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Axiata Group Berhad

“Celcom Still Struggling in Competitions

Results Review

- Actual vs. expectations.** Axiata Group Bhd (Axiata) 9M15 PATAMI of RM2.12 billion (+21% y-o-y) beaten ours and consensus forecast respectively. However, if we stripped off gains of disposal of stake in Samart (RM117 million), disposal of XL towers (RM374 million) and forex and others (RM56 million) and add back forex loss of RM141 million, normalised PAT touched RM1.65 billion in 9M15 (-8% y-o-y), accounting 69% and 68% of ours and consensus full year PATAMI forecast. The steady cumulative earnings were underpinned by higher contribution from Dialog (+65.2% y-o-y), Smart (+81% y-o-y) as well as associates and others (+46.7% y-o-y)
- Dividend.** The Group announced first interim dividend of 8 cent, equivalent to 33% payout ratio.
- Topline vs. Bottomline.** Axiata hit RM5 billion in revenue for the first time in 3Q15 and hence pushed revenue for 9M15 to RM14.52 billion (+4.5% y-o-y), mainly driven by 1) Smart (+56.4% y-o-y) on the back of strong growth in data and voice revenue 2) Robi (+24.1% y-o-y) on data and device sales 3) Dialog (+22.3% y-o-y) on data and TV revenue. Axiata EBITDA's in 9M15 added on percentage basis by 1bps to 37.4%, and 5% y-o-y in absolute in 9M15.
- EBITDA margin still weak.** Axiata high cost trend still not over and hence, shaved EBITDA margin to 37.2% y-o-y (-5bps) in 6M15. Celcom and Dialog were the notable higher operating cost segments, rising by 4% y-o-y and 21% y-o-y respectively.
- Celcom still struggle.** We foresee that Celcom is making progress on its transformation, albeit in slow pace due to intense

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HOLD (TP:RM6.70)

Current Price (RM)	RM6.13
New Fair Value (RM)	RM6.70
Previous Fair Value (RM)	RM7.10
Previous Recommend.	BUY
Upside To Fair Value	9.2%
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%

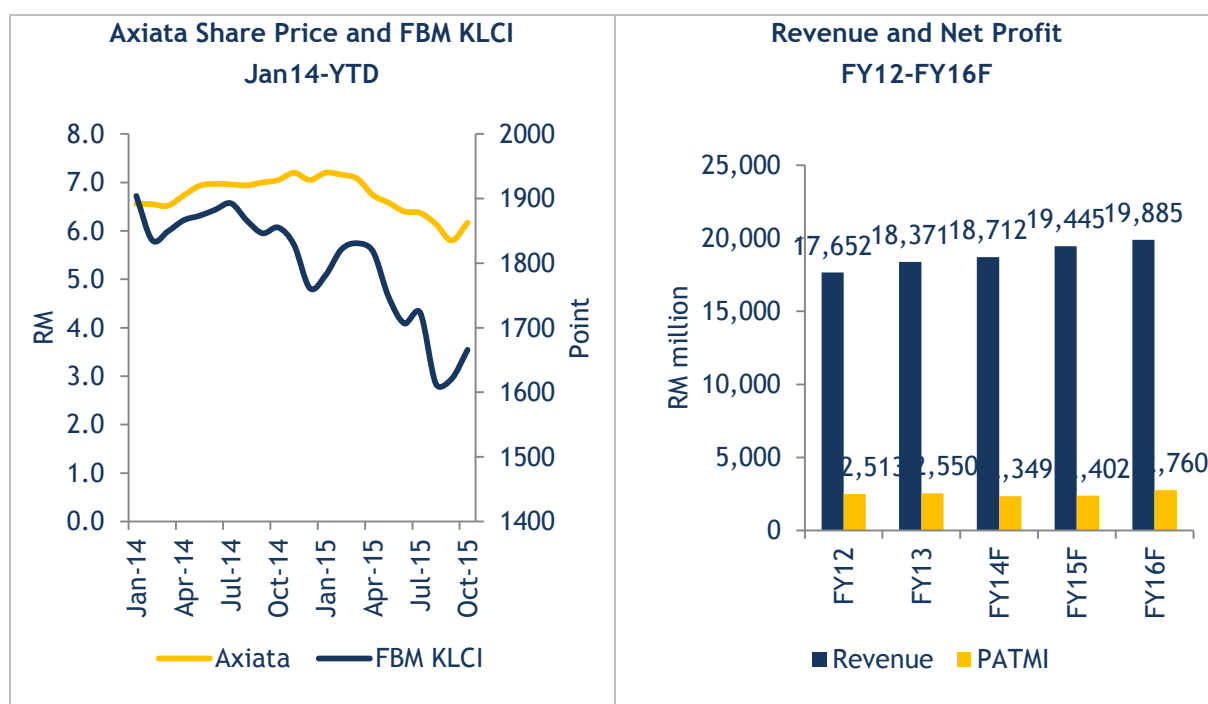
competitions. This is shown through its subscribers' addition of 169k q-o-q (+218k in postpaid, -49k in prepaid). Capex surged to RM555 million vs. RM460 million as LTE competition in Malaysia intensified. Notwithstanding, we remain positive on Celcom after it launched several attractive new products in postpaid and prepaid segment to garner new subscribers.

