

19 October 2018 | 3QFY18 Results Review

Maxis Berhad

Defending its Prepaid Revenue

Maintain NEUTRAL

Revised Target Price (TP): RM5.67
(previously RM5.96)

INVESTMENT HIGHLIGHTS

- **9MFY18 normalised earnings down by -2.9%yoy to RM1.5b, in-line with our expectation**
- **Postpaid revenue continue to enlarge, driven by good response from hotlink postpaid flex and MaxisONE Share**
- **Leveraging on data analytics for segmental and personalised offerings to defend the prepaid revenue**
- **Maintain NEUTRAL with a revised target price of RM5.67**

Quarterly earnings trended lower. Maxis' 3Q18 normalised earnings came in at RM518m, a decrease of -7.7%yoy. The weaker earnings was mainly attributable to decline in prepaid revenue in view of continued SIM consolidation, migration from prepaid to postpaid and intense price competition. In addition, the group also incurred one time World Cup sponsorship.

In-line with expectations. Cumulative 9MFY18 normalised earnings amounted to RM1,508m. This translates into a marginal contraction of -2.9%yoy, despite a -4.2%yoy decline in group revenue. All in, the group's 9MFY18 financial performance came in within ours and consensus expectations, accounting for 74.8% and 78.0% of full year FY18 earnings estimates respectively.

Nine consecutive quarters of postpaid growth. 2Q18 postpaid revenue increased by +2.8%yoy to RM1,025m. This was premised on higher postpaid subscriber base of 3.1m (+8.39%yoy). Hotlink postpaid flex and MaxisONE Share continued to be strong catalysts driving incremental port-ins of entry-level Postpaid subscribers. Note that inclusive of this quarter, the Postpaid subscriber base has been expanding steadily for the past nine quarters since 3Q16. Meanwhile, Postpaid ARPU remained resilient at RM93 per month.

Prepaid revenue stabilising. As expected, prepaid revenue continue to decline, albeit slower pace. For the quarter-in-review, the prepaid revenue contracted by -10.1%yoy to RM851m. Sequentially, it is noteworthy that the rate of decline has reduced to -0.3%qoq. This was mainly premised on solid growth of mobile internet revenue which contributed to stable prepaid ARPU of RM42. The group has been leveraging from data analytics for segmental and personalised offerings, which attracted high data users.

RETURN STATS	
Price (18 th July 2018)	RM5.51
Target Price	RM5.67
Expected Share Price Return	+2.9%
Expected Dividend Yield	+3.6%
Expected Total Return	+6.5%


STOCK INFO	
KLCI	1,738.01
Bursa / Bloomberg	6012 / MAXIS MK
Board / Sector	Main/ Services
Syariah Compliant	Yes
Issued shares (mil)	7,816.7
Market cap. (RM'm)	43,069.7
Price over NA	11.0x
52-wk price Range	RM5.21 – RM6.14
Beta (against KLCI)	0.96
3-mth Avg Daily Vol	1.7m
3-mth Avg Daily Value	RM9.9m
Major Shareholders (%)	
Binariang GSM	62.37
EPF	11.85
ASB	10.03
LTH	1.79

Dividend. The group declared 3Q18 dividend of 5sen per share. This led to 9MFY18 dividend of 15sen per share, in-tandem with 9MFY17's quantum.

Capital expenditure (capex). 3QFY18 capex came in -28.5%yoy lower at RM195m. This was mainly due to higher spending on IT transformation incurred in 3QFY17. On a cumulative basis, capital spending reduced by -20.6%yoy. This is in-tandem with the completion of network modernisation and lower investment in 4G LTE rollout. At present, Maxis' 4G LTE population coverage has reached 92%.

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

Target price. We are revising our target price to **RM5.67** (*previously RM5.96*). Note that we are updating the stock's average low PER of the group over the past four years from 23x to 22.5x. The slightly lower PER is also justified given the progressive loss of contribution from Umobile.

