

# Axiata Group (AXIATA MK)

## Proceeding with Link Net

### Formalises Link Net acquisition

Having previously entered into a non-binding term sheet in Jul 2021, Axiata has formalised the acquisition of 66% of Link Net for MYR2.55b cash. The rationale (convergence) has been well-broked, and deal multiple appears reasonable at c.14x historical PER. Reiterate BUY with an unchanged MYR4.50 TP (SOP-based). Axiata remains on course for a multi-year earnings recovery.

### Transaction details

Axiata and its Indonesia subsidiary XL (EXCL IJ, Not rated, CP: IDR3,160) has signed a conditional share purchase agreement to jointly acquire 66.03% of PT Link Net (LINK IJ, Not rated, CP: IDR4,360) for IDR8.72tn (MYR2.55b), or IDR4,800/share. Axiata and XL will each own 46.03% and 20% of Link Net respectively, with Axiata to extend a tender offer for the remaining Link Net shares.

### Reasonable multiples

The deal values Link Net at an equity value of IDR13.21tn (MYR3.86b), representing a historical PER of c.14x (Link Net recorded net profit of IDR942b in 2020, and IDR687b in 9M21). In our view, the deal had to be done at Axiata's level in order to preserve XL's balance sheet (net debt-to-EBITDA would have surpassed 3x if the transaction was undertaken solely by XL). By our estimates, the transaction would raise Axiata's end 2022 net debt-to-EBITDA by 20-30bps to c.2.0x (up to c.2.1x upon conclusion of the tender offer).

### Requires shareholders' approval

Our earnings forecasts and MYR4.50 TP (derived from a sum-of-parts with each op-co valued on DCF) are unchanged. The deal is subject to regulatory approvals and requires Axiata shareholder approval. Axiata aims to complete the acquisition in 3Q22, and intends to maintain the listing status of Link Net.

FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	24,583	24,203	24,886	25,495	26,086
EBITDA	10,619	10,657	11,076	11,362	11,645
Core net profit	960	865	1,156	1,448	1,658
Core EPS (sen)	10.5	9.4	12.6	15.8	18.1
Core EPS growth (%)	(5.5)	(10.4)	33.5	25.3	14.5
Net DPS (sen)	9.5	7.0	10.7	13.4	15.4
Core P/E (x)	39.3	39.6	29.0	23.2	20.2
P/BV (x)	2.3	1.9	1.9	1.9	1.8
Net dividend yield (%)	2.3	1.9	2.9	3.7	4.2
ROAE (%)	8.7	2.2	6.5	8.1	9.1
ROAA (%)	1.5	1.3	1.7	2.1	2.3
EV/EBITDA (x)	6.1	5.7	5.4	5.3	5.1
Net gearing (%) (incl perps)	96.5	84.5	78.1	75.6	71.3
Consensus net profit	-	-	1,142	1,282	1,572
MKE vs. Consensus (%)	-	-	1.2	13.0	5.5

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## BUY

Share Price	MYR 3.66
12m Price Target	MYR 4.50 (+25%)
Previous Price Target	MYR 4.50

### Company Description

Axiata Group owns a portfolio of mobile telcos, network infrastructure and digital internet companies in 10 countries across Asia.

### Statistics

52w high/low (MYR)	4.19/3.29
3m avg turnover (USDm)	3.1
Free float (%)	43.8
Issued shares (m)	9,170
Market capitalisation	MYR33.6B USD8.0B

### Major shareholders:

Khazanah Nasional Bhd. (Investment Compa	36.8%
Employees Provident Fund	17.0%
Permodalan Nasional Bhd.	16.7%

### Price Performance



— Axiata - (LHS, MYR) — Axiata / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	(2)	(9)	10
Relative to index (%)	(1)	(5)	14

Source: FactSet

ESG@MAYBANK IBG  
Tear Sheet Insert

Risk Rating & Score <sup>1</sup>	28.7 (Medium)
Score Momentum <sup>2</sup>	+0.2
Last Updated	05 Oct 2021
Controversy Score <sup>3</sup> (Updated: 27 Nov 2021)	2 - Business ethics (acc. & tax) incidents

## Business Model & Industry Issues

- The ESG pressure faced by telcos is overall benign. Telcos are not major emitters and thus do not pose a significant threat to the environment. Major social issues relate to digital inclusion and data protection, and can generally be well-managed from an operational perspective. Axiata however also operates in frontier markets, and thus faces relatively higher operating risks.
- We see telcos are potential ESG beneficiaries. Given the industry's extensive population reach and core speciality in connectivity, telcos are well-positioned to serve as ESG enablers, helping other industries address their respective ESG issues. Axiata has already invested tangibly in a digital business arm, which at the moment is scaling up and is thus still loss-making. Axiata has demonstrated the monetisation potential of the business through divestment of minority stakes.
- Given its conglomerate-like structure, Axiata is possibly more inclined on a relative basis to participate in M&As. Axiata has initiated a number of M&As in recent years, both at the holding-co level and among its op-cos. Results have unfortunately been mixed, with the supposed accretion not materialising for some transactions.

## Material E issues

- Environmental risks are inherently less pertinent for telcos, with operations being neither energy nor emission intensive. Globally, GSMA (the industry body) has committed to a "Zero by 2050" carbon emission target, which Axiata is aiming to align to.
- The net zero target is potentially a challenge for Axiata as it is operating in regions where subscribers and networks are still growing. Axiata recorded a 15% increase in energy consumption in 2020, with networks accounting for 98% of total energy consumption.
- Measures undertaken include investing in new energy efficient equipment, transferring sites from diesel to grid, installing outdoor cabinets which do not require air conditioning units and building renewable energy capacity. edotco, its tower arm, has reduced its GHG emissions by 58% per site through innovative tower designs

## Material S issues

- Internet connectivity is deemed as an essential service. Axiata's op-cos in Malaysia, Nepal, Indonesia and Sri Lanka had offered discounted/free data to subscribers during the COVID-19 pandemic, which affected monetisation.
- The emphasis on digital inclusion and rural connectivity means telcos could be pressured to invest in areas that are not commercially-viable. In Malaysia, the regulator funds such investments through the USP fund (telcos contribute 6% of revenue to the fund annually).
- Axiata operates in emerging and frontier markets, where many have no access to formal financial services. Axiata has developed digital financial services platforms.
- The male-female split of Axiata's workforce stood at 69%-31% as at 2020 (Celcom standalone meanwhile is at a commendable 54%-46%). Female representation at senior management is at a mere 18%.

## Key G metrics and issues

- Axiata is a government-linked company. Khazanah Nasional, the national sovereign fund, owns 36.8% of Axiata and has board representation.
- The Board currently has 10 Directors, comprising 1 Managing Director (CEO), 3 Non-Independent Non-Executive Directors and 6 Independent Non-Executive Directors (including the chairman).
- There are presently only 2 women on the Board. The search for additional female Directors is in progress, with the Board aiming to comply with the 30% female representation target.
- Axiata does not disclose the remuneration details of senior management for confidentiality reasons.
- Axiata has been audited by PricewaterhouseCoopers for at least the past decade.
- Axiata's track record with dividends is average, given that capex requirements (due to growth opportunities) are still high in many markets that it operates in.
- Axiata had in 2019, announced it was in talks with Telenor to merge their respective Asian operations. The talks were subsequently terminated. In 2021, Axiata and Telenor began talks for a merger of Celcom and Digi.
- Axiata's last major transaction was the acquisition of Ncell in 2017. This transaction was unfortunately mired with issues as capital gains tax was subsequently imposed on Ncell (instead of the seller) following a change of the Nepalese government.
- Axiata's has initiated a number of M&As at its op-cos (Smart-Hello in Cambodia, XL-Axis in Indonesia, Robi-Airtel in Bangladesh), mainly on the basis of market consolidation. Results have unfortunately been mixed, with the supposed accretion not materialising for some transactions.

<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. <sup>3</sup>**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

**Axiata: Revenue, EBITDA and net profit split**

(MYR m)	Revenue		Revenue		EBITDA		EBITDA		Net profit		Net profit	
	2021E	%	2022E	%	2021E	%	2022E	%	2021E	%	2022E	%
Malaysia	6,347	26%	6,447	25%	2,666	24%	2,740	24%	616	53%	832	57%
Indonesia	7,500	30%	7,593	30%	3,750	34%	3,797	33%	207	18%	223	15%
Bangladesh	3,838	15%	3,926	15%	1,612	15%	1,649	15%	73	6%	78	5%
Sri Lanka	2,992	12%	3,161	12%	1,167	11%	1,233	11%	387	33%	431	30%
Nepal	1,455	6%	1,465	6%	851	8%	828	7%	193	17%	188	13%
Cambodia	1,370	6%	1,419	6%	740	7%	766	7%	242	21%	265	18%
edotco	1,984	8%	2,083	8%	1,190	11%	1,250	11%	182	16%	185	13%
Others	-600	-2%	-600	-2%	-900	-8%	-900	-8%	-745	-64%	-755	-52%
<b>Total</b>	<b>24,886</b>		<b>25,495</b>		<b>11,076</b>		<b>11,362</b>		<b>1,156</b>		<b>1,448</b>	

