PP14767/09/2012(030761)

Wednesday, May 20, 2015

Axiata Group Berhad

"Slow in Recovery"

Market Access

Results Review

- **Actual vs. expectations.** Axiata Group Bhd (Axiata) 1Q15 net profit of RM536 million (-27% y-o-y) came in slightly below our estimates but came in line with consensus estimates, accounting 19% and 20% of ours and consensus full year net profit forecast. The subdued earnings performance in 1Q15 was dampened by forex losses on financing activities amounting to RM198 million vs. gains of RM177 million in 1Q14. Nonetheless, the performance of operating companies (OpCos) ex-Malaysia and Indonesia continued to chart favourable momentum.

- **Dividend.** No dividend was declared in this quarter.

- **Topline vs. Bottomline.** 1Q15 revenue rose to RM4.75 billion (+5% y-o-y, -1% q-o-q), mainly driven by higher contribution from 1) Dialog (+21% y-o-y) on growth in mobile data, television and fixed revenue (+14% y-o-y) 2) Robi (+14% y-o-y) on growth in data, wholesale and interconnect revenue. That said, contribution from all OpCos in 1Q15 registered positive growth, underpinned by Robi and Dialog. Despite the slower q-o-q showing, Axiata EBITDA margin stayed at 36.7% in 1Q15, mirroring 4Q14, but easing from 39.6% in 1Q14 due to higher expenses incurred by Celcom and XL respectively

- **EBITDA margin weakening.** Axiata's EBITDA q-o-q declined to RM1.74 billion (-1.5% q-o-q) mainly due to Celcom (lower voice and SMS revenue, higher costs associated with USP projects) and XL (lower voice and SMS revenue, and higher network costs). Similarly, Axiata's EBITDA dropped by 2.8% pps mainly due to Celcom (higher content provider charges and device costs) and XL (higher network costs arising from Axis integration).

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HOLD (TP:RM7.40)

Current Price (RM)	RM6.75
New Fair Value (RM)	**RM7.40**
Previous Fair Value (RM)	RM7.65
Previous Recommend.	BUY
Upside To Fair Value	**9.6%**
Dividend Yield (FY15)	**3.1%**

Stock Code

Bloomberg	AXIATA MK

Stock & Market Data

Listing		MAIN MARKET
Sector		Telco
Shariah Compliance		Yes
Issued Shares (mn)		8,602.9
Market Cap (RM mn)		58,069.9
YTD Chg In Share Price		-4.26%
Beta (x)		0.80
52-week Hi/Lo (RM)	RM7.29	RM6.58
3M Average Volume (shrs)		9.43mn
Estimated Free Float		4.23%

Major Shareholders

Khazanah	38.6%
EPF	13.6%
ASB	9.7%

- **Celcom issues progressing slowly.** From the 1Q15 result, we suspect that Celcom IT transformation has still not resolved despite management echoing to resolve the issues by end-1H15, hence driving further slowdown in voice (-5% q-o-q) and SMS revenue (-23% q-o-q). Despite the network issue, data revenue continued to grow favourably supported by an increase in mobile internet revenue by 5% q-o-q.

- **Transformation year for XL.** Revenue was flat at local currency due to the revamping of XL 's product portfolio which impacted subscriber base (-23.9% q-o-q) and revenue (-0.5% q-o-q) in 1Q15. The sales of tower business in 4Q14 resulting in EBITDA margin dropping to only 34% vs. 39% in 4Q14. Management has guided 3 years transformation for XL separated under three waves, this includes revamping its product portfolio & pricing, stop the high subscribers gross adds game, realign traditional sales channels, and strengthening the management team

- **Outlook.** Various issues plaguing Axiata especially in key OpCos namely Celcom and XL will result Axiata to post tepid topline and bottomline for another quarter. This is very much in line with lower kpi guidance in FY15 to reflect these issues. Nevertheless, the prolonged Celcom network issues may fuel further loss in subscribers as witnessed in 1Q15. On XL front, the group is not expecting to achieve its revenue growth target (within or better than the industry average of 6.0%-6.5% y-o-y) but keeping its EBITDA target unchanged at mid-to-high 30s.

- **Change to forecast**. We maintain to our FY15 and FY16 forecast despite Axiata's 1Q15 earning of the mark slightly from our expectation as we expect Celcom to make good recovery in 2H15. Nonetheless, FY15 and FY16 earnings are projected to grow by 2% and 8% y-o-y driven by i) improving market share in Sri Lanka and Bangladesh due to easing competition iii) to grow in underserved market especially in Cambodia iii) holding up in Malaysia's prepaid segment.