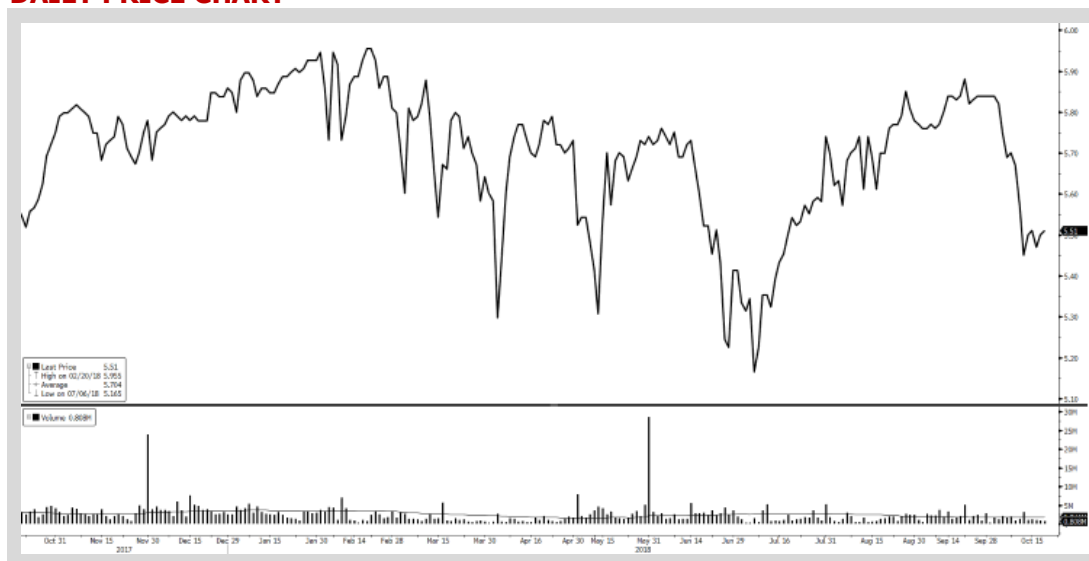
Maintain NEUTRAL. The revamped MaxisONE plan, which offers better value proposition, has continues to show good traction as the postpaid subscriber base continues to increase steadily. This is further supported by the Hotlink postpaid flex and MaxisONE Share proposition. Coupled with stable postpaid ARPU, the postpaid segment has continuously outperformed. Meanwhile, the prepaid segment has shown commendable improvement as the group leverage on data analytics to target individual subscribers. As a results, the quarterly contribution from the prepaid segment has seems to stabilise. In the near term, the group's service revenue would still be negatively impacted by the progressive termination of 3G network services with Umobile. We do not expect the group would be able to offset the loss of contribution from Umobile organically in the near term. 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 st 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)	21.1	20.3	21.4	21.9
Net dividend (sen)	20	20	20	20
Net dividend yield (%)	3.6	3.6	3.6	3.6

Source: Company, MIDFR

DAILY PRICE CHART



Martin Foo Chuan Loong
 martin.foo@midf.com.my
 +603 2173 8354

Source: Bloomberg

Maxis: 2QFY18 RESULTS SUMMARY

FYE 31 st Dec	3Q18	% YoY	% QoQ	2018	2017	%
Revenue	2,264	-3.0	0.8	6,747	7,043	-4.2
Normalised EBITDA	1,047	-6.4	4.0	3,074	3,149	-2.4
EBITDA	1,025	-7.6	3.6	3,037	3,247	-6.5
Depreciation and amortisation	-260	-2.6	-3.0	-763	-751	1.6
Others	4	n.m.	n.m.	-4	-4	n.m.
EBIT	769	-8.5	6.8	2,270	2,492	-8.9
Finance costs	-103	-14.2	9.6	-294	-351	-16.2
Finance income	11	-45.0	22.2	29	49	-40.8
PBT	677	-8.5	6.6	2,005	2,190	-8.4
Taxation	-164	-6.8	4.5	-491	-552	-11.1
PAT	513	-9.0	7.3	1,514	1,638	-7.6
Normalised PAT	518	-7.7	7.9	1,508	1,553	-2.9
Normalised EPS (sen)	6.6	-7.7	7.9	19	20	-5
		+/- ppts	+/- ppts			+/- ppts
Normalised EBITDA margin (%)	46.2	-1.7	1.4	45.6	44.7	0.8
Normalised PAT margin (%)	22.9	-1.2	1.5	22.4	22.1	0.3
Effective tax rate (%)	24.2	0.4	-0.5	24.5	25.2	-0.7

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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.