midf RESEARCH

23 February 2018 | 4Q17 Results Review

Axiata Group Berhad

FY17 EBITDA trended higher

***Maintain* NEUTRAL**

***Revised* Target Price (TP): RM5.31**
(*previously RM5.43*)

INVESTMENT HIGHLIGHTS

- **FY17 normalised earnings impacted by poorer performance from Idea, Celcom and dilution from Robi-Airtel merger**
- **Nonetheless, FY17 EBITDA grew strongly by +15.2%yoy due to higher contribution across all operating companies, with the exception of Robi**
- **Higher capital spending in FY17 for XL and Smart**
- **Maintain NEUTRAL with a revised target price of RM5.31**

Surge in 4Q17 normalised earnings. Axiata Group Bhd (Axiata) 4Q17 normalised earnings came in at RM209m, an increase of +171.4%yoy. The increase was mainly due higher topline growth (+8.1%yoy), primarily from XL (+5.7%yoy) and Ncell (+52.8%).

FY17 normalised earnings trended lower. Cumulatively, FY17 normalised earnings amounted to RM1,205m. This translates into a reduction of -15.0%yoy. Note that the normalised earnings has been adjusted for forex gain (RM166m), XL gain on disposal of towers (RM91m) and others (RM553m). The lower normalised earnings was mainly impacted by losses from Idea, dilution from Robi-Airtel merger and lower contribution from Celcom.

Double digit growth in FY17 EBITDA. Axiata's FY17 EBITDA grew by +15.2%yoy to RM9,230m. 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. This accounts for 99.1% and 101.8% of ours and consensus FY17 EBITDA estimates respectively.

Modest increase in capital expenditure (capex). The group's FY17 capex increased by +2.0%yoy to RM6,265m. This led to lowr s capex-to-revenue ratio (capex intensity) of 26% as oppose to 29% achieved in FY16. Higher capex was mainly spent on XL (+5.9%yoy) and Smart (+92.6%yoy).

Impact. We are fine-tuning the FY18 EBITDA contribution from Robi and Celcom. As a result, our FY18 EBITDA estimates have been revised slightly lower by -1.6%. This is also in-line with the management guidance for FY18. We are also imputing higher losses primarily for Robin and higher effective tax rate at the group level. This led to lower FY18 earnings of RM1,220.2m.

RETURN STATS	
Price (23rd February 2018)	RM5.67
Target Price	RM5.31
Expected Share Price Return	-6.3%
Expected Dividend Yield	+1.6%
Expected Total Return	**-4.7%**

STOCK INFO	
KLCI	1,855.07
Bursa / Bloomberg	6888 / Axiata MK
Board / Sector	Main/ Services
Syariah Compliant	Yes
Issued shares (mil)	9,048.3
Market cap. (RM'm)	51,303.8
52-wk price Range	RM4.24 – RM5.82
Beta (against KLCI)	1.55
3-mth Avg Daily Vol	6.3m
3-mth Avg Daily Value	RM34.3m
Major Shareholders (%)	
Khazanah	37.26
ASB	16.34
EPF	16.53
KWAP	3.45
LTH	2.58

Table 1: EBITDA performance of main operating companies

Segment	FY17 (RM'm)	FY16 (RM'm)	Change (%YoY)	Remarks
Celcom (Malaysia)	2318	2304	0.6	Savings in operational costs
XL Axiata (Indonesia)	2762	2612	5.7	Strong data revenue growth
Dialog (Sri Lanka)	955	828	15.3	Growth in data revenue
Robi (Bangladesh)	693	758	-8.6	Deconsolidation of Edotco Bangladesh and the inclusion of lower margin business operations from the Airtel business.
Smart (Cambodia)	589	538	9.5	Strong performance in data revenue
Ncell (Nepal)	1561	1021	52.9	Discipline on cost. (Note that the consolidation takes place in April 2016)

Source: Company, MIDFR

Target price. We are revising our target price to **RM5.31** (previously RM5.43). 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.

