

Steven Chong

(603) 7890 8888 (ext 2068)

[stevenchong@apexsecurities.com.my](mailto:stevenchong@apexsecurities.com.my)

<b>Recommendation:</b>	<b>BUY</b>
Current Price:	RM 1.78
Previous Target Price:	RM 2.10
Target Price:	↔ RM 2.10
Capital Upside/ Downside:	18.0%
Dividend Yield (%):	5.6%
<b>Total Upside/ Downside:</b>	<b>23.6%</b>

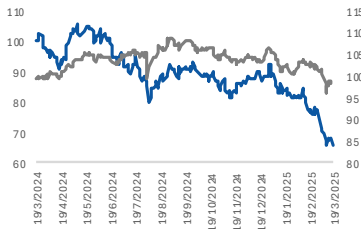
**Stock information**

Board	MAIN
Sector	Telecommunication
Bursa/ Bloomberg Code	6888 / AXIATA MK
Syariah Compliant	Yes
ESG Rating	★★★
Shares issued (m)	9,185.5
Market Cap (RM' m)	16,350.1
52-Week Price Range (RM)	2.94-1.73
Beta (x)	1.2
Free float (%)	43.3
3M Average Volume (m)	5.7
3M Average Value (RM' m)	12.1

**Top 3 Shareholders (%)**

Khazanah Nasional Bhd	36.7
Employees Provident Fund Board	18.3
Amanah Saham Nasional Bhd	15.3

**Share Price Performance**



	1M	3M	12M
Absolute (%)	-15.2	-26.1	-36.7
Relative (%)	-11.7	-22.1	-35.5

# Axiata Group Bhd

## Bleak Near-Term Outlook for XL Axiata-Smartfren Merger

### Executive Summary

- Near-term earnings could be affected by (i) elevated integration costs from the merger, (ii) the deconsolidation of XL Axiata, and (iii) the recognition of Smartfren's losses.
- Axiata will undergo a two-year gestation phase, during which the majority of integration costs will be absorbed prior to realising synergies.
- Maintain BUY recommendation with an unchanged target price of RM2.10, based on DCF valuation (WACC of 6.8% with a long-term growth rate of 0.5%).

**Key update on the merger between XL Axiata and Smartfren.** The Group intend to utilise USD475m cash consideration from Sinar Mas to deleverage, significantly improving its gearing ratio from 1.24x to 0.74x which translates in to annual pre-tax savings of c.RM170m. That said, management acknowledges potential near-term pressure on PATAMI due to the deconsolidation of XL Axiata and integration-related costs, with Axiata's FY24 pro forma PATAMI sliding from RM947m to RM627m after factoring in these challenges. The merger is currently awaiting final approval from the Indonesian government and the impact of the merger is set to take effect latest by 2QFY25.

**Our Take.** While Axiata has maintained its FY25 guidance, we retain our cautious view as near-term earnings could be affected by (i) elevated integration costs from the merger, (ii) the deconsolidation of XL Axiata, and (iii) the recognition of Smartfren's losses. We note that the Group will undergo a two-year gestation phase, during which the majority of integration costs will be absorbed. Post-integration, Axiata is expected to start realising pre-tax synergies with a run rate of USD300-400m p.a.

**Earnings revision.** We kept our earnings forecasts unchanged for now, awaiting further clarity along with regulatory and shareholder approvals. The new management team of the merged entity is still finalising merger-related expenses and is expected to provide more concrete guidance at a later date.

**Valuation.** Maintained our **BUY** recommendation on Axiata with unchanged target price of **RM2.10**, based on DCF valuation (WACC of 6.8% 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.

**Earnings Summary**

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Revenue	22318.3	22334.6	23229.3	24001.6	25179.3
EBITDA	10048.5	11203.4	10951.6	10296.1	10341.9
Pre-tax profit	11.0	2564.5	2478.2	2788.3	3487.2
Net profit	-654.7	1598.9	1486.9	1673.0	2092.3
Core net profit	409.9	852.2	880.5	990.7	1239.0
Core EPS (sen)	82.0	170.4	176.1	198.1	247.8
P/E (x)	39.9	19.2	18.6	16.5	13.2
P/B (x)	0.6	0.6	0.6	0.6	0.6
EV/EBITDA (x)	5.5	4.6	3.4	3.3	3.1
Dividend Yield (%)	5.6%	5.6%	5.6%	5.6%	5.6%
Net Gearing (%)	114.5%	106.5%	53.1%	42.2%	34.3%

Source: Company, Apex Securities

## Financial Highlights

### Income Statement

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
<b>Revenue</b>	<b>22318.3</b>	<b>22334.6</b>	<b>23229.3</b>	<b>24001.6</b>	<b>25179.3</b>
<b>Operating Profit</b>	<b>10048.5</b>	<b>10897.3</b>	<b>10636.3</b>	<b>9971.4</b>	<b>10007.5</b>
<b>EBITDA</b>	<b>10048.5</b>	<b>11203.4</b>	<b>10951.6</b>	<b>10296.1</b>	<b>10341.9</b>
Depreciation & Amortisation	-8202.4	-7341.2	-7696.0	-6776.2	-6180.4
<b>EBIT</b>	<b>1846.2</b>	<b>3862.2</b>	<b>3255.6</b>	<b>3519.9</b>	<b>4161.5</b>
Net Finance Income/(Cost)	-2366.9	-1748.6	-1739.8	-1722.9	-1695.3
Associates & JV	531.8	450.9	647.1	666.5	686.5
<b>Pre-tax Profit</b>	<b>11.0</b>	<b>2564.5</b>	<b>2478.2</b>	<b>2788.3</b>	<b>3487.2</b>
Tax	-665.7	-965.6	-991.3	-1115.3	-1394.9
<b>Profit After Tax</b>	<b>-654.7</b>	<b>1598.9</b>	<b>1486.9</b>	<b>1673.0</b>	<b>2092.3</b>
Minority Interest	-93.0	652.0	606.4	682.3	853.3
<b>Net Profit</b>	<b>-561.8</b>	<b>946.8</b>	<b>880.5</b>	<b>990.7</b>	<b>1239.0</b>
Exceptionals	971.6	-94.6	0.0	0.0	0.0
<b>Core Net Profit</b>	<b>409.9</b>	<b>852.2</b>	<b>880.5</b>	<b>990.7</b>	<b>1239.0</b>

### Key Ratios

FYE Sep	FY23	FY24	FY25F	FY26F	FY27F
EPS (sen)	4.5	9.3	9.6	10.8	13.5
P/E (x)	39.9	19.2	18.6	16.5	13.2
P/B (x)	0.6	0.6	0.6	0.6	0.6
EV/EBITDA (x)	5.5	4.6	3.4	3.3	3.1
DPS (sen)	10.0	10.0	10.0	10.0	10.0
Dividend Yield (%)	5.6%	5.6%	5.6%	5.6%	5.6%
EBITDA margin (%)	45.0%	50.2%	47.1%	42.9%	41.1%
EBIT margin (%)	8.3%	17.3%	14.0%	14.7%	16.5%
PBT margin (%)	0.0%	11.5%	10.7%	11.6%	13.8%
PAT margin (%)	-2.9%	7.2%	6.4%	7.0%	8.3%
NP margin (%)	-2.5%	4.2%	3.8%	4.1%	4.9%
CNP margin (%)	1.8%	3.8%	3.8%	4.1%	4.9%
ROE (%)	1.5%	3.1%	3.2%	3.6%	4.4%
ROA (%)	0.5%	1.1%	1.2%	1.3%	1.7%
Gearing (%)	130.8%	124.1%	80.0%	75.0%	60.0%
Net gearing (%)	114.5%	106.5%	53.1%	42.2%	34.3%

### Valuations

	FY26F
Terminal Growth Rate	0.50%
WACC	6.83%
<b>Implied Fair Value (RM)</b>	<b>2.10</b>

Source: Company, Apex Securities

### Balance Sheet

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Cash	4612.1	4860.4	7401.1	9066.0	7190.5
Receivables	4784.5	5349.5	5563.7	5748.7	6030.8
Inventories	218.9	122.7	127.6	131.8	138.3
Other current assets	82.3	968.2	0.0	101.6	101.6
<b>Total Current Assets</b>	<b>10583.7</b>	<b>10434.1</b>	<b>13194.0</b>	<b>15048.1</b>	<b>13461.2</b>
Fixed Assets	27439.8	25521.6	22471.5	20495.6	19351.1
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
<b>Total Non-Current Assets</b>	<b>67834.1</b>	<b>63921.8</b>	<b>60871.7</b>	<b>58895.8</b>	<b>57751.2</b>
Short-term debt	4756.7	6515.9	0.0	0.0	0.0
Payables	9293.2	8979.9	9887.2	11015.6	11912.0
Other current liabilities	1123.5	780.8	780.8	780.8	780.8
<b>Total Current Liabilities</b>	<b>15173.3</b>	<b>16276.6</b>	<b>12501.2</b>	<b>13629.6</b>	<b>14526.0</b>
Long-term debt	32187.5	27710.1	22031.2	20708.6	16759.6
Other non-current liabilities	2821.7	2792.5	2792.5	2792.5	2792.5
<b>Total Non-Current Liabilities</b>	<b>35009.2</b>	<b>30502.6</b>	<b>34205.6</b>	<b>32703.0</b>	<b>28753.9</b>
Shareholder's equity	22064.1	2193.2	2155.6	21228.0	21549.2
Minority interest	6171.2	6383.5	6383.5	6383.5	6383.5
<b>Total Equity</b>	<b>28235.3</b>	<b>27576.7</b>	<b>27539.1</b>	<b>27611.5</b>	<b>27932.7</b>

### Cash Flow

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
<b>Pre-tax profit</b>	<b>11.0</b>	<b>2564.5</b>	<b>2478.2</b>	<b>2788.3</b>	<b>3487.2</b>
Depreciation & amortisation	8202.4	7341.2	7696.0	6776.2	6180.4
Changes in working capital	870.2	-782.1	688.1	939.2	607.8
Others	-1220.6	-220.7	-1597.7	-1797.6	-2248.1
<b>Operating cash flow</b>	<b>7863.0</b>	<b>8902.9</b>	<b>9264.6</b>	<b>8706.1</b>	<b>8027.3</b>
Net capex	-7126.7	-5055.2	-4645.9	-4800.3	-5035.9
Others	2212.4	-521.3	0.0	0.0	0.0
<b>Investing cash flow</b>	<b>-4914.2</b>	<b>-5576.5</b>	<b>-4645.9</b>	<b>-4800.3</b>	<b>-5035.9</b>
Dividends paid	-1743.9	-918.2	-918.2	-918.3	-917.9
Others	-3551.8	-2193.4	-1159.7	-1322.6	-3949.0
<b>Financing cash flow</b>	<b>-5295.7</b>	<b>-3111.6</b>	<b>-2077.9</b>	<b>-2240.9</b>	<b>-4866.9</b>
<b>Net cash flow</b>	<b>-2346.9</b>	<b>214.9</b>	<b>2540.9</b>	<b>1664.9</b>	<b>-1875.5</b>
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	7350.0	9014.9
<b>Ending cash</b>	<b>3778.7</b>	<b>4809.2</b>	<b>7350.0</b>	<b>9014.9</b>	<b>7139.5</b>

## 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 <sub>2</sub> 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.