

Axiata Group

XL-Smart In-line but Merger is a Drag

By Kylie Chan Sze Zan | kyliechan@kenanga.com.my

XL-Smart's 1HFY25 results was in-line with expectations, despite earnings dilution from the Smartfren merger. While topline growth was modest (driven by an enlarged subscriber base), blended ARPU weakened (due to dilution from Smartfren's lower-paying subscribers), and together with a significantly expanded cost base led to an earnings contraction. We maintain our forecasts and MARKET PERFORM rating, but tweak our TP to RM2.70 (from RM2.15).

Tracked expectations. XL Smart's 1HFY25 core net profit of IDR673b (-34% YoY) tracked expectations - at 56% of our forecast and 45% of the consensus estimate. These results should position AXIATA group, scheduled to release its earnings on 28 May, to deliver on its FY25 guidance of high single-digit EBIT growth.

1HFY25 core net profit excludes the following one-off items incurred arising from the merger of XL Axiata and Smartfren (completion: 16 April 2025): (i) post-tax opex: IDR379b, (ii) accelerated depreciation: IDR739b, and (iii) asset impairment from Link Net investment: IDR802b.

Moderate topline growth due to post-merger expansion in subscriber base and traffic volumes despite weaker ARPUs. Topline expansion (+12% YoY) trailed XL Smart's FY25 guidance of 20%-30% growth (in-line with the market). The growth was mainly underpinned by an enlarged subscriber base of 82.6m (+41% YoY) with higher traffic volumes (+43% YoY) post-XL-Smart merger.

Sequential prepaid and blended ARPU slipped to IDR36k (1QFY25: IDR38k) and IDR36k (1QFY25: IDR40k) respectively, due to the dilutive impact from consolidating Smart's lower-paying subscriber base.

Merged entity's higher cost base drags on bottomline. Normalized 1HFY25 EBITDA (adjusted for integration costs) of IDR9.3t (+2% YoY) lagged revenue growth due to elevated costs across: (i) interconnection and other direct expenses: higher COGS from Link Net's fixed broadband subscriber acquisitions, (ii) labor: additional headcount arising from both the merger and Link Net, (iii) infrastructure – higher number of network sites and post-merger network integration, (iv) regulatory –higher frequency fees from additional spectrum acquired post-merger as well as increased license and USO fees on a larger revenue base, and (v) supplies and overhead – higher professional fees tied to integration activities.

Despite EBITDA growth, core net profit contracted 34% YoY, dragged by the acquisition of loss-making Smart Fren, which contributed to: (i) higher depreciation (excluding accelerated depreciation), and (ii) increased finance costs as gross debt more than doubled to IDR23.2b post-merger.

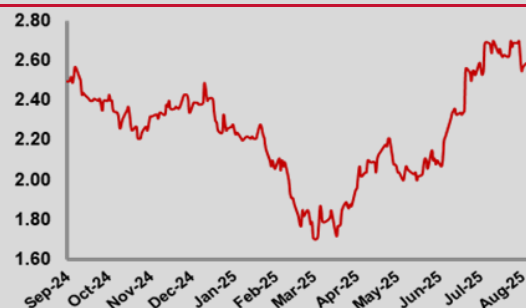
Key takeaways from XL's analyst briefing are as follows:

1. Post-merger, XL issued fresh FY25 guidance, comprising: (i) revenue growth (vs legacy XL Axiata pre-merger 2024 performance): in line with the market (as reported: 20%-30% growth), (ii) low-to-mid 40% EBITDA margin, (iii) capex of IDR20t-25t, and (iv) merger synergies of USD100m-200m.
2. The guided FY25 gross merger synergies are expected to materialize as opex savings in the P&L, primarily from lower tower leasing fees driven by post-merger network consolidation.

