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Equity Beat

25 February 2010

4Q09 Results Review

Axiata

Celcom surprises on the upside!

***Upgrade to* BUY (from NEUTRAL)**
***Revised* Target Price (TP): RM4.50 (from RM3.50)**

STOCK INFO

Price (24 Feb.10)	RM3.50	FBM KLCI	1270.78
Issued shares (mil)	8445.2	Bursa / Bloomberg	6888 / Axiata MK
Par Value (RM)	1.00	Board / Sector	Main / Services
Market cap. (RM'm)	29304.8	Syariah Compliant	Yes
Price over NA (x)	1.6		
52-wk price Range (RM)	1.45 – 3.50	Major Shareholders (%)	
Beta (against KLCI)	n/a	Khazanah	44.5
3-mth Avg Daily Vol	m	EPF	16.4
3-mth Avg Daily Value	RMm	ASB	7.2

- **FY09 normalised net profit (excluding one-off items) came in above within expectation from improvement in operational efficiencies. Revenue grew by 15.5% on the back of higher contribution from Celcom, XL and Axiata Bangladesh.**
- **We revised our earnings forecast (which excludes forex gains or losses) and expect EPS10 of 23.9sen and EPS11 of 25.8sen on expectation of stronger earnings growth potential in key markets.**
- **In conjunction with the earnings revision, we upgrade our recommendation to BUY from NEUTRAL with a 12-month target price at RM4.50 based on 12x EV/EBITDA.**

FY09 net profit better-than-expected thanks to improvement in operational efficiencies and one-off forex gain: Axiata's revenue improved by 15.5%yoy to RM13,105.1m from RM11,347.7m in FY08. The improved performance was primarily attributable to higher contribution from Celcom Group, XL Group and AxB resulted from increasing trend in subscriber base and higher broadband contribution for Celcom Group. In FY09, XL Group and Celcom Group remain as the major contributors towards the Group's revenue. Axiata recorded a 161.3% increase in other operating income to RM467.6m by virtue of XL Group's one-off gain of RM158.1m arising from derecognition of its dark fibre optic lines as a result of a finance lease arrangement during 1H09 and higher tower rental income of RM204.5m. Meanwhile, operating costs increased by 13.5% to RM7,948.3m mainly driven by Celcom Group, XL Group and AxB. Axiata incurred higher net finance costs of RM786.3m as a result of an increase in its debt position arising mainly from external borrowings of XL Group in the first three quarters of 2009. Profit contribution from associate and joint venture companies improved to RM101.3m arising from share of profit from MobileOne Ltd and Idea, which was accounted for as an associate effective from 3Q09. FY09 net profit of RM1,755.9m, was higher by 272.7%yoy driven by improved contributions from Celcom Group, XL Group and AxB and favourable pre-tax foreign exchange gain mainly from XL ⇨

FYE 31 Dec	FY08	FY09	FY10F	FY11F
Revenue (RM'm)	11347.7	13105.1	13936.4	14581.4
EBIT (RM'm)	1980.4	3214.0	3546.8	3901.5
Pretax Profit (RM'm)	905.8	2666.2	3031.5	3304.4
Net Profit (RM'm)	471.1	1755.9	2019.3	2180.8
EPS (sen)	0.6	21.0	23.9	25.8
EPS growth (%)	-97.3	>100.0	13.8	7.9
PER(x)	578.3	16.5	14.5	13.5
Net Dividend (sen)	0.0	0.0	0.0	0.0
Net Dividend Yield (%)	n.m.	n.m.	n.m.	n.m.

Source: Company, Forecasts by MIDFR

Group as a result of weakening of USD against IDR.

Sequentially, net profit grew by 13.3%: 4Q09 revenue of RM3,693.8m grew by 9.3%qoq as all operating companies showed positive revenue growth in local currencies driven by increase in subscriber base. The weaker Ringgit had favourably translated the revenue from the respective local currencies. At constant exchange rate, 4Q09 revenue growth would have been 0.2%-pts lower at 9.1%. Meanwhile, operating costs increased by 3.1% driven by Celcom Group, XL Group and TMIC. Celcom Group's other operating cost was mainly resulted from (i) increase in content provider charges, (ii) higher network related cost, and (iii) increased in Universal Service Provision charges. 4Q09 pre-tax foreign exchange gain has reduced to RM86.7m from RM184.7m in 3Q09 as a result of relatively stable USD exchange rate against local currency of key operating companies. Net profit of RM602.4m, which is an increase of 13.3% rose mainly from lower net finance cost and taxation, positive contribution from AxB due to improvement in EBITDA negated by lower pre-tax foreign exchange gain and higher depreciation charge in Celcom Group.

