



Axiata Group Berhad

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

Borrowings Continue to Escalate

KEY INVESTMENT HIGHLIGHTS

- **Revise to NEUTRAL with a revised SOP-derived target price of RM2.56 post the 1QFY24 results announcement**
- **We observe some recovery in the group's 1QFY24 financial performance, mainly led by XL and Smart**
- **Nonetheless, losses from Link Net and Boost persist**
- **We remain concern on the group's borrowings which remained at an elevated level of RM25.5b as at 1QFY24**
- **Potential merger between XL and Smartfren was present more earnings volatility**

Active M&A effort. We are reverting our recommendation to **NEUTRAL** from **TRADING SELL** previously with a revised SOP-derived **target price of RM2.56** post 1QFY24 results announcement. To recall, our **TRADING SELL** recommendation was premised on the group's latest M&A endeavor which we think could further dampen earning performance in the foreseeable term. Pursuant to this, we have observed a -5.5% decline in share price.

Notwithstanding this, Axiata posted 1QFY24 normalised earnings of RM149m, a strong rebound from a year ago. Given its wide presence in the region, we continue to see mixed earnings performance from the various opcos. Nonetheless, our main concern resides with Link Net and Boost which continues to be loss-making. Moreover, we see the potential merger between XL Axiata and Smartfren could result in some earnings pressure for the group.

Better quarterly performance. 1QFY24 normalised earnings came in at RM149m, which almost tripled from a year ago. This was mainly supported by higher contributions from XL Axiata as well as Smart. Nonetheless, lower contributions from Link Net and Dialog partially negated the uplift in earnings.

All in, Axiata's 1QFY24 financial performance came in within our expectations, making up 21.3% of our full year FY24 earnings estimates.

Borrowings remains a main concern. We note that the group's borrowings have increased further by +2.8%qoq to RM25.5b. This was mainly due to the impact of USD appreciation on EDOTCO's borrowing and additional drawdown from XL, Robi and Link Net.

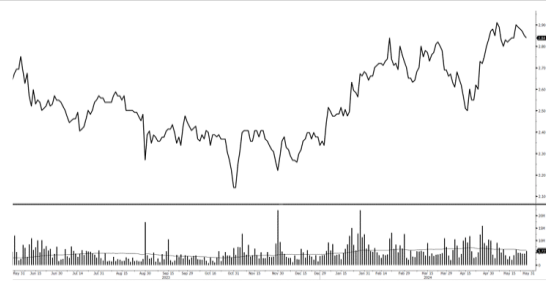
Conservative target price. While we keep our earnings estimates unchanged at this juncture, we roll forward our valuation to FY25. As such, our SOP-derived target price has been revised to **RM2.56** from RM2.42 previously.

**Revise to NEUTRAL***(Previously TRADING SELL)***Revised Target Price: RM2.56***(Previously RM2.42)*

RETURN STATISTICS

Price @ 29 th May 2024 (RM)	2.74
Expected share price return (%)	-6.6
Expected dividend yield (%)	+4.0
Expected total return (%)	-2.6

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	4.4

KEY STATISTICS

FBM KLCI	1,605.35
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 1: Sum-of-part valuation

Entity	Value (RM m)	Stake (%)	Remarks
Celcomdigi	19,221	33.1	DCF using WACC of 8.7% and terminal growth rate of 1.0%
XL - Indonesia	8,213	61.5	DCF using WACC of 8.7% and terminal growth rate of 1.0%
Robi - Bangladesh	6,312	68.7	At 5.4x FY22F EBITDA
Dialog - Sri Lanka	4,226	83.3	At 5.4x FY22F EBITDA
Smart - Cambodia	3,633	72.5	At 5.4x FY22F EBITDA
edotco	3,752	63	At 5.4x FY22F EBITDA
Enterprise value	45,359		
Less net debt/(cash)	11,809		
Equity value	33,550		
No. of shares (m)	9,183		
Equity value per share (RM)	3.65		
Discount (%)	30.0		
Target price	2.56		

Source: MIDFR

Figure 2: Segmental performance- Underlying PATAMI

Segment	1Q23	1Q24	Change (%)	Remark
XL Axiata (Indonesia)	16	86	437.5	ARPU uplift and improved contribution from data and digital services
Link Net (Indonesia)	-15	-25	-66.7	Lower residential and enterprise revenue as well as higher D&a and net finance cost
Dialog (Sri Lanka)	-2	-10	-400.0	Lower contribution from hubbing and higher interest cost
Robi (Bangladesh)	22	29	31.8	Data revenue growth and cost optimisation
Smart (Cambodia)	79	89	12.7	Strong data growth and higher interest income
Edotco (Malaysia)	-12	-8	-33.3	one-off accounting adjustment
ADA & Boost	-41	-24	41.5	Lower marketing and staff cost

Source: Company, MIDFR

AXIATA GROUP BHD: 1QFY24 RESULTS SUMMARY

FYE 31st December (in RM'm, unless otherwise stated)	1QFY24	1QFY23	% YoY	4QFY23	%QoQ
Revenue	5,662.1	4997.2	13.3	5793.6	-2.3
EBITDA	2,656.8	2160.4	23.0	2661.6	-0.2
Depreciation and amortisation	-1,916.8	-1616.2	18.6	-1919.5	-0.1
EBIT	740.0	544.2	36.0	742.2	-0.3
Finance costs	-602.0	-509.6	18.1	-570.6	5.5
Finance income	57.9	69.7	-16.8	57.2	1.3
Associate contribution	106.4	114.5	-7.1	167.8	-36.6
Profit before tax	302.2	218.7	38.2	396.6	-23.8
Taxation	-167.3	-116.4	43.7	-249.9	-33.1
Profit after tax	135.0	102.4	31.8	146.7	-8.0
Non controlling interest	141.6	68.1	108.0	-267.4	-153.0
Profit from discontinued operation	66.7	39.6	68.6	-1109.1	-106.0
PATANCI	60.0	73.9	-18.7	-695.0	-108.6
Normalised PATANCI	149.0	38.0	292.1	287.0	-48.1
Normalised EPS (sen)	0.7	0.4	57.9	-7.6	-108.6
EBITDA margin (%)	46.9	43.2		45.9	
EBIT margin (%)	13.1	10.9		12.8	
Normalised PATAMI margin (%)	1.1	1.5		-12.0	
Effective tax rate (%)	55.3	53.2		63.0	

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)	16	59	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	4.4
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	45.4
PBT margin	-9.0	3.6	6.9	8.3	9.5
PATAMI margin	48.7	-9.1	3.0	3.8	4.3

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