

30 May 2024

## Axiata Group

### XL Delivers Record Profits and ARPU

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**AXIATA's 1QFY24 results tracked expectations. Earnings were mainly anchored by XL and Smart, which more than eclipsed losses at Dialog and Link Net. In particular, XL achieved multi-year record quarterly earnings as ARPU reached an all-time high on easing competition. We maintain our forecasts, TP of RM3.00 and OUTPERFORM call.**

**Within expectations.** Its 1QFY24 core net profit of RM189.9m tracked expectations – coming in at 29% and 28% of our full-year forecast and the consensus estimate, respectively.

**Earnings powered by XL and Smart.** YoY comparisons are not meaningful given that 1QFY24 figures exclude NCell and Edotco's Myanmar operations. Nevertheless, for the other subsidiaries, there was normalized YoY PATAMI expansion across the board, except for Dialog and Link Net.

1QFY24 earnings were mainly anchored by XL and Smart as the latter's YoY profits were uplifted by strong data growth and higher interest income.

Meanwhile, XL delivered multi-year record quarterly earnings and strong YoY growth due to: (i) surge in ARPU to all-time high of IDR44k (+10%) given a rationale pricing environment, (ii) improved contribution from data and digital services, and (iii) savings in direct cost and sales & marketing.

To a lesser magnitude, Edotco also delivered commendable YoY profit expansion. This was mainly attributed to (i): increased co-location and build-to-suit solutions at Bangladesh, Cambodia and Philippines, and (ii) lower manpower costs,

On a less encouraging note, after having turned around for two quarters, Dialog slipped back into the red in 1QFY24 due to multiple cost drag. Moreover, its YoY losses widened due to higher interest costs after refinancing its USD debt to LKR at higher rates.

Meanwhile, Link Net's sequential losses more than halved on the back of lower opex. However, YoY losses expanded due to higher depreciation and finance costs following increased roll-out of home passes for XL.

**Forecasts.** Maintained.

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

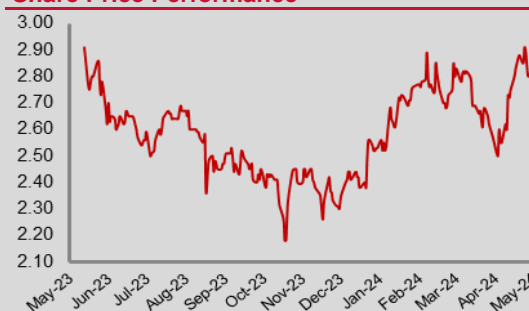
**Investment case.** We continue to like AXIATA for: (i) its plans to deleverage and strengthen its balance sheet, (ii) growth prospects for digital telcos and tower assets at emerging markets, and (iii) strong asset monetization prospects for its digital businesses and Edotco. Maintain **OUTPERFORM**.

**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 cashflow drag from Link Net's aggressive expansion, and (iii) capex up-cycle from looming implementation of 5G at Indonesia.

## OUTPERFORM ↔

Price : RM2.74  
Target Price: RM3.00 ↔

### Share Price Performance



KLCI	1,605.35
YTD KLCI chg	10.4%
YTD stock price chg	15.1%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AXIATA MK Equity
Market Cap (RM m)	25,158.5
Share Outstanding	9,181.9
52-week range (H)	2.94
52-week range (L)	2.16
3-mth avg. daily vol.	6,046,651
Free Float	25%
Beta	1.4

### Major Shareholders

Khazanah Nasional Bhd	36.7%
Employees Provident Fund	17.9%
Skim Amanah Saham	15.0%

### 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>Net Profit (NP)</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)	-	677	935
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)	50.3	40.1	39.4
PBV (x)	1.2	1.2	1.2
Net Gearing (x)	0.9	0.9	0.9
Div. Yield (%)	3.5	3.5	3.7

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Results Highlights*					
	1Q	4Q	QoQ	1Q	YoY
FYE Dec (RM m)	FY24	FY23	Chg	FY23	Chg
Revenue	5,662.1	5,793.6	-2.3%	5,378.7	5.3%
<b>EBITDA</b>	<b>2,813.1</b>	<b>2,900.2</b>	-3.0%	<b>2,429.8</b>	15.8%
Depreciation	(1,916.8)	(1,919.5)	-0.1%	(1,812.9)	5.7%
Net Finance Costs	(544.1)	(513.4)	6.0%	(453.0)	20.1%
JV and Associates	106.4	167.7	-36.6%	114.5	-7.1%
EI	(156.3)	(238.5)	-34.4%	(9.3)	>100%
<b>PBT</b>	<b>302.2</b>	<b>396.6</b>	-23.8%	<b>269.0</b>	12.3%
Taxation	(167.3)	(249.9)	-33.1%	(127.1)	31.6%
Minority Interest	(101.4)	(98.2)	3.2%	(68.1)	48.9%
<b>Reported Net Profit</b>	<b>33.6</b>	<b>48.5</b>	-30.8%	<b>73.9</b>	-54.5%
<b>Core Net Profit</b>	<b>189.9</b>	<b>287.0</b>	-33.8%	<b>83.2</b>	128.3%
Core EPS (sen)	2.3	3.0	-23.5%	0.9	151.1%
DPS (sen)	0.0	5.0	-100.0%	0.0	nm
EBITDA margin	49.7%	50.1%		45.2%	
PBT Margin	5.3%	6.8%		5.0%	
Core Net margin	3.4%	5.0%		1.5%	

