

23 February 2024

Communications | Telecommunications

## Maxis (MAXIS MK)

## Neutral (Maintained)

### A Laudable Showing

Target Price (Return): MYR4.00 (+5%)  
 Price (Market Cap): MYR3.81 (USD6,224m)  
 ESG score: 3.1 (out of 4)  
 Avg Daily Turnover (MYR/USD) 6.03m/1.28m

- **Maintain NEUTRAL, new DCF-based TP of MYR4.00 from MYR3.90, 5% upside with FY24F c.4% yield.** Maxis' FY23 results were in line with the robust postpaid, home fibre, and enterprise growth driving the FY23 core EBITDA uplift of 2.7%. Notwithstanding the decent operational showing, 5G policy uncertainties will continue to weigh on stock sentiment and cloud dividend prospects. A 2% ESG premium is baked into our TP.
- **In line.** 4Q23 core earnings (adjusted for staff rationalisation cost, accelerated depreciation and tax settlement) came in at MYR360m (+5% QoQ, +51% YoY). This brought full-year core earnings to MYR1.35bn, at 102% of our forecast (consensus: 104%). A fourth interim DPS of 4 sen (payable 11 Mar) puts the full-year payout at 16 sen (FY22: 20 sen), ie a 92% DPR (on normalised earnings). Adjusted for one-off staff rationalisation expenses in 3Q23, core EBITDA improved 7.4% QoQ against 2.8% QoQ service revenue growth on good cost restraint. 5G wholesale charges booked to date were minimal.
- **Service revenue up 4.2% in FY23.** Growth was broad-based and across all segments, with postpaid (+3% QoQ, +6% YTD), home fibre (+5% QoQ, +15% YTD) and enterprise (+10% QoQ, -15% YTD) leading the pack. Specifically, the consumer postpaid segment grew by a strong 8% YoY in FY23 (+2% QoQ) as subs growth more than offset ARPU dilution from the recalibration of packages to target a bigger market segment alongside the upselling of bundles. Overall FY23 service revenue growth (excluding wholesale voice which was discontinued in FY22) of 4.2% YoY comes ahead of CelcomDigi's (CDB MK, NEUTRAL, TP: MYR4.35) +0.4% YoY.
- **More enterprise wins expected.** Enterprise growth (4Q23: +10% YoY/FY23: +6%) reflects the good monetisation of various collaborations with industry verticals, project wins and the multi-operator core network (MOCN) deal signed with Telekom Malaysia (TM). Specifically, fixed solutions (non-mobile) revenue grew 10% in FY23, making up c.8% of overall service revenue.
- **Cautious guidance.** Maxis' FY24 guidance of a low single-digit increase in service revenue and flat EBITDA suggest some cost pressures (cushioned in part by the group's 3-year cost rescaling programme). We lift FY24-25F core earnings by 7-12% to reflect the latest guidance, and after imputing more conservative 5G wholesale assumptions. FY26F numbers have been introduced. Given the uncertainties surrounding the dual 5G network and the group's net debt/EBITDA of 2.3x, dividend prospects are likely to remain clouded, in our view. We note that management is also not ruling out further M&As to shore up its enterprise offerings, with cyber-security being eyed.
- **Key downside risks** include competition, weaker-than-expected earnings and policy setbacks. The opposite of these factors constitute upside risks.

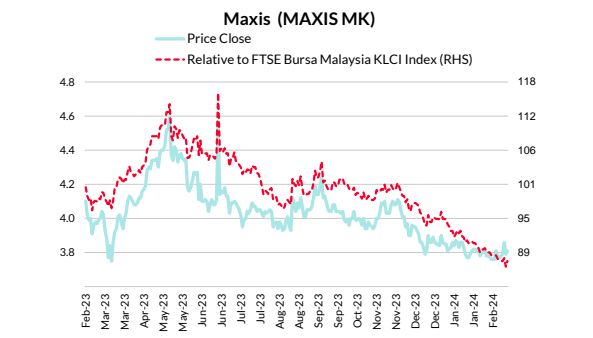
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.0)	0.5	(5.9)	(6.9)	(7.1)
Relative	(7.2)	(3.1)	(12.1)	(13.4)	(12.7)
52-wk Price low/high (MYR)	3.75 - 4.59				



