Axiata Group Berhad

Maintain BUY

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

Most of OpCos Remain Steady

***Revised* Target Price: RM4.61**
(previously RM4.59)

KEY INVESTMENT HIGHLIGHTS

- **3QFY22 normalised earnings marginally declined by -3.6%yoy to RM380.0m**
- **9MFY22 normalised earnings came in above ours and consensus' expectations**
- **Higher EBITDA contribution across all OpCos except Dialog, Ncell and Smart**
- **Maintain BUY with unchanged TP of RM4.61**

Earnings came in above expectations. Axiata's 9MFY22 normalised earnings of RM1082m (+18.3%yoy) exceeded our and consensus projections, accounting for 90.1% and 93.7% of the respective full-year FY22 earnings predictions. With the exception of Dialog, Ncell and Smart, higher-than-expected earnings in 3QFY22 were ascribed to better EBITDA across all OpCos.

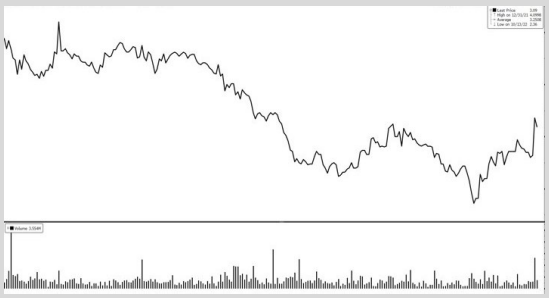
Higher EBITDA contribution across all OpCos except Dialog, Ncell and Smart. Axiata posted higher 3QFY22 normalised EBITDA of RM3.2b, up +12.9%yoy and +7.2%qoq, with EBITDA margin remained consistent at 0.8%ppts yoy and 0.3%ppts qoq, due to contributions from all OpCos except Dialog, Ncell and Smart. The normalised PATANCI for the Group improved by 18.3%yoy from RM915m in 9MFY21 to RM1.1b in the same period this year. The positive growth is mainly contributed by most of its OpCos which show its resiliency in this financial year.

Celcom's revenue ex-device increased by +3.9%yoy in 9MFY22, 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 +12.4%yoy due to higher revenue, further pushed by disciplined cost management resulting in lower opex and debt recovery. Furthermore, EBIT increased by +96.1% while PATAMI rose to RM856m, on the back of higher EBIT which partly offset by higher Cukai Makmur taxes. On a side note, the Celcom-Digi merger is expected to complete on 30 November 2022 while the conditional share subscription agreement with DNB is expected to be completed during 4Q2022.

XL's sales ex-device jumped by +9.2%yoy, driven by increased contribution from data and blended ARPU. EBITDA lagged revenue growth due to higher direct cost, sales and marketing expense as well as regulatory cost. EBIT meanwhile increased by +8.4%yoy though compounded by higher D&A. PATAMI fell slightly by -3.5%yoy on absence of one-off gains and higher net finance cost.

RETURN STATISTICS	
Price @ 25th November 2022 (RM)	3.03
Expected share price return (%)	+52.3
Expected dividend yield (%)	+3.1
Expected total return (%)	**+55.4**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	12.8	9.7
3 months	17.9	1.0
12 months	-22.8	-21.1

KEY STATISTICS	
FBM KLCI	1,486.54
Syariah compliant	Yes
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆
Issue shares (m)	9,174.99
Estimated free float (%)	26.84
Market Capitalisation (RM'm)	28,357.02
52-wk price range (RM)	2.35 - 4.16
Beta vs FBM KLCI (x)	1.42
3-mth average daily volume (m)	3.09
3-mth average daily value (RM'm)	8.65
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 LKR against USD. Despite recorded exceptional growth in revenue ex-device by +21.7%yoy on the back of higher International Traffic Hubbung and H One and increased data revenues, Dialog's PATAMI plunged to a loss of -LKR25.1b or ~ -RM0.3b due to USD-denominated debt.

Robi's revenue ex-device increased by +4.5%yoy in parallel with increased growth in voice revenue, moderated by slight decline in data. EBITDA and EBIT increased by +10.3% and 23.9% respectively, owing to decreased in direct and employee expenses. PATAMI, on the other hand, fell by -66.0% year on year due to forex losses on USD-denominated loans and increased net financing cost, cushioned by lower tax expense.

Smart continued its upward momentum as revenue ex-device climbed by +9.4%yoy, due to increased data subscribers and usage and one-off revenue from expired scratch card in Q322. EBITDA marginally declined by -1.8%yoy, EBIT climbed by 2.8%yoy. EBITDA and EBIT margins impacted by higher regulatory costs from one-off microwave fees from prior years, revenue share and network related costs. Meanwhile, PATAMI slipped by -39.6%yoy due to one-off penalty fee for microwave and higher tax due to higher taxable profits.

