

Axiata Group Berhad

(6888 | Axiata MK) Telecommunications & media | Telecommunications service providers

In Absence of Celcom as Wholly Owned Subsidiary

Maintain NEUTRAL

Unchanged Target Price: RM2.62

KEY INVESTMENT HIGHLIGHTS

- **Maintain Neutral with an unchanged target price of RM2.62 post the 2QFY23 results announcement**
- **The deconsolidation of Celcom led to 2QFY23 normalised earnings of merely RM44m (-86.7%yoy)**
- **Cumulative 1HFY23 normalised earnings of RM127m failed to keep pace with our expectation as only XL, Robi and Smart outperformed**
- **We expect 2HFY23 to be better, supported by symbiotic relationship between XL and Linknet as well as the enlarged Dialog**

Partially deprived of Celcom. We are keeping our Neutral recommendation on Axiata with an unchanged SOP-derived target price of RM2.62 post the announcement of 2QFY23 results. Evidently, the group has yet been able to fill the void subsequent to the deconsolidation of Celcom. Moreover, there is mixed performance from its existing operating companies. Nonetheless, we anticipate better recovery from its Indonesian and Sri Lanka operations in 2HFY23.

Appalling 2QFY23. Axiata's 2QFY23 normalised earnings came in at RM44m, a decline of -86.7%yoy. This was mainly caused by the surge in depreciation, impairment and amortization and higher net finance cost.


This led to 1HFY23 normalised earnings of RM127m, a contraction of -81.9%yoy. Notably, there is a loss of contribution from Celcom post the deconsolidation exercise. This is further exacerbated by underperformance from several of its existing operating companies (*refer to figure 1*).

Figure 1: Segmental normalised earnings performance

Segment	1HFY22	1HFY23	Change (%)	Remark
CDB	542	228	-57.9	Deconsolidation of Celcom
XL Axiata (Indonesia)	69	86	24.6	Lift in ARPU due to sustained pricing environment and lebaran boost
Link Net (Indonesia)	0	-33	-	Higher device and marketing cost, bad debt, D&A and net finance cost
Dialog (Sri Lanka)	78	-7	-109.0	Higher operating costs
Robi (Bangladesh)	26	35	34.6	Higher subscriber growth and ARPU expansion
Smart (Cambodia)	118	145	22.9	increased in prepaid, international business revenues and inbound roaming
Ncell (Nepal)	81	13	-84.0	Impacted by prior year tax adjustments
Edotco (Malaysia)	111	12	-89.2	
ADA & Boost	-67	-85	-26.9	Lower customer marketing spend and higher opex and net finance cost

Source: Company, MIDFR

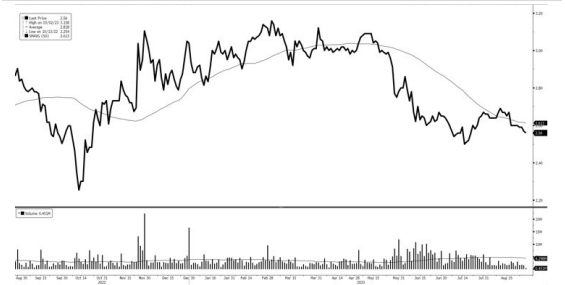
All in, Axiata 1HFY23 financial performance failed to keep pace with our expectation, making up approximately 16% of our full year FY23 earnings estimates.

Slight downward revision in earnings. We are inputting a more conservative assumption for the associate contribution to better reflect the group's results thus far. As a result, FY23 and FY24 earnings estimates have been revised by -6.4% and -2.5% respectively. Note that there is no change to our SOP-derived target price of RM2.62. 

RETURN STATISTICS

Price @ 29 th August 2023 (RM)	2.58
Expected share price return (%)	+1.6
Expected dividend yield (%)	+3.9
Expected total return (%)	+5.5

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-3.4	-2.9
3 months	-3.4	-14.5
12 months	-14.4	-11.0

INVESTMENT STATISTICS

FYE Dec	2023E*	2024F	2025F
Revenue	21,053.1	21,779.1	22,551.6
Operating Profit	2,683.7	3,016.8	3,204.0
Profit Before Tax	1,461.4	1,879.8	2,217.5
Core PATAMI	747.1	894.2	1,102.1
Core EPS	8.1	9.7	12.0
DPS	8.0	10.0	11.0
Dividend Yield	3.1	3.9	4.3

KEY STATISTICS

FBM KLCI	1,454.44
Issue shares (m)	9178.95
Estimated free float (%)	24.85
Market Capitalisation (RM'm)	23,498.12
52-wk price range	RM2.31-RM3.23
3-mth average daily volume (m)	4.56
3-mth average daily value (RM'm)	12.10
Top Shareholders (%)	
Khazanah Nasional Bhd	36.73
Employees Provident Fund Board	17.64
Amanah Saham Nasional Bhd	14.77

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AXIATA GROUP BHD: 2QFY23 RESULTS SUMMARY

FYE 31st December (in RM'm, unless otherwise stated)	Quarterly			Annual		
	2Q23	% YoY	%QoQ	FY23	FY22	%YoY
Revenue	5,994.5	15.3	11.4	11,373.2	10,181.5	11.7
EBITDA	2,432.6	31.0	0.5	4,451.0	3,671.0	21.2
Depreciation and amortisation	-2,697.1	65.8	48.8	-4,510.0	-3,234.8	39.4
EBIT	-264.5	-214.5	-143.5	-59.0	436.1	-113.5
Finance costs	-721.4	80.0	34.4	-1,258.3	-769.4	63.5
Finance income	76.9	49.1	-8.3	160.8	96.4	66.7
Associate contribution	106.3	-1086.1	-7.2	220.8	-15.9	-1488.9
Profit before tax	-802.6	523.0	-398.3	-935.6	-252.7	270.2
Taxation	80.8	-145.3	-163.6	-46.3	-324.5	-85.7
Profit after tax	-721.8	135.0	-608.6	-579.9	-577.2	0.5
Non-controlling interest	-145.6	-256.5	-313.9	-77.5	126.7	-161.2
Profit from discontinued operation	0.0	n.m.	n.m.	0.0	554.5	n.m.
PATANCI	-576.2	441.7	-880.2	-502.4	-149.4	236.4
Normalised PATANCI	44.0	-86.7	-47.0	127.0	702.0	-81.9
Normalised EPS (sen)	0.5	-86.7	-47.0	1.4	7.6	-81.9
EBITDA margin (%)	40.6			39.1	36.1	
EBIT margin (%)	-4.4			-0.5	4.3	
Normalised PATAMI margin (%)	-9.6			-4.4	-1.5	
Effective tax rate (%)	10.1			-4.9	-128.4	

Source: Company, MIDF

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	19,994.4	21,700.2	21,053.1	21,779.1	22,551.6
EBITDA	8,850.2	8,631.8	9,774.8	10,326.5	10,753.8
EBIT	2,192.4	-2,591.9	2,683.7	3,016.8	3,204.0
Profit before tax	951.2	-4,229.4	1,461.4	1,879.8	2,217.5
PATANCI	818.9	9,751.1	747.1	894.2	1,102.1
Normalised PATANCI	1,326.0	1,587.0	747.1	894.2	1,102.1
EPS (sen)	14.4	17.3	8.1	9.7	12.0
EPS Growth (%)	-0.1	19.6	-52.9	19.7	23.2
PER (x)	18	15	32	26	21
Dividend Per Share (sen)	9.5	14	8.0	10.0	11.0
Dividend yield (%)	3.7	5.4	3.1	3.9	4.3

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Fixed assets	26,975.3	27,201.0	26,405.3	26,004.9	25,341.8
Intangible assets	21,722.7	13,442.2	21,722.7	21,722.7	21,722.7
Others	11,441.8	26,303.6	17,541.4	18,113.6	18,806.1
Non-current assets	60,139.8	66,946.7	65,669.4	65,841.2	65,870.6
Cash	6,969.4	7,451.7	5,639.9	6,098.2	6,860.4
Trade debtors	5,060.9	6,943.6	1,791.9	1,853.7	1,919.4
Others	380.3	298.7	3,131.2	3,218.7	3,311.7
Current assets	12,410.6	14,694.0	10,563.0	11,170.5	12,091.5
Trade creditors	13,555.1	10,579.6	2,367.9	2,454.4	2,547.1
Short-term debt	4,231.4	7,088.1	4,231.4	4,231.4	4,231.4
Others	2,566.2	3,405.6	10,724.6	11,001.1	11,294.7
Current liabilities	20,352.7	21,073.3	17,323.9	17,686.9	18,073.1
Long-term debt	14,819.1	18,347.5	14,819.1	14,819.1	14,819.1
Others	12,312.8	11,539.6	12,312.8	12,312.8	12,312.8
Non-current liabilities	27,131.9	29,887.1	27,131.9	27,131.9	27,131.9
Share capital	13,905.2	13,914.3	13,905.2	13,905.2	13,905.2
Retained earnings	4,100.1	10,020.8	9,994.8	9,970.7	10,062.6
Other reserve	0.0	0.0	0.0	0.0	0.0
Minority interest	7,060.5	6,745.3	7,876.7	8,317.1	8,789.4
Equity	25,065.8	30,680.4	31,776.7	32,193.0	32,757.2

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	951.2	-4,229.4	1,461.4	1,879.8	2,217.5
Depreciation & amortisation	-8,094.9	-12,204.0	7,091.1	7,309.7	7,549.8
Others	15,980.7	25,368.2	-2,939.3	-1,194.6	-1,429.4
Operating cash flow	8,837.0	8,934.8	5,613.2	7,994.8	8,337.9
Capital expenditure	-6,366.7	-9,761.0	-7,015.0	-6,909.2	-6,886.8
Others	-1,750.2	-1,824.0	324.6	291.0	321.3
Investing cash flow	-8,116.9	-11,585.0	-6,690.4	-6,618.2	-6,565.5
Debt raised/(repaid)	1,335.1	5,962.0	0.0	0.0	0.0
Dividends paid	-825.5	-504.7	-1,193.8	-734.7	-918.3
Others	-1,726.2	-2,044.9	0.0	0.0	0.0
Financing cash flow	-1,216.5	3,412.3	-1,193.8	-734.7	-918.3
Net cash flow	-496.4	762.2	-1,811.8	458.3	762.3
Effect of exchange rate changes	86.6	-748.3	0.0	0.0	0.0
Beginning cash flow	6,722.2	6,312.3	7,451.7	5,639.9	6,098.2
Ending cash flow	6,312.3	6,326.2	5,639.9	6,098.2	6,860.4

Profitability Margins	2021A	2022A	2023E	2024F	2025F
EBITDA margin	44.3	39.8	46.4	47.4	47.7
PBT margin	4.8	-19.5	6.9	8.6	9.8
PATAMI margin	4.1	44.9	3.5	4.1	4.9

Source: Bloomberg, 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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology