



DIALOG AXIATA PLC [DIAL.N0000]

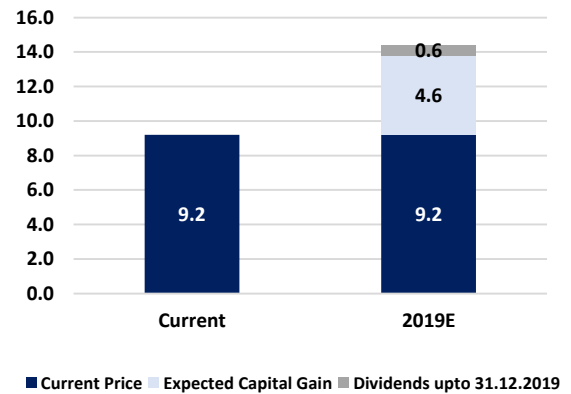
MAINTAIN BUY

RUPEE REVALUATION ENHANCED QUARTER EARNINGS

Fair Value: 2019E - LKR 13.8 [+50%]

Total Return: 2019E - +57% [AER 121%]

DIAL's earnings grew by +72%YoY to LKR 4.9Bn (LKR 2.8Bn in 1Q2018) backed by non-cash transitional foreign exchange gain of LKR 1.3Bn resulting from rupee appreciation coupled with +11%YoY revenue growth and cost optimisations. However, we downgrade our earnings forecast for 2019E to LKR 12.4Bn (-7%) on the back of increased finance cost due to increased dollar denominated loans. Considering the downward re-rating of the market, we revise our TP for 2019E to LKR 13.8 from previous LKR 15.9. **MAINTAIN BUY**



LKR (Mn)	1Q2018	1Q2019	YoY	2017	2018	YoY
Earnings (LKR 'Mn)						
Revenue	26,083	28,994	+11%	94,196	109,157	+16%
Gross profit	12,347	13,536	+10%	44,953	50,286	+12%
EBITDA	9,959	12,049	+21%	33,816	42,404	+25%
PBT	3,319	5,340	+61%	12,434	9,550	-23%
Net Profit	2,842	4,879	+72%	10,785	7,501	-30%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	66,202	71,383	+8%	61,687	67,268	+9%
Borrowings	36,839	47,278	+28%	36,595	49,779	+36%
NAVPS	8.1	8.8		7.6	8.3	

FIRST CAPITAL RESEARCH

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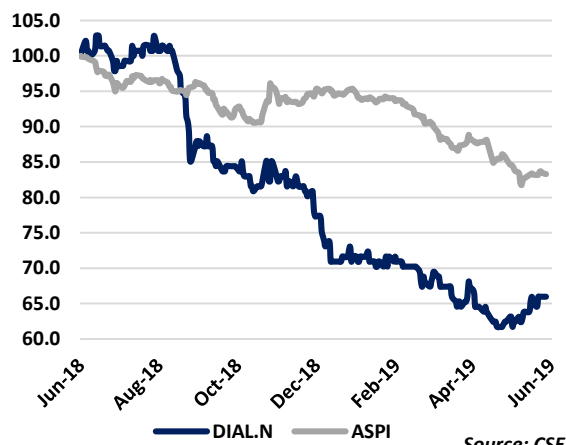
KEY DATA

CSE Ticker	DIAL.N0000
Bloomberg Ticker	DIAL SL
Share Price (LKR)	9.20
52w High (LKR)	14.50
52w Low (LKR)	8.70
Avg. Daily Volume (Shares)	834,887
Avg. Daily Turnover (LKR)	9,069,257
Issued Share Capital (Shares 'Mn)	8144
Market Cap (LKR 'Mn)	74,923
Market Cap (USD 'Mn)	426

