

Steven Chong

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Recommendation: **HOLD**

Current Price: **RM 2.46**

Previous Target Price: **RM 2.55**

Target Price: **RM 2.69** ↑

Upside/Downside: **9.3%**

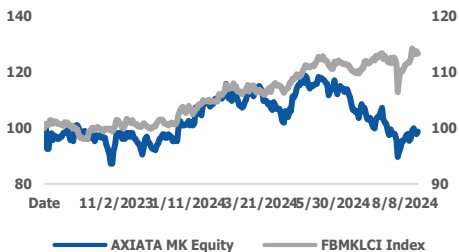
Stock information

Board	MAIN
Sector	Telecommunication
Bursa / Bloomberg Code	6888 / AXIATA MK
Syariah Compliant	Yes
FTSE4Good Index	Yes
FTSE ESG Rating	★★★★
Bloomberg ESG Rating	N/A
Shares issued (m)	9,181.9
Market Cap (RM' m)	22,587.5
52-Week Price Range (RM)	2.94-2.16
Beta (x)	1.4
Free float (%)	46.3
3M Average Volume (m)	7.6
3M Average Value (RM' m)	19.4

Top 3 Shareholders (%)

Khazanah Nasional Bhd	36.7
Employees Provident Fund Board	18.5
Amanah Saham Nasional Bhd	15.0

Share Price Performance



	1M	3M	12M
Absolute (%)	0.8	-10.2	-4.7
Relative (%)	-2.2	-14.0	-17.2

Axiata Group Berhad

Recovery is on track; but the Bangladesh market remained challenging

Summary










- **Axiata's 2QFY24 core net profit jumped +385.9% yoy and +20.9% qoq to RM180.6m, bringing 1HFY24 core net profit to RM330.0m, which deemed in-line at 55% ours and 48% consensus expectations.**
- **Revised our earnings forecast for FY24-26 upward by +1.8%/+3.6%/+8.0% given that the impact from social unrest in Bangladesh is not as severe as previously anticipated coupled with brighter prospect from Edotco, propelled by demand from 5G deployment.**
- **We maintain our HOLD recommendation with a higher target price of RM2.69 based on DCF valuation (WACC of 7% with a long-term growth rate of 0.5%).**

Results Review

- **Results review.** Axiata's reported 2QFY24 core net profit (after excluding forex and derivative losses: RM48.6m; gain on disposal of towers: RM20.5m; others losses: RM48.0m) stood at RM180.6m, up +385.9% yoy and +20.9% qoq. The strong performance was led by improvement across all business segment except Dialog and Linknet. Similarly, revenue registered at RM5.8bn, recording growth of +2.9% yoy and +1.7% qoq.
- **Results deemed in line.** 1HFY24 core net profit of RM330.0m makes up to 55% and 48.0% of both our and consensus forecasted CNP and was within expectations.
- **Operations Highlights.** XL Axiata subscribers rose marginally by +0.8% yoy, while blended ARPU remained healthy at IDR44,000 against IDR42,000 in 2QFY23. Concurrently, contribution from Robi remained positive as subscribers grew +5.6% yoy offsetting the softer blended ARPU of BDT144 (vs BDT146 in 2QFY23). Meanwhile, edotco demonstrated robust EBIT growth of +24.6% yoy, after excluding one-off provision adjustment of c.RM25m driven by growth on key markets like Malaysia, Bangladesh and Cambodia.
- **Industry Highlights.** The acquisition of the remaining 34% stake in Linknet is ongoing, with approval from minority shareholders to be sought at the upcoming general meeting in September. Furthermore, the Group has signed a non-binding MOU for the proposed merger between XL Axiata and Smartfren, with due diligence expected to be finalised in 4Q24. Meanwhile, Edotco is still in the process of exiting the Myanmar market and is currently awaiting regulatory approvals.
- **Outlook.** Despite the challenging macro environment, management retained its FY24 guidance of: a) mid-single digit revenue growth, b) mid-teens EBIT growth, c) capex of RM6.1bn. While the political unrest in Bangladesh has minimal impact on Robi's subscriber base, we reckon topline contributions may be weakened by the softer forex, which declined by more than -13% year-to-date (Jan-Aug), coupled with the recent flood disaster.

- **Valuation.** We maintain our **HOLD** recommendation with a higher target price of RM2.69 based on DCF valuation (WACC of 7% with a long-term growth rate of 0.5%). We tweak our earnings forecast for FY24F-FY26F upwards by +1.8%/+3.6%/+8.0% on milder-than-expected impact of social unrest in Bangladesh and a more promising outlook for Edotco, driven by increased demand from 5G deployment.
- **Risk.** Axiata continues to face geopolitical, macroeconomic and regulatory risks as well as strengthening USD and high interest rates.

Figure 1: Results Comparison

FYE Dec (RM m)	2QFY24	2QFY23	YoY (%)	1QFY24	QoQ (%)	1HFY23	1HFY24	YoY (%)	5 Quarters Trend	Comments
Revenue	5,755.8	5,592.2	2.9	5,662.1	1.7	10,589.4	11,417.9	7.8		Improved performance across all segment except Linknet and Dialog
EBITDA	2,909.5	2,794.7	4.1	2,959.7	(1.7)	5,109.0	5,869.3	14.9		
Pre-tax profit	469.1	419.7	11.8	498.8	(6.0)	638.4	968.0	51.6		
Net profit	219.9	265.9	(17.3)	331.6	(33.7)	368.3	551.4	49.7		
Core net profit	180.6	37.2	385.9	149.4	20.9	75.3	330.0	338.1		
Core EPS (sen)	2.0	0.4	385.9	1.6	20.9	0.8	3.6	338.1		
EBITDA margin (%)	50.5	50.0		52.3		48.2	51.4			
PBT margin (%)	8.2	7.5		8.8		6.0	8.5			
Core PATMI margin (%)	3.1	0.7		2.6		0.7	2.9			

Source: Company, Apex Securities

Financial Highlights

Income Statement

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Revenue	20020.3	22002.3	23319.8	24271.7	25469.9
Operating Profit	8236.3	9858.5	10921.3	10856.7	11184.9
EBITDA	8169.8	10390.3	11568.4	11523.2	11871.3
Depreciation & Amortisation	-7878.0	-7200.0	-8013.7	-7512.1	-7515.7
EBIT	291.8	3190.3	3554.7	4011.1	4355.7
Net Finance Income/ (Cost)	-2101.3	-2396.9	-2097.3	-2218.3	-2569.0
Associates & JV	-66.5	531.8	647.1	666.5	686.5
Pre-tax Profit	-1809.5	793.4	1457.5	1792.8	1786.7
Tax	-604.9	-651.2	583.0	717.1	714.7
Profit After Tax	-2414.4	142.2	874.5	1075.7	1072.0
Minority Interest	205.0	267.4	267.4	267.4	267.4
Net Profit	-2619.3	-125.2	607.1	808.3	804.6
Exceptionals	4206.0	667.4	0.0	0.0	0.0
Core Net Profit	1586.7	542.2	607.1	808.3	804.6

Key Ratios

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
EBITDA margin	40.8%	47.2%	49.6%	47.5%	46.6%
EBIT margin	1.5%	14.5%	15.2%	16.5%	17.1%
PBT margin	-9.0%	3.6%	6.2%	7.4%	7.0%
PAT margin	-12.1%	0.6%	3.7%	4.4%	4.2%
NP margin	-13.1%	-0.6%	2.6%	3.3%	3.2%
Core NP margin	7.9%	2.5%	2.6%	3.3%	3.2%
ROE	-8.5%	-0.4%	2.2%	2.9%	2.9%
ROA	-3.2%	-0.2%	0.8%	1.0%	1.0%
Net gearing	26.1%	37.8%	24.8%	23.2%	22.2%

