

05 December 2022

Axiata Group A Tech-Telco Company by 2027

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We came away from AXIATA's annual analyst & investor day last Friday feeling reassured of its AXIATA 5.0 aspiration to transform itself to a telco-tech company (from a telco company), although the timeline has been pushed back to 2027 (from 2024) (due to the disruption from the pandemic). Reflecting the deconsolidation of Celcom's earnings following the completion of the Celcom-Digi merger, we cut our FY22-23F net profit forecasts by 3% and 16% respectively, but fine-tune up our TP by 1% to RM3.96 (from RM3.90). Maintain at OUTPERFORM.

We came away from AXIATA's annual analyst & investor day last Friday feeling reassured of its prospects. The key takeaways are as follows:

1. CELCOM-DIGI legally came into being on 1 Dec 2022, AXIATA will consolidate only 11 months of CELCOM's contribution for FY22. However, balance sheet deconsolidation will only be on 1 Jan 2023. The final cash and settlement amount received from the merger will be at RM5.2b (RM2.8b in cash-higher due to the strong performance of CELCOM). Meanwhile, with the successful conclusion of AXIATA mandatory tender offer in 4Q 2022, AXIATA's stake in LinkNet now stands at 79.5%.

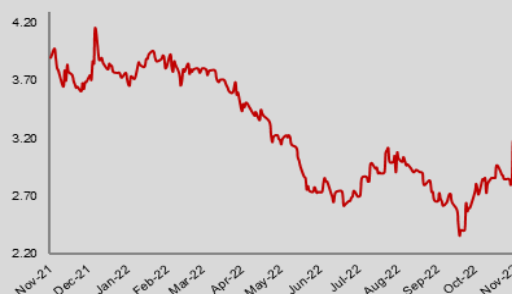
Recall, XL Axiata aspires to become the leading convergence operator in Indonesia, strengthening its synergy with LinkNet via cross selling to 800k home subscribers. With >3m home broadband customers in 27 cities. LinkNet expects a to double its market share in 3-5 years. At present, Internet service is still under-penetrated in Indonesia with data being basic need in Indonesia currently hence XL is confident of a 5-Year CAGR data growth of 6% riding on Indonesia's expected data growth of 17%.

2. EDOTCO, currently the 6th largest tower infra globally will capitalise on 5G deployment in Malaysia and at the same time accelerating its growth in both Indonesia and the Philippines which are categorised as growth markets. Together with Malaysia and Bangladesh (core markets) these markets will contribute 85% in revenue and 87% in EBITDA in the long-term. 80% of towers owned by EDOTCO will be coming from both these markets. In reassuring sustainability, leasing contracts for its towers are on average 8 years.
3. The prevailing inflationary pressure are opportunities for AXIATA's other telco companies to reset. Both Dialog (Sri Lanka) and Robi (Bangladesh) seeing growth with Robi seeing a 10-15% growth in both voice and data. Dialog are focusing on ARPU play – charging higher Price but with a larger data quota and will be focussing on network optimization and green energy in the immediate term. Robi is seeing its voice business stabilizing and will be focussing on this segment in the coming 5 years. NCell (Nepal) seeing its market shrinking will be focusing on cash preservation and not focussing on retaining customers but building high value customers in the immediate term.

OUTPERFORM ↔

Price : **RM3.15**
Target Price : **RM3.96** ↑

Share Price Performance



KLCI	1,481.80
YTD KLCI chg	-5.5%
YTD stock price chg	-24.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AXIATA MK Equity
Market Cap (RM m)	28,907.6
Shares Outstanding	9,177.0
52-week range (H)	4.16
52-week range (L)	2.35
3-mth avg. daily vol.	3,454,124
Free Float	27%
Beta	1.4

Major Shareholders

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

Summary Earnings Table

FYE Dec (RMm)	2021A	2022F	2023F
Revenue	25,901	26,976	21,866
EBITDA	11,404	12,409	10,058
EBIT	3,818	4,181	3,280
PBT	2,174	2,723	1,393
PATAMI	1,277	1,908	1,737
Core PATAMI	1,326	1,336	1,216
Consensus (NP)	N.M.	1,324	1,530
Earnings Revision	N.M.	-3%	-16%
Core EPS (sen)	14	15	13
Core EPS growth (%)	53%	1%	-9%
NDPS (sen)	9.5	12.0	15.0
BVPS (RM)	2.0	2.0	2.0
PER (x)	21.8	21.6	23.8
PBV (x)	1.6	1.6	1.6
Net Gearing (x)	0.9	0.8	0.8
Net Div. Yield (%)	3.0	3.8	4.8

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- Due to the disruption from the pandemic, the timeline for AXIATA 5.0 aspiration, an initiative to transform itself to a telco-tech company (from a telco company), has been pushed back to 2027 (from 2024). AXIATA sees earnings sustainability at its telco operators (CELCOMDIGI, XL AXIATA, ROBI, DIALOG, NCELL, SMART, and LINKNET). Its mobile operations are expected to generate positive free cash flow (with capex tapering) and self-sustaining in terms of funding. Its telco infrastructure company led by EDOTCO will tap into the capital market to fund its growth opportunities arising from the 4G/5G rollout in its operating markets. Its digital companies; ADA and BOOST, will tap into the private equity market to fund expansion driven by digitalisation of economies.
- AXIATA is targeting a gross debt/EBITDA of 2.5x by 2025 and a DPS of 20 sen by 2027. In the immediate term, the company is committed to a DPS of 10 sen.

Forecast. We trim our FY22F earnings forecast by 3% to reflect AXIATA's consolidation of only 11 months of Celcom's earnings (vs. full-year previously). We also cut our FY23F earnings forecast by 16% largely to reflect the deconsolidation of Celcom's earnings.

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 and iv) sustainable and diverse revenue stream coming mobile operations, telco infra and digital.

We raise our SoP-derived TP by 1% to RM3.96 (see below) on account of higher quantum cash received from the merger and a higher stake in LinkNet. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see page 3).

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	79.5%	695
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					44,878
(-) FY22E Net Debt and Minority Interest					20,274
(+) Celcom Digi 33% Value to AXIATA					16,537*
Total Equity Value					36,307
TP (RM)					3.96

*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	2,800
CDB's market value	49,442
Enlarged share base (m)	11,732
CDB's TP (RM)	4.21

*Based on our FY23F forecasts

Source: Kenanga Research

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	3.15	3.96	25.71%	28,907.6	Y	12/2022	14.6	13.3	0.8%	-9.0%	21.6	23.8	1.6	7.5%	12.0	3.8%
DIGI.COM BHD	OP	3.99	4.25	6.52%	46,808.7	Y	12/2022	12.7	16.3	-12.7%	27.7%	31.3	24.5	48.3	155.3%	12.6	3.2%
MAXIS BHD	OP	3.90	4.07	4.36%	30,537.6	Y	12/2022	16.1	16.8	-3.8%	4.5%	24.2	23.2	4.7	19.1%	19.0	4.9%
OCK GROUP BHD	OP	0.430	0.950	120.93%	453.4	Y	12/2022	3.0	5.2	36.6%	74.4%	14.3	8.2	0.6	4.6%	0.5	1.2%
TELEKOM MALAYSIA BHD	OP	5.61	8.30	47.95%	21,435.9	Y	12/2022	38.2	38.1	21.9%	-0.1%	14.7	14.7	2.7	19.2%	21.0	3.7%
Simple Average								16.9	17.9	8.6%	19.5%	21.2	18.9	11.6	41.1%		3.3%

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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