

27 August 2018 | 2QFY18 Results Review

Axiata Group Berhad

Mixed 1HFY18 results

INVESTMENT HIGHLIGHTS

- **1HFY18 EBITDA of RM4.1b (-7.9%yoy) came in lower than ours and consensus expectations**
- **Leading to lower 1HFY18 normalised earnings of RM591m, a decrease of -24.1%yoy**
- **Underperformance from the group's main operating companies i.e. Celcom, XL Axiata, Smart and Ncell**
- **Maintain NEUTRAL with a revised target price of RM4.86**

1HFY18 EBITDA failed to keep pace with our expectation.

Axiata's 1HFY18 EBITDA reduced by -7.9%yoy to RM4,080m. The reduction was mainly attributable to lower contribution from Celcom, XL Axiata, Smart and Ncell (*refer to Table 1*). This came in below ours and consensus' expectations, accounting for 43.6% and 44.1% of full year FY18 EBITDA estimates respectively.

In-tandem, 1HFY18 normalised earnings trended lower. Axiata Group Bhd (Axiata) reported 1HFY18 loss of RM3,505m. After adjusting for exceptional items, the bulk of which came from one-off provision of loss on its investment in India of RM3,379.9m, 1HFY18 normalised earnings amounted to RM591m (-24.1%yoy). This was impacted by digital investments (-RM135m), higher depreciation and amortisation expenses (-RM29m) and tax credit in previous years (-RM54m).

Higher capital spending. Axiata's 1HFY18 capital expenditure (capex) increased by +10.2%yoy to RM3,193m to advocate its data leadership strategy. This led to higher capex-to-revenue ratio (capex intensity) of 27% as oppose to 24% attained in 1HFY17. Higher capex was mainly spent on Celcom (+31.6%yoy), XL (+13.1%yoy) and Robi (+11.6%yoy).

Dividend. Axiata's 1HFY18 dividend declared amounted to 5 sen. This constitutes 55.5% of our full year FY18 dividend estimates of 9 sen.

Impact on earnings estimates. We are reducing the EBITDA contribution primarily from Celcom and XL to better reflect the results thus far. As a result, FY18 and FY19 EBITDA estimates were reduced by -6.3% and -3.9% respectively. Consequently, FY18 and FY19 earnings estimates were revised downwards by -8.1% and -6.8% respectively.

Maintain NEUTRAL

Revised Target Price (TP): RM4.86
(previously RM5.49)

RETURN STATS	
Price (24 August 2018)	RM4.72
Target Price	RM4.86
Expected Share Price Return	+3.0%
Expected Dividend Yield	+2.1%
Expected Total Return	+5.1%


STOCK INFO	
KLCI	1,808.59
Bursa / Bloomberg	6888 / Axiata MK
Board / Sector	Main/ Services
Syariah Compliant	Yes
Issued shares (mil)	9,069.7
Market cap. (RM'm)	42,809.0
52-wk price Range	RM3.76 – RM5.82
Beta (against KLCI)	1.85
3-mth Avg Daily Vol	5.3m
3-mth Avg Daily Value	RM23.1m
Major Shareholders (%)	
Khazanah	36.23
EPF	16.70
ASB	16.16
KWAP	4.18
LTH	2.64

Table 1: EBITDA performance of main operating companies

Segment	1HFY18 (RM'm)	1HFY17 (RM'm)	Change (%YoY)	Remarks
Celcom (Malaysia)	951.6	1,102.4	-13.7	Change in revenue mix and higher staff cost
XL Axiata (Indonesia)	1,214.1	1,339.4	-9.4	Unfavourable forex translation impact
Dialog (Sri Lanka)	525.0	444.0	18.2	Growth across all business segments (mobile: +15.8%yoy; fixed: +24.5%yoy; Pay-TV operations: +5.6%yoy)
Robi (Bangladesh)	330.0	297.0	11.1	Lower network related cost and overheads cost
Smart (Cambodia)	246.9	310.5	-20.5	Continuing intense price war competition and increased regulatory charges
Ncell (Nepal)	691.8	784.5	-11.8	Lower revenue from International Long Distance (ILD)
Edotco (Malaysia)	320.4	301.4	6.3	Higher no. of towers (+11.1%yoy) and higher no. of site managed (+4.1%yoy)

Source: Company, MIDFR

Target price. Subsequent to our downward adjustment in EBITDA, we are deriving a revised target price of **RM4.86** (previously RM5.49). This is premised on pegging revised FY19 EBITDA to updated EV/EBITDA multiple of 6.9x (previously 7.5x), which is the group's 2-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.