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	9,789	10,180	10,398	11,068	11,468
Recurring net profit (MYRm)	1,320	1,354	1,349	1,407	1,253
Recurring net profit growth (%)	0.9	2.6	(0.3)	4.2	(10.9)
Recurring P/E (x)	22.65	22.08	22.16	21.26	23.87
P/B (x)	4.7	5.2	4.5	4.4	4.4
P/CF (x)	11.06	8.48	8.27	7.98	8.23
Dividend Yield (%)	5.3	4.2	4.2	4.2	4.2
EV/EBITDA (x)	10.18	9.87	9.34	8.71	8.75
Return on average equity (%)	17.7	16.4	21.7	20.8	18.3
Net debt to equity (%)	159.4	160.2	122.3	104.1	90.2

Source: Company data, RHB

#### Overall ESG Score: 3.1 (out of 4)

##### E: GOOD

Maxis is committed to the progressive reduction of its overall carbon footprint, with proactive measures taken to increase the efficiency of its network via the use of innovative technologies and energy-efficient equipment. The company publishes annual emission metrics.

##### S: EXCELLENT

Maxis helps in meeting the nation's digital inclusion agenda as a technology and communications enabler with the aspiration to become Malaysia's leading converged solutions provider. Its flagship community outreach programme, eKelas, which champions digital learning for students in rural areas has over 70,000 registered students on the eKelas portal.

##### G: GOOD

The Board is made up of nine directors, four of whom are independent. The percentage of female representation, at 30%, is below the recommended threshold - which the Board hopes to address in the medium term. Maxis' in-house investor relations arm organises meetings and addresses queries from the investment community.

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
Malaysia	Recurring EPS	0.17	0.17	0.17	0.18	0.16
Communications	DPS	0.20	0.16	0.16	0.16	0.16
<b>Maxis</b>	BVPS	0.81	0.73	0.85	0.87	0.87
MAXIS MK	Return on average equity (%)	17.7	16.4	21.7	20.8	18.3
Neutral						
	<b>Valuation metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
<b>Valuation basis</b>	Recurring P/E (x)	22.65	22.08	22.16	21.26	23.87
DCF (WACC: 8.1%, TG: 0.5%)	P/B (x)	4.7	5.2	4.5	4.4	4.4
	FCF Yield (%)	5.3	9.1	9.1	9.2	8.8
<b>Key drivers</b>	Dividend Yield (%)	5.3	4.2	4.2	4.2	4.2
i. ARPU improvement;	EV/EBITDA (x)	10.18	9.87	9.34	8.71	8.75
ii. Stronger growth in enterprise and home/fibre services.	EV/EBIT (x)	18.07	20.69	15.97	15.01	16.07
	<b>Income statement (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
<b>Key risks</b>	Total turnover	9,789	10,180	10,398	11,068	11,468
i. Competition;	Gross profit	5,965	6,149	6,342	6,707	6,963
ii. Enterprise execution;	EBITDA	3,936	3,960	4,076	4,249	4,122
iii. Higher-than-expected capex;	Depreciation and amortisation	(1,720)	(2,070)	(1,693)	(1,783)	(1,878)
iv. Negative regulatory/policy developments	Operating profit	2,216	1,890	2,384	2,467	2,244
	Net interest	(407)	(446)	(428)	(428)	(428)
<b>Company Profile</b>	Pre-tax profit	1,809	1,444	1,955	2,038	1,816
Maxis is Malaysia's leading converged telecommunications provider. It is also the largest fixed broadband provider via the wholesale access agreement inked with TM.	Taxation	(651)	(452)	(606)	(632)	(563)
	Reported net profit	1,158	993	1,349	1,407	1,253
	Recurring net profit	1,320	1,354	1,349	1,407	1,253
	<b>Cash flow (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Change in working capital	(582)	16	146	127	76
	Cash flow from operations	2,703	3,524	3,616	3,745	3,635
	Capex	(1,114)	(813)	(900)	(1,000)	(1,000)
	Cash flow from investing activities	(1,084)	(786)	(860)	(960)	(960)
	Dividends paid	(1,570)	(1,256)	(1,256)	(1,257)	(1,257)
	Cash flow from financing activities	(1,319)	(2,735)	(1,745)	(1,725)	(1,725)
	Cash at beginning of period	1,191	628	569	1,581	2,641
	Net change in cash	300	3	1,012	1,060	950
	Ending balance cash	1,491	631	1,581	2,641	3,591
	<b>Balance sheet (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Total cash and equivalents	628	569	1,581	2,641	3,591
	Tangible fixed assets	5,639	5,384	4,590	3,806	2,928
	Total investments	1,230	1,337	1,337	1,337	1,337
	Total assets	23,043	22,781	23,053	23,491	23,660
	Short-term debt	283	857	737	737	737
	Total long-term debt	10,495	8,915	9,015	9,015	9,015
	Total liabilities	16,674	17,037	16,369	16,658	16,831
	Total equity	6,369	5,744	6,684	6,834	6,830
	Total liabilities & equity	23,043	22,781	23,053	23,491	23,660
	<b>Key metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Revenue growth (%)	5.9	4.0	2.1	6.4	3.6
	Recurrent EPS growth (%)	0.9	2.6	(0.3)	4.2	(10.9)
	Gross margin (%)	60.9	60.4	61.0	60.6	60.7
	Operating EBITDA margin (%)	40.2	38.9	39.2	38.4	35.9
	Net profit margin (%)	11.8	9.8	13.0	12.7	10.9
	Dividend payout ratio (%)	135.6	126.5	93.1	89.3	100.3
	Capex/sales (%)	11.4	8.0	8.7	9.0	8.7
	Interest cover (x)	5.07	4.00	5.09	5.27	4.79

