

29 November 2021

Communications | Telecommunications

Axiata Group (AXIATA MK)

Buy (Maintained)

On Track For a Strong Close; Keep BUY

Target Price (Return): MYR4.84 (24.1%)
Price (Market Cap): MYR3.90 (USD8,442m)
ESG score: 3.10 (out of 4)
Avg Daily Turnover (MYR/USD) 10.6m/2.55m

- **Maintain BUY, TP of MYR4.84 from MYR4.75, 24% upside and c.3% yield.** Axiata's 3Q/9M21 trumped estimates on stronger showing across most operating companies (Opcos) alongside reduced digital losses. We see core earnings rebounding 39% in FY21F, off the low base of a 10% decline in FY20, driven by a rejuvenated Celcom, cost efficiencies, and the earnings inflection at Axiata Digital Services (ADS). Axiata trades at an attractive 3.7x FY22 EV/EBITDA or 1.5SD below historical mean.
- **Core earnings surged 30% QoQ** in 3Q21 and 67% YTD to MYR914.5m, at 96% of our estimate (consensus: 89%). Growth was fueled by stronger contributions across most Opcos, opex savings (YTD: MYR378m), and lower accelerated depreciation of 3G assets. The key deviations relative to our forecast were lower than expected digital losses and tax expense. Core YTD EBITDA ticked-up 5.5% on 6% revenue growth and was flat sequentially (+0.4% QoQ). Management has raised FY21F revenue/EBITDA guidance to 'mid-single digit' growth from 'low-single digit' growth with capex guidance upped to MYR6.9bn from MYR5.5bn, mainly on account of the revised guidance from XL Axiata (XL) (EXCL IJ, BUY, TP: IDR3,400).
- **Celcom in mega form** as revenue expanded for the fifth quarter in a row, by 1.3% QoQ and 5% YTD, led by strong prepaid revenue and subs gains. Prepaid revenue grew 2% QoQ which outperformed Maxis (MAXIS MK, NEUTRAL, TP: MYR4.75) and Digi (DIGI MK, NEUTRAL, TP: MYR4.78)'s flat to 0.3% growth. Excluding the employee restructuring (ERP) charge, Celcom's 9M21 EBITDA rose 7.3% on cost efficiencies and good cost management while PATAMI gained 7% (21% excluding ERP and accelerated depreciation).
- **Other Opcos fared well, save for XL.** Dialog's PATAMI rose 17.2% QoQ and 45.1% YTD while that of Robi surged 85% QoQ and 44% YTD on stronger EBITDA. edotco's EBITDA gained 3% on 4% revenue growth YTD. XL's EBITDA improved 1.5% QoQ but flat YTD due to stiff competition. Ncell's revenue stayed under pressure (-1.1% YTD) as the steep decline in international long distance revenue (-21%) offset core revenue growth of 4%.
- **ADS losses more than halved.** Group digital revenue more than doubled YoY, led by the digital analytics business (ADA). With Boost's (e-wallet and micro-financing) losses more than halved (9M21: -110m) on lower marketing spend, ADS losses narrowed 60% to MYR97m (9M20: -243m). Boost is on track to achieve profitability by end-FY22, turning ADS into the black.
- **Cukai Makmur (CM) and the removal of tax exemption on dividend income.** We estimate c.MYR100m impact from CM for FY22F based on an earlier guidance. While Axiata foresees some impact from the removal of tax exemption on the repatriation of foreign-sourced dividend income in 2022, this should be mitigated by the double-taxation agreements with all markets (except Nepal) and should not derail its plan to become a high dividend company by FY24F. Our TP incorporates a 2% ESG premium.

