

Maxis Berhad

(6012 | MAXIS MK) Telecommunications & Media | Telecommunications service providers

Maintain SELL

Surge in provision for bad and doubtful debt

Unchanged Target Price: RM4.45

KEY INVESTMENT HIGHLIGHTS

- **2Q20 normalised earnings of RM338m (-13.6%yoy), mainly impacted by higher provision for bad and doubtful debt**
- **Continuous contraction in quarterly earnings led to lower 1H20 normalised earnings of RM698m (-12.2%yoy)**
- **Uncertainties brought about by the Covid-19 pandemic led to heightened focus to strengthen the cash balance**
- **Dividend payment expected to trend lower in the near term as part of its cash preservation strategy**
- **Maintain SELL with an unchanged TP of RM4.45**

2Q20 earnings pulled down by higher provision in doubtful debt. Maxis' 2Q20 normalised earnings came in at RM338m, a decline of -13.6%yoy. This was mainly attributable to higher provision for bad and doubtful debt which was led by the Covid-19 pandemic. As a result, 2Q20 profit margin contracted to 15.7% (vs 2Q19: 17.7%). This in-turn has led to lower 1H20 profit of RM698m (-12.2%yoy) which was slightly below our expectation, accounting for 44.4% of full year FY20 earnings estimates.

Postpaid ARPU remains under pressure. The postpaid revenue for 2Q20 remains under the one billion mark at RM974m (+0.2%yoy). While the postpaid subscriber base has expanded by +9.7%yoy to 3.4m, the ARPU has reduced to RM85/mth (vs 2Q19: RM91/mth). The latter was caused by reduced international outbound roaming and dilution from entry point Hotlink Postpaid. Moving forward, we expect the dilution in ARPU to persist in anticipation of higher proportion of entry point Hotlink Postpaid subscriber.

Slow rebound in prepaid subscriber base. 2Q20 prepaid revenue contracted by -13.3%yoy to RM686m. While we acknowledge the subscriber base has expanded marginally by +1.6%yoy to six million users, it still fell behind 2Q19 subscriber base of 6.4m. Given the intense competition for the prepaid segment, we expect the subscriber base would remain lower as compared to the previous year.

Defending its network supremacy. 2Q20 capex declined by -3.0%yoy to RM259m. The group is phasing its capital spending subsequent to the higher capex seen in 1Q20 (+28.3%yoy). Nonetheless, 1H20 capex increased by +7.1%yoy to RM422m, as the group frontload its capex mainly to cater for the higher data usage during MCO. Coupled with its commitment to protect its network supremacy, FY20 is anticipated to come in at least similar that of FY19.

Impact on earnings. We are revising FY20 earnings estimates lower by -6.7% to RM1,466m to take into account the higher provision for bad and doubtful debt. Nonetheless, we expect the provision to normalised from FY21 onwards. Hence, we are keeping our FY21 and FY22 earnings estimates unchanged at this juncture.

RETURN STATISTICS

Price @ 23 rd July 2020 (RM)	5.29
Expected share price return (%)	-15.9
Expected dividend yield (%)	+3.4
Expected total return (%)	-12.5

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-0.8	-7.2
3 months	-1.5	-15.0
12 months	-5.7	-3.0


KEY STATISTICS

FBM KLCI	1,606.42
Syariah compliant	Yes
Issue shares (m)	7,820.00
Estimated free float (%)	20.43
Market Capitalisation (RM'm)	41,383.87
52-wk price range (RM)	4.59 – 5.72
Beta vs FBM KLCI (x)	0.72
Monthly velocity (%)	11.02
Monthly volatility (%)	12.38
3-mth average daily volume (m)	2.33
3-mth average daily value (RM'm)	12.55
Top Shareholders (%)	
Binarig GSM Sdn Bhd	62.32
Employees Provident Fund	11.61
Skim Amanah Saham Bumiputera	9.35

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Dividend. Maxis declared 2Q20 dividend of 4sen, in-tandem with 1Q20's quantum. This brings its 1H20 dividend to 8sen versus 1H19 of 10sen. We view that the lower dividend declared was mainly in view of the weaker earnings performance as well as heightened effort to improve cash reserve. The latter can be seen in the higher 1H20 deposits, cash and bank balances of RM693m (+15.5%yoy).

