

# Maxis Bhd (MAXIS MK)

## An uninspiring end

### Awaiting enterprise accretion

4Q21 results were in line with our/consensus forecasts. 4Q is typically a weaker quarter for Maxis' earnings due to seasonally higher device sales (subsidised). The earnings accretion from Maxis' enterprise push has so far not been very apparent to us. Maintain HOLD with a lower DCF-based TP of MYR4.20 (-7%) post our earnings revisions. We prefer TM (T MK, BUY, CP: MYR5.34, TP: MYR7.40) in the Telco space.

### Results in line

Maxis' 4Q21 core net profit of MYR289m (-9% YoY, -11% QoQ) brings FY21 core net profit to MYR1,308m (-5% YoY), 1%/4% below our/consensus forecasts respectively. Maxis ceded service revenue market share to its fellow Big 3 mobile peers in the quarter. A 5sen DPS was declared, bringing full-year DPS to 17sen (unchanged YoY).

### Sequentially weaker revenue trends

In 4Q21, total service revenue declined by 0.8% QoQ, with mobile service revenue declining by 2.4% QoQ on the back of ARPU erosion at both prepaid and postpaid. Prepaid notably experienced a temporary dip from network coverage gaps post 3G sunset. Broadband (both fibre and wireless) continues to post strong subscriber gains, while financial disclosure on enterprise remains minimal. Opex meanwhile increased QoQ mainly from higher device costs, with 4Q being a seasonally busy quarter for device sales. Consequently, 4Q21 normalised EBITDA margin compressed by 5.8ppt QoQ to 37.9%.

### Maintaining its 'no guidance' stance

Management has again refrained from providing forward guidance. We lower our FY22/23 net profit forecasts by 8%/6% respectively to reflect latest run rates, and introduce FY24 forecasts. Our DCF-based TP (assuming 7.2% WACC and 2% LT growth) is consequently lowered to MYR4.20 (from MYR4.50). In our view, enterprise accretion could potentially begin to manifest more meaningfully in FY22.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	8,966	9,203	9,528	9,822	10,136
EBITDA	3,787	3,884	3,954	3,978	4,004
Core net profit	1,378	1,308	1,217	1,420	1,478
Core EPS (sen)	17.6	16.7	15.6	18.1	18.9
Core EPS growth (%)	(8.2)	(5.1)	(6.9)	16.6	4.1
Net DPS (sen)	17.0	17.0	18.0	18.0	18.0
Core P/E (x)	28.7	29.0	26.0	22.3	21.4
P/BV (x)	5.6	5.6	4.9	4.8	4.8
Net dividend yield (%)	3.4	3.5	4.4	4.4	4.4
ROAE (%)	19.6	19.0	18.4	21.7	22.5
ROAA (%)	6.4	5.9	5.4	6.2	6.3
EV/EBITDA (x)	12.8	12.1	10.3	10.2	10.1
Net gearing (%) (incl perps)	128.1	132.3	139.1	136.9	131.9
Consensus net profit	-	-	1,311	1,502	na
MKE vs. Consensus (%)	-	-	(7.1)	(5.5)	na

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# HOLD

Share Price	MYR 4.05
12m Price Target	MYR 4.20 (+8%)
Previous Price Target	MYR 4.50

### Company Description

Maxis is a leading mobile telecommunication company in Malaysia.

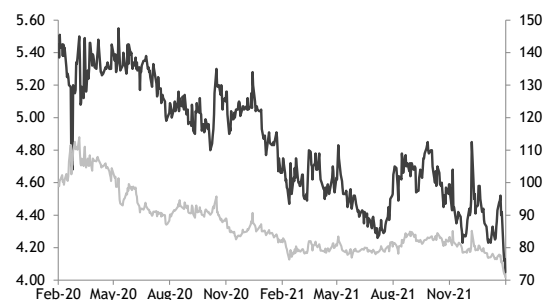
### Statistics

52w high/low (MYR)	4.85/4.05
3m avg turnover (USDm)	2.0
Free float (%)	24.0
Issued shares (m)	7,826
Market capitalisation	MYR31.7B USD7.5B

### Major shareholders:

Binariang GSM Sdn. Bhd.	62.3%
Employees Provident Fund	12.0%
Permodalan Nasional Bhd.	10.4%

### Price Performance



— Maxis - (LHS, MYR) — Maxis / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	(6)	(12)	(13)
Relative to index (%)	(10)	(15)	(15)

Source: FactSet

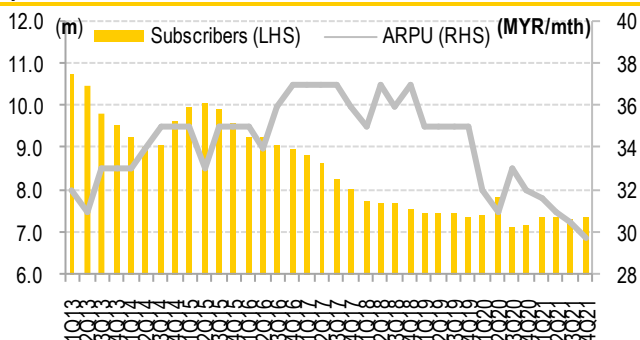
Summary Results Table - Maxis

FY Dec (MYR m)	Quarterly					Cumulative		
	4Q21	4Q20	%YoY	3Q21	%QoQ	FY21	FY20	%YoY
Revenue	2,448.0	2,261.0	8.3	2,263.0	8.2	9,203.0	8,966.0	2.6
EBITDA	929.0	928.0	0.1	990.0	(6.2)	3,884.0	3,792.0	2.4
EBIT	479.0	532.0	(10.0)	540.0	(11.3)	2,175.0	2,257.0	(3.6)
Net interest	(95.0)	(101.0)	(5.9)	(99.0)	(4.0)	(413.0)	(405.0)	2.0
Pre-tax profit	384.0	431.0	(10.9)	441.0	(12.9)	1,762.0	1,852.0	(4.9)
Tax	(95.0)	(112.0)	(15.2)	(116.0)	(18.1)	(454.0)	(470.0)	(3.4)
Minority Interests	0.0	0.0	N/A	0.0	N/A	0.0	0.0	N/A
Net profit	289.0	319.0	(9.4)	325.0	(11.1)	1,308.0	1,382.0	(5.4)
Core net profit	289.0	319.0	(9.4)	325.0	(11.1)	1,308.0	1,378.2	(5.1)
Mobile service revenue	1,674.0	1,663.0	0.7	1,715.0	(2.4)	6,740.0	6,694.0	0.7
EBITDA margin	37.9	41.0	(3.1)	43.7	(5.8)	42.2	42.3	(0.1)
Normalised EBITDA	929.0	928.0	0.1	990.0	(6.2)	3,884.0	3,787.0	2.6
Normalised EBITDA margin	37.9	41.0	(3.1)	43.7	(5.8)	42.2	42.2	(0.0)
Pre-ex EPS (sen)	3.7	4.1	(9.4)	4.2	(11.1)	16.7	17.6	(5.1)
Net DPS (sen)	5.0	5.0	0.0	4.0	25.0	17.0	17.0	0.0
Net cash/(debt)	(8,899.0)	(9,028.0)	(1.4)	(8,846.0)	0.6	(8,899.0)	(9,028.0)	(1.4)
Gearing (%)	132.3	128.1		131.3		132.3	128.1	
Capex	821.0	539.0	52.3	422.0	94.5	1,633.0	1,396.0	17.0
<b>Operations</b>								
<b>Prepaid</b>								
Subscribers, period end (m)	7.4	7.2	2.3	7.3	0.3	7.4	7.2	2.3
Net additions (m)	0.03	0.05		(0.03)		0.17	(0.18)	
Subscribers, average (m)	7.3	7.2	2.5	7.3	(0.0)	7.3	7.4	(0.9)
ARPU (MYR/month)	29.7	32.0	(7.2)	30.5	(2.6)	30.7	32.1	(4.2)
Revenue	654.6	688.3	(4.9)	672.3	(2.6)	2,701.6	2,845.9	(5.1)
<b>Postpaid</b>								
Subscribers, period end (m)	4.5	4.1	10.2	4.3	3.9	4.5	4.1	10.2
Net additions (m)	0.17	0.15		0.01		0.42	0.21	
Subscribers, average (m)	4.4	4.0	10.2	4.3	2.0	4.3	3.9	8.4
ARPU (MYR/month)	73.4	77.0	(4.7)	75.0	(2.1)	74.9	78.6	(4.7)
Revenue	969.0	922.0	5.1	970.7	(0.2)	3,833.7	3,712.0	3.3

