

Axiata Group (AXIATA MK)

Positive earnings trend

Gearing the main overhang for now

Axiata's 3Q22 results were ahead of our/consensus expectations due mainly to Celcom's outperformance. There was no material tapering of Axiata's overall frontier market earnings. Maintain BUY with a lower MYR4.20 SOP-based TP (-7%) as we incorporate the Linknet and Philippines towers transactions. A meaningful share price recovery hinges on further earnings recovery and balance sheet (gearing) repair, in our view.

Results ahead of expectations

Axiata's 3Q22 core net profit of MYR375m (-5% YoY, +13% QoQ) brings 9M22 core net profit to MYR1,077m (+18% YoY), 85%/86% of our/consensus full-year forecasts. The beat relative to our forecast, was largely attributable to Celcom (better-than-expected cost management). A 5sen DPS was belatedly declared following the deferment of the payout in 2Q22.

Strong Celcom showing

Celcom's 3Q22 service revenue grew 1.0% QoQ on improved ARPU at both prepaid and postpaid. Opex was marginally lower QoQ, culminating in a 1.0ppt QoQ expansion of EBITDA margin to 46.3%. Meanwhile, XL and Dialog posted sequential EBITDA growth in 3Q22, while Robi, Ncell and Smart declined. There was a full-quarter contribution from Linknet. Edotco also saw higher contribution from Philippines, with c.70% of the acquired towers having been injected at end-3Q22. Axiata's net debt consequently climbed QoQ with net gearing at 1.89x (end-2Q22: 1.76x).

Raising earnings

We raise our FY22/23/24E net profit by 15%/10%/10% as we incorporate the Linknet and Philippines towers acquisitions and reflect latest margin run-rates. Our TP (derived from a sum-of-parts with each op-co valued on DCF) is lowered to MYR4.20 (from MYR4.50) due to higher debt. Given the spate of pending corporate actions, we believe Axiata's net debt could have already peaked in 3Q22.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	24,203	25,901	26,891	28,603	29,548
EBITDA	10,657	11,404	12,286	12,944	13,298
Core net profit	865	1,326	1,463	1,745	2,011
Core EPS (sen)	9.4	14.5	15.9	19.0	21.9
Core EPS growth (%)	(10.4)	53.1	10.3	19.3	15.2
Net DPS (sen)	7.0	9.5	13.6	16.2	18.6
Core P/E (x)	39.6	28.8	19.0	15.9	13.8
P/BV (x)	1.9	2.1	1.5	1.5	1.5
Net dividend yield (%)	1.9	2.3	4.5	5.3	6.1
ROAE (%)	2.2	4.6	8.1	9.5	10.8
ROAA (%)	1.3	1.9	2.0	2.2	2.5
EV/EBITDA (x)	5.7	5.9	5.2	4.9	4.8
Net gearing (%) (incl perps)	84.5	88.8	111.7	106.4	101.8
Consensus net profit	-	-	1,266	1,591	1,784
MKE vs. Consensus (%)	-	-	15.5	9.7	12.7

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BUY

Share Price	MYR 3.03
12m Price Target	MYR 4.20 (+42%)
Previous Price Target	MYR 4.50

Company Description

Axiata Group owns a portfolio of mobile telcos, network infrastructure and digital internet companies in 10 countries across Asia.

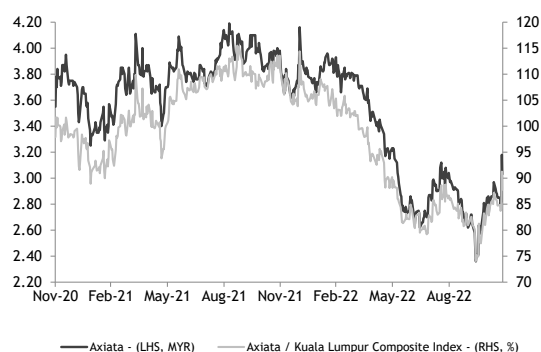
Statistics

52w high/low (MYR)	4.16/2.36
3m avg turnover (USDm)	2.0
Free float (%)	44.1
Issued shares (m)	9,170
Market capitalisation	MYR27.8B
	USD6.2B

Major shareholders:

Khazanah Nasional Bhd. (Investment Compa	36.7%
Employees Provident Fund	16.7%
Permodalan Nasional Bhd.	16.7%

Price Performance



	-1M	-3M	-12M
Absolute (%)	11	0	(22)
Relative to index (%)	8	1	(21)

Source: FactSet

Axiata: Summary results table

FY Dec (MYR m)	Quarterly					Cumulative		
	3Q22	3Q21	%YoY	2Q22	%QoQ	9M22	9M21	%YoY
Revenue	7,260.3	6,543.0	11.0	6,704.3	8.3	20,434.5	18,997.0	7.6
EBITDA	3,203.6	2,859.4	12.0	3,010.6	6.4	9,112.7	8,362.1	9.0
EBIT	1,123.4	904.2	24.2	1,158.0	(3.0)	3,358.3	2,624.0	28.0
Associate income	1.7	(2.2)	N/A	(9.0)	N/A	(6.1)	0.1	N/A
Net interest	(464.2)	(339.9)	36.5	(391.2)	18.6	(1,221.9)	(1,007.6)	21.3
Pre-tax profit	161.1	658.3	(75.5)	286.7	(43.8)	701.1	1,624.8	(56.9)
Tax	(275.0)	(195.2)	40.9	(300.1)	(8.4)	(837.6)	(559.5)	49.7
Minority interest	(46.0)	(113.6)	(59.5)	(93.0)	(50.5)	(172.7)	(362.5)	(52.4)
Net profit	(159.8)	349.6	N/A	(106.4)	50.3	(309.2)	702.9	N/A
Normalised net profit	375.1	393.9	(4.8)	332.1	13.0	1,077.1	914.5	17.8
Pre-ex EPS (sen)	4.1	4.3	(4.8)	3.6	13.0	11.7	10.0	17.7
Net DPS (sen)	5.0	0.0	N/A	0.0	N/A	5.0	4.0	25.0
Net cash/(debt)	(31,445.0)	(20,386.1)	54.2	(29,266.4)	7.4	(31,445.0)	(20,386.1)	54.2
Gearing (%)	189.3	114.0		176.1		189.3	114.0	
Capex	2,614.8	1,545.6	69.2	3,458.2	(24.4)	7,786.8	4,811.5	61.8
Segmental results								
Revenue	3Q22	3Q21	%YoY	2Q22	%QoQ	9M22	9M21	%YoY
Malaysia	1,687.2	1,600.2	5.4	1,680.5	0.4	5,025.6	4,874.3	3.1
Indonesia	2,259.5	1,998.7	13.1	2,185.6	3.4	6,413.8	5,722.3	12.1
Bangladesh	1,031.9	1,025.2	0.7	1,032.5	(0.1)	3,045.8	2,959.8	2.9
Sri Lanka	575.4	772.1	(25.5)	555.8	3.5	1,866.0	2,186.7	(14.7)
Nepal	343.1	356.2	(3.7)	365.4	(6.1)	1,050.9	1,084.5	(3.1)
Cambodia	455.9	372.0	22.5	393.5	15.9	1,219.8	1,060.0	15.1
edotco	625.1	493.8	26.6	616.2	1.4	1,805.0	1,447.3	24.7
Total	7,260.3	6,543.0	11.0	6,704.3	8.3	20,434.5	18,997.0	7.6
EBITDA	3Q22	3Q21	%YoY	2Q22	%QoQ	9M22	9M21	%YoY
Malaysia	781.6	701.7	11.4	761.3	2.7	2,288.3	2,025.3	13.0
Indonesia	1,094.3	1,012.6	8.1	1,059.4	3.3	3,087.2	2,885.8	7.0
Bangladesh	451.4	420.6	7.3	472.7	(4.5)	1,331.8	1,216.5	9.5
Sri Lanka	174.0	327.0	(46.8)	151.7	14.7	608.9	907.3	(32.9)
Nepal	166.1	207.7	(20.0)	187.8	(11.6)	551.0	635.6	(13.3)
Cambodia	186.9	204.5	(8.6)	210.4	(11.2)	593.7	575.3	3.2
edotco	444.0	273.7	62.2	428.2	3.7	1,264.8	893.0	41.6
Total	3,203.6	2,859.4	12.0	3,010.6	6.4	9,112.7	8,362.1	9.0
EBITDA margin	3Q22	3Q21	+/- ppt	2Q22	+/- ppt	9M22	9M21	+/- ppt
Malaysia	46.3	43.9	2.5	45.3	1.0	45.5	41.6	4.0
Indonesia	48.4	50.7	(2.2)	48.5	(0.0)	48.1	50.4	(2.3)
Bangladesh	43.7	41.0	2.7	45.8	(2.0)	43.7	41.1	2.6
Sri Lanka	30.2	42.4	(12.1)	27.3	3.0	32.6	41.5	(8.9)
Nepal	48.4	58.3	(9.9)	51.4	(3.0)	52.4	58.6	(6.2)
Cambodia	41.0	55.0	(14.0)	53.5	(12.5)	48.7	54.3	(5.6)
edotco	71.0	55.4	15.6	69.5	1.5	70.1	61.7	8.4
Total	44.1	43.7	0.4	44.9	(0.8)	44.6	44.0	0.6
Normalised net profit	3Q22	3Q21	%YoY	2Q22	%QoQ	9M22	9M21	%YoY
Malaysia	313.8	234.1	34.1	280.4	11.9	855.5	467.2	83.1
Indonesia	57.5	43.5	32.3	55.5	3.6	126.2	147.1	(14.2)
Bangladesh	31.4	29.0	8.4	12.4	152.6	57.7	53.1	8.6
Sri Lanka	16.5	96.8	(83.0)	9.3	77.5	94.8	257.4	(63.2)
Nepal	24.3	44.8	(45.8)	44.3	(45.1)	105.5	142.6	(26.0)
Cambodia	98.0	64.6	51.7	62.7	56.4	216.5	180.5	20.0
edotco	(10.9)	23.2	N/A	52.0	N/A	99.7	143.9	(30.7)
Others	(180.4)	(142.0)	27.1	(184.6)	(2.2)	(503.7)	(477.2)	5.6
Total	375.1	393.9	(4.8)	332.1	13.0	1,077.1	914.5	17.8

