

PP14767/09/2012(030761)

Maxis Berhad

“Issuing Islamic Notes of RM10 billion”

Latest Development

- **Issue RM10 billion sukuk.** According to Bursa Malaysia statement, Maxis Berhad’s (Maxis) unit, Maxis Broadband Sdn Bhd (MBSB), is planning to issue Islamic medium-term notes with a nominal value of up to RM10 billion which will be partly used to finance the group’s internal reorganisation exercise. The unrated sukuk murabahah programme will have a tenure of more than one year and up to 30 years.
- **Objective of the sukuk.** The proceeds from the sukuk would be partly used to settle the purchase consideration in relation to the buying the businesses and undertakings including relevant assets and liabilities from the target companies, namely units Maxis Mobile Sdn Bhd and Maxis Mobile Services Sdn Bhd. This came after Maxis December announcement of an internal reorganization which aimed at consolidating and integrating the businesses and undertakings of Maxis’ wholly-owned operating subsidiaries under MBSB.
- **To finance capex.** We also understand that part of the proceed will be used to finance Maxis’ capex and working capital requirements of MBSB and its subsidiaries and/or other general funding requirements. Of note, Maxis will sustain above RM1 billion capex for the next three years to complete its network modernization and 4G equipment. Added to that, the recent spectrum allocation will see telco including Maxis to require additional capex in order to acquire the spectrum.
- **Impact to financials.** Due to scarce information, our initial check suggest that Maxis will incur additional

Friday, July 01, 2016

HOLD (TP: RM6.46)

Current Price (RM)	RM5.89
New Fair Value (RM)	RM6.46
Previous Fair Value (RM)	RM6.46
Previous Recommend.	HOLD
Upside To Fair Value	9.6%
Dividend Yield (FY16F)	2.8%

Stock Code

Bloomberg	MAXIS MK
-----------	----------

Stock & Market Data

Listing	MAIN MARKET	
Sector	Telco	
Shariah Compliance	Yes	
Issued Shares (mn)	7,510	
Market Cap (RM mn)	44,235	
YTD Chg In Share Price	-13.4%	
Beta (x)	0.58	
52-week Hi/Low (RM)	RM7.20	RM5.36
3M Average Volume (shrs)	3.62mn	
Estimated Free Float	22%	

Major Shareholders

Binariang GSM	64.9%
ASB	7.6%
EPF	7.4%

finance cost of RM49 million in FY16 and RM47million in FY17 based on 30 years tenure with a total drawdown of RM 1billion for FY16-FY18. Based on this, the sukuk issuance will reduce our forecast by 2% in FY16 and 1.8% in FY17.

- **Change to forecast.** At this juncture, we leave our estimates unchanged as the details on the sukuk are too scarce. We expect Maxis's FY16 earnings to drop marginally by 1.4% y-o-y but grow by 12% y-o-y in FY17 driven by 1) steady non-voice segment performance particularly in the WBB and home segment 2) higher-than-expected take up rate in MaxisONE Plan 3) recovery in prepaid segment
- **Valuation.** We have a **HOLD** call on Maxis with unchanged target price of RM6.46 pegged at EV/EBITDA of 10.8x. Rerating catalyst for the stock include 1) completion of LTE and 3G network 2) award of new spectrum by MCMC 3) further M&A activity

Table 1: Peers Comparison

Company	FYE	Price (RM)	EPS (RM)		P/E (x)		P/B (x)		ROE (%)	Div Yield (%)	TP	Call
			FY16	FY17	FY16	FY17	FY16	FY17				
Axiata	Dec	5.88	0.29	0.32	20.4	18.4	2.2	2.1	11.5	3.7	6.45	Hold
Maxis	Dec	5.89	0.26	0.27	24.8	24.0	11.4	10.4	39.1	3.1	6.46	Hold
Digi	Dec	4.68	0.23	0.23	21.5	21.3	73.5	60.5	285.8	4.5	5.90	Buy
Telekom	Dec	6.73	0.24	0.26	27.2	25.4	3.2	3.15	9.1	3.2	6.87	Hold
Time DotCom	Dec	7.31	0.33	0.38	22.3	19.2	2.0	1.9	21.0	0.9	NR	NR
Average			0.27	0.29	23.24	21.6	18.5	15.6	73.3	2.9		

