

Axiata Group Berhad

Bottom Line Weighted by Chunky Non-Cash Provision

TP: RM5.60 (+15.7%)

Last Traded: RM4.72

BUY

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Review

- Axiata reported IHFY18 net loss of RM3.5bn as compared to a net profit of RM646mn in the previous corresponding period. However, stripping out chunky exceptional items amounting to RM4.1bn, core net profit of RM591mn (-24.1% YoY) came within ours and consensus estimates at 54.7% and 52.3% respectively. Separately, a first interim dividend of 5.0sen/share was declared.
- The exceptional items mainly relate to Idea with respect to: 1) the non-cash provision of RM3.4bn from the de-recognition and reclassification of the investment in Idea from associate to simple investment, 2) the non-cash dilution loss of RM358mn from the group's non-participation in the issuance of new Idea shares, and 3) Idea's operational losses of RM106mn.
- Overall, the group's underlying performance was intact with IHFY18's revenue on a constant currency basis up 5.1% YoY whereby generally driven by data revenue, all opcos except for Smart grew and this was led by Dialog (+16.1% YoY) while the rest (Celcom, XL, Robi, and Ncell) reported low-to-mid single digit growth. The 24.1% YoY contraction in core net profit was mainly due to: 1) losses from digital businesses, 2) higher depreciation and amortisation from aggressive network expansion, and 3) tax credits in the previous corresponding period.
- Celcom.** In 2QFY18, service revenue grew ahead of incumbents, Maxis and Digi, on a QoQ and YoY basis. Postpaid and prepaid subscriber net add momentum sustained QoQ while ARPU was higher YoY alongside the focus on high value subscribers. IHFY18's revenue grew 2.9% YoY while EBITDA and PATAMI declined 1.7% YoY and 37.9% YoY. The weak bottom line performance was due to higher depreciation and amortisation (+12.4% YoY) and the gain on disposal of 11street in 2QFY17. Encouragingly, we noted that focus will be placed on cost rationalisation to improve margins.
- XL.** IHFY18's revenue and EBITDA growth of 1.1% YoY and 1.7% YoY was ahead of the industry despite challenges from the prepaid SIM registration exercise. This was driven by the group's data-led propositions. XL however was in the red due to higher depreciation and amortisation (+9.5% YoY) as it has been aggressively expanding its 4G network of late with increasing focus in ex-Java. Positively, with the completion of the prepaid SIM registration exercise on 1 May 2018, a healthier operating environment is envisioned ahead.
- Dialog.** IHFY18's revenue, EBITDA and PAT grew 16.1% YoY, 25.8% YoY and 41.2% YoY, driven by the mobile, fixed and pay-TV operations. We expect Dialog to maintain its robust growth trajectory as there is further room to monetise data revenue with smartphone penetration only at 55% (+2pp QoQ, +6%pp YoY) and growing data consumption.

Share Information

Bloomberg Code	AXIATA MK
Stock Code	6888
Listing	Main Market
Share Cap (mn)	9069.7
Market Cap (RMmn)	42,809.0
52-wk Hi/Lo (RM)	5.82/3.76
12-mth Avg Daily Vol ('000 shrs)	5,538.1
Estimated Free Float (%)	23.3
Beta	1.9

Major Shareholders (%)

Khazanah Nasional Bhd	- 36.2
EPF	- 16.7
Skim Amanah Saham Bumiputera	- 11.9

Forecast Revision

	FY18	FY19
Forecast Revision (%)	8.0	3.7
Net profit (RMmn)	1,168.0	1,472.1
Consensus	1,116.0	1,496.0
TA's / Consensus (%)	104.7	98.4
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY18	FY19
Net debt/EBITDA (x)	1.3	1.2
CFPS (sen)	87.9	85.9
P/CFPS (x)	5.4	5.5
ROAA (%)	4.7	5.8
ROAE (%)	1.6	2.0
NTA/Share (RM)	1.1	1.1
Price/NTA (x)	4.5	4.3

