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Axiata Group Berhad

“Celcom Still Troubles Axiata”

Results Review

- Actual vs. expectations.** Axiata Group Bhd (Axiata) dismal show continued in 2Q16 that derailed 1H16 performances. 1H16 earnings touched RM558 million (-53% y-o-y) on the back of growth in topline by 9% y-o-y. Earnings registered in 1H16 missed ours and consensus estimates, accounting 20% and 23% of both sides full year net profit forecast. The primary culprit that brought down earnings was forex losses of RM260 million as well as high level of depreciation and amortization amounting of RM2.5 billion (+29% y-o-y) in 1H16. However adjusting for forex losses and other exceptional items, Axiata normalized PATAMI stood higher at RM835 million (-27% y-o-y). Lower normalized PATAMI was also hampered by bleak performance from Celcom (-25.4% y-o-y) and Robi (-74.7% y-o-y).
- Dividend.** In view of lower earnings, Axiata declared lower interim dividend of 5 cent, amounting to 38% payout ratio in the 1H16.
- Topline vs. Bottomline.** At constant currency, Axiata’s topline was still strong after growing 3.7% y-o-y in 1H16. The strong growth was supported by its recent acquisition (NCell) that contributed RM484 million alone despite only 2.5 month consolidated earnings into Axiata, Dialog (+24.2% y-o-y), and Smart (+22.2% y-o-y). However, Celcom dismal show continued for second quarter that brought down revenue by 10.1% y-o-y in 1H16 despite the decent traction in postpaid segment. Absolute EBITDA rose 10% y-o-y despite higher operating cost by 8% y-o-y, and EBITDA margin was higher by 5bps q-o-q to 37.7%
- Celcom dipped due to VAS revenue.** Celcom revenue dipped 10.1% y-o-y in 1H16 due to lower contribution

Friday, August 26, 2016

HOLD (TP: RM6.12)

Current Price (RM)	RM5.73
New Fair Value (RM)	RM6.12
Previous Fair Value (RM)	RM6.45
Previous Recommend.	BUY
Upside To Fair Value	6.8%
Dividend Yield (FY16)	4%

Stock Code

Bloomberg	AXIATA MK
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Stock & Market Data

Listing	MAIN MARKET	
Sector	Telco	
Shariah Compliance	Yes	
Issued Shares (mn)	8,926	
Market Cap (RM mn)	51,146	
YTD Chg In Share Price	-10.6%	
Beta (x)	0.96	
52-week Hi/Lo (RM)	RM6.53	RM5.18
3M Average Volume (shrs)	9.49mn	
Estimated Free Float	4.23%	

Major Shareholders

Khazanah	37.7%
EPF	15.1%
ASB	11.8%

from overseas foreign worker segment and value added services (VAS) which remained unresolved since 1Q16 due to customer complain on spam charges. Positively, operating cost improved by 7.9% y-o-y mainly from lower content provider charges, interconnect cost and material costs. However EBITDA margin dipped 1.4pp to 39.4% due to weaker revenue in 1H16. Net addition in the postpaid segment was in good pace after adding 57k q-o-q due to the well reception of CelcomFirst while the lack of new product in the postpaid segment led to number of subscriber tumbled by 897k q-o-q

- **Recovery in promising pace.** At local currency, revenue grew 6.6% y-o-y in 1H16, however on constant currency, revenue fell 2.1% y-o-y in 1H16 mainly due to the decline in interconnect revenue, which is partly offset by growth in data revenue that attributed 33% of revenue vs. 26% in December 2015. Likewise, operating cost further improved by 9.8% on constant currency due to lower interconnect and other direct expenses as well as lower infrastructure expenses that drove EBITDA margin higher at 39.1% vs. 34.8% in December 2015.
- **Mixed fortune in Robi and Dialog.** Dialog continued to post decent results with revenue growing 24.2% y-o-y in 1H16 mainly due to growth in Mobile and Fixed business revenue by 20.3% y-o-y and 23.6% y-o-y respectively. EBITDA grew 22.1% y-o-y but margin dropped by 0.6 pps to 33.3%. PAT meanwhile increased by 31.4% y-o-y to RM139.6 million mainly driven by higher EBITDA. In contrast, Robi posted flat performance post the completion of SIM bio-metric registration but PAT was impacted by higher depreciation (for network swap), interest expense and revised tax rate.
- **NCell results better than planned.** Despite acquiring NCell in mid-april, the 2.5 month results showed better than investment plan, as YTD growth in revenue, EBITDA and PAT touched 1.4%, 6.8% and 44.5%, respectively. Subscriber base increased 10.0% y-o-y from both prepaid (+9.4%) and postpaid (+32.6%).
- **Outlook.** Despite dismal 1H16 earnings, we are positive that forex translation loss will recede and this will assist Axiata bottomline in 2H16. At this point, we are not concern with topline growth as the acquisition of NCell is aiding further topline growth as well as the slowing down of operating cost, especially direct cost in the key markets. Nevertheless, challenges lies with Celcom as it tries to win back its market share in the prepaid segment despite heighten price competition. Nevertheless, the announcement of spectrum allocation remains a major overhang for telco sector in FY16.
- **Change to forecast.** We introduce our new FY16 and FY17 forecast due to higher forex translation loss that derailed 1H16 results. At this juncture, FY16 is expected to drop 14% y-o-y while FY17 is expected to grow by 30% y-o-y respectively assisted by i) improving market share in Sri Lanka and Bangladesh due to easing competition ii) to grow in underserved market especially in Cambodia iii) holding up in Malaysia's prepaid segment. iii) recovering performance of Celcom and XL
- **Valuation.** In view of revised in our numbers, we reduced target price on Axiata to RM6.12, however we maintained our 10% discount on its 3-years average EV/EBITDA of 9.3x. Given this, we reduce our call to **HOLD**. Rerating catalyst on the stock will be underpinned by i) higher-than-