Ncell's revenue ex-device fell by -3.4%yoy driven by lower core voice of -9.4% which impacted by lower domestic connection rate. EBIT and PATAMI were down -13.7%yoy and -26.1%yoy, respectively, due to direct and admin cost.

Edotco's topline increased by +24.7%yoy, benefitting from the inorganic acquisition in Malaysia, Philippines and Indonesia as well as organic contributions, notably in Bangladesh, Malaysia and Cambodia. Inorganic expansion, as well as organic B2S rollout and colocation, contributed to EBITDA growth of +41.6%yoy and EBIT increase of +41.5%yoy. PATAMI fell by -60.4%yoy, owing mostly to unrealized forex translation losses, increased net financing cost following incremental debt for recent acquisitions. PATAMI climbed by +2.0%yoy when forex impact effects were excluded.

NORMALISED EBITDA PERFORMANCE OF MAIN OPERATING COMPANIES

Segment	9MFY22 (RM'm)	9MFY21 (RM'm)	Change (%YoY)
Celcom (Malaysia)	2288.0	2025.0	13.0
XL Axiata (Indonesia)	3004.0	2886.0	4.1
Dialog (Sri Lanka)	866.0	907.0	-4.5
Robi (Bangladesh)	1344.0	1217.0	10.4
Smart (Cambodia)	565.0	575.0	-1.7
Ncell (Nepal)	551.0	636.0	-13.4
Edotco (Malaysia)	1263.0	893.0	41.4

Source: Company, MIDFR

Valuation and recommendation. Since earnings exceed our expectation, we revise our forecasts for FY22/23F upward by +6.1%/+4.2% to account for rising interest rate and inflation as well as strong USD, which could cap its earnings expectation. Nonetheless, we remain optimistic with the outlook across most of the Opcos remain robust. Our new target price is RM4.61 (previously RM4.59), which was derived by pegging FY23 EPS of 28.3 against a lower PER of 16.3x. 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 and CAPEX saving of RM490m and RM755m respectively, totaling RM1.2b. All in, we are maintaining **BUY** on Axiata with **a revised TP** of **RM4.61.**

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	26,663.8	27,197.0
EBITDA	10,619.0	10,737.0	11,404.0	12,902.3	13,294.6
EBIT	4,232.1	2,494.9	3,818.1	5,473.4	5,429.9
PBT	2,779.7	1,171.1	2,173.6	4,345.5	4,260.0
PATANCI	1,457.6	365.2	818.9	1,278.5	2,090.6
Normalised PATANCI	960.0	865.0	1,326.0	1,278.5	2,090.6
Normalised EPS (sen)	10.5	13.9	14.4	19.5	28.3
Normalised EPS Growth (%)	-5.3	32.1	3.6	35.2	45.4
PER (x)	28.8	21.8	21.0	15.6	10.7
Dividend Per Share (sen)	9.5	7.0	10.0	9.5	10.0
Dividend yield (%)	3.1	2.3	3.3	3.1	3.3

Source: Company, MIDFR

AXIATA GROUP BHD: 3QFY22 RESULTS SUMMARY

Financial year ending 31st December (in RM'm, unless otherwise stated)	Quarterly Results			Cumulative		
	3Q22	% YoY	% QoQ	9M2022	9M2021	%
Revenue	7,260.3	11.0	8.3	20,434.6	18,997.0	7.6
Normalised EBITDA	3,228.0	12.9	7.2	9,136.6	8,362.1	9.3
EBIT	731.0	-30.2	-35.4	2,900.2	2,871.0	1.0
Finance costs (include forex impact)	-522.6	22.6	-18.2	-1,984.1	-1,356.8	46.2
Finance income	58.4	49.1	33.6	138.8	110.6	25.5
Joint controlled entities' results	-3.6	-24.6	55.1	-8.0	-6.5	22.0
Associates' results	5.4	108.1	-180.7	1.9	6.6	-71.0
Profit before tax	268.6	-59.2	-6.3	808.5	1,624.8	-50.2
Taxation	-260.9	33.7	-13.0	-823.5	-559.5	47.2
Profit after tax	7.6	-98.4	-157.2	-15.0	1,065.4	-101.4
Non-controlling interest	46.0	-59.5	-149.5	-80.7	362.5	-122.3
PATANCI	-38.4	-111.0	-63.8	-187.4	702.9	-126.7
Normalised PATANCI	380.0	-3.6	14.5	1,082.0	915.0	18.3
Normalised EPS (sen)	4.1	-3.6	14.5	11.8	10.0	18.2
		+/- ppts	+/- ppts			+/- ppts
Normalised EBITDA margin (%)	44.5	0.8	-0.4	44.7	44.0	1.6
Normalised PATANCI margin (%)	5.2	-0.8	0.3	5.3	4.8	9.9
Effective tax rate (%)	97.2	67.5	-7.5	101.9	34.4	195.8

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