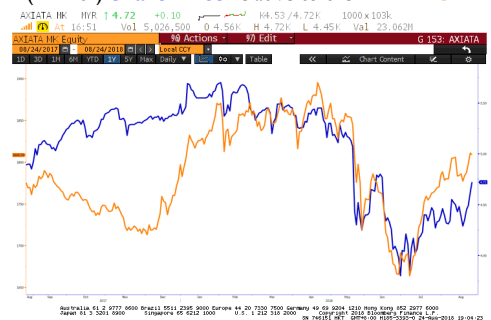
Scorecard

	% of FY	
vs. TA	54.7	Within
vs. Consensus	52.3	Within

Share Performance (%)

Price Change	Axiata	FBM KLCI
1 mth	(7.0)	(1.9)
3 mth	(10.3)	(0.9)
6 mth	(4.3)	7.2
12 mth	(2.5)	4.4

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

- **Robi.** While still in the red, IHFY18's service revenue and EBITDA increased 9.4% YoY and 39.0% YoY, driven by the robust growth in data revenue (+35.6% YoY). Robi has been ahead of competition in the rollout of 4G with 6,100 sites as at end-2QFY18 (+52.0% QoQ). Encouragingly, losses which was in part due to higher finance cost on the back of rising interest rates had narrowed QoQ as EBITDA margins expanded to 24.5% (+6.5pp QoQ, +8.6pp YoY).
- **Ncell.** IHFY18's revenue and EBITDA grew 4.9% YoY and 0.5% YoY despite the continued decline in international long-distance (ILD) revenue (-13.8% YoY) which accounted for ~30% of total revenue. Growth was driven by data revenue (+34.2% YoY) as smartphone penetration (+11pp YoY to 58%) and data consumption continued to climb. While there is downside to margins from a continued decline in ILD, management expects absolute EBITDA to sustain in the near term. In 2QFY18, EBITDA margins contracted to 62.8% (-0.5pp QoQ, -5.2pp YoY).
- **edotco.** IHFY18's revenue increased 12.2% YoY. Widespread growth was across all countries with tenancies up 19.7% YoY to 27,518 towers and tenancy ratio improving from 1.47x to 1.59x. At the bottom line however, EBITDA and PAT declined 8.2% YoY and 8.6% YoY mainly due to forex translation, advisory fees and regulatory cost. Meanwhile, the acquisition of Deodar has been delayed to 3QFY18.
- **Digital Businesses & Associates.** The group's digital businesses remain loss making but have been gaining traction. Of note, ADA, its integrated digital marketing business, had secured USD\$20mn of funding from Sumitomo Corporation, giving it an implied value of USD\$109mn. As for associates, MI's IHFY18 growth was flattish with revenue +1.1% YoY, EBITDA -0.5% YoY and PAT +0.7% YoY while Idea's losses narrowed from RM135mn to RM95mn due to gains from the tower sale.

Impact

- Our FY18/FY19/FY20 earnings are revised by +8.0%/+3.7%/+8.8% to RM1.2bn/RM1.5bn/RM1.8bn after removing Idea's losses under associates, albeit partly offset by higher depreciation and amortisation from higher CAPEX assumptions for Celcom, XL and Robi.

Outlook

- Headline KPIs for 2018 were maintained with revenue and EBITDA growth to be flattish and CAPEX at RM6.9bn. Equally, that on a constant currency basis were maintained, with revenue and EBITDA growth of 6.3% and 5.8% and CAPEX at RM7.4bn. Barring forex fluctuations, we expect 2HFY18 to be driven by the continued turnaround of Celcom and resumed traction at XL with its transformation strategy and the healthier operating environment post completion of the prepaid SIM registration exercise. On the flipside, among others, management is cautious of forex and interest rate volatility from Bangladesh, Indonesia and Sri Lanka.

Valuation

- Our TP for Axiata is lowered to RM5.60/share (RM6.05/share previously) based on a SOP valuation. We continue to like the group for its regional footprint in growth markets. Reiterate **Buy**.

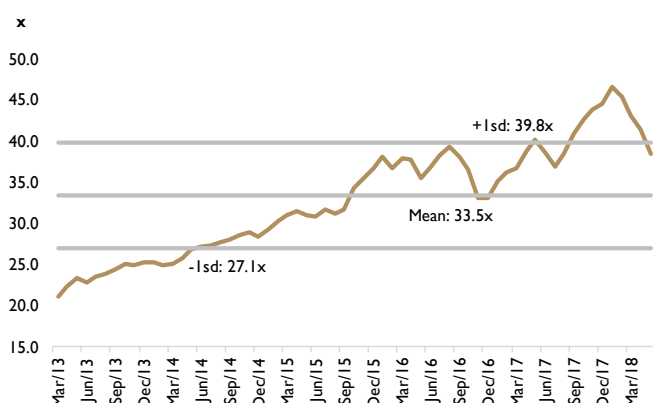
Table 1: Earnings Summary (RMmn)

FYE Dec	FY16	FY17	FY18F	FY19F	FY20F
Revenue	21,565	24,402	24,715	25,623	26,662
EBITDA	8,013	9,230	8,900	9,513	10,074
EBITDA margin (%)	37.2	37.8	36.0	37.1	37.8
Depreciation & amortisation	-5,595	-5,988	-6,142	-6,154	-6,213
EBIT	2,418	3,242	2,759	3,359	3,861
Net finance costs	-1,018	-1,012	-899	-888	-841
JV/Associates	30	-404	-101	-116	-128
EI	-290	110	0	0	0
Profit before tax	1,140	1,936	1,759	2,354	2,892
Taxation	-482	-774	-558	-741	-906
MI	-153	-253	-33	-141	-220
Profit after tax	504	909	1,168	1,472	1,766
Core profit	1,418	1,205	1,168	1,472	1,766
EPS (sen)	15.7	13.3	12.9	16.3	19.5
EPS growth (%)	(31.5)	(15.0)	(3.1)	26.0	19.9
PER (x)	30.1	35.4	36.6	29.0	24.2
EV/EBITDA (x)	7.6	6.6	6.9	6.4	6.1
DPS (sen)	8.0	6.7	11.0	13.8	16.6
Dividend yield (%)	1.7	1.4	2.3	2.9	3.5

Table 2: Valuation Matrix

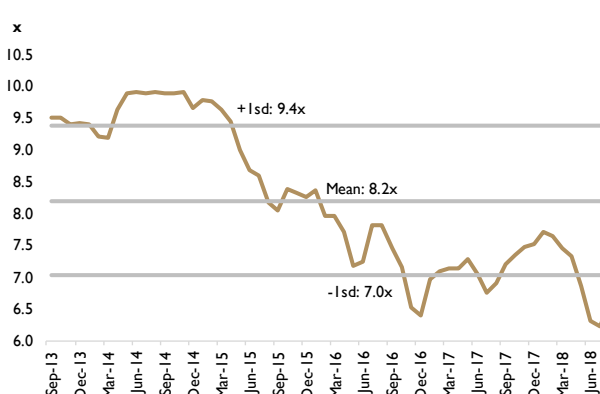
	Equity Value (RM mn)	Stake	Effective Equity Value (RM mn)	Value/Share (RM)	% of SOP	Valuation Method
Celcom (Malaysia)	27,924.1	100.0%	27,924.1	3.09	55.4%	DCF: WACC 6.3%, TG: 1.0%
XL Axiata (Indonesia)	16,258.1	66.4%	10,788.9	1.19	21.4%	DCF: WACC 8.6%, TG: 3.0%
Ncell (Nepal)	6,483.7	80.0%	5,187.0	0.57	10.3%	10x CY18 EPS
edotco	8,437.5	62.4%	5,262.5	0.58	10.4%	EV/EBITDA: 14x CY18 EBITDA
Idea Cellular (India)	16,064.6	16.3%	2,623.4	0.29	5.2%	Consensus TP
Dialog Axiata (Sri Lanka)	3,557.2	83.3%	2,963.9	0.33	5.9%	Consensus TP
Robi (Bangladesh)	479.2	68.7%	329.2	0.04	0.7%	DCF: WACC 13.8%, TG: 5.0%
M1 (Singapore)	4,553.6	28.5%	1,299.6	0.14	2.6%	Consensus TP
Smart (Cambodia)	1,957.1	82.5%	1,614.6	0.18	3.2%	10x CY18 EPS
Holding Co Net Cash			-7,621.3	-0.84	-15.1%	
Total			50,371.7	5.60		

Figure 1: Forward PE



Source: Bloomberg, TA Securities

Figure 2: Forward EV/EBITDA



Source: Bloomberg, TA Securities

Table 3: IHFY18 Results Analysis (RMmn)

