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Recommendation:	BUY
Current Price:	RM 2.37
Previous Target Price:	RM 2.60
Target Price:	↔ RM 2.60
Capital Upside/ Downside:	9.7%
Dividend Yield (%):	4.8%
Total Upside/ Downside:	14.5%

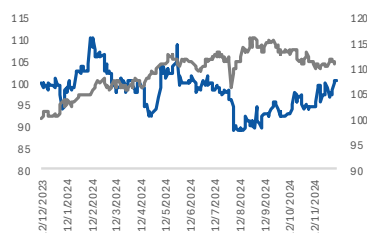
Stock information

Board	MAIN
Sector	Telecommunication
Bursa/ Bloomberg Code	6888 / AXIATA MK
Syariah Compliant	Yes
ESG Rating	★★★
Shares issued (m)	9,182.8
Market Cap (RM' m)	21,763.2
52-Week Price Range (RM)	2.94-2.18
Beta (x)	1.3
Free float (%)	46.0
3M Average Volume (m)	4.3
3M Average Value (RM' m)	10.4

Top 3 Shareholders

	(%)
Khazanah Nasional Bhd	36.7
Oversea-Chinese Banking Corp Ltd	10.0
Uob Kay Hian Hong Kong Ltd	8.0

Share Price Performance



	1M	3M	12M
Absolute (%)	7.2	-4.4	2.6
Relative (%)	7.6	-2.3	-7.4

Axiata Group Bhd

XL Axiata and Smartfren officially confirms their merger

Executive Summary

- **XL Axiata and Smartfren has reached an agreement to merge as a new entity, XLSmart with a purchase consideration of RM3.3bn.**
- **We deemed the acquisition valuation at RM3.3bn, which translates to 5.1x EV/EBITDA to be slightly overpriced.**
- **We maintain BUY recommendation on Axiata with unchanged TP of RM2.60, based on DCF valuation and three-star ESG rating as the transaction is still pending approval from the authorities and shareholders.**

A definitive agreement has been reached for the merger between XL Axiata and Smartfren.

Both companies have reached an agreement to merge and form a combined entity, XLSmart. As part of the merger, XL Axiata will issue 5.1bn new shares at a price of IDR2,350 (65 sen) per share to acquire Smartfren and its subsidiary, PT Smart Telcom (SmartTel), for a total purchase price of IDR 11.9tn (RM3.3bn). This brings Axiata shareholdings in XLSmart to 47.9% after the issuance.

To establish joint control for Axiata and Sinar Mas (Smartfren major shareholder), Axiata will be selling 2.4bn (13.1% stake) shares in XLSmart to Sinar Mas, for a cash consideration of USD475m (RM2.1bn). The first USD400m cash consideration will be issued upon completion of the proposed merger, whereas the remaining USD75m is subject to certain conditions.

Post-merger, Axiata Group and Sinar Mas Group will become joint controlling shareholders, each owning a 34.8% stake in XLSmart, giving them equal influence over its strategic direction and decisions. The transaction is expected to be finalised in 1HFY25, pending regulatory and shareholder approvals.

Potential synergy to Axiata. XLSmart will have a combined mobile subscriber base of around 94.5m and a market share of 27% in Indonesia. We expect the merger to be earnings accretive over the long run stem from i) cost saving synergies of RM1.2bn-1.7bn annually, ii) market consolidation to steer ARPU growth, iii) enlarged customer base from larger combined spectrum and addition from Smartfren mobile subscribers.

Acquisition details. The acquisition valuation of RM3.3bn, which translates to 5.1x EV/EBITDA which is slightly expensive. In comparison to the closest peers, Telkom Indonesia and Indosat, are trading at EV/EBITDA multiples of 4.7x and 4.9x, respectively. We believe the slight premium to the valuation is unjustified given Smartfren's smaller presence in the Indonesian market, coupled with long standing disappointing results and its inability to achieve profitability. Post-completion of acquisition, we gathered that Axiata's net gearing is expected to drop from 1.21x to 0.77x as most of the cash consideration will be utilised to pare down debt.

Our take. In a nutshell, we opined there will be earnings dilution in the near term given that Axiata's share of profit is likely to fall following the issuance of new share capital, while the initial gestation phase to optimize Smartfren's operations will result in limited cost savings.

Valuation & Recommendation. Given that the transaction is still pending approval from the authority and shareholders, we made no changes to our earnings forecast at the moment. Maintained our **BUY** recommendation on Axiata with a target price of **RM2.60**, based on DCF valuation (WACC of 7.3% with a long-term growth rate of 0.5%).

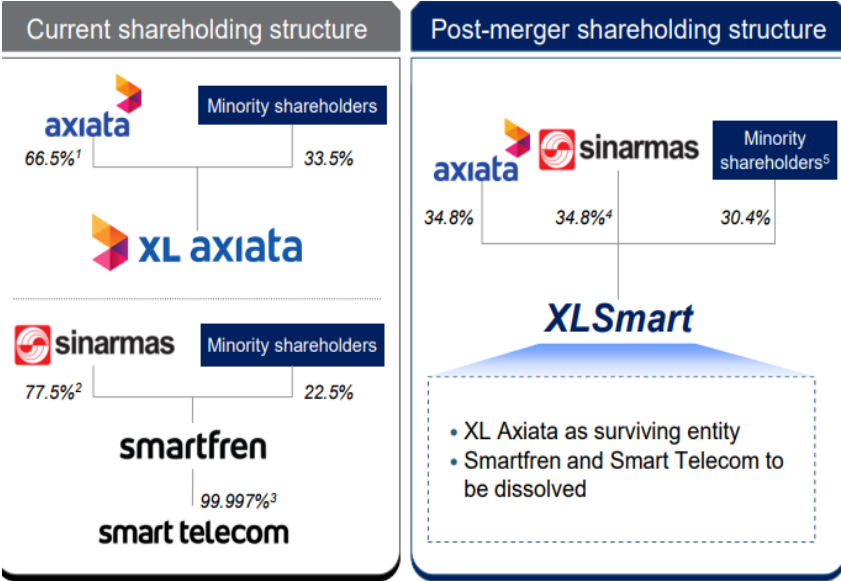
Risk. Axiata continues to face geopolitical, macroeconomic and regulatory risks as well as strengthening USD and high interest rates.

Appendix 1: Implied EV/EBITDA

	MYR'bn
Total Purchase Consideration	3.3
Smartfren	
Cash	0.6
Debt	4.7
EV	7.5
EBITDA	1.5
Implied EV/EBITDA (X)	5.1

Source: Apex Securities

Appendix 2: Shareholding structure



Source: Company

Company Update

Thursday, 12 Dec, 2024

Financial Highlights

Income Statement

FYE Sep (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Revenue	20020.3	22002.3	23319.8	27740.1	29007.6
Operating Profit	8236.3	9858.5	11076.2	12750.5	13096.5
EBITDA	8236.3	9858.5	11076.2	12750.5	13096.5
Depreciation & Amortisation	-7878.0	-7200.0	-8013.7	-7512.1	-7829.7
EBIT	358.3	2658.6	3062.6	5238.4	5266.8
Net Finance Income/ (Cost)	-2101.3	-2396.9	-2097.3	-2224.7	-2639.4
Associates & JV	-66.5	531.8	647.1	666.5	686.5
Pre-tax Profit	-1809.5	793.4	1612.4	3680.2	3313.9
Tax	-604.9	-651.2	-645.0	-1472.1	-1325.5
Profit After Tax	-2414.4	142.2	967.4	2208.1	1988.3
Minority Interest	205.0	267.4	267.4	267.4	267.4
Net Profit	-2619.3	-125.2	700.0	1940.7	1720.9
Exceptionals	4206.0	667.4	0.0	0.0	0.0
Core Net Profit	1586.7	542.2	700.0	1940.7	1720.9

Key Ratios

FYE Sep	FY22	FY23	FY24F	FY25F	FY26F
EPS (sen)	17.3	5.9	7.6	21.1	18.7
P/E (x)	13.7	40.1	31.1	11.2	12.6
P/B (x)	0.7	0.8	0.8	0.8	0.7
EV/EBITDA (x)	0.0	-0.4	-0.4	-0.2	-0.2
DPS (sen)	14.0	10.0	0.0	11.4	31.7
Dividend Yield (%)	5.9%	4.2%	0.0%	4.8%	13.4%
EBITDA margin (%)	41.1%	44.8%	47.5%	46.0%	45.1%
EBIT margin (%)	18%	12.1%	13.1%	18.9%	18.2%
PBT margin (%)	-9.0%	3.6%	6.9%	13.3%	11.4%
PAT margin (%)	-12.1%	0.6%	4.1%	8.0%	6.9%
NP margin (%)	-13.1%	-0.6%	3.0%	7.0%	5.9%
CNP margin (%)	7.9%	2.5%	3.0%	7.0%	5.9%
ROE (%)	5.2%	19%	2.6%	6.7%	5.8%
ROA (%)	1.9%	0.7%	0.9%	2.3%	2.0%
Gearing (%)	116.9%	130.8%	144.5%	136.9%	135.6%
Net gearing (%)	92.7%	114.5%	117.3%	104.7%	100.7%

