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Maxis Berhad

Laudable Despite Lumpy Staff Cost

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MAXIS's 9MFY23 results met our expectations but trailed consensus. Healthy service revenue's growth more than offset drag from staff compensation under its new cost optimization exercises. Sustained traction in MAXIS' convergence and up-selling strategy led to strong subscriber net adds in the postpaid and home connectivity segments. We maintain our forecasts, TP of RM5.30 and OUTPERFORM call.

MAXIS's 9MFY23 core net profit met our expectations at 71% of our full-year forecast but disappointed the market at 69% of the full-year consensus estimate. It declared DPS of 4 sen in 3QFY23, which brings cumulative 9MFY23 DPS to 12 sen, on track to meet our full-year forecast of 17 sen.

Sustained service revenue traction. YTD topline growth (+3%) was mainly driven by higher service revenue at the postpaid, enterprise and fiber segments. Coupled with the absence of Cukai Makmur, this enabled YTD earnings to expand by 0.5%. However, growth was relatively muted due to: (i) lumpy staff costs recognized in 3QFY23, (ii) higher amortization expense for software and spectrum (awarded: 2022), and (iii) increased interest costs following recent rate hikes.

Cost drag from staff compensation. EBITDA margin compression was mainly attributed to: (i) lumpy staff compensation in 3QFY23 as the group undertakes a 3-year program to right-size its workforce, and (ii) reduced government grants due to less fulfilment of Universal Service Provision projects.

Spike in enterprise service revenues. Segmental enterprise revenue spiked by 12% QoQ despite the discontinuation of wholesale voice services. The growth was mainly driven by maiden 1-month contribution from provision of wholesale 4G MOCN, 4G and 2G domestic roaming services to TM. In addition, notable commercial deals secured in 3QFY23 (e.g. dedicated internet bandwidth capacity for a local bank and data centers) also provided a boost.

Net subscriber expansion in high margin segments. There was sustained traction in MAXIS's strategy to upsell its products and offer fixed-mobile convergence. This led to YoY total subscriber base expansion as net adds for postpaid and home connectivity surpassed net churn for prepaid and WBB (wireless broadband).

Stable prepaid ARPU from active management. Sequentially, prepaid ARPU remained resilient in spite of the introduction of affordable MADANI prepaid packages. This was attributed to effective ARPU management via personalised promotions on Hotlink MU app. Meanwhile, Home Connectivity ARPU inched up whilst postpaid ARPU were weaker. We believe the latter was due to drag from new users on the affordable entry level Hotlink Postpaid plans.

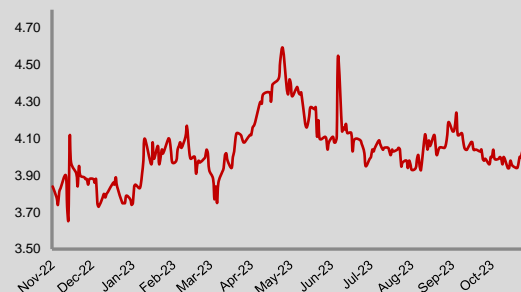
Key takeaways from MAXIS' results' briefing are as follows:

1. MAXIS maintained its FY23 guidance of low single-digit service revenue growth (YTD: +4.2%) and flat EBITDA (YTD: -1.6%). However, the group lowered its capex (YTD: RM511m) guidance to slightly less than RM1b (from RM1.1b). This is on the back of: (i) stabilized network requirements post-completion of the 3G sunset exercise in early CY22, and (ii) MAXIS opting to be conservative in light of upcoming regulatory changes in the 5G space.

OUTPERFORM ↔

Price : RM4.03
Target Price : RM5.30 ↔

Share Price Performance



KLCI	1,445.18
YTD KLCI chg	-3.4%
YTD stock price chg	4.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MAXIS MK EQUITY
Market Cap (RM m)	31,563.3
Shares Outstanding	7,832.1
52-week range (H)	4.59
52-week range (L)	3.65
3-mth avg daily vol:	2,909,156
Free Float	13%
Beta	1.2

Major Shareholders

Binariang GSM Sdn Bhd	62.2%
Employees Provident Fund	11.1%
Amanah Saham Nasional	10.3%

Summary Earnings Table

FYE Dec (RM m)	2022A	2023F	2024F
Revenue	9,789	10,114	10,473
EBITDA	3,943	4,157	4,260
EBIT	2,222	2,283	2,319
PBT	1,811	1,772	1,814
Net Profit (NP)	1,181	1,329	1,306
Core Net Profit	1,185	1,329	1,306
Consensus NP	-	1,360	1,411
Earnings Revision	-	-	-
EBITDA margin	40.3	41.1	40.7
Core EPS (sen)	15.2	17.0	16.7
Core EPS growth	-11.5	12.2	-1.7
DPS (sen)	20.0	17.0	16.7
BVPS (RM)	0.81	0.81	0.81
Core PER (x)	27.4	24.4	24.8
PBV (x)	5.1	5.1	5.1
Net Gearing (x)	1.5	1.4	1.4
Div. Yield (%)	4.8	4.1	4.0

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2. MAXIS targets to trim its manpower resources by 10% under its newly introduced cost optimization exercise. In particular, 50% of total workforce that were released in 3QFY23 comprised of staff at the enterprise segment. Moving forward, over the next two years, lumpy staff compensation will likely recur on annual basis. Nevertheless, MAXIS does not expect to incur this cost for the remainder of the year in 4QFY23.
3. Moving forward, after low hanging cost fruits (e.g. staff right-sizing) are harvested, MAXIS plans to adopt increased automation and digitalization to achieve further cost savings.
4. Since executing the access agreement with DNB (Digital Nasional Berhad) in August, MAXIS has recognized marginal (less than RM10m) operating expenses from procurement of wholesale 5G capacity. Meanwhile, MAXIS is reviewing a fresh invoice it had recently received from DNB.

Forecasts. Maintained.

We also maintain our TP of RM5.30 which is based on 12xFY24 EV/EBITDA. It implies a discount to the sector's historical average of 13x to reflect regulatory uncertainty surrounding the implementation of the new Dual Wholesale Network (DWN) model. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

We continue to like MAXIS due to: (i) its sustained subscriber net adds in the high margin postpaid segment on the back of up-selling and its convergence strategy, (ii) its 3-year cost optimization exercise that may potentially uplift margins, and (iii) expectation of a ramp-up in 5G monetization as enterprise customers intensify digitalization measures. Maintain **OUTPERFORM**.

Risks to our call include: (i) unfavourable outcome from implementation of DWN, (ii) loss of competitive edge due to excessive cut in resources from cost optimization, and (iii) enterprise customers are slow to upgrade to 5G due to hefty technology investments.

Results Highlights								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YTD
FYE Dec (RM m)	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
Revenue	2,442.0	2,470.0	-1.1%	2,405.0	1.5%	7,438.0	7,235.0	2.8%
EBITDA	921.0	1,004.0	-8.3%	1,004.0	-8.3%	2,903.0	2,950.0	-1.6%
Depreciation	(432.0)	(434.0)	-0.5%	(430.0)	0.5%	(1,297.0)	(1,252.0)	3.6%
Net Finance Costs	(108.0)	(115.0)	-6.1%	(106.0)	1.9%	(335.0)	(296.0)	13.2%
EI	3.0	(2.0)	-250.0%	0.0	nm	(5.0)	(2.0)	150.0%
PBT	384.0	453.0	-15.2%	468.0	-17.9%	1,266.0	1,400.0	-9.6%
Taxation	(97.0)	(124.0)	-21.8%	(160.0)	-39.4%	(330.0)	(465.0)	-29.0%
Minority Interest	0.0	1.0	-100.0%	0.0	nm	1.0	0.0	nm
Reported Net Profit	287.0	330.0	-13.0%	308.0	-6.8%	937.0	935.0	0.2%
Core Net Profit	284.0	332.0	-14.5%	308.0	-7.8%	942.0	937.0	0.5%
Core EPS (sen)	3.7	4.2	-13.4%	3.9	-6.1%	12.1	11.9	1.2%
DPS (sen)	4.0	0.0	nm	5.0	-20.0%	12.0	15.0	-20.0%
EBITDA margin	37.7%	40.6%		41.7%		39.0%	40.8%	
PBT Margin	15.7%	18.3%		19.5%		17.0%	19.4%	
Core Net margin	11.6%	13.4%		12.8%		12.7%	13.0%	
Effective Tax Rate	-25.3%	-27.4%		-34.2%		-26.1%	-33.2%	

Segmental Highlights								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
Service Revenue	2,145.0	2,113.0	1.5%	2,078.0	3.2%	6,370.0	6,114.0	104.2%
- Consumer								
> Postpaid	882	871	1.3%	830	6.3%	2,617	2,425	107.9%
> Prepaid	652	651	0.2%	676	-3.6%	1,964	2,012	97.6%
> Fiber	203	201	1.0%	180	12.8%	596	516	115.5%
> WBB	28	28	0.0%	35	-20.0%	86	108	79.6%
- Enterprise								
> Mobile	200	201	-0.5%	199	0.5%	601	569	105.6%
> Fixed & Solutions	180	161	11.8%	158	13.9%	506	484	104.5%
> Wholesale Voice	0	0	nm	30	nm	0	108	nm
- Device	297	357	-16.8%	297	0.0%	1,068	1,013	105.4%
Total Revenue	2,442	2,470	-1.1%	2,405	1.5%	7,438	7,235	102.8%

Operational Metrics					
	3Q	2Q	QoQ	3Q	YoY
Subscribers ('000)	FY23	FY23	Net Adds	FY22	Net Adds
- Postpaid	3,533	3,449	84	3,271	262
- Prepaid	5,682	5,684	(2)	5,828	(146)
- Consumer Fiber	645	622	23	555	90
- Consumer WBB	85	84	1	97	(12)

ARPU (RM)					
	3Q	2Q	QoQ	3Q	YoY
- Postpaid	77	77.9	(1.1)	79.1	(2)
- Prepaid	38	38.2	(0.1)	38.6	(1)
- Home Connectivity	110	108	1.3	110	(0.4)

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.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.
STOCKS UNDER COVERAGE																					
AXIATA GROUP BHD	OP	2.40	3.45	43.8%	22,029.8	Y	12/2023	(2.5)	7.3	-121.2%	187.1%	N.A.	32.8	1.2	-3.1%	9.5	4.0%				
CELCOMDIGI BHD	OP	4.25	5.07	19.3%	49,858.9	Y	12/2023	10.5	11.4	-34.5%	8.9%	40.5	37.2	3.2	8.1%	15.7	3.7%				
MAXIS BHD	OP	4.03	5.13	27.3%	31,563.3	Y	12/2023	17.0	16.7	11.0%	-1.6%	23.7	24.1	5.2	21.4%	21.0	5.2%				
OCK GROUP BHD	OP	0.400	0.730	82.5%	421.9	Y	12/2023	3.3	5.0	3.3%	50.1%	12.1	8.0	0.7	5.8%	0.0	0.0%				
TELEKOM MALAYSIA BHD	OP	5.22	6.57	25.9%	20,027.0	Y	12/2023	43.3	41.3	30.6%	-4.7%	12.1	12.7	2.2	19.7%	24.0	4.6%				
SECTOR AGGREGATE					123,900.9					-26.9%	23.4%	31.0	25.1	2.5	10.4%		3.5%				

Source: Bloomberg, 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

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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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