

PP14767/09/2012(030761)

Maxis Berhad

“Tougher Timers Ahead”

Results Review

- **Actual vs. expectations.** Maxis Berhad (Maxis) 3M16 net profit of RM520 million (+0% y-o-y) came in line with ours and consensus estimates, accounting 27% and 27.3% of ours and consensus full year estimates respectively. The flat earnings were hampered by 1) flat service revenue (+0% y-o-y) 2) lower non-services revenue (-57% y-o-y) (i.e. device and hubbing business).
- **Topline vs. bottomline.** Maxis’ revenue slid by 2% y-o-y to RM2.1 billion caused by lower revenue in mobile segment (-0.8% y-o-y). Prepaid revenue fell by 3.5% y-o-y to RM1.01 billion, whilst postpaid segment’s chalked up improvement of 2.3% y-o-y to RM994 million. Nevertheless, EBITDA surged by 16% y-o-y to RM1.2 billion with margin held up at 57% (+800bps).
- **Dividend.** Maxis announced dividend of 5 cent in 1Q16, translating into 72% payout ratio, in line with expectation.
- **Prepaid segment.** Tougher operational pushed prepaid revenue down by 3.5% y-o-y and 2.5% q-o-q, translating into loss of subscribers for 4 consecutive quarters of 324k q-o-q. Mobile data usage for prepaid segment increased to 1,550 MB per month as at 1Q16. Meanwhile, ARPU remained relatively stable at RM39 per month despite shrinking subscriber base.
- **Postpaid segment.** Postpaid revenue for 1Q16 dipped by 1.7% q-o-q, but rose 2.3% y-o-y, attributable to the growth in overall postpaid ARPU of RM102 per month. Maxis managed to increase the take-up rate of MaxisOne Plan to 962k(+339k q-o-q) subscribers which commands a stable ARPU of approximately RM150 per month. Similar to the

Friday, April 22, 2016

HOLD (TP: RM6.46)

Current Price (RM)	RM5.95
New Fair Value (RM)	RM6.46
Previous Fair Value (RM)	RM6.46
Previous Recommend.	HOLD
Upside To Fair Value	8.5%
Dividend Yield (FY16F)	2.8%

Stock Code

Bloomberg	MAXIS MK
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Stock & Market Data

Listing	MAIN MARKET	
Sector	Telco	
Shariah Compliance	Yes	
Issued Shares (mn)	7,510	
Market Cap (RM mn)	44,686	
YTD Chg In Share Price	-12.5%	
Beta (x)	0.58	
52-week Hi/Lo (RM)	RM7.20	RM5.56
3M Average Volume (shrs)	3.62mn	
Estimated Free Float	22%	

Major Shareholders

Binariang GSM	64.9%
ASB	7.6%
EPF	7.4%

prepaid trend, postpaid subscriber base decreased by 69k q-o-q.

- **Coverage.** LTE network population coverage has widened to 74% (vs. 71% in 4Q15) while its 2G & 3G modernisation plan has achieved 96% coverage vs. 92% coverage in end-FY15.
- **Acceleration in capex.** The group accelerated its capex to RM159 million vs. RM135 million in 1Q15 for the improvement of network population coverage of 3G and LTE as well as network modernisation of existing 2G and 3G coverage.
- **Outlook.** Despite reporting steady 1Q16 performance, we feel that competition in both prepaid and postpaid segment show no signs of slowing down and hence this could further hurt Maxis by losing its subscribers to competitors. We reckon that Maxis should introduce more affordable package to subscribers as markets are now in the midst of changing preference into more data centric. Nevertheless, we are impress with Maxis ability to lower its expenses as this will safeguard its margins.
- **Change to forecast.** No change to our forecast. At this juncture, FY16's earnings are expected to drop marginally by 1.4% y-o-y but grow by 12% y-o-y in FY17 driven by 1) steady non-voice segment performance particularly in the WBB and home segment 2) higher-than-expected take up rate in MaxisONE Plan 3) recovery in prepaid segment
- **Valuation.** We have a **HOLD** call on Maxis with unchanged target price of RM6.46 pegged at EV/EBITDA of 10.8x. Rating catalyst for the stock include 1) completion of LTE and 3G network 2) award of new spectrum by MCMC 3) further M&A activity

Table 1: Peers Comparison

Company	FYE	Price (RM)	EPS (RM)		P/E (x)		P/B (x)		ROE (%)	Div Yield (%)	TP	Call
			FY16	FY17	FY16	FY17	FY16	FY17				
Axiata	Dec	5.88	0.29	0.32	20.4	18.4	2.2	2.1	11.5	3.7	6.45	Hold
Maxis	Dec	5.95	0.26	0.27	24.8	24.0	11.4	10.4	39.1	3.1	6.46	Hold
Digi	Dec	4.68	0.23	0.23	21.5	21.3	73.5	60.5	285.8	4.5	5.90	Buy
Telekom	Dec	6.73	0.24	0.26	27.2	25.4	3.2	3.15	9.1	3.2	6.87	Hold
Time DotCom	Dec	7.31	0.33	0.38	22.3	19.2	2.0	1.9	21.0	0.9	NR	NR
Average			0.27	0.29	23.24	21.6	18.5	15.6	73.3	2.9		

Source: Bloomberg, M&A Securities

Table 2: Financial Summary

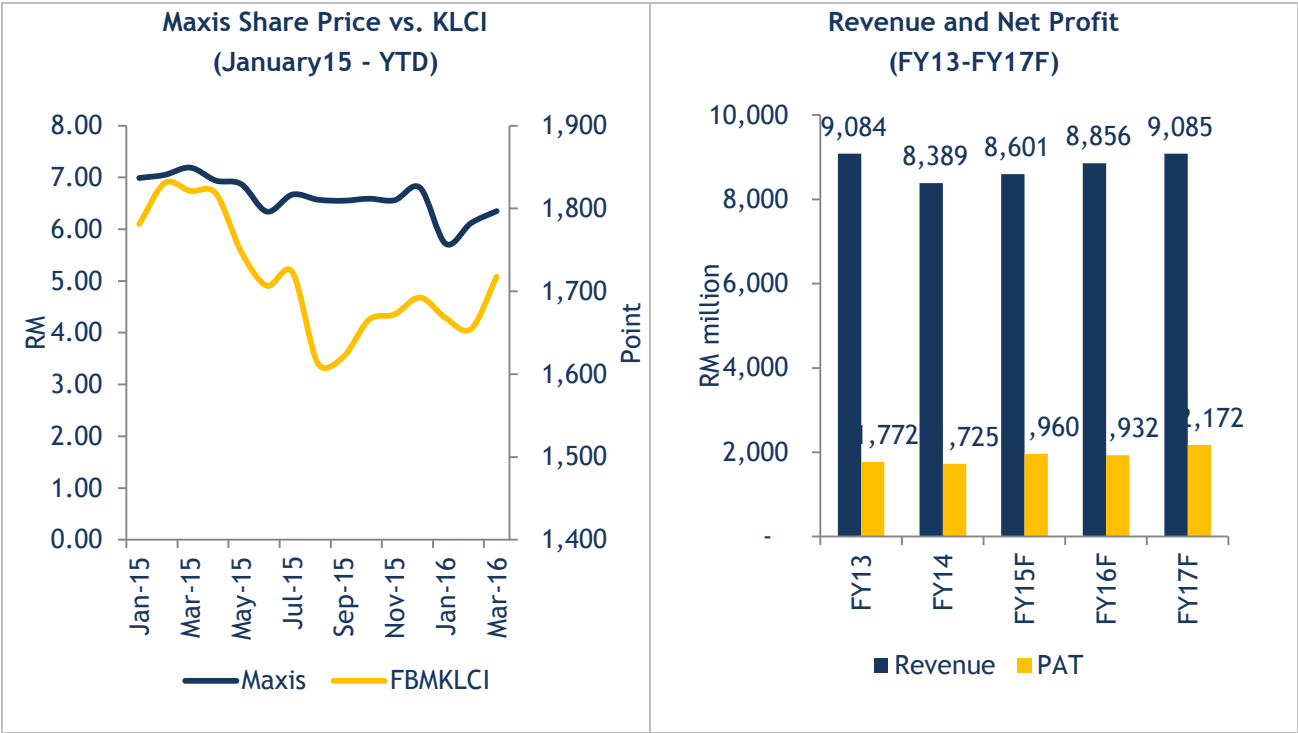
YE: Dec (RM million)	1Q16	4Q15	1Q15	y-o-y	q-o-q	3M16	3M15	y-o-y
Revenue	2,140	2,176	2,149	0%	-2%	2,140	2,149	0%
Direct cost	-656	-676	-713	-8%	-3%	-656	-713	-8%
Indirect cost	-271	-338	-389	-30%	-20%	-271	-389	-30%
EBITDA	1,213	1,162	1,047	16%	4%	1,213	1,047	16%
Depreciation	-269	-299	-294	-9%	-10%	-269	-294	-9%
Amortisation	-86	-79	-61	41%	9%	-86	-61	41%
Others	-18	-10	-6	200%	80%	-18	-6	200%
EBIT	840	774	686	22%	9%	840	686	22%
Finance income	14	15	14	0%	-7%	14	14	0%
Finance costs	-120	-116	-110	9%	3%	-120	-110	9%
PBT	734	673	590	24%	9%	734	590	24%
Tax	-214	-203	-178	20%	5%	-214	-178	20%
PAT	520	470	412	26%	11%	520	412	26%
EBITDA margin	57%	53%	49%			57%	49%	
PBT margin	34%	31%	27%			34%	27%	
PAT margin	24%	22%	19%			24%	19%	
Capex (Million)	159	635	135			159	135	
EPS (sen)	6.9	5.6	5.5			6.9	5.5	
Dividend - sen	5	5	5			5	5	
Dividend payment (RMm)	376	376	376			376	376	
Dividend payout (%)	72%	80%	91%			72%	91%	
Operation matrix	1Q16	4Q15	1Q15	y-o-y chg	q-o-q chg			
<u>Prepaid</u>								
Subscribers (million)	8,196	8,520	8,850	-7%	-4%			
ARPU (RM/month)	39	39	39	0%	0%			
Revenue (RM million)	1,015	1,041	1,076	-6%	-3%			
<u>Postpaid</u>								
Subscribers (million)	2,696	2,765	2,784	-3%	-1%			
ARPU (RM/month)	102	102	98	4%	4%			
Revenue (RM million)	994	1011	974	2%	4%			

