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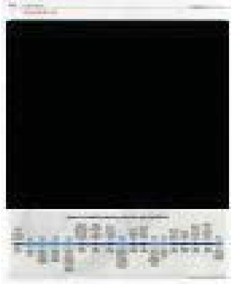

EPF weighing purchase of stake in Edotco, say sources

BY **CHESTER TAY, JOSE BARROCK** AND **INTAN FARHANA ZAINUL**

The Employees Provident Fund (EPF) could buy a stake in Edotco Group Sdn Bhd, the world's sixth largest telecommunications tower infrastructure company (towerco), according to sources.

The provident fund is currently conducting due diligence on Edotco, which has a presence in nine countries, says a source familiar with EPF, adding that Japan-based INCJ Ltd is looking for an exit but is subject to a fundraising exercise.

INCJ and Khazanah Nasional Bhd are two names industry sources say are keen to divest their equity interest in Edotco.

The company currently has four shareholders. Axiata Group Bhd is the largest with a 63% stake; followed by INCJ (21.14%), which bought its stake in 2017; Khazanah (10.57%), which controls 37% of Axiata; and Kumpulan Wang Persaraan (Diperbadankan) (KWAP), which has 5.29% equity interest.

At press time, the information gathered from various sources indicates that the existing shareholders are keen to part with their stakes partly due to Edotco's capital injection requirements. Meanwhile, the towerco is working on undertaking another round of share placement to raise fresh capital that will result in dilution for the existing shareholders.

When contacted, Axiata Group tells *The Edge* that it is exploring private equity as a means of raising fresh capital for Edotco.

"We are in the midst of running the process. However, we are unable to confirm [the entry of] any new investors at this time. We wish to emphasise that it is not our policy to comment on speculative or unverified reports," says the telco in response to *The Edge*'s query on whether it intends to divest its stake in Edotco.

"Our view is that the current high interest rate environment is not optimal for an infrastructure company to undertake an IPO (initial public offering) right now. We are exploring private equity as a means of raising funds for Edotco."

Khazanah and EPF had not responded to requests for comment on the matter at the press time.

Since the beginning of the year, Khazanah has been disposing of its shareholding in certain listed companies such as Tenaga Nasional Bhd, CIMB Group Holdings Bhd, Time dotcom Bhd and TT Vision Holdings Bhd. So far, it has raised an estimated RM2.45 billion from the divestments.

Not an easy exit

Edotco is perceived as Axiata's crown jewel, given the anticipated growing demand for telecoms towers globally amid the pertinent need for speedier and more efficient information and communications technology (ICT).

The company was valued at US$1.5 billion when it undertook two share placements in 2016 and 2017. It raised US$700 million in fresh capital then by placing out shares to Khazanah, INCJ and KWAP.

The share placements came as a surprise to some quarters, which had expected Axiata to list Edotco on the equity market to unlock its investment value. With the low interest rate environment at that point of time, utility companies such as Edotco that offer steady earnings and regular dividends were usually the cup of tea for many investment funds.

However, the investing landscape has seen a drastic change over the last two years given the aggressive interest rate hikes globally led by the US. The sharp rise in bond yields has to some extent affected the appetite for utility stocks. As a result, investors are demanding higher yields from such companies.

Edotco's efforts to court investors have grown more challenging in recent years, particularly after certain operations abroad faced several headwinds, on top of the elevated interest rates globally and US dollar strength, according to people familiar with the company.

"For the other shareholders, they are kind of trapped in Edotco now, because in order for private equity to come in, it would want to take a majority stake, so Axiata has to make a move [to trim its stake]. There is no point buying a small shareholding and getting just a board seat, while there is no clear visibility for an exit," says an investment banker when contacted.

"INCJ — although it did not get a put option when it invested in Edotco because back then nobody could provide this kind of promise for an exit — has the right to initiate any exit process, be it IPO or what not, for the board to deliberate on."

Prospective investors are wary of a few things, according to another source. One is Edotco's limited room to raise borrowings for its capital-intensive operations.

"It is a subsidiary of Axiata. Any borrowings that Edotco raises will be reflected on Axiata's balance sheet, which is subject to a stricter level of corporate governance, hence there is a limit to what it can borrow to fund its expansion," says the source.

"Ideally, an independent towerco should borrow more as long as it can service its loans with its cash flow," explains the source, adding that this might make Edotco less attractive as investors could foresee the tough choice between a capital injection or a stake dilution as a result of the share placement.

Axiata group CEO and managing director Vivek Sood told *The Edge* in an interview in June that the group would not pump in additional funds to cover Edotco's hefty capital expenditure and it was now open to giving up its majority stake in the towerco at the right valuation. "[Edotco] needs to get new investors or go to the bank to borrow money," he said.

In June, the company did a US$700 million syndicated loan arranged by OCBC Bank (Malaysia) Bhd, mainly to fund Edotco's purchase of 2,973 towers in the Philippines through a sale and leaseback transaction with PLDT Inc for PHP42 billion (RM3.42 billion).

Edotco's syndicated loan came just months after its Malaysian operations issued its maiden RM1.4 billion sukuk under a newly established Islamic medium-term notes programme of up to RM3 billion in September last year.

Prior to the latest US$700 million syndicated loan, Edotco's total liabilities stood at RM8.49 billion for the financial year ended Dec 31, 2022 (FY2022), up from RM4.93 billion in FY2021 and RM2.5 billion in FY2019, filings with the Companies Commission of Malaysia (CCM) show.

Axiata's balance sheet is already stretched and Vivek, an accountant by training, has made it clear that the regional telecommunications group's current priority is to keep its debt-to-Ebitda (earnings before interest, taxes, depreciation and amortisation) ratio from rising too far above its current level of about three times, while still being able to deliver returns to shareholders.

Axiata's short-term borrowings stood at RM3.77 billion while long-term loans amounted to RM22.27 billion as at the first half of its fiscal year ending Dec 31, 2023 (1HFY2023). It has cash and bank balances of RM6.27 billion. The telco's net debt-to-Ebitda was 3.9 times at end-June.

Dragged by impairments from its Nepal operations and higher finance costs, the telco group incurred a net loss of RM502.36 million in 1HFY2023, widened from RM149.35 million a year earlier. Finance costs grew 63.5% to RM1.26 billion from RM769.4 million over the same period.

Facing headwinds abroad

Edotco currently owns and manages a portfolio of 54,000 towers across nine markets: Malaysia, Indonesia, Bangladesh, Pakistan, Sri Lanka, Myanmar, Laos, Cambodia and the Philippines. The company has been profitable based on its filings available on CCM.

The towerco reported weaker profitability last year, with its net profit dropping 35% to RM191.37 million in FY2022 from RM292.69 million in FY2021, despite revenue growing 25% to RM2.48 billion from RM1.98 billion.

Luck isn't quite on Edotco's side in some of its overseas operations, says an industry player, citing its operations in Pakistan and Bangladesh as examples.

"The strengthening of the US dollar has impacted Edotco because some of its costs are in US dollars while it is earning local currencies. The military coup in Myanmar has also affected its business prospects," he says. ■

COMPANIES COMMISSION OF MALAYSIA (CCM)

Edotco's financials (2016 to 2022)

YEAR	NET PROFIT (RM MIL)	REVENUE (RM BIL)	LIABILITIES (RM BIL) CURRENT	LIABILITIES (RM BIL) NON-CURRENT
2016	20.30	0.65	0.58	-
2017	170.15	1.43	0.73	-
2018	208.42	1.53	1.85	-
2019	232.04	1.81	1.13	-
2021	292.69	1.98	3.00	1.93
2022	191.37	2.48	3.04	5.45

Note: Data for FY2020 was not available on CCM