



Company report

MAXIS

(MAXIS MK EQUITY, MSXC.KL)

23 July 2020

New unlimited prepaid plan buoys subscribers

HOLD

(Maintained)

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Rationale for report: Company results

Price	RM5.28
Fair Value	RM5.50
52-week High/Low	RM5.72/RM4.59

Key Changes

Fair value	↔
EPS	↔

YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	9,313.0	9,610.0	9,865.0	10,084.8
Core net profit (RM mil)	1,500.0	1,472.9	1,561.3	1,619.4
FD Core EPS (sen)	19.2	18.8	20.0	20.7
FD Core EPS growth (%)	(15.1)	(1.8)	6.0	3.7
Consensus Net Profit (RM mil)	-	1,461.1	1,573.5	1,674.4
DPS (sen)	20.0	19.0	20.0	20.0
PE (x)	27.5	28.0	26.4	25.5
EV/EBITDA (x)	13.5	13.4	12.5	11.8
Div yield (%)	3.6	3.5	3.6	3.6
ROE (%)	21.4	20.9	22.1	22.9
Net Gearing (%)	122.6	131.7	129.6	123.0

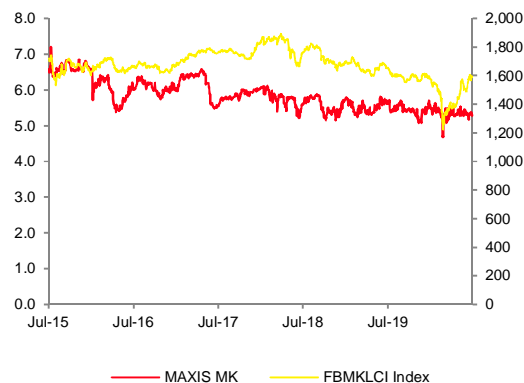
Stock and Financial Data

Shares Outstanding (million)	7,816.6
Market Cap (RM mil)	41,271.6
Book Value (RM/share)	0.90
P/BV (x)	5.8
ROE (%)	21.4
Net Gearing (%)	122.6

Major Shareholders	Binariani GSM (62.4%) Skim ASB (8.1%) EPF (11.6%)
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Free Float	35.0
Avg Daily Value (RM mil)	12.6

Price performance	3mth	6mth	12mth
Absolute (%)	(1.9)	(3.7)	(6.2)
Relative (%)	(14.5)	(4.2)	(2.2)



Investment Highlights

- We maintain Maxis' HOLD rating with an unchanged DCF-derived fair value of RM5.50/share. This is based on a WACC discount rate of 6.3% and terminal growth rate assumption of 2%, implying an FY20F EV/EBITDA of 13x and is on par with its 3-year average.
- Our FY20F–FY22F earnings are maintained as Maxis' 1HFY20 normalised net profit of RM698mil came in largely within expectations, accounting for 47% of our FY20F net profit and 48% of street's. As a comparison, 1H accounted for 48%–56% of FY17–19 earnings. The group kept its 2QFY20 dividend at 4 sen (flat QoQ), which translates to a payout ratio of 89% for 1HFY20 vs. 97% in 1HFY19 amid the ongoing Covid-19 pandemic.
- Given the uncertain impact from the Covid-19 pandemic, management has not reintroduced a fresh guidance following the withdrawn expectation of a "flat to low single-digit increase" for both FY20F service revenue and normalised EBITDA.
- Maxis' 1HFY20 normalised net profit shrank 12% YoY due to the termination of the 3G wholesale radio access network arrangement with U Mobile, halving of mobile termination rates, a 5% increase in traffic costs to RM844mil, 3.6x surge in doubtful debt provision to RM217mil and 15% increase in depreciation to RM677mil. However, the group's 1HFY20 mobile decline of 6% YoY to RM3.4bil was more than offset by higher enterprise fixed services (+84%), home fibre (+36%) and device sales (+14%).
- Sequentially, Maxis' 2QFY20 normalised net profit fell by 6% QoQ to RM338mil in tandem with a 2% decline in service revenue which was partly offset by the halving of device costs and 12% reduction in traffic costs.
- QoQ, Maxis' overall subscribers commendably rose by 414K QoQ to 11.7mil from a surprisingly strong 442K increase in prepaid customers to 7.8mil driven by the unlimited data plan launched in early June this year, rebounding from a lockdown decline in mid-March to May this year. This was partly offset by a 32K drop in postpaid users to 3.8mil from service suspensions.
- The strong prepaid outperformance was followed by wireless broadband and mobile internet users, which climbed by 4K QoQ and 100K QoQ respectively. However, blended ARPU slid by RM2/month QoQ to RM47/month in tandem with postpaid contracting by RM2/month and prepaid by RM1/month.
- As the movement control order was gradually relaxed from April, home connections jumped by 18K QoQ to 366K while business connections increased by 1K QoQ to 45K. Home fibre ARPU slid RM3/month QoQ to RM106/month from new entry-level recruits.
- Maxis' 1HFY20 capex expanded 7% YoY to RM422mil on spending on its core network capacity expansion, translating to 11% of service revenue and below the group's earlier FY20F base capex guidance of RM1bil. The stock's FY20F EV/EBITDA of 13x is currently on parity with its 3-year average, while providing a fair dividend yield of 4%.

