

29 July 2022

Maxis Berhad

Returning to Normalcy

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1HFY22 results met expectations. Its subscribers, in both the prepaid and postpaid segments and B2B revenue remained robust while home connections continued to show positive momentum with blended ARPU looking stable. The company is upbeat on FY22, guiding for a mid-to-single digit increase in service revenue with stable EBITDA margin despite inflationary risks. We maintain our **OUTPERFORM** call and TP of RM3.90, with no adjustment based on ESG which is rated a 3-star as appraised by us.

In line. 1HFY22CNP of RM627m met expectations, at 50% and 49% of our full-year forecast and full-year consensus estimates respectively. A DPS of 5.0 sen declared brought interim DPS to 10.0 sen, on track to meet our full-year expectations of 16.0 sen.

Results highlight. 1HFY22 revenue improved 7% to RM4.8b underpinned by better performance from service revenue (+4.6%) to RM2.1b. EBITDA fell slightly (-1.6%) to RM1.9b on the back of 2ppt margin erosion to 41%. CNP declined 11% YoY to RM629m on account of the Cukai Makmur, resulting in an uptick of 7ppt to 33% in its effective tax rate.

In 1HFY22, its mobile subscribers grew marginally by 2% to 10.1m. An 8% growth in postpaid subscribers (driven by attractive bundling of mobile and home broadband), was partially offset by a 2% contraction in prepaid subscribers. In 2QFY22, there was a 2% QoQ growth in prepaid subscribers driven by the return of foreign workers as borders reopened.

In 1HFY22, home internet grew 18% YoY to 638k translating to revenue of RM409m or 20% growth YoY. ARPU remained stable at RM111. B2B revenue remained solid at 5% YoY translating to a RM774m in revenue. Attractive bundling and promotions contributed to the positive momentum in home internet while B2B momentum was driven by the reopening of the economy.

Key takeaways from the results briefing are as follows:

1. The company guided for a low-to-mid-single digit increase in service revenue (notwithstanding the commercial 5G launch) with EBITDA likely to remain flat to a low single-digit increase from FY21 level (42%), which is in line with our assumptions. MAXIS believes that it should be able to manage further cost pressures, if any, in 2H 2022.
2. MAXIS refrained from commenting with regards to Digital Nasional Bhd (DNB). We take it as negotiations (or possibly fine-tuning) with the government on pricing and annual outlay commitment are still on-going.
3. The company emphasized that its dividends pay-out are based on FCF/share. Its operating free cash flow (OFCF) remained robust at RM1.6b (+15% YoY) with the strongest interim performance in the last five years. With capex likely to be reduced in the coming years with the DNB partnership, Maxis is confident of maintaining robust dividend payouts as in previous years.
4. MAXIS are seeing traction coming from SMEs on digitalization investments. Investments on digitalization by SMEs are gaining grounds given availability of government grants.

Post results, we maintain our earnings forecasts.

Positive momentum to continue. We believe the positive momentum is expected to sustain into 2H 2022 on the continued reopening of the economy. Mobile subscription will be boosted by the return of foreign workers on reopening of borders. Given the attractive bundling of home internet and mobile services, we are positive on home internet gaining momentum further. The reopening of the economy is boosting its B2B revenue as both corporates and SMEs continue to upgrade their digitalization.

OUTPERFORM ↔

Price : RM3.62
Target Price: RM3.90 ↔

Share Price Performance



KLCI	1,486.25
YTD KLCI chg	-5.2%
YTD stock price chg	-25.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MAXIS MK Equity
Market Cap (RM m)	28,345.1
Shares Outstanding	7,830.1
52-week range (H)	4.84
52-week range (L)	3.16
3-mth avg daily vol:	2,960,838
Free Float	12%
Beta	1.0

Major Shareholders

Binariang GSM SdnBhd	62.3%
Employees Provident Fund	11.9%
Amanah Saham Nasional	10.4%

Summary Earnings Table

FYE Dec (RM m)	2021A	2022E	2023E
Revenue	9,203	9,478	9,719
EBITDA	3,824	3,981	4,179
EBIT	2,175	2,275	2,430
PBT	1,762	1,876	1,950
Net Profit	1,308	1,266	1,463
Core Net Profit	1,340	1,260	1,516
Consensus (NP)	N.M.	1,278	1,483
Earnings Revision	N.A.	0%	0%
Core EPS (sen)	17.1	16.1	19.4
Core EPS growth (%)	-6	-6	20
NDPS (sen)	17.0	16.2	18.0
BVPS (RM)	0.86	0.86	0.86
PER (x)	21.1	22.5	18.7
PBV (x)	4.2	4.2	4.2
Net Gearing (x)	1.3	1.2	1.0
Net Div. Yield (%)	4.7	4.5	5.0

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We maintain our DCF-TP of RM3.90 (WACC: 7.4%; TG: 1.0%). Our TP of RM3.90 implies an EV/EBITDA of 9x, at a discount to the sector's historical average of about 13x. With the uncertainties over the 5G already been priced in, the correction in its share price recently has resulted in attractive dividend yields (c. 5%); thus, we maintain our **OUTPERFORM call**. There is no adjustment to TP based on ESG (3-star ESG rating as appraised by us).

Risks to our call include: (i) unfavourable terms to mobile network operators with regards to the 5G rollout, and (iii) irrational competition between players.

Results Highlights

FYE Dec (RM m)	2Q22	1Q22	QoQChg	2Q21	YoY Chg	6M22	6M21	YoY Chg
Revenue	2,424.0	2,406.0	0.7%	2,274.0	6.6%	4,830.0	4,502.0	7.3%
EBITDA	1,014.0	940.0	7.9%	987.0	2.7%	1,954.0	1,935.0	1.0%
Adj. EBITDA	1,014.0	930.0	9.0%	1,011.0	0.3%	1,944.0	1,975.0	-1.6%
EBIT	599.0	523.0	14.5%	594.0	-100.0%	1,122.0	1,156.0	-2.9%
PBT	500.0	432.0	15.7%	484.0	-100.0%	932.0	937.0	-0.5%
Taxation	(171.0)	(134.0)	27.6%	(124.0)	37.9%	(305.0)	(243.0)	25.5%
Net Profit	329.0	298.0	10.4%	360.0	-8.6%	627.0	694.0	-9.7%
Core Net Profit	329.0	300.0	9.7%	371.0	-11.3%	629.0	711.0	-11.5%
Core EPS (sen)	4.2	3.8	9.7%	4.7	-11.3%	8.0	9.1	-11.5%
DPS (sen)	5.0	5.0	0.0%	4.0	25.0%	10.0	8.0	25.0%
EBITDA margin	41.8%	39.1%		43.4%		40.5%	43.0%	
Adj. EBITDA margin	41.8%	38.7%		44.5%		40.2%	43.9%	
EBIT margin	24.7%	21.7%		26.1%		23.2%	25.7%	
PBT margin	20.6%	18.0%		21.3%		19.3%	20.8%	
Core NP margin	13.6%	12.4%		15.8%		13.0%	15.4%	
Effective Tax Rate	-34.2%	-31.0%		-25.6%		-32.7%	-25.9%	

Source: Company, Kenanga Research

Segmental Breakdown

FYE Dec (RMm)	2Q22	1Q22	QoQChg	2Q21	YoY Chg	6M22	6M21	YoY Chg
Revenue	2,424.0	2,406.0	0.7%	2,027.0	19.6%	4,830.0	4,028.0	19.9%
Service Revenue	2,084.0	2,030.0	2.7%	1,751.0	19.0%	4,114.0	3,483.0	18.1%
Device Revenue	340.0	376.0	-9.6%	276.0	23.2%	716.0	545.0	31.4%

Source: Company, Kenanga Research

Key Operating Indicators

	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22
Consumer & Enterprise								
Postpaid Subs ('000)	3,022	3,044	3,870	3,981	4,054	4,182	4,213	4,279
Prepaid Subs ('000)	7,658	7,397	6,084	5,942	5,937	5,959	5,718	5,811
Total Subs	10,680	10,441	9,954	9,923	9,991	10,141	9,931	10,090
Postpaid ARPU (RM/m)	67	66	81.8	81.2	80.5	78.9	78.1	79.1
Prepaid ARPU (RM/m)	33	32	38.2	38	38.6	36.6	37.7	39.1
Blended ARPU (RM/m)	42	42	54.8	54.8	55.3	53.5	54.3	55.6

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	2.85	26,153.9	Y	12/2022	5.0%	2.5%	-3.1%	7.0%	19.7	20.4	19.0	1.5	1.4	7.2%	4.2%	3.45	OP
DIGI.COM BHD	3.60	27,990.0	Y	12/2022	1.1%	4.5%	-12.7%	27.7%	24.7	28.3	22.1	44.2	43.6	155.3%	3.5%	4.25	OP
MAXIS BHD	3.62	28,345.1	Y	12/2022	3.0%	2.5%	-6.0%	20.3%	21.1	22.5	18.7	4.2	4.2	18.9%	4.5%	3.90	OP
OCK GROUP BHD	0.365	384.9	Y	12/2022	6.8%	6.0%	36.6%	12.6%	16.6	12.1	10.8	0.6	0.5	4.6%	0.0%	0.450	OP
TELEKOM MALAYSIA BHD	5.70	21,510.1	Y	12/2022	5.3%	3.6%	-1.4%	13.8%	18.2	18.5	16.2	2.9	2.8	15.6%	3.0%	6.70	OP
Simple Average					4.2%	3.8%	2.7%	16.3%	20.1	20.3	17.4	10.7	10.5	40.3%	3.0%		

Source: Kenanga Research

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	★	
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	☆		
	Accessibility & Transparency	★	★	★	★	
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	☆			
SPECIFIC	Occupational Health & Safety	★	★	★		
	Protection of Customer Data	★	★	☆		
	Cyber Security	★	★	☆		
	Energy Efficiency	★	★	★		
	Digital Transformation	★	★	★		
OVERALL		★	★	★		

- ☆ denotes half-star
- ★ -10% discount to TP
- ★★ -5% discount to TP
- ★★★ TP unchanged
- ★★★★ +5% premium to TP
- ★★★★★ +10% premium to TP

25 February 2022

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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