Corporate Update

Axiata Group Berhad

(6888 | Axiata MK) Main | Telco

3 Stars | SHARIAH Compliant | FTSE4Good

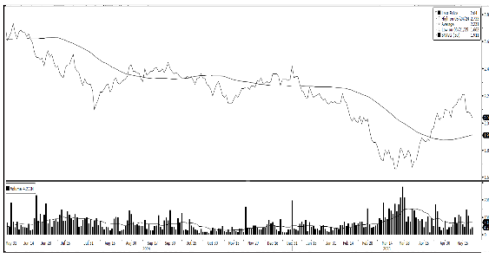
Downgrade to **Sell** (from Neutral)

Anticipating Greater Future Earnings Pressure

Revised Target Price **RM1.75** (from RM2.14)

RETURN STATISTICS	
Price @ 28th May 2025 (RM)	2.07
Expected share price return (%)	-15.5
Expected dividend yield (%)	+3.9
Expected total return (%)	-11.6

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.5	-1.2
3months	14.0	3.2
12 months	-29.2	-24.4

INVESTMENT STATISTICS

FYE JUNE (RM'm)	2025E	2026F	2027F
Revenue	17,543.4	15,938.5	16,523.9
Operating Profit	2,143.3	1,975.1	2,186.8
PBT	1,085.2	835.6	1,004.1
Core PATAMI	493.7	434.5	522.1
Core EPS (sen)	5.4	4.7	5.7
DPS (sen)	8.0	8.0	10.0
Dividend Yield	3.9	3.9	4.8

KEY STATISTICS

FBM KLCI	1,523.48
Issue shares (m)	9,182
Estimated free float (%)	43.28
Market Capitalisation (RM'm)	18,738.36
52-wk price range (rm)	RM1.63 – RM2.92
3-mth average daily volume (m)	9.39
3-mth average daily value (RM'm)	17.93
Top Shareholders (%)	
Khazanah Nasional Bhd	36.70
Employees Provident Fund Board	17.83
Amanah Saham Nasional Bhd	15.25

Indonesian operation to observe gestation period. We are downgrading our recommendation on Axiata to Sell (from Neutral previously) with a lower SOP-derived target price of RM1.75 (formerly RM2.14). The group's 1QFY25 financial performance came in below ours and consensus expectations. This was mainly due to the high forex exposure. However, we observed that Robi and Link Net encountered difficulty to grow their revenue due to economic challenges and changes in business strategy respectively. Moving forward, we expect such risk to persist for the group.

Meanwhile, our main concern lies with the enlarged XLSmart post the merger. We view that the group will experience a twofold set back resulted from the potential earnings weakness of XLSmart as well at the dilution in the shareholding. The latter will also affect the valuation of Axiata group.

Saved by lower D&A. 1QFY25 normalised earnings came in at RM158.4m, an improvement of +6.0%yoy. While revenue declined -10.1%yoy to RM5.1b, the bottomline is lifted primarily by lower depreciation, impairment and amortisation expenses. Note that the latter reduced by -13.5%yoy to RM1.6b.

Meanwhile, the lower revenue was generally the result of stronger Ringgit. Notwithstanding this, we note that there are revenue pressure at Robi (continued macroeconomic challenges), Dialog (scaling down of low margin hubbing business), Link Net (transfer of customer to XL)

Below expectation. All in, Axiata's 1QFY25 financial performance came in slightly below ours and consensus expectations, making up 17.4% and 19.0% of full year FY25 earnings estimates respectively.

Changes in earnings estimates to accommodate the deconsolidation of XL. While we made some minor changes to the various opcos to better reflect the results thus far, we also deconsolidate XL Axiata from the group's financial statement from April 2025 onwards and assume associate contribution from XLSmart. As a result, FY25/26/27 earnings has been revised lower to RM493.7m/RM434.5m/RM522.1m respectively.

Note that we also assume a more conservative dividend of 8sen for both FY25 and FY26 before reverting to the previous annual dividend of 10sen from FY27 onwards.