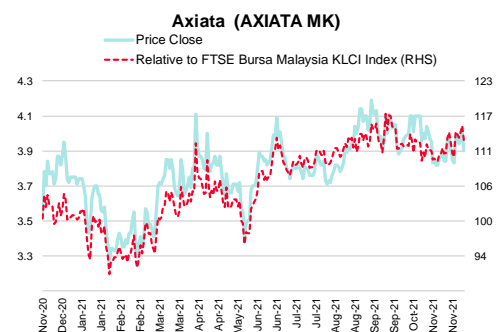
Analyst

Jeffrey Tan
+603 9280 8863
jeffrey.tan@rhbgroup.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	4.3	(3.5)	(2.5)	11.4	16.4
Relative	11.4	1.1	2.1	15.6	22.6
52-wk Price low/high (MYR)	3.25 – 4.19				



Source: Bloomberg

Overall ESG Score: 3.10 (out of 4)

E: GOOD

Axiata is committed to the progressive reduction of its overall carbon footprint via proactive measures to increase the efficiency of its networks. The group publishes annual emission metrics across its operating companies. edotco Group, its towerco subsidiary, is one of the pioneers in the development and construction of environmentally friendly structures, such as carbon fibre and bamboo towers

S: GOOD

By virtue of its regional footprint across 11 countries/markets, Axiata has the largest headcount of a listed integrated telecommunications entity in Malaysia, with more than 12,900 employees from 38 nationalities. The group offers a world-class working environment, embraces a high-performance culture, and aspires to be Asia's top talent factory. Axiata's Young Talent Programme, which started in 2011, has benefitted over 2,100 students

G: EXCELLENT

Its board of directors has nine members, with five being independent. Women also comprise 30% of the Board. Axiata fully complies with best practises in relation to the tenure of independent directors not exceeding a cumulative term of nine years. An investor relations team facilitates one-on-one meetings and calls between management and the investment community with annual Investor Days held.

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (MYRm)	24,583	24,203	26,193	27,376	28,587
Recurring net profit (MYRm)	960	865	1,203	1,230	1,465
Recurring net profit growth (%)	19.0	(9.8)	39.0	2.2	19.2
Recurring P/E (x)	36.77	40.78	29.33	28.70	24.08
P/B (x)	2.2	2.0	2.2	2.2	2.1
P/CF (x)	3.09	5.37	3.58	3.37	3.16
Dividend Yield (%)	2.4	1.8	2.9	3.0	3.5
EV/EBITDA (x)	5.03	4.86	4.28	3.73	3.22
Return on average equity (%)	8.7	2.2	7.2	7.7	8.9
Net debt to equity (%)	55.5	44.1	33.7	15.5	net cash

