Maxis Berhad

***Maintain* SELL**

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

Weaker mobile revenue

***Revised* Target Price: RM4.45**

Previously RM4.61

KEY INVESTMENT HIGHLIGHTS

- **FY19 normalised dropped by -15.1%yoy to RM1.5b despite +32.8%yoy improvement in 4QFY19 normalised earnings**
- **The decline in earnings was worse than expected, mainly due to the termination of a network sharing agreement**
- **The group continues to promote the pre-to-post subscriber migration**
- **Sustain annual dividend payment of 20sen per share which translates into dividend yield of less than four percent**
- **Maintain SELL with a revised TP of RM4.45**

Healthier EBITDA margin. Maxis' 4Q19 normalised earnings increased by +32.8%yoy to RM344m, premised on the group's Fuel4Growth savings which led to better EBITDA margin of 45.4% (vs 4Q18: 39.7%). Note that higher 4QFY19 revenue mainly stemmed from non-service revenue (+50.6%yoy).

Below expectations. Nonetheless, full year FY19 normalised earnings came in lower at RM1.5b (-15.1%yoy). The reduction was mainly due to termination of a network sharing agreement, higher depreciation and amortization cost and higher finance cost. All in, the group's FY19 financial performance came in slightly below our consensus at 93.2% of full year FY19 earnings estimate, while it came in at the lower end of consensus at 96.5%.

Pressure in maintaining postpaid ARPU. 4Q19 postpaid revenue recorded a decrease of -6.1%yoy to RM989m. This was mainly attributable to the reduction in postpaid ARPU to RM90/mth (vs 4Q18: RM94/mth), resulting from the drop in mobile termination rate. However, the postpaid subscriber expanded strongly by +14.7%yoy to 3.4m users.

Continuous contraction in prepaid subscriber base. 4Q19 prepaid revenue declined by -7.3%yoy to RM783m. This was mainly caused by the diminution in prepaid subscribers to 6.2m (-5.8%yoy) in view of pre-to-post subscriber migration. Meanwhile, the group defended the prepaid ARPU at RM42/mth, supported by higher average data usage of 14.7GB/mth (+41.3%yoy) per user.

Capital expenditure (capex). 4Q capex came in +10.1%yoy higher at RM577m. This lead to full year FY19 capex of RM1,213m (+16.9%yoy). Higher capex was mainly channeled for growth of its service network, enterprise business as well as 5G readiness. Of this, the growth capex only amounted to RM200m which indicates that FY20 and FY21 growth capex to average at RM400m annually. We view that this is necessary to maintain the group's competitive edge in terms of solutions, network quality and service quality.

Dividend. The group maintains its quarterly dividend payment of 5sen which led to full year FY19 dividend of 20sen, in-line with the recent historical trend. This translates into dividend yield of 3.7%.

RETURN STATISTICS	
Price @ 20th Feb. 2020 (RM)	5.44
Expected share price return (%)	-18.2
Expected dividend yield (%)	+3.7
Expected total return (%)	**-14.5**

SHARE PRICE CHART

Share price performance (%)	Absolute	Relative
1 month	-2.4	1.0
3 months	1.5	6.1
12 months	-4.8	7.4

KEY STATISTICS	
FBM KLCI	1,534.98
Syariah compliant	Yes
Issue shares (m)	7,820.50
Estimated free float (%)	20.07
Market Capitalisation (RM'm)	42,230.69
52-wk price range (RM)	5.07 – 5.81
Beta vs FBM KLCI (x)	0.99
Monthly velocity (%)	4.75
Monthly volatility (%)	7.25
3-mth average daily volume (m)	1.58
3-mth average daily value (RM'm)	8.66
Top Shareholders (%)	
Binaring GSM Sdn Bhd	62.34
Employees Provident Fund	11.24
Skim Amanah Saham Bumiputera	8.05

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Impact on earnings. We are imputing lower profit margin as we increase our assumption for depreciation and amortization cost and finance cost. As a result, FY20 and FY21 earnings have been revised to RM1,571m and RM1,654m respectively.

Target price. We are rolling forward our valuation based year to FY21 and derived a new target price of **RM4.45** (previously RM4.61). This is based on pegging unchanged forward PER of 21x to revised FY21F EPS of 21.2sen. Our target PER is the group's two years historical low PER.

Maintain SELL. We view that the diminishing income from U Mobile has greatly affected the group's profit margin and, subsequently, earnings. This is further impacted by the repricing of as well as declining postpaid and prepaid service revenue. To regain the loss in revenue, the group is repositioning itself to become a converged communications and digital services company. This would include aggressively growing the enterprise business segment. However, we view that there are gestation period before it could substitute the loss of income from U Mobile. Coupled with competition from its peers, we do not expect the group to be able to offset the loss of contribution from U Mobile organically in the foreseeable term. Meanwhile, we expect the Maxis' dividend yield to remain below four percent to focus on executing its convergence growth strategy. All factors considered, we are maintaining our **SELL** recommendation.

INVESTMENT STATISTICS

Financial year ending 31st 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	3,938	4,077	4,180
EBITDA	3,799	3,733	3,938	4,077	4,180
Operating Profit	2,713	2,435	2,607	2,707	2,769
PBT	2,877	2,369	2,108	2,205	2,265
Net Profit	1,780	1,519	1,571	1,654	1,703
Normalised net profit after MI	1,767	1,500	1,571	1,654	1,703
Normalised EPS (sen)	22.6	19.2	20.1	21.2	21.8
EPS Growth (%)	-16.4	-15.1	4.7	5.3	3.0
PER (x)	23.9	28.1	26.9	25.5	24.8
Net dividend (sen)	20	20	20	20	20
Net dividend yield (%)	3.7	3.7	3.7	3.7	3.7

Source: Company, MIDFR

MAXIS BHD: 4QFY19 RESULTS SUMMARY

Financial year ending 31st December (in RM'm, unless otherwise stated)	Quarterly			Cumulative		
	4Q19	% YoY	% QoQ	2019	2018	%
Revenue	2,590	5.9	17.4	9,313	9,192	1.3
Normalised EBITDA	904	17.7	-6.2	3,768	3,842	-1.9
EBITDA	904	18.6	-4.3	3,733	3,799	-1.7
Depreciation and amortisation	-328	7.5	-5.2	-1,265	-1,068	18.4
Others	1	n.m.	n.m.	-33	-18	n.m.
EBIT	577	30.2	0.2	2,435	2,713	-10.2
Finance cost	-125	31.6	8.7	-469	-389	20.6
Finance income	20	25.0	0.0	70	45	55.6
PBT	472	29.7	-1.9	2,036	2,369	-14.1
Income tax	-117	19.4	-4.9	-517	-589	-12.2
PAT	355	33.5	-0.8	1,519	1,780	-14.7
Normalised PAT	344	32.8	-4.7	1,500	1,767	-15.1
Normalised EPS (sen)	4.4	33.0	-4.6	19	23	-15
		+/- ppts	+/- ppts			+/- ppts
Normalised EBITDA margin (%)	34.9	3.5	-8.8	40.5	41.8	-1.3
Normalised PAT margin (%)	13	2.7	-3.1	16.1	19.2	-3.1
Effective tax rate (%)	24.8	-2.1	-0.8	25.4	24.9	0.5

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 *rise* 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 *fall* 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.