Source: Bloomberg, M&A Securities

Table 2: Financial Summary

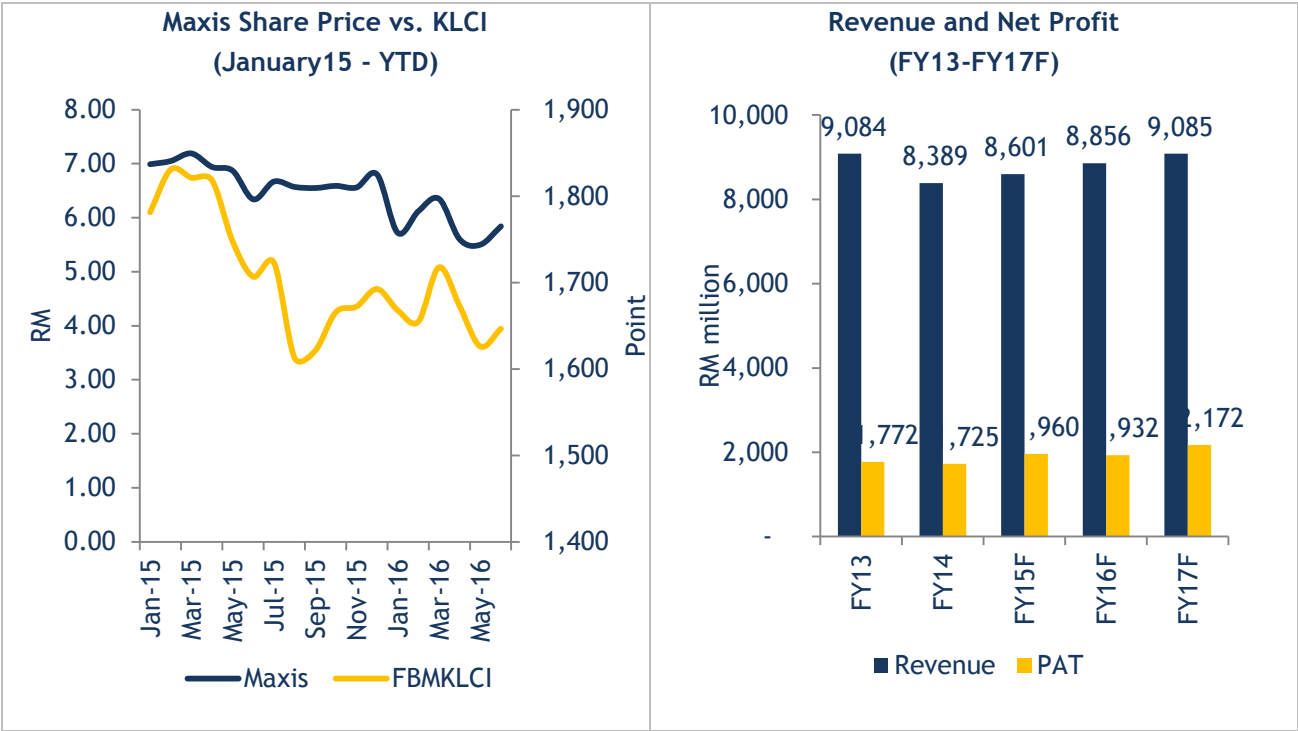
Operation matrix	1Q16	4Q15	1Q15	y-o-y chg	q-o-q chg
Prepaid					
Subscribers (million)	8,196	8,520	8,850	-7%	-4%
ARPU (RM/month)	39	39	39	0%	0%
Revenue (RM million)	1,015	1,041	1,076	-6%	-3%
Postpaid					
Subscribers (million)	2,696	2,765	2,784	-3%	-1%
ARPU (RM/month)	102	102	98	4%	4%
Revenue (RM million)	994	1011	974	2%	4%

Source: Bursa Malaysia

Table 3: Financial Forecast

YE: Dec (RM million)	FY13	FY14	FY15	FY16F	FY17F
Revenue	9,084	8,389	8,601	8,856	9,085
Direct cost	(3,089)	(2,707)	(2,728)	(2,927)	(3,011)
Indirect cost	(1,685)	(1,453)	(1,448)	(1,438)	(1,424)
EBITDA	4,310	4,229	4,425	4,490	4,650
Depreciation	(1,101)	(1,155)	(964)	(1,336)	(1,221)
Amortisation	(265)	(249)	(278)	(264)	(264)
Others	(119)	(9)	(27)	(133)	(116)
EBIT	2,825	2,816	3,156	2,758	3,049
Finance income	29	44	56	47	50
Finance costs	(358)	(424)	(468)	(264)	(240)
PBT	2,496	2,436	2,744	2,542	2,858
Tax	(724)	(711)	(784)	(610)	(686)
PAT	1,772	1,725	1,960	1,932	2,172
Minority Interest	(7)	(7)	(8)	(8)	(8)
Net Profit	1,765	1,718	1,952	1,924	2,164
EPS (sen)	23.5	22.9	26.0	25.6	28.8
Dividend - sen	40	40	20.00	19.21	21.61
Dividend payment (RMm)	3,003	3,003	1,501	1,443	1,623
Dividend payout (%)	170%	175%	77%	75%	75%
Retained Earnings	-1238	-1285	451	481	541
PER (x)	30.92	29.93	26.15	27.13	24.12
Gross Yield	6%	6%	3.0%	3%	3%
EV/EBITDA	14.22	13.92	13.47	12.98	12.25
EV (Mkt Cap + Total Debt-Cash)	61,286	58,885	59,623	58,281	56,965
EBITDA	4,310	4,229	4,425	4,490	4,650

Source: Bursa Malaysia, M&A Securities



M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

DISCLOSURES AND DISCLAIMER

This report has been prepared by M&A SECURITIES SDN BHD. Readers should be fully aware that this report is for informational purposes only and no representation or warranty, expressed or implied is made as to the accuracy, completeness or reliability of the information or opinion contained herein. The recommendation and opinion are based on information obtained or derived from sources believed to be reliable.

This report contains financial forecast/projection based on our assumptions which may defer from the actual financial results announced by the companies under coverage. All opinions, estimates and assumptions are subject to change without notice. Analysts will initiate, update