

COMPANY UPDATE

TIME dotCom (TDC MK)

Growth Remains A Key Focus In The Near Term

TIME will focus on growing its core business, including capturing retail and data centre opportunities, in the near term. This will inevitably replenish the lost revenue from the sale of its 70% stake in AIMS Data Centre. We remain positive on the stock. We expect management to deliver commendable three-year earnings CAGR of 10% and a lush 11% special dividend for 2023. Maintain BUY with a DCF-based target price of RM6.40.

WHAT'S NEW

- **Focus on capturing business opportunities...** We expect TIME to: a) focus on growing its core business, including capturing data centre opportunities in the region; and b) replenish the loss of revenue from the sale of its 70% stake in AIMS Data Centre in as soon as 18-24 months.
- **....from all segments, including retail and DC.** In a recent management meeting, TIME articulated that it remains focused on the data centre (DC) business, and the 70% stake sale is not to be seen as an exit from the DC space. On the contrary, the pursuit of Digital Bridge as a key partner in AIMS DC is to drive its DC business expansion in Malaysia, Thailand and Vietnam. To recap, the 70% stake sale of AIMS DC will dilute 2023's net profit by 6%. This however, does not take into account the cash proceeds from the stake sale of RM2b. Of this, RM1b has been earmarked as special dividend (yield of 11%) while the other RM1b will be reinvested into the core business, which delivers an average ROE of 11% over 2017-21. To recap, we are positive on this stake sale. Given that the sale is valued at 37x EV/EBITDA while TIME trades at 14x EV/EBITDA, the deal is both value- and earnings-accretive.
- **Supercharging AIMS' medium-term growth.** The stake sale will allow TIME to partner with one of the world's leading digital infrastructure firms Digital Bridge and to expand the AIMS DC business across Asia. After the stake sale, AIMS' management team confirmed that they are still in charge of overall expansion and business directions. Essentially, AIMS' existing management team will have control over strategy and operations of AIMS DC. Digital Bridge will provide financial and experience to supercharge AIMS' growth.

KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	1,223	1,396	1,612	1,740	1,937
EBITDA	567	689	750	822	915
Operating profit	415	526	558	612	686
Net profit (rep./act.)	328	393	405	455	499
Net profit (adj.)	347	376	405	455	499
EPS (sen)	19.1	20.7	22.3	25.0	27.4
PE (x)	26.8	24.7	23.0	20.5	18.7
P/B (x)	3.1	3.0	3.0	2.8	2.8
EV/EBITDA (x)	16.2	13.3	12.2	11.1	10.0
Dividend yield (%)	2.2	4.2	4.3	13.7	5.4
Net margin (%)	26.8	28.2	25.1	26.1	25.7
Net debt/(cash) to equity (%)	(23.1)	(21.2)	(10.3)	(8.1)	0.0
Interest cover (x)	56.0	40.1	43.7	21.2	15.9
ROE (%)	11.3	12.7	12.9	14.1	15.0
Consensus net profit	-	-	415	481	522
UOBKH/Consensus (x)	-	-	0.97	0.95	0.96

Source: TIME dotCom, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM5.10
Target Price	RM6.40
Upside	+25.5%

COMPANY DESCRIPTION

Fixed line operator

STOCK DATA

GICS sector	Communication Services
Bloomberg ticker:	TDC MK
Shares issued (m):	1,838.6
Market cap (RMm):	9,376.7
Market cap (US\$m):	2,170.8
3-mth avg daily t'over (US\$m):	3.9

Price Performance (%)

52-week high/low RM5.20/RM3.93

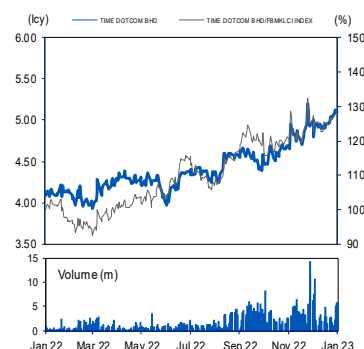
1mth	3mth	6mth	1yr	YTD
3.4	11.4	16.6	18.6	4.1

Major Shareholders

	%
Pulau Kapas Ventures	29.4
Khazanah National Bhd	10.8
Employee Provident Fund	9.0

FY22 NAV/Share (RM)	1.83
FY22 Net Cash/Share (RM)	0.15

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **KPIs from Digital Bridge are higher than current AIMS deliverables.** We believe that AIMS' revenue and profit targets (including internal rate of returns) are lower than that of Digital Bridge vs existing internal targets.
- **Growing the DC business after stake sale.** We believe the regional and global DC landscapes have changed as there have been significant investments made within the DC space in recent years. While Malaysia and the region may still have a three-year gap (demand exceeding supply), TIME is of the opinion that it needs to grow, and financial strength will have to come from a global partner, which in this case is Digital Bridge.
- **Replenishing lost revenue from stake sale in 18-24 months.** Conservatively, we expect TIME to replenish the loss of revenue from the AIMS stake sale within 18-24 months. There is also a possibility that management can grow the core retail, DC and wholesale business quickly enough to "patch back" the loss of revenue in a year. The group continues to experience strong growth in retail, wholesale, DC and cloud computing segments.

EARNINGS REVISION/RISK

- None.
- **TIME offers a three-year earnings CAGR of 10%** (vs muted sector growth), supported by strong home fibre sales and DC contributions. Key growth drivers include: a) higher fibre broadband sign-ups given a wider fibre footprint, and b) healthy demand from enterprise and over-the-top (OTT) customers with accelerated cloud adoption.
- **Retail: Momentum remains strong and sustainable.** We believe the number of fixed broadband subscribers would continue to grow with the ongoing acceleration of fibre network expansion that will lead to higher household penetration. While ARPU may be compressed amid price discounts, we believe 2023-24's top-line would be lifted by strong volume-driven growth. After achieving its 1.2m premises target in early-Jan 22, we expect TIME to continue expanding home passes by at least 200,000 in 2023, in line with the government's JENDELA initiatives.
- **54 sen/share special dividend (net yield of 11%).** The cash proceeds are estimated at RM2b. TIME will utilise the proceeds to: a) declare dividends of up to RM1b, and b) re-invest the remainder into Time group for further growth – this will include new growth businesses. The special dividend of RM1b works out to 54 sen/share or net dividend yield of 11%.

VALUATION/RECOMMENDATION

- **Maintain BUY with a higher DCF-based target price of RM6.40** (WACC: 7%, terminal growth: 4%). At our target price, the stock will trade at 14x 2023 EV/EBITDA, +1.0SD from mean.

SHARE PRICE CATALYST

- **Key re-rating catalysts include:** a) faster-than-expected subscriber growth, b) ARPU uplift, and c) earnings-accretive M&As.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<ul style="list-style-type: none"> • Environmental <ul style="list-style-type: none"> - TIME continues to explore green energy options, including solar panels. • Social <ul style="list-style-type: none"> - In 2020, TIME contributed RM1.7m for the purchase of ventilators as part of the humanitarian and medical-related initiatives to combat COVID-19. • Governance <ul style="list-style-type: none"> - Good company transparency along with an anti-bribery and anti-corruption policy.

SALIENT TERMS OF STAKE SALE IN AIMS DC

Key terms	Summary
Partnership Structure	DigitalBridge acquires stakes in AIMS HoldCo (Malaysia and Singapore) and AIMS Thailand
Valuation	RM3.2 billion (100% enterprise value)
Proceeds to Time	Approx. RM2.0 billion ⁽¹⁾
Use of Proceeds	(1) Special dividend of up to RM1.0 billion; and (2) Remainder to be re-invested into Time group for further shareholder value creation

Source: TIME

AIMS DC HISTORICAL PROFIT RECORD

AIMS Group ¹	FY2020 (RM'million)	FY2021 (RM'million)	Growth rate
Revenue	154	182	+18%
EBITDA	75	86	+14%
PAT ²	33	38	+15%

Source: TIME

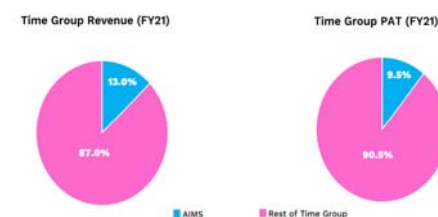
TIME AIMS DATA CENTRE ASSETS

Data Centre	Capacity (MW)	Sq ft
Menara AIMS	5 MW	65,000
AIMS @ Cyberjaya (Total 4 Phases)	25 MW	Phase 1: 60,000
AIMS @ CJ1	2 MW	20,000
AIMS EPF*	5 MW	65,000

* AIMS EPF is expected to be launched by 2023

Source: TIME, UOB Kay Hian

REVENUE BY SEGMENT



Source: TIME

KEY ASSUMPTIONS

Key Assumptions	2021	2022F	2023F
Revenue growth (%)	14.2	15.5	7.9
EBITDA margin (%)	48.2	46.5	47.3
CAPEX to Revenue (%)	21.5	31.2	23.0
Product growth (%)			
- Voice	-6.3	-10.0	-10.0
- Internet	4.7	20.2	8.4
- Data centres	87.0	4.2	9.5

Source: TIME, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Net turnover	1,396	1,612	1,740	1,937
EBITDA	689	750	822	915
Deprec. & amort.	163	193	210	230
EBIT	526	558	612	686
Associate contributions	24	27	30	33
Net interest income/(expense)	(17)	(17)	(39)	(58)
Pre-tax profit	533	568	604	661
Tax	(136)	(159)	(145)	(159)
Minorities	(4)	(4)	(4)	(4)
Net profit	393	405	455	499
Net profit (adj.)	376	405	455	499

BALANCE SHEET

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Fixed assets	1,821	2,131	2,321	2,537
Other LT assets	955	983	1,013	1,046
Cash/ST investment	796	455	479	298
Other current assets	549	633	683	759
Total assets	4,121	4,202	4,495	4,640
ST debt	23	23	23	23
Other current liabilities	378	463	499	558
LT debt	108	108	188	277
Other LT liabilities	449	449	449	449
Shareholders' equity	3,141	3,141	3,323	3,323
Minority interest	22	18	14	10
Total liabilities & equity	4,121	4,202	4,495	4,640

CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Operating	632	584	656	732
Pre-tax profit	533	568	604	661
Tax	(136)	(159)	(145)	(159)
Deprec. & amort.	163	193	210	230
Associates	(16)	(27)	(30)	(33)
Working capital changes	(83)	(7)	(22)	(25)
Non-cash items	171	17	39	58
Investing	(333)	(492)	(394)	(439)
Capex (growth)	(300)	(503)	(400)	(445)
Investments	(45)	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	12	11	6	6
Financing	(255)	(433)	(238)	(474)
Dividend payments	(350)	(405)	(273)	(499)
Issue of shares	39	0	0	0
Proceeds from borrowings	84	0	80	89
Others/interest paid	(28)	(28)	(45)	(64)
Net cash inflow (outflow)	43	(341)	24	(181)
Beginning cash & cash equivalent	749	796	455	479
Changes due to forex impact	4	0	0	0
Ending cash & cash equivalent	796	455	479	298

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	49.4	46.5	47.3	47.3
Pre-tax margin	38.2	35.2	34.7	34.1
Net margin	28.2	25.1	26.1	25.7
ROA	9.8	9.7	10.5	10.9
ROE	12.7	12.9	14.1	15.0
Growth				
Turnover	14.2	15.5	7.9	11.3
EBITDA	21.5	8.9	9.6	11.3
Pre-tax profit	25.9	6.6	6.3	9.6
Net profit	19.8	3.0	12.3	9.7
Net profit (adj.)	8.4	7.6	12.3	9.7
EPS	8.4	7.6	12.3	9.7
Leverage				
Debt to total capital	4.0	4.0	5.9	8.2
Debt to equity	4.2	4.2	6.3	9.0
Net debt/(cash) to equity	(21.2)	(10.3)	(8.1)	0.0
Interest cover (x)	40.1	43.7	21.2	15.9

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