

26 November 2018 | 3QFY18 Results Review

Axiata Group Berhad

Resilient 9MFY18 EBITDA

Maintain NEUTRAL

Revised Target Price (TP): RM3.56
(previously RM4.86)

INVESTMENT HIGHLIGHTS

- **9MFY18 normalised EBITDA grew marginally by +1.6%yoy to RM7,017m, in-line with ours and consensus estimates**
- **Higher contribution from Dialog and Robi was partially offset by underperformance from Celcom and Smart**
- **Maintaining capex intensity at 24%, with focus on digital and network investments**
- **Maintain NEUTRAL with a revised target price of RM3.56 with a lower EV/EBITDA multiple target of 5.6x**

In-line with expectation. Axiata Group Bhd's (Axiata) 3QFY18 normalised EBITDA amounted to RM2,208m, a decrease of -8.2%yoy. This led to minimal year-over-year growth (+1.6%yoy) in 9MFY18 normalised EBITDA to RM7,017m. This was mainly attributable to higher contribution from Dialog and Robi which was partially restrained by lower contribution from Celcom and Smart (refer to table 1). All in, the 9MFY18 normalised EBITDA performance came in within ours and consensus expectations, accounting for 80.0% and 79.0% of full year FY18 EBITDA estimates respectively.

9MFY18 normalised earnings performance deteriorate further. Meanwhile, Axiata's 9MFY18 normalised earnings equal to RM967m, a reduction of -24.9%yoy. This was negatively impacted by higher depreciation (-RM453m), interest rate hike (-RM91m) and digital investments (-RM131m).

Steady capital spending. Axiata's 9MFY18 capital expenditure (capex) decreased slightly by -1.6%yoy to RM4,249m, in-tandem with lower 9MFY18 revenue (-2.9%yoy). Focus of spending was primarily on both digital and network investments. This resulted in stable capex-to-revenue ratio (capex intensity) of 24%, in comparison with the previous corresponding period. Notable reduction in capex was seen stemming from Ncell (-75.4%yoy).

Impact on earnings estimates. We are maintaining our FY18 and FY19 EBITDA assumptions at this juncture. However, we are adjusting the minority interest portion to better reflect the results thus far. All in, our FY18 and FY19 earnings estimates has been revised to RM1,194.8m and RM1,123.1m respectively.

RETURN STATS	
Price (23 rd November 2018)	RM3.41
Target Price	RM3.56
Expected Share Price Return	+4.4%
Expected Dividend Yield	+2.5%
Expected Total Return	+6.9%

STOCK INFO	
KLCI	1,695.88
Bursa / Bloomberg	6888 / Axiata MK
Board / Sector	Main/ Services
Syariah Compliant	Yes
Issued shares (mil)	9,070.98
Market cap. (RM'm)	30,932
52-wk price Range	RM3.20 – RM5.82
Beta (against KLCI)	1.84
3-mth Avg Daily Vol	5.58m
3-mth Avg Daily Value	RM22.4m
Major Shareholders (%)	
Khazanah	37.17
EPF	16.33
ASB	16.15
KWAP	4.18
LTH	2.64

Target price. We are deriving a revised target price of **RM3.56** (previously RM4.86). This is premised on pegging revised FY19 EBITDA to updated EV/EBITDA multiple of 5.6x (previously 6.9x), which is one standard deviation below the group's 2-year historical average of 6.8x. We opine that the lower EV/EBITDA multiple reflects the on-going challenging external environment and market specific issues.

Table 1: EBITDA performance of main operating companies

Segment	9MFY18 (RM'm)	9MFY17 (RM'm)	Change (%YoY)	Remarks
Celcom (Malaysia)	1,626	1,722	-5.6	Provision for employee life plan and change in revenue mix
XL Axiata (Indonesia)	2,117	2,091	1.2	Stable revenue post implementation of prepaid sim registration
Dialog (Sri Lanka)	837	707	18.4	Higher revenue coupled with controlled spending
Robi (Bangladesh)	621	503	23.5	Growth in data revenue and lower operating cost
Smart (Cambodia)	425	456	-6.8	Higher operating cost while revenue remain stable
Ncell (Nepal)	1138	1,149	-1.0	Increase in telecom service charge

