

COMPANY RESULTS

Axiata (AXIATA MK)

3Q22: Above Expectations Due To Easing Geopolitical Risk

Axiata's 3Q22 core net profit came in at RM375m (-5% yoy, +13% qoq). Celcom's net profit rose 13% yoy and 12% qoq on higher prepaid contribution, new acquisitions in Celcom's B2B business unit and absence of accelerated depreciation yoy. 9M22 core net profit of RM1,077m is deemed above expectations and we raise our 2022 net profit forecast by 16% to reflect the absence of further accelerated depreciation in Celcom. Maintain HOLD. Target price: RM3.50.

3Q22 RESULTS

Year to 31 Dec (RMm)	3Q22	qoq % chg	yoy % chg	9M22	yoy % chg
Revenues	7,260.3	8.3	11.0	20,434.5	7.6
Reported EBITDA	3,203.6	6.4	12.0	9,112.6	6.5
Reported EBITDA Margin (%)	44.1%	(1.7)	1.0	44.6%	1.3
Pre-tax profits	268.6	(6.3)	(59.2)	808.6	(50.2)
Net profit	(52.4)	(50.7)	(115.0)	(201.8)	(128.7)
Core Net profit	375.1	13.0	(4.8)	1,077.1	17.8
Celcom Subscribers ('000)	9,584	-	2.2		
Celcom Blended ARPU (RM/mth)	45.0	2.3	-		
Cost Structure (% of revenue)	3Q21	4Q21	1Q22	2Q22	3Q22
Direct Expenses	8.8	9.9	8.1	8.0	9.2
S&M	8.7	8.3	8.3	8.0	7.3
Staff cost	8.4	6.9	7.7	8.1	8.4
G&A +others	30.2	30.9	30.7	31.2	30.6

Source: Axiata, UOB Kay Hian

RESULTS

- Results above expectations.** Axiata's 3Q22 core net profit came in at RM375m (-5% yoy, +13% qoq). Celcom reported a strong set of earnings, with 3Q22 net profit higher by 12% qoq and 34% yoy as a result of higher prepaid contribution, new acquisitions in Celcom's B2B business unit and the absence of accelerated depreciation. This was partly offset by Cukai Makmur in 2022. This brings 9M22 core net profit to RM1,077m (+18% yoy), accounting for 88% of our full-year forecast, above our expectations. The key discrepancy on our end stemmed from lower-than-expected depreciation charges.
- Dividends.** Against a backdrop of easing macroeconomic headwinds in both Sri Lanka and Bangladesh, Axiata declared its first interim dividend of 5 sen/share.

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	3,765	3,900	3,838
Net profit (rep./act.)	365	995	1,424	1,539	1,589
Net profit (adj.)	865	995	1,424	1,539	1,589
EPS (sen)	9.6	10.8	15.5	16.8	17.3
PE (x)	31.5	27.9	19.5	18.1	17.5
P/B (x)	1.5	1.5	1.5	1.5	1.5
EV/EBITDA (x)	4.2	4.0	3.8	3.7	3.7
Dividend yield (%)	2.3	3.1	3.8	4.4	6.0
Net margin (%)	1.5	3.8	5.2	5.5	5.6
Net debt/(cash) to equity (%)	59.8	67.1	55.0	42.0	33.7
Interest cover (x)	7.0	8.1	10.6	12.6	14.7
ROE (%)	2.2	5.6	7.8	8.3	8.5
Consensus net profit	-	-	1,262	1,488	1,642
UOBKH/Consensus (x)	-	-	1.13	1.03	0.97

Source: Axiata, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM3.03
Target Price	RM3.50
Upside	+14.3%

COMPANY DESCRIPTION

Mobile operator.

STOCK DATA

GICS sector	Communication Services
Bloomberg ticker:	AXIATA MK
Shares issued (m):	9,177.0
Market cap (RMm):	27,806.4
Market cap (US\$m):	6,200.8
3-mth avg daily t'over (US\$m):	1.9
Price Performance (%)	

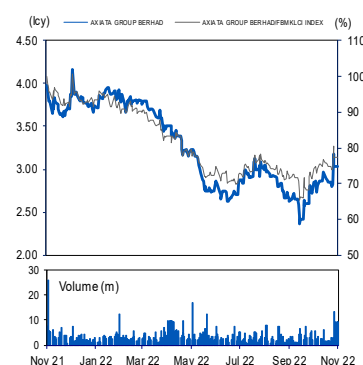
52-week high/low RM4.19/RM3.17

1mth	3mth	6mth	1yr	YTD
10.6	(1.6)	10.6	(1.6)	10.6

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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STOCK IMPACT

PERFORMANCE OF OPCOS AND NON-OPCOS FOR 3Q22

Division	Key Highlights
Celcom (Malaysia)	- Celcom performed well. Revenue rose 6% yoy and was flat qoq. In the absence of accelerated depreciation, EBIT jumped 71% yoy and 1% qoq. - Subscribers Postpaid: +3% yoy, flat qoq. Prepaid: -1% yoy; -2% qoq. - ARPU Postpaid: -2.4% yoy, +1% qoq. Prepaid: +3% yoy; +3% qoq.
XL Axiata (Indonesia)	- Revenue +13% yoy and 3% qoq, driven by reopening during the Lebaran period and positive momentum from price improvement.
Robi (Bangladesh)	- Revenue +4% yoy and flat qoq. - EBITDA: +7% yoy, -4.5 qoq. EBIT: +24% yoy, 2% qoq – driven by lower staff and direct cost.
Dialog (Sri Lanka)	- Revenue +4% qoq. - Net profit dropped >100% qoq and yoy on inflationary pressure and forex.
NCell (Nepal)	- Revenue -3% yoy and -6% qoq – impacted by reduced domestic interconnect rate.
SMART (Cambodia)	- Revenue jumped 25% yoy and 16% qoq, driven by increased data subscribers and usage.
Edotco	- Revenue jumped 27% yoy and 1% qoq, driven by inorganic acquisition in Malaysia, Philippines and Indonesia, followed by organic contributions from Bangladesh, Malaysia and Cambodia.

Source: UOB Kay Hian

- **3Q22 EBITDA rose 12% yoy and 6% qoq to RM3.2b.** Axiata reported an 11% yoy and 8% qoq higher revenue in the quarter. The better performance was mainly driven by all OpCos except mobile operations in Sri Lanka and Nepal. However, management guided that the economic situation in Sri Lanka has been easing since end-August and they have implemented various price increase strategies since the beginning of September. We expect a better performance in Sri Lanka in 4Q22. Together with good cost discipline and Celcom's strong performance, EBITDA rose 12% yoy and 6% qoq.

REVENUE AND NORMALISED PATAMI BREAKDOWN

(RMm)	3Q22	qoq % chg	yoy % chg	(RMm)	3Q22	qoq % chg	yoy % chg
Celcom	1,687.2	0.4	5.6	Celcom	313.8	11.9	34.1
XL	2,259.5	3.4	13.4	XL	57.5	3.6	32.3
Dialog	1,031.9	-0.1	3.7	Dialog	16.5	77.5	-83.0
Robi	575.4	3.5	-25.3	Robi	31.4	152.6	8.4
Smart	343.1	-6.1	-3.0	Smart	98.0	56.4	51.7
Ncell	455.9	15.9	25.2	Ncell	24.3	-45.1	-45.8
Edotco	625.0	1.4	26.6	Edotco	-10.9	n.m.	n.m.
Others	282.3	n.m.	n.m.	Others	-155.6	-15.7	6.0
Total Revenue	7,260.3	8.3	11.0	Core PATAMI	375.1	13.0	-4.8

Source: Axiata, UOB Kay Hian

EARNINGS REVISION/RISK

- **Raise 2022 net profit forecast by 16%.** This is to reflect a lower depreciation charge for 2022 in the absence of significant accelerated depreciation for Celcom in 4Q22.
- **Risks include:** a) Inflationary pressure in Sri Lanka, b) regulatory challenges in Myanmar, and c) lower-than-expected dividend payout.

VALUATION/RECOMMENDATION

- **Maintain HOLD with a fair value of RM3.50.** We have imputed 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 RM3.90.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

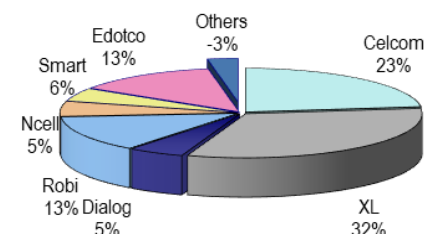
• Environmental <ul style="list-style-type: none"> - Axiata is committed to its net-zero carbon roadmap by 2050. - In 2020, Edotco achieved a 41% reduction in carbon emission per site. Edotco aims to add around 1,500 solar renewable sites by end-21, with a total of 5,500 solar sites by 2023. Edotco also targeted 97% electrified and 90% lithium battery sites by 2023.
• Social <ul style="list-style-type: none"> - 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 <ul style="list-style-type: none"> - Good company transparency along with an anti-bribery and anti-corruption policy.

FAIR VALUE AT RM3.50/SHARE FOR AXIATA

Operating Companies	Equity Value (RMm)	% of SOTP
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

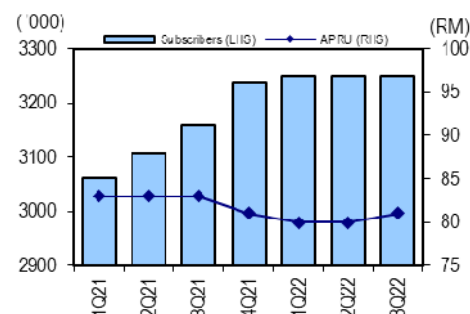
Source: UOB Kay Hian

EBITDA CONTRIBUTION 3Q22



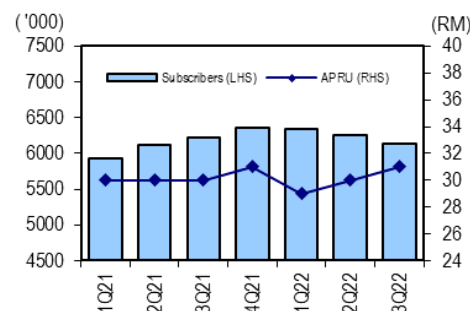
Source: Axiata, UOB Kay Hian

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	8,202	8,244	8,267
EBIT	3,309	3,765	3,900	3,838
Total other non-operating income	451	200	0	0
Associate contributions	4	0	0	0
Net interest income/(expense)	(1,414)	(1,132)	(967)	(823)
Pre-tax profit	2,350	2,834	2,933	3,014
Tax	(897)	(1,190)	(1,144)	(1,176)
Minorities	(458)	(220)	(250)	(250)
Net profit	995	1,424	1,539	1,589
Net profit (adj.)	995	1,424	1,539	1,589

BALANCE SHEET

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Fixed assets	26,975	25,972	24,733	23,529
Other LT assets	33,165	33,165	33,165	33,165
Cash/ST investment	6,969	7,971	8,302	7,964
Other current assets	5,441	5,699	5,874	5,920
Total assets	72,550	72,807	72,074	70,578
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	18,361	18,669	18,590
Minority interest	7,061	7,281	7,531	7,781
Total liabilities & equity	72,550	72,807	72,074	70,578

CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Operating	8,888	11,374	11,463	11,131
Pre-tax profit	2,174	2,834	2,933	3,014
Tax	(897)	(1,190)	(1,144)	(1,176)
Deprec. & amort.	8,095	8,202	8,244	8,267
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	1,132	967	823
Investing	(8,074)	(6,974)	(6,762)	(6,818)
Capex (maintenance)	(6,488)	(7,198)	(7,006)	(7,062)
Others	(1,586)	224	244	244
Financing	(1,217)	(3,397)	(4,371)	(4,651)
Dividend payments	(871)	(1,068)	(1,231)	(1,668)
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)	1,002	330	(337)
Beginning cash & cash equivalent	7,194	6,969	7,971	8,302
Changes due to forex impact	177	0	0	0
Ending cash & cash equivalent	6,969	7,971	8,302	7,964

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	10.4	10.5	10.7
Net margin	3.8	5.2	5.5	5.6
ROA	1.4	2.0	2.1	2.2
ROE	5.6	7.8	8.3	8.5
Growth				
Turnover	7.0	4.9	3.2	0.8
EBITDA	7.0	4.9	1.5	(0.3)
Pre-tax profit	100.6	20.6	3.5	2.8
Net profit	172.5	43.1	8.1	3.2
Net profit (adj.)	15.0	43.1	8.1	3.2
EPS	12.7	43.1	8.1	3.2
Leverage				
Debt to total capital	43.2	41.3	38.1	35.1
Debt to equity	105.8	98.4	86.5	76.6
Net debt/(cash) to equity	67.1	55.0	42.0	33.7
Interest cover (x)	8.1	10.6	12.6	14.7

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