

Maxis Berhad

(6012 | MAXIS MK) Telecommunications & Media | Telecommunications service providers

Maintain NEUTRAL**Seeking A Leaner Cost Structure****Unchanged Target Price: RM4.08****KEY INVESTMENT HIGHLIGHTS**

- **Maintain NEUTRAL with unchanged TP of RM4.08 post announcement of 3QFY23 results**
- **PBT remains under pressure despite better revenue performance, impacted by higher depreciation and amortization and finance costs**
- **Better 3QFY23 service revenue of RM2.4b (+2%yoy), led by all segments except for consumer prepaid segment**
- **2QFY23 capex and dividend remained on the conservative end as compared to 2QFY22**

Steady performance. We are keeping our **NEUTRAL** recommendation for Maxis with an unchanged **target price of RM4.08** post the 3QFY23 results announcement. There was steady revenue growth on a year-over-year basis. However, there were some concerns on the cost front, especially on depreciation and amortization as well as finance cost which put downward pressure on the pretax profit. Meanwhile, the quarterly dividend remains conservative at 4sen per share as operating cashflow was down on a year-to-date basis.

Home connectivity grew at the fastest pace. 3QFY23 earnings came in at RM330m, a decline of -7%yoy. While revenue was marginally higher (+2%yoy), the earnings performance was impacted by higher cost structure i.e. depreciation and amortization, staff and resource cost as well as higher finance cost. Predictably, higher revenue was seen across all segments except for consumer prepaid revenue because of continuous pre-to-post conversion.

Figure 1: Quarterly revenue breakdown

	3QFY23	3QFY22	Variance (%)	Remark
Consumer				
Postpaid	882	830	6.3	Higher postpaid customer
Prepaid	652	676	-3.6	Pre-to-post conversion and lower ARPU
Home connectivity	231	215	7.4	Higher home connection given the competitive fibre pricing
Enterprise				
Fixed & solutions	380	357	6.4	Revenue from wholesale 4G MOCN, 4G and 2G Domestic roaming as well as commercial deals in connectivity solutions
Mobile				

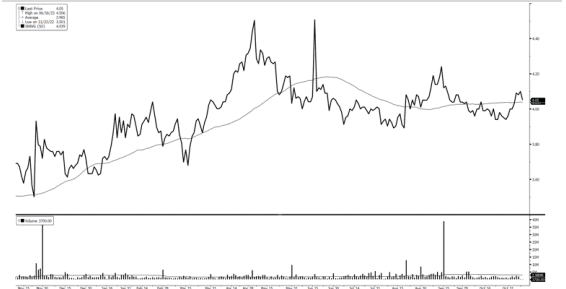
Source: Company, MIDFR

No surprises. Cumulatively, 9MFY23 earnings amounted to RM937m (+1%yoy) premised on lower effective tax rate due to discontinuation of prosperity tax in 2023. All in, Maxis 9MFY23 financial performance came in within our expectation, making up 75.4% of our full year FY23 earnings estimates.

Annual capex to fall below RM1b. 3QFY23 capex contracted by -21%yoy to RM215m. This led to 9MFY23 capex of RM511m, a decline of -25%yoy from RM684m. There was prudent capex investment as network capacity requirement stabilises in FY23 as compared to FY22.

RETURN STATISTICS

Price @ 10 th November 2023 (RM)	4.03
Expected share price return (%)	+1.2
Expected dividend yield (%)	+4.0
Expected total return (%)	+5.2

SHARE PRICE CHART

Price performance (%)	Absolute	Relative
1 month	2.3	-0.5
3 months	0.2	2.2
12 months	4.9	4.2

INVESTMENT STATISTICS


FYE Dec	2023E*	2024F	2025F
Revenue	9,755	9,946	10,201
Operating Profit	2,064	2,131	2,252
Profit Before Tax	1,681	1,780	1,936
Core PATAMI	1,248	1,322	1,437
Core EPS	16	17	18
DPS	16	16	16
Dividend Yield	4%	4%	4%

KEY STATISTICS

FBM KLCI	1,445.18
Issue shares (m)	7830
Estimated free float (%)	12.92
Market Capitalisation (RM'm)	31,719.91
52-wk price range	RM3.65-RM4.59
3-mth average daily volume (m)	1.21
3-mth average daily value (RM'm)	0.32
Top Shareholders (%)	
Binariang GSM Sdn Bhd	62.24
Employees Provident Fund Board	11.01
Amanah Saham Nasional Bhd	10.3

In addition, the slower capital spending also reflects the potentially 5G related capex. Management now guided that annual FY23 capex to fall below RM1.0b. For context, FY22 capex came in at RM1.1b.

Cautious dividend payout. 3QFY23 dividend remains conservative at 4sen per share. This represents the third consecutive quarter where dividend fall below 5sen as seen in FY22. We view that the pressure on the operating cash flow mainly led to the subdued dividend payment. Note that 9MFY23 operating free cash flow dipped by -6.2%yoy to RM2,188m.

