midf RESEARCH

09 February 2018 | 4Q17 Results Review

Maxis Berhad

Cost optimisation initiatives boosted FY17 earnings

Maintain NEUTRAL

***Revised* Target Price (TP): RM5.93**
(*previously RM5.80*)

INVESTMENT HIGHLIGHTS

- **FY17 normalised earnings improved by +6.2%yoy, owing to effective cost optimisation initiatives**
- **Postpaid service revenue surpassed that of prepaid in FY17**
- **Lower capital spending in FY17 (-13.2%yoy) post completion of network modernisation and lower investment in 4G LTE rollout**
- **Maintain NEUTRAL with a revised target price of RM5.93**

FY17 normalised earnings lifted by cost optimisation initiatives. Maxis' 4QFY17 normalised earnings amounted to RM536m, a marginal increase of +0.9%yoy. This was led by improvement in EBITDA margin to 54.4% (4Q16: 53.6%) as a result of lower traffic, commission and other direct costs. Cumulatively, full year FY17 normalised earnings came in at RM2,081m (+6.2%yoy). This was led by expansion in postpaid subscriber base as well as effective cost optimisation initiatives.

Steady rise in postpaid subscriber base. Postpaid service revenue for full year FY17 increased by +4.2%yoy to RM4,118m. This was supported by enhanced value in both the MaxisOne Plan and device ownership proposition. As a result, MaxisONE plan's subscriber base has expanded to above 2.0m.

Prepaid user base continue to dwindle. FY17 prepaid service revenue declined by -3.7%yoy to RM3,848m. This was mainly attributable to lower prepaid subscriber base which stands at 7.0m as at 4QFY17 in comparison to 7.9m recorded for 4Q16. The shrinking subscriber base was caused by aggressive price competition, SIM consolidation and migration to postpaid. Fortunately, this was partially mitigated by higher average ARPU of RM42 per month (2016: RM40 per month) as the group continued to attract high value subs.

Capital expenditure (capex). Maxis's 4Q17 capex came in at RM382m, a reduction of -14.7%yoy. This led to lower full year FY17 capital spending of RM1,029m (-13.2%yoy). This was mainly due to the completion of network modernisation and lower investment in 4G LTE rollout. As at 4QFY17, Maxis has the largest 4G LTE coverage of 92%. Moving forward, management guided that base capex to be approximately RM1.0b.

RETURN STATS	
Price (8th February 2018)	RM6.07
Target Price	RM5.93
Expected Share Price Return	-2.3%
Expected Dividend Yield	+3.3%
Expected Total Return	+1.0%

STOCK INFO	
KLCI	1,839.44
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)	47,410.1
Price over NA	11.0x
52-wk price Range	RM5.40 – RM6.41
Beta (against KLCI)	1.05
3-mth Avg Daily Vol	3.4m
3-mth Avg Daily Value	RM20.3m
Major Shareholders (%)	
Binariang GSM	62.42
EPF	11.54
ASB	10.28

Dividend. The group declared 4Q17 dividend of 5sen per share. Cumulatively, the group's full year FY17 dividend amounted to 20sen per share. We expect the group to maintain the dividend payment for FY18.

Impact. We are revising FY18 earnings estimate slightly higher by +2.2% as we fine-tune our profit margin assumption upwards to better reflect the group's financial performance thus far. Despite this, we view that FY18 earnings will come in lower in view of intense competition for the prepaid market as well as progressive termination of 3G network services with Umobile which will negatively impact the group's postpaid service revenue.

Target price. Post FY18 earnings revision, we are adjusting our target price to **RM5.93** (previously RM5.80). This is premised on pegging target PER of 23x, which is the average low PER of the group over the past four years, against FY18EPS of 25.8sen.

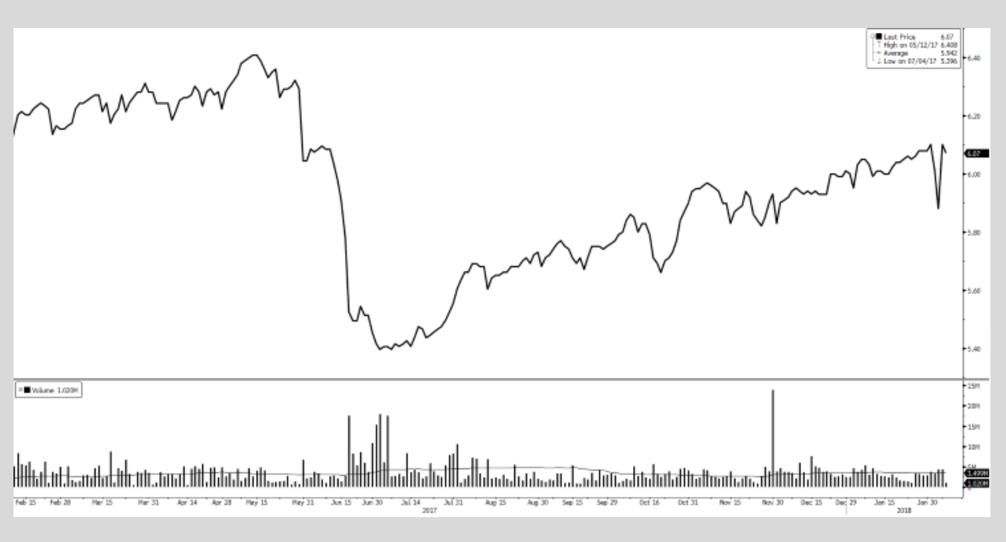
Maintain NEUTRAL. The revamped MaxisONE plan, which offer better value proposition, has continues to show good traction as the postpaid subscriber base continues to increase steadily. This, however, negatively impact the postpaid ARPU as we view that the postpaid subscribers will be incline to sign-up the entry level postpaid plan. On the contrary, prepaid ARPU continue to grow at a steady pace as Hotlink Fast subscribers increase their 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 as we expect Webe to disrupt the prepaid market. 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 unchanged at this juncture.

INVESTMENT STATISTICS

FYE 31st 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 after MI	2,013	2,192	2,015	2,095
Normalised net profit after MI	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)	23.2	22.3	23.5	22.6
Net dividend (sen)	20	20	20	20
Net dividend yield (%)	3.3	3.3	3.3	3.3

Source: Company, MIDFR

DAILY PRICE CHART



Source: Bloomberg

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

Maxis: 4QFY17 RESULTS SUMMARY

FYE 31st Dec	Quarterly			Cumulatively		
	4Q17	**% YoY**	**% QoQ**	**2017**	**2016**	**%**
Revenue	2,150	-3	-3	8,696	8,612	1
Normalised EBITDA	1,169	-2	-3	4,597	4,502	2
EBITDA	1,184	2	-1	4,710	4,598	2
Depreciation and amortisation	-383	0	6	-1,418	-1,431	-1
Others	-9	n.m.	n.m.	-14	-15	n.m.
EBIT	792	1	-4	3,278	3,152	4
Finance costs	-94	-24	-22	-445	-470	-5
Finance income	12	-14	-40	61	55	11
PBT	710	5	-2	2,894	2,737	6
Taxation	-151	-11	-13	-702	-724	-3
PAT	559	11	1	2,192	2,013	9
Normalised PAT	536	1	-5	2,081	1,958	6
MI	0	n.m.	n.m.	0	1	n.m.
PATAMI	559	11	1	2,192	2,014	9
Normalised PATAMI	536	0.9	-5	2,081	1,959	6.2
Normalised EPS (sen)	6.86	-3	-5	27	26	4
		+/- ppts	+/- ppts			+/- ppts
Normalised EBITDA margin (%)	54	1	0	53	52	1
Normalised PATAMI margin (%)	25	1	0	23.9	22.7	1
Effective tax rate (%)	21	-4	-3	24	26	-2

Source: Company, MIDFR

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STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* 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 *fall* 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.