Valuations

	FY2FF
Terminal growth rate	0.50%
WACC	7.01%
Fair Value (RM)	2.69

Source: Company, Apex Securities

Balance Sheet

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Cash	7451.7	4612.1	7343.5	7641.4	8593.8
Receivables	6943.6	4808.7	5096.6	5304.7	5566.5
Inventories	216.4	218.9	232.0	241.5	253.4
Other current assets	82.3	968.2	968.2	968.2	968.2
Total Current Assets	14694.0	10607.9	13640.4	14155.8	15381.9
Fixed Assets	27201.0	27439.8	25722.5	25734.6	26114.6
Intangibles	13442.2	12237.5	12237.5	12237.5	12237.5
Other non-current assets	26303.6	28156.7	28156.7	28156.7	28156.7
Total Non-current assets	66946.7	67834.1	66116.8	66128.8	66508.8
Short-term Debt	7088.1	2666.0	0.0	0.0	0.0
Payables	10579.6	9317.4	9512.9	10292.8	10960.3
Other Current Liabilities	3405.6	3210.0	3210.0	3210.0	3210.0
Total Current Liabilities	21073.3	15193.3	12722.8	13502.7	14170.3
Long-term Debt	18347.5	22176.2	27098.5	26280.8	26738.0
Other non-current liabilities	11539.6	12837.2	12837.2	12837.2	12837.2
Total Non-current Liabilities	29887.1	35013.4	39935.7	39118.0	39575.2
Shareholder's equity	23935.1	22064.1	20927.4	21492.8	21974.1
Minority interest	6745.3	6171.2	6171.2	6171.2	6171.2
Equity	30680.4	28235.3	27098.5	27664.0	28145.3

Cash Flow

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Pre-tax profit	-1809.5	793.4	1457.5	1792.8	1786.7
Depreciation & amortisation	7878.0	7200.0	8013.7	7512.1	7515.7
Changes in working capital	-4851.8	870.2	-105.6	562.4	393.8
Others	7718.1	-1185.3	-850.4	-984.5	-982.1
Operating cash flow	8934.8	7678.2	8515.2	8882.8	8714.0
Net capex	-9761.0	-6969.7	-6296.3	-7524.2	-7895.7
Others	-1824.0	2269.6	0.0	0.0	0.0
Investing cash flow	-11585.0	-4700.1	-6296.3	-7524.2	-7895.7
Changes in borrowings	6994.1	-1582.0	2256.4	-817.8	457.3
Issuance of shares	0.0	0.0	0.0	0.0	0.0
Dividends paid	-504.7	-1743.9	-1743.9	-242.8	-323.3
Others	-3077.0	-1941.5	0.0	0.0	0.0
Financing cash flow	3412.3	-5267.3	512.5	-1060.6	134.0
Net cash flow	762.2	-2289.2	2731.4	298.0	952.3
Forex	0.0	0.0	0.0	0.0	0.0
Others	377.2	575.1	0.0	0.0	0.0
Beginning cash	6312.3	6326.2	4612.1	7343.5	7641.4
Ending cash	7451.7	4612.1	7343.5	7641.4	8593.8

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD	DEALING TEAM	RESEARCH TEAM
<p>Head Office: 5th Floor Menara UAC, 12, Jalan PJU 7/5, Mutiara Damansara, 47800 Petaling Jaya, Selangor Darul Ehsan, Malaysia</p> <p>General Line: (603) 7890 8899</p> <p>Petaling Jaya Office: 16th Floor, Menara Choy Fook Onn, No.1B Jalan Yong Shook Lin, 46050 Petaling Jaya, Selangor Darul Ehsan, Malaysia</p> <p>General Line: (603) 7620 1118</p>	<p>Head Office: Kong Ming Ming (ext 2002) Lee Chen Ming (ext 2029) Shirley Chang (ext 2026) Ahmad Mujib (ext 2028) Azfar Bin Abdul Aziz (ext 2031) Aizzat Bin Mohd Daud (ext 2030)</p> <p>Institutional Dealing Team: Low Jin Wu (ext 2109)</p> <p>PJ Office: General Line: (603) 7620 1118</p>	<p>Head Office: Kenneth Leong (ext 2093) Steven Chong (ext 2068) Jayden Tan (ext 2069) Chelsea Chew (ext 2070) Tan Sue Wen (ext 2095)</p>

RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

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.

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