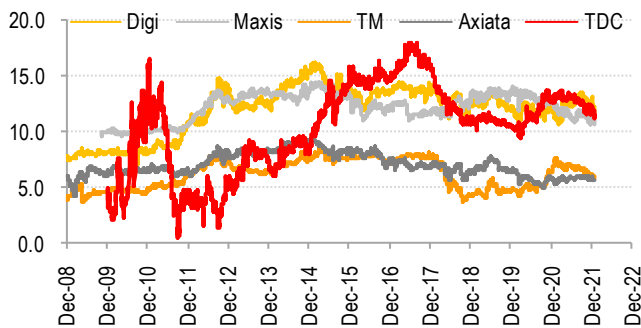
Source: Maybank IBG Research

**Axiata: Target price derivation**

(MYR m)	Value	Stake	Attri. value	per share	%
Malaysia	17,487	100%	17,487	1.91	42%
Indonesia	10,490	61%	6,449	0.70	16%
Bangladesh	3,411	62%	2,108	0.23	5%
Sri Lanka	4,776	83%	3,979	0.43	10%
Nepal	3,037	80%	2,430	0.26	6%
Cambodia	6,922	73%	5,018	0.55	12%
Edotco	7,139	63%	4,498	0.49	11%
Digital businesses			1,898	0.21	5%
Residual net cash			-2,611	-0.28	-6%
<b>Total equity value</b>			<b>41,257</b>	<b>4.50</b>	<b>100%</b>

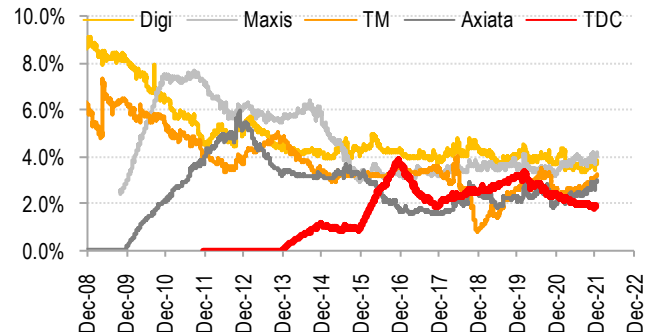
Source: Maybank IBG Research

**EV/EBITDA - Malaysia telcos**



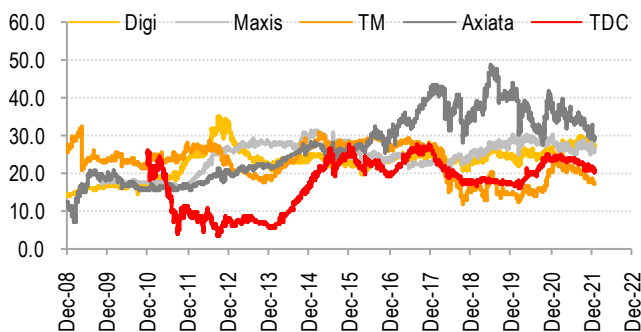
Source: Bloomberg, Maybank IBG Research

**Net dividend yield - Malaysia telcos**



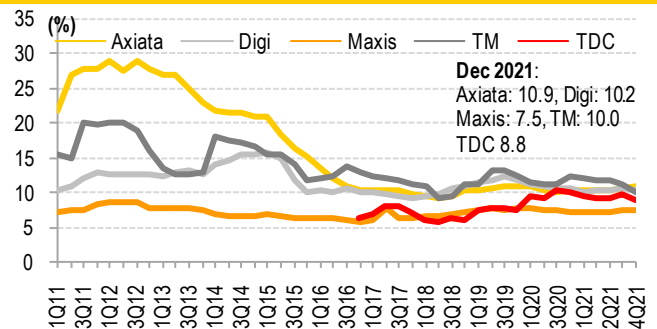
Source: Bloomberg, Maybank IBG Research

**PER - Malaysia telcos**



Source: Bloomberg, Maybank IBG Research

**Foreign shareholding**



Source: Companies

## Risk statement

There are several risk factors for our earnings estimates, price target, and rating for Axiata. Competitive developments such as price wars would adversely affect monetisation and thus profitability. Regulatory developments pertaining to spectrum fees, taxation or product pricing also pose a risk to Axiata's earnings. Axiata is also exposed to currency risk.