MARKET PERFORM ↔

Price : RM2.64
Target Price: RM2.70 ↑

Share Price Performance



KLCI 1,587.91
YTD KLCI chg -3.3%
YTD stock price chg 6.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AXIATA MK EQUITY
Market Cap (RM m)	24,249.6
Share Outstanding	9,182.8
52-week range (H)	2.74
52-week range (L)	1.63
3-mth avg. daily vol.	7,629,533
Free Float	43%
Beta	1.2

Major Shareholders

Khazanah Nasional Bhd	36.7%
Employees Provident Fund	18.4%
Amanah Saham Nasional Bhd	15.3%

Summary Earnings Table

FYE Dec (RM m)	2024A	2025F	2026F
Revenue	22,335	15,056	14,072
EBITDA	11,440	6,659	6,179
EBIT	4,098	2,204	2,280
PBT	2,564	1,293	1,365
Net Profit (NP)	947	477	504
Core PATAMI	852	477	504
Consensus (NP)	-	620.9	723.4
Earnings Revision	-	-	-
Core EPS (sen)	12.3	5.2	5.5
Core EPS Growth (%)	1199.6	-57.8	5.6
DPS (sen)	10.0	10.5	10.5
BVPS (RM)	2.3	2.3	2.2
PER (x)	21.4	50.8	48.1
PBV (x)	1.1	1.2	1.2
Net Gearing (x)	0.9	0.7	0.7
Div. Yield (%)	3.8	4.0	4.0

28 August 2025

3. Accelerated depreciation in 2QFY25 was mainly tied to network equipment expected to be retired following the planned surrender of XL-Smart's 900MHz spectrum to the regulator by Dec-25. Looking ahead, management expects the majority of these charges to be recognized in FY25, with a smaller residual portion carried into FY26.
4. Looking ahead, the group anticipates ARPU improvement, underpinned by: (i) ongoing market consolidation, and (ii) recent price adjustments to XL-Smart's starter packs.
5. Post-asset impairment exercise in 2QFY25 (c. IDR802b), Link Net's book value has been written down to around IDR1.3t.

Forecasts. Maintained.

Valuations. Following the completion of the XL-Smart merger and deconsolidation of XL Axiata, we reassessed our Sum-of-Parts TP, and find that XL's minority interest previously should have been completely removed by us. Having done so, a smaller MI deduction results in a higher Sum-of-Parts TP (refer below) of RM2.70 (from RM2.15).

Following a closer review of our Sum-of-Parts (SoP) valuation, we revised our TP to RM2.70 (from RM2.15). This adjustment more accurately reflects XL-Smart's valuation after fully removing the minority interest in XL (which is no longer required post completion of the XL-Smart merger and XL Axiata's deconsolidation) — as well as adjustments for debt housekeeping. The smaller deduction for minority interest and debt (which had been previously overstated) drove the uplift in our valuation. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

Investment case. AXIATA's digital telcos and TowerCo operations at frontier and emerging markets (i.e. Bangladesh, Sri Lanka, Cambodia) present growth opportunities - driven by low penetration rates and the upcoming roll-out of 5G. Additionally, AXIATA may unlock value through the monetization of its digital ventures (i.e. Boost and ADA) and infrastructure assets (Edotco and Link Net). However, we believe AXIATA's near-term earnings at its Indonesia operation may face pressure from: (i) elevated depreciation and financing costs at Link Net as it accelerates fixed broadband roll-out across Indonesia (where take-up currently lags deployment), and (ii) ARPU pressure in Indonesia driven by intense competition and inflationary headwinds. Maintain **MARKET PERFORM**.

Risks to our call include: (i) geopolitical instability at frontier markets (e.g. Sri Lanka & Bangladesh), (ii) capex up-cycle from the impending 5G roll-out in Indonesia could strain dividend capacity, and (iii) local currency volatility and depreciation against the USD may raise financing for servicing USD-denominated debt.

