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RESULTS UPDATE
Friday, February 10, 2017
FBMKLCI: 1,688.50
Sector: Telco

Maxis Berhad

Better ARPU Helps Offset Subscriber Loss

TP: RM5.95 *(-5.4%)*

Last Traded: RM6.29

SELL

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Review

- Maxis announced a FY16 core net profit of RM1,963mn (+14.3% QoQ, +0.6% YoY). Albeit at the higher end, results were within ours and consensus expectations at 104.8% and 103.6%. A fourth interim dividend of 5.0sen (YTD: 20sen) was declared, unchanged from the previous year.
- **QoQ**. Ending the year on a strong note, mobile service revenue (+2.3% QoQ) increased for the second consecutive quarter. Blended ARPU rose to RM52 (+4.0% QoQ) – lifted by mobile internet and roaming revenue. Postpaid subscribers have stabilised (after 13 consecutive QoQ declines), reporting 5k in net adds. However, prepaid subscribers remained on a downtrend with net churns of 125k individuals. Normalised EBITDA margins improved 0.7pp due to more efficient marketing spend (-13.0% QoQ).
- **YoY**. Service revenue stood flat at RM8.5bn. A fall in mobile service revenue (-1.8% YoY), was offset by EntFixed (+13.0% YoY) and IntServices (+28.7% YoY) revenues. Prepaid revenue fell 3.7% YoY, as intense competition led to net churns of 607k prepaid subscribers. Partly offsetting this, prepaid ARPU increased to RM37 (+5.7% YoY). This was aided by take up of Hotlink FAST plans (4Q2016: 1.5mn users), with FAST mobile internet users reporting 20% higher ARPU as compared to its legacy base. Prepaid data usage more than doubled to 3.3GB/month.
- Postpaid revenues performed better. Similar to its prepaid segment, a decline in postpaid subscribers (-161k individuals) were offset by higher postpaid ARPU. Postpaid ARPU increased to RM104, driven by MaxisONE Plan (MOP) subscribers. Its MOP subscriber base has doubled to 1.7mn subscribers, with higher ARPUs of RM127 (22.1% premium). In November 2016, MOP were once again upgraded with increased data allocations. While down trading remains a concern for us, management alluded that it has become more manageable.
- On better cost management initiatives, normalised EBITDA margins improved 0.7pp to 52.1%. Sales and marketing expenses decreased 4.2% YoY, with the rollout of more targeted ads and a shift from traditional to digital advertising mediums.

Impact

- Adjusting for year-end numbers and increasing our postpaid revenue and depreciation expenses assumptions, we tweak our FY17/FY18 earnings by 1.7/-1.0% to RM1,885mn/RM1,911mn. We also introduce our FY19 earnings of RM1,948mn.

Outlook

- Guidance for 2017 was revealed. Little changed, service revenue, absolute EBITDA and base capex were guided at similar levels to FY16. Priorities will be focused on core customer propositions, customer experience and maintaining its network quality advantage. We remain wary of competition moving into 2017. We believe it will remain intense,

Share Information

Bloomberg Code	MAXIS MK
Stock Code	6012
Listing	Main Market
Share Cap (mn)	7,510.3
Market Cap (RMmn)	47,239.9
Par Value (RM)	1.00
52-wk Hi/Lo (RM)	6.49/5.36
12-mth Avg Daily Vol ('000 shrs)	2,876
Estimated Free Float (%)	11.9
Beta	0.7
Major Shareholders (%)	
	Binariang GSM - 64.9
	EPF - 9.1
	Skim Amanah Saham Bumiputera - 8.5

Forecast Revision (%)

	FY17	FY18
Forecast Revision (%)	1.7	(1.0)
Core Net Profit (RMm)	1,885	1,911
Consensus	1,866	1,864
TA/Consensus (%)	101.0	102.5
Previous Rating	Sell (Maintained)	

