

PP14767/09/2012(030761)

Axiata Group Berhad

“Hello Nepal”

Axiata Group Bhd, (Axiata) Malaysia’s largest mobile network company by revenue, announced that its wholly-owned subsidiary, Axiata Investment (UK) Liited has entered into a conditional sale and purchase agreement with TeliaSonera UTA Holdings B.V and SEA Telecom Investment B.V. for the 100% acquisition of Reynolds Holdings Limited (Reynolds) with a purchase price of USD1.365 billion, translating into 80% equity stake and controlling stake in Ncell Pvt. Ltd (Ncell). With this, we reiterate our BUY call on Axiata at TP of RM6.70.

- **Expanding into Nepal.** In unexpected announcement, Axiata Investments (UK) Limited, Axiata has entered into a conditional sale and purchase agreement with TeliaSonera UTA Holdings B.V. and SEA Telecom Investments B.V. for the 100% acquisition of Reynolds Holdings Limited (Reynolds) and effectively secures Axiata an 80% stake in Ncell, a key player in Nepal telecommunication industry., The remaining 20% will be held by Sunivera Capital Venture Pvt Ltd (Sunivera). We are surprise with another mergers and acquisition (M&A) activities in 2015 for Axiata after it announced the acquisition of 75% stake in Myanmar Tower Company IMTC) in August this year with a cost of USD221 million. Nevertheless, we are not surprise with the Ncell acquisition as Ncell fits well into all Axiata’s M&A criteria such as i) brownfield investment ii) management control iii) growth market iv) attractive valuation v) earnings accretive vi) within target footprint
- **About Ncell.** Ncell is the number one mobile telecommunications operator in Nepal controlling market share of 48.8%, providing mobile voice, data and value-added services. Ncell has 13.0 million mobile subscribers as at 17 July 2015. Ncell has extensive

Tuesday, December 22, 2015

BUY (TP:RM6.70)

Current Price (RM)	RM5.98
New Fair Value (RM)	RM6.70
Previous Fair Value (RM)	RM6.70
Previous Recommend.	Hold
Upside To Fair Value	12%
Dividend Yield (FY15)	4%

Stock Code

Bloomberg	AXIATA MK
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Stock & Market Data

Listing	MAIN MARKET	
Sector	Telco	
Shariah Compliance	Yes	
Issued Shares (mn)	8,816	
Market Cap (RM mn)	52,721	
YTD Chg In Share Price	-15.2%	
Beta (x)	0.97	
52-week Hi/Lo (RM)	RM7.27	RM5.59
3M Average Volume (shrs)	8.18mn	
Estimated Free Float	4.23%	

Major Shareholders

Khazanah	38.2%
EPF	14.1%
ASB	10.6%

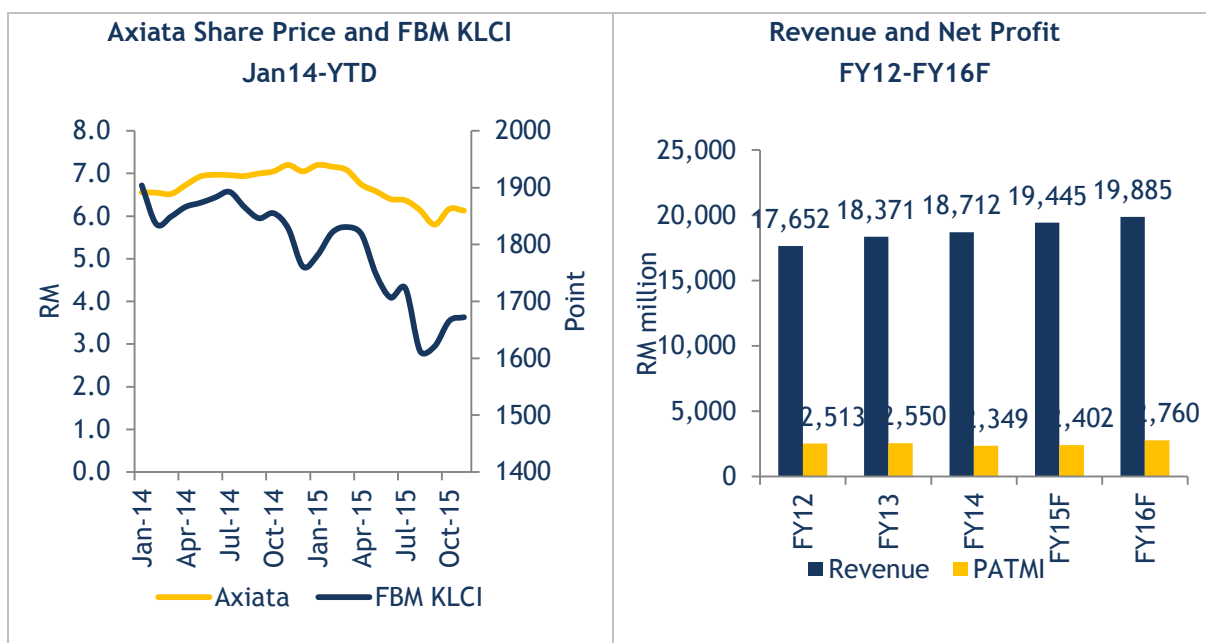
coverage throughout Nepal covering approximately 90.0% of the population of Nepal. Furthermore, its third generation (3G) telecommunication network is available in 20 major cities of Nepal.

- **Bright future in Nepal.** The M&A activity is in line with Axiata strategy to embark his footprints across the Asian region given the fast growing Nepal economy as well as high young demographic at 68% of its 28 million populations. Currently, its mobile industry landscape is essentially a two-player market with a mobile penetration of unique subscribers of 51.1% and mobile broadband penetration of 21.5% that boasts with 33.1% CAGR in internet subscribers from 2012 to 2014.
- **Ncell have sufficient spectrums.** To add to the spice, Ncell is the largest foreign direct investment in Nepal. Ncell also holds a sufficient and good mix of spectrum portfolio. This includes paired spectrum of 8MHz of 900MHz, 11MHz of 1800MHz and 10MHz of 2100MHz spectrum.
- **Impact into financial.** According to the Bursa Malaysia announcement, Ncell can potentially become the largest PATAMI contributors to Axiata. Additionally, based on Ncell FY14's performance, Axiata revenue, EBITDA and PATAMI will bump up by more than 9%, 13% and 19% respectively. Additionally, Ncell capabilities to generate strong cash flows of NPR22 billion per annum will further back Axiata's dividend policy.
- **Paying at appropriate valuation.** At enterprise value of USD1.365 billion, the acquisition price will translate into EV/EBITDA of 5.0x. We deem the price Axiata paying as cheap given the 80% controlling stake in Ncell where Ncell financials will be consolidated as well as huge opportunity for Axiata to explore in Nepal burgeoning telecommunication market. Given this, we believe the valuation is appropriate given the reasons above.
- **Earnings outlook.** We leave our forecast unchanged at this stage as we need to seek for more financial information on Ncell especially on ARPU details. However we are positive on the acquisition as it will give huge financial impacts to Axiata given Ncell number one position market share in Nepal. 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. iv) turnaround of performance of Celcom and XL.
- **Valuation.** We maintain our TP on Axiata at RM6.70 premised on 3-years average EV/EBITDA of 8.19x which offers potential upside of 12%. Rating 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

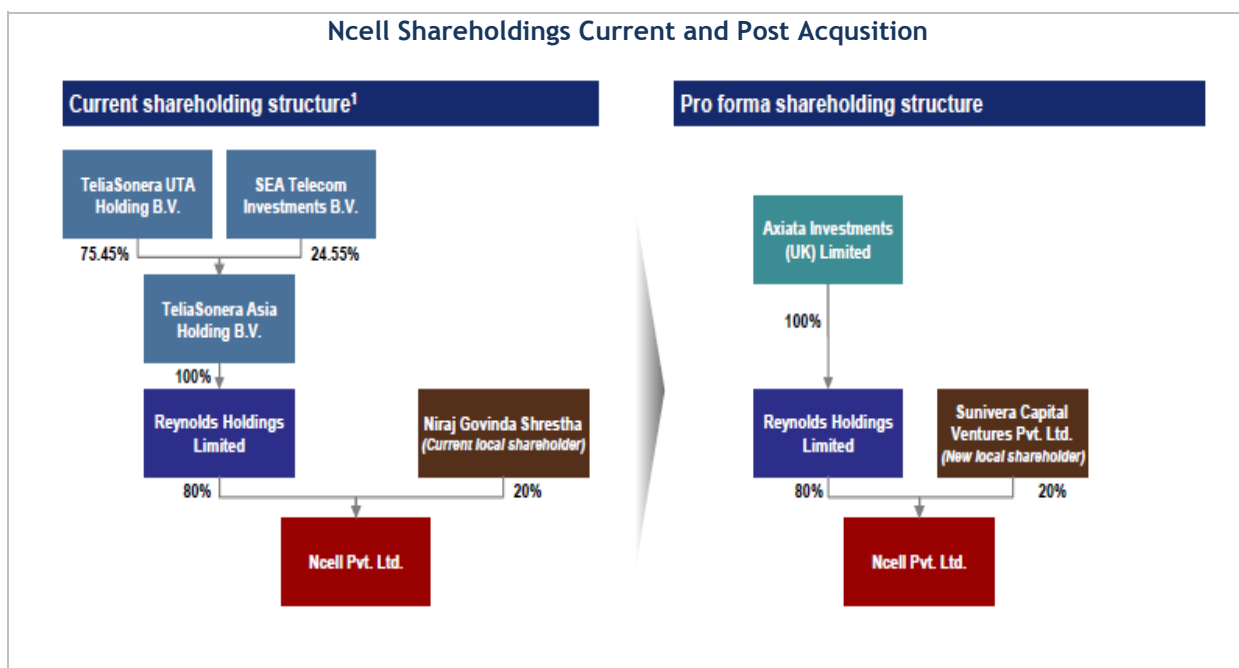
Company	FYE	Price (RM)	EPS (RM)		P/E (x)		P/B (x)		ROE (%)	Div Yield (%)	TP	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
Axiata	Dec	6.14	0.31	0.34	23	21	2.8	2.8	11.6	3.1	6.70	Buy
Maxis	Dec	6.55	0.27	0.28	27	25	12.0	12.6	32.1	4.5	7.00	Hold
Digi	Dec	5.12	0.27	0.28	23	22	65.3	62.1	301.5	4.2	6.10	Buy
Telekom	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

Ncell Shareholdings Current and Post Acquisition



Source: Company

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

Table 3: 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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