EXHIBIT 1: RESULTS SUMMARY & BREAKDOWN

FYE Dec	2QFY19	1QFY20	2QFY20	QoQ (%)	YoY (%)	1HFY19	1HFY20	YoY
Revenue	2,206	2,341	2,151	(8.1)	(2.5)	4,438	4,492	1.2
EBITDA	934	898	890	(0.9)	(4.7)	1,873	1,788	(4.5)
Depreciation	(295)	(334)	(343)	2.7	16.3	(591)	(677)	14.6
Operating profit	639	564	547	(3.0)	(14.4)	1,282	1,111	(13.3)
Finance income	15	23	23	-	53.3	30	46	53.3
Finance cost	(115)	(112)	(112)	-	(2.6)	(229)	(224)	(2.2)
Pretax profit	539	475	458	(3.6)	(15.0)	1,083	933	(13.9)
Tax	(142)	(117)	(115)	(1.7)	(19.0)	(277)	(232)	(16.2)
Net profit	397	358	343	(4.2)	(13.6)	806	701	(13.0)
Normalised EBITDA *	947	920	903	(1.8)	(4.6)	1,900	1,823	(4.1)
Normalised net profit *	391	360	338	(6.1)	(13.6)	795	698	(12.2)
* normalised for accelerated depreciation, reversal of contract obligations and unrealised forex losses.								
EPS	5.1	4.6	4.4	(4.3)	(13.7)	10.3	9.0	(12.6)
Book value	0.91	0.90	0.90	-	(1.1)	0.91	0.90	(1.1)
DPS	5.0	4.0	4.0	-	(20.0)	10.0	8.0	(20.0)
EBITDA margin	42.3%	38.4%	41.4%			42.2%	39.8%	
Pretax margin	24.4%	20.3%	21.3%			24.4%	20.8%	
Core net margin	17.7%	15.4%	15.7%			17.9%	15.5%	
Tax rate	26.3%	24.6%	25.1%			25.6%	24.9%	
Div payout ratio	98.0%	87.0%	90.9%			97.1%	88.9%	
Mobile services breakdown (RMmil)	2QFY19	1QFY20	2QFY20	QoQ (%)	YoY (%)	1HFY19	1HFY20	YoY
Prepaid	791	714	686	(3.9)	(13.3)	1,588	1,400	(11.8)
Postpaid	972	984	974	(1.0)	0.2	1,972	1,958	(0.7)
Total mobile revenue	1,763	1,698	1,660	(2.2)	(5.8)	3,560	3,358	(5.7)
Service revenue breakdown (RMmil)								
Mobile services	1,763	1,698	1,660	(2.2)	(5.8)	3,560	3,358	(5.7)
Enterprise fixed services	69	129	127	(1.6)	84.1	139	256	84.2
Home Fibre	86	113	113	-	31.4	166	226	36.1
Total service revenue	1,918	1,940	1,900	(2.1)	(0.9)	3,865	3,840	(0.6)
Non-service revenues (RMm)								
Device	268	377	229	(39.3)	(14.6)	532	606	13.9
Network income	20	24	22	(8.3)	10.0	41	46	12.2
Total non-service revenue	288	401	251	(37.4)	(12.8)	573	652	13.8
ARPU (RM)								
Postpaid	86	81	79	(2.5)	(8.1)			
Prepaid	35	32	31	(3.1)	(11.4)			
Blended	51	49	47	(4.1)	(7.8)			
Home fibre	106	109	106	(2.8)	-			
Subs ('000)								
Postpaid	3,438	3,833	3,801	(0.8)	10.6			
Prepaid	7,463	7,388	7,830	6.0	4.9			
WBB	115	99	103	4.0	(10.4)			
Mobile internet users	8,400	8,300	8,400	1.2	-			
Total subs	11,016	11,320	11,734	3.7	6.5			
Home connections ('000)	276	348	366	5.2	32.6			
Business fibre connetion ('000)	34	44	45	2.3	32.4			

Source: Bursa Malaysia and Investor presentation slide

EXHIBIT 2: PB BAND CHART

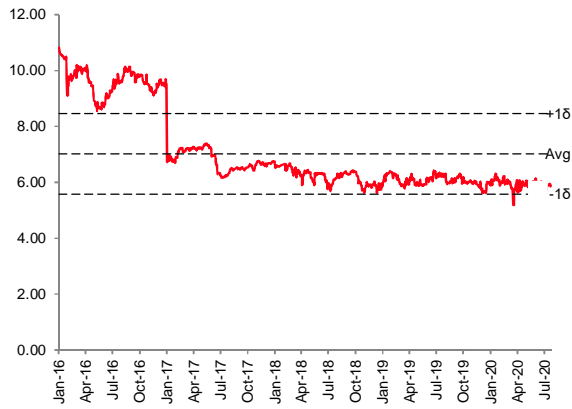


EXHIBIT 3: PE BAND CHART

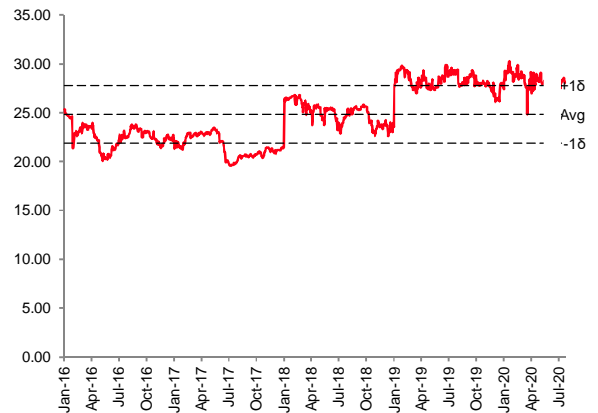


EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	9,192.0	9,313.0	9,610.0	9,865.0	10,084.8
EBITDA	3,781.0	3,700.0	3,772.2	4,022.7	4,236.3
Depreciation/Amortisation	(1,068.0)	(1,265.0)	(1,417.8)	(1,549.2)	(1,679.3)
Operating income (EBIT)	2,713.0	2,435.0	2,354.4	2,473.5	2,557.0
Other income & associates	-	-	-	-	-
Net interest	(344.0)	(399.0)	(380.2)	(380.8)	(386.4)
Exceptional items	-	-	-	-	-
Pretax profit	2,369.0	2,036.0	1,974.2	2,092.7	2,170.6
Taxation	(589.0)	(517.0)	(501.3)	(531.4)	(551.2)
Minorities/pref dividends	-	-	-	-	-
Net profit	1,780.0	1,519.0	1,472.9	1,561.3	1,619.4
Core net profit	1,767.0	1,500.0	1,472.9	1,561.3	1,619.4
Balance Sheet (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Fixed assets	5,190.0	4,922.0	5,470.5	5,501.0	5,333.5
Intangible assets	10,926.0	11,310.0	11,310.0	11,310.0	11,310.0
Other long-term assets	1,023.0	2,219.0	2,135.9	2,058.6	1,986.8
Total non-current assets	17,139.0	18,451.0	18,916.4	18,869.7	18,630.3
Cash & equivalent	560.0	582.0	731.4	727.9	964.0
Stock	16.0	3.0	20.5	20.5	20.5
Trade debtors	2,056.0	2,390.0	1,658.2	1,659.5	1,661.3
Other current assets	34.0	11.0	1.0	1.0	1.0
Total current assets	2,666.0	2,986.0	2,411.1	2,408.9	2,646.8
Trade creditors	4,020.0	4,323.0	3,438.9	3,530.2	3,608.8
Short-term borrowings	206.0	1,079.0	1,053.0	1,053.0	1,053.0
Other current liabilities	315.0	255.0	253.8	263.7	271.2
Total current liabilities	4,541.0	5,657.0	4,745.7	4,846.9	4,933.1
Long-term borrowings	7,607.0	8,172.0	8,975.3	8,816.2	8,661.4
Other long-term liabilities	508.0	538.0	548.8	559.7	570.9