Target price. We are maintaining our target price of **RM4.45**. This is based on pegging unchanged forward PER of 21x to FY21F EPS of 21.2sen. Our target PER is the group's two years historical low PER.

Maintain SELL. The absence of income following the termination of wholesale agreement has impacted the group's profitability. This was further made worst with the group's stringent policy for the provisioning of bad and doubtful debt which was resulting from the Covid-19 pandemic. We expect the provision would only normalise from FY21 onwards. In addition, we expect the staff cost will continue to increase in-line with the group's focus to aggressively grow its enterprise business. As a result, we expect the group's profit margin to remain under pressure. While the fibre business has shown significant progress, we are view of that the contribution to the group is still minute at this juncture. On a separate note, the group's is putting more effort to preserve and grow its cash reserve. This will inevitable affect their dividend payment and thus the dividend yield. All factors considered, we are maintaining our **SELL** recommendation at this juncture. 

INVESTMENT STATISTICS

Financial year ending 31 st December (in RM'm, unless otherwise stated)	FY18	FY19	FY20E	FY21F	FY22F
Revenue	9,192	9,313	9,479	9,683	9,858
Normalised EBITDA	3,843	3,768	3,831	4,111	4,215
EBITDA	3,799	3,733	3,831	4,111	4,215
Operating Profit	2,713	2,435	2,467	2,707	2,769
PBT	2,877	2,369	1,968	2,205	2,265
Net Profit	1,780	1,519	1,466	1,654	1,703
Normalised net profit after MI	1,767	1,500	1,466	1,654	1,703
Normalised EPS (sen)	22.6	19.2	18.8	21.2	21.8
EPS Growth (%)	-16.4	-15.1	-2.2	12.8	3.0
PER (x)	23.4	27.6	28.2	25.0	24.3
Net dividend (sen)	20	20	16	18	20
Net dividend yield (%)	3.8	3.8	3.0	3.4	3.8

Source: Company, MIDFR

MAXIS BHD: 2QFY20 RESULTS SUMMARY

Financial year ending 31 st December (in RM'm, unless otherwise stated)	Quarterly			Cumulative		
	2Q20	% YoY	% QoQ	2019	2018	% Ytd
Revenue	2,151	-2.5	-8.1	4,492	4,438	1.2
Normalised EBITDA	903	-4.6	-1.8	1,823	1,900	-4.1
EBITDA	896	-4.7	-0.7	1,986	2,026	-2.0
Depreciation and amortisation	-343	16.3	2.7	-677	-591	14.6
Others	-6	n.m.	n.m.	-198	-153	n.m.
EBIT	547	-14.4	-3.0	1,111	1,282	-13.3
Finance cost	-112	-2.6	0.0	-224	-229	-2.2
Finance income	23	53.3	0.0	46	30	53.3
PBT	458	-15.0	-3.6	933	1,083	-13.9
Income tax	-115	-19.0	-1.7	-232	-277	-16.2
PAT	343	-13.6	-4.2	701	806	-13.0
Normalised PAT	338	-13.6	-6.1	698	795	-12.2
Normalised EPS (sen)	4.3	-13.5	-6.1	9	10	-12
		+/- ppts	+/- ppts			+/- ppts
Normalised EBITDA margin (%)	42.0	-0.9	2.7	40.6	42.8	-2.2
Normalised PAT margin (%)	16	-2.0	0.3	15.5	17.9	-2.4
Effective tax rate (%)	25.1	-1.2	0.5	24.9	25.6	-0.7

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.