

ROBI AXIATA LIMITED

Company Overview

Robi Axiata Limited (Robi) was incorporated on 22 October 1995 (68.7% shares held by Axiata Investments (Labuan) Ltd., 31.3% shares held by Bharti International (Singapore) Pte Ltd.). The Company launched its commercial operations on 15 November 1997 and currently has nationwide 2G, 3G & 4G network. In 2016, Robi (Axiata) and Airtel (Bharti Airtel) became merged to attain operational efficiency, which made them the second largest operator by number of connections. Robi is a mobile telecommunication service provider and is providing voice, data and digital services. The Company also provides other services including international roaming services. Robi provides diverse range of value-added services (VAS) and advanced digital and IoT solutions across the country under two brands – Robi & Airtel. The 3G License and 4G License was issued for a period of 15 years with effect from 12 September 2013 and 19 February 2018 respectively.

The corporate office of the Company is Gulshan 1, Dhaka and other regional offices in different districts of Bangladesh. Other than these offices, we have 10 Mobile Switching Centre (MSC) sites, 9 Base Station Controller (BSC) sites and 11,922 Base Transceiver Station (BTS) sites.

Subsidiary Company: Red Dot Digital Limited (Red Dot) is a 99.99% subsidiary of Robi was incorporated in November 2019 and started in commercial operations in 2020. Red Dot is registered in the Bangabandhu Hi-Tech City, Kaliakoir, Gazipur, Bangladesh. The subsidiary will focus on Hi-Tech/ IT/ITES (IT Enabled Services) sector, developing software technology for mobile, IOT and FinTech services. The subsidiary will also facilitate data centre, incubation centre and R&D etc.

Subscriber Base of Robi: Robi has 99% 2G population coverage nationwide while 91% 3G and 93% 4G population coverage till 2019.

	2016 [~]	2017	2018	2019	2020 (Nov)
Subscriber (mn)	33.8	42.9	46.9	49.0	50.6
Addition (mn)	-2.8	9.1	4.0	2.1	1.6
Growth	-7.6%	26.8%	9.3%	4.5%	3.2%*
Market share	25.2%	29.6%	29.9%	29.6%	30.0%

Source: BTRC; [~]Robi and Airtel merged in 2016; *Growth over December 2019

Revenue Composition & Growth:

Particulars	Revenue (BDT mn) 2019	Composition 2019	Growth		
			2017	2018	2019
Voice	41,708	56%	57%	3%	3%
Data	21,597	29%	20%	26%	28%
VAS	4,069	5%	5%	18%	8%
Others	7,437	10%	18%	-44%	6%
Total	74,811	100%	33%	0%	10%

Credit Rating Status:

Rated by	Credit Rating Agency of Bangladesh Limited (CRAB)	
Date of rating	25 March 2020	
Rating	Long Term: AA₂	Short Term: ST-1
Outlook	Stable	
Validity	31 March 2021	

IPO Details

No. of Shares (Post-IPO) in mn	5,237.93
Authorized Capital (BDT mn)	60,000.00
Pre-IPO Paid-up Capital (BDT mn)	47,141.40
Post-IPO Paid-up Capital (BDT mn)	52,379.33
IPO size in shares (mn)	523.79
Total Issue Size (BDT mn)	5,237.90
Face value per share (BDT)	10.00
Offer price (per share (BDT)	10.00
NAVPS (Post-IPO, BDT) (September 2020)	12.55
Annualized EPS (Post-IPO, BDT) (Q3 Ann)	0.29

	2017	2018	2019	2020 (HY Ann.)
Financial Information (BDT mn):				
Sales	68,256	67,982	74,812	74,207
Gross Profit	15,426	19,919	27,838	29,969
Operating Profit	(2,816)	(616)	8,659	12,428
Profit After Tax	(105)	2,147	169	1,543
Cash & Cash Equiv.	1,725	2,644	4,517	3,772
Assets	142,101	144,614	171,969	169,961
CAPEX	20,515	23,419	13,480	10,106
Long Term Debt	8,094	11,607	37,971	33,814
Short Term Debt	21,840	18,430	15,949	19,838
Equity	58,671	60,592	59,589	60,086
Retained Earnings	4,867	6,788	5,785	6,282
Margin:				
Gross Profit	22.6%	29.3%	37.2%	40.4%
Operating Profit	-4.1%	-0.9%	11.6%	16.7%
Pre Tax Profit	-3.8%	3.9%	5.1%	9.1%
Net Profit	-0.2%	3.2%	0.2%	2.1%
Growth:				
Sales	33.5%	-0.4%	10.0%	-0.8%
Gross Profit	177.2%	29.1%	39.8%	7.7%
Operating Profit	-67.1%	-78.1%	-1505%	43.5%
Net Profit	-98.5%	-2153%	-92.1%	812.5%
Profitability:				
ROA	-0.1%	1.5%	0.1%	0.9%
ROE	-0.2%	3.6%	0.3%	2.6%
Operating Efficiency:				
Inventory TO	397.6	275.5	283.9	276.1
Receivable TO	7.7	8.1	9.9	10.4
A/C Payable TO	1.5	1.2	1.2	1.1
Total Asset TO	0.5	0.5	0.5	0.4
Fixed Asset TO	0.8	0.7	0.7	0.7
Leverage:				
Debt Ratio	21.1%	20.5%	13.5%	14.0%
Debt-Equity	51.0%	48.8%	38.9%	39.5%
Int. Coverage	(2.1)	(0.2)	1.7	2.3

Raw Materials: Robi is a service provider Company and major materials are Telecommunications Equipment and Software, Lease of optical fiber, IIG services, Network surveillance, maintenance, fault management, optimisation and other services for Robi's network. The major suppliers are Huawei International Pte. Ltd. (Global Supplier), Huawei Technologies (Bangladesh) Limited (Local Supplier), Ericsson AB (Global Supplier), Bangladesh Telecommunications Company Ltd., Summit Communications Ltd. and edotco Bangladesh Co. Ltd.

Capacity of Data and its Utilization:

Particulars (in Gbps)	2017	2018	2019
Installed Capacity	110	220	550
Capacity Utilization	71	200	340
Capacity Utilization (%)	64.5%	90.9%	61.8%

Projected* Capacity of Data and its Utilization:

Particulars (in Gbps)	2020	2021	2022
Installed Capacity	810	1,210	2,070
Capacity Utilization	650	970	1,660
Capacity Utilization (%)	80.3%	80.2%	80.2%

*The capacity utilization has been projected at a higher rate than the current rate as the 3G customers are expected to move to 4G and data consumptions per user is increasing.

Spectrum Status:

Robi has 36.4 MHz of spectrum from 900 MHz, 1800 MHz and 2100 MHz band to provide 2G, 3G and 4G services. Details of the spectrum allocation as shown in the following table:

Spectrum Band	Total Allocation (MHz)	Allocation (MHz)	Expiry
900	9	7.4	10.11.2026
		1.6	19.12.2020
1800	17.4	7.4	10.11.2026
		10	19.12.2020
2100	10	10	11.09.2028
	36.4	36.4	

IPO

The Company intends to raise BDT 5,237.93 million through Initial Public Offering (IPO). IDLC Investment Limited is the issue manager and Hoda Vasi Chowdhury & Co. is the auditor of the Company.

Utilization of the proceeds of IPO:

Use of Proceeds	BDT (in mn)	%	Implementation Schedule
Network Expansion	5,157.72	98.47%	W\i 6 months after receiving IPO Fund.
IPO expenses	80.21	1.53%	As and when required
Total	5,237.93	100%	

Shareholding Structure as of 31 December 2019:

Name of Shareholders	Number of Shares Held (in mn)	% of Holdings Pre-IPO
Axiata Investments (Labuan) Limited	3,238.30	68.7%
Axiata Group Berhad	0.001	0.0%
Bharti International (Singapore) Pte. Limited	1,178.54	25.0%
NTT DOCOMO INC.	297.30	6.3%
Total	4,714.14	100.0%

Board of Directors	
Name	Designation
Dato' Mohd Izzaddin Idris	Chairman
Dr. Shridhir Sariputta Hans Wijayasuriya	Director
Mr. Randeep Singh Sekhon	Director
Mr. Nakul Sehgal	Director
Mr. Vivek Sood	Director
Mr. Thayaparan Sangara pillai	Independent Director
Mr. Klaus Michael Kuehner	Independent Director
Mr. Mahtab Uddin Ahmed	Managing Director and CEO

There is no family relationship among the Directors of the Company. Also, there is no family relationship among the Directors and top five officials of the Company.

The directors of Robi Axiata Limited are not associated with the securities market as sponsor/director of any merchant bank, asset management company, TREC holder other than the following-

Name of Directors	TREC holder
Mahtab Uddin Ahmed (Nominated by Axiata investments (Labuan) Limited)	DSFM Securities Limited

Competitive Conditions

The telecommunication industry of Bangladesh is oligopolistic in nature. There are currently four players in the market: Grameenphone, Banglalink, Teletalk, and Robi (under which Airtel operates). The market had six players in 2016 before the Robi-Airtel merger and Citycell's bankruptcy. Top three players hold 97% of the market share where GrameenPhone secured the leading position with 46.2% market share in terms of subscribers as of June 2020.

BTRC has implemented uniform call rate for mobile phone operators from August 15, 2018. As per new tariff plan, the maximum and minimum tariffs are BDT 2.0 and BDT 0.45 per minute respectively in any-net. GP should have to be benefited by the new pricing policy as GP subscribers' make 90% of their calls on-net where and the rest 10% off-net, according to the Daily Sun, a local newspaper.

Among the companies in the industry – GrameenPhone Limited is listed with the exchanges.

Performance of the listed Peer Company

Particulars	GrameenPhone	Robi
Subscribers (in million)	78.13	50.59
Market Share (in %)	46.40%	30.05%
On Net Calls	90%	71%
Revenue (BDT million)	143,656	74,811
Revenue Composition:		
Voice	69%	56%
Data	21%	29%
Operating Profit Margin	46.4%	11.6%
Net Profit Margin	24.0%	0.2%
EPS (BDT)	25.6	0.04
NAVPS (BDT)	28.4	12.64
Share Capital (BDT million)	13,503.00	47,141.40

Data is for 2019 derived from annual report of GP and prospectus of Robi.

Industry Overview

Bangladesh was the first South Asian country to adopt cellular technology back in 1993 by introducing Advanced Mobile Phone System (AMPS). In 1996, the government awarded three GSM licenses aimed to make the cellular technology affordable to the general masses (Source: BTRC). The telecom industry is flourishing rapidly in Bangladesh. According to Bangladesh Bureau of Statistics (BBS) report (2017-18), the telecommunication sector contributed 6.98% of the country's GDP in FY 2016-17, which amounts to around \$29.6 billion. Employment opportunities are also set to expand to 850,000 jobs in 2020.

Over the last 5 years, country's total **mobile subscriber base grew at a CAGR (Compound Annual Growth Rate) of 6.59%**. In 1997, only 0.4 mn people availed mobile communication service and tele-density was less than 0.4%, whereas as of June 2019 **tele-density was 97.46% and internet penetration rate is around 57.44%** according to BTRC's data.

According to a comprehensive study conducted by the USAID, **the telecommunication industry's revenue will observe 3% compound annual growth rate (CAGR) during 2017 to 2025**, creating a market of more than USD 5 billion from the present market size of USD 3.8 billion. The key to this growth will be the expansion in the user-base and the tremendous growth in internet based digital services covering a wide ranging innovative digital solutions. Therefore, the sector's size is already quite large and will swell further making crucial contribution to achieve the goal of making Bangladesh a middle-income country.

Historical industry market share

	No. of Subscribers (mn)				5-yr CAGR	Market share
	Dec-17	Dec-18	Dec-19	Nov-20		Nov-20
GP	65.3	72.7	76.5	78.1		46.4%
Addition	7.4	7.4	3.7	1.7		
Growth	12.7%	11.3%	5.1%	2.2%	8.2%	
Robi*	42.9	46.9	49.0	50.6		30.0%
Addition	9.1	4.0	2.1	1.6		
Growth	26.8%	9.3%	4.5%	3.2%	8.0%	
Banglalink	32.4	33.5	35.2	35.0		20.8%
Addition	1.4	1.1	1.7	-0.2		
Growth	4.6%	3.5%	5.1%	-0.6%	2.7%	
Teletalk	4.5	3.9	4.9	4.6		2.8%
Addition	0.9	-0.6	1.0	-0.2		
Growth	23.7%	-14.2%	26.3%	-4.9%	4.8%	
Total	145.1	157.0	165.6	168.4		
Addition	10.8	11.9	8.6	2.8		
Growth	8.0%	8.2%	5.5%	1.7%	5.2%	

Source: BTRC; *Robi and Airtel merged in 2016; Growth for Nov 2020 is calculated over December 2019

Telecom and ICT is a highly focused area for the current Government. **By 2021, the Government aims to achieve 100% tele-density, 65% internet penetration**, fixed-broadband access to at least 50% of the people, and set up 4,553 unions with optical fibre connectivity. Under the Digital Bangladesh vision, the Government plans to create a knowledge-based economy where the production of goods and services are based

on knowledge-intensive activities. All initiatives are focusing on e-governance, connecting citizens, developing IT-based human resources and promoting the ICT industry.

Currently four mobile operators (including 1 government owned) are operating in the country, covering more than 97% territory and 99.5% population. For intensifying the competition, in 2013, before a 3G spectrum auction, the BTRC had created ground for a new player to enter the market but received no positive response yet.

Judging by the steady growth of data usage, the mobile industry will play a pivotal role in transforming the lifestyle of the citizens of Bangladesh. Rapid expansion of mobile broadband and growing smartphone penetration has already facilitated the development of relevant digital content locally. The emergence of new digital services, convergence of technologies/IoT, increased financial inclusion, and falling smartphones prices have resulted in a huge appetite for high speed data.

Growth of internet subscriber (in mn)

	Dec-16	Dec-17	Dec-18	Dec-19	Nov-20
Mobile Internet	62.7	75.1	85.6	93.7	101.9
Growth	21.9%	19.7%	14.0%	9.5%	8.8%
ISP + PSTN	3.8	5.3	5.7	5.7	8.7
Growth	51.7%	39.9%	7.3%	0.1%	50.8%
WiMAX	0.1	0.1	0.1	0.0	--
Growth	-37.2%	-4.3%	-31.5%	-91.8%	--
Total	66.6	80.5	91.3	99.4	111.1
Growth	21.9%	24.0%	23.1%	20.8%	11.8%

Source: BTRC; * Growth for November 2020 is calculated over December 2019

The number of mobile subscribers increased by 5.46% in 2019 while mobile internet subscribers increased by 9.5% (94.2% of total internet subscribers), indicating a large potential in the latter for growth. As of December 2019, there is around 93.68 million mobile internet connection in Bangladesh; 56.58% of mobile users are now using internet with cellular phones. The increased availability of low-cost smartphones and growing youth populations are the major drivers pushing the industry forward.

The Government has already established 5,275 digital centres across country to provide 200 types of service to 120 million citizens, starting from birth registration to an online grievance redress system. **The Government also aims to boost income from the ICT outsourcing industry up to USD 5 billion by 2020** and has undertaken large scale projects for IT infrastructure, including the establishment several ICT/Hi-tech parks and a tier-IV data centres.

Investment Positives

- **Robi will raise their capital for expansion of existing network** of base transceiver station, BTS antenna for new sites, new active subscriber capacity, mobile number portability capacity, new mobile user capacity, new VoLTE user capacity, voice call capacity, new site transmission (microwave) connectivity etc. for its smooth functioning and capture market share. **The Company is expecting to complete the expansion projects by May 2021. Payback Period of the project is 2.32 years and Internal Rate of Return is 53.62%** which indicates a good financial performance in terms of pay back and cost of borrowing perspective scenario.

- Robi enjoys established market position in the telecom industry with subscriber market share of 30% as of November 2020. In addition, its integrated telecommunications operations and economies of scale provide the Company a competitive advantage.
- Robi enjoys strong parent lineage and global experience that enable them easy access to latest technological advancement. Strong parentage of the Company supports strong and reputed institutional promoters.
- The Company's data revenue is increasing significantly over the years. 3-year average growth of data revenue was 25% amid increased internet dependency and rising data usage. Data subscriber growth has been encouraging, and a growing number of subscribers upgraded their handsets to 4G-enabled devices due to ready access to new digital services and applications over high-speed 4G/LTE data network. The 4G data service has rolled out from earlier 2018. The service has boosted AMBPU (Average MB Per User) and ultimately resulting into higher data revenue.
- Bangladesh's growing young urban population & Gross National Income per capita, increasing affordability of smartphones, growth in social media usage and digital content consumption are set to drive the growth in mobile data service which will ultimately increase the data revenue of the Company.
- BTRC approved the Significant Market Power or SMP regulations. Out of the four mobile phone operators in Bangladesh, only Grameenphone Limited currently makes up more than 40 percent of the total market share in terms of subscriber base, according to the BTRC data. It is believed that appropriate enforcement of SMP Rules will ensure profitability and sustainability of Robi.
- With the focus on Digital Bangladesh and introduction of Bangabandhu Satellite, internet subscriber's numbers and data connectivity can be expected to improve consistently in the future. As a result, Robi will have great opportunity to expand its business locally going forward.
- Mobile Number Portability (MNP) has positively impacted the growth of Robi during the recent period.
- BTRC is responsible for fixing tariff ranges. Tariff regulation may introduce uncertainty in Robi's ability to develop new products and services or have an adverse impact on business and profitability.
- BTRC may change Robi's license terms from time to time, which may have a material adverse effect on Robi's business, financial condition, results of operations and prospects.
- BTRC may introduce regulatory changes which may have a material impact on the telecom industry, including the re-allocation of spectrum frequency, granting new licenses to existing or new operators, 5G licensing, changes in sharing sites and towers, which may incur significant additional costs and which may in turn adversely affect Robi's business.
- The Company is involved in various legal, tax and regulatory matters, the outcome of which may not be favourable to Robi. Contingent liabilities are likely to have a negative impact on the company's business because they threaten to reduce the company's assets and net profitability. The extent of the impact depends on the estimated probability of the contingent liabilities becoming actual liabilities.

Investment Negatives

- Exposure to regulatory changes and technological risks is the key concerns as the sector is extremely dynamic structurally and technologically.
- Persisting high competitive intensity in the industry may delay sustainable bounce back of the financial matrix of the Company.

ILSL Research Team:

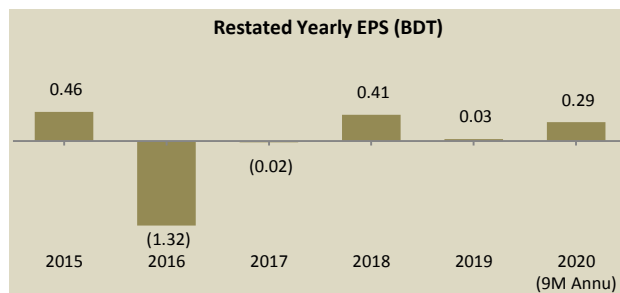
Name	Designation
Rezwana Nasreen	Head of Research
Towhidul Islam	Sr. Research Analyst

For any Queries: research@ilsbd.com

Research Distribution Partners:



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Latest Declaration

As per un-audited 3rd quarter financial performance of 2020, the Company reported profit after tax of BDT 1,160.32 mn which was BDT 1,138.56 mn registering 1.91% growth over the same period of last year. Post-IPO EPS was BDT 0.22 for the nine months of 2020 and NAV per share was BDT 12.55 as of September 2020.

Source: Prospectus of Robi Axiata Limited, newspaper news and ILSL Research.

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