

### COMPANY UPDATE

## Axiata (AXIATA MK)

Chasing Regional Opportunities

In a directional change, the consolidation of Link Net in Indonesia, edotco's regional expansion and positive EBITDA for the digital business (Boost) will drive a three-year earnings CAGR of 8%. A successful integration of Link Net may further drive earnings and winning a digital banking licence can add up to 1.5% to current market capitalisation. The Digi-Celcom merger is currently addressing competition concerns. **Maintain BUY. Target price: RM4.45.**

### WHAT'S NEW

- Chasing growth in Indonesia, tower and digital businesses.** In a recent meeting, management guided for a directional change for Axiata – aiming to grow the business post the potential merger of Digi and Celcom. Key drivers are: a) consolidation of Link Net in Indonesia, b) the enterprise business that accounts for 20% of group revenue, c) edotco's regional tower expansion – organic and inorganic (ie M&A), and d) the growing digital businesses. In addition, Axiata is maintaining its target of achieving a 20 sen/share dividend payout by 2024 with Celcom driving a huge chunk of the cashflow. We project a three-year earnings CAGR of 8%, suggesting room for upside as Axiata focuses on growing its regional businesses.
- Link Net: Convergence opportunity for XL Axiata.** Axiata and XL had in Feb 22 proposed to acquire a 66% stake in LINK Net Indonesia at 6x forward EV/EBITDA. Our earnings scenario suggests that the successful acquisition of LINK may lift Axiata's 2023 (maiden full-year contribution) by 3% (46% direct stake in LINK) and 5% (assuming Mandatory Take Over (MTO) takes place - equivalent to an 80% direct stake for Axiata). A more pronounced earnings uplift is possible given synergetic opportunities between LINK with Axiata and XL including: a) backhaul infrastructure sharing (spectrum fees, sites rental), b) product cross-selling/bundling between XL and LINK, c) centralised procurement, and d) sharing of talent pool/ expertise.
- Digital banking licence a boon for Axiata.** Axiata partnered RHB to bid for a digital banking licence (DBL) in Malaysia. We expect the announcement of DBL winners sometime in mid-22. Our current valuation has not imputed the potential digital banking licence win. Our back-of-the-envelope calculation suggests that winning the digital banking licence can potentially add RM500m to market capitalisation (or 1.5%) based on 5x price/sales of Axiata's 60% stake in the Axiata-RHB consortium. Boost wallet will remain the distribution platform and investments will be required for development of back-end infrastructure.

### KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	24,203	25,901	27,164	28,023	28,249
EBITDA	10,657	11,404	11,967	12,144	12,105
Operating profit	2,172	3,309	3,424	3,822	3,947
Net profit (rep./act.)	365	995	1,228	1,497	1,661
Net profit (adj.)	865	995	1,228	1,497	1,661
EPS (sen)	9.6	10.8	13.4	16.3	18.1
PE (x)	39.4	34.9	28.3	23.2	20.9
P/B (x)	1.9	1.9	1.9	1.9	1.9
EV/EBITDA (x)	4.9	4.5	4.3	4.3	4.3
Dividend yield (%)	1.8	2.5	2.6	3.4	5.0
Net margin (%)	1.5	3.8	4.5	5.3	5.9
Net debt/(cash) to equity (%)	59.8	67.1	53.6	40.2	32.5
Interest cover (x)	7.0	8.1	10.6	12.7	14.9
ROE (%)	2.2	5.6	6.8	8.1	8.9
Consensus net profit	-	-	1,274	1,560	1,826
UOBKH/Consensus (x)	-	-	0.96	0.96	0.91

Source: Axiata, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	RM3.73
Target Price	RM4.45
Upside	+19.3%

### COMPANY DESCRIPTION

Mobile operator.

### STOCK DATA

GICS sector	Communication Services
Bloomberg ticker:	AXIATA MK
Shares issued (m):	9,176.8
Market cap (RMm):	34,780.1
Market cap (US\$m):	8,257.0
3-mth avg daily t'over (US\$m):	2.8

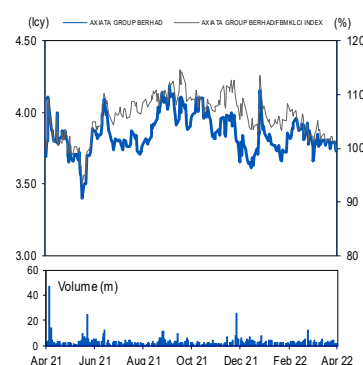
### Price Performance (%)

52-week high/low	RM4.19/RM3.40			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(0.8)	(8.9)	(2.3)	3.3	(8.9)

### Major Shareholders

	%
Khazanah Nasional Bhd	38.2
Employee Provident Fund	14.3
Skim Amanah Saham	11.4
FY22 NAV/Share (RM)	2.00
FY22 Net Debt/Share (RM)	1.07

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

**Chong Lee Len**  
+603-2147 1992  
leelen@uobkayhian.com

**Chloe Tan Jie Ying**  
+603-2147 1916  
chloetan@uobkayhian.com

### STOCK IMPACT

- Celcom is expected to continue its positive momentum into 1H22...** To recap, Celcom grew its subscriber base by 2% or 215,000 customers, with the bulk of it coming from the prepaid segment. Additionally, blended ARPUs were stable at RM45/month – suggesting benign market competition and better execution in Celcom. Earnings were further boosted by improved credit management and lower finance cost. We expect this trend to continue into 1H22.
- ...but a challenging quarter for Dialog and NCell.** We expect Dialog to face more challenges given the economic turmoil and social unrest situation in Sri Lanka, but management guides that impairment is unnecessary as the carrying value is small. Axiata may step in to offer a short-term credit as financing liquidity dries up in Sri Lanka. NCell continues to face difficulty in monetising data as fixed broadband remains relatively cheap.

### SNAPSHOT OF OPCO PERFORMANCE

Division	Key Highlights
Celcom (Malaysia)	- 1Q22 likely to reflect the positive momentum seen in 4Q21, driven by prepaid segment recovery. Cost optimisation effort and better credit inventory management should continue to improve EBITDA margin.
XL Axiata (Indonesia)	- XL has increased its price on data packages since 4Q21 but we see risk of rising competition. - Data revenue growth is expected to grow 7% yoy in 2022 vs 6% yoy growth in 2021.
Robi (Bangladesh)	- Strong data revenue could continue to offset intense price competition.
Dialog (Sri Lanka)	- Plagued by forex losses as the LKR has depreciated by 32% against USD. - Financing for equipment is a key stumbling block and Axiata guided that they will step in with medium term bank credits for Sri Lanka.
NCell (Nepal)	- Still struggling to monetise data, revenue could continue to be pressured by stiff competition.
SMART (Cambodia)	- Performance should continue be driven by higher data subs but network cost remains high.
Edotco	- Bangladesh and Malaysia is doing well. edotco is looking at new markets including 1,000 new towers in Indonesia, and potential expansion into Philippines, Vietnam and Thailand.
Digital Business	- With the reopening of economy and the returning of offline transaction, credit business will improve and it should drive up Gross Transaction Value (GTV) for Digital Financial Services. - Based on 1Q22 run rate, EBITDA should be positive in 2022. - Awaiting the award of digital banking licence.

Source: UOB Kay Hian

### EARNINGS REVISION/RISK

- 2022 earnings guidance.** For 2022, Axiata guided for a mid-single digit growth in revenue (2021: 7% yoy) and a high single-digit growth for EBIT. The guidance has not included the synergies of a successful completion of the Celcom-Digi merger and the acquisition of Link Net in Indonesia.
- Risks** include: a) regulatory challenges, b) lower-than-expected dividend payout, c) increased taxes in Sri Lanka and Malaysia, and d) geopolitical tension in Sri Lanka and Myanmar.

### VALUATION/RECOMMENDATION

- Maintain BUY with an unchanged SOTP-based target price of RM4.45.** Our target price implies 4.6x 2022F EV/EBITDA, 1SD below its five-year mean valuation of 6x. The stock offers a 2.6 to 5.0% dividend yield for 2022-24.

### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

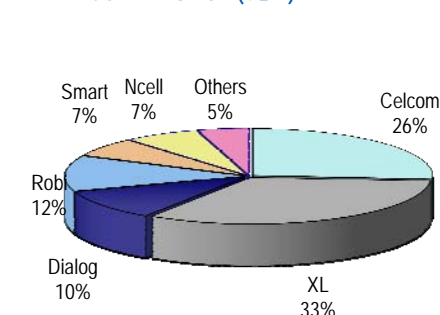
<ul style="list-style-type: none"> <li> <b>Environmental</b> <ul style="list-style-type: none"> <li>- Axiata is committed to its Net-Zero carbon roadmap by 2050.</li> <li>- In 2020, Edotco achieved a 41% reduction in carbon emission per site. Edotco aims to add around 1.5k solar renewable sites by end-21, with a total of 5,500 solar sites by 2023. Edotco also targeted 97% electrified and 90% lithium battery sites by 2023.</li> </ul> </li> <li> <b>Social</b> <ul style="list-style-type: none"> <li>- In 2020, Axiata contributed RM150m cash fund to offer financial assistance to micro-SMEs during the COVID-19. This includes 9,473 loans granted to micro-SMEs with RM43.4m in micro-financing.</li> </ul> </li> <li> <b>Governance</b> <ul style="list-style-type: none"> <li>- Good company transparency along with an anti-bribery and anti-corruption policy.</li> </ul> </li> </ul>
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### FAIR VALUE AT RM4.45/SHARE FOR AXIATA

	Equity Value (RMm)	% of SOTP
<b>Operating Companies</b>		
Celcom	17,756	44%
XL Axiata	8,273	20%
SMART	3,471	9%
Robi	5,973	15%
Ncell	3,268	8%
Dialog	1,851	5%
<b>Total OPCOs</b>	<b>40,591</b>	<b>100%</b>
Edotco	9,072	22%
ADA	635	2%
Boost	1,068	3%
Holding company debt	-10,631	-26%
<b>Total (RMm)</b>	<b>40,735</b>	<b>100%</b>
<b>Axiata's SOTP (RM/share)</b>	<b>4.45</b>	

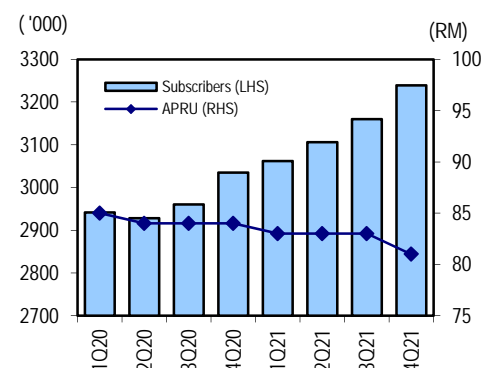
Source: UOB Kay Hian

### EBITDA CONTRIBUTION (4Q21)



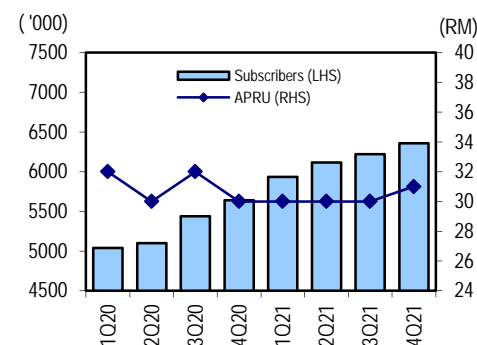
Source: Axiata, UOB Kay Hian

### CELCOM: POSTPAID



Source: Axiata, UOB Kay Hian

### CELCOM: PREPAID



Source: Axiata, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Net turnover	25,901	27,164	28,023	28,249
EBITDA	11,404	11,967	12,144	12,105
Deprec. & amort.	8,095	8,543	8,322	8,158
EBIT	3,309	3,424	3,822	3,947
Total other non-operating income	451	200	0	0
Associate contributions	4	0	0	0
Net interest income/(expense)	(1,414)	(1,127)	(957)	(814)
<b>Pre-tax profit</b>	<b>2,350</b>	<b>2,496</b>	<b>2,865</b>	<b>3,133</b>
Tax	(897)	(1,049)	(1,117)	(1,222)
Minorities	(458)	(220)	(250)	(250)
<b>Net profit</b>	<b>995</b>	<b>1,228</b>	<b>1,497</b>	<b>1,661</b>
Net profit (adj.)	995	1,228	1,497	1,661

### BALANCE SHEET

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Fixed assets	26,975	25,630	24,314	23,218
Other LT assets	33,165	33,165	33,165	33,165
Cash/ST investment	6,969	8,264	8,664	8,214
Other current assets	5,441	5,699	5,874	5,920
<b>Total assets</b>	<b>72,550</b>	<b>72,758</b>	<b>72,016</b>	<b>70,517</b>
ST debt	4,231	3,981	3,481	2,981
Other current liabilities	16,121	16,776	17,414	17,662
LT debt	14,819	14,095	12,666	11,251
Other LT liabilities	12,313	12,313	12,313	12,313
Shareholders' equity	18,005	18,312	18,612	18,529
Minority interest	7,061	7,281	7,531	7,781
<b>Total liabilities &amp; equity</b>	<b>72,550</b>	<b>72,758</b>	<b>72,016</b>	<b>70,517</b>

### CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>8,888</b>	<b>11,516</b>	<b>11,489</b>	<b>11,085</b>
Pre-tax profit	2,174	2,496	2,865	3,133
Tax	(897)	(1,049)	(1,117)	(1,222)
Deprec. & amort.	8,095	8,543	8,322	8,158
Associates	(4)	0	0	0
Working capital changes	770	397	462	202
Non-cash items	(2,663)	0	0	0
Other operating cashflows	1,414	1,127	957	814
<b>Investing</b>	<b>(8,074)</b>	<b>(6,970)</b>	<b>(6,752)</b>	<b>(6,809)</b>
Capex (maintenance)	(6,488)	(7,198)	(7,006)	(7,062)
Others	(1,586)	229	254	253
<b>Financing</b>	<b>(1,217)</b>	<b>(3,251)</b>	<b>(4,338)</b>	<b>(4,726)</b>
Dividend payments	(871)	(921)	(1,198)	(1,744)
Issue of shares	22	0	0	0
Proceeds from borrowings	1,305	(974)	(1,929)	(1,915)
Others/interest paid	(1,672)	(1,356)	(1,211)	(1,067)
<b>Net cash inflow (outflow)</b>	<b>(402)</b>	<b>1,295</b>	<b>400</b>	<b>(450)</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>7,194</b>	<b>6,969</b>	<b>8,264</b>	<b>8,664</b>
Changes due to forex impact	177	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>6,969</b>	<b>8,264</b>	<b>8,664</b>	<b>8,214</b>

### KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	44.0	44.1	43.3	42.8
Pre-tax margin	9.1	9.2	10.2	11.1
Net margin	3.8	4.5	5.3	5.9
ROA	1.4	1.7	2.1	2.3
ROE	5.6	6.8	8.1	8.9
<b>Growth</b>				
Turnover	7.0	4.9	3.2	0.8
EBITDA	7.0	4.9	1.5	(0.3)
Pre-tax profit	100.6	6.2	14.8	9.3
Net profit	172.5	23.4	22.0	10.9
Net profit (adj.)	15.0	23.4	22.0	10.9
EPS	12.7	23.4	22.0	10.9
<b>Leverage</b>				
Debt to total capital	43.2	41.4	38.2	35.1
Debt to equity	105.8	98.7	86.8	76.8
Net debt/(cash) to equity	67.1	53.6	40.2	32.5
Interest cover (x)	8.1	10.6	12.7	14.9

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