

Axiata Group

XL's 1QFY21 Within Estimates

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XL AXIATA (XL)'s 1QFY21 normalised profit of IDR230b is within our/street's expectation. Prepaid subscribers decreased QoQ on SIM consolidation but showed steady YoY growth on continued growth momentum in the ex-Java region. The potential mergers (Indosat and Hutchinson 3, Digi and Celcom) are positive for Axiata as competition in both markets could ease, potentially arresting further ARPU declines and improving profitability. Maintain OP for AXIATA with an unchanged SoP-driven TP of RM4.40.

1QFY21 within expectations. 1QFY21 CNP of IDR230b came within expectation at 26%/24% of our/street's FY21 estimate. Revenue of IDR6.25t also came in within at 24% of our full-year estimate. EBITDA margin came in at 50% vs. our full-year estimate of 47% on cost-efficiencies.

YoY. Revenue shed 4% as prepaid ARPU fell to IDR33k from IDR34k as the popularity of competitors' (namely Telkomsel) latest unlimited prepaid products continued diluting prepaid ARPUs. Prepaid subscribers continue to inch up with 500K net addition as XL's high-speed proposition continued to pay off while ex-Java segment continued to grow. Postpaid (only 2% of total) subs remained flat while ARPU declined from IDR114k/month to IDR108k/month. EBITDA fell by 2% as EBITDA margin improved from 49% to 50% on cost savings. PBT fell by 75% as 1QFY20 saw one-off tower disposal gains of IDR1.43t. CNP rose by c.300% as 1QFY20 experienced higher depreciation and 1Qs also tend to be seasonally weak, making 1QFY21 a commendable one.

QoQ. Revenue declined 1.7% despite stable prepaid ARPU (IDR33k/month), as prepaid subs declined from a spike in subs growth in 2HFY20, when management witnessed an unsustainable jump in dual-SIM users. Postpaid subs inched up 31K to 1.2m and postpaid ARPU fell by IDR2k/month. EBITDA fell with in tandem with revenue, by 1.5%.

Indosat and Hutchinson 3 merger. Management believes that the merger will adjust industry competition to a healthy level and help boost telcos' profitability. While the combined spectrum of the MergeCo may allow it to provide better services to customers, XL is not fazed as they continue their momentum to penetrate the ex-Java region, and looks to grab market share from MergeCo while they are in discussions.

Post XL's results, we maintain our estimates for XL and AXIATA Group.

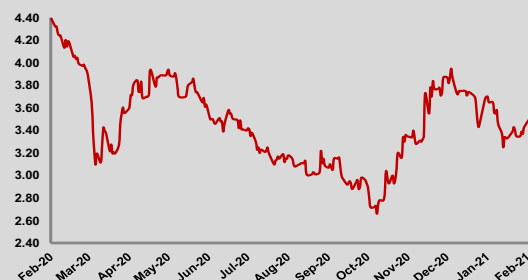
Maintain OUTPERFORM with an unchanged SoP-driven TP of RM4.40. Our TP implies an EV/EBITDA of 4.5x, close to 1.5SD below AXIATA's 3-year mean of 4.6x. XL's performance is holding up well in the face of fierce competition, and we continue to believe that Axiata's regional OpCos stand to benefit from subscriber growth, especially in Indonesia and Bangladesh, as they recover from the pandemic. Axiata's portfolio of digital services, while not all profitable yet, continue to provide the Group exposure to promising digital growth opportunities to complement its telecom businesses. The Celcom Digi merger may also bring competition in the Malaysian telecom sector to a healthier and more profitable level, as having one less competitor could help players arrest further ARPU declines.

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

OUTPERFORM ↔

Price : **RM3.87**
Target Price : **RM4.40** ↔

Share Price Performance



KLCI	1,606.68
YTD KLCI chg	-1.3%
YTD stock price chg	3.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AXIATA MK Equity
Market Cap (RM m)	35,498.4
Share Outstanding	9,172.7
52-week range (H)	4.23
52-week range (L)	2.66
3-mth avg daily vol:	4,513,137
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)	2020A	2021E	2022E
Revenue	24,203	24,999	26,327
EBITDA	10,657	11,770	12,334
EBIT	2,495	2,856	3,074
PBT	1,171	1,786	1,900
Net PATAMI	624	1,250	1,330
Core PATAMI (CNP)	865	938	1,029
Consensus (NP)	-	1,072	1,283
Earnings Revision	-	-	-
Core EPS (sen)	9.4	10.2	11.2
Core EPS growth (%)	-10%	8%	10%
NDPS (sen)	7.0	8.0	9.0
BVPS (RM)	1.9	1.9	2.0
PER (x)	41.0	37.8	34.5
PBV (x)	2.0	2.0	2.0
Net Gearing (x)	0.8	0.6	0.3
Net Div. Yield (%)	1.8	2.1	2.3



