

02 August 2021

Axiata Group

Proposed 66% Acquisition of Link Net

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Axiata XL has proposed to acquire a 66.03% equity stake in Indonesian fixed broadband and Cable TV operator Link Net. Assuming that XL will fund the acquisition at the current market price of IDR4,600 with 90% new debt, and accounting for the additional post-tax interest cost, we estimate that the acquisition would increase Axiata's FY22E CNP by 2% (+RM26m). Applying a 30x PER (XL's FY22E) on the incremental earnings, we concluded that the incremental per-share-value for Axiata to be RM0.10 (thus, hypothetical TP of RM4.55). While we are positive on XL's long-term growth in the Indonesian home market with this acquisition, we think it's too early for the market to price in incremental earnings beyond FY22. Maintain OP with SoP-TP of RM4.45.

Proposed acquisition. Axiata's 66.48% Indonesian subsidiary XL has announced its intention to acquire a 66.03% equity interest in Indonesian fixed broadband and cable TV operator Link Net. At this juncture, the purchase price is still unknown (we have assumed IDR4,600), and the talks are not exclusive. Should XL acquire the 66.03% stake in Link Net, it will be required to conduct a Mandatory Tender Offer to purchase the remaining shares of Link Net. Based on our understanding, XL does not intend to delist Link Net.

Strengthens XL's position in Indonesian homes. Link Net is Indonesia's second largest fixed broadband operator with 2.7m homes passed and 859k subs, only behind the incumbent PT Telkom's IndiHome, which has 20m homes passed and 7.8m subscribers. We believe XL's acquisition of Link Net would allow XL to capture a meaningful share of the Indonesian fixed broadband market. (refer overleaf for more)

XL would need extra debt for acquisition. Based on: (i) Link Net's latest market cap of IDR13t (66% stake = IDR8.7t), and (ii) XL's latest cash balance of IDR1.5t, we assume that XL will fund 10% of the acquisition with cash (IDR870b) and the remainder 90% (IDR7.8t) with new debt. Assuming an interest cost of 8%, XL would incur incremental after-tax interest cost of IDR501b or RM143m. The additional RM1.5b of debt on Axiata's books would raise its net gearing from 0.76x to 0.80x.

Potential impact to Axiata. Accounting for the additional post-tax interest cost, we estimate the deal to increase Axiata's FY22E CNP by 2% (+RM26m). By applying a PER of 30x (XL' FY22E) on the incremental earnings, we estimate that the incremental per share value for Axiata is RM0.10, thus its **hypothetical post-acquisition TP would be RM4.55.**

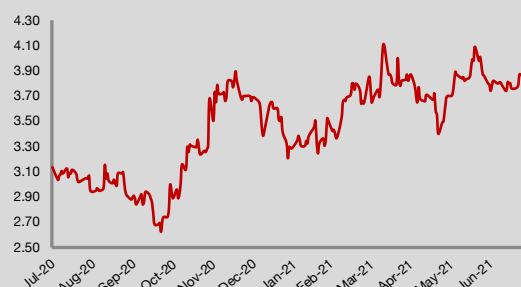
Maintain FY21E/22E CNP pending completion of corporate exercise.

Maintain OP on higher SoP-driven TP of RM4.45. We are positive on XL's potential strategic acquisition of Link Net, as it would strengthen XL's home offerings, also allowing it to potentially offer converged solutions. Moreover, we think that the fixed broadband market in Indonesia has favorable tailwinds of: (i) low penetration rate with ample room for growth, and (ii) strong home broadband demand from working/learning from home. While the acquisition could prove more profitable over the long-run as interest expense falls and profit grows, we think that it is too early for the market to price in any incremental profits beyond FY22.

OUTPERFORM ↔

Price : **RM3.73**
Target Price : **RM4.45** ↔

Share Price Performance



KLCI	1,494.60
YTD KLCI chg	-8.1%
YTD stock price chg	-0.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AXIATA MK Equity
Market Cap (RM m)	34,214.2
Shares Outstanding	9,172.7
52-week range (H)	4.23
52-week range (L)	2.66
3-mth avg. daily vol.	3,537,471
Free Float	26%
Beta	1.0

Major Shareholders

Khazanah Nasional Bhd	36.8%
Employees Provident Fund	17.1%
Skim Amanah Saham Bumiputera	14.7%

