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## Axiata Group Berhad

## “Banking on Celcom to Recover”

We participated in the 1Q15 quarterly results conference call session hosted by Axiata Group Berhad (Axiata) management yesterday. Below is the gist:

- **Challenging 1Q15.** All in, management acknowledged the fact that 1Q15 results were a reflection of tough operating environment in countries OpCos operating in. Various unresolved operating issues adding to the woes, however the silver lining is, Celcom IT issue, namely “Business Support Service” is near completion. Nonetheless, not to get excited, the management is planning to delay the new products launch into 2H15.
- **FY15 KPI hard to achieve.** Despite lowering KPI view in FY15, management view the KPI target as very challenging to meet, but management still hope to meet the target, including revenue and EBITDA growth of 4% y-o-y respectively as well as ROIC and ROCE of 8.7% and 7.7%. We do not discount the possibility management revising the KPI should its star performer; Celcom, able to zoom higher in 2H15.
- **Celcom will make comeback.** Celcom IT issue has been prolonged since 4Q14 where the BSS still not ready to be seamless with complex products and dealers IT system. Management reaffirms 1-2 moth timeline to get BSS ready, hampered by the limbo in GST charge in prepaid reloads, and from there Celcom will make come back with new complex products offering in both postpaid and prepaid. Nevertheless, the implementation of GST has put the industry wide in cautious mode, hence another flat quarter results is expected. Additionally, management is hopeful to recapture east-coast market with the return of 400 dealers which have been affected by the floods.

Thursday, May 21, 2015

HOLD (TP:RM7.40)

Current Price (RM)	RM6.73
New Fair Value (RM)	RM7.40
Previous Fair Value (RM)	RM7.40
Previous Recommend.	BUY
Upside To Fair Value	9.9%
Dividend Yield (FY15)	3.1%

## Stock Code

Bloomberg	AXIATA MK
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## Stock &amp; 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/Low (RM)	RM7.29	RM6.58
3M Average Volume (shrs)	9.43mn	
Estimated Free Float	4.23%	

## Major Shareholders

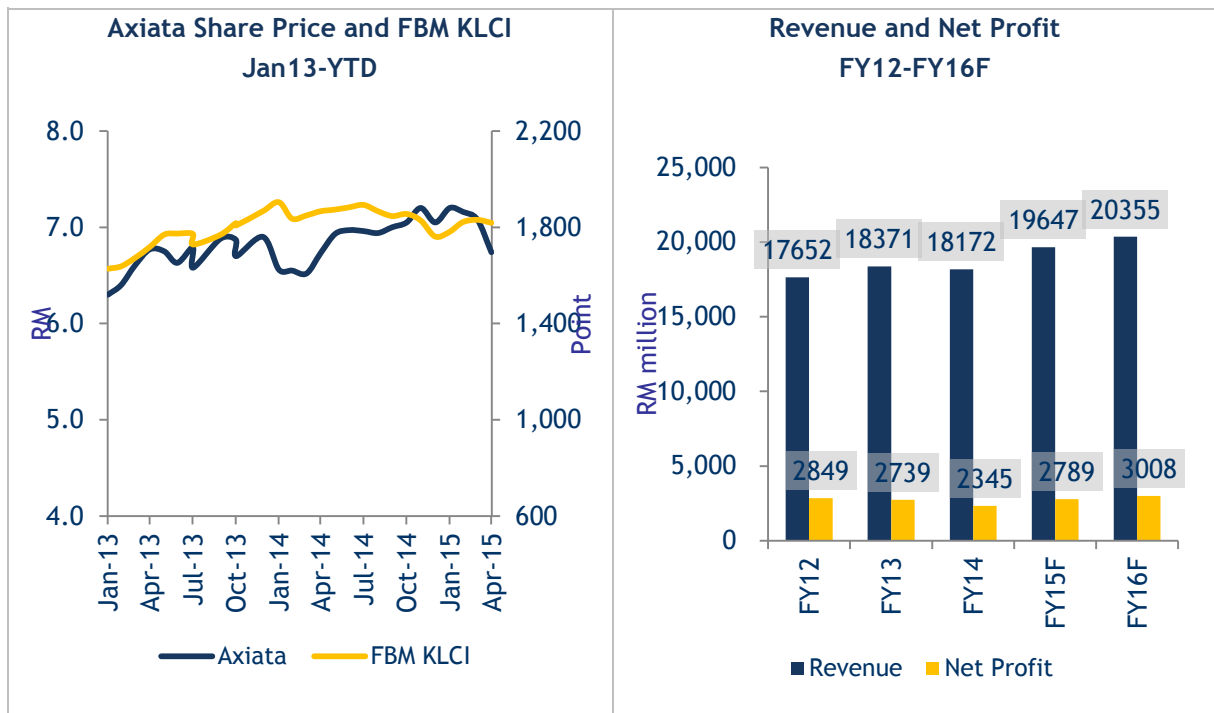
Khazanah	38.6%
EPF	13.6%
ASB	9.7%

- **Transformation year for XL.** After Axis' integration, 2015 will be a transformational year as it has launched new business strategy from volume to value in late January to respond with the industry trend. The new strategy will bring negative impact to the subscriber, however, the new strategy will premise on mid-to-high value subscribers rather than mass market by lowering prices aggressively. The transformation of XL is expected to take 3 years under the three waves with the help from re-launching of Axis brand recently.
- **Celcom LTE lagged competitors.** The various issues dampened Celcom driving its LTE coverage at only 20% as at 1Q15, suggesting its slow progress on LTE initiative compared to competitors who had aggressively embarked on the initiative. For FY15, Celcom is looking to cover around 30% of population supported by its capex of RM4.8 billion at group level.
- **Other OpCos relatively well.** Other OpCos recorded expansion in topline and bottomline performance, particularly strong growth by Dialog and Smart. However, Robi profits were stifled due to the on-going competitions as well as unsettled political situations. For the second straight quarter, associate Idea impressed with a 142% surge in bottomline.
- **Outlook.** Based on the clarifications by management on various issues, we foresee that Axiata will likely to report another flat quarter. Celcom IT issue will take another 1-2 months to settle and subsequently will launch new product. 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 off 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.** We maintain our TP on Axiata at RM7.40 and uphold the HOLD recommendation with 9.9% 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.

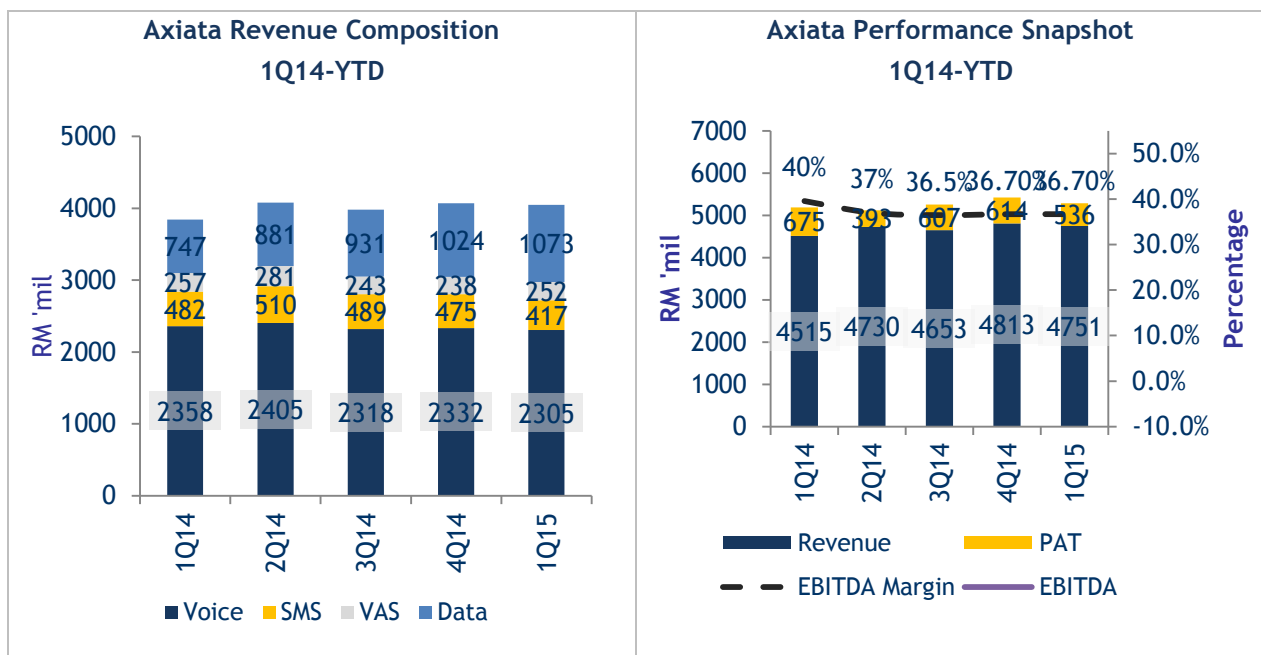
Table 1: Peers Comparison

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	6.73	0.31	0.34	23	21	2.8	2.8	11.6	3.1	7.40	Hold
Maxis	Dec	7.01	0.27	0.28	27	25	12.0	12.6	32.1	4.5	7.10	Hold
Digi	Dec	5.97	0.27	0.28	23	22	65.3	62.1	301.5	4.2	7.00	Buy
Telekom	Dec	7.60	0.27	0.29	27	25	3.4	3.4	11.3	3.6	6.95	Hold
Time DotCom	Dec	6.10	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&amp;A Securities



Source: Bloomberg, M&amp;A Securities



Source: Bursa Malaysia, M&amp;A Securities

Table 2: 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&amp;A Securities

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&amp;A Securities

**STOCK RECOMMENDATIONS**

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

**SECTOR RECOMMENDATIONS**

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

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M & A Securities SdnBhd (15017-H)

(A wholly-owned subsidiary of INSAS BERHAD)

A Participating Organisation of Bursa Malaysia Securities Berhad

**Principal Office:**

Level 1,2,3 No.45 & 47,43-6

The Boulevard, Mid Valley City,

Lingkaran Syed Putra,

59200 Kuala Lumpur

Tel: +603 - 2282 1820 Fax: +603 - 2283 1893

Website: [www.mnaonline.com.my](http://www.mnaonline.com.my)