

## Axiata Group

### Ended FY21 With a Bang

By Lim Khai Xiang | [limkx@kenanga.com.my](mailto:limkx@kenanga.com.my)

**Axiata's FY21 CNP beat expectations and regional OpCos should see continued subs growth to drive earnings growth. Management will also resort to more M&A to drive growth in its enterprise segment. Its digital businesses continue to show improving profitability, which we think will continue to improve with greater scale. Post results, we maintain our FY22 earnings estimates, which sits closely with management's guidance. We maintain our OP call with unchanged TP of RM4.30, and remains our sector Top Pick for its regional and digital OpCos.**

**Earnings beat.** 4QFY21 CNP of RM411m brought FY21 CNP to RM1.33b, beating our and street's expectations at 110% and 109% of estimates. The outperformance was mainly due to lower-than-expected costs as its revenue projections were in line. 4QFY21 DPS of 5.5 brings FY21 to 9.5 sen, beating our 9.0 sen estimate.

**YoY**, CNP jumped 53% mainly lifted by XL, Dialog and edotco. Revenue rose 7% as all OpCos registered revenue growth, save for NCell, which is still suffering from Nepal's prolonged lockdown. Celcom posted an impressive turnaround in FY21 while XL fared well with 3% revenue growth despite the stiff competition in 2021. Robi and Dialog both posted postpaid and prepaid subs growth. **QoQ**, earnings rose 4% on 6% revenue growth, lifted by all OpCos, save for Robi and Dialog.

**Regional OpCos** (save for Nepal) have been registering continuous subs growth, which we think will continue to outweigh any softening ARPUs, to continue driving earnings growth. Celcom's turnaround should continue to prove fruitful in 2022, and XL will take advantage of (i) LinkNet convergence proposition, (ii) easing competition in Indonesia, and (iii) Hutch/Indosat merger-period to acquire more subs. NCell should see a gradual recovery in subs after lockdowns are eased.

**M&A to grow enterprise.** Beyond just executing existing Celcom Digi merger, XL's integration with LinkNet, and edotco's acquisition of Touch Mindscape, Axiata is still looking to merge or acquire more assets across its region, mainly to strengthen its enterprise segment. Management thinks it's impossible to organically grow the segment from its current 7-8% of revenue to its 2024-target of 20% of revenue, and is thus active at the deal table. The M&As will be focused on growing its enterprise customer base, talent and capabilities.

**Digital Businesses.** FY21 saw a 94% jump in revenue to RM980m while profitability improved, recording a net loss of RM112m (vs FY20: RM295m). We expect Boost's gross transaction value and number of users and merchants to continue growing as enterprises continue to go digital. Boost's potential Digital Banking License win would allow it to lower its cost of funding and introduce new banking and financial products. ADA's revenue jumped 89% YoY on clients' digital transformation initiatives, which we expect to continue in coming years.

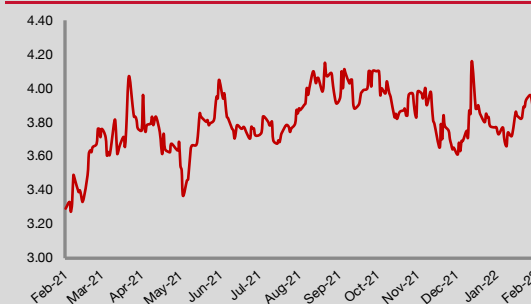
**Guidance.** After beating its FY21 revenue and EBITDA growth guidance of low-single-digit growth by 7% apiece, management is guiding FY22 to see revenue growth of mid-single-digit and EBIT growth of high-single-digit. **Post results**, despite the earnings beat, we maintain our FY22E CNP, as it closely aligns with FY22 guidance, and introduce FY23E CNP of RM1.38b, implying a 7% growth.

**Maintain OUTPERFORM with unchanged TP of RM4.30.** This set of results strengthens our thesis that Axiata has a lot going for it in its regional and digital businesses, making the stock a good hedge against the uncertain operating environment for local MNOs. Besides, it is still our **Top Pick for the Telco sector**, as it has the best long-term value proposition against its industry peers.

## OUTPERFORM ↔

Price: **RM3.92**  
Target Price: **RM4.30** ↔

### Share Price Performance



KLCI	1,576.96
YTD KLCI chg	0.6%
YTD stock price chg	-5.8%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AXIATA MK Equity
Market Cap (RM m)	35,965.9
Share Outstanding	9,175.0
52-week range (H)	4.23
52-week range (L)	3.33
3-mth avg daily vol:	3,575,855
Free Float	26%
Beta	1.1

### Major Shareholders

Khazanah Nasional Bhd	36.7%
Employees Provident Fund	17.1%
Skim Amanah Saham	14.7%

### Summary Earnings Table\*

FYE Dec (RMm)	2021A	2022E	2023E
<b>Revenue</b>	<b>25,901</b>	<b>27,224</b>	<b>27,895</b>
EBITDA	11,404	12,523	12,832
EBIT	3,818	4,084	4,184
PBT	2,174	2,626	2,734
PATAMI	1,277	1,839	1,969
<b>Core PATAMI</b>	<b>1,326</b>	<b>1,288</b>	<b>1,378</b>
Consensus (NP)	N.M.	1,323	1,585
Earnings Revision	N.M.	N.A.	NEW
Core EPS (sen)	14.4	14.0	15.0
Core EPS growth (%)	53%	-3%	7%
NDPS (sen)	9.5	12.0	15.0
BVPS (RM)	2.0	2.0	2.0
PER (x)	27.1	27.9	26.1
PBV (x)	2.0	2.0	2.0
Net Gearing (x)	0.9	0.8	0.7
Net Div. Yield (%)	2.4	3.1	3.8

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



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**Celcom** posted its 7th consecutive quarter of prepaid subs growth and 6th consecutive quarter of postpaid subs growth. We attribute this successful turnaround to: (i) its MVNO strategy where it is using mobile apps to target the youth segment, allowing them to tailor mobile plans to their needs, (ii) its convergence proposition (Celcom MAX), which is boosting its postpaid segment. Celcom's cost containment efforts are also bearing fruit as it achieved an EBITDA margin of 46% this quarter, the highest ever in at least 8 years.

**Risks to our call include:** (i) weaker-than-expected performance at Celcom and regional OpCos, (ii) poorer-than-expected costs management, and (iii) M&A deals falling through.

Results Highlight								
FYE Dec (RM m)	4Q FY21	3Q FY21	QoQ Chg	4Q FY20	YoY Chg	12M FY21	12M FY20	YoY Chg
<b>Revenue</b>	<b>6,904</b>	<b>6,543</b>	<b>5.5%</b>	<b>6,263</b>	<b>10.2%</b>	<b>25,901</b>	<b>24,203</b>	<b>7.0%</b>
EBITDA	3,042	2,859	6.4%	2,730	11.4%	11,404	10,657	7.0%
PBT	549	658	-16.6%	-534	-202.8%	2,174	1,171	85.6%
Taxation	-337	-195	72.8%	135	-349.0%	-897	-547	63.9%
Minority Interest	-95	-114	-15.9%	142	-167.0%	-458	-259	76.9%
PATAMI	116	350	-66.8%	-256	-145.3%	819	365	124.3%
<b>Core PATAMI</b>	<b>411</b>	<b>394</b>	<b>4.4%</b>	<b>319</b>	<b>28.8%</b>	<b>1,326</b>	<b>865</b>	<b>53.2%</b>
Core EPS (sen)	4.5	4.3	4.4%	3.5	28.8%	14.4	9.4	53.2%
DPS (sen)	5.5	0.0		5.0		9.5	7.0	
EBITDA Margin	44.1%	43.7%		43.6%		44.0%	44.0%	
PBT Margin	7.9%	10.1%		-8.5%		8.4%	4.8%	
CNP Margin	6.0%	6.0%		5.1%		5.1%	3.6%	
Effective Tax Rate	61.5%	29.6%		25.4%		41.3%	46.7%	

