



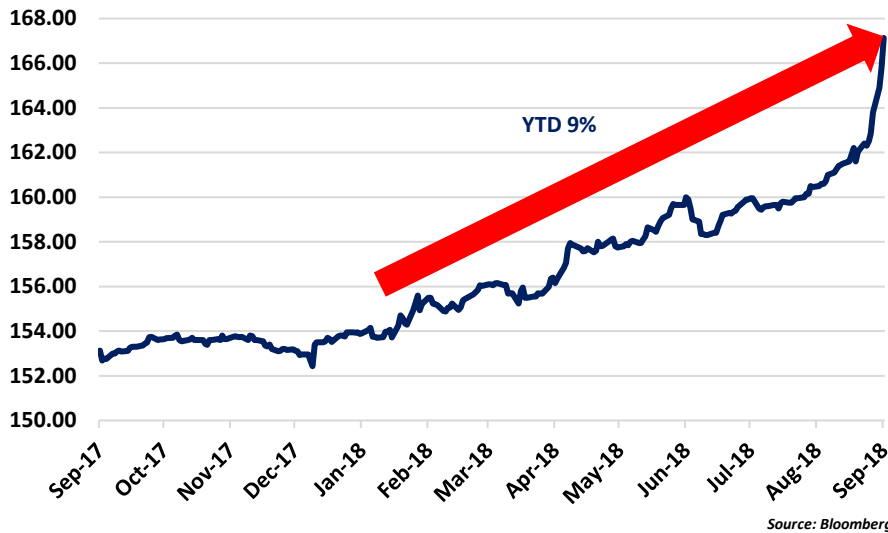
DIALOG AXIATA PLC [DIAL.N0000]

SEP 2018

Current Price: LKR 12.0

Fair Value [2018E]: LKR 16.2

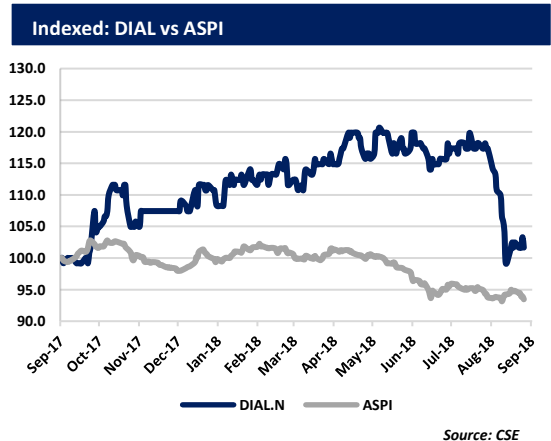
“LKR depreciation likely to affect Earnings”



First Capital Research published an earnings update on DIAL on 17 Sep 2018 recommending a **BUY** on the counter providing a total return of +31% with a target price of LKR 16.2 for 2018E. DIAL’s earnings for 2018E is expected to grow by 14%YoY to LKR 12.3Bn on the back of strong top-line growth owing to the increase in subscriber base to 13.2Mn and increase in smart phone penetration coupled with increase in 4G conversion. With the recent intensified pressure on LKR against USD resulting in LKR depreciating by 9%YTD led to USD:LKR reaching LKR 167.13 by 19 Sep 2018. Currency fluctuation is expected to have an adverse impact on DIAL’s earnings since DIAL is exposed to exchange rate fluctuation risk which may lead to a downgrade on the earnings for 2018E.

A 1% fluctuation in the USD:LKR exchange rate is expected to result in a LKR 204Mn impact on translation of USD denominated balances in the group. DIAL’s total borrowings of LKR 36.6Bn is comprised of LKR 23.3Bn in USD denominated borrowings at variable interest rates (2.50% to 3.35% p.a). As of end 2017 DIAL’s foreign currency borrowing totalled to USD 149Mn maintaining the Group’s USD:LKR borrowing mix at 70:30 by end 2017. Further, DIAL has invested USD 33.8Mn in derivative financial instruments as of end 2017.

USD:LKR depreciation by 6% during 3Q2018 is expected to adversely impact DIAL’s earnings in 3Q2018E. On the back of continuous depreciation of LKR against USD, we downgrade DIAL’s earnings for 2018E by LKR 210Mn to LKR 12.0Bn from previous LKR 12.3Bn (-2%). However, we continue to maintain our target price of DIAL for 2018E at LKR 16.2. **MAINTAIN BUY**



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.



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