

# Axiata Group (AXIATA MK)

## Unlocking future value

### Strategy pivot

"De-layering" was the buzzword in this year's Investor Day, and will underpin Axiata's transformation agenda in 2023-2025. While net profit and dividend could potentially come under pressure during these years (20sen 2024 DPS target is deferred), management expects the accompanying value illumination and growth prospect to uplift valuations. Reiterate BUY with an unchanged MYR4.20 TP (SOP-based).

### De-layering and tech-co transition

Following the completion of a number of strategic M&As in 2022, management has unveiled a transformation agenda for 2023-2025, focusing on the de-layering of assets and the transitioning into a tech-co. This would open up new revenue and value illumination opportunities, with the premium valuation multiples leading to higher SOP for Axiata. Balance sheet strengthening will continue, with management targeting gross debt / EBITDA to decline to c.2.5x by 2025 (from >3x presently).

### On Indonesia, edotco and the digital businesses

Link Net's management was introduced, and together with XL, articulated the prevailing convergence emphasis. A number of collaborative initiatives on revenue, cost and operations are already in place, with the focus on sweating existing assets. Separately, edotco outlined its focus on its Core (Malaysia and Bangladesh) and Growth (Philippines and Indonesia) markets, with the remaining markets on cost management / monetization mode. The digital businesses ADA and Boost outlined their respective profitability and valuation build-up.

### Worst is over?

Our earnings forecasts and MYR4.20 TP (derived from a sum-of-parts with each op-co valued on DCF) are unchanged, and have incorporated both the Linknet and Philippines towers acquisitions. The worst of the frontier market risk appears to have passed, with the respective op-cos having raised prices and rationalised costs.

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	19.8	16.6	14.4
P/BV (x)	1.9	2.1	1.6	1.6	1.5
Net dividend yield (%)	1.9	2.3	4.3	5.1	5.9
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	5.3	5.0	4.8
Net gearing (%) (incl perps)	84.5	88.8	111.7	106.4	101.8
Consensus net profit	-	-	1,375	1,582	1,745
MKE vs. Consensus (%)	-	-	6.4	10.3	15.2

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## BUY

Share Price	MYR 3.15
12m Price Target	MYR 4.20 (+37%)
Previous Price Target	MYR 4.20

### 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)	2.2
Free float (%)	44.1
Issued shares (m)	9,170
Market capitalisation	MYR28.9B
	USD6.6B

### 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 (%)	10	6	(17)
Relative to index (%)	8	6	(16)

Source: FactSet

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Tear Sheet Insert

Risk Rating & Score <sup>1</sup>	27.9 (Medium)
Score Momentum <sup>2</sup>	-0.2
Last Updated	19 Jul 2022
Controversy Score <sup>3</sup> (Updated: 24 Jun 2022)	2 - Business ethics (acc. & tax) incidents

## Business Model & Industry Issues

- The ESG pressure faced by telcos is overall benign. Telcos are not major emitters and thus do not pose a significant threat to the environment. Major social issues relate to digital inclusion and data protection, and can generally be well-managed from an operational perspective. Axiata however also operates in frontier markets, and thus faces relatively higher operating risks.
- We see telcos are potential ESG beneficiaries. Given the industry's extensive population reach and core speciality in connectivity, telcos are well-positioned to serve as ESG enablers, helping other industries address their respective ESG issues. Axiata has already invested tangibly in a digital business arm, which at the moment is scaling up and is thus still loss-making. Axiata has demonstrated the monetisation potential of the business through divestment of minority stakes.
- Given its conglomerate-like structure, Axiata is possibly more inclined on a relative basis to participate in M&As. Axiata has initiated a number of M&As in recent years, both at the holding-co level and among its op-cos. Results have unfortunately been mixed, with the supposed accretion not materialising for some transactions.
- Axiata scores above-average in our proprietary scoring methodology (see next page) with an overall score of 68/100.

## Material E issues

- Environmental risks are inherently less pertinent for telcos, with operations being neither energy nor emission intensive. Globally, GSMA (the industry body) has committed to a "Zero by 2050" carbon emission target, which Axiata is aiming to align to.
- The net zero target is potentially a challenge for Axiata as it is operating in regions where subscribers and networks are still growing. Axiata recorded a 9% increase in energy consumption in 2021, with networks accounting for 99% of total energy consumption.
- Measures undertaken include investing in new energy efficient equipment, transferring sites from diesel to grid, installing outdoor cabinets which do not require air conditioning units and building renewable energy capacity. edotco, its tower arm, has reduced its GHG emissions through innovative tower designs.

## Material S issues

- Internet connectivity is deemed as an essential service. Axiata's op-cos in Malaysia, Nepal, Indonesia and Sri Lanka had offered discounted/free data to subscribers during the COVID-19 pandemic, which affected monetisation.
- The emphasis on digital inclusion and rural connectivity means telcos could be pressured to invest in areas that are not commercially-viable. In Malaysia, the regulator funds such investments through the USP fund (telcos contribute 6% of revenue to the fund annually).
- Axiata operates in emerging and frontier markets, where many have no access to formal financial services. Axiata has developed digital financial services platforms.
- The male-female split of Axiata's workforce stood at 68%-32% as at 2021 (Celcom standalone meanwhile is at a commendable 53%-47%). Female representation at senior management is at 20%.

## Key G metrics and issues

- Axiata is a government-linked company. Khazanah Nasional, the national sovereign fund, owns 36.8% of Axiata and has board representation.
- The Board currently has 10 Directors, comprising 1 Managing Director (CEO), 3 Non-Independent Non-Executive Directors and 6 Independent Non-Executive Directors (including the chairman).
- There are presently only 2 women on the Board. The search for additional female Directors is in progress, with the Board aiming to comply with the 30% female representation target.
- Axiata does not disclose the remuneration details of senior management for confidentiality reasons.
- Axiata has been audited by PricewaterhouseCoopers for at least the past decade.
- Axiata's track record with dividends is average, given that capex requirements (due to growth opportunities) are still high in many markets that it operates in.
- Axiata had in 2019, announced it was in talks with Telenor to merge their respective Asian operations. The talks were subsequently terminated.
- Axiata's last major transaction was the acquisition of Ncell in 2017. This transaction was unfortunately mired with issues as capital gains tax was subsequently imposed on Ncell (instead of the seller) following a change of the Nepalese government.
- Axiata's has initiated a number of M&As at its op-cos (Smart-Hello in Cambodia, XL-Axis in Indonesia, Robi-Airtel in Bangladesh), mainly on the basis of market consolidation. Results have unfortunately been mixed, with the supposed accretion not materialising for some transactions.

<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. <sup>3</sup>**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

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Quantitative parameters (Score: 62)						
	Particulars	Unit	2019	2020	2021	Digi (DIGI MK)
E	Scope 1 emissions	k tCO <sub>2</sub> e	103.50	47.86	74.02	10.34
	Scope 2 emissions	k tCO <sub>2</sub> e	1046.50	1183.66	1235.82	196.78
	Scope 3 emissions	k tCO <sub>2</sub> e	N/A	N/A	N/A	0.33
	<b>Total</b>	<b>k tCO<sub>2</sub>e</b>	<b>1150.00</b>	<b>1231.52</b>	<b>1309.83</b>	<b>207.45</b>
	Carbon intensity per data usage	tCO <sub>2</sub> e/TB	0.12	0.12	0.09	0.09
	Energy Usage per Data Terabyte (MWh)	GJ/TB	0.70	0.67	0.52	N/A
	Solar adoption at sites (edotco)	Number	982	1,677	2,208	N/A
	Op-cos publishing waste data	Number	0	0	4	N/A
S	% of women in workforce	%	29.0%	31.0%	32.0%	50.0%
	% of women in management roles	%	14.0%	17.0%	20.0%	45.0%
	Average training hours per employee	Hours	23.5	22.0	33.1	52.6
	Lost time injury frequency (LTIF)	Number	0 - 0.67	0 - 0.55	0 - 0.4	0
G	Key management salary as % of net profit	%	0.7%	5.3%	0.6%	1.5%
	Independent directors on the Board	%	50.0%	55.6%	60.0%	50%
	Female directors on the Board	%	20%	22%	20%	50%
	Number of top-ranked op-cos by NPS	Number	4	4	4	N/A

