



Maxis Berhad

Subscriber Trends Stabilising

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TP: RM5.80 (-3.5%)

Last Traded: RM6.01

SELL

Review

- Maxis released its 9MFY16 results, with core net profit at RM1,420mn (+20.2% QoQ, -3.9% YoY). Numbers were within ours and consensus estimates at 79.3% and 74.8% respectively. An unchanged third interim dividend of 5.0sen (YTD: 15.0sen) was declared.
- Service revenue improved 2.8% QoQ. The prepaid segment generated a strong performance as ARPU increased 5.9% QoQ to RM36. Although there was a 188k QoQ decline in prepaid subscribers, the trend appears to be stabilising towards the end of the quarter. Postpaid subscribers recorded its first quarterly net add of 18k subscribers, after five quarters of decline. Postpaid ARPU, however, contracted 1.0% QoQ to RM100 on increased data allocation across the MaxisONE Plans. Margins were also lifted by the completion of major one-off projects (RM34mn) and lower realised forex losses.
- For the 9MFY16, service revenue fell 1.2% YoY to RM6.3bn. Prepaid revenue decreased 4.5% YoY, on account of a net decline of 842k prepaid subscribers. On a positive note, the decline was reported to be stabilizing towards the end of the quarter. Prepaid ARPU was slightly higher at RM36 (+2.9% YoY). On top of maintaining foreign worker contribution, it has managed to attract high mobile internet ARPU users through its Hotlink FAST plan. Prepaid data usage surged to 2.6GB/month, more than doubling from a year ago.
- Postpaid revenue stood fairly stable. A net decrease of 99k postpaid subscribers were offset by higher postpaid ARPU of RM100 (+3.1% YoY). The increase in postpaid ARPU is due to an increased number of MaxisONE Plan subscribers (55.7% of postpaid subscriber base). Average ARPU for MaxisONE Plan stood at RM129. However, within our expectations, this has been on a downtrend due to an increase in data allocation across MaxisONE Plan and introduction of MaxisONE Share.
- Costs were well controlled as normalised EBITDA margins were stable at 51.6% (+0.2pp). Sales & marketing and direct expenses decreased by 4.6% YoY and 0.5% YoY. Bad debts, however, increased 187.0% YoY to RM66mn.

Impact

- Adjusting for better than anticipated prepaid ARPU, we adjust our FY16 earnings upwards by 4.8% to RM1,873mn. However, our FY17 and FY18 numbers are left unchanged as we expect competitive pressures to persist post spectrum reallocation exercise and new competitor in webe.

Share Information

Bloomberg Code	MAXIS MK
Stock Code	6012
Listing	Main Market
Share Cap (mn)	7,510.3
Market Cap (RMmn)	45,136.8
Par Value (RM)	1.00
52-wk Hi/Lo (RM)	6.89/5.36
12-mth Avg Daily Vol ('000 shrs)	3,654
Estimated Free Float (%)	12.5
Beta	0.7
Major Shareholders (%)	

Binariang GSM - 64.9

EPF - 8.9

Skim Amanah Saham Bumiputera - 8.1

Forecast Revision (%)

	FY16	FY17
Forecast Revision (%)	4.8	0.0
Core Net Profit (RMm)	1,873	1,854
Consensus	1,899	1,874
TA/Consensus (%)	98.6	98.9
Previous Rating	Sell (Maintained)	

Scorecard

	% of FY	
vs TA	79.3	Within
vs Consensus	74.8	Within

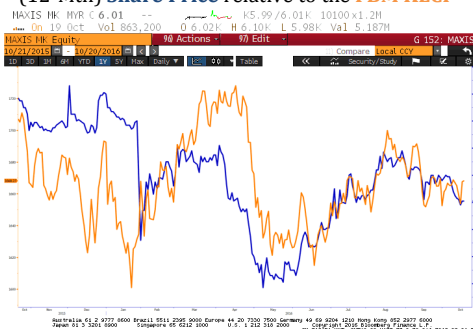
Financial Indicators

	FY16	FY17
Net gearing (x)	1.9	1.7
FCF per share (RM)	54.1	46.5
P/FCF (x)	11.1	12.9
ROA (%)	42.5	38.8
ROE (%)	9.8	9.6
NTA/Share (RM)	(0.9)	(0.8)
P/NTA (x)	(7.0)	(7.8)

Share Performance

Price Change (%)	Maxis	FBMKLCI
1 mth	(2.3)	0.8
3 mth	(1.8)	(0.1)
6 mth	1.3	(2.4)
12 mth	(11.4)	(2.2)

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

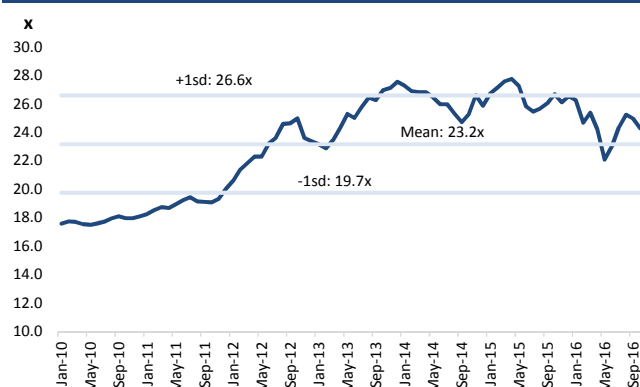
Outlook

- Guidance was unchanged from the previous quarter. Service revenue, absolute EBITDA and base capex is guided to be at similar levels to FY15. Reported numbers have thus far been relatively in line with management's guidance. Nonetheless, we remain wary of competitive challenges with the introduction of webe and a more equitable spectrum portfolio. As the MaxisONE Plan continues to be priced at a premium, we do not discount the risk of potential subscriber loss and/or ARPU pressure from downtrading of plans.
- Following the spectrum allocation exercise, the group will have a reduced 2x10MHz and 2x20MHz of 900MHz and 1800MHz band spectrum. We expect this to result in increased competition and potentially higher capex. The spectrum will cost RM816.8mn in one-off fees, coupled with annual maintenance fee of RM70.3mn. This we estimate, will reduce its FY17 and FY18 earnings by 1.4% and 2.5%. Net debt/EBITDA is expected to touch its comfortable threshold of 2.0x. However, we deem this manageable as it can opt for staggered payments.

Valuation

- We leave our TP for Maxis unchanged at RM5.80/share – based on a DCF valuation with WACC at 7.0% and long term growth rate of 1.0%. We remain negative on the stock as competitive pressures limit growth opportunities. Expecting flattish earnings coupled with its high Net debt/EBITDA, we also see limited upsides to dividends. **SELL**.

Figure 1 : Forward PE



Source: Bloomberg, TA Securities

Figure 2 : Forward EV/EBITDA



Source: Bloomberg, TA Securities

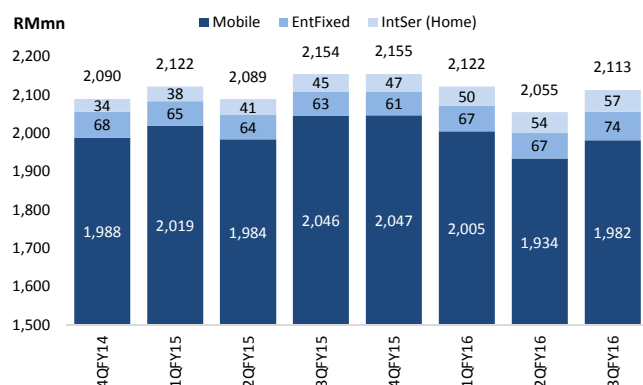
Table 1: Earnings Summary (RMmn)

FYE Dec	FY14	FY15	FY16F	FY17F	FY18F
Revenue	8,389	8,601	8,348	8,423	8,644
EBITDA	4,272	4,425	4,318	4,355	4,515
EBITDA margin (%)	50.9	51.5	51.7	51.7	52.2
Depreciation and amortisation	(1,404)	(1,431)	(1,262)	(1,332)	(1,400)
EBIT	2,868	2,994	3,056	3,023	3,116
Net finance costs	(379)	(412)	(406)	(400)	(385)
Forex	(44)	(94)	0	0	0
Others	(9)	(27)	0	0	0
Profit before tax	2,436	2,461	2,650	2,623	2,731
Taxation	(711)	(713)	(768)	(761)	(792)
MI	(7)	(8)	(9)	(9)	(9)
Profit after tax	1,717	1,739	1,873	1,854	1,930
Core net profit	1,935	1,952	1,873	1,854	1,930
EPS (sen)	25.8	26.0	24.9	24.7	25.7
EPS growth (%)	(8.1)	0.9	(4.1)	(1.0)	4.1
PER (x)	23.3	23.1	24.1	24.3	23.4
EV/EBITDA (x)	12.5	12.0	12.3	12.2	11.8
DPS (sen)	40.0	20.0	20.0	20.0	20.0
Dividend yield (%)	6.7	3.3	3.3	3.3	3.3

Table 2: 9MFY16 Results Analysis (RMmn)

