

COMPANY RESULTS

Axiata (AXIATA MK)

1Q22: In Line; Geopolitical Risk A Near-term Threat

Axiata's 1Q22 core earnings of RM370m represent a 69% yoy growth on the strong performances of Celcom, Robi and edotco. 1Q22 earnings account for 30% of our full-year forecast and we deem the results to be within expectations as we expect a weaker 2Q22 amid the ongoing geopolitical tension in Sri Lanka and strengthening US dollar. Maintain HOLD with a lowered fair value of RM3.50 as we downgrade Dialog's and NCell's fair value amid rising country risk premium.

1Q22 RESULTS

Year to 31 Dec (RMm)	1Q22	4Q21	1Q21	qoq % chg	yoy %chg
Revenues	6,470.0	6,903.6	6,064.0	(6.3)	6.7
Reported EBITDA	2,898.4	3,041.9	2,691.9	(4.7)	7.7
Reported EBITDA Margin (%)	44.8%	44.1%	44.4%	1.7	0.9
Pre-tax profits	253.2	548.8	362.0	(53.9)	(30.0)
Net profit	(43.0)	116.0	75.6	(137.0)	(156.9)
Core Net profit	370.0	411.4	218.4	(10.1)	69.4
Celcom Subscribers ('000)	9,584	9,595	8,994	(0.1)	6.6
Celcom Blended ARPUs (RM/mth)	43.0	45.0	45.0	(4.4)	(4.4)
Cost Structure (% of revenue)	1Q21	2Q21	3Q21	4Q21	1Q22
Direct Expenses	6.9%	8.3%	8.8%	9.9%	8.1%
S&M	8.0%	8.9%	8.7%	8.3%	8.3%
Staff cost	8.6%	8.1%	8.4%	6.9%	7.7%
G&A +others	31.7%	30.2%	30.2%	30.9%	30.7%

Source: Axiata, UOB Kay Hian

RESULTS

- Results within expectations.** Axiata's 1Q22 core net profit came in at RM370m (+69% yoy; -10% qoq). The yoy strong performance was driven by strong performance in Celcom with firm postpaid performance and the absence of accelerated depreciation, as well as good cost discipline. The sequential decline came from weakness across all operating companies (OpCos). 1Q22 earnings account for 30% of our and consensus full year forecasts. We deem the results to be within expectations as 2Q22 could be a weak quarter due to the strengthening US dollar and operational challenges in Sri Lanka.
- 2022 earnings guidance.** Axiata maintains its guidances for mid-single-digit growth in revenue (2021: 7% yoy) and a high single-digit growth for EBIT. The guidance has not included the synergies of a successful completion of the Celcom-Digi merger and the acquisition of Link Net in Indonesia.

KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	24,203	25,901	27,164	28,023	28,249
EBITDA	10,657	11,404	11,967	12,144	12,105
Operating profit	2,172	3,309	3,424	3,822	3,947
Net profit (rep./act.)	365	995	1,228	1,497	1,661
Net profit (adj.)	865	995	1,228	1,497	1,661
EPS (sen)	9.6	10.8	13.4	16.3	18.1
PE (x)	33.2	29.4	23.8	19.5	17.6
P/B (x)	1.6	1.6	1.6	1.6	1.6
EV/EBITDA (x)	4.4	4.1	3.9	3.8	3.8
Dividend yield (%)	2.2	3.0	3.1	4.1	6.0
Net margin (%)	1.5	3.8	4.5	5.3	5.9
Net debt/(cash) to equity (%)	59.8	67.1	53.6	40.2	32.5
Interest cover (x)	7.0	8.1	10.6	12.7	14.9
ROE (%)	2.2	5.6	6.8	8.1	8.9
Consensus net profit	-	-	1,234	1,488	1,716
UOBKH/Consensus (x)	-	-	1.00	1.01	0.97

Source: Axiata, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM3.19
Target Price	RM3.50
Upside	+9.7%
(Previous TP)	RM4.00)

COMPANY DESCRIPTION

Mobile operator.

STOCK DATA

GICS sector	Communication Services
Bloomberg ticker:	AXIATA MK
Shares issued (m):	9,176.8
Market cap (RMm):	29,274.0
Market cap (US\$m):	6,661.5
3-mth avg daily t'over (US\$m):	3.2

Price Performance (%)

52-week high/low RM4.19/RM3.17

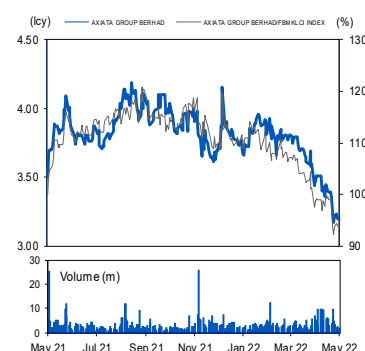
1mth	3mth	6mth	1yr	YTD
(7.3)	(16.5)	(20.3)	(8.9)	(23.3)

Major Shareholders

	%
Khazanah Nasional Bhd	38.2
Employee Provident Fund	14.3
Skim Amanah Saham	11.4

FY22 NAV/Share (RM)	2.00
FY22 Net Debt/Share (RM)	1.07

PRICE CHART



Source: Bloomberg

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PERFORMANCE OF OPCOS AND NON-OPCOS FOR 1Q22

Division	Key Highlights
Celcom (Malaysia)	<ul style="list-style-type: none"> Celcom's 1Q22 EBITDA grew 15% yoy (-7% qoq) thanks to lower marketing expenses. This was also driven by stable postpaid revenue, recovery in the prepaid segment and the enterprise segment's contribution. Postpaid: subscribers flat qoq, ARPU stable at RM80/month. Prepaid: subscribers flat qoq, ARPU stable dropped to RM29/month.
XL Axiata (Indonesia)	<ul style="list-style-type: none"> Revenue grew 10% yoy but dropped 3% qoq, supported by higher data revenue. 1Q22's EBITDA also rose 4% yoy (-7% qoq) on good cost control.
Robi (Bangladesh)	<ul style="list-style-type: none"> Strong data revenue (+14% yoy) helped to offset intense price competition. EBITDA rose 36% and >100% on good cost discipline.
Dialog (Sri Lanka)	<ul style="list-style-type: none"> Revenue grew 8% yoy, driven by higher contribution across all segments of mobile, fixed and TV. Net profit dropped amid rising US dollar denominated debt.
NCell (Nepal)	<ul style="list-style-type: none"> Revenue was stable while EBITDA and net profit were impacted by higher D&A.
SMART (Cambodia)	<ul style="list-style-type: none"> Revenue was driven by higher data subs, while earnings were impacted by higher network cost.
Edotco	<ul style="list-style-type: none"> Higher revenue contribution from Malaysia and Bangladesh with number of towers and tenancies rising to 1.63x

Source: UOB Kay Hian

STOCK IMPACT

- 1Q22 core EBITDA rose 8% yoy to RM2.9b.** Core EBITDA margin was firm at 44.8% thanks to top-line improvement and narrowed losses of Axiata Digital Services. This also came as the group recorded a cost savings of RM241m (opex: RM78m; capex: RM163m) for 1Q22.

REVENUE AND NORMALISED PATAMI BREAKDOWN

(RMm)	1Q22	qoq % chg	yoy % chg	(RMm)	1Q22	qoq % chg	yoy % chg
Celcom	1,654	(5.2)	1.1	Celcom	261.2	(25.5)	278.9
XL	1,967	(3.4)	9.9	XL	13.2	(65.6)	(68.7)
Dialog	728	(4.7)	7.5	Dialog	69.1	(17.3)	(12.4)
Robi	957	(1.3)	1.5	Robi	13.8	169.3	35.8
Smart	362	(4.9)	7.2	Smart	55.8	(5.2)	(1.0)
Ncell	340	(6.0)	(9.9)	Ncell	36.9	(24.9)	(30.6)
Edotco	256	(51.8)	37.1	Edotco	58.6	20.1	(35.7)
Others	206	77.4	77.4	Others	-138.7	(37.8)	(24.0)
Total Revenue	6,470	(6.3)	6.7	Core PATAMI	369.9	(10.0)	69.4

Source: Axiata, UOB Kay Hian

EARNINGS REVISION/RISK

- No change. Our 2022 earnings have factored in a higher tax rate to account for a one-off impact from the prosperity tax, while top-line and EBIT growth are in line with management's guidance.
- Risks include: a) geopolitical tension in Sri Lanka, Bangladesh, Nepal and Myanmar, b) regulatory challenges, c) lower-than-expected dividend payout, and c) increased taxes in Sri Lanka and Malaysia.

VALUATION/RECOMMENDATION

- Maintain HOLD with a lowered fair value of RM3.50**, as we adjusted downwards Dialog's and Ncell's fair value amid lingering risks such as the ongoing economic crisis in Sri Lanka. We also include a 10% discount on our SOTP in arriving at our fair value to factor in the previous earnings dilutive acquisition of towers in the Philippines. Naturally, the listing of edotco will allow share price to trade closer to our SOTP-based target price of RM3.90. The stock offers a 3.0-6.0% dividend yield for 2022-24.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

Environmental

- Axiata is committed to its Net-Zero carbon roadmap by 2050.
- In 2020, Edotco achieved a 41% reduction in carbon emission per site. Edotco aims to add around 1,500 solar renewable sites by end-21, with a total of 5,500 solar sites by 2023. Edotco also targeted 97% electrified and 90% lithium battery sites by 2023.

Social

- In 2020, Axiata contributed RM150m cash fund to offer financial assistance to micro-SMEs during COVID-19. This includes 9,473 loans granted to micro-SMEs with RM43.4m in micro-financing.

Governance

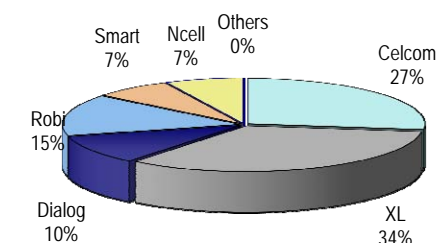
- Good company transparency along with an anti-bribery and anti-corruption policy.

FAIR VALUE AT RM3.50/SHARE FOR AXIATA

	Equity Value (RMm)	% of SOTP
Operating Companies		
Celcom	17,756	50%
XL Axiata	7,955	22%
SMART	3,471	10%
Robi	5,973	17%
Ncell	2,042	6%
Dialog	212	1%
Total OPCOs	37,409	105%
Edotco	8,694	24%
ADA	635	2%
Boost	1,068	3%
Holding company debt	-12,081	-34%
Total (RMm)	35,725	100%
Axiata's SOTP (RM/share)	3.90	
Axiata's Fair Value (RM/share)	3.50	10% discount

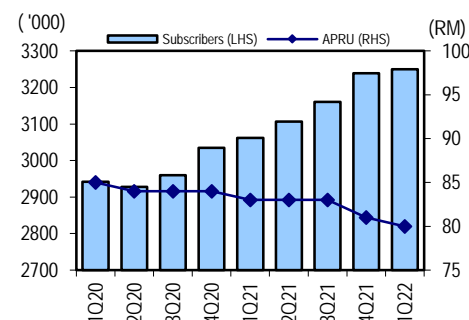
Source: UOB Kay Hian

EBITDA CONTRIBUTION (1Q22)



