

19 July 2018 | 2Q18 Results Review

## Maxis Berhad

*Downward pressure in prepaid segment to persist*

**Maintain NEUTRAL**

**Revised Target Price (TP): RM5.80**  
(previously RM6.16)

### INVESTMENT HIGHLIGHTS

- **Resilient 2Q18 earnings performance due to cost optimisation initiatives, lower net finance cost and lower effective tax rate.**
- **Encouraging take-up rate for MaxisONE plan led to continuous growth in postpaid subscriber base**
- **Prepaid subscriber base shrunk in view of SIM consolidation and migration to postpaid**
- **Maintain NEUTRAL with a revised target price of RM5.80**

**Resilient 1H18 earnings.** Maxis' 2Q18 normalised earnings came in at RM480m. This is despite a -4%yoy decline in revenue to RM2.2b. The resilient earnings was mainly supported by continuous cost optimisation initiatives, lower net finance cost and lower effective tax rate. This led to 1H18 normalised earnings of RM990m (+0.3%yoy). All in, the group's 1H18 financial performance came in within our and consensus expectations, accounting for 49.1% and 50.0% of FY18 full year earnings estimates respectively.

**Steady rise in postpaid subscriber base.** 2Q18 postpaid revenue improved by +6.7%yoy to RM1.0b. This was driven by the increase in postpaid subscriber base to approximately three million as the take-up rate for MaxisONE plan remains encouraging. Inclusive of this quarter, the postpaid subscriber base has been expanding steadily since 3Q16. However, the blended postpaid ARPU declined to RM94/mth from RM96/mth as at 2Q17.

**Prepaid subscriber base continues to dwindle.** 2Q18 prepaid revenue declined by -13.0%yoy to RM854m. The segment revenue was negatively impact by SIM consolidation, migration from prepaid to postpaid and intense price competition. On another note, the prepaid ARPU stand at RM42, mainly supported by offering of Hotlink Red prepaid pack which has attracted high data users.


**Dividend.** The group declared 2Q18 dividends of 6.1sen per share. This led to 1H18 dividends of 12.8sen per share, which is lower than 1H17 dividends of 14.3sen per share.

RETURN STATS	
Price (18 <sup>th</sup> July 2018)	RM5.55
Target Price	RM5.80
Expected Share Price Return	+4.5%
Expected Dividend Yield	+3.6%
<b>Expected Total Return</b>	<b>+8.1%</b>

STOCK INFO	
KLCI	1,753.07
Bursa / Bloomberg	6012 / MAXIS MK
Board / Sector	Main/ Services
Syariah Compliant	Yes
Issued shares (mil)	7,816.6
Market cap. (RM'm)	43,382.0
Price over NA	11.0x
52-wk price Range	RM5.20 – RM6.14
Beta (against KLCI)	1.00
3-mth Avg Daily Vol	2.8m
3-mth Avg Daily Value	RM15.6m
Major Shareholders (%)	
Binariang GSM	62.37
EPF	11.89
ASB	10.03
LTH	1.79

**Impact.** We are maintaining FY18 earnings estimates. However, we are reducing FY19 earnings estimates by -6.2%. For FY19, we are assuming a more conservative growth for the postpaid subscriber base. Meanwhile, we are now expecting the prepaid subscriber base to decline further in view of heightened competition. As a result, we are anticipating a decline in FY19 earnings of 2.5% as opposed to a growth of 4.0% previously.

**Target price.** Post our FY19 earnings adjustment, we are deriving a new target price of **RM5.80** (*previously RM6.16*). This is premised on pegging target PER of 23x, which is the average low PER of the group over the past four years, against revised FY19 EPS of 25.2sen.

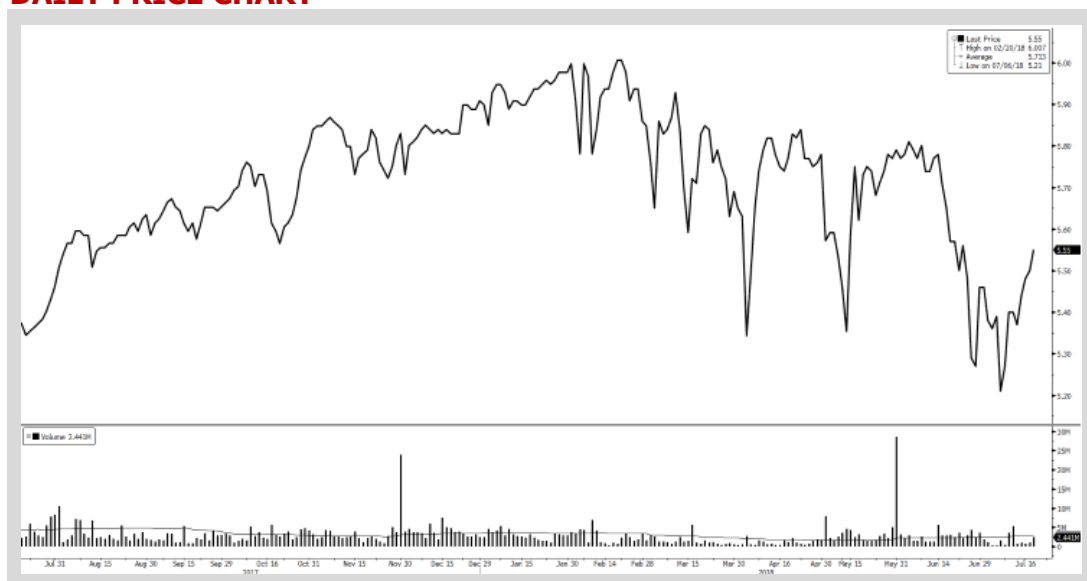
**Maintain NEUTRAL.** The revamped MaxisONE plan, which offers better value proposition, has continues to show good traction as the postpaid subscriber base continues to increase steadily. This, however, negatively impact the postpaid ARPU as we view that the postpaid subscribers will be inclined to 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	8,450
Normalised EBITDA	4,484	4,597	4,570	4,526
EBITDA	4,551	4,710	4,570	4,526
Operating Profit	3,152	3,278	3,130	3,072
Net Profit	2,013	2,192	2,015	1,964
Normalised net profit	1,963	2,081	2,015	1,964
Normalised EPS (sen)	26.1	27.2	25.8	25.2
EPS Growth (%)	0.6	3.9	-5.0	-2.5
PER (x)	21.2	20.4	21.5	22.1
Net dividend (sen)	20	20	20	20
Net dividend yield (%)	3.6	3.6	3.6	3.6

Source: Company, MIDFR

## DAILY PRICE CHART



Source: Bloomberg

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## MAXIS: 2QFY18 RESULTS SUMMARY

FYE 31 <sup>st</sup> Dec	2Q18	% YoY	% QoQ	2018	2017	%
Revenue	2,246	-4	0	4,483	4,710	-5
Normalised EBITDA	1,007	0	-1	2,027	2,129	-5
EBITDA	989	-12	-3	2,012	2,139	-6
Depreciation and amortisation	-268	11	14	-503	-484	4
Others	-1	n.m.	n.m.	-8	-3	n.m.
EBIT	720	-19	-8	1,501	1,652	-9
Finance costs	-94	-23	-3	-191	-231	-17
Finance income	9	-40	0	18	29	-38
PBT	635	-18	-8	1,328	1,450	-8
Taxation	-157	-23	-8	-327	-376	-13
PAT	478	-16	-9	1,001	1,074	-7
Normalised PAT	480	0	-6	990	987	0
Normalised EPS (sen)	6	0	-6	13	13	0
		+/- ppts	+/- ppts			+/- ppts
Normalised EBITDA margin (%)	45	2	-1	45	45	0
Normalised PAT margin (%)	21	1	-1	22	21	1
Effective tax rate (%)	25	-2	0	25	26	-1

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.