Total long-term liabilities	8,115.0	8,710.0	9,524.1	9,376.0	9,232.3
Shareholders' funds	7,149.0	7,070.0	7,057.7	7,055.7	7,111.8
Minority interests	-	-	-	-	-
BV/share (RM)	0.91	0.90	0.90	0.90	0.91
Cash Flow (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Pretax profit	2,369.0	2,036.0	1,974.2	2,092.7	2,170.6
Depreciation/Amortisation	1,068.0	1,265.0	1,417.8	1,549.2	1,679.3
Net change in working capital	(238.0)	(298.0)	724.3	(1.3)	(1.8)
Others	296.0	42.0	(1,098.1)	(105.0)	(128.5)
Cash flow from operations	3,495.0	3,045.0	3,018.2	3,535.6	3,719.6
Capital expenditure	(1,286.9)	(1,397.0)	(1,441.5)	(1,479.7)	(1,411.9)
Net investments & sale of fixed assets	-	-	-	-	-
Others	-	-	-	-	-
Cash flow from investing	(1,286.9)	(1,397.0)	(1,441.5)	(1,479.7)	(1,411.9)
Debt raised/(repaid)	(1.0)	455.0	789.4	(173.7)	(170.2)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(1,563.3)	(1,563.3)	(1,485.2)	(1,563.3)	(1,563.3)
Others	(685.8)	(517.7)	(731.5)	(322.4)	(338.1)
Cash flow from financing	(2,250.1)	(1,626.1)	(1,427.3)	(2,059.4)	(2,071.6)
Net cash flow	(42.0)	22.0	149.4	(3.5)	236.1
Net cash/(debt) b/f	2,080.2	2,038.2	2,060.2	2,209.6	2,206.1
Net cash/(debt) c/f	2,038.2	2,060.2	2,209.6	2,206.1	2,442.2
Key Ratios (YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth (%)	5.7	1.3	3.2	2.7	2.2
EBITDA growth (%)	(12.3)	(2.1)	2.0	6.6	5.3
Pretax margin (%)	25.8	21.9	20.5	21.2	21.5
Net profit margin (%)	19.4	16.3	15.3	15.8	16.1
Interest cover (x)	7.9	6.1	6.2	6.5	6.6
Effective tax rate (%)	24.9	25.4	25.4	25.4	25.4
Dividend payout (%)	87.8	102.9	100.8	100.1	96.5
Debtors turnover (days)	77	87	77	61	60
Stock turnover (days)	-	-	-	1	1
Creditors turnover (days)	146	163	147	129	129

Source: Company, AmInvestment Bank Bhd estimates

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