

Axiata Group

Strong Recovery at Home and Abroad

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AXIATA's 9MFY22 results beat expectations. Its mobile subscription and ARPU improved domestically and across the region as economies reopened. We raised our FY22-23F net profit forecasts by 7-6%, lift TP by 7% to RM3.90 (from RM3.65) and maintain our OUTPERFORM call.

Above expectations. 9MFY22 core net profit of RM1.07b (excluding forex losses) came in above expectations at 84% and 86% of our full-year forecast and the full-year consensus estimate, respectively. The variance against our forecast came largely from the stronger-than-expected performance from regional markets, especially, Sri Lanka. A DPS of 5.0 sen was declared, implying a payout ratio of 43% which was lower than our forecast of 86% or a DPS 12.0 sen.

Results' highlights. 9MFY22 revenue improved 8% YoY underpinned by a strong recovery at both its domestic and regional operations, specifically Edotco (>+100% to RM1.8b), Dialog (Sri Lanka) (+19% to RM2.6b), Smart (Cambodia) (+12% to RM1.2b) and XL Axiata (Indonesia) (+9% to RM6.2b). Earnings before interest, tax and depreciation growth outpaced revenue at 10% YoY while margins improved slightly by 1ppt to 45% despite inflationary pressures. All its operating companies showed improvement in earnings before tax, interest and depreciation with the exception of Dialog, Smart and Ncell (Nepal) which declined 5%, 2%, and 13%, respectively on higher inflationary pressure) with Celcom and Edotco leading the way in improvement with 13% and 41% growth, respectively. Core net profit surged 18% YoY with Celcom being the main driver, growing at >+100% (9MFY21: +67%) partly offset by *Cukai Makmur*. Dialog and Edotco reported a decline in PATAMI, falling 48% and 55%, respectively, on account of forex losses and higher funding cost, with the latter incurring higher funding costs following incremental debt for recent acquisitions in Malaysia and the Philippines.

Mobile subscription continued to be resilient across all Axiata's telcos with Dialog leading the way, growing 11% YoY and 1% QoQ, followed by Ncell at 4% YoY and 2% QoQ. Similarly, blended ARPU saw improvement across all its operating companies, reversing the downtrend from the last two quarters.

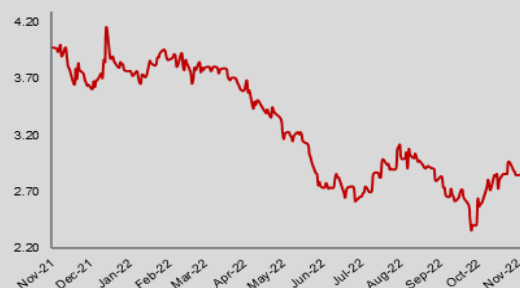
The key takeaways from the results briefing are as follows:

1. Seeing strong momentum regionally, AXIATA reiterated that there is a good chance that its revenue and EBIT growth could beat its guidance for mid-single-digit and high single-digit while a capex of RM7b is still on track.
2. Its gross debt rose to 3.2x (from 3.0x in June 22) but AXIATA is confident that the number will fall below 3x post the Celcom-Digi merger transaction (where AXIATA will receive RM2.4b cash from DIGI as well as the repayment of inter-company loan of RM2b from Celcom). At present, about 48% of its debts are ringgit-denominated with the balance in USD of which 32% are unhedged. Also of its total debt, 65% are fixed loans (vs. 43% three months ago) and 28% are of short-term maturity (vs. 38% three months ago).
3. AXIATA sensed that the political and economic situation in Sri Lanka has been improving since Aug 2022. Economic activities are normalising with tourist arrivals picking up since Nov 2022. Despite the price hikes in Sep 2022, the demand for Dialog's telco services have been picking up. In fact, Dialog is gaining market shares in all segments thanks to its attractive offerings and superior network.

OUTPERFORM ↔

Price : RM3.03
Target Price: RM3.90 ↑

Share Price Performance



KLCI 1,486.54
YTD KLCI chg -5.2%
YTD stock price chg -27.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AXIATA MK Equity
Market Cap (RM m)	27,806.4
Share Outstanding	9,177.0
52-week range (H)	4.16
52-week range (L)	2.35
3-mth avg daily vol:	3,085,557
Free Float	27%
Beta	1.4

Major Shareholders

Khazanah Nasional Bhd	36.7%
Employees Provident Fund	16.7%
Skim Amanah Saham	14.7%

Summary Earnings Table*

FYE Dec (RMm)	2021A	2022F	2023F
Revenue	25,901	27,545	28,868
EBITDA	11,404	12,671	13,279
EBIT	3,818	4,269	4,330
PBT	2,174	2,811	2,880
PATAMI	1,277	1,970	2,074
Core PATAMI	1,326	1,379	1,452
Consensus (NP)	N.M.	1,259	1,483
Earnings Revision	N.M.	+7%	+6%
Core EPS (sen)	14	15	16
Core EPS growth (%)	53	4	5
NDPS (sen)	9.5	12.0	15.0
BVPS (RM)	2.0	2.0	2.0
PER (x)	21.0	20.2	19.2
PBV (x)	1.5	1.5	1.5
Net Gearing (x)	0.9	0.8	0.7
Net Div. Yield (%)	3.1	4.0	5.0

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We raise our FY22F earnings by 7% and FY23F earnings by 6% on account of strong performance from its regional operating companies but keep earnings before interest tax and depreciation margins at 46% on account of inflationary pressures.

