

29 May 2023

Axiata Group

Overseas Units Driving Growth

By Ahmad Ramzani Ramli | ahmadramzani@kenanga.com.my

AXIATA reckoned that macro challenges are not significantly holding back the growth momentum in its frontier markets such as Bangladesh, Cambodia and Sri Lanka. It is also open to gearing up further on its balance sheet should growth opportunities knock on its door. We maintain our forecasts, TP of RM4.18 and OUTPERFORM call.

We came away from AXIATA's post-results briefing last Friday feeling reassured of its prospects. The key takeaways are as follows:

1. AXIATA reckoned that macro challenges are not significantly holding back the growth momentum in its frontier markets such as Bangladesh (Robi), Cambodia (Smart) and Sri Lanka (Dialog). Robi is seeing higher revenues driven by data and voice. Similarly, Dialog expects higher data revenues driven by centralized traffic, while the Sri Lanka's economy is gradually recovering with its inflation and currency stabilising. Meanwhile, Smart's topline will be driven by prepaid, international business and inbound roaming demand.
2. The Indonesian market is still underpenetrated, offering exciting long-term growth opportunities. However, over the immediate term, demand for telecommunications services seems to be easing from the spike seen during the pandemic while the premium segment (where Axiata's 79.5%-owned Link Net focuses on) is getting more crowded with the entrance of new players.
3. It is making Link Net a wholesale provider, supplying to XL and other internet service providers. XL will be positioned as a converged mobile, fixed content service provider to capitalize on market opportunities with Link Net scaling up the deployment of fibre cables access to 8m (from >6m) homes in the next five years. Link Net is currently offering higher speeds and attractive packages to entice premium customers.
4. The high finance costs in 3QFY23 came mostly from XL (Indonesia), Robi (Bangladesh) and EDOTCO. Gross debt/EBITDA ratio ballooned to 3.6x which Axiata expects will fall to 3.4x by 2QFY23 as the repayment of RM2.4b in Celcom's shareholder loan will come in by then. 29% of the group's borrowings will mature within two years, on track to achieve the targeted gross debt/EBITDA of 2.5x by end- 2025. The RM540m finance cost seen in 1QFY23 is likely the run rate for the whole 2023, with a possibility of spilling into 2024.
5. Moody's and S&P's thresholds on AXIATA's gross debt/EBITDA threshold is 3x and 4x, respectively. The company's focus is now to sort out its debt at EDOTCO. Moving ahead, it is open to gearing up further on its balance sheet for growth opportunities. At this moment, it is open for a strategic investor in EDOTCO though there is currently no development. For Dialog, it sees opportunities for the proposed combined operations of both Dialog and Airtel. Given that AXIATA is still on the lookout for further investment opportunities, debt will remain elevated but will be maintained below the threshold.

Forecasts. Maintained.

Consequently, we keep our SoP-derived TP at RM4.18 based on SoP valuation (see next page). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see page 4).

OUTPERFORM ↔

Price : **RM2.91**
Target Price : **RM4.18** ↔

Share Price Performance



KLCI 1,402.98
YTD KLCI chg -6.2%
YTD stock price chg -5.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AXIATA MK Equity
Market Cap (RM m)	26,710.7
Shares Outstanding	9,179.0
52-week range (H)	3.24
52-week range (L)	2.32
3-mth avg. daily vol.	2,841,026
Free Float	26%
Beta	1.4

Major Shareholders

Khazanah Nasional Bhd	36.7%
Employees Provident Fund	16.7%
Skim Amanah Saham Bumiputera	14.8%

Summary Earnings Table

FYE Dec (RMm)	2022A	2023F	2024F
Revenue	27,522	22,517	23,478
EBITDA	12,637	10,133	11,035
EBIT	322	2,815	3,404
PBT	11,095	1,159	1,452
PATAMI	9,766	1,248	1,383
Core PATAMI	1,587	873	968
Consensus (NP)	-	880	1170
Earnings Revision	-	-	-
Core EPS (sen)	17	10	11
Core EPS growth (%)	20	-45	11
NDPS (sen)	14.0	10.0	10.0
BVPS (RM)	2.6	2.6	2.6
PER (x)	16.8	30.6	27.6
PBV (x)	1.1	1.1	1.1
Net Gearing (x)	0.9	1.0	1.0
Net Div. Yield (%)	4.8	3.4	3.4



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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. Maintain OUTPERFORM.

Risks to our call include: (i) adverse currency fluctuations in the frontier markets, and (ii) risks associated with overseas operations.

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	22,405	61.5%	13,779
Robi (Bangladesh)	EV / EBITDA	8.0	14,240	61.9%	8,815
Dialog (Sri Lanka)	EV / EBITDA	3.0	3,841	83.3%	3,200
Link Net (Indonesia)	EV / EBITDA	4.0	917	66%	729
Ncell (Nepal)	EV / EBITDA	5.0	4,876	80.0%	3,901
Smart (Cambodia)	EV / EBITDA	6.0	6,115	72.5%	4,433
Axiata Digital Services	EV / Sales	20.0	2,310	100.0%	2,310
EDOTCO	EV / EBITDA	9.0	18,428	63.0%	11,610
Total Enterprise Value					48,777
(-) FY24E Net Debt and Minority Interest					33,016
(+) CDB (33%)					22,617
Total Equity Value					38,378
TP (RM)					4.18

Source: Kenanga Research

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Peer Comparison

Sector 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	2.91	4.18	43.64%	26,710.7	Y	12/2023	9.5	10.5	-45.0%	10.3%	30.6	27.7	1.5	4.1%	12.0	4.1%
CELCOMDIGI BHD	OP	4.46	5.15	15.47%	52,322.5	Y	12/2023	10.6	8.7	3.8%	-18.2%	41.9	51.2	3.2	7.6%	9.0	2.0%
MAXIS BHD	OP	4.27	5.30	24.12%	33,434.7	Y	12/2023	17.2	16.7	14.1%	-3.2%	24.8	25.6	5.2	20.3%	16.0	3.7%
OCK GROUP BHD	OP	0.380	0.690	81.58%	400.8	Y	12/2023	3.6	5.4	13.6%	49.3%	10.5	7.0	0.5	6.3%	0.5	1.3%
TELEKOM MALAYSIA BHD	OP	5.08	6.23	22.64%	19,415.6	Y	12/2023	30.5	32.1	0.6%	5.3%	16.7	15.8	2.3	13.7%	17.0	3.3%
SECTOR AGGREGATE					132,284.4					-9.5%	-2.1%	28.4	29.0	2.5	10.4%		2.9%

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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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my