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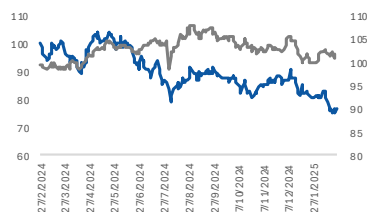
Recommendation:	BUY
Current Price:	RM2.10
Previous Target Price:	RM2.60
Target Price:	↔ RM2.60
Capital Upside/ Downside:	23.8%
Dividend Yield (%) :	4.8%
Total Upside/ Downside:	28.6 %

Stock information

Board	MAIN
Sector	Telecommunication
Bursa/ Bloomberg Code	6888/ AXIATA MK
Syariah Compliant	Yes
ESGRating	★★★
Shares issued (m)	9,182.8
Market Cap (RM' m)	19,283.9
52-Week Price Range (RM)	2.94-2.02
Beta (x)	1.2
Free float (%)	43.3
3M Average Volume (m)	4.7
3M Average Value (RM' m)	10.8

Top 3 Shareholders

	(%)
Khazanah Nasional Bhd	36.7
Employees Provident Fund Board	18.5
Amanah Saham Nasional Bhd	15.3

Share Price Performance

	1M	3M	12M
Absolute (%)	-5.0	-9.1	-26.3
Relative (%)	-6.8	-8.2	-27.7

Axiata Group Bhd

Cautious FY25 Outlook with XL-Smartfren Merger in Focus

Executive Summary

- Axiata's 4QFY24 core net profit declined -11.6% yoy and -25.8% qoq to RM169.2m, bringing FY24 core net profit at RM852.2m (+107.9% yoy), which is above expectations, accounted to 121% and 125% of ours and consensus expectations respectively.
- Cautious guidance for FY25 but yet to factor in the impact from the merger between XL Axiata and Smartfren which is scheduled to be completed by 2QFY25.
- Re-iterate our BUY recommendation with an unchanged target price of RM2.60, based on based on DCF valuation (WACC of 7.0% with a long-term growth rate of 0.5%).

Results above expectations. FY24 CNP at RM852.2m (+107.9% yoy) came above expectations, accounting to 121%/125% of our/consensus CNP forecast at RM700.0m/RM693.3m. The variance was mainly due to the lower-than-expected opex, which boosted EBIT by +109.2% yoy, significantly exceeded management's earlier mid-teens growth guidance.

YoY. 4QFY24 CNP slid -11.6% yoy to RM169.2m, while revenue for the quarter was also down -8.9% yoy to RM5.4bn due to weakness in Robi and Dialog. Robi's revenue fell sharply stem from weaker prepaid data revenue, macroeconomic challenges, social unrest, and flooding, making it the largest decline among Axiata's subsidiaries. Meanwhile, Dialog Axiata's revenue was impacted as the company shifted its focus away from lower-margin hubbing business.

QoQ. CNP decreased by -25.8% qoq to RM169.2m weighed down by higher borrowing costs and taxation outweighed operational improvements. Revenue, however, grew marginally by +0.8% qoq thanks to higher contributions from XL Axiata's mobile and enterprise segments.

Outlook. For FY25, the Group is targeting i) low single-digit revenue growth, ii) high single-digit EBIT growth and iii) capex at RM4.4bn. However, we gather that this guidance has yet to factor in the impact of XL Axiata-Smartfren merger, which is anticipated to be completed by 2QFY25. Over the near term, earnings may face some pressure as the Group navigates the initial gestation phase of optimising Smartfren's operations. We anticipate that Axiata will begin realising merger synergies by 4QFY25, with earnings accretion likely to emerge in the following year.

Earnings Revision. We revised our FY25 earnings forecast upward by 8.9%, reflecting a lower opex assumption after into account the latest EBIT guidance.

Valuation. Maintained our **BUY** recommendation on Axiata with unchanged target price of **RM2.60**, based on DCF valuation (WACC of 7.0% with a long-term growth rate of 0.5%) and ascribed with three-star ESG rating.