Exceptional items comprise mainly of unrealised forex and write-backs

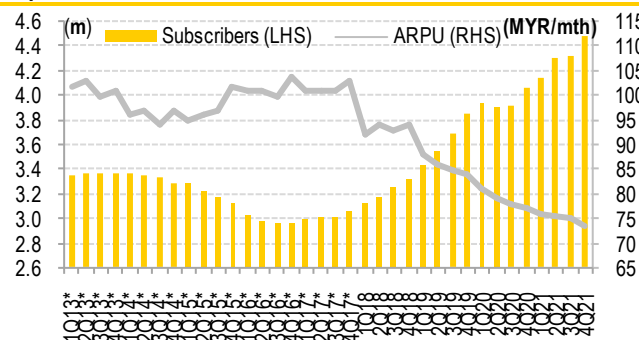
Source: Company, Maybank IBG Research

Prepaid subscribers and ARPU



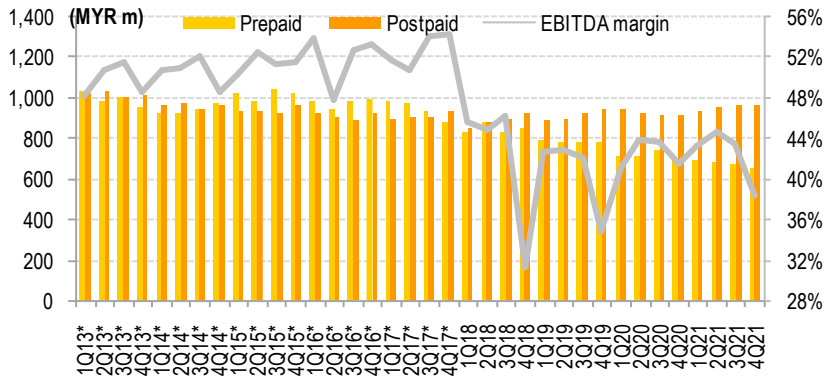
Source: Company

Postpaid subscribers and ARPU



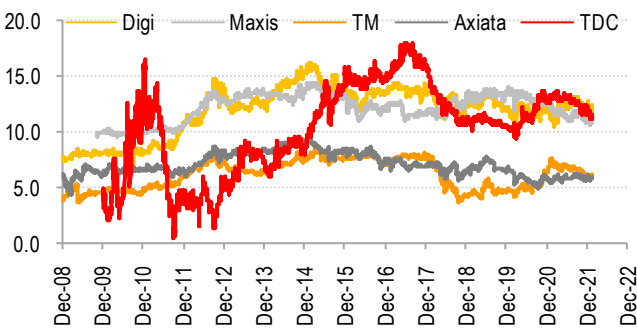
Source: Company. \*Pre-MFRS 15

**Revenue and normalised EBITDA margin (MFRS 16 started from 1Q19)**



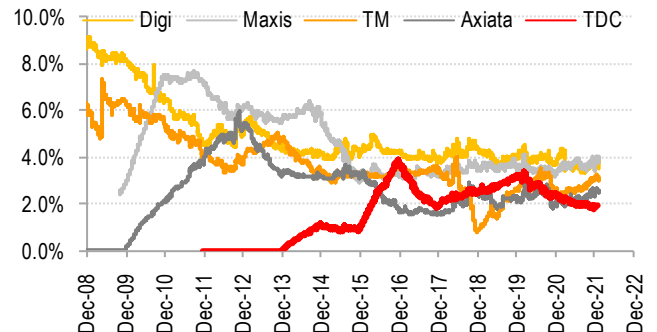
Source: Company. \*Pre-MFRS 15

**EV/EBITDA - Malaysia telcos**



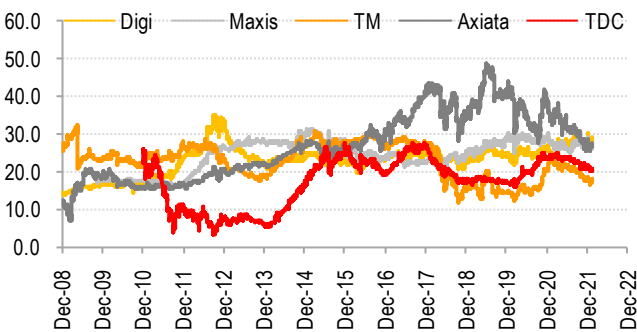
Source: Bloomberg, Maybank IBG Research

**Net dividend yield - Malaysia telcos**



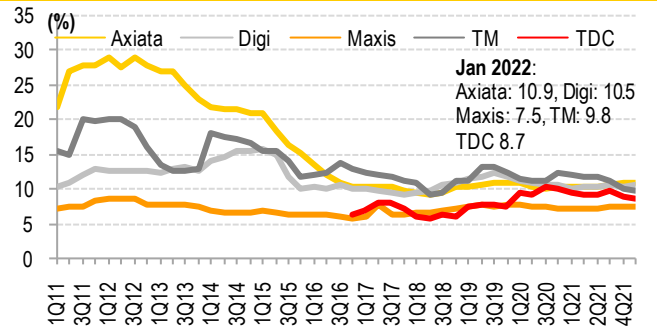
Source: Bloomberg, Maybank IBG Research

**PER - Malaysia telcos**



Source: Bloomberg, Maybank IBG Research

**Foreign shareholding**



Source: Companies

**Risk statement**

There are several risk factors for our earnings estimates, price target, and rating for Maxis. Competitive developments, such as price wars would adversely affect monetisation and thus profitability. Regulatory developments pertaining to spectrum fees, taxation or product pricing also pose a risk to Maxis' earnings.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	29.6	27.6	26.0	22.3	21.4
Core P/E (x)	28.7	29.0	26.0	22.3	21.4
P/BV (x)	5.6	5.6	4.9	4.8	4.8
P/NTA (x)	(5.6)	(5.1)	(4.1)	(4.0)	(4.1)
Net dividend yield (%)	3.4	3.5	4.4	4.4	4.4
FCF yield (%)	6.0	7.1	7.0	7.7	7.8
EV/EBITDA (x)	12.8	12.1	10.3	10.2	10.1
EV/EBIT (x)	21.5	21.5	18.5	17.7	17.1
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	8,966.0	9,203.0	9,528.3	9,822.1	10,136.4
EBITDA	3,787.0	3,884.0	3,954.2	3,977.9	4,003.9
Depreciation	(1,131.0)	(1,300.0)	(1,343.1)	(1,293.2)	(1,256.1)
Amortisation	(404.0)	(409.0)	(411.1)	(386.9)	(388.9)
EBIT	2,252.0	2,175.0	2,200.0	2,297.9	2,358.8
Net interest income / (exp)	(405.0)	(413.0)	(423.0)	(429.8)	(414.1)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	5.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	1,852.0	1,762.0	1,777.0	1,868.1	1,944.7
Income tax	(470.0)	(454.0)	(559.8)	(448.4)	(466.7)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	1,382.0	1,308.0	1,217.3	1,419.8	1,478.0
Core net profit	1,378.2	1,308.0	1,217.3	1,419.8	1,478.0
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	735.0	1,191.0	1,328.0	1,785.8	2,345.9
Accounts receivable	2,183.6	1,874.6	1,931.8	1,991.3	2,055.1
Inventory	3.0	5.0	2.9	3.0	3.1
Property, Plant & Equip (net)	4,931.0	5,193.0	4,999.9	4,856.7	4,750.6
Intangible assets	14,075.4	14,175.4	14,328.3	14,405.4	14,430.5
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	4.0	4.0	4.0	4.0	4.0
<b>Total assets</b>	<b>21,932.0</b>	<b>22,443.0</b>	<b>22,594.9</b>	<b>23,046.3</b>	<b>23,589.1</b>
ST interest bearing debt	255.0	2,034.0	2,361.0	2,688.0	3,015.0
Accounts payable	4,202.0	4,220.0	4,236.3	4,349.6	4,496.1
LT interest bearing debt	9,508.0	8,056.0	8,056.0	8,056.0	8,056.0
Other liabilities	917.0	1,408.0	1,408.0	1,408.0	1,408.0
<b>Total Liabilities</b>	<b>14,882.0</b>	<b>15,718.0</b>	<b>16,061.3</b>	<b>16,501.6</b>	<b>16,975.1</b>
Shareholders Equity	7,050.0	6,725.0	6,533.6	6,544.7	6,614.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>7,050.0</b>	<b>6,725.0</b>	<b>6,533.6</b>	<b>6,544.7</b>	<b>6,614.0</b>
<b>Total liabilities and equity</b>	<b>21,932.0</b>	<b>22,443.0</b>	<b>22,594.9</b>	<b>23,046.3</b>	<b>23,589.1</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	1,852.0	1,762.0	1,777.0	1,868.1	1,944.7
Depreciation & amortisation	1,535.0	1,709.0	1,754.2	1,680.0	1,645.1
Adj net interest (income)/exp	473.0	435.0	423.0	429.8	414.1
Change in working capital	(207.0)	101.0	(38.7)	53.6	82.7
Cash taxes paid	(355.0)	(301.0)	(559.8)	(448.4)	(466.7)
Other operating cash flow	324.0	179.0	0.0	0.0	0.0
Cash flow from operations	3,622.0	3,885.0	3,355.7	3,583.2	3,619.8
Capex	(1,244.0)	(1,187.0)	(1,150.0)	(1,150.0)	(1,150.0)
Free cash flow	2,378.0	2,698.0	2,205.7	2,433.2	2,469.8
Dividends paid	(1,330.0)	(1,330.0)	(1,408.7)	(1,408.7)	(1,408.7)
Equity raised / (purchased)	(12.0)	(7.0)	0.0	0.0	0.0
Change in Debt	0.0	250.0	327.0	327.0	327.0
Other invest/financing cash flow	(883.0)	(1,152.0)	(987.0)	(893.8)	(828.1)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	153.0	459.0	137.0	457.7	560.1

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(3.7)	2.6	3.5	3.1	3.2
EBITDA growth	1.4	2.6	1.8	0.6	0.7
EBIT growth	(6.6)	(3.4)	1.2	4.4	2.6
Pretax growth	(9.0)	(4.9)	0.9	5.1	4.1
Reported net profit growth	(9.0)	(5.4)	(6.9)	16.6	4.1
Core net profit growth	(8.1)	(5.1)	(6.9)	16.6	4.1
<b>Profitability ratios (%)</b>					
EBITDA margin	42.2	42.2	41.5	40.5	39.5
EBIT margin	25.1	23.6	23.1	23.4	23.3
Pretax profit margin	20.7	19.1	18.7	19.0	19.2
Payout ratio	96.2	101.7	115.7	99.2	95.3
<b>DuPont analysis</b>					
Net profit margin (%)	15.4	14.2	12.8	14.5	14.6
Revenue/Assets (x)	0.4	0.4	0.4	0.4	0.4
Assets/Equity (x)	3.1	3.3	3.5	3.5	3.6
ROAE (%)	19.6	19.0	18.4	21.7	22.5
ROAA (%)	6.4	5.9	5.4	6.2	6.3
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(254.8)	(216.4)	(214.9)	(210.7)	(210.2)
Days receivable outstanding	98.8	79.4	71.9	71.9	71.9
Days inventory outstanding	0.2	0.3	0.3	0.2	0.2
Days payables outstanding	353.8	296.0	287.1	282.8	282.3
Dividend cover (x)	1.0	1.0	0.9	1.0	1.0
Current ratio (x)	0.6	0.5	0.5	0.5	0.6
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.5	1.4	1.4	1.4	1.4
Net gearing (%) (incl perps)	128.1	132.3	139.1	136.9	131.9
Net gearing (%) (excl. perps)	128.1	132.3	139.1	136.9	131.9
Net interest cover (x)	5.6	5.3	5.2	5.3	5.7
Debt/EBITDA (x)	2.6	2.6	2.6	2.7	2.8
Capex/revenue (%)	13.9	12.9	12.1	11.7	11.3
Net debt/ (net cash)	9,028.0	8,899.0	9,089.0	8,958.2	8,725.1

Source: Company; Maybank

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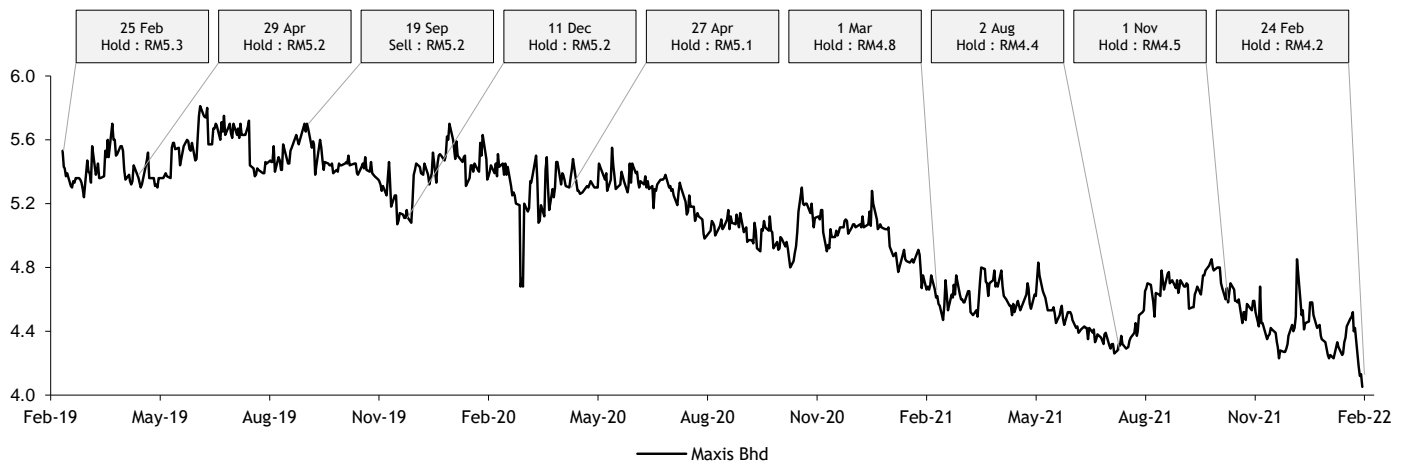
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