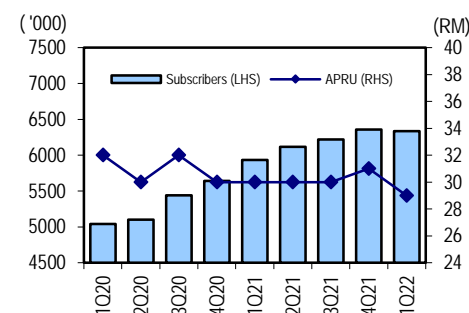
Source: Axiata, UOB Kay Hian

CELCOM: POSTPAID



Source: Axiata, UOB Kay Hian

CELCOM: PREPAID



Source: Axiata, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Net turnover	25,901	27,164	28,023	28,249
EBITDA	11,404	11,967	12,144	12,105
Deprec. & amort.	8,095	8,543	8,322	8,158
EBIT	3,309	3,424	3,822	3,947
Total other non-operating income	451	200	0	0
Associate contributions	4	0	0	0
Net interest income/(expense)	(1,414)	(1,127)	(957)	(814)
Pre-tax profit	2,350	2,496	2,865	3,133
Tax	(897)	(1,049)	(1,117)	(1,222)
Minorities	(458)	(220)	(250)	(250)
Net profit	995	1,228	1,497	1,661
Net profit (adj.)	995	1,228	1,497	1,661

BALANCE SHEET

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Fixed assets	26,975	25,630	24,314	23,218
Other LT assets	33,165	33,165	33,165	33,165
Cash/ST investment	6,969	8,264	8,664	8,214
Other current assets	5,441	5,699	5,874	5,920
Total assets	72,550	72,758	72,016	70,517
ST debt	4,231	3,981	3,481	2,981
Other current liabilities	16,121	16,776	17,414	17,662
LT debt	14,819	14,095	12,666	11,251
Other LT liabilities	12,313	12,313	12,313	12,313
Shareholders' equity	18,005	18,312	18,612	18,529
Minority interest	7,061	7,281	7,531	7,781
Total liabilities & equity	72,550	72,758	72,016	70,517

CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Operating	8,888	11,516	11,489	11,085
Pre-tax profit	2,174	2,496	2,865	3,133
Tax	(897)	(1,049)	(1,117)	(1,222)
Deprec. & amort.	8,095	8,543	8,322	8,158
Associates	(4)	0	0	0
Working capital changes	770	397	462	202
Non-cash items	(2,663)	0	0	0
Other operating cashflows	1,414	1,127	957	814
Investing	(8,074)	(6,970)	(6,752)	(6,809)
Capex (maintenance)	(6,488)	(7,198)	(7,006)	(7,062)
Others	(1,586)	229	254	253
Financing	(1,217)	(3,251)	(4,338)	(4,726)
Dividend payments	(871)	(921)	(1,198)	(1,744)
Issue of shares	22	0	0	0
Proceeds from borrowings	1,305	(974)	(1,929)	(1,915)
Others/interest paid	(1,672)	(1,356)	(1,211)	(1,067)
Net cash inflow (outflow)	(402)	1,295	400	(450)
Beginning cash & cash equivalent	7,194	6,969	8,264	8,664
Changes due to forex impact	177	0	0	0
Ending cash & cash equivalent	6,969	8,264	8,664	8,214

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	44.0	44.1	43.3	42.8
Pre-tax margin	9.1	9.2	10.2	11.1
Net margin	3.8	4.5	5.3	5.9
ROA	1.4	1.7	2.1	2.3
ROE	5.6	6.8	8.1	8.9
Growth				
Turnover	7.0	4.9	3.2	0.8
EBITDA	7.0	4.9	1.5	(0.3)
Pre-tax profit	100.6	6.2	14.8	9.3
Net profit	172.5	23.4	22.0	10.9
Net profit (adj.)	15.0	23.4	22.0	10.9
EPS	12.7	23.4	22.0	10.9
Leverage				
Debt to total capital	43.2	41.4	38.2	35.1
Debt to equity	105.8	98.7	86.8	76.8
Net debt/(cash) to equity	67.1	53.6	40.2	32.5
Interest cover (x)	8.1	10.6	12.7	14.9

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