

MALAYSIA GEMS CONFERENCE HIGHLIGHTS

Maxis (MAXIS MK)

Positive Earnings Momentum Driven By Core Consumer Business

Maxis will focus on its pillars of strength – mobile, fibre and enterprise – to drive near-term earnings. A well-executed pre-to-postpaid migration strategy can lift service revenue by 20% and lower customer churn. Together with fixed-mobile convergence and good cost discipline, we expect positive earnings momentum in the near term. Maxis will submit a business plan for the second 5G network, as Malaysia transitions to a dual-wholesale network. Maintain BUY. Target price: RM4.20.

WHAT'S NEW

- **Three key pillars of strength – mobile, fibre and enterprise.** We recently hosted Maxis as management drove through the message of focusing on its core business to defend and grow profitability. Maxis aims to be the leading integrated telco in the next 3-5 years by offering a strong product in the mobile, fibre and enterprise segments. Key focuses include: a) driving sustainable growth within the stronghold postpaid segment which will provide strong underlying earnings yield for Maxis, b) ensuring good customer experiences, c) simplifying processes to ensure operational excellence, and d) talent pool management.
- **Strong earnings yield from Maxis' postpaid segment.** In 2023, Maxis grew postpaid revenue by an impressive 8% yoy. We expect this momentum to continue into 2024-25 as the building block of the earnings momentum lies in the effective execution of the pre-to-postpaid migration strategy. With an entry level Hotlink postpaid plan, a well-executed pre-to-postpaid migration strategy is expected to yield a robust 20% uplift in revenue and ARPU for Maxis. This "bread and butter" business remains healthy amid rationale price competition as the churn in the prepaid segment is a necessary strategy to drive higher pre-to-postpaid conversion for the group.
- **The defensive value of fixed mobile convergence.** Maxis has doubled its home connections in the past five years. It currently boasts a sizeable 750,000 home connections - making Maxis the largest reseller in Malaysia for home fibre connectivity. The fixed mobile convergence (FMC) strategy is important for the defensive value it brings to the telco. In essence, with FMC, churn is reduced by 10x when home connectivity is bundled in product offerings. In addition, a FMC strategy helped to lift revenue as the company can, on average, sell 3x more connections to the household. We expect the group to invest in building more home connections in the near term. Last year, Maxis increased the rate of own-built fibre network by 181,000 home connections. This brings the number of home connections to well above 400,000 for Maxis, complementing its wholesale agreement with Telekom Malaysia.

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)	23.7	43.2	20.3	17.5	16.0
P/B (x)	4.5	4.7	4.7	4.6	4.5
EV/EBITDA (x)	9.0	9.0	8.6	8.2	7.9
Dividend yield (%)	5.7	4.6	4.5	5.3	5.8
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	-	-	1,363	1,462	1,552
UOBKH/Consensus (x)	-	-	0.99	1.07	1.10

Source: Maxis, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM3.45
Target Price	RM4.20
Upside	+21.7%

COMPANY DESCRIPTION

Mobile operator in Malaysia, providing GSM and 3G services.

STOCK DATA

GICS sector	Communication Services
Bloomberg ticker:	MAXIS MK
Shares issued (m):	7,832.1
Market cap (RMm):	27,333.9
Market cap (US\$m):	5,809.3
3-mth avg daily t'over (US\$m):	1.9

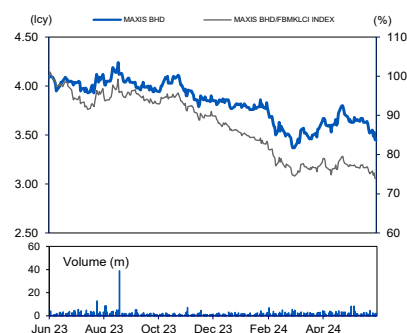
Price Performance (%)

52-week high/low	RM4.24/RM3.37			
1mth	3mth	6mth	1yr	YTD
(5.9)	0.6	(9.4)	(15.5)	(9.4)

Major Shareholders

Binariang GSM Sdn Bhd	64.9
Skim Amanah Saham	8.3
Employees Provident Fund	8.2
FY14 NAV/Share (RM)	0.75
FY14 Net Debt/Share (RM)	1.04

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- 5G dual wholesale network tender to be out on 1 Jul 24...** Maxis, CelcomDigi, YES Communications and U Mobile have announced that they are ready to complete the share subscription agreement (SSA) process. This will put Maxis firmly on track to an early completion of its SSA process and participate in the rollout of a second 5G network in Malaysia. The Communications Minister, Fahmi Fadzil, has instructed the regulator MCMC to begin the process of identifying and appointing telcos to develop the second network.
- ...as Malaysia aims to award a second 5G network by end-24.** MCMC will issue an Applicant Information Package (AIP) on 1 Jul 24 for telcos to use as guideline to submit their business proposal for a second 5G network. This is similar to the previous award of 4G spectrum, where telcos submit their business case for MCMC to evaluate and eventually award 4G spectrums at an affordable fee. This is favoured over the regional practice of spectrum auction. We expect a second 5G network by end-24 to lift an overhang on the underperforming telco sector.
- 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.
- Strong management to drive three-year earnings CAGR of 8% (2023-26).** With a strong management team driving this strategy and practising good cost discipline, we expect Maxis to deliver a robust three-year earnings CAGR of 8% (2023-26). Dividends may revert 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.

EARNINGS REVISION/RISK

- Earnings revision:** None.
- 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.

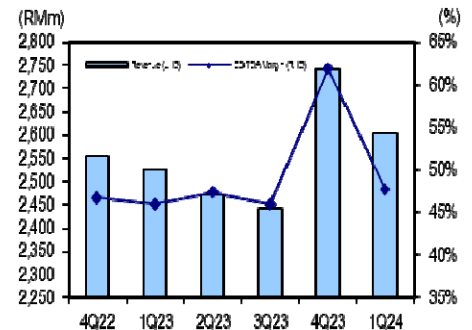
VALUATION/RECOMMENDATION

- Maintain BUY with an unchanged DCF-based target price of RM4.20** (discount rate: 7%; growth: 3%). Our target price reflects a potential 5G DWN situation, suggesting a higher growth rate (from 2% to 3%), partly offset by higher capex of an additional RM500m annually over 2025-30F. Our target price also reflects the RM360m in opex after Maxis signed the Access Agreement over 2024-25F. The stock trades at 9x EV/EBITDA (-1SD below its mean), with a 4% dividend yield.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

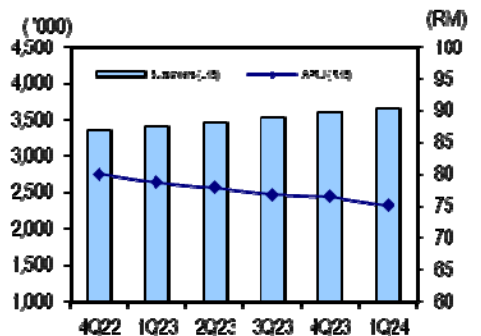
<ul style="list-style-type: none"> Environmental <ul style="list-style-type: none"> - Internal controls and monitoring mechanisms to manage climate change and environmental impact (eg energy consumption, waste management). Social <ul style="list-style-type: none"> - Enabling greater access to digital 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.
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REVENUE AND EBITDA MARGIN



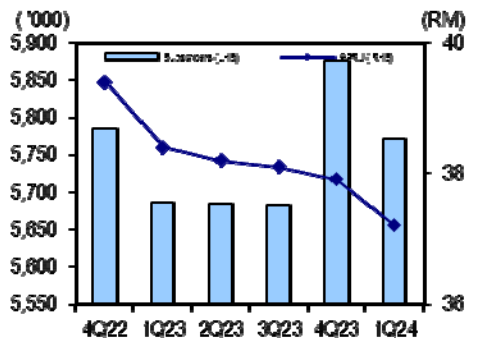
Source: Maxis, UOB Kay Hian

POSTPAID TREND



Source: Maxis, UOB Kay Hian

PREPAID TREND



Source: Maxis, UOB Kay Hian

KEY ASSUMPTIONS

Key Assumptions	2024F	2025F	2026F
Revenue growth (%)	4.2	4.7	4.3
EBITDA margin (%)	38.8	38.8	38.7
CAPEX to revenue (%)	9.0	10.0	11.0
Mobile subs (m)	10.6	10.9	11.1
Mobile ARPU (RM)	59.6	60.2	60.9

Source: UOB Kay Hian

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

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