

# Maxis Berhad

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

**Maintain SELL**

## Contraction in mobile service revenue

**Unchanged Target Price: RM4.45**

### KEY INVESTMENT HIGHLIGHTS

- **1Q20 normalised earnings reduced to RM360m, owing to lower mobile service revenue and lower EBITDA margin**
- **Both postpaid and prepaid recorded contraction in service revenue of -1.6%yoy and -10.4%yoy respectively**
- **Lower 1Q20 dividend of four sen as opposed to five sen declared for 1Q19**
- **Recovery in revenue, in absence of the wholesale income, to be slower due to the Covid19 pandemic**
- **Maintain SELL with an unchanged TP of RM4.45**

**Normalised EBITDA margin went below 40%.** Maxis' 1Q19 normalised earnings came in at RM360m, a decline of -10.9%yoy. This was mainly due to the reduction in mobile service revenue to RM1,698m (-5.5%yoy) as well as higher traffic, device, commissions and other direct costs which amount to RM856m (+16.3%yoy). As a result, the normalised EBITDA margin shrunk to 39.3% (vs 1Q19: 42.7%). All in, the group's 1Q20 financial performance kept pace with ours and consensus expectations, accounting for 22.9% and 23.0% of full year FY20 earnings estimates.

**Postpaid ARPU reduced to below RM90/mth.** 1Q20 postpaid revenue contracted to RM984m (-1.6%yoy), mainly due to the loss in wholesale revenue. In addition, the postpaid ARPU also contracted to RM86/mth in view of mobile termination rate drop, dilution from entry point Hotlink Flex and loss of inbound and outbound roaming. Nonetheless, the postpaid subscriber base expanded by +13.7%yoy to RM3.4m subscribers due to increasing pre-to-post momentum.

**Continuous contraction in prepaid subscriber base.** 1Q20 prepaid revenue declined by -10.4%yoy to RM714m. This was mainly caused by lower prepaid subscriber base of 5.9m (-9.0%yoy) as well as dilution in prepaid ARPU to RM39/mth (vs 1Q19: RM41/mth).

**Capital expenditure (capex).** 1Q20 capex increased by +28.3%yoy to RM163m. The group front loads its some of its capex allocation to support higher data usage in conjunction with the movement control order (MCO). Notwithstanding this, based on historical trend, capex in the coming quarters should increase further.

**Dividend.** Maxis declared 1Q20 dividend of four sen which is one sen lower as compared to 1Q19 dividend of five sen per share. We suspect that the group may be delaying part of the dividend to build up its cash reserve as well as in anticipation of heightened capital spending in the coming quarters. Note that the cash balance as at 1Q20 had increased significantly by +62.9%yoy from a quarter ago to RM948m.

### RETURN STATISTICS

Price @ 24 <sup>th</sup> April 2020 (RM)	5.31
Expected share price return (%)	-16.2
Expected dividend yield (%)	+3.8
<b>Expected total return (%)</b>	<b>-12.4</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-0.6	-2.5
3 months	-0.7	10.8
12 months	-0.6	18.9


### KEY STATISTICS

FBM KLCI	1,369.85
Syariah compliant	Yes
Issue shares (m)	7,820.00
Estimated free float (%)	20.52
Market Capitalisation (RM'm)	41,526.85
52-wk price range (RM)	4.59 – 5.81
Beta vs FBM KLCI (x)	0.87
Monthly velocity (%)	11.02
Monthly volatility (%)	12.38
3-mth average daily volume (m)	2.42
3-mth average daily value (RM'm)	12.72
Top Shareholders (%)	
Binaring GSM Sdn Bhd	62.34
Employees Provident Fund	11.49
Skim Amanah Saham Bumiputera	8.05

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**Impact on earnings.** No change to our earnings estimates at this juncture.

**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.** We view that the diminishing wholesale income from U Mobile has greatly affected the group's profit margin and, subsequently, earnings. This is further impacted by 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. In addition, the ongoing Covid19 pandemic might disrupt the pace of recovery of its service revenue. Coupled with competition from its peers, we do not expect the group to be able to offset the loss of contribution from Umobile organically in the near term. Meanwhile, we expect the Maxis' dividend yield to remain below 4% to focus on executing its new strategy as well as maintaining its superior network quality and capability. All factors considered, we are maintaining our **SELL** recommendation. 

## INVESTMENT STATISTICS

Financial year ending 31 <sup>st</sup> 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)	23.5	27.7	26.4	25.1	24.4
Net dividend (sen)	20	20	20	20	20
Net dividend yield (%)	3.8	3.8	3.8	3.8	3.8

Source: Company, MIDFR

**MAXIS BHD: 1QFY20 RESULTS SUMMARY**

Financial year ending 31 <sup>st</sup> December (in RM'm, unless otherwise stated)	Quarterly				
	1Q20	1Q19	% YoY	4Q19	% QoQ
Revenue	2,341	2,232	4.9	2,590	-9.6
Normalised EBITDA	920	953	-3.5	904	1.8
EBITDA	902	944	-4.4	904	-0.2
Depreciation and amortisation	-334	-296	12.8	-328	1.8
Others	-4	-5	n.m.	1	n.m.
EBIT	564	643	-12.3	577	-2.3
Finance cost	-112	-114	-1.8	-125	-10.4
Finance income	23	15	53.3	20	15.0
PBT	475	544	-12.7	472	0.6
Income tax	-117	-135	-13.3	-117	0.0
PAT	358	409	-12.5	355	0.8
Normalised PAT	360	404	-10.9	344	4.7
Normalised EPS (sen)	4.6	5.16	-10.8	4.40	4.7
			+/- ppts		+/- ppts
Normalised EBITDA margin (%)	39.3	42.7	-3.4	34.9	4.4
Normalised PAT margin (%)	15	18	-2.7	13	2.1
Effective tax rate (%)	24.6	24.8	-0.2	24.8	-0.2

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

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