

16 August 2019

Maxis Bhd

Partnering with Astro

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MAXIS has entered into a strategic partnership with ASTRO to provide fibre broadband bundled with TV content. This provides new and existing customers a more affordable pricing for both services, which leans to expand MAXIS's broadband user base, albeit not as large as its mobile segment. However, we expect meaningful earnings only in the longer term. Hence, we leave our UP call with our DCF-driven TP of RM4.90 unchanged for now.

Packaging a value-for-money deal. MAXIS and ASTRO have announced a strategic marketing partnership between both parties to offer bundled broadband with content. ASTRO will launch new bundles of MAXIS's 30 Mbps and 100 Mbps broadband and content packages which could save customers up to RM720 on a 24-month contract (*refer to overleaf*). Existing subscribers of either service appear to be able to seamlessly repackage their current plans to accommodate the new bundles.

A win-win situation. Overall, we are positive on this development as this allows both companies to leverage their individual strength and create new revenue streams by introducing new customers. For MAXIS, this means potentially higher subscription for MAXIS's Broadband segment given its better value proposition (broadband with content). Subsequently, ASTRO could tap into a bigger customer base to address its gradually declining subscription revenue through: (i) upselling better TV packages, and (ii) promoting its home shopping segment (Astro's Go Shop) which is accessible in all its TV packages. MAXIS could further see a surge in demand for data as more engaged customers could utilise the portable Astro GO mobile platform. Additionally, synergies from here could open up to less marketing needs and a larger pool of paying customers should translate favourably to group earnings.

Paths converging. The move is in-line with the group's 2023 plans to evolve into a leading converged communications provider. To recap, the group aims to achieve targeted service revenue of RM10.0b by then, with productivity gains of RM1.0b. The partnership also appears timely in silencing ongoing market talks on a potential merger between both companies. By the looks of it, we believe that this partnership would have been more ideal as opposed to consolidating the two companies as both shareholders' interests remained intact. While any positive traction from this would undoubtedly benefit the group, it may not overwhelm its bread and butter mobile prepaid and postpaid business (c.80% of revenue) with c.10m subscribers as opposed to c.276k home fibre connections in 2Q19. Hence, we make no changes.

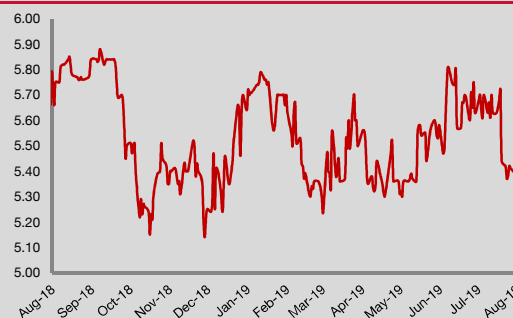
Maintain UNDERPERFORM and DCF-driven TP of RM4.90. Our target price (based on WACC: 8.8%, TG: 1.5%) implies a 12.0x FY20E EV/Fwd. EBITDA, which is close to the stock's -1SD over its 3-year mean. While the group continues to keep a focused approach with its capex plans and investments, the group is sidelined by fundamentally better peers (i.e. DIGI with stronger margins, dividend yields and ROE). Additionally, merger talks are driving investors' interests towards other players.

Risks to our call include: (i) higher-than-expected service revenue growth, (ii) lower-than-expected OPEX, and (iii) less aggressive competition.

