

Axiata Group Berhad

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

Maintain NEUTRAL**Earnings Volatility to Persist****Unchanged Target Price: RM2.56****KEY INVESTMENT HIGHLIGHTS**

- **Maintain NEUTRAL with an unchanged SOP-derived target price of RM2.56 post the 2QFY24 results announcement**
- **Better performance from the major opcos lifted 1HFY24 normalised earnings to RM330.0m (+340.0%yoy), in-line with expectation**
- **Some opcos may potentially suffered from earnings pressure in 2HFY24**
- **First interim dividend of 5sen, on track to meet full year target of 10sen per share**

Ongoing regional developments may post certain risks for the group. We maintain our **NEUTRAL** on Axiata with an unchanged SOP-derived **target price of RM2.56** post the 2QFY24 results announcement. We note that the group has shown a commendable 1HFY24 financial performance. However, we do not discount the possibility of future earnings volatility which mainly stem from: i) potential merger of XL Axiata with Smartfren which is lossmaking, ii) unrest and natural disaster at Bangladesh which may affect Robi, iii) upcoming Sri Lanka election in September 2024 that may impact Dialog and, iv) funding fibre deployment roadmap in Indonesia for Link Net.

Better quarterly performance. 2QFY24 normalised earnings came in at RM181m, an improvement from RM37.0m achieved a year ago. This was mainly supported by higher revenue growth of +2.9%yoy to RM5.7b contributed largely by XL, SMART, ROBI and EDOTCO as well as a higher share of profit from associates i.e. Celcomdigi Bhd (+35.2%yoy). Nonetheless, Link Net and Boost underperformed.

In-line with expectation. On a cumulative basis, 1HFY24 normalised earnings amounted to RM330.0m, an improvement of +340.0%yoy. This came in within our expectations, making up 47.2% of our full year FY24 earnings estimates.


Dividend on-track. The group also announced its first interim dividend of 5sen per share. This is on track to meet the full year target of 10sen per share. 

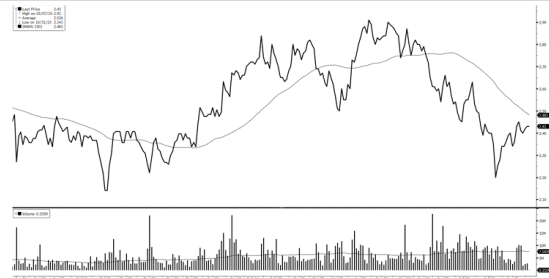
Figure 1: Sum-of-part valuation

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

RETURN STATISTICS

Price @ 28 th August 2024 (RM)	2.46
Expected share price return (%)	+4.1
Expected dividend yield (%)	+4.5
Expected total return (%)	+8.6

SHARE PRICE CHART

Price performance (%)	Absolute	Relative
1 month	1.7	-0.5
3 months	-6.9	-16.3
12 months	-5.4	-17.1

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	4.1	4.5	4.9

KEY STATISTICS

FBM KLCI	1,675.24
Issue shares (m)	9179.08
Estimated free float (%)	46.29
Market Capitalisation (RM'm)	22,312.06
52-wk price range (rm)	RM2.16 - RM2.94
3-mth average daily volume (m)	7.57
3-mth average daily value (RM'm)	19.37
Top Shareholders (%)	
Khazanah Nasional Bhd	36.72
Employees Provident Fund	18.47
Amanah Saham Nasional Bhd	15.01

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Figure 2: Segmental performance- Underlying PATAMI

Segment	1H23	1H24	Change (%)	Remark
XL Axiata (Indonesia)	86	166	93.0	Stable ARPU, improved contribution from data and digital services, savings infrastructure and sales and marketing expenses
Link Net (Indonesia)	-33	-63	-90.9	Lower enterprise contribution
Dialog (Sri Lanka)	-6	-14	-133.3	Lower hubbing revenue
Robi (Bangladesh)	30	65	116.7	Higher data and positive subscriber growth as well as effective cost optimisation measures
Smart (Cambodia)	151	202	33.8	Growth in subscribers and ARPU
Edotco (Malaysia)	-24	4	-116.7	Higher contribution across some of its country of operation
ADA & Boost	-86	-60	30.2	Boost - Lower marketing and staff cost; ADA - Higher growth in the customer engagement, Ecommerce and data & AI segments as well as higher net interest income

Source: Company, MIDFR

AXIATA GROUP BHD: 2QFY24 RESULTS SUMMARY

FYE 31st December (in RM'm, unless otherwise stated)	Quarterly			Cumulative		
	2Q24	% YoY	%QoQ	1HFY24	1HFY23	% YoY
Revenue	5,755.8	2.9	1.7	11,417.9	10,589.4	7.8
EBITDA	2,745.5	32.9	3.3	4,412.2	3,755.5	17.5
Depreciation and amortisation	-1,879.1	3.6	-2.0	-3,795.9	-3,450.6	10.0
EBIT	866.4	245.2	17.1	616.3	304.9	102.1
Finance costs	-603.0	31.2	0.2	-215.0	-478.9	-55.1
Finance income	41.6	-33.3	-28.1	99.6	132.0	-24.6
Associate contribution	145.7	37.1	37.0	252.1	220.8	14.1
Profit before tax	450.8	-1232.1	49.2	753.0	178.9	320.9
Taxation	-249.3	62.1	49.0	-416.5	-270.1	54.2
Profit after tax	201.5	-204.1	49.3	336.5	-91.2	-468.8
Non controlling interest	120.6	-182.8	-14.9	262.2	-77.5	-438.3
Profit from discontinued operation	53.9	-110.2	-19.1	120.7	-488.7	n.m.
PATANCI	134.9	-123.4	124.7	194.9	-502.4	-138.8
Normalised PATANCI	181.0	389.2	21.5	330.0	75.0	340.0
Normalised EPS (sen)	1.5	264.2	124.5	3.6	10.9	-67.1
		+/- pts	+/- pts			+/- pts
EBITDA margin (%)	47.7	10.76651	1	38.6	35.5	3.2
EBIT margin (%)	15.1	10.56491	2	5.4	2.9	2.5
Normalised PATAMI margin (%)	2.3	12.64768	1	1.7	-4.7	6.5
Effective tax rate (%)	55.3	441.4588	0	55.3	151.0	-95.7

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)	15	53	32	25	21
Dividend Per Share (sen)	14	8.0	10.0	11.0	12.0
Dividend yield (%)	5.7	3.3	4.1	4.5	4.9

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