

Axiata Group (AXIATA MK)

Entering Philippines

edotco's acquisition spree continues

edotco's third tower acquisition in the past 6 months is its most significant and potentially also the most exciting. edotco becomes among the pioneer independent towercos in Philippines, with the third mobile operator still expanding in coverage. Reiterate BUY on Axiata with an unchanged MYR4.70 SOP-TP. Axiata remains on track for a multi-year earnings recovery as management strives to deliver a 20sen DPS in 2024.

Among the successful bidders for PLDT's towers

PLDT (TEL PM, BUY, CP: PHP1,899, TP: PHP2,105) has announced the sale and leaseback of 2,973 towers to edotco (Axiata's 63%-owned tower-co subsidiary) for PHP42b (c.MYR3.4b). This represents 1 of 2 portfolios of towers which PLDT sold, with the transaction multiple for both being quoted at 20x EV/EBITDA. A 10-year leaseback has been agreed, with rates set at PHP100k/tower/month with collocation discount.

First mover advantage

Axiata and edotco have yet to make a public release, thus funding details by edotco remain unknown at the time of writing. The transaction multiple appears steep, in our view, but can be partly justified by the strategic benefit of being among the pioneer independent towercos operating in the Philippines. edotco's tower portfolio is evenly distributed across Luzon, the Visayas, and Mindanao. With Philippines third mobile operator still expanding in coverage, there is ample potential for collocation.

Organic growth next

The acquisition brings edotco's total sites to c.49k, another step closer to its >70k aspiration. We estimate edotco's net debt-to-EBITDA at c.4.0x post transaction, thus further acquisitions are unlikely without equity-raising. Axiata will host a briefing this morning. Our earnings forecasts and MYR4.70 TP (derived from a sum-of-parts with each op-co valued on DCF) are unchanged pending deal completion.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	24,203	25,901	26,941	27,809	28,697
EBITDA	10,657	11,404	11,837	12,127	12,420
Core net profit	865	1,326	1,372	1,707	1,961
Core EPS (sen)	9.4	14.5	15.0	18.6	21.4
Core EPS growth (%)	(10.4)	53.1	3.5	24.4	14.9
Net DPS (sen)	7.0	9.5	12.7	15.8	18.2
Core P/E (x)	39.6	28.8	24.1	19.4	16.8
P/BV (x)	1.9	2.1	1.8	1.8	1.8
Net dividend yield (%)	1.9	2.3	3.5	4.4	5.0
ROAE (%)	2.2	4.6	7.6	9.3	10.5
ROAA (%)	1.3	1.9	1.9	2.3	2.6
EV/EBITDA (x)	5.7	5.9	5.3	5.2	5.1
Net gearing (%) (incl perps)	84.5	88.8	87.1	84.2	81.1
Consensus net profit	-	-	1,253	1,587	1,877
MKE vs. Consensus (%)	-	-	9.5	7.5	4.4

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BUY

Share Price	MYR 3.60
12m Price Target	MYR 4.70 (+34%)
Previous Price Target	MYR 4.70

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)	4.19/3.40
3m avg turnover (USDm)	2.6
Free float (%)	43.7
Issued shares (m)	9,170
Market capitalisation	MYR33.0B
	USD7.8B

Major shareholders:

Khazanah Nasional Bhd. (Investment Compa	36.7%
Employees Provident Fund	17.1%
Permodalan Nasional Bhd.	16.7%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(5)	(5)	(5)
Relative to index (%)	(5)	(8)	(4)

Source: FactSet

Risk Rating & Score ¹	28.4 (Medium)
Score Momentum ²	-0.3
Last Updated	24 Mar 2022
Controversy Score ³ (Updated: 23 Mar 2022)	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.

¹**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. ²**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. ³**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).

Fig 1: Portfolio statistics of tower acquisition by edotco

Portfolio 2 (2,973 sites)		Mix
Location		
Metro Manila		8%
Luzon ex Metro Manila		26%
Visayas		33%
Mindanao		33%
Total		100%
Type		
Ground-based		89%
Rooftop		11%
Total		100%

Source: PLDT

Fig 2: Axiata: Revenue, EBITDA and net profit split

(MYR m)	Revenue		Revenue		EBITDA		EBITDA		Net profit		Net profit	
	2021	%	2022E	%	2021	%	2022E	%	2021	%	2022E	%
Malaysia	6,623	26%	6,722	25%	2,826	25%	2,857	24%	818	62%	790	58%
Indonesia	7,759	30%	8,166	30%	3,890	34%	4,083	34%	185	14%	212	15%
Bangladesh	3,955	15%	4,035	15%	1,593	14%	1,634	14%	58	4%	134	10%
Sri Lanka	2,954	11%	3,162	12%	1,223	11%	1,296	11%	341	26%	353	26%
Nepal	1,449	6%	1,423	5%	842	7%	811	7%	192	14%	183	13%
Cambodia	1,449	6%	1,506	6%	775	7%	806	7%	239	18%	259	19%
edotco	1,979	8%	2,177	8%	1,238	11%	1,350	11%	184	14%	187	14%
Others	-266	-1%	-250	-1%	-982	-9%	-1,000	-8%	-692	-52%	-747	-54%
Total	25,901		26,941		11,404		11,837		1,326		1,372	

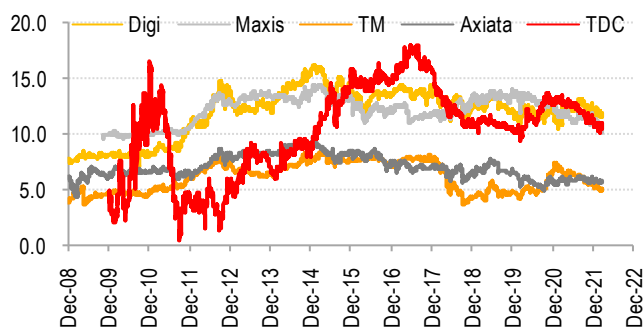
Source: Maybank IBG Research

Fig 3: Axiata: Target price derivation

(MYR m)	Value	Stake	Attri. value	per share	%
Malaysia	19,321	100%	19,321	2.11	45%
Indonesia	11,406	61%	7,012	0.76	16%
Bangladesh	4,834	62%	2,988	0.33	7%
Sri Lanka	4,613	83%	3,843	0.42	9%
Nepal	3,108	80%	2,487	0.27	6%
Cambodia	6,950	73%	5,039	0.55	12%
Edotco	4,318	63%	2,720	0.30	6%
Digital businesses			1,898	0.21	4%
Residual net cash			-2,189	-0.24	-5%
Total equity value			43,120	4.70	100%

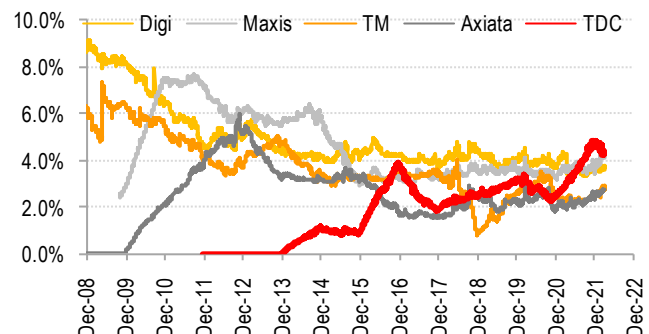
Source: Maybank IBG Research

Fig 4: EV/EBITDA - Malaysia telcos



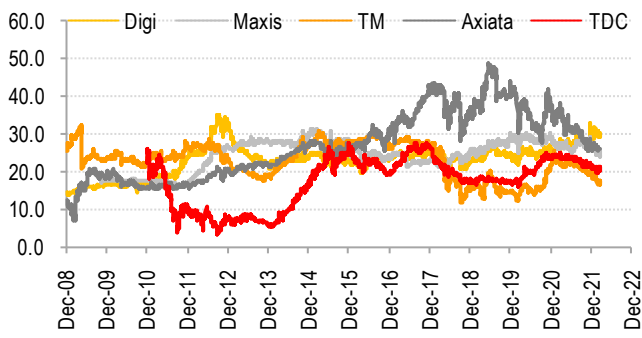
Source: Bloomberg, Maybank IBG Research

Fig 5: Net dividend yield - Malaysia telcos



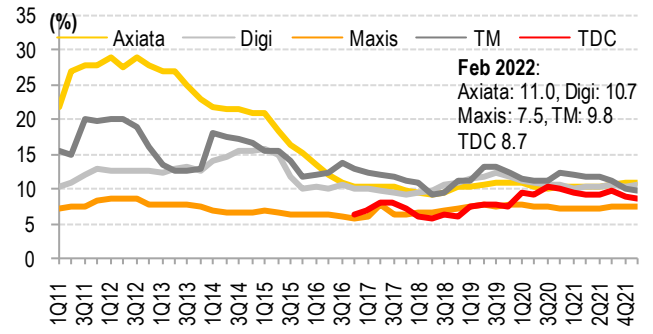
Source: Bloomberg, Maybank IBG Research

Fig 6: PER - Malaysia telcos



Source: Bloomberg, Maybank IBG Research

Fig 7: 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	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	89.2	42.4	24.1	19.4	16.8
Core P/E (x)	39.6	28.8	24.1	19.4	16.8
P/BV (x)	1.9	2.1	1.8	1.8	1.8
P/NTA (x)	(2.9)	(3.0)	(2.7)	(2.8)	(2.9)
Net dividend yield (%)	1.9	2.3	3.5	4.4	5.0
FCF yield (%)	15.2	10.3	13.3	14.9	15.4
EV/EBITDA (x)	5.7	5.9	5.3	5.2	5.1
EV/EBIT (x)	24.2	17.7	14.9	13.8	12.7
INCOME STATEMENT (MYR m)					
Revenue	24,203.2	25,900.7	26,941.3	27,808.9	28,697.1
EBITDA	10,656.9	11,404.0	11,837.2	12,127.2	12,419.9
Depreciation	(8,144.2)	(7,587.8)	(7,641.8)	(7,586.4)	(7,494.0)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	2,512.6	3,816.3	4,195.4	4,540.8	4,925.9
Net interest income / (exp)	(1,515.9)	(1,414.1)	(1,467.5)	(1,417.7)	(1,361.3)
Associates & JV	18.7	4.0	4.0	4.0	4.0
Exceptionals	155.6	(232.5)	145.0	145.0	145.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	1,171.1	2,173.6	2,876.9	3,272.1	3,713.6
Income tax	(547.1)	(896.7)	(1,004.2)	(1,000.9)	(1,099.6)
Minorities	(258.9)	(458.0)	(500.7)	(564.6)	(653.4)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	365.2	818.9	1,372.0	1,706.6	1,960.6
Core net profit	865.4	1,325.6	1,372.0	1,706.6	1,960.6
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	7,194.3	6,969.4	6,978.4	7,259.6	8,011.5
Accounts receivable	4,362.4	5,060.9	5,314.4	5,485.6	5,660.8
Inventory	141.7	222.7	249.3	255.0	260.5
Property, Plant & Equip (net)	24,495.6	26,975.3	27,922.1	28,640.4	29,458.2
Intangible assets	29,333.1	30,938.4	30,635.1	30,349.7	30,081.1
Investment in Associates & JVs	308.4	283.5	282.2	280.9	279.6
Other assets	2,126.3	2,100.2	2,100.2	2,100.2	2,100.2
Total assets	67,961.7	72,550.4	73,481.8	74,371.4	75,852.0
ST interest bearing debt	4,705.9	5,990.3	5,990.3	5,990.3	6,240.3
Accounts payable	12,005.8	13,555.1	14,021.5	14,343.3	14,653.5
LT interest bearing debt	22,668.2	23,231.2	23,231.2	23,231.2	23,481.2
Other liabilities	4,703.0	4,708.0	4,708.0	4,708.0	4,708.0
Total Liabilities	44,082.3	47,484.6	47,951.0	48,272.9	49,083.0
Shareholders Equity	17,641.1	18,005.3	18,211.1	18,467.1	18,761.2
Minority Interest	6,238.3	7,060.5	7,319.7	7,631.4	8,007.8
Total shareholder equity	23,879.4	25,065.8	25,530.8	26,098.5	26,768.9
Total liabilities and equity	67,961.7	72,550.4	73,481.8	74,371.4	75,852.0
CASH FLOW (MYR m)					
Pretax profit	1,171.1	2,173.6	2,876.9	3,272.1	3,713.6
Depreciation & amortisation	8,144.2	7,587.8	7,641.8	7,586.4	7,494.0
Adj net interest (income)/exp	1,515.9	1,414.1	1,467.5	1,417.7	1,361.3
Change in working capital	230.6	769.7	186.4	145.0	129.4
Cash taxes paid	(916.4)	(576.2)	(1,004.2)	(1,000.9)	(1,099.6)
Other operating cash flow	(1,385.9)	(1,077.5)	1.3	1.3	1.3
Cash flow from operations	8,759.5	10,291.4	11,169.6	11,421.6	11,600.0
Capex	(3,558.1)	(6,369.0)	(6,763.3)	(6,497.2)	(6,521.2)
Free cash flow	5,201.4	3,922.4	4,406.3	4,924.4	5,078.8
Dividends paid	(596.0)	(825.5)	(1,166.2)	(1,450.6)	(1,666.5)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	1,393.4	668.2	0.0	0.0	500.0
Other invest/financing cash flow	(2,271.4)	(4,167.3)	(3,231.1)	(3,192.7)	(3,160.4)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	3,727.4	(402.2)	9.1	281.1	751.9

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(1.5)	7.0	4.0	3.2	3.2
EBITDA growth	0.4	7.0	3.8	2.5	2.4
EBIT growth	(31.3)	51.9	9.9	8.2	8.5
Pretax growth	(59.2)	85.6	32.4	13.7	13.5
Reported net profit growth	(74.9)	124.3	67.5	24.4	14.9
Core net profit growth	(9.8)	53.2	3.5	24.4	14.9
Profitability ratios (%)					
EBITDA margin	44.0	44.0	43.9	43.6	43.3
EBIT margin	10.4	14.7	15.6	16.3	17.2
Pretax profit margin	4.8	8.4	10.7	11.8	12.9
Payout ratio	175.7	106.4	85.0	85.0	85.0
DuPont analysis					
Net profit margin (%)	1.5	3.2	5.1	6.1	6.8
Revenue/Assets (x)	0.4	0.4	0.4	0.4	0.4
Assets/Equity (x)	3.9	4.0	4.0	4.0	4.0
ROAE (%)	2.2	4.6	7.6	9.3	10.5
ROAA (%)	1.3	1.9	1.9	2.3	2.6
Liquidity & Efficiency					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	68.6	65.5	69.3	69.9	69.9
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	nm	nm	nm	nm	nm
Dividend cover (x)	0.6	0.9	1.2	1.2	1.2
Current ratio (x)	0.7	0.6	0.6	0.6	0.6
Leverage & Expense Analysis					
Asset/Liability (x)	1.5	1.5	1.5	1.5	1.5
Net gearing (%) (incl perps)	84.5	88.8	87.1	84.2	81.1
Net gearing (%) (excl. perps)	84.5	88.8	87.1	84.2	81.1
Net interest cover (x)	1.7	2.7	2.9	3.2	3.6
Debt/EBITDA (x)	2.6	2.6	2.5	2.4	2.4
Capex/revenue (%)	14.7	24.6	25.1	23.4	22.7
Net debt/ (net cash)	20,179.8	22,252.1	22,243.1	21,961.9	21,710.0

Source: Company; Maybank IBG Research

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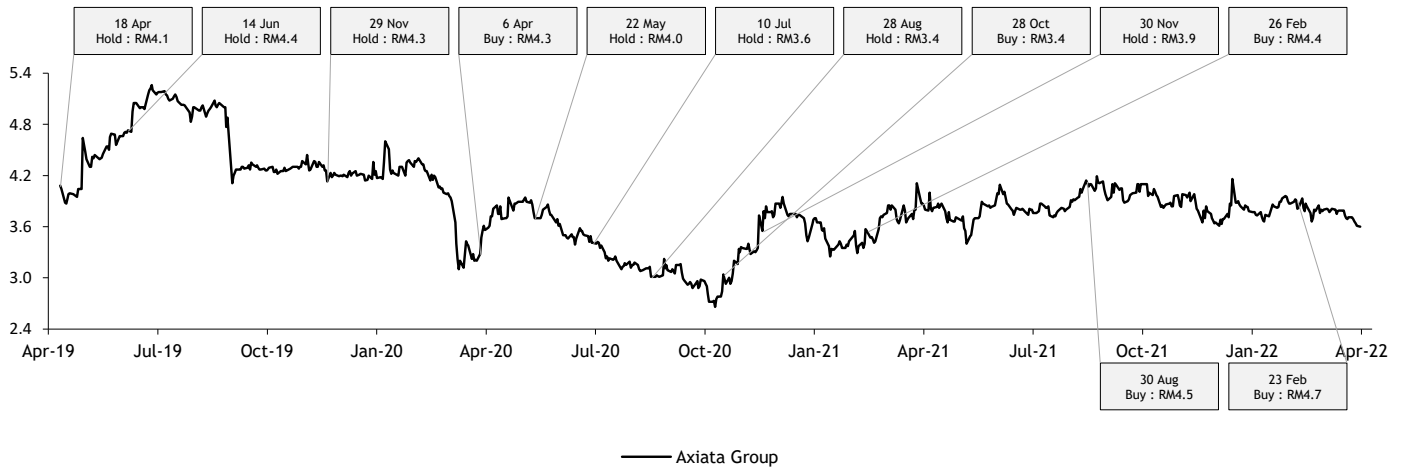
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