

30 April 2024

Axiata Group

Propelled by Inelastic Data Demand

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XL AXIATA (XL)'s 1QFY24 results met our expectation but outperformed consensus'. Earnings tripled YoY as data demand surged, which led to higher blended ARPU. Subscriber base remained resilient QoQ despite price hikes due to inelastic demand. We maintain our forecasts, TP of RM3.00 and OUTPERFORM call.

Within our expectation. XL's 1QFY24 core net profit of IDR552b (>3x YoY) tracked our expectations at 28% of our full-year forecast, but exceeded consensus at 35% of the full-year estimate.

YoY earnings tripled as data demand surged. 1QFY24 topline expansion of 12% YoY was largely driven by strong growth in data and digital revenue (+13% YoY) which led to higher blended ARPU of IDR44k (1QFY23: IDR40k). Bottomline more than tripled YoY as EBITDA margin surged to 54% (1QFY23: 49%) following a dip in infrastructure costs. To a lesser extent, earnings were also boosted by lower sales and marketing expenses due to improved sales channel mix.

Encouraging sequential subscriber trends. 1QFY24 subscriber base expanded by 0.3% QoQ as postpaid customers remained largely sticky whilst prepaid users inched up to 56m (4QFY23: 55.9m). This was in spite of sustained price hikes for XL's mobile plans – thus implying inelastic demand. In addition, there was sustained momentum in customer convergence as penetration in 1QFY24 improved to 79% (4QFY23: 75%). This implies that 252k connected homes have mobile subscriptions under the XL Satu plan

Link Net's losses more than halved QoQ. In spite of a slight contraction in topline (-8% QoQ), sequential losses at 20% associate Link Net more than halved to IDR110b (1QFY23: IDR259b) To recap, in Dec 2023, XL and Link Net underwent a structural transformation which entailed: (i) upcoming transfer of Link Net's 750k residential subscribers to XL, and (ii) roll-out of an additional 2m new home 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 Link Net as FiberCo will focus on delivering 8m home passes to XL by 2026 (2023: 3.4m).

The key takeaways from its results briefing are as follows:

1. XL maintained its FY24 guidance of: (i) revenue growth at high digits (FY23: +11%), (ii) EBITDA margin of around 50% (FY23: 50%), and (iii) capex of around IDR8t (FY23: IDR8.8t).
2. In spite of the surge in data traffic (YoY: +18%, QoQ: +3%), network utilization rate remains stable at c.50%-60%. This was underpinned by XL's sustained efforts to upgrade its sites and add new base transceiver stations (YoY: +10%, QoQ: +2%),
3. The auction for 5G spectrum (700MHz and 26GHz bands) at Indonesia will likely open in 2HCY24. To recap, in March, XL activated 5G in four cities in Central Java Province via a partnership with Nokia.

Forecasts. Maintained.

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

OUTPERFORM ↔

Price : **RM2.80**
Target Price: **RM3.00** ↔

Share Price Performance



KLCI	1,582.66
YTD KLCI chg	8.8%
YTD stock price chg	17.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AXIATA MK Equity
Market Cap (RM m)	25,709.4
Share Outstanding	9,181.9
52-week range (H)	3.10
52-week range (L)	2.16
3-mth avg. daily vol.	6,811,925
Free Float	24%
Beta	1.4

Major Shareholders

Khazanah Nasional Bhd	36.7%
Employees Provident Fund	17.9%
Skim Amanah Saham	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
Net Profit (NP)	-125	649	660
Core PATAMI	542	649	660
Consensus (NP)	-	653.6	918.2
Earnings Revision	-	-	-
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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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) strong USD weighing on the performance of its digital telcos at frontier markets (e.g. Robi Bangladesh, Dialog Sri Lanka, Smart Cambodia), (ii) gestational earnings and cashflow drag from Link Net's aggressive expansion, and (iii) capex up-cycle from looming implementation of 5G at Indonesia.

Results Highlights					
	1Q	4Q	QoQ	1Q	YoY
FYE Dec (IDR b)	FY24	FY23	Chg	FY23	Chg
Revenue	8,438.3	8,454.8	-0.2%	7,547.3	11.8%
EBITDA	4,547.3	4,240.2	7.2%	3,657.1	24.3%
Depreciation	(3,064.3)	(2,980.1)	2.8%	(2,741.8)	11.8%
Net Finance Costs	(742.5)	(736.2)	0.9%	(655.0)	13.3%
JV and Associates	(50.7)	(76.9)	-34.1%	(47.9)	5.8%
EI	(12.5)	6.9	-280.6%	25.5	-149.2%
PBT	677.2	454.0	49.2%	237.8	184.8%
Taxation	(129.8)	(188.1)	-31.0%	(33.6)	286.2%
Minority Interest	(8.4)	(5.4)	56.1%	(3.3)	154.4%
Reported Net Profit	539.1	260.5	106.9%	200.9	168.3%
Core Net Profit	551.6	253.6	117.5%	175.4	214.4%
Core EPS (IDR)	42.0	19.5	115.5%	43.7	-3.9%
EBITDA margin	53.9%	50.2%		48.5%	
PBT Margin	8.0%	5.4%		3.2%	
Core Net margin	6.5%	3.0%		2.3%	

Source: Company, Kenanga Research

Key Operating Indicators					
	1Q	4Q		1Q	
Subscribers (m)	FY24	FY23		FY23	
- Postpaid	1.6	1.6		1.5	
- Prepaid	56	56		56	
- Home Subscribers	0.252	0.235		0.132	
	1Q	4Q	QoQ	1Q	YoY
ARPU (IDR k)	FY24	FY23	Change	FY23	Change
- Postpaid	89	87	2	91	(2)
- Prepaid	43	41	2	38	5
- Blended	44	43	1	40	4

Source: Company, Kenanga Research

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AXIATA's Sum-of-Parts Valuation					
Unit	Valuation Methodology	Enterprise Value (RM m)	Effective Stake	Hold Co. Discount	Effective Value (RM m)
CDB (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
Total Effective Enterprise Value					54,473
(-) Hold Co Net Debt and MI					-26,828
Total Equity Value					27,645
No. of Shares (m)					9,179
Target Price (RM)					3.00

Source: Kenanga Research

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Peer Table 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	2.80	3.05	8.9%	25,709.4	Y	12/2024	7.2	7.2	21.2%	0.6%	39.1	38.9	1.4	3.0%	10.0	3.6%
CELCOMDIGI BHD	OP	4.18	5.83	39.5%	49,037.7	Y	12/2024	17.2	18.9	6.1%	10.1%	24.3	22.1	2.9	12.3%	13.8	3.3%
MAXIS BHD	OP	3.64	5.30	45.6%	28,508.8	Y	12/2024	16.7	17.9	6.2%	7.2%	21.8	20.4	5.0	22.7%	20.0	5.5%
OCK GROUP BHD	OP	0.595	0.795	33.6%	629.1	Y	12/2024	5.1	5.2	26.8%	3.1%	11.8	11.4	0.9	8.0%	1.5	2.5%
TELEKOM MALAYSIA BHD	OP	6.13	7.22	17.8%	23,524.7	Y	12/2024	45.5	46.1	-13.4%	1.4%	13.5	13.3	2.3	17.9%	23.0	3.8%
SECTOR AGGREGATE					127,409.6					0.9%	5.7%	22.1	21.0	2.5	12.8%		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

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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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