

Equity Beat

01 March 2010

4Q09 Results Review

Maxis

A year of single-digit growth

Maintain NEUTRAL


Revised Target Price (TP): RM5.50 (from RM5.00)

- **FY09 net profit, which declined by 7%yoy is within expectation as rapid expansion and the economic recession took a toll on margin despite revenue growth of 2%.**
- **Looking ahead, we expect the single-digit revenue and net profit growth trend to continue on margin compression due to aggressive expansion into lower ARPU subscriber base and rapid rollout of mobile broadband services. We estimate EPS10 of 35.8sen with FY10 revenue growth of 3%yoy.**
- **We compare Maxis to Digi given that both are operating on a domestic-centric business model. We revise our target price to RM5.50 from RM5 based on 18x EPS10 of 30.6sen. However, we are maintaining our NEUTRAL call as the multiple is already at a 15% premium to Digi's 15x EPS10.**

STOCK INFO

Price (25 Feb.10)	RM5.52	FBM KLCI	1270.78
Issued shares (mil)	7500.0	Bursa / Bloomberg	6012 / Maxis MK
Par Value (RM)	0.10	Board / Sector	Main / Services
Market cap. (RM'm)	41400.0	Syariah Compliant	Yes
Price over NA (x)	4.6		
52-wk price Range (RM)	5.00 – 5.53	Major Shareholders (%)	
Beta (against KLCI)	n/a	Maxis Communications	70.0
3-mth Avg Daily Vol	7.6m		
3-mth Avg Daily Value	RM41.9m		

A year of single-digit growth: FY09 revenue grew by 2% on the back of higher mobile subscription base. Mobile subscriptions grew by 9% contributed by prepaid growth of 726,000 or 8%, postpaid growth of 207,000 or 8% and wireless broadband growth of 124,000 or 89%, bringing the total mobile subscription base to 12.291m. Monthly ARPU for both postpaid and prepaid dropped by RM8 and RM6 respectively mainly due to higher take up of cheaper commitment postpaid plans and introduction of lower priced prepaid plan packages. Average postpaid and prepaid MOU per subscription decreased by 24 minutes and 14 minutes respectively mainly due to lower voice usage and subscribers' preference for lower priced services. Despite higher revenue, EBITDA decreased by 1% with the resulting EBITDA margin reducing 1.7% points to 50.4% largely due to higher interconnect costs of RM118m and allowance for doubtful debts of RM110m, partly offset by saving in other operating costs. PBT decreased by 7% mainly driven by lower EBITDA and the effect of one time costs. Consequently, FY09 net profit was lower at RM2,232m.

Lower 4Q09: Sequentially, revenue grew by 3% thanks to total mobile subscriptions, which increased by 5% bringing the total mobile subscription base to 12.291m. Monthly ARPU for postpaid increased by RM4 whilst wireless 

FYE 31 Dec	FY08	FY09	FY10F	FY11F
Revenue (RM'm)	7850.0	8611.0	8849.8	9115.3
EBIT (RM'm)	4402.0	3024.0	3099.6	3192.6
Pretax Profit (RM'm)	3000.0	1939.0	1997.2	2057.1
Net Profit (RM'm)	2400.0	2232.0	2298.9	2367.9
EPS (sen)	32.0	27.3	30.6	31.5
EPS growth (%)	n.a.	-9.6	12.1	2.9
PER (x)	17.3	20.2	18.0	17.5
Net Dividend (sen)	0.0	9.0	10.0	12.0
Net Dividend Yield (%)	n..m.	1.6	1.8	2.2

Source: Company, Forecasts by MIDFR


broadband decreased by RM15 or 15% mainly due to launch of free 2-month subscription promotion packages. Monthly prepaid ARPU remains largely flat, while average MOU per subscription for both postpaid and prepaid increased by 4 minutes and 5 minutes respectively mainly due to higher usage from increased mobile traffic within Maxis' networks and with other operators' networks. EBITDA increased by 2%, primarily as a result of higher revenue partly offset by higher roaming costs and sales and marketing costs. The resultant EBITDA margin decreased 0.4%-points. PBT of RM695m was 14% lower mainly due to one time costs of approximately RM120m relating to (i) the discount for shares issued to retail investors in relation to IPO of RM53m, (ii) IPO listing expenses of RM24m and (iii) higher finance costs of RM43m. Consequently, net profit for the period was lower by 18.2%. However, excluding initial public offering (IPO) related expenses of RM24m and discount for shares issued to IPO retail investors of RM53m, net profit was RM580m, down 5.7%.

Strong customer base aided by aggressive capex: Maxis signed up 1.06m new customers in FY09, out of which more than half, or 556k, joined in 4Q09, bringing Maxis' total subscriber base to 12.29m, while mobile broadband subscriptions nearly doubled, rising 88.5% in FY09 to 264,000 subs. Maxis had invested a total of RM1.2b in capital expenditure to build up a platform towards meeting the next generation of customer demand. The capex is up from the RM792m it spent a year earlier, with the bulk of the funds had been used for network modernisation and a substantial increase in 3G footprint.

Dividends galore: Maxis declared an interim dividend of six sen and proposed a final dividend of three sen. The payout will amount to RM675m in addition to the RM450m paid in 3Q09, bringing total dividends for FY09 to RM1.125b.

Favourable prospects going forward: The improved economic outlook is expected to have a positive impact on consumer and business spending for telecommunications services. However, the group is also bracing for more competition this year as the country's mobile market matures. Currently, there are more than 30.1m handsets in use, representing a mobile penetration rate of 106.2%. Nevertheless, the management is optimistic that the group will continue to consolidate its market leadership and achieve strong operating cash flow from its existing mobile business and the expansion into new market segments, including broadband services. Maxis will also continue its focus on cost-management initiatives to maintain operating margins.

We forecast single-digit growth for FY10: We expect FY09 revenue and net profit to grow single-digit year-over-year as the market matures and avenue for expansion becomes limited. We estimate EPS10 of 30.6sen. With the single-digit growth rate, we believe that Maxis' value proposition is limited to its dividend-play appeal as from an earnings growth angle.

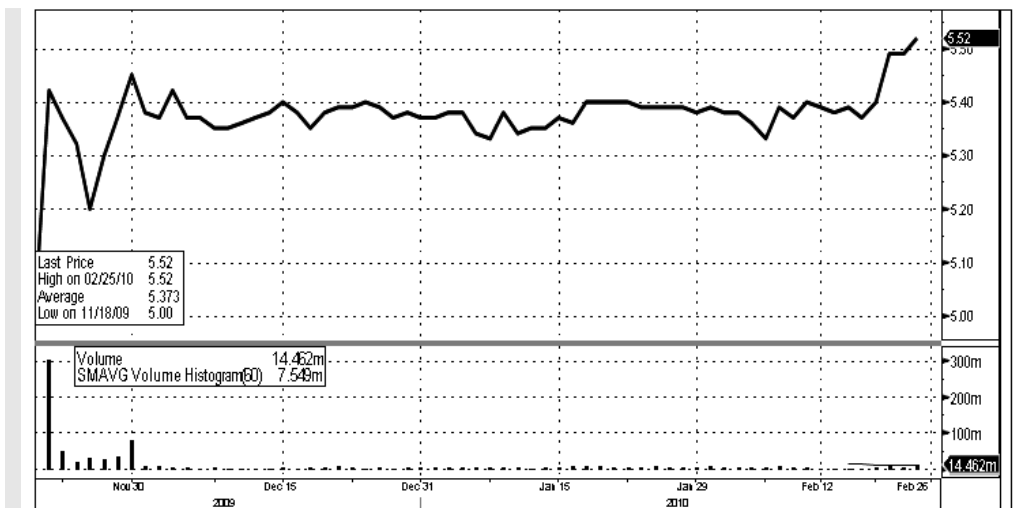
Target Price increased to RM5.50 from RM5; NEUTRAL recommendation maintained: We increase our target price to RM5.50 based on 18x EPS10. However we are maintaining our NEUTRAL call as the multiple is already a 15% premium to Digi's 15x EPS10. Nevertheless, we believe that the premium is reflective of Maxis' (i) dominant market leadership, (ii) blue-chip status, and (iii) higher liquidity. 

Maxis: FY09 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly Results			Cumulative		Comments
	4Q09	%YoY	%QoQ	FY09	%YoY	
Revenue	2211.0	+16.6	+2.6	7611.0	+5.9	Single-digit growth rate as industry matures
Operating expenses	-720.0	-50.0	-4.6	-4587.0	-22.0	Increase in expenses due to rapid expansion mode
Other op. income	1.0	>100.0	0.0	877.0	>100.0	
EBIT	740.0	>100.0	-8.5	2266.0	>100.0	
Net Int. income	-45.0	>100.0	>100.0	-52.0	>100.0	
Pre-tax profit	695.0	>100.0	-13.9	1939.0	>100.0	
Tax	-192.0	>100.0	0.0	-361.0	>100.0	
Net profit	503.0	>100.0	-18.2	1578.0	>100.0	
EPS (sen)	6.7					
		+/- ppts	+/- ppts			
EBIT margin (%)	33.4	+5.4	-4.0			
Tax rate (%)	27.6	-7.2	+4.2			

Source: Company, MIDFR

DAILY PRICE CHART



Zulkifli Hamzah
 Mohd Izhar Allaudin
 Mohd.izhar@midf.com.my
 03-2772 1655

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> 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 <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

OVERWEIGHT	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.
UNDERWEIGHT	The sector is expected to underperform the overall market over the next 12 months.