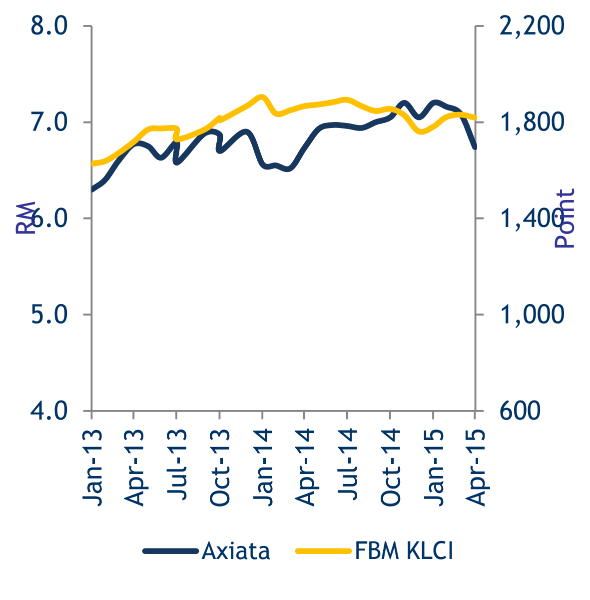
- **Valuation**. Due to the negativity flows, we trim our TP to RM7.40 from RM7.65 as we ascribe higher discount of 15% from 10% on its EV/EBITDA due to prolong issues in XL and Celcom, thus we downgrade our call to **HOLD** with 9.6% upside potential. Rerating catalyst on the stock will be underpinned by i) higher-than-expected subscriber's net addition ii) lower than expected capex spending in FY15.

Table 1: Peers Comparison

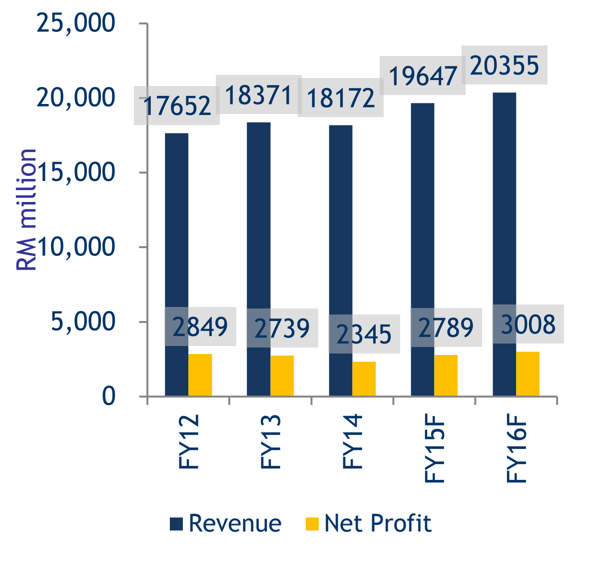
Company	FYE	Price (RM)	EPS (RM)		P/E (x)		P/B (x)		ROE (%)	Div Yield (%)	TP	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
Axiata	Dec	6.75	0.31	0.34	23	21	2.8	2.8	11.6	3.1	7.65	Hold
Maxis	Dec	6.99	0.27	0.28	27	25	12.0	12.6	32.1	4.5	7.10	Hold
Digi	Dec	6.00	0.27	0.28	23	22	65.3	62.1	301.5	4.2	7.00	Buy
Telekom	Dec	7.41	0.27	0.29	27	25	3.4	3.4	11.3	3.6	6.95	Hold
Time DotCom	Dec	6.12	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

