

# Malaysia Flash Note

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DBS Group Research . Equity

30 Aug 2019

## Axiata Group (AXIATA MK) : HOLD

Mkt. Cap: US\$10,899m | 3m Avg. Daily Val: US\$6.8m

Last Traded Price ( 29 Aug 2019): RM5.03

Price Target 12-mth: RM4.60 (8% downside) (Prev RM4.30)

### Analyst

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### Recovery gaining momentum

- 2Q19 earnings recovery partly offset by higher taxation
- Cut FY19-21 EPS by 17-19%
- Planned merger with Telenor remains on track; negotiations to conclude latest by November
- Expect near-term share price boost on merger news , maintain HOLD with revised RM4.60 TP

#### Forecasts and Valuation

FY Dec (RMm)	2018A	2019F	2020F	2021F
Revenue	23,886	24,562	25,388	26,321
EBITDA	4,987	8,853	9,315	9,938
Pre-tax Profit	(4,346)	2,125	2,416	2,867
Net Profit	(5,035)	1,009	1,222	1,481
Net Pft (Pre Ex.)	1,010	1,009	1,222	1,482
Net Pft Gth (Pre-ex) (%)	(16.2)	(0.1)	21.1	21.3
EPS (sen)	(56.1)	11.2	13.6	16.5
EPS Pre Ex. (sen)	11.3	11.2	13.6	16.5
EPS Gth Pre Ex (%)	(16)	0	21	21
Diluted EPS (sen)	11.3	11.2	13.6	16.5
Net DPS (sen)	9.50	9.56	11.6	14.0
BV Per Share (sen)	195	196	199	201
PE (X)	nm	44.7	36.9	30.5
PE Pre Ex. (X)	44.7	44.7	36.9	30.4
P/Cash Flow (X)	7.4	5.9	6.0	5.7
EV/EBITDA (X)	12.9	7.2	6.9	6.5
Net Div Yield (%)	1.9	1.9	2.3	2.8
P/Book Value (X)	2.6	2.6	2.5	2.5
Net Debt/Equity (X)	0.6	0.6	0.5	0.5
ROAE (%)	(23.9)	5.7	6.9	8.3

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

### Company Guide

Summary of our point of view, and highlights the relevant data points, which are actively tracked

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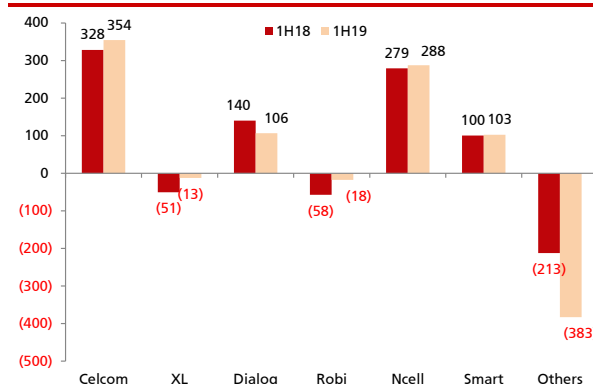
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### What's New

**Below expectations.** Axiata Group (AXIATA) booked 2Q19 core earnings of RM228m (+9.6% q-o-q), taking 1H19 earnings to 35% and 39% of our and consensus' full-year estimates. Despite improvement across most operating companies (OpCos), earnings recovery was slower-than-expected due to higher taxation (especially at Robi Axiata in Bangladesh) and seemingly higher losses for its digital businesses.

**Declared 5sen interim DPS.** The company declared first interim dividend per share (DPS) of 5sen, in line with expectations.

### Normalised Group PATAMI contribution



Sources: Companies, AllianceDBS

**Celcom – recovery intact.** Its mobile operator Celcom Axiata's service revenue rose by 3.6% q-o-q in 2Q19, as the company focuses more on profitable segments and increasing its data revenue. This can be seen in the higher blended average revenue per user (ARPU) of RM51



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achieved in 2Q19 (vs. RM49 in 3Q19). It looks like there was also some clean-up in prepaid subscribers during the quarter (200k net churn).

