

22 April 2024

# Axiata Group

## Spectrum Boost from Airtel Lanka

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Dialog's enlarged spectrum resources post the acquisition of Airtel Lanka will result in capex savings, a more efficient contiguous spectrum, and a new contiguous 2.6 GHz spectrum for the 5G roll-out in the future. We fine-tune down our FY24F earnings forecast by 1%, trim our TP by 3% to RM3.00 (from RM3.05) but maintain our OUTPERFORM call.

AXIATA's 83%-owned Sri Lankan unit, Dialog Axiata PLC hosted a conference call to provide more clarity on its acquisition of Airtel Lanka. The key takeaways are as follows:-

**Spectrum holdings will be larger and contiguous.** Dialog reiterated the benefits from having enlarged spectrum resources post the acquisition of Airtel Lanka, which includes: (i) capex savings from increased capacity of 26 Hz per data customer (from 24 Hz), (ii) more efficient contiguous spectrum following a rearrangement, and (iii) a new contiguous 2.6 Ghz spectrum for future 5G roll-out. Therefore, post merger, Dialog is able to narrow the disparity with its competitors, in terms of Hz per data customer. Nevertheless, it will still remain significantly below its peers, namely SLT-Mobitel (60 Hz) and Hutch (53 Hz).

**Guidance of post-merger valuation boost.** After the merger, Dialog estimates a 53% uplift in its valuation that mainly emanates from: (i) lower network costs following the removal of overlapping sites, (ii) capex savings from larger and enhanced spectrum holdings, (iii) operational synergies for manpower and sales & marketing, (iv) redeployment of dismantled sites and equipment, and (v) market price stability as competition moderates. The synergies are expected to unfold over 24 months after the merger. Nevertheless, this is partially offset by integration costs and taxes.

**Anticipate insignificant earnings drag.** Post merger, Dialog's FY24 revenue is expected to expand by 8% YoY. There will be immaterial profit dilution from Airtel Lanka given that it is expected to be EBITDA neutral within 6-12 months; and reach PATAMI break-even within 12 months following its consolidation. In addition, the impact to AXIATA's net gearing is also expected to be marginal given Airtel Lanka's net debt before legal day one is estimated to be less than USD15m.

Other key takeaways include:

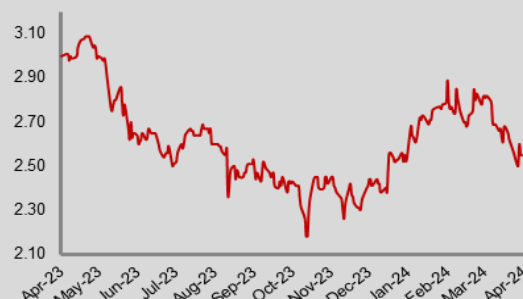
- Dialog expects the merger to be completed by 2QFY24 and its amalgamation with Airtel Lanka to be completed by 3QFY24.
- Post-merger, Dialog's market share is expected to expand to 64% (from 57%) following net subscriber adds of 3m.
- Dialog will maintain Airtel as a separate brand to capitalize on its unique strengths.
- In comparison to Dialog, Airtel Lanka's prepaid ARPUs are 10%-15% higher due to its strategy of promoting higher value packs.
- Post removal of overlapping sites within the merged entity, Dialog expects net accretion of 500-1,500 sites from Airtel Lanka. This translates to a consolidation of more than 1,000 duplicated towers from Airtel Lanka's pre-merger footprint of over 2,400 sites.

**Forecasts.** We fine-tune down our FY24F net profit forecast by 1% after consolidating Airtel Lanka.

# OUTPERFORM ↔

Price : RM2.55  
Target Price : RM3.00 ↓

### Share Price Performance



KLCI 1,547.57  
YTD KLCI chg 6.4%  
YTD stock price chg 7.1%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AXIATA MK Equity
Market Cap (RM m)	23,413.9
Shares Outstanding	9,181.9
52-week range (H)	3.10
52-week range (L)	2.16
3-mth avg. daily vol.	6,930,258
Free Float	24%
Beta	1.4

### Major Shareholders

Khazanah Nasional Bhd	36.7%
Employees Provident Fund	17.9%
Skim Amanah Saham Bumiputera	15.1%

### Summary Earnings Table

FYE Dec (RMm)	2023A	2024F	2025F
Revenue	22,002	24,162	25,436
EBITDA	9,797	8,921	9,239
EBIT	2,597	1,887	1,861
PBT	793	1,526	1,552
<b>PATAMI</b>	<b>-125</b>	<b>649</b>	<b>660</b>
<b>Core PATAMI</b>	<b>542</b>	<b>649</b>	<b>660</b>
Consensus (NP)	-	654.0	918.3
Earnings Revision	-	-1%	-
Core EPS (sen)	5.6	7.1	7.2
Core EPS Growth (%)	-53.3	25.5	1.7
DPS (sen)	10.0	10.0	10.5
BVPS (RM)	2.4	2.4	2.3
PER (x)	45.3	36.1	35.5
PBV (x)	1.1	1.1	1.1
Net Gearing (x)	0.9	0.9	0.9
Div. Yield (%)	3.9	3.9	4.1

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**Valuations.** Our Sum-of-Parts TP of is lowered to RM3.00 (from RM3.05) (refer below). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

**Investment case.** We continue to like AXIATA for: (i) its plans to deleverage and strengthen its balance sheet, (ii) growth prospects for digital telcos and tower assets 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 digital telcos at frontier markets (e.g. Robi Bangladesh, Dialog Sri Lanka, Smart Cambodia), (ii) gestational earnings and cash flows drag from Link Net's aggressive expansion, and (iii) capex up-cycle from looming implementation of 5G in Indonesia.

#### 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	68,395	33.0%	10%	20,313
XL (Indonesia)	4.0x EV/EBITDA	20,003	66.5%	10%	11,972
Robi (Bangladesh)	5.0x EV/EBITDA	11,235	61.9%	10%	6,260
Dialog (Sri Lanka)	2.0x EV/EBITDA	1,652	74.0%	10%	1,100
Smart (Cambodia)	3.0x EV/EBITDA	3,069	72.5%		2,225
Link Net (Indonesia)	5.0x EV/EBITDA	2,984.2	79.5%		2,372
EDOTCO	8.0x EV/EBITDA	13,803.4	63.0%		8,696
Digital Services	EV/Sales	1,534.05	100.0%		1,534
<b>Total Effective Enterprise Value</b>					<b>54,473</b>
(-) Hold Co Net Debt and MI					-26,828
Total Equity Value					<b>27,645</b>
No. of Shares (m)					9,179
<b>Target Price (RM)</b>					<b>3.00</b>

Source: Kenanga Research

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Income Statement						Financial Data & Ratios					
FYE Dec (RM m)	2021A	2022A	2023A	2024F	2025F	FYE Dec	2021A	2022A	2023A	2024F	2025F
Revenue	25,901	27,496	22,002	24,162	25,436	<b>Growth</b>					
<b>EBITDA</b>	<b>12,088</b>	<b>16,436</b>	<b>9,797</b>	<b>8,921</b>	<b>9,239</b>	Revenue	7%	6%	-20%	10%	5%
Depreciation	-8,095	-12,204	-7,200	-7,033	-7,378	EBITDA	6%	36%	-40%	-9%	4%
<b>EBIT</b>	<b>3,993</b>	<b>4,232</b>	<b>2,597</b>	<b>1,887</b>	<b>1,861</b>	EBIT	37%	6%	-39%	-27%	-1%
Net Interest	-1,414	-1,713	-2,040	-1,910	-1,914	PBT	86%	411%	-93%	92%	2%
Associates	4	-51	903	1,549	1,606	Core Net Profit	103%	-10%	-51%	20%	2%
Exceptionals	-409	8,646	-667	0	0	<b>Profitability</b>					
<b>PBT</b>	<b>2,174</b>	<b>11,114</b>	<b>793</b>	<b>1,526</b>	<b>1,552</b>	EBITDA Margin	47%	60%	45%	37%	36%
Taxation	-897	-1,094	-651	-229	-233	EBIT Margin	15%	15%	12%	8%	7%
Minority Interest	-458	-268	-267	-649	-660	PBT Margin	8%	40%	4%	6%	6%
<b>Net Profit</b>	<b>819</b>	<b>9,751</b>	<b>-125</b>	<b>649</b>	<b>660</b>	Core Net Margin	5%	4%	2%	3%	3%
<b>Core Net Profit</b>	<b>1,228</b>	<b>1,106</b>	<b>542</b>	<b>649</b>	<b>660</b>	Eff. Tax Rate	-41%	-10%	-82%	-15%	-15%
<b>Balance Sheet</b>						ROA	2%	1%	1%	1%	1%
<b>FYE Dec (RM m)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>	ROE	7%	5%	2%	3%	3%
Fixed Assets	26,975	27,201	27,440	26,447	25,428	<b>DuPont Analysis</b>					
Intangible Assets	21,723	13,442	12,238	12,238	12,238	Net Margin	4.7%	4.0%	2.5%	2.7%	2.6%
Oth Fixed Assets	11,442	26,304	28,157	29,705	31,311	Asset T/over (x)	0.4	0.3	0.3	0.3	0.3
Inventories	223	216	219	213	224	Lever. Factor (x)	4.0	3.4	3.6	3.6	3.7
Receivables	5,061	6,944	4,809	5,281	5,628	ROE	6.9%	5.3%	2.4%	3.0%	3.0%
Other Curr Assets	418	82	968	968	968	<b>Leverage</b>					
Cash	6,969	7,452	4,612	4,291	3,647	Debt/Asset (x)	0.3	0.3	0.3	0.3	0.3
<b>Total Assets</b>	<b>72,811</b>	<b>81,641</b>	<b>78,442</b>	<b>79,142</b>	<b>79,444</b>	Debt/Equity (x)	1.1	1.1	1.1	1.1	1.1
Payables	13,555	10,580	9,317	10,232	10,771	Net (Cash)/Debt	12,081	17,984	20,230	19,958	20,008
ST Borrowings	4,231	7,088	2,666	2,602	2,539	Net Gearing (x)	0.7	0.8	0.9	0.9	0.9
Other ST Liability	2,566	3,406	3,210	3,210	3,210	<b>Valuations</b>					
LT Borrowings	14,819	18,348	22,176	21,646	21,117	Core EPS (sen)	13.4	12.1	5.6	7.1	7.2
Other LT Liability	12,313	11,540	11,540	11,540	11,540	DPS (sen)	8.0	14.0	10.0	10.0	10.5
<b>Net Assets</b>	<b>25,326</b>	<b>30,680</b>	<b>29,533</b>	<b>29,912</b>	<b>30,268</b>	BV/share (RM)	2.0	2.6	2.4	2.4	2.3
S/holders' Equity	18,005	23,935	22,064	21,795	21,491	Core PER (x)	19.1	21.2	45.3	36.1	35.5
Minority Interests	7,061	6,745	6,171	6,820	7,479	Div. Yield (%)	3.1	5.5	3.9	3.9	4.1
<b>Total Equity</b>	<b>25,066</b>	<b>30,680</b>	<b>28,235</b>	<b>28,615</b>	<b>28,970</b>	PBV (x)	1.3	1.0	1.1	1.1	1.1
<b>Cashflow Statement</b>						EV/EBITDA (x)	4.7	3.2	5.6	3.0	3.0
<b>FYE Dec (RM m)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>						
Operating CF	8,837	8,935	7,678	9,141	9,187						
Investing CF	-8,117	-11,585	-4,700	-6,041	-6,359						
Financing CF	-1,217	3,412	-5,267	-3,421	-3,472						
<b>Change In Cash</b>	<b>-496</b>	<b>762</b>	<b>-2,289</b>	<b>-321</b>	<b>-644</b>						
Free CF	2,589	-795	709	3,100	2,828						

Source: Kenanga Research

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### Peer Comparison – Telecommunication

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.
<b>Telecommunication</b>																	
AXIATA GROUP BHD	OP	2.55	3.05	19.6%	23,413.9	Y	12/2024	7.2	7.2	21.2%	0.6%	35.6	35.4	1.3	3.0%	10.0	3.9%
CELCOMDIGI BHD	OP	4.04	5.83	44.3%	47,395.3	Y	12/2024	17.2	18.9	6.1%	10.1%	23.5	21.3	2.8	12.3%	13.8	3.4%
MAXIS BHD	OP	3.50	5.30	51.4%	27,412.3	Y	12/2024	16.7	17.9	6.2%	7.2%	21.0	19.6	4.8	22.7%	20.0	5.7%
OCC GROUP BHD	OP	0.585	0.795	35.9%	618.5	Y	12/2024	5.1	5.2	26.8%	3.1%	11.6	11.2	0.9	8.0%	1.5	2.6%
TELEKOM MALAYSIA BHD	OP	6.07	7.22	18.9%	23,294.4	Y	12/2024	45.5	46.1	-13.4%	1.4%	13.4	13.2	2.3	17.9%	23.0	3.8%
<b>SECTOR AGGREGATE</b>					<b>122,134.3</b>					<b>0.9%</b>	<b>5.7%</b>	<b>21.2</b>	<b>20.1</b>	<b>2.4</b>	<b>12.8%</b>		<b>3.9%</b>

Source: Bloomberg, Kenanga Research

**Stock ESG Ratings:**

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

☆ 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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