*Normalised mainly for forex translations, impairment charges and disposal gains.

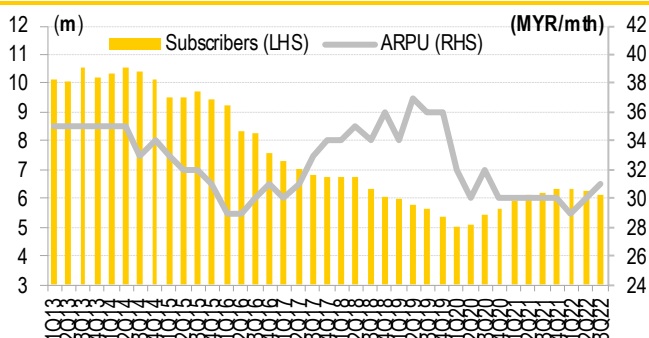
Source: Company, Maybank IBG Research

Axiata: Operational statistics

Operations	Quarterly					Cumulative		
	3Q22	3Q21	%YoY	2Q22	%QoQ	9M22	9M21	%YoY
Malaysia - Prepaid								
Subscribers, period end (m)	6.1	6.2	(1.4)	6.3	(1.9)	6.1	6.2	(1.4)
Net additions (m)	(0.1)	0.1	N/A	(0.1)	42.7	(0.2)	0.6	N/A
Subscribers, average (m)	6.2	6.2	0.4	6.3	(1.6)	6.3	6.0	4.9
ARPU (MYR/month)	31.0	30.0	3.3	30.0	3.3	30.0	30.1	(0.2)
Revenue	576.0	555.2	3.8	566.4	1.7	1,694.4	1,618.3	4.7
Malaysia - Postpaid								
Subscribers, period end (m)	3.2	3.2	2.8	3.2	0.0	3.2	3.2	2.8
Net additions (m)	0.0	0.1	N/A	(0.0)	N/A	0.0	0.1	N/A
Subscribers, average (m)	3.2	3.1	3.7	3.2	(0.0)	3.2	3.1	3.7
ARPU (MYR/month)	81.0	82.0	(1.2)	80.0	1.3	80.4	82.6	(2.7)
Revenue	789.5	770.7	2.4	779.9	1.2	2,348.1	2,297.7	2.2
Indonesia - Blended								
Subscribers, period end (m)	57.3	58.0	(1.1)	57.2	0.2	57.3	58.0	(1.1)
Net additions (m)	0.1	1.2	(90.6)	0.2	(50.4)	(0.6)	0.1	N/A
Subscribers, average (m)	57.3	57.4	(0.1)	57.1	0.3	57.4	57.2	0.4
ARPU (IDR '000/month)	39.5	37.5	5.2	39.4	0.1	38.7	36.4	6.5
Revenue	6,782.2	6,455.3	5.1	6,757.6	0.4	19,994.3	18,705.8	6.9
Sri Lanka - Blended								
Subscribers, period end (m)	17.2	17.1	0.9	17.1	0.4	17.2	17.1	0.9
Net additions (m)	0.1	0.2	(53.8)	(0.5)	N/A	(0.5)	0.8	N/A
Subscribers, average (m)	17.2	17.0	1.1	17.4	(1.2)	17.4	16.7	4.5
ARPU (LKR/month)	389.0	374.0	4.0	375.0	3.7	375.5	368.7	1.9
Revenue	20,031.0	19,043.7	5.2	19,535.6	2.5	58,859.0	55,275.1	6.5
Bangladesh - Blended								
