

11 May 2022

## Axiata Group

### XL: Hit by Higher Expenses

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XL AXIATA (XL)'s 1QFY22 CNP of ID171b came in below expectations. Top-line saw an 8% improvement driven by improvement in both Prepaid Subs and ARPU but Earnings were dragged by higher expenses. Looking ahead, we expect XL's continued push of its convergence proposition to drive subs growth and stickiness in supporting top-line. The competitive landscape in Indonesia looks gradually easing, reducing the risk of further price wars. TP reduced to RM4.25 as we ascribed a lower Enterprise Value for XL. We maintain AXIATA at OUTPERFORM for its digital and regional exposure, which will partially benefit from the easing competitive landscape in Indonesia.

**Below expectation.** 1QFY22 CNP of IDR171b (-26% YoY, -36% QoQ) came in below expectations accounting for 14%/12% of our/market full-year estimates. The sharp negative deviation stemmed from elevated COGS & OPEX which dragged EBIT margin to 11% vs. our assumptions of 13%.

**YoY,** 1QFY22 revenue improved +8% to IDR6,742b underpinned by strong growth from Service Revenue (+11%) to IDR6.3b. Prepaid ARPU users saw a moderate uptick (+1%) to 55.6m vs. Postpaid ARPU growing 15% to 1.4m. Prepaid ARPU saw a 9% jump to IDR36k/month vs. Postpaid ARPU falling 9% to IDR98k/month. Capex jumped 30% to IDR2.5b which saw higher D&A expenses (+6%) to IDR2.6b. Compounded by a higher ETR of 19%, CNP fell 26%.

**QoQ,** 1QFY21 CNP was weighed down by weak top-line (-3%) which dragged EBIT margin by 4ppts to 12%. Subscribers saw 2% decline underpinned by falling Prepaid Subs (-2%). Blended ARPU fell 3% dragged by falling Postpaid ARPU (-8%) vs. Prepaid ARPU which remained flat.

**Easing of the pandemic is likely to support growth.** Management guides for capex at IDR9,000b (from our earlier assumption of IDR7,500b with EBITDA margin expected to remain the below the 50% for FY22E. XL's proposed purchase of 66% stake in Linknet is expected to be completed by 3QCY22 with regulatory approval positively progressing. Meanwhile pandemic cases continue to be on a downward trajectory allowing further movement relaxation. The digital lifestyle formed during the recent pandemic is expected to create structural demand for data with increased demand for FTTH services due to higher consumption patterns and the market is relatively still underpenetrated. Do note that 1Q is historically a soft quarter for XL Axiata. However inflationary pressures might erode consumer purchasing power.

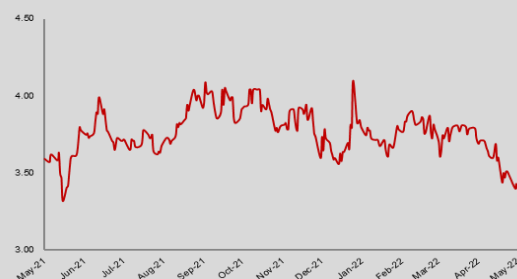
**Post results,** we slashed AXIATA's Group FY22E earnings by 8% to RM1.2b on account on lower contribution from XL AXIATA.

**SoP-driven TP of RM4.25.** We reduced AXIATA's TP to RM4.25 (RM4.30 previously) as we reduced our FY22E Enterprise Value to RM62.5b (<1%) as we ascribed a lower Enterprise Value for XL AXIATA. We maintain Axiata as our telco sector's top pick for its digital and regional exposure, which will partially benefit from the easing competitive landscape in Indonesia and a clear path for continued growth through theLinkNet deal. Giving a better dividend yield at this juncture, we maintain our **OUTPERFORM** rating.

## OUTPERFORM ↔

Price : RM3.45  
Target Price: RM4.25 ↔

### Share Price Performance



KLCI	1,554.58
YTD KLCI chg	-0.8%
YTD stock price chg	-17.1%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AXIATA MK Equity
Market Cap (RM m)	31,660.0
Share Outstanding	9,176.8
52-week range (H)	4.19
52-week range (L)	3.32
3-mth avg daily vol:	3,681,712
Free Float	27%
Beta	1.0

### Major Shareholders

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

### Summary Earnings Table

FYE Dec (RMm)	2021A	2022E	2023E
Revenue	25,901	27,183	27,850
EBITDA	11,404	12,304	12,811
EBIT	3,818	3,877	4,178
PBT	2,174	2,419	2,728
Net PATAMI	1,277	1,695	1,964
<b>Core PATAMI (CNP)</b>	<b>1,326</b>	<b>1,187</b>	<b>1,375</b>
Consensus (NP)	N.M.	1216.6	1255.9
Earnings Revision	N.M.	-7.6%	N.A.
Core EPS (sen)	14.4	12.9	15.0
Core EPS growth (%)	53	-10%	16%
NDPS (sen)	9.5	12.0	15.0
BVPS (RM)	2.0	2.0	2.0
PER (x)	23.9	26.7	23.0
PBV (x)	1.8	1.8	1.8
Net Gearing (x)	0.9	0.8	0.7
Net Div. Yield (%)	2.8	3.5	4.3

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**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.

