Axiata Group

XL's 4QFY20 Within Estimate

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OUTPERFORM ↔

Price : RM3.50

Target Price : RM4.30 ↔

XL AXIATA (XL)'s 12MFY20 normalised profit of IDR679b (-6%) is within our expectation. Steps to market consolidation, spurred by the omnibus law has materialised with the potential merger of Indosat and Hutchison 3. Amidst this, XL will continue to ride on its strategies in the ex-Java region to maintain its presence and continue investing for quality 4G coverage. Maintain OP for AXIATA with an unchanged SoP-driven TP of RM4.30.

XL Axiata (66.4% owned) posted FY20 normalised earnings of IDR679b, which is within our expectation, making up 96% of our full-year estimate. No consensus estimates was available on a normalised earnings basis. No dividends were declared, as expected.

YoY, 12MFY20 revenue registered at IDR26.02t (+3%) with service revenue of IDR24.12t (+6%). This was led by gains in Prepaid subscribers to 56.74m users (+1.11m since 4QFY19) driven by effective customer acquisition strategies in the ex-Java region. Meanwhile, ARPUs were relatively flattish. Core EBITDA margin improved to 50.2% (+10.6ppt) but on the back of new IFRS 16 adjustments. At pre-adjustment level, margin still held strongly at 42.6%, thanks to cost savings from digitalisation and lower interconnect charges. 12MFY20 normalised profits came in at IDR679b (-6%) following heavier depreciation charges.

QoQ, 4QFY20 revenue dipped 3% owing to Prepaid ARPU erosion to IDR33k from IDR35k in 3QFY20. However, this was cushioned by growth in Prepaid subscribers of 1.0m QoQ. That said, 4QFY20 normalised earnings declined by 50% to IDR166b in spite of tax gains as operating expenses remained relatively elevated.

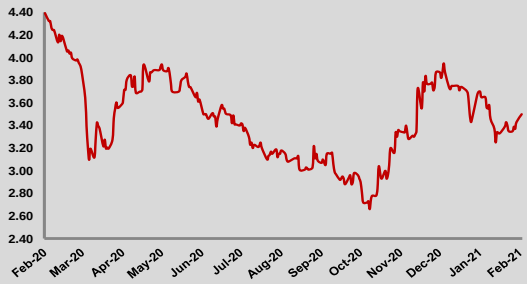
Shifting landscape. The Indonesian market is expecting a shake-up with the pending merger of Indosat and Hutchison 3 to consolidate their market presence. While the move could put XL firmly as the third largest telco provider, management aims to continue riding on its working strategies to penetrate into the ex-Java market which was previously much dominated by Telkomsel. Meanwhile, the group looks to repurpose its 3G capacity to boost its 4G capabilities as it reduces its dependency on the 3G network. Management's guidance for FY21 includes: (i) revenue growth to be in-line with market trends, which is expected to be better than FY20 due to it being the hardest hit by Covid-19's economic implications; (ii) EBITDA margins at low-50% (FY20: 50.2%); and (iii) capex spend around IDR7t.

Post XL results, we leave our FY20E/FY21E assumptions for the group relatively unchanged.

Maintain OUTPERFORM with an unchanged SoP-driven TP of RM4.30. Our TP implies an EV/EBITDA of 4.6x (1.5SD below its 3-year mean). We opine that AXIATA could benefit from its wide regional exposure and non-cellco business in the medium-term (i.e. Indonesia's omnibus law opening opportunities for consolidation, digital assets heading towards a turnaround, and fresh injection of funds from its Bangladeshi unit Robi's IPO potentially accelerating penetration rate). Additionally, in its 5-year plan, the group has strategies in place to drastically drive down its cost/GB and targets to achieve group-wide EBIT margin of 20% (14.4% in FY19). Overall, this should translate to better free cash flows to allow for more generous dividend payments (FY25E target of 20.0 sen, from historical average of 8.0-10.0 sen).

Risks to our call include: (i) weaker-than-expected performance at Celcom and regional OpCos, (ii) poorer-than-expected costs management, and (iii) slower-than-expected growth from its digital assets.

Share Price Performance



KLCI	1,608.07
YTD KLCI chg	-1.2%
YTD stock price chg	-6.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AXIATA MK Equity
Market Cap (RM m)	32,093.4
Share Outstanding	9,169.5
52-week range (H)	4.32
52-week range (L)	2.66
3-mth avg daily vol:	5,095,262
Free Float	24%
Beta	1.0

Major Shareholders

Khazanah Nasional Bhd	36.8%
Employees Provident Fund	17.2%
Amanah Saham Nasional	14.7%

Summary Earnings Table

FYE Dec (RM m)	2019A	2020E	2021E
Turnover	**24,583**	**23,272**	**23,561**
EBITDA	11,418	10,834	11,013
EBIT	4,334	3,127	3,158
PBT	2,872	1,598	1,699
Net Profit	**1,458**	**779**	**892**
Core Net Profit	**960**	**704**	**892**
Consensus (NP)	-	781	1,048
Earnings Revision	-	0%	0%
Core EPS (sen)	10.5	7.7	9.7
Core EPS growth (%)	-5.0	-26.6	26.6
NDPS (sen)	9.5	7.0	8.0
BVPS (RM)	1.8	1.8	1.8
PER (x)	33.4	45.5	35.9
PBV (x)	2.0	2.0	1.9
Net Gearing (x)	0.8	0.7	0.6
Net Div. Yield (%)	2.7	2.0	2.3

XL's Result Highlight

FYE Dec (IDR b)	4Q FY20	3Q FY20	QoQ Chg	4Q FY19	YoY Chg	12M FY20	12M FY19	YoY Chg
Turnover	**6,356**	**6,576**	**-3.3%**	**6,415**	**-0.9%**	**26,018**	**25,150**	**3.5%**
Service Rev.	**5,861**	**6,131**	**-4.4%**	**5,860**	**0.0%**	**24,130**	**22,842**	**5.6%**
EBITDA	3,165	3,405	-7.0%	2,608	21.4%	13,060	9,966	31.0%
PBT	-2,316	613	-478.1%	389	-695.5%	147	1,144	-87.2%
Taxation	613	-282	-317.8%	-175	-450.5%	225	-432	-152.2%
Net Profit (NP)	**-1,703**	**331**	**-614.5%**	**215**	**-892.1%**	**372**	**713**	**-47.8%**
Core NP#	**166**	**331**	**-49.8%**	**214**	**-22.4%**	**679**	**719**	**-5.6%**
Core EPS (IDR)	16	31	-49.8%	20	-22.4%	63	67	-5.6%
Core EBITDA margin	49.8%	51.8%		40.7%		50.2%	39.6%	
PBT margin	-36.4%	9.3%		6.1%		0.6%	4.5%	
Core NP margin	2.6%	5.0%		3.3%		2.6%	2.9%	
Effective tax rate	26.5%	46.0%		45.0%		-153.7%	37.8%	

Note:
** FY19 financial statements are on a pre-IFRS 4,15,16 basis*
 # Core adjustments consists of: (i) 4QFY19 IDR9b forex loss and IDR9b data center gain; (ii) 3QFY20 IDR9b forex loss and IDR9b tower gain; (iii) 4QFY20 IDR2b forex loss, IDR1.93t accelerated depreciation, IDR70b picocell gain, IDR14b data center gain and IDR17b tower loss; (iv) 12MFY20 IDR13b forex loss and IDR6b data center gain; and (v) IDR6b forex gain, IDR1.54t tower gain, IDR1.94b accelerated depreciation, IDR 70b picocell gain and IDR14b data center gain.

Source: Company, Kenanga Research

XL's Key Operating Measures

	4Q FY19	1Q FY20	2Q FY20	3Q FY20	4Q FY20
Prepaid Subs (m)	55.63	54.34	54.54	55.74	56.74
Postpaid Subs (m)	1.07	1.15	1.14	1.14	1.15
Total Subs (m)	56.70	55.49	55.68	56.88	57.89
Net Adds (m)	1.20	-1.21	0.19	1.20	1.01
Prepaid ARPU (IDR 000)	34	34	36	35	33
Postpaid ARPU (IDR 000)	109	114	111	110	111
Blended ARPU (IDR 000)	36	36	37	36	36
Total BTS	130,217	133,536	139,380	142,598	144,978

Source: Company, 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: 1.5%	20,117.8	100.0%	20,117.8
XL (Indonesia)	DCF	WACC: 9.9%, TG: 2.0%	18,217.8	66.4%	12,089.4
Robi (Bangladesh)	EV/EBITDA	4.0x	6,667.8	61.9%	4,128.0
Dialog (Sri Lanka)	EV/EBITDA	4.8x	5,476.1	83.3%	4,562.7
Ncell (Nepal)	EV/EBITDA	5.0x	3,993.3	80.0%	3,194.6
Smart (Cambodia)	EV/EBITDA	6.0x	4,904.4	72.5%	3,555.7
edotco	EV/EBITDA	7.0x	5,602.5	63.0%	3,529.6
			Total Effective Value		**51,177.9**
			(-) Net Debt		11,668.9
			Total Equity Value		**39,509.0**
			No. of Axiata Shares ('m)		9,156.2
			Value/Share (RM)		**4.30**

Source: 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 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.	1-Yr. Fwd.		
Stocks Under Coverage																	
AXIATA GROUP BHD	3.50	32,093.4	Y	12/2020	-5.3%	1.2%	-26.6%	26.6%	33.4	45.5	35.9	1.4	1.4	3.2%	2.0%	4.30	OP
DIGI.COM BHD	3.82	29,700.5	Y	12/2021	-1.6%	1.0%	-22.0%	3.7%	24.3	31.2	30.1	49.0	48.3	155.9%	3.2%	3.55	UP
MAXIS BHD	4.91	38,411.1	Y	12/2020	-2.0%	5.2%	0.8%	3.0%	25.6	25.4	24.6	5.4	5.2	21.0%	3.3%	4.90	MP
OCK GROUP BHD	0.420	442.9	Y	12/2020	1.7%	10.1%	-2.1%	20.1%	14.1	14.4	12.0	0.7	0.7	4.7%	0.0%	0.590	OP
TELEKOM MALAYSIA BHD	6.63	25,019.6	Y	12/2020	-8.4%	0.2%	2.4%	5.1%	25.0	24.4	23.3	3.8	3.6	15.2%	2.3%	5.30	MP
Simple Average					**-3.1%**	**3.5%**	**-9.5%**	**11.7%**	**24.5**	**28.2**	**25.2**	**12.1**	**11.8**	**40.0%**	**2.2%**		
Stocks Not Under Coverage																	
TIME DOT COM BHD	13.80	8,338.8	Y	12/2020	10.0%	8.6%	5.0%	8.8%	25.7	24.4	22.5	2.9	2.8	11.6%	2.2%	14.00	Trading 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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