

24 November 2017 | 3Q17 Results Review

Axiata Group Berhad

Idea's outlook deteriorates further

Maintain NEUTRAL

Revised Target Price (TP): RM5.43
(previously RM5.28)

INVESTMENT HIGHLIGHTS

- **9M17 normalised earnings came in -25.7%yoy to RM996m**
- **The lower earnings was mainly attributable to losses from Idea, dilution from Robi-Airtel merger and lower contribution from Celcom**
- **Nonetheless, capital spending commitment remain intact with capex intensity at 24%**
- **Maintain NEUTRAL with a revised target price of RM5.43**

Losses at Idea impacted 3Q17 financial performance. Axiata Group Bhd (Axiata) 3Q17 normalised earnings came in at RM352m, a decrease of -30.4%yoy. The decline was mainly attributable to widening losses at Idea (India) and higher effective tax rate. The Indian mobile industry remained challenging in a seasonally slow quarter with unrelenting pressure on pricing and regulatory changes (i.e. introduction of GST).

9M17 normalised earnings weaker than expected. Cumulatively, 9M17 normalised earnings amounted to RM996m. This translates into a reduction of -25.7%yoy. Note that the normalised earnings has been adjusted for forex gain (RM62m), XL gain on disposal of towers (RM69m) and others (RM242m). The lower normalised earnings was mainly impacted by losses from Idea, dilution from Robi-Airtel merger and lower contribution from Celcom. All in, the group's 9M17 normalised earnings came in lower than our but above consensus expectations, accounting for 66.4% and 77.0% of FY17 full year earnings estimates respectively.

Nonetheless, 9M17 EBITDA improved. Axiata's 9M17 EBITDA grew by +14.5%yoy to RM6,905m. The improvement in EBITDA was mainly attributable to Ncell consolidation, higher contribution from Dialog, XL, Smart and edotco. To recall, the acquisition of Ncell was completed in April 2016.

Capital expenditure (capex) rises further. The group's 9M17 capex increased by +12.4% yoy to RM4,316m, in-tandem with the rise in revenue. As such, the group's capex-to-revenue ratio (capex intensity) remained at 24%. Higher capex was mainly spent on XL (+26.9% yoy) and dialog (+10.3% yoy).

RETURN STATS	
Price (23 rd November 2017)	RM5.30
Target Price	RM5.43
Expected Share Price Return	+2.5%
Expected Dividend Yield	+1.9%
Expected Total Return	+4.4%

STOCK INFO	
KLCI	1,721.27
Bursa / Bloomberg	6888 / Axiata MK
Board / Sector	Main/ Services
Syariah Compliant	Yes
Issued shares (mil)	9,047.7
Market cap. (RM'm)	47,952.9
52-wk price Range	RM4.11 – RM5.47
Beta (against KLCI)	1.36
3-mth Avg Daily Vol	6.5m
3-mth Avg Daily Value	RM33.5m
Major Shareholders (%)	
Khazanah	36.31
ASB	16.34
EPF	15.70
KWAP	3.45
LTH	2.58


Table 1: EBITDA performance of main operating companies

Segment	9M17 (RM'm)	9M16 (RM'm)	Change (%YoY)	Remarks
Celcom (Malaysia)*	1,722	1,719	0.2	Savings in operational costs
XL Axiata (Indonesia)	2,091	2,000	4.6	Strong data revenue growth
Dialog (Sri Lanka)	707	612	15.5	Growth in data revenue
Robi (Bangladesh)	503	650	-22.6	Deconsolidation of edtoco Bangladesh and the inclusion of lower margin business operations from the Airtel business.
Smart (Cambodia)	456	392	16.3	Strong performance in data revenue
Ncell (Nepal)	1,149	623	84.4	Consolidation takes place in April 2016

Source: Company, MIDFR

Impact. We are raising EBITDA contribution from Ncell and Smart. As a result, FY17 and FY18 EBITDA estimates have been revised upwards to RM9,308.2m and RM9,505.4m respectively. However, we are imputing higher losses primarily for Idea. This led to lower FY17 and FY18 earnings estimates of RM1,323.0m and RM1,382.8m respectively.

Target price. Due to the upward EBITDA revision, we are revising our target price to **RM5.43** (previously RM5.28). This is premised on pegging FY18 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.