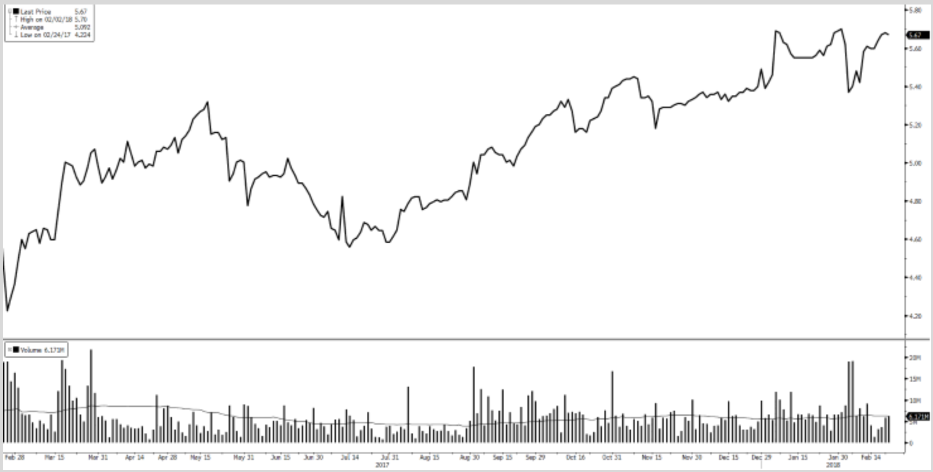
Maintain NEUTRAL. The performance of the group's main operating segments has been under pressure. Nonetheless, our primary concern lies with Celcom's future prospects mainly due to pricing pressure in view of the competitive mobile landscape and tax and regulatory uncertainties. Meanwhile, Idea has performed much worse than expected due to the introduction of GST and unrelenting pressure on pricing. 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 31st 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	2,254.1	2,310.1
PATAMI (RM m)	504.3	909.5	1,220.2	1,244.3
Normalised PATAMI (RM'm)	1,418.0	1,205.0	1,220.2	1,244.3
Normalised EPS (sen)	15.9	13.3	16.6	17.0
EPS Growth (%)	-33.0	-16.1	24.1	2.5
PER (x)	36	42	34	33
Net Dividend (sen)	8	8.5	9	10
Net Dividend (%)	1.4	1.5	1.6	1.8

Source: Company, MIDFR

DAILY PRICE CHART



Source: Bloomberg

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Axiata: 4Q17 RESULTS SUMMARY

(All in RM'm unless stated otherwise)	**Quarterly Results**					
FYE 31st Dec	**4Q17**	**% YoY**	**% QoQ**	**2017**	**2016**	**%**
Revenue	6,261	8.1	1.0	24,402	21,565	13.2
EBITDA	2,325	17.2	-6.1	9,230	8,013	15.2
EBIT	641	2.7	-26.1	3,000	2,727	10.0
Finance costs (include forex impact)	-167	-81.5	-32.6	-901	-1,801	-49.9
Finance income	63	14.0	-25.4	242	183	31.9
Joint controlled entities' results	-2	-93.7	-81.1	-49	-96	-48.9
Associates' results	-125	475.8	-5.1	-355	126	-382.6
PBT	411	-250.0	-27.0	1,936	1,140	69.9
Taxation	-308	-19,611.2	n.m.	-774	-482	60.4
PAT	102	-137.6	-67.9	1,162	657	76.9
MI	-78	107.2	-3.7	-253	-153	65.5
PATAMI	25	-108.0	-89.6	909	504	80.4
Normalised PATAMI	209	171.4	-40.6	1,205	1,418	-15.0
Normalised EPS (sen)	2.3	168.7	-40.9	13	16	-16.1
		+/- ppts	+/- ppts			+/- ppts
EBITDA margin (%)	37.1	2.9	-2.8	38	37	0.7
Normalised PATAMI margin (%)	3.3	2.0	-2.3	5	7	-1.6
Effective tax rate (%)	75.1	74.5	31.9	40	42	-2.4

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 *rise* 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 *fall* 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.