

25 June 2020

# Axiata Group

## Eyeing Expansion in Myanmar

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**AXIATA (via 63%-owned edotco) has been shortlisted to bid for Myanmar's Irrawaddy Green Towers with a tower portfolio of 3,000, estimated to be valued at USD800m. While this acquisition may seem expensive, a successful acquisition would give AXIATA dominance in the Myanmar towerco scene. Details are still sparse for now, but we estimate earnings boost to be less than 5%. We tactically upgrade AXIATA to OP (from MP), capitalising on share price weakness and technical chart support. SoP-driven TP of RM3.85 remains unchanged.**

**A large slice of the pie.** It was reported that AXIATA (by extension, via its 63%-owned towerco arm - edotco) has been shortlisted to bid for Irrawaddy Green Towers (IGT) in Myanmar, one of the largest independent towercos in the country with a tower portfolio of 3,000. IGT is estimated to be valued at USD800m with rumours of this deal surfacing in March 2020. Two other bidders participating in this deal are Guodong Group from China and global private equity firm CVC Capital Partners.

**Success would be a win...** We are positive with the development as it would greatly add to edotco's existing Myanmar portfolio of 2,100 towers and 1,051 managed sites. Asides from edotco and IGT, next in line would be state-backed MPT with a 4,000 strong tower portfolio. However, a potential price tag of USD800m might be steep, roughly equating to USD270k/tower. Channel checks indicate that the cost of constructing new tower in Myanmar is much less than USD100k each. That said, successfully acquiring them could enable synergistic gains, which we believe could include: (i) giving edotco access to previously untapped locations; and (ii) greater leverage in tower sharing agreements.

**...albeit not a game changer.** No details on IGT's fundamentals are available as it is currently privately held. Anticipating tenancy ratios and profit margins to be constant with our current estimates for edotco, we estimate that revenue and earnings accretion could be up to RM300m (+1%) and RM30m (+4%), respectively. Still, it will allow the group to expand its recurring revenue profile which is highly sought after especially during this presently volatile market conditions.

The group had previously earmarked RM600m for edotco's tower acquisition aspirations, which could indicate large debt needs to finance the deal. This would ultimately stretch the group's net gearing of 0.8x.

**Post-update,** we leave our FY20E/FY21E earnings unchanged for now, as acquisitions have yet to materialise.

**Tactical upgrade to OUTPERFORM (from MARKET PERFORM) with an unchanged SoP-driven TP of RM3.85.** Our SoP-driven TP implies a 4.8x FY21E EV/Fwd EBITDA, which is -1.5SD below the stock's 3-year average. The stock has previously been sold down following its 1QFY21 earnings disappointment and fear of a resurgence in Covid-19 cases. We believe current levels are oversold on the back of our highly conservative estimates, post-slashing our FY20E/FY21E earnings by 25%/27% in anticipation of poorer performance from its regional OpCos and extended losses from its digital segments. Additionally, we believe current price levels may provide an attractive entry point for those needing to position with the stock on what we see to have limited technical charting downside risks (first support level at RM3.40-RM3.45).

**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.

**OUTPERFORM** ↑

Price : **RM3.48**  
Target Price : **RM3.85** ↔

### Share Price Performance



KLCI	1,502.63
YTD KLCI chg	-5.4%
YTD stock price chg	-15.8%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AXIATA MK Equity
Market Cap (RM m)	31,908.3
Shares Outstanding	9,169.0
52-week range (H)	5.25
52-week range (L)	3.10
3-mth avg daily vol	6,338,694
Free Float	24%
Beta	1.1

### Major Shareholders

Khazanah Nasional Bhd	36.8%
Employees Provident Fund	17.3%
Skim Amanah Saham Bumiputera	14.7%

### Summary Earnings Table

FYE Dec (RM m)	2019A	2020E	2021E
<b>Turnover</b>	<b>24,583</b>	<b>23,716</b>	<b>23,599</b>
EBITDA	11,418	10,353	9,989
EBIT	4,334	3,323	3,046
PBT	2,872	1,634	1,575
<b>PATAMI</b>	<b>1,458</b>	<b>829</b>	<b>799</b>
<b>Core PATAMI</b>	<b>960</b>	<b>766</b>	<b>799</b>
Consensus (NP)	-	860	1,023
Earnings Revision	-	0%	0%
Core EPS (sen)	10.5	8.4	8.7
Core EPS growth (%)	-5.0	-20.2	4.4
NDPS (sen)	9.5	8.0	8.0
BVPS (RM)	1.8	1.8	1.8
PER (x)	33.2	41.6	39.9
PBV (x)	2.0	2.0	1.9
Net Gearing (x)	0.8	0.8	0.8
Net Div. Yield (%)	2.7	2.3	2.3

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## Income Statement

FY Dec (RM m)	2017A	2018A	2019A	2020E	2021E
Revenue	24,402	23,886	24,583	23,716	23,599
EBITDA	8,986	5,260	11,418	10,353	9,989
Depreciation	-5,986	-7,645	-7,084	-7,031	-6,943
<b>Operating Profit</b>	<b>3,000</b>	<b>-2,385</b>	<b>4,334</b>	<b>3,323</b>	<b>3,046</b>
Interest Inc/(Exp)	-1,012	-1,051	-1,508	-1,089	-1,171
Associate Earnings	-52	-637	46	-600	-300
<b>Profit Before Tax</b>	<b>1,936</b>	<b>-4,073</b>	<b>2,872</b>	<b>1,634</b>	<b>1,575</b>
Taxation	-774	-902	-1,057	-601	-580
Profit After Tax	1,162	-4,975	1,815	1,033	995
<b>Core PATAMI</b>	<b>1,205</b>	<b>1,010</b>	<b>960</b>	<b>766</b>	<b>799</b>

## Balance Sheet

FY Dec (RM m)	2017A	2018A	2019A	2020E	2021E
Fixed Assets	26,910	27,290	25,642	25,211	24,936
Intangible Assets	22,176	20,927	20,730	20,730	20,730
Other Fixed Assets	9,023	3,336	10,646	10,646	10,646
Inventories	174	219	154	182	182
Receivables	4,497	5,115	4,866	4,850	4,850
Other Current Assets	318	1,896	373	373	373
Cash	6,813	5,071	4,224	3,613	3,900
<b>Total Assets</b>	<b>69,911</b>	<b>63,855</b>	<b>66,635</b>	<b>65,604</b>	<b>65,616</b>
Payables	12,617	12,484	12,291	11,164	11,110
ST Borrowings	4,388	4,483	7,632	7,632	7,632
Other ST Liability	1,291	1,435	4,530	4,530	4,530
LT Borrowings	14,796	14,647	9,194	9,194	9,194
Other LT Liability	6,315	7,592	10,767	10,767	10,767
<b>Net Assets</b>	<b>30,505</b>	<b>23,215</b>	<b>22,220</b>	<b>22,317</b>	<b>22,383</b>
Shareholders' Equity	24,731	17,477	16,181	16,277	16,344
Minority Interests	5,773	5,738	6,039	6,039	6,039
<b>Total Equity</b>	<b>30,505</b>	<b>23,215</b>	<b>22,220</b>	<b>22,317</b>	<b>22,383</b>

## Cashflow Statement

FY Dec (RM m)	2017A	2018A	2019A	2020E	2021E
Operating CF	5,733	5,970	8,783	8,410	9,158
Investing CF	-5,167	-7,973	-4,859	-7,200	-6,967
Financing CF	1,248	-548	-4,607	-1,821	-1,904
Change In Cash	1,814	-2,551	-682	-611	287
Free CF	819	-701	2,052	1,810	2,491

## Financial Data & Ratios

FY Dec	2017A	2018A	2019A	2020E	2021E
<b>Growth</b>					
Turnover	13.2%	-2.1%	2.9%	-3.5%	-0.5%
EBITDA	7.1%	-41.5%	117.1%	-9.3%	-3.5%
Operating Profit	10.0%	-179.5%	-281.7%	-23.3%	-8.3%
PBT	69.9%	-310.4%	-170.5%	-43.1%	-3.6%
Core PATAMI	-15.1%	-16.2%	-5.0%	-20.2%	4.4%
<b>Profitability</b>					
Operating Margin	12.3%	-10.0%	17.6%	14.0%	12.9%
PBT Margin	7.9%	-17.1%	11.7%	6.9%	6.7%
Core Net Margin	4.9%	4.2%	3.9%	3.2%	3.4%
Effective Tax Rate	40.0%	-22.1%	36.8%	36.8%	36.8%
ROA	1.3%	-7.1%	2.2%	1.3%	1.2%
ROE	3.8%	-22.6%	8.7%	5.1%	4.9%

## DuPont Analysis

Net Margin	4.9%	4.2%	3.9%	3.2%	3.4%
Assets Turnover (x)	0.3	0.4	0.4	0.4	0.4
Leverage Factor (x)	2.8	3.7	4.1	4.0	4.0
ROE	3.8%	-22.6%	8.7%	5.1%	4.9%

## Leverage

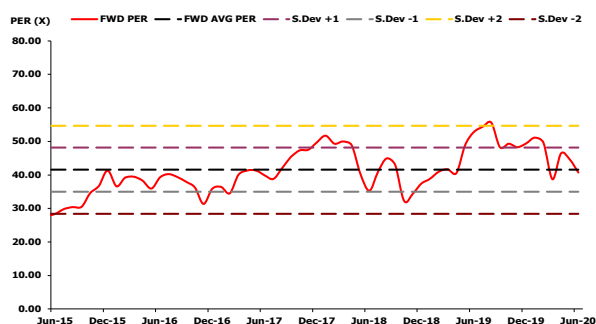
Debt/Asset (x)	0.3	0.3	0.3	0.3	0.3
Debt/Equity (x)	0.8	1.1	1.0	1.0	1.0
Net (Cash)/Debt	12,371	14,058	12,602	13,214	12,926
Net Debt/Equity (x)	0.5	0.8	0.8	0.8	0.8

## Valuations

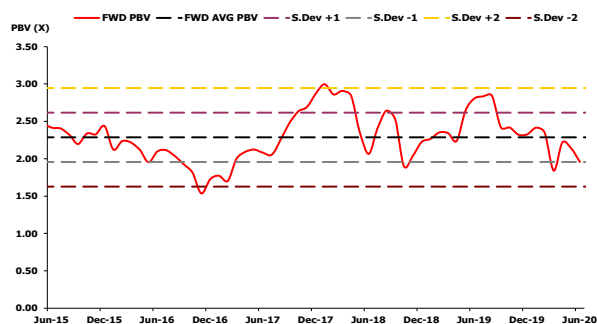
Core EPS (sen)	13.2	11.0	10.5	8.4	8.7
NDPS (sen)	8.4	9.5	9.5	8.0	8.0
BV/sh (RM)	2.7	1.9	1.8	1.8	1.8
PER (x)	26.2	31.3	32.9	41.3	39.9
Div. Yield	2.4%	2.8%	2.8%	2.3%	2.3%
PBV (x)	1.3	1.8	2.0	1.9	1.9
EV/EBITDA (x)	4.9	5.3	2.9	2.9	2.9

Source: Kenanga Research

## Fwd PER Band



## Fwd PBV Band



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.			
<b>Stocks Under Coverage</b>																	
AXIATA GROUP BHD	3.48	31,908.3	Y	12/2020	-3.5%	-0.5%	-20.2%	4.3%	33.2	41.6	39.9	1.4	1.4	3.4%	2.3%	3.85	OP
DIGI.COM BHD	4.21	32,732.8	Y	12/2020	-3.0%	1.5%	-7.4%	2.1%	21.0	22.7	22.3	49.6	48.5	216.1%	4.4%	4.65	MP
MAXIS BHD	5.33	41,683.3	Y	12/2020	1.1%	3.6%	1.6%	3.7%	27.8	27.3	26.3	5.9	5.8	21.4%	3.4%	4.90	UP
OCK GROUP BHD	0.570	546.4	N	12/2020	9.3%	6.9%	19.9%	5.0%	19.5	16.2	15.4	0.9	0.9	5.6%	0.0%	0.630	MP
TELEKOM MALAYSIA BHD	4.00	15,063.1	Y	12/2020	-8.2%	-0.4%	-10.2%	5.2%	15.1	16.8	16.0	2.3	2.1	13.2%	2.1%	4.20	MP
<b>Simple Average</b>					<b>-0.9%</b>	<b>2.2%</b>	<b>-3.3%</b>	<b>4.1%</b>	<b>23.3</b>	<b>24.9</b>	<b>24.0</b>	<b>12.0</b>	<b>11.8</b>	<b>52.0%</b>	<b>2.4%</b>		
<b>Consensus Estimates</b>																	
TIME DOT COM BHD	10.92	6,570.0	Y	12/2020	12.1%	9.4%	4.5%	7.6%	20.9	20.0	18.6	2.4	2.2	11.9%	2.5%	11.53	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: 1.0%	17,523.8	100.0%	17,523.8
XL (Indonesia)	DCF	WACC: 9.9%, TG: 2.5%	16,891.5	66.4%	11,209.2
Robi (Bangladesh)	EV/EBITDA	5.0x	7,669.0	68.7%	5,268.6
Dialog (Sri Lanka)	EV/EBITDA	4.8x	5,090.0	83.3%	4,241.0
Ncell (Nepal)	EV/EBITDA	5.0x	4,815.4	80.0%	3,852.3
Smart (Cambodia)	EV/EBITDA	6.0x	4,756.2	72.5%	3,448.2
edotco	EV/EBITDA	7.0x	4,487.0	63.0%	2,826.8
Vodafone Idea (India)	Market Price		7,528.0	1.6%	122.0
<b>Total Effective Value</b>					<b>48,491.9</b>
(-) Net Debt					13,213.6
<b>Total Equity Value</b>					<b>35,278.3</b>
No. of Axiata Shares ('m)					9,156.2
<b>Value/Share (RM)</b>					<b>3.85</b>

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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