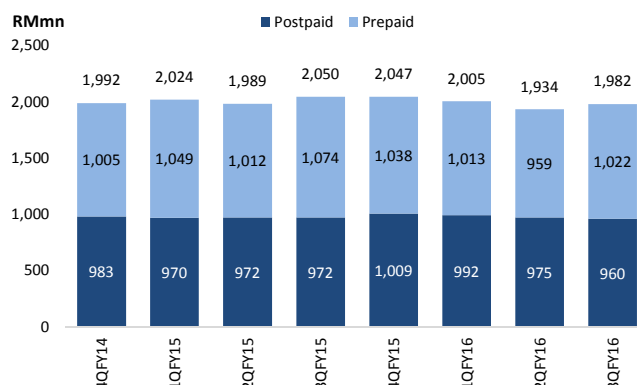
FYE Dec	3QFY15	2QFY16	3QFY16	QoQ (%)	YoY (%)	9MFY15	9MFY16	YoY (%)
Revenue	2,166	2,102	2,156	2.6	(0.5)	6,425	6,398	(0.4)
Service	2,154	2,055	2,113	2.8	(1.9)	6,365	6,290	(1.2)
Mobile	2,046	1,934	1,982	2.5	(3.1)	6,049	5,921	(2.1)
EntFixed	63	67	74	10.4	17.5	192	208	8.3
IntSer (Home)	45	54	57	5.6	26.7	124	161	29.8
Non-service	12	47	43	(8.5)	258.3	60	108	80.0
Device	4	12	23	91.7	475.0	19	47	147.4
Hubbing	4	0	0	n/a	n/a	27	2	(92.6)
Network income	4	35	20	(42.9)	400.0	14	59	321.4
EBITDA	1,021	1,050	1,130	7.6	10.7	3,169	3,393	7.1
Depreciation and amortisation	(336)	(344)	(348)	1.2	3.6	(1,054)	(1,047)	(0.7)
EBIT	685	706	782	10.8	14.2	2,115	2,346	10.9
Net finance costs	(110)	(102)	(98)	(3.9)	(10.9)	(311)	(306)	(1.6)
EI	(9)	44	(4)	(109.1)	(55.6)	(17)	22	(229.4)
Profit before tax	566	648	680	4.9	20.1	1,787	2,062	15.4
Taxation	(144)	(165)	(175)	6.1	21.5	(510)	(554)	8.6
MI	(2)	5	(2)	(140.0)	0.0	(6)	1	(116.7)
Net profit	420	488	503	3.1	19.8	1,271	1,509	18.7
Core net profit	508	426	512	20.2	0.8	1,477	1,420	(3.9)
Capex	359	333	249	(25.2)	(30.6)	712	741	4.1
EPS (sen)	5.6	6.5	6.7	3.1	19.6	17.0	20.1	18.2
DPS (sen)	5.0	5.0	5.0	0.0	0.0	15.0	15.0	0.0
Profitability ratios				p.p.	p.p.			p.p.
EBITDA margin (%)	47.1	50.0	52.4	2.5	5.3	49.3	53.0	3.7
EBIT margin (%)	31.6	33.6	36.3	2.7	4.6	32.9	36.7	3.7
PBT margin (%)	26.1	30.8	31.5	0.7	5.4	27.8	32.2	4.4
Net profit margin (%)	23.5	20.3	23.7	3.5	0.3	23.0	22.2	(0.8)
Tax rate (%)	25.4	25.5	25.7	0.3	0.3	28.5	26.9	(1.7)
Operational metrics				Net adds	Net adds			
Mobile subscriptions ('000)	13,110	12,249	12,046	-203	-1,064			
Postpaid (excl. WBB)	2,817	2,700	2,718	18	-99			
Prepaid	9,927	9,273	9,085	-188	-842			
Wireless broadband	357	276	243	-33	-114			
ARPU (RM/month)	49	49	50	2.0	2.0			
Postpaid	97	101	100	(1.0)	3.1			
Prepaid	35	34	36	5.9	2.9			

Figure 3 : Service Revenue



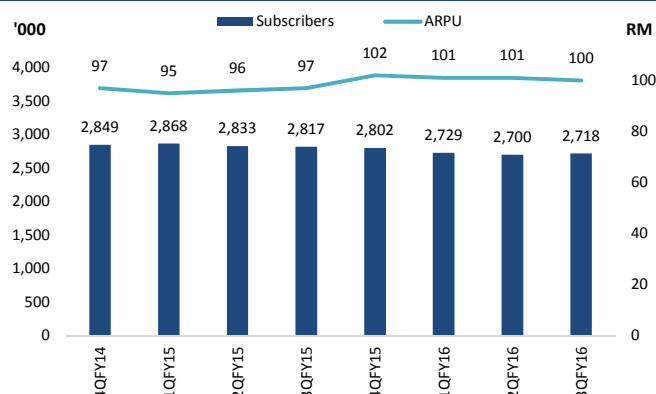
Source: Company, TA Securities

Figure 4 : Mobile Revenue



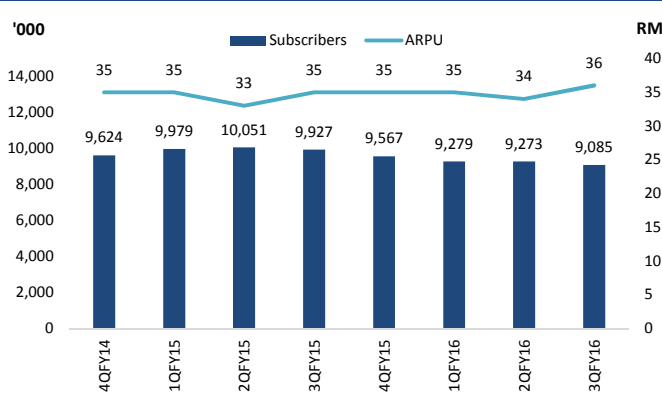
Source: Company, TA Securities

Figure 5 : Postpaid



Source: Company, TA Securities

Figure 6 : Prepaid



Source: Company, TA Securities

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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