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

Financial Exhibits

Asia	Financial summary (MYR)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Malaysia	Recurring EPS	0.11	0.10	0.13	0.14	0.16
Communications	DPS	0.10	0.07	0.11	0.12	0.14
Axiata Group	BVPS	1.79	1.95	1.75	1.79	1.83
AXIATA MK	Return on average equity (%)	8.7	2.2	7.2	7.7	8.9
Buy						
Valuation basis	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Sum-of-parts (SOP) methodology	Recurring P/E (x)	36.77	40.78	29.33	28.70	24.08
	P/B (x)	2.2	2.0	2.2	2.2	2.1
	FCF Yield (%)	14.8	3.5	9.8	11.6	13.5
	Dividend Yield (%)	2.4	1.8	2.9	3.0	3.5
Key drivers	EV/EBITDA (x)	5.03	4.86	4.28	3.73	3.22
Stronger than expected earnings, group-wide cost optimisation and in-country consolidation	EV/EBIT (x)	15.12	23.84	14.46	13.00	10.87
Key risks	Income statement (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Competition, economic shocks from COVID-19, lower than expected synergies from the merger of Celcom and Digi and regulatory risks	Total turnover	24,583	24,203	26,193	27,376	28,587
	Gross profit	24,583	24,203	26,193	27,376	28,587
	EBITDA	10,619	10,657	11,532	12,291	12,995
	Depreciation and amortisation	(7,084)	(8,485)	(8,120)	(8,760)	(9,148)
	Operating profit	3,535	2,172	3,412	3,530	3,847
	Net interest	(1,508)	(1,516)	(1,358)	(1,257)	(1,256)
	Pre-tax profit	2,872	1,171	2,455	2,673	2,991
	Taxation	(1,057)	(547)	(761)	(909)	(927)
	Reported net profit	1,458	365	1,203	1,230	1,465
	Recurring net profit	960	865	1,203	1,230	1,465
Company Profile	Cash flow (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Axiata is a leading regional telecommunications group with key mobile assets in Malaysia, Indonesia, Sri Lanka, Cambodia, Bangladesh and Nepal. It also owns edotco Group, one of the largest tower infrastructure services providers in Asia and digital financial services provider, Boost	Change in working capital	3,380	(2,023)	454	359	368
	Cash flow from operations	11,434	6,571	9,866	10,483	11,179
	Capex	(6,202)	(5,330)	(6,400)	(6,400)	(6,400)
	Cash flow from investing activities	(6,202)	(5,330)	(6,400)	(6,400)	(6,400)
	Dividends paid	(865)	(633)	(1,023)	(1,045)	(1,246)
	Cash flow from financing activities	(5,054)	2,014	(1,023)	(1,045)	(1,246)
	Cash at beginning of period	5,060	4,224	7,194	10,104	14,071
	Net change in cash	178	3,255	2,443	3,038	3,533
	Ending balance cash	5,238	7,479	9,638	13,143	17,604
	Balance sheet (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total cash and equivalents	4,502	7,225	10,135	14,101	18,765
	Tangible fixed assets	25,642	24,496	20,763	18,047	14,691
	Total investments	204	274	284	294	304
	Total assets	66,635	67,962	67,778	69,260	70,805
	Short-term debt	7,632	2,972	2,972	2,972	2,972
	Total long-term debt	9,194	14,774	14,774	14,774	14,774
	Total liabilities	44,415	44,082	45,173	45,764	46,370
	Total equity	22,220	23,879	22,605	23,496	24,436
	Total liabilities & equity	66,635	67,962	67,778	69,260	70,805
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	2.9	(1.5)	8.2	4.5	4.4
	Recurrent EPS growth (%)	19.0	(9.8)	39.0	2.2	19.2
	Gross margin (%)	100.0	100.0	100.0	100.0	100.0
	Operating EBITDA margin (%)	43.2	44.0	44.0	44.9	45.5
	Net profit margin (%)	5.9	1.5	4.6	4.5	5.1
	Dividend payout ratio (%)	59.0	173.4	85.0	85.0	85.0
	Capex/sales (%)	25.2	22.0	24.4	23.4	22.4
	Interest cover (x)	2.03	1.28	2.26	2.34	2.55

Source: Company data, RHB

Other Highlights

Forecasts raised. Post the results call, we raise FY21-23F core earnings by 27.2%/12.9%/23.8% to bake in: i) stronger growth at Celcom and Dialog, ii) lower digital losses based on the latest run-rate, and iii) lower financing cost. We have also penciled in a c.MYR100m impact from Cukai Makmur for FY22F based on an earlier guidance. Our TP has incorporated a 2% ESG premium based on our in-house methodology.

Link Net deal to be inked by end-2021. On the delay in the tender offer for Link Net (LINK IJ, NR), Axiata said the due diligence exercise took longer than anticipated with the formal/definitive agreement expected by year-end with board approvals sought.

Key risks are competition, regulatory uncertainties, a resurgence in COVID-19 cases, slower recovery at Ncell, and lower than expected synergies from Celcom's merger with Digi.

