

Axiata Group Bhd

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

EBITDA charted double digit growth

KEY INVESTMENT HIGHLIGHTS

- **Double digit growth in FY19 EBITDA to RM9,311.0m in view of higher contribution from all opcos except NCELL**
- **However, the positivity only translate into minimal impact on the group's FY19 earnings (+1.5%yoy)**
- **FY19 dividend maintain at 9.5sen per share which translate into dividend yield of 2.2%**
- **Propose listing of Robi is expected to have minimal impact on the group**
- **Upgrade to BUY with a revised TP of RM4.77**

Cost excellence programme continue to yield result. Axiata Group's Bhd 4QFY19 EBITDA came in +13.6%yoy higher at RM2,368.0m. This was mainly attributable to the cost excellence programme as 4QFY19 revenue remained flat at RM6,267.0m. Higher EBITDA was achieved across all opcos with the exception of Dialog and NCell.

FY19 EBITDA within expectation. Cumulatively, full year FY19 EBITDA amounted to RM9,311.0m, an increase of +11.7%yoy. This was higher than the group's guidance for FY19. Nonetheless, it was within ours and consensus expectations, accounting for 104.7% and 96.5% of full year FY19 EBITDA estimates

Marginal earnings improvement. Meanwhile, FY19 normalised earnings totaled up to RM1,025.0m, a slight increase of +1.5%yoy. Despite double digit growth in EBITDA, the earnings was partially subdued mainly by higher finance cost (+13.4%yoy).

Capital spending. FY19 capex came in marginally higher at RM6,202m. The increase in capex primarily came in primarily came from XL and Ncell which grew by +12.6%yoy and +273.2%yoy to RM2,361m and RM571m.

Impact. Premised on the group's guidance on future financial performance, we revise upwards FY20 and FY21 EBITDA to RM9,698.4m and RM9,944.8m. Consequently, FY20 and FY21 earnings estimates has been raise to RM1,103.7m and RM1,145.1m respectively.

Target price. We are revising our target price of **RM4.77** (previously RM4.68). This is premised on pegging FY20 EBITDA to revised EV/EBITDA multiple of 6.4x which is the group's two year historical average multiple.

Upgrade to BUY

(from NEUTRAL)

Revised Target Price: RM4.77

(previously RM4.48)

RETURN STATISTICS

| | |
|---|--------------|
| Price @ 21 st February 2020 (RM) | 4.25 |
| Expected share price return (%) | +12.2 |
| Expected dividend yield (%) | +2.4 |
| Expected total return (%) | +14.6 |

SHARE PRICE CHART



| Share price performance (%) | Absolute | Relative |
|-----------------------------|----------|----------|
| 1 month | 0.5 | 3.2 |
| 3 months | 2.7 | 1.7 |
| 12 months | 0.0 | 12.4 |

KEY STATISTICS

| | |
|----------------------------------|------------|
| FBM KLCI | 1,531.20 |
| Syariah compliant | Yes |
| Issue shares (m) | 9,071.02 |
| Estimated free float (%) | 23.92 |
| Market Capitalisation (RM'm) | 38,945.19 |
| 52-wk price range (RM) | 3.86– 5.28 |
| Beta vs FBM KLCI (x) | 1.59 |
| Monthly velocity (%) | 7.93 |
| Monthly volatility (%) | 19.18 |
| 3-mth average daily volume (m) | 3.51 |
| 3-mth average daily value (RM'm) | 15.29 |
| Top Shareholders (%) | |
| Khazanah Nasional Bhd | 36.79 |
| Employees Provident Fund | 15.91 |
| Skim Amanah Saham Bumiputera | 11.95 |

Analyst

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Listing of Robi. Axiata proposes to list Robi in Bangladesh following a fixed price method. Following the listing, Axiata's shareholding in Robi will be diluted by -6.87% to 61.82%. The group has established two conditions for the listing. This includes reduction in the corporate tax, which currently stands at 45%, by at least 10p.p and reduction of the two percent minimum income tax on overall revenue to 0.75%. Premised on FY19 financial performance, the dilution in EBITDA and earnings post the listing only amounted to -1.2% and -0.4% respectively. Thus, we are neutral on the development. Nonetheless, the expected proceeds of RM255m from the proposed listing could partially help to fund Robi's capex requirement.


Maintain NEUTRAL. Despite the on-going regulatory issues and execution, the group has performed well as seen in the latest financial performance, especially from its two main opcos i.e. Celcom and XL. The better performance across almost all the group's opcos is able to offset the underperformance from Ncell. Meanwhile, the group has finally manage to improve its earnings, albeit marginally. Moving forward, we expect the group is on track to meet its 5-year cost savings target of RM5.0b by 2021. This would translate into higher pace of earnings growth in the foreseeable years. In addition, we believe that valuation has turn attractive post the fallout of the mega merger. All factors considered, we are upgrading our recommendation to **BUY** from neutral previously. 

