

20 April 2018 | 1Q18 Results Review

## Maxis Berhad

*Stable earnings performance*

**Maintain NEUTRAL**

**Revised Target Price (TP): RM6.16**  
(previously RM5.93)

### INVESTMENT HIGHLIGHTS

- **Cost optimisation initiatives defended Maxis' 1Q18 normalised earnings at RM510m**
- **Growth in 1Q18 postpaid revenue driven by innovative device and share line propositions**
- **Double digit decline in 1Q18 prepaid revenue due to shrinking prepaid subscriber base**
- **Maintain NEUTRAL with a revised target price of RM6.16**

**1Q18 normalised earnings within expectation.** Maxis' 1Q18 normalised earnings remain firm at RM510m despite a -5.8%yoy contraction in revenue. The group's 1Q18 revenue was negatively impacted by the decline in prepaid revenue, which offset the growth in postpaid. Fortunately, the continued cost optimisation has led to improvement in profit margin.

All in, the group's 1Q18 financial performance came in within our and consensus expectations, accounting for 25.3% and 25.6% of FY18 full year earnings estimates respectively.

**Steady rise in postpaid subscriber base.** The postpaid service revenue for 1Q18 grew by +5.2%yoy to RM985m. This was driven by the group's innovative device and share line propositions. As a result, the postpaid mobile subscription swelled by +5.6%yoy to approximately 3.0m subscribers. However, the growth in postpaid revenue was partially subdued by lower ARPU of RM92/mth as compared to RM96/mth recorded in 1Q17.

**Prepaid subscriber base continues to dwindle.** 1Q18 prepaid revenue declined by -15.5%yoy to RM849m. This was mainly impacted by price-focused competition, SIM consolidation and migration to postpaid. The prepaid subscriber base has declined by -12.5%yoy to 6.8m. Nonetheless, the prepaid ARPU remained resilient at RM41/mth. To curb the reduction in prepaid revenue, the group has launched Hotlink Red which shows encouraging traction.

**Capital expenditure (capex).** Maxis' 1Q18 capex came in at RM107m, a decrease of -34.0%yoy. The reduction in capex was mainly attributable to lower spending in network capacity. At present, the 4G LTE population coverage has reached 92%. For full year FY18, management guided that base capex to be approximately RM1.0b.

RETURN STATS	
Price (19 <sup>th</sup> April 2018)	RM5.88
Target Price	RM6.16
Expected Share Price Return	+4.8%
Expected Dividend Yield	+3.4%
<b>Expected Total Return</b>	<b>+8.2%</b>


STOCK INFO	
KLCI	1,895.18
Bursa / Bloomberg	6012 / MAXIS MK
Board / Sector	Main/ Services
Syariah Compliant	Yes
Issued shares (mil)	7,810.5
Par Value (RM)	0.10
Market cap. (RM'm)	45,926.2
Price over NA	11.0x
52-wk price Range	RM5.30 – RM6.60
Beta (against KLCI)	1.11
3-mth Avg Daily Vol	10.7m
3-mth Avg Daily Value	RM62.8m
Major Shareholders (%)	
Binariang GSM	62.42
EPF	11.81
ASB	10.28
LTH	1.65

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**Dividend.** The group declared 1Q18 dividend of 5sen per share which translates into a dividend payout ratio of 74.6%. This came in within our expectation, accounting for 25% of FY18 full year dividend estimates.

**Impact.** No change to our earnings estimates at this juncture.

**Target price.** We are rolling forward our valuation base year to FY19 and derive a new target price of **RM6.16** (previously RM5.93). This is premised on pegging target PER of 23x, which is the average low PER of the group over the past four years, against FY19EPS of 26.8sen.

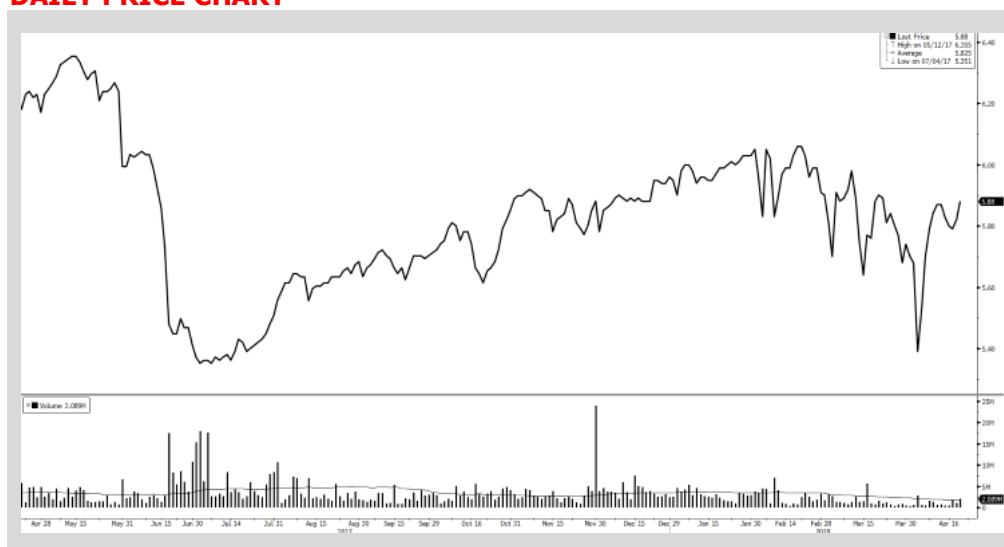
**Maintain NEUTRAL.** The revamped MaxisONE plan, which offers better value proposition, has continues to show good traction as the postpaid subscriber base continues to increase steadily. This, however, negatively impact the postpaid ARPU as we view that the postpaid subscribers will be inclined to sign-up the entry level postpaid plan. Meanwhile, prepaid ARPU remained resilient due to the increase in data usage. Nonetheless, due to intense competition, the prepaid subscriber base continues to dwindle. We view that it would be difficult for Maxis to grow the prepaid revenue despite various attempts to introduce new product offering. Moreover, the group's postpaid service revenue for FY18 will also be negatively impacted by the progressive termination of 3G network services with Umobile. Meanwhile, we expect the Maxis' dividend yield to remain below 4% to meet its capital commitment and prepare for the upcoming spectrum reallocation exercise. All factors considered, we are keeping our **NEUTRAL** recommendation at this juncture. 

## INVESTMENT STATISTICS

FYE 31 <sup>st</sup> Dec	2016	2017	2018F	2019F
Revenue	8,612	8,696	8,579	8,627
Normalised EBITDA	4,484	4,597	4,570	4,703
EBITDA	4,551	4,710	4,570	4,703
Operating Profit	3,152	3,278	3,130	3,249
Net Profit	2,013	2,192	2,015	2,095
Normalised net profit	1,963	2,081	2,015	2,095
Normalised EPS (sen)	26.1	27.2	25.8	26.8
EPS Growth (%)	0.6	3.9	-5.0	4.0
PER (x)	22.5	21.6	22.8	21.9
Net dividend (sen)	20	20	20	20
Net dividend yield (%)	3.4	3.4	3.4	3.4

Source: Company, MIDFR

## DAILY PRICE CHART



Source: Bloomberg

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## Maxis: 1QFY18 RESULTS SUMMARY

FYE 31 <sup>st</sup> Dec	1Q18	1Q17	% YoY	4Q17	% QoQ
Revenue	2,237	2,375	-6	2,150	4
Normalised EBITDA	1,020	1,024	0	1,169	-13
EBITDA	1,023	1,013	1	1,184	-14
Depreciation and amortisation	-235	-243	-3	-383	-39
Others	-7	-2	n.m.	-9	n.m.
EBIT	781	768	2	792	-1
Finance costs	-97	-109	-11	-94	3
Finance income	9	14	-36	12	-25
PBT	693	673	3	710	-2
Taxation	-170	-171	-1	-151	13
PAT	523	502	4	559	-6
Normalised PAT	510	510	0	536	-5
Normalised EPS (sen)	6.5	6.8	-4	6.9	-5
			+/- ppts		+/- ppts
Normalised EBITDA margin (%)	46	43.1	2	54.4	-9
Normalised PAT margin (%)	23	21	1	25	-2
Effective tax rate (%)	25	25.4	-1	21.3	3

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.