Axiata Group Berhad

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

Maintain BUY

OpCos remain resilient

***Revised* Target Price: RM4.59**

(previously RM4.90)

KEY INVESTMENT HIGHLIGHTS

- **2QFY22 normalised earnings rose by +9.9%yoy to RM332.0m**
- **1HFY22 normalised earnings beat expectations**
- **Operating companies (OpCos) remain resilient except Ncell and Dialog**
- **Maintain BUY with revised TP of RM4.59**

Earnings came in above expectations Axiata's 1HFY22 normalised earnings of RM702m (+34.7%yoy) exceeded our and consensus projections, accounting for 63.8% and 57.6% of the respective full-year FY22 earnings predictions. With the exception of Dialog and Ncell, higher-than-expected earnings in 2QFY22 were ascribed to better EBITDA across all OpCos.

Operating companies (OpCos) remain resilient except Ncell and Dialog. Axiata posted higher 2QFY22 normalised EBITDA of RM3.0b, up +7.7%yoy and +3.9%qoq, with EBITDA margin remained consistent at 0.9ppts yoy and 0.1ppts qoq, due to contributions from all OpCos except Ncell and Dialog. The normalised PATANCI for the Group jumped by +34.7%yoy from RM521m in 1HFY21 to RM702m in the same period this year. The positive growth was mainly contributed by all of its OpCos which show its resiliency in this financial year.

Celcom's revenue ex-device increased by +4.2%yoy in 1HFY22, maintaining its year-on-year growth momentum. Prepaid revenue and new acquisitions in Celcom's B2B business section contributed to the stable performance. EBITDA increased +13.0%yoy due to lower OPEX and debt recovery. Furthermore, EBIT and PATAMI increased by more than 100%, with PATAMI rising to RM542m as a result of greater EBIT, somewhat offset by higher Cukai Makmur taxes. On a side note, the Celcom-Digi merger and DNB discussion are progressing well. The merger is expected to complete at the end of 2022, while DNB stake deals are set to meet the deadline on August 31.

XL's sales ex-device jumped by +8.5%yoy, owing to reopening during Lebaran and positive momentum from price improvements. EBITDA underperformance compared to revenue growth due to higher OPEX to drive revenue, therefore EBIT margin fell by -0.5%ppts compounded by higher D&A. PATAMI fell by -14.1%yoy on account one-off gains and higher net finance cost.

RETURN STATISTICS	
Price @ 26th August 2022 (RM)	3.09
Expected share price return (%)	+48.5
Expected dividend yield (%)	+3.2
Expected total return (%)	**+51.7**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	6.3	5.7
3 months	7.1	-2.4
12 months	-25.0	-20.5

KEY STATISTICS	
FBM KLCI	1,500.29
Syariah compliant	Yes
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆
Issue shares (m)	9174.99
Estimated free float (%)	26.84
Market Capitalisation (RM'm)	27,805.72
52-wk price range (RM)	2.61 – 4.19
Beta vs FBM KLCI (x)	1.38
Monthly velocity (%)	0.45
Monthly volatility (%)	16.13
3-mth average daily volume (m)	3.70
3-mth average daily value (RM'm)	10.71
Top Shareholders (%)	
Khazanah Nasional Bhd	36.74
Employees Provident Fund	16.71
Amanah Saham Bumiputera	14.67

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Dialog's performance was hampered by forex losses due to the depreciation of the LRK against USD. Despite recorded exceptional growth in revenue ex-device by +20.3%yoy due to contributions from all areas, Dialog's PATAMI plunged to a loss of more than 100% due to USD-denominated debt.

Robi's revenue ex-device increased by +3.2%yoy in parallel with increased data customers and consumption. EBITDA and EBIT surpassed topline growth by +9.1% and 12.1%, respectively, owing to decreased in direct and employee expenses. PATAMI, on the other hand, fell by -65.8% year on year due to forex losses on USD-denominated loans and increased net financing cost.

Smart continued its upward momentum as revenue ex-device climbed by +6.5%yoy, due to substantial data growth of +11.7% from increased data subscribers and usage. EBITDA grew by +5.3%yoy, although this was offset higher direct cost. Meanwhile, PATAMI climbed by +14.2%yoy in view of one-off investment impairment of financial services during the previous fiscal year.

Ncell's revenue ex-device fell by -4.4%yoy driven by lower core postings of -1.9% and a lower domestic connection rate, with voice falling by -11.3%yoy while data moderated the downturn with growth by +17.6%yoy. Hence, EBIT and PATAMI were down -18.8%yoy and -24.1%yoy, respectively.

