



Axiata Group		Market Price:	RM3.86
		Market Cap:	RM32,598.3mil
		Board:	Main
Stock Code/Name:	6888 / AXIATA	Sector:	Trading/Services
Advancing in Asian Regional Operations			

Analyst: Edmund Tham



Source: Axiata

“Strong regional telco player”

The group, including its subsidiaries and associates, has approximately 130 million mobile subscribers in Asia and provides affordable and innovative mobile services covering over 1.5 billion people across 10 countries. The group provides employment to over 25,000 people across Asia. Its largest shareholders are Khazanah Nasional (19.8%), Employees Provident Board (16.3%) and Skim Amanah Saham Bumiputera (managed by PNB) (7.1%).

PRINCIPAL OPERATING TELCO/S

Location/Telco. Name	Stake (%)
Malaysia – Celcom Axiata Bhd	100.0
Indonesia – PT XL Axiata Tbk	66.7
Sri Lanka – Dialog Telekom Plc	85.0
Bangladesh – Axiata (Bangladesh) Ltd (“Robi”)	70.0
Cambodia – Hello Axiata Co Ltd	100.0
India – IDEA Cellular Ltd	15.0
Singapore – M1 Ltd	29.6
Iran - Mobile Tel. Co of Esfahan (MTCE)	49.0
Pakistan – Multinet Pakistan (Private) Ltd (Multinet)	89.0
Thai – Samart i-Mobile Public Co Ltd (SIM)	24.4

Source: Axiata/Bursa

BACKGROUND

Axiata Group Bhd (formerly known as TM International) was incorporated in June 1992. In April 2008, TMI was demerged from TM (Telekom Malaysia), resulting in the acquisition of 100% stake in Celcom, and was then listed on the Main Board of Bursa Malaysia. In March 2009, TMI changed its name to Axiata Group Bhd to reflect its new identity and focus on the telecommunication market in Asia.

Currently, Axiata is one of the largest Asian telecommunication companies (telco/s) focused on high-growth low-penetration emerging markets. Axiata has controlling interests in mobile operators in Malaysia, Indonesia, Sri Lanka, Bangladesh and Cambodia with significant strategic stakes in India, Singapore and Iran. Additionally, Axiata has stakes in non-mobile telecommunication operations in Thailand and Pakistan.



1Q/FY10 RESULTS

Group revenue grew by 31.0% y-o-y in 1Q/FY10 to RM3,812.7 million from RM2,911.4 million recorded in 1Q/FY09. The strong growth resulted from continuous improvement particularly in XL, Robi and Celcom. XL's revenue growth was in tandem with the increase in subscriber base. The subscribers with event, ARPM and ARPU grew by 67%, 17% and 21% respectively. Robi's revenue grew by 25.4% y-o-y mainly due to the increase in prepaid usage. Celcom's revenue grew by 15.1% mainly due to the increase in revenue generating base of 12%. Celcom and XL remain as the major contributors towards the group's revenue.

“Income mainly from Celcom and XL”

The depreciation of the Ringgit in Q1 against IDR had favourably affected the group's translated revenue. At constant currency using 1Q/FY09's exchange rate, group revenue would have registered a lower growth of 25.9% instead. The group's other operating costs had increased by 18.0% to RM2,134.4 million in 1Q/FY10 from RM1,809.3 million in 1Q/FY09, mainly driven by Celcom, XL and Robi.

Celcom recorded higher marketing costs during the quarter, which was in line with higher revenue performance and aggressive marketing programs undertaken. In XL, costs increased mainly resulted from sales and marketing costs, network frequency fee and licencing fee costs, associated with the 487% increase in XL's Blackberry subscribers. Robi recorded higher costs from higher subscriber acquisition and a rebranding exercise during the current quarter.

In 1Q/FY10, the group's other operating income had increased by 151.7% to RM319.6 million, mainly arising from the one-off gain on disposal of shares in XL of RM307.5 million. The group had recorded lower net finance costs of RM156.1 million in Q1 as a result of repayment of debt and reduction of overall debt position at group level.

The group recorded a foreign exchange gain of RM23.8 million in 1Q/FY10 as compared to loss of RM216.2 million in 1Q/FY09 mainly due to the strengthening of the RM and IDR

against the USD. The group recorded a one-off gain of RM173.2 million arising from the merger of telco/s Spice and Idea in March 2010. Contribution from associates and a jointly-controlled entity showed a loss of RM115.9 million compared to profit of RM6.8 million in 1Q/FY09. This mainly resulted from the share of losses from the license fee write-off of RM181.0 million during the Spice and Idea merger exercise.

The group's net profit after tax (NPAT) grew significantly to RM956.7 million in 1Q/FY10 from RM49.8 million in 1Q/FY09. The higher NPAT was driven by improved NPAT contribution in key telco/s and the one-off gain on disposal of shares in XL.

Looking q-o-q, the Group recorded a lower foreign exchange gain in 1Q/FY10 of RM23.8 million as compared to gain of RM86.7 million in 4Q/FY09. This was due to the stable USD exchange rate against the local currency of the group's key telco/s.

The group's NPAT grew by 58.8% to RM956.7 million in 1Q/FY10 from RM602.4 million recorded in 4Q/FY09. The higher PAT was mainly driven by the improved NPAT contribution from Celcom and the profit contribution from Dialog, compared to a loss contribution in 4Q/FY09. The growth also resulted from the one-off gain on disposal of shares in XL.

CORP. UPDATES/OUTLOOK

In April 2010, the group announced its Headline Key Performance Indicators (KPIs) guidance for FY10 ending 31st December 2010. The Headline KPIs are – a revenue growth of 12.1%, EBITDA (earnings before interest, tax, depreciation and amortization) growth of 14.1% a return on invested capital of 10.7%.

During 2009, Axiata has seen an improvement in overall group performance in almost all segments and in all major countries. This was due to its diligent execution of strategies across all operating companies. This has been further aided by the steady rebound seen in regional economies the group operates in. However key risks continued to be faced by its operating companies include increasing competition and



regulatory challenges. A prudent approach focusing on cost management and operational improvements will continue to be the key focus of the group amidst an uncertain environment. The group had no acquisition plans for now and would instead focus on organic growth. Some earlier acquisition opportunities did not materialise.

“Strong overseas contribution”

According to Axiata Chairman, Tan Sri Dato' Azman Hj Mokhtar, the foundation put in place in the last two years is showing continued traction. Its regional assets outside of Malaysia continue to grow, now contributing 56% to group revenue, versus 49% just last year. This reflects emphasises the growing importance of Axiata's regional portfolio and its exposure to fast growing mobile markets in Asia. Dato' Sri Jamaludin Ibrahim, Axiata's President and Group CEO was very pleased with the results this quarter, including continued improvements at Celcom and XL, and the turnaround at Dialog.

“Celcom-Axiata infrastructure partnership”

On 10th June 2010, Celcom Axiata Bhd [formerly known as Celcom (Malaysia) Bhd] and DiGi Telecommunications SB had announced plans to explore long-term network and infrastructure collaboration in Malaysia. The MOU was signed between Celcom, DiGi, and their respective major shareholders, Axiata Group Bhd and Telenor Asia Pte Ltd. The collaboration will be focused on three areas, namely operations and maintenance, transmission and site sharing, and radio access network.

“Celcom – strong in mobile broadband”

Celcom Axiata Bhd is now the country's most experienced and premier mobile cellular telecommunications company with 10.4 million customers. It currently has the widest network coverage covering 98% of the populated areas in the country. It was also the first to launch 3G services in Malaysia and now has the widest 2G, 3G and 3.5G coverage in the country.

After moderate growth in 4Q/FY09, Celcom's mobile broadband surged in 1Q/FY10 with the highest ever net additions of 124,000 subscribers, a strong increase of 24% q-o-q. The quarter saw Celcom retain its leadership status in mobile broadband amidst increasing competition, with a total of 635,000 broadband subscribers, now contributing 8% to total revenue.

Strong growth was seen in non-voice services, with data now contributing 30% to revenue, from 25% a year ago. Moving forward, Celcom will continue to focus on maintaining its leadership in broadband with an increased emphasis on other mobile data services.

“XL performing well”

Consistent with its strategy since early 2009, XL continued to successfully monetize minutes as reflected in its 17% increase in effective revenue per minute. 1Q/FY10 saw XL being the first operator in Indonesia to offer minutes, SMS and data access in a single bundle. As such, XL saw its subscribers rising by 31% y-o-y to 33 million. Its data service revenue continued to grow during the quarter, with 12.4 million subscribers in total, contributing 7% to its total revenue, an increase of 58% q-o-q.

XL had continued to maintain its healthy balance sheet, with a Net Debt to Equity ratio of 1.2 times from 4.6 times a year ago. XL will continue its proven strategy of providing choice to its subscribers by launching innovative products that encourage and monetise usage.

“Small disposal of 2.63% stake in XL”

In March 2010, the group had announced the additional disposal of 153.1 million shares of XL at IDR100 each, representing 1.8% of the issued and paid-up capital of XL. This was via Indocel Holding SB, a wholly-owned subsidiary of the company held via TM International (L) Ltd following the exercise of the option granted to Goldman Sachs (Singapore) Pte Ltd as the sole global coordinator, on behalf of the initial purchasers for the Proposed Offering.



The disposal was completed in April 2010 through the exercise of the over-allotment of the Option. Consequently, the group’s effective equity interest in XL has further reduced from 68.5% to 66.7%.

“Guaranteed Notes issued”

In April 2010, Axiata’s Board of Directors had approved the proposed issuance of USD300 million Fixed Rate Guaranteed Notes (guaranteed by the Company) by Axiata SPV1 (Labuan) Ltd, a wholly-owned subsidiary of the group. The Notes was issued on 28th April 2010 at 99.939%, carry a coupon rate of 5.375% per annum (payable semi-annually) and have tenure of 10 years from the date of issuance (i.e. maturing on 28th April 2020).

The Notes were listed and quoted on The Stock Exchange of Hong Kong Ltd in April 2010 and Labuan International Financial Exchange in May 2010. Meanwhile, in April 2010, XL had cancelled the remaining EKN Loan under Facility-B amounting to USD35.7 million.

FINANCIALS

Axiata may spend around RM3.6 billion on capital expenditure this year, mainly for infrastructure. Since its demerger from TM in 2008, Axiata (or previously known as TMI) had not paid out any dividends, as it is in the need of a strong cash position in its phase of rapid regional growth.

“No dividends in FY10, but possibly in FY11”

The group CEO had said that the group was not planning a final dividend for FY09 as it wanted to retain the funds for future growth. Axiata had planned to expand its overseas operations and infrastructure for mobile broadband services. However, there remained a possibility that the group could start paying dividends to its shareholders as early as its FY11.

With share capital worth RM8445.2 million consisting of 8445.2 million shares of RM1.00 each, its market capitalization amounts to a huge size of RM32,598.3 million. It has an adjusted beta (correlation factor) to the KLCI of 1.40 and the stock is now up by a substantial 26.6% YTD, strongly outperforming the KLCI (KLCI: 2.8% YTD). Its 52-week trading range is between RM2.13–4.05. The stock price had performed well earlier this year but it has since been affected by the lacklustre KLCI performance in recent months.

Based on its current market price of RM3.86, annualized 1Q/FY10 basic EPS of 44 sen and latest available BV/share of RM2.19, we derive a P/E of 8.8 times and P/BV of 1.8 times. Glancing at its domestic telecommunication peers’ P/E and P/BV, Axiata does not look pricey at all now.

“Growth-play, but not Dividend-play yet”

The recovering regional economic climate would be conducive for Axiata’s operating telco/s across Asia, with its group having a large subscriber base of 130 million. Currently, Celcom and XL (Indonesia) are the main contributors to group revenues. A few of its other operating telco/s are also doing reasonably well, such as Dialog (Sri Lanka) and Idea (India). The group’s strong regional growth augurs well for its future earnings and hence future dividends as well. Currently, 56% of group revenues are derives from its overseas operations.

AXIATA [6888] RM3.86



Source: NextView



APPENDIX

COMPARISON WITH LOCAL PEER TELCO/S

Telco	P/E (x)	P/BV (x)
Axiata	8.8	1.8
TM	13.7	1.6
Maxis	19.5	4.4
Digi	17.6	12.7

Source: Bloomberg

**P/E is Price/Earnings Per Share; P/BV is Price/Book Value Per Share*

KEY OPERATING TELCO/S (1Q/FY10 ended 31st March, 2010):

Key Operating Telco/s	Subscriber base (mil)	Contribution to Group rev (%)
Celcom (Malaysia)	10.4	44
XL (Indonesia)	32.6	39
Idea (India)	63.8	Minimal
Dialog (Sri Lanka)	6.7	8
Robi (Bangladesh)	13.4	8
M1 (Singapore)	1.8	Minimal
Hello (Cambodia)	0.98	1
Total	129.7	100

Source: Axiata