Source: Company data, RHB

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Figure 1: Results review table

FYE Dec (MYRm)	4QFY22	3QFY23	4QFY23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)	Comments
<b>Revenue</b>	<b>2,554.0</b>	<b>2,442.0</b>	<b>2,742.0</b>	12.3	7.4	<b>9,789.0</b>	<b>10,180.0</b>	4.0	Seasonally higher device sales in 4Q. Stronger postpaid growth of 7.5% in FY23. Stronger fixed solutions and network revenue from project wins and TM wholesale revenue.
Consumer revenue	1,750.0	1,765.0	1,801.0	2.0	2.9	6,811.0	7,064.0	3.7	
Enterprise revenue	364.0	380.0	401.0	5.5	10.2	1,417.0	1,508.0	6.4	
Service revenue	2,114.0	2,145.0	2,202.0	2.7	4.2	8,228.0	8,572.0	4.2	
<b>EBITDA</b>	<b>988.0</b>	<b>929.0</b>	<b>1,057.0</b>	13.8	7.0	3,936.0	3,960.0	0.6	One-off staff rationalisation cost booked in 3Q23. Normalisation would see EBITDA up 2.7% YTD.
<i>EBITDA Margin (%)/Service revenue</i>	46.7	43.3	48.0	4.7		47.8	46.2		
Depreciation	(468.0)	(437.0)	(768.0)	75.7	64.1	(1,730.0)	(2,070.0)	19.7	Accelerated depreciation and asset impairment of MYR315m.
<b>EBIT</b>	<b>520.0</b>	<b>492.0</b>	<b>289.0</b>	(41.3)	(44.4)	<b>2,216.0</b>	<b>1,890.0</b>	(14.7)	
<i>EBIT Margin (%)</i>	20.4	20.1	10.5			22.6	18.6		
Interest income	9.0	5.0	9.0	80.0	0.0	30.0	27.0	(10.0)	
Interest expense	(120.0)	(113.0)	(120.0)	6.2	0.0	(437.0)	(473.0)	8.2	
<b>Pretax profit</b>	<b>409.0</b>	<b>384.0</b>	<b>178.0</b>	(53.6)	(56.5)	<b>1,809.0</b>	<b>1,444.0</b>	(20.2)	
<i>Pretax Margin (%)</i>	16.0	15.7	6.5			18.5	14.2		
Tax	(170.0)	(97.0)	(122.0)	25.8	(28.2)	(635.0)	(452.0)	(28.8)	Prosperity tax impact in FY22.
<i>Effective tax rate (%)</i>	41.6	25.3	68.5			35.1	31.3		
Minority interests	0.0	0.0	0.0	-	-	0.0	0.0	n.m.	
<b>Net Profit</b>	<b>239.0</b>	<b>287.0</b>	<b>56.0</b>	(80.5)	(76.6)	<b>1,174.0</b>	<b>993.0</b>	(15.4)	One-off cost totaling MYR361m in FY23.
<b>Core Profit</b>	<b>239.0</b>	<b>342.0</b>	<b>360.0</b>	5.3	50.6	<b>1,174.0</b>	<b>1,352.0</b>	15.2	Broadly in line with our/consensus estimates.

