



Company report

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AXIATA GROUP

(AXIATA MK EQUITY, AXIA.KL)

27 Oct 2020

Aiming for profit and dividend growth

BUY

(Maintained)

Rationale for report: Company update

| | |
|------------------|---------------|
| Price | RM2.78 |
| Fair Value | RM4.50 |
| 52-week High/Low | RM4.75/RM2.66 |

Key Changes

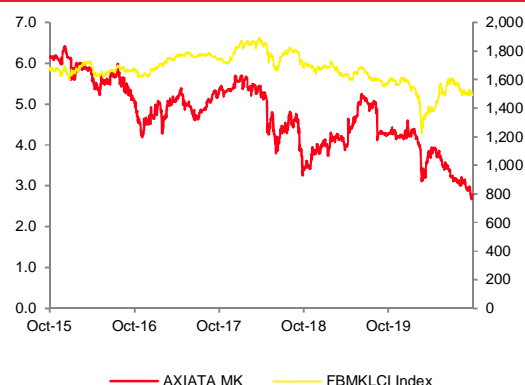
| | |
|------------|---|
| Fair value | ↔ |
| EPS | ↔ |

| YE to Dec | FY19 | FY20F | FY21F | FY22F |
|-------------------------------|----------|----------|----------|----------|
| Revenue (RM mil) | 24,583.3 | 25,022.3 | 25,749.3 | 26,522.5 |
| Core net profit (RM mil) | 1,022.0 | 525.6 | 866.0 | 1,110.1 |
| FD Core EPS (sen) | 11.2 | 5.7 | 9.5 | 12.1 |
| FD Core EPS growth (%) | (15.0) | (48.6) | 64.8 | 28.2 |
| Consensus Net Profit (RM mil) | - | 637.5 | 895.1 | 1,114.7 |
| DPS (sen) | 9.5 | 9.5 | 9.5 | 9.5 |
| PE (x) | 24.9 | 48.5 | 29.4 | 22.9 |
| EV/EBITDA (x) | 3.5 | 4.1 | 3.7 | 3.4 |
| Div yield (%) | 3.0 | 3.0 | 3.0 | 3.0 |
| ROE (%) | 8.7 | 3.3 | 5.6 | 7.1 |
| Net Gearing (%) | 77.9 | 107.9 | 98.0 | 84.8 |

Stock and Financial Data

| | |
|------------------------------|---------------------------------|
| Shares Outstanding (million) | 9,163.6 |
| Market Cap (RM mil) | 25,474.7 |
| Book Value (RM/share) | 1.77 |
| P/BV (x) | 1.6 |
| ROE (%) | 8.7 |
| Net Gearing (%) | 77.9 |
| Major Shareholders | Khazanah (37.6%) EPF (17.8%) |
| Free Float | 0.4 |
| Avg Daily Value (RM mil) | 10.0 |

| Price performance | 3mth | 6mth | 12mth |
|-------------------|--------|--------|--------|
| Absolute (%) | (13.9) | (24.7) | (34.5) |
| Relative (%) | (8.5) | (31.0) | (31.2) |



Investment Highlights

- We maintain our BUY call on Axiata Group (Axiata) with an unchanged sum-of-parts-based fair value of RM4.50/share, which implies an FY20F EV/EBITDA of 5.3x – 1 standard deviation below its 3-year average of 6x.
- Our forecasts are maintained following a virtual conference call with Axiata's group chief financial officer Vivek Sood today. These are the salient highlights:
 - Management indicated that the businesses for most of its regional operations have recovered in 3QFY20 following the relaxation of Covid-19 lockdowns, except for Ncell in Nepal. Nepal is still under prolonged movement restrictions amid high daily infection rates, delayed spectrum availability and population migration to rural areas that have adversely impacted Ncell's subscriber trends.
 - The group's 67%-owned XL Axiata is performing well given the relatively lenient movement restrictions in Indonesia together with the utilisation of edotco's towers. The possible removal of the telecommunication sector from Indonesia's negative investment list could mean new strategic investors that could help fund edotco's tower expansion programme. However, management is cautious on Malaysia's recently tightened conditional movement control order impact on wholly-owned Celcom's subscriber rates and average revenue per user.
 - Vivek indicated that following Axiata's 2QFY20 normalised earnings plunge by 63% QoQ and 79% YoY to RM45mil, the group's 3QFY20 is expected to rebound to a net profit that is better than 1QFY20 which registered RM121mil. In our view, this remains within our FY20F earnings of RM526mil, which is 18% below consensus' RM638mil.
 - In management's view, Axiata's current share price weakness, which has underperformed the FBM KLCI by 27% YTD, is reflective of regional telcos' rising capex and Covid-19 challenges against the backdrop of 5G deployment requirements. We note that Singapore Telecommunications' share price underperformed Axiata by 6% YTD.
 - Management still expects to mostly achieve its RM5bil cost savings programme by the end of this year, which has been fast-tracked from an earlier 2017–2021 timeline. This is likely to provide support to the group's 2HFY20 earnings.
 - The transition of current group president/CEO Tan Sri Jamaludin Ibrahim to Datuk Izzaddin Idris by Dec 2020 is currently going smoothly. Both are jointly planning and executing the group's strategy to optimise operational efficiencies and deliver on profit and dividend targets with the group positioning to be a dividend yielding company over the next 3–5 years.

