

PP14767/09/2012(030761)

Axiata Group Berhad

“Hello Myanmar”

Axiata Group Bhd, Malaysia's largest mobile network company by revenue, announced that its unit, edotco, has signed a pact to acquire majority control in a telecom tower company in Myanmar for USD125 million (RM550 million) in cash. With this, we reiterate our BUY call on Axiata at TP of RM7.10.

- **Expanding into Myanmar.** Axiata Group Bhd (Axiata) has made a second attempt to expand into Myanmar. In its latest attempt, Axiata’s 100%-owned subsidiary, edotco, has proposed to acquire 75% stake in Myanmar Tower Company (MTC) from Digicel Group. According to the filing in Bursa Malaysia Bhd, the transaction enterprise value is set at USD221 million for the 75% stake in MTC. Currently MTC has 1,250 towers in Myanmar, with Ooredoo being its main customer.
- **Paying bigger premium.** At enterprise value of USD221 million, this will translates into EV/tower of 5.7x, or USD177k per tower. We deem that the price Axiata will pay is slightly at a premium compared to the construction cost of around USD120k-USD150k per tower in Myanmar. Given this, we believe the premium represents the untapped Myanmar’s telco industry which currently stands at 50% penetration rate vs. Malaysia at 140%.
- **Financial still healthy.** The purchase price of USD125 million (RM550 million) will be funded by a combination of internal funds and borrowings. This may easily be financed by the group’s healthy balance sheet (net debt/EBITDA: 1.3x) with cash of RM5.5 billion as at 2Q15.
- **Myanmar prospect.** Myanmar is one of the few underpenetrated telco markets remaining in Asia with penetration rate of only 50%. We foresee that Myanmar

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HOLD (TP:RM7.10)

Current Price (RM)	RM6.26
New Fair Value (RM)	RM7.10
Previous Fair Value (RM)	RM7.10
Previous Recommend.	BUY
Upside To Fair Value	14%
Dividend Yield (FY15)	4%

Stock Code	
Bloomberg	AXIATA MK

Stock & Market Data		
Listing	MAIN MARKET	
Sector	Telco	
Shariah Compliance	Yes	
Issued Shares (mn)	8,706	
Market Cap (RM mn)	52,236	
YTD Chg In Share Price	-14.9%	
Beta (x)	0.89	
52-week Hi/Low (RM)	RM7.29	RM5.59
3M Average Volume (shrs)	8.18mn	
Estimated Free Float	4.23%	

Major Shareholders	
Khazanah	38.2%
EPF	14.1%
ASB	10.6%

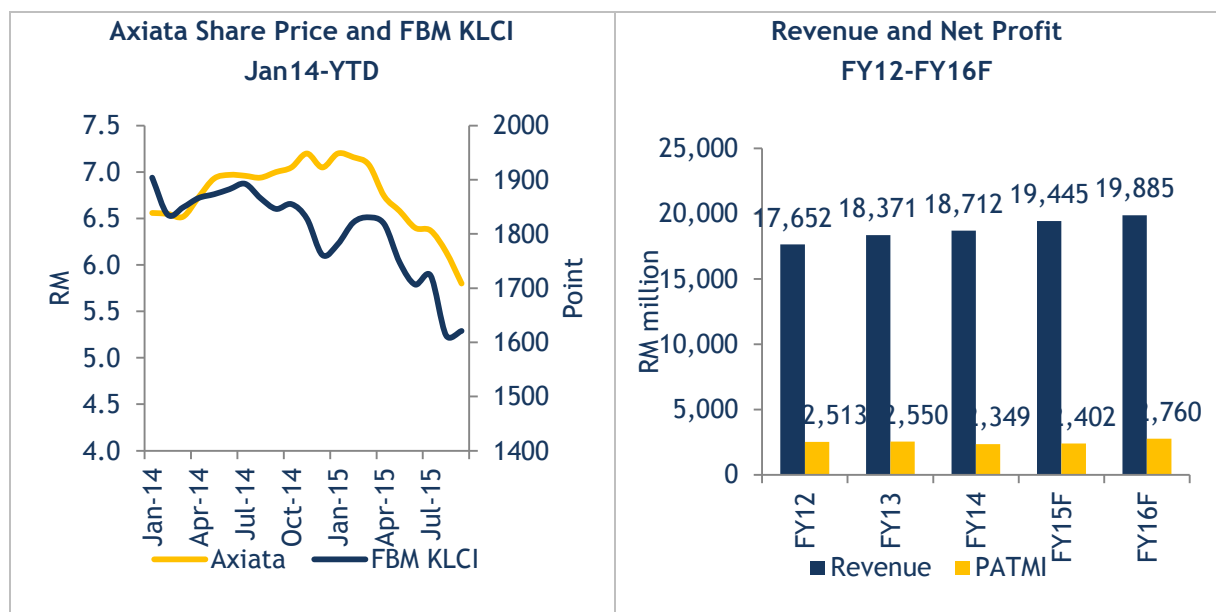
market will provide huge potential to Axiata given Myanmar's favorable regulatory conditions to support its developing nation efforts. We are positive on the acquisitions as it provides Axiata with new streams of revenue apart from conventional telecommunication revenue.

- **Earnings outlook.** We leave our forecast unchanged at this stage as we foresee the contribution from the new set up will be too minute. However we are positive on the acquisition as it will give good operational impact due to edotco's sizeable number of towers. At this stage, FY16 and FY17 earnings are expected to grow by 2.2% and 15% respectively driven 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) turnaround of performance of Celcom and XL.
- **Valuation.** We maintain our TP on Axiata at RM7.10 premised on 3-years average EV/EBITDA of 8.19x which offers potential upside of 14%. Rerating catalyst on the stock will be underpinned by i) higher-than-expected subscriber's net addition ii) lower than expected capex spending in FY15. Given that the share price has tanked quite considerably off late, the stock is a **BUY**.

Table 1: Peers Comparison

Company	FYE	Price (RM)	EPS (RM)		P/E (x)		P/B (x)		ROE (%)	Div Yield (%)	TP	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
Axiata	Dec	6.26	0.31	0.34	23	21	2.8	2.8	11.6	3.1	7.10	Buy
Maxis	Dec	6.81	0.27	0.28	27	25	12.0	12.6	32.1	4.5	7.00	Hold
Digi	Dec	5.73	0.27	0.28	23	22	65.3	62.1	301.5	4.2	6.60	Buy
Telekom	Dec	6.89	0.27	0.29	27	25	3.4	3.4	11.3	3.6	6.95	Hold
Time DotCom	Dec	6.59	0.28	0.32	21	18	1.3	1.2	8.0	1.0	NR	NR
Average			0.28	0.30	24	22	17.0	16.4	72.9	3.28		

Source: Bloomberg, M&A Securities



Source: Bloomberg, M&A Securities

Table 2: Financial Forecast

YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	17,652	18,371	18,712	19,445	19,885
Operating costs	-5,363	-5,816	-6,471	-12,205	-12,298
EBITDA	7,455	7,475	6,957	7,240	7,586
Depreciation and amortization	-3,340	-3,435	-3,672	-3,941	-3,969
EBIT	4,115	4,039	3,285	3,299	3,617
Other operating income	94	48	253	74	70
Finance Income	262	261	198	204	231
Finance cost	-784	-1,079	-884	-531	-430
Forex gain	-136	8	-76	-68	-45
Jointly controlled	-2	5	-25	5	5
Associates	212	250	364	275	296
PBT	3,762	3,533	3,114	3,259	3,743
Taxation	-882	-794	-770	-782	-898
PAT	2,880	2,739	2,344	2,477	2,845
Minority interest	-366	-189	4	-74	-85
PATAMI	2,513	2,550	2,349	2,402	2,760
EPS (sen)	30	29.9	27.4	28.5	32.7
Dividend - sen	35	22	22	21.34	24.52
Dividend payment (RMm)	3,360	2,015	1,882	1,857	2,134
Dividend payout (%)	117%	74%	80%	75%	75%
PER (x)	19.7	22.0	18.8	20.4	17.7
Gross Yield	6%	3%	4%	4%	4%
EV/EBITDA	8.47	8.93	7.18	7.72	7.24
EBITDA	7,455	7,475	6,957	7,240	7,586

Source: Bursa Malaysia, 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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