

10 May 2013 | 1Q13 Results Review

## Maxis Bhd

*EBITDA margin recovery*

**Maintain NEUTRAL**

**Unchanged Target Price (TP): RM6.80**

### INVESTMENT HIGHLIGHTS

- **1Q13 earnings lagged expectations, declining -16.9%yoy due to accelerated depreciation.**
- **1Q13 EBITDA margin rebounded from 4Q12.**
- **Revenue came in better than expected, growing +4.4%yoy in 1Q13. It was driven by non-voice revenue, which grew +7.3%yoy due to seeding of smart devices.**
- **Interim dividend of 8 sen.**
- **Expanding LTE footprint to Johor and Penang. However, impact will not be significant in the near term. Maintain NEUTRAL.**

**Earnings slightly below expectations.** Maxis' 1Q13 net profit declined -16.9%yoy to RM476m, which was slightly below ours and consensus' expectations. It came in at 22.7% and 22.2% of respective full year estimate. The variance was due to us underestimating its net interest and tax expenses.

**Net profit decline was due to higher operating expenses.** The main cause of Maxis' earnings decline was higher operating expenses (opex), which rose +37.9%yoy to RM1.59b. This increase was across the board, including depreciation (accelerated), which rose +41.7%yoy to RM377m. Normalized net profit declined -6.5%yoy to RM521m as opex excluding depreciation went up by +36.7%yoy to RM1.21b. This was due to higher direct expenses, possibly from phone subsidies. Nevertheless, EBITDA was better-than-expected despite the opex growth.

**EBITDA declined but margin rebounded from 4Q12.** Maxis posted 1Q13 EBITDA decline of only -1.0%yoy to RM1.12b despite the sharp increase in opex. However, it was +5.4%qoq better due to improvement in mobile service EBITDA where it grew +4.1%qoq to RM1.09b. This was due to lower sales and marketing costs, and other operating expenses. As a result, EBITDA margin bounced back to 48.2% from 45.8% registered in 4Q12.

**Better-than-expected revenue.** 1Q13 revenue came in above our expectation, growing +4.4%yoy to RM2.33b. Main driver was the continued non-voice revenue growth. Non-voice revenue grew +7.3%yoy to RM1.04b due to continuous seeding of latest smart devices which led to higher mobile internet usage. Internet and data revenue (non-SMS) in 1Q13 was 69% of non-voice revenue. In sequential quarter terms, revenue grew only +0.9%qoq but this was due to seasonalities. This is evident by the RM2 fall to RM50 in blended ARPU and -2.8%qoq to 174min decline in blended MOU.

**Continued positive impact from earlier initiatives.** Prepaid revenue generating subscription (RGS, which is a stricter definition) grew for 7<sup>th</sup> consecutive quarters and 3<sup>rd</sup> consecutive quarters for postpaid. Maxis added 45k postpaid and 99k prepaid net adds from the previous quarter. Hence, Maxis registered postpaid and prepaid subscribers of 3.27m and 9.78m respectively in 1Q13. Going by the market definition for subscribers, Maxis added 45k total subscribers to 14.14m in 1Q13.

RETURN STATS	
Price (9 May 2013)	RM6.97
Target Price	RM6.80
Expected Share Price Return	-2.4%
Expected Dividend Yield	+5.7%
<b>Expected Total Return</b>	<b>+3.3%</b>

STOCK INFO	
KLCI	1,766.07
Bursa / Bloomberg	6012 / MAXIS MK
Board / Sector	Main/ Services
Syariah Compliant	Yes
Issued shares (mil)	7500.7
Par Value (RM)	0.10
Market cap. (RM'm)	52,279.8
Price over NA	7.5 x
52-wk price Range	RM5.95 – RM7.10
Beta (against KLCI)	0.60
3-mth Avg Daily Vol	6.98m
3-mth Avg Daily Value	RM45.92m
Major Shareholders	
Binariang GSM	64.99%
ASB	6.59%
EPF	6.41%

## INVESTMENT STATISTICS


FYE Dec	FY11	FY12	FY13F	FY14F
Revenue (RM'm)	8,800.0	8,967.0	9,234.7	9,484.1
EBIT (RM'm)	3,232.0	2,864.0	3,009.4	3,121.7
Pretax Profit (RM'm)	3,004.0	2,576.0	2,714.7	2,860.9
Net Profit (RM'm)	2,531.0	1,860.0	2,008.9	2,117.0
EPS (sen)	33.7	24.7	26.8	28.2
EPS growth (%)	10.1	-26.7	8.4	5.4
PER(x)	20.7	28.2	26.0	24.7
Net Dividend (sen)	40	40	40	40
Net Dividend Yield (%)	5.7	5.7	5.7	5.7

Source: Company, Forecasts by MIDFR

**Slow and steady for Maxis Home.** Its fiber-to-home services, Maxis Home, gained 5k subscribers. It had 30.7k subscribers as at the end of 1Q13. We believe Maxis Home has yet to gain the momentum necessary to turn profitable. It is still making losses but this is understandable given it is a relatively new start-up. However, we believe that it has enhanced its value proposition with the tie-up with Astro IPTV. Our only concern is its pricing strategy which we believe is not sustainable but according to management, Maxis Home is intended as a standalone set-up.

**Expanding LTE footprint but impact will not be immediate.** Maxis will be expanding its LTE offering to Johor and Penang by 2Q13. Although we believe that LTE will be the future catalyst for telco sector in general, it is still early days. We do not expect any meaningful contribution from LTE to Maxis' earnings in FY13. This is due to the fact that coverage and LTE enabled devices are still limited.

**Dependable dividend giver.** As we expected, Maxis announced an interim dividend of 8 sen. For FY13, we are expecting an 8 sen dividend every quarter with extra 8 sen special dividend by 4Q13. This will bring expected total dividend of 40 sen, giving a yield of 5.7% based on yesterday's closing price.

**No significant near term catalyst, Maintain NEUTRAL.** We are tweaking downwards our FY13 forecast by -4.3% to take into account the remaining RM40m accelerated depreciation yet to be charged in FY13 and higher interest and tax expense. Maxis is still under pressure but we believe that some of Maxis' initiatives are bearing fruit as evident by modest revenue growth, led by non-voice segment. With no near term catalyst, we maintain our NEUTRAL recommendation. Nevertheless, Maxis' dividends can be dependent upon and remain good. Our target price remained at RM6.80 and is based on Dividend Discount Model, discounted at a WACC of 7.44%. 

## DIVIDEND DISCOUNT MODEL ASSUMPTIONS

NPV of dividend up to FY15	RM0.72
Terminal value	RM6.08
Dividend in FY15	RM0.40
Growth assumption	0.9%
WACC	7.4%
Risk free rate	3.6%
Expected market return	11.2%
Beta	0.5

## Maxis: 1QFY13 RESULTS SUMMARY

(All in RM'm unless stated otherwise)	Quarterly Results			Comments
	1Q13	%YoY	%QoQ	
FYE Dec				
Revenue	2,327	4.4%	0.9%	Mobile services grew +2.4%yoy to RM2.18b Enterprise fixed services grew +40.0%yoy to RM63m International gateway services grew 43.5%yoy to RM66m Home services grew +180%yoy to RM14m
Operating expenses	(1,590)	37.9%	-5.8%	Depreciation (which was accelerated) grew +41.7%yoy to RM377m.
Other op. income	8	60.0%	33.3%	
EBIT	745	-11.1%	19.4%	
Net Int. income/(expense)	(79)	11.3%	2.6%	
Pre-tax profit	666	-13.2%	21.8%	
Tax	(190)	-2.1%	12.4%	
Net profit	476	-16.9%	25.9%	
EPS (sen)	6.3			
		+/- ppts	+/- ppts	
EBITDA margin (%)	48.2	-2.6	2.5	Lower sales and marketing as compared to last quarter.
EBIT margin (%)	32.0	-5.6	5.0	
Tax rate (%)	28.5	3.2	-2.4	

Source: Company, MIDFR

## DAILY PRICE CHART



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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	<i>Negative</i> total return is expected, by -15% or more, over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.