



AmInvestment Bank

Company report

AXIATA GROUP

(AXIATA MK EQUITY, AXIA.KL)

30 July 2020

Raising sukuk while cutting capex target

BUY

(Maintained)

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Rationale for report: Company update

Price	RM3.25
Fair Value	RM4.50
52-week High/Low	RM5.09/RM3.01

Key Changes

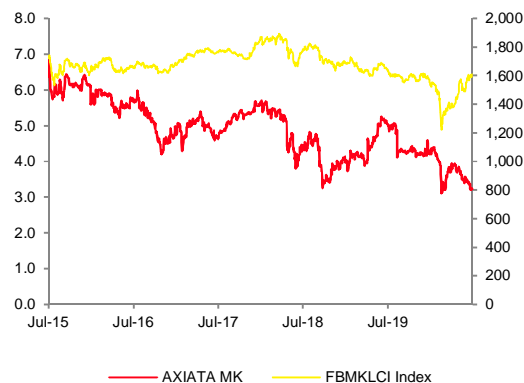
Fair value	↕
EPS	↕

YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	24,583.3	25,022.3	25,749.3	26,522.5
Core net profit (RM mil)	1,022.0	742.4	894.6	1,171.5
FD Core EPS (sen)	11.2	8.1	9.8	12.8
FD Core EPS growth (%)	(15.0)	(27.4)	20.5	31.0
Consensus Net Profit (RM mil)	-	829.5	992.8	1,176.3
DPS (sen)	9.5	9.5	9.5	9.5
PE (x)	29.1	40.1	33.3	25.4
EV/EBITDA (x)	3.8	4.5	4.1	3.8
Div yield (%)	2.9	2.9	2.9	2.9
ROE (%)	8.7	4.7	5.7	7.4
Net Gearing (%)	77.9	107.1	95.8	82.1

Stock and Financial Data

Shares Outstanding (million)	9,163.6
Market Cap (RM mil)	29,781.6
Book Value (RM/share)	1.77
P/BV (x)	1.8
ROE (%)	8.7
Net Gearing (%)	77.9
Major Shareholders	Khazanah (37.6%) EPF (17.5%)
Free Float	0.4
Avg Daily Value (RM mil)	17.2

Price performance	3mth	6mth	12mth
Absolute (%)	(12.6)	(24.3)	(35.3)
Relative (%)	(25.2)	(27.2)	(34.0)



Investment Highlights

- We maintain our BUY call on Axiata Group (Axiata) with an unchanged sum-of-parts (SOP) based fair value of RM4.50/share, which implies an FY20F EV/EBITDA of 5.3x – 1 standard deviation below its 3-year average of 6x.
- Our SOP valuation, which is partly based on EV/EBITDA for the group's regional operations, is retained for now despite lower interest cost and depreciation charge assumptions.
- *The Star* reported that Axiata's deputy group chief executive offer Datuk Izzaddin Idris said that the group plans to raise US\$1bil (RM4.2bil) worth of sukuk to reduce its borrowing costs given the current low interest rate environment.
- The sukuk will be issued in tranches with tenures of 10 years, 20 years and 30 years, with the lead arrangers being CIMB Bank, Standard Chartered, UBS Bank and Citibank.
- This fresh refinancing exercise will account for 23% of the group's FY20F gross debt of RM18.5bil, earmarked to retire some of Axiata's debt and working capital for its subsidiaries.
- Additionally, Izzaddin said that Axiata plans to utilise only 85% of its planned capex for this year, which was earlier indicated to be RM6.6bil. We estimate that the group's FY20F capex/service revenue ratio will drop to 23% from 26%.
- With these developments, we have raised Axiata's FY21F–FY22F earnings by 7%–8% based on the assumption of a 1-percentage-point reduction in interest cost for the partial refinancing of the group's debts, together with lower depreciation charges following the FY20F capex reduction of 15% to RM5.5bil.
- Given the group's huge loan base, the interest cost reduction will have a more significant earnings accretive impact compared with the lower depreciation charges.
- For FY20F earnings, the impact is a slight 3% increase given the proportionately lower interest cost impact with the refinancing exercise expected to be completed by next month.
- For a regional telco operator with excellent opportunities to further monetise its assets and engage in merger and acquisition activities, Axiata currently trades at a bargain FY21F EV/EBITDA of 4x vs. Maxis' 12x.

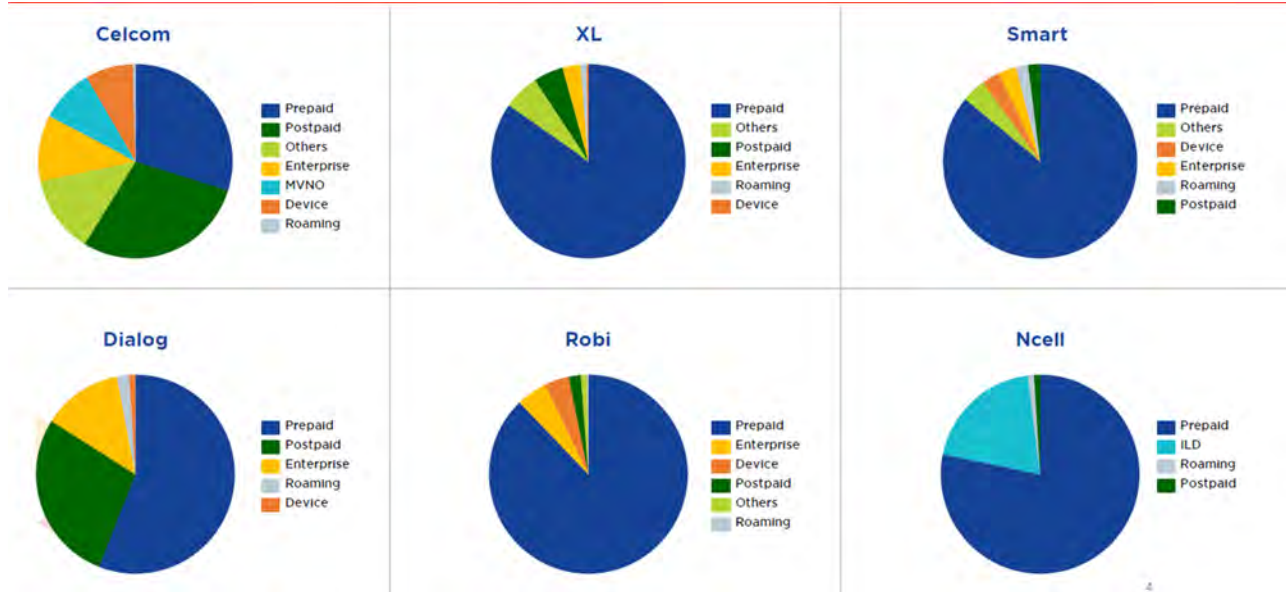
EXHIBIT 1: AXIATA'S REGIONAL RISK ASSESSMENT

Country	Oxford Covid-19 Stringency Index		Remittance & Tourism as % of GDP		Workers in Informal economy		Mobile Industry as % of GDP		Dual SIM Penetration		Prepaid Connections (%)		Substitution by Affordable Fixed Services		Mandated free data during lockdown		Blended Score
	Value	Score	Value	Score	Value	Score	Value	Score	Value	Score	Value	Score	Value	Score	Value	Score	
MY	86	3	13.8%	3	13.4%	1	1.8%	1	45.0%	3	69.0%	3	Applicable	5	Applicable	5	3.0
ID	76	1	7.1%	1	76.5%	5	1.0%	1	63.6%	4	97.0%	5	Partly	3	None	1	2.6
SL	100	5	20.4%	5	64.5%	3	1.1%	1	67.0%	4	90.6%	5	Partly	3	Applicable	5	3.9
BD	86	3	10.1%	3	91.3%	5	1.5%	1	46.3%	3	97.1%	5	None	1	None	1	2.8
NP	100	5	35.6%	5	77.6%	5	3.9%	5	94.3%	5	94.8%	5	Applicable	5	Applicable	5	5.0
KH	71	1	38.6%	5	70.0%	3	4.5%	5	60.0%	3	91.2%	5	None	1	None	1	3.0