Source: Company, Kenanga Research

Revenue Breakdown								
FYE Dec (RM m)	4Q FY21	3Q FY21	QoQ Chg	4Q FY20	YoY Chg	12M FY21	12M FY20	YoY Chg
Celcom	1,745	1,598	9.1%	1,628	7.2%	6,604	6,174	7.0%
XL (Indonesia)	2,036	1,993	2.2%	1,813	12.3%	7,745	7,490	3.4%
Robi (Bangladesh)	970	995	-2.6%	916	5.8%	3,858	3,712	3.9%
Dialog (Sri Lanka)	764	770	-0.8%	703	8.6%	2,923	2,700	8.3%
Ncell (Nepal)	361	354	2.2%	370	-2.2%	1,438	1,477	-2.6%
Smart (Cambodia)	380	364	4.5%	409	-6.9%	1,420	1,362	4.3%
Edotco	223	196	13.5%	214	4.2%	793	761	4.2%
Others & eliminations	424	272	56.0%	211	101.4%	1,119	528	112.1%
<b>Total Revenue</b>	<b>6,904</b>	<b>6,543</b>	<b>5.5%</b>	<b>6,263</b>	<b>10.2%</b>	<b>25,901</b>	<b>24,203</b>	<b>7.0%</b>
<b>% Contribution</b>								
Celcom	28.8%	25.5%		27.0%		108.9%	102.3%	
XL (Indonesia)	33.6%	31.8%		30.0%		127.7%	124.1%	
Robi (Bangladesh)	16.0%	15.9%		15.2%		63.6%	61.5%	
Dialog (Sri Lanka)	12.6%	12.3%		11.7%		48.2%	44.7%	
Ncell (Nepal)	6.0%	5.6%		6.1%		23.7%	24.5%	
Smart (Cambodia)	6.3%	5.8%		6.8%		23.4%	22.6%	
Edotco	3.7%	3.1%		3.5%		13.1%	12.6%	
Others & eliminations	7.0%	4.3%		3.5%		18.5%	8.7%	

Source: Company, Kenanga Research

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EBITDA Breakdown								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Celcom	801	702	14.1%	795	0.7%	2,826	2,590	9.1%
XL (Indonesia)	1,004	1,013	-0.9%	899	11.7%	3,890	3,777	3.0%
Robi (Bangladesh)	376	421	-10.5%	368	2.3%	1,593	1,581	0.8%
Dialog (Sri Lanka)	316	327	-3.4%	321	-1.5%	1,223	1,154	6.0%
Ncell (Nepal)	206	208	-0.9%	218	-5.5%	842	850	-1.0%
Smart (Cambodia)	199	205	-2.5%	192	3.7%	775	752	3.0%
Edotco	345	274	26.1%	226	52.5%	1,238	1,087	13.9%
Others & eliminations	-205	-289	-28.8%	-289	-29.0%	-982	-1,133	-13.3%
<b>Total EBITDA</b>	<b>3,042</b>	<b>2,859</b>	<b>6.4%</b>	<b>2,730</b>	<b>11.4%</b>	<b>11,404</b>	<b>10,657</b>	<b>7.0%</b>
<b>EBITDA Margin</b>								
Celcom	45.9%	43.9%		48.8%		42.8%	41.9%	
XL (Indonesia)	49.3%	50.8%		49.6%		50.2%	50.4%	
Robi (Bangladesh)	38.8%	42.3%		40.2%		41.3%	42.6%	
Dialog (Sri Lanka)	41.4%	42.5%		45.6%		41.8%	42.7%	
Ncell (Nepal)	57.0%	58.7%		58.9%		58.5%	57.6%	
Smart (Cambodia)	52.4%	56.2%		47.1%		54.5%	55.2%	
Edotco	154.8%	139.3%		105.7%		156.1%	142.8%	
Others & eliminations	-48.4%	-106.1%		-137.2%		-87.7%	-214.8%	
<b>Total</b>	<b>44.1%</b>	<b>43.7%</b>		<b>43.6%</b>		<b>44.0%</b>	<b>44.0%</b>	
<b>% Contribution</b>								
Celcom	29.7%	25.7%		31.7%		105.0%	103.4%	
XL (Indonesia)	37.3%	37.1%		35.9%		144.5%	150.8%	
Robi (Bangladesh)	14.0%	15.4%		14.7%		59.2%	63.1%	
Dialog (Sri Lanka)	11.7%	12.0%		12.8%		45.4%	46.1%	
Ncell (Nepal)	7.6%	7.6%		8.7%		31.3%	34.0%	
Smart (Cambodia)	7.4%	7.5%		7.7%		28.8%	30.0%	
Edotco	12.8%	10.0%		9.0%		46.0%	43.4%	

Source: Company, Kenanga Research

Celcom Key Operating Indicators								
	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21
Postpaid ARPU (RM/mth)	85	84	84	84	83	83	83	81
Prepaid ARPU (RM/mth)	32	30	32	30	30	30	30	30
Blended ARPU (RM/mth)	49	47	48	46	45	45	45	45
Postpaid Subs ('000)	2,942	2,928	2,960	3,035	3,062	3,106	3,160	3,239
Prepaid Subs ('000)	5,040	5,100	5,439	5,642	5,933	6,117	6,220	6,356
<b>Total Subs ('000)</b>	<b>7,982</b>	<b>8,027</b>	<b>8,400</b>	<b>8,678</b>	<b>8,994</b>	<b>9,223</b>	<b>9,380</b>	<b>9,595</b>

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	57,247	33.1%	18,949
XL (Indonesia)	DCF	WACC: 9.5%, TG: 2.0%	19,776	61.5%	12,162
Robi (Bangladesh)	EV / EBITDA	7.7x	12,924	61.9%	8,000
Dialog (Sri Lanka)	EV / EBITDA	3.0x	3,798	83.3%	3,164
Ncell (Nepal)	EV / EBITDA	5.0x	4,825	80.0%	3,860
Smart (Cambodia)	EV / EBITDA	6.0x	5,355	72.5%	3,882
Axiata Digital Services	EV / Sales	20.0x	3,960	100.0%	3,960
edotco	EV / EBITDA	9.0x	14,058	63.0%	8,856
			<b>Total Enterprise Value</b>		<b>62,834</b>
			(-) FY22E Net Debt and Minority Interest		23,499
			<b>Total Equity Value</b>		<b>39,335</b>
			<b>Fair Value/Share (RM)</b>		<b>4.30</b>

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.			
<b>Stocks Under Coverage</b>																	
AXIATA GROUP BHD	3.92	35,965.9	Y	12/2022	4.5%	5.9%	39.7%	6.6%	41.6	29.8	27.9	1.5	1.5	6.9%	2.3%	4.30	OP
DIGI.COM BHD	4.00	31,100.0	Y	12/2022	1.1%	4.5%	-8.9%	26.3%	27.4	30.1	23.8	51.0	50.2	168.1%	3.3%	3.80	MP
MAXIS BHD	4.12	32,244.2	Y	12/2021	2.7%	3.5%	0.6%	-6.6%	22.7	22.6	24.2	4.6	4.5	20.0%	3.9%	4.00	MP
OCK GROUP BHD	0.405	427.1	Y	12/2021	5.0%	4.1%	-12.6%	39.0%	16.4	18.7	13.5	0.7	0.6	4.4%	0.0%	0.500	MP
TELEKOM MALAYSIA BHD	5.41	20,415.7	Y	12/2021	4.4%	5.4%	10.0%	4.6%	20.6	18.7	17.9	2.9	2.8	15.4%	3.0%	7.00	OP
<b>Simple Average</b>					<b>3.6%</b>	<b>4.7%</b>	<b>5.8%</b>	<b>14.0%</b>	<b>25.7</b>	<b>24.0</b>	<b>21.5</b>	<b>12.1</b>	<b>11.9</b>	<b>43.0%</b>	<b>2.5%</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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Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

The Kenanga logo consists of the word "kenanga" in a lowercase, sans-serif font, followed by a stylized graphic element resembling a lowercase "8" or two overlapping circles.