

Axiata Group Berhad

TP: RM2.32 (-0.4%)

Concluded Sale of Ncell
Last Traded: RM2.33
SELL (ESG: ★★★★★)

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Axiata has concluded the sale of its ~80.0% stake in Ncell to Spectrlite. The total consideration for the disposal comprises i) fixed consideration of USD50.0mn and ii) conditional consideration contingent upon the future business performance and distributions declared by Ncell until 2029 and any windfall gains secured by Spectrlite during this period. Overall, we view that the clean exit would help alleviate the persistent concerns about Axiata's investments in frontier markets. As we removed Ncell from our SOTP valuation, the impact is marginal as we arrive at a slightly lower TP of RM2.32 (previously RM2.35). Maintain Sell.

Concluded Sale of Ncell to Spectrlite

- Shortly after alluding to its decision to exit Nepal, Axiata Group Bhd (Axiata) announced that it has **concluded the sale of Reynolds Holdings Ltd (Reynolds), which owns ~80.0% equity stake in Ncell Axiata Ltd (Ncell) to Spectrlite UK Ltd (Spectrlite)**. Spectrlite is fully owned by Satish Lal Acharya, who is of Nepali origin. He has been involved in investments in the telecom sector in Nepal and in other countries for over two decades.
- The total consideration for the disposal comprises: i) fixed consideration of USD50.0mn, and ii) conditional consideration contingent upon the future business performance and distributions declared by Ncell until 2029, and any windfall gains secured by the Spectrlite during this period.** Both the fixed consideration and conditional consideration are payable in cash – refer to Appendix I for more details.
- According to Axiata, the decision to exit Nepal was upon a thorough evaluation of the country's prevailing business environment. **The conclusion drawn was that continuing operations was no longer sustainable for Axiata under the present conditions of unfair taxation (with a potential tax liability of USD433.6mn which the government of Nepal and its tax authority has failed to withdraw – refer to Appendix 2 for more details), and regulatory and licensing uncertainties (with expiry of Ncell's mobile license in 2029).**
- Additionally, **the group's decision to exit had also taken into consideration Ncell's deteriorating financial performance** on the back of significant structural changes in the industry, including declining voice revenue. From 2015 to the last 12 months, ending in June 2023, Ncell's revenue and net profit declined by 33.8% and 74.6%, respectively.
- Of note, the disposal has enabled Axiata a clean exit. Ncell will retain full responsibility for its business and any of its liabilities, while **the purchaser will further indemnify Axiata against existing and future Nepalese tax claims in relation to Ncell.**

Share Information

Bloomberg Code	AXIATA MK
Stock Code	6888
Listing	Main Market
Share Cap (mn)	9,179.1
Market Cap (RMmn)	21,387.3
52-wk Hi/Lo (RM)	3.23/2.16
12-mth Avg Daily Vol ('000 shrs)	3,856.0
Estimated Free Float (%)	24.3
Beta	1.5

Major Shareholders (%)

Khazanah Nasional Bhd	- 36.7
EPF	- 17.6
Skim Amanah Saham Bumiputera	- 15.3

Forecast Revision

	FY23	FY24
Forecast Revision (%)	(3.1)	(16.1)
Net profit (RMmn)	572	709
Consensus	462	740
TA's / Consensus (%)	123.9	95.7
Previous Rating	Sell (Maintained)	
Consensus TP	2.65	

Financial Indicators

	FY23	FY24
Net debt/EBITDA (x)	2.7	2.9
CFPS (sen)	125.7	68.4
P/CFPS (x)	1.9	3.4
ROAE (%)	2.4	3.1
ROAA (%)	0.7	0.8
NTA/Share (RM)	1.9	1.9
Price/ NTA (x)	1.2	1.2

Share Performance (%)

Price Change	Axiata	FBMKLCI
1 mth	6.9	1.5
3 mth	(6.0)	(0.5)
6 mth	(16.8)	5.3
12 mth	(26.2)	(2.4)

 (12-Mth) Share Price relative to the **FBMKLCI**


Source: Bloomberg

Our View:

- We view it meaningful to assess the sale consideration based on PBV versus metrics like PE, considering i) Ncell’s deteriorating financial performance and ii) the risks associated with the expiry of Ncell’s mobile license in 2029.
- Against Ncell’s guided book value of RM378mn post recent impairment, the fixed consideration of USD50mn (RM233.5mn based on USD/RM of RM4.67) implies a PBV of ~0.6x. Despite the discount, we view it as justified by: i) Axiata’s indemnity against the existing sizeable and future Nepalese tax claims, and although less upbeat, ii) potential upside from the conditional consideration, which includes any windfall gains.
- In terms of financial impact, as we removed Ncell’s contributions, our FY23F/FY24F/FY25F earnings estimates are lowered by -3.1%/-16.1%/-12.9%.