XL's Results Highlight								
FYE Dec (IDR b)	1Q FY22	4Q FY21	QoQ Chg	1Q FY21	YoY Chg	3M FY22	3M FY21	YoY Chg
<b>Revenue</b>	<b>6,742</b>	<b>6,962</b>	<b>-3.2%</b>	<b>6,250</b>	<b>7.9%</b>	<b>6,742</b>	<b>6,250</b>	<b>7.9%</b>
Service Revenue	6,262	6,471	-3.2%	5,848	7.1%	6,262	5,848	7.1%
EBITDA	3,174	3,381	-6.1%	3,119	1.8%	3,174	3,119	1.8%
PBT	743	1,030	-27.8%	931	-20.1%	743	1,030	-27.8%
Taxation	172	451	-61.9%	389	-55.8%	172	389	-55.8%
Net Profit	(33)	(180)	-81.6%	(69)	-51.9%	(33)	(69)	-51.9%
<b>Core Net Profit</b>	<b>139</b>	<b>271</b>	<b>-48.8%</b>	<b>321</b>	<b>-56.6%</b>	<b>139</b>	<b>321</b>	<b>-56.6%</b>
Core EPS (IDR)	171	269	-36.4%	230	-25.7%	171	230	-25.7%
EBITDA Margin	47.1%	48.6%		49.9%		47.1%	49.9%	47.1%
EBIT Margin	11.9%	15.9%				11.9%	17.6%	11.9%
PBT Margin	2.6%	6.5%		6.2%		2.6%	6.2%	2.6%
CNP Margin	2.5%	3.9%		3.7%		2.5%	3.7%	2.5%
Effective Tax Rate	19.2%	39.9%		17.7%		19.2%	17.7%	19.2%

Source: Company, Kenanga Research

XL's Key Operating Indicators								
	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22
<b>Subscribers ('000)</b>								
Postpaid	1,135	1,144	1,154	1,184	1,230	1,270	1,320	1,360
Prepaid	54,539	55,739	56,735	54,834	55,535	56,705	56,590	55,640
<b>Total</b>	<b>55,674</b>	<b>56,884</b>	<b>57,889</b>	<b>56,018</b>	<b>56,765</b>	<b>57,975</b>	<b>57,900</b>	<b>57,000</b>
QoQNet Adds / (Churn)	185	1,210	1,005	-1,871	747	1,210	-75	-900
<b>ARPU (IDR 000 / month)</b>								
Postpaid	111	110	110	108	108	105	106	98
Prepaid	36	35	33	33	36	36	36	36
Blended	37	36	34	35	37	37	37	36
	0	0	0	0	0	0	0	0
Total Base Stations	139,380	142,598	144,978	147,786	156,709	153,357	162,282	133,022

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%	19,410	61.5%	11,937
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	5,219	72.5%	3,784
Axiata Digital Services	EV / EBITDA	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>62,510</b>
(-) FY22E Net Debt and Minority Interest					23,436
<b>Total Equity Value</b>					<b>39,073</b>
<b>Fair Value/Share (RM)</b>					<b>4.25</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	3.45	31,660.0	Y	12/2022	5.0%	2.5%	-10.5%	15.9%	23.9	26.7	23.0	1.8	1.8	6.7%	3.5%	4.25	OP		
DIGI.COM BHD	3.57	27,756.8	Y	12/2022	1.1%	4.5%	-8.9%	26.3%	24.5	26.9	21.3	43.9	43.2	162.0%	3.7%	3.80	MP		
MAXIS BHD	3.81	29,818.1	Y	12/2022	3.0%	2.5%	-6.0%	20.4%	22.3	23.7	19.7	4.4	4.4	18.7%	4.2%	4.00	OP		
OCC GROUP BHD	0.410	432.3	Y	12/2022	6.8%	6.0%	36.6%	12.6%	18.6	13.6	12.1	0.6	0.6	4.4%	0.0%	0.500	OP		
TELEKOM MALAYSIA BHD	4.98	18,793.0	Y	12/2022	5.3%	3.6%	-1.4%	13.8%	15.9	16.1	14.2	2.6	2.5	15.6%	3.4%	7.00	OP		
<b>Simple Average</b>					<b>4.2%</b>	<b>3.8%</b>	<b>2.0%</b>	<b>17.8%</b>	<b>21.0</b>	<b>21.4</b>	<b>18.0</b>	<b>10.6</b>	<b>10.5</b>	<b>41.5%</b>	<b>3.0%</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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