Embarking on cost cutting measure. The rise in staff and resource costs was mainly due to ongoing right-sizing exercise, especially for the enterprise business segment. Note that the headcount for the enterprise segment has been increasing in recent years since 2020 due to acquihire initiatives to grow the enterprise business' capabilities. The right sizing exercise is part of the group three-years cost rationalization exercise to rebase their cost structure to be leaner. In view of this, we should continue to see elevated staff costs in the medium term. 

MAXIS BHD: 3QFY23 RESULTS SUMMARY

FYE 31st December (in RM'm, unless otherwise stated)	Quarterly			Yearly		
	3Q23	% YoY	%QoQ	FY23	FY22	%YoY
Revenue	2,442	2	-1	7,438	7,235	3
EBITDA	999	-8	-8	2,895	2,950	-2
Depreciation and amortization	-431	1	0	-1,294	-1,256	3
EBIT/(LBIT)	568	-14	-13	1,601	1,694	-5
Finance costs	-123	-1	-8	-353	-317	11
Finance income	8	-38	-38	18	21	-14
PBT/(LBT)	453	-18	-15	1,266	1,398	-9
Taxation	-124	-39	-22	-330	-470	-30
PAT/LAT	329	-7	-13	936	928	1
MI	-1			-1	0	
PATAMI	330	-7	-13	937	928	1
EPS/(LPS) (sen)	4	-7	-13	12	12	1
		+/- ppts	+/- ppts			+/- ppts
EBITDA margin (%)	41	-4	-3	39	41	2
EBIT margin (%)	23	-4	-3	22	23	2
PATAMI margin (%)	14	-1	-2	13	13	0
Effective tax rate (%)	27	-9	-2	26	34	8

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	9,241	9,789	9,755	9,946	10,201
EBITDA	3,862	3,939	3,842	3,865	3,948
EBIT	2,213	2,218	2,064	2,131	2,252
PBT	1,762	1,811	1,681	1,780	1,936
Normalised PATAMI	1,308	1,182	1,248	1,322	1,437
Normalised EPS (sen)	17	15	16	17	18
Normalised EPS Growth (%)	-5.6	-9.6	5.5	5.9	8.7
PER (x)	24	27	25	24	22
Dividend Per Share (sen)	17	20	16	16	16
Dividend yield (%)	4.2	5.0	4.0	4.0	4.0

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Fixed assets	5,193	5,639	4,492	4,100	3,782
Intangible assets	11,474	11,507	11,474	11,474	11,474
Others	2,926	3,118	2,773	2,773	2,773
Non-current assets	19,593	20,264	18,739	18,347	18,029
Cash	1,191	628	1,990	2,540	3,123
Trade debtors	1,654	2,136	1,915	1,953	2,003
Others	5	17	5	6	6
Current assets	2,850	2,781	3,911	4,498	5,132
Trade creditors	3,527	3,807	4,298	4,382	4,472
Short-term debt	2,034	283	2,034	2,034	2,034
Others	-1,118	1,656	185	185	185
Current liabilities	4,443	5,746	6,517	6,601	6,691
Long-term debt	8,056	9,582	8,258	8,299	8,341
Others	8,056	2,649	1,388	1,388	1,388
Non-current liabilities	9,972	12,231	9,646	9,687	9,729
Share capital	2,564	2,585	2,564	2,564	2,564
Retained earnings	4,161	3,784	3,922	3,992	4,177
Minority interest	0	2	0	0	0
Equity	6,725	6,371	6,486	6,556	6,741

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	1,762	1,811	1,681	1,780	1,936
Depreciation & amortisation	1,694	1,778	1,778	1,735	1,696
Others	-13	-555	109	47	39
Changes in working capital	320	269	56	33	-5
Operating cash flow	3,763	3,303	3,625	3,594	3,665
Capital expenditure	-1,633	-1,720	-1,375	-1,343	-1,377
Others	136	424	0	0	0
Investing cash flow	-1,497	-1,296	-1,375	-1,343	-1,377
Debt raised/(repaid)	-14	-570	41	41	41
Equity raised/(repaid)	0	0	0	0	0
Dividends paid	-1,330	-1,566	-1,252	-1,252	-1,252
Others	-463	-434	-489	-491	-493
Financing cash flow	-1,807	-2,570	-1,700	-1,702	-1,704
Net cash flow	459	-563	549	549	584
Beginning cash flow	705	1,164	1,414	1,963	2,512
Ending cash flow	1,164	601	1,963	2,512	3,096

Profitability Margins (%)	2021A	2022A	2023E	2024F	2025F
EBITDA margin	42	40	39	39	39
PBT margin	19	19	17	18	19
PATAMI margin	14	12	13	13	14

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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology