

PP14767/09/2012(030761)

## Maxis Berhad

### “Ready to Compete Again”

#### Results Review

- Actual vs. expectations.** Maxis Berhad (Maxis) 9M15 net profit of RM1.27 billion (-8% y-o-y) came in line with ours, but below consensus estimates, accounting 70% and 67% of ours and consensus full year estimates respectively. Weaker 9M15 earnings were hampered by higher indirect cost of RM1.2 billion (+17% y-o-y) as well as higher finance cost of RM352 million (+13% y-o-y). The weaker Ringgit pushed forex translation to a loss of RM113 million.
- Topline analysis.** Maxis’ revenue made a surprise upside after rising 5% y-o-y in 3Q15 driven by higher services revenue to RM2.15 billion (+5.3% y-o-y), contributed by steady prepaid revenue of RM1.07 billion (+8.4% y-o-y) in mobile segment despite the lost of subscribers. Nevertheless, Maxis’ EBITDA fell by 470bps y-o-y to 47.1%. Excluding forex losses, EBITDA would reach at 51.3% in 3Q15.
- Dividend.** Of note, Maxis earlier announced lower dividend policy of 75% in 1Q15. That said, Maxis declared lower dividend of 5 cent, bringing 9M15 dividends to 15 cent.
- Turnaround in prepaid segment.** Maxis lost 218k subscribers q-o-q on weaker consumer sentiment post-Goods and Services Tax (GST) implementation. Nevertheless, Maxis’ #Hotlink campaign managed to defend its prepaid revenue to RM1.07 billion (+8.4% y-o-y) on the back of rising data usage with ARPU rising to RM40 vs. RM38 in 2Q15.

Thursday, October 29, 2015

HOLD (TP: RM7.00)

Current Price (RM)	RM6.65
New Fair Value (RM)	RM7.00
Previous Fair Value (RM)	RM7.00
Previous Recommend.	HOLD
Upside To Fair Value	5.2%
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)	48,939	
YTD Chg In Share Price	-2.9%	
Beta (x)	0.69	
52-week Hi/Low (RM)	RM7.30	RM6.22
3M Average Volume (shrs)	3.62mn	
Estimated Free Float	22%	

#### Major Shareholders

Binariang GSM	64.9%
ASB	7.6%
EPF	7.4%

- **Postpaid segment at good traction.** Despite the lost in subscriber (-12k q-o-q), ARPU was sustained at RM98 thanks to MaxisONE Share and MaxisZerolution bundled offerings. That said, revenue was marginally flat at RM974 million in 3Q15.
- **Leap competitor on LTE.** Despite competitor claiming its leadership status, Maxis's LTE coverage now reached 55% of population with 2.36 million subscribers utilising the high speed internet. 3G coverage rose to 91% of populations vs. 88% in 2Q15. Maxis speeded up capex investment in 3Q15 of RM359 million, bringing 9M15 capex to RM765 million vs. RM1.1 billion target in FY15.
- **Outlook.** Maxis turnaround effort looks promising with growing topline numbers driven by data monetisation. Despite rising cost, Maxis operational matrix as still solid amid difficulties in retaining subscribers due to the soft consumer sentiments post-GST implementation. Additionally, Maxis's niche focus on enterprise segment will be game changer for the telecommunication industry amid shifting trend of current industry trend of data starving while at the same time maintain focus in data revenue.
- **Change to forecast.** We maintain our FY15 and FY16 forecast. Nonetheless, FY15 and FY16 earnings are forecast 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 unchanged target price of RM7.00 based on 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	6.15	0.31	0.34	23	21	2.8	2.8	11.6	3.1	7.10	Buy
Maxis	Dec	6.65	0.27	0.28	27	25	12.0	12.6	32.1	4.5	7.00	Hold
Digi	Dec	5.27	0.27	0.28	23	22	65.3	62.1	301.5	4.2	6.10	Buy
Telekom	Dec	6.74	0.27	0.29	27	25	3.4	3.4	11.3	3.6	6.87	Hold
Time DotCom	Dec	6.99	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&amp;A Securities

Table 2: Financial Summary

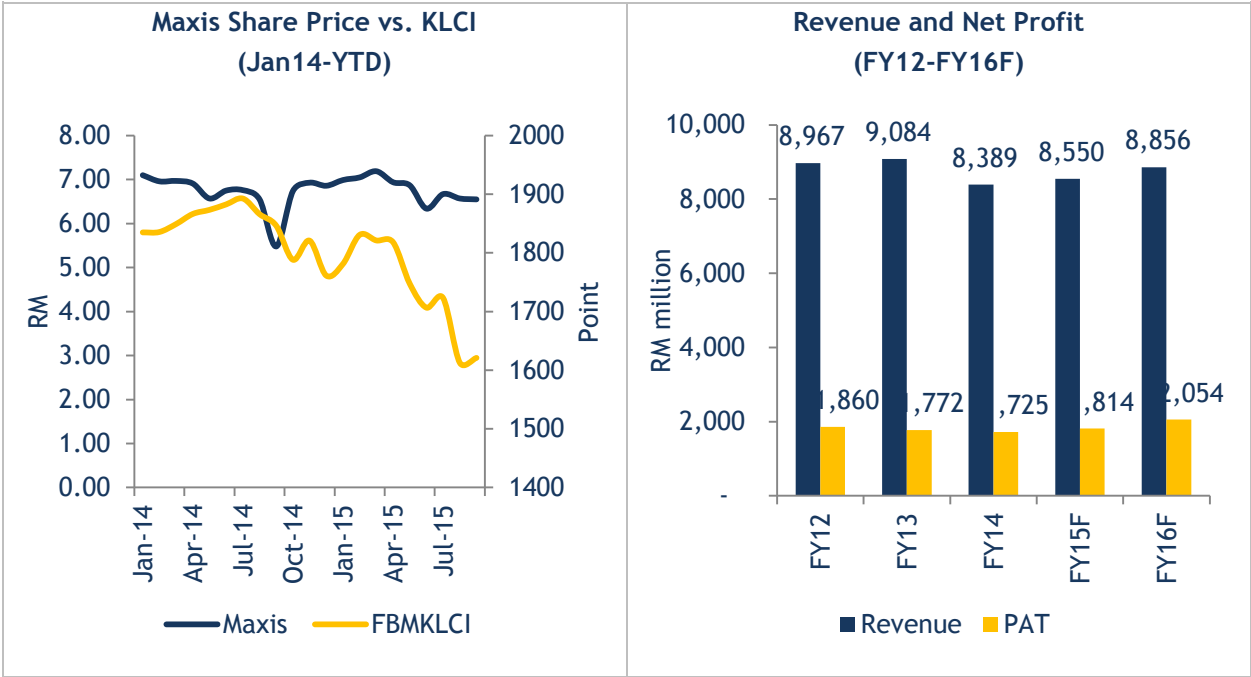
YE: Dec (RM million)	3Q15	2Q14	2Q14	y-o-y	q-o-q	9M15	9M14	y-o-y
Revenue	2,166	2,110	2,065	5%	3%	6,425	6,266	3%
Direct cost	-689	-650	-652	6%	6%	-2,052	-2,011	2%
Indirect cost	-456	-359	-343	33%	27%	-1,204	-1,026	17%
EBITDA	1,021	1,101	1,070	-5%	-7%	3,169	3,229	-2%
Depreciation	-265	-296	-268	-1%	-10%	-855	-821	4%
Amortisation	-71	-67	-60	18%	6%	-199	-188	6%
Others	-9	-2	2	-550%	350%	-17	-4	325%
EBIT	676	736	744	-9%	-8%	2,098	2,216	-5%
Finance income	15	12	13	15%	25%	41	29	41%
Finance costs	-125	-117	-114	10%	7%	-352	-311	13%
PBT	566	631	643	-12%	-10%	1,787	1,934	-8%
Tax	-144	-188	-192	-25%	-23%	-510	-544	-6%
PAT	422	443	451	-6%	-5%	1,277	1,390	-8%
EPS	5.6	5.9	6	-7%	-5%	16.9	18.4	-8%
EBITDA margin	47.1%	52.2%	51.8%			49.3%	51.5%	
PBT margin	26.1%	29.9%	31.1%			27.8%	30.9%	
PAT margin	19.5%	21.0%	21.8%			19.9%	22.2%	
Capex	260	260	155			406		
Operation matrix	3Q15	2Q15	3Q14	y-o-y chg	q-o-q chg			
<u>Prepaid</u>								
Subscribers (million)	8.85	9.06	8.12	9%	-2.4%			
ARPU (RM/month)	39	38	40	2.5%	5.2%			
Revenue (RM million)	1.07	1.01	993	8.3%	6%			
<u>Postpaid</u>								
Subscribers (million)	2.78	2.79	2.78	5%	1%			
ARPU (RM/month)	98	97	95	-3%	2%			
Revenue (RM million)	974	974	962	1.2%	0%			

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&amp;A Securities



# M&A Securities

## STOCK RECOMMENDATIONS

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

## SECTOR RECOMMENDATIONS

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

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