Source: Company data

Figure 2: Key Operational Metrics

	4QFY22	3QFY23	4QFY23	QoQ (%)	YoY (%)	Comments
<b>Subscribers (m)^</b>						
- Prepaid	7.147	7.185	7.589	5.6	6.2	Supported by new Hotlink plans launched in Jul 2023 and internet passes.
- Postpaid	4.591	4.825	4.922	2.0	7.2	Higher take-up of Hotlink Postpaid, 5G and premium contracted plans.
- Wireless Broadband (WBB)	0.141	0.125	0.125	0.0	(11.3)	
Home Connections	0.587	0.658	0.678	3.0	15.5	Higher take-up of converged (Maxis postpaid unlimited) packages.
<b>Net adds (m)</b>						
- Prepaid	-0.04	0.15	0.40	164.1	>100	
- Postpaid	0.11	0.10	0.10	(6.7)	(14.2)	Pre-to post migration and higher take-up of Hotlink postpaid plans.
- Wireless Broadband (WBB)	-0.07	-0.00	0.00	(100.0)	(100.0)	
Home Connections	0.023	0.024	0.020	(16.7)	(13.0)	
<b>ARPU (MYR)^</b>						
- Prepaid	32	31	30	(3.6)	(6.9)	Competition remains tight at the low end of the market.
- Postpaid	73	70	70	(0.6)	(4.0)	Higher adoption of entry-level postpaid plans.
- Blended	48	47	46	(1.9)	(4.2)	

Source: Company data ^ based on market definition

## Emissions And ESG

### Trend analysis

Maxis' Scope 1 emissions declined by 1.3% in 2022, while Scope 2 emissions rose by 5.9%, mainly from higher energy usage with the reopening of the economic sectors

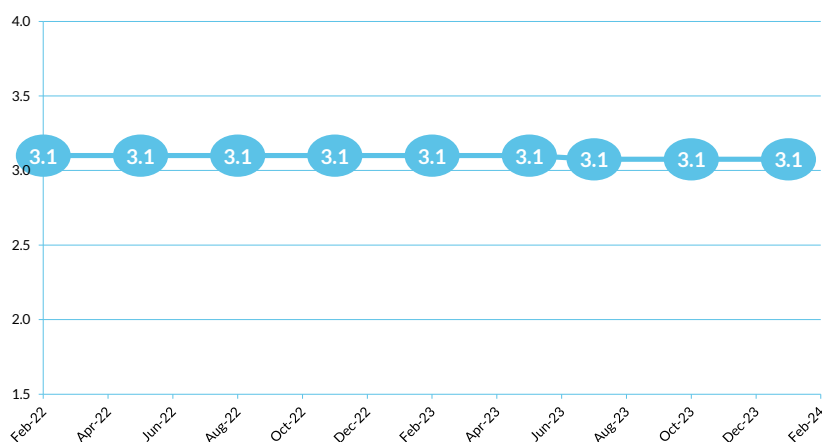
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	4,756	4,695	na
Scope 2	208,240	220,510	na
Scope 3	-	-	na
Total emissions	212,996	225,205	na

Source: Company data, RHB

## Latest ESG-Related Developments

- Maxis inked a radio access network or RAN-sharing agreement with TM in Jun 2023, which should contribute towards greater optimisation of energy usage going forward.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-11-14	Neutral	3.90	4.08
2023-07-17	Neutral	3.78	4.09
2023-02-24	Neutral	4.03	3.99
2022-11-06	Neutral	3.93	3.79
2022-07-29	Neutral	3.93	3.67
2022-04-29	Neutral	3.98	3.80
2022-02-25	Neutral	4.45	3.98
2022-01-24	Neutral	4.75	4.33
2021-11-01	Neutral	4.75	4.60
2021-08-01	Neutral	4.66	4.26
2021-03-23	Neutral	5.00	4.60
2021-02-28	Neutral	4.90	4.75
2020-10-25	Neutral	5.20	4.98
2020-07-23	Neutral	5.60	5.29
2020-02-21	Neutral	5.40	5.44

Source: RHB, Bloomberg

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<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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