Summary Earnings Table*

FYE Dec (RMm)	2020A	2021E	2022E
Revenue	24,203	25,144	26,221
EBITDA	10,657	11,566	12,062
EBIT	2,495	3,269	3,671
PBT	1,171	1,869	2,271
PATAMI	624	1,383	1,681
Core PATAMI	865	968	1,176
Consensus (NP)	N.M.	986	1,210
Earnings Revision	N.M.	N.A.	N.A.
Core EPS (sen)	9.4	10.6	12.8
Core EPS growth (%)	-10	12	22
NDPS (sen)	7.0	8.0	10.0
BVPS (RM)	1.9	1.9	2.0
PER (x)	39.5	35.3	29.1
PBV (x)	1.9	1.9	1.9
Net Gearing (x)	0.8	0.8	0.8
Net Div. Yield (%)	1.9	2.1	2.7

*Estimates are based on pre-Celcom Digi merger Axiata

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Strengthens XL's position in Indonesian homes. Link Net is Indonesia's second largest fixed broadband operator with 2.7m homes passed and 859k subs, only behind the incumbent PT Telkom's IndiHome, which has 20m homes passed and 7.8m subscribers. The other operators are significantly smaller with the 3rd largest operator having 1.5m homes passed and c.300k subs. XL does not disclose their Home subs, likely because it is currently an insignificant figure. Hence, we believe XL's acquisition of Link Net would allow it to capture a meaningful share of the Indonesian fixed broadband market.

Severely under-penetrated home market in Indonesia. While data on Indonesia's fixed penetration rate varies, we understand that it is likely currently in the range of 15~10%, with some estimates <10%, making it one of the lowest in the South East Asian region. This is likely due to: (i) Indonesia's fragmented geography, thus making building of infrastructure less practical and costlier, (ii) low purchasing power (for context, Indonesia's GDP per capital is only 1/3rd of Malaysia's). However, from Link Net and IndiHome's strong home broadband subs and revenue growth, it is clear that there has been strong demand for fixed home broadband amidst extended lockdowns. We believe the trend will continue post-lockdowns, as subs continue to consume more data, and boosted by an unquenchable thirst for higher speeds.

Link Net offers fixed broadband to homes (85%) and enterprises (15%), as well as Cable TV services. In FY ended Dec 2020, 54% of its revenue was from fixed broadband and 41% from Cable TV. Currently, among its many coverage areas, its main ones include Greater Jakarta, Greater Bandung, Greater Surabaya and Bali. Link Net has long targeted the middle- and upper-income population, with majority of its residential customers living in single-family dwellings. As Link Net increases its focus on secondary cities and the mass market, we expect Link Net's ARPU to gradually trend downwards. But as fixed broadband products and the cable TV bundles become more affordable, we expect encouraging take-ups to boost subs growth, therefore still allowing Link Net to achieve revenue growth.

Risks to our call include: (i) the proposed Celcom Digi merger failing to obtain the necessary approvals, (ii) worse-than-expected service revenue, (iii) stronger-than-expected OPEX, and (iv) stronger-than-expected competition.

Exhibit 1: PT Link Net Estimates

RM m	FY20A	FY21E	FY22E
Revenue	1,168	1,299	1,385
EBITDA	655	715	762
CNP	272	274	277
CNP (Consensus)		274	280
CNP Margin	23%	21%	20%

Source: PT Link Net, Kenanga Research

Exhibit 2: Incremental Per Share Value to Axiata

RM m	
Link Net FY22E CNP	277
XL's 66.03% share of Link Net's FY22E CNP	183
XL's incremental interest expense (refer Exhibit 3)	143
XL's incremental CNP	40
XL's incremental CNP attributable to Axiata (66.48%)	26
Axiata FY22E CNP	1,176
Axiata FY22E CNP % change	+2.2%
FY22E XL DCF-TP implied PER (x)	30
Incremental value to XL (incremental CNP x PER)	1,194
Incremental value to Axiata (66.48%)	794
Axiata's share base (m)	9,170
Incremental per share value to Axiata (RM)	0.10
Hypothetical post-acquisition Axiata TP (RM)	4.55

Source: Kenanga Research, Bursa Announcement

Exhibit 3: XL's incremental interest expense

IDR b unless otherwise stated		
Link Net's market cap (as of 30 July 2021: Last Price IDR 4,600)		13,171
1QFY21 XL's cash and cash equivalents		1,516
XL's 66.03% stake in Link Net		8,697
Assumed 90% funded by new debt		7,827
Assumed 10% funded by cash*		870
XL's average interest cost (assumed)		8%
XL's additional FY22E interest expense		626
FY22E Effective Tax Rate (assumed)		20%
XL's additional FY22E post-tax interest expense		501
Assumed IDR / RM		3,500
XL's additional FY22E interest expense (RM m)		143

Source: Kenanga Research, Bursa Announcement

* As we assume that XL needs some cash on hand, we did not assume for XL to deplete its cash reserves for the acquisition.

Exhibit 4: Fixed Broadband Operators in Indonesia

Only 2 Companies Operate with Scale in the Fixed Broadband Market



Comparison of Key Fixed Broadband Operators in Indonesia (High-Speed Only)

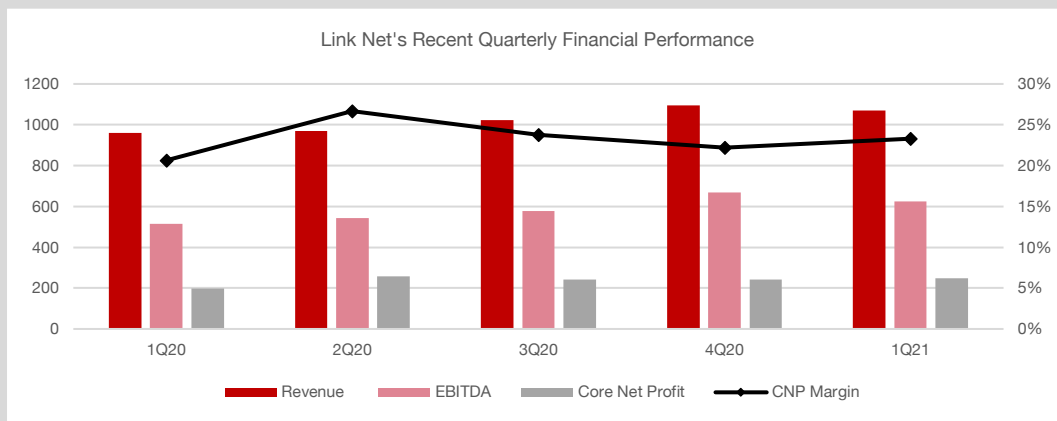
	linknet	IndiHome	play	MuRepublic	Biznet
Homes passed ('000)	2,729 (4 major cities)	c.20,000 (nationwide)	c.1,500	c.800	c.775
Subscribers ('000)	~859	~7,760	~290	~180	~300
Price for 10-15 Mbps eqv. Product	IDR 297,000 (8Mbps) 137 Channels ^(a) (49 HD + 87 SD + 1 4K)	N/A	IDR 290,500 (10 Mbps) 90 Channels (15 HD + 75 SD)	N/A	N/A
Price for 20-25 Mbps eqv. Product	IDR 451,000 (25Mbps) 164 Channels ^(a) (68HD + 95 SD + 1 4K)	IDR 345,000 (20Mbps) 109 Channels (18 HD + 91 SD)	IDR 390,500 (20 Mbps) 90 Channels (15 HD + 75 SD)	IDR 290,000 (20 Mbps) 66 Channels (25 HD + 41 SD)	N/A
Price for 30-50 Mbps eqv. Product	IDR 651,000 (40Mbps) 184 Channels ^(a) (79 HD + 104 SD + 1 4K)	IDR 560,000 (50Mbps) 109 Channels (18 HD + 91 SD)	IDR 490,500 (30 Mbps) 90 Channels (15 HD + 75 SD)	IDR 444,546 (50 Mbps) 66 Channels (25 HD + 41SD)	IDR 450,000 (75 Mbps) 51 Channels (20 HD + 31 SD)

While a number of companies have entered the fixed broadband market, only 2 companies (Link Net and PT Telkom) currently operate with scale

Source: Company website, company information, Media Partners Asia 2020
Note:
(a) Based on equivalent packages with competitors

Source: PT Link Net

Exhibit 5: Link Net's Recent Quarterly Financial Performance



Source: PT Link Net, Kenanga Research

AXIATA Sum-of-Parts Valuation

Companies	Method	Earnings Multiple	Enterprise Value (RMm)	Axiata's Stake (%)	Value (RM'm)
XL (Indonesia)	DCF	WACC: 9.5%, TG: 2.0%	19,741	66.4%	13,108
Robi (Bangladesh)	EV/EBITDA	5.0x	8,376	61.9%	5,185
Dialog (Sri Lanka)	EV/EBITDA	5.0x	6,137	83.3%	5,112
Ncell (Nepal)	EV/EBITDA	5.0x	4,606	80.0%	3,685
Smart (Cambodia)	EV/EBITDA	6.0x	5,355	72.5%	3,882
Edotco	EV/EBITDA	9.0x	12,583	63.0%	7,927
ADA#	Softbank's Transaction^	N/A	1,082	63.5%	687
FY22E Axiata Net Debt			19,099		
- FY22E Celcom Debt			8,097		
+ FY22E Celcom Cash			1,482		
FY22E Axiata Net Debt (excluding Celcom)			12,484		
Enterprise Value without CDB					39,586
- FY22E Axiata Net debt ex. Celcom					12,484
+ Additional RM2b cash					2,000
+ 33.1% CDB Stake (-30% holding discount)					11,519
Total Equity Value					40,622
No. of Axiata shares (m)					9,170
Value/Share (RM)					4.45

Source: Kenanga Research

ADA is Axiata's digital marketing subsidiary. Axiata Group owns 96.47% of Axiata Digital, which owns 63.47% of ADA. Currently pending more clarity on the subsidiary, we do not have a valuation for Axiata Digital for now.

^ On 11 May 2021, SoftBank Corp bought a 23.07% stake in ADA for RM250m.

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Income Statement

FY Dec (RM m)	2018A	2019A	2020A	2021E	2022E
Revenue	23,886	24,583	24,203	25,144	26,221
EBITDA	8,334	10,619	10,657	11,566	12,062
Depreciation	-7,645	-7,084	-8,485	-8,297	-8,391
EBIT	-2,385	4,232	2,495	3,269	3,671
Net int Inc / (Exp)	-1,051	-1,508	-1,516	-1,400	-1,400
Other Inc / (Exp)	-637	56	192	0	0
PBT	-4,073	2,780	1,171	1,869	2,271
Taxation	-902	-965	-547	-486	-590
PAT	-4,975	1,815	624	1,383	1,681
Core PATAMI	1,010	960	865	968	1,176

Balance Sheet

FY Dec (RM m)	2018A	2019A	2020A	2021E	2022E
Fixed Assets	27,290	25,633	24,496	24,006	23,526
Intangible Assets	20,927	20,724	20,634	20,428	20,224
Other Fixed Assets	3,336	10,651	10,867	10,867	10,867
Inventories	219	154	142	144	147
Receivables	5,115	4,722	4,362	4,319	4,276
Other Current Assets	1,896	418	266	1,639	2,628
Cash	5,071	4,231	7,194	7,459	8,234
Total Assets	63,855	66,534	67,962	68,862	69,902
Payables	12,484	12,178	12,006	12,042	12,078
ST Borrowings	4,483	9,074	4,706	4,723	4,800
Other ST Liability	1,435	3,085	682	680	680
LT Borrowings	14,647	16,592	22,668	22,599	22,533
Other LT Liability	7,592	3,384	4,020	4,289	4,519
Net Assets	23,215	22,220	23,879	24,529	25,292
Shareholders' Equity	17,477	16,181	17,641	17,876	18,135
Minority Interests	5,738	6,039	6,238	6,653	7,157
Total Equity	23,215	22,220	23,879	24,529	25,292

Cashflow Statement

FY Dec (RM m)	2018A	2019A	2020A	2021E	2022E
Operating CF	5,970	8,539	7,352	7,543	7,866
Investing CF	-7,973	-5,100	-3,830	-6,004	-6,185
Financing CF	-548	-4,166	205	-785	-907
Change In Cash	-2,551	-727	3,727	754	775
Free CF	-2,255	604	1,685	-178	-135

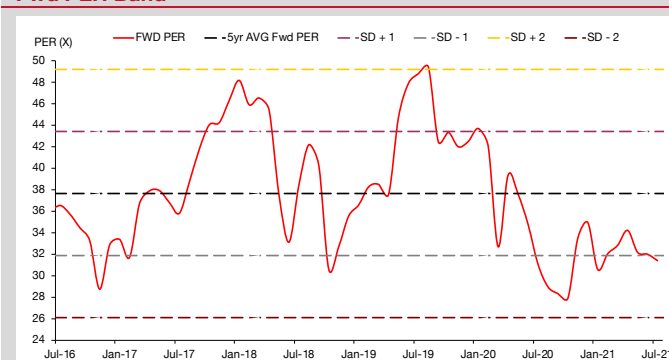
Source: Kenanga Research

Note: Estimates are based on pre-CDB Axiata.

