

Telekom Malaysia (T MK)

On Stronger Footing

Highlights

- We came away from a recent management meeting more sanguine on TM's near-term prospects. 2027 earnings will be driven by: a) the absence of one-off manpower VSS cost, b) RM100m-150m in savings from 5G wholesale fees, and c) a strong TM Global project pipeline, including built-up DCs.
- The TM-Nxera 200MW fit-out is expected to start soon, and we value this DC project at RM1.30/share. By 2030, TM aims to build out 1GW of DC capacity, beyond the Johor cluster as demand moves into the Klang Valley/East Coast region. TM is also set to benefit from Malaysia's sovereign cloud ambition.
- Upgrade from HOLD to BUY with a higher DCF-based target price of RM8.60, capturing TM-Nxera's full valuation. Active capital management will provide a total shareholder return of 15%.

Analysis

- On stronger footing in 2027.** We came away from a recent management meeting more sanguine on Telekom Malaysia's (TM) near-term prospects. We believe the group can achieve a robust 15% yoy earnings growth in 2027, on the back of a 1.5ppt EBITDA margin uplift to 3.5.5%. This reflects: a) the absence of the voluntary separation scheme (VSS) costs – the programme was launched in 2025; b) RM100m-150m in savings from 5G wholesale fees, given that TM has moved to U Mobile's pay-per-use 5G wholesale contract as of 31 Jul 26; and c) a strong TM Global project pipeline, with submarine cable and data centres (DC) operating at close to full capacity.
- Robust underlying TM Global expansion.** In 1H26, TM Global's revenue rose the fastest, expanding 7% yoy to RM1.6b and accounting for 27% of group revenue. Key drivers included demand for DC capacity, international data and 5G backhaul services. We understand that TM will focus on two segments of expansion within the infrastructure business: a) DC – likely focusing in areas outside of the Johor cluster; and b) 10 submarine cables in the next two years.

Key Financials

Year to 31 Dec (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	11,712.4	11,872.0	13,007.7	13,502.8	14,100.8
EBITDA	4,474.0	4,204.3	4,426.5	4,793.9	4,975.7
Operating profit	2,324.6	2,025.6	2,226.6	2,557.1	2,758.4
Net profit (rep./act.)	2,016.9	1,713.0	1,669.0	1,923.8	2,014.5
Net profit (adj.)	1,584.5	1,749.7	1,669.0	1,923.8	2,014.5
EPS	41.3	45.6	43.5	50.1	52.5
PE (x)	19.0	17.2	18.0	15.6	14.9
P/B (x)	3.0	2.8	2.7	2.6	2.5
EV/EBITDA (x)	6.8	7.1	6.7	6.1	5.8
Dividend yield (%)	4.0	4.0	4.2	4.8	5.0
Net margin (%)	13.2	13.8	13.9	14.1	-
Net debt/(cash) to equity (%)	3.9	(5.3)	(6.3)	(8.2)	(13.6)
Interest cover (x)	5.4	4.7	10.0	10.8	10.5
ROE (%)	15.7	16.5	15.2	16.7	16.8
Consensus net profit	n.a	n.a	1,693.0	1,855.0	1,954.0
UOBKH/Consensus (x)	n.a	n.a	1.0	1.0	1.0

Source: TM, Bloomberg, UOB Kay Hian

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BUY (Upgraded)

Share Price	RM7.83
Target Price	RM8.60
Upside	10.0%
Previous TP	RM7.50

Stock Data

Sector	Communication Services
Bloomberg ticker	T MK
Shares issued (m)	3,837.7
Market cap (RMm)	30,740.3
Market cap (US\$m)	7,533.5
3-mth avg daily t'over (US\$m)	7.0

Price Performance (%)

52-week high/low	RM8.30/RM6.93
1mth	3.8
3mth	7.7
6mth	13.6
1yr	13.8
YTD	(0.5)

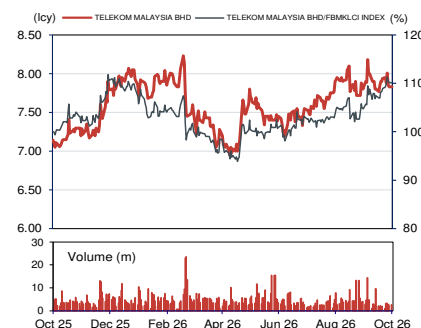
Major Shareholders (%)

Employees Provident Fund	24.4
Khazanah Nasional Bhd	20.1
Kumpulan Wang Persaraan	10.0

Balance Sheet Metrics

FY26F NAV/Share (RM)	2.8
FY26F Net Cash/Share (RM)	0.1

Price Chart



Source: Bloomberg

Company Description

Fixed line operator that provides services including fixed voice, mobile, fixed broadband, and leasing of fibre optics. It also provides ICT solutions to corporates/SMEs.