Celcom's earnings before interest, taxes, depreciation and amortisation (EBITDA) jumped by 24% q-o-q mainly due to cost discipline initiatives, especially in reducing direct expenses. This helped lifted EBITDA margin to 42.7% in 2Q19, compared to 34.3% in 1Q19. As a result, profit after tax and minority interests (PATAMI) rose from RM134m in 1Q19 to RM218m in 2Q19.

**XL Axiata –stronger growth than peers.** In 1H19, Indonesia's XL Axiata managed to increase its revenue market share by 0.5 percentage points to 18.2%, and recorded a 10.9% increase in revenue due to strong growth in data. Data now contributes about 87% of XL's service revenue (vs. 79% a year ago). Excluding the effects of the Malaysian Financial Reporting Standards 16 (MFRS 16), EBITDA grew by approximately 16.2% y-o-y in 1H19 on cost savings initiatives. Correspondingly, this helped XL's bottom line of IDR282bn in 1H19 (vs 1DR82bn losses in 1H18).

**Robi – strong growth offset by higher tax.** Robi outperformed the industry, achieving 11.3% y-o-y growth for its service revenue, driven by strong data growth of 30.4% in 1H19. Due to high operating leverage, EBITDA surged 70.5% y-o-y but was partly offset by higher

taxation given the change in minimum tax rate for mobile operators in Bangladesh (from 0.75% to 2.0%).

**Status updates on Telenor merger.** AXIATA's management assured that its planned merger with Norwegian Telenor's Asian operations is still on track. Due diligence is about 70% completed. There are several considerations still being discussed between both parties related to commercial terms, national interest and staff. Management remains optimistic on the merger and expects negotiation to be concluded latest by November.

**Cut FY19-21 EPS by 17-19%.** We cut our FY19-21 earnings forecasts for AXIATA by 17-19% after adjusting for higher taxation and losses for its digital businesses.

**Valuation rolled forward to FY20; maintain HOLD with RM4.60 TP.** Our sum-of-parts (SOP)-based target price (TP) for AXIATA is raised to RM4.60 (see table below) after rolling forward our valuation base year to FY20 as well incorporating the latest TP for XL. Maintain our HOLD recommendation.

In the near term, we expect AXIATA's share price to be buoyed by the proposed merger with Telenor's Asian operations. We are generally positive on this development as the merger will create a sizeable entity with strong presence across 9 countries and potentially significant synergy on bigger economies of scale.

SOP Valuation						
	Subsidiaries	Valuation Method	Effective stake	Valuation (RMm)	Valuation per share	Per Axiata share
	Celcom	DCF (WACC 7.3%, TG 1.5%)	100.0%	23,782		2.70
	XL	DBS TP	66.6%	6,560	Rp3,850	0.74
	Ncell	6x CY20 EBITDA	80.0%	6,624		0.75
	Dialog	Market Price	83.3%	1,960	Rp10.7	0.22
	Robi	6x CY20 EBITDA	68.7%	2,759		0.31
	Vodafone-Idea	Consensus TP	8.1%	340	Rs. 8.0	0.04
	Smart	6x CY20 EBITDA	82.5%	2,357		0.27
	<b>Total value of subsidiaries</b>			<b>44,382</b>		<b>5.03</b>
	<b>Holding company net cash (debt)</b>			<b>(4,229)</b>		<b>-0.43</b>
	<b>Total equity value</b>			<b>40,153</b>		<b>4.60</b>

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### Axiata Group 2Q19 result review

Key financials (RM m)	2Q18	1Q19	2Q19	Chg y-o-y	Chg q-o-q	Comments
Revenue	5,867.1	5,949.4	6,153.6	4.9%	3.4%	Better performance q-o-q across all OpCos
EBITDA	2,159.0	2,193.0	2,310.0	7.0%	5.3%	Excluding MFRS 16 impact
Operating profit	(2,596.0)	1,215.1	1,098.4	-142.3%	-9.6%	
Pretax profit	(3,058.2)	976.8	637.5	-120.8%	-34.7%	
Net profit	(3,357.3)	709.1	204.1	-106.1%	-71.2%	
Core net profit	216.7	208.8	228.8	5.6%	9.6%	Adjusted for forex and M&A related gains
<b>Margins (%)</b>						
EBITDA	36.8	36.9	37.5	0.7	0.7	
Pretax	-52.1	16.4	10.4	62.5	-6.1	
Core net profit	3.7	3.5	3.7	0.0	0.2	
<b>Revenue breakdown</b>						
- Celcom	1,791	1,652	1,652	-7.8%	0.0%	See further breakdown below
- XL	1,534	1,719	1,786	16.4%	3.9%	Underpinned by strong data growth
- Dialog	656	660	686	4.5%	3.9%	
- Robi	777	892	914	17.7%	2.5%	Strong growth in all segments
- Ncell	540	498	520	-3.7%	4.6%	Lower revenue y-o-y due to implementation of Telecom Services Charges in Nepal from mid July 2018.
- Other/Eliminations	568	529	595	4.8%	12.6%	
<b>EBITDA breakdown</b>						
- Celcom	495	570	710	43.5%	24.5%	Lower direct costs
- XL	611	830	941	54.1%	13.5%	Flowing through from strong revenue
- Dialog	272	275	262	-4.0%	-4.7%	Higher direct expenses and network costs
- Robi	147	349	415	181.3%	19.0%	Strong surge due to operating leverage
- Ncell	349	315	295	-15.6%	-6.5%	
- Other/eliminations	102	83	48	-52.9%	-42.5%	

Source of all data: Company, AllianceDBS

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### 1Q19 Celcom operating statistics

	2Q18	1Q19	2Q19	Chg y-o-y	Chg q-o-q	Comments
<b>Celcom (RM m)</b>						
Revenue	1,814	1,664	1,664	-8.3%	0.0%	Y-o-y, affected by reduction in MTR and lower device sales
EBITDA	495	571	710	43.4%	24.3%	Direct costs were significantly lower q-o-q
EBITDA margin (%)	27.3	34.3	42.7	15.4	8.4	
Net profit	155	134	218	40.6%	62.7%	
Core net profit	157	134	218	39.0%	62.7%	

### Revenue breakdown (RM m)

Service revenue	1,531	1,421	1,473	-3.8%	3.6%	Y-o-y, mainly due to decline in wholesale revenue
- Voice & SMS	733	589	591	-19.4%	0.3%	
- Data	798	832	882	10.5%	6.0%	
Other (Handset sales, etc.)	283	243	191	-32.4%	-21.2%	
Prepaid ARPU (RM)	35	34	37	5.7%	8.8%	
Postpaid ARPU (RM)	84	84	85	1.2%	1.2%	
Blended ARPU (RM)	48	49	51	6.3%	4.1%	
Prepaid subscribers ('000)	6,788	5,967	5,767	-15.0%	-3.4%	200k net churn in 2Q19
Postpaid subscribers ('000)	2,836	2,981	3,009	6.1%	0.9%	28k net adds in 2Q19
Total subscribers ('000)	9,624	8,948	8,776	-8.8%	-1.9%	

Source of all data: Company, AllianceDBS

### Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	12 Sep 18	4.43	5.05	BUY
2:	27 Nov 18	3.50	5.05	BUY
3:	02 Jan 19	3.77	5.05	BUY
4:	25 Feb 19	4.17	4.70	BUY
5:	26 Feb 19	4.12	4.70	BUY
6:	07 Mar 19	4.19	4.70	BUY
7:	22 Apr 19	3.88	4.30	HOLD
8:	07 May 19	4.64	4.30	HOLD
9:	28 May 19	4.54	4.30	HOLD
10:	02 Jul 19	5.20	4.30	HOLD

Source: AllianceDBS

Analyst: Woo Kim TOH

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**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*\*Share price appreciation + dividends*

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