

01 March 2021

Maxis Bhd

FY20 Below; Cautious FY21

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FY20 CNP of RM1.4b came below at 92% of our estimate. FY20 DPS of 17.0 sen exceeded our 16.0 sen expectation. In FY21, we foresee continued weakness in its prepaid segment and continued postpaid subs growth, albeit with possibly diluted ARPU. Cut FY21E CNP by 4% to RM1.5b. FY21E DPS remains at 18.0 sen, yielding 3.8%. Introduce FY22E CNP of RM1.57b, and FY22E DPS of 19.0 sen, yielding 4%. Maintain MP with unchanged DCF-driven TP of RM4.90 (WACC: 8.8%, TG: 1.5%).

FY20 below. FY20 CNP of RM1.4b came below our expectation at 92% but within consensus' at 95%. The negative deviation was likely due to lower-than-expected service revenue. 4QFY20 DPS of 4.0 sen and 1.0 sen special DPS brought FY20 DPS to 17.0 sen, above our estimate of 16.0 sen.

YoY, FY20 revenue came in at RM8.97b (-4%). While service revenue came in flat at RM7.73b (-1%), non-service revenue of RM1.24b (-18%) dragged mainly due to lower device revenue (-19%). Within service revenue, prepaid/postpaid revenue fell 11%/2%. Prepaid revenue declined due to decrease in prepaid subs, on: (i) continued SIM consolidation, (ii) prepaid-to-postpaid migration, and (iii) lower foreign worker base. Lower MTR also dragged on prepaid ARPU. Postpaid subs rose while ARPU fell as MAXIS' Hotlink entry-level postpaid service gained traction. Enterprise grew 71% on new product launches, while home fibre grew 30% on: (i) higher data consumption, and (ii) growth in 4G/LTE router service for non-fibre coverage areas. Higher OPEX (33% of revenue vs FY19: 18%) dragged on EBIT (-9%), translating to lower CNP (-8%).

QoQ, revenue rose to RM2.23b (+2%) thanks to a 16% growth in non-service revenue, boosted by a 19% rise in device sales. Service revenue stayed flat at +0.3%. Prepaid sales fell 3% on lower ARPU (-3%) despite a 1% rise in subs mainly from Maxis' "Hotlink Prepaid Unlimited" product. Postpaid sales rose 1% on increased entry-level subs, despite a 1% decline in ARPU. Higher device costs and higher OPEX dragged on EBIT (-10%), leading to a decline in CNP (-12%).

Moving forward. Despite concerns of ARPU dilution from its entry-level postpaid offerings, the Group has stayed relatively unscathed thanks to its focus on providing converged solutions and maintaining network quality, key to keeping customers sticky. While Maxis' Enterprise segment and home fibre currently contribute 7% and 6% of revenue, respectively, the Group looks to invest RM200m of its RM1.25b capex to grow those segments, with the remaining RM1b for improving and optimizing network. While the Group has not provided any FY21 guidance, we foresee further pressures on its prepaid segment. While entry-level postpaid offerings may increase postpaid subs, dilutive ARPU presents downside risks for postpaid sales.

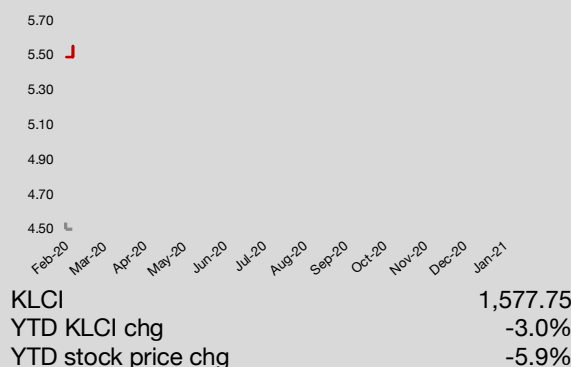
Post results, we cut FY21E CNP by 4% to RM1.5b (from RM1.56b). FY21E DPS of 18.0 sen remains unchanged. We introduce FY22E CNP of RM1.57b (+5%) and FY22E DPS of 19.0 sen, currently yielding 4%.

Maintain MARKET PERFORM and DCF-driven TP of RM4.90. We maintain our DCF assumptions (WACC: 8.8%, TG: 1.5%), closely within the stock's 3-year average of its 12.0x EV/Fwd. EBITDA. The stock's sustainable projections could be well-priced in at current price level. FY21E DPS of 18.0 sen yields 3.8%, above the industry mean of 2.4%.

MARKET PERFORM ↔

Price : **RM4.75**
Target Price : **RM4.90** ↔

Share Price Performance



Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MAXIS MK Equity
Market Cap (RM m)	37,159.4
Shares Outstanding	7,823.0
52-week range (H)	5.60
52-week range (L)	4.59
3-mth avg daily vol:	1,895,629
Free Float	12%
Beta	0.7

Major Shareholders

Binariang GSM Sdn Bhd	62.3%
Employees Provident Fund	12.0%
Skim Amanah Saham	10.1%

Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
Turnover	8,966	9,379	9,943
EBITDA	2,615	3,749	3,945
EBIT	2,257	2,373	2,506
PBT	1,852	1,994	2,088
Net Profit	1,382	1,496	1,566
Core Net Profit	1,382	1,496	1,566
Consensus (NP)	1,458	1,549	1,668
Earnings Revision	N/A	-4.3%	NEW
EBITDA margin (%)	29.2	40.0	39.7
Core EPS (sen)	17.7	19.1	20.0
Core EPS growth (%)	-7.9	8.2	4.7
NDPS (sen)	17.0	18.0	19.0
BVPS (RM)	0.9	0.9	0.9
PER (x)	26.9	24.8	23.7
PBV (x)	5.3	5.2	5.1
Net Gearing (x)	1.3	1.2	1.1
Net Div. Yield (%)	3.6	3.8	4.0

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

Result Highlight								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Turnover	2,261	2,213	2.2%	2,590	-12.7%	8,966	9,313	-3.7%
Service Revenue	1,945	1,940	0.3%	1,992	-2.4%	7,725	7,797	-0.9%
EBITDA	924	953	-3.0%	945	-2.2%	3,759	3,891	-3.4%
N. EBITDA	939	967	-2.9%	945	-0.6%	3,814	3,926	-2.9%
EBIT	532	589	-9.7%	573	-7.2%	2,257	2,479	-9.0%
PBT	431	490	-12.0%	469	-8.1%	1,852	2,027	-8.6%
Taxation	-112	-126	-11.1%	-116	-3.4%	-470	-515	-8.7%
NP	319	364	-12.4%	353	-9.6%	1,382	1,512	-8.6%
Normalised NP	319	364	-12.4%	342	-6.7%	1,378	1,493	-7.7%
EPS (sen)	4.1	4.7	-12.4%	4.4	-7.3%	17.6	19.1	-7.7%
DPS (sen)	5.0	4.0		5.0		17.0	20.0	
EBITDA margin*	47.5%	49.1%		47.4%		48.7%	49.9%	
Normalised EBITDA margin*	48.3%	49.8%		47.4%		49.4%	50.4%	
EBIT margin	23.5%	26.6%		22.1%		25.2%	26.6%	
PBT margin	19.1%	22.1%		18.1%		20.7%	21.8%	
Normalised NP margin	14.1%	16.4%		13.2%		15.4%	16.0%	
Effective tax rate	26.0%	25.7%		24.7%		25.4%	25.4%	
<i>Note:</i>								
* Computed against service revenue								
Source: Company, Kenanga Research								

Segmental Breakdown								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Total Revenue	2,261	2,213	2.2%	2,590	-12.7%	8,966	9,313	-3.7%
Service Revenue	1,945	1,940	0.3%	1,992	-2.4%	7,725	7,797	-0.9%
- Mobile Revenue	1,663	1,673	-0.6%	1,772	-6.2%	6,694	7,105	-5.8%
- Enterprise Fixed	155	147	5.4%	116	33.6%	558	327	70.6%
- Home Fibre	127	120	5.8%	104	22.1%	473	365	29.6%
Non-Service Rev	316	273	15.8%	598	-47.2%	1,241	1,516	-18.1%
- Device	298	250	19.2%	576	-48.3%	1,153	1,429	-19.3%
- Network Income	18	23	-21.7%	22	-18.2%	88	87	1.1%
Mobile Revenue Breakdown								
- Prepaid Revenue	696	717	-2.9%	783	-11.1%	2,813	3,166	-11.1%
- Postpaid Revenue	967	956	1.2%	989	-2.2%	3,881	3,939	-1.5%
Key Operating Indicators								
			Chg		Chg			
Prepaid ARPU (RM)	39	40	-1	42	-3			
Postpaid ARPU (RM)	83	84	-1	90	-7			
Blended ARPU (RM)	56	56	0	59	-3			
Prepaid Subs (k)	5,951	5,908	43	6,227	-276			
Postpaid Subs (k)	3,839	3,748	91	3,641	198			
WBB Subs (k)	126	110	16	99	27			
Total Subs (k)	9,916	9,766	150	9,967	-51			
Source: Company, Kenanga Research								

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.	1-Yr. Fwd.		
Stocks Under Coverage																	
AXIATA GROUP BHD	3.55	32,551.9	Y	12/2021	3.3%	5.3%	8.4%	9.7%	37.6	34.7	31.6	1.5	1.5	4.2%	2.3%	4.40	OP
DIGI.COM BHD	3.70	28,767.5	Y	12/2021	-1.6%	1.0%	-25.8%	3.7%	22.4	30.2	29.1	47.5	46.7	155.9%	3.3%	3.55	MP
MAXIS BHD	4.75	37,159.4	Y	12/2021	4.6%	6.0%	8.2%	4.7%	26.9	24.8	23.7	5.3	5.2	21.0%	3.8%	4.90	MP
OCK GROUP BHD	0.485	511.4	Y	12/2021	12.4%	9.4%	20.3%	12.3%	20.0	16.6	14.8	0.8	0.8	4.9%	0.0%	0.540	MP
TELEKOM MALAYSIA BHD	6.14	23,170.5	Y	12/2021	2.8%	6.7%	12.8%	2.0%	23.4	20.7	20.3	3.3	2.8	14.7%	2.7%	6.85	OP
Simple Average					4.3%	5.7%	4.8%	6.5%	26.1	25.4	23.9	11.7	11.4	40.1%	2.4%		

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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