Axiata Group Berhad

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

Maintain BUY

Most of OpCos Showed Steadiness

***Revised* Target Price: RM4.54**
(previously RM4.61)

KEY INVESTMENT HIGHLIGHTS

- **4QFY22 normalised earnings jumped by +20.4%yoy to RM495.0m**
- **FY22 normalised earnings came in above ours and consensus' expectations**
- **Higher EBITDA contribution across all OpCos except Dialog and Ncell.**
- **Maintain BUY with revised TP of RM4.54**

Earnings came in above expectations Axiata's FY22 normalised earnings of RM1601.0m (+20.7%yoy) exceeded our and consensus projections, accounting for 125.2% and 137.1% of the respective full-year FY22 earnings predictions. With the exception of Dialog and Ncell, higher-than-expected earnings in 4QFY22 were ascribed to better EBITDA across all OpCos.

Higher EBITDA contribution across all OpCos except Dialog and Ncell. Axiata posted higher 4QFY22 normalised EBITDA of RM3.4b, was up +10.9%yoy and +5.3%qoq, with EBITDA margin remained consistent at +3.2%ppts yoy and +3.5%ppts qoq, due to contributions from all OpCos except Dialog and Ncell. The normalised PATANCI for the Group improved by 20.7%yoy from RM1.3b in FY21 to RM1.6b in the same period this year. The positive growth was mainly contributed by most of its OpCos which show its resiliency in this financial year.

Celcom's revenue ex-device decreased by -3.7%yoy in FY22 attributable to the one-month lesser contribution compared to FY21 post deconsolidation (vs. 11-months 2021 +5.7%). EBITDA increased +9.2%yoy due to operational excellence. EBIT increased by +63.3% while PATAMI rose by +43.2% or RM1.35m, on the back of higher EBIT which partly offset by higher Cukai Makmur taxes in 2022.

XL's ex-device sales jumped by +9.0%yoy, driven by increase contribution from data and ARPU improvement. EBITDA lagged revenue growth due to higher direct cost and regulatory cost. EBIT meanwhile increased by +9.8%yoy while PATAMI fell largely by -13.9%yoy on the back of higher net finance cost from additional borrowings for Link Net acquisition and forex losses in FY22 vs a gain position in FY21.

Robi's revenue ex-device increased by +6.1%yoy contributed by growth in voice and data revenue. EBITDA and EBIT increased by +16.5% and +47.3% respectively, owing to decreased in direct expenses and reversal of provision, offset by higher network expense and depreciation and amortization. PATAMI increased marginally by +1.3%yoy, dragged by forex losses on USD-denominated loans and increased net financing cost, cushioned by lower tax expense.

RETURN STATISTICS	
Price @ 23th February 2023 (RM)	3.15
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	1,457.65
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 revenue ex-device jumped by +26.1%yoy driven by higher contribution from the international and enterprise business. However, EBITDA and EBIT performance were hampered by -12.2%yoy and -90.6%yoy due to higher staff costs, network costs and organization transformation cost. EBIT was more impacted by greater depreciation and amortization which includes goodwill and asset impairment. PATAMI significantly declined by more than 100%. This was primarily due to forex losses arising from USD-denominated debt, compounded by higher net financing cost.

Ncell's revenue ex-device fell by -4.0%yoy, dragged by lower core voice of -3.1% which impacted by lower domestic interconnect rate. EBITDA and EBIT were down by -12.6%yoy and -25.2%yoy respectively due to direct and admin cost. PATAMI also declined -22.6%yoy on the back of lower taxes and recognition of higher forex gain.

Smart's revenue ex-device demonstrated strong performance of +6.9%yoy growth, contributed by increase data and one off revenue from expired scratch card incurred in 3QFY22. EBITDA marginally increased by +0.7%yoy as well as EBIT that climbed by 5.1%yoy. EBITDA and EBIT margins impacted by higher regulatory costs from one-off microwave fees from prior years. PATAMI slipped by -25.9%yoy in view of one-off penalty fee for microwave.

Edotco's topline increased by +25.4%yoy benefitting from the increased in organic B2S and Colo tenancies in Bangladesh and Malaysia. This was further supported by full year recognition of inorganic acquisition in Malaysia and additional inorganix expansion in Philippines and Indonesia. EBITDA growth of +33%yoy and EBIT increase of +22.4%yoy, supported by the variety revenue flow and lower staff cost, offset by higher rental cost and depreciation and amortization. PATAMI fell by -51%yoy, owing mostly to forex translation movement, increased net financing cost following incremental debt for recent acquisitions.

NORMALISED EBITDA PERFORMANCE OF MAIN OPERATING COMPANIES

Segment	FY22 (RM'm)	FY21 (RM'm)	Change (%YoY)
Celcom (Malaysia)	3098.0	2826.0	9.6
XL Axiata (Indonesia)	4133.0	3890.0	6.2
Dialog (Sri Lanka)	1072.0	1223.0	-12.3
Robi (Bangladesh)	1857.0	1593.0	16.6
Smart (Cambodia)	780.0	775.0	0.6
Ncell (Nepal)	738.0	842.0	-12.4
Edotco (Malaysia)	1657.0	1238.0	33.8

Source: Company, MIDFR

Impact. Since earnings exceed our expectation, we revise our forecasts for FY23F upward by +3% as the earnings outlook across most of the Opcos remain robust and introduce our estimates for FY24F. Our revised target price is RM4.54 (previously RM4.61), which was derived by pegging revised FY23 EPS of 28.4sen against a lower PER of 16.0x. 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. All in, we are maintaining **BUY** on Axiata with **a revised TP** of **RM4.54.**

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm, unless otherwise stated)	2020	2021	2022	2023F	2024F
Revenue	24,203.2	25,146.0	27,747.0	27,996.9	28,556.9
EBITDA	10,737.0	11,404.0	12,701.0	13,307.8	13,973.2
EBIT	2,494.9	3,309.0	206.0	5,443.1	5,717.8
PBT	1,171.1	2,173.6	11,094.7	4,273.1	4,505.2
PATANCI	365.2	819.0	9,766.0	2,098.6	2,239.2
Normalised PATANCI	865.0	1,326.0	1,601.0	2,098.6	2,239.2
Normalised EPS (sen)	13.9	14.5	17.4	28.4	29.9
Normalised EPS Growth (%)	32.1	4.0	20.7	62.7	5.4
PER (x)	22.7	21.8	18.1	11.1	10.5
Dividend Per Share (sen)	7.0	9.5	14.0	14.0	14.0
Dividend yield (%)	2.2	3.0	4.4	4.4	4.4

Source: Company, MIDFR

AXIATA GROUP BHD: 4QFY22 RESULTS SUMMARY

Financial year ending 31st December (in RM'm, unless otherwise stated)	Quarterly Results			Cumulative		
	4Q22	% YoY	% QoQ	FY2022	FY2021	%
Revenue	6,915.0	3.7	-2.2	27,747.0	25,146.0	10.3
Normalised EBITDA	3,374.0	10.9	5.3	12,701.0	11,404.0	11.4
EBIT	-3,000.0	-470.8	-372.2	206.0	3,309.0	-93.8
Finance costs (include forex impact)	-196.0	-55.7	-62.5	-2,516.7	-1,799.4	39.9
Finance income	99.5	146.5	70.3	238.3	151.0	57.8
Joint controlled entities' results	-1.8	48.9	-51.2	-9.7	-7.7	26.0
Associates' results	13,429.1	n.m.	n.m.	13,431.0	11.7	n.m.
Profit before tax	10,062.4	n.m.	n.m.	11,094.7	2,173.6	n.m.
Taxation	-138.3	-162.1	-47.0	614.7	642.8	-4.4
Profit after tax	9,924.1	n.m.	n.m.	11,709.4	2,816.4	n.m.
PATANCI	9,967.0	n.m.	n.m.	9,766.0	819.0	n.m.
Normalised PATANCI	495.0	20.4	32.0	1,601.0	1,326.0	20.7
Normalised EPS (sen)	5.4	20.3	30.3	17.4	14.5	20.7
		+/- ppts	+/- ppts			+/- ppts
Normalised EBITDA margin (%)	48.8	3.2	3.5	45.8	45.4	0.9
Normalised PATANCI margin (%)	7.2	1.0	1.9	5.8	5.3	9.4
Effective tax rate (%)	1.4	41.9	-95.8	-5.5	-29.6	-81.3

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