FYE Dec	2QFY17	1QFY18	2QFY18	QoQ (%)	YoY (%)	IHFY17	IHFY18	YoY (%)
Revenue	6,059	5,748	5,867	2.1	(3.2)	11,940	11,615	(2.7)
EBITDA	2,274	2,036	2,043	0.3	(10.1)	4,428	4,080	(7.9)
Depreciation & amortisation	-1,457	-1,394	-1,433	2.8	(1.7)	-2,967	-2,827	(4.7)
EBIT	817	642	610	(5.0)	(25.3)	1,461	1,252	(14.3)
Finance income	54	61	53	(12.9)	(0.3)	94	115	21.5
Finance cost	-338	-303	-315	4.1	(6.8)	-657	-618	(6.0)
JV/Associates	-105	-444	1	(100.3)	(101.3)	-136	-442	225.4
Others	144	85	-3,408	(4,131.5)	(2,462.1)	200	-3,324	(1,758.4)
PBT	571	42	-3,058	(7,443.5)	(635.3)	964	-3,017	(413.1)
Tax	-92	-136	-259	90.7	181.4	-222	-396	77.8
MI	-72	-53	-40	(25.3)	(44.9)	-95	-93	(2.3)
PAT (-MI)	407	-147	-3,357	2,177.1	(924.5)	646	-3,505	(642.3)
Core net profit	464	316	276	(12.6)	(40.6)	779	591	(24.1)
<i>Celcom</i>	216	186	158	(15.1)	(26.9)	407	344	(15.5)
<i>XL</i>	-6	-21	-38	81.0	533.3	-27	-59	118.5
<i>Dialog</i>	62	82	74	(9.8)	19.4	111	156	40.5
<i>Robi</i>	30	-61	-7	(88.5)	(123.3)	-29	-68	134.5
<i>Smart</i>	70	55	57	3.6	(18.6)	158	112	(29.1)
<i>Ncell</i>	178	152	159	4.6	(10.7)	314	311	(1.0)
<i>Others</i>	-87	-79	-126	59.5	44.8	-155	-205	32.3
Capex	1,824	1,328	1,865	40.4	2.2	2,898	3,193	10.2
EPS (sen)	5.1	3.4	3.0	(11.1)	(40.6)	8.7	6.5	(25.5)
DPS (sen)	5.0	0.0	5.0	n/a	0.0	5.0	5.0	0.0
Profitability ratios (%)				pp	pp			pp
EBITDA margin	37.5	35.4	34.8	(0.6)	(2.7)	37.1	35.1	(2.0)
EBIT margin	13.5	11.2	10.4	(0.8)	(3.1)	12.2	10.8	(1.5)
PBT margin	9.4	0.7	(52.1)	(52.8)	(61.6)	8.1	(26.0)	(34.0)
Net profit margin	7.7	5.5	4.7	(0.8)	(3.0)	6.5	5.1	(1.4)
Tax rate	16.1	326.6	(8.5)	(335.1)	(24.6)	23.1	(13.1)	(36.2)
Celcom (RMmn)								
Revenue	1,604	1,636	1,682	2.8	4.9	3,226	3,318	2.9
EBITDA	564	518	554	6.9	(1.8)	1,091	1,072	(1.7)
EBITDA margin (%)	35.2	31.7	32.9	1.3	(2.2)	33.8	32.3	(1.5)
PATAMI	360	187	156	(16.6)	(56.7)	552	343	(37.9)
PATAMI margin (%)	22.4	11.4	9.3	(2.2)	(13.2)	17.1	10.3	(6.8)
Subscribers ('000)				Net adds	Net adds			
Postpaid	2,916	2,826	2,836	10	-80			
Prepaid	7,013	6,771	6,788	17	-225			
ARPU (RM)				%	%			
Postpaid	82	87	87	0.0	6.1			
Prepaid	31	34	35	2.9	12.9			
XL (Rpbn)								
Revenue	5,675	5,505	5,562	1.0	(2.0)	10,950	11,067	1.1
EBITDA	2,073	1,986	2,000	0.7	(3.5)	3,921	3,986	1.7
EBITDA margin (%)	36.5	36.1	36.0	(0.1)	(0.6)	35.8	36.0	0.2
PAT	97	15	-97	(746.7)	(200.0)	144	-82	(156.9)
Normalised PAT	94	11	-76	(790.9)	(180.9)	114	-65	(157.0)
PATAMI margin (%)	1.7	0.2	-1.4	(1.6)	(3.0)	1.0	(0.6)	(1.6)
Subscribers ('000)				Net adds	Net adds			
Postpaid	582	804	891	87	309			
Prepaid	49,895	53,741	52,013	-1,728	2,118			
ARPU (IDR '000)				%	%			
Postpaid	108	106	101	(4.7)	(6.5)			
Prepaid	33.0	29.0	31.0	6.9	6.1			

FYE Dec	2QFY17	1QFY18	2QFY18	QoQ (%)	YoY (%)	1HFY17	1HFY18	YoY (%)
Dialog (SLRmn)								
Revenue	23,012	25,974	26,460	1.9	15.0	45,177	52,434	16.1
EBITDA	8,130	9,538	9,773	2.5	20.2	15,351	19,311	25.8
EBITDA margin (%)	35.3	36.7	36.9	0.2	1.6	34.0	36.8	2.8
PAT	2,346	2,818	2,678	(5.0)	14.2	3,892	5,496	41.2
PAT margin (%)	10.2	10.8	10.1	(0.7)	(0.1)	8.6	10.5	1.9
Subscribers ('000)				Net adds	Net adds			
Postpaid	1,271	1,356	1,340	-16	69			
Prepaid	11,158	11,671	11,870	199	712			
ARPU (SLR)				%	%			
Postpaid	1,138	1,020	1,029	0.9	(9.6)			
Prepaid	298	311	319	2.6	7.0			
Robi (BDTmn)								
Revenue	16,803	16,294	16,519	1.4	(1.7)	32,272	32,813	1.7
EBITDA	2,670	2,945	4,050	37.5	51.7	5,392	6,995	29.7
EBITDA margin (%)	15.9	18.1	24.5	6.4	8.6	16.7	21.3	4.6
PAT	685	-1,595	-571	(64.2)	(183.4)	-1,026	-2,166	111.1
PAT margin (%)	4.1	-9.8	-3.5	6.3	(7.5)	-3.2	-6.6	(3.4)
Subscribers ('000)				Net adds	Net adds			
Postpaid	356	446	470	24	114			
Prepaid	39,214	45,163	44,259	-904	5,045			
ARPU (BDT)				%	%			
Postpaid	253	170	174	2.4	(31.2)			
Prepaid	130	117	116	(0.9)	(10.8)			
Ncell (NPRmn)								
Revenue	14,471	14,264	15,260	7.0	5.5	28,150	29,524	4.9
EBITDA	9,831	9,021	9,581	6.2	(2.5)	18,517	18,602	0.5
EBITDA margin (%)	67.9	63.2	62.8	(0.5)	(5.2)	65.8	63.0	(2.8)
PAT	5,111	3,718	4,694	26.3	(8.2)	9,877	8,412	(14.8)
PAT margin (%)	35.3	26.1	30.8	4.7	(4.6)	35.1	28.5	(6.6)
Subscribers ('000)				Net adds	Net adds			
Postpaid	461	331	293	-38	-168			
Prepaid	15,168	16,093	16,159	66	991			
ARPU (BDT)				%	%			
Postpaid	339	372	445	19.6	31.3			
Prepaid	298	281	303	7.8	1.7			
edotco (RMmn)								
Revenue	373	399	437	9.6	17.2	745	836	12.2
EBITDA	170	157	164	4.6	(3.4)	350	321	(8.2)
EBITDA margin (%)	45.6	39.3	37.6	(1.8)	(8.0)	47.0	38.4	(8.6)
PAT	39	24	73	200.8	88.2	107	98	(8.6)
PAT margin (%)	10.5	6.1	16.8	10.7	6.3	14.4	11.7	(2.7)
Tenancies ('000)	22,990	26,585	27,518	Net adds	Net adds			
Towers ('000)	15,588	16,760	17,319	933	4,528			
Managed sites ('000)	10,732	10,957	11,171	559	1,731			
Tenancy ratio (x)	1.47	1.59	1.59	214	439			

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Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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As of Monday, August 27, 2018, the analyst, Wilson Loo, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

TA SECURITIES HOLDINGS BERHAD (14948-M)

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