Source: Company, Kenanga Research

\* 4QFY23 and 1QFY24 excludes NCell and Edotco Myanmar

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Segmental Revenue					
	1Q	4Q	QoQ	1Q	YoY
FYE Dec (RM m)	FY24	FY23	Chg	FY23	Chg
<b>Segmental Revenue</b>					
XL (Indonesia)	2,503	2,511	-0.3%	2,172	15.2%
Robi (Bangladesh)	1,060	1,048	1.1%	955	11.0%
Dialog (Sri Lanka)	652	630	3.5%	622	4.9%
Smart (Cambodia)	462	457	1.2%	387	19.5%
Link Net (Indonesia)	272	296	-7.9%	282	-3.3%
EDOTCO	443	303	46.1%	470	-5.7%
ADA	229	247	-7.3%	141	62.5%
Boost	32	59	-45.6%	25	27.8%
Others & eliminations	8	242	-96.9%	325	-97.7%
<b>Total Revenue</b>	<b>5,662</b>	<b>5,794</b>	<b>-2.3%</b>	<b>5,379</b>	<b>5.3%</b>
<b>% Revenue Contribution</b>					
XL (Indonesia)	44.2%	43.3%		40.4%	
Robi (Bangladesh)	18.7%	18.1%		17.8%	
Dialog (Sri Lanka)	11.5%	10.9%		11.6%	
Smart (Cambodia)	8.2%	7.9%		7.2%	
Link Net (Indonesia)	4.8%	5.1%		5.2%	
EDOTCO	7.8%	5.2%		8.7%	
ADA	4.0%	4.3%		2.6%	
Boost	0.6%	1.0%		0.5%	
Others & eliminations	0.1%	4.2%		6.0%	

Source: Company, Kenanga Research

4QFY23 and 1QFY24 excludes NCell and Edotco Myanmar

Segmental Normalized PATAMI					
	1Q	4Q	QoQ	1Q	YoY
FYE Dec (RM m)	FY24	FY23	Chg	FY23	Chg
<b>Segmental Normalized PATAMI</b>					
XL (Indonesia)	90.2	30.9	191.7%	16.3	454.7%
Robi (Bangladesh)	30.2	46.0	-34.5%	22.4	34.4%
Dialog (Sri Lanka)	(12.3)	63.2	-119.5%	(1.8)	594.1%
Smart (Cambodia)	96.3	81.5	18.2%	78.1	23.3%
Link Net (Indonesia)	(26.3)	(60.3)	-56.4%	(15.5)	69.9%
EDOTCO	31.1	46.2	-32.8%	4.3	617.0%
Associates & others	(19.2)	5.9	-426.9%	(50.0)	-61.7%
<b>Total</b>	<b>189.9</b>	<b>213.4</b>	<b>-11.0%</b>	<b>83.2</b>	<b>128.3%</b>

Source: Company, Kenanga Research

\*4QFY23 and 1QFY24 excludes NCell and Edotco Myanmar

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Key Operating Indicators					
	1Q	4Q	QoQ	1Q	YoY
	FY24	FY23	Chg	FY23	Chg
<b>Subscribers ('000)</b>					
XL (Indonesia)	57,632	57,517	115	57,890	(258)
Robi (Bangladesh)	58,071	58,667	(596)	55,572	2,499
Dialog (Sri Lanka)	17,208	16,869	339	18,112	(904)
Link Net (Indonesia)	748	751	(4)	750	(2)
<b>Blended ARPU (LCY)</b>					
XL (IDR '000)	44	43.0	1.0	40.0	4
Robi (BDT)	140	139.6	0.4	138.0	2
Dialog (SLR)	372	388.0	(16.0)	373.0	(1)
Link Net (IDR '000)	364	351.3	12.8	346.3	18

Source: Company, Kenanga Research

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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### Peer Comparison – Telecommunication

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RMm)	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	2.74	3.05	11.3%	25,158.5	Y	12/2024	7.2	7.2	21.2%	0.6%	38.3	38.1	1.4	3.0%	10.0	3.6%
CELCOMDIGI BHD	OP	3.86	5.97	54.7%	45,283.6	Y	12/2024	17.2	18.8	6.4%	9.0%	22.4	20.5	2.7	11.4%	13.8	3.6%
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	0.625	0.795	27.2%	663.8	Y	12/2024	5.1	5.2	26.8%	3.1%	12.4	12.0	1.0	8.0%	1.5	2.4%
TELEKOM MALAYSIA BHD	OP	6.40	7.22	12.8%	24,560.8	Y	12/2024	45.5	46.1	-13.4%	1.4%	14.1	13.9	2.4	17.9%	23.0	3.6%
<b>SECTOR AGGREGATE</b>					<b>124,175.4</b>					<b>1.0%</b>	<b>5.3%</b>	<b>21.6</b>	<b>20.5</b>	<b>2.5</b>	<b>12.6%</b>		<b>3.7%</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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