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XL's Results Highlight

FYE Dec (IDR b)	1Q FY21	4Q FY20	QoQ Chg	1Q FY20	YoY Chg	3M FY21	3M FY20	YoY Chg
Revenue	6,250	6,356	-1.7%	6,500	-3.8%	6,250	6,500	-3.8%
Service Revenue	5,763	5,861	-1.7%	5,980	-3.6%	5,763	5,980	-3.6%
EBITDA	3,119	3,165	-1.5%	3,184	-2.0%	3,119	3,184	-2.0%
PBT	389	-2,316	N.M.	1,546	-74.8%	389	1,546	-74.8%
Taxation	-69	613	N.M.	-18	282.9%	-69	-18	282.9%
Net Profit (NP)	321	-1,703	N.M.	1,520	-78.9%	321	1,520	-78.9%
Core NP#	230	166	38.6%	58	296.6%	230	58	296.6%
Core EPS (IDR)	21	15	38.6%	5	296.6%	21	5	296.6%
Core EBITDA margin	49.9%	49.8%		49.0%		49.9%	49.0%	
PBT margin	6.2%	-36.4%		23.8%		6.2%	23.8%	
Core NP margin	3.7%	2.6%		0.9%		3.7%	0.9%	
Effective tax rate	17.7%	26.5%		1.2%		17.7%	1.2%	

Note:

Core adjustments consists of: 4QFY20 IDR2b forex loss, IDR1.93t accelerated depreciation, IDR70b picocell gain, IDR14b data center gain and IDR17b tower loss

Source: Company, Kenanga Research

XL's Key Operating Measures

	1Q FY20	2Q FY20	3Q FY20	4Q FY20	1Q FY21
Prepaid Subs (m)	54.3	54.5	55.7	56.7	54.8
Postpaid Subs (m)	1.2	1.1	1.1	1.2	1.2
Total Subs (m)	55.5	55.7	56.9	57.9	56.0
Net Adds (m)	-1.2	0.2	1.2	1.0	-1.9
Prepaid ARPU (IDR 000)	34	36	35	33	33
Postpaid ARPU (IDR 000)	114	111	110	110	108
Blended ARPU (IDR 000)	36	37	36	34	35
Total BTS	133,536	139,380	142,598	144,978	147,786

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%	20,203.1	100.0%	20,203.1
XL (Indonesia)	DCF	WACC: 9.9%, TG: 2.0%	18,468.6	66.4%	12,255.8
Robi (Bangladesh)	EV/EBITDA	4.0x	6,603.6	61.9%	4,088.3
Dialog (Sri Lanka)	EV/EBITDA	4.8x	6,036.3	83.3%	5,029.5
Ncell (Nepal)	EV/EBITDA	5.0x	4,421.9	80.0%	3,537.5
Smart (Cambodia)	EV/EBITDA	6.0x	5,202.4	72.5%	3,771.7
edotco	EV/EBITDA	7.0x	5,672.1	63.0%	3,573.4
Total Effective Value					52,459.4
(-) Net Debt					12,293.4
Total Equity Value					40,165.9
No. of Axiata Shares ('m)					9,156.2
Value/Share (RM)					4.40

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.	1-Yr. Fwd.		
Stocks Under Coverage																	
AXIATA GROUP BHD	3.87	35,498.4	Y	12/2021	3.3%	5.3%	8.4%	9.7%	41.0	37.8	34.5	2.0	2.0	4.2%	2.1%	4.40	OP
DIGI.COM BHD	4.21	32,732.8	Y	12/2021	-1.6%	1.7%	-5.4%	2.1%	26.6	28.1	27.6	54.0	53.1	190.4%	3.5%	3.75	MP
MAXIS BHD	4.68	36,611.8	Y	12/2021	2.7%	5.3%	0.6%	6.0%	25.8	25.7	24.2	5.2	5.1	20.0%	3.4%	4.90	MP
OCK GROUP BHD	0.500	527.2	Y	12/2021	12.4%	9.4%	20.3%	12.3%	20.6	17.1	15.2	0.9	0.8	4.9%	0.0%	0.540	MP
TELEKOM MALAYSIA BHD	5.81	21,925.2	Y	12/2021	2.8%	6.7%	12.8%	2.0%	22.1	19.6	19.2	3.1	2.7	14.7%	2.8%	6.85	OP
Simple Average					3.9%	5.7%	7.4%	6.4%	27.2	25.7	24.1	13.0	12.6	46.8%	2.4%		

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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