Source: Bursa Malaysia

Table 3: Financial Forecast

YE: Dec (RM million)	FY13	FY14	FY15	FY16F	FY17F
Revenue	9,084	8,389	8,601	8,856	9,085
Direct cost	(3,089)	(2,707)	(2,728)	(2,927)	(3,011)
Indirect cost	(1,685)	(1,453)	(1,448)	(1,438)	(1,424)
EBITDA	4,310	4,229	4,425	4,490	4,650
Depreciation	(1,101)	(1,155)	(964)	(1,336)	(1,221)
Amortisation	(265)	(249)	(278)	(264)	(264)
Others	(119)	(9)	(27)	(133)	(116)
EBIT	2,825	2,816	3,156	2,758	3,049
Finance income	29	44	56	47	50
Finance costs	(358)	(424)	(468)	(264)	(240)
PBT	2,496	2,436	2,744	2,542	2,858
Tax	(724)	(711)	(784)	(610)	(686)
PAT	1,772	1,725	1,960	1,932	2,172
Minority Interest	(7)	(7)	(8)	(8)	(8)
Net Profit	1,765	1,718	1,952	1,924	2,164
EPS (sen)	23.5	22.9	26.0	25.6	28.8
Dividend - sen	40	40	20.00	19.21	21.61
Dividend payment (RMm)	3,003	3,003	1,501	1,443	1,623
Dividend payout (%)	170%	175%	77%	75%	75%
Retained Earnings	-1238	-1285	451	481	541
PER (x)	30.92	29.93	26.15	27.13	24.12
Gross Yield	6%	6%	3.0%	3%	3%
EV/EBITDA	14.22	13.92	13.47	12.98	12.25
EV (Mkt Cap + Total Debt-Cash)	61,286	58,885	59,623	58,281	56,965
EBITDA	4,310	4,229	4,425	4,490	4,650

Source: Bursa Malaysia, M&A Securities



M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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