

21 September 2018 | Corporate Update

## Maxis Berhad

*Focus on non-mobile service revenue growth*

### INVESTMENT HIGHLIGHTS

- **Absence of CEO replaced by a group of new experienced hires with vast experience in telco industry**
- **Putting emphasis on non-mobile service revenue growth to partially make up for the competitive mobile segment**
- **Expecting more enterprise-related proposition in the near term revolving around the application of NB-IoT**
- **Maintain NEUTRAL with a revised target price of RM5.96**

**Experienced hires.** While Maxis is still on the lookout for a new CEO, the company has hired a new group of management to ensure that it is business as usual. They include Gokhan Ogut (COO), Wayne Treeby (CFO), Paul McManus (Head of Enterprise Business) and Rob Sewell (Head of strategy) who were previously attached with well-known telco operators such as Vodafone and Telstra.

**Putting more emphasis on growing the non-mobile service revenue.** As at 1H18, the mobile service revenue formed 92.5% of total service revenue while the remainder consists of enterprise fixed (3.5%) and home fibre (3.9%). We gather that to create a more balanced mixture of service revenue, Maxis is looking at driving revenue growth for both the enterprise and home fibre segments. This would also help to partially allay the concern of competitive mobile segment.

**Home Fibre.** Recently, Maxis introduced new fibre broadband plans: 30Mbps for RM89/mth and 100Mbps for RM129/mth for home users. These translate into a price reduction of between -36% and -65% as compares to the previous similar plans. We gather that Maxis is actively talking to other fibre network providers such as Time dotcom Bhd and Tenaga Nasional Bhd to further increase its coverage area across Malaysia. Note that the latter is looking at connecting underserved areas that are not covered by existing fibre broadband providers.

**Enterprise.** On the enterprise front, the business broadband plans are competitively priced at RM10/mth higher for both the 30Mbps and 100Mbps plans as compared to the home plan. Maxis will be leveraging on the improved connectivity to rollout business solutions services, particularly for SMEs and micro SMEs. This could revolve around the application of NarrowBand-Internet of Things (NB-IoT) technology to offer new smart digital solutions to businesses and the public sector.

**Maintain NEUTRAL**


**Revised Target Price (TP): RM5.96**  
(previously RM5.80)

RETURN STATS	
Price (20 <sup>th</sup> September 2018)	RM5.84
Target Price	RM5.96
Expected Share Price Return	+2.1%
Expected Dividend Yield	+3.4%
<b>Expected Total Return</b>	<b>+5.5%</b>

STOCK INFO	
KLCI	1,803.70
Bursa / Bloomberg	6012 / MAXIS MK
Board / Sector	Main/ Services
Syariah Compliant	Yes
Issued shares (mil)	7,810.5
Market cap. (RM'm)	45,613.3
Price over NA	11.0x
52-wk price Range	RM5.21 – RM6.14
Beta (against KLCI)	0.94
3-mth Avg Daily Vol	1.81m
3-mth Avg Daily Value	RM10.1m
Major Shareholders (%)	
Binariang GSM	62.37
EPF	11.87
ASB	10.03

**Impact.** We fine-tune FY18 earnings estimate lower by -0.6% as we input a slightly more conservative EBITDA margin to account for higher staff & resource and marketing expenses. Meanwhile, we revise upward FY19 earnings estimate by +3.4% as we factor in higher earnings contribution from the home fibre and enterprise segments.

**Target price.** Subsequent to our FY19 earnings adjustment, we are raising our target price to **RM5.96** (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 revised FY19 EPS of 25.9en.

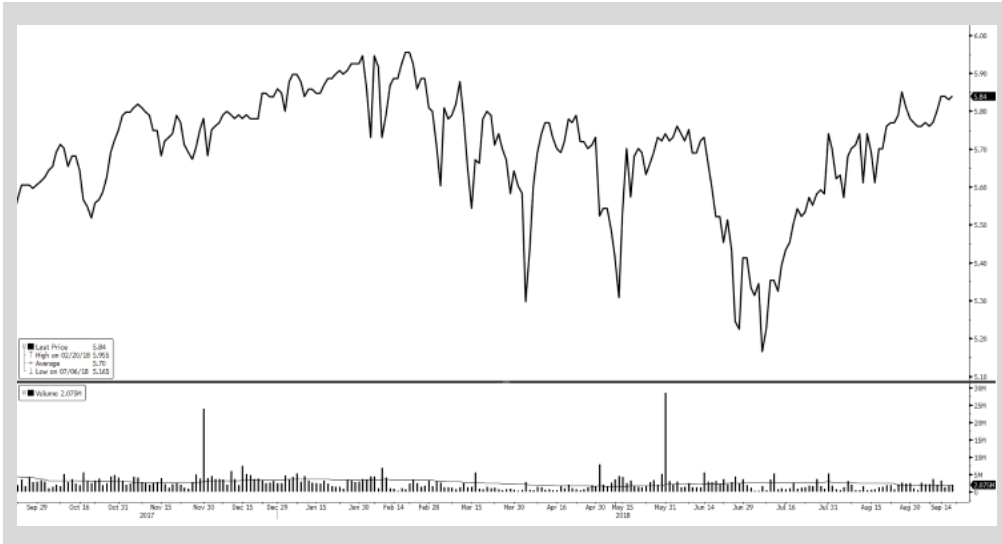
**Maintain NEUTRAL.** Maxis has shown sequential improvement in its 2Q18 quarterly results. This was supported by recovery in mobile revenue and better home fiber service revenue as well as effective cost management in the areas of procurement, capex and opex spending. Note that the recently appointed COO, Gokhan Ogut, has initiated a company-wide effort to embed cost optimisation throughout the company so it becomes a conscious effort by all employees. This is expected to defend Maxis' EBTIDA margin at around 50% of service revenue. However, we still expect FY18 earnings to trend lower due to progressive termination of 3G network services with Umobile. Moving forward, the company's emphasis on growing the home fibre and enterprise segment could help to partially make up for the competitive mobile segment. Meanwhile, we expect the Maxis' dividend yield to remain below 4% to meet its capital commitment. Given the lack of significant positive rerating catalysts, we are keeping our **NEUTRAL** recommendation on Maxis at this juncture. 

## INVESTMENT STATISTICS

FYE 31 <sup>st</sup> Dec	2016	2017	2018F	2019F
Revenue	8,612	8,696	8,429	8,586
Normalised EBITDA	4,484	4,597	4,014	4,088
EBITDA	4,551	4,710	4,014	4,088
Operating Profit	3,152	3,278	3,002	3,066
Net Profit	2,013	2,192	1,992	2,022
Normalised net profit	1,963	2,081	1,992	2,022
Normalised EPS (sen)	26.1	27.2	25.5	25.9
EPS Growth (%)	0.6	3.9	-6.1	1.5
PER (x)	22.3	21.5	22.9	22.5
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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### 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.