Subscribers, period end (m)	54.4	53.0	2.5	54.5	(0.3)	54.4	53.0	2.5
Net additions (m)	(0.2)	1.2	N/A	0.5	N/A	0.7	2.1	(67.9)
Subscribers, average (m)	54.4	52.4	3.8	54.3	0.3	54.2	51.9	4.3
ARPU (BDT/month)	128.7	125.6	2.5	123.0	4.6	124.0	123.7	0.2
Revenue	21,022.8	19,761.7	6.4	20,042.3	4.9	60,421.6	57,816.5	4.5
Nepal - Blended								
Subscribers, period end (m)	17.2	16.5	4.4	16.8	2.4	17.2	16.5	4.4
Net additions (m)	0.4	0.2	142.9	(0.1)	N/A	0.4	0.8	(51.4)
Subscribers, average (m)	17.0	16.4	3.7	16.9	1.0	16.9	16.2	4.5
ARPU (NPR/month)	189.6	202.7	(6.5)	198.9	(4.7)	191.5	211.1	(9.3)
Revenue	9,679.4	9,980.1	(3.0)	10,055.1	(3.7)	29,198.8	30,801.9	(5.2)

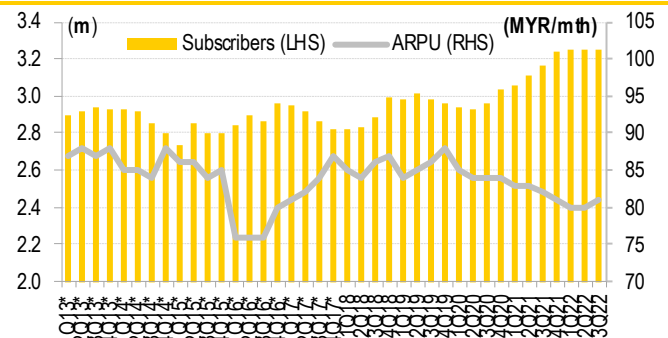
Source: Company, Maybank IBG Research

Celcom: Prepaid subscribers and ARPU



Source: Company, Maybank IBG Research

Celcom: Postpaid subscribers and ARPU



*Pre-MFRS 15, Source: Company, Maybank IBG Research

Axiata: Revenue, EBITDA and net profit split

	Revenue		Revenue		EBITDA		EBITDA		Net profit		Net profit	
(MYR m)	2022E	%	2023E	%	2022E	%	2023E	%	2022E	%	2023E	%
Malaysia	6,722	25%	6,782	24%	3,025	25%	2,916	23%	905	62%	1,006	58%
Indonesia	8,166	30%	8,486	30%	4,083	33%	4,158	32%	212	14%	272	16%
Bangladesh	4,035	15%	4,180	15%	1,634	13%	1,693	13%	134	9%	146	8%
Sri Lanka	2,279	8%	2,412	8%	934	8%	977	8%	254	17%	288	16%
Nepal	1,423	5%	1,427	5%	811	7%	799	6%	183	13%	186	11%
Cambodia	1,506	6%	1,552	5%	806	7%	822	6%	259	18%	269	15%
Linknet	635	2%	1,324	5%	330	3%	695	5%	46	3%	116	7%
edotco	2,375	9%	2,690	9%	1,662	14%	1,883	15%	217	15%	239	14%
Others	-250	-1%	-250	-1%	-1,000	-8%	-1,000	-8%	-747	-51%	-777	-45%
Total	26,891		28,603		12,286		12,944		1,463		1,745	

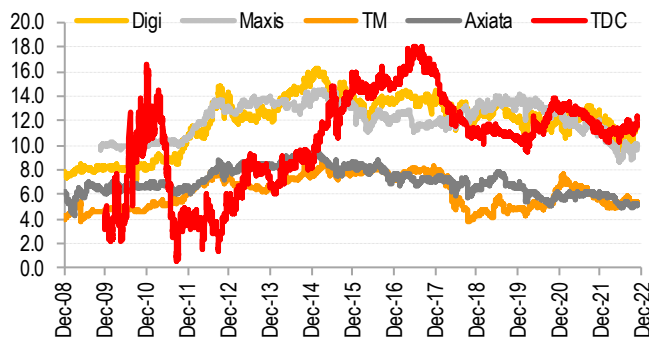
Source: Maybank IBG Research

Axiata: Target price derivation

(MYR m)	Value	Stake	Attri. value	per share	%
Malaysia	22,028	100%	22,028	2.40	57%
Indonesia	7,112	61%	4,372	0.48	11%
Bangladesh	5,227	62%	3,230	0.35	8%
Sri Lanka	2,915	83%	2,429	0.26	6%
Nepal	3,109	80%	2,488	0.27	6%
Cambodia	6,950	73%	5,039	0.55	13%
Linknet	2,739	92%	2,514	0.27	7%
Edotco	5,369	63%	3,382	0.37	9%
Digital businesses			1,898	0.21	5%
Residual net cash			-8,873	-0.97	-23%
Total equity value			38,508	4.20	100%

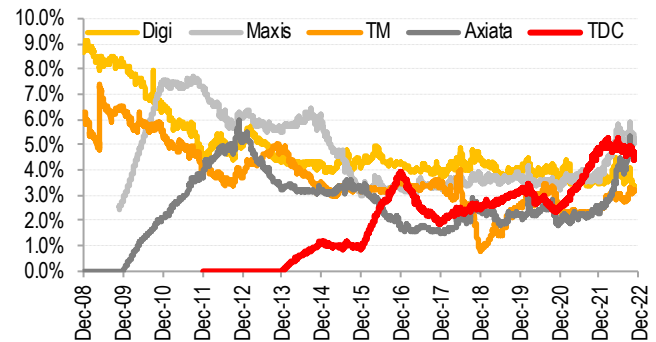
Source: Maybank IBG Research

EV/EBITDA - Malaysia telcos



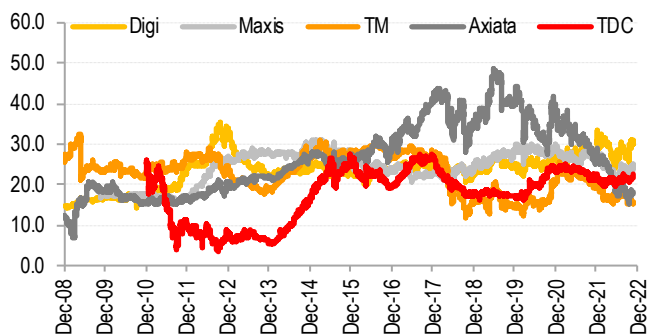
Source: Bloomberg, Maybank IBG Research

Net dividend yield - Malaysia telcos



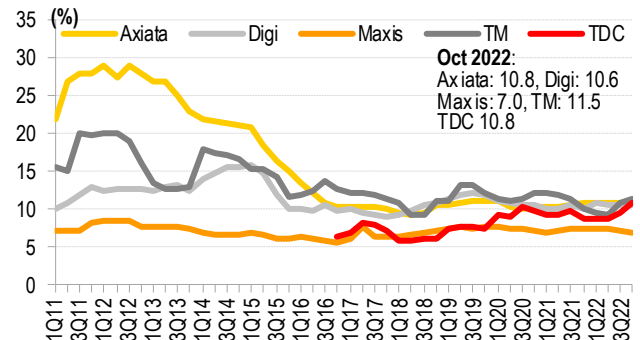
Source: Bloomberg, Maybank IBG Research

PER - Malaysia telcos



Source: Bloomberg, Maybank IBG Research

Foreign shareholding



Source: Companies

Risk statement

There are several risk factors for our earnings estimates, price target, and rating for Axiata. Competitive developments such as price wars would adversely affect monetisation and thus profitability. Regulatory developments pertaining to spectrum fees, taxation or product pricing also pose a risk to Axiata's earnings. Axiata is also exposed to currency risk.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	89.2	42.4	19.0	15.9	13.8
Core P/E (x)	39.6	28.8	19.0	15.9	13.8
P/BV (x)	1.9	2.1	1.5	1.5	1.5
P/NTA (x)	(2.9)	(3.0)	(2.2)	(2.3)	(2.4)
Net dividend yield (%)	1.9	2.3	4.5	5.3	6.1
FCF yield (%)	15.2	10.3	4.5	20.3	20.1
EV/EBITDA (x)	5.7	5.9	5.2	4.9	4.8
EV/EBIT (x)	24.2	17.7	14.4	12.8	11.8