Figure 1: Results review

FYE Dec (MYR m)	3QFY20	2QFY21	3QFY21	QoQ (%)	YoY (%)	9MFY20	9MFY21	YoY (%)	Comments
Revenue	6,111.7	6,390.1	6,543.0	2.4	7.1	17,940.7	18,997.0	5.9	Growth across most operating companies alongside reduced digital losses (ADS)
Operating expenses	(3,272.0)	(3,579.2)	(3,683.6)	2.9	12.6	(10,013.4)	(10,634.9)	6.2	
Core EBITDA	2,839.6	2,810.9	2,859.3	1.7	0.7	7,927.3	8,362.1	5.5	Opex savings of MYR378m in 9M21
EBITDA Margin (%)	46.5	44.0	43.7			44.2	44.0		
Depreciation	(1,762.1)	(1,903.4)	(1,984.0)	4.2	12.6	(5,056.7)	(5,862.3)	15.9	
EBIT	1,005.5	948.5	1,047.6	10.4	4.2	2,870.6	2,871.0	0.0	
EBIT Margin (%)	16.5	14.8	16.0			16.0	15.1		
Finance income	46.9	37.0	39.2	5.8	(16.5)	137.2	110.6	(19.3)	
Finance cost	(429.4)	(376.8)	(379.1)	0.6	(11.7)	(1,282.8)	(1,118.2)	(12.8)	Lower cost of debt and refinancing
Forex gain / (loss)	94.3	(4.8)	(47.1)	891.6	(150.0)	(36.0)	(238.6)	563.0	
Jointly controlled entities	2.4	(1.5)	(4.8)	n.m.	(303.6)	(1.6)	(6.5)	303.7	
Associates	4.8	2.2	2.6	19.2	(46.2)	17.6	6.6	(62.5)	
Pretax profit	724.5	604.6	658.3	n.m.	(9.1)	1,705.0	1,624.8	(4.7)	
Pretax Margin (%)	11.9	9.5	10.1			9.5	8.6		
Tax	(256.8)	(189.7)	(195.2)	2.9	(24.0)	(682.5)	(559.5)	(18.0)	
Effective tax rate (%)	35.4	31.4	29.6			40.0	34.4		
Minority interests	(114.7)	(137.1)	(113.6)	(17.2)	(1.0)	(401.3)	(362.5)	(9.7)	
Net Profit	353.0	277.8	349.6	25.9	(1.0)	621.1	702.9	13.2	
Core Net Profit	374.2	302.2	393.9	30.4	5.3	546.2	914.5	67.4	Above expectations
Net Margin (%)	6.1	4.7	6.0			3.0	4.8		

Source: Company data

Figure 2: Indicative valuation of Axiata (based on Celcom-Digi merger comps)

(MYRm)	
33.1% stake in MergeCo (CDB)	18,562.4
Add: Cash from Digi and Telenor	1,990.7
Attributable valuation to Axiata	20,553.1
Less : Celcom's SOP valuation (RHB)	(15,315.4)
Incremental valuation uplift	5,237.6
incremental upside per Axiata share	0.58
Adjusted TP (MYR)	4.82
ESG premium/(discount)	0.02
Revised TP (MYR)	4.84

Source: RHB

Recommendation Chart

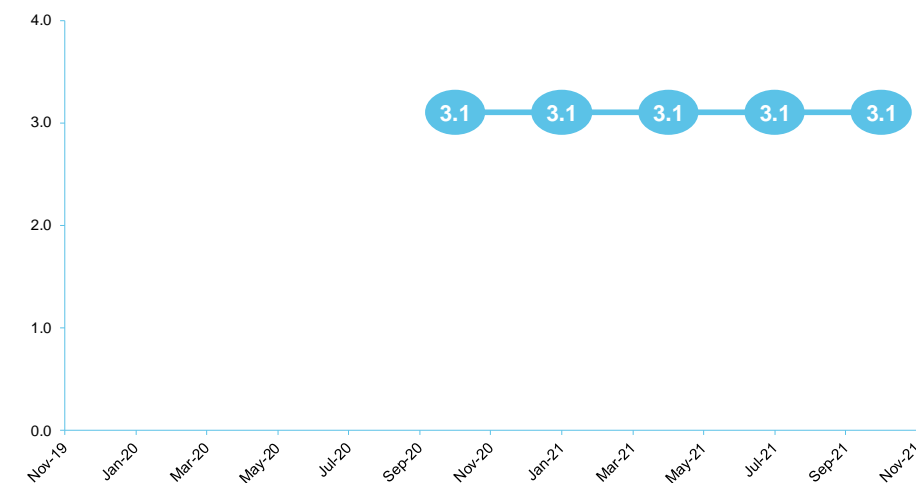


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-06-22	Buy	4.75	4.01
2021-05-26	Neutral	3.80	3.50
2021-02-26	Neutral	3.90	3.55
2020-11-29	Neutral	4.00	3.73
2020-08-28	Buy	3.50	3.01
2020-07-21	Neutral	3.50	3.23
2019-11-29	Neutral	3.90	4.13
2019-09-10	Sell	4.00	4.11
2019-05-29	Neutral	4.30	4.50
2019-04-19	Neutral	4.40	4.04
2019-02-25	Buy	4.80	4.17

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470