28 April 2015 | 1QFY15 Results Review

Maxis Berhad

Profitability impacted by lower EBITDA margin

***Maintain* NEUTRAL**

***Revised* Target Price (TP): RM7.12**
(previously RM6.41)

INVESTMENT HIGHLIGHTS

- **1Q15 normalised earnings slipped by -11.7%yoy to RM453m due to lower EBITDA margin**
- **Prepaid revenue to grow at a steady pace while postpaid revenue deteriorates**
- **Lower dividend declared (5sen) in 1Q15, reflecting the changes in dividend policy**
- **Maintain NEUTRAL with a revised target price of RM7.12 as we roll forward our valuation based on FY16 earnings**

Weaker quarterly earnings. Maxis reported 1Q15 earnings of RM412m, a decrease of -15.6%yoy. After adjusting for exceptional items amounting to RM43m, normalised earnings declined by -11.7%yoy to RM453m. The exceptional items consist of accelerated depreciation relating to its network modernisation programme (RM57m) and its tax effect (RM14m). Maxis reported lower EBITDA margin due to foreign exchange losses and higher spending on sales and marketing expenses in order to remain competitive. Despite the lower margin, 1Q15 results came in within ours and consensus expectations accounting for 21.6% and 22.5% of full year earnings estimates respectively.

Mid-single digit growth on service revenue. Excluding '*device and hubbing'* revenue, service revenue grew by +4.4%yoy to RM2,127m. The growth reflects the group's measure to offer worry-free proposition, which includes: (i) capped data roaming charges; (ii) free social chat for prepaid users; and (iii) downward re-pricing of postpaid pay per use charges.

Prepaid revenue continues to grow at a steady pace. The prepaid sub-segment revenue recorded an increase of +8.6%yoy to RM1,052m. The increase was mainly attributable to net revenue generating subscribers (RGS) intake of 336k subscribers, competitive international direct dialling (IDD) and mobile internet. The growth in prepaid revenue had also managed to cushion the impact of lower average revenue per user (ARPU). Prepaid ARPU reduced to RM38 from RM40 previously due to lower domestic voice, lower short messaging service (SMS) usage and lower pay per use.

RETURN STATS	
Price (27 April 2015)	RM7.13
Target Price	RM7.12
Expected Share Price Return	-0.1%
Expected Dividend Yield	+3.2%
Expected Total Return	+3.1%

STOCK INFO	
KLCI	1,859.58
Bursa / Bloomberg	6012 / MAXIS MK
Board / Sector	Main/ Services
Syariah Compliant	Yes
Issued shares (mil)	7,507.7
Par Value (RM)	0.10
Market cap. (RM'm)	53,529.8
Price over NA	11.9x
52-wk price Range	RM6.21 – RM7.30
Beta (against KLCI)	0.70
3-mth Avg Daily Vol	4.1m
3-mth Avg Daily Value	RM29.3m
Major Shareholders (%)	
Binariang GSM	64.95
ASB	7.96
EPF	6.29

Lower postpaid revenue. The postpaid sub-segment revenue shrank by -1.2%yoy to RM972m. Postpaid ARPU was lower at RM96 in 1Q15 from RM98 in 1Q14. Meanwhile, subscriber base only grew marginally by +2.7%yoy to 2,823k, supported by the favourable take-up rate in MaxisONE Plan.

Capital expenditure (capex). The group accelerated its capex to RM135m in 1Q15 from RM118 in 1Q14. The increase in capex led to higher capex-to-sales ratio of 6.3% from 5.6% in 1Q14. The bulk of the capex was directed to long-term evolution (LTE) expansion and completion of network modernisation to provide better coverage and superior network experience.

Dividend. Following changes in its dividend policy, the group declared dividend of 5sen per share in 1Q15. This is 3sen lower as compared to 8sen per share declared in 1Q14. Nonetheless, this is in-line with our full year FY15 dividend estimates of 22sen per share.

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

Target price. We roll forward our valuation based on FY16 earnings and derive a new target price of **RM7.12** per share. We also updated our forward PER multiples to 25x from 23x previously. This is premised on the average four-quarter rolling PER over the past four years.

Maintain NEUTRAL. Despite seeing some indications of an operational turnaround, we remain wary of the company's full financial performance recovery due to industry competition. However, the company's strategy of adopting an accelerated capex plan in order to remain competitive could prove beneficial. On another note, Maxis' attractiveness as a dividend play stock has waned due to the changes in its dividend payout policy. We are now expecting future dividend yields to drop below 4%. As we do not see plausible re-rating catalysts in the foreseeable period, we maintain our **NEUTRAL** recommendation on the stock.

INVESTMENT STATISTICS

FYE Dec	FY13	FY14	FY15F	FY16F
Revenue	9,084.0	8,389.0	9,092.3	9,183.2
Normalised EBITDA	4,522	4,207	4,617	4,691
EBITDA	4,310	4,229	4,617	4,691
Operating Profit	2,825	2,816	3,236	3,296
Net Profit after MI	1,772	1,718	2,093	2,141
Normalised net profit after MI	2,090	1,903	2,093	2,141
Normalised EPS (sen)	27.9	25.3	27.9	28.5
EPS Growth (%)	2.2	-9.0	10.0	2.3
PER (x)	25.6	28.1	25.6	25.0
Net dividend (sen)	40	40	22	23
Net dividend yield (%)	5.6	5.6	3.1	3.2

Source: MIDFR

DAILY PRICE CHART

Source: MIDFR, Company

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Maxis: 1Q15 RESULTS SUMMARY

(All in RM'm unless stated otherwise)	**Quarterly Results**				
FYE Dec	**1Q15**	**1Q14**	**% YoY**	**4Q14**	**% QoQ**
Revenue	2,149	2,119	1	2,123	1
Normalised EBITDA	1,047	1,081	-3	1,000	5
EBITDA	1,047	1,073	-2	1,000	5
Depreciation and amortisation	-355	-332	7	-395	-10
Others	-5	6	nm	-5	nm
EBIT	686	747	-8	600	14
Finance costs	-110	-96	15	-113	-3
Finance income	14	6	133	15	-7
PBT	590	657	-10	502	18
Taxation	-178	-169	5	-167	7
PAT	412	488	-15.6	335	23
Normalised PAT	455	517	-12.0	419	9
MI	-2	-4	nm	4	nm
Normalised PATAMI	453	513	-11.7	423	7
Normalised EPS (sen)	6.03	6.83	-12	5.63	7
			+/- ppts		+/- ppts
Normalised EBITDA margin (%)	48.7	51.0	-2	47.1	2
Normalised PATAMI margin (%)	21.1	24.2	-3	19.9	1
Effective tax rate (%)	30.2	25.7	4	33.3	-3

Source: Company, MIDFR

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STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >15% 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.