

Axiata Group Berhad

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

Maintain NEUTRAL

Lack of Strong Rerating Catalyst

Unchanged Target Price: RM2.42

KEY INVESTMENT HIGHLIGHTS

- **Maintain NEUTRAL with an unchanged SOP-derived target price of RM2.42 post the 4QFY23 results announcement**
- **4QFY23 normalised earnings contracted by -36.5%yoy due to higher taxation and finance cost**
- **Nonetheless, FY23 normalised earnings of RM542m (-64.6%yoy) declined at a slower-than-expected pace**
- **Some of the main opcos showed better performance while both Link net and Boost were loss-making**

Rebase in annual earnings post Celcom deconsolidation. We are keeping our **NEUTRAL** recommendation on Axiata with an unchanged SOP-derived **target price of RM2.42** post the announcement of 3QFY23 results. Evidently, the group has yet been able to fill the void after the deconsolidation of Celcom. This may not be achieved in the near-term. Fortunately, some of the main opcos performed better while both Link Net and Boost were loss-making.

Contraction in 4QFY23 earnings. Axiata's 4QFY23 normalised earnings came in at RM 287m, a decline of -36.5%yoy. This was mainly due to higher taxation and higher finance cost.

Not as bad as expected. Cumulatively, FY23 normalised earnings shrunk by -64.6%yoy to RM542m. This was mainly attributable to the lower share of result of CelcomDigi Bhd amounting to RM550m (-57.8%yoy) and higher finance cost of RM2.3b (+34.4%yoy).

Nonetheless, Axiata FY23 financial performance came in better than our conservative assumption of RM425.5m

Slight revision in earnings estimates. We revised both FY24 and FY25 earnings estimates higher by about six percent each as we factor in FY23 financial performance into our model.

Conservative target price. While we updated our SOP table post the result announcement, we made no changes to our **target price of RM2.42**.

Figure 1: Sum-of-part valuation

Entity	Value (RM m)	Stake (%)	Remarks
Celcom - Malaysia	19,221	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	6,082	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
edotco	3,643	63	At 5.4x FY22F EBITDA
Enterprise value	43,539		
Less net debt/(cash)	11,809		
Equity value	31,730		
No. of shares (m)	9,183		
Equity value per share (RM)	3.46		
Discount (%)	30.0		
Target price	2.42		

Source: MIDFR

RETURN STATISTICS

Price @ 22 nd February 2024 (RM)	2.76
Expected share price return (%)	-12.3
Expected dividend yield (%)	+3.6
Expected total return (%)	-8.7

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	10.6	6.2
3 months	18.1	8.4
12 months	-9.9	-14.3

INVESTMENT STATISTICS

FYE June	2024E*	2025F	2026F
Revenue	23,288.5	24,067.2	24,897.9
Operating Profit	3,102.0	3,292.2	3,500.3
Profit Before Tax	1,603.7	1,998.5	2,374.7
Core PATAMI	698.4	909.3	1,080.5
Core EPS	7.6	9.9	11.8
DPS	10.0	11.0	12.0
Dividend Yield	3.6	4.0	4.3

KEY STATISTICS

FBM KLCI	1,545.49
Issue shares (m)	9,177.24
Estimated free float (%)	24.00
Market Capitalisation (RM'm)	25,793
52-wk price range (rm)	2.16 -3.22
3-mth average daily volume (m)	6.02
3-mth average daily value (RM'm)	15.31
Top Shareholders (%)	
Khazanah Nasional Bhd	36.73
Employees Provident Fund Board	17.98
Amanah Saham Nasional Bhd	15.28

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Figure 2: Segmental performance- Underlying PATAMI

Segment	FY22	FY23	Change (%)	Remark
XL Axiata (Indonesia)	139	170	22.3	Uplift in ARPU and higher contribution from data and digital services
Link Net (Indonesia)	14	-126	n.m.	Higher D&A and finance cost
Dialog (Sri Lanka)	106	112	5.7	Cost rescalling initiatives
Robi (Bangladesh)	91	123	35.2	Strong subscriber growth and ARPU expansion
Smart (Cambodia)	290	302	4.1	Growth in data partially moderated by decline in voice and VAS
Ncell (Nepal)	135	107	-20.7	Unfavourable regulatory environment
Edotco (Malaysia)	111	54	-51.4	Higher net finance cost
ADA & Boost	-80	-114	-42.5	Start-up cost for Digibank