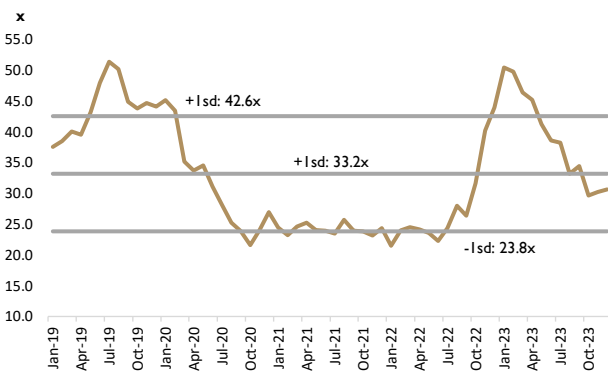
Valuation & Recommendation

- Overall, we view that the clean exit would help alleviate the persistent concerns about Axiata’s investments in frontier markets. As we removed Ncell from our SOTP valuation, the impact is marginal as we arrive at a slightly lower TP of RM2.32 (previously RM2.35). Maintain **Sell**.
- Key downside risks include heightened competition, macroeconomic headwinds, and regulatory uncertainties.

Table I: SOTP Valuation

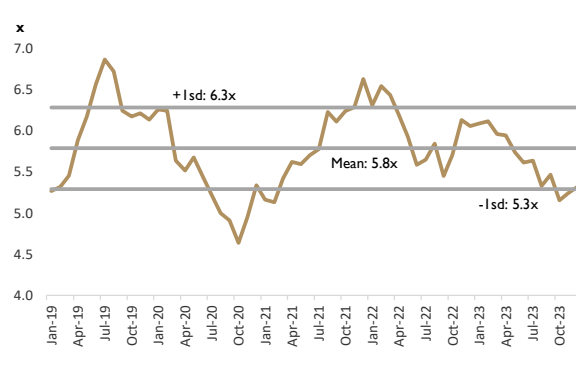
	Equity Value (RM mn)	Stake	Effective Equity Value (RM mn)	Value/Share (RM)	% of SOP	Valuation Method
CelcomDigi (Malaysia)	53,830.6	33.1%	17,818	1.94	58.0%	EV/EBITDA: 11x CY24F EBITDA
XL Axiata (Indonesia)	16,039.9	61.5%	9,865	1.07	32.1%	DCF: WACC 10.4%, TG: 2.5%
edotco	11,028.7	63.0%	6,948	0.76	22.6%	EV/EBITDA: 10x CY24F EBITDA
Dialog Axiata (Sri Lanka)	2,424.1	83.3%	2,020	0.22	6.6%	EV/EBITDA: 4x CY24F EBITDA
Robi (Bangladesh)	2,042.4	61.8%	1,263	0.14	4.1%	DCF: WACC 14.9%, TG: 3.5%
Smart (Cambodia)	2,736.4	82.5%	2,258	0.25	7.3%	10x CY24F EPS
Digital Businesses	2,649.6	<100%	2,385	0.26	7.8%	Prior Transaction: 10% Discount
Holding Co Net Cash			-11,809	-1.29	-38.4%	
SOP-based FV			30,746	3.35		
HoldingCo Discount (30%)			-9,224	-1.00		
Total			21,522	2.32		

Figure 1: Forward PE



Source: Bloomberg, TA Securities

Figure 2: Forward EV/EBITDA



Source: Bloomberg, TA Securities

P&L

FYE Dec (RMmn)	FY21	FY22	FY23F	FY24F	FY25F
Revenue	25,901	21,726	21,421	20,994	21,269
EBITDA	11,404	9,597	9,094	8,982	9,038
Dep. & amortisation	-7,576	-7,071	-6,916	-6,534	-6,476
Net finance cost	-1,414	-1,572	-2,210	-2,280	-2,083
JV/Associates	4	-67	765	830	889
EI	-244	-5,136	0	0	0
PBT	2,174	-4,248	733	998	1,367
Taxation	-897	-615	11	-59	-167
MI	-458	-255	-172	-230	-266
Net profit	819	-5,118	572	709	934
Core net profit	1,326	1,587	572	709	934
EPS (sen)	14.4	17.3	6.2	7.7	10.2
DPS (sen)	9.5	14.0	10.0	10.0	10.0

Ratios

FYE Dec	FY21	FY22	FY23F	FY24F	FY25F
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Valuations

PER (x)	16.1	13.5	37.3	30.2	22.9
EV/EBITDA (x)	5.3	6.3	6.6	6.7	6.7
Dividend yield (%)	4.1	6.0	4.3	4.3	4.3
PBV (x)	0.9	0.7	0.7	0.7	0.7

Profitability ratios (%)

ROE	7.4	6.6	2.4	3.1	4.0
ROA	1.8	1.9	0.7	0.8	1.1
EBITDA margin	44.0	44.2	42.5	42.8	42.5
PBT margin	8.4	(19.6)	3.4	4.8	6.4

Liquidity ratios (x)

Current ratio	0.6	0.7	0.9	0.9	0.9
Quick ratio	0.6	0.7	0.9	0.9	0.9

Leverage ratios (x)

Total liabilities/equity	1.9	1.7	1.8	1.8	1.8
Gross debt/EBITDA	2.6	3.7	4.1	4.2	4.3
Net debt/EBITDA	2.0	3.0	2.7	2.9	2.9
Net debt/equity	0.5	0.6	0.5	0.5	0.5
Int. coverage ratio	2.7	1.6	1.0	1.1	1.2

Growth ratios (%)

Sales	7.0	(16.1)	(1.4)	(2.0)	1.3
Pretax	85.6	(295.4)	(117.3)	36.1	37.0
Earnings	53.2	19.7	(63.9)	23.8	31.8
Total assets	6.8	12.5	2.6	0.9	1.7

Balance Sheet

FYE Dec (RMmn)	FY21	FY22	FY23F	FY24F	FY25F
Fixed assets	26,975	27,201	27,334	27,567	27,797
Associates + Subsidiaries	283	15,613	16,378	17,208	18,096
Goodwill	21,723	13,442	13,380	13,318	13,257
Others	11,158	10,691	9,972	9,969	9,971
LT assets	60,140	66,947	67,064	68,062	69,121
Inventories	223	216	164	161	163
Trade receivables	5,061	6,944	4,313	4,227	4,283
Cash	6,969	7,452	12,116	11,973	12,304
Others	158	82	82	82	82
Current assets	12,411	14,694	16,675	16,443	16,832
Total assets	72,550	81,641	83,739	84,505	85,952
Trade payables	13,555	10,580	10,272	10,068	10,200
ST borrowings	4,231	7,088	3,965	4,115	4,265
Others	2,566	3,406	3,406	3,406	3,406
Current liabilities	20,353	21,073	17,643	17,589	17,871
LT borrowings	14,819	18,348	22,470	23,320	24,170
Others	12,313	11,540	13,302	13,251	13,284
LT liabilities	27,132	29,887	35,772	36,571	37,454
Share capital	13,905	13,914	13,914	13,914	13,914
Reserves	4,100	10,021	9,492	9,284	9,300
Shareholders' funds	18,005	23,935	23,407	23,198	23,215
MI	7,061	6,745	6,917	7,148	7,413
Total liabilities and equity	72,550	81,641	83,739	84,505	85,952

Cash Flow

FYE Dec (RMmn)	FY21	FY22	FY23F	FY24F	FY25F
PBT	2,174	-4,248	733	998	1,367
Dep. & amortisation	7,576	7,071	6,916	6,534	6,476
Net interest	1,248	1,572	2,210	2,280	2,083
Other non-cash	-4	67	-765	-830	-889
Changes in WC	622	-4,734	4,857	-164	106
Tax paid	-576	-615	11	-59	-167
Finance cost	-1,398	-1,827	-2,431	-2,485	-2,289
Operational cash flow	9,641	-2,714	11,532	6,275	6,687
Capex	-6,488	-6,955	-6,988	-6,705	-6,644
Interest received	150	255	220	205	206
Others	-1,736	0	0	0	0
Investing cash flow	-8,074	-6,700	-6,768	-6,500	-6,438
Net share issue	0	0	0	0	0
Dividend paid	-1,030	-1,078	-1,101	-917	-917
Net change in debts	668	2,500	1,000	1,000	1,000
Others	-1,430	8,475	-0	0	0
Financial cash flow	-1,792	9,897	-101	83	83
Net cash flow	-225	482	4,664	-143	331
Opening cash flow	7,194	6,969	7,452	12,116	11,973
Forex	0	0	0	0	0
Others	0	0	0	0	0
Closing cash flow	6,969	7,452	12,116	11,973	12,304