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Key Metrics</b>					
P/E (reported) (x)	27.5	89.2	29.0	23.2	20.2
Core P/E (x)	39.3	39.6	29.0	23.2	20.2
P/BV (x)	2.3	1.9	1.9	1.9	1.8
P/NTA (x)	(2.8)	(2.9)	(2.9)	(2.9)	(2.9)
Net dividend yield (%)	2.3	1.9	2.9	3.7	4.2
FCF yield (%)	8.5	15.2	11.9	12.5	14.4
EV/EBITDA (x)	6.1	5.7	5.4	5.3	5.1
EV/EBIT (x)	17.8	24.2	16.3	14.5	14.1
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	24,583.3	24,203.2	24,886.1	25,494.7	26,086.0
EBITDA	10,619.2	10,656.9	11,076.0	11,362.3	11,645.3
Depreciation	(6,963.4)	(8,144.2)	(7,396.0)	(7,203.8)	(7,386.2)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	3,655.7	2,512.6	3,680.0	4,158.5	4,259.2
Net interest income / (exp)	(1,508.0)	(1,515.9)	(1,345.5)	(1,244.6)	(1,197.4)
Associates & JV	(3.5)	18.7	0.0	0.0	0.0
Exceptionals	727.9	155.6	114.0	114.0	114.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	2,872.2	1,171.1	2,448.5	3,027.9	3,175.7
Income tax	(1,057.1)	(547.1)	(790.9)	(1,046.7)	(960.5)
Minorities	(357.5)	(258.9)	(501.7)	(532.8)	(557.3)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	1,457.6	365.2	1,155.9	1,448.5	1,658.0
Core net profit	959.7	865.4	1,155.9	1,448.5	1,658.0
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	4,224.1	7,194.3	8,801.9	9,411.1	10,394.0
Accounts receivable	4,865.9	4,362.4	4,431.8	4,540.2	4,645.5
Inventory	154.3	141.7	145.2	146.1	149.5
Property, Plant & Equip (net)	25,641.8	24,495.6	24,453.4	24,565.7	24,457.6
Intangible assets	29,836.4	29,333.1	29,546.3	29,751.5	29,948.8
Investment in Associates & JVs	229.1	308.4	301.6	294.8	288.0
Other assets	1,683.1	2,126.3	2,126.3	2,126.3	2,126.3
<b>Total assets</b>	<b>66,634.7</b>	<b>67,961.7</b>	<b>69,806.6</b>	<b>70,835.7</b>	<b>72,009.7</b>
ST interest bearing debt	9,074.5	4,705.9	5,155.9	5,355.9	5,505.9
Accounts payable	12,291.3	12,005.8	11,910.3	11,983.4	12,258.9
LT interest bearing debt	16,592.1	22,668.2	23,118.2	23,318.2	23,468.2
Other liabilities	6,457.0	4,703.0	4,703.0	4,703.0	4,703.0
<b>Total Liabilities</b>	<b>44,414.7</b>	<b>44,082.3</b>	<b>44,886.8</b>	<b>45,359.9</b>	<b>45,935.5</b>
Shareholders Equity	16,180.8	17,641.1	17,814.5	18,031.8	18,280.5
Minority Interest	6,039.2	6,238.3	7,105.2	7,443.9	7,793.7
<b>Total shareholder equity</b>	<b>22,220.0</b>	<b>23,879.4</b>	<b>24,919.7</b>	<b>25,475.7</b>	<b>26,074.3</b>
<b>Total liabilities and equity</b>	<b>66,634.7</b>	<b>67,961.7</b>	<b>69,806.6</b>	<b>70,835.7</b>	<b>72,009.7</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	2,872.2	1,171.1	2,448.5	3,027.9	3,175.7
Depreciation & amortisation	6,963.4	8,144.2	7,396.0	7,203.8	7,386.2
Adj net interest (income)/exp	1,508.0	1,515.9	1,345.5	1,244.6	1,197.4
Change in working capital	1,005.8	230.6	(168.4)	(36.2)	166.9
Cash taxes paid	(1,181.8)	(916.4)	(790.9)	(1,046.7)	(960.5)
Other operating cash flow	(1,277.4)	(1,385.9)	6.8	6.8	6.8
Cash flow from operations	9,890.2	8,759.5	10,237.5	10,400.2	10,972.5
Capex	(6,702.4)	(3,558.1)	(6,239.1)	(6,193.3)	(6,147.5)
Free cash flow	3,187.8	5,201.4	3,998.4	4,206.9	4,825.0
Dividends paid	(538.3)	(596.0)	(982.5)	(1,231.2)	(1,409.3)
Equity raised / (purchased)	16.4	0.0	0.0	0.0	0.0
Change in Debt	(2,181.2)	1,393.4	900.0	400.0	300.0
Other invest/financing cash flow	(1,166.8)	(2,271.4)	(2,308.2)	(2,766.5)	(2,732.8)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(682.1)	3,727.4	1,607.6	609.2	982.9

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	2.9	(1.5)	2.8	2.4	2.3
EBITDA growth	27.4	0.4	3.9	2.6	2.5
EBIT growth	330.9	(31.3)	46.5	13.0	2.4
Pretax growth	nm	(59.2)	109.1	23.7	4.9
Reported net profit growth	nm	(74.9)	216.6	25.3	14.5
Core net profit growth	(5.0)	(9.8)	33.6	25.3	14.5
<b>Profitability ratios (%)</b>					
EBITDA margin	43.2	44.0	44.5	44.6	44.6
EBIT margin	14.9	10.4	14.8	16.3	16.3
Pretax profit margin	11.7	4.8	9.8	11.9	12.2
Payout ratio	59.4	175.7	85.0	85.0	85.0
<b>DuPont analysis</b>					
Net profit margin (%)	5.9	1.5	4.6	5.7	6.4
Revenue/Assets (x)	0.4	0.4	0.4	0.4	0.4
Assets/Equity (x)	4.1	3.9	3.9	3.9	3.9
ROAE (%)	8.7	2.2	6.5	8.1	9.1
ROAA (%)	1.5	1.3	1.7	2.1	2.3
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	70.0	68.6	63.6	63.3	63.4
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	nm	nm	nm	nm	nm
Dividend cover (x)	1.7	0.6	1.2	1.2	1.2
Current ratio (x)	0.4	0.7	0.8	0.8	0.8
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.5	1.5	1.6	1.6	1.6
Net gearing (%) (incl perps)	96.5	84.5	78.1	75.6	71.3
Net gearing (%) (excl. perps)	96.5	84.5	78.1	75.6	71.3
Net interest cover (x)	2.4	1.7	2.7	3.3	3.6
Debt/EBITDA (x)	2.4	2.6	2.6	2.5	2.5
Capex/revenue (%)	27.3	14.7	25.1	24.3	23.6
Net debt/ (net cash)	21,442.5	20,179.8	19,472.1	19,262.9	18,580.0

Source: Company; Maybank

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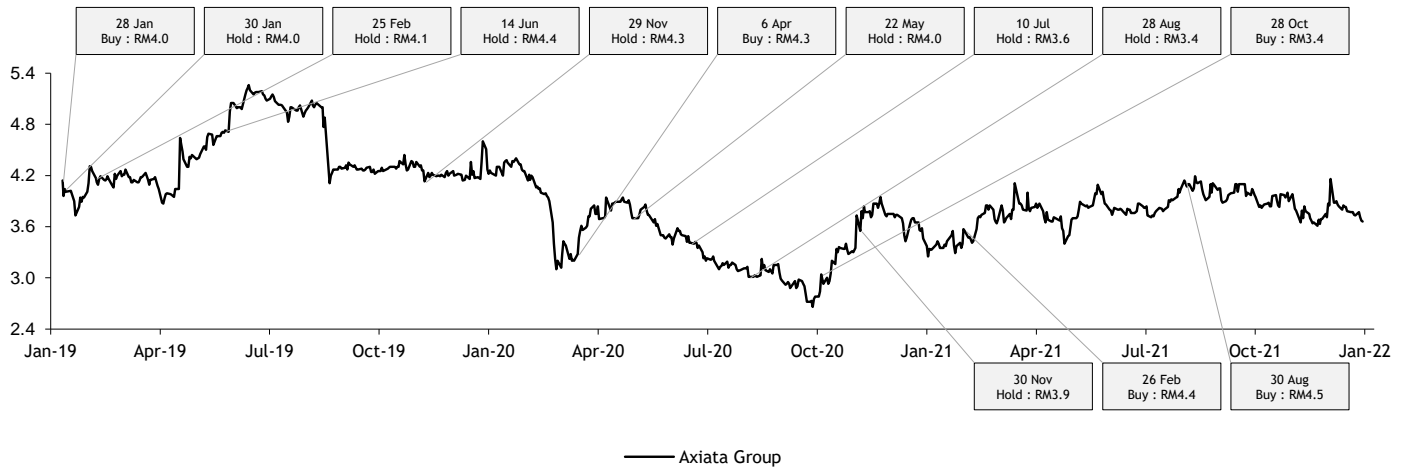
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