Results Highlights								
	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (IDR b)	FY25	FY25	Chg	FY24	Chg	FY25	FY24	Chg
Revenue	10,493.7	8,601.2	22.0%	8,613.3	21.8%	19,094.9	17,051.6	12.0%
EBITDA	5,644.5	4,335.0	30.2%	4,569.1	23.5%	9,979.5	9,116.4	9.5%
Depreciation	(4,541.8)	(2,970.8)	52.9%	(3,109.5)	46.1%	(7,512.7)	(6,173.8)	21.7%
Net Finance Costs	(1,066.5)	(744.0)	43.3%	(765.2)	39.4%	(1,810.5)	(1,507.7)	20.1%
JV and Associates	(9.9)	(92.1)	-89.3%	(51.3)	-80.7%	(102.0)	(102.0)	0.0%
EI	(1,891.3)	(4.9)	>100%	18.0	>100%	(1,896.2)	5.4	>100%
PBT	(1,864.9)	523.2	>-100%	661.1	>-100%	(1,341.7)	1,338.3	>-100%
Taxation	258.3	(134.9)	>100%	(171.4)	>100%	123.4	(301.2)	>100%
Minority Interest	(1.5)	(3.7)	-59.8%	(3.9)	-62.1%	(5.1)	(12.2)	-58.0%
Reported Net Profit	(1,608.1)	384.6	>-100%	485.9	>-100%	(1,223.5)	1,024.9	>-100%
Core Net Profit	283.2	389.5	-27.3%	467.9	-39.5%	672.7	1,019.5	-34.0%
Core EPS (IDR)	14.4	29.4	-50.8%	34.7	-58.3%	43.8	76.6	-42.8%
EBITDA margin	53.8%	50.4%		53.0%		52.3%	53.5%	
PBT Margin	-17.8%	6.1%		7.7%		-7.0%	7.8%	
Core Net margin	2.7%	4.5%		5.4%		3.5%	6.0%	

Source: Company, Kenanga Research

28 August 2025

Key Operating Indicators

	2Q	1Q	QoQ	2Q	YoY
Subscribers (m)	FY25	FY25	Net Adds	FY24	Net Adds
- Postpaid	1,900	1,760	140	1,645	255
- Prepaid	80,700	57,057	23,643	56,854	23,846
- Home Subscribers	980	1,020	(40)	267	713

	2Q	1Q	QoQ	2Q	YoY
YTD ARPU (IDR k)	FY25	FY25	Change	FY24	Change
- Postpaid	84	85	(1)	91	(7)
- Prepaid	37	38	(1)	43	(6)
- Blended	38	40	(2)	44	(6)

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)
CDB (Malaysia)	CDB TP	52,792	33.0%	20%	13,937
XL Smart (Indonesia)	5.0x EV/EBITDA	24,696	36.9%	20%	7,290
Robi (Bangladesh)	5.0x EV/EBITDA	8,546	61.9%	20%	4,233
Dialog (Sri Lanka)	3.0x EV/EBITDA	3,181	74.0%	20%	1,883
Smart (Cambodia)	3.0x EV/EBITDA	3,208	72.5%		2,326
Link Net (Indonesia)	5.0x EV/EBITDA	1,184.8	79.5%		942
EDOTCO	7.0x EV/EBITDA	12,920.1	63.0%		8,140
Digital Services	EV/Sales	1,099.93	100.0%		1,100
Total Effective Enterprise Value					39,850
(-) Hold Co Net Debt and MI					-15,048
Total Equity Value					24,802
No. of Shares (m)					9,179
Target Price (RM)					2.70

Source: Kenanga Research

28 August 2025

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	MP	2.64	2.15	-18.6%	24,249.6	Y	12/2025	5.2	5.5	-44.0%	5.6%	50.8	48.1	1.3	2.3%	11.0	4.2%
CELCOMDIGI BHD	OP	3.65	4.19	14.8%	428,049.6	Y	12/2025	14.4	16.1	-5.8%	11.6%	25.4	22.7	2.6	10.4%	12.0	3.3%
MAXIS BHD	MP	3.58	3.56	-0.6%	28,049.6	Y	12/2025	19.7	19.1	8.8%	-3.0%	18.1	18.7	4.5	25.5%	16.0	4.5%
OCK GROUP BHD	MP	0.415	0.380	-8.4%	436.2	Y	06/2025	3.9	2.7	30.1%	-31.9%	10.6	15.5	0.7	6.4%	2.0	4.8%
TELEKOM MALAYSIA BHD	OP	7.03	8.15	15.9%	26,979.3	Y	12/2025	47.4	47.6	-11.8%	0.4%	14.8	14.8	2.5	17.3%	33.0	4.7%
TIME DOTCOM BHD	OP	5.21	5.91	13.4%	9,632.4	Y	12/2025	26.3	28.9	11.1%	10.0%	19.8	18.0	2.5	12.6%	32.0	6.1%
SECTOR AGGREGATE					517,396.7					-8.2%	3.6%	85.8	82.8	2.4	12.4%		4.6%

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

28 August 2025

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies. Kenanga Investment Bank Berhad being a full-service investment bank offers investment banking products and services and acts as issuer and liquidity provider with respect to a security that may also fall under its research coverage.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my