

COMPANY UPDATE

Maxis (MAXIS MK)

Compelling Risk-reward; Earnings Momentum Remains Healthy

We see emerging value as the stock trades at 8x EV/EBITDA, -2SD from its mean valuation. Stepping into 2H24, we see an improving risk-reward profile for Maxis as Malaysia draws close to a potential dual wholesale network. Anchored by strong management, we expect the group to deliver a healthy three-year earnings CAGR of 8%. Upgrade to BUY with a DCF-based target price of RM4.20.

WHAT'S NEW

- Compelling risk-reward given share price retracement of 10%.** We upgrade the stock from HOLD to BUY with a higher DCF-based fair value of RM4.20. At our target price, the stock will trade at 10x EV/EBITDA, close to its five-year mean valuation. In essence, we see emerging value following an almost 10% share price retracement versus the FBMKLCI ytd. The share price retracement, we opine, may be due to a disappointing dividend payout (16 sen in 2023 vs 20 sen in 2022). Stepping into 2H24, we see an improving risk-reward profile for Maxis as Malaysia draws close to a potential award of a dual wholesale network (DWN) with Digital Nasional Berhad (DNB) achieving 80% coverage in Mar 24.
- Strong management to drive three-year earnings CAGR of 8% (2023-26).** We believe that the company has a clear goal of growing postpaid service revenue, fibre and enterprise offerings. With a strong management team driving this strategy and practising good cost discipline, we expect Maxis to deliver a three-year earnings CAGR of 8% (2023-26). Dividends may potentially revert back to 20 sen (5.7% dividend yield) by 2026, even after accounting for a 20% increase in capex intensity (capex to service revenue) to cater for a 5G or 5.5G technology refresh.
- 5G DWN: Returning network ownership to telco players.** We expect Malaysia to transition towards a DWN by 2H24. Maxis is a key beneficiary as we expect the group to vie for a second network. The return of network ownership allows Maxis to optimise its existing 4G and future 5G spectrum to achieve superior network and good quality of service (QoS). Recently, it was reported that Maxis and Huawei Malaysia have inked a Memorandum of Understanding (MoU) to work on a 5G-Advanced (5.5G) acceleration programme. This includes various areas to drive commercialisation and adoption in Malaysia, spanning use cases, key technologies, technology evolution and the ecosystem.

KEY FINANCIALS

Year to 31 Dec (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	9,789	10,180	10,609	11,103	11,584
EBITDA	3,929	3,960	4,120	4,304	4,483
Operating profit	2,209	1,890	2,237	2,523	2,712
Net profit (rep./act.)	1,151	992	1,345	1,559	1,708
Net profit (adj.)	1,151	631	1,345	1,559	1,708
EPS (sen)	14.7	8.1	17.2	20.0	21.9
PE (x)	24.1	43.9	20.6	17.8	16.2
P/B (x)	4.6	4.8	4.7	4.6	4.5
EV/EBITDA (x)	9.1	9.1	8.7	8.3	8.0
Dividend yield (%)	5.6	4.5	4.5	5.2	5.7
Net margin (%)	11.8	9.7	12.7	14.0	14.7
Net debt/(cash) to equity (%)	151.6	160.2	139.0	121.4	107.1
Interest cover (x)	9.7	8.9	9.8	10.3	11.1
ROE (%)	18.0	16.8	23.2	26.4	28.3
Consensus net profit	-	-	1,355	1,432	1,479
UOBKH/Consensus (x)	-	-	0.99	1.09	1.15

Source: Maxis Berhad, Bloomberg, UOB Kay Hian

BUY

(Upgraded)

Share Price	RM3.55
Target Price	RM4.20
Upside	+18.3%
(Previous TP)	RM3.90

COMPANY DESCRIPTION

Mobile operator in Malaysia, providing 3G and 4G services alongside home fibre connection.

STOCK DATA

GICS sector	Communication Services
Bloomberg ticker:	MAXIS MK
Shares issued (m):	7,832.1
Market cap (RMm):	27,803.9
Market cap (US\$m):	5,856.5
3-mth avg daily t'over (US\$m):	1.6

Price Performance (%)

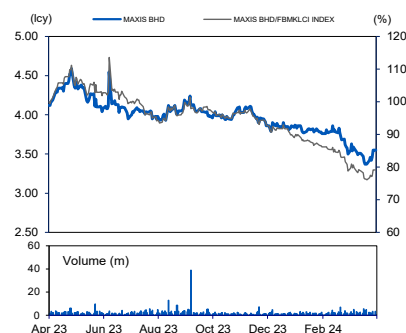
52-week high/low	RM4.59/RM3.37			
1mth	3mth	6mth	1yr	YTD
(1.9)	(8.0)	(10.8)	(13.0)	(7.8)

Major Shareholders

Binariang GSM Sdn Bhd	64.9
Skim Amanah Saham	8.3
Employees Provident Fund	8.2

FY24 NAV/Share (RM)	0.75
FY24 Net Debt/Share (RM)	1.04

PRICE CHART



Source: Bloomberg

ANALYST(S)

Chong Lee Len
+603-2147 1992
leelen@uobkayhian.com

Ku Wei Xiang
+603-2147 1916
weixiang@uobkayhian.com

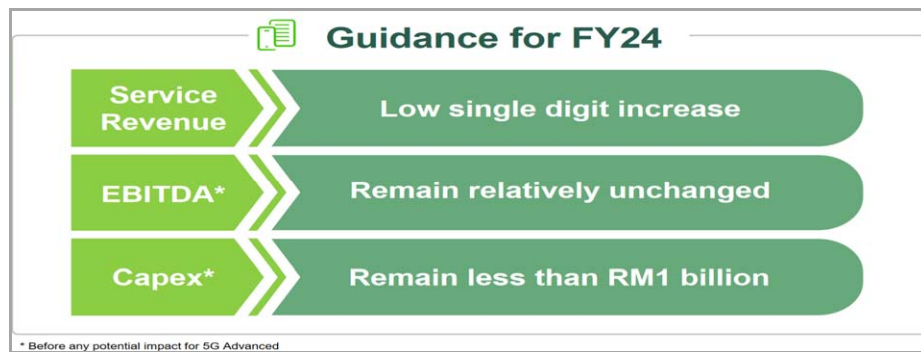
STOCK IMPACT

- Leading integrated telco in the next few years.** Management aims to be the leading integrated telco in the next 3-5 years by offering a strong product in the mobile, fibre and enterprise segment. Key focuses include: a) driving sustainable growth within the stronghold postpaid segment which will provide strong underlying earnings yield for Maxis, b) ensuring solid customer experiences, c) simplifying processes to ensure operational excellence, and d) talent pool management.
- Strong earnings yield from Maxis' postpaid segment.** In 4Q23, Maxis grew postpaid revenue by an impressive 6% yoy on the back of higher subscribers (+8% yoy) and stable ARPU of RM76.5/month. Maxis increased its range of postpaid plans (from RM30-199/month) to cater to a wider target market. Management aims to drive continuous prepaid to postpaid conversion as it leads to higher revenue and increases customer stickiness over time. This "bread and butter" business remains healthy amid rationale price competition. The churn in the prepaid segment is a necessary strategy to drive higher prepaid to postpaid conversion for the group.
- Building a formidable home fibre business.** Maxis currently boasts a sizeable 750,000 home connections. Investments will continue in this segment as churn reduces by 10x when there is fibre bundled in the offerings.

EARNINGS REVISION/RISK

- Raise 2024-26 net profit forecasts by 5%,** adjusting our revenue base upward to cater for high single-digit growth in postpaid, home fibre and enterprise service revenue.
- 2024 guidance.** The group guided for: a) low single-digit increase in service revenue, b) flat yoy growth in EBITDA at around RM3.9b, and c) capex of less than RM1b. This does not take into account the commercial launch of 5G.
- Key event to look out for: Maxis' 5G roadmap.** Maxis may revise its guidance following the introduction of its 5G roadmap.

2024 GUIDANCE



Source: Maxis

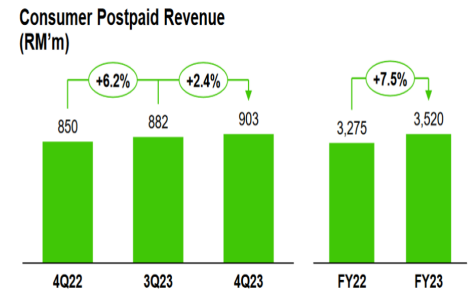
VALUATION/RECOMMENDATION

- Upgrade to BUY with a higher DCF-based target price of RM4.20** (discount rate: 7%; growth: 3%).

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

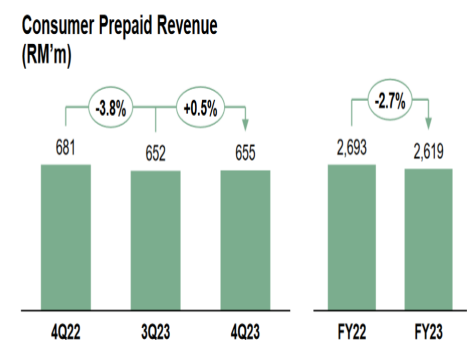
Environmental <ul style="list-style-type: none"> - Internal controls and monitoring mechanisms to manage climate change and environmental impact (eg energy consumption, waste management).
Social <ul style="list-style-type: none"> - Enabling greater access to digital learning for students in rural communities. - Empowering women entrepreneurs and micro-SMEs with digital marketing skills. - Community outreach during festive seasons and providing humanitarian relief during natural disasters.
Governance <ul style="list-style-type: none"> - Good company transparency along with an anti-bribery and anti-corruption policy.

POSTPAID REVENUE TREND



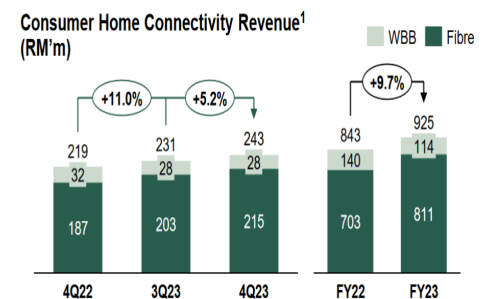
Source: Maxis

PREPAID REVENUE TREND



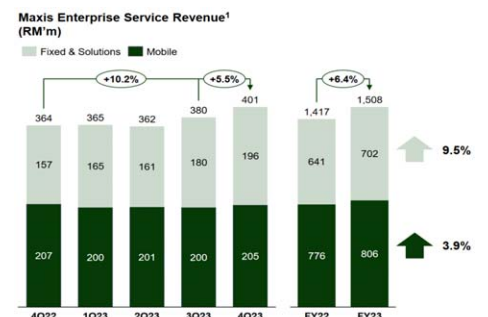
Source: Maxis

FIBRE REVENUE TREND



Source: Maxis

FIBRE REVENUE TREND



Source: Maxis

PROFIT & LOSS

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Net turnover	10,180	10,609	11,103	11,584
EBITDA	3,960	4,120	4,304	4,483
Deprec. & amort.	2,070	1,883	1,781	1,771
EBIT	1,890	2,237	2,523	2,712
Net interest income/(expense)	(446)	(420)	(416)	(404)
Pre-tax profit	1,444	1,817	2,107	2,308
Tax	(452)	(472)	(548)	(600)
Minorities	0	0	0	0
Net profit	992	1,345	1,559	1,708
Net profit (adj.)	631	1,345	1,559	1,708

CASH FLOW

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Operating	2,853	3,683	3,836	3,960
Pre-tax profit	1,444	1,817	2,107	2,308
Tax	(452)	(472)	(548)	(600)
Deprec. & amort.	2,070	1,883	1,781	1,771
Associates	0	0	0	0
Working capital changes	(363)	35	79	77
Other operating cashflows	154	420	416	404
Investing	(763)	(913)	(1,063)	(1,212)
Capex (maintenance)	(1,141)	(955)	(1,110)	(1,274)
Proceeds from sale of assets	0	0	0	0
Others	378	42	47	62
Financing	(2,151)	(2,050)	(2,215)	(2,322)
Dividend payments	(1,331)	(1,237)	(1,434)	(1,571)
Issue of shares	8	0	0	0
Proceeds from borrowings	(114)	(350)	(317)	(285)
Others/interest paid	(714)	(462)	(463)	(466)
Net cash inflow (outflow)	(61)	721	558	426
Beginning cash & cash equivalent	601	569	1,290	1,847
Changes due to forex impact	29	0	0	0
Ending cash & cash equivalent	569	1,290	1,847	2,273

BALANCE SHEET

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Fixed assets	5,384	4,456	3,785	3,289
Other LT assets	14,356	14,356	14,356	14,356
Cash/ST investment	569	1,290	1,847	2,273
Other current assets	2,472	2,611	2,731	2,849
Total assets	22,781	22,712	22,720	22,767
ST debt	857	857	857	857
Other current liabilities	4,565	4,739	4,939	5,134
LT debt	8,915	8,565	8,248	7,963
Other LT liabilities	2,700	2,700	2,700	2,700
Shareholders' equity	5,744	5,852	5,976	6,113
Minority interest	0	0	0	0
Total liabilities & equity	22,781	22,712	22,720	22,767

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	38.9	38.8	38.8	38.7
Pre-tax margin	14.2	17.1	19.0	19.9
Net margin	9.7	12.7	14.0	14.7
ROA	4.3	5.9	6.9	7.5
ROE	16.8	23.2	26.4	28.3
Growth				
Turnover	4.0	4.2	4.7	4.3
EBITDA	0.8	4.0	4.5	4.2
Pre-tax profit	(19.9)	25.8	15.9	9.6
Net profit	(13.8)	35.5	15.9	9.6
Net profit (adj.)	(45.2)	113.1	15.9	9.6
EPS	(45.2)	113.1	15.9	9.6
Leverage				
Debt to total capital	63.0	61.7	60.4	59.1
Debt to equity	170.1	161.0	152.3	144.3
Net debt/(cash) to equity	160.2	139.0	121.4	107.1
Interest cover (x)	8.9	9.8	10.3	11.1

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2024, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W