Axiata Group

Delayering Link Net

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OUTPERFORM ↔

Price : RM2.37

Target Price : RM3.10 ↔

AXIATA plans to moderate its capex intensity to derive higher asset returns. It has also unveiled the transformation of Link Net into FiberCo to capture future growth opportunities. However, this may be a cost drag in the near term during the gestational stage. We maintain our forecasts, TP of RM3.10 and OUTPERFORM call.

We came away from AXIATA's Analyst and Investor Day feeling largely neutral as its ambitious growth plans are counter-balanced by high funding requirements. The key takeaways are as follows:

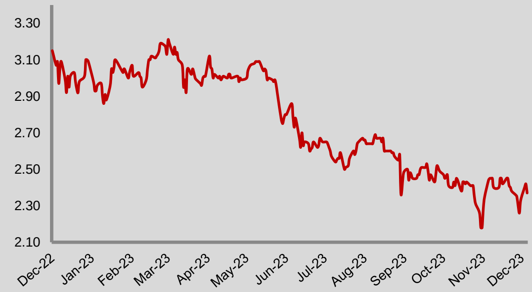
Still aims for sustainable dividends. AXIATA aims to be a "multi-platform builder" to achieve its aspiration to be a sustainable dividend company. The platforms comprise: (i) digital telco (XL, Robi, Dialog, Smart, CDB), (ii) infrastructure (edotco and Link Net), and (iii) digital business (Boost, ADA, Axiata Digital Labs). Hence, this will enable the financial outcome of: (i) DPS of at least 10 sen p.a. (FY22: 14 sen), (ii) high single-digit annual shareholders' return (FY22 ROE: 5.3%), and (iii) net debt/EBITDA of 2.5x (FY22: 1.1x). The various strategies identified by the group to realize its targets includes (amongst others): (i) reduce HoldCo costs by circa 20% to end up with a smaller AXIATA HoldCo, (ii) rebalance loans at frontier markets to reduce USD exposure, (iii) pare down debt over 2024-26, and (iv) monetize infrastructure and digital businesses in 2025-26.

Optimizing capex intensity. AXIATA is on track with its plans to evolve from a pure (legacy) telco to Telco-TechCo. One of the main targets under this strategy includes capex and opex savings from a reduction in cost/GB. Hence, this is expected to address the current trend afflicting telcos globally - where earnings growth lag behind capex investments. In other words, this implies that telcos are not deriving sufficient returns on their capital. Therefore, AXIATA targets to reduce its capex intensity for digital telco opcos to below 20%. In contrast, based on current traction, AXIATA's forecasts that its mobile network capex would exceed 20% by 2026. As such, instead of growing network capex rapidly in the coming years, AXIATA plans to keep it flat. In particular, AXIATA targets to achieve data margin of USD10 cents/GB by 2025.

Capex should correspond to returns. AXIATA's high capex intensity of 25% is attributed to low ARPU of USD2.3 derived from its Opcos at frontier markets. In comparison, as an illustration, T-Mobile group's capex intensity is merely 18% given its significantly higher ARPU of USD10.6. Moreover, there is no compelling reason for AXIATA to upgrade its capex, given that it is unable to monetize higher speeds from its customers. Therefore, AXIATA plans to build a competitive network that is aligned to its customers' needs of: (i) consistent and reliable experience, and (ii) value for money telco services.

Delayering Link Net to transform it into Fiberco. AXIATA revealed the structural transformation of XL and Link Net which entails: (i) transfer of Link Net's 750k residential subscribers, and (ii) roll-out of an additional 2m new homes passes by Link Net for XL. This is aligned with the group's delayering strategy where XL becomes a ServeCo and Link Net transforms to a FiberCo. As ServeCo, XL will offer fixed-mobile converged offerings, whilst as Link Net as FiberCo will focus on delivering 8m home passes to XL by 2026 (2023: 3.4m). The other layers within Link Net, comprising EntCo (provision of enterprise solutions) and MediaCo (media/content product offerings) remain status quo for now.

Share Price Performance



KLCI	1,445.82
YTD KLCI chg	-3.3%
YTD stock price chg	-23.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AXIATA MK Equity
Market Cap (RM m)	21,754.4
Shares Outstanding	9,179.1
52-week range (H)	3.22
52-week range (L)	2.16
3-mth avg. daily vol.	4,316,399
Free Float	24%
Beta	1.4

Major Shareholders

Khazanah Nasional Bhd	36.7%
Employees Provident Fund	17.7%
Amanah Saham Nasional	15.3%

Summary Earnings Table

FYE Dec (RMm)	2022A	2023F	2024F
Revenue	27,496	23,537	24,964
EBITDA	16,436	11,631	11,968
EBIT	4,232	2,366	2,213
PBT	11,114	351	861
PATAMI	**9,751**	**-69**	**668**
Core PATAMI	**1,106**	**401**	**668**
Consensus (NP)	-	459.3	715.4
Earnings Revision	-	-	-
Core EPS (sen)	12.05	4.37	7.28
Core EPS growth (%)	-9.7	-63.8	66.6
DPS (sen)	9.0	9.5	9.5
BVPS (RM)	2.6	2.6	2.5
PER (x)	19.7	54.2	32.6
PBV (x)	0.9	0.9	0.9
Net Gearing (x)	0.8	0.7	0.5
Div. Yield (%)	5.9	4.0	4.0

