |
| 3-mth Avg Daily Value | RM29.2m |
| Major Shareholders | |
| Khazanah | 28.73% |
| EPF | 12.58% |
| ASB | 10.16% |

INVESTMENT STATISTICS

| FYE Dec | FY09 | FY10 | FY11F | FY12F |
|------------------------|--------|--------|--------|--------|
| Revenue (RM'm) | 8608.0 | 8791.0 | 8966.8 | 9146.2 |
| EBIT (RM'm) | 1064.1 | 1301.8 | 1341.5 | 1293.3 |
| Pretax Profit (RM'm) | 921.6 | 1360.2 | 1146.2 | 1104.2 |
| Net Profit (RM'm) | 673.3 | 1245.0 | 848.2 | 817.1 |
| EPS (sen) | 18.2 | 33.9 | 23.7 | 22.8 |
| EPS growth (%) | >100.0 | 86.3 | -30.1 | -3.7 |
| PER(x) | 26.6 | 14.3 | 20.4 | 21.2 |
| Net Dividend (sen) | 23.0 | 26.1 | 28.0 | 28.0 |
| Net Dividend Yield (%) | 4.8 | 5.4 | 5.8 | 5.8 |

Source: Company, Forecasts by MIDFR

DAILY PRICE CHART



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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

| | |
|--------------|--|
| BUY | Total return is expected to be >15% over the next 12 months. |
| TRADING BUY | Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow. |
| NEUTRAL | Total return is expected to be between -15% and +15% over the next 12 months. |
| SELL | <i>Negative</i> total return is expected, by -15% or more, over the next 12 months. |
| TRADING SELL | Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow. |

SECTOR RECOMMENDATIONS

| | |
|----------|--|
| POSITIVE | The sector is expected to outperform the overall market over the next 12 months. |
| NEUTRAL | The sector is to perform in line with the overall market over the next 12 months. |
| NEGATIVE | The sector is expected to underperform the overall market over the next 12 months. |