*1 USD = LKR 176

Price Performance (%)	1 mth	3 mths	12mths
DIAL	3%	-6%	-35%
ASPI	-2%	-7%	-17%

DIAL vs ASPI



Forex gain normalised DIAL's earnings amidst aggressive competition

DIAL's top-line grew by +11%YoY to LKR 29.0Bn continuing its growth momentum across all key business segments (Mobile, DBN and DTV) on the back of continuous smart phone penetration, conversion to 4G, expanding network coverage and customer acquisition. DIAL's NPAT recorded a significant growth of +72%YoY to LKR 4.9Bn in 1Q2019 benefiting from strong EBITDA of LKR12.0Bn(+5%QoQ, +17%YoY) and a non-cash transitional foreign exchange gain of LKR 1.3Bn as a result of 3.6% appreciation in USD:LKR. DIAL invested LKR 2.6Bn in CAPEX representing a CAPEX intensity of 9% in 1Q2019 directed mainly towards investments in High-Speed Broadband infrastructure to strengthen the leadership in Sri Lanka's Broadband sector.

Mobile Data Segment continues to capture market share

Mobile revenue grew by +4%YoY with mobile data revenue growing +21%YoY driven by increased smartphone penetration and 4G conversion. Minutes of Usage (MoU) improved to 121 in 1Q2019 from 118 in 1Q2018 after a lapse of one and a half years, driving voice revenue by +4%YoY. Overall DIAL's mobile subscribers reached 14Mn (+10%YoY, +4%QoQ) leading to a marginal improvement in blended ARPU of LKR 391 (LKR 390 in 1Q2018). Mobile segment EBITDA margin improved to 42% in 1Q2019 (EBITDA LKR 8.7Bn, +14%YoY) as opposed to 38% in 1Q2018 supported by effective cost management strategies and a one-off gain of LKR 0.6Bn arising from adoption of SLFRS 15 - 'Revenue from Contracts with Customers' w.e.f. 01 Jan 2018.

Improved earnings led by Subscriber growth – DBN and DTV

DBN EBITDA reached LKR 2.4Bn (Margin 35%) on the back of strong revenue growth of +83%YoY which was driven by a subscriber growth of +45%YoY. However earnings declined by -20%YoY recording LKR 0.4Bn due to increased depreciation stemming from fixed 4G LTE investments. DTV EBITDA was a mere LKR 0.5Bn (Margin 23%) with subscribers reaching 1.2Mn (+16%YoY).

Minimum Return for BUY:

Buy Below [AER of 15.54% with DPS]: LKR 13.3

DIAL categorized as 'Grade A' counter (Refer page 09 for Recommendation criteria of Grade A, B & C Stocks)

Disclosure on Shareholding:

First Capital Group do not hold shares in DIAL and will not trade in this share for three trading days following the issue of this document.

Source: CSE

DBN forayed in to new digital frontiers, spearheading technology firsts in South Asia.

DBN took a major step forward commissioning of South Asia’s 1st fully functional and standards compliant 5G pilot transmission, and continued to be recognised as the denomination of connectivity. 5G transmission delivers speeds in excess of 2 Gbps in a real-world setting including base stations installed and commercial grade 5G Home Gateway Routers, which can deliver 5G throughput to a host of wireless devices and applications across the spheres of video, gaming and automation.

TP downgraded to LKR 13.8 – Maintain Buy

Downward re-rating of the market resulted in a downgrade in our fair value to LKR 13.8 from LKR 15.9 on the back of modest revenue growth. DIAL provides an annualized return of +121%. **MAINTAIN BUY**

Estimate Revision

	2019E - O	2019E - R	% Change	2020E - O	2020E - R	% Change
Earnings Estimate						
Revenue	110,118	115,926	+5%	116,788	121,782	+4%
Gross profit	54,019	53,628	-1%	57,690	55,960	-3%
Operating Profit	18,236	20,245	+11%	19,076	21,045	+10%
Pre Tax Profit	15,638	15,041	-4%	16,531	16,678	+1%
Net Profit	13,266	12,386	-7%	14,025	13,729	-2%
EPS	1.6	1.5		1.7	1.7	
Growth YoY	23%	15%		6%	11%	
Balance Sheet Estimate						
Shareholders' Equity	78,879	76,622	-3%	88,012	85,364	-3%
Borrowings	27,908	50,836	+82%	21,218	52,626	+148%
NAVPS	9.7	9.4		10.8	10.5	
Ratio Estimate						
ROE (%)	16.8%	16.2%		15.9%	16.1%	
PER (x)	5.6	6.0		5.3	5.5	
PBV (x)	0.9	1.0		0.9	0.9	

Valuation Table

P/E 31 December	2015	2016	2017	2018	2019E	2020E	2021E
Estimates (LKR 'Mn)							
Gross Profit	33,102	40,767	44,953	50,286	53,628	55,960	59,489
EBIT	9,497	12,915	14,802	16,723	20,245	21,045	23,155
Net Profit	5,188	9,041	10,785	7,501	12,386	13,729	15,304
EPS (LKR)	0.6	1.1	1.3	0.9	1.5	1.7	1.9
YoY Growth (%)	-14%	74%	19%	-30%	65%	11%	11%
DPS (LKR)	0.3	0.4	0.5	0.6	0.7	0.7	0.8
Valuations							
PER (x)	14.4x	8.3x	6.9x	10.0x	6.0x	5.5x	4.9x
PBV (x)	1.6x	1.4x	1.2x	1.1x	1.0x	0.9x	0.8x
DY (%)	3.5%	4.2%	5.0%	6.6%	7.3%	8.1%	9.1%

Valuation Summary

Expected DIAL price for 2019E	
DCF based target price	14.7
PER Valuation based target price	12.9
Average Target Price	13.8
Target Price after Rounding off	13.8

Return	
Target Price	13.8
Current Price	9.2
Capital Gain (LKR)	4.6
Dividends upto 31.12.2019 (LKR)	0.6
Capital Gain %	50%
Dividend Yield %	7%
Total Return %	57%
Annualized Return %	121%

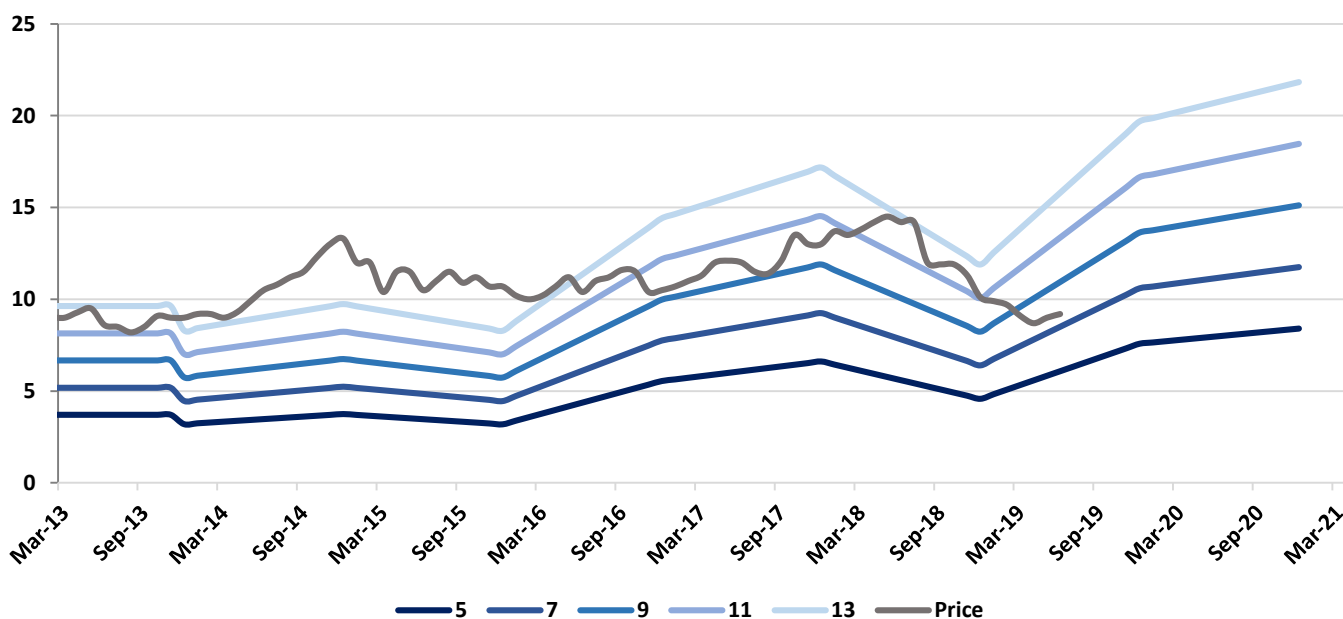
Discounted Cash flow Valuation

DCF based Valuation	
Enterprise Value	155,205
Debt (-)	(50,836)
Cash (+)	15,181
Total Value of Equity	119,551
No. of Shares (Mn)	8,144
Target Price	14.7

COE	
Rf	10.5%
Rm	18.5%
Growth %	3.0%
β	0.86
$K_e = R_f + \beta(R_m - R_f)$	17.4%

WACC	
Ke	17.4%
Kd	15.0%
D/E Assumption	1.00
Terminal Growth (%)	3.0%
WACC	14.5%

PER Valuation



Source: CSE, Company Annual Reports and First Capital Research Estimates

PER based Valuation	
2019E Earnings (LKR 'Mn)	12,386
No. of Shares ('Mn)	8,144
2019E EPS	1.52
Expected PER	8.5x
Price at 8.5x 2019E Earnings	12.9

Appendix I: Key Ratios

P/E 31st Dec	2015	2016	2017	2018	2019E	2020E	2021E
Growth							
Revenue	10%	17%	9%	16%	6%	5%	5%
Gross Profit	16%	23%	10%	12%	7%	4%	6%
Operating Profit	18%	36%	15%	13%	21%	4%	10%
PBT	-9%	57%	18%	-23%	57%	11%	12%
Net Profit	-15%	74%	19%	-31%	66%	11%	12%
Margin							
GP Margin	45%	47%	48%	46%	46%	46%	46%
EBIT Margin	13%	15%	16%	15%	17%	17%	18%
NP Margin	7%	10%	11%	7%	11%	11%	12%
Gearing							
Debt/Equity	54%	63%	59%	74%	66%	62%	54%
Debt/Debt+Equity	35%	39%	37%	43%	40%	38%	35%

Source : Company Annual Reports and First Capital Research Estimates

Appendix II: Statement of Financial Performance

Profit & Loss Statement (LKR Mn)	2015	2016	2017	2018	2019E	2020E	2021E
P/E 31st Dec							
Revenue	73,930	86,745	94,196	109,157	115,926	121,782	128,226
Direct costs	-40,828	-45,978	-49,243	-58,871	-62,298	-65,822	-68,737
Gross profit	33,102	40,767	44,953	50,286	53,628	55,960	59,489
Distribution costs	-10,838	-13,534	-14,137	-14,381	-15,532	-15,998	-16,478
Administrative costs	-12,799	-14,390	-16,059	-23,004	-17,986	-19,065	-20,019
Other income	33	72	45	125	135	148	163
Operating profit	9,497	12,915	14,802	16,723	20,245	21,045	23,155
Finance income	485	367	245	274	316	363	435
Finance costs	-3,244	-2,730	-2,599	-7,449	-5,519	-4,730	-4,992
Finance costs - net	-2,759	-2,363	-2,355	-7,174	-5,203	-4,368	-4,557
Share of loss from associates - net of tax	-33	-8	-13	1	0	0	0
Profit before income tax	6,705	10,544	12,434	9,550	15,041	16,678	18,599
Income tax	-1,518	-1,517	-1,674	-2,101	-2,707	-3,002	-3,348
Profit for the year	5,187	9,026	10,760	7,449	12,334	13,676	15,251
Minority Interest	-1	-15	-26	-52	-52	-53	-53
Profit attributable to Equity Holders	5,188	9,041	10,785	7,501	12,386	13,729	15,304
EPS	0.6	1.1	1.3	0.9	1.5	1.7	1.9

Source : Company Annual Reports and First Capital Research Estimates

Appendix III: Statement of Financial Position

Balance Sheet (LKR Mn) as at 31st Dec	2015	2016	2017	2018	2019E	2020E	2021E
Assets							
Non-current assets							
Intangible assets	17,341	16,434	19,119	22,818	26,234	30,089	34,344
Property, plant and equipment	79,060	89,944	100,018	111,257	116,772	126,345	132,724
Investment in associates	80	72	106	132	132	132	132
Financial assets	40	40	287	366	366	366	366
Other Assets	0	0	190	207	207	207	207
	96,522	106,490	119,721	134,780	143,710	157,139	167,773
Current assets							
Inventories	556	677	863	1,123	1,101	1,157	1,218
Trade and other receivables	14,519	17,966	15,535	17,758	18,859	19,812	20,860
Cash and cash equivalents	6,993	8,045	8,411	13,313	20,180	13,006	6,630
Other Assets	0	0	789	835	835	835	835
	22,068	26,688	25,599	29,813	35,977	34,809	29,543
Total Assets	118,590	133,178	145,320	164,593	179,687	191,948	197,316
Shareholders Funds							
Stated capital	28,104	28,104	28,104	28,104	28,104	28,104	28,104
Reserves	19,214	25,903	33,583	39,164	48,518	57,260	67,041
Shareholders Funds	47,318	54,006	61,687	67,268	76,622	85,364	95,145
Minority Interest	-1	14	-6	9	9	9	9
Total equity	47,317	54,021	61,681	67,277	76,631	85,373	95,154
Non-current liabilities							
Borrowings	15,943	26,313	25,629	40,766	38,127	39,469	38,856
Deferred income tax liability	53	0	0	0	0	0	0
Employee benefit payables	1,509	1,373	1,354	1,294	1,294	1,294	1,294
Other Liabilities	2,895	2,982	3,430	2,534	2,534	2,534	2,534
	20,400	30,668	30,413	45,415	42,776	44,118	43,504
Current liabilities							
Trade and other payables	40,630	39,744	41,099	35,640	40,534	42,246	38,579
Borrowings	9,464	7,872	10,966	9,013	12,709	13,156	12,952
Derivative financial instrument	12	16	283	460	460	460	460
Current income tax liabilities	766	858	877	940	730	746	819
	50,873	48,489	53,225	51,901	60,280	62,457	58,658
Total liabilities	71,273	79,157	83,639	97,316	103,056	106,575	102,162
Total Liabilities & Shareholders' Funds	118,590	133,178	145,320	164,593	179,687	191,948	197,316
NAVPS	5.8	6.6	7.6	8.3	9.4	10.5	11.7

















Source : Company Annual Reports and First Capital Research Estimates

Appendix IV: Statement of Cash flow

Cash flow Statements (LKR Mn) as at 31st Dec	2015	2016	2017	2018	2019E	2020E	2021E
Profit before tax							
Adjustments for							
Cash generated from operations	24,941	25,879	38,331	33,100	43,904	42,941	39,791
Interest received	468	381	254	312	316	363	435
Interest paid	-816	-1,688	-1,740	-2,050	-5,519	-4,730	-4,992
Tax paid	-3,079	-1,499	-1,635	-1,977	-2,918	-2,985	-3,275
Employee benefits paid	-35	-67	-56	-61	0	0	0
Net cash generated from operating activities	21,478	23,005	35,154	29,325	35,782	35,588	31,959
Cash flows from investing activities							
Purchase of property, plant and equipment	-14,421	-27,513	-26,515	-30,443	-28,249	-33,794	-30,960
Purchase of intangible assets	-2,128	-811	-3,845	-1,358	-6,318	-7,197	-8,094
Proceed from sale of PPE	267	214	30	131	0	0	0
Other	-332	0	-1,023	-257	0	0	0
Net cash used in investing activities	-16,614	-28,110	-31,353	-31,927	-34,567	-40,990	-39,054
Cash flows from financing activities							
Repayment of borrowings	-11,958	-8,686	-7,107	-7,102	-9,993	-10,411	-14,704
Proceed from borrowings	4,362	17,371	7,096	14,635	16,842	18,571	20,894
Dividend paid to ordinary shareholders	-1,059	-2,606	-3,176	-3,746	-2,980	-4,934	-5,470
Other	0	30	-247	40	0	0	0
Net cash flow from financing activities	-8,654	6,109	-3,435	3,827	3,869	3,227	719
Net change in cash and cash equivalents	-3,790	1,004	366	1,226	5,084	-2,176	-6,376
At start of the year	10,774	6,993	8,045	8,411	10,098	15,181	13,006
At end of the year	6,993	8,045	8,411	10,098	15,181	13,006	6,630

Source : Company Annual Reports and First Capital Research Estimates

Appendix V: Top 20 Shareholders

Top 20 shareholders - (% held)	1Q2019	4Q2018	QoQ	1Q2018	YoY
Axiata Investments (Labuan) Limited	83.3%	83.3%	-	83.3%	-
Employees Provident Fund	2.2%	2.2%	-	2.2%	-
CITI Bank New York S/A Norges Bank Account 2	1.7%	1.6%	 0.0%	1.7%	 0.0%
BNYM RE-UT SAGA Tree LLC	1.5%	1.5%	-	1.5%	-
JPMCB -Scottish ORL SML TR GTI 6018	1.0%	1.0%	-	1.0%	-
Pershing LLC S/A Averbach Grauson and Co.	0.8%	0.8%	-	0.8%	-
MSIP -Saga Tree Asia Master Fund	0.7%	0.8%	 0.0%	0.8%	 0.0%
BNYM SA/NV RE -LF Ruffer Investment Funds: LF Ruffer Pacific and Emerging Ma	0.7%	0.7%	-	0.7%	-
MSIP -Vittoria Fund -ST L.P.	0.7%	0.7%	-	0.7%	 0.0%
Northern Trust Company S/A Hosking Global Fund PLC	0.7%	0.7%	-	0.5%	 0.1%
State Street Luxembourg C/O SSBT-Alliancebernstein Next 50 Emerging Markets	0.5%	0.5%	-	0.5%	-
J.B. Cocoshell (Private) Limited	0.4%	0.3%	 0.1%	0.2%	 0.1%
JPMLU-T Rowe Price Funds Sicav	0.3%	0.4%	 -0.1%	0.5%	 -0.2%
Rubber Investment Trust Limited A/C No. 01	0.3%	0.3%	 -0.1%	0.5%	 -0.2%
Mellon Bank N.A.-UPS Group Trust	0.2%	0.2%	-	0.2%	-
The Ceylon Investment PLC A/C No. 02	0.2%	0.2%	-	0.2%	-
The Ceylon Guardian Investment Trust PLC A/C No. 02	0.2%	0.2%	-	0.2%	-
SSBT-Parametric Tax-Managed Emerging Markets Fund	0.2%	0.2%	-	0.2%	 0.0%
Amaliya (Private) Limited	0.2%	0.0%	 0.2%	0.0%	 0.2%
Deutsche Bank AG as Trustee for JB Vantage Value Equity Fund	0.2%	0.2%	-	0.0%	 0.2%

Appendix VI: Recommendation criteria

Company Category	Buy	Hold	Sell
S&P SL20 Companies	T.Bill + 5% & Above	T.Bill + 1% & Above	Below T.Bill + 1%
Rest of the Companies	T.Bill + 8% & Above	T.Bill + 3% & Above	Below T.Bill + 3%
Companies less than LKR 1Bn Market Cap	T.Bill + 11% & Above	T.Bill + 6% & Above	Below T.Bill + 6%

Weighted Average 1-year T-bill rate during March 2019: 10.54%

Company Category	Buy	Hold	Sell
S&P SL20 Companies	15.54%	11.54%	11.54%
Rest of the Companies	18.54%	13.54%	13.54%
Companies less than LKR 1Bn Market Cap	21.54%	16.54%	16.54%



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Anushka Dissanayake	+94 77 2220 021	Arun Kandasamy	+94 75 4861 506
Anushi Ranawaka	+94 77 3876 819		

CORPORATE DEBT SALES

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			Priyantha Wijesiri	+94 70 2910 036
Damian Le Grand		+94 70 2910 032		
Nishantha Mudalige		+94 70 2910 041		
Isuru Jayawardana		+94 70 2910 034		
Ifadh Marikar		+94 77 9625 679		
Thushara Pathiraja		+94 70 2910 037		
Anushka Buddhika		+94 70 2910 030		

UNIT TRUST SALES

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Imali Abeygunawardena	+94 77 1764 799		

BRANCHES

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