

30 August 2019

Axiata Group

1H19 Broadly In Line

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We deem the recent 1H19 core earnings of RM437.6m (-17%) and 5.0 sen dividend to be within expectations. Merger plans are indicated to remain on track, marked to be finalised by Nov. The group could continue to reap fruit from its cost transformation, network monetization and digitalization plans. Upgrade to MP with a higher SoP-driven TP of RM4.80 (from RM4.55).

Broadly in line. We deem AXIATA's 1H19 core PATAMI of RM437.6m to be broadly in line with our/consensus expectations, making up 42%/39% of respective full-year assumptions. 2H19 is expected to be stronger on the back of better efficiencies from the larger OpCos (i.e. Celcom, XL, NCell). An interim dividend of 5.0 sen was declared, which we deem to be within our FY19E 10.0 sen payout.

YoY, 1H19 top-line grew by 4% to RM12.10b, led by higher revenue across all OpCos, aside from: (i) Celcom, which fell by 8% on weaker domestic interconnect and domestic roaming numbers, and (ii) Ncell from changes in Nepal's Telecommunication Service Charges and slowing international long-distance revenues. Meanwhile, group EBITDA saw a 25% growth to RM5.09b in a MFRS 16 environment. On a pre-MFRS 16 basis, EBITDA still increased by 11%, thanks improvements in cost efficiency. However, 1H19 normalised PATAMI registered at RM437.6m (-17%), mainly dragged by expanding losses from associates and other segments.

QoQ, 2Q19 revenue stood at RM6.15b (+3%) as all OpCos demonstrated slow but steady expansion. This translated to a core PATAMI of RM228.8m (+10%), boosted by better results from Celcom (+64%) and XL seeing black once again after five consecutive quarters of losses.

Set in course. Revenue streams for the group could still see some volatility, with local Celcom operations experiencing a migration of prepaid customers to postpaid. Meanwhile, XL appears to be seeing returns from its investments in expanding its ex-Java presence. This should be supported by the group's network upgrades for continual growth in network capabilities and coverage. This aside, we take comfort in OpCos demonstrating more sturdy cost management, which paints a rosier longer-term outlook for the group. Additionally, management is hopeful that its digital arms could start raking in profits by this year. On its FY19 targets, management remains first on its revenue growth guidance of 3-4% is now confident that it could exceed the previous EBITDA growth guidance of 5-8%. **With regards to the merger with Telenor,** management indicated that plans are still on track, having already completed 70% of the due diligence process. The finalisation and signing of the deal could be sealed in Nov 2019.

Post-results, we made minor tweaks to our FY19E/FY20E numbers as we incorporate 2Q19's results numbers.

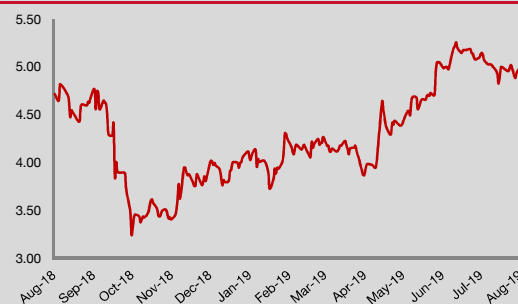
Upgrade to MARKET PERFORM with a higher SoP-driven TP of RM4.80 (from RM4.55). The higher TP is mainly derived Celcom's longer-term contributions assuming it could stay firm with its enhanced cost efficiencies in the longer term. This implies a 5.6x FY20E EV/Fwd EBITDA valuation, which is close to the stock's 3-year mean. Note that we refrained from incorporating any synergies from the upcoming merger with Telenor Asia at this moment, owing to the lack of clarity on the net improvements between the two companies.

Risks to our call include: (i) higher/lower-than-expected revenue from OpCos; (ii) stronger/weaker-than-expected operating margins; and (iii) regulatory changes in countries of operations.

MARKET PERFORM ↑

Price : **RM5.03**
Target Price : **RM4.80** ↑

Share Price Performance



KLCI 1,595.18
YTD KLCI chg -5.6%
YTD stock price chg 28.0%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker AXIATA MK Equity
Market Cap (RM m) 45,917.2
Share Outstanding 9,128.7
52-week range (H) 5.28
52-week range (L) 3.20
3-mth avg daily vol: 6,026,362
Free Float 35%
Beta 1.6

Major Shareholders

Khazanah Nasional Bhd 36.9%
Employees Provident Fund 15.8%
Skim Amanah Saham 12.0%

Summary Earnings Table

FYE Dec (RM'm)	2018A	2019E	2020E
Turnover	23,886	25,184	25,229
EBITDA	4,987	10,037	9,972
EBIT	(2,658)	3,576	3,491
PBT	(4,346)	2,444	2,057
PATAMI	(5,035)	1,533	1,290
Core PATAMI	1,010*	1,058	1,290
Consensus (NP)	-	1,129	1,371
Earnings Revision	-	0.7%	0.1%
Core EPS (sen)	11.1	11.7	14.2
Core EPS growth (%)	-16.2%	4.7%	22.0%
NDPS (sen)	9.5	10.0	10.0
BVPS (RM)	1.9	2.0	2.0
PER (x)	45.1	43.1	35.3
PBV (x)	2.6	2.5	2.5
Net Gearing (x)	0.8	0.7	0.6
Net Div. Yield (%)	1.9%	2.0%	2.0%

*excl. Idea operation

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Results Highlight

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	6,154	5,949	3.4%	5,867	4.9%	12,103	11,615	4.2%
EBITDA	2,671	2,083	28.2%	2,043	30.7%	5,092	4,080	24.8%
PBT	637	977	-34.7%	(3,058)	-120.8%	1,614	(3,017)	-153.5%
Taxation	(193)	(193)	0.0%	(259)	-25.6%	(386)	(396)	-2.4%
PATAMI	204	709	-71.2%	(3,357)	-106.1%	913	(3,505)	-126.1%
Core PATAMI	229	209	9.6%	217	5.6%	438	526	-16.8%
Core EPS (sen)	2.5	2.3	9.2%	2.4	5.0%	4.8	5.8	-17.2%
DPS (sen)	5.0	-		5.0		5.0	5.0	
EBITDA margin	43.4%	35.0%		34.8%		42.1%	35.1%	
PBT margin	10.4%	16.4%		-52.1%		13.3%	-26.0%	
Core PATAMI margin	3.7%	3.5%		3.7%		3.6%	4.5%	
Effective tax rate	30.3%	19.8%		-8.5%		23.9%	-13.1%	

Source: Company, Kenanga Research

Revenue Breakdown

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Celcom	1,652	1,652	0.0%	1,799	-8.2%	3,303	3,589	-8.0%
XL (Indonesia)	1,786	1,719	3.9%	1,555	14.9%	3,506	3,124	12.2%
Robi (Bangladesh)	914	892	2.5%	777	17.7%	1,807	1,546	16.9%
Dialog (Sri Lanka)	686	660	3.9%	665	3.1%	1,346	1,317	2.1%
Ncell (Nepal)	520	498	4.6%	549	-5.3%	1,018	1,090	-6.7%
Smart (Cambodia)	318	302	5.4%	281	13.2%	621	533	16.5%
Edotco	152	156	-2.6%	162	-6.1%	309	258	19.5%
Others & eliminations	125	70	77.8%	79	58.7%	195	157	23.8%
TOTAL REVENUE	6,154	5,949	3.4%	5,867	4.9%	12,103	11,615	4.2%
% Contribution								
Celcom	27.8%	26.4%		31.3%		55.5%	62.4%	
XL (Indonesia)	30.0%	27.4%		27.0%		58.9%	54.4%	
Robi (Bangladesh)	15.4%	14.2%		13.5%		30.4%	26.9%	
Dialog (Sri Lanka)	11.5%	10.5%		11.6%		22.6%	22.9%	
Ncell (Nepal)	8.7%	7.9%		9.6%		17.1%	19.0%	
Smart (Cambodia)	5.4%	4.8%		4.9%		10.4%	9.3%	
Edotco	2.6%	2.5%		2.8%		5.2%	4.5%	
Others & eliminations	2.1%	1.1%		1.4%		3.3%	2.7%	

Source: Company, Kenanga Research

EBITDA Breakdown

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Celcom	710	466	52.4%	495	43.5%	1,280	952	34.6%
XL (Indonesia)	941	683	37.8%	611	54.1%	1,771	1,214	45.9%
Robi (Bangladesh)	415	273	52.0%	147	181.3%	763	330	131.4%
Dialog (Sri Lanka)	262	247	5.9%	272	-4.0%	536	525	2.1%
Ncell (Nepal)	295	285	3.4%	349	-15.6%	610	692	-11.9%
Smart (Cambodia)	171	154	11.0%	128	33.1%	330	247	33.8%
Edotco	247	169	46.3%	164	51.2%	476	320	48.6%
Others & eliminations	(370)	(194)	90.9%	(124)	198.5%	(675)	(200)	237.2%
TOTAL EBITDA	2,671	2,083	28.2%	2,043	30.7%	5,092	4,080	24.8%
% Contribution								
Celcom	29.3%	22.4%		24.3%		52.9%	46.7%	
XL (Indonesia)	38.9%	32.8%		30.0%		73.1%	59.6%	
Robi (Bangladesh)	17.1%	13.1%		7.2%		31.5%	16.2%	
Dialog (Sri Lanka)	10.8%	11.9%		13.4%		22.1%	25.8%	
Ncell (Nepal)	12.2%	13.7%		17.1%		25.2%	34.0%	
Smart (Cambodia)	7.1%	7.4%		6.3%		13.6%	12.1%	
Edotco	10.2%	8.1%		8.0%		19.7%	15.7%	
Others & eliminations	-15.3%	-9.3%		-6.1%		-27.9%	-9.8%	

Source: Company, Kenanga Research

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AXIATA Sum-of-Parts Valuation

Companies	Methodology	Earnings Multiple	Equity Value (RM'm)	Effective Stake (%)	Effective Value (RM'm)
Celcom (Malaysia)	DCF	WACC: 7.9%, TG: 1.3%	24,288.3	100.0%	24,288.3
XL (Indonesia)	DCF	WACC: 9.9%, TG: 2.5%	14,959.9	66.4%	9,927.4
Robi (Bangladesh)	EV/EBITDA	5.0x	7,763.6	68.7%	5,333.6
Dialog (Sri Lanka)	EV/EBITDA	4.8x	5,208.7	83.3%	4,339.9
Ncell (Nepal)	EV/EBITDA	5.0x	6,889.2	80.0%	5,511.4
Smart (Cambodia)	EV/EBITDA	6.0x	4,369.8	72.5%	3,168.1
edotco	EV/EBITDA	7.0x	4,129.4	63.0%	2,601.5
Vodafone Idea (India)	Market Price		22,930.8	1.6%	371.5
Total Effective Value					55,541.5
(-) Net Debt					12,098.1
Total Equity Value					43,443.5
No. of Axiata Shares ('m)					9,058.6
Value/Share (RM)					4.80

Source: Kenanga Research

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Peer Table Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
Stocks Under Coverage																	
AXIATA GROUP BHD	5.03	45,917.2	Y	12/2019	5.4%	0.2%	4.7%	22.0%	45.1	43.1	35.3	2.0	1.9	4.5%	2.0%	4.80	MP
DIGI.COM BHD	5.01	38,952.8	Y	12/2019	-6.3%	3.1%	-9.2%	0.9%	25.3	27.8	27.6	57.9	56.7	205.7%	3.6%	4.70	MP
MAXIS BHD	5.41	42,308.8	Y	12/2019	-1.7%	0.6%	-11.1%	4.4%	23.9	26.9	25.8	5.9	5.7	21.6%	3.1%	4.90	UP
OCK GROUP BHD	0.585	509.8	Y	12/2019	8.3%	12.5%	15.0%	7.8%	19.1	16.6	15.4	1.0	1.0	6.0%	0.0%	0.630	MP
TELEKOM MALAYSIA BHD	3.74	14,080.0	Y	12/2019	-4.9%	0.6%	34.4%	4.5%	22.3	16.6	15.9	2.0	1.9	11.8%	2.7%	3.95	MP
Simple Average					0.1%	3.4%	6.8%	7.9%	27.2	26.2	24.0	13.8	13.4	49.9%	2.3%		
Stocks Not Under Coverage - Consensus																	
TIME DOT COM BHD	9.11	5,334.2	Y	12/2019	11.3%	11.2%	11.2%	9.3%	18.5	16.6	15.2	2.2	1.9	12.1%	2.2%	10.28	BUY

Source: Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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