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Maxis Berhad

Enterprise the Dark Horse

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MAXIS is redefining its strategy for the enterprise business by pivoting to SMEs. This is mainly due to shorter turnaround time for deal origination and execution. Hence, MAXIS is able to scale up faster to establish a stable base of recurring enterprise earnings. We maintain our forecasts, TP of RM5.30 and OUTPERFORM call.

Redefined enterprise strategy. We understand that MAXIS is redefining its strategy for the enterprise business. In the near to medium-term, it will focus on offering managed solutions for SMEs (Small and Medium Enterprises) looking to outsource management of their IT systems and infrastructure. This includes, amongst others, the provision of cloud services (e.g. Amazon Web Services), bundled office productivity suites (e.g. Microsoft 365) and cybersecurity products.

Pivot to SMEs. In tandem with its renewed focus, MAXIS recently inked a memorandum of understanding with PBBANK to promote digital adoption among Malaysian SMEs. As the official telco and digital partner for PBBANK's PB enterprise Digital SME Assist Programme, the bank's SME customers may access various MAXIS services (eg. internet, payments, e-commerce, cloud and cybersecurity). In addition, MAXIS will also assist the customers to apply for Geran Digital PMKS Madani grant and explore additional financial solutions from PBBANK.

SME accounts will anchor earnings. The decision to pivot into SMEs is mainly due to shorter turnaround times for deal origination and execution. Therefore, new SME accounts will enable MAXIS to scale up faster to establish a stable base of recurring income. In contrast, deals with large enterprises require an extended gestation period (typically 12 months) due to lengthy processes for approvals, customization, systems migration (if there are existing providers), and implementation etc.

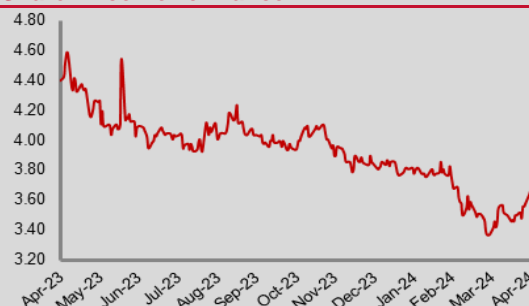
Large enterprise contracts will be a bonus. Nevertheless, MAXIS will concurrently pursue contracts from government agencies, large corporates and industries. In particular, key industry sectors identified by MAXIS as potential clients include financial services, plantations and logistics. Hence, the group will not miss out on chunky contracts from large enterprises that will provide the occasional boost to earnings.

Enterprise could drive growth. On the back of this refreshed strategy, MAXIS is optimistic of improved earnings from the enterprise segment. Furthermore, this is reinforced by recent initiatives to improve operations (e.g. streamlined processes and staff optimization). To recap, in FY23, segmental revenue for enterprise fixed & solutions jumped by 10% YoY. Whilst it is still early days for this strategy, we believe that MAXIS' FY24 earnings growth will be driven by: (i) cost savings from MAXIS' staff optimization exercise in 3QFY24 (RM50m), (ii) full year contribution from provision of 4G MOCN (multi-operator core network) and 2G domestic roaming services to TM (RM128m), and (iii) service revenue growth of 8% YoY.

OUTPERFORM ↔

Price : **RM3.67**
Target Price: **RM5.30** ↔

Share Price Performance



KLCI 1,575.97
YTD KLCI chg 8.3%
YTD stock price chg -4.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MAXIS MK Equity
Market Cap (RM m)	28,743.7
Shares Outstanding	7,832.1
52-week range (H)	4.59
52-week range (L)	3.35
3-mth avg. daily vol.	2,274,054
Free Float	12%
Beta	1.2

Major Shareholders

Binariang GSM Sdn Bhd	62.2%
Employees Provident Fund	11.2%
Amanah Saham Nasional	10.3%

Summary Earnings Table

FYE Dec (RM m)	2023A	2024F	2025F
Revenue	10,180	10,661	11,443
EBITDA	4,027	4,297	4,487
EBIT	2,124	2,315	2,317
PBT	1,444	1,810	1,862
Net Profit (NP)	992	1,303	1,396
Core Net Profit	1,227	1,303	1,396
Consensus NP	-	1342	1415
Earnings Revision	-	-	-
EBITDA Margin	39.6	40.3	39.2
Core EPS (sen)	15.7	16.7	17.9
Core EPS Growth	3.6	6.2	7.2
DPS (sen)	16.0	17.0	22.0
BVPS (RM)	0.7	0.7	0.7
Core PER (x)	24.3	22.9	21.3
PBV (x)	5.2	5.2	5.5
Net Gearing (x)	1.6	1.4	1.3
Div. Yield (%)	4.2	4.5	5.8



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Expect robust FY24 despite 5G fees. The above is expected to more than offset a slight drag from full-year 5G access fees to Digital Nasional Berhad (DNB). Recall that based on MAXIS' access agreement with DNB, it is required to purchase a minimum capacity of 1,000 Gbps after the network reaches 80% population coverage. At the base rate of RM30,000 per Gbps/month, this implies up to RM360m p.a. in total access payments. Following the commencement of this agreement in 3QFY23, we estimate that actual billings from DNB amounted to less than RM50m in 2HFY23. Moving forward for FY24, we postulate that the fees could be slightly higher at circa RM150m-RM170m. This is underpinned by our assumption that actual capacity offtake would be higher YoY but lower than 1,000 Gbps as widely expected.

Forecasts. Maintained.

Valuations. We also maintain our TP of RM5.30 which is based on unchanged 12x FY24 EV/EBITDA. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 3).

Investment case. We continue to like MAXIS due to: (i) its sustained subscriber momentum in the postpaid and fixed broadband segments on the back of its convergence proposition, (ii) its ongoing 3-year cost optimization exercise that may potentially uplift margins, and (iii) expectation of a ramp-up in 5G monetization as enterprise clients intensify digitalization measures. Maintain **OUTPERFORM**.

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

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.	1-Yr. Fwd.	1-Yr. Fwd.		
STOCKS UNDER COVERAGE																					
AXIATA GROUP BHD	OP	2.83	3.05	7.8%	25,984.8	Y	12/2024	7.2	7.2	21.2%	0.6%	39.5	39.3	1.4	3.0%	10.0	3.5%				
CELCOMDIGI BHD	OP	4.15	5.83	40.5%	48,685.8	Y	12/2024	17.2	18.9	6.1%	10.1%	24.1	21.9	2.9	12.3%	13.8	3.3%				
MAXIS BHD	OP	3.67	5.30	44.4%	28,743.7	Y	12/2024	16.7	17.9	6.2%	7.2%	22.0	20.5	5.0	22.7%	20.0	5.4%				
OCC GROUP BHD	OP	0.590	0.795	34.7%	624.1	Y	12/2024	5.1	5.2	26.8%	3.1%	11.7	11.3	0.9	8.0%	1.5	2.5%				
TELEKOM MALAYSIA BHD	OP	6.19	7.22	16.6%	23,754.9	Y	12/2024	45.5	46.1	-13.4%	1.4%	13.6	13.4	2.3	17.9%	23.0	3.7%				
SECTOR AGGREGATE					127,793.3					0.9%	5.7%	22.2	21.0	2.5	12.8%		3.7%				

Source: Bloomberg, Kenanga Research

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	★	
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★	★	
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★		
SPECIFIC	Cybersecurity & Data Privacy	★	★	★		
	Network Quality & Coverage	★	★	★		
	Digitalisation & Innovation	★	★	★		
	Supply Chain Management	★	★	★		
	Talent Management	★	★	★		
	Customer Satisfaction	★	★	★		
OVERALL		★	★	★		

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

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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