Valuations FY25F

Terminal Growth Rate	0.50%
WACC	7.27%
Implied Fair Value (RM)	2.60

Source: Company, Apex Securities

Balance Sheet

FYE Sep (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Cash	7451.7	4612.1	7410.5	9298.9	10395.7
Receivables	6943.6	4808.7	5096.6	6062.7	6339.7
Inventories	216.4	218.9	232.0	276.0	288.6
Other current assets	157.6	82.3	0.0	968.2	968.2
Total Current Assets	14694.0	10607.9	13707.4	16605.8	17992.3
Fixed Assets	27201.0	27439.8	25722.5	26809.8	27972.5
Intangibles	13442.2	12237.5	12237.5	12237.5	12237.5
Other non-current assets	26303.6	2856.7	2856.7	2856.7	2856.7
Total Non-Current Assets	66946.7	67834.1	66116.8	67204.0	68366.8
Short-term debt	8927.7	4752.5	2086.5	2086.5	2086.5
Payables	10579.6	9317.4	9394.0	1500.9	12208.0
Other current liabilities	1566.0	123.5	123.5	123.5	123.5
Total Current Liabilities	21073.3	15193.3	12604.0	14710.8	15418.0
Long-term debt	26951.8	32191.7	37207.0	37425.1	38322.5
Other non-current liabilities	2935.3	2821.7	2821.7	2821.7	2821.7
Total Non-Current Liabilities	29887.1	35013.4	40028.7	40246.8	41144.2
Shareholder's equity	23935.1	22064.1	21020.3	22681.0	23625.7
Minority interest	6745.3	6171.2	6171.2	6171.2	6171.2
Total Equity	30680.4	28235.3	27191.5	28852.2	29796.8

Cash Flow

FYE Sep (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Pre-tax profit	-1809.5	793.4	1612.4	3680.2	3313.9
Depreciation & amortisation	7878.0	7200.0	8013.7	7512.1	7829.7
Changes in working capital	-4851.8	870.2	-224.5	1096.9	417.5
Others	7718.1	-185.3	-912.3	-1739.5	-1592.9
Operating cash flow	8934.8	7678.2	8489.2	10549.7	9968.1
Net capex	-9761.0	-6969.7	-6296.3	-8599.4	-8992.4
Others	-1824.0	2269.6	0.0	0.0	0.0
Investing cash flow	-11585.0	-4700.1	-6296.3	-8599.4	-8992.4
Dividends paid	-504.7	-1743.9	-1743.9	-280.0	-776.3
Others	3917.1	-3523.5	2349.3	218.1	897.4
Financing cash flow	3412.3	-5267.3	605.5	-61.9	121.1
Net cash flow	762.2	-2289.2	2798.4	1888.4	1096.8
Forex	-729.6	-266.7	0.0	0.0	0.0
Others	-18.7	841.8	0.0	0.0	0.0
Beginning cash	6312.3	6326.2	4612.1	7410.5	9298.9
Ending cash	6326.2	4612.1	7410.5	9298.9	10395.7

ESG Matrix Framework:

Environment

Parameters	Rating	Comments
Climate	★★★	Adoption of stricter carbon emissions baseline and set targets for the Science-Based Targets initiative
Carbon	★★	Carbon emissions for Scope 1 and Scope 2 across the Group increased by approximately 8% in FY23
Energy	★★★	Although overall energy usage increased 6.3% yoy, energy intensity (GJ per million GB) associated with the growth of data traffic reduced by approximately 14%.
Waste	★★★	718,143 kg of e-waste recycled under 3Rs (Reuse, Reduce and Recycle) program.
Compliance	★★★	In compliance with local and international environmental regulations

Social

Diversity	★★★	66% of average employees age below 50, 31% of employees are female
Human Rights	★★★	Enforce and adopts Code of Ethics and Conduct
Occupational Safety and Health	★★★★	Zero work-related incident/ lost time incident in FY23
Labour Practices	★★★	Uphold universal human rights, in line with the International Labour Organization (ILO) Core Labour Standards.

Governance

CSR Strategy	★★★	Empowered 20 B408 female entrepreneurs from PPR9 Naga Sari through training and interest-free capital to scale up their businesses
Management	★★★	4/12 female board composition, 6/12 Independent Directors
Stakeholders	★★★	4x analyst briefings per annum, 1x AGM per annum

Overall ESG Scoring: ★★★

Recommendation Framework:

BUY: Total returns* are expected to exceed 10% within the next 12 months.

HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.

SELL: Total returns* are expected to be below -10% within the next 12 months.

TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.

TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.

*Capital gain + dividend yield

Sector Recommendations:

OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.

NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.

UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

ESG Rating Framework:

★★★★★ : Appraised with 3% premium to fundamental fair value

★★★★ : Appraised with 1% premium to fundamental fair value

★★★ : Appraised with 0% premium/discount to fundamental fair value

★★ : Appraised with -1% discount to fundamental fair value

★ : Appraised with -5% discount to fundamental fair value

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(a) nil.