

Axiata Group (AXIATA MK)

Some headwinds

Frontier market risk

FY22-23 earnings could potentially come under pressure with the LKR devaluation, and the initial dilution upon completion of the Philippines towers acquisition. Nevertheless, the longer-term growth thesis remains intact with management still striving to deliver a 20sen DPS in 2024. Maintain BUY with a lower MYR4.50 TP (-4%, SOP-based).

Dialog's contribution under pressure

The Sri Lanka rupee (LKR) has depreciated significantly YTD (40% relative to USD and 37% relative to MYR) due to the country depleting its forex reserves. Our checks point to revenue trends still holding. The main impact to Axiata for now would be lower MYR contribution from Dialog (more pronounced in 2Q22 with the LKR weakening from Mar 22). The consequent import curbs in Sri Lanka have resulted in fuel shortages and electricity cuts, both of which are vital to the running of telecom networks. Sri Lanka is currently applying for IMF aid.

Philippines towers earnings-dilutive initially

The transaction would be financed by edotco (initially by debt), and does not require Axiata shareholders approval. Axiata's pro-forma disclosures suggest a more palatable transaction multiple of c.15x EV/EBITDA. This would still imply an earnings dilution in the initial years (we estimate c.MYR100m net profit hit to Axiata in Year 1), with management conservatively budgeting for PAT-neutrality in Year 5. Axiata expects to complete the acquisition by Dec 2022.

Cutting earnings for now

We lower our FY22/23/24 net profit forecasts by 7% each to reflect lower Dialog contributions from a weaker LKR. Our TP (derived from a sum-of-parts with each op-co valued on DCF) is consequently lowered to MYR4.50 (-4%). We have yet to incorporate the effects of the Linknet (likely earnings-accretive to Axiata) and Philippines towers acquisitions as both are still pending completion.

| FYE Dec (MYR m) | FY20A | FY21A | FY22E | FY23E | FY24E |
|------------------------------|--------|--------|--------|--------|--------|
| Revenue | 24,203 | 25,901 | 26,058 | 26,874 | 27,707 |
| EBITDA | 10,657 | 11,404 | 11,475 | 11,749 | 12,024 |
| Core net profit | 865 | 1,326 | 1,273 | 1,592 | 1,833 |
| Core EPS (sen) | 9.4 | 14.5 | 13.9 | 17.4 | 20.0 |
| Core EPS growth (%) | (10.4) | 53.1 | (4.0) | 25.0 | 15.1 |
| Net DPS (sen) | 7.0 | 9.5 | 11.8 | 14.7 | 17.0 |
| Core P/E (x) | 39.6 | 28.8 | 25.9 | 20.7 | 18.0 |
| P/BV (x) | 1.9 | 2.1 | 1.8 | 1.8 | 1.8 |
| Net dividend yield (%) | 1.9 | 2.3 | 3.3 | 4.1 | 4.7 |
| ROAE (%) | 2.2 | 4.6 | 7.0 | 8.7 | 9.9 |
| ROAA (%) | 1.3 | 1.9 | 1.7 | 2.2 | 2.5 |
| EV/EBITDA (x) | 5.7 | 5.9 | 5.5 | 5.4 | 5.3 |
| Net gearing (%) (incl perps) | 84.5 | 88.8 | 88.5 | 85.8 | 83.0 |
| Consensus net profit | - | - | 1,269 | 1,587 | 1,888 |
| MKE vs. Consensus (%) | - | - | 0.4 | 0.3 | (2.9) |

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BUY

| | |
|-----------------------|-----------------|
| Share Price | MYR 3.60 |
| 12m Price Target | MYR 4.50 (+28%) |
| 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 (%) | 43.8 |
| Issued shares (m) | 9,170 |
| Market capitalisation | MYR33.0B |
| | USD7.6B |

Major shareholders:

| | |
|--|-------|
| Khazanah Nasional Bhd. (Investment Compa | 36.7% |
| Employees Provident Fund | 17.0% |
| Permodalan Nasional Bhd. | 16.7% |

Price Performance



| | -1M | -3M | -12M |
|-----------------------|-----|-----|------|
| Absolute (%) | (5) | (3) | (5) |
| Relative to index (%) | (6) | (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

