

**DIALOG AXIATA PLC [DIAL.N0000]****MAINTAIN BUY****FOREX GAIN FORTIFIES BOTTOM LINE****Fair Value: 2021E - LKR 14.0 [+17%]***Total Return with DPS: 2021E - +21% [AER 19%]*

DIAL's earnings up by 225%YoY to record LKR 4.8Bn (LKR 1.5Bn in 3Q2019) primarily driven on the back of a forex gain amidst diligent cost control initiatives and lower finance expenditure. Hence, amidst a stable USD/LKR for 2020, we upgrade our earnings for 2020E to LKR 11.0Bn (+28% from previous target) while broadly maintaining our earnings target for 2021E at LKR 11.6Bn (+4% from previous target). In line with the marginal upgrade in earnings for 2021E, we upgrade our TP to LKR 14.0 from LKR 13.8 for 2021E with a total return of 21% and annualized return of 19%.

MAINTAIN BUY

LKR (Mn)	3Q2019	3Q2020	YoY	9M2019	9M2020	YoY
Earnings (LKR 'Mn)						
Revenue	29,059	30,471	+5%	87,163	87,894	+1%
Gross profit	12,647	13,238	+5%	38,842	37,881	+2%
EBITDA	11,919	13,641	+14%	35,016	36,507	+4%
PBT	1,960	5,224	+167%	11,777	12,106	+3%
Net Profit	1,474	4,797	+225%	8,348	8,597	+3%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	74,251	78,977	+6%	74,251	78,977	+6%
Borrowings	47,812	40,498	-15%	47,812	40,498	-15%
NAVPS	9.1	9.7		9.1	9.7	

Forex gain favours the bottom line

DIAL's bottom line was up by 225%YoY to LKR 4.8Bn on the back of a forex gain amounting to LKR 188Mn as opposed to the forex loss of LKR 968Mn recorded in 3Q2019. The forex gain was because of the rupee appreciating against the greenback by 0.68% for Jun-Sep 2020 and closing at LKR 184.99 against LKR 186.25 in early Jun. The low interest rate environment upheaved group performance with finance expenditure declining by 44%YoY to LKR 532Mn from LKR 953Mn in 3Q2019. We expect finance expenditure for 2021E to record at LKR 5.4Bn by factoring a USD/LKR target of LKR 210.0 by end of 2021 and estimate earnings of LKR 11.6Bn for 2021E.

Mobile segment continues to capture market share

Mobile revenue grew by 3%YoY, while Voice revenue rebounded in 3Q2020 up by 33%QoQ and Minutes of Usage (MOU's) continued to improve to 164 in 3Q2020 from 158 in 2Q2020. Overall DIAL's mobile subscribers reached 15.3Mn (+1%YoY, +2%QoQ) leading to a "V" shaped recovery in ARPU (Average Revenue Per User) of LKR 384 from LKR 349 in 2Q2020 (LKR 380 in 1Q2020). Mobile segment EBITDA improved to 48.4%, spiking by 6.9% on a QoQ basis and 4.1% on a YoY basis mainly driven by cost optimizations such as Paperless Activation (100%), E-bills (64%) and E-Payment (67%).

DBN revenue growth soars while DTV revenue declines YoY

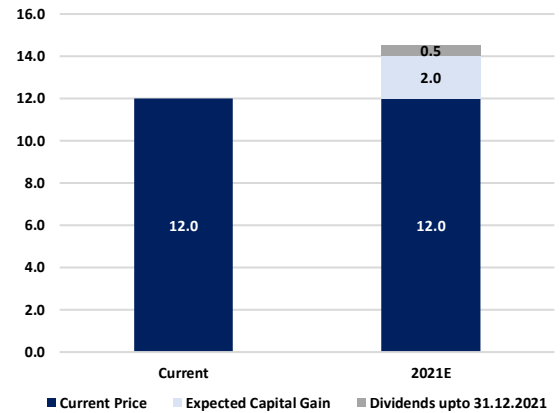
Revenue from Dialog Broadband (DBN) grew by 10%YoY supported by expanding network coverage amidst increase in data usage under the new normal plus aggressive subscriber acquisition of 22%YoY. Dialog Television (DTV) earnings and EBITDA declined by 100% and 19% on a YoY basis owing to challenges in providing free offers to customers due to Covid-19 thereby low revenue contribution and higher channel, transponder and depreciation cost due to increased contract cost. We maintain our DBN and DTV revenue targets for 2021 of LKR 32.9Bn and LKR 9.8Bn, respectively.

Capacity investments support Mobile/ Fixed Broadband Capacity Upgrades

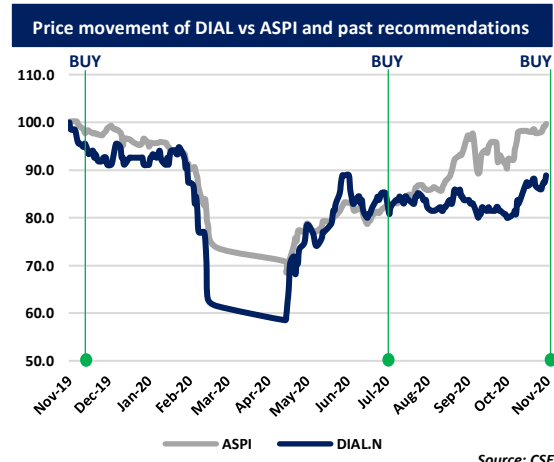
DIAL invested LKR 7.3Bn in CAPEX focusing on capacity upgrades and coverage expansion in 4G network leading to an improved CAPEX intensity of 14% in 3Q2020. During the period PoP (point of presence) coverage of 4G for mobile increased to 93% while fixed line remained steady at 68%. We expect the strong growth trend in mobile data and fixed broadband to continue as internet penetration continues to reach new highs.

TP for 2021E at LKR 14.0 – Maintain Buy

We upgrade our TP for 2021E to LKR 14.0 with a total return of 21% (including a DY of 4%) and annualized return of 19% on the back of modest revenue growth of 7%YoY. **MAINTAIN BUY**

**FIRST CAPITAL RESEARCH**

Nisansala Kuruppumudali +94 11 263 9866
nisansalat@firstcapital.lk

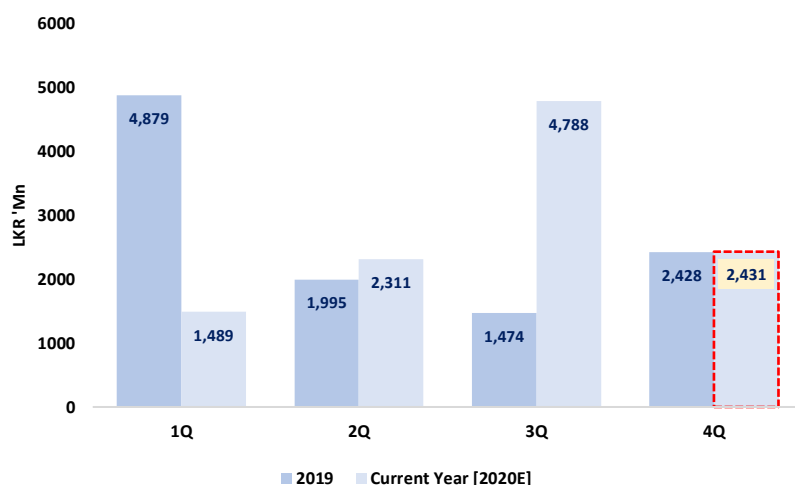
**Minimum Return for BUY:**

Buy Below [AER of 10% with DPS]: LKR 12.9
 DIAL categorized as 'Grade A' counter

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.

Quarterly Earnings



Estimate Revision

	2020E - O	2020E - R	% Change	2021E - O	2021E - R	% Change
Earnings Estimate						
Revenue	119,123	119,123	+0%	126,905	126,905	-0%
Gross profit	54,963	54,963	+0%	58,778	58,778	+0%
Operating Profit	16,861	16,861	+0%	19,089	19,089	-0%
Pre Tax Profit	10,441	13,377	+28%	13,520	14,077	+4%
Net Profit	8,612	11,019	+28%	11,137	11,594	+4%
EPS	1.1	1.4		1.4	1.4	
Growth YoY	-20%	2%		29%	5%	
Balance Sheet Estimate						
Shareholders' Equity	78,510	80,917	+3%	86,171	88,073	+2%
Borrowings	51,096	51,096	-0%	52,715	52,715	+0%
NAVPS	9.6	9.9		10.6	10.8	
Ratio Estimate						
ROE (%)	11.0%	13.6%		12.9%	13.2%	
PER (x)	10.7	8.9		8.3	8.4	
PBV (x)	1.2	1.2		1.1	1.1	

Valuation Table

P/E 31 December	2016	2017	2018	2019	2020E	2021E	2022E
Estimates (LKR 'Mn)							
Revenue	86,745	94,196	109,157	116,827	119,123	126,905	134,884
Gross Profit	40,767	44,953	50,286	51,716	54,963	58,778	62,539
EBIT	12,915	14,802	16,723	15,336	16,861	19,089	21,193
Net Profit	9,041	10,785	7,501	10,776	11,019	11,594	12,907
EPS (LKR)	1.1	1.3	0.9	1.3	1.4	1.4	1.6
YoY Growth (%)	74%	19%	-30%	44%	2%	5%	11%
Valuations							
PER (x)	10.8x	9.1x	13.0x	9.1x	8.9x	8.4x	7.6x
PBV (x)	1.8x	1.6x	1.5x	1.3x	1.2x	1.1x	0.9x
DY (%)	2.7%	3.3%	3.8%	3.1%	4.4%	4.5%	4.7%

Valuation Summary

Expected DIAL price for 2021E	
DCF based target price	14.6
PER Valuation based target price	14.2
Average Target Price	14.4
Target Price after Rounding off	14.0

Return	
Target Price	14.0
Current Price	12.0
Capital Gain (LKR)	2.0
Dividends upto 31.12.2021 (LKR)	0.5
Capital Gain %	17%
Dividend Yield %	4%
Total Return %	21%
Annualized Return %	19%

Discounted Cash flow Valuation

DCF based Valuation	
Enterprise Value	164,470
Debt (-)	(52,715)
Cash (+)	7,225
Total Value of Equity	118,980
No. of Shares	8,144
Target Price	14.6

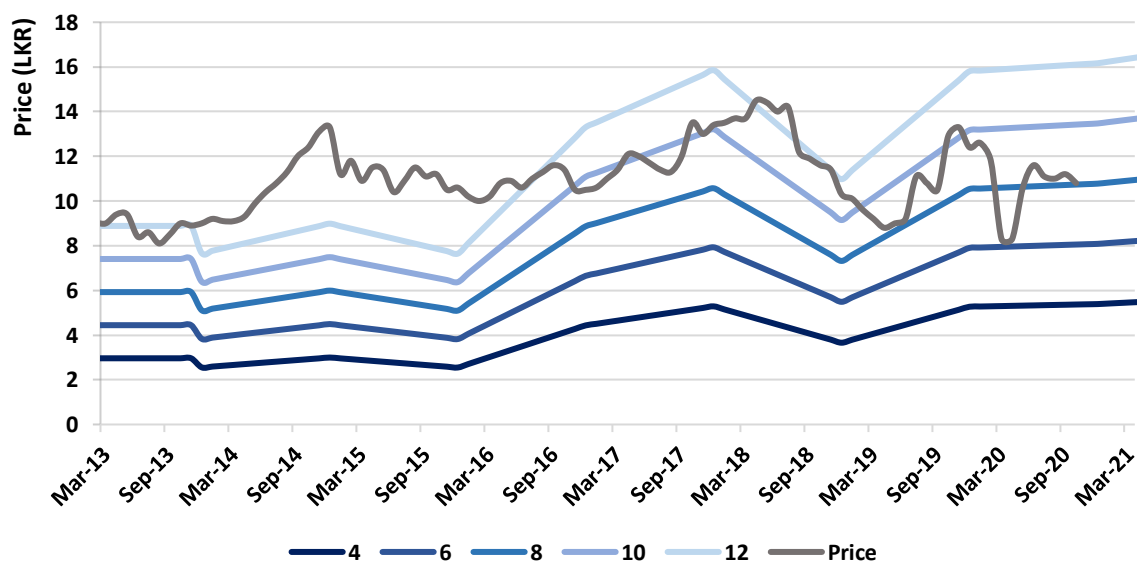
COE	
Rf	4.9%
Rm	16.9%
Growth %	3.0%
β	1.20
Ke=Rf+β(Rm-Rf)	19.3%

PER Valuation

PER based Valuation	
2021E Earnings (LKR 'Mn)	11,594
No. of Shares ('Mn)	8,144
2021E EPS	1.42
Expected PER	10x
Price at 10x 2021E Earnings	14.2

WACC	
Ke	19.3%
Kd	7.4%
D/E Assumption	50/50
Terminal Growth (%)	3.0%
WACC	12.7%

PER Chart



Appendix I: Statement of Income and Expenses

Profit & Loss Statement (LKR Mn) P/E 31st December	2016	2017	2018	2019	2020E	2021E	2022E
Revenue	86,745	94,196	109,157	116,827	119,123	126,905	134,884
Direct costs	-45,978	-49,243	-58,871	-65,112	-64,160	-68,127	-72,345
Gross profit	40,767	44,953	50,286	51,716	54,963	58,778	62,539
Distribution costs	-13,534	-14,137	-14,381	-15,241	-15,698	-16,169	-16,654
Administrative costs	-14,390	-16,059	-23,004	-21,212	-22,484	-23,608	-24,789
Other income	72	45	125	73	80	88	97
Operating profit	12,915	14,802	16,723	15,336	16,861	19,089	21,193
Finance income	367	245	274	273	314	377	452
Finance costs	-2,730	-2,599	-7,449	-2,927	-3,798	-5,389	-5,967
Finance costs - net	-2,363	-2,355	-7,174	-2,654	-3,484	-5,012	-5,515
Share of loss from associates - net of tax	-8	-13	1	0	0	0	0
Profit before income tax	10,544	12,434	9,550	12,682	13,377	14,077	15,678
Income tax	-1,517	-1,674	-2,101	-1,955	-2,408	-2,534	-2,822
Profit for the year	9,026	10,760	7,449	10,726	10,969	11,543	12,856
Minority Interest	-15	-26	-52	-49	-50	-50	-51
Profit attributable to Equity Holders	9,041	10,785	7,501	10,776	11,019	11,594	12,907
EPS	1.1	1.3	0.9	1.3	1.4	1.4	1.6

Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn) as at 31st December	2016	2017	2018	2019	2020E	2021E	2022E
Assets							
Non-current assets							
Intangible assets	16,434	19,119	22,818	25,305	30,465	36,548	43,366
Property, plant and equipment	89,944	100,018	111,257	115,683	124,281	130,931	139,417
	106,490	119,721	134,780	146,259	160,017	172,750	188,054
Current assets							
Inventories	677	863	1,123	1,481	1,132	1,206	1,281
Trade and other receivables	17,966	15,535	17,758	19,932	20,323	21,651	23,012
Cash and cash equivalents	8,045	8,411	10,098	7,631	9,652	7,225	10,042
	26,688	25,599	29,813	29,938	32,002	30,976	35,230
Total Assets	133,178	145,320	164,593	176,197	192,019	203,726	223,284
Shareholders Funds							
Stated capital	28,104	28,104	28,104	28,104	28,104	28,104	28,104
Reserves	25,903	33,583	39,164	46,134	52,813	59,969	68,207
Shareholders Funds	54,006	61,687	67,268	74,238	80,917	88,073	96,311
Minority Interest	14	-6	9	13	13	13	13
Total equity	54,021	61,681	67,277	74,251	80,930	88,086	96,324
Non-current liabilities							
Borrowings	26,313	25,629	40,766	32,957	35,256	36,373	38,194
	30,668	30,413	45,415	41,258	43,557	44,674	46,495
Current liabilities							
Trade and other payables	39,744	41,099	35,640	36,903	42,456	45,317	53,890
Borrowings	7,872	10,966	9,013	14,660	15,840	16,342	17,160
	48,489	53,225	51,901	60,688	67,532	70,966	80,465
Total liabilities	79,157	83,639	97,316	101,946	111,089	115,640	126,960
Total Liabilities & Shareholders' Funds	133,178	145,320	164,593	176,197	192,019	203,726	223,284
NAVPS	6.6	7.6	8.3	9.1	9.9	10.8	11.8



First Capital

First Capital Holdings PLC

No.2, Deal Place,
Colombo 3

Tel: +94 11 2145 000
Fax: +94 11 2145 050

RESEARCH

Dimantha Mathew	+94 11 2639 853	Nisansala Kuruppumudali	+94 11 2639 866
Atchuthan Srirangan	+94 11 2639 863		
Hiruni Perera	+94 11 2639 864		

GOVERNMENT SECURITIES SALES

Anjelo Simmons	+94 77 3031 636	Neminda Jayawardena	+94 76 6644 080
Anushka Dissanayake	+94 77 2220 021	Arun Kandasamy	+94 75 4861 506
Anushi Ranawaka	+94 77 3876 819		

CORPORATE DEBT SALES

Nethalie De Mel	+94 11 2639 854
-----------------	-----------------

EQUITY SALES

CEO	Jaliya Wijeratne	+94 70 2910 042	Negombo	
			Priyanka Anuruddha	+94 70 2910 035
Colombo			Priyantha Wijesiri	+94 70 2910 036
Nishantha Mudalige		+94 70 2910 041		
Ifadh Marikar		+94 77 9625 679		
Thushara Pathiraja		+94 70 2910 037		

UNIT TRUST SALES

Kavin Karunamoorthy	+94 77 0328 060	Imali Abeygunawardena	+94 77 1764 799
---------------------	-----------------	-----------------------	-----------------

BRANCHES

Kandy	Kurunegala	Matara	Negombo
2nd Floor, No.121 Kotugodella Veediya (E L Senanayake Veediya) Kandy 20000.	Ground Floor No. 42, Mihindu Mawatha, Kurunegala 60000.	2nd Floor, E.H. Cooray Building No: 24, 1/3, Anagarika Dharmapala Mawatha, Matara 81000.	1st Floor No: 163B, Colombo Road, Negombo 11500.
Manager: Salinda Samarakoon	Manager:	Manager: Rohana Jayakody	Manager:
Tel: +94 81 2236 010	Tel: +94 37 2222 930	Tel: +94 41 2222 988	Tel: +94 31 2233 299

Disclaimer:

This Review is prepared and issued by First Capital Holdings PLC based on information in the public domain, internally developed and other sources, believed to be correct. Although all reasonable care has been taken to ensure the contents of the Review are accurate, First Capital Holdings PLC and/or its Directors, employees, are not responsible for the correctness, usefulness, reliability of same. First Capital Holdings PLC may act as a Broker in the investments which are the subject of this document or related investments and may have acted on or used the information contained in this document, or the research or analysis on which it is based, before its publication. First Capital Holdings PLC and/or its principal, their respective Directors, or Employees may also have a position or be otherwise interested in the investments referred to in this document. This is not an offer to sell or buy the investments referred to in this document. This Review may contain data which are inaccurate and unreliable. You hereby waive irrevocably any rights or remedies in law or equity you have or may have against First Capital Holdings PLC with respect to the Review and agree to indemnify and hold First Capital Holdings PLC and/or its principal, their respective directors and employees harmless to the fullest extent allowed by law regarding all matters related to your use of this Review. No part of this document may be reproduced, distributed or published in whole or in part by any means to any other person for any purpose without prior permission.

About us:

This report providing a snapshot of fixed income, equity and unit trust is composed and circulated by First Capital Holdings PLC an investment bank in Sri Lanka. The company operates in the capital market of Sri Lanka with operations in government securities - treasury bills and bonds, stock brokering and share market investments, asset management, private wealth management, retirement planning, personal financial planning, unit trust, margin trading, capital market research, trustee services, corporate finance advisory services including corporate debt structuring (debentures, trust certificates, commercial papers), valuations, restructuring, mergers and acquisitions, initial public offerings (IPOs) and project advisory. The First Capital Group consists of First Capital Treasuries PLC, First Capital Limited, First Capital Markets Limited, First Capital Asset Management Limited and First Capital Equities (Private) Limited covering Colombo, Negombo, Matara, Kandy and Kurunegala.