- TM-Nxera 200MW fit-out has started.** As of Jun 26, Iskandar Puteri Data Centre (IPDC) Block 2 had been fully taken up while more than 70% of TM-Nxera Phase 1's 64MW capacity has been fully contracted. Concurrently, TM-Nxera is in the process of building out the second block, and will bring TM-Nxera scalable AI-ready campus to 200MW. We gathered that there is demand from offtakers who are looking for larger capacity, and the TM-Nxera campus may be bigger than the 200MW eventually. We value the entire 200MW TM-Nxera at RM5b or RM1.30/share, based on 20x EV/EBITDA multiple.
- To have 1GW of DC capacity by 2030.** TM aims to have all its 100MW of DC capacity fully contracted out by the end of 2026. Beyond that, TM targets to grow its DC capacity to 1GW, driven by visible demand shifting away from the Johor hyperscaler cluster into more localised/under-served region in the Klang Valley/East Coast regions. This is an ambitious plan, and we believe TM may exercise caution, allocating resources where there is visibly strong demand projection. This will support Malaysia's digitalisation efforts, including capturing a sizeable share of Malaysia's sovereign cloud business.
- Committed to delivering Bursa's MY Value Up aspirations.** Launched in Apr 26 under the Capital Market Masterplan 2026-30, Bursa Malaysia's MY Value Up programme aims to drive sustainable value creation among listed companies and enhance the attractiveness of Malaysia's capital market. In alignment with these objectives, TM is committed to: a) achieving earnings growth to improve ROE; b) disciplined investment execution with a targeted ROIC > WACC; c) strategically allocating capex across both growth and cash-generative businesses; d) having a sustainable dividend payout; and e) strengthening free cash flow, balance sheet resilience and credit ratings through prudent capital management.

Valuation/Recommendation

- Upgrade to BUY (from HOLD) with a higher DCF-based target price of RM8.60.** Our target price has factored in a RM1.30/share valuation for TM-Nxera DC. While we expect a 10% capital appreciation from here, we also expect a 5% dividend yield for 2027, bringing total shareholder return to 15%.

Earnings Revision/Risk

- No changes to earnings.
- Risk:** Relatively muted guidance for 2026 - management expects EBIT to be flat at RM2b. Capex intensity is also higher at 18-20% of total revenue, focused on capacity upgrades on existing submarine cables, as well as network capacity and range enhancement.

Environment, Social, Governance (ESG) Updates

Environmental

- Achieved 34% carbon emission reduction from 2019 baseline in 2025 through managing direct emissions, reducing energy-related emissions and adopting renewable energy generation (20% of total electricity consumption).

Social

- Contributed nearly RM17.6m (through Yayasan TM and partnerships) to provide humanitarian relief efforts nationwide, assisting over 130,220 people from the affected communities.

Governance

- Integrity screening of new vendors' background through MACC's Integrity Screening E-System.

Performance Guidance For 2026

	FY 2025	FY 2026 Guidance
Revenue Growth	+1.4%	Low single-digit increase
EBIT	RM2.026bil *Underlying EBIT: RM2.470bil	Similar level to 2025
Capex/Revenue	16.1%	18%-20%

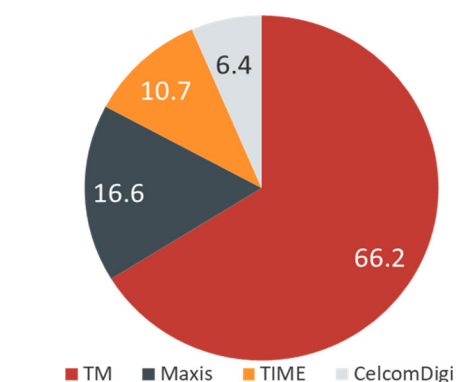
Source: TM

TM's DC Portfolio

Data Centre	Capacity (MW)	Remarks
KVDC, Cyberjaya	16.7	100% capacity utilisation
IPDC, Johor	15.0	100% capacity utilisation
KJDC, BFDC & Others	5.0	100% capacity utilisation
TM-NXERA, Johor	64.0 (Phase 1)	- Scalable AI-ready campus up to 200MW - Phase one has contracted 70% of its capacity 20MW ready-for-service in Oct 26
Future DC expansion	Up to 1GW	- Located nationwide - Leverages TM's existing interconnection infrastructure - Scaling up gradually in tandem with demand

Source: TM, UOB Kay Hian

Home Fibre Subscribers Market Share (%)



Source: Respective Companies, UOB Kay Hian

5-year EV/EBITDA Band



Source: Bloomberg, UOB Kay Hian

Profit & Loss

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Net turnover	11,872	13,008	13,503	14,101
EBITDA	4,204	4,426	4,794	4,976
Deprec. & amort.	2,179	2,200	2,237	2,217
EBIT	2,026	2,227	2,557	2,758
Associate contributions	4	4	4	4
Net interest income/(expense)	(229)	(88)	(83)	(66)
Pre-tax profit	2,126	2,143	2,478	2,696
Tax	(392)	(450)	(520)	(647)
Minorities	(21)	(24)	(34)	(35)
Net profit	1,713	1,669	1,924	2,014
Net profit (adj.)	1,750	1,669	1,924	2,014

Cash Flow

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Operating	3,519	3,720	4,132	4,310
Pre-tax profit	2,126	2,143	2,478	2,696
Tax	(392)	(450)	(520)	(647)
Deprec. & amort.	2,179	2,200	2,237	2,217
Associates	(4)	(4)	(4)	(4)
Working capital changes	433	(168)	(58)	47
Non-cash items	(822)	-	-	-
Investing	(1,197)	(2,341)	(2,431)	(2,115)
Capex (growth)	(1,915)	(2,341)	(2,431)	(2,115)
Investments	3	-	-	-
Others	715	-	-	-
Financing	(2,619)	(1,763)	(1,396)	(1,463)
Dividend payments	(1,190)	(1,252)	(1,443)	(1,511)
Issue of shares	0	-	-	-
Proceeds from borrowings	(1,429)	(511)	47	48
Others/interest paid	-	-	-	0
Net cash inflow (outflow)	(297)	(384)	305	731
Beginning cash & cash equivalent	2,973	2,486	2,102	2,407
Changes due to forex impact	0	-	-	-
Ending cash & cash equivalent	2,486	2,102	2,407	3,138

Balance Sheet

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Fixed assets	11,408	11,549	11,743	11,641
Other LT assets	2,847	2,851	2,856	2,860
Cash/ST investment	2,623	2,239	2,544	3,275
Other current assets	3,582	4,002	4,118	4,258
Total assets	20,459	20,641	21,260	22,034
ST debt	511	526	542	558
Other current liabilities	5,220	5,472	5,529	5,717
LT debt	1,551	1,025	1,055	1,087
Other LT liabilities	2,416	2,416	2,416	2,416
Shareholders' equity	10,587	11,004	11,485	11,989
Minority interest	174	198	232	267
Total liabilities & equity	20,459	20,641	21,260	22,034

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	35.4	34.0	35.5	35.3
Pre-tax margin	35.0	33.6	37.3	38.7
Net margin	14.7	12.8	14.2	14.3
ROA	8.6	8.1	9.0	9.1
ROE	16.5	15.2	16.7	16.8
Growth				
Turnover	1.4	9.6	3.8	4.4
EBITDA	(6.0)	5.3	8.3	3.8
Pre-tax profit	(2.3)	0.8	15.6	8.8
Net profit	(15.1)	(2.6)	15.3	4.7
Net profit (adj.)	10.4	(4.6)	15.3	4.7
EPS	10.4	(4.6)	15.3	4.7
Leverage				
Debt to total capital	0.1	0.1	0.1	0.1
Debt to equity	0.2	0.1	0.1	0.1
Net debt/(cash) to equity	0.1	0.1	0.1	0.1
Interest cover	4.7	10.0	10.8	10.5

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