Source: Company, MIDFR

AXIATA GROUP BHD: 4QFY23 RESULTS SUMMARY

FYE 31st December (in RM'm, unless otherwise stated)	Quarterly			Annual		
	4Q23	% YoY	%QoQ	FY23	FY22	%YoY
Revenue	5,793.6	7.2	1.7	22,022.3	20,020.3	10.0
EBITDA	2,661.6	-0.7	3.8	9,501.1	7,613.5	24.8
Depreciation and amortisation	-1,919.5	-43.0	3.2	-7,200.0	-7,878.0	-8.6
EBIT	742.2	-208.5	5.4	2,301.1	-264.5	-969.9
Finance costs	-570.6	6.3	-13.8	-2,287.9	-1,702.2	34.4
Finance income	57.2	-31.1	-0.2	248.4	223.8	11.0
Associate contribution	167.8	-456.5	16.4	531.8	-66.5	-899.3
Profit before tax	396.6	-133.5	62.8	793.4	-1,809.5	-143.8
Taxation	-249.9	58.1	84.3	-651.2	-604.9	7.7
Profit after tax	146.7	-110.9	35.9	142.2	-2,414.4	-105.9
Non controlling interest	-267.4	-379.7	127.7	-462.4	268.3	-272.3
Profit from discontinued operation	-1,109.1	-109.7	8.4	-2,599.4	12,433.8	n.m.
PATANCI	-695.0	-107.0	-12.8	-1,994.8	9,751.1	-120.5
Normalised PATANCI	287.0	-36.5	124.2	542.0	1,529.0	-64.6
Normalised EPS (sen)	-7.6	-107.0	-12.9	5.9	16.6	-64.6
EBITDA margin (%)	45.9			43.1	38.0	
EBIT margin (%)	12.8			10.4	-1.3	
Normalised PATAMI margin (%)	-12.0			-9.1	48.7	
Effective tax rate (%)	63.0			82.1	-33.4	

Source: Company, MIDF

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024E	2025F	2026F
Revenue	20,020.3	22,022.3	23,288.5	24,067.2	24,897.9
EBITDA	7,613.5	9,501.1	10,411.7	10,842.1	11,313.9
EBIT	-264.5	2,301.1	3,102.0	3,292.2	3,500.3
Profit before tax	-1,809.5	793.4	1,603.7	1,998.5	2,374.7
PATANCI	9,751.1	-1,994.8	698.4	909.3	1,080.5
Normalised PATANCI	1,529.0	542.0	698.4	909.3	1,080.5
EPS (sen)	16.6	4.6	7.6	9.9	11.8
EPS Growth (%)	15.2	-72.2	64.2	30.2	18.8
PER (x)	17	60	36	28	23
Dividend Per Share (sen)	14	8.0	10.0	11.0	12.0
Dividend yield (%)	5.1	2.9	3.6	4.0	4.3
Balance Sheet (RM'm)	2022A	2023A	2024E	2025F	2026F
Fixed assets	27,201.0	27,439.8	26,004.9	25,341.8	24,477.0
Intangible assets	13,442.2	12,237.5	21,722.7	21,722.7	21,722.7
Others	26,303.6	28,156.7	18,113.6	18,806.1	19,539.0
Non-current assets	66,946.7	67,834.1	65,841.2	65,870.6	65,738.7
Cash	7,451.7	4,612.1	5,803.7	6,292.5	7,110.6
Trade debtors	6,943.6	4,808.7	4,609.6	4,763.7	4,928.1
Others	298.7	1,187.1	773.0	778.9	785.2
Current assets	14,694.0	10,607.9	11,186.3	11,835.1	12,823.9
Trade creditors	10,579.6	9,317.4	11,644.0	12,033.3	12,448.6
Short-term debt	7,088.1	2,666.0	4,231.4	4,231.4	4,231.4
Others	3,405.6	3,210.0	2,566.2	2,566.2	2,566.2
Current liabilities	21,073.3	15,193.3	18,441.6	18,830.9	19,246.3
Long-term debt	18,347.5	22,176.2	23,231.2	23,231.2	23,231.2
Others	11,539.6	12,837.2	3,900.7	3,900.7	3,900.7
Non-current liabilities	29,887.1	35,013.4	27,131.9	27,131.9	27,131.9
Share capital	13,914.3	13,920.6	13,905.2	13,905.2	13,905.2
Retained earnings	10,020.8	8,143.5	9,453.3	9,352.5	9,331.0
Other reserve	0.0	0.0	0.0	0.0	0.0
Minority interest	6,745.3	6,171.2	8,095.6	8,485.3	8,948.4
Equity	30,680.4	28,235.3	31,454.1	31,743.0	32,184.5
Cash Flow (RM'm)	2022A	2023A	2024E	2025F	2026F
PBT	-1,809.5	793.4	1,603.7	1,998.5	2,374.7
Depreciation & amortisation	-7,878.0	-7,200.0	7,309.7	7,549.8	7,813.6
Others	18,622.3	14,084.9	-748.0	-1,462.6	-1,651.7
Operating cash flow	8,934.8	7,678.2	8,165.4	8,085.8	8,536.6
Capital expenditure	-9,761.0	-6,969.7	-6,909.2	-6,886.8	-6,948.7
Others	-1,824.0	2,269.6	272.7	299.9	332.3
Investing cash flow	-11,585.0	-4,700.1	-6,636.6	-6,586.9	-6,616.4
Debt raised/(repaid)	5,962.0	-1,543.6	0.0	0.0	1.0
Dividends paid	-504.7	-1,743.9	-734.7	-918.3	-1,010.2
Others	-2,044.9	-1,979.8	0.0	0.0	-1.0
Financing cash flow	3,412.3	-5,267.3	-734.7	-918.3	-1,010.2
Net cash flow	762.2	-2,258.5	610.5	488.8	818.1
Effect of exchange rate changes	-748.3	0.0	0.0	0.0	1.0
Beginning cash flow	6,312.3	6,326.2	3,445.7	4,056.2	4,545.0
Ending cash flow	6,326.2	3,445.7	4,056.2	4,545.0	5,363.1
Profitability Margins	2022A	2023A	2024E	2025F	2026F
EBITDA margin	38.0	43.1	44.7	45.0	38.0
PBT margin	-9.0	3.6	6.9	8.3	-9.0
PATAMI margin	48.7	-9.1	3.0	3.8	48.7

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