

PP14767/09/2012(030761)

Maxis Berhad

“Be Wary with Maxis Return”

Results Review

- Actual vs. expectations.** Maxis Berhad (Maxis) 6M15 net profit of RM855 million (-9% y-o-y) came in slightly below ours and consensus estimates respectively, accounting 43.7% and 43.8% of ours and consensus full year estimates respectively. The disappointment in performance was contributed by higher finance cost of RM227 million that jumped by 15% y-o-y.
- Topline analysis.** Maxis’s revenue grew marginally to RM2.11 billion in 2Q15 (+1% y-o-y,-2% q-o-q), lifting 6M15’s revenue to RM4.2 billion (+1% y-o-y). The marginal growth in revenue was largely contributed by the home segment whoserevenue grew solidly by 95% y-o-y in 2Q15 and 46% y-o-y in 6M15. However, service revenue slipped for the first time since 1Q14 in 2Q15 or contracted by 1.8% q-o-q on the back of slower contribution from the mobile segment.
- Dividend.** Of note, Maxis earlier announced lower dividend policy of 75% in 1Q15. As a result, Maxis booked in lower interim dividend in 2Q15. Maxis announced lower dividend of 5 cent vs. 8 cent in 1Q15 and hence, shaving 6M15 dividend to 10 cent vs. 16 cent in 6M14.
- EBITDA margin.** EBITDA margin trended higher to 52.2% in 2Q15, representing 350bps jumpas Maxis slowed down its both direct and indirect expenses, especially in sales and marketing expenses.
- GST halt prepaid turnaround.** The implementation of the Goods and Service Tax (GST) has made subscribers cautious, while rising competition has weighed on prepaid revenue or dipping to RM1 billion vs. RM1.05 billion in 1Q15 as

Thursday, July 16, 2015

HOLD (TP: RM7.00)

Current Price (RM)	RM6.52
New Fair Value (RM)	RM7.00
Previous Fair Value (RM)	RM7.10
Previous Recommend.	HOLD
Upside To Fair Value	7.3%
Dividend Yield (FY15)	2.6%

Stock Code

Bloomberg	MAXIS MK
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Stock & Market Data

Listing	MAIN MARKET	
Sector	Telco	
Shariah Compliance	Yes	
Issued Shares (mn)	7,509	
Market Cap (RM mn)	48,958	
YTD Chg In Share Price	-4.8%	
Beta (x)	0.7	
52-week Hi/Lo (RM)	RM7.30	RM6.21
3M Average Volume (shrs)	3.98mn	
Estimated Free Float	22%	

Major Shareholders

Binariang GSM	64.9%
ASB	7.9%
EPF	7.2%

Maxis threw-in freebies to attract subscribers. ARPU consequently declined to RM36 vs. RM38 in 1Q15. Prepaid subscribers acquisition momentum also got slower with net addition of only 76k q-o-q.

- **Postpaid segment.** Despite transition headwinds that hampered subscribers growth (-27k q-o-q), ARPU grew to RM97 vs. RM96 due to MaxisONE bundled offerings. As a result, postpaid revenue held up by +0.2% q-o-q to RM974 million.
- **Network modernisation progressing.** Maxis's 3G population coverage progress is now at par with competitor or at 88% of population whilst its LTE had reached 41% coverage of population. So far, capex spent had touched RM406 million vs. its RM1.1 billion target in FY15.
- **Outlook.** Operationally, Maxis turnaround effort looks promising however it has yet to translate into better financials. Maxis may needs at least another 2 quarters to translate the turnaround efforts into solid financials at the time when its marketing cost would begin to trend down, and hence, translates into better bottomline numbers. Additionally, Maxis's niche focus on enterprise segment will be a game changer for the telecommunication industry as it shifts from current industry trend of data starving while at the same time maintain focus in data revenue.
- **Change to forecast.** Despite 2Q15 earnings missing our guidance albeit only marginally but we choose to tweak our forecast due to house-keeping exercise and hence, we lowered our earnings assumption by 7.6% in FY15, but raised it by 1% in FY16. In sum, we estimate FY15 and FY16 earnings to grow by 5.6% and 13% respectively assisted by 1) non-voice segment particularly in 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 a new target price of RM7.00 based on 10% discount to its 3-year average EV/EBITDA of 12.3x. 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
			FY15	FY16	FY15	FY16	FY15	FY16				
Axiata	Dec	6.38	0.31	0.34	23	21	2.8	2.8	11.6	3.1	7.40	Buy
Maxis	Dec	6.52	0.27	0.28	27	25	12.0	12.6	32.1	4.5	7.00	Hold
Digi	Dec	5.40	0.27	0.28	23	22	65.3	62.1	301.5	4.2	6.60	Buy
Telekom	Dec	6.69	0.27	0.29	27	25	3.4	3.4	11.3	3.6	6.87	Hold
Time DotCom	Dec	6.89	0.28	0.32	21	18	1.3	1.2	8.0	1.0	NR	NR
Average			0.28	0.30	24	22	17.0	16.4	72.9	3.28		

Source: Bloomberg, M&A Securities

Table 2: Financial Summary

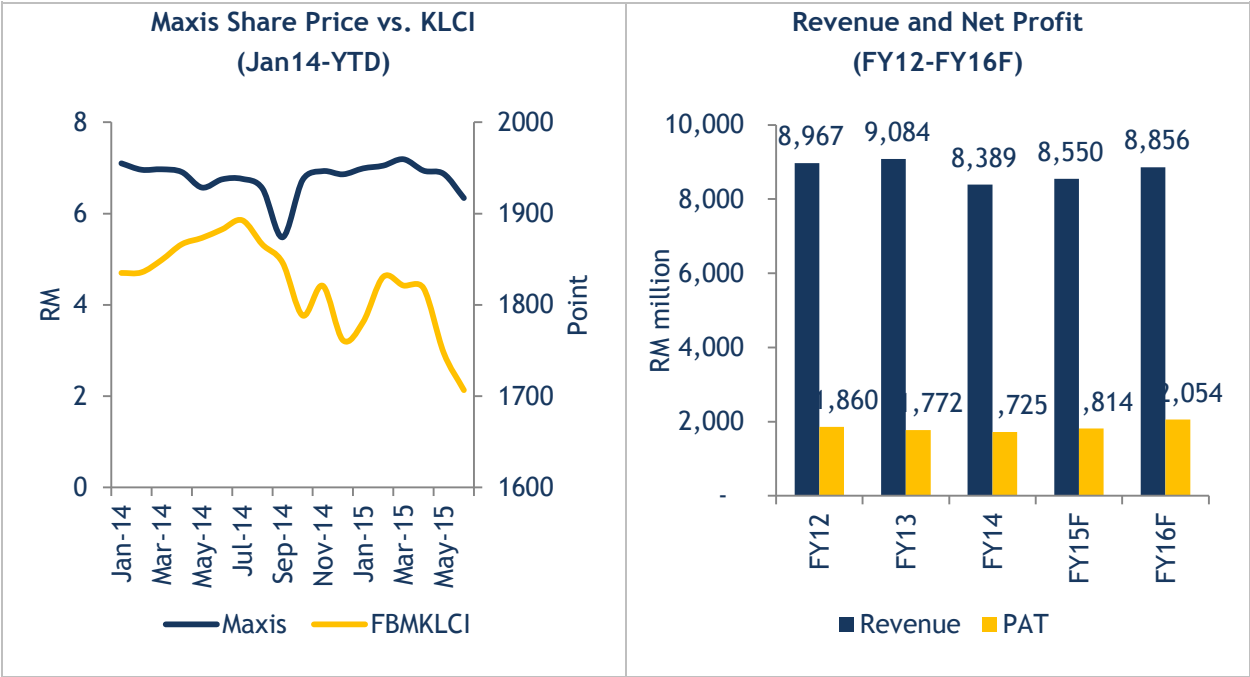
YE: Dec (RM million)	1Q15	4Q14	1Q14	y-o-y	q-o-q	3M15	3M14	y-o-y
Revenue	2,110	2,149	2,082	1%	-2%	4,259	4,201	1%
Direct cost	-650	-713	-652	0%	-9%	-1,363	-1,359	0%
Indirect cost	-359	-389	-344	4%	-8%	-748	-683	10%
EBITDA	1,101	1,047	1,086	1%	5%	2,148	2,159	-1%
Depreciation	-296	-294	-284	4%	1%	-590	-553	7%
Amortisation	-67	-61	-65	3%	10%	-128	-128	0%
Others	-2	-6	-12	-83%	-67%	-8	-6	33%
EBIT	736	686	725	2%	7%	1,422	1,472	-3%
Finance income	12	14	10	20%	-14%	26	16	63%
Finance costs	-117	-110	-101	16%	6%	-227	-197	15%
PBT	631	590	634	0%	7%	1,221	1,291	-5%
Tax	0	0	0	0	0	0	0	0
PAT	-188	-178	-183	3%	6%	-366	-352	4%
EPS	443	412	451	-2%	8%	855	939	-9%
EBITDA margin	5.9	5.5	5.9	0%	7%	11.3	12.4	-9%
PBT margin	52.2%	48.7%	52.2%			50.4%	51.4%	
PAT margin	29.9%	27.5%	30.5%			28.7%	30.7%	
Capex	21.0%	19.2%	21.7%			20.1%	22.4%	
Operation matrix	2Q15	1Q15	2Q14	y-o-y chg	q-o-q chg			
Prepaid								
Subscribers (million)	10.04	9.93	9.20	9%	1%			
Net addition (million)	0.72	0.35	-.19	-479%	106%			
ARPU (RM/month)	38	39	41	-7%	-3%			
Revenue (RM million)	1,141	1,154	1,135	1%	-1%			
Postpaid								
Subscribers (million)	1.77	1.75	1.69	5%	1%			
Net addition (million)	-0.62	-0.09	-0.05	1140%	589%			
ARPU (RM/month)	82	81	83	-1%	1%			
Revenue (RM million)	448	434	433	3%	3%			

Source: Bursa Malaysia

Table 3: Financial Forecast

YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	8,967	9,084	8,389	8,550	8,856
Direct cost	(3,006)	(3,089)	(2,707)	(2,827)	(2,927)
Indirect cost	(1,602)	(1,685)	(1,453)	(1,453)	(1,438)
EBITDA	4,359	4,310	4,229	4,270	4,490
Depreciation	(1,182)	(1,101)	(1,155)	(1,289)	(1,208)
Amortisation	(180)	(265)	(249)	(231)	(248)
Others	(133)	(119)	(9)	(119)	(111)
EBIT	2,864	2,825	2,816	2,631	2,924
Finance income	51	29	44	56	42
Finance costs	(339)	(358)	(424)	(300)	(264)
PBT	2,576	2,496	2,436	2,387	2,702
Tax	(716)	(724)	(711)	(573)	(649)
PAT	1,860	1,772	1,725	1,814	2,054
Minority Interest	(4)	(7)	(7)		
Net Profit	1,856	1,765	1,718	1,814	2,054
EPS (sen)	24.7	23.5	22.9	24.2	27.4
Dividend - sen	40	40	40	18.13	20.52
Dividend payment (RMm)	3003	3003	3003	1361	1540
Dividend payout (%)	162%	170%	175%	75%	75%
Retained Earnings	-1147	-1238	-1285	454	513
PER (x)	26.89	30.92	29.93	28.75	25.40
Gross Yield	6%	6%	6%	3%	3%
EV/EBITDA	12.78	14.22	13.92	13.96	13.00
EV (Mkt Cap + Total Debt-Cash)	55,724	61,286	58,885	59,589	58,396
EBITDA	4,359	4,310	4,229	4,270	4,490

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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