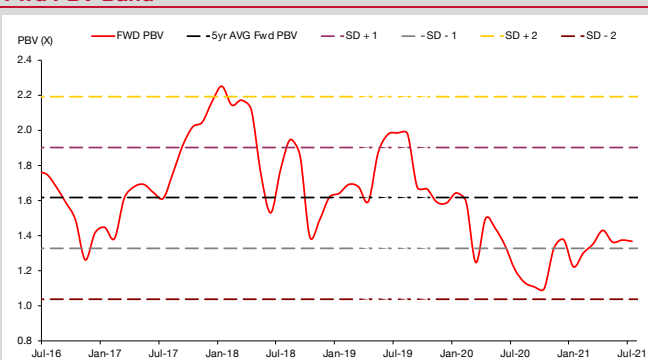
Financial Data & Ratios

FY Dec	2018A	2019A	2020A	2021E	2022E
Growth					
Turnover	-2.1%	2.9%	-1.5%	3.9%	4.3%
EBITDA	-9.7%	27.4%	0.4%	8.5%	4.3%
EBIT	-180%	-277%	-41%	31%	12%
PBT	-310%	-168%	-58%	60%	22%
Core PATAMI	-16%	-5%	-10%	12%	22%
Profitability					
EBITDA Margin	34.9%	43.2%	44.0%	46.0%	46.0%
EBIT Margin	-10.0%	17.2%	10.3%	13.0%	14.0%
PBT Margin	-17.1%	11.3%	4.8%	7.4%	8.7%
Core Net Margin	4.2%	3.9%	3.6%	3.8%	4.5%
Effective Tax Rate	22.1%	-34.7%	-46.7%	-26.0%	-26.0%
ROE	-21.4%	8.2%	2.6%	5.6%	6.6%
ROA	-7.1%	2.2%	0.5%	1.4%	1.7%
DuPont Analysis					
Net Margin	4.2%	3.9%	3.6%	3.8%	4.5%
Assets Turnover (x)	0.4	0.4	0.4	0.4	0.4
Leverage Factor (x)	2.8	3.0	2.8	2.8	2.8
ROE	-21.4%	8.2%	2.6%	5.6%	6.6%
Leverage					
Debt/Asset (x)	0.3	0.4	0.4	0.4	0.4
Debt/Equity (x)	0.8	1.2	1.1	1.1	1.1
Net Debt	14,058	21,435	20,180	19,863	19,099
Net Debt/Equity (x)	0.6	1.0	0.8	0.8	0.8
Valuations					
Core EPS (sen)	11.0	10.5	9.4	10.6	12.8
NDPS (sen)	9.5	9.5	7.0	8.0	10.0
BV/share (RM)	2.5	2.4	2.6	2.7	2.8
PER (x)	33.9	35.6	39.5	35.3	29.1
Div. Yield	2.5	2.5	1.9	2.1	2.7
PBV (x)	1.5	1.5	1.4	1.4	1.4
EV/EBITDA (x)	7.8	6.1	6.1	5.6	5.4

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, 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 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.			
Stocks Under Coverage																	
AXIATA GROUP BHD	3.73	34,214.2	Y	12/2021	3.9%	4.3%	11.9%	21.5%	39.5	35.3	29.1	1.4	1.4	5.7%	2.1%	4.45	OP
DIGI.COM BHD	4.15	32,266.3	Y	12/2021	-1.6%	1.6%	-5.5%	2.1%	26.2	27.7	27.2	53.3	52.3	190.2%	3.6%	4.25	MP
MAXIS BHD	4.26	33,339.9	Y	12/2021	2.7%	3.5%	0.6%	3.9%	23.5	23.4	22.5	4.7	4.6	20.0%	3.8%	4.55	MP
OCK GROUP BHD	0.460	479.8	Y	12/2021	11.4%	8.3%	24.9%	11.7%	18.6	14.9	13.3	0.8	0.7	6.0%	0.0%	0.590	OP
TELEKOM MALAYSIA BHD	5.94	22,415.8	Y	12/2021	4.4%	5.4%	15.2%	4.4%	22.6	19.6	18.8	3.2	3.1	16.1%	2.9%	7.00	OP
Simple Average					4.2%	4.7%	9.4%	8.7%	26.1	24.2	22.2	12.7	12.4	47.6%	2.5%		

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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