expected subscriber's net addition ii) merger and acquisition activity iii) favourable Ringgit movement

Table 1: Peers Comparison

Company	FYE	Price (RM)	EPS (RM)		P/E (x)		P/B (x)		ROE (%)	Div Yield (%)	TP	Call
			FY16	FY17	FY16	FY17	FY16	FY17				
Axiata	Dec	5.49	0.29	0.32	20.4	18.4	2.2	2.1	11.5	3.7	6.12	Hold
Maxis	Dec	6.33	0.26	0.27	24.8	24.0	11.4	10.4	39.1	3.1	6.46	Hold
Digi	Dec	5.02	0.23	0.23	21.5	21.3	73.5	60.5	285.8	4.5	5.90	Buy
Telekom	Dec	6.82	0.24	0.26	27.2	25.4	3.2	3.15	9.1	3.2	6.87	Hold
Time DotCom	Dec	8.02	0.33	0.38	22.3	19.2	2.0	1.9	21.0	0.9	NR	NR
Average			0.27	0.29	23.24	21.6	18.5	15.6	73.3	2.9		

Source: Bloomberg, M&A Securities

Table 2: Results Analysis

YE: Dec (RM million)	2Q16	1Q16	2Q15	y-o-y	q-o-q	6M16	6M15	y-o-y
Revenue	5,310	5,009	4,707	13%	6%	10,319	9,458	9%
Operating costs	-3,251	-3,177	-2,960	10%	2%	-6,429	-5,936	8%
EBITDA	2,059	1,831	1,747	18%	12%	3,890	3,522	10%
Depreciation & Amortization	-1,391	-1,165	-1,000	39%	19%	-2,556	-1,984	29%
EBIT	668	666	747	-11%	0%	1,334	1,538	-13%
Other operating income	183	24	99	85%	654%	208	141	48%
Finance Income	13	52	51	-74%	-74%	65	110	-41%
Net Finance cost	-480	9	-247	94%	-5231%	-471	-624	-25%
Forex gain	6	-267	-4	-247%	-102%	-260	36	-826%
Jointly controlled	-18	-22	-4	335%	-19%	-40	-4	930%
Associate	37	90	143	-74%	-59%	127	277	-54%
Pre-tax profit	410	552	784	-48%	-26%	962	1,474	-35%
Taxation	-177	-151	-155	15%	18%	-328	-308	6%
Net profit	232	402	630	-63%	-42%	634	1,166	-46%
MI	-43	-33	-19	130%	32%	-76	30	-356%
PATMI	189	369	611	-69%	-49%	558	1,195	-53%
EPS (sen)	2.1	4.2	7.1	-70%	-50%	6.3	13.9	-55%
EBITDA margin	39%	37%	37%			38%	37%	
PBT margin	8%	11%	17%			9%	16%	
PAT margin	4%	8%	13%			6%	12%	
Capex (RM milion)	1,236	1,053	1194	4%	17%	2,289	2284	0%

