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Axiata Group Berhad

“Satisfactory, Need to Push in 2H15”

Results Review

- Actual vs. expectations.** Axiata Group Bhd (Axiata) 6M15 PATMI of RM1.19 billion (+5% y-o-y) came in line with ours and consensus forecast respectively, accounting 46% and 48% of ours and consensus full year PATMI forecast. The marginal increase in earnings were driven to small extent by forex gains of RM36 million (+121% y-o-y) and higher contribution from associates of RM277 million (+38% y-o-y).
- Dividend.** The group announced first interim dividend of 8 cent, equivalent to 59% payout ratio.
- Topline vs. Bottomline.** 6M15 revenue of RM9.45 billion (+2% y-o-y), was mainly driven by 1) Dialog (+16.3% y-o-y) on the back of contribution from higher mobile revenue (+5.7% y-o-y) 2) Robi (+16.6% y-o-y) on growth in data revenue (+94.7% y-o-y) and 3) Associates contribution (+88.5% y-o-y) especially contribution from Smart by 55.4% y-o-y. Axiata EBITDA weakened by 5bps to 37.2%, but rose on absolute by 1% y-o-y in 6M15 respectively.
- EBITDA margin still weak.** Axiata high cost trend still not over and hence, shaving EBITDA margin to 37.2% y-o-y (-5bps) in 6M15. Celcom and Dialog clocked-in noticeably higher operating cost as it rose by 4% y-o-y and 21% y-o-y respectively.
- Celcom issue has resolved.** Despite resolving its IT issue, Celcom’s 2Q15 performance has been impacted by the GST implementation with flip flop decision in prepaid reload decision that has stopped its dealer and reseller in the selling of Celcom reload, pushing revenue to drop by 6.3% y-o-y to RM1.8 billion. Despite that, subscribers grew by 61k q-o-q with notable addition in postpaid segment.

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HOLD (TP:RM7.10)

Current Price (RM)	RM5.80
New Fair Value (RM)	RM7.10
Previous Fair Value (RM)	RM7.40
Previous Recommend.	BUY
Upside To Fair Value	22%
Dividend Yield (FY15)	4%

Stock Code	
Bloomberg	AXIATA MK

Stock & Market Data	
Listing	MAIN MARKET
Sector	Telco
Shariah Compliance	Yes
Issued Shares (mn)	8,703
Market Cap (RM mn)	50,478
YTD Chg In Share Price	-18.8%
Beta (x)	0.77
52-week Hi/Lo (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%

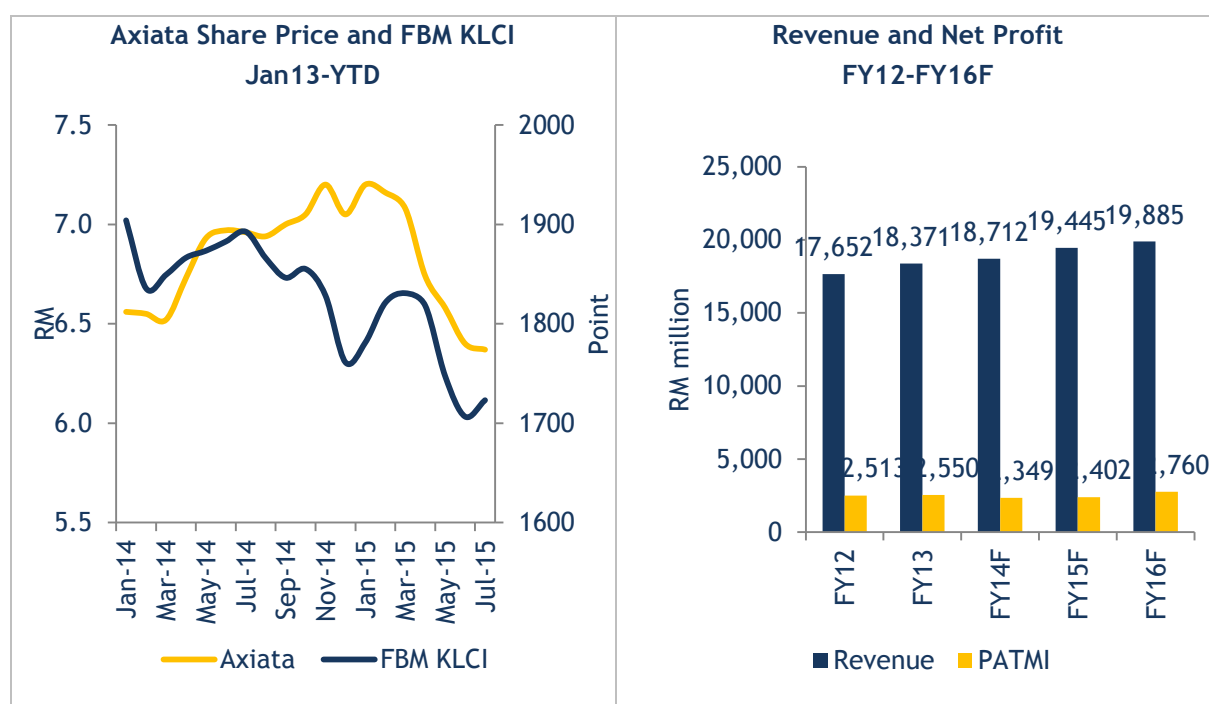
Prepaid segment saw Celcom lost 122k subscribers derailed by price cuts war by telcos. Having passed its IT system stabilisation phase, Celcom is now focusing on revitalising trade channels, moving to non-traditional trade channels, and optimising product offerings. More importantly, it is now in a position to launch more tactical bundles that will be launched soon.

- XL sees slow transformation.** XL's net loss improved to IDR93 billion vs loss of IDR 758 billion in 1Q15 driven by lower forex losses. Revenue dropped by 7% y-o-y in 2Q15, however this was largely expected given the execution of XL's new strategy to focus on higher value subscribers. EBITDA margins however improved to 35.5% (+16bps) on lower operating costs by 6.4% y-o-y on the back of lower network costs. The high value strategy has yet to translate into high subscribers numbers, which in turn declined by 6.1k subscribers. Management has guided 3 years transformation for XL separated under three waves, this includes revamping its product portfolio & pricing, stop high subscribers gross addition game, realigning traditional sales channels, and strengthening the management team.
- Dialog and Robi still healthy.** Dialog's revenue improved by +6.5% y-o-y (constant currency) in 2Q15 driven by higher mobile revenue due to higher broadband revenue. EBITDA margins for the quarter weakened to 33.4% from 34.5% in 1Q15 as a result of higher customer related costs and regulatory costs. Robi's revenue grew 5.6% y-o-y (constant currency) driven by higher data revenue. EBITDA weakened on both absolute and percentage by 2% y-o-y and 7bps respectively.
- Outlook.** We are positive with Axiata strategy, however we are cautious on market reaction to embrace Axiata strategy. Celcom and XL performances still not up to the mark with various issues to be solved. We are banking on Celcom's performance to drive Axiata outlook in 2H15. That said, Celcom need to accelerate its new products launches as well as stop lacklustre performance in prepaid segment despite introducing new offerings in that segment in July. 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 have done some housekeeping exercise and came out with new FY15 and FY16 earnings forecast. In that, we imputed higher earnings forecast by 5% and 2% in FY15 and FY16 respectively. Given this, 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) recovering performance of Celcom and XL
- Valuation.** We introduce new TP on Axiata at RM7.10 premised on 3-years average EV/EBITDA of 8.19x which offers potential upside of 22.4%. 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	5.80	0.31	0.34	23	21	2.8	2.8	11.6	3.1	7.10	Buy
Maxis	Dec	6.46	0.27	0.28	27	25	12.0	12.6	32.1	4.5	7.00	Buy
Digi	Dec	5.00	0.27	0.28	23	22	65.3	62.1	301.5	4.2	6.60	Buy
Telekom	Dec	6.23	0.27	0.29	27	25	3.4	3.4	11.3	3.6	6.95	Buy
Time DotCom	Dec	5.68	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

Results Review- Axiata Group Bhd

Table 2: Results Analysis

YE: Dec (RM million)	2Q15	1Q15	2Q14	y-o-y	q-o-q	6M15	6M14	y-o-y
Revenue	4,707	4,751	4,730	0%	-1%	9,458	9,245	2%
Operating costs	-2,960	-2,976	-2,962	0%	-1%	-5,936	-5,762	3%
EBITDA	1,747	1,775	1,768	-1%	-2%	3,522	3,484	1%
Depreciation&Amortization	-1,000	-984	-879	14%	2%	-1,984	-1,717	16%
EBIT	747	791	889	-16%	-6%	1,538	1,767	-13%
Other operating income	99	42	6	1559%	139%	141	24	475%
Finance Income	51	60	49	3%	-16%	110	104	6%
Net Finance cost	-247	-377	-358	-31%	-34%	-624	-370	69%
Forex gain	-4	40	-157	-97%	-111%	36	-173	-121%
Jointly controlled	-4	0	-15	-72%	-2010%	-4	-12	-68%
Associate	143	134	111	29%	7%	277	201	38%
Pre-tax profit	784	690	526	49%	14%	1,474	1,541	-4%
Taxation	-155	-154	-122	27%	0%	-308	-407	-24%
Net profit	630	536	404	56%	17%	1,166	1,134	3%
MI	-19	48.718	51	-137%	-139%	30	4	655%
PATMI	610.8	584.8	455.0	34%	4%	1,196	1,138	5%
EPS (sen)	7.1	6.8	5.3	34%	4%	13.9	13.2	5%
EBITDA margin	37.1%	37.4%	37.4%	-3bps%	-3bps%	37.2%	37.7%	-5bps
PBT margin	17%	15%	11%			16%	17%	
PAT margin	13%	11%	9%			12%	12%	
Capex (RM million)	1,194	1,090	739			2,284	1,774	

Source: Bursa Malaysia, M&A Securities

Table 3: 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

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 $\geq +10\%$ 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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