

31 May 2024

Axiata Group

Aiming for High Valuations for Edotco

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AXIATA is reviewing Edotco's recapitalization exercise in order to achieve attractive valuations. It also believes that the global interest rate upcycle has peaked, which suggests stable or lower finance costs moving forward. We maintain our forecasts, TP of RM3.00 and OUTPERFORM call.

We came away from AXIATA's post-results briefing feeling neutral on recent developments that are largely within expectations. The key takeaways are as follows:

- Plans to recapitalize Edotco are currently under review and re-evaluation. This is largely due to unfavourable market conditions for tower infrastructure companies at this juncture. Hence, the valuations that Tower Cos can achieve are currently unattractive. In spite of this, AXIATA believes that Edotco's growth plans will remain intact, given its ability to generate internal funds for expansion.
- AXIATA believes that the global interest rate up-cycle has peaked. Hence, this suggests the possibility of stable or lower finance costs for the group moving forward. In our view, the group's interest rate exposure remains manageable, given that 64% of its borrowings are on a fixed rate basis of 1QFY24. To recap, AXIATA currently has total debt of RM25.5b, primarily stemming from AXIATA HoldCo, Edotco, Dialog and XL.
- AXIATA reiterated that its rationale for merging XL with Smarfren mainly emanates from: (i) merger cost synergies, and (ii) benefits from combined spectrum holdings. In particular, XL's spectrum deficit compared to its two larger competitors (i.e. Telkomsel and Indosat) places it at a severe disadvantage for continued 4G network expansion and looming 5G roll-out. On top of that, the group believes there are synergies to unlock between Link Net and the merged entity.

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).

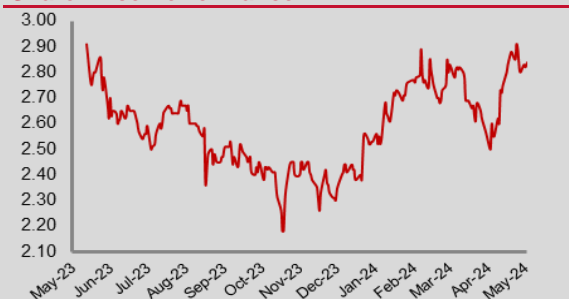
Investment case. We continue to like AXIATA for: (i) its plans to deleverage and strengthen its balance sheet, (ii) growth prospects for digital telcos and tower assets at emerging markets, and (iii) strong asset monetization prospects for Edotco and its digital businesses. Maintain **OUTPERFORM**.

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

OUTPERFORM ↔

Price : RM2.77
Target Price : RM3.00 ↔

Share Price Performance



KLCI	1,604.26
YTD KLCI chg	10.3%
YTD stock price chg	16.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AXIATA MK Equity
Market Cap (RM m)	25,433.9
Shares Outstanding	9,181.9
52-week range (H)	2.94
52-week range (L)	2.16
3-mth avg. daily vol.	6,023,482
Free Float	25%
Beta	1.4

Major Shareholders

Khazanah Nasional Bhd	36.7%
Employees Provident Fund	18.0%
Skim Amanah Saham Bumiputera	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
PATAMI	-125	649	660
Core PATAMI	542	649	660
Consensus (NP)	-	685.2	928.6
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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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
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 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.
Telecommunication																	
AXIATA GROUP BHD	OP	2.77	3.00	8.3%	25,433.9	Y	12/2024	7.1	7.2	19.6%	1.7%	39.2	38.5	1.4	3.0%	10.0	3.6%
CELCOMDIGI BHD	OP	3.89	5.97	53.5%	45,635.6	Y	12/2024	17.2	18.8	6.4%	9.0%	22.6	20.7	2.7	11.4%	13.8	3.5%
MAXIS BHD	OP	3.66	5.30	44.8%	28,665.4	Y	12/2024	16.7	17.9	6.2%	7.2%	22.0	20.5	5.0	22.7%	20.0	5.5%
OCC GROUP BHD	OP	0.620	0.860	38.7%	658.5	Y	12/2024	4.8	5.2	21.4%	8.1%	12.8	11.8	1.0	7.7%	1.5	2.4%
TELEKOM MALAYSIA BHD	OP	6.26	7.22	15.3%	24,023.6	Y	12/2024	45.6	46.2	-13.2%	1.5%	13.7	13.5	2.4	18.0%	23.5	3.8%
SECTOR AGGREGATE					124,416.9					0.9%	5.5%	21.6	20.5	2.5	12.6%		3.8%

Source: Bloomberg, 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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