UNDERPERFORM ↔

Price : **RM5.46**
Target Price : **RM4.90** ↔

Share Price Performance



KLCI	1,600.29
YTD KLCI chg	-5.3%
YTD stock price chg	2.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MAXIS MK Equity
Market Cap (RM m)	42,699.8
Shares Outstanding	7,820.5
52-week range (H)	5.89
52-week range (L)	5.13
3-mth avg daily vol	2,058,003
Free Float	65%
Beta	0.9

Major Shareholders

Binariang GSM Sdn Bhd	62.3%
Employees Provident Fund	11.4%
Skim Amanah Saham	8.1%

Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Turnover	9,192	9,032	9,082
EBITDA	3,781	3,646	3,674
EBIT	2,713	2,448	2,484
PBT	2,369	2,109	2,186
Net Profit	1,780	1,582	1,640
Core Net Profit	1,767	1,571	1,640
Consensus (NP)	-	1,621	1,672
Earnings Revision	-	0.0%	0.0%
EBITDA margin	41.1%	40.4%	40.5%
Core EPS (sen)	22.6	20.1	21.0
Core EPS growth (%)	-14.8%	-11.1%	4.4%
NDPS (sen)	20.0	17.0	17.0
BVPS (RM)	0.9	0.9	1.0
PER (x)	24.2	27.2	26.0
PBV (x)	6.0	5.8	5.5
Net Gearing (x)	1.0	0.8	0.8
Net Div. Yield (%)	3.7%	3.1%	3.1%



Bundled plans

A bundle that suits your needs



Add On Broadband

Existing Astro customers can add on Broadband and save up to RM720*

Maxis 30Mbps	RM89/month
Maxis 100Mbps	RM129/month

**Savings are subject to package selection. Price shown is exclusive of Govt. Tax.*



Astro + Broadband

New customers can sign up for Astro & Broadband and save up to RM720*

Maxis 30Mbps	from RM128.95/month
Maxis 100Mbps	from RM168.95/month

**Savings are subject to package selection. Price shown is exclusive of Govt. Tax.*

Maxis 30Mbps

SAVE UP TO RM120*
across 24 months

Family Pack + 30Mbps Home Broadband

Bundle price is from RM123.95*/month.
Broadband RM89 + Family Pack from RM39.95 - RM 5 auto-debit

- Entertainment anytime, anywhere with Astro GO
- Cash Rebates up to RM120* with auto-debit
- 90 days access to HD service OR preview of Sports Pack's channels

SAVE UP TO RM240*
across 24 months

Value Pack + 30Mbps Home Broadband

Bundle price is from RM159*/month.
Broadband RM89 + Value Pack from RM80 - RM5 rebates - RM5 auto-debit

- Entertainment anytime, anywhere with Astro GO
- Cash Rebates up to RM120*
- Extra rebates up to RM120* with auto-debit

SAVE UP TO RM240*
across 24 months

Sports Pack Ala Carte + 30Mbps Home Broadband

Bundle price is from RM169.95*/month.
Broadband RM89 + Sports Pack from RM90.95 - RM5 rebates - RM5 auto-debit

- Entertainment anytime, anywhere with Astro GO
- Cash Rebates up to RM120*
- Extra rebates up to RM120* with auto-debit

SAVE UP TO RM480*
across 24 months

Super Pack + 30Mbps Home Broadband

Bundle price is from RM215*/month.
Broadband RM89 + Super Pack from RM146 - RM15 rebates - RM5 auto-debit

- Entertainment anytime, anywhere with Astro GO
- Cash Rebates up to RM360*
- Extra rebates up to RM120* with auto-debit

SAVE UP TO RM480*
across 24 months

Super Pack Plus + 30Mbps Home Broadband

Bundle price is from RM247*/month.
Broadband RM89 + Super Pack Plus from RM178 - RM15 rebates - RM5 auto-debit

- Entertainment anytime, anywhere with Astro GO
- Cash Rebates up to RM360*
- Extra rebates up to RM120* with auto-debit

Maxis 100Mbps

SAVE UP TO RM120*
across 24 months

Family Pack + 100Mbps Home Broadband

Bundle price is from RM163.95*/month.
Broadband RM129 + Family Pack from RM39.95 - RM5 auto-debit

- Entertainment anytime, anywhere with Astro GO
- Cash Rebates up to RM120* with auto-debit
- 90 days access to HD service OR preview of Sports Pack's channels