Source: Bursa Malaysia, M&A Securities

Table 3: Financial Forecast

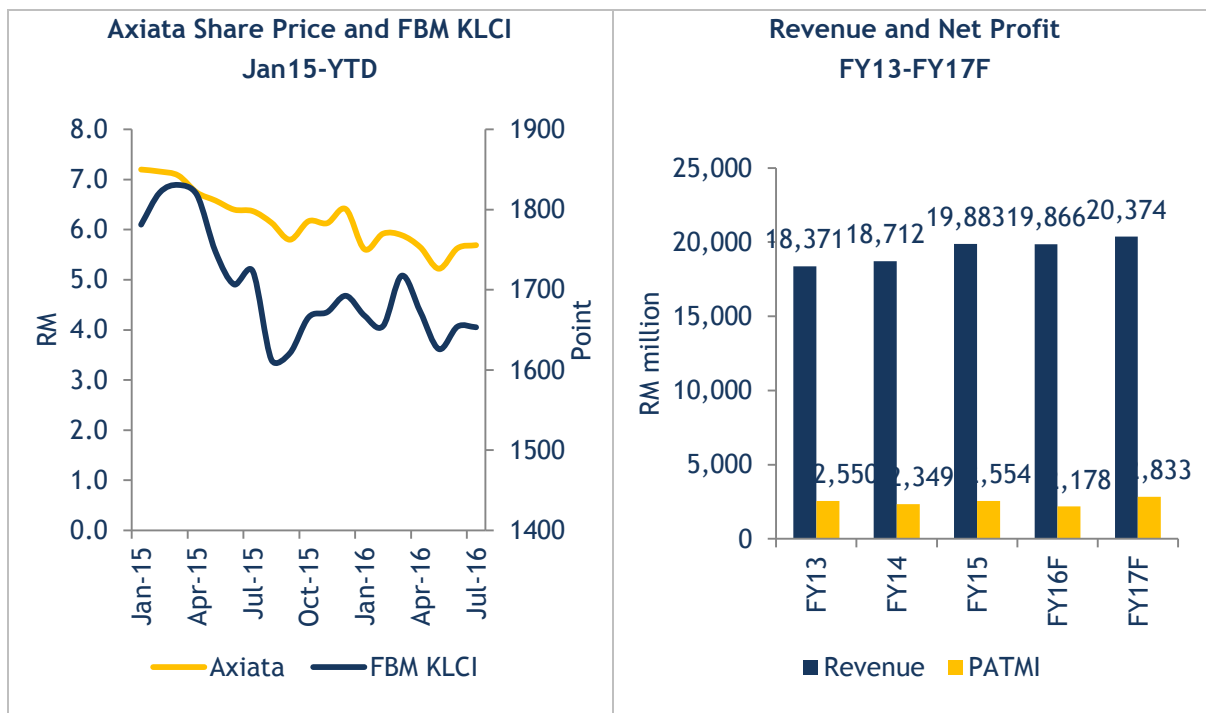
YE: Dec (RM million)	FY13	FY14	FY15	FY16F	FY17F
Revenue	18,371	18,712	19,883	19,866	20,374
Operating costs	-5,816	-6,471	-7,650	-12,087	-12,107
EBITDA	7,475	6,957	7,382	7,779	8,267
Depreciation and amortization	-3,435	-3,672	-4,199	-4,503	-4,400
EBIT	4,039	3,285	3,184	3,276	3,867
Other operating income	48	253	666	70	120
Finance Income	261	198	173	164	82
Finance cost	-1,079	-884	-1,378	-430	-343
Forex gain	8	-76	253	-380	-150
Jointly controlled	5	-25	-39	5	5
Associates	250	364	472	290	263
PBT	3,533	3,114	3,331	2,994	3,843
Taxation	-794	-770	-695	-749	-922
PAT	2,739	2,344	2,636	2,246	2,921
Minority interest	-189	4	-82	-67	-88
PATAMI	2,550	2,349	2,554	2,178	2,833
EPS (sen)	29.9	27.4	30.3	25.5	33.1
Dividend - sen	22	22	20.	17.8	23.2
Dividend payment (RMm)	2,015	1,882	1,740	1,572	2,045
Dividend payout (%)	74%	80%	68%	70%	70%
PER (x)	22.0	18.8	21.2	3%	4%
Gross Yield	3%	4%	3%	7.35	6.84
EV/EBITDA	8.93	7.18	7.69	6.69	6.52
EBITDA	7,455	7,475	7,382	7,779	8,267

Source: Bursa Malaysia, M&A Securities

Table 4: KPI headline

KPI	FY13 (Actual)	FY14 (Actual)	FY15 (Actual)	FY16 (Target)
Revenue growth	6.7%	4.4%	6.3%	12.2%
EBITDA growth	0.6%	-1.2%	4.1%	16%
ROIC (%)	10.7%	8.9%	7.7%	6.8%
ROCE (%)	8.6%	7.5%	6.7%	6.1%
Capex	RM4 billion	RM4.4 billion	RM4.8 billion	RM5.7 billion

Source: Bursa Malaysia, M&A Securities



Source: Bloomberg, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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