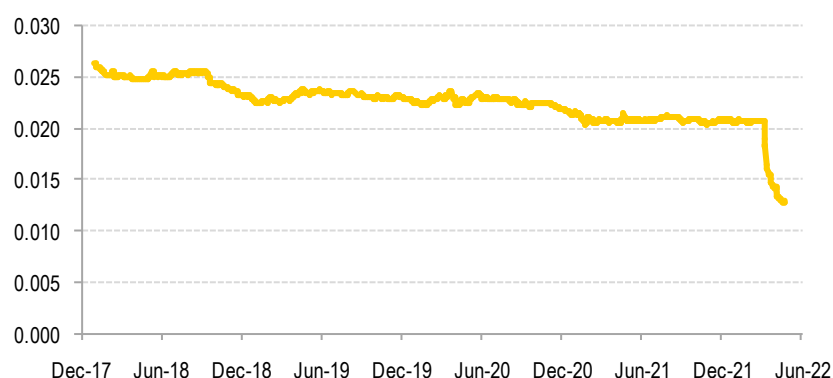
- Internet connectivity is deemed as an essential service. Axiata's op-cos in Malaysia, Nepal, Indonesia and Sri Lanka had offered discounted/free data to subscribers during the COVID-19 pandemic, which affected monetisation.
- The emphasis on digital inclusion and rural connectivity means telcos could 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).

LKRM/R



Source: Bloomberg

Axiata: Revenue, EBITDA and net profit split

| | Revenue | | Revenue | | EBITDA | | EBITDA | | Net profit | | Net profit | |
|--------------|---------------|-----|---------------|-----|---------------|-----|---------------|-----|--------------|------|--------------|------|
| (MYR m) | 2021 | % | 2022E | % | 2021 | % | 2022E | % | 2021 | % | 2022E | % |
| Malaysia | 6,623 | 26% | 6,722 | 26% | 2,826 | 25% | 2,857 | 25% | 818 | 62% | 790 | 62% |
| Indonesia | 7,759 | 30% | 8,166 | 31% | 3,890 | 34% | 4,083 | 36% | 185 | 14% | 212 | 17% |
| Bangladesh | 3,955 | 15% | 4,035 | 15% | 1,593 | 14% | 1,634 | 14% | 58 | 4% | 134 | 11% |
| Sri Lanka | 2,954 | 11% | 2,279 | 9% | 1,223 | 11% | 934 | 8% | 341 | 26% | 254 | 20% |
| Nepal | 1,449 | 6% | 1,423 | 5% | 842 | 7% | 811 | 7% | 192 | 14% | 183 | 14% |
| Cambodia | 1,449 | 6% | 1,506 | 6% | 775 | 7% | 806 | 7% | 239 | 18% | 259 | 20% |
| edotco | 1,979 | 8% | 2,177 | 8% | 1,238 | 11% | 1,350 | 12% | 184 | 14% | 187 | 15% |
| Others | -266 | -1% | -250 | -1% | -982 | -9% | -1,000 | -9% | -692 | -52% | -747 | -59% |
| Total | 25,901 | | 26,058 | | 11,404 | | 11,475 | | 1,326 | | 1,273 | |

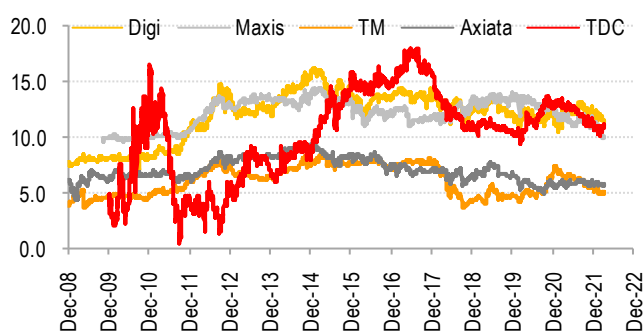
Source: Maybank IBG Research

Axiata: Target price derivation

| (MYR m) | Value | Stake | Attri. value | per share | % |
|---------------------------|--------|-------|---------------|-------------|-------------|
| Malaysia | 19,321 | 100% | 19,321 | 2.11 | 47% |
| Indonesia | 11,406 | 61% | 7,012 | 0.76 | 17% |
| Bangladesh | 4,834 | 62% | 2,988 | 0.33 | 7% |
| Sri Lanka | 2,928 | 83% | 2,440 | 0.27 | 6% |
| Nepal | 3,108 | 80% | 2,487 | 0.27 | 6% |
| Cambodia | 6,950 | 73% | 5,039 | 0.55 | 12% |
| Edotco | 4,313 | 63% | 2,717 | 0.30 | 7% |
| Digital businesses | | | 1,898 | 0.21 | 5% |
| Residual net cash | | | -2,597 | -0.28 | -6% |
| Total equity value | | | 41,306 | 4.50 | 100% |

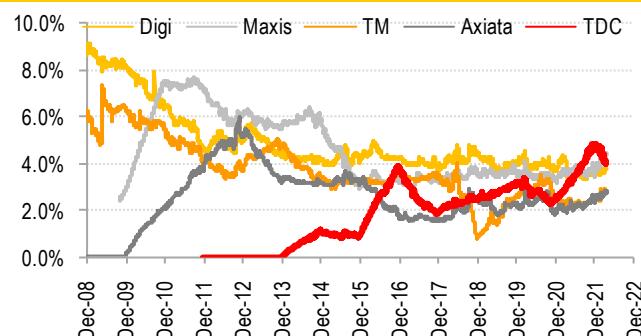
Source: Maybank IBG Research

EV/EBITDA - Malaysia telcos



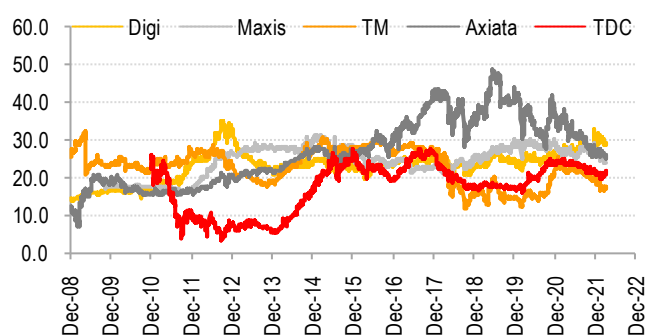
Source: Bloomberg, Maybank IBG Research

Net dividend yield - Malaysia telcos



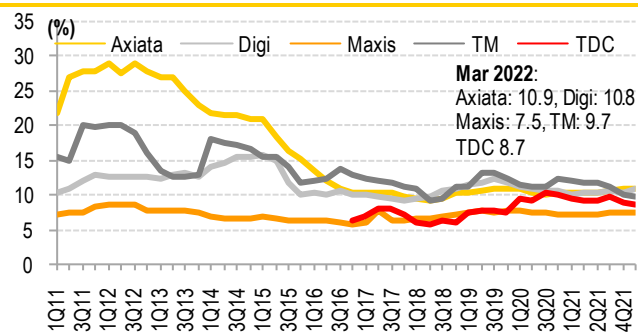
Source: Bloomberg, Maybank IBG Research

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 | FY20A | FY21A | FY22E | FY23E | FY24E |
|------------------------|-------|-------|-------|-------|-------|
| Key Metrics | | | | | |
| P/E (reported) (x) | 89.2 | 42.4 | 25.9 | 20.7 | 18.0 |
| Core P/E (x) | 39.6 | 28.8 | 25.9 | 20.7 | 18.0 |
| 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 | 3.3 | 4.1 | 4.7 |
| FCF yield (%) | 15.2 | 10.3 | 12.1 | 14.4 | 14.8 |
| EV/EBITDA (x) | 5.7 | 5.9 | 5.5 | 5.4 | 5.3 |
| EV/EBIT (x) | 24.2 | 17.7 | 15.5 | 14.4 | 13.3 |

INCOME STATEMENT (MYR m)

| | | | | | |
|-----------------------------|-----------|-----------|-----------|-----------|-----------|
| Revenue | 24,203.2 | 25,900.7 | 26,058.3 | 26,874.2 | 27,707.5 |
| EBITDA | 10,656.9 | 11,404.0 | 11,475.1 | 11,748.6 | 12,024.0 |
| Depreciation | (8,144.2) | (7,587.8) | (7,423.7) | (7,365.4) | (7,269.8) |
| Amortisation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT | 2,512.6 | 3,816.3 | 4,051.4 | 4,383.2 | 4,754.2 |
| Net interest income / (exp) | (1,515.9) | (1,414.1) | (1,457.7) | (1,413.8) | (1,359.9) |
| 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 | 2,742.6 | 3,118.3 | 3,543.3 |
| Income tax | (547.1) | (896.7) | (988.3) | (984.0) | (1,081.8) |
| Minorities | (258.9) | (458.0) | (480.9) | (542.3) | (628.5) |
| Discontinued operations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reported net profit | 365.2 | 818.9 | 1,273.4 | 1,592.0 | 1,833.1 |
| Core net profit | 865.4 | 1,325.6 | 1,273.4 | 1,592.0 | 1,833.1 |

BALANCE SHEET (MYR m)

| | | | | | |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Cash & Short Term Investments | 7,194.3 | 6,969.4 | 6,659.8 | 6,882.7 | 7,574.9 |
| Accounts receivable | 4,362.4 | 5,060.9 | 5,140.3 | 5,301.2 | 5,465.6 |
| Inventory | 141.7 | 222.7 | 241.2 | 246.5 | 251.5 |
| Property, Plant & Equip (net) | 24,495.6 | 26,975.3 | 27,942.8 | 28,678.9 | 29,511.9 |
| 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 | 73,001.6 | 73,840.1 | 75,264.9 |
| 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 | 13,565.9 | 13,864.3 | 14,149.3 |
| 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 | 47,495.4 | 47,793.9 | 48,578.8 |
| Shareholders Equity | 17,641.1 | 18,005.3 | 18,196.3 | 18,435.1 | 18,710.1 |
| Minority Interest | 6,238.3 | 7,060.5 | 7,309.9 | 7,611.1 | 7,976.0 |
| Total shareholder equity | 23,879.4 | 25,065.8 | 25,506.2 | 26,046.3 | 26,686.1 |
| Total liabilities and equity | 67,961.7 | 72,550.4 | 73,001.6 | 73,840.1 | 75,264.9 |

CASH FLOW (MYR m)

| | | | | | |
|----------------------------------|-----------|-----------|-----------|-----------|-----------|
| Pretax profit | 1,171.1 | 2,173.6 | 2,742.6 | 3,118.3 | 3,543.3 |
| Depreciation & amortisation | 8,144.2 | 7,587.8 | 7,423.7 | 7,365.4 | 7,269.8 |
| Adj net interest (income)/exp | 1,515.9 | 1,414.1 | 1,457.7 | 1,413.8 | 1,359.9 |
| Change in working capital | 230.6 | 769.7 | (86.9) | 132.2 | 115.5 |
| Cash taxes paid | (916.4) | (576.2) | (988.3) | (984.0) | (1,081.8) |
| 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 | 10,550.2 | 11,047.0 | 11,208.0 |
| Capex | (3,558.1) | (6,369.0) | (6,565.9) | (6,294.0) | (6,312.2) |
| Free cash flow | 5,201.4 | 3,922.4 | 3,984.3 | 4,753.0 | 4,895.8 |
| Dividends paid | (596.0) | (825.5) | (1,082.4) | (1,353.2) | (1,558.1) |
| 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) | (3,211.4) | (3,176.9) | (3,145.6) |
| Effect of exch rate changes | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net cash flow | 3,727.4 | (402.2) | (309.5) | 222.9 | 692.1 |