Risk Level	• 5: >90	• 3: 80 - 90	• 1: <80	• 5: >20%	• 3: 10% - 20%	• 1: <10%	• 5: >70%	• 3: 50% - 70%	• 1: <50%	• 5: >3%	• 3: 2% - 3%	• 1: <2%	• 5: >80%	• 3: 40% - 60%	• 1: <20%	• 5: >80%	• 3: 60% - 80%	• 1: <60%	• 5: Applicable	• 3: Partly	• 1: None	• 5: Applicable	• 3: Partly	• 1: None
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Source: Axiata

EXHIBIT 2: OPERATING COMPANIES' REVENUE BREAKDOWN



Source: Axiata

EXHIBIT 3: SUM-OF-PARTS BREAKDOWN

Operational companies	Country	Forex rate	Methodology	Valuation (RMmil)	Axiata Stake (%)	Effective value (RMmil)	Share %
Celcom	Malaysia	1	DCF (WACC 7%, Terminal growth 2%)	25,549.3	100.0	25,549.3	52.8
XL	Indonesia	3381	Market Value	10,368.8	66.5	6,895.3	14.3
Dialog	Sri Lanka	43.4	Market Value	2,533.2	83.3	2,110.7	4.4
Robi	Bangladesh	20.3	5x FY20F EV/EBITDA	4,172.4	68.7	2,866.5	5.9
Smart	Cambodia	993	5x FY20F EV/EBITDA	2,854.8	87.5	2,496.8	5.2
M1	Singapore	0.33	VGO price from Connectivity Pte Ltd		28.7	1,656.5	3.4
NCELL	Nepal	26.9	5x FY20F EBITDA	5,428.2	80.0	4,342.5	9.0
Axiata Digital Services			10% investment by Mitsui & Co	2,065.0	90.0	1,858.5	
Pegasus 7 Ventures			Transfer value to management co	578.2	100.0	578.2	
Total Equity Value						48,354.3	100.0
Add Shareholders funds as at 31 Dec 2018						16,069.90	
Less: Cost of subsidiaries and associates						(22,297.60)	
Less: Additional CGT for Ncell						(1,660.52)	
Less: Investment in Axiata Digital Services						(1,007.72)	
Add: 10% investment by Mitsui & Co into Axiata Digita Services						206.50	
Total Sum-of-Parts						39,664.8	
No of shares (mil)						8,816.9	
Sum-of-parts (RM/share)						4.50	

Source: AmInvestment Bank

EXHIBIT 4: PB BAND CHART



EXHIBIT 5: PE BAND CHART

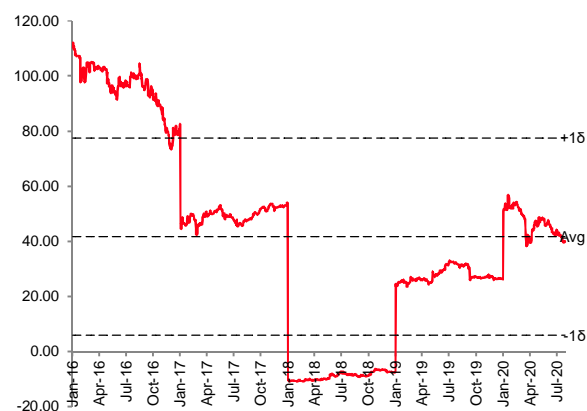


EXHIBIT 6: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	23,885.8	24,583.3	25,022.3	25,749.3	26,522.5
EBITDA	11,003.0	11,032.4	10,413.0	10,955.9	11,435.3
Depreciation/Amortisation	(7,644.8)	(7,084.2)	(7,560.2)	(7,938.3)	(7,938.3)
Operating income (EBIT)	3,358.2	3,948.1	2,852.7	3,017.7	3,497.0
Other income & associates	(6,380.4)	432.1	4.4	9.4	13.7
Net interest	(1,050.9)	(1,508.0)	(1,538.2)	(1,555.2)	(1,632.9)
Exceptional items	-	-	-	-	-
Pretax profit	(4,073.1)	2,872.2	1,318.9	1,471.9	1,877.8
Taxation	(901.6)	(1,057.1)	(369.3)	(412.1)	(525.8)
Minorities/pref dividends	212.7	(357.5)	(207.2)	(165.2)	(180.5)
Net profit	(4,762.0)	1,457.6	742.4	894.6	1,171.5
Core net profit	1,190.0	1,022.0	742.4	894.6	1,171.5
Balance Sheet (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Fixed assets	27,399.0	25,819.4	30,202.4	30,559.1	31,113.6
Intangible assets	20,926.7	20,729.6	19,693.2	18,708.5	17,773.1
Other long-term assets	3,227.4	10,468.0	10,506.0	10,548.7	10,596.0
Total non-current assets	51,553.0	57,017.1	60,401.5	59,816.3	59,482.7
Cash & equivalent	5,071.4	4,224.1	1,765.9	5,359.8	9,289.8
Stock	219.1	154.3	109.7	112.9	116.3
Trade debtors	5,115.2	4,865.9	4,113.3	4,232.8	4,359.9
Other current assets	1,896.2	373.3	392.0	411.6	432.2
Total current assets	12,302.0	9,617.6	6,380.8	10,117.0	14,198.1
Trade creditors	12,484.4	12,291.3	10,968.7	11,287.3	11,626.3
Short-term borrowings	4,483.2	7,631.8	8,394.9	9,234.4	10,157.9
Other current liabilities	1,434.5	4,530.5	4,118.0	4,344.9	4,642.4
Total current liabilities	18,402.2	24,453.6	23,481.6	24,866.7	26,426.6
Long-term borrowings	14,646.6	9,194.5	10,113.9	11,125.3	12,237.9
Other long-term liabilities	7,591.6	10,766.6	11,304.9	11,870.2	12,463.7
Total long-term liabilities	22,238.2	19,961.1	21,418.9	22,995.5	24,701.6
Shareholders' funds	17,476.8	16,180.8	15,635.5	15,659.5	15,960.5
Minority interests	5,737.9	6,039.2	6,246.4	6,411.6	6,592.1
BV/share (RM)	1.93	1.77	1.71	1.71	1.74
Cash Flow (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Pretax profit	(4,073.1)	2,872.2	1,318.9	1,471.9	1,877.8
Depreciation/Amortisation	7,644.8	7,084.2	7,560.2	7,938.3	7,938.3
Net change in working capital	(139.3)	188.0	118.3	196.0	208.5
Others	(1,347.2)	(2,368.4)	(1,786.6)	(1,846.3)	(2,030.6)
Cash flow from operations	2,085.2	7,776.1	7,210.8	7,759.8	7,993.9
Capital expenditure	(6,879.1)	(6,711.2)	(5,630.0)	(6,437.3)	(6,630.6)
Net investments & sale of fixed assets	-	-	-	-	-
Others	-	-	-	-	-
Cash flow from investing	(6,879.1)	(6,711.2)	(5,630.0)	(6,437.3)	(6,630.6)
Debt raised/(repaid)	1,891.8	2,894.8	1,897.8	2,000.0	2,000.0
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(762.6)	(861.7)	(870.5)	(870.5)	(870.5)
Others	-	-	-	-	-
Cash flow from financing	1,129.2	2,033.1	1,027.3	1,129.5	1,129.5
Net cash flow	(3,664.6)	3,097.9	2,608.1	2,452.0	2,492.7
Net cash/(debt) b/f	744.5	(4,975.4)	(3,150.0)	(2,071.5)	(1,477.3)
Net cash/(debt) c/f	(2,920.1)	(1,877.5)	(541.9)	380.5	1,015.5
Key Ratios (YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth (%)	(2.1)	2.9	1.8	2.9	3.0
EBITDA growth (%)	1.6	0.3	(5.6)	5.2	4.4
Pretax margin (%)	(17.1)	11.7	5.3	5.7	7.1
Net profit margin (%)	(19.9)	5.9	3.0	3.5	4.4
Interest cover (x)	3.2	2.6	1.9	1.9	2.1
Effective tax rate (%)	22.1	36.8	28.0	28.0	28.0
Dividend payout (%)	nm	59.7	117.3	97.3	74.3
Debtors turnover (days)	73	74	65	59	59
Stock turnover (days)	3	3	2	2	2
Creditors turnover (days)	192	184	170	158	158

Source: Company, AmInvestment Bank Bhd estimates

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