

# Axiata Group (AXIATA MK)

## Secures digital bank license

### As expected

The Boost-RHB consortium was expectedly awarded a digital bank license, having been among the frontrunners during the bidding process in our view. While earnings impact is immaterial in the initial years, the digital bank license offers yet another value creation avenue for Axiata's digital businesses. Maintain BUY with an unchanged MYR4.50 TP (SOP-based).

### Digital bank license in the bag

The 60:40 consortium between Boost (effective 75% subsidiary of Axiata) and RHB Bank (RHB MK, BUY, CP: MYR6.25, TP: MYR7.10) has been awarded a digital bank license from Bank Negara. Initial capital requirement for the digital bank is MYR100m (Boost's portion would be MYR60m), rising to MYR300m after 3 years. Bank Negara expects these new digital banks to begin operations in mid-2023.

### Boost to drive business

As evident from the shareholding split, we expect Boost to take the lead in the digital bank. Boost is among the top 3 e-wallets in Malaysia, and already has a credit business (having disbursed c. MYR900m of loans) and the associated digital processes/infrastructure in place. With a digital bank, the overall cost of funding would be further lowered in our view. RHB meanwhile would offer the regulatory and back-end expertise pertaining to banking.

### Earnings immaterial initially

We believe the digital bank is unlikely to contribute materially to earnings in the initial years. Our earnings forecasts and MYR4.50 TP (derived from a sum-of-parts with each op-co valued on DCF) are unchanged. Management had prior the digital bank license award, targeted for Boost to potentially turn EBITDA-positive by end-2022. Longer term, Axiata intends to monetise its digital businesses.

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	25.3	20.2	17.6
P/BV (x)	1.9	2.1	1.8	1.7	1.7
Net dividend yield (%)	1.9	2.3	3.4	4.2	4.8
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	5.4	5.3	5.2
Net gearing (%) (incl perps)	84.5	88.8	88.5	85.8	83.0
Consensus net profit	-	-	1,266	1,587	1,836
MKE vs. Consensus (%)	-	-	0.6	0.3	(0.2)

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# BUY

Share Price	MYR 3.51
12m Price Target	MYR 4.50 (+31%)
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)	4.19/3.40
3m avg turnover (USDm)	2.9
Free float (%)	43.8
Issued shares (m)	9,170
Market capitalisation	MYR32.2B USD7.4B

### 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 (%)	(7)	(9)	(5)
Relative to index (%)	(7)	(13)	(6)

Source: FactSet

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Risk Rating & Score <sup>1</sup>	28.4 (Medium)
Score Momentum <sup>2</sup>	-0.3
Last Updated	24 Mar 2022
Controversy Score <sup>3</sup> (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.

<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	
	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%
<b>Total</b>	<b>25,901</b>		<b>26,058</b>		<b>11,404</b>		<b>11,475</b>		<b>1,326</b>		<b>1,273</b>	

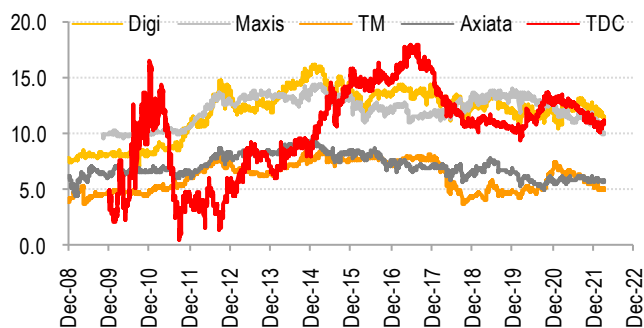
Source: Maybank IBG Research

**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%
<b>Total equity value</b>			<b>41,306</b>	<b>4.50</b>	<b>100%</b>

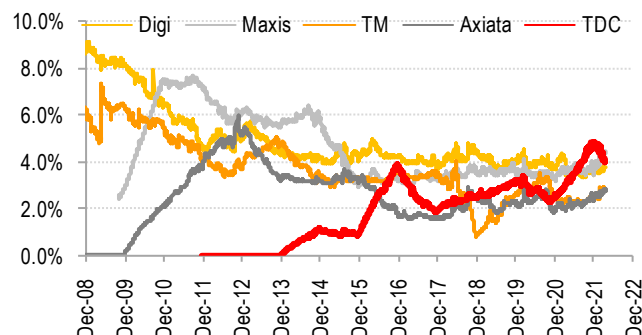
Source: Maybank IBG Research

**EV/EBITDA - Malaysia telcos**



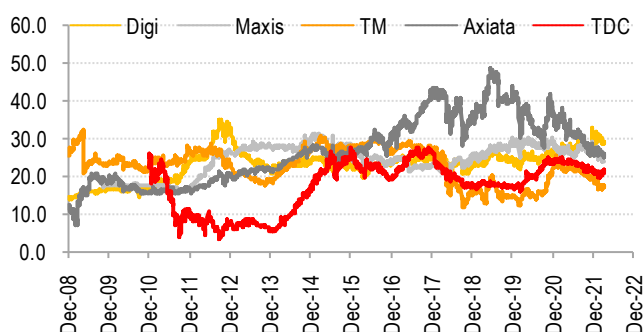
Source: Bloomberg, Maybank IBG Research

**Net dividend yield - Malaysia telcos**



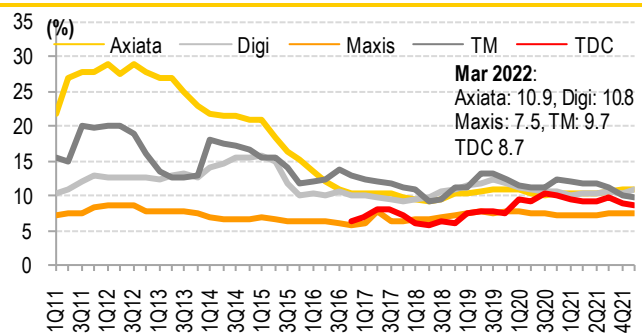
Source: Bloomberg, Maybank IBG Research

**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	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	89.2	42.4	25.3	20.2	17.6
Core P/E (x)	39.6	28.8	25.3	20.2	17.6
P/BV (x)	1.9	2.1	1.8	1.7	1.7
P/NTA (x)	(2.9)	(3.0)	(2.6)	(2.7)	(2.8)
Net dividend yield (%)	1.9	2.3	3.4	4.2	4.8
FCF yield (%)	15.2	10.3	12.4	14.8	15.2
EV/EBITDA (x)	5.7	5.9	5.4	5.3	5.2
EV/EBIT (x)	24.2	17.7	15.3	14.2	13.1
<b>INCOME STATEMENT (MYR m)</b>					
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
<b>BALANCE SHEET (MYR m)</b>					
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
<b>Total assets</b>	<b>67,961.7</b>	<b>72,550.4</b>	<b>73,001.6</b>	<b>73,840.1</b>	<b>75,264.9</b>
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
<b>Total Liabilities</b>	<b>44,082.3</b>	<b>47,484.6</b>	<b>47,495.4</b>	<b>47,793.9</b>	<b>48,578.8</b>
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
<b>Total shareholder equity</b>	<b>23,879.4</b>	<b>25,065.8</b>	<b>25,506.2</b>	<b>26,046.3</b>	<b>26,686.1</b>
<b>Total liabilities and equity</b>	<b>67,961.7</b>	<b>72,550.4</b>	<b>73,001.6</b>	<b>73,840.1</b>	<b>75,264.9</b>
<b>CASH FLOW (MYR m)</b>					
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
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
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
<b>Profitability ratios (%)</b>					
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
<b>DuPont analysis</b>					
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
<b>Liquidity &amp; Efficiency</b>					
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
<b>Leverage &amp; Expense Analysis</b>					
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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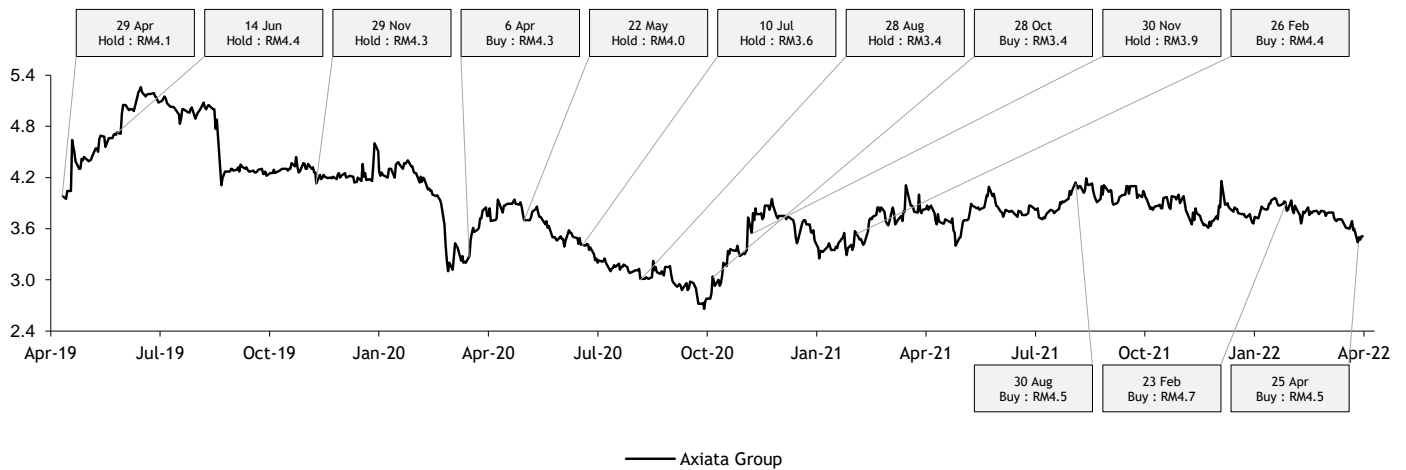
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