

Company Result

10 January 2017

Maxis Bhd

SELL

Postpaid continues to lead growth

Downgraded

Share Price	RM6.29
Target Price	RM5.26

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)	7510.32
Par Value (RM)	0.10
Market cap.	RM47.24bn
52-week price Range	RM5.36 – 6.49
Beta (against KLCI)	0.70
3-m Average Daily Volume	2.28m
3-m Average Daily Value ^A	RM13.67m

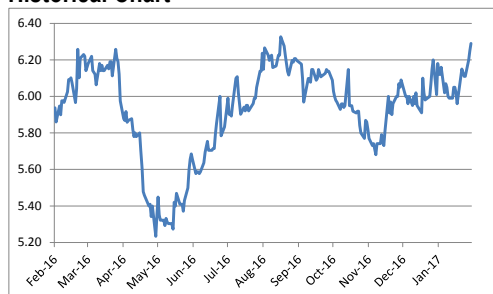
Share Performance

	1m	3m	12m
Absolute (%)	1.8	5.2	1.3
Relative (%-pts)	0.5	4.6	-0.3

Major Shareholders

	%
Binariang GSM Sdn Bhd	64.91
EPF	9.08
Skim Amanah Saham Bumiputera	8.45

Historical Chart



Source: Bloomberg

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Result

- **4Q16 normalised PAT met expectation** after rising 5.8% QoQ and 14% YoY to RM544m. Quarterly revenue increased 2.7% QoQ and 1.7% YoY to RM2.21bn on the back of higher ARPU despite less subscribers.
- **Within forecast** – Maxis' performance was within expectation as twelve months' normalized net profit made up 106% of our full year forecast. Revenue also met our forecast after accounting for 98% of our FY16 estimate.
- **Higher profit margin** – 4Q16 normalised PAT margin continued to improve after rising 0.8 percentage points to 24.6% (against 3Q16: 23.8%) while normalized EBIDTA margin increased 0.6 percentage points to 53.4%. Margins improved following ongoing operating cost control measures.
- **Higher ARPU despite losing subscribers** – Overall, blended ARPU in 4Q16 was slightly higher at RM57 (vs RM56 in 3Q16) with a smaller churn of 52k (vs 112k in 3Q16) as total subscribers declined to 10.85m from 10.9m in 3Q16.
- **Flat prepaid revenue** – Prepaid revenue was 0.2% QoQ higher but 1.3% YoY lower at RM1.02bn as ARPU increased to RM42 vs RM41 in 3Q16. Maxis lost 61k prepaid subscribers to 7.9m during the quarter (vs 101k churn in 3Q16).
- **Postpaid stabilized** – Postpaid revenue was 4.6% QoQ higher but 0.5% YoY lower at RM1bn vs RM960m in 3Q16 as ARPU increased to RM104 from RM100 in 3Q16. During the quarter Maxis added 34k postpaid subscribers (vs 18k in 3Q16) to 2.71m.

Earnings Outlook/Revision

- **Forecast maintained** – Our FY17 and FY18 estimates are maintained as we expect cost reduction measures to continue and subscribership to improve with lower churn rate.
- **Higher gearing** – Debt increased to RM9.25bn in 4Q16 from RM8.3bn 3Q16 due to financing of the spectrum fee of RM816.75m. As result, net debt/EBITDA rose to 1.88x in 4Q16 from 1.68x in 3Q16.

Valuation & Recommendation

- **Maxis announced its final interim dividend of 5 sen per share**, meeting full year forecast of 20 sen and translating into a yield of 3.2%. Due to its high gearing, we expect lower dividend of 16 sen for FY17 which translates into an unattractive yield of 2.5%.
- **Downgrade to SELL from HOLD with a lower target price of RM5.26 (from previous RM6.28)** based on DDM. Despite improved profit margins, gearing and dividend remain a concern

in our view.

Quarterly Figures

Year to 31 Dec	4Q16	3Q16	QoQ	4Q15	YoY	FY16	FY15	YoY
RM million								
Prepaid revenue	1024	1022	0.2%	1038	-1.3%	4018	4173	-3.7%
Postpaid revenue	1004	960	4.6%	1009	-0.5%	3931	3923	0.2%
MOBILE REVENUE	2028	1982	2.3%	2047	-0.9%	7949	8096	-1.8%
Enterprise Fixed	78	74	5.4%	61	27.9%	286	253	13.0%
Integrated Services	59	57	3.5%	47	25.5%	220	171	28.7%
SERVICE REVENUE	2165	2113	2.5%	2155	0.5%	8455	8520	-0.8%
Device	26	23	13.0%	12	116.7%	73	31	135.5%
Hubbing	2	0	-	4	-50.0%	4	31	-87.1%
Network income	21	20	5.0%	5	320.0%	80	19	321.1%
TOTAL REVENUE	2214	2156	2.7%	2176	1.7%	8612	8601	0.1%
Normalised EBITDA	1183	1139	3.9%	1121	5.5%	4484	4425	1.3%
Normalised EBITDA margin	53.4%	52.8%	+0.6p.p	51.5%	+1.9p.p	52.1%	51.4%	+0.7p.p
Normalised PAT	544	514	5.8%	477	14.0%	1963	1960	0.2%
Normalised PAT margin	24.6%	23.8%	+0.8p.p	21.9%	+2.7p.p	22.8%	22.8%	-
SUBSCRIBERS								
Prepaid (million)	7946	8007	-0.8%	8520	-6.7%			
Postpaid (million)	2712	2678	1.3%	2765	-1.9%			
TOTAL (million)	10851	10903	-0.5%	11579	-6.3%			
ARPU (RM)								
Prepaid	42	41	2.4%	39	7.7%			
Postpaid	104	100	4.0%	102	2.0%			
Blended	57	56	1.8%	54	5.6%			

Financial Summary

Year to 31 Dec (RM m)	2012	2013	2014	2015	2016	2017F	2018F
Revenue	8967	9084	8389	8601	8612	9022	9136
EBITDA	4359	4310	4229	4331	4484	4555	4675
PAT	1860	1772	1725	1747	1963	1996	2067
EPS (sen)	24.7	23.5	23.0	23.2	26.1	26.6	27.5
P/E (x)	25.5	26.8	27.4	27.1	24.1	23.7	22.9
DPS (sen)	40.0	40.0	40.0	20.0	20.0	16.0	16.0
Dividend yield (%)	6.4%	6.4%	6.4%	3.2%	3.2%	2.5%	2.5%
EBITDA margin	48.61%	47.45%	50.41%	50.35%	52.07%	50.49%	51.17%
Net profit margin	20.74%	19.51%	20.56%	20.31%	22.79%	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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