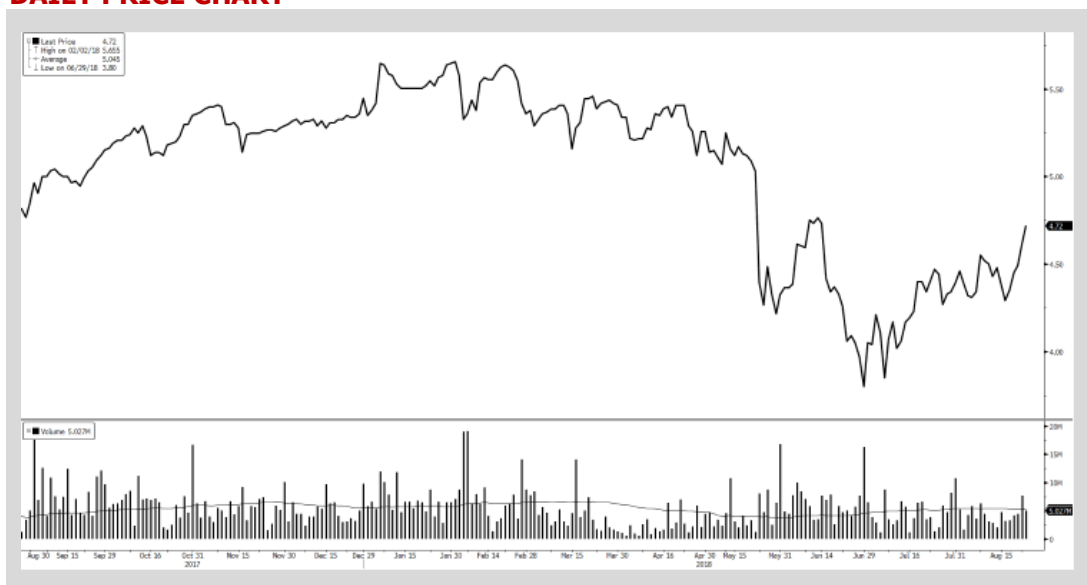
Maintain NEUTRAL. We view that Axiata's strategy of having regional presence bear mixed results for the group. It exposes the group to various regulatory issues and execution risks for each of the country the group operates in. At this juncture, our primary concern lies with the performance of Celcom and XL Axiata which contributes slightly more than half of the group's EBITDA. In addition, given its upbeat capex investment, we view that dividend yield is less attractive as compared to its listed peers. All factors considered, we are reiterating 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	24,218.4	24,501.5
EBITDA (RMm)	8,013.0	9,230.0	8,770.3	9,106.3
EBIT (RM m)	2,127.5	3,000.0	3,331.4	3,517.6
Pretax Profit (RMm)	1,139.6	1,936.2	1,996.3	2,068.2
PATAMI (RM m)	504.3	909.5	1,052.6	1,087.1
Normalised PATAMI (RM'm)	1,418.0	1,205.0	1,052.6	1,087.1
Normalised EPS (sen)	15.9	13.3	14.7	15.2
EPS Growth (%)	-33.0	-16.1	9.9	3.6
PER (x)	30	35	32	31
Net Dividend (sen)	8	8.5	9	10
Net Dividend (%)	1.7	1.8	1.9	2.1

Source: Company, MIDFR

DAILY PRICE CHART



Martin Foo Chuan Loong
martin.foo@midf.com.my
+603 2173 8354

AXIATA GROUP BHD: 2QFY18 RESULTS SUMMARY

<i>(All in RM'm unless stated otherwise)</i>	Quarterly Results					
FYE 31 st Dec	2Q18	% YoY	% QoQ	2018	2017	%
Revenue	5,867	-3.2	2.1	11,615	11,940	-2.7
EBITDA	2,043	-10.2	0.3	4,080	4,428	-7.9
EBIT	-2,596	n.m.	n.m.	-1,994	1,681	n.m.
Finance costs (include forex impact)	-517	122.9	191.2	-694	-487	42.7
Finance income	53	-0.3	-12.9	115	-94	n.m.
Joint controlled entities' results	0	-101.0	n.m.	0	-36	n.m.
Associates' results	1	-101.3	-100.3	-442	-99	n.m.
PBT	-3,058	n.m.	n.m.	-3,017	964	n.m.
Taxation	-259	181.4	n.m.	-396	-222	77.8
PAT	-3,318	n.m.	n.m.	-3,412	741	n.m.
MI	-40	-44.9	-25.3	-93	-95	-2.3
PATAMI	-3,357	n.m.	n.m.	-3,505	646	n.m.
Normalised PATAMI	391	-19.9	95.5	591	779	-24.1
Normalised EPS (sen)	4.3	-20.5	95.5	7	9	-24.8
		+/- ppts	+/- ppts			+/- ppts
EBITDA margin (%)	34.8	-2.7	-0.6	35	37	-2.0
Normalised PATAMI margin (%)	6.7	-1.4	3.2	5	7	-1.4
Effective tax rate (%)	-8.5	-24.6	-334.9	-13	23	-36.2

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.