We continue to like AXIATA for: (i) its strong foothold in the growing telco markets in the region, (ii) its dominant position in the telco tower sector in the region via edotco, and (iii) the strong execution of its M&A strategy, having concluded major acquisitions in Indonesia and the Philippines recently.

Correspondingly, we raise our SoP-derived TP by 7% to RM3.90 (see Page 5). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see page 6).

Risks to our call include: (i) the Celcom-DIGI merger falls through, (ii) unfavourable terms with regards to the 5G rollout in Malaysia, and (iii) risks associated with overseas operations.

Results Highlight

FYE Dec (RM m)	3Q22	2Q22	QoQChg	3Q21	YoY Chg	9M22	9M21	YoY Chg
Revenue	7,260	6,704	8.3%	6,543	11.0%	20,435	18,997	7.6%
EBITDA	3,256	3,051	6.7%	2,859	13.9%	9,207	8,362	10.1%
PBT	269	287	-6.3%	658	-59.2%	809	1,625	-50.2%
Taxation	(275)	(300)	-8.4%	(195)	-100.0%	(838)	(559)	49.7%
Minority Interest	(46)	(93)	-50.5%	(114)	-99.6%	(173)	(363)	-52.4%
PATAMI/LATAMI	(52)	(106)	-50.7%	350	-115.0%	(202)	703	-128.7%
Core PATAMI	375	332	13.0%	394	-4.8%	1,077	914	17.8%
Core EPS (sen)	4.1	3.6	13.0%	4.29	-4.8%	11.7	10.0	17.8%
DPS (sen)	5.0	0.0	N.m	-	N.m	5.0	4.0	25.0%
EBITDA Margin	44.9%	45.5%		43.7%		45.1%	44.0%	
PBT Margin	3.7%	4.3%		10.1%		4.0%	8.6%	
CNP Margin	5.2%	5.0%		6.0%		5.3%	4.8%	
Effective Tax Rate	-102.4%	-104.7%		-29.6%		-103.6%	-34.4%	

Source: Company, Kenanga Research

Revenue Breakdown (at constant currency)

FYE Dec (RM m)	3Q22	2Q22	QoQChg	3Q21	YoY Chg	9M22	9M21	YoY Chg
Total Revenue	14,003	6,922	102.3%	6,543	114.0%	20,925	18,997	10.1%
Celcom	1,687	1,680	0.4%	1,598	5.5%	5,026	4,859	3.4%
XL (Indonesia)	4,148	2,093	98.2%	1,993	108.1%	6,241	5,708	9.3%
Dialog (Sri Lanka)	1,664	900	84.9%	770	116.0%	2,564	2,159	18.7%
Robi (Bangladesh)	2,051	1,023	100.5%	995	106.1%	3,074	2,889	6.4%
Smart (Cambodia)	787	374	110.4%	364	116.2%	1,161	1,040	11.7%
Ncell (Nepal)	688	363	89.5%	354	94.5%	1,051	1,076	-2.3%
Link Net (Indonesia)	312	0	N.m	-	N.m	312	0	N.m
Edotco	1,196	614	94.8%	196	508.8%	1,810	570	217.3%
ADA	432	220	96.4%	-	N.m	652	0	N.m
Boost	43	15	186.7%	-	N.m	58	0	N.m
Others & eliminations	(664)	(360)	84.4%	272	-344.1%	(1,024)	695	-247.3%
% Contribution								
Celcom	12.0%	24.3%		24.4%		24.0%	25.6%	
XL (Indonesia)	29.6%	30.2%		30.5%		29.8%	30.0%	
Dialog (Sri Lanka)	11.9%	13.0%		11.8%		12.3%	11.4%	
Robi (Bangladesh)	14.6%	14.8%		15.2%		14.7%	15.2%	
Smart (Cambodia)	5.6%	5.4%		5.6%		5.5%	5.5%	
Ncell (Nepal)	4.9%	5.2%		5.4%		5.0%	5.7%	
Link Net (Indonesia)	2.2%	0.0%		0.0%		1.5%	0.0%	
Edotco	8.5%	8.9%		3.0%		8.6%	3.0%	
ADA	3.1%	3.2%		0.0%		3.1%	0.0%	
Boost	0.3%	0.2%		0.0%		0.3%	0.0%	
Others & eliminations	-4.7%	-5.2%		4.2%		-4.9%	3.7%	

Source: Company, Kenanga Research

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EBITDA Breakdown (at constant currency)

FYE Dec (RM m)	3Q22	2Q22	QoQChg	3Q21	YoY Chg	9M22	9M21	YoY Chg
Total EBITDA	6,213	3,051	103.6%	2,859	117.3%	9,264	8,362	10.8%
Celcom	1,526	762	100.4%	702	117.5%	2,288	2,025	13.0%
XL (Indonesia)	2,005	999	100.8%	1,013	98.0%	3,004	2,886	4.1%
Dialog (Sri Lanka)	577	289	99.9%	327	76.5%	866	907	-4.6%
Robi (Bangladesh)	882	462	90.7%	421	109.6%	1,344	1,217	10.5%
Smart (Cambodia)	371	194	91.9%	205	81.6%	565	575	-1.8%
Ncell (Nepal)	364	187	95.0%	208	75.4%	551	636	-13.3%
Link Net (Indonesia)	169	0	N.a	0	N.a	169	0	N.a
Edotco	841	422	99.0%	274	207.1%	1,263	893	41.4%
ADA	47	26	80.8%	0	N.a	73	0	N.a
Boost	(89)	(48)	85.4%	0	N.a	(137)	0	N.a
Others & eliminations	(481)	(241)		(289)		(722)	(777)	
EBITDA Margin								
Celcom	90.5%	45.3%		43.9%		45.5%	41.7%	
XL (Indonesia)	48.3%	47.7%		50.8%		48.1%	50.6%	
Dialog (Sri Lanka)	34.7%	32.1%		42.5%		33.8%	42.0%	
Robi (Bangladesh)	43.0%	45.2%		42.3%		43.7%	42.1%	
Smart (Cambodia)	47.2%	51.8%		56.2%		48.7%	55.3%	
Ncell (Nepal)	52.9%	51.5%		58.7%		52.4%	59.1%	
Link Net (Indonesia)	54.2%	N.a		N.a		54.2%	N.a	
Edotco	70.3%	68.8%		139.3%		69.8%	156.6%	
ADA	10.9%	11.8%		N.a		11.2%	N.a	
Boost	-207.0%	-320.0%		N.a		-236.2%	N.a	
Others & eliminations	72.4%	66.9%		-106.1%		70.5%	-111.7%	
Total	44.4%	44.1%		43.7%		44.3%	44.0%	
% Contribution								
Celcom	24.6%	25.0%		24.5%		24.7%	24.2%	
XL (Indonesia)	32.3%	32.7%		35.4%		32.4%	34.5%	
Dialog (Sri Lanka)	9.3%	9.5%		11.4%		9.3%	10.8%	
Robi (Bangladesh)	14.2%	15.2%		14.7%		14.5%	14.5%	
Smart (Cambodia)	6.0%	6.3%		7.2%		6.1%	6.9%	
Ncell (Nepal)	5.9%	6.1%		7.3%		5.9%	7.6%	
Link Net (Indonesia)	2.7%	0.0%		0.0%		1.8%	0.0%	
Edotco	13.5%	13.8%		9.6%		13.6%	10.7%	
ADA	0.8%	0.9%		0.0%		0.8%	0.0%	
Boost	-1.4%	-1.6%		0.0%		-1.5%	0.0%	

Source: Company, Kenanga Research

Core PATAMI Breakdown(at constant currency)

FYE Dec (RM m)	3Q22	2Q22	QoQChg	3Q21	YoY Chg	9M22	9M21	YoY Chg
Core PATAMI	746	343	117.5%	394	89.4%	1,089	914	19.1%
Celcom	575	281	104.6%	234	145.6%	856	398	114.9%
XL	69	54	27.8%	43	58.7%	123	147	-16.4%
Dialog	107	28	282.1%	97	10.6%	135	257	-47.5%
Robi	46	12	283.3%	29	58.9%	58	53	9.3%
Smart	146	60	143.3%	65	125.9%	206	180	14.1%
Ncell	62	44	40.9%	45	38.3%	106	143	-25.7%
Link Net (Indonesia)	15	0	N.m	0	N.m	15	0	N.m
edotco	37	49	-24.5%	28	32.8%	86	193	-55.5%
ADA	16	7	128.6%	0	N.m	23	0	N.m
Boost	(80)	(43)	86.0%	0	N.m	(123)	0	N.m
Others	(247)	(149)	65.8%	(147)	68.4%	(396)	(527)	-24.8%
% Contribution								
Celcom	77%	82%		59%		79%	44%	
XL	9%	16%		11%		11%	16%	
Dialog	14%	8%		25%		12%	28%	
Robi	6%	3%		7%		5%	6%	
Smart	20%	17%		16%		19%	20%	
Ncell	8%	13%		11%		10%	16%	
Link Net (Indonesia)	2%	0%		0%		1%	0%	
edotco	5%	14%		7%		8%	21%	
ADA	2%	2%		0%		2%	0%	
Boost	-11%	-13%		0%		-11%	0%	
Others	-33%	-43%		-37%		-36%	-58%	

Source: Company, Kenanga Research

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Key Operating Indicators

	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22
Blended ARPU (in RM)								
Celcom	46	45	45	45	45	43	44	45
XL	34	35	37	37	37	36	39	40
Dialog (SLR)	377	364	368	374	363	364	375	389
Robi	121	123	125	127	122	121	124	129
Ncell	221	218	211	203	200	187	199	189
Subs (000)								
Celcom	8,678	8,994	9,223	9,380	9,595	9,584	9,502	9,384
XL (Indonesia)	57,889	56,018	56,767	57,978	57,901	57,003	57,234	57,348
Dialog (Sri Lanka)	14,890	14,953	15,080	15,329	16,287	16,405	16,894	17,052
Robi (Bangladesh)	50,901	51,942	51,844	53,043	53,673	54,073	54,530	54,361
Ncell (Nepal)	15,725	16,316	16,327	16,490	16,842	16,886	16,817	17,213

Source: Company, Kenanga Research

AXIATA's Sum-of-Parts Valuation

Unit	Valuation Basis	Multiple (x)	EV (RM'm)	Axiata's Stake (%)	Value to Axiata (RM'm)
XL (Indonesia)	EV / EBITDA	5.0	21,134	61.5%	12,998
Robi (Bangladesh)	EV / EBITDA	8.0	13,812	61.9%	8,550
Dialog (Sri Lanka)	EV / EBITDA	3.0	3,911	83.3%	3,258
Link Net (Indonesia)	EV / EBITDA	4.0	874	66%	577
Ncell (Nepal)	EV / EBITDA	5.0	4,901	80.0%	3,921
Smart (Cambodia)	EV / EBITDA	6.0	5,649	72.5%	4,096
Axiata Digital Services	EV / Sales	20.0	2,200	100.0%	2,200
edotco	EV / EBITDA	9.0	14,543	63.0%	9,162
Total Enterprise Value					44,760
(-) FY22E Net Debt and Minority Interest					20,251
(+) Celcom Digi 33% Value to AXIATA					16,537*
Total Equity Value					35,794
TP (RM)					3.90

*After NewCo discount of 20%

Source: Kenanga Research

Valuations of Celcom-Digi Bhd(CDB) (RM'm)*

CDB's EBITDA	6,355
EV/EBITDA (x)	10.0
CDB's EV	63,550
- Debt	12,315
- Additional Debt	1,700
+ Cash	2,707
- Cash to AXIATA	2,400
CDB's market value	49,982
Enlarged share base (m)	11,732
CDB's TP (RM)	4.25

*Based on our FY23F forecasts

Source: Kenanga Research

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Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
STOCKS UNDER COVERAGE																	
AXIATA GROUP BHD	OP	3.03	3.90	28.71%	27,806.4	Y	12/2022	15.0	15.8	4.0%	5.3%	20.2	19.2	1.5	7.7%	12.0	4.0%
DIGI.COM BHD	OP	3.98	4.25	6.78%	30,944.5	Y	12/2022	12.7	16.3	-12.7%	27.7%	31.3	24.5	48.1	155.3%	12.6	3.2%
MAXIS BHD	OP	3.97	4.07	2.52%	31,085.7	Y	12/2022	16.1	16.8	-3.8%	4.5%	24.7	23.6	4.8	19.1%	19.0	4.8%
OCK GROUP BHD	OP	0.415	0.950	128.92%	437.6	Y	12/2022	3.0	5.2	36.6%	74.4%	13.8	7.9	0.6	4.6%	0.5	1.2%
TELEKOM MALAYSIA BHD	OP	5.54	8.30	49.82%	21,168.4	Y	12/2022	38.2	38.1	21.9%	-0.1%	14.5	14.5	2.7	19.2%	21.0	3.8%
Simple Average								17.0	18.4	9.2%	22.3%	20.9	17.9	11.6	41.2%		3.4%

Source: Bloomberg, Kenanga Research

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	★	
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	★		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★			
SPECIFIC	Cyber Security	★	★	★		
	Employee Training	★	★	★		
	Energy Efficiency	★	★	★		
	Digital Transformation	★	★	★		
	Protection of Customer Data	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
★ -10% discount to TP
★★ -5% discount to TP
★★★ TP unchanged
★★★★ +5% premium to TP
★★★★★ +10% premium to TP

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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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