Growth does not come cheap. Indonesia's low fixed broadband penetration of 15% (Malaysia: 48%) is attributed to significant supply deficit. Evidently, the largest fixed player, Telkom, merely has 37m home passes as at end-2022 whereas Link Net as the second largest player, trails behind with 3.4m. In contrast, internet penetration (mainly via mobile) at Indonesia is substantially higher at 78% in 2022-23. These market gaps translate to growth opportunities for XL and Link Net. Therefore, moving forward, Link Net will further transform into a wholesale player that provides open access to other internet service providers aside from its anchor tenant, XL. On the flipside, roll-out of these gestational fiber assets requires substantial capex. This is evident from FiberCo's expectations that it will require peak funding of USD500m-USD600m in 2026 to deploy 4m home passes. Therefore, AXIATA has plans to rope in investors in the future to fund Link Net's growth plans.

Forecasts. Maintained.

We also maintain our Sum-of-Parts TP of RM3.10 (refer below). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

We continue to like AXIATA for: (i) its plans to deleverage and strengthen its balance sheet, (ii) growth prospects for OpCos at emerging markets, and (iii) strong asset monetization prospects for edotco and its digital businesses. Maintain **OUTPERFORM.**

Risks to our call include: (i) a strong USD may weigh on the performance of its OpCos at frontier markets (e.g. Robi Bangladesh Dialog Sri Lanka, Smart Cambodia, Myanmar tower assets), (ii) further interest cost drag from continuous rate hikes, and (iii) macro headwinds weighing on Opcos at emerging markets.

AXIATA's Sum-of-Parts Valuation

Unit	Valuation Methodology	Enterprise Value (RM m)	Effective Stake	Hold Co. Discount	Effective Value (RM m)
Celcom (Malaysia)	CDB TP	62,646	33.0%	10%	18,606
XL (Indonesia)	4.0x EV/EBITDA	17,034	66.5%	10%	10,195
Robi (Bangladesh)	4.0x EV/EBITDA	8,784	61.9%	10%	4,894
Dialog (Sri Lanka)	2.0x EV/EBITDA	1,712	83.0%	10%	1,279
Smart (Cambodia)	3.0x EV/EBITDA	3,010	72.5%		2,183
Link Net (Indonesia)	3.0x EV/EBITDA	3,607.1	79.5%		2,867.6
EDOTCO	8.0x EV/EBITDA	10,623.6	63.0%		6,692.9
Digital Services	EV/Sales	1,229.60	100.0%		1,229.60
Total Effective Enterprise Value					**47,947**
(-) Hold Co Net Debt and MI					-19,485
Total Equity Value					**28,461**
No. of Shares (m)					9,168
Target Price (RM)					**3.10**

Source: Kenanga Research

Income Statement

FYE Dec (RM m)	2020A	2021A	2022A	2023F	2024F
Revenue	24,203	25,901	27,496	23,537	24,964
EBITDA	**11,394**	**12,088**	**16,436**	**11,631**	**11,968**
Depreciation	-8,485	-8,095	-12,204	-9,264	-9,755
EBIT	**2,909**	**3,993**	**4,232**	**2,366**	**2,213**
Net Interest	-1,516	-1,414	-1,713	-2,013	-1,854
Associates	19	4	-51	468	501
Exceptionals	-240	-409	8,646	-470	0
PBT	**1,171**	**2,174**	**11,114**	**351**	**861**
Taxation	-547	-897	-1,094	-450	-172
Minority Interest	-19	-458	-268	30	-21
Net Profit	**605**	**819**	**9,751**	**-69**	**668**
Core Net Profit	**845**	**1,228**	**1,106**	**401**	**668**

Balance Sheet

FYE Dec (RM m)	2020A	2021A	2022A	2023F	2024F
Fixed Assets	24,496	26,975	27,201	24,071	20,821
Intangible Assets	20,634	21,723	13,442	13,442	13,442
Oth Fixed Assets	10,867	11,442	26,304	26,772	27,273
Inventories	142	223	216	168	197
Receivables	4,362	5,061	6,944	5,804	6,156
Other Curr Assets	418	418	82	82	82
Cash	7,194	6,969	7,452	10,127	13,066
Total Assets	**68,114**	**72,811**	**81,641**	**80,466**	**81,037**
Payables	12,002	13,555	10,580	9,705	10,259
ST Borrowings	2,972	4,231	7,088	6,409	6,459
Other ST Liability	2,420	2,566	3,406	3,406	3,406
LT Borrowings	14,774	14,819	18,348	19,227	19,377
Other LT Liability	11,914	12,313	11,540	11,540	11,540
Net Assets	**24,031**	**25,326**	**30,680**	**30,180**	**29,997**
S/holders' Equity	17,641	18,005	23,935	23,464	23,260
Minority Interests	6,238	7,061	6,745	6,716	6,736
Total Equity	**23,879**	**25,066**	**30,680**	**30,180**	**29,997**

Cashflow Statement

FYE Dec (RM m)	2020A	2021A	2022A	2023F	2024F
Operating CF	7,137	8,837	8,935	11,494	11,970
Investing CF	-3,639	-8,117	-11,585	-6,134	-6,506
Financing CF	229	-1,217	3,412	-2,685	-2,525
Change In Cash	**3,727**	**-496**	**762**	**2,675**	**2,939**
Free CF	2,618	2,589	-795	5,360	5,464

Financial Data & Ratios

FYE Dec	2020A	2021A	2022A	2023F	2024F
Growth					
Revenue	-2%	7%	6%	-14%	6%
EBITDA	0%	6%	36%	-29%	3%
EBIT	-32%	37%	6%	-44%	-6%
PBT	-58%	86%	411%	-97%	145%
Core Net Profit	13%	45%	-10%	-64%	67%
Profitability					
EBITDA Margin	47%	47%	60%	49%	48%
EBIT Margin	12%	15%	15%	10%	9%
PBT Margin	5%	8%	40%	1%	3%
Core Net Margin	3%	5%	4%	2%	3%
Eff. Tax Rate	-47%	-41%	-10%	-128%	-20%
ROA	1%	2%	1%	0%	1%
ROE	5%	7%	5%	2%	3%
DuPont Analysis					
Net Margin	3.5%	4.7%	4.0%	1.7%	2.7%
Asset T/over (x)	0.4	0.4	0.3	0.3	0.3
Lever. Factor (x)	3.9	4.0	3.4	3.4	3.5
ROE	4.8%	6.9%	5.3%	1.7%	2.9%
Leverage					
Debt/Asset (x)	0.3	0.3	0.3	0.3	0.3
Debt/Equity (x)	1.0	1.1	1.1	1.1	1.1
Net (Cash)/Debt	10,551	12,081	17,984	15,509	12,770
Net Gearing (x)	0.6	0.7	0.8	0.7	0.5
Valuations					
Core EPS (sen)	5.6	13.4	12.1	4.4	7.3
DPS (sen)	7.0	8.0	14.0	9.5	9.5
BV/share (RM)	1.9	2.0	2.6	2.6	2.5
Core PER (x)	42.4	17.8	19.7	54.2	32.6
Div. Yield (%)	3.0	3.4	5.9	4.0	4.0
PBV (x)	1.2	1.2	0.9	0.9	0.9
EV/EBITDA (x)	4.5	4.7	3.2	1.9	1.6

Source: Kenanga Research

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen) 1-Yr. Fwd.	Core EPS (sen) 2-Yr. Fwd.	Core EPS Growth 1-Yr. Fwd.	Core EPS Growth 2-Yr. Fwd.	PER (x) - Core Earnings 1-Yr. Fwd.	PER (x) - Core Earnings 2-Yr. Fwd.	PBV (x) 1-Yr. Fwd.	ROE (%) 1-Yr. Fwd.	Net Div. (sen) 1-Yr. Fwd.	Net Div. Yld. (%) 1-Yr. Fwd.
Stocks Under Coverage																	
AXIATA GROUP BHD	OP	2.37	3.10	30.8%	21,754.4	Y	12/2023	4.4	7.3	-63.7%	66.6%	54.2	32.6	1.2	-0.3%	9.5	4.0%
CELCOMDIGI BHD	OP	4.18	5.34	27.8%	49,037.7	Y	12/2023	12.0	12.8	-16.8%	7.2%	34.9	32.5	3.2	9.2%	18.0	4.3%
MAXIS BHD	OP	3.93	5.30	34.9%	30,780.1	Y	12/2023	17.0	16.7	11.0%	-1.6%	23.1	23.5	5.1	21.4%	21.0	5.3%
OCK GROUP BHD	OP	0.410	0.743	81.2%	432.4	Y	12/2023	3.7	5.0	15.4%	33.8%	11.1	8.3	0.7	6.4%	0.0	0.0%
TELEKOM MALAYSIA BHD	OP	5.25	6.76	28.8%	20,143.0	Y	12/2023	49.4	41.2	49.1%	-16.7%	10.6	12.8	2.2	20.5%	25.0	4.8%
Sector Aggregate					**122,147.6**					**-4.5%**	**1.0%**	**24.2**	**24.0**	**2.5**	**11.4%**		**3.7%**

Source: Kenanga Research

Stock ESG Ratings:

	Criterion	Rating
GENERAL	Earnings Sustainability & Quality	★ ★ ★ ★
	Community Investment	★ ★ ★
	Workers Safety & Wellbeing	★ ★ ★
	Corporate Governance	★ ★ ★
	Anti-Corruption Policy	★ ★ ★
	Emissions Management	★ ★
SPECIFIC	Cybersecurity & Data Privacy	★ ★ ★
	Network Quality & Coverage	★ ★ ★
	Digitalisation & Innovation	★ ★ ★
	Supply Chain Management	★ ★ ★
	Talent Management	★ ★ ★
	Customer Satisfaction	★ ★ ★
	OVERALL	★ ★ ★

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

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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