

## Axiata Group Berhad

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

### Majority of the Opcos Underperformed

#### KEY INVESTMENT HIGHLIGHTS

- **Maintain NEUTRAL with a lower SOP-derived target price of RM2.42 post the 3QFY23 results announcement**
- **The deconsolidation of Celcom and higher finance cost led to contraction in 3QFY23 normalised earnings**
- **Cumulative 9MFY23 normalised earnings of RM255m failed to kept pace with our expectation as only XL, Robi and Smart outperformed**
- **The planned exit of Ncell is unlikely to have much bearing on the on the group**

**Volatile quarterly earnings performance.** We are keeping our **NEUTRAL** recommendation on Axiata with a revised SOP-derived **target price of RM2.42** and post the announcement of 3QFY23 results. Evidently, the group has yet been able to fill the void after the deconsolidation of Celcom. Moreover, there was mixed performance from its existing operating companies. Nonetheless, the improvement in XL, Robi and Smart was insufficient to make up for the decline in performance of the group's other opcos. Meanwhile, we view that the proposed disposal of Ncell would not have much bearing.

**Contraction in 3QFY23 earnings.** Axiata's 3QFY23 normalised earnings came in at RM128m, a decline of -65.9%yoy. The group suffered from the deconsolidation of Celcom and higher finance cost.

**Below expectation.** Cumulatively, 9MFY23 normalised earnings shrunk by -76.3%yoy to RM255m. This was mainly attributable to the lower share of result of CelcomDigi Bhd amounting to RM378m (-57.8%yoy) and higher net finance cost of RM550m (-47.0%yoy).

All in, Axiata 9MFY23 financial performance failed to kept pace with our expectation, making up approximately 34.1%% of our full year FY23 earnings estimates.

**Disposing of Ncell.** The group also decided to exit its presence in Nepal given the challenging environment. Based on the group's 9MFY23 quarterly results, we gather that Ncell's underlying PATAMI constitutes less than 10% of the group total underlying PATAMI. Valuation wise, should we remove Ncell, from our SOP valuation, the impact to our target price is around 5sen. Hence, we conclude the disposal of Ncell would not have much bearing on the group.

**Lowering the earnings estimates.** We input higher finance cost and effective tax rate to better reflect the results thus far. As a result, FY23 to FY25 earnings have been reduced by between -22.3% to -43.1%.

**Conservative target price.** We also take this opportunity to update our forex assumption across the group's various opcos. This resulted in lower SOP-derived **target price of RM2.42** from RM2.62 previously (*refer to figure 1*).



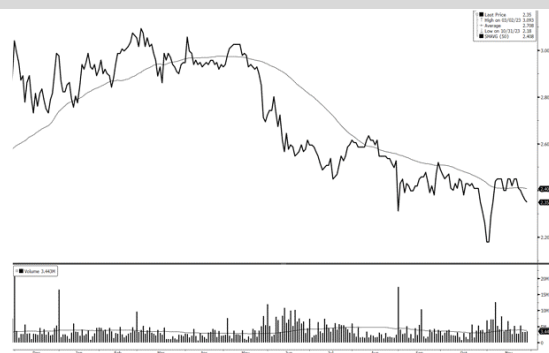
**Maintain NEUTRAL**

**Unchanged Target Price: RM2.42**  
(Previously RM2.62)

#### RETURN STATISTICS

Price @ 29 <sup>th</sup> November 2023 (RM)	2.30
Expected share price return (%)	+5.2
Expected dividend yield (%)	+4.3
<b>Expected total return (%)</b>	<b>+9.5</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.7	1.3
3 months	-5.6	-8.5
12 months	-22.9	-21.4

#### INVESTMENT STATISTICS

FYE June	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	1,069.3	1,505.9	1,883.2
Core PATAMI	425.5	655.8	856.9
Core EPS	4.6	7.1	9.3
DPS	8.0	10.0	11.0
Dividend Yield	3.5	4.3	4.8

#### KEY STATISTICS

FBM KLCI	1,446.07
Issue shares (m)	9,177.24
Estimated free float (%)	24.35
Market Capitalisation (RM'm)	21,570.85
52-wk price range (rm)	2.16 -3.23
3-mth average daily volume (m)	3.97
3-mth average daily value (RM'm)	9.60
Top Shareholders (%)	
Khazanah Nasional Bhd	36.73
Employees Provident Fund Board	17.64
Amanah Saham Nasional Bhd	15.26

**Figure 1: Sum-of-part valuation**

Entity	Value (RM m)	Stake (%)	Remarks
Celcom - Malaysia	18,912	33.1	DCF using WACC of 8.7% and terminal growth rate of 1.0%
XL - Indonesia	7,112	61.5	DCF using WACC of 8.7% and terminal growth rate of 1.0%
Robi - Bangladesh	5,807	68.7	At 5.4x FY22F EBITDA
Dialog - Sri Lanka	4,021	83.3	At 5.4x FY22F EBITDA
Smart - Cambodia	3,460	72.5	At 5.4x FY22F EBITDA
Ncell - Nepal	648	80	DCF using WACC of 7.7% and terminal growth rate of 1.0%
edotco	3,643	63	At 6x FY22F EBITDA
<b>Enterprise value</b>	<b>43,603</b>		
Less net debt/(cash)	11,809		
<b>Equity value</b>	<b>31,794</b>		
No. of shares (m)	9,183		
<b>Equity value per share (RM)</b>	<b>3.46</b>		
Discount (%)	30.0		
<b>Target price (RM)</b>	<b>2.42</b>		

Source: MIDFR

**AXIATA GROUP BHD: 3QFY23 RESULTS SUMMARY**

FYE 31st December (in RM'm, unless otherwise stated)	Quarterly			Annual		
	3Q23	% YoY	%QoQ	FY23	FY22	%YoY
Revenue	5,695.7	6.1	-5.0	16,429.7	14,844.1	10.7
EBITDA	2,563.6	12.8	5.4	7,519.5	6,068.3	23.9
Depreciation and amortisation	-1,859.5	10.7	-31.1	-5,366.5	-4,607.2	16.5
EBIT	704.1	18.8	-366.2	2,152.9	1,461.1	47.3
Finance costs	-662.1	-25.2	-8.2	-2,277.8	-2,132.7	6.8
Finance income	57.3	-17.6	-25.5	218.1	146.3	49.1
Associate contribution	144.2	-4173.1	35.7	363.9	-19.4	-1972.0
Profit before tax	243.6	-207.4	-130.4	457.1	-544.8	-183.9
Taxation	-135.6	-6.5	-267.8	-405.8	-470.1	-13.7
Profit after tax	108.0	-129.0	-115.0	51.3	-1,014.9	-105.1
Non controlling interest	-117.4	-355.2	-19.3	-195.0	172.7	-212.9
Profit from discontinued operation	-1,022.9	n.m.	n.m.	-1,546.1	985.9	n.m.
PATANCI	-797.4	1421.8	38.4	-1,299.8	-201.8	544.2
Normalised PATANCI	128.0	-65.9	190.9	255.0	1,077.0	-76.3
Normalised EPS (sen)	-8.7	1421.7	-1912.3	2.8	11.7	-76.3
EBITDA margin (%)	45.0			45.8	40.9	
EBIT margin (%)	12.4			13.1	9.8	
Normalised PATAMI margin (%)	-14.0			-7.9	-1.4	
Effective tax rate (%)	55.7			88.8	-86.3	

Source: Company, MIDF

**FINANCIAL SUMMARY**

<b>Income Statement (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
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	1,069.3	1,505.9	1,883.2
PATANCI	818.9	9,751.1	425.5	655.8	856.9
Normalised PATANCI	1,326.0	1,587.0	425.5	655.8	856.9
EPS (sen)	14.4	17.3	4.6	7.1	9.3
EPS Growth (%)	-0.1	19.6	-73.2	54.1	30.7
PER (x)	16	13	50	32	25
Dividend Per Share (sen)	9.5	14	8.0	10.0	11.0
Dividend yield (%)	4.1	6.1	3.5	4.3	4.8
<b>Balance Sheet (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
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
<b>Non-current assets</b>	<b>60,139.8</b>	<b>66,946.7</b>	<b>65,669.4</b>	<b>65,841.2</b>	<b>65,870.6</b>
Cash	6,969.4	7,451.7	5,193.2	5,295.7	5,707.6
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
<b>Current assets</b>	<b>12,410.6</b>	<b>14,694.0</b>	<b>10,116.3</b>	<b>10,368.0</b>	<b>10,938.7</b>
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
<b>Current liabilities</b>	<b>20,352.7</b>	<b>21,073.3</b>	<b>17,323.9</b>	<b>17,686.9</b>	<b>18,073.1</b>
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
<b>Non-current liabilities</b>	<b>27,131.9</b>	<b>29,887.1</b>	<b>27,131.9</b>	<b>27,131.9</b>	<b>27,131.9</b>
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	9,673.2	9,410.7	9,257.4
Other reserve	0.0	0.0	0.0	0.0	0.0
Minority interest	7,060.5	6,745.3	7,751.6	8,074.6	8,441.8
<b>Equity</b>	<b>25,065.8</b>	<b>30,680.4</b>	<b>31,330.0</b>	<b>31,390.5</b>	<b>31,604.4</b>
<b>Cash Flow (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
PBT	951.2	-4,229.4	1,069.3	1,505.9	1,883.2
Depreciation & amortisation	-8,094.9	-12,204.0	7,091.1	7,309.7	7,549.8
Others	15,980.7	25,368.2	-2,982.8	-1,145.6	-1,397.0
<b>Operating cash flow</b>	<b>8,837.0</b>	<b>8,934.8</b>	<b>5,177.6</b>	<b>7,670.0</b>	<b>8,036.1</b>
Capital expenditure	-6,366.7	-9,761.0	-7,015.0	-6,909.2	-6,886.8
Others	-1,750.2	-1,824.0	313.5	260.1	272.8
<b>Investing cash flow</b>	<b>-8,116.9</b>	<b>-11,585.0</b>	<b>-6,701.5</b>	<b>-6,649.2</b>	<b>-6,614.0</b>
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
<b>Financing cash flow</b>	<b>-1,216.5</b>	<b>3,412.3</b>	<b>-1,193.8</b>	<b>-734.7</b>	<b>-918.3</b>
<b>Net cash flow</b>	<b>-496.4</b>	<b>762.2</b>	<b>-2,258.5</b>	<b>102.5</b>	<b>411.9</b>
<b>Effect of exchange rate changes</b>	<b>86.6</b>	<b>-748.3</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Beginning cash flow</b>	<b>6,722.2</b>	<b>6,312.3</b>	<b>7,451.7</b>	<b>5,193.2</b>	<b>5,295.7</b>
<b>Ending cash flow</b>	<b>6,312.3</b>	<b>6,326.2</b>	<b>5,193.2</b>	<b>5,295.7</b>	<b>5,707.6</b>
<b>Profitability Margins</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
EBITDA margin	44.3	39.8	46.4	47.4	47.7
PBT margin	4.8	-19.5	5.1	6.9	8.4
PATAMI margin	4.1	44.9	2.0	3.0	3.8

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