

Axiata Group Berhad

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

Consolidation of the Mobile Market in Sri Lanka

KEY INVESTMENT HIGHLIGHTS

- **Maintain NEUTRAL with an unchanged SOP-derived target price of RM2.42 post announcement on acquisition of Airtel Lanka**
- **The transaction will further solidify Dialog Axiata's pole position with a market share of 64%**
- **Nonetheless, no positive impact seen on Dialog's bottomline at this juncture**
- **Funding via share swap further signify Axiata's tight financial position**

Seeking to strengthen its position in Sri Lanka. We are keeping our **NEUTRAL** recommendation on Axiata with an unchanged SOP-derived target price of RM2.42 post the announcement on Dialog's acquisition of Bharti Airtel. The transaction will help improve Dialog's market share in Sri Lanka. Nonetheless, we are disheartened by Airtel Lanka's loss-making position. We expect Airtel Lanka will not see any contribution to Dialog's bottom-line anytime soon as we expect the merger synergies to be able to only negated Airtel Lanka's loss-making position, at best. On a separate note, we are also of the view that funding via share swap also signals Axiata's tight financial position.

Full acquisition of Airtel Lanka via share swap. Dialog Axiata (Dialog), Axiata Group (Axiata) and Bharti Airtel Ltd signed a definitive agreement to combine their operations in Sri Lanka. Dialog, which is 83% owned by Axiata, will acquire 100% of Airtel Lanka.

To fund this, Dialog will issue to Bharti Airtel ordinary voting shares which will amount to 10.355% of the total issued shares of Dialog by way of a share swap. This will value Airtel Lanka at around RM154m. Note that the funding methodology mimicked that of the previous merger between Robi Axiata and Airtel Bangladesh which occurred in 2016.

At present, Dialog's existing shareholding structure includes Axiata (82.27%), other non-public shareholders (0.08%) and public shareholders (17.65%). Post-acquisition, Dialog's shareholding structure will become: Axiata (73.75%), Airtel (10.355%), other non-public shareholders (0.072%) and public shareholders (15.822%).

Strengthening its position in Sri Lanka. Dialog Axiata is currently the largest mobile network operator (MNO) bearing 16.9m subscribers while Airtel Lanka contributes another 3m subscribers. The latter will improve Dialog's market share to about 64%. Pursuant to this, the other major MNOs will be Hutchison Telecommunications Lanka and SLTMobitel.

Operationally, the transaction will lead to a more favourable spectrum and tower portfolio while there should also be operational synergies. The higher spectrum availability will help to improve capacity via spectrum refarming with lower investment required.

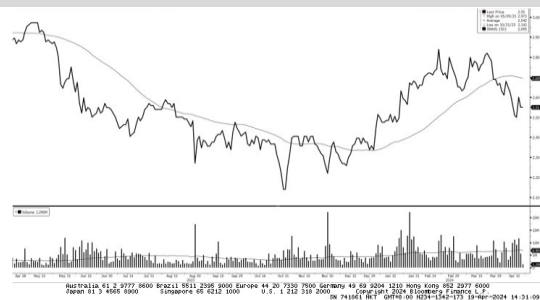
Maintain NEUTRAL

Unchanged Target Price: RM2.42

RETURN STATISTICS

Price @ 19 th April 2024 (RM)	2.55
Expected share price return (%)	-5.1
Expected dividend yield (%)	+3.9
Expected total return (%)	-1.2

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-9.3	-9.5
3 months	-5.2	-3.7
12 months	-15.6	-22.4

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	3.9	4.3	4.7

KEY STATISTICS

FBM KLCI	1,547.57
Issue shares (m)	9,179.08
Estimated free float (%)	24.27
Market Capitalisation (RM'm)	23,413.9
52-wk price range (rm)	2.16 -3.10
3-mth average daily volume (m)	7.02
3-mth average daily value (RM'm)	18.96
Top Shareholders (%)	
Khazanah Nasional Bhd	36.72
Employees Provident Fund Board	17.94
Amanah Saham Nasional Bhd	15.05

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On a separate note, given that this is a stock transaction, the synergy risk is shared in proportion to the percentage of the combined company the acquiring and selling shareholders each will own.

Airtel Lanka is unlikely to contribute to Dialog's bottom-line in the near term. Airtel is expected to improve Dialog's revenue by about 8%. However, at EBITDA and PATAMI level, Airtel is expected to breakeven within one year after the transaction. Note that Airtel Lanka is currently loss making (FY23 loss of close to RM200m due to depreciation and finance cost). Hence, we are keeping our earnings estimate unchanged at this juncture. We also do not discount the possibility that Airtel Lanka may remain loss making beyond the one-year time frame. This is in view of reduced consumer affordability, escalating operating cost and diminishing investment returns.

Awaiting the necessary clearance. The transaction is subject to the approval of Dialog's shareholders and is pending the completion of specific conditions outlined in the Share Sale Agreement, including clearance from the Colombo Stock Exchange (CSE) and completion of other applicable legal, corporate, and regulatory compliance procedures. Meanwhile, the Telecommunications Regulatory Commission of Sri Lanka (TRCSL) has granted its approval for the proposed merger, underscoring its vision to advance the adoption of telecommunications services across Sri Lanka. The transaction is targeted to be completed in 3QCY24.



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)	15	55	34	26	22
Dividend Per Share (sen)	14	8.0	10.0	11.0	12.0
Dividend yield (%)	5.5	3.1	3.9	4.3	4.7
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