Axiata Group Berhad

***Maintain* NEUTRAL**

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

Anticipating Higher Earnings Risk

***Revised* Target Price: RM2.44**
(Previously RM2.56)

KEY INVESTMENT HIGHLIGHTS

- **Maintain NEUTRAL with a revised SOP-derived target price of RM2.44 post the 3QFY24 results announcement**
- **Commendable 3QFY24 performance lends a hand to stronger 9MFY24 normalised earnings of RM550.9m(+264.4%yoy)**
- **The surge in cumulative earnings came in within ours and consensus expectation at 78.9% and 79.1% respectively**
- **Moving forward, we are anticipation higher earnings risk, primarily from its operations in Bangladesh and Indonesia**

Mixed outlook. We maintain our **NEUTRAL** on Axiata with a **revised** SOP-derived **target price of RM2.44** (previously RM2.56) post the 3QFY24 results announcement. On a cumulative basis, the majority of the opcos have performed relatively well. This excludes Link Net and Dialog. Nonetheless, we are anticipating more opcos to encounter earnings volatility especially in Bangladesh which are experiencing civil unrest as well as in Indonesia. Apart from competitive landscape, we expect the earnings volatility for its Indonesian operation may also come from the potential merger with Smartfren and funding for fibre development.

Better quarterly performance. 3QFY24 normalised earnings came in at RM228.1m, an improvement of +200.2%yoy. Note that the normalised earnings have been adjusted for forex impact as well as gain on early redemption of debt. Notwithstanding this, the improvement in financial performance was contributed by Robi, Smart AND EDOTCO which was brought about by a combination of opex and/or capex optimisation. However, contribution from XL and dialog came in lower due to market softness and higher depreciation and amortisation respectively.

Match expectation. On a cumulative basis, 9MFY24 normalised earnings came in higher at amounted to RM550.9m (+264.4%yoy). This came in within our and consensus expectations, making up 78.9% and 79.1% of full year FY24 earnings estimates respectively.

Change in target price. While we retain our earnings estimates at this juncture. Our SOP-derived target price has been adjusted for lower valuation from CelcomDigi following our downgrade during the recent quarterly results announcement. As a result, our target price has been reduced to **RM2.44** from RM2.56 previously.

Stronger balance sheet position. The group's net debt to EBITDA for 3QFY24 has improved to 2.59x from 3.17x recorded for 3Q23. This was mainly attributable to the improvement in EBITDA as well as notable reduction in long-term borrowings to RM17.7b (-20.3%yoy).

RETURN STATISTICS	
Price @ 28th November 2024 (RM)	2.34
Expected share price return (%)	+4.3
Expected dividend yield (%)	+4.7
Expected total return (%)	**+9.0**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-2.1	-0.5
3 months	-8.7	-2.3
12 months	-3.4	-11.7

INVESTMENT STATISTICS

FYE June	2024E*	2025F	2026F
Revenue	23,288.5	24,067.2	24,897.9
Operating Profit	3,102.0	3,292.2	3,500.3
Profit Before Tax	1,603.7	1,998.5	2,374.7
Core PATAMI	698.4	909.3	1,080.5
Core EPS	7.6	9.9	11.8
DPS	10.0	11.0	12.0
Dividend Yield	4.3	4.7	5.1

KEY STATISTICS	
FBM KLCI	1,597.49
Issue shares (m)	9179.08
Estimated free float (%)	46.04
Market Capitalisation (RM'm)	21,120.45
52-wk price range (rm)	RM2.18 - RM2.94
3-mth average daily volume (m)	4.65
3-mth average daily value (RM'm)	11.35
Top Shareholders (%)	
Khazanah Nasional Bhd	36.71
Employees Provident Fund	18.13
Amanah Saham Nasional Bhd	15.26

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Figure 1: Sum-of-part valuation

Entity	Value (RM m)	Stake (%)	Remarks
Celcomdigi	13,707	33.1	DCF using WACC of 8.7% and terminal growth rate of 1.0%
XL - Indonesia	8,213	61.5	DCF using WACC of 8.7% and terminal growth rate of 1.0%
Robi - Bangladesh	6,312	68.7	At 5.4x FY22F EBITDA
Dialog - Sri Lanka	4,226	83.3	At 5.4x FY22F EBITDA
Smart - Cambodia	3,633	72.5	At 5.4x FY22F EBITDA
edotco	3,752	63	At 5.4x FY22F EBITDA
Enterprise value	**39,844**		
Less net debt/(cash)	11,809		
Equity value	**28,035**		
No. of shares (m)	9,183		
Equity value per share (RM)	**3.05**		
Discount (%)	20.0		
Target price	**2.44**		

Source: MIDFR

Figure 2: Segmental performance - Underlying PATAMI

Segment	9M23	9M24	Charge (%)	Remark
XL Axiata (Indonesia)	141	202	43.3	Higher ARPU and data traffic as well as cost savings
Link Net (Indonesia)	-67	-94	-40.3	Decrease in enterprise revenue and lower ARPU
Dialog (Sri Lanka)	47	20	-57.4	Higher depreciation and amortisation, impact of Airtel merger and recognition of deferred tax liability
Robi (Bangladesh)	64	117	82.8	Higher data usage
Smart (Cambodia)	232	298	28.4	Higher ARPU and continuous cost controls
Edotco (Malaysia)	-49	64	230.6	Better orders from Malaysia, Bangladesh and Cambodia, capex optimisation and extension in useful life of towers
ADA & Boost	-129	-77	40.3	Manpower and IT cost incurred to set up Boost Bank

Source: Company, MIDFR

AXIATA GROUP BHD: 3QFY24 RESULTS SUMMARY

FYE 31st December (in RM'm, unless otherwise stated)	Quarterly			Cumulative		
	3Q24	% YoY	%QoQ	1HFY24	1HFY23	% YoY
Revenue	5,321.6	-5.3	-7.5	16,739.5	16,208.7	3.3
EBITDA	3,621.8	49.1	31.9	9,024.1	6,839.5	31.9
Depreciation and amortisation	-1,818.9	-0.6	-3.2	-5,614.7	-5,280.5	6.3
EBIT	1,803.0	200.7	108.1	3,409.3	1,558.9	118.7
Finance costs	-562.2	-3.8	-6.8	-1,767.2	-1,717.3	2.9
Finance income	55.0	-6.9	32.1	154.6	191.2	-19.1
Associate contribution	137.4	-4.3	-5.7	389.5	363.9	7.0
Profit before tax	1,433.2	557.9	217.9	2,186.2	396.7	451.1
Taxation	-289.5	120.8	16.1	-706.0	-401.2	76.0
Profit after tax	1,143.7	1219.1	467.5	1,480.2	-4.5	n.m.
Non controlling interest	211.7	-280.3	75.6	473.9	-195.0	-343.1
Profit from discountinued operation	44.7	-104.5	-17.1	165.4	-1,490.2	n.m.
PATANCI	976.7	-222.5	624.0	1,171.6	-1,299.8	-190.1
Normalised PATANCI	228.1	200.2	31.6	550.9	151.2	264.4
Normalised EPS (sen)	10.6	-222.3	624.0	6.0	1.6	264.1
		+/- ppts	+/- ppts			+/- ppts
EBITDA margin (%)	47.7	24.8	20	53.9	42.2	11.7
EBIT margin (%)	15.1	23.2	19	20.4	9.6	10.7
Normalised PATAMI margin (%)	2.3	32.5	16	7.0	-8.0	15.0
Effective tax rate (%)	55.3	-40.0	-35	32.3	101.1	-68.8

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024E	2025F	2026F
Revenue	20,020.3	22,022.3	23,288.5	24,067.2	24,897.9
EBITDA	7,613.5	9,501.1	10,411.7	10,842.1	11,313.9
EBIT	-264.5	2,301.1	3,102.0	3,292.2	3,500.3
Profit before tax	-1,809.5	793.4	1,603.7	1,998.5	2,374.7
PATANCI	9,751.1	-1,994.8	698.4	909.3	1,080.5
Normalised PATANCI	1,529.0	542.0	698.4	909.3	1,080.5
EPS (sen)	16.6	4.6	7.6	9.9	11.8
EPS Growth (%)	15.2	-72.2	64.2	30.2	18.8
PER (x)	14	51	31	24	20
Dividend Per Share (sen)	14	8.0	10.0	11.0	12.0
Dividend yield (%)	6.0	3.4	4.3	4.7	5.1

Balance Sheet (RM'm)	2022A	2023A	2024E	2025F	2026F
Fixed assets	27,201.0	27,439.8	26,004.9	25,341.8	24,477.0
Intangible assets	13,442.2	12,237.5	21,722.7	21,722.7	21,722.7
Others	26,303.6	28,156.7	18,113.6	18,806.1	19,539.0
Non-current assets	**66,946.7**	**67,834.1**	**65,841.2**	**65,870.6**	**65,738.7**
Cash	7,451.7	4,612.1	5,803.7	6,292.5	7,110.6
Trade debtors	6,943.6	4,808.7	4,609.6	4,763.7	4,928.1
Others	298.7	1,187.1	773.0	778.9	785.2
Current assets	**14,694.0**	**10,607.9**	**11,186.3**	**11,835.1**	**12,823.9**
Trade creditors	10,579.6	9,317.4	11,644.0	12,033.3	12,448.6
Short-term debt	7,088.1	2,666.0	4,231.4	4,231.4	4,231.4
Others	3,405.6	3,210.0	2,566.2	2,566.2	2,566.2
Current liabilities	**21,073.3**	**15,193.3**	**18,441.6**	**18,830.9**	**19,246.3**
Long-term debt	18,347.5	22,176.2	23,231.2	23,231.2	23,231.2
Others	11,539.6	12,837.2	3,900.7	3,900.7	3,900.7
Non-current liabilities	**29,887.1**	**35,013.4**	**27,131.9**	**27,131.9**	**27,131.9**
Share capital	13,914.3	13,920.6	13,905.2	13,905.2	13,905.2
Retained earnings	10,020.8	8,143.5	9,453.3	9,352.5	9,331.0
Other reserve	0.0	0.0	0.0	0.0	0.0
Minority interest	6,745.3	6,171.2	8,095.6	8,485.3	8,948.4
Equity	**30,680.4**	**28,235.3**	**31,454.1**	**31,743.0**	**32,184.5**

Cash Flow (RM'm)	2022A	2023A	2024E	2025F	2026F
PBT	-1,809.5	793.4	1,603.7	1,998.5	2,374.7
Depreciation & amortisation	-7,878.0	-7,200.0	7,309.7	7,549.8	7,813.6
Others	18,622.3	14,084.9	-748.0	-1,462.6	-1,651.7
Operating cash flow	**8,934.8**	**7,678.2**	**8,165.4**	**8,085.8**	**8,536.6**
Capital expenditure	-9,761.0	-6,969.7	-6,909.2	-6,886.8	-6,948.7
Others	-1,824.0	2,269.6	272.7	299.9	332.3
Investing cash flow	**-11,585.0**	**-4,700.1**	**-6,636.6**	**-6,586.9**	**-6,616.4**
Debt raised/(repaid)	5,962.0	-1,543.6	0.0	0.0	1.0
Dividends paid	-504.7	-1,743.9	-734.7	-918.3	-1,010.2
Others	-2,044.9	-1,979.8	0.0	0.0	-1.0
Financing cash flow	**3,412.3**	**-5,267.3**	**-734.7**	**-918.3**	**-1,010.2**
Net cash flow	**762.2**	**-2,258.5**	**610.5**	**488.8**	**818.1**
Effect of exchange rate changes	**-748.3**	0.0	0.0	0.0	1.0
Beginning cash flow	**6,312.3**	**6,326.2**	**3,445.7**	**4,056.2**	**4,545.0**
Ending cash flow	**6,326.2**	**3,445.7**	**4,056.2**	**4,545.0**	**5,363.1**

Profitability Margins	2022A	2023A	2024E	2025F	2026F
EBITDA margin	**38.0**	**43.1**	**44.7**	**45.0**	**45.4**
PBT margin	**-9.0**	**3.6**	**6.9**	**8.3**	**9.5**
PATAMI margin	**48.7**	**-9.1**	**3.0**	**3.8**	**4.3**

Source: Bloomberg, 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