Scorecard

	% of FY	
vs TA	104.8	Within
vs Consensus	103.6	Within

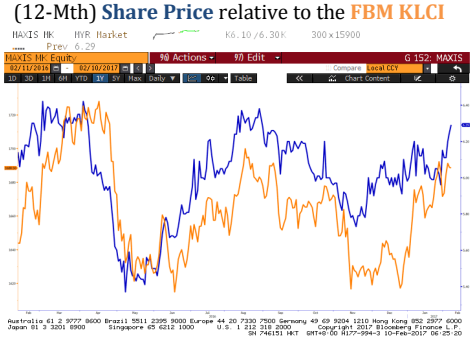
Financial Indicators

	FY17	FY18
Net debt/EBITDA (x)	1.8	1.6
FCF per share (RM)	69.5	49.2
P/FCF (x)	9.0	12.8
ROA (%)	38.3	35.9
ROE (%)	9.5	9.5
NTA/Share (RM)	(0.8)	(0.7)
P/NTA (x)	(8.0)	(9.0)

Share Performance

Price Change (%)	Maxis	FBMKLCI
1 mth	1.8	1.2
3 mth	7.2	2.5
6 mth	(0.8)	1.0
12 mth	1.3	1.6

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



Source: Bloomberg

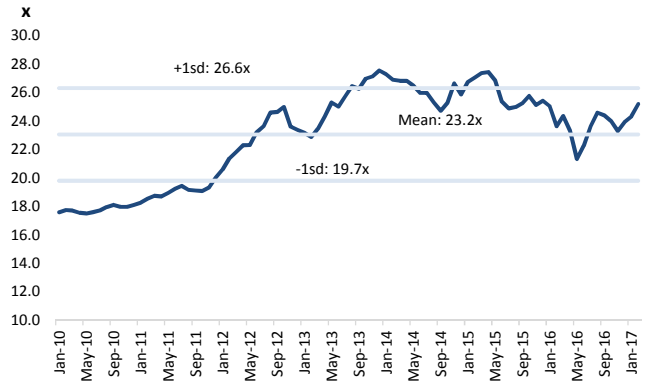
premised on efforts by webe and Celcom to gain/regain market share, coupled with a more equitable spectrum portfolio in the 2H2017. As the MOP remains priced at a premium, we also do not discount further potential subscriber loss and ARPU pressure from downtrading.

- Its Net debt/EBITDA currently stands at 1.9x – close to its comfortable threshold of 2.0x. Given the flattish outlook and further spectrum reviews around the corner, we believe there are limited upsides to dividends in the near future.

Valuation

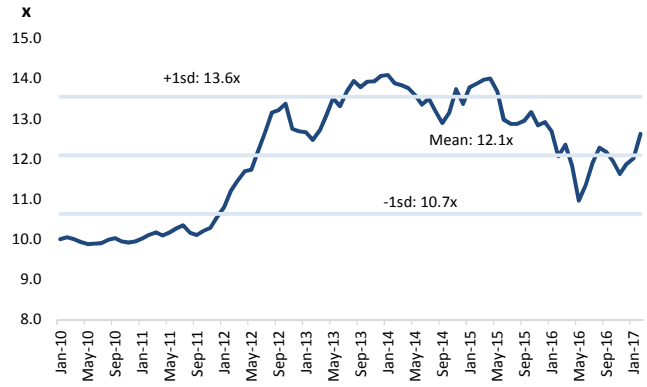
- We raise our TP for Maxis to RM5.95/share – based on a DCF valuation with WACC at 7.0% and long term growth rate of 1.0%. Nonetheless, we remain negative on the stock, premised on limited growth opportunities and dividend upsides. Key risks include: 1) Ability to maintain premium pricing; 2) Further spectrum reviews and 3) Leveraged position with Net debt/EBITDA at 1.9x. We believe the stock is fairly valued, as at 12.6x EV/EBITDA it trades slightly above its historical average of 12.1x. **SELL**.

Figure 1 : Forward PE



Source: Bloomberg, TA Securities

Figure 2 : Forward EV/EBITDA



Source: Bloomberg, TA Securities

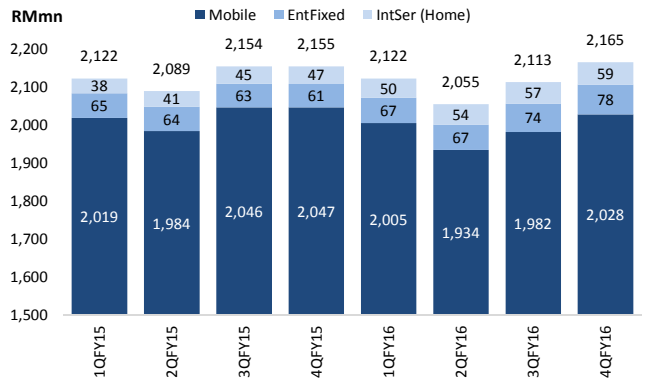
Table 1: Earnings Summary (RMmn)

FYE Dec	FY15	FY16	FY17F	FY18F	FY19F
Revenue	8,601	8,612	8,604	8,741	8,880
EBITDA	4,331	4,551	4,464	4,509	4,557
EBITDA margin (%)	50.4	52.8	51.9	51.6	51.3
Depreciation and amortisation	(1,431)	(1,431)	(1,388)	(1,435)	(1,453)
EBIT	2,899	3,120	3,076	3,075	3,103
Net finance costs	(412)	(415)	(408)	(371)	(347)
Others	(27)	32	0	0	0
Profit before tax	2,461	2,737	2,668	2,704	2,756
Taxation	(713)	(724)	(774)	(784)	(799)
MI	(8)	0	(9)	(9)	(9)
Profit after tax	1,739	2,013	1,885	1,911	1,948
Core net profit	1,952	1,963	1,885	1,911	1,948
EPS (sen)	26.0	26.1	25.1	25.4	25.9
EPS growth (%)	0.9	0.6	(4.0)	1.3	1.9
PER (x)	24.2	24.1	25.1	24.7	24.3
EV/EBITDA (x)	13.0	12.4	12.6	12.5	12.4
DPS (sen)	20.0	20.0	20.0	20.0	20.0
Dividend yield (%)	3.2	3.2	3.2	3.2	3.2

Table 2: FY16 Results Analysis (RMmn)

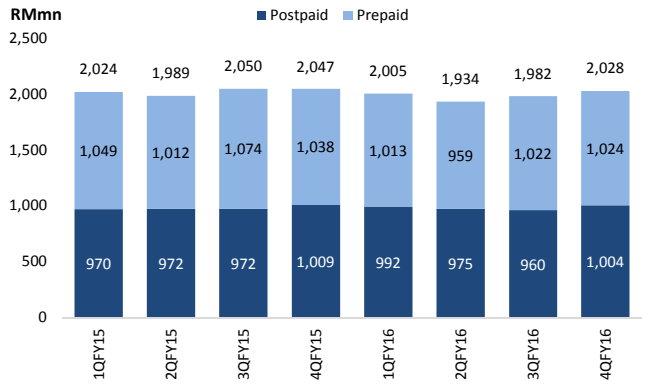
FYE Dec	4QFY15	3QFY16	4QFY16	QoQ (%)	YoY (%)	FY15	FY16	YoY (%)
Revenue	2,176	2,156	2,214	2.7	1.7	8,601	8,612	0.1
Service	2,155	2,113	2,165	2.5	0.5	8,520	8,455	(0.8)
Postpaid	1,009	960	1,004	4.6	(0.5)	3,923	3,931	0.2
Prepaid	1,038	1,022	1,024	0.2	(1.3)	4,173	4,018	(3.7)
EntFixed	61	74	78	5.4	27.9	253	286	13.0
IntSer (Home)	47	57	59	3.5	25.5	171	220	28.7
Non-service	21	43	49	14.0	133.3	171	157	(8.2)
Device	12	23	26	13.0	116.7	31	73	135.5
Hubbing	4	0	2	n/a	(50.0)	31	4	(87.1)
Network income	5	20	21	5.0	320.0	19	80	321.1
EBITDA	1,162	1,130	1,158	2.5	(0.3)	4,331	4,551	5.1
Depreciation and amortisation	(378)	(348)	(384)	10.3	1.6	(1,432)	(1,431)	(0.1)
EBIT	784	782	774	(1.0)	(1.3)	2,899	3,120	7.6
Net finance costs	(101)	(98)	(109)	11.2	7.9	(412)	(415)	0.7
EI	(10)	(4)	10	(350.0)	(200.0)	(27)	32	(218.5)
Profit before tax	673	680	675	(0.7)	0.3	2,460	2,737	11.3
Taxation	(203)	(175)	(170)	(2.9)	(16.3)	(713)	(724)	1.5
MI	(2)	(2)	(1)	(50.0)	(50.0)	(8)	0	(100.0)
Net profit	468	503	504	0.2	7.7	1,739	2,013	15.8
Core net profit	475	512	543	6.1	14.3	1,952	1,963	0.6
Capex	635	249	448	79.9	(29.4)	1,304	1,185	(9.1)
EPS (sen)	6.2	6.7	6.7	0.0	8.1	23.2	26.8	15.5
DPS (sen)	5.0	5.0	5.0	0.0	0.0	20.0	20.0	0.0
Profitability ratios				**pp**	**pp**			**pp**
EBITDA margin (%)	53.4	52.4	52.3	(0.1)	(1.1)	50.4	52.8	2.5
EBIT margin (%)	36.0	36.3	35.0	(1.3)	(1.1)	33.7	36.2	2.5
PBT margin (%)	30.9	31.5	30.5	(1.1)	(0.4)	28.6	31.8	3.2
Net profit margin (%)	21.8	23.7	24.5	0.8	2.7	22.7	22.8	0.1
Tax rate (%)	30.2	25.7	25.2	(0.6)	(5.0)	29.0	26.5	(2.5)
Total expenses (normalised)	1,055	1,017	1,031	14.0	(24.0)	4,176	4,128	(1.1)
Direct expenses	678	679	687	8.0	9.0	2,728	2,726	(0.1)
Indirect expenses	377	338	344	6.0	(33.0)	1,448	1,402	(3.2)
S&M	98	108	95	(13.0)	(3.0)	405	388	(4.2)
Staff costs	117	126	122	(4.0)	5.0	480	490	2.1
Bad debts	6	22	17	(5.0)	11.0	29	83	186.2
G&A	156	82	110	28.0	(46.0)	534	441	(17.4)
Operational metrics				**Net adds**	**Net adds**			
Mobile subscriptions ('000)	12,694	12,046	11,926	-120	-768			
Postpaid (excl. WBB)	2,802	2,718	2,758	40	-44			
Prepaid	9,567	9,085	8,960	-125	-607			
Wireless broadband	325	243	208	-35	-117			
ARPU (RM/month)	50	50	52	4.0	4.0			
Postpaid	102	100	104	4.0	2.0			
Prepaid	35	36	37	2.8	5.7			

Figure 3 : Service Revenue



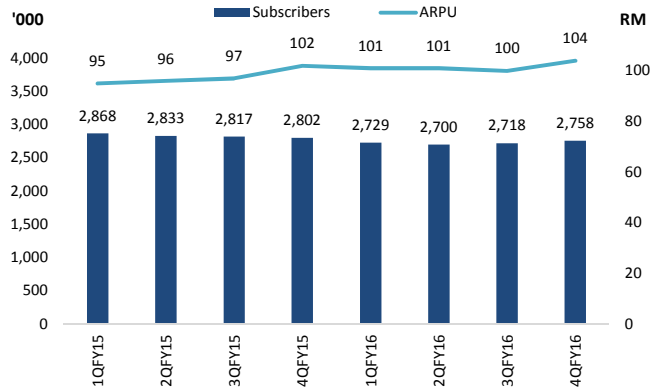
Source: Company, TA Securities

Figure 4 : Mobile Revenue



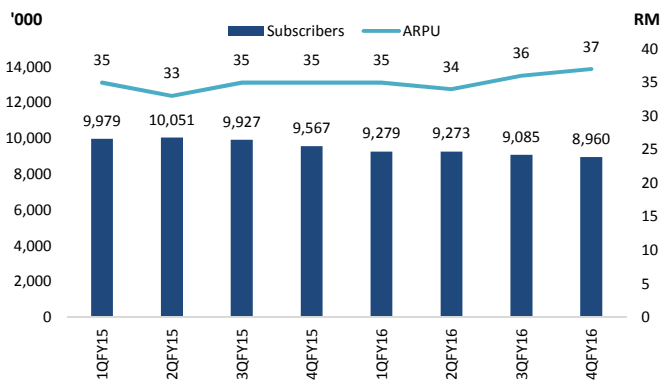
Source: Company, TA Securities

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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for TA SECURITIES HOLDINGS BERHAD(14948-M)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

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