| FYE 31 Dec | FY20A | FY21A | FY22E | FY23E | FY24E |
|--|----------|----------|----------|----------|----------|
| Key Ratios | | | | | |
| Growth ratios (%) | | | | | |
| Revenue growth | (1.5) | 7.0 | 0.6 | 3.1 | 3.1 |
| EBITDA growth | 0.4 | 7.0 | 0.6 | 2.4 | 2.3 |
| EBIT growth | (31.3) | 51.9 | 6.2 | 8.2 | 8.5 |
| Pretax growth | (59.2) | 85.6 | 26.2 | 13.7 | 13.6 |
| Reported net profit growth | (74.9) | 124.3 | 55.5 | 25.0 | 15.1 |
| Core net profit growth | (9.8) | 53.2 | (3.9) | 25.0 | 15.1 |
| Profitability ratios (%) | | | | | |
| EBITDA margin | 44.0 | 44.0 | 44.0 | 43.7 | 43.4 |
| EBIT margin | 10.4 | 14.7 | 15.5 | 16.3 | 17.2 |
| Pretax profit margin | 4.8 | 8.4 | 10.5 | 11.6 | 12.8 |
| Payout ratio | 175.7 | 106.4 | 85.0 | 85.0 | 85.0 |
| DuPont analysis | | | | | |
| Net profit margin (%) | 1.5 | 3.2 | 4.9 | 5.9 | 6.6 |
| 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 | 7.0 | 8.7 | 9.9 |
| ROAA (%) | 1.3 | 1.9 | 1.7 | 2.2 | 2.5 |
| Liquidity & Efficiency | | | | | |
| Cash conversion cycle | nm | nm | nm | nm | nm |
| Days receivable outstanding | 68.6 | 65.5 | 70.5 | 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 | 88.5 | 85.8 | 83.0 |
| Net gearing (%) (excl. perps) | 84.5 | 88.8 | 88.5 | 85.8 | 83.0 |
| Net interest cover (x) | 1.7 | 2.7 | 2.8 | 3.1 | 3.5 |
| Debt/EBITDA (x) | 2.6 | 2.6 | 2.5 | 2.5 | 2.5 |
| Capex/revenue (%) | 14.7 | 24.6 | 25.2 | 23.4 | 22.8 |
| Net debt/ (net cash) | 20,179.8 | 22,252.1 | 22,561.7 | 22,338.8 | 22,146.6 |

Source: Company; Maybank IBG Research

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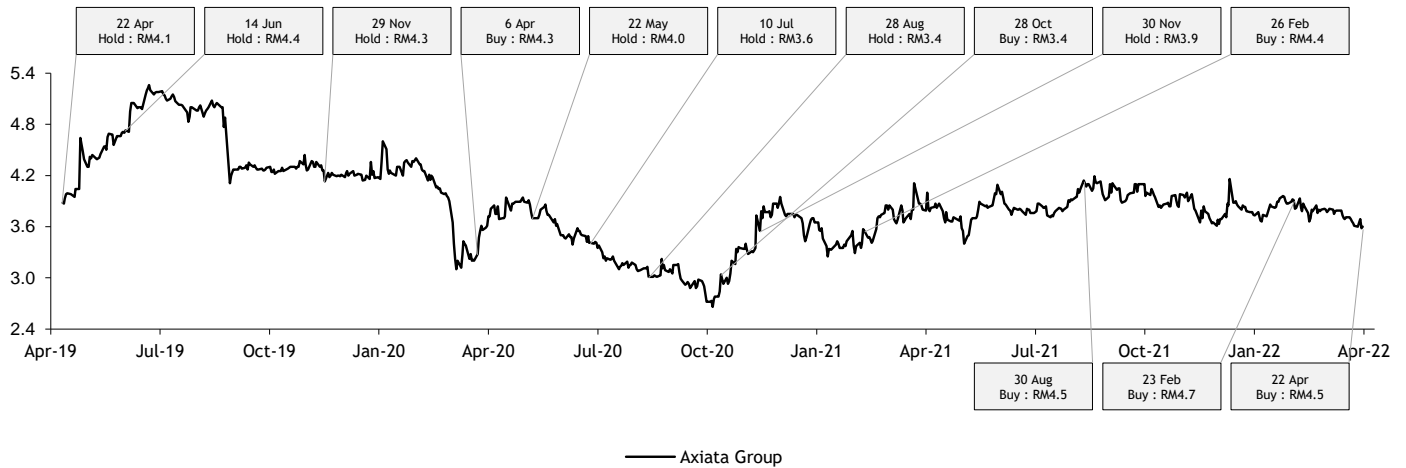
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