

21 February 2020

# Maxis Bhd

## FY19 Within Expectations

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**FY19 normalised earnings of RM1.50b (-15%) and total dividends of 20.0 sen (4Q: 5.0 sen) were within expectations. Steady ARPUs and well-contained subscriber numbers paints the group's sustainability against growing competition. Meanwhile, its convergence strategies also seem to be coming to fruition with a growing fibre business. Upgrade to MARKET PERFORM with a higher DCF-driven TP of RM5.10 (from RM4.90, WACC: 8.8%, TG: 1.5%).**

**FY19 within.** FY19 normalised earnings of RM1.50b came in within both our and consensus expectations, making up 95% and 96% of respective estimates. The final dividend of 5.0 sen is also in line with expectations, amounting to a full-year payment of 20.0 sen. We anticipated a total payment of 19.0 sen a share.

**YoY,** FY19 service revenue fell to RM7.82b (-3%), stemming from lower Prepaid (-7%) and Postpaid (-3%) contributions. Though Prepaid ARPU was stable (RM42/sub), subscribers fell from the ongoing SIM consolidation and migration to attractive entry level Postpaid-plans. However, this led to a softening of ARPU (4QFY19: RM90/sub). Normalised EBITDA came in at RM3.77b (-7%), in the absence wholesale agreements this year unlike last year. FY19 normalised earnings stood at RM1.50b (-15%), as higher depreciation and interest charges were met with less taxes.

**QoQ,** 4QFY19 service revenue grew slightly (+3%) thanks to better enterprise performance. Mobile revenue was flattish as weaker Prepaid was offset by stronger Postpaid. Having incurred higher direct opex during the quarter (possibly from greater device sales), 4QFY19 normalised profit registered at RM344.0m (-5%).

**Confident to do better.** Having met their FY19 guidance, management presented their FY20 targets which lean to be fundamentally better, aiming to register flat-to-low single-digit growth for: (i) service revenue, and (ii) normalised EBITDA. Recent quarters' sustainable subscriber numbers could indicate that customer leakages are well-contained and product strategies have been effective. Growth in the home-fibre segment (aided by bundled packages with partners) serves to also build the group's recurring revenue base, in line with the group's vision to be a converged solutions provider. That being said, possible participation in developing the nation's 5G infrastructure could alter the group's strategies and capex commitments. Further clarity could arise in the coming weeks from MCMC, paving the way to the intended 5G commercialisation timeline of 3QCY20.

**Post-results,** we introduce our FY21E numbers.

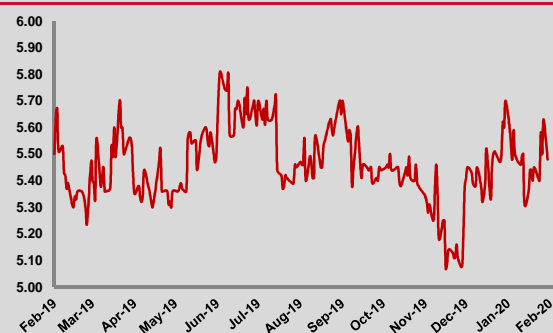
**Upgrade to MARKET PERFORM with a higher DCF-driven TP of RM5.10 (from RM4.90).** While we maintain our DCF assumptions (WACC: 8.8%, TG: 1.5%), our upgrade is mainly premised on a better long-term projected outlook for the stock. Current price levels and target price could also be fair, close within the stock's 3-year average of its EV/fwd EBITDA. We believe investors could be hesitant on the stock and its peers currently, awaiting further developments in the 5G scene. For now, we opine MAXIS could be a stable option for its long-term trajectory as well as decent dividends (albeit not the industry's highest).

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

# MARKET PERFORM ↑

**Price :** **RM5.40**  
**Target Price :** **RM5.10** ↑

### Share Price Performance



KLCI 1,534.98  
YTD KLCI chg -3.4%  
YTD stock price chg 1.5%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MAXIS MK Equity
Market Cap (RM m)	42,230.7
Shares Outstanding	7,820.5
52-week range (H)	5.81
52-week range (L)	5.07
3-mth avg daily vol:	1,586,611
Free Float	20%
Beta	1.0

### Major Shareholders

Binariang GSM Sdn Bhd	62.3%
Employees Provident Fund	11.2%
Skim Amanah Saham	8.1%

### Summary Earnings Table

FYE Dec (RM m)	2019A	2020E	2021E
Turnover	9,313	9,690	9,869
EBITDA	3,700	3,881	3,943
EBIT	2,435	2,621	2,660
PBT	2,036	2,182	2,229
<b>Net Profit</b>	<b>1,519</b>	<b>1,637</b>	<b>1,671</b>
<b>Core Net Profit</b>	<b>1,500</b>	<b>1,637</b>	<b>1,671</b>
Consensus (NP)	-	1,605	1,690
Earnings Revision	-	-	-
EBITDA margin (%)	39.7	40.1	40.0
Core EPS (sen)	19.2	20.9	21.4
Core EPS growth (%)	-15.1	9.1	2.1
NDPS (sen)	20.0	20.0	21.0
BVPS (RM)	0.9	0.9	0.9
PER (x)	28.1	25.8	25.3
PBV (x)	6.0	5.9	5.9
Net Gearing (x)	1.2	1.1	1.0
Net Div. Yield (%)	3.7	3.7	3.9

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Result Highlight								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
<b>Turnover</b>	<b>2,590</b>	<b>2,285</b>	<b>13.3%</b>	<b>2,445</b>	<b>5.9%</b>	<b>9,313</b>	<b>9,192</b>	<b>1.3%</b>
<b>Service Revenue</b>	<b>1,992</b>	<b>1,940</b>	<b>2.7%</b>	<b>2,048</b>	<b>-2.7%</b>	<b>7,797</b>	<b>8,068</b>	<b>-3.4%</b>
EBITDA	904	945	-4.3%	762	18.6%	3,733	3,799	-1.7%
N. EBITDA	904	964	-6.2%	768	17.7%	3,768	3,843	-2.0%
EBIT	577	581	-0.7%	443	30.2%	2,440	2,713	-10.1%
PBT	472	481	-1.9%	364	29.7%	2,036	2,369	-14.1%
Taxation	-117	-123	-4.9%	-98	19.4%	-517	-589	-12.2%
<b>NP</b>	<b>355</b>	<b>358</b>	<b>-0.8%</b>	<b>266</b>	<b>33.5%</b>	<b>1,519</b>	<b>1,780</b>	<b>-14.7%</b>
<b>Core NP</b>	<b>344</b>	<b>361</b>	<b>-4.7%</b>	<b>259</b>	<b>32.8%</b>	<b>1,500</b>	<b>1,768</b>	<b>-15.2%</b>
Core EPS (sen)	4.4	4.6	-4.7%	3.3	32.7%	19.2	22.6	-14.9%
DPS (sen)	5.0	5.0		5.0		20.0	20.0	
EBITDA margin*	45.4%	48.7%		37.2%		47.9%	47.1%	
Normalised EBITDA margin*	45.4%	49.7%		37.5%		48.3%	47.6%	
EBIT margin	22.3%	25.4%		18.1%		26.2%	29.5%	
PBT margin	18.2%	21.1%		14.9%		21.9%	25.8%	
Core NP margin	13.3%	15.8%		10.6%		16.1%	19.2%	
Effective tax rate	24.8%	25.6%		26.9%		25.4%	24.9%	
<i>Note:</i>								
* Computed against service revenue								
Source: Company, Kenanga Research								

Segmental Breakdown								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
<b>Total Revenue</b>	<b>2,590</b>	<b>2,285</b>	<b>13.3%</b>	<b>2,445</b>	<b>5.9%</b>	<b>9,313</b>	<b>9,192</b>	<b>1.3%</b>
<b>Service Revenue</b>	<b>1,992</b>	<b>1,940</b>	<b>2.7%</b>	<b>2,048</b>	<b>-2.7%</b>	<b>7,797</b>	<b>8,068</b>	<b>-3.4%</b>
- Mobile Revenue	1,772	1,773	-0.1%	1,898	-6.6%	7,105	7,471	-4.9%
- Enterprise Fixed	116	72	61.1%	70	65.7%	327	283	15.5%
- Home Fibre	104	95	9.5%	80	30.0%	365	314	16.2%
<b>Non-Service Rev</b>	<b>598</b>	<b>345</b>	<b>73.3%</b>	<b>397</b>	<b>50.6%</b>	<b>1,516</b>	<b>1,124</b>	<b>34.9%</b>
- Device	576	322	78.9%	371	55.3%	1,430	1,035	38.2%
- Network Income	22	23	-4.3%	26	-15.4%	86	89	-3.4%
<b>Mobile Revenue Breakdown</b>								
- Prepaid Revenue	783	794	-1.4%	845	-7.3%	3,165	3,399	-6.9%
- Postpaid Revenue	989	979	1.0%	1,053	-6.1%	3,940	4,072	-3.2%
<b>Key Operating Indicators</b>								
			<b>Chg</b>		<b>Chg</b>			
Prepaid ARPU (RM)	42	41	1	42	0			
Postpaid ARPU (RM)	90	90	0	96	-6			
Blended ARPU (RM)	59	58	1	59	0			
Prepaid Subs (k)	6,227	6,328	-101	6,610	-383			
Postpaid Subs (k)	3,641	3,491	150	3,135	506			
WBB Subs (k)	99	106	-7	123	-24			
Total Subs (k)	9,967	9,925	42	9,868	99			
Source: Company, Kenanga Research								

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.			
<b>Stocks Under Coverage</b>																	
AXIATA GROUP BHD	4.25	38,945.2	Y	12/2019	5.5%	-0.2%	6.1%	21.1%	38.1	35.9	29.7	1.7	1.6	4.6%	2.4%	4.80	OP
DIGI.COM BHD	4.30	33,432.5	Y	12/2020	-1.4%	1.2%	-6.9%	1.7%	21.5	23.1	22.7	50.7	49.6	217.1%	4.3%	4.65	MP
MAXIS BHD	5.40	42,230.7	Y	12/2020	4.0%	1.8%	9.1%	2.1%	28.1	25.8	25.3	6.0	5.9	23.0%	3.7%	5.10	MP
OCC GROUP BHD	0.615	589.5	N	12/2019	8.3%	12.5%	15.1%	7.6%	20.1	17.5	17.8	1.1	1.0	6.0%	0.0%	0.585	MP
TELEKOM MALAYSIA BHD	3.88	14,611.2	Y	12/2019	-4.8%	1.1%	54.9%	6.1%	23.2	15.0	14.1	2.1	2.0	13.6%	3.0%	4.30	OP
<b>Simple Average</b>					<b>2.3%</b>	<b>3.3%</b>	<b>15.7%</b>	<b>7.7%</b>	<b>26.2</b>	<b>23.4</b>	<b>21.9</b>	<b>12.3</b>	<b>12.0</b>	<b>52.9%</b>	<b>2.7%</b>		
<b>Consensus Estimates</b>																	
TIME DOT COM BHD	9.40	5,504.0	Y	12/2019	11.3%	11.1%	12.1%	8.7%	19.1	17.0	15.6	2.1	2.0	12.2%	2.1%	10.32	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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