Edotco's topline increased by +23.7%yoy benefitting from the inorganic acquisition of Touch Mindscape in Malaysia as well as organic contributions, notably in Bangladesh. Inorganic expansion, as well as organic B2S rollout and colocation, contributed to EBITDA growth of +32.5%yoy and EBIT increase of +37.4%yoy. PATAMI fell by -7.8% yoy, owing mostly to unrealized currency translation losses, increased net financing costs, and tax expenses from Cukai Makmur. PATAMI climbed by +35.6%yoy when forex impact effects were excluded.

NORMALISED EBITDA PERFORMANCE OF MAIN OPERATING COMPANIES

Segment	6MFY22 (RM'm)	6MFY21 (RM'm)	Change (%YoY)
Celcom (Malaysia)*	1507.0	1324.0	13.8
XL Axiata (Indonesia)	1932.0	1873.0	3.2
Dialog (Sri Lanka)	572.0	580.0	-1.4
Robi (Bangladesh)	870.0	796.0	9.3
Smart (Cambodia)	390.0	371.0	5.1
Ncell (Nepal)	384.0	428.0	-10.3
Edotco (Malaysia)	815.0	619.0	31.7

Source: Company, MIDFR

Impact. As earnings came in above our expectation, we revise our forecasts for FY22/23F upward as the earnings outlook across most of the Opcos remain robust. Note that we roll forward our valuation base year to FY23 and revise our new target price to RM4.59 (previously RM4.90), which was derived by pegging FY23 EPS of 27.4 against a lower PER of 17x. The lower PER is to account for higher interest rate, global chip supply shortages and macro headwinds especially in Sri Lanka, Bangladesh and Nepal which potentially impacted the Group earnings. On a side note, Axiata managed to achieve cost excellence with YTD OPEX saving of RM0.3b and RM0.4b in CAPEX, totaling RM0.7b. All in, we are maintaining **BUY** on Axiata with **a revised TP** of **RM4.59.**

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm, unless otherwise stated)	2019	2020	2021	2022F	2023F
Revenue	24,583.3	24,203.2	25,900.7	26,521.1	27,051.5
EBITDA	10,619.0	10,737.0	11,404.0	12,759.7	13,137.0
EBIT	4,232.1	2,494.9	3,818.1	5,330.8	5,272.3
PBT	2,779.7	1,171.1	2,173.6	4,216.4	4,116.5
PATANCI	1,457.6	365.2	818.9	1,201.0	2,003.1
Normalised PATANCI	960.0	865.0	1,326.0	1,201.0	2,003.1
Normalised EPS (sen)	10.5	14.2	14.4	18.6	27.4
Normalised EPS Growth (%)	-5.3	35.3	3.6	29.4	46.8
PER (x)	29.4	22.2	21.5	16.6	11.3
Dividend Per Share (sen)	9.5	7	10	9.5	10
Dividend yield (%)	3.1	2.3	3.2	3.1	3.2

Source: Company, MIDFR

AXIATA GROUP BHD: 2QFY22 RESULTS SUMMARY

Financial year ending 31st December (in RM'm, unless otherwise stated)	Quarterly Results			Cumulative		
	2Q22	% YoY	% QoQ	6M2022	6M2021	%
Revenue	6,704.3	4.9	3.6	13,174.3	12,454.1	5.8
Normalised EBITDA	3,010.6	7.1	3.9	5,908.6	5,088.0	16.1
EBIT	1,131.3	19.3	9.0	2,169.2	1,823.4	19.0
Finance costs (include forex impact)	-638.9	67.4	-22.3	-1,461.5	-930.6	57.0
Finance income	43.7	18.2	19.1	80.4	71.5	12.5
Joint controlled entities' results	-2.3	52.6	16.7	-4.3	-1.7	152.3
Associates' results	-6.6	-407.4	-307.6	-3.4	4.0	-185.1
Profit before tax	286.7	-52.6	13.3	539.9	966.6	-44.1
Taxation	-300.1	58.2	14.3	-562.6	-364.3	54.4
Profit after tax	-13.4	-103.2	43.6	-22.7	602.3	-103.8
Non-controlling interest	-93.0	-167.8	176.1	-126.7	248.9	-150.9
PATANCI	-106.0	-138.2	146.5	-149.0	353.3	-142.2
Normalised PATANCI	332.0	9.9	-10.3	702.0	521.0	34.7
Normalised EPS (sen)	3.6	9.9	-9.6	7.6	5.7	34.7
		+/- ppts	+/- ppts			+/- ppts
Normalised EBITDA margin (%)	44.9	0.9	0.1	44.8	40.9	9.8
Normalised PATANCI margin (%)	5.0	0.2	-0.8	5.3	4.2	27.4
Effective tax rate (%)	104.7	73.3	1.0	104.2	37.7	176.4

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 *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology