

23 May 2018 | 1QFY18 Results Review

Axiata Group Berhad

Quarterly EBITDA holding up above RM2b

INVESTMENT HIGHLIGHTS

- **Poor performance from Idea, Smart and Edotco impacted Axiata's 1QFY18 normalised earnings**
- **Nonetheless, 1QFY18 EBITDA remained above RM2b, supported by better performance from Dialog and Robi**
- **Higher capital spending for XL and Robi lifted 1QFY18 capex**
- **Maintain NEUTRAL with a revised target price of RM5.49**

1QFY18 normalised earnings trended lower. Axiata Group Bhd (Axiata) 1QFY8 normalised earnings amounted to RM200m, a decrease of -31.3%yoy. The bulk of the exceptional items mainly came from loss on dilution of Idea (-RM358m). The decline in 1QFY18 normalise earnings was mainly attributable to higher losses from Idea, start up investments in new businesses and lower contribution from Smart and Edotco.

1QFY18 EBITDA within expectation. Axiata's 1QFY18 EBITDA reduced by -5.5%yoy to RM2,036m. The reduction was largely due to lower contribution from Celcom, XL Axiata, Smart and Ncell (refer to Table 1). Nonetheless, this accounts for 21.8% and 21.0% of ours and consensus of full year FY18 EBITDA estimates respectively.

Higher capital spending. Axiata's 1QFY18 capital expenditure (capex) increased by +23.6%yoy to RM1,328m. This led to higher capex-to-revenue ratio (capex intensity) of 23% as oppose to 18% achieved in 1QFY17. Higher capex was mainly spent on XL (+69.6%yoy) and Robi (+35.8%yoy).

Impact. We made no changes to FY18 and FY19 EBITDA estimates. However, we are reducing FY18 and FY19 earnings estimates by -6.1% and -6.3% respectively as we input high loss of from associates and lower contributions from Smart.

Target price. We are rolling forward our valuation base year to FY19 and derive a new target price of **RM5.49** (previously RM5.31). This is premised on pegging FY19 EBITDA to 7.5x EV/EBITDA, which is the group's 5-year historical average. To recall, we view that our valuation methodology would better reflect the group's effort to continuously repeat the industry s-curves cycle via active M&A activities.

Maintain NEUTRAL

Unchanged Target Price (TP): RM5.49
(previously RM5.31)


RETURN STATS	
Price (22 nd May 2018)	RM5.07
Target Price	RM5.49
Expected Share Price Return	+8.3%
Expected Dividend Yield	+1.7%
Expected Total Return	+10.0%

STOCK INFO	
KLCI	1,845.03
Bursa / Bloomberg	6888 / Axiata MK
Board / Sector	Main/ Services
Syariah Compliant	Yes
Issued shares (mil)	9,049.7
Market cap. (RM'm)	45,882.2
52-wk price Range	RM4.54 – RM5.82
Beta (against KLCI)	1.65
3-mth Avg Daily Vol	3.9m
3-mth Avg Daily Value	RM20.9m
Major Shareholders (%)	
Khazanah	36.25
EPF	16.71
ASB	16.34
KWAP	3.45
LTH	2.58

Table 1: EBITDA performance of main operating companies (Post-MFRS15)

Segment	1QFY18 (RM'm)	1QFY17 (RM'm)	Change (%YoY)	Remarks
Celcom (Malaysia)	456.6	530.5	-13.9	Impacted by the adoption of MFRS15
XL Axiata (Indonesia)	603.0	632.1	-4.6	SIM registration process outpace the increase in data revenue
Dialog (Sri Lanka)	252.5	212.5	18.8	Growth across key business segments and savings on operational costs
Robi (Bangladesh)	182.5	154.0	18.5	Lower device costs and positive costs impact of MFRS15 adoption
Smart (Cambodia)	118.5	161.4	-26.6	Continuing intense price war competition
Ncell (Nepal)	342.6	385.5	-11.1	Decline in revenue from International Long Distance (ILD)

Source: Company, MIDFR

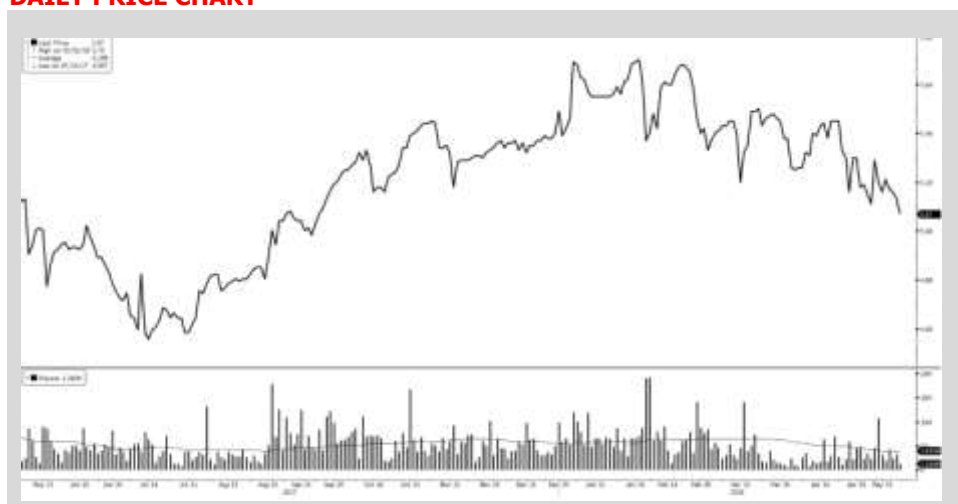
Maintain NEUTRAL. The performance of the group's main operating segments has been under pressure. Nonetheless, our primary concern lies with Celcom's future prospects mainly due to pricing pressure in view of the competitive mobile landscape and tax and regulatory uncertainties. Meanwhile, Idea has performed much worse than expected due to the introduction of GST and unrelenting pressure on pricing. This is further impact by the sharp reduction in the interconnection usage charge rates. With the active merger & acquisition activities the group are currently embarking on, we opine that dividend payout could be capped. All factors considered, we reiterate our **NEUTRAL** recommendation on the stock. 

INVESTMENT STATISTICS

FYE 31 st Dec	FY16	FY17	FY18F	FY19F
Revenue (RM m)	21,565.4	24,402.0	24,676.7	25,223.0
EBITDA (RMm)	8,013.0	9,230.0	9,355.4	9,476.1
EBIT (RM m)	2,127.5	3,000.0	3,494.9	3,639.5
Pretax Profit (RMm)	1,139.6	1,936.2	2,139.7	2,190.1
PATAMI (RM m)	504.3	909.5	1,145.8	1,166.3
Normalised PATAMI (RM'm)	1,418.0	1,205.0	1,145.8	1,166.3
Normalised EPS (sen)	15.9	13.3	15.7	16.1
EPS Growth (%)	-33.0	-16.1	17.8	2.3
PER (x)	32	38	32	31
Net Dividend (sen)	8	8.5	8	8.5
Net Dividend (%)	1.6	1.7	1.6	1.7

Source: Company, MIDFR

DAILY PRICE CHART



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Axiata: 1QFY18 RESULTS SUMMARY

<i>(All in RM'm unless stated otherwise)</i>	Quarterly Results				
FYE 31 st Dec	1QFY18	1QFY17	% YoY	4QFY17	% QoQ
Revenue	5,748	5,881	-2.3	6,261	-8.2
EBITDA	2,036	2,154	-5.5	2,325	-12.4
EBIT	602	616	-2.4	641	-6.2
Finance costs (include forex impact)	-177	-255	-30.3	-167	6.3
Finance income	61	61	0.0	63	-2.7
Joint controlled entities' results	0	-19	n.m.	-2	n.m.
Associates' results	-444	-11	n.m.	-125	n.m.
PBT	42	392	-89.4	411	-89.8
Taxation	-136	-130	4.4	-308	n.m.
PAT	-94	262	-136.0	102	-192.2
MI	-53	-23	130.5	-78	-31.6
PATAMI	-147	239	n.m.	25	n.m.
Normalised PATAMI	200	291	-31.3	209	-4.3
Normalised EPS (sen)	2.2	3.2	-31.9	2.3	-4.5
			+/- ppts		+/- ppts
EBITDA margin (%)	35.4	36.6	-1.2	37.1	-1.7
Normalised PATAMI margin (%)	3.5	4.9	-1.5	3.3	0.1
Effective tax rate (%)	n.m.	33.2	n.m.	75.1	n.m.

Source: Company, 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 <i>rise</i> 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 <i>fall</i> 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.