

22 May 2023

# Maxis Berhad

## Outlook Not Dented by Slight 5G Hiccup

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MAXIS's 1QFY23 results met expectations. Its reported positive subscriber growth while ARPU was stable. It reiterated guidance for a flat-to-low single-digit growth for its services revenue in FY23. It does not believe it will lose out significantly for not having 5G service immediately given that the 5G service in Malaysia is still at its early infancy stage. We fine-tune up our FY23F earnings by 4%, raise our TP by 5% to RM5.30 (from RM5.03) and reiterate our OUTPERFORM call.

1QFY23 core net profit met expectations at 25% and 23% of our full-year forecast and the full-year consensus estimate, respectively. It declared a dividend per share of 4.0 sen, which is on track to meet our full-year forecast of 16.0 sen.

**Results' highlights.** YoY, 1QFY22 revenue improved by 5% driven largely by service revenue (+6%), with revenue from devices rising 10%. However, net profit grew by a stronger 7% in the absence of *Cukai Makmur*.

**YoY,** its mobile subscriber growth was resilient at 3% driven largely by an 8% growth in post-paid subscribers on positive response to its device bundled plans, converged propositions for homes and entry level plans. Both its pre-paid and post-paid ARPUs remained stable.

Its home internet revenue grew 11% underpinned by a 12% growth in subscribers but at a stable ARPU of RM108. Its B2B revenue saw a 5% uptick driven by high-margin products & services.

**QoQ,** 1QFY23 revenue eased 1% due to a seasonally lower revenue from devices. However, EBIT improved 4% on lower marketing cost (vs. higher spending on year-end promotions in the preceding quarter). Its core net profit surged 33% in the absence of *Cukai Makmur*.

Its pre-paid subscribers contracted by 2% following the scheduled clean-up of inactive SIM cards.

The key takeaways from its results' briefing are as follows:

1. MAXIS reiterated its guidance for a flat-to-low single-digit growth for its service revenue in FY23, with EBITDA and capex at levels similar to those of FY22 (excluding impact from the roll-out of the 5G service), i.e. RM4b and RM1.5b, respectively.
2. Pending the roll-out of the second 5G network, MAXIS will lease its 5G network from Digital Nasional Bhd (DNB), the owner of the first 5G network in Malaysia. We understand that the negotiation on the leasing of the 5G network is still on-going at present and MAXIS has yet to decide on the launch date of its 5G service. Meantime, negotiations are also underway between all mobile network operators (MNOs) on the formation of Entity A (the consortium that will own and operate the first 5G network and Entity B (the entity that will own and operate the second 5G network).
3. Maxis does not believe it will lose out significantly for not having 5G service immediately given: (i) that the 5G service in Malaysia is still at its infancy in Malaysia at present, and (ii) the strong brand loyalty among its premium customers.
4. Its B2B segment is now a bread-and-butter business. It is still reviewing this product portfolio with the emphasis on products that fetch higher demand and better margins.

# OUTPERFORM ↔

Price : RM4.35  
Target Price: RM5.30 ↑

### Share Price Performance



KLCI 1,428.54  
YTD KLCI chg -4.5%  
YTD stock price chg 13.3%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MAXIS MK Equity
Market Cap (RM m)	34,061.1
Shares Outstanding	7,830.1
52-week range (H)	4.59
52-week range (L)	3.16
3-mth avg daily vol:	1,719,207
Free Float	12%
Beta	1.2

### Major Shareholders

Binariang GSM SdnBhd	62.3%
Employees Provident Fund	11.7%
Amanah Saham Nasional	10.4%

### Summary Earnings Table

FYE Dec (RM m)	2022A	2023F	2024F
Revenue	9,789	9,719	10,110
EBITDA	4,066	4,035	4,059
EBIT	2,345	2,286	2,239
PBT	1,908	1,728	1,741
Net Profit	1,181	1,296	1,306
<b>Core Net Profit</b>	<b>1,182</b>	<b>1,349</b>	<b>1,306</b>
Consensus (NP)	1,285	1,370	1,424
Earnings Revision	-	4%	0%
Core EPS (sen)	15.1	17.2	16.7
Core EPS growth (%)	-10.0	14.0	-3.0
NDPS (sen)	20.0	16.0	18.0
BVPS (RM)	0.81	0.81	0.80
PER (x)	28.8	25.2	26.1
PBV (x)	5.3	5.3	5.4
Net Gearing (x)	1.4	1.3	1.2
Net Div. Yield (%)	4.6	3.7	4.1

**Forecasts.** We fine-tune up our FY23F earnings by 4% on account of lower leasing cost.

We raise our TP by 5% to RM5.30 (from RM5.03) as we roll forward our valuation base year to FY24F (from FY23F). Our valuation basis is unchanged at 12x EV/EBITDA, which is still at a discount to the sector's historical average of 13x to reflect the risk of the government back pedalling on the dual wholesale network model for the 5G rollout. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

**Positive momentum to continue.** We believe MAXIS's positive earnings momentum will sustain into FY23 underpinned by: (i) its expanded 4G coverage, (ii) its 5G rollout, and (iii) the full-year impact of the reopening of the economy, and iv) brand loyalty from its premium customers. Given the attractive bundling of home internet and mobile services, we are positive on its home internet gaining momentum further. With the risks of higher inflation abating coupled with business activities moving again, B2B revenue will continue to be resilient as both corporates and SMEs continue to upgrade their digitalization. Its margins are likely to improve on account of higher-end products and services being offered. Maintain **OUTPERFORM**.

**Risks to our call include:** (i) the government back pedalling on the dual wholesale network for the 5G rollout, (ii) lower B2B spending on a sharp slowdown in the economy, (iii) a prolonged gestation period for 5G services, and (iv) irrational competition between players.

**Results Highlights**

FYE Dec (RM m)	1Q23	4Q22	QoQ Chg	1Q22	YoY Chg	3M23	3M22	YoY Chg
Revenue	2,526.0	2,554.0	-1.1%	2,406.0	5.0%	2,526.0	2,406.0	5.0%
EBITDA	972.0	985.0	-1.3%	940.0	3.4%	972.0	940.0	3.4%
EBIT	541.0	520.0	4.0%	523.0	-100.0%	541.0	523.0	3.0%
PBT	429.0	409.0	4.9%	432.0	-100.0%	429.0	432.0	-0.7%
Taxation	(109.0)	(170.0)	-35.9%	(134.0)	-18.7%	(109.0)	(134.0)	-18.7%
Net Profit	320.0	240.0	33.3%	298.0	7.4%	320.0	298.0	7.4%
<b>Core Net Profit</b>	<b>320.0</b>	<b>240.0</b>	<b>33.3%</b>	<b>300.0</b>	<b>6.7%</b>	<b>320.0</b>	<b>300.0</b>	<b>6.7%</b>
Core EPS (sen)	4.1	3.1	33.3%	3.8	6.7%	4.1	3.8	6.7%
DPS (sen)	4.0	5.0	-20.0%	5.0	-20.0%	4.0	5.0	-20.0%
EBITDA margin	38.5%	38.6%		39.1%		38.5%	39.1%	38.5%
EBIT margin	21.4%	20.4%		21.7%		21.4%	21.7%	21.4%
PBT margin	17.0%	16.0%		18.0%		17.0%	18.0%	17.0%
Core NP margin	12.7%	9.4%		12.4%		12.7%	12.4%	12.7%
Effective Tax Rate	-25.4%	-41.6%		-31.0%		-25.4%	-31.0%	-25.4%

Source: Company, Kenanga Research

**Segmental Breakdown**

FYE Dec (RMm)	1Q23	4Q22	QoQ Chg	1Q22	YoY Chg	3M23	3M22	YoY Chg
Revenue	2,526.0	2,554.0	-1.1%	2,364.0	6.9%	2,526.0	2,364.0	6.9%
Service Revenue	2,112.0	2,114.0	-0.1%	1,988.0	6.2%	2,112.0	1,988.0	6.2%
Device Revenue	414.0	440.0	-5.9%	376.0	10.1%	414.0	376.0	10.1%

Source: Company, Kenanga Research

22 May 2023

<b>Key Operating Indicators</b>								
	<b>2Q21</b>	<b>3Q21</b>	<b>4Q21</b>	<b>1Q22</b>	<b>2Q22</b>	<b>3Q22</b>	<b>4Q22</b>	<b>1Q23</b>
<b>Consumer</b>								
Postpaid Subs ('000)	3,019	3,074	3,139	3,189	3,245	3,271	3,343	3,397
Prepaid Subs ('000)	5,942	5,937	5,959	5,718	5,811	5,828	5,785	5,686
Fibre	437	463	486	512	536	555	577	601
WBB	103	106	105	103	102	97	92	87
<b>Total Subs</b>	<b>9,501</b>	<b>9,580</b>	<b>9,689</b>	<b>9,522</b>	<b>9,694</b>	<b>9,751</b>	<b>9,797</b>	<b>9,771</b>
<b>Consumer &amp; Enterprise</b>								
Postpaid Subs ('000)	4,133	4,107	4,259	4,324	4,398	4,478	4,591	4,663
Prepaid Subs ('000)	7,360	7,334	7,359	7,092	7,149	7,188	7,147	7,126
	178	210	225	224	220	211	141	141
<b>Total Subs</b>	<b>11,671</b>	<b>11,651</b>	<b>11,843</b>	<b>11,640</b>	<b>11,767</b>	<b>11,877</b>	<b>11,879</b>	<b>11,920</b>
Postpaid ARPU (RM)	81	81	79	78	79	79	79	78
Prepaid ARPU (RM)	38	39	37	38	39	39	39	38
Consumer Fibre & WBB (RM)	111	111	113	111	111	110	110	108
Blended ARPU (RM) - Consumer & Enterprise	55	55	54	54	56	56	56	56

Source: Company, Kenanga Research

Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net. Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
<b>STOCKS UNDER COVERAGE</b>																	
AXIATA GROUP BHD	OP	3.00	4.27	42.33%	27,536.9	Y	12/2023	13.2	15.6	-23.7%	18.5%	22.7	19.2	1.5	6.6%	12.0	4.0%
CELCOMDIGI BHD	OP	4.42	5.15	16.52%	51,853.3	Y	12/2023	18.4	19.4	79.3%	5.8%	24.0	22.7	3.1	13.1%	15.6	3.5%
MAXIS BHD	OP	4.35	5.30	21.84%	34,061.1	Y	12/2023	17.2	16.7	14.1%	-3.2%	25.2	26.1	5.3	20.3%	16.0	3.7%
OCC GROUP BHD	OP	0.390	0.690	76.92%	411.3	Y	12/2023	3.6	5.4	13.6%	49.3%	10.7	7.2	0.5	6.3%	0.5	1.3%
TELEKOM MALAYSIA BHD	OP	5.02	7.69	53.19%	19,186.3	Y	12/2023	30.5	29.4	0.6%	-3.6%	16.5	17.1	2.3	13.7%	17.0	3.4%
<b>SECTOR AGGREGATE</b>					<b>133,048.9</b>					<b>14.7%</b>	<b>4.8%</b>	<b>22.5</b>	<b>21.5</b>	<b>2.6</b>	<b>12.0%</b>		<b>3.2%</b>

Source: Bloomberg, Kenanga Research

Stock ESG Ratings:

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

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

22 May 2023

**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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