

Axiata Group (AXIATA MK)

Strategy update

Moving to a “multi-platform builder”

This year’s Investor Day touched on Axiata’s strategy refresh - moving to a “Multi-Platform Builder”, with the targeted financial outcomes (of 10sen DPS, high single-digit total shareholder return, 2.5x net debt to EBITDA) being broadly unchanged. We continue to view Axiata’s overall risk-reward as being positive. Reiterate BUY with an unchanged MYR3.00 SOP-based TP.

Seeking higher returns

Management’s overarching ambition is to raise Axiata’s returns (ROIC) to levels above its cost of capital. The focus on lowering its cost-to-serve (through network initiatives and IT transformation) remains unchanged, so is the chase for new revenue streams beyond connectivity. There are expectations of general market repair in Axiata’s operating countries. Management also targets to reduce holding-co costs by 20%.

Searching for partners

A session on creating value with partners pipped our interest. For the digital businesses (Boost and ADA), there is a preference for strategic investors which can provide guidance to management and/or help with the up-scaling of the business. For the infrastructure businesses, both edotco and Linknet require hefty capex for growth, and thus the profile of prospective investors will likely be more financial in nature. With deleveraging being one of Axiata’s priorities, we believe Axiata would be willing to give up having a controlling stake in these infrastructure op-cos.

Maintaining earnings

Axiata remains committed to a minimum 10sen DPS annually, with associate CelcomDigi likely being the largest contributor among op-cos. Our earnings forecasts and MYR3.00 TP (derived from a sum-of-parts with each op-co valued on DCF) are unchanged. We view sequential net profit recovery and asset monetisation (leading to balance sheet repair) as potential re-rating catalysts.

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	25,901	27,522	22,108	22,256	23,136
EBITDA	11,404	12,434	10,143	10,230	10,762
Core net profit	1,326	1,587	358	514	865
Core EPS (sen)	14.5	17.3	3.9	5.6	9.4
Core EPS growth (%)	53.1	19.6	(77.4)	43.5	68.3
Net DPS (sen)	9.5	14.0	10.0	10.0	10.0
Core P/E (x)	28.8	17.9	60.7	42.3	25.1
P/BV (x)	2.1	1.2	0.9	0.9	1.0
Net dividend yield (%)	2.3	4.5	4.2	4.2	4.2
ROAE (%)	4.6	46.6	1.5	2.2	3.8
ROAA (%)	1.9	2.1	0.4	0.6	1.1
EV/EBITDA (x)	5.9	5.1	5.8	5.8	5.6
Net gearing (%) (incl perps)	88.8	92.8	100.1	103.8	105.1
Consensus net profit	-	-	372	654	857
MIBG vs. Consensus (%)	-	-	(3.7)	(21.4)	0.9

Tan Chi Wei, CFA
chiwei.t@maybank-ib.com
(603) 2297 8690

BUY

Share Price	MYR 2.37
12m Price Target	MYR 3.00 (+30%)
Previous Price Target	MYR 3.00

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)	3.21/2.18
3m avg turnover (USDm)	2.2
Free float (%)	43.6
Issued shares (m)	9,170
Market capitalisation	MYR21.7B USD4.7B

Major shareholders:

Khazanah Nasional Bhd. (Investment Compa	36.7%
Employees Provident Fund	17.6%
Permodalan Nasional Bhd.	16.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(3)	(4)	(23)
Relative to index (%)	(2)	(4)	(22)

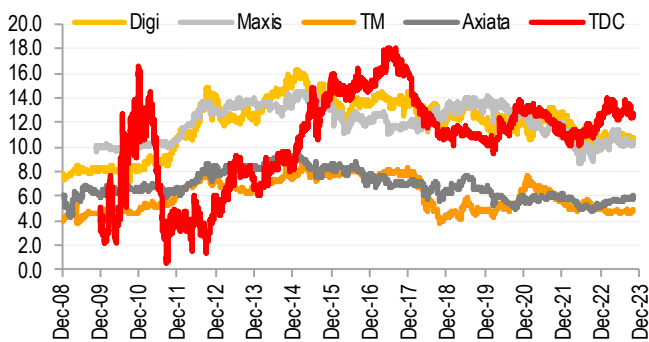
Source: FactSet

Axiata: Target price derivation

(MYR m)	Value	Stake	Attri. value	per share	%
Malaysia	53,968	33%	17,863	1.95	65%
Indonesia	9,883	61%	6,076	0.66	22%
Bangladesh	6,961	62%	4,302	0.47	16%
Sri Lanka	860	83%	716	0.08	3%
Cambodia	6,625	73%	4,803	0.52	17%
Linknet	-253	92%	-232	-0.03	-1%
Edotco	5,019	63%	3,162	0.34	11%
Digital businesses			1,898	0.21	7%
Residual net cash			-11,019	-1.20	-40%
Total equity value			27,570	3.00	100%

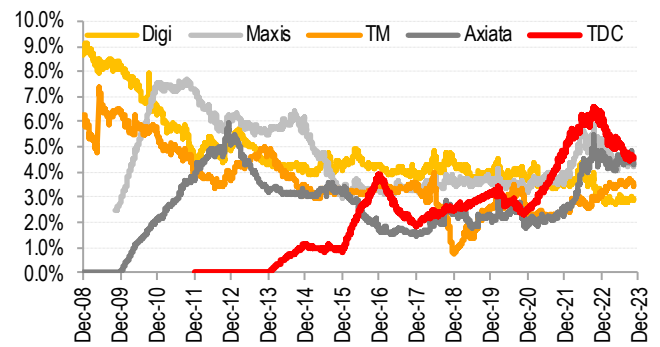
Source: Maybank IBG Research

EV/EBITDA - Malaysia telcos



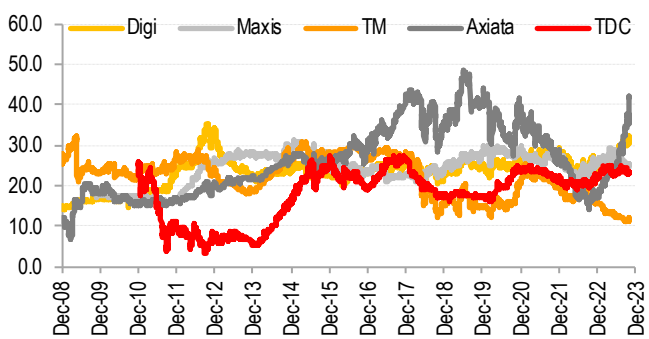
Source: Bloomberg, Maybank IBG Research

Net dividend yield - Malaysia telcos



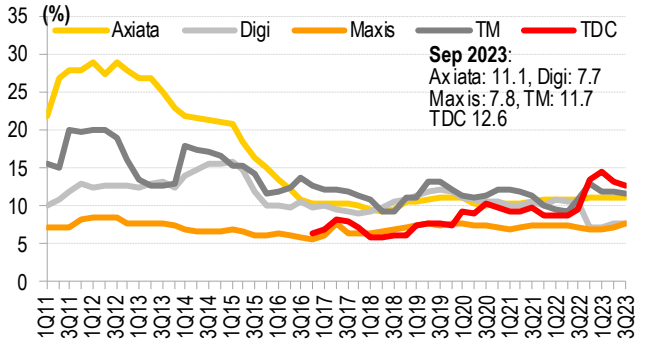
Source: Bloomberg, Maybank IBG Research

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	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	42.4	3.0	60.7	42.3	25.1
Core P/E (x)	28.8	17.9	60.7	42.3	25.1
P/BV (x)	2.1	1.2	0.9	0.9	1.0
P/NTA (x)	(3.0)	28.9	51.8	nm	(579.9)
Net dividend yield (%)	2.3	4.5	4.2	4.2	4.2
FCF yield (%)	10.3	2.7	13.2	16.9	20.4
EV/EBITDA (x)	5.9	5.1	5.8	5.8	5.6
EV/EBIT (x)	17.7	14.1	20.6	21.1	19.4
INCOME STATEMENT (MYR m)					
Revenue	25,900.7	27,521.7	22,108.4	22,255.6	23,136.0
EBITDA	11,404.0	12,433.7	10,143.4	10,230.0	10,761.7
Depreciation	(7,587.8)	(7,922.5)	(7,285.2)	(7,405.8)	(7,678.3)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	3,816.3	4,511.2	2,858.2	2,824.3	3,083.5
Net interest income /(exp)	(1,414.1)	(1,713.9)	(2,223.9)	(2,055.9)	(2,024.4)
Associates & JV	4.0	(50.8)	501.7	704.8	936.8
Exceptionals	(232.5)	8,348.3	(88.4)	(76.4)	(76.4)
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	2,173.6	11,094.7	1,047.6	1,396.7	1,919.4
Income tax	(896.7)	(1,061.4)	(406.2)	(567.2)	(677.7)
Minorities	(458.0)	(267.7)	(283.2)	(315.7)	(376.7)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	818.9	9,765.6	358.1	513.9	865.0
Core net profit	1,325.6	1,586.7	358.1	513.9	865.0
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	6,969.4	7,452.2	5,691.9	4,886.3	4,635.5
Accounts receivable	5,060.9	6,863.4	5,269.7	5,243.8	5,387.8
Inventory	222.7	221.6	184.6	186.3	192.3
Property, Plant & Equip (net)	26,975.3	27,201.0	28,557.2	29,263.2	29,600.7
Intangible assets	30,938.4	22,916.9	22,917.3	22,917.6	22,918.0
Investment in Associates & JVs	283.5	15,610.8	15,599.8	15,658.9	15,741.2
Other assets	2,100.2	1,369.1	1,369.1	1,369.1	1,369.1
Total assets	72,550.4	81,635.1	79,589.6	79,525.4	79,844.6
ST interest bearing debt	5,990.3	8,935.6	8,935.6	8,935.6	8,935.6
Accounts payable	13,555.1	10,534.3	8,965.9	9,209.9	9,669.2
LT interest bearing debt	23,231.2	26,942.4	26,942.4	26,942.4	26,942.4
Other liabilities	4,708.0	4,579.0	4,579.0	4,579.0	4,579.0
Total Liabilities	47,484.6	50,991.7	49,423.3	49,667.3	50,126.6
Shareholders Equity	18,005.3	23,896.7	23,337.1	22,933.2	22,880.5
Minority Interest	7,060.5	6,746.7	6,829.3	6,924.8	6,837.6
Total shareholder equity	25,065.8	30,643.4	30,166.4	29,858.0	29,718.0
Total liabilities and equity	72,550.4	81,635.1	79,589.6	79,525.4	79,844.6
CASH FLOW (MYR m)					
Pretax profit	2,173.6	11,094.7	1,047.6	1,396.7	1,919.4
Depreciation & amortisation	7,587.8	7,922.5	7,285.2	7,405.8	7,678.3
Adj net interest (income)/exp	1,414.1	1,713.9	2,223.9	2,055.9	2,024.4
Change in working capital	769.7	(4,822.0)	62.3	268.2	309.2
Cash taxes paid	(576.2)	(875.5)	(406.2)	(567.2)	(677.7)
Other operating cash flow	(1,077.5)	(4,602.2)	11.0	(59.1)	(82.3)
Cash flow from operations	10,291.4	10,431.4	10,223.7	10,500.4	11,171.3
Capex	(6,369.0)	(9,652.0)	(7,351.4)	(6,821.7)	(6,725.7)
Free cash flow	3,922.4	779.4	2,872.3	3,678.7	4,445.6
Dividends paid	(825.5)	(504.7)	(917.7)	(917.7)	(917.7)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	668.2	7,029.3	0.0	0.0	0.0
Other invest/financing cash flow	(4,167.3)	(6,019.6)	(3,714.9)	(3,566.5)	(3,778.7)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(402.2)	1,284.4	(1,760.4)	(805.5)	(250.9)

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	7.0	6.3	(19.7)	0.7	4.0
EBITDA growth	7.0	9.0	(18.4)	0.9	5.2
EBIT growth	51.9	18.2	(36.6)	(1.2)	9.2
Pretax growth	85.6	410.4	(90.6)	33.3	37.4
Reported net profit growth	124.3	1,092.5	(96.3)	43.5	68.3
Core net profit growth	53.2	19.7	(77.4)	43.5	68.3
Profitability ratios (%)					
EBITDA margin	44.0	45.2	45.9	46.0	46.5
EBIT margin	14.7	16.4	12.9	12.7	13.3
Pretax profit margin	8.4	40.3	4.7	6.3	8.3
Payout ratio	106.4	13.2	nm	178.6	106.1
DuPont analysis					
Net profit margin (%)	3.2	35.5	1.6	2.3	3.7
Revenue/Assets (x)	0.4	0.3	0.3	0.3	0.3
Assets/Equity (x)	4.0	3.4	3.4	3.5	3.5
ROAE (%)	4.6	46.6	1.5	2.2	3.8
ROAA (%)	1.9	2.1	0.4	0.6	1.1
Liquidity & Efficiency					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	65.5	78.0	98.8	85.0	82.7
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	nm	nm	nm	nm	nm
Dividend cover (x)	0.9	7.6	0.4	0.6	0.9
Current ratio (x)	0.6	0.7	0.6	0.5	0.5
Leverage & Expense Analysis					
Asset/Liability (x)	1.5	1.6	1.6	1.6	1.6
Net gearing (%) (incl perps)	88.8	92.8	100.1	103.8	105.1
Net gearing (%) (excl. perps)	88.8	92.8	100.1	103.8	105.1
Net interest cover (x)	2.7	2.6	1.3	1.4	1.5
Debt/EBITDA (x)	2.6	2.9	3.5	3.5	3.3
Capex/revenue (%)	24.6	35.1	33.3	30.7	29.1
Net debt/ (net cash)	22,252.1	28,425.8	30,186.2	30,991.7	31,242.6

Source: Company; Maybank IBG Research

Research Offices

ECONOMICS

Suhaimi ILIAS
Chief Economist
Malaysia | Philippines | Global
(603) 2297 8682
suhaimi_ilias@maybank-ib.com

CHUA Hak Bin
Regional Thematic Macroeconomist
(65) 6231 5830
chuahb@maybank.com

Dr Zamros DZULKAFI
Malaysia | Philippines
(603) 2082 6818
zamros.d@maybank-ib.com

Erica TAY
China | Thailand
(65) 6231 5844
erica.tay@maybank.com

Brian LEE Shun Rong
Indonesia | Singapore | Vietnam
(65) 6231 5846
brian.lee1@maybank.com

Fatin Nabila MOHD ZAINI
(603) 2297 8685
fatinnabila.mohdzaini@maybank-ib.com

Luong Thu Huong
(65) 6231 8467
hana.thuhoang@maybank.com

FX

Saktiandi SUPAAT
Head of FX Research
(65) 6320 1379
saktiandi@maybank.com

Fiona LIM
(65) 6320 1374
fionallim@maybank.com

Alan LAU
(65) 6320 1378
alanlau@maybank.com

Shaun LIM
(65) 6320 1371
shaunlim@maybank.com

STRATEGY

Anand PATHMAKANTHAN
ASEAN
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

FIXED INCOME

Winson PHOON, FCA
Head of Fixed Income
(65) 6340 1079
winsonphoon@maybank.com

SE THO Mun Yi, CFA
(603) 2074 7606
munyi.st@maybank-ib.com

PORTFOLIO STRATEGY

ONG Seng Yeow
(65) 6231 5839
ongsenyeow@maybank.com

MIBG SUSTAINABILITY RESEARCH

Jigar SHAH
Head of Sustainability Research
(91) 22 4223 2632
jigars@maybank.com

Neerav DALAL
(91) 22 4223 2606
neerav@maybank.com

REGIONAL EQUITIES

Anand PATHMAKANTHAN
Head of Regional Equity Research
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

WONG Chew Hann, CA
Head of ASEAN Equity Research
(603) 2297 8686
wchewh@maybank-ib.com

MALAYSIA

WONG Chew Hann, CA Head of Research
(603) 2297 8686
wchewh@maybank-ib.com
• Equity Strategy
• Non-Bank Financials (stock exchange)
• Construction & Infrastructure

Anand PATHMAKANTHAN
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com
• Equity Strategy

Desmond CH'NG, BFP, FCA
(603) 2297 8680
desmond.chng@maybank-ib.com
• Banking & Finance

ONG Chee Ting, CA
(603) 2297 8678
ct.ong@maybank-ib.com
• Plantations - Regional

YIN Shao Yang, CPA
(603) 2297 8916
samuel.y@maybank-ib.com
• Gaming - Regional
• Media • Aviation • Non-Bank Financials

TAN Chi Wei, CFA
(603) 2297 8690
chiwei.t@maybank-ib.com
• Power • Telcos

WONG Wei Sum, CFA
(603) 2297 8679
weisum@maybank-ib.com
• Property • Glove

Jade TAM
(603) 2297 8687
jade.tam@maybank-ib.com
• Consumer Staples & Discretionary

Nur Farah SYIFAA
(603) 2297 8675
nurfarahsyifaa.mohamadfuad@maybank-ib.com
• Renewable Energy • REITs

LOH Yan Jin
(603) 2297 8687
lohyanjin.loh@maybank-ib.com
• Ports • Automotive • Technology (EMS)

Jeremie YAP
(603) 2297 8688
jeremie.yap@maybank-ib.com
• Oil & Gas • Petrochemicals

Arvind JAYARATNAM
(603) 2297 8692
arvind.jayaratnam@maybank.com
• Technology (Semicon & Software)

TEE Sze Chiah Head of Retail Research
(603) 2082 6858
szechiah.t@maybank-ib.com
• Retail Research

Nik Ihsan RAJA ABDULLAH, MSTA, CFTe
(603) 2297 8694
nikmohdihsan.ra@maybank-ib.com
• Chartist

Amirah AZMI
(603) 2082 8769
amirah.azmi@maybank-ib.com
• Retail Research

SINGAPORE

Thilan WICKRAMASINGHE Head of Research
(65) 6231 5840
thilanw@maybank.com
• Banking & Finance - Regional
• Consumer

Eric ONG
(65) 6231 5849
ericong@maybank.com
• Healthcare • Transport • SMIDs

Kelvin TAN
(65) 6231 5837
kelvin.tan1@maybank.com
• Telcos • Industrials

LI Jialin
(65) 6231 5845
jialin.li@maybank.com
• REITs

Jarick SEET
(65) 6231 5848
jarick.seet@maybank.com
• Technology

Krishna GUHA
(65) 6231 5842
krishna.guha@maybank.com
• REITs

PHILIPPINES

Rachelleen RODRIGUEZ, CFA Head of Research
(63) 2 8849 8843
rachelleen.rodriguez@maybank.com
• Banking & Finance • Transport • Telcos
• Utilities

Daphne SZE
(63) 2 8849 8847
daphne.sze@maybank.com
• Consumer

Alexa Mae CARVAJAL
(63) 2 8849 8838
alexamae.carvajal@maybank.com
• Consumer • Gaming • Property • REITs

THAILAND

Chak REUNGSINPINYA Head of Research
(66) 2658 5000 ext 1399
chak.reungsinpinya@maybank.com
• Strategy • Energy

Jesada TECHAHUSDIN, CFA
(66) 2658 5000 ext 1395
jesada.t@maybank.com
• Banking & Finance

Wasu MATTANAPOTCHANART
(66) 2658 5000 ext 1392
wasu.m@maybank.com
• Telcos • Technology • REITs • Property
• Consumer Discretionary

Surachai PRAMUALCHAROENKIT
(66) 2658 5000 ext 1470
surachai.p@maybank.com
• Auto • Conmat • Contractor • Steel

Suttatip PEERASUB
(66) 2658 5000 ext 1430
suttatip.p@maybank.com
• Food & Beverage • Commerce

Natchaphon RODJANAROWAN
(66) 2658 5000 ext 1393
natchaphon.rodjanarowan@maybank.com
• Utilities

INDONESIA

Jeffrosenberg CHENLIM Head of Research
(62) 21 8066 8680
jeffrosenberg.lim@maybank.com
• Strategy • Banking & Finance • Property

Willy GOUTAMA
(62) 21 8066 8500
willy.goutama@maybank.com
• Consumer

Etta Rusdiana PUTRA
(62) 21 8066 8683
etta.putra@maybank.com
• Telcos • Internet • Construction

William Jefferson W
(62) 21 8066 8563
william.jefferson@maybank.com
• Property

Adi WICAKSONO
(62) 21 8066 8686
adi.wicaksono@maybank.com
• Plantations

Satriawan HARYONO, CEWA, CTA
(62) 21 8066 8682
satriawan@maybank.com
• Chartist

VIETNAM

Quan Trong Thanh Head of Research
(84 28) 44 555 888 ext 8184
thanh.quan@maybank.com
• Strategy • Banks

Hoang Huy, CFA
(84 28) 44 555 888 ext 8181
hoanghuy@maybank.com
• Strategy • Technology

Le Nguyen Nhat Chuyen
(84 28) 44 555 888 ext 8082
chuyen.le@maybank.com
• Oil & Gas • Logistics

Nguyen Thi Sony Tra Mi
(84 28) 44 555 888 ext 8084
trami.nguyen@maybank.com
• Consumer Discretionary

Tran Thi Thanh Nhan
(84 28) 44 555 888 ext 8088
nhan.tran@maybank.com
• Consumer Staples

Nguyen Le Tuan Loi
(84 28) 44 555 888 ext 8182
loi.nguyen@maybank.com
• Property

Nguyen Thanh Hai
(84 28) 44 555 888 ext 8081
thanhhai.nguyen@maybank.com
• Industrials

Nguyen Thanh Lam
(84 28) 44 555 888 ext 8086
thanhlam.nguyen@maybank.com
• Retail Research

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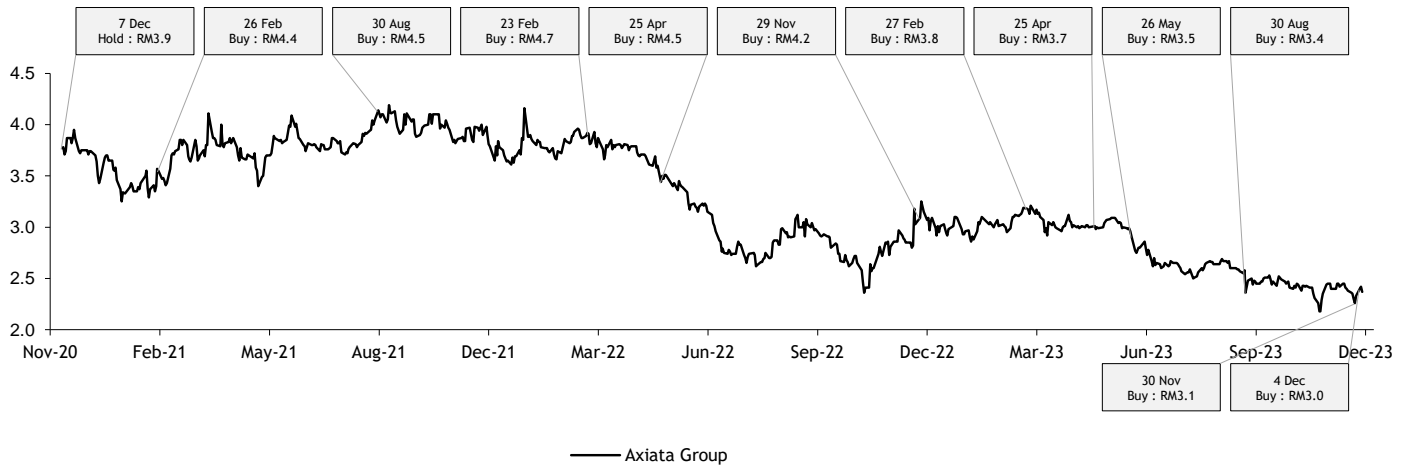
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Malaysia

Maybank Investment Bank Berhad
(A Participating Organisation of
Bursa Malaysia Securities Berhad)
33rd Floor, Menara Maybank,
100 Jalan Tun Perak,
50050 Kuala Lumpur
Tel: (603) 2059 1888;
Fax: (603) 2078 4194

Stockbroking Business:
Level 8, Tower C, Dataran Maybank,
No.1, Jalan Maarof
59000 Kuala Lumpur
Tel: (603) 2297 8888
Fax: (603) 2282 5136

Singapore

Maybank Securities Pte Ltd
Maybank Research Pte Ltd
50 North Canal Road
Singapore 059304

Tel: (65) 6336 9090

Indonesia

PT Maybank Sekuritas Indonesia
Sentral Senayan III, 22nd Floor
Jl. Asia Afrika No. 8
Gelora Bung Karno, Senayan
Jakarta 10270, Indonesia

Tel: (62) 21 2557 1188
Fax: (62) 21 2557 1189

Thailand

Maybank Securities (Thailand) PCL
999/9 The Offices at Central World,
20th - 21st Floor,
Rama 1 Road Pathumwan,
Bangkok 10330, Thailand

Tel: (66) 2 658 6817 (sales)
Tel: (66) 2 658 6801 (research)

London

Maybank Securities (London) Ltd
PNB House
77 Queen Victoria Street
London EC4V 4AY, UK

Tel: (44) 20 7332 0221
Fax: (44) 20 7332 0302

India

MIB Securities India Pte Ltd
1101, 11th floor, A Wing, Kanakia
Wall Street, Chakala, Andheri -
Kurla Road, Andheri East,
Mumbai City - 400 093, India

Tel: (91) 22 6623 2600
Fax: (91) 22 6623 2604

Vietnam

Maybank Securities Limited
Floor 10, Pearl 5 Tower,
5 Le Quy Don Street,
Vo Thi Sau Ward, District 3
Ho Chi Minh City, Vietnam

Tel : (84) 28 44 555 888
Fax : (84) 28 38 271 030

Hong Kong

MIB Securities (Hong Kong)
Limited
28/F, Lee Garden Three,
1 Sunning Road, Causeway Bay,
Hong Kong

Tel: (852) 2268 0800
Fax: (852) 2877 0104

Philippines

Maybank Securities Inc
17/F, Tower One & Exchange
Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines 1200

Tel: (63) 2 8849 8888
Fax: (63) 2 8848 5738

Sales Trading

Indonesia

Helen Widjaja
helen.widjaja@maybank.com
(62) 21 2557 1188

Philippines

Keith Roy
keith_roy@maybank.com
Tel: (63) 2 848-5288

London

Greg Smith
gsmith@maybank.com
Tel: (44) 207-332-0221

India

Sanjay Makhija
sanjaymakhija@maybank.com
Tel: (91)-22-6623-2629

www.maybank.com/investment-banking
www.maybank-keresearch.com