

02 August 2021

Maxis Berhad

Lingering Worries on Differentiation

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2QFY21 CNP of RM371m brought 1HFY21 CNP to 50% of our FY21 estimate. DPS of 4.0 sen brings 1HFY21 DPS to 8.0 sen, as expected. MAXIS continues to gain postpaid subs from its converged offerings but entry plans are diluting ARPU. Home offerings are performing well amidst extended lockdowns. We think the market's lingering fears about MAXIS' lack of differentiation among consumers in the 5G space will continue to weigh on share price, especially as 5G enterprise services are unlikely to bear fruit in the near-future. We lowered FY22E revenue/CNP by 2% each on lower prepaid subs and weaker prepaid ARPU. Maintain MP on lower TP of RM4.55 (from RM4.70).

1HFY21 within. 2QFY21 core net profit of RM371m came within expectations, bringing 1HFY21 to 50%/49% of our/street's estimates. DPS of 4.0 sen brings 1HFY21 DPS to 8.0 sen, in line with our FY21E DPS of 16.0 sen.

YoY, 1HFY21 CNP rose 0.7% as revenue remained unchanged. Postpaid revenue remained stagnant as over the period, a 6% rise in subs cushioned the 5% drop in ARPU. Prepaid revenue fell 2% as a 4% drop in ARPU outweighed the 1% rise in prepaid subs. Enterprise revenue rose by 5% likely on higher enterprise spending on digital channels. Home fibre revenue rose by an impressive 23%.

QoQ, Revenue rose 2% on: (i) 3% bump in postpaid revenue, driven by 3% growth in subs and encouraging take-up of its fixed wireless product, (ii) 5% growth in home fibre revenue, and (iii) 3% increase in device revenue. Adjusted EBITDA rose 5% on: (i) non-recurring lower operation & maintenance costs, and (ii) lower provision for doubtful debt on stringent collection management, while core net profit rose by 9%.

Strong growth in Home. Maxis' fixed wireless (WBB) subs grew 21% QoQ and 70% YoY as it is proving popular among those in areas without fibre coverage. WBB ARPU continued to rise towards RM138, the price of its only WBB product. Its home fibre subs continued to grow (5% QoQ, 20% YoY) on greater fibre coverage and higher demand amidst lockdowns. Home fibre ARPU maintained an upwards trend as subs upgraded to plans with higher speeds. That said, WBB and fibre currently only make up <10% of Maxis' revenue.

Lingering fears on the lack of differentiation. As Maxis has long differentiated itself with its premium brand and superior network, we think the market is still worried about the erosion of this differentiation among consumers when all telcos share access to the same 5G network. While the telcos will rely on 5G enterprise solutions for differentiation, we don't foresee that to yield any meaningful results in the near future.

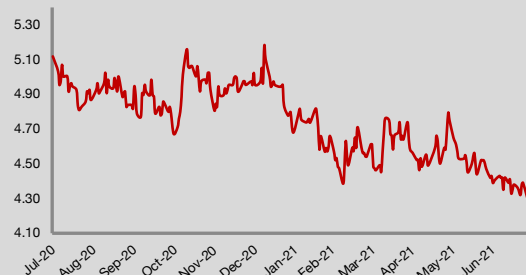
Post results, we maintain FY21E estimates, and lower FY22E revenue/CNP by 2% each as we lower our prepaid assumptions on continued competition from non-Big 3 telcos.

Maintain MARKET PERFORM on lower DCF-TP of RM4.55 (from RM4.70) as we think the aforementioned fears continue to linger. Importantly, we don't see any near-term rerating catalysts that will drive the share price. MAXIS currently trades at 11.2x EV / FY21E EBITDA vs. our DCF-TP implied 11.7x, at -2SD of its 5-year mean.

MARKET PERFORM ↔

Price: RM4.26
Target Price: RM4.55 ↓

Share Price Performance



KLCI	1,494.60
YTD KLCI chg	-8.1%
YTD stock price chg	-15.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MAXIS MK Equity
Market Cap (RM m)	33,339.9
Shares Outstanding	7,826.3
52-week range (H)	5.31
52-week range (L)	4.26
3-mth avg daily vol:	1,574,377
Free Float	13%
Beta	0.7

Major Shareholders

Binariang GSM Sdn Bhd	62.3%
Employees Provident Fund	12.0%
Amanah Saham Nasional	10.4%

Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
Revenue	8,966	9,211	9,537
EBITDA	3,732	3,776	3,910
EBIT	2,257	2,303	2,384
PBT	1,852	1,903	1,976
Net Profit	1,382	1,427	1,482
Core Net Profit	1,418	1,427	1,482
Consensus (NP)	N.M.	1,434	1,564
Earnings Revision	N.A.	0%	-2%
Core EPS (sen)	18.1	18.2	18.9
Core EPS growth (%)	-8	1	4
NDPS (sen)	17.0	16.0	18.0
BVPS (RM)	0.90	0.92	0.93
PER (x)	23.5	23.4	22.5
PBV (x)	4.7	4.6	4.6
Net Gearing (x)	1.3	1.2	1.1
Net Div. Yield (%)	4.0	3.8	4.2

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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								
	2Q	1Q	QoQ	2Q	YoY	1H	1H	YoY
FYE Dec (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Revenue	2,264	2,228	1.6%	2,151	5%	4,492	4,492	0%
EBITDA	987	948	4.1%	890	11%	1,935	1,788	8%
Adj. EBITDA	1,011	964	4.9%	953	6%	1,975	1,912	3%
EBIT	594	562	5.7%	547	9%	1,156	1,111	4%
PBT	484	453	6.8%	458	6%	937	933	0%
Taxation	-124	-119	4.2%	-115	8%	-243	-232	5%
Net Profit	360	334	7.8%	343	5%	694	701	-1%
Core Net Profit	371	340	9.1%	344	8%	711	706	0.7%
Core EPS (sen)	4.7	4.3	9.1%	4.4	8%	9.1	9.0	0.7%
DPS (sen)	4.0	4.0		4.0		8.0	8.0	
EBITDA margin	43.6%	42.5%		41.4%		43.1%	39.8%	
Adj. EBITDA margin	44.7%	43.3%		44.3%		44.0%	42.6%	
EBIT margin	26.2%	25.2%		25.4%		25.7%	24.7%	
PBT margin	21.4%	20.3%		21.3%		20.9%	20.8%	
Core NP margin	16.4%	15.3%		16.0%		15.8%	15.7%	
Effective Tax Rate	25.6%	26.3%		25.1%		25.9%	24.9%	

Source: Company, Kenanga Research

Segmental Breakdown								
	2Q	1Q	QoQ	2Q	YoY	1H	1H	YoY
FYE Dec (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Service Revenue	1,988	1,959	1%	1,928	3%	3,947	3,897	1%
Postpaid Revenue	1,002	974	3%	978	2%	1,976	1,967	0%
Prepaid Revenue	685	690	-1%	686	0%	1,375	1,400	-2%
Enterprise Revenue	135	136	-1%	128	5%	271	257	5%
Home Fibre Revenue	142	135	5.2%	113	26%	277	226	23%
Network Income	24	24	0%	23	4%	48	47	2%
Device Revenue	276	269	3%	223	24%	545	595	-8%

Source: Company, Kenanga Research

Key Operating Indicators								
	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
ARPU (RM / month)								
Postpaid	90	90	86	85	84	83	82	81
Prepaid	41	42	39	40	40	39	38	38
Blended	58	59	56	57	56	56	55	55
WBB	100	105	101	102	103	104	111	114
FTTH	107	107	108	105	102	107	108	109
Subscribers ('000)								
Postpaid	3,491	3,641	3,704	3,686	3,748	3,839	3,870	3,981
Prepaid	6,328	6,227	5,883	5,975	5,908	5,951	6,084	5,942
Mobile	9,819	9,868	9,587	9,661	9,656	9,790	9,954	9,923
WBB	106	99	94	98	110	126	138	167
FTTH	308	331	353	371	383	402	423	444

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 DivYld (%)	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.			
Stocks Under Coverage																	
AXIATA GROUP BHD	3.73	34,214.2	Y	12/2021	3.9%	4.3%	11.9%	21.5%	39.5	35.3	29.1	1.4	1.4	5.7%	2.1%	4.45	OP
DIGI.COM BHD	4.15	32,266.3	Y	12/2021	-1.6%	1.6%	-5.5%	2.1%	26.2	27.7	27.2	53.3	52.3	190.2%	3.6%	4.25	MP
MAXIS BHD	4.26	33,339.9	Y	12/2021	2.7%	3.5%	0.6%	3.9%	23.5	23.4	22.5	4.7	4.6	20.0%	3.8%	4.55	MP
OCK GROUP BHD	0.460	479.8	Y	12/2021	11.4%	8.3%	24.9%	11.7%	18.6	14.9	13.3	0.8	0.7	6.0%	0.0%	0.590	OP
TELEKOM MALAYSIA BHD	5.94	22,415.8	Y	12/2021	4.4%	5.4%	15.2%	4.4%	22.6	19.6	18.8	3.2	3.1	16.1%	2.9%	7.00	OP
Simple Average					4.2%	4.7%	9.4%	8.7%	26.1	24.2	22.2	12.7	12.4	47.6%	2.5%		

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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