

Company Background

Robi Axiata Limited (Robi) is the second largest mobile telecommunication service provider with voice, data, and other telecom based services in the country. It started its commercial operation in 1997 with 2G service with the brand name "Aktel" which was changed to "Robi" in 2010. The company launched 3G service in 2013 and 4G service in 2018. The Bangladesh telecommunication industry witnessed its first merger of Robi & Airtel in 2016. Robi has 11,922 sites with 91% 3G coverage and 93% 4G coverage. At present Robi has spectrum of 9MHz in 900 MHz band, 17.4 MHz in 1800 MHz band, and 10 MHz in 2100 MHz band.

The major shareholder of Robi is Axiata Investments (Labuan) Limited, which is owned by Axiata Group Berhad, with a shareholding of 68.7%. Bharti International (Singapore) Pte. Limited owns 31.3% of the Robi. The board comprises of eight members with two independent directors. The managing director and CEO, Mahtab Uddin Ahmed, became the first homegrown CEO of Robi in November 2016.

The revenue breakdown of Robi is provided below:

Particulars	Contribution (2019)	Contribution (2018)	Contribution (2017)
Voice	55.8%	59.3%	57.3%
Data	28.9%	24.8%	19.6%
VAS	5.4%	5.5%	4.7%
Others	9.9%	10.3%	18.4%
Total (BDT Mn)	74,811.7	67,982.3	68,256.5

IPO Details

Robi will raise BDT 5,237.93 Mn as initial public offering (IPO) through the fixed price method. The fund will be used for investing in network expansion. The majority of the capex will be for base transceiver station (BTS) sites especially exclusive 4G BTS sites of USD 32.5 Mn. The remainder of the fund will be used as IPO expense.

Use of IPO Proceeds	BDT mn	% of Proceed
Network Expansion	5,157.7	98.5%
IPO Expense	80.2	1.5%
Total	5,237.9	100.0%

Key Points

- Bangladesh is poised to witness substantial mobile subscriber growth due to a young population with a median age of 27 years and a unique mobile subscriber penetration of only 54% in 2019 (Source: GSMA). Moreover, due to technological advancements, feature phones and smartphones are getting cheaper which will allow faster enrolment of the population who are not under the mobile coverage. According to GSMA, Bangladesh has a mobile internet penetration of 25% and a smartphone penetration of 40% as of 2019. A young population and affordable smartphones will boost unprecedented data subscriber growth in the upcoming years. Along with that, data usage will grow at a significant rate as well. With data price getting cheaper and an explosion of social media usage (active social media penetration is only 22% in Bangladesh as of Jan'20, according to Datareportal), data usage will get a boost. Robi, being second largest player in the market, will ride the wave of digitalization and grow with the industry.
- Robi has a higher average GB per user per month of 2.7 compared to GP's 2.5 GB. Robi brands itself as having a 4.5G speed in Dhaka. As the growth of the industry will be primarily driven by data, Robi's subscribers, who are prone to higher data usage, may generate a much higher value in the future. However, as Robi starts gaining more low value customers, the contribution of the high value customers will start to dwindle.
- All the directors are senior professionals with experience in regional telecom companies. The current CEO has been with Robi for 10 years with previous roles as CFO and COO. Robi hasn't declared any dividend for the last five years which was likely due to volatility in the bottom line.
- Robi needs to renew 1.6 MHz of spectrum in 900 MHz band and 10 MHz of spectrum in 1800 MHz band in Dec'20. The exact cost of the renewal is still uncertain. The cost of the renewal may be close to BDT 30 Bn. Robi's IPO fund cannot be utilized for this purpose. Hence, the Debt/Equity ratio of 90.5% may increase further in the upcoming years.
- Robi's asset turnover is half of GP's without any trend in improvement in efficiency. Robi's net PPE/site is BDT 8.4 Mn, which is more than double of GP's net PPE/site of BDT 3.8 Mn. Therefore, it seems like Robi is inefficient in utilizing its funds to construct sites for its subscribers.
- Although Robi has a decent top line, the numbers drop significantly when it comes to the bottom line due to inefficiency in managing expenses. Robi has a much lower operating margin than that of GP due to the higher cost of revenue, maintenance and depreciation expenses. Moreover, due to a high debt number, the interest and lease payments pull down the earnings as well.

Comparable & Trading Multiples

Trailing P/E multiple of the other listed comparable stock in the Telecommunication sector is given below (as of 16 Nov 2020):

DSE Ticker	Market Cap (BDT mn)	TTM Earnings (BDT mn)	P/E
GP	445,059	36,053	12.5x

Company Summary

Pre IPO Paid up capital (BDT Mn)	47,141.4
IPO Proceeds (BDT Mn)	5,237.9
Post IPO Paid up capital (BDT Mn)	52,379.3
New Shares Issued (Mn)	523.8
Post IPO No. of Shares (Mn)	5,237.9
Face Value (BDT)	10.0
Market Lot	500
Free Float	10%
Accounting Year End	December
Auditor	Hoda Vasi Chowdhury & Co.
Issue Manager	IDLC Investments Limited

Income Statement

MM BDT	2016	2017	2018	2019
Revenue	51,131	68,256	67,982	74,812
Cost of Revenue	(45,567)	(52,829)	(48,063)	(46,974)
Administrative Expenses	(2,908)	(3,262)	(3,964)	(4,369)
Selling & Distribution Expenses	(7,454)	(11,320)	(12,442)	(10,701)
Operating Expenses	(3,758)	(3,659)	(4,129)	(4,110)
Operating Profit	(8,555)	(2,816)	(616)	8,659
Net Finance Expenses	(809)	(1,326)	(2,971)	(5,055)
Other Income/ (Expenses)	(68)	1,571	6,401	374
WPPF	0	0	(134)	(189)
Profit before Tax	(9,433)	(2,572)	2,680	3,789
Tax	2,502	2,467	(532)	(3,620)
Net Profit after Tax	(6,931)	(105)	2,147	170
EPS (BDT)	(1.47)	(0.02)	0.46	0.04
Diluted EPS (BDT)	(1.32)	(0.02)	0.41	0.03

Balance Sheet

MM BDT	2016	2017	2018	2019
Property, Plant and Equipment	78,740	91,128	99,182	100,540
Intangible Assets	34,261	30,198	29,452	23,862
Right-of-use Asset (ROU)	0	0	0	26,913
Non Current Assets	119,395	125,299	130,220	154,347
Accounts & Other Receivables	8,088	9,744	7,121	7,932
Cash and Cash Equivalents	4,014	1,725	2,644	4,517
Current Assets	14,027	16,802	14,394	17,622
Total Assets	133,422	142,101	144,614	171,969
Share Capital	47,141	47,141	47,141	47,141
Other Reserves	6,662	6,662	6,662	6,662
Retained Earnings	4,873	4,867	6,788	5,785
Equity	58,677	58,671	60,592	59,589
Term Loan - Non Current	10,657	8,094	11,154	7,227
Lease Obligation - Non Current	0	0	453	30,744
Non Current Liabilities	16,948	11,840	15,696	42,407
Accounts & Other Payables	29,329	40,942	38,458	41,288
Lease Obligation - Current	0	0	58	1,767
Term Loans - Current	2,687	3,140	4,959	6,832
Short Term Loan	19,218	18,700	13,413	7,350
Current Liabilities	57,797	71,590	68,326	69,973
Total Equity & Liabilities	133,422	142,101	144,614	171,969
NAVPS - Post IPO (BDT)	11.20	11.20	11.57	11.38

Cash Flow Statement

MM BDT	2016	2017	2018	2019
Operating activities	12,332	14,236	22,079	28,760
Investing activities	(18,861)	(11,951)	(17,206)	(13,334)
Financing activities	8,706	(4,574)	(3,605)	(13,553)
Net Cash Flow	2,177	(2,289)	1,268	1,873

Ratios and KPIs

	2017	2018	2019	GP (2019)
Sim Market Share	27.5%	30.0%	29.6%	46.4%
Data subscribers as a % of total subscribers	56.6%	60.4%	63.8%	53.1%
EBITDA Margin	21.0%	33.8%	38.9%	62.7%
Net Profit Margin	-0.2%	3.2%	0.2%	24.1%
Return on Equity	-0.2%	3.6%	0.3%	92.0%
ARPU (BDT/month)	132.6	120.8	127.2	157.0
Subscriber Growth	26.8%	9.3%	4.5%	5.1%
Revenue Growth	33.5%	-0.4%	10.0%	8.1%
Total Debt (MM BDT)	29,934	30,036	53,920	23,768
Debt/Equity	51.0%	49.6%	90.5%	62.0%
Capex/Sales	58.9%	65.2%	48.3%	17.7%

IMPORTANT DISCLOSURES

Analyst Certification: Each research analyst and research associate who authored this document and whose name appears herein certifies that the recommendations and opinions expressed in the research report accurately reflect their personal views about any and all of the securities or issuers discussed therein that are within the coverage universe.

Disclaimer: Estimates and projections herein are our own and are based on assumptions that we believe to be reasonable. Information presented herein, while obtained from sources we believe to be reliable, is not guaranteed either as to accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation of the purchase or sale of any security. As it acts for public companies from time to time, BRAC-EPL may have a relationship with the above mentioned company(s). This report is intended for distribution in only those jurisdictions in which BRAC-EPL is registered and any distribution outside those jurisdictions is strictly prohibited.

Compensation of Analysts: The compensation of research analysts is intended to reflect the value of the services they provide to the clients of BRAC-EPL. As with most other employees, the compensation of research analysts is impacted by the overall profitability of the firm, which may include revenues from corporate finance activities of the firm's Corporate Finance department. However, Research analysts' compensation is not directly related to specific corporate finance transaction.

General Risk Factors: BRAC-EPL will conduct a comprehensive risk assessment for each company under coverage at the time of initiating research coverage and also revisit this assessment when subsequent update reports are published or material company events occur. Following are some general risks that can impact future operational and financial performance: (1) Industry fundamentals with respect to customer demand or product / service pricing could change expected revenues and earnings; (2) Issues relating to major competitors or market shares or new product expectations could change investor attitudes; (3) Unforeseen developments with respect to the management, financial condition or accounting policies alter the prospective valuation; or (4) Interest rates, currency or major segments of the economy could alter investor confidence and investment prospects.

BRAC EPL Stock Brokerage Limited

Research

Ayaz Mahmud, CFA	Head of Research	ayaz.mahmud@bracepl.com	01708 805 221
Sadman Sakib	Research Associate	sadman.sakib@bracepl.com	01730 727 939
Md. Rafiqul Islam	Research Associate	mrafiqulislam@bracepl.com	01708 805 229
Md Mahirul Quddus	Research Associate	mmahirul.quddus@bracepl.com	01709 636 546

International Trade and Sales

Ahsanur Rahman Bappi	CEO (Acting)	bappi@bracepl.com	01730 357 991
----------------------	--------------	--	---------------

BRAC EPL Research

www.bracepl.com

Symphony, Plot No. S.E. (F) - 9,
Road No. 142, Gulshan-1, Dhaka
Phone: +880 2 985 2446-50
Fax: +880 2 985 2451
E-Mail: research@bracepl.com