

## Axiata Group

### Proposed Acquisition of Touch Mindscape

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**Axiata's 63% subsidiary edotco proposed to acquire Touch Mindscape (TMs). edotco looks to grow its towerco market share through the deal, which involves c.1k towers. The deal implies an EV/EBITDA of 13x, at a premium due to scarcity of available towers and TMs' attractive tenancy ratios. Likely 85% debt-funded, the deal has an insignificant earnings impact on Axiata Group's FY22E earnings. Additional debt weighs on edotco's EBITDA accretion, insignificantly impacting TP. Thus, we maintain MP with SoP-TP of RM4.20.**

**Not surprised.** We were not surprised by this announcement as edotco is clear that they will grow organically or inorganically to be the Top 5 globally and Top 3 in Asia in terms of tower count by 2024. The RM1.7b purchase price is slightly lower than the rumored RM1.8b TMs had asked for. The 1,000 towers<sup>#</sup> in the deal is more than our initial assumption of c.460 towers.

**Rationale for acquisition.** We believe edotco's main rationale for this acquisition are: (i) for the aforesaid 2024 goals, (ii) to grow its towerco market share in Malaysia from 21% to 25%, and (iii) to ride on the continued growth in demand for telco infrastructure, namely tower and fiber, for 5G rollout. (refer overleaf for more)

**Higher Tenancy Ratio = Higher EBITDA margin.** We gathered that OCK earns a 70% EBITDA margin from tower leasing in Malaysia, with a tenancy ratio of 1.1x. Meanwhile, edotco, with a M'sian tenancy ratio of 1.99x, derives EBITDA margins from 55% to 65%, which accounts for regional towers too. TMs' towers in Pahang, Negeri Sembilan and Melaka fetch tenancy ratios of 2.4x, 3.6x and 3.3x, respectively. Thus, we believe TMs likely fetches an EBITDA margin >70%.

**Paying a premium.** Our bull/base/bear case estimate for TMs' EBITDA margin are 80%/75%/70%. These scenarios imply EV/EBITDA of 12x/13x/14x, respectively. These multiples are at a premium compared to the 7x we ascribed OCK and 9x we ascribed edotco. We suspect that edotco is paying said premium due to: (i) a scarcity in towerco acquisition targets, and (ii) TMs' attractive tenancy ratios. While it is not fair to compare the valuation multiples of regional towerco deals, we note that Indonesia's towerco deals have ranged from 10x~15x EV/EBITDA. We think that this premium is **justified** given the scarcity of for-sale towers in Malaysia and TMs' attractive tenancy ratios.

**85% debt, 15% cash.** We assume the RM1.7b deal will be funded with RM1.45b (85%) of debt (as assumed in the Bursa announcement), with the remainder RM250m (15%) in cash. edotco has cash & equivalents of RM1.4b as end-3QFY21, comfortably funding the cash portion of the deal. Assuming an interest rate of 1.96% (as per announcement), the debt brings incremental annual interest cost of RM27.4m.

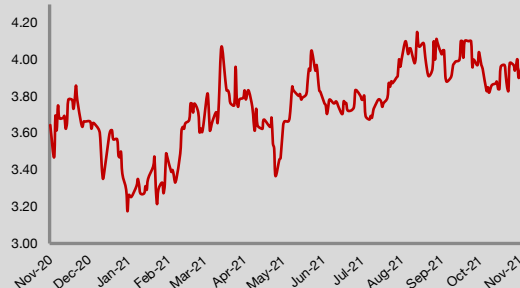
**Insignificant earnings impact.** We estimate TMs to achieve a net profit of RM23.3m in FY22. Accounting for the transaction costs of RM1.07m and additional interest cost, the deal will dilute Axiata Group's FY22E CNP by an insignificant 0.3% (-RM3.3m). Assuming TMs adds 100 towers annually, this deal would start to be value accretive in FY24 with incremental contribution of <RM1m in the initial years. We maintain FY21E CNP but reduced FY22E CNP by 0.3%.

**NEUTRAL on the deal.** While the acquisition helps edotco take another step towards its 2024 targets, it is earnings dilutive in the near-term. While edotco is paying a premium, we think it is justified given the scarcity of tower assets in Malaysia available for acquisitions. Looking ahead, this could set a precedence for future tower deals to also fetch higher multiples. The additional debt negates the 9% contribution to edotco's EBITDA, together reducing the TP by 2.0 sens, which we deem as insignificant. Thus, **we maintain our MARKET PERFORM call with SoP-TP of RM4.20.**

## MARKET PERFORM ↔

Price : **RM3.90**  
Target Price : **RM4.20** ↔

### Share Price Performance



KLCI 1,513.98  
YTD KLCI chg -7.0%  
YTD stock price chg 4.3%

### Stock Information

|                       |                  |
|-----------------------|------------------|
| Shariah Compliant     | Yes              |
| Bloomberg Ticker      | AXIATA MK Equity |
| Market Cap (RM m)     | 35,782.4         |
| Shares Outstanding    | 9,175.0          |
| 52-week range (H)     | 4.23             |
| 52-week range (L)     | 3.25             |
| 3-mth avg. daily vol. | 2,798,124        |
| Free Float            | 27%              |
| Beta                  | 1.0              |

### Major Shareholders

|                              |       |
|------------------------------|-------|
| Khazanah Nasional Bhd        | 36.7% |
| Employees Provident Fund     | 17.0% |
| Skim Amanah Saham Bumiputera | 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        | 2,536        |
| <b>PATAMI</b>       | 624        | 1,679        | 1,788        |
| <b>Core PATAMI</b>  | <b>865</b> | <b>1,209</b> | <b>1,251</b> |
| Consensus (NP)      | N.M.       | 1,217        | 1,401        |
| Earnings Revision   | N.M.       | N.A.         | -0.3%        |
| Core EPS (sen)      | 9.4        | 13.2         | 13.6         |
| 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         | 28.6         |
| PBV (x)             | 2.0        | 2.0          | 1.9          |
| Net Gearing (x)     | 0.8        | 0.8          | 0.8          |
| Net Div. Yield (%)  | 1.8        | 2.1          | 2.6          |

\*Estimates are based on pre-Celcom Digi merger Axiata

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**Salient points of the proposed acquisition.**

- Edotco entered into a Share Sale Agreement with Touch Group Holdings Sdn Bhd (TG) for the acquisition of the entire issued and paid-up share capital of Touch Mindscape Sdn Bhd (TMs), fully owned by TG.
- # 1,000 towers including 923 tower structures comprising ground-based structures, special structures, and roof tops, a further 19 work-in-progress sites, and estimated additional customer orders.
- The purchase price of RM1.7b is based on the enterprise value of TMs on a debt-free and cash-free basis
- The proposed acquisition of TMs is not subject to the approval of the shareholders of Axiata Group.
- The proposed acquisition of TMs is expected to be completed by 31 Dec 2021.

**Rationale for acquisition.** We believe edotco's main rationale for this acquisition are: (i) for the aforesaid 2024 goals, (ii) to grow its towerco market share in Malaysia from 21% to 25%, and (iii) to ride on the continued growth in demand for telco infrastructure, namely tower and fiber. edotco chose to acquire TMs because besides the c.53% of towers owned by MNOs, there are only a handful of sizeable tower portfolios that are still available for potential acquisitions, with even fewer potential targets with scale closer to that of TMs'. Moreover, TMs' towers are complementary to edotco Malaysia's existing footprint, with very limited overlap in their assets.

**About Touch Mindscape Sdn Bhd (TMs).** TMs is principally involved in the construction and leasing of telecommunication towers to MNOs. TMs also owns and operates fiber optic trunks for lease.

**Risks to our call include:** (i) weaker/stronger-than-expected performance at Celcom and regional OpCos, (ii) poorer/better-than-expected costs management, (iii) the proposed Celcom Digi merger failing to obtain the necessary approvals, and (iv) stronger/weaker-than-expected competition.

**Exhibit 1: Estimates of deal EV/EBITDA**

|                                     | Bull case | Base Case | Bear Case |
|-------------------------------------|-----------|-----------|-----------|
| edotco FY21E Msian revenue (000)    | 816,000   | 816,000   | 816,000   |
| edotco Msian towers @ 3Q21          | 4,727     | 4,727     | 4,727     |
| Revenue per Msian tower (000)       | 173       | 173       | 173       |
| Touch Mindscape Msian Towers        | 1,000     | 1,000     | 1,000     |
| Touch Mindscape FY22E Revenue (000) | 172,625   | 172,625   | 172,625   |
| Assumed EBITDA Margins              | 80%       | 75%       | 70%       |
| Touch Mindscape FY22E EBITDA (000)  | 138,100   | 129,469   | 120,838   |
| EV                                  | 1,700,000 | 1,700,000 | 1,700,000 |
| EV / EBITDA (x)                     | 12        | 13        | 14        |

Source: Kenanga Research

**Exhibit 2: Tenancy Ratios of TowerCos in Malaysia**

|                     | Tenancy Ratio |
|---------------------|---------------|
| edotco @ end-3Q21   | 1.99x         |
| OCK @ April 2021    | 1.10x         |
| TMs Pahang          | 2.40x         |
| TMs Negeri Sembilan | 3.60x         |
| TMs Melaka          | 3.30x         |

Note: TMs' tenancy ratios are from the Bursa announcement, which we assume has the latest tenancy ratios as of 30 Nov 2021.

Source: Kenanga Research

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## 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                 | 13,751                   | 63.0%              | 8,663                  |
| <b>Total Enterprise Value</b>            |                  |                      |                          |                    | <b>61,201</b>          |
| (-) FY22E Net Debt and Minority Interest |                  |                      |                          |                    | 22,992                 |
| <b>Total Equity Value</b>                |                  |                      |                          |                    | <b>38,209</b>          |
| <b>Fair Value/Share (RM)</b>             |                  |                      |                          |                    | <b>4.20</b>            |

Source: Kenanga Research

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## Income Statement

| FY Dec (RM m)       | 2018A         | 2019A        | 2020A        | 2021E        | 2022E        |
|---------------------|---------------|--------------|--------------|--------------|--------------|
| Revenue             | 23,886        | 24,583       | 24,203       | 25,303       | 26,291       |
| EBITDA              | 8,334         | 10,619       | 10,657       | 11,386       | 12,094       |
| Depreciation        | -7,645        | -7,084       | -8,485       | -7,717       | -8,150       |
| <b>EBIT</b>         | <b>-2,385</b> | <b>4,232</b> | <b>2,495</b> | <b>3,669</b> | <b>3,944</b> |
| Net int Inc / (Exp) | -1,051        | -1,508       | -1,516       | -1,400       | -1,408       |
| Other Inc / (Exp)   | -637          | 56           | 192          | 0            | 0            |
| <b>PBT</b>          | <b>-4,073</b> | <b>2,780</b> | <b>1,171</b> | <b>2,269</b> | <b>2,536</b> |
| Taxation            | -902          | -965         | -547         | -590         | -748         |
| PAT                 | -4,975        | 1,815        | 624          | 1,679        | 1,788        |
| <b>Core PATAMI</b>  | <b>1,010</b>  | <b>960</b>   | <b>865</b>   | <b>1,209</b> | <b>1,251</b> |

## 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           | 1,929         | 3,937         |
| Cash                 | 5,071         | 4,231         | 7,194         | 7,466         | 6,818         |
| <b>Total Assets</b>  | <b>63,855</b> | <b>66,534</b> | <b>67,962</b> | <b>69,158</b> | <b>69,794</b> |
| 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        | 22,021        |
| Other LT Liability   | 7,592         | 3,384         | 4,020         | 4,289         | 4,519         |
| <b>Net Assets</b>    | <b>23,215</b> | <b>22,220</b> | <b>23,879</b> | <b>24,825</b> | <b>25,696</b> |
| Shareholders' Equity | 17,477        | 16,181        | 17,641        | 18,116        | 18,451        |
| Minority Interests   | 5,738         | 6,039         | 6,238         | 6,708         | 7,245         |
| <b>Total Equity</b>  | <b>23,215</b> | <b>22,220</b> | <b>23,879</b> | <b>24,825</b> | <b>25,696</b> |

## Cashflow Statement

| FY Dec (RM m)  | 2018A  | 2019A  | 2020A  | 2021E  | 2022E  |
|----------------|--------|--------|--------|--------|--------|
| Operating CF   | 5,970  | 8,539  | 7,352  | 7,591  | 7,887  |
| Investing CF   | -7,973 | -5,100 | -3,830 | -6,046 | -6,203 |
| Financing CF   | -548   | -4,166 | 205    | -785   | -2,332 |
| Change In Cash | -2,551 | -727   | 3,727  | 760    | -648   |
| Free CF        | -2,255 | 604    | 1,685  | -172   | -132   |

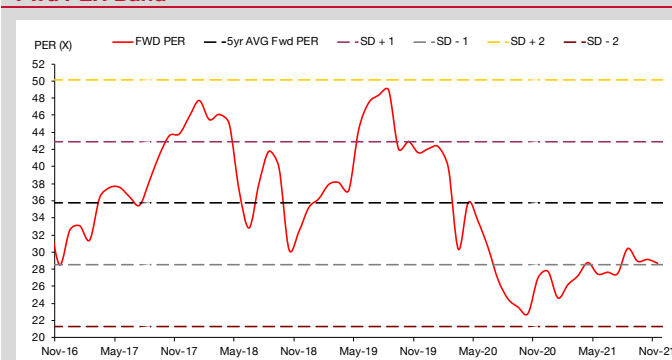
Source: Kenanga Research

Note: Estimates are based on pre-CDB Axiata.

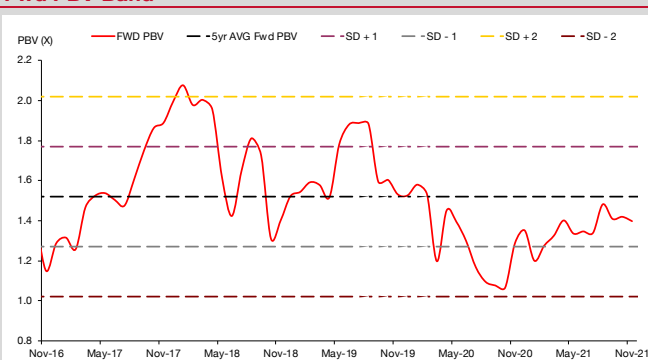
## Financial Data & Ratios

| FY Dec                 | 2018A  | 2019A  | 2020A  | 2021E  | 2022E  |
|------------------------|--------|--------|--------|--------|--------|
| <b>Growth</b>          |        |        |        |        |        |
| Turnover               | -2.1%  | 2.9%   | -1.5%  | 4.5%   | 3.9%   |
| EBITDA                 | -9.7%  | 27.4%  | 0.4%   | 6.8%   | 6.2%   |
| EBIT                   | -180%  | -277%  | -41%   | 47%    | 7%     |
| PBT                    | -310%  | -168%  | -58%   | 94%    | 12%    |
| Core PATAMI            | -16%   | -5%    | -10%   | 40%    | 4%     |
| <b>Profitability</b>   |        |        |        |        |        |
| EBITDA Margin          | 34.9%  | 43.2%  | 44.0%  | 45.0%  | 46.0%  |
| EBIT Margin            | -10.0% | 17.2%  | 10.3%  | 14.5%  | 15.0%  |
| PBT Margin             | -17.1% | 11.3%  | 4.8%   | 9.0%   | 9.6%   |
| Core Net Margin        | 4.2%   | 3.9%   | 3.6%   | 4.8%   | 4.8%   |
| Effective Tax Rate     | 22.1%  | -34.7% | -46.7% | -26.0% | -26.0% |
| ROE                    | -21.4% | 8.2%   | 2.6%   | 6.8%   | 7.0%   |
| ROA                    | -7.1%  | 2.2%   | 0.5%   | 1.8%   | 1.8%   |
| <b>DuPont Analysis</b> |        |        |        |        |        |
| Net Margin             | 4.2%   | 3.9%   | 3.6%   | 4.8%   | 4.8%   |
| Assets Turnover (x)    | 0.4    | 0.4    | 0.4    | 0.4    | 0.4    |
| Leverage Factor (x)    | 2.8    | 3.0    | 2.8    | 2.8    | 2.7    |
| ROE                    | -21.4% | 8.2%   | 2.6%   | 6.8%   | 7.0%   |
| <b>Leverage</b>        |        |        |        |        |        |
| Debt/Asset (x)         | 0.3    | 0.4    | 0.4    | 0.4    | 0.4    |
| Debt/Equity (x)        | 0.8    | 1.2    | 1.1    | 1.1    | 1.0    |
| Net Debt               | 14,058 | 21,435 | 20,180 | 19,857 | 20,003 |
| Net Debt/Equity (x)    | 0.6    | 1.0    | 0.8    | 0.8    | 0.8    |
| <b>Valuations</b>      |        |        |        |        |        |
| Core EPS (sen)         | 11.0   | 10.5   | 9.4    | 13.2   | 13.6   |
| 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)                | 35.4   | 37.3   | 41.3   | 29.6   | 28.6   |
| Div. Yield             | 2.4    | 2.4    | 1.8    | 2.1    | 2.6    |
| PBV (x)                | 1.5    | 1.6    | 1.5    | 1.4    | 1.4    |
| EV/EBITDA (x)          | 7.5    | 5.9    | 5.9    | 5.5    | 5.2    |

## 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.   |                |                   |        |
| <b>Stocks Under Coverage</b> |                 |                   |                   |             |                |             |                      |             |                         |             |             |             |             |              |                |                   |        |
| AXIATA GROUP BHD             | 3.90            | 35,782.4          | Y                 | 12/2021     | 4.5%           | 3.9%        | 39.7%                | 3.5%        | 41.3                    | 29.6        | 28.6        | 1.5         | 1.4         | 6.9%         | 2.1%           | 4.20              | MP     |
| DIGI.COM BHD                 | 4.17            | 32,421.8          | Y                 | 12/2021     | 2.5%           | 1.6%        | -4.9%                | -8.1%       | 26.3                    | 27.7        | 30.1        | 53.5        | 52.5        | 191.4%       | 3.6%           | 3.80              | UP     |
| MAXIS BHD                    | 4.68            | 36,626.9          | Y                 | 12/2021     | 2.7%           | 3.5%        | 0.6%                 | -6.6%       | 25.8                    | 25.7        | 27.5        | 5.2         | 5.1         | 20.0%        | 3.4%           | 4.00              | UP     |
| OCK GROUP BHD                | 0.445           | 469.2             | Y                 | 12/2021     | 5.0%           | 4.1%        | -12.6%               | 39.0%       | 18.0                    | 20.6        | 14.8        | 0.8         | 0.7         | 4.4%         | 0.0%           | 0.500             | MP     |
| TELEKOM MALAYSIA BHD         | 5.56            | 20,981.8          | Y                 | 12/2021     | 4.4%           | 5.4%        | 10.0%                | 4.6%        | 21.2                    | 19.2        | 18.4        | 3.0         | 2.9         | 15.4%        | 2.9%           | 7.00              | OP     |
| <b>Simple Average</b>        |                 |                   |                   |             | <b>3.8%</b>    | <b>3.7%</b> | <b>6.6%</b>          | <b>6.5%</b> | <b>26.5</b>             | <b>24.6</b> | <b>23.9</b> | <b>12.8</b> | <b>12.5</b> | <b>47.6%</b> | <b>2.4%</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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