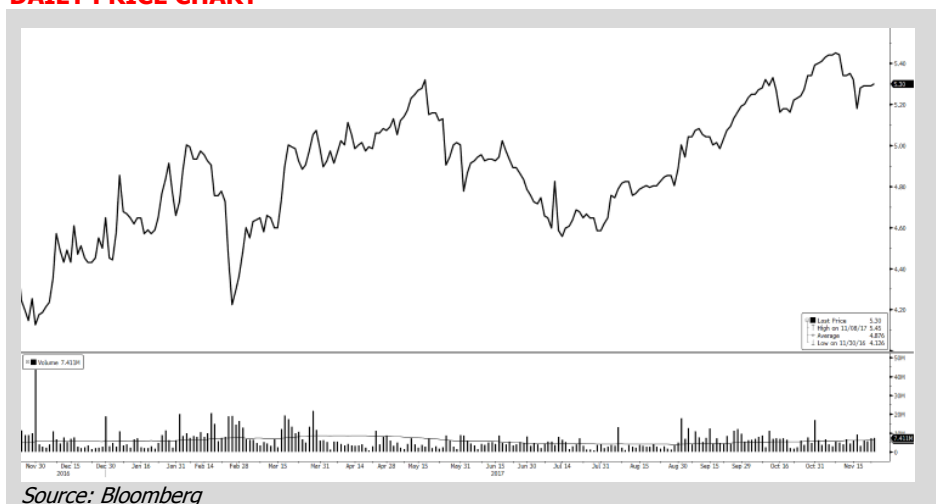
Maintain NEUTRAL. The performance of the group's main operating segments has been under pressure. Nonetheless, our primary concern lies with Celcom's future prospects mainly due to pricing pressure in view of the competitive mobile landscape and tax and regulatory uncertainties. Meanwhile, Idea has performed much worse than expected due to the introduction of GST and unrelenting pressure on pricing. 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	FY15	FY16	FY17F	FY18F
Revenue (RM m)	19,833.5	21,565.4	23,970.0	24,676.7
EBITDA (RMm)	7,284.0	8,013.0	9,308.2	9,505.4
EBIT (RM m)	4,102.6	2,127.5	3,473.6	3,544.9
Pretax Profit (RMm)	3,331.1	1,139.6	2,255.5	2,325.5
PATAMI (RM m)	2,554.2	504.3	1,323.0	1,382.8
Normalised PATAMI (RM'm)	2,071.2	1,418.0	1,323.0	1,382.8
Normalised EPS (sen)	23.7	15.9	17.6	18.4
EPS Growth (%)	-9.2	-33.0	10.7	4.6
PER (x)	22	33	30	29
Net Dividend (sen)	20	8	9	10
Net Dividend (%)	3.8	1.5	1.7	1.9

Source: Company, MIDFR

DAILY PRICE CHART



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Axiata: 3Q17 RESULTS SUMMARY

<i>(All in RM'm unless stated otherwise)</i>	Quarterly Results					
FYE 31 st Dec	3Q17	% YoY	% QoQ	2017	2016	%
Revenue	6,202	13.6	2.4	18,141	15,776	15.0
EBITDA	2,477	18.4	8.9	6,905	6,030	14.5
EBIT	867	5.6	1.4	2,359	2,103	12.2
Finance costs (include forex impact)	-248	n.m.	6.8	-734	-901	-18.5
Finance income	84	32.8	57.6	179	128	39.6
Joint controlled entities' results	-11	-56.0	-39.2	-47	-64	-27.0
Associates' results	-131	-745.4	49.0	-231	147	-256.6
PBT	562	24.5	-1.6	1,526	1,413	8.0
Taxation	-243	56.0	n.m.	-465	-484	-3.8
PAT	319	7.9	-33.4	1,060	929	14.1
MI	-81	105.5	12.1	-175	-115	51.9
PATAMI	239	-7.0	-41.4	885	814	8.7
Normalised PATAMI	352	-30.4	-0.3	996	1,341	-25.7
Normalised EPS (sen)	3.9	-31.0	-0.9	11	15	-26.7
		+/- ppts	+/- ppts			+/- ppts
EBITDA margin (%)	39.9	1.6	2.4	38	38	-0.2
Normalised PATAMI margin (%)	5.7	-3.6	-0.2	5	8	-3.0
Effective tax rate (%)	43.2	8.7	27.1	31	34	-3.7

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.