Source: Company, MIDFR

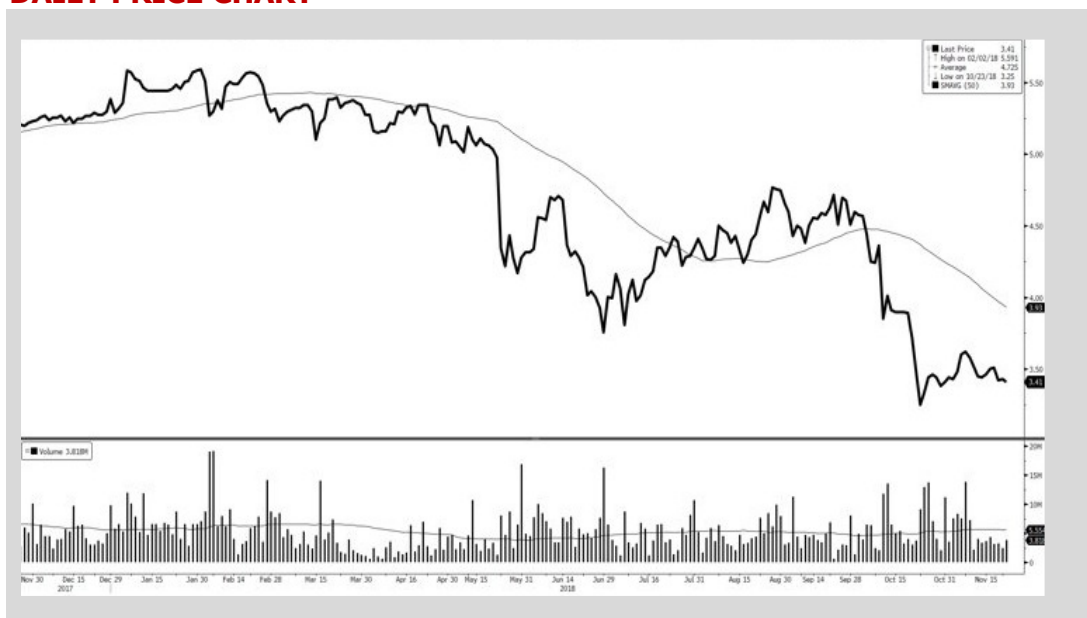
Maintain NEUTRAL. We view that Axiata's strategy of having regional presence bear mixed results for the group. It exposes the group to various regulatory issues and execution risks as well as exposure to unfavourable impact on forex translation for each of the country the group operates in. Nonetheless, our primary concern lies with the performance of Celcom, XL Axiata and Ncell which formed the bulk 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	3,496.4	3,682.6
Pretax Profit (RMm)	1,139.6	1,936.2	2,161.3	2,233.2
PATAMI (RM m)	504.3	909.5	1,194.8	1,231.1
Normalised PATAMI (RM'm)	1,418.0	1,205.0	1,194.8	1,231.1
Normalised EPS (sen)	15.9	13.3	15.9	16.4
EPS Growth (%)	-33.0	-16.1	19.0	3.3
PER (x)	21	26	21	21
Net Dividend (sen)	8	8.5	8.5	8.5
Net Dividend (%)	2.3	2.5	2.5	2.5

Source: Company, MIDFR

DAILY PRICE CHART



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AXIATA GROUP BHD: 3QFY18 RESULTS SUMMARY

<i>(All in RM'm unless stated otherwise)</i>	Quarterly Results					
FYE 31 st Dec	3Q18	% YoY	% QoQ	2018	2017	%
Revenue	6,003	-3.2	2.3	17,619	18,141	-2.9
Normalised EBITDA	2,208	-8.2	0.1	7,017	6,905	1.6
EBITDA	2,171	-12.4	6.3	6,251	6,905	-9.5
EBIT	815	-6.0	-131.4	-1,179	2,359	-150.0
Finance costs (include forex impact)	-488	97.2	-5.5	-1,183	-734	61.1
Finance income	51	-39.9	-4.9	165	179	-7.5
Joint controlled entities' results	1	n.m.	n.m.	1	-47	n.m.
Associates' results	3	n.m.	n.m.	-439	-231	90.5
PBT	382	-32.1	-112.5	-2,635	1,526	-272.7
Taxation	-196	-19.3	-24.4	-592	-465	27.1
PAT	186	-41.9	-105.6	-3,227	1,060	-404.3
MI	-53	-33.6	34.9	-146	-175	-16.7
PATAMI	132	-44.6	-103.9	-3,373	885	-481.2
Normalised PATAMI	318	-37.4	46.5	967	1,287	-24.9
Normalised EPS (sen)	3.5	-37.9	46.3	11	14	-25.5
		+/- ppts	+/- ppts			+/- ppts
EBITDA margin (%)	36.2	-3.8	1.3	35	38	-2.6
Normalised PATAMI margin (%)	5.3	-2.9	1.6	5	7	-1.6
Effective tax rate (%)	51.4	8.2	59.9	-22	31	-53.0

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.