

Maxis Bhd

1H19 Within Expectations

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1H19 core earnings of RM795.0m (-20%) and interim dividend of 5.0 sen are within expectations. MAXIS remains steadfast with its plan to be a prominent convergence player by 2023. However, near-term performance is bogged down by lower overall service revenue in both prepaid and postpaid segments, which could persist for the remainder of FY19. Maintain UP and DCF-driven TP of RM4.90 (based on a WACC: 8.8%, TG: 1.5%).

1H19 as expected. 1H19 core earnings of RM795.0m came in within both our and consensus expectations, accounting for 50% and 49% of respective full-year estimates. An interim dividend of 5.0 sen (YTD: 10.0 sen) was declared, which is also within our expectation. We anticipate a total payment of 17.0 sen for FY19.

YoY, weaker 1H19 total turnover of RM4.44b (-1%) came from a decline in service revenue by 3% to RM3.87b. This was the result of weaker prepaid (-7%) and postpaid (-4%) revenues. While registering somewhat stable ARPU (2Q19 Prepaid-ARPU: RM41/subscriber, vs 2Q18 Prepaid-ARPU: RM42/subscriber), Prepaid numbers were softened by a higher customer conversion to Postpaid. At the meantime, Postpaid was dampened by customers skewing towards more budget-friendly plans (2Q19 Postpaid-ARPU: RM91/subscriber vs 2Q18 Postpaid-ARPU: RM96/subscriber). Normalised EBITDA fell by 6%, owing to the lower top-line and opex post-termination of past wholesale agreements. Subsequently, 1H19 core net earnings closed at RM795.0m (-20%) after incurring higher depreciation, interest and tax charges.

QoQ, 2Q19 revenue saw a similar flattish decline, mainly stemming from poorer Postpaid revenue (-3%). Likewise to the above, a growth in subscriber base (+3%) was undermined by lower ARPU. Ultimately, 2Q19 core net income of RM391.0m was weaker by 3%, as a relatively stable cost environment was hampered by a higher effective tax rate of 26.3% (+1.5ppt) during the period.

Farsighted plans. MAXIS is staying with its 2023 plans to achieve a targeted service revenue of RM10.0b while introducing productivity gains of RM1.0b by being a leading converged communications provider. This will be fuelled by a base investment of RM1.0b over the next 3 years. Management, however, pointed out that this would not account for changes in spectrum charges in the future. Other ambitions also include expanding the group's enterprise business, by engaging in partnerships with other corporations to launch new solutions and technologies. At least in the immediate term, management keeps with its guidance that: (i) service revenue would experience a low-single digit decline, and (ii) normalized EBITDA to register a mid-single digit drop.

Post-results, our FY19E/FY20E earnings are tweaked by -0.3%/+0.2% following 2Q19 statistical updates.

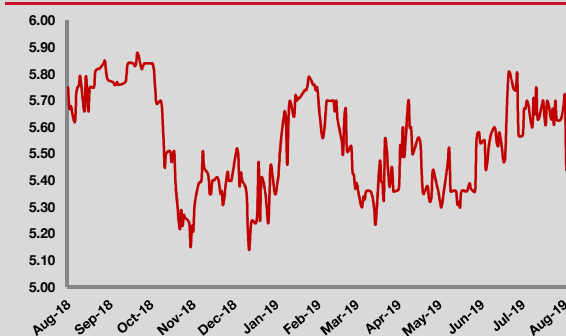
Maintain UNDERPERFORM and DCF-driven TP of RM4.90. Our target price (based on WACC: 8.8%, TG: 1.5%) implies a 12.0x FY20E EV/Fwd. EBITDA, which is close to the stock's -1SD over its 3-year mean. While the group continues to keep a focused approach with its capex plans and investments, the group is sidelined by fundamentally better peers (i.e. DIGI with stronger margins, dividend yields and ROE). Additionally, merger talks are driving investors' interests towards other players.

Risks to our call include: (i) higher-than-expected service revenue growth, (ii) lower-than-expected OPEX, and (iii) less aggressive competition.

UNDERPERFORM ↔

Price : **RM5.44**
Target Price : **RM4.90** ↔

Share Price Performance



KLCI 1,626.76
YTD KLCI chg -3.8%
YTD stock price chg 1.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MAXIS MK Equity
Market Cap (RM m)	42,543.4
Shares Outstanding	7,820.5
52-week range (H)	5.88
52-week range (L)	5.14
3-mth avg daily vol:	2,209,510
Free Float	18%
Beta	0.9

Major Shareholders

Binariang GSM Sdn Bhd	62.3%
Employees Provident Fund	11.4%
Skim Amanah Saham	8.1%

Summary Earnings Table

FYE Dec (RM'm)	2018A	2019E	2020E
Turnover	9,192	9,032	9,082
EBITDA	3,781	3,646	3,674
EBIT	2,713	2,448	2,484
PBT	2,369	2,109	2,186
Net Profit	1,780	1,582	1,640
Core Net Profit	1,767	1,571	1,640
Consensus (NP)	-	1,636	1,698
Earnings Revision	-	-0.3%	0.2%
EBITDA margin	41.1%	40.4%	40.5%
Core EPS (sen)	22.6	20.1	21.0
Core EPS growth	-14.8%	-11.1%	4.4%
NDPS (sen)	20.0	17.0	17.0
BVPS (RM)	0.9	0.9	1.0
PER (x)	24.1	27.1	25.9
PBV (x)	5.9	5.7	5.5
Net Gearing (x)	1.0	0.8	0.8
Net Div. Yield	3.7%	3.1%	3.1%



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Result Highlight

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	2,206	2,232	-1.2%	2,246	-1.8%	4,438	4,483	-1.0%
Service Revenue	1,918	1,947	-1.5%	2,013	-4.7%	3,865	3,993	-3.2%
EBITDA	940	944	-0.4%	989	-5.0%	1,884	2,012	-6.4%
N. EBITDA	947	953	-0.6%	1,007	-6.0%	1,900	2,027	-6.3%
EBIT	639	643	-0.6%	720	-11.3%	1,282	1,501	-14.6%
PBT	539	544	-0.9%	635	-15.1%	1,083	1,328	-18.4%
Taxation	(142)	(135)	5.2%	(157)	-9.6%	(277)	(327)	-15.3%
NP	397	409	-2.9%	478	-16.9%	806	1,001	-19.5%
Core NP	391	404	-3.2%	480	-18.5%	795	990	-19.7%
Core EPS (sen)	5.0	5.2	-3.2%	6.1	-18.6%	10.2	12.6	-19.3%
DPS (sen)	5.0	5.0		5.0		10.0	10.0	
EBITDA margin*	49.0%	48.5%		49.1%		48.7%	50.4%	
Normalised EBITDA margin*	49.4%	48.9%		50.0%		49.2%	50.8%	
EBIT margin	29.0%	28.8%		32.1%		28.9%	33.5%	
PBT margin	24.4%	24.4%		28.3%		24.4%	29.6%	
Core NP margin	17.7%	18.1%		21.4%		17.9%	22.1%	
Effective tax rate	26.3%	24.8%		24.7%		25.6%	24.6%	

Note:

* Computed against service revenue

Source: Company, Kenanga Research

Segmental Breakdown

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Total Revenue	2,206	2,232	-1.2%	2,246	-1.8%	4,438	4,483	-1.0%
Service Revenue	1,918	1,947	-1.5%	2,013	-4.7%	3,865	3,993	-3.2%
- Mobile Revenue	1,763	1,797	-1.9%	1,863	-5.4%	3,560	3,697	-3.7%
- Enterprise Fixed	69	70	-1.4%	71	-2.8%	139	142	-2.1%
- Home Fibre	86	80	7.5%	79	8.9%	166	154	7.8%
Non-Service Rev	288	285	1.1%	233	23.6%	573	490	16.9%
- Device	268	264	1.5%	212	26.4%	532	448	18.8%
- Network Income	20	21	-4.8%	21	-4.8%	41	42	-2.4%
Mobile Revenue Breakdown								
- Prepaid Revenue	791	797	-0.8%	854	-7.4%	1,588	1,703	-6.8%
- Postpaid Revenue	972	1,000	-2.8%	1,009	-3.7%	1,972	1,994	-1.1%
Key Operating Indicators			Chg		Chg			
Prepaid ARPU (RM)	41	40	1	42	-1			
Postpaid ARPU (RM)	91	92	-1	96	-5			
Blended ARPU (RM)	58	57	1	58	0			
Prepaid Subs (k)	6,417	6,467	-50	6,747	-330			
Postpaid Subs (k)	3,356	3,247	109	2,970	386			
WBB Subs (k)	110	114	-4	146	-36			
Total Subs (k)	9,883	9,828	55	9,863	20			

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
<u>Stocks Under Coverage</u>																	
AXIATA GROUP BHD	5.00	45,643.2	Y	12/2019	4.8%	-0.9%	3.9%	22.7%	44.8	43.1	35.2	2.0	1.9	4.5%	2.0%	4.55	UP
DIGI.COM BHD	5.00	38,875.0	Y	12/2019	-6.3%	3.1%	-9.2%	0.9%	25.2	27.8	27.5	57.7	56.6	205.7%	3.6%	4.70	MP
MAXIS BHD	5.44	42,543.4	Y	12/2019	-1.7%	0.6%	-11.1%	4.4%	24.1	27.1	25.9	5.9	5.7	21.6%	3.1%	4.90	UP
OCK GROUP BHD	0.535	466.2	Y	12/2019	7.1%	12.7%	13.8%	8.6%	17.5	20.0	18.4	1.1	1.3	6.6%	0.0%	0.630	OP
TELEKOM MALAYSIA BHD	3.99	14,994.2	Y	12/2019	-2.9%	0.3%	33.0%	7.2%	23.8	17.9	16.7	2.1	2.1	11.8%	4.5%	3.95	MP
Simple Average						0.2%	3.2%	6.1%	8.8%	27.1	27.2	24.8	13.8	13.5	50.1%	2.6%	
<u>Consensus Estimates</u>																	
TIME DOT COM BHD	9.10	5,317.7	Y	12/2019	11.1%	11.0%	8.8%	9.5%	18.4	16.9	15.5	2.1	2.0	11.7%	2.1%	9.86	BUY

Source: Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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