Appendix 1: Consideration Breakdown

Consideration	Details
i) Fixed	<p>The fixed consideration of USD50.0mn payable in 2 tranches of:</p> <p>a. USD5.0mn on or before the date that is 6 months after completion.</p> <p>b. USD45.0mn on or before the date that is 48 months after completion.</p>
ii) Conditional	<p>The conditional consideration is contingent upon the future business performance and net distributions declared by Ncell until 2029 as follows:</p> <p>a. 80.0% of the net distributions declared and approved by Ncell for 2023.</p> <p>b. 40.0% of net distributions due to Reynolds declared and approved by Ncell for 2024 and 2025.</p> <p>c. 30.0% of net distributions due to Reynolds declared and approved by Ncell for the years 2026 and 2027.</p> <p>d. 20.0% of net distributions due to Reynolds declared and approved by Ncell for the years 2028 and 2029.</p> <p>Additionally, Axiata also retains the right to a share of upside if a significant stake in Ncell is disposed of at a higher price prior to 31 December 2029.</p>

Source: Companies, TA Securities

Appendix 2: History of Ncell's Tax Ordeal

Details
<ul style="list-style-type: none"> In 2016, Axiata entered the Nepal market following the acquisition of Reynolds for USD1.365bn, effectively securing an 80.0% equity stake and controlling stake in Ncell. Capital gains tax (CGT) was imposed on Ncell and Axiata after Nepal's efforts to collect tax from the seller failed. Between 2016 and 2020, Ncell had settled a total of NPR47.0bn (~USD421.9mn or ~RM1.8bn) in CGT as full and final liability under Nepalese law and received confirmation from Large Taxpayers Office of Nepal (LTPO) in April 2020 that no further taxes remain in relation to the acquisition of Reynolds in 2016. Despite the payment of CGT, Ncell was further assessed in January 2021 by the LTPO under Section 57 of the Income Tax Act of Nepal for a sum of approximately NPR57.9 (~USD433.6mn or ~RM2.0bn) for the same transaction. Collection on this assessment by the tax authorities has thus far been suspended due to an interim order issued by the Supreme Court of Nepal based on Ncell's petition disputing the applicability of the assessment. The international arbitration proceedings filed by Axiata to the International Centre for the Settlement of Investment Disputes were concluded on 9 June 2023. In delivering its award the arbitration tribunal ruled in the award that Nepal should refrain from demanding any further tax, fees, penalties, or interest in relation to the acquisition of Reynolds in 2016 and, in particular, that Nepal should refrain from enforcing the January 2021 assessment. While Axiata has prevailed on the government of Nepal to abide by the terms of the award, and specifically the termination of any attempts to repeatedly tax the same transaction, the government of Nepal and its tax authority the LTPO have thus far failed to withdraw the January 2021 assessment which is likely to carry a present day value of USD433.6mn inclusive of interest up to 13 January 2021 and penalties but excluding any further interest after that date. If the January 2021 assessment was upheld, and ignoring any further interest after 13 January 2021, this would take the total taxation on the USD1.365bn transaction in 2016 to USD855.5mn, or 62.7% of the transaction value.

Source: Companies, TA Securities

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Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	★★★	★★★★★	★★★★★	★★★★★
Remark	Axiata has committed to GSMA-led Carbon Disclosure Project towards achieving net-zero carbon emissions by 2050. Initiatives include building green telecommunication structures (e.g., featuring less steel) and switching to renewable energy (e.g., solar powered sites).	Axiata has stringent data security governance and processes in place. It is committed to improve customer experience and satisfaction. In 2022, Axiata ranked number 1 NPS in 3 of its markets (Malaysia, Sri Lanka, Cambodia) and number 2 NPS in 3 of its other markets (Indonesia, Bangladesh, Nepal). Axiata's measured workplace performance culture is on par with global high-performing companies.	Axiata is committed to the highest standards of corporate governance best practices and guidelines. Balanced board independence (67% independent). However, board gender diversity can be improved (3 females out of 12 members). It practices clear transparency with regular engagement with stakeholders including analysts and investors on the company's outlook (e.g., via on-demand briefings, quarterly conference calls).	

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.
 ★★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions.
 ★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions.
 ★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.
 ★ (<20%) : Minimal or no integration of ESG factors in operations and management.

Disclaimer

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As of Monday, December 04, 2023, the analyst, Wilson Loo, who prepared this report, has interest in the following securities covered in this report:
 (a) nil

Kaladher Govindan – Head of Research

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