INCOME STATEMENT (MYR m)

Revenue	24,203.2	25,900.7	26,890.7	28,603.0	29,547.6
EBITDA	10,656.9	11,404.0	12,285.8	12,943.8	13,297.9
Depreciation	(8,144.2)	(7,587.8)	(7,860.4)	(8,014.6)	(7,936.8)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	2,512.6	3,816.3	4,425.4	4,929.2	5,361.1
Net interest income / (exp)	(1,515.9)	(1,414.1)	(1,505.1)	(1,647.9)	(1,583.2)
Associates & JV	18.7	4.0	4.0	4.0	4.0
Exceptionals	155.6	(232.5)	145.0	145.0	145.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	1,171.1	2,173.6	3,069.3	3,430.3	3,926.9
Income tax	(547.1)	(896.7)	(1,096.5)	(1,087.8)	(1,214.7)
Minorities	(258.9)	(458.0)	(510.0)	(597.5)	(701.6)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	365.2	818.9	1,462.8	1,745.0	2,010.6
Core net profit	865.4	1,325.6	1,462.8	1,745.0	2,010.6

BALANCE SHEET (MYR m)

Cash & Short Term Investments	7,194.3	6,969.4	4,684.8	6,379.9	7,829.9
Accounts receivable	4,362.4	5,060.9	5,378.1	5,720.6	5,909.5
Inventory	141.7	222.7	246.2	259.4	265.1
Property, Plant & Equip (net)	24,495.6	26,975.3	33,968.2	34,520.9	35,155.4
Intangible assets	29,333.1	30,938.4	30,674.8	30,426.8	30,193.4
Investment in Associates & JVs	308.4	283.5	282.2	280.9	279.6
Other assets	2,126.3	2,100.2	2,100.2	2,100.2	2,100.2
Total assets	67,961.7	72,550.4	77,334.6	79,688.8	81,733.2
ST interest bearing debt	4,705.9	5,990.3	7,990.3	8,490.3	8,990.3
Accounts payable	12,005.8	13,555.1	13,848.5	14,593.4	14,909.5
LT interest bearing debt	22,668.2	23,231.2	25,231.2	25,731.2	26,231.2
Other liabilities	4,703.0	4,708.0	4,708.0	4,708.0	4,708.0
Total Liabilities	44,082.3	47,484.6	51,778.0	53,523.0	54,839.0
Shareholders Equity	17,641.1	18,005.3	18,224.7	18,486.5	18,788.1
Minority Interest	6,238.3	7,060.5	7,331.9	7,679.4	8,106.1
Total shareholder equity	23,879.4	25,065.8	25,556.6	26,165.8	26,894.1
Total liabilities and equity	67,961.7	72,550.4	77,334.6	79,688.8	81,733.2

CASH FLOW (MYR m)

Pretax profit	1,171.1	2,173.6	3,069.3	3,430.3	3,926.9
Depreciation & amortisation	8,144.2	7,587.8	7,860.4	8,014.6	7,936.8
Adj net interest (income)/exp	1,515.9	1,414.1	1,505.1	1,647.9	1,583.2
Change in working capital	230.6	769.7	(47.2)	389.2	121.5
Cash taxes paid	(916.4)	(576.2)	(1,096.5)	(1,087.8)	(1,214.7)
Other operating cash flow	(1,385.9)	(1,077.5)	1.3	1.3	1.3
Cash flow from operations	8,759.5	10,291.4	11,292.3	12,395.5	12,355.0
Capex	(3,558.1)	(6,369.0)	(10,028.0)	(6,757.4)	(6,776.2)
Free cash flow	5,201.4	3,922.4	1,264.3	5,638.1	5,578.8
Dividends paid	(596.0)	(825.5)	(1,243.3)	(1,483.3)	(1,709.0)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	1,393.4	668.2	4,000.0	1,000.0	1,000.0
Other invest/financing cash flow	(2,271.4)	(4,167.3)	(6,305.5)	(3,459.7)	(3,419.9)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	3,727.4	(402.2)	(2,284.6)	1,695.1	1,449.9

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(1.5)	7.0	3.8	6.4	3.3
EBITDA growth	0.4	7.0	7.7	5.4	2.7
EBIT growth	(31.3)	51.9	16.0	11.4	8.8
Pretax growth	(59.2)	85.6	41.2	11.8	14.5
Reported net profit growth	(74.9)	124.3	78.6	19.3	15.2
Core net profit growth	(9.8)	53.2	10.3	19.3	15.2
Profitability ratios (%)					
EBITDA margin	44.0	44.0	45.7	45.3	45.0
EBIT margin	10.4	14.7	16.5	17.2	18.1
Pretax profit margin	4.8	8.4	11.4	12.0	13.3
Payout ratio	175.7	106.4	85.0	85.0	85.0
DuPont analysis					
Net profit margin (%)	1.5	3.2	5.4	6.1	6.8
Revenue/Assets (x)	0.4	0.4	0.3	0.4	0.4
Assets/Equity (x)	3.9	4.0	4.2	4.3	4.4
ROAE (%)	2.2	4.6	8.1	9.5	10.8
ROAA (%)	1.3	1.9	2.0	2.2	2.5
Liquidity & Efficiency					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	68.6	65.5	69.9	69.8	70.8
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	nm	nm	nm	nm	nm
Dividend cover (x)	0.6	0.9	1.2	1.2	1.2
Current ratio (x)	0.7	0.6	0.5	0.5	0.6
Leverage & Expense Analysis					
Asset/Liability (x)	1.5	1.5	1.5	1.5	1.5
Net gearing (%) (incl perps)	84.5	88.8	111.7	106.4	101.8
Net gearing (%) (excl. perps)	84.5	88.8	111.7	106.4	101.8
Net interest cover (x)	1.7	2.7	2.9	3.0	3.4
Debt/EBITDA (x)	2.6	2.6	2.7	2.6	2.6
Capex/revenue (%)	14.7	24.6	37.3	23.6	22.9
Net debt/ (net cash)	20,179.8	22,252.1	28,536.7	27,841.5	27,391.6

Source: Company; Maybank IBG Research

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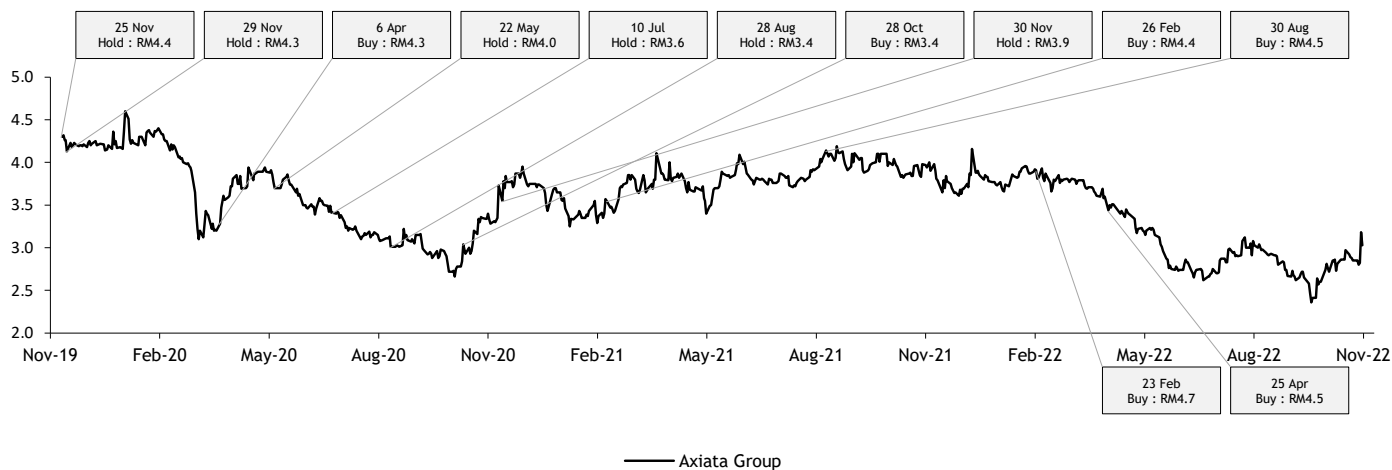
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