Corporate Update | Wednesday, 18 September 2024

Maxis Berhad

***Maintain* BUY**

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

Towards A More Sustainable Growth

***Revised* Target Price: RM4.47**
(Previously RM4.17)

KEY INVESTMENT HIGHLIGHTS

- **Maintain BUY with a higher target price of RM4.47 post meeting with the management**
- **Mobile segment remains Maxis' core business, providing the group with the necessary funding for investment and dividend payout**
- **Revamped enterprise segment will serve as the impetus for future earnings growth**
- **The group is the frontrunner for the second 5G network, in our view**

Maxis is our top pick for the sector. We are keeping our **BUY** recommendation on Maxis with an upward revision in **target price to RM4.37** (previously RM4.17) post our meeting with the management. The mobile segment will remain the group's main cash generator, supported by the strong postpaid proposition targeting both the premium and value-seeking segments.

Meanwhile, we anticipate the future growth stemming from the enterprise segment to be promising as it focusses on the Mid-market and the Micro, Small and Medium Enterprises (MSME) customers. Moreover, given its favourable balance sheet position and technological readiness, we view that Maxis stands a better chance as compared to its peers in leading the second 5G network.

Postpaid segment remains the group's stronghold. To recap, 1HFY24 mobile service revenue improved by +3.5%yoy to RM3.7b from RM3.6b a year ago, mainly led by the postpaid segment. This constitutes more than 80% of the total revenue. Moving forward, we expect the mobile revenue will remain the group's main cash generating business that will engender the necessary funding for investments as well as a stable dividend payout.

Our positivity on the mobile segment is mainly predicated on strong postpaid proposition targeting both premium (Maxis Postpaid) and value-seeking segments (Hotlink Postpaid). This clear demarcation, especially on the latter, has led to pre-to-post migration which led to a more sustainable and predictable revenue base.

In addition, the pairing with its fiber proposition and/or product bundling, has also led to lower churn rate as well as revenue uplift. We view that the critical success factor lies in the group's ability to promote "positive discounting" which avoids price erosion by limited discounts to additional services purchases by the customer and the same time provide more value.

RETURN STATISTICS	
Price @ 17th September 2024 (RM)	3.89
Expected share price return (%)	+14.9
Expected dividend yield (%)	+4.1
Expected total return (%)	**+19.0**

SHARE PRICE CHART

Price performance (%)	Absolute	Relative
1 month	9.6	7.0
3 months	9.6	3.0
12 months	-6.1	-17.6

INVESTMENT STATISTICS

FYE Dec	2024E*	2025F	2026F
Revenue	10,415.3	10,704.7	11,024.3
Operating Profit	2,443.8	2,601.8	2,728.5
Profit Before Tax	2,004.5	2,218.8	2,403.6
Core PATAMI	1,463.3	1,619.7	1,754.7
Core EPS	18.7	20.7	22.4
DPS	16.0	16.0	16.0
Dividend Yield	4.1	4.1	4.1

KEY STATISTICS	
FBM KLCI	1,664.28
Issue shares (m)	7832.00
Estimated free float (%)	23.70
Market Capitalisation (RM'm)	30,314.18
52-wk price range	RM3.22 - RM4.17
3-mth average daily volume (m)	2.61
3-mth average daily value (RM'm)	9.40
Top Shareholders (%)	
Binariang GSM Sdn Bhd	62.24
Employees Provident Fund	11.81
Amanah Saham Nasional Bhd	10.34

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Fibre as a growth enabler. Predominantly, the group is reliant on Telekom Malaysia's (TM) fibre network. To recall, on December 2023, Maxis' High-Speed Broadband access agreement with TM was extended to 2029. Despite this, over the years, Maxis has been steadily increasing the rate of Maxis-own fibre build, be it via greenfield or brownfield approach. This currently stands at more than 400k premises passed. Notably, management also shared that the proportion of capex spent for fibre rollout has increased steadily. Meanwhile, the growing number of data centre in the country will serve as another business case to provide fixed connectivity to data centres.

Anticipating better performance from the enterprise segment. Previously, we viewed that the growth in enterprise revenue was supported by its "acqui-hire" strategy. However, we understand there has been a revamp in strategy following the rightsizing of the enterprise business headcount in 2023. Despite higher revenue, we suspect that the "acqui-hire" has impacted the profit margin. For context, FY22 enterprise revenue amounted to RM510m. This has reduced to RM435m in FY23. Nonetheless, we observe that there has been a pick-up in 1HFY24 revenue of +4.7%yoy to RM222m. We expect the momentum to continue, moving forward.

We note that the group has been more structured in terms of segmentising its enterprise customers and solutions. For the former, there are five categories of customers which include corporate, mid-market, MSMEs, public sector and wholesale. Of these, we understand that the primary focus will be on the mid-market and MSMEs customers which form more than 95% of the business establishments in Malaysia. Meanwhile, the solutions are generally categorised into mobile, broadband, fibre and managed services, IoT, cloud and infra services. One of the notable recent developments includes the offering of GPU-as-a-service (GPU-aaS) which is powered by Nvidia H100 Tensor Core GPUs. This offering is made possible via Bridge Alliance which enables Maxis to tap into Singtel's GPUaaS offering across the region.

Frontrunner for the second 5G network. Maxis has been steadfast in its aspiration to lead the second 5G network ever since the government decided to transition to 5G dual network. Premised on this, we view that the group has been preparing itself to build the second 5G network. Referring to the 2QFY24 results announcement, the group has been increasing its cash reserve to RM727m (+41.2%yoy) and at the same time reducing its total borrowings to RM9.2b (-8.0%yoy). This translates into lower net gearing level of 1.46x (vs 2QFY23: 1.58x), which will provide more headroom for the group to gear up as and when needed.

On the technological front, Maxis has done trial run on 5G advanced with Huawei being the technological partner. Couple with existing infrastructure, which comprises of the above-mentioned fibre footprint and more than 11k network sites, we view that the group would be able to roll out the second 5G network quickly.

Premised on these reasons, we view that Maxis stands a better chance as compared to its peers. To recall, apart from Maxis, the three telcos who are competing for the second 5G network include Celcomdigi, Telekom Malaysia and U Mobile.

Upward revision in target price. While we made no changes to our earnings estimates at this juncture, we are revising our DCF-derived target price higher to **RM4.47** from RM4.17 previously. The revision was mainly premised on ascribing higher terminal growth of **1.5x** from 1.0x previously. We are more optimistic on the outlook of the group's enterprise business which we think would further lift the group's overall earnings growth.

FINANCIAL SUMMARY

Income Statement (RM'm)	**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
Revenue	9,789	10,180	10,415	10,705	11,024
EBITDA	3,939	3,793	4,275	4,338	4,383
EBIT	2,218	1,890	2,444	2,602	2,729
PBT	1,811	1,444	2,005	2,219	2,404
Normalised PATAMI	1,182	1,223	1,463	1,620	1,755
Normalised EPS (sen)	15	16	19	21	22
Normalised EPS Growth (%)	-9.6	3.4	19.6	10.7	8.3
PER (x)	26	25	21	19	17
Dividend Per Share (sen)	20	16	16	16	16
Dividend yield (%)	5.2	4.1	4.1	4.1	4.1

Balance Sheet (RM'm)	**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
Fixed assets	5,639	5,384	4,491	3,718	3,055
Intangible assets	11,507	11,193	11,193	11,193	11,193
Others	3,118	3,163	3,163	3,163	3,163
Non-current assets	**20,264**	**19,740**	**18,847**	**18,074**	**17,411**
Cash	628	569	1,666	3,162	4,344
Trade debtors	2,136	2,435	2,491	2,560	2,637
Others	17	37	37	38	39
Current assets	**2,781**	**3,041**	**4,195**	**5,760**	**7,019**
Trade creditors	3,807	4,126	4,221	4,692	4,833
Short-term debt	283	857	857	857	857
Others	1,656	439	439	439	439
Current liabilities	**5,746**	**5,422**	**5,517**	**5,988**	**6,129**
Long-term debt	9,582	8,915	8,960	9,004	9,049
Others	2,649	2,700	2,700	2,700	2,700
Non-current liabilities	**12,231**	**11,615**	**11,660**	**11,704**	**11,749**
Share capital	2,585	2,593	2,593	2,593	2,593
Retained earnings	3,784	3,150	3,360	3,726	4,227
Minority interest	2	1	1	1	1
Equity	**6,371**	**5,743**	**5,953**	**6,319**	**6,820**

Cash Flow (RM'm)	**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
PBT	1,811	1,444	2,005	2,219	2,404
Depreciation & amortisation	1,778	1,903	1,831	1,736	1,655
Others	-555	-820	39	401	63
Changes in working capital	269	326	-52	-107	-155
Operating cash flow	**3,303**	**2,853**	**3,822**	**4,249**	**3,966**
Capital expenditure	-1,720	-1,141	-937	-963	-992
Others	424	378	0	0	0
Investing cash flow	**-1,296**	**-763**	**-937**	**-963**	**-992**
Debt raised/(repaid)	**-570**	-1,440	-45	-45	-45
Equity raised/(repaid)	0	0	0	0	1
Dividends paid	**-1,566**	-1,331	-1,253	-1,253	-1,253
Others	-434	620	-490	-492	-495
Financing cash flow	**-2,570**	**-2,151**	**-1,788**	**-1,790**	**-1,793**
Net cash flow	**-563**	**-61**	**1,097**	**1,496**	**1,182**
Beginning cash flow	**1,164**	**601**	**540**	**1,637**	**3,133**
Ending cash flow	**601**	**540**	**1,637**	**3,133**	**4,314**

Profitability Margins (%)	**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
EBITDA margin	**40**	**37**	**41**	**41**	**40**
PBT margin	**19**	**14**	**19**	**21**	**22**
PATAMI margin	**12**	**12**	**14**	**15**	**16**

Source: Company, MIDFR

DISCLOSURES AND DISCLAIMER

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 *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.
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