Axiata Share Price and FBM KLCI
Jan13-YTD

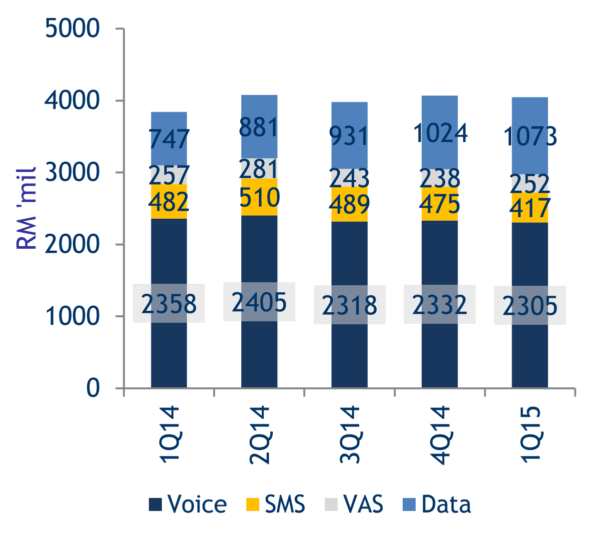


Revenue and Net Profit
FY12-FY16F

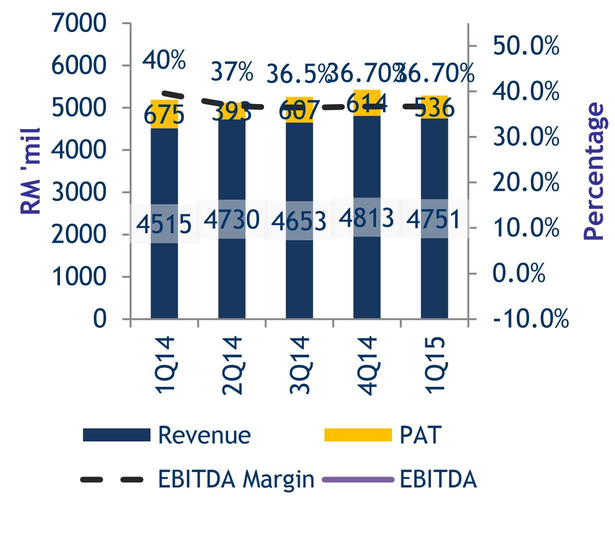


Source: Bloomberg, M&A Securities

Axiata Revenue Composition
1Q14-YTD



Axiata Performance Snapshot
1Q14-YTD



Source: Bursa Malaysia, M&A Securities

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Table 2: Results Analysis

YE: Dec (RM million)	1Q15	4Q14	1Q14	y-o-y	q-o-q	3M15	3M14	y-o-y
Revenue	4,751	4,813	4,515	5%	-1%	4,751	4,515	5%
Operating costs	-2,976	-3,034	-2,799	6%	-2%	-2,976	-2,799	6%
EBITDA	1,774.72	1,779	1,716	3%	0%	1,775	1,716	3%
-Depreciation & amortization	-984	-996	-838	17%	-1%	-984	-838	17%
EBIT	791	783	878	-10%	1%	791	878	-10%
Other operating income	42	86	18	124%	-52%	42	18	124%
Finance income	60	48	55	9%	24%	60	55	9%
Interest exp/income	-377	-257	-12	3117%	47%	-377	-12	3117%
Forex gain	40	100	-17	-342%	-60%	40	-17	-342%
Jointly controlled/associates	134	80	92	46%	68%	134	92	46%
PBT	690	841	1,015	-32%	-18%	690	1,015	-32%
PAT	536	614	730	-27%	-13%	536	730	-27%
EPS (Sen)	6.8	6.9	7.9	-14%	-1%	6.8	7.9	-14%
EBITDA Margin	37.4%	37.0%	38.0%			37.4%	38.0%	
PBT Margin	15%	17%	22%			15%	22%	
PAT Margin	11%	13%	16%			11%	16%	

Source: Bursa Malaysia, M&A Securities

Table 3: Financial Forecast

YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	18,534	18,371	18,172	19,647	20,335
EBITDA	-10,363	7,271	6,967	7,622	8,009
EBIT	3,949	3,836	3,285	3,881	4,079
Forex gain	(66)	8	(76)	(78)	(53)
Jointly controlled/associates	211	255	339	347	350
PBT	3,732	3,533	3,115	3,719	4,011
PAT	2,849	2,739	2,345	2,789	3,008
EPS	29.60	29.9	34.8	32	35
EBITDA Margin	41.29%	39.6%	37.2%	38.8%	39.4%
PBT Margin	21.14%	19.2%	17%	19.8%	20.1%
PAT Margin	16.14%	14.9%	13%	18.9%	19.7%
PER (x)	22.3	20.1	23.3	14.2%	14.8%
P/BV (x)	2.8	2.7	2.9	2.8	2.7

Source: Bursa Malaysia, M&A Securities

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Table 4: KPI headline

KPI	FY13 (Target)	FY13 (Actual)	FY14 (Actual)	FY15 (Target)
Revenue growth	7.6%	6.7%	4.4%	4%
EBITDA growth	0.2%	0.6%	-1.2%	4%
ROIC (%)	10.3%	10.7%	8.9%	8.7%
ROCE (%)	8.3%	8.6%	7.5%	7.7%
Capex	RM4.5 billion	RM4 billion	RM4.4 billion	RM4.8 billion

Source: Bursa Malaysia, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	*Share price is expected to be ≥+10% over the next 12 months.*
TRADING BUY	*Share price is expected to be ≥+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 ≥-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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