

29 June 2017 | Corporate Update

Maxis Berhad

Losing contribution from U Mobile

INVESTMENT HIGHLIGHTS

- **Premature 3G agreement termination by U Mobile**
- **Original agreement tenure until year 2021**
- **Extra network capacity could be difficult to fill in**
- **Maintain NEUTRAL with a lower target price of RM5.80**


U Mobile ending its 3G agreement with Maxis prematurely. U Mobile is terminating the Network Sharing and Alliance Agreement (NSA) with Maxis. The termination will take place in stages over a period of 18 months with full termination on 27 December 2018. To recall, on Oct 2011, Maxis and U Mobile signed an NSA to share Maxis' 3G radio access networks (RAN) for a period of 10 years.

Extra network capacity. Following the termination, we view that Maxis may have difficulty in looking for another mobile virtual network operator (MVNO) to fill the network capacity vacated by U Mobile. This may negatively impact Maxis' profit margins.

Impact on earnings. We are cutting FY17 and FY18 earnings estimates by -1.6%yoy and -3.9%yoy respectively as we are removing U mobile's 3G contributions.

Target price. Following our earnings adjustments, we are revising downwards our target price to **RM5.80** per share (previously RM6.12 per share). This is premised on pegging target PER of 23x, which is the average low PER of the group over the past four years, against FY18EPS of 25.2sen.

Maintain NEUTRAL. We applaud the group's effort to retain its postpaid and prepaid ARPU. However, we believe that the strategy has negatively impacted the potential growth in the group's postpaid and prepaid subscriber base. We are of the opinion that the dwindling subscriber base would place Maxis in a difficult position to meaningfully grow its service revenue and maintain a healthy profit margin.

Meanwhile, Maxis' attractiveness as a dividend play stock has also waned due to the changes in its dividend payout policy. Based on the current dividend policy and cash generating capability, we view that dividend yield would come in below 4%. As we do not see plausible re-rating catalysts in the foreseeable period, we maintain our **NEUTRAL** recommendation. 

Maintain NEUTRAL
Revised Target Price (TP): RM5.80
(Previously RM6.12)

RETURN STATS	
Price (28 th June 2017)	RM5.60
Target Price	RM5.80
Expected Share Price Return	+3.6%
Expected Dividend Yield	+3.6%
Expected Total Return	+7.2%

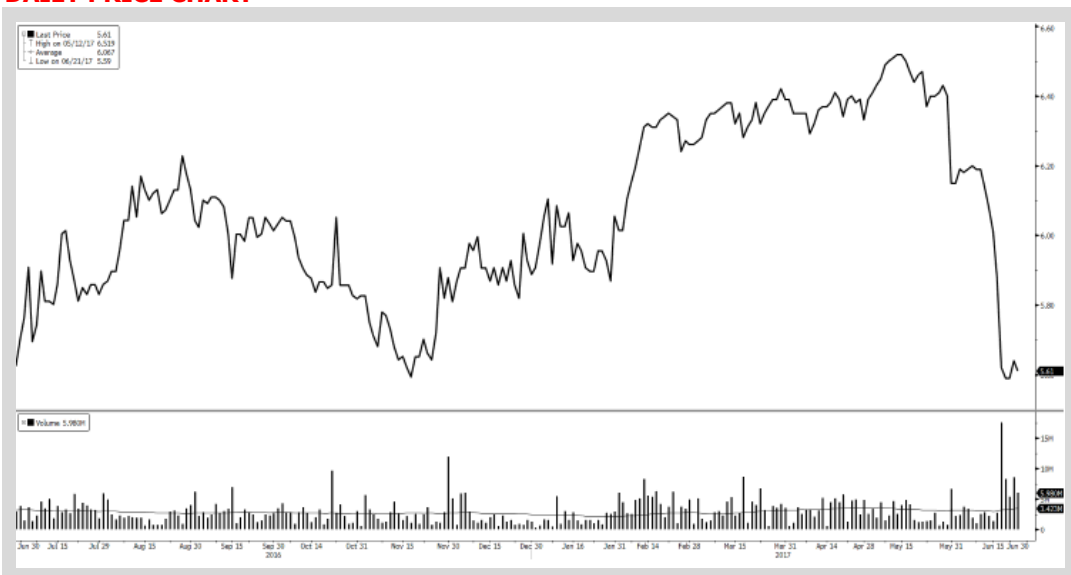
STOCK INFO	
KLCI	1,771.2
Bursa / Bloomberg	6012 / MAXIS MK
Board / Sector	Main/ Services
Syariah Compliant	Yes
Issued shares (mil)	7,510.5
Market cap. (RM'm)	42,134.0
Price over NA	11.0x
52-wk price Range	RM5.50 – RM6.60
Beta (against KLCI)	0.70
3-mth Avg Daily Vol	2.9m
3-mth Avg Daily Value	RM17.9m
Major Shareholders (%)	
Binariang GSM	64.91
ASB	10.42
EPF	9.67

INVESTMENT STATISTICS

FYE 31 st Dec	2015	2016	2017F	2018F
Revenue	8,601	8,612	8,623	8,579
Normalised EBITDA	4,425	4,484	4,511	4,552
EBITDA	4,331	4,551	4,511	4,552
Operating Profit	2,872	3,152	3,085	3,112
Net Profit after MI	1,739	2,013	1,964	1,971
Normalised net profit after MI	1,952	1,963	1,964	1,971
Normalised EPS (sen)	26.0	26.1	25.2	25.2
EPS Growth (%)	2.6	0.6	-3.8	0.4
PER (x)	21.6	21.5	22.3	22.2
Net dividend (sen)	20	20	20	20
Net dividend yield (%)	3.6	3.6	3.6	3.6

Source: Company, MIDFR

DAILY PRICE CHART



Source: Bloomberg

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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

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.