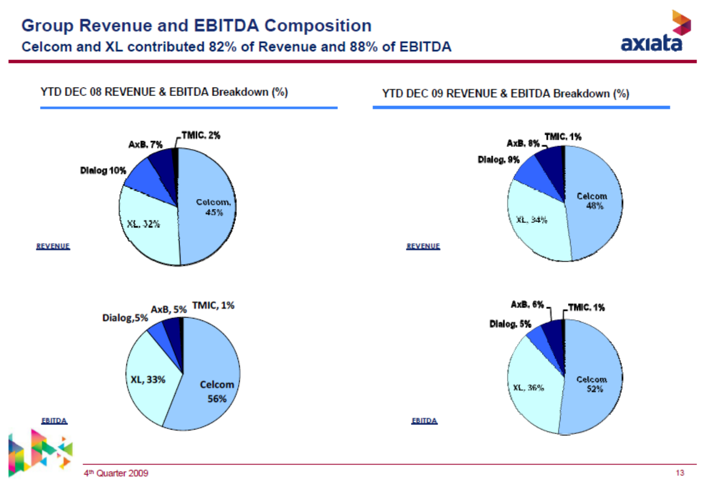
We revise our FY10/ FY11 earnings forecast: In view of the sustainable operational performance in FY09, we revise upwards our forecast of operating profit margin to 42% (from 38% previously). Similarly, we now expect stronger revenue growth as a result of favourable subscriber growth and stable ARPU, driven by the demand for data. We estimate FY10 revenue of RM13936.4m representing a favourable 6.3% growth and FY10 net profit of RM2019.3 on sustainable operating margin, which showed marked improvement in FY09.

We upgrade our recommendation to BUY from NEUTRAL with a target price of RM4.50 based on 12x EV/ EBITDA from 9x previously**:** In tandem with our earnings revision, we upgrade our 12-month target price to RM4.50 based on 12x EV/ EBITDA. Shares of Axiata are currently trading at 14.5x EPS10 relative to its earnings growth potential of 13.8%.

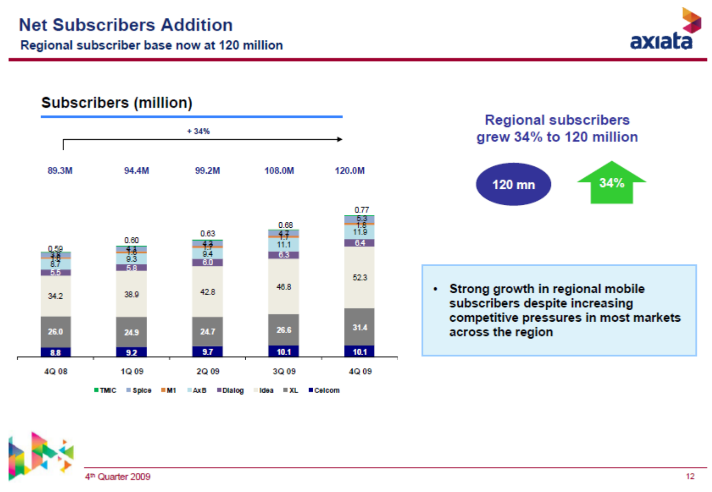
Axiata: FY09 RESULTS SUMMARY

	Quarterly Results			Cumulative		Comments
FYE Dec (RM'm)	4Q09	*%YoY*	*%QoQ*	FY09	*%YoY*	
Revenue	3693.8	*+52.7*	*+9.3*	13105.1	*+15.5*	All operating companies showed positive revenue growth
Operating expenses	-2932.4	*+25.2*	*+7.5*	-10808.7	*+15.7*	Increase in opex driven by expansion at Celcom and XL
Other op. income	105.3	*>100.0*	*+49.2*	467.6	*>100.0*	
EBIT	1104.4	*>100.0*	*+43.9*	3213.9	*+62.3*	Marked improvement
Net Int. income	-306.4	*-38.3*	*>100.0*	-649.1	*-36.1*	
Pre-tax profit	827.7	*>100.0*	*+7.7*	2666.2	*>100.0*	
Tax	-225.3	*>100.0*	*-4.8*	-910.3	*>100.0*	
Net profit	602.4	*>100.0*	*+13.3*	1755.9	*>100.0*	
EPS (sen)	7.0					
		+/- ppts	*+/- ppts*			
EBIT margin (%)	29.8	*+1.0*	*+7.2*			
Tax rate (%)	27.2	*+3.8*	*-3.6*			

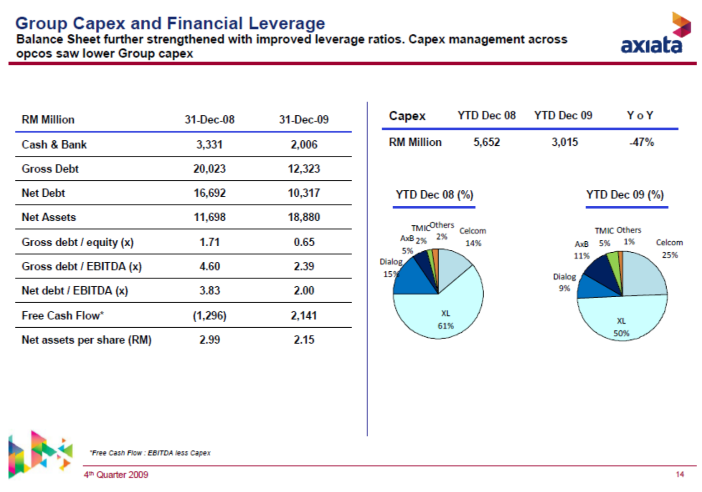
Source: Company, MIDFR



- In FY09, Celcom continues to be the main revenue generator at 48% of group revenue, followed by XL at 34%.
- Celcom's revenue contribution increased by 3%-pts over FY08, while XL by 2%-pts.
- In terms of EBITDA contribution, Celcom leads at 52% and XL at 36%.



- Regional subscriber base grew by 34% yoy to reach 120m.
- The strong growth is commendable as Axiata faced competitive pressures in most markets across the region in 2009.
- XL's subscriber base rose by 18% yoy to 31.4m.



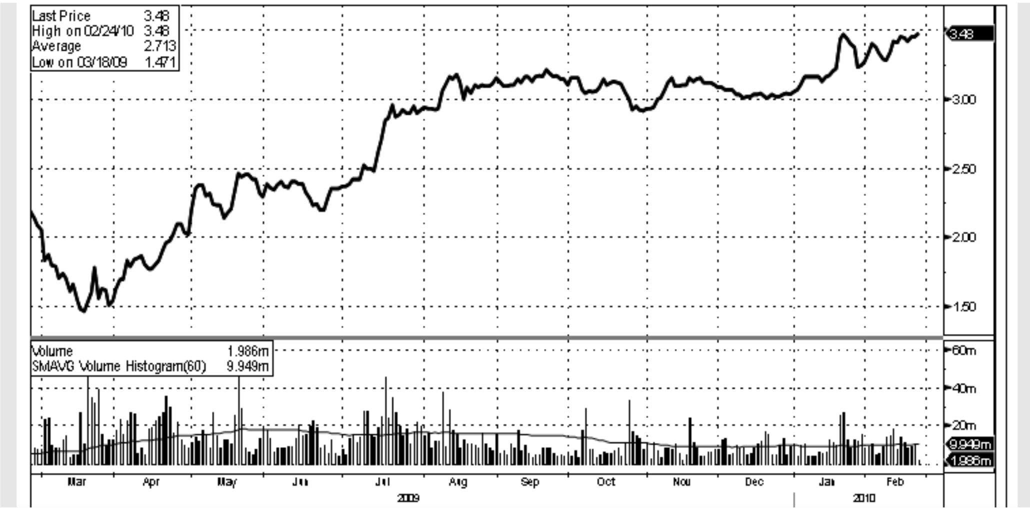
RM Million	31-Dec-08	31-Dec-09
Cash & Bank	3,331	2,006
Gross Debt	20,023	12,323
Net Debt	16,692	10,317
Net Assets	11,698	18,880
Gross debt / equity (x)	1.71	0.65
Gross debt / EBITDA (x)	4.60	2.39
Net debt / EBITDA (x)	3.83	2.00
Free Cash Flow*	(1,296)	2,141
Net assets per share (RM)	2.99	2.15

Capex	YTD Dec 08	YTD Dec 09	Y o Y
RM Million	5,652	3,015	-47%

- As at FY09, net debt to EBITDA ratio stands at 2x from 3.8x in FY08.
- Capital expenditure was also substantially reduced to RM3b in FY09 from RM5.7b in FY08.
- Axiata turned free cash flow positive in FY09.

Source: Company

DAILY PRICE CHART



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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
OVERWEIGHT	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.
UNDERWEIGHT	The sector is expected to underperform the overall market over the next 12 months.