SAVE UP TO RM480*
across 24 months

Value Pack + 100Mbps Home Broadband

Bundle price is from RM189*/month.
Broadband RM129 + Value Pack from RM80 - RM15 rebates - RM5 auto-debit

- Entertainment anytime, anywhere with Astro GO
- Cash Rebates up to RM360*
- Extra rebates up to RM120* with auto-debit

SAVE UP TO RM480*
across 24 months

Sports Pack Ala Carte + 100Mbps Home Broadband

Bundle price is from RM199.95*/month.
Broadband RM129 + Sports Pack from RM90.95 - RM15 rebates - RM5 auto-debit

- Entertainment anytime, anywhere with Astro GO
- Cash Rebates up to RM360*
- Extra rebates up to RM120* with auto-debit

SAVE UP TO RM720*
across 24 months

Super Pack + 100Mbps Home Broadband

Bundle price is from RM245*/month.
Broadband RM129 + Super Pack from RM146 - RM25 rebates - RM5 auto-debit

- Entertainment anytime, anywhere with Astro GO
- Cash Rebates up to RM600*
- Extra rebates up to RM120* with auto-debit

SAVE UP TO RM720*
across 24 months

Super Pack Plus + 100Mbps Home Broadband

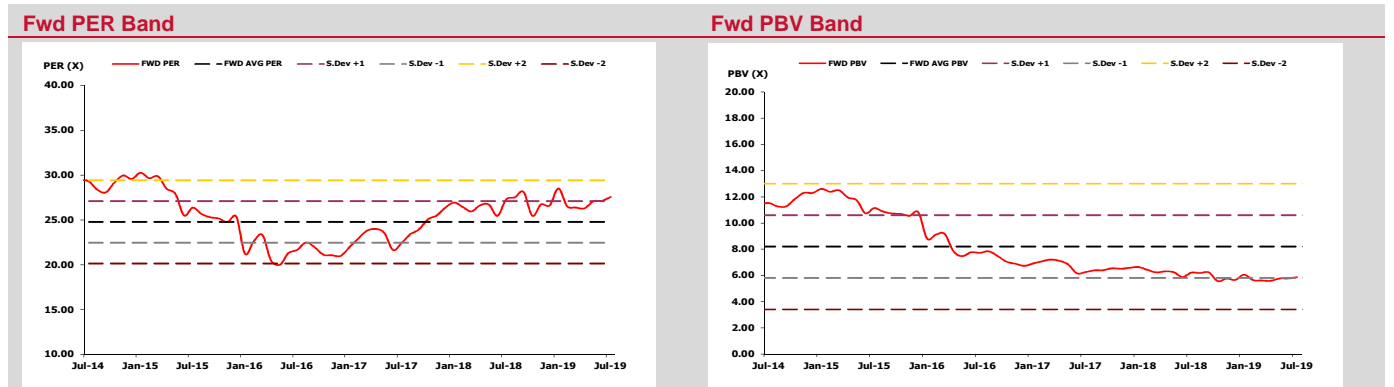
Bundle price is from RM277*/month.
Broadband RM129 + Super Pack Plus from RM178 - RM25 rebates - RM5 auto-debit

- Entertainment anytime, anywhere with Astro GO
- Cash Rebates up to RM600*
- Extra rebates up to RM120* with auto-debit

Source: Astro, Kenanga Research

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E	FY Dec (RM'm)	2016A	2017A	2018A	2019E	2020E
Revenue	8,612	9,419	9,192	9,032	9,082	Growth (%)					
EBITDA	4,583	4,296	3,781	3,646	3,674	Turnover	24.6%	9.4%	-2.4%	-1.7%	0.6%
Depreciation	(1,431)	(1,033)	(1,068)	(1,198)	(1,190)	EBITDA	53.0%	-6.3%	-12.0%	-3.6%	0.8%
Operating Profit	3,152	3,262	2,713	2,448	2,484	Operating Profit	33.9%	3.5%	-16.8%	-9.8%	1.5%
Interest Inc/(Exp)	(415)	(384)	(344)	(339)	(298)	PBT	18.5%	5.2%	-17.7%	-11.0%	3.7%
Associate Earnings	-	-	-	-	-	Core Net Profit	14.0%	5.6%	-14.8%	-11.1%	4.4%
Profit Before Tax	2,737	2,878	2,369	2,109	2,186	Profitability (%)					
Taxation	(724)	(698)	(589)	(527)	(547)	Operating Margin	36.6%	34.6%	29.5%	27.1%	27.4%
Net Profit	2,013	2,180	1,780	1,582	1,640	PBT Margin	31.8%	30.6%	25.8%	23.4%	24.1%
Core Net Profit	1,963	2,073	1,767	1,571	1,640	Core NP Margin	22.8%	22.0%	19.2%	17.4%	18.1%
						Effective Tax	26.5%	24.3%	24.9%	25.0%	25.0%
						ROA	16.6%	11.2%	9.1%	7.9%	8.1%
						ROE	45.2%	37.4%	25.3%	21.7%	21.7%
						DuPont Analysis					
						Net Margin	22.8%	22.0%	19.2%	17.4%	18.1%
						Assets Turnover (x)	0.4	0.5	0.5	0.4	0.4
						Leverage Factor (x)	4.2	2.8	2.8	2.7	2.6
						ROE	45.2%	37.4%	25.3%	21.7%	21.7%
						Leverage					
						Debt/Asset (x)	0.5	0.4	0.4	0.4	0.4
						Debt/Equity (x)	2.1	1.1	1.1	1.0	1.0
						Net (Cash)/Debt	9,182	7,043	7,080	6,165	6,063
						Net Debt/Equity (x)	1.9	1.0	1.0	0.8	0.8
						Valuations					
						Core EPS (sen)	25.1	26.5	22.6	20.1	21.0
						NDPS (sen)	20.0	20.0	20.0	17.0	17.0
						BVPS (RM)	0.6	0.9	0.9	0.9	1.0
						PER (x)	21.7	20.6	24.2	27.2	26.0
						Div. Yield	3.7%	3.7%	3.7%	3.1%	3.1%
						PBV (x)	9.0	6.1	6.0	5.8	5.5
						EV/EBITDA (x)	11.3	11.6	13.2	13.4	13.3

Source: Kenanga Research



Source: Bloomberg, Kenanga Research

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Peer Table Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
Stocks Under Coverage																	
AXIATA GROUP BHD	5.00	45,643.2	Y	12/2019	4.8%	-0.9%	3.9%	22.7%	44.8	43.1	35.2	2.0	1.9	4.5%	2.0%	4.55	UP
DIGI.COM BHD	4.99	38,797.3	Y	12/2019	-6.3%	3.1%	-9.2%	0.9%	25.2	27.7	27.5	57.6	56.5	205.7%	3.6%	4.70	MP
MAXIS BHD	5.46	42,699.8	Y	12/2019	-1.7%	0.6%	-11.1%	4.4%	24.2	27.2	26.0	6.0	5.8	21.6%	3.1%	4.90	UP
OCK GROUP BHD	0.545	475.0	Y	12/2019	9.7%	11.3%	12.8%	8.4%	17.8	15.8	14.6	1.0	0.9	5.9%	0.0%	0.630	OP
TELEKOM MALAYSIA BHD	4.09	15,397.6	Y	12/2019	-2.9%	0.3%	33.0%	7.2%	24.4	18.4	17.1	2.2	2.2	11.8%	4.4%	3.95	MP
Simple Average					0.7%	2.9%	5.9%	8.7%	27.3	26.4	24.1	13.7	13.4	49.9%	2.6%		
Stocks Not Under Coverage - Consensus																	
TIME DOT COM BHD	8.93	5,218.4	Y	12/2019	11.1%	11.0%	8.8%	9.5%	18.1	16.6	15.2	2.1	1.9	11.7%	2.2%	9.86	BUY

Source: Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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