

**Company Result**

**20 October 2016**

**Maxis Bhd**

**Lifted by higher ARPU and improved margins**

**HOLD**

**Maintained**

<b>Share Price</b>	<b>RM6.01</b>
<b>Target Price</b>	<b>RM6.28</b>

**Company Description**

Maxis provides mobile communications and broadband services in Malaysia.

**Stock Data**

Bursa / Bloomberg code	6012 / MAXIS MK
Board / Sector	Main / Telco
Syariah Compliant status	Yes
Issued shares (m)	7510.26
Par Value (RM)	0.10
Market cap.	RM45.14bn
52-week price Range	RM5.36 – 6.89
Beta (against KLCI)	0.69
3-m Average Daily Volume	2.72m
3-m Average Daily Value^	RM16.74m

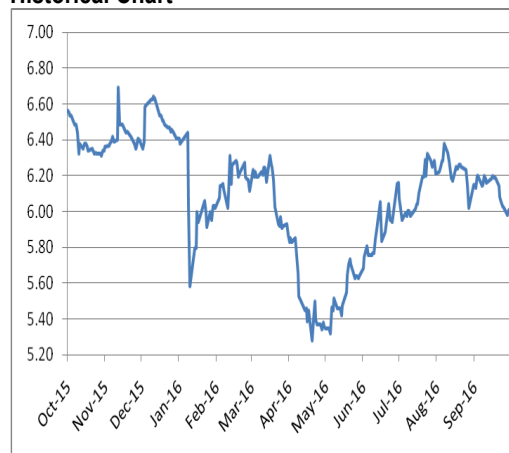
**Share Performance**

	1m	3m	12m
Absolute (%)	-2.3	-2.4	-12.0
Relative (%-pts)	-3.2	-3.1	-9.4

**Major Shareholders**

	%
Binariang GSM Sdn Bhd	64.91
EPF	8.88
Skim Amanah Saham Bumiputera	8.07

**Historical Chart**



Source: Bloomberg

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**Result**

- **3Q16 normalised PAT was within expectation** after rising 22% QoQ and 0.8% YoY to RM514m. Quarterly revenue increased 2.6% QoQ but declined 0.5% YoY to RM2.16bn on the back of higher ARPU despite less subscribers.
- **Within forecast** – Maxis' performance was within expectation as nine months' normalized net profit made up 76.8% of our full year forecast. Revenue also met our forecast after accounting for 72.8% of our FY16 estimate.
- **Higher profit margin** – 3Q16 normalised PAT margin was 3.8 percentage points higher at 23.8% (against 2Q16: 20%) while normalized EBIDTA margin increased 4.9 percentage points to 52.8%. Margins improved following operating cost control measures.
- **Higher ARPU despite losing subscribers** – Overall, blended ARPU in 3Q16 was higher at RM56 (vs RM54 in 2Q16) with a churn of 112k (vs 149k in 2Q16) as total subscribers declined to 10.9m from 11.0m in 2Q16.
- **Higher prepaid revenue** – Prepaid revenue was 6.6% QoQ higher but 4.8% YoY lower at RM1.02bn as ARPU increased to RM41 vs RM38 in 2Q16. Maxis lost 101k prepaid subscribers to 8.01m during the quarter (vs 88k churn in 2Q16).
- **Postpaid stabilized** – Postpaid revenue was 1.5% QoQ and 1.2% YoY lower at RM960m vs RM975m in 2Q16 as ARPU declined to RM100 from RM102 in 2Q16. During the quarter Maxis added 18k postpaid subscribers (vs -36k in 2Q16) to 2.68m.

**Earnings Outlook/Revision**

- **Forecast maintained** – Our FY16 and FY17 estimates are maintained as we expect cost reduction measures to continue and subscribership to improve and spark revenue recovery in 2H16.
- **Challenging outlook** – Outlook on mobile telcos remains unexciting due to aggressive price competition that puts pressure on ARPU. Price war could be heightened by the entry of TM-backed Webe and YTL-backed YES.

**Valuation & Recommendation**

- **Maxis announced its third interim dividend of 5 sen per share.** We forecast total dividend for the year would be 20 sen, translating into a yield of 3.3%.
- **Maintain HOLD with an unchanged target price of RM6.28** based on DDM.

## Quarterly Figures

Year to 31 Dec RM million	3Q16	2Q16	QoQ	3Q15	YoY	9M16	9M15	YoY
Prepaid revenue	1022	959	6.6%	1074	-4.8%	2994	3135	-4.5%
Postpaid revenue	960	975	-1.5%	972	-1.2%	2927	2914	0.4%
MOBILE REVENUE	1982	1934	2.5%	2046	-3.1%	5921	6049	-2.1%
Enterprise Fixed	74	67	10.4%	63	17.5%	208	192	8.3%
Integrated Services	57	54	5.6%	45	26.7%	161	124	29.8%
SERVICE REVENUE	2113	2055	2.8%	2154	-1.9%	6290	6365	-1.2%
Device	23	12	91.7%	4	475.0%	47	19	147.4%
Hubbing	0	0	-	4	-100.0%	2	27	-92.6%
Network income	20	35	-42.9%	4	400.0%	59	14	321.4%
TOTAL REVENUE	2156	2102	2.6%	2166	-0.5%	6398	6425	-0.4%
Normalised EBITDA	1139	1006	13.2%	1111	2.5%	3301	3304	-0.1%
Normalised EBITDA margin	52.8%	47.9%	+4.9p.p	51.3%	+1.5p.p	51.6%	51.4%	+0.2p.p
Normalised PAT	514	421	22.1%	510	0.8%	1419	1483	-4.3%
Normalised PAT margin	23.8%	20.0%	+3.8p.p	23.5%	+0.3p.p	22.2%	23.1%	-0.9p.p
<b>SUBSCRIBERS</b>								
Prepaid (million)	8007	8108	-1.2%	8850	-9.5%			
Postpaid (million)	2678	2660	0.7%	2784	-3.8%			
TOTAL (million)	10903	11015	-1.0%	11956	-8.8%			
<b>ARPU (RM)</b>								
Prepaid	41	38	7.9%	39	5.1%			
Postpaid	100	102	-2.0%	98	2.0%			
Blended	56	54	3.7%	53	5.7%			

## Financial Summary

Year to 31 Dec (RM m)	2011	2012	2013	2014	2015	2016F	2017F	2018F
Revenue	8800	8967	9084	8389	8601	8788	9022	9136
EBITDA	4423	4359	4310	4229	4331	4394	4555	4675
PAT	2531	1860	1772	1725	1747	1848	1996	2067
EPS (sen)	33.7	24.7	23.5	23.0	23.2	24.6	26.6	27.5
P/E (x)	17.83	24.3	25.6	26.2	25.9	24.4	22.6	21.8
DPS (sen)	40.0	40.0	40.0	40.0	20.0	20.0	20.0	20.0
Dividend yield (%)	6.7%	6.7%	6.7%	6.7%	3.3%	3.3%	3.3%	3.3%
EBITDA margin	50.26%	48.61%	47.45%	50.41%	50.35%	50.00%	50.49%	51.17%
Net profit margin	28.76%	20.74%	19.51%	20.56%	20.31%	21.03%	22.12%	22.62%

(Source: Company, JF Apex)

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**STOCK RECOMMENDATIONS**

- BUY** : The stock's total returns\* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns\* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns\* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns\* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns\* are expected to be below -10% within the next 3 months.

**SECTOR RECOMMENDATIONS**

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

\*capital gain + dividend yield

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