- **XL sees encouraging trend.** XL new strategy continued to show encouraging trend as seen in steady 9M15 revenue. EBITDA, however, declined 4% in tandem with the weaker revenue while margin held steady at 35.8% (vs. 35.9% in 9M14) whilst net loss improved to RM98 million vs. losses of RM158 million in 9M14. Despite the losses in subscriber by 4.5k q-o-q in prepaid segment ARPU for postpaid, prepaid and blended climbed to IDR38 vs. IDR31, IDR108 vs. IDR104 and IDR38 vs. IDR32 on the back of XL new strategy focusing on higher value subscribers that has yet to translate into subscribers addition.
- **Dialog and Robi still healthy.** Dialog's revenue improved by +10.5% y (constant currency) in 3Q15 driven by higher mobile revenue contributed mainly from broadband side. EBITDA margins for the quarter jumped to 33.6% from 32% in 3Q15 as a result of lower customer related costs and regulatory costs.. Operating costs increased by 17.0% or 3.1% at constant currency primarily due to higher customer related costs. EBITDA (absolute) in the period grew 34.0% whilst margin jumped to 33.8%. PAT meanwhile increased by 12.6% to RM128.7 million mainly flowing from higher EBITDA but partially offset by higher depreciation and foreign exchange losses.
- **Others.** Cambodia recorded strong growth of 34.3% y-o-y (constant currency) in revenue resulting in higher EBITDA growth of 62.0% at constant currency. PAT grew 86.4% to RM163.8 million. Associates and joint ventures contribution in share of profit increased to RM385.4 million from RM258.9 million, mainly due to excellent performance by Idea in India.
- **Outlook.** The operational performances of Axiata's operating entities (Celcom and XL in particular) should pick up in 4Q15. Celcom should reap the benefits of its recent product launches. XL meanwhile, should have been close to churning out its no/low value subscribers in 2Q15.
- **Change to forecast.** No change to our forecast as 9M15 results were within our expectations. 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.** Despite the satisfactory performance, we imputed 8% discount on 3-years average EV/EBITDA of 8.19x and we introduce new target price of RM6.70 and we maintain our **HOLD** call. 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	6.14	0.31	0.34	23	21	2.8	2.8	11.6	3.1	6.70	Hold
Maxis	Dec	6.55	0.27	0.28	27	25	12.0	12.6	32.1	4.5	7.00	Hold
Digi	Dec	5.12	0.27	0.28	23	22	65.3	62.1	301.5	4.2	6.10	Buy
Telekom	Dec	6.60	0.27	0.29	27	25	3.4	3.4	11.3	3.6	6.87	Hold
Time DotCom	Dec	6.95	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: Results Analysis

YE: Dec (RM million)	3Q15	2Q15	3Q14	y-o-y	q-o-q	9M15	9M14	y-o-y
Revenue	5,065	4,707	4,653	9%	8%	14,523	13,898	4%
Operating costs	-3,152	-2,960	-2,959	7%	6%	-9,088	-8,721	4%
EBITDA	1,913	1,747	1,694	13%	9%	5,435	5,177	5%
Depreciation&Amortization	-1,032	-1,000	-935	10%	3%	-3,016	-2,652	14%
EBIT	881	747	759	16%	18%	2,419	2,526	-4%
Other operating income	407	99	142	187%	310%	547	166	229%
Finance Income	39	51	46	-15%	-24%	149	150	0%
Net Finance cost	-579	-247	-257	125%	134%	-1,203	-627	92%
Forex gain	168	-4	-2	-7128%	-3963%	204	-176	-216%
Jointly controlled	-8	-4	-6	43%	94%	-12	-18	-34%
Associate	120	143	76	59%	-16%	397	277	43%
Pre-tax profit	1,027	784	757	36%	31%	2,501	2,298	9%
Taxation	-72	-155	-142	-49%	-53%	-381	-549	-31%
Net profit	955	630	614	55%	52%	2,121	1,748	21%
MI	-64	-19	21	-398%	238%	-34	25	-234%
PATMI	891.4	610.8	635.8	40%	46%	2,087	1,774	18%
EPS (sen)	10.3	7.1	7.4	39%	45%	24.2	20.6	17%
EBITDA margin	37.8%	37.1%	36.4%	140bps%	-7bps%	37.4%	37.3%	1bps
PBT margin	20%	17%	16%			17%	17%	
PAT margin	19%	13%	13%			15%	13%	
Capex (RM milion)	1,186	1,194	739			2,284	975	

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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