Analyst

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SOP-derived target price revised lower. Our SOP-derived target price has also been lowered to **RM1.75** from RM2.14 previously. Apart from considering the changes in earnings, we also tweaked the group's stake in XLSmart to 36.9% from 66.43% previously. In addition, we also reduce our EV/EBITDA multiple to 4.5x (from 5.4x previously) in anticipation of the group's earnings volatility moving forward.

Figure 1: Sum-of-part valuation

Entity	Value (RM m)	Stake (%)	Remarks
Celcomdigi - Malaysia	13,707	33.1	DCF using WACC of 8.7% and terminal growth rate of 1.0%
XL Smart- Indonesia	6,019	36.9	DCF using WACC of 8.7% and terminal growth rate of 1.0%
Robi - Bangladesh	4,733	61.8	At 4.5x FY25F EBITDA
Dialog - Sri Lanka	3,478	82.3	At 4.5x FY25F EBITDA
Smart - Cambodia	3,027	72.5	At 4.5x FY25F EBITDA
edotco - Malaysia	3,752	63.0	At 4.5x FY25F EBITDA
Enterprise value	**34,717**		
Less net debt/(cash)	11,809		
Equity value	**22,908**		
No. of shares (m)	9,183		
Equity value per share (RM)	**2.49**		
Discount (%)	0.7		
Target price	**1.75**		

Source: MIDFR

AXIATA GROUP BHD: 1QFY25 RESULTS SUMMARY

FYE 31st December (in RM'm, unless otherwise stated)	1Q25	1Q24	% YoY	4Q24	%QoQ
Revenue	5,088.9	5,662.1	-10.1	5,362.7	-5.1
EBITDA	2,500.0	2,656.8	-5.9	2,384.3	4.9
Depreciation and amortisation	-1,658.5	-1,916.8	-13.5	-1,745.8	-5.0
EBIT	841.5	740.0	13.7	638.5	31.8
Finance costs	-526.7	-602.0	-12.5	-571.6	-7.9
Finance income	66.3	57.9	14.5	65.6	1.2
JV and Associate contribution	75.4	106.4	-29.1	61.4	22.7
Profit before tax	456.5	302.2	51.1	193.8	135.5
Taxation	-148.0	-167.3	-11.5	-240.5	-38.4
Profit after tax	308.5	135.0	128.6	-46.7	-760.9
Non controlling interest	148.7	141.6	4.9	178.1	-16.5
Profit from discountinued operation	0.0	66.7	n.m.	0.0	n.m.
PATANCI	159.8	60.0	166.3	-224.8	-171.1
Normalised PATANCI	158.4	149.4	6.0	169.2	-6.4
Normalised EPS (sen)	1.7	0.7	166.0	-2.4	-171.1
			+/- ppts		+/- ppts
EBITDA margin (%)	49.1	46.9	2.2	44.5	4.7
EBIT margin (%)	16.5	13.1	3.5	11.9	4.6
Normalised PATAMI margin (%)	3.1	1.1	2.1	-4.2	7.3
Effective tax rate (%)	32.4	55.3	-22.9	124.1	-91.7

Source: Company, MIDFR

FINANCIAL SUMMARY

Profit or Loss (RM'm)	2023A	2024A	2025E	2026F	2027F
Revenue	22,318.3	22,334.6	17,543.4	15,938.5	16,523.9
EBITDA	9,691.2	11,534.1	7,394.9	6,569.1	6,899.8
EBIT	1,488.8	4,192.9	2,143.3	1,975.1	2,186.8
Profit before tax	11.0	2,564.5	1,087.5	844.9	1,027.6
PATANCI	-1,994.8	955.8	494.8	439.4	534.4
Normalised PATANCI	342.7	720.1	494.8	439.4	534.4
EPS (sen)	3.7	7.8	5.4	4.8	5.8
EPS Growth (%)	-77.6	110.0	-31.2	-11.2	21.6
PER (x)	55.5	26.4	38.4	43.3	35.6
Dividend Per Share (sen)	10.0	10.0	7.0	6.0	6.0
Dividend yield (%)	4.8	4.8	3.4	2.9	2.9

Balance sheet	2023A	2024A	2025E	2026F	2027F
Fixed assets	27,439.8	25,521.6	27,755.7	30,227.6	32,702.3
Intangible assets	12,237.5	11,576.2	21,722.7	21,722.7	21,722.7
Others	28,156.7	26,823.9	19,165.9	20,258.6	21,409.9
Non-current assets	**67,834.1**	**63,921.8**	**68,644.3**	**72,208.9**	**75,834.9**
Cash	4,612.1	4,860.4	1,372.9	-2,666.0	-6,002.7
Trade debtors	4,784.5	5,349.5	3,472.4	3,154.8	3,270.6
Others	1,187.1	224.2	729.3	717.1	721.6
Current assets	**10,583.7**	**10,434.1**	**5,574.6**	**1,205.8**	**-2,010.5**
Trade creditors	9,293.2	8,979.9	8,771.5	7,969.0	8,261.7
Short-term debt	2,670.2	4,682.7	4,231.4	4,231.4	4,231.4
Others	3,210.0	2,614.0	2,566.2	2,566.2	2,566.2
Current liabilities	**15,173.3**	**16,276.6**	**15,569.1**	**14,766.7**	**15,059.4**
Long-term debt	22,172.0	18,508.2	23,231.2	23,231.2	23,231.2
Others	12,837.2	11,994.3	3,900.7	3,900.7	3,900.7
Non-current liabilities	**35,009.2**	**30,502.6**	**27,131.9**	**27,131.9**	**27,131.9**
Share capital	13,920.6	13,932.8	13,905.2	13,905.2	13,905.2
Retained earnings	8,143.5	7,260.5	9,305.3	9,193.6	9,177.0
Other reserve	0.0	0.0	0.0	0.0	0.0
Minority interest	6,171.2	6,383.5	8,307.6	8,417.5	8,551.1
Equity	**28,235.3**	**27,576.7**	**31,518.1**	**31,516.3**	**31,633.2**

Cash Flow (RM'm)	2023A	2024A	2025E	2026F	2027F
PBT	11.0	2,564.5	1,087.5	844.9	1,027.6
Depn & amort	-7,200.0	0.0	5,251.6	4,594.1	4,713.0
Others	15,052.0	6,338.5	-3,302.5	-1,828.9	-1,123.6
Operating cash flow	7,863.0	8,902.9	3,036.5	3,610.0	4,617.0
Capital expenditure	-7,126.7	-5,055.2	-7,002.5	-7,065.9	-7,187.8
Others	2,212.4	-521.3	177.9	-32.1	-214.9
Investing cash flow	-4,914.2	-5,576.5	-6,824.5	-7,098.0	-7,402.7
Debt raised/(repaid)	-1,588.0	-446.3	0.0	0.0	0.0
Dividends paid	-1,743.9	-918.2	-918.3	-642.8	-551.0
Others	-1,963.8	-1,747.1	0.0	0.0	0.0
Financing cash flow	-5,295.7	-3,111.6	-918.3	-642.8	-551.0
Net cash flow	-2,346.9	214.9	-4,430.8	-4,038.9	-3,336.7
Effect of exchange rate changes	0.0	0.0	0.0	0.0	0.0
Beginning cash flow	6,326.2	3,388.6	4,056.2	-374.6	-4,413.5
Ending cash flow	3,388.6	3,541.7	-374.6	-4,413.5	-7,750.2

Profitability Margins (%)	2023A	2024A	2025E	2026F	2027F
EBITDA margin	43.4	51.6	42.2	41.2	41.8
PBT margin	0.0	11.5	6.2	5.3	6.2
PATAMI margin	-8.9	4.3	2.8	2.8	3.2

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	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
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	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.

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