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# Axiata Group

## Riding on Opportunities

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Post a management meeting, we are reassured on the group's near-term prospects. The share price weakness post-merger cancellation could be a buying opportunity backed by fundamental footing as regional operations grow more efficient. Whispers of potential mergers ex-Telenor abound as the group is open for considering earnings accretive and yield-generating ventures. Upgrade to OP with an unchanged SoP-driven TP of RM4.80.

**A little dazed but undeterred.** On the cancellation of merger talks with Telenor, AXIATA's share price plummeted to a closing low of RM4.11 (-16% on 10<sup>th</sup> Sept 2019 from the prior trading day). However, management remains keen in seeking for earnings accretive and yield generating merger opportunities, albeit very likely to be at much smaller scale. Recent whispers hushed of CK Hutchinson eyeing XL Axiata as well as debates on the sensibility for TM and Celcom joining hands. Materialisation of such talks could translate positively to sentiment.

**Mobile fronts keeping up.** Celcom faces steep competition in the local scene as consumers weigh in postpaid options from prepaid offerings. Nonetheless, management remains firm in managing operating costs better, mainly direct costs (i.e. network and maintenance costs), as demonstrated in recent 1H19 numbers which we believe could carry on to future results (1H19 service revenue: -4%, EBITDA: +34%). XL's expansion into the ex-Java market could drive the group's Indonesian presence while benefiting from improved interconnection and other expenses (possibly better roaming costs). Its 1H19 saw service revenue grow by 15% and EBITDA by 19%. We gathered that other players were unable to enter the ex-Java scene due to poorer financial capabilities, which says plenty about XL's staying power in the fight for market share.

On other regions, Robi (Bangladesh) face pressures from new tax rulings but are in tow to stay profitable (prior to taxes) as growing market share is supplemented by easing opex. Dialog (Sri Lanka) may be hampered in FY19 owing to the terrorist attack but might chance a recovery in FY20 if consumer spending regains footing. Smart (Cambodia) thrives as a market leader. At the meantime, NCell's (Nepal) ongoing capital gain tax dispute with authorities may still be distant from a resolution.

**Towers sprouting.** edotco's outlook is helmed by its growing tower base, with Philippines being the next addition to its 2Q19 footprint of 19.7k towers. We believe other possible entries could be the untapped Thailand and Vietnam markets. **Digital operations** are likely making losses but seeking synergistic partnerships to expand presence.

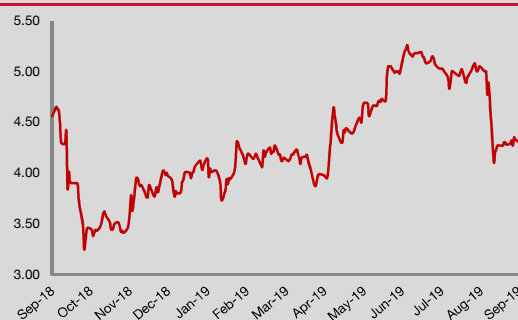
**Stay brazen.** Management continues to champion operational excellence to promote profitability and growing its cash pile. The mix of topline performances from the above could translate to flattish numbers in the short-term but we opine that our expected 22% core earnings growth in FY20E is not unreasonable. Note that we did not account for any synergistic benefits from the merger with Telenor previously. While we are conservative on our dividend expectations (c.70-80% payout), we are hopeful that generous returns would keep investors sticky.

**Upgrade to OUTPERFORM (from MARKET PERFORM) with an unchanged SoP-derived TP of RM4.80.** Our TP implies a FY20E EV/Fwd. EBITDA of 5.6x, which is below the stocks 3-year mean by -1SD. Overall, we believe the sell-down could have been overdone as there is still value to be had from the traction seen in the stock's underlying operations. Additionally, fresh talks of merger potentials could reignite sentiment on the stock. While its would-be Telenor counterpart DIGI's (MP, TP: RM4.70) share price has returned close to its pre-talks cancellation levels, we believe the merits above hold for AXIATA to do the same.

**OUTPERFORM** ↑

Price : **RM4.30**  
Target Price : **RM4.80** ↔

### Share Price Performance



KLCI	1,583.91
YTD KLCI chg	-6.3%
YTD stock price chg	9.4%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AXIATA MK Equity
Market Cap (RM m)	39,253.3
Shares Outstanding	9,128.7
52-week range (H)	5.28
52-week range (L)	3.20
3-mth avg daily vol	6,158,662
Free Float	24%
Beta	1.6

### Major Shareholders

Khazanah Nasional Bhd	36.9%
Employees Provident Fund	16.0%
Skim Amanah Saham Bumiputera	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
Core EBITDA #	5,997	11,095	11,263
EBIT	(2,658)	3,576	3,491
PBT	(4,346)	2,444	2,057
<b>PATAMI</b>	<b>(5,035)</b>	<b>1,533</b>	<b>1,290</b>
<b>Core PATAMI #</b>	<b>1,010</b>	<b>1,058</b>	<b>1,290</b>
Consensus (NP)	-	1,084	1,338
Earnings Revision	-	0.0%	0.0%
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)	38.6	36.8	30.2
PBV (x)	2.2	2.2	2.1
Net Gearing (x)	0.8	0.7	0.6
Net Div. Yield (%)	2.2%	2.3%	2.3%

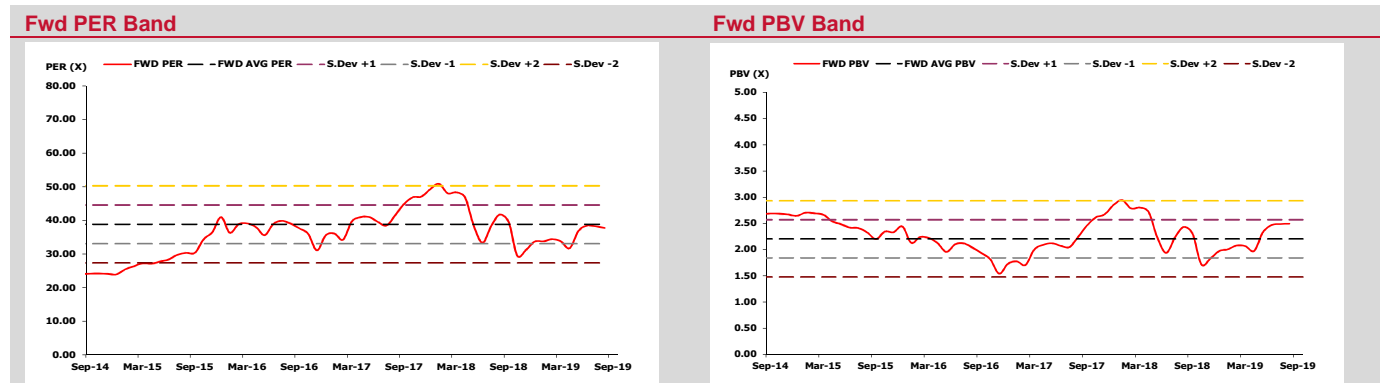
# core adjustments include forex gains/(losses), non-core disposal income and M&A related items

\* excl. Idea operation

**Risks to our call include:** (i) weaker-than-expected service revenue, (ii) stronger-than-expected OPEX, (iii) stiffer competition, and (iv) regulatory pressures from regional operations.

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E	FY Dec (RM'm)	2016A	2017A	2018A	2019E	2020E
<b>Revenue</b>	<b>21,565</b>	<b>24,402</b>	<b>23,886</b>	<b>25,184</b>	<b>25,229</b>	<b>Growth (%)</b>					
EBITDA	8,394	8,986	4,987	10,037	9,972	Turnover	8.5%	13.2%	-2.1%	5.4%	0.2%
Core EBITDA	9,812	10,191	5,997	11,095	11,263	EBITDA	1.1%	7.1%	-44.5%	101.3%	-0.7%
Depreciation	(5,667)	(5,986)	(7,645)	(6,462)	(6,481)	Core EBITDA	-5.4%	3.9%	-41.2%	85.0%	1.5%
<b>Operating Profit</b>	<b>2,727</b>	<b>3,000</b>	<b>(2,658)</b>	<b>3,576</b>	<b>3,491</b>	Operating Profit	-33.5%	10.0%	-188.6%	234.5%	-2.4%
Interest Inc/(Exp)	(1,018)	(1,012)	(1,051)	(1,032)	(934)	PBT	-65.8%	69.9%	-324.4%	156.2%	-15.8%
Associate Earnings	(570)	(52)	(637)	(100)	(500)	Core PATAMI	-31.5%	-15.1%	-16.2%	4.7%	22.0%
<b>Profit Before Tax</b>	<b>1,140</b>	<b>1,936</b>	<b>(4,346)</b>	<b>2,444</b>	<b>2,057</b>						
Taxation	(482)	(774)	(902)	(611)	(514)	<b>Profitability (%)</b>					
Net Profit	504	909	(5,035)	1,533	1,290	Operating Margin	12.6%	12.3%	-11.1%	14.2%	13.8%
<b>Core PATAMI</b>	<b>1,418</b>	<b>1,205</b>	<b>1,010</b>	<b>1,058</b>	<b>1,290</b>	PBT Margin	5.3%	7.9%	-18.2%	9.7%	8.2%
						Core NP Margin	6.6%	4.9%	4.2%	4.2%	5.1%
						Effective Tax	42.3%	40.0%	-20.7%	25.0%	25.0%
						ROA	0.8%	1.3%	-7.5%	2.4%	2.0%
						ROE	2.1%	3.8%	-23.9%	8.6%	7.1%
						<b>DuPont Analysis</b>					
						Net Margin	6.6%	4.9%	4.2%	4.2%	5.1%
						Assets Turnover (x)	0.3	0.3	0.4	0.4	0.4
						Leverage Factor (x)	3.0	2.8	3.7	3.6	3.6
						ROE	2.1%	3.8%	-23.9%	8.6%	7.1%
						<b>Leverage</b>					
						Debt/Asset (x)	0.3	0.3	0.3	0.3	0.3
						Debt/Equity (x)	0.9	0.8	1.1	1.1	1.0
						Net (Cash)/Debt	16,927	12,371	14,058	12,098	10,642
						Net Debt/Equity (x)	0.7	0.5	0.8	0.7	0.6
						<b>Valuations</b>					
						Core EPS (sen)	15.7	13.3	11.1	11.7	14.2
						NDPS (sen)	7.9	8.5	9.5	10.0	10.0
						BV/sh (RM)	2.6	2.7	1.9	2.0	2.0
						PER (x)	27.5	32.3	38.6	36.8	30.2
						Div. Yield	1.8%	2.0%	2.2%	2.3%	2.3%
						PBV (x)	1.7	1.6	2.2	2.2	2.1
						EV/EBITDA (x)	3.7	4.8	5.5	3.9	3.7

Source: Kenanga Research



Source: Bloomberg, Kenanga Research

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 DivYld (%)	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.	1-Yr. Fwd.		
<b>Stocks Under Coverage</b>																	
AXIATA GROUP BHD	4.30	39,253.3	Y	12/2019	5.4%	0.2%	4.7%	22.0%	38.6	36.8	30.2	1.7	1.6	4.5%	2.3%	4.80	OP
DIGI.COM BHD	4.75	36,931.3	Y	12/2019	-6.3%	3.1%	-9.2%	0.9%	24.0	26.4	26.2	54.9	53.7	205.7%	3.8%	4.70	MP
MAXIS BHD	5.60	43,794.8	Y	12/2019	-1.7%	0.6%	-11.1%	4.4%	24.8	27.9	26.7	6.1	5.9	21.6%	3.0%	4.90	UP
OCK GROUP BHD	0.600	522.9	Y	12/2019	8.3%	12.5%	15.0%	7.8%	19.6	17.0	15.8	1.1	1.0	6.0%	0.0%	0.630	MP
TELEKOM MALAYSIA BHD	3.60	13,555.8	Y	12/2019	-4.9%	0.6%	34.4%	4.5%	21.5	16.0	15.3	1.9	1.8	11.8%	2.8%	3.95	OP
<b>Simple Average</b>					<b>0.1%</b>	<b>3.4%</b>	<b>6.8%</b>	<b>7.9%</b>	<b>25.7</b>	<b>24.8</b>	<b>22.8</b>	<b>13.1</b>	<b>12.8</b>	<b>49.9%</b>	<b>2.4%</b>		
<b>Consensus Estimates</b>																	
TIME DOT COM BHD	9.13	5,345.9	Y	12/2019	11.3%	11.2%	11.2%	9.3%	18.5	16.7	15.2	2.1	2.0	12.1%	2.1%	10.31	BUY

Source: Kenanga Research

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		12,068.9	1.6%	195.5
			<b>Total Effective Value</b>		<b>55,365.6</b>
			(-) Net Debt		12,098.1
			<b>Total Equity Value</b>		<b>43,267.5</b>
			No. of Axiata Shares ('m)		9,058.6
			<b>Value/Share (RM)</b>		<b>4.80</b>

Source: Kenanga Research

**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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