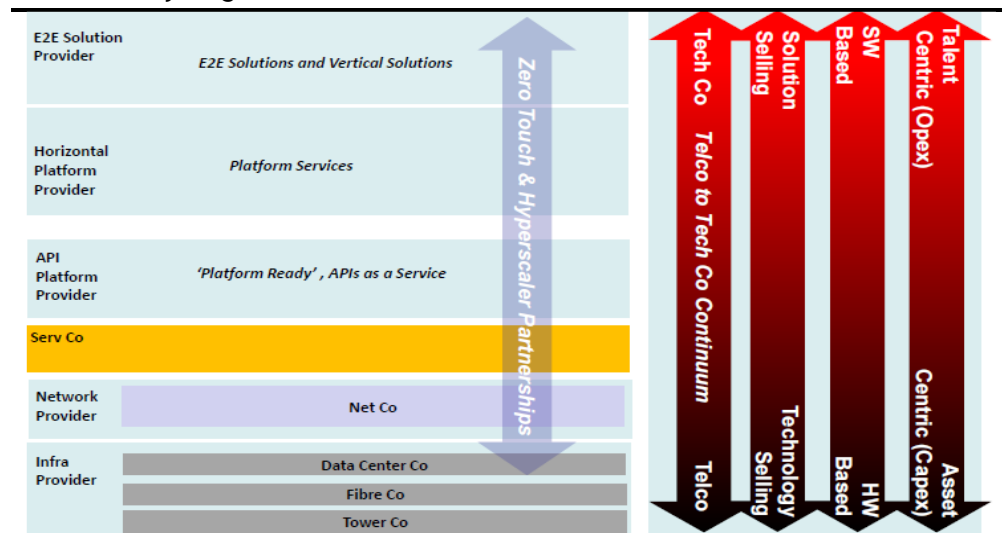
Qualitative Parameters (Score: 83)	
a) Is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?	<i>Yes. Axiata has a Sustainability Steering Committee to oversee its sustainability agenda.</i>
b) Is the senior management salary linked to fulfilling ESG targets?	<i>Yes. Sustainability-related key performance indicators (KPIs) have been included in Axiata's Group CEO and OpCo CEOs' annual KPIs.</i>
c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?	<i>Yes</i>
e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	<i>No. Axiata is undertaking Scope 3 screening of its suppliers to determine its areas of control towards developing a Scope 3 inventory and baseline, with the aim of identifying a science-based Scope 3 target for 2030.</i>
f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>Remote monitoring sensor (RMS) technology deployed at tower sites, pursuing green building certification, phase-out of diesel consumption for backup generators</i>
g) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>Yes</i>

Target (Score: 67)		
Particulars	Target	Achieved
Reduce emission in 2030 (from 2020 baseline) by 45%	45%	N/A
Net-zero carbon emissions by 2050	2050	N/A
To achieve 30% female directors at the Board	30%	20%
Impact		
NA		
Overall score: 68		
As per our ESG matrix, Axiata has an overall score of 68.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	62	31
Qualitative	25%	83	21
Target	25%	67	17
<b>Total</b>			<b>68</b>

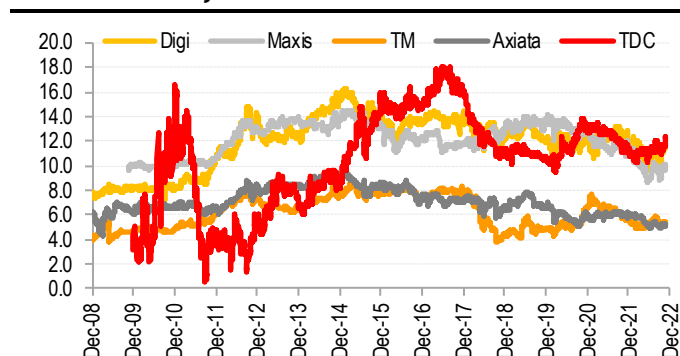
As per our ESG assessment, Axiata has an established framework, internal policies, and tangible mid/long-term targets. Axiata's overall ESG score is 68, which makes its ESG rating above average in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