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

Earnings Summary

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Revenue	22318.3	22334.6	23229.3	24294.1	25495.7
EBITDA	10048.5	11203.4	11125.1	10612.0	10569.7
Pre-tax profit	11.0	2564.5	2547.3	3221.2	3956.6
Net profit	-654.7	1598.9	1528.4	1932.7	2373.9
Core net profit	409.9	852.2	876.4	1032.7	1473.9
Core EPS (sen)	82.0	170.4	175.3	206.5	294.8
P/E (x)	47.0	22.6	22.0	18.7	13.1
P/B (x)	0.7	0.7	0.7	0.7	0.7
EV/EBITDA (x)	5.8	4.9	4.6	4.5	4.3
Dividend Yield (%)	4.8%	4.8%	4.8%	4.8%	4.8%
Net Gearing (%)	114.5%	106.5%	93.7%	78.7%	66.2%

Source: Company, Apex Securities

Results Note

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Results Comparison

FYE Dec (RM m)	4QFY24	4QFY23	yoy (%)	3QFY24	qoq (%)	12MFY24	12MFY23	yoy (%)	Comments
Revenue	5,362.7	5,888.6	(8.9)	5,321.6	0.8	22,334.6	22,318.3	0.1	
EBITDA	2,384.3	2,725.7	(12.5)	3,621.8	(34.2)	11,203.4	10,048.5	11.5	
Pre-tax profit	193.8	(446.1)	nm	1,433.2	(86.5)	2,564.5	11.0	23,177.4	Strong cumulative growth thanks to thanks to
Net profit	(224.8)	(420.8)	(46.6)	951.4	nm	946.8	(561.8)	nm	one-off gain on tax redemption and disciplined
Core net profit	169.2	191.5	(11.6)	228.1	(25.8)	852.2	409.9	107.9	cost control
Core EPS (sen)	1.8	2.1	(11.6)	2.5	(25.8)	9.3	4.5	107.9	
EBITDA margin (%)	44.5	46.3		68.1		50.2	45.0		
PBT margin (%)	3.6	(7.6)		26.9		11.5	0.0		
Core net profit margin (%)	3.2	3.3		4.3		3.8	1.8		

Source: Company, Apex Securities

Segmental Breakdown

FYE Dec (RM m)	4QFY24	4QFY23	yoy (%)	3QFY24	qoq (%)	12MFY24	12MFY23	yoy (%)	Comments
Revenue									
Mobile	4,420.2	4,646.8	(4.9)	4,333.3	2.0	18,058.9	17,998.1	0.3	
Fixed BB	139.4	295.5	(52.8)	261.9	(46.8)	938.7	1,172.0	(19.9)	
Infrastructure	765.1	840.4	(9.0)	448.2	70.7	2,227.9	2,181.3	2.1	Edotco recorded yoy drop in 4Q
Digital	765.1	840.4	(9.0)	448.2	70.7	2,227.9	2,181.3	2.1	due to absence of Jendela project
Other	765.1	840.4	(9.0)	448.2	70.7	2,227.9	2,181.3	2.1	
Total	6,854.8	7,463.5	(8.2)	5,939.9	15.4	25,681.3	25,714.0	(0.1)	

Source: Company, Apex Securities

Results Note

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Financial Highlights

Income Statement

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Revenue	22318.3	22334.6	23229.3	24294.1	25495.7
Operating Profit	10048.5	10897.3	10809.8	10287.3	10235.2
EBITDA	10048.5	11203.4	11125.1	10612.0	10569.7
Depreciation & Amortisation	-8202.4	-7341.2	-7696.0	-6776.2	-6198.0
EBIT	1846.2	3862.2	3429.1	3835.8	4371.6
Net Finance Income/ (Cost)	-2366.9	-1748.6	-1844.2	-1605.9	-1436.0
Associates & JV	531.8	450.9	647.1	666.5	686.5
Pre-tax Profit	11.0	2564.5	2547.3	3221.2	3956.6
Tax	-665.7	-965.6	-1018.9	-1288.5	-1582.6
Profit After Tax	-654.7	1598.9	1528.4	1932.7	2373.9
Minority Interest	-93.0	652.0	652.0	900.0	900.0
Net Profit	-561.8	946.8	876.4	1032.7	1473.9
Exceptionals	971.6	-94.6	0.0	0.0	0.0
Core Net Profit	409.9	852.2	876.4	1032.7	1473.9

Key Ratios

FYE Sep	FY23	FY24	FY25F	FY26F	FY27F
EPS (sen)	4.5	9.3	9.5	11.2	16.1
P/E (x)	47.0	22.6	22.0	18.7	13.1
P/B (x)	0.7	0.7	0.7	0.7	0.7
EV/EBITDA (x)	5.8	4.9	4.6	4.5	4.3
DPS (sen)	10.0	10.0	10.0	10.0	10.0
Dividend Yield (%)	4.8%	4.8%	4.8%	4.8%	4.8%
EBITDA margin (%)	45.0%	50.2%	47.9%	43.7%	41.5%
EBIT margin (%)	8.3%	17.3%	14.8%	15.8%	17.1%
PBT margin (%)	0.0%	11.5%	11.0%	13.3%	15.5%
PAT margin (%)	-2.9%	7.2%	6.6%	8.0%	9.3%
NP margin (%)	-2.5%	4.2%	3.8%	4.3%	5.8%
CNP margin (%)	1.8%	3.8%	3.8%	4.3%	5.8%
ROE (%)	1.5%	3.1%	3.2%	3.7%	5.0%
ROA (%)	0.5%	1.1%	1.2%	1.5%	2.1%
Gearing (%)	130.8%	124.1%	110.1%	99.1%	87.7%
Net gearing (%)	114.5%	106.5%	93.7%	78.7%	66.2%

Valuations

	FY26F
Terminal Growth Rate	0.50%
WACC	7.04%
Implied Fair Value (RM)	2.60

Source: Company, Apex Securities

Balance Sheet

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Cash	4612.1	4860.4	4503.9	5744.6	6303.1
Receivables	4784.5	5349.5	5563.7	5818.8	6106.6
Inventories	218.9	122.7	127.6	133.4	140.0
Other current assets	82.3	968.2	0.0	101.6	101.6
Total Current Assets	10583.7	10434.1	10296.8	11798.4	12651.2
Fixed Assets	27439.8	25521.6	22471.5	20554.1	19455.2
Intangibles	12237.5	11576.2	11576.2	11576.2	11576.2
Other non-current assets	28156.7	26823.9	26823.9	26823.9	26823.9
Total Non-Current Assets	67834.1	63921.8	60871.7	58954.3	57855.4
Short-term debt	4756.7	6515.9	1833.2	1833.2	1833.2
Payables	9293.2	8979.9	9751.0	10997.3	11981.6
Other current liabilities	1123.5	780.8	780.8	780.8	780.8
Total Current Liabilities	15173.3	16276.6	12365.0	13611.3	14595.6
Long-term debt	32187.5	27710.1	28476.2	26132.0	23840.8
Other non-current liabilities	2821.7	2792.5	2792.5	2792.5	2792.5
Total Non-Current Liabilities	35009.2	30502.6	31268.8	28924.6	26633.3
Shareholder's equity	22064.1	21193.2	21151.4	21833.5	22894.4
Minority interest	6171.2	6383.5	6383.5	6383.5	6383.5
Total Equity	28235.3	27576.7	27534.9	28217.0	29277.9

Cash Flow

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Pre-tax profit	11.0	2564.5	2547.3	3221.2	3956.6
Depreciation & amortisation	8202.4	7341.2	7696.0	6776.2	6198.0
Changes in working capital	870.2	-782.1	551.9	985.4	689.9
Others	-1220.6	-220.7	-1671.0	-2188.5	-2482.6
Operating cash flow	7863.0	8902.9	9124.2	8794.3	8361.9
Net capex	-7126.7	-5055.2	-4645.9	-4858.8	-5099.1
Others	2212.4	-521.3	0.0	0.0	0.0
Investing cash flow	-4914.2	-5576.5	-4645.9	-4858.8	-5099.1
Dividends paid	-1743.9	-918.2	-918.2	-350.5	-413.1
Others	-3551.8	-2193.4	-3916.6	-2344.2	-2291.3
Financing cash flow	-5295.7	-3111.6	-4834.8	-2694.7	-2704.4
Net cash flow	-2346.9	214.9	-356.4	1240.8	558.4
Forex	-266.2	-514.5	0.0	0.0	0.0
Others	65.7	1330.2	0.0	0.0	0.0
Beginning cash	6326.0	3778.7	4809.2	4452.8	5693.6
Ending cash	3778.7	4809.2	4452.8	5693.6	6252.0

Results Note

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ESG Matrix Framework:

Environment

Parameters	Rating	Comments
Climate	★★★	Total Scope 1 and Scope 2 greenhouse gas (GHG) emissions in FY23 amounted to 1,123,380.36 tCO ₂ e, reflecting an +8% increase compared to the previous year.
Waste & Effluent	★★★	obi and Dialog collectively recycled over 2,700 tonnes of e-waste, including network waste, handsets, and customer premises equipment (CPE)
Energy	★★★	In FY23, total energy consumption was 6.19 m GJ, marking an increase from 5.82 m GJ in FY22.
Water	★★★	Axiata has implemented water management initiatives primarily through community projects and sustainability efforts. One key initiative was providing clean water and solar power to 1,248 rural Sarawakians using Air2Water solutions.
Compliance	★★★	In compliance with local and international environmental regulations

Social

Diversity	★★★	92.4% 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	★★★	238,578 hours of OSH trainings completed, 0 worksite incidence in FY23
Labour Practices	★★★	Pay scale based on prevailing industry market rates as stipulated by the Act 732 National Wages Consultative Council Act

Governance

CSR Strategy	★★★	Introduced digital agriculture training for 425 Orang Asli community members to enhance sustainable farming practices.
Management	★★★	3/11 female board composition, 6/11 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

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.