

29 November 2021

Axiata Group

9MFY21 Beat Expectations

By Lim Khai Xiang | limkx@kenanga.com.my

Axiata's 9MFY21 beat our expectation, as costs were lower than expected. Revenue across OpCos (except NCell) continued growing on subs growth. XL's due diligence on LinkNet is still on-going, with management hoping to sign a SPA before year-end. Without confirming rumours of edotco's potential acquisition of Touch Matrix, management points out that edotco is also looking to grow inorganically. On the strong performance, management raised its FY21 guidance. We raised FY21E/FY22E earnings by 21%/12%. Maintain MP on SoP-TP of RM4.20 on concerns of worsening mobile competition in Malaysia and reduced enterprise service differentiation on the 5G SWN.

9MFY21 above estimates. 3QFY21 core net profit (CNP) of RM394m brought 9MFY21 CNP to RM914m, above our/street's expectations at 92%/89%. The deviation was mainly due to lower-than-expected operating and D&A expenses. Revenue was in-line at 76% each. No dividends declared in 3QFY21, as expected.

YoY, 9MFY21 revenue rose 6% lifted by all OpCos except for NCell (-3%), which continued to suffer from delays in network rollout. Notably, Celcom's revenue grew 7%, as a 6% growth in postpaid subs and 17% growth in prepaid subs over the period outweighed the 2% decline in postpaid ARPU and 4% decline in prepaid ARPU. EBITDA rose in tandem by 5%. Higher D&A and non-operating expenses weighed, and PBT fell 5%. Lower tax expense and minority interest helped lift PATAMI by 13%. Removing the non-core forex gains/losses and XL's gains on tower disposals, CNP rose 67%.

QoQ, 3QFY21 revenue rose 2%, supported by strong revenue growth across all OpCos, save for Celcom, which saw a 31% dip in device sales. Celcom's ex-device revenue rose 1%. EBITDA rose in tandem by 2%. Lower impairment on receivables and higher other income brought PATAMI up by 26%. Accounting for a forex loss in 3QFY21, CNP rose 30%.

Outlook. As the regional economies continue to recover from the pandemic, the OpCos should continue their growth trajectory from subs growth. We think that **Axiata Digital Services (ADS)** will continue to post strong revenue growth driven by: (i) recovery in merchant transactions, (ii) higher digital marketing spend, and (iii) continued growth in users. At the current rate of margin improvement, ADS should be profitable by FY22. Recently, XL has also **dismissed the rumours of a merger with SmartFren**. Thus, we believe XL's focus is on its **acquisition of LinkNet**, which is still going through the due diligence process. Management is hoping to sign a sale & purchase agreement before year-end. On the rumoured **edotco acquisition of Touch Matrix**, while management did not confirm the rumour, they pointed out that edotco is looking for opportunities to acquire assets across its operating countries, including in Malaysia. We think a deal is likely on the table, but we think the rumoured RM1.8b price tag Touch Matrix is asking for is a hefty price, as that implies an EV/EBITDA of over 32x, which is unjustified for c.460 towers in Pahang.

Raised FY21 guidance. After a strong 9MFY21, management raised its revenue and EBITDA guidance from low-to-mid single-digit percentage growth.

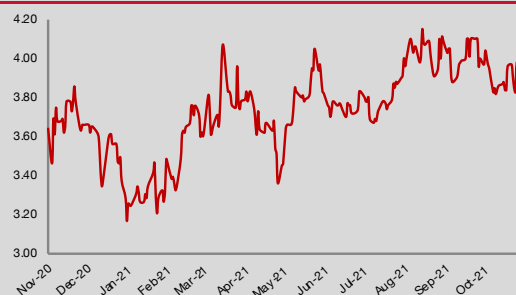
Post results, we raise FY21E/FY22E CNP by 21%/12% mainly on lower D&A expense across the group. Our FY22E CNP has already accounted for the Cukai Makmur tax.

Maintain MARKET PERFORM on unchanged SoP-driven TP of RM4.20. We continue to think that the SWN will potentially bring stiffer mobile competition and reduced differentiation in the enterprise offerings, and thus could act as a de-rating catalyst on Malaysian MNOs, weighing on Axiata's Celcom Digi stake.

MARKET PERFORM ↔

Price : RM3.90
Target Price: RM4.20 ↔

Share Price Performance



KLCI	1,512.22
YTD KLCI chg	-7.1%
YTD stock price chg	4.3%

Stock Information

Sariah Compliant	Yes
Bloomberg Ticker	AXIATA MK Equity
Market Cap (RM m)	35,782.4
Share Outstanding	9,175.0
52-week range (H)	4.23
52-week range (L)	3.25
3-mth avg daily vol:	2,828,738
Free Float	27%
Beta	1.0

Major Shareholders

Khazanah Nasional Bhd	36.8%
Employees Provident Fund	17.0%
Skim Amanah Saham	14.7%

Summary Earnings Table*

FYE Dec (RMm)	2020A	2021E	2022E
Revenue	24,203	25,303	26,291
EBITDA	10,657	11,386	12,094
EBIT	2,495	3,669	3,944
PBT	1,171	2,269	2,544
PATAMI	624	1,679	1,793
Core PATAMI	865	1,209	1,255
Consensus (NP)	N.M.	1,029	1,331
Earnings Revision	N.M.	21%	12%
Core EPS (sen)	9.4	13.2	13.7
Core EPS growth (%)	-10%	40%	4%
NDPS (sen)	7.0	8.0	10.0
BVPS (RM)	1.9	2.0	2.0
PER (x)	41.3	29.6	28.5
PBV (x)	2.0	2.0	1.9
Net Gearing (x)	0.8	0.8	0.7
Net Div. Yield (%)	1.8	2.1	2.6

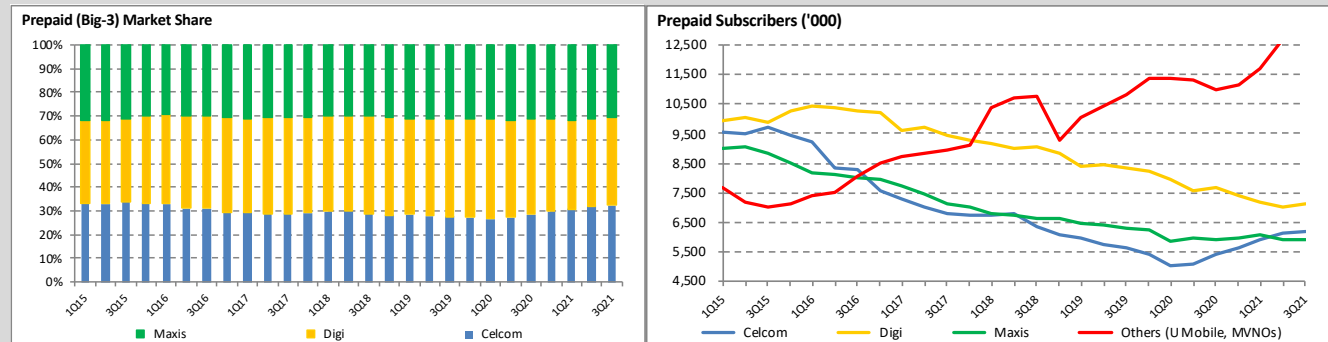
*Estimates are based on pre-Celcom Digi merger Axiata

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Celcom posted its 6th consecutive quarter of prepaid subs growth. As DIGI also posted strong prepaid subs growth and MAXIS' prepaid subs base remained relatively unchanged, we believe Celcom is gaining new prepaid subs at the expense of the other smaller MNOs/MVNOs. Celcom's MVNOs continue to gain traction among the younger subscribers through their innovative go-to-market strategies. With Celcom's convergence proposition (Celcom MAX) gaining traction, Celcom's postpaid also saw its 5th consecutive QoQ growth.

Risks to our call include: (i) weaker/stronger-than-expected performance at Celcom and regional OpCos, (ii) poorer/better-than-expected costs management, and (iii) Celcom and Digi merger discussions falling through.

Malaysia Big-3 Prepaid Market Share and Subscribers



* 3Q21 total market statistics are yet to be provided by MCMC to compute the performance of Other players
Source: Kenanga Research

Results Highlight								
FYE Dec (RMm)	3Q FY21	2Q FY21	QoQ Chg	3Q FY20	YoY Chg	9M FY21	9M FY20	YoY Chg
Revenue	6,543	6,390	2.4%	6,112	7.1%	18,997	17,941	5.9%
EBITDA	2,859	2,811	1.7%	2,840	0.7%	8,362	7,927	5.5%
PBT	658	605	8.9%	724	-9.1%	1,625	1,705	-4.7%
Taxation	-195	-190	2.9%	-257	-24.0%	-559	-683	-18.0%
Minority Interest	-114	-137	-17.2%	-115	-1.0%	-363	-401	-9.7%
PATAMI	350	278	25.9%	353	-1.0%	703	621	13.2%
Core PATAMI	394	302	30.4%	374	5.3%	914	546	67.4%
Core EPS (sen)	4.3	3.3	30.4%	4.1	5.3%	10.0	6.0	67.4%
DPS (sen)	0.0	4.0		0.0		4.0	2.0	
EBITDA Margin	43.7%	44.0%		46.5%		44.0%	44.2%	
PBT Margin	10.1%	9.5%		11.9%		8.6%	9.5%	
CNP Margin	6.0%	4.7%		6.1%		4.8%	3.0%	
Effective Tax Rate	29.6%	31.4%		35.4%		34.4%	40.0%	

Source: Company, Kenanga Research

Revenue Breakdown								
FYE Dec (RM m)	3Q FY21	2Q FY21	QoQ Chg	3Q FY20	YoY Chg	9M FY21	9M FY20	YoY Chg
Celcom	1,598	1,624	-1.6%	1,572	1.7%	4,859	4,547	6.9%
XL (Indonesia)	1,993	1,926	3.5%	1,913	4.2%	5,708	5,677	0.5%
Robi (Bangladesh)	995	951	4.6%	947	5.1%	2,889	2,795	3.3%
Dialog (Sri Lanka)	770	711	8.3%	688	11.9%	2,159	1,996	8.2%
Ncell (Nepal)	354	345	2.4%	349	1.4%	1,076	1,107	-2.8%
Smart (Cambodia)	364	338	7.6%	326	11.8%	1,040	953	9.1%
Edotco	196	187	5.0%	184	6.6%	570	547	4.2%
Others & eliminations	272	307	-11.4%	132	105.6%	695	317	119.2%
Total Revenue	6,543	6,390	2.4%	6,112	7.1%	18,997	17,941	5.9%
% Contribution								
Celcom	26.4%	25.9%		26.0%		80.1%	75.3%	
XL (Indonesia)	32.9%	30.7%		31.7%		94.1%	94.1%	
Robi (Bangladesh)	16.4%	15.2%		15.7%		47.6%	46.3%	
Dialog (Sri Lanka)	12.7%	11.4%		11.4%		35.6%	33.1%	
Ncell (Nepal)	5.8%	5.5%		5.8%		17.7%	18.3%	
Smart (Cambodia)	6.0%	5.4%		5.4%		17.1%	15.8%	
Edotco	3.2%	3.0%		3.1%		9.4%	9.1%	
Others & eliminations	4.5%	4.9%		2.2%		11.5%	5.3%	

Source: Company, Kenanga Research



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EBITDA Breakdown								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Celcom	702	678	3.5%	710	-1.1%	2,025	1,795	12.8%
XL (Indonesia)	1,013	972	4.2%	978	3.6%	2,886	2,878	0.3%
Robi (Bangladesh)	421	411	2.3%	386	9.0%	1,217	1,213	0.3%
Dialog (Sri Lanka)	327	295	10.7%	309	5.7%	907	833	8.9%
Ncell (Nepal)	208	204	1.9%	218	-4.5%	636	632	0.5%
Smart (Cambodia)	205	190	7.9%	193	6.2%	575	560	2.8%
Edotco	274	316	-13.4%	284	-3.5%	893	861	3.7%
Others & eliminations	-289	-255	13.2%	-237	21.7%	-777	-844	-8.0%
Total EBITDA	2,859	2,811	1.7%	2,840	0.7%	8,362	7,927	5.5%
EBITDA Margin								
Celcom	43.9%	41.7%		45.2%		41.7%	39.5%	
XL (Indonesia)	50.8%	50.5%		51.1%		50.6%	50.7%	
Robi (Bangladesh)	42.3%	43.2%		40.7%		42.1%	43.4%	
Dialog (Sri Lanka)	42.5%	41.5%		45.0%		42.0%	41.7%	
Ncell (Nepal)	58.7%	59.0%		62.4%		59.1%	57.1%	
Smart (Cambodia)	56.2%	56.0%		59.1%		55.3%	58.7%	
Edotco	139.3%	169.0%		154.0%		156.6%	157.3%	
Others & eliminations	-106.1%	-83.0%		-179.2%		-111.7%	-266.3%	
Total	43.7%	44.0%		46.5%		44.0%	44.2%	
% Contribution								
Celcom	26.1%	24.8%		28.3%		75.2%	71.7%	
XL (Indonesia)	37.6%	35.6%		39.0%		107.2%	114.9%	
Robi (Bangladesh)	15.6%	15.1%		15.4%		45.2%	48.4%	
Dialog (Sri Lanka)	12.1%	10.8%		12.4%		33.7%	33.3%	
Ncell (Nepal)	7.7%	7.5%		8.7%		23.6%	25.3%	
Smart (Cambodia)	7.6%	6.9%		7.7%		21.4%	22.4%	
Edotco	10.2%	11.6%		11.3%		33.2%	34.4%	

Source: Company, Kenanga Research

Celcom Key Operating Indicators								
	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21
Postpaid ARPU (RM/mth)	88	85	84	84	84	83	83	83
Prepaid ARPU (RM/mth)	36	32	30	32	30	30	30	30
Blended ARPU (RM/mth)	53	49	47	48	46	45	45	45
Postpaid Subs ('000)	2,964	2,942	2,928	2,960	3,035	3,062	3,106	3,160
Prepaid Subs ('000)	5,408	5,040	5,100	5,439	5,642	5,933	6,117	6,220
Total Subs ('000)	8,372	7,982	8,027	8,400	8,678	8,994	9,223	9,380

Source: Company, Kenanga Research

AXIATA Sum-of-Parts Valuation					
Companies	Valuation Method	Earnings Multiple	Enterprise Value (RM' m)	Axiata's Stake (%)	Value to Axiata (RM' m)
Celcom Digi (Malaysia)	EV / EBITDA	9.5x	56,894	33.1%	18,832
XL (Indonesia)	DCF	WACC: 9.5%, TG: 2.0%	20,564	61.5%	12,647
Robi (Bangladesh)	EV / EBITDA	7.7x	12,898	61.9%	7,984
Dialog (Sri Lanka)	EV / EBITDA	3.0x	3,682	83.3%	3,067
Ncell (Nepal)	EV / EBITDA	5.0x	4,606	80.0%	3,685
Smart (Cambodia)	EV / EBITDA	6.0x	5,355	72.5%	3,882
Axiata Digital Services	EV / Sales	3.5x	2,441	100.0%	2,441
edotco	EV / EBITDA	9.0x	12,583	63.0%	7,927
Total Enterprise Value					60,465
(-) FY22E Net Debt and Minority Interest					22,079
Total Equity Value					38,386
Fair Value/Share (RM)					4.20

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 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	3.90	35,782.4	Y	12/2021	4.5%	3.9%	39.7%	3.8%	41.3	29.6	28.5	1.5	1.4	6.9%	2.1%	4.20	MP
DIGI.COM BHD	4.15	32,266.3	Y	12/2021	2.5%	1.6%	-4.9%	-8.1%	26.2	27.6	30.0	53.3	52.2	191.4%	3.6%	3.80	UP
MAXIS BHD	4.52	35,374.7	Y	12/2021	2.7%	3.5%	0.6%	-6.6%	24.9	24.8	26.5	5.0	4.9	20.0%	3.5%	4.00	UP
OCC GROUP BHD	0.450	474.5	Y	12/2021	5.0%	4.1%	-12.6%	39.0%	18.2	20.8	15.0	0.8	0.7	4.4%	0.0%	0.500	MP
TELEKOM MALAYSIA BHD	5.42	20,453.5	Y	12/2021	4.4%	5.4%	10.0%	4.6%	20.6	18.8	17.9	2.9	2.8	15.4%	3.0%	7.00	OP
Simple Average					3.8%	3.7%	6.6%	6.6%	26.3	24.3	23.6	12.7	12.4	47.6%	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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Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

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