- The group plans to realise the value of digital businesses with new strategic investors which could limit Axiata's own capital commitments to a minimal US\$15–20mil over the next 3 years most of which will be utilised for digital finance services.
- While Vivek could not provide a timeline for consolidation amongst players in Indonesia and Malaysia, he indicated such developments would likely be within a country as opposed to a multi-jurisdictional merger as in the case of the earlier abortive Axiata-Telenor plan. He inferred that discussions are currently underway on value propositions as synergies would likely stem from network cost structures while opting for dual marketing strategies, similar to the merger of XL and Axis in Indonesia.

Recall that management views that consolidation amongst players in the sector is inevitable in Indonesia and Malaysia given the intense competition, costly spectrum renewal requirements and capex intensity, as highlighted in our thematic update on 11 August 2020.

- For a regional telco operator with excellent opportunities to further monetise its assets and engage in merger and acquisition activities, Axiata currently trades at a bargain FY21F EV/EBITDA of 4x vs. Maxis' 12x.

EXHIBIT 1: SUM-OF-PARTS BREAKDOWN

| Operational companies | Country | Forex rate | Methodology | Valuation (RMmil) | Axiata Stake (%) | Effective value (RMmil) | Share % |
|---|------------|------------|-------------------------------------|-------------------|------------------|-------------------------|--------------|
| Celcom | Malaysia | 1 | DCF (WACC 7%, Terminal growth 2%) | 24,603.0 | 100.0 | 24,603.0 | 54.4 |
| XL | Indonesia | 3523 | Market Value | 7,718.8 | 66.5 | 5,133.0 | 11.3 |
| Dialog | Sri Lanka | 44.7 | Market Value | 2,058.7 | 83.3 | 1,715.3 | 3.8 |
| Robi | Bangladesh | 20.3 | 5x FY20F EV/EBITDA | 4,172.4 | 68.7 | 2,866.5 | 6.3 |
| Smart | Cambodia | 993 | 5x FY20F EV/EBITDA | 2,854.8 | 87.5 | 2,496.8 | 5.5 |
| M1 | Singapore | 0.33 | VGO price from Connectivity Pte Ltd | | 28.7 | 1,656.5 | 3.7 |
| NCELL | Nepal | 26.9 | 5x FY20F EBITDA | 5,428.2 | 80.0 | 4,342.5 | 9.6 |
| Axiata Digital Services | | | 10% investment by Mitsui & Co | 2,065.0 | 90.0 | 1,858.5 | |
| Pegasus 7 Ventures | | | Transfer value to management co | 578.2 | 100.0 | 578.2 | |
| Total Equity Value | | | | | | 45,250.4 | 100.0 |
| Add Shareholders funds as at 31 Dec 2019 | | | | | | 15,264.71 | |
| Less: Cost of subsidiaries and associates | | | | | | (20,801.35) | |
| Total Sum-of-Parts | | | | | | 39,713.7 | |
| No of shares (mil) | | | | | | 8,816.9 | |
| Sum-of-parts (RM/share) | | | | | | 4.50 | |

Source: AmInvestment Bank

EXHIBIT 2: PB BAND CHART

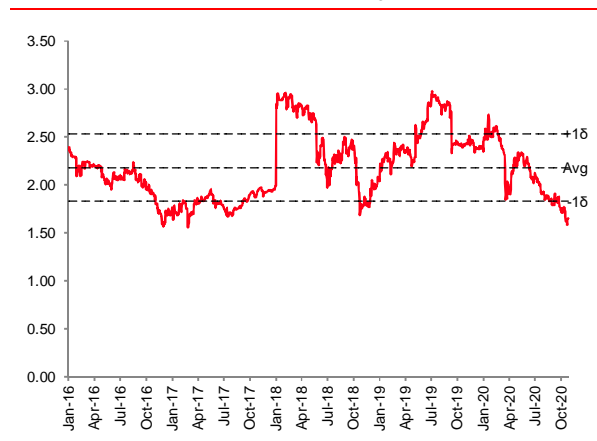


EXHIBIT 3: PE BAND CHART

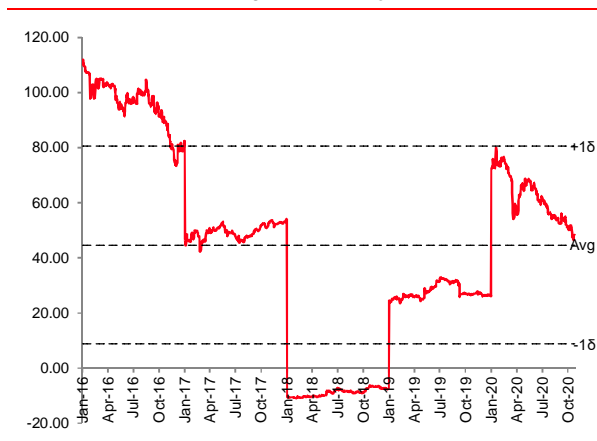


EXHIBIT 4: FINANCIAL DATA

| Income Statement (RMmil, YE 31 Dec) | FY18 | FY19 | FY20F | FY21F | FY22F |
|--|------------------|------------------|------------------|------------------|------------------|
| Revenue | 23,885.8 | 24,583.3 | 25,022.3 | 25,749.3 | 26,522.5 |
| EBITDA | 11,003.0 | 11,032.4 | 10,339.1 | 10,869.0 | 11,345.8 |
| Depreciation/Amortisation | (7,644.8) | (7,084.2) | (7,381.4) | (7,750.5) | (7,750.5) |
| Operating income (EBIT) | 3,358.2 | 3,948.1 | 2,957.7 | 3,118.6 | 3,595.3 |
| Other income & associates | (6,380.4) | 432.1 | 17.8 | 9.4 | 13.7 |
| Net interest | (1,050.9) | (1,508.0) | (1,526.2) | (1,678.8) | (1,762.7) |
| Exceptional items | - | - | - | - | - |
| Pretax profit | (4,073.1) | 2,872.2 | 1,449.3 | 1,449.2 | 1,846.3 |
| Taxation | (901.6) | (1,057.1) | (579.7) | (434.8) | (553.9) |
| Minorities/pref dividends | 212.7 | (357.5) | (344.0) | (148.4) | (182.3) |
| Net profit | (4,762.0) | 1,457.6 | 525.6 | 866.0 | 1,110.1 |
| Core net profit | 1,190.0 | 1,022.0 | 525.6 | 866.0 | 1,110.1 |
| Balance Sheet (RMmil, YE 31 Dec) | FY18 | FY19 | FY20F | FY21F | FY22F |
| Fixed assets | 27,399.0 | 25,819.4 | 30,202.4 | 30,559.1 | 31,113.6 |
| Intangible assets | 20,926.7 | 20,729.6 | 19,693.2 | 18,708.5 | 17,773.1 |
| Other long-term assets | 3,227.4 | 10,468.0 | 10,506.0 | 10,548.7 | 10,596.0 |
| Total non-current assets | 51,553.0 | 57,017.1 | 60,401.5 | 59,816.3 | 59,482.7 |
| Cash & equivalent | 5,071.4 | 4,224.1 | 1,867.4 | 5,254.0 | 9,129.1 |
| Stock | 219.1 | 154.3 | 109.7 | 112.9 | 116.3 |
| Trade debtors | 5,115.2 | 4,865.9 | 4,113.3 | 4,232.8 | 4,359.9 |
| Other current assets | 1,896.2 | 373.3 | 392.0 | 411.6 | 432.2 |
| Total current assets | 12,302.0 | 9,617.6 | 6,482.4 | 10,011.2 | 14,037.4 |
| Trade creditors | 12,484.4 | 12,291.3 | 10,968.7 | 11,287.3 | 11,626.3 |
| Short-term borrowings | 4,483.2 | 7,631.8 | 8,394.9 | 9,234.4 | 10,157.9 |
| Other current liabilities | 1,434.5 | 4,530.5 | 4,299.5 | 4,364.4 | 4,666.7 |
| Total current liabilities | 18,402.2 | 24,453.6 | 23,663.1 | 24,886.2 | 26,450.8 |
| Long-term borrowings | 14,646.6 | 9,194.5 | 10,113.9 | 11,125.3 | 12,237.9 |
| Other long-term liabilities | 7,591.6 | 10,766.6 | 11,304.9 | 11,870.2 | 12,463.7 |
| Total long-term liabilities | 22,238.2 | 19,961.1 | 21,418.9 | 22,995.5 | 24,701.6 |
| Shareholders' funds | 17,476.8 | 16,180.8 | 15,418.7 | 15,414.1 | 15,653.7 |
| Minority interests | 5,737.9 | 6,039.2 | 6,383.2 | 6,531.6 | 6,714.0 |
| BV/share (RM) | 1.93 | 1.77 | 1.68 | 1.68 | 1.71 |
| Cash Flow (RMmil, YE 31 Dec) | FY18 | FY19 | FY20F | FY21F | FY22F |
| Pretax profit | (4,073.1) | 2,872.2 | 1,449.3 | 1,449.2 | 1,846.3 |
| Depreciation/Amortisation | 7,644.8 | 7,084.2 | 7,381.4 | 7,750.5 | 7,750.5 |
| Net change in working capital | (139.3) | 188.0 | 118.3 | 196.0 | 208.5 |
| Others | (1,347.2) | (2,368.4) | (1,977.3) | (1,990.3) | (2,185.7) |
| Cash flow from operations | 2,085.2 | 7,776.1 | 6,971.7 | 7,405.3 | 7,619.5 |
| Capital expenditure | (6,879.1) | (6,711.2) | (5,630.0) | (6,437.3) | (6,630.6) |
| Net investments & sale of fixed assets | - | - | - | - | - |
| Others | - | - | - | - | - |
| Cash flow from investing | (6,879.1) | (6,711.2) | (5,630.0) | (6,437.3) | (6,630.6) |
| Debt raised/(repaid) | 1,891.8 | 2,894.8 | 1,897.8 | 2,000.0 | 2,000.0 |
| Equity raised/(repaid) | - | - | - | - | - |
| Dividends paid | (762.6) | (861.7) | (870.5) | (870.5) | (870.5) |
| Others | - | - | - | - | - |
| Cash flow from financing | 1,129.2 | 2,033.1 | 1,027.3 | 1,129.5 | 1,129.5 |
| Net cash flow | (3,664.6) | 3,097.9 | 2,369.0 | 2,097.4 | 2,118.3 |
| Net cash/(debt) b/f | 744.5 | (4,975.4) | (3,150.0) | (2,131.7) | (1,704.2) |
| Net cash/(debt) c/f | (2,920.1) | (1,877.5) | (781.0) | (34.3) | 414.1 |
| Key Ratios (YE 31 Dec) | FY18 | FY19 | FY20F | FY21F | FY22F |
| Revenue growth (%) | (2.1) | 2.9 | 1.8 | 2.9 | 3.0 |
| EBITDA growth (%) | 1.6 | 0.3 | (6.3) | 5.1 | 4.4 |
| Pretax margin (%) | (17.1) | 11.7 | 5.8 | 5.6 | 7.0 |
| Net profit margin (%) | (19.9) | 5.9 | 2.1 | 3.4 | 4.2 |
| Interest cover (x) | 3.2 | 2.6 | 1.9 | 1.9 | 2.0 |
| Effective tax rate (%) | 22.1 | 36.8 | 40.0 | 30.0 | 30.0 |
| Dividend payout (%) | nm | 59.7 | 165.6 | 100.5 | 78.4 |
| Debtors turnover (days) | 73 | 74 | 65 | 59 | 59 |
| Stock turnover (days) | 3 | 3 | 2 | 2 | 2 |
| Creditors turnover (days) | 192 | 184 | 170 | 158 | 158 |

Source: Company, AmInvestment Bank Bhd estimates

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