

Maxis Bhd (MAXIS MK)

Revising expectations

Optimising manpower

Maxis' 9M23 results were below our/consensus forecasts due to an increase in staff cost (manpower optimisation exercise). We view risk-reward as being balanced presently, with Maxis' generally stable earnings delivery being offset by a conservative dividend outlook and overall 5G uncertainty. Maintain HOLD with an unchanged DCF-based TP of MYR4.00 following our earnings revisions. We prefer TM (T MK, BUY, CP: MYR5.22, TP: MYR6.50) in the telco space.

Results below expectation

Maxis' 3Q23 core net profit of MYR287m (-9% YoY, -13% QoQ) brings 9M23 core net profit to MYR937m (-0.5% YoY), 68/69% of our/consensus full-year forecasts. The sequentially lower 3Q23 net profit was driven mainly by higher staff cost (+MYR75m higher QoQ) in relation to a manpower optimisation exercise. A 4sen DPS was declared, unchanged QoQ.

Sequentially higher revenue

In 3Q23, total service revenue was up 1.5% QoQ, with mobile service revenue up by the same quantum on the back of postpaid growth (increased subscribers offset by slightly lower ARPU). The prepaid segment was stable as Maxis recovered subscribers through a new prepaid product. Enterprise revenue was stable QoQ, while consumer fibre revenue was marginally higher. Opex was higher QoQ mainly on higher staff cost as Maxis embarked on a multi-year manpower optimisation exercise (mainly in its enterprise segment). This resulted in EBITDA margin contracting by 2.6ppt QoQ to 37.8%.

Revising earnings

Management has maintained FY23 EBITDA guidance (similar level to FY22), while lowering FY23 capex guidance (c.MYR1b from c.MYR1.1b previously). We lower our FY23/24/25 net profit forecasts by 6%/3%/3% respectively having incorporated latest run rates. Our MYR4.00 DCF-based TP (assuming 7.7% WACC and 2% LT growth) is unchanged (on lower FY23E capex).

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	9,203	9,789	10,051	10,355	10,670
EBITDA	3,884	3,939	3,917	4,035	4,147
Core net profit	1,308	1,182	1,288	1,436	1,541
Core EPS (sen)	16.7	15.1	16.4	18.3	19.7
Core EPS growth (%)	(5.1)	(9.7)	8.9	11.5	7.3
Net DPS (sen)	17.0	20.0	17.0	17.0	17.0
Core P/E (x)	29.0	25.4	24.5	22.0	20.5
P/BV (x)	5.6	4.7	5.0	4.9	4.8
Net dividend yield (%)	3.5	5.2	4.2	4.2	4.2
ROAE (%)	19.0	18.1	20.3	22.5	23.6
ROAA (%)	5.9	5.2	5.6	6.3	6.7
EV/EBITDA (x)	12.1	10.0	10.3	10.0	9.6
Net gearing (%) (incl perps)	132.3	145.0	140.6	134.9	125.5
Consensus net profit	-	-	1,338	1,383	1,499
MIBG vs. Consensus (%)	-	-	(3.8)	3.8	2.8

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HOLD

Share Price	MYR 4.03
12m Price Target	MYR 4.00 (+4%)
Previous Price Target	MYR 4.00

Company Description

Maxis is a leading mobile telecommunication company in Malaysia.

Statistics

52w high/low (MYR)	4.59/3.66
3m avg turnover (USDm)	2.5
Free float (%)	24.7
Issued shares (m)	7,832
Market capitalisation	MYR31.6B USD6.7B

Major shareholders:

Binariang GSM Sdn. Bhd.	62.2%
Employees Provident Fund	11.7%
Permodalan Nasional Bhd.	10.3%

Price Performance



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

	-1M	-3M	-12M
Absolute (%)	1	2	4
Relative to index (%)	0	3	5

Source: FactSet

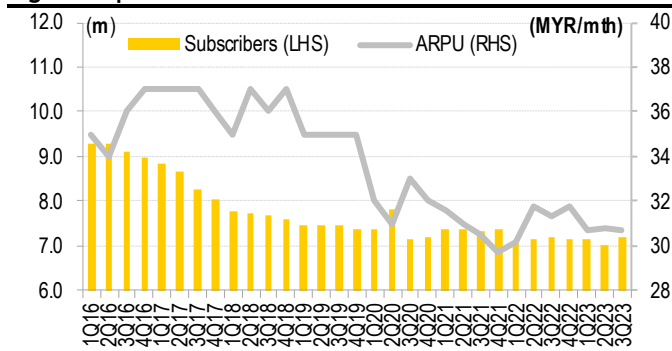
Fig 1: Summary Results Table - Maxis

FY Dec (MYR m)	Quarterly					Cumulative		
	3Q23	3Q22	%YoY	2Q23	%QoQ	9M23	9M22	%YoY
Revenue	2,442.0	2,405.0	1.5	2,470.0	(1.1)	7,438.0	7,235.0	2.8
EBITDA	924.0	1,003.0	(7.9)	999.0	(7.5)	2,895.0	2,954.0	(2.0)
EBIT	492.0	576.0	(14.6)	568.0	(13.4)	1,601.0	1,698.0	(5.7)
Net interest	(108.0)	(106.0)	1.9	(115.0)	(6.1)	(335.0)	(296.0)	13.2
Pre-tax profit	384.0	470.0	(18.3)	453.0	(15.2)	1,266.0	1,402.0	(9.7)
Tax	(97.0)	(155.0)	(37.4)	(124.0)	(21.8)	(330.0)	(460.0)	(28.3)
Minority Interests	0.0	0.0	N/A	1.0	N/A	1.0	0.0	N/A
Net profit	287.0	315.0	(8.9)	330.0	(13.0)	937.0	942.0	(0.5)
Core net profit	287.0	315.0	(8.9)	330.0	(13.0)	937.0	942.0	(0.5)
Mobile service revenue	1,806.0	1,768.0	2.1	1,779.0	1.5	5,369.0	5,214.0	3.0
EBITDA margin	37.8	41.7	(3.9)	40.4	(2.6)	38.9	40.8	(1.9)
Normalised EBITDA	924.0	1,003.0	(7.9)	999.0	(7.5)	2,895.0	2,954.0	(2.0)
Normalised EBITDA margin	37.8	41.7	(3.9)	40.4	(2.6)	38.9	40.8	(1.9)
Pre-ex EPS (sen)	3.7	4.0	(8.9)	4.2	(13.0)	12.0	12.0	(0.6)
Net DPS (sen)	4.0	5.0	(20.0)	4.0	0.0	12.0	15.0	(20.0)
Net cash/(debt)	(9,073.0)	(9,142.0)	(0.8)	(9,541.0)	(4.9)	(9,073.0)	(9,142.0)	(0.8)
Gearing (%)	151.0	140.3		158.0		151.0	140.3	
Capex	273.0	529.0	(48.4)	262.0	4.2	745.0	1,183.0	(37.0)
Operations								
Prepaid	3Q23	3Q22	%YoY	2Q23	%QoQ	9M23	9M22	%YoY
Subscribers, period end (m)	7.2	7.2	(0.0)	7.0	2.2	7.2	7.2	(0.0)
Net additions (m)	0.15	0.04		-0.09		0.04	-0.17	
Subscribers, average (m)	7.1	7.2	(0.8)	7.1	0.4	7.1	7.2	(1.0)
ARPU (MYR/month)	30.7	31.3	(1.9)	30.8	(0.3)	30.7	31.0	(1.0)
Revenue	654.7	673.1	(2.7)	654.1	0.1	1,966.1	2,007.0	(2.0)
Postpaid	3Q23	3Q22	%YoY	2Q23	%QoQ	9M23	9M22	%YoY
Subscribers, period end (m)	5.0	4.7	5.6	4.8	2.1	5.0	4.7	5.6
Net additions (m)	0.10	0.07		0.05		0.22	0.21	
Subscribers, average (m)	4.9	4.7	5.3	4.8	1.6	4.8	4.6	5.4
ARPU (MYR/month)	70.2	72.8	(3.6)	71.0	(1.1)	70.8	72.7	(2.6)
Revenue	1,031.6	1,016.3	1.5	1,026.8	0.5	3,077.2	2,998.1	2.6

Exceptional items comprise mainly of unrealised forex and write-backs

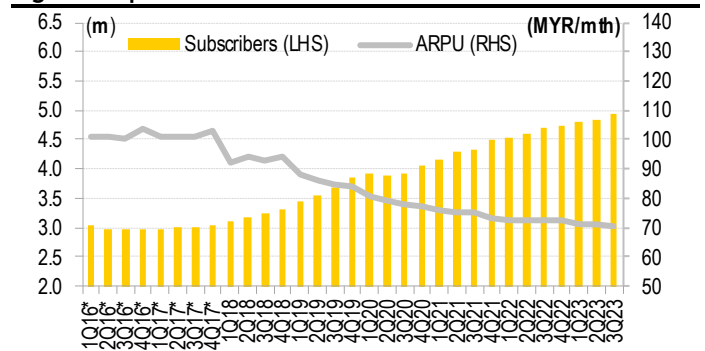
Source: Company, Maybank IBG Research

Fig 2: Prepaid subscribers and ARPU



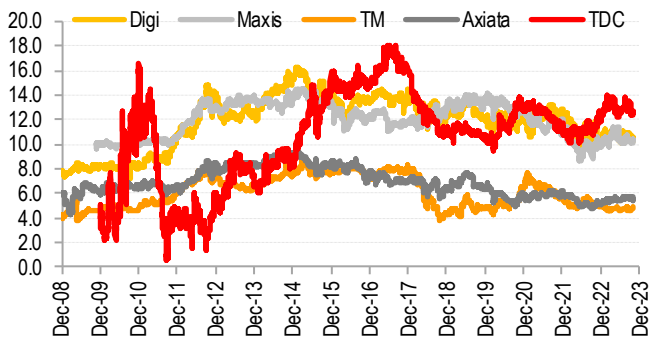
Source: Company

Fig 3: Postpaid subscribers and ARPU



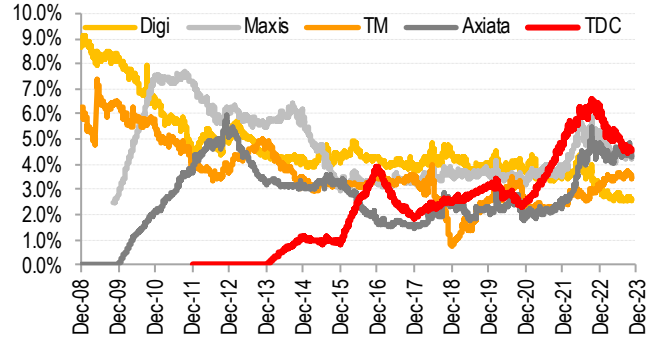
Source: Company. *Pre-MFRS 15

Fig 4: EV/EBITDA - Malaysia telcos



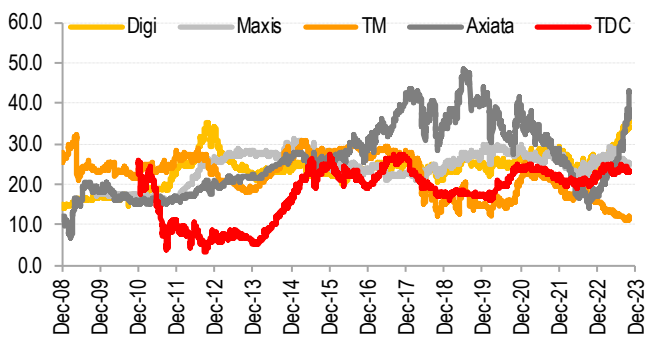
Source: Bloomberg, Maybank IBG Research

Fig 5: Net dividend yield - Malaysia telcos



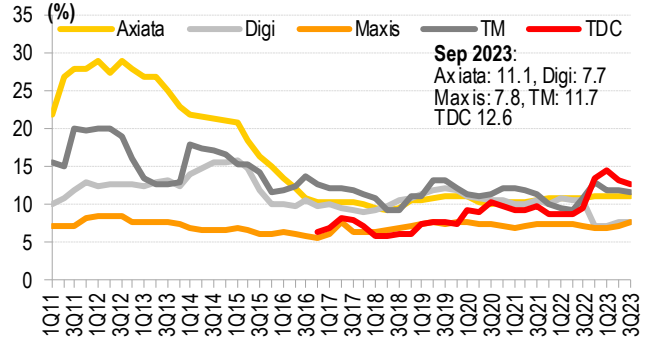
Source: Bloomberg, Maybank IBG Research

Fig 6: PER - Malaysia telcos



Source: Bloomberg, Maybank IBG Research

Fig 7: 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	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	27.6	25.3	24.5	22.0	20.5
Core P/E (x)	29.0	25.4	24.5	22.0	20.5
P/BV (x)	5.6	4.7	5.0	4.9	4.8
P/NTA (x)	(5.1)	(4.3)	(4.5)	(4.7)	(4.9)
Net dividend yield (%)	3.5	5.2	4.2	4.2	4.2
FCF yield (%)	7.1	7.2	8.0	7.5	7.9
EV/EBITDA (x)	12.1	10.0	10.3	10.0	9.6
EV/EBIT (x)	21.5	17.7	19.1	17.5	16.4

INCOME STATEMENT (MYR m)

Revenue	9,203.0	9,789.0	10,051.5	10,355.1	10,669.8
EBITDA	3,884.0	3,939.0	3,916.5	4,034.8	4,146.8
Depreciation	(1,162.0)	(1,162.0)	(1,261.8)	(1,203.2)	(1,191.3)
Amortisation	(547.0)	(559.0)	(535.8)	(531.1)	(526.7)
EBIT	2,175.0	2,218.0	2,118.9	2,300.5	2,428.8
Net interest income / (exp)	(413.0)	(407.0)	(425.9)	(412.2)	(402.3)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	1,762.0	1,811.0	1,693.0	1,888.3	2,026.5
Income tax	(454.0)	(630.0)	(406.3)	(453.2)	(486.4)
Minorities	0.0	1.0	1.0	1.0	1.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	1,308.0	1,182.0	1,287.7	1,436.1	1,541.1
Core net profit	1,308.0	1,182.0	1,287.7	1,436.1	1,541.1

BALANCE SHEET (MYR m)

Cash & Short Term Investments	1,191.0	628.0	748.7	739.8	856.4
Accounts receivable	1,874.6	3,371.0	3,442.3	3,574.6	3,712.5
Inventory	5.0	8.0	3.1	3.2	3.3
Property, Plant & Equip (net)	5,193.0	5,639.0	5,377.2	5,324.0	5,282.7
Intangible assets	14,175.4	13,394.0	13,278.2	13,167.1	13,060.4
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	4.0	5.0	5.0	5.0	5.0
Total assets	22,443.0	23,045.0	22,854.5	22,813.8	22,920.4
ST interest bearing debt	2,034.0	283.0	58.0	(167.0)	(392.0)
Accounts payable	4,220.0	5,137.0	5,215.9	5,296.2	5,418.8
LT interest bearing debt	8,056.0	9,582.0	9,582.0	9,582.0	9,582.0
Other liabilities	1,408.0	1,674.0	1,673.0	1,672.0	1,671.0
Total Liabilities	15,718.0	16,676.0	16,528.9	16,383.2	16,279.8
Shareholders Equity	6,725.0	6,369.0	6,325.6	6,430.6	6,640.6
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	6,725.0	6,369.0	6,325.6	6,430.6	6,640.6
Total liabilities and equity	22,443.0	23,045.0	22,854.5	22,813.8	22,920.4

CASH FLOW (MYR m)

Pretax profit	1,762.0	1,811.0	1,693.0	1,888.3	2,026.5
Depreciation & amortisation	1,709.0	1,721.0	1,797.6	1,734.3	1,718.0
Adj net interest (income)/exp	435.0	398.0	425.9	412.2	402.3
Change in working capital	101.0	(555.0)	12.5	(52.2)	(15.4)
Cash taxes paid	(301.0)	(406.0)	(406.3)	(453.2)	(486.4)
Other operating cash flow	179.0	303.0	0.0	0.0	0.0
Cash flow from operations	3,885.0	3,272.0	3,522.7	3,529.5	3,645.0
Capex	(1,187.0)	(1,114.0)	(1,000.0)	(1,150.0)	(1,150.0)
Free cash flow	2,698.0	2,158.0	2,522.7	2,379.5	2,495.0
Dividends paid	(1,330.0)	(1,566.0)	(1,331.1)	(1,331.1)	(1,331.1)
Equity raised / (purchased)	(7.0)	(6.0)	0.0	0.0	0.0
Change in Debt	250.0	(250.0)	(225.0)	(225.0)	(225.0)
Other invest/financing cash flow	(1,152.0)	(900.0)	(845.9)	(832.2)	(822.3)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	459.0	(564.0)	120.7	(8.8)	116.6

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	2.6	6.4	2.7	3.0	3.0
EBITDA growth	2.6	1.4	(0.6)	3.0	2.8
EBIT growth	(3.4)	2.0	(4.5)	8.6	5.6
Pretax growth	(4.9)	2.8	(6.5)	11.5	7.3
Reported net profit growth	(5.4)	(9.6)	8.9	11.5	7.3
Core net profit growth	(5.1)	(9.6)	8.9	11.5	7.3
Profitability ratios (%)					
EBITDA margin	42.2	40.2	39.0	39.0	38.9
EBIT margin	23.6	22.7	21.1	22.2	22.8
Pretax profit margin	19.1	18.5	16.8	18.2	19.0
Payout ratio	101.7	132.5	103.4	92.7	86.4
DuPont analysis					
Net profit margin (%)	14.2	12.1	12.8	13.9	14.4
Revenue/Assets (x)	0.4	0.4	0.4	0.5	0.5
Assets/Equity (x)	3.3	3.6	3.6	3.5	3.5
ROAE (%)	19.0	18.1	20.3	22.5	23.6
ROAA (%)	5.9	5.2	5.6	6.3	6.7
Liquidity & Efficiency					
Cash conversion cycle	(216.4)	(207.0)	(205.1)	(200.5)	(196.1)
Days receivable outstanding	79.4	96.5	122.0	122.0	122.9
Days inventory outstanding	0.3	0.4	0.4	0.2	0.2
Days payables outstanding	296.0	303.9	327.4	322.7	319.2
Dividend cover (x)	1.0	0.8	1.0	1.1	1.2
Current ratio (x)	0.5	0.7	0.7	0.8	0.9
Leverage & Expense Analysis					
Asset/Liability (x)	1.4	1.4	1.4	1.4	1.4
Net gearing (%) (incl perps)	132.3	145.0	140.6	134.9	125.5
Net gearing (%) (excl. perps)	132.3	145.0	140.6	134.9	125.5
Net interest cover (x)	5.3	5.4	5.0	5.6	6.0
Debt/EBITDA (x)	2.6	2.5	2.5	2.3	2.2
Capex/revenue (%)	12.9	11.4	9.9	11.1	10.8
Net debt/ (net cash)	8,899.0	9,237.0	8,891.3	8,675.2	8,333.6

Source: Company; Maybank IBG Research

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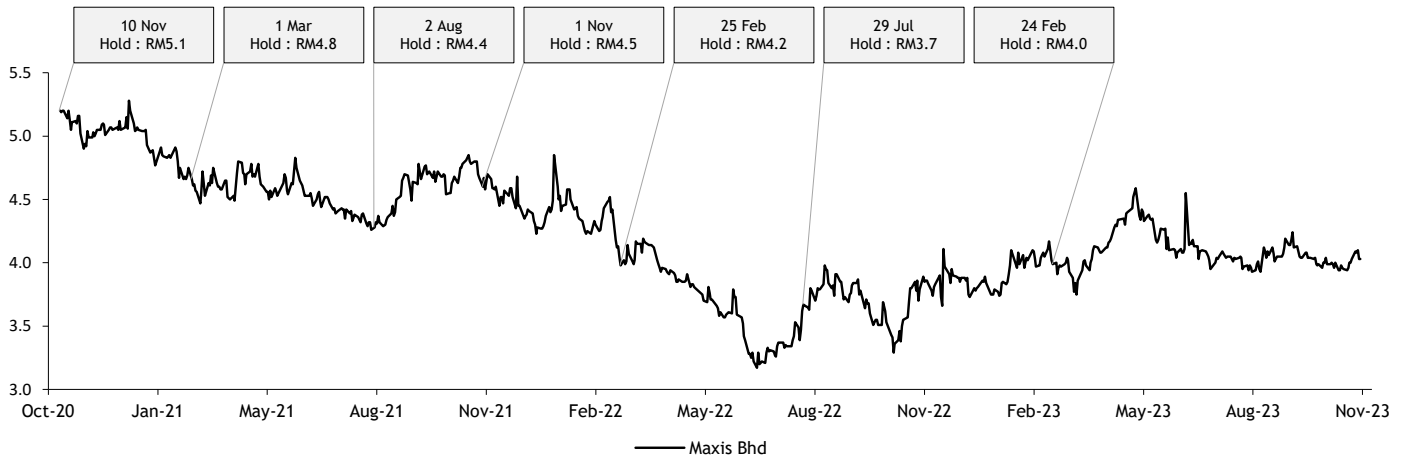
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