

Axiata Group Bhd

(6888 | Axiata MK) Telecommunications & media | Telecommunications service providers

Maintain BUY

Ncell issue to be resolved in 2HCY20

Unchanged Target Price: RM4.67

KEY INVESTMENT HIGHLIGHTS

- **1QFY20 normalised EBITDA grew by +19.1%yoy, supported by all the opcos with the exception of Ncell**
- **Ncell performance was impacted by the delay in spectrum assignment and price competition from fixed ISPs**
- **However, 1QFY20 earnings was primarily impacted by higher depreciation and amortization charges**
- **1QFY20 capex came in -11.7%yoy lower, leading to lower capex intensity ratio of 21.1%**
- **Maintain BUY with an unchanged TP of RM4.67**

Double digit growth in normalised EBITDA. Axiata's 1QFY20 normalised EBITDA came in at RM 2,584m, an increase of +19.1%yoy. Note that the exceptional items mainly relate to one-off employee restructuring program at Celcom amounting to RM101m. Higher EBITDA contribution was seen across all the operating companies with the exception of Ncell (*refer to Table 1*). All in, this came in within ours and consensus expectations, accounting for 26.6% and 24.3% of full year FY20 EBITDA estimates respectively.

Lower earnings. Meanwhile, 1QFY20 normalised earnings amounted to RM121m, a decline of -42.1%yoy. The reduction in earnings mainly stemmed from higher depreciation and amortization charges, higher net finance cost and higher taxation.

Careful capital spending. 1QFY20 capital expenditure (capex) came in lower at RM1,274m (-11.7%yoy). This was mainly due to lower capital spending from all the operating companies with the exception of XL (+5.1%yoy) and Robi (+168.3%yoy). As a result, the capex intensity ratio fall to 21.1% as compared to 24.2% recorded in 1QFY19.

Impact. We are maintaining our EBITDA estimates at this juncture. However, we are inputting higher depreciation and amortization and higher effective tax rate. This lead to revision in FY20/21/22 earnings to RM586.4m/RM650.9m/RM739.0m respectively.

Target price. We are maintaining our **target price of RM4.67**. This is premised on pegging FY20 EBITDA to target EV/EBITDA multiple of 6.3x which is the group's two year historical average.

Maintain BUY. Despite the on-going regulatory issues and execution risk, the group has performed well across almost all the group's opcos. This has enabled the group to withstand the underperformance stemming from Ncell. Nevertheless, we expect the spectrum issue surrounding Ncell to be resolved by 2HCY20 which will put Ncell back on the profit growth path. Meanwhile, we expect the group is on track to meet its 5-year cost savings target of RM5.0b by 2021.

RETURN STATISTICS

Price @ 21 st May 2020 (RM)	3.77
Expected share price return (%)	+23.9
Expected dividend yield (%)	+2.7
Expected total return (%)	+26.6

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-0.5	2.6
3 months	-0.9	-1.3
12 months	+12.7	83.5

KEY STATISTICS

FBM KLCI	1,583.77
Syariah compliant	Yes
Issue shares (m)	9,071.02
Estimated free float (%)	24.22
Market Capitalisation (RM'm)	39,036.82
52-wk price range (RM)	3.36– 5.28
Beta vs FBM KLCI (x)	1.60
Monthly velocity (%)	17.31
Monthly volatility (%)	19.49
3-mth average daily volume (m)	3.98
3-mth average daily value (RM'm)	17.28
Top Shareholders (%)	
Khazanah Nasional Bhd	36.79
Employees Provident Fund	15.91
Skim Amanah Saham Bumiputera	11.95

Analyst

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In addition, we believe that Axiata's valuation is currently attractive. At this juncture, Axiata's EV/EBITDA stands at below 6x while its listed peers have EV-EBITDA of more than 10x. This is despite Axiata has superior EBITDA performance. All factors considered, we are maintaining our **BUY** recommendation on the stock.



Table 1: Normalised EBITDA performance of main operating companies

Segment	1QFY20 (RM'm)	1QFY19 (RM'm)	Change (%YoY)	Remarks
Celcom (Malaysia)*	615	570	7.8	Lower direct cost and lower sales and marketing expense
XL Axiata (Indonesia)	920	830	10.9	Strong data monetisation
Dialog (Sri Lanka)	277	275	1.0	Sustained revenue, supported by the mobile revenue
Robi (Bangladesh)	380	349	9.1	Strong data growth, higher operating leverage and lower staff cost
Smart (Cambodia)	179	159	12.3	Higher data revenue
Ncell (Nepal)	263	315	-16.7	Decline in revenue and higher direct cost
Edotco (Malaysia)	272	229	19.0	New tenancy growth

Source: Company, MIDFR

*exclude one-off employee restructuring program at Celcom

INVESTMENT STATISTICS

Financial year ending 31 st December (in RM'm, unless otherwise stated)	2018	2019	2020E	2021F	2022F
Revenue	23,885.8	24,583.3	25,551.1	26,517.7	27,584.3
EBITDA	8,334.0	9,311.0	9,698.4	9,944.8	10,578.7
EBIT	-2,657.7	4,324.5	2,829.6	2,940.8	3,212.4
PBT	-4,345.7	2,872.2	1,791.8	1,874.9	2,092.8
PATANCI	-5,034.6	1,457.6	586.4	650.9	739.0
Normalised PATANCI	1,010.0	1,025.0	586.4	650.9	739.0
Normalised EPS (sen)	11.1	15.2	11.2	12.3	13.8
Normalised EPS Growth (%)	-16.7	36.7	-26.3	10.1	11.6
PER (x)	34	25	34	31	27
Dividend Per Share (sen)	9.5	9.5	10	10	10
Dividend yield (%)	2.5	2.5	2.7	2.7	2.7

Source: Company, MIDFR

AXIATA GROUP BHD: 1QFY20 RESULTS SUMMARY

Financial year ending 31 st December (in RM'm, unless otherwise stated)	Quarterly				
	1Q20	1Q19	% YoY	4Q19	% QoQ
Revenue	6,036.6	5,949.4	1.5	6,267.0	-3.7
Normalised EBITDA	2,584.0	2,170.0	19.1	2,368.0	9.1
EBIT	1,155.3	1,215.1	-4.9	961	20.2
Finance costs (include forex impact)	-591.5	-293.5	101.6	-382.2	54.8
Finance income	42.1	56.4	-25.3	53.2	-20.8
Joint controlled entities' results	-1.9	-2.2	n.m.	0.0	n.m.
Associates' results	7.9	1.1	n.m.	0.0	n.m.
Profit before tax	611.9	976.8	n.m.	632.3	n.m.
Taxation	-213.6	-193.1	10.6	-228.1	-6.4
Profit after tax	398.3	783.7	-49.2	404.1	-1.4
Non-controlling interest	210.2	74.7	181.5	71.6	193.6
PATANCI	188.1	709.1	-73.5	332.6	-43.4
Normalised PATANCI	121.0	209.0	-42.1	291.0	-58.4
Normalised EPS (sen)	1.3	2.3	-42.6	3.2	-58.5
			+/- ppts		+/- ppts
EBITDA margin (%)	42.8	36.5	6.3	37.8	5.0
Normalised PATANCI margin (%)	2.0	3.5	-1.5	4.6	-2.6
Effective tax rate (%)	34.9	19.8	15.1	36.1	-1.2

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.