## Axiata's de-layering



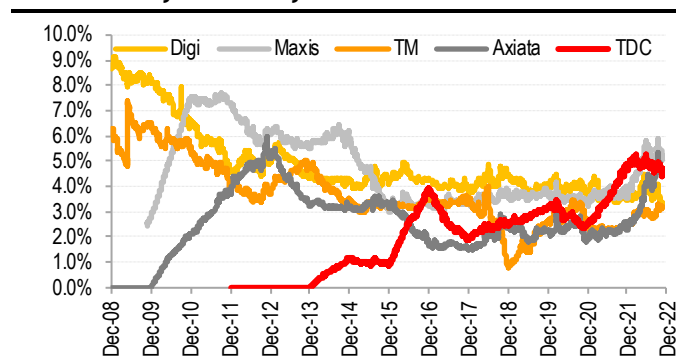
Source: Company

## EV/EBITDA - Malaysia telcos



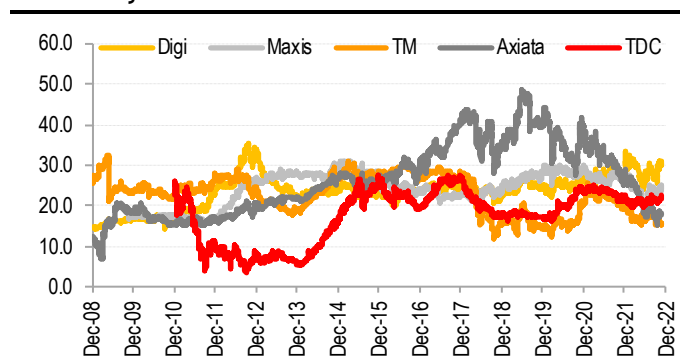
Source: Bloomberg, Maybank IBG Research

## Net dividend yield - Malaysia telcos



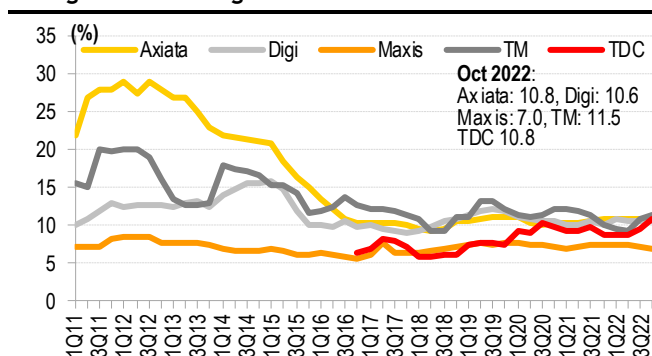
Source: Bloomberg, Maybank IBG Research

## 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
<b>Key Metrics</b>					
P/E (reported) (x)	89.2	42.4	19.8	16.6	14.4
Core P/E (x)	39.6	28.8	19.8	16.6	14.4
P/BV (x)	1.9	2.1	1.6	1.6	1.5
P/NTA (x)	(2.9)	(3.0)	(2.3)	(2.4)	(2.5)
Net dividend yield (%)	1.9	2.3	4.3	5.1	5.9
FCF yield (%)	15.2	10.3	4.4	19.5	19.3
EV/EBITDA (x)	5.7	5.9	5.3	5.0	4.8
EV/EBIT (x)	24.2	17.7	14.6	13.1	12.0

**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
<b>Total assets</b>	<b>67,961.7</b>	<b>72,550.4</b>	<b>77,334.6</b>	<b>79,688.8</b>	<b>81,733.2</b>
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
<b>Total Liabilities</b>	<b>44,082.3</b>	<b>47,484.6</b>	<b>51,778.0</b>	<b>53,523.0</b>	<b>54,839.0</b>
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
<b>Total shareholder equity</b>	<b>23,879.4</b>	<b>25,065.8</b>	<b>25,556.6</b>	<b>26,165.8</b>	<b>26,894.1</b>
<b>Total liabilities and equity</b>	<b>67,961.7</b>	<b>72,550.4</b>	<b>77,334.6</b>	<b>79,688.8</b>	<b>81,733.2</b>

**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
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
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
<b>Profitability ratios (%)</b>					
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
<b>DuPont analysis</b>					
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
<b>Liquidity &amp; Efficiency</b>					
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
<b>Leverage &amp; Expense Analysis</b>					
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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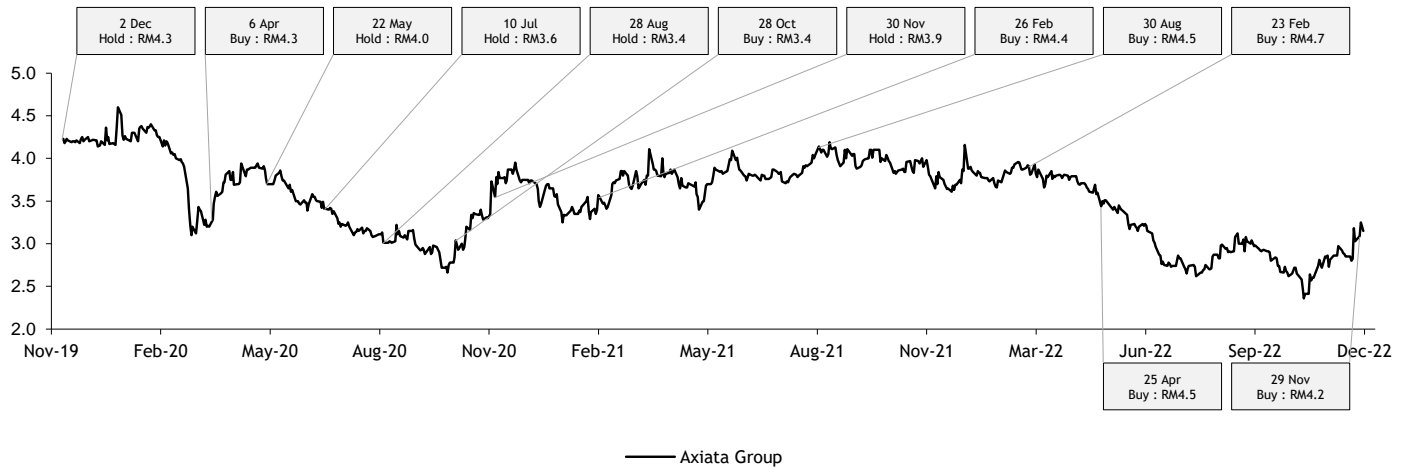
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