Table 1: EBITDA performance of main operating companies

| Segment | FY19 (RM'm) | FY18 (RM'm) | Change (%YoY) | Remarks |
|------------------------------|-------------|-------------|---------------|---|
| Celcom (Malaysia) | 2,051 | 1,906 | +7.6 | Lower direct expenses and staff cost |
| XL Axiata (Indonesia) | 2,930 | 2,527 | +15.9 | Effective data monetisation and upselling |
| Dialog (Sri Lanka) | 1,098 | 1,082 | +1.5 | Higher revenue growth stemming from TV, fixed and mobile |
| Robi (Bangladesh) | 1,144 | 795 | +43.9 | Higher data and voice revenue as well as lower sales and marketing cost |
| Smart (Cambodia) | 609 | 544 | +12.0 | Strong data revenue growth |
| Ncell (Nepal) | 1174 | 1,301 | -9.8 | Consumption levies and intense competition from ISPs |
| Edotco (Malaysia) | 843 | 684 | +23.2 | New tenancy growth and lower maintenance costs in 2019 |

Source: Company, MIDFR

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 | 3,574.6 | 3,706.0 | 3,860.7 |
| PBT | -4,345.7 | 2,872.2 | 2,496.2 | 2,598.3 | 2,698.1 |
| PATANCI | -5,034.6 | 1,457.6 | 1,103.7 | 1,145.1 | 1,183.9 |
| Normalised PATANCI | 1,010.0 | 1,025.0 | 1,103.7 | 1,145.1 | 1,183.9 |
| Normalised EPS (sen) | 11.1 | 15.2 | 16.7 | 17.4 | 18.1 |
| Normalised EPS Growth (%) | -16.7 | 36.7 | 10.0 | 4.1 | 3.8 |
| PER (x) | 38 | 28 | 25 | 24 | 24 |
| Dividend Per Share (sen) | 9.5 | 9.5 | 10 | 10 | 10 |
| Dividend yield (%) | 2.2 | 2.2 | 2.4 | 2.4 | 2.4 |

Source: Company, MIDFR

AXIATA GROUP BHD: 4QFY19 RESULTS SUMMARY

| Financial year ending 31 st December (in RM'm, unless otherwise stated) | Quarterly | | | Cumulative | | |
|---|-----------|----------|----------|------------|----------|----------|
| | 4Q19 | % YoY | % QoQ | 2019 | 2018 | % |
| Revenue | 6,267.0 | 0.0 | 0.9 | 24,583.3 | 23,885.8 | 2.9 |
| EBITDA | 2,368.0 | 13.6 | -2.4 | 9,311.0 | 8,334.0 | 11.7 |
| EBIT | 961.3 | -177.1 | -2.7 | 4,324.5 | -2,385.1 | -281.3 |
| Finance costs (include forex impact) | -382.2 | 28.2 | -22.1 | -1,679.3 | -1,481.1 | 13.4 |
| Finance income | 53.2 | -5.0 | 48.2 | 230.5 | 221.5 | 4.1 |
| Joint controlled entities' results | 0.0 | n.m. | n.m. | -2.8 | 1.7 | n.m. |
| Associates' results | 0.0 | n.m. | n.m. | -0.6 | -430.1 | n.m. |
| Profit before tax | 632.3 | n.m. | n.m. | 2,872.2 | -4,073.1 | -170.5 |
| Taxation | -228.1 | -26.4 | -20.2 | -1,057.1 | -901.6 | 17.3 |
| Profit after tax | 404.1 | -122.6 | 63.2 | 1,815.1 | -4,974.7 | -136.5 |
| Non-controlling interest | 71.6 | -120.0 | -44.0 | 357.5 | -212.7 | -268.1 |
| PATANCI | 332.6 | -123.3 | 177.8 | 1,457.6 | -4,762.0 | -130.6 |
| Normalised PATANCI | 291.0 | 76.4 | 12.8 | 1,025.0 | 1,010.0 | 1.5 |
| Normalised EPS (sen) | 3.2 | 75.5 | 12.6 | 11.2 | 11.1 | 1.1 |
| | | +/- ppts | +/- ppts | | | +/- ppts |
| EBITDA margin (%) | 37.8 | 4.5 | -1.3 | 37.9 | 34.9 | 3.0 |
| Normalised PATANCI margin (%) | 4.6 | 2.0 | 0.5 | 4.2 | 4.2 | -0.1 |
| Effective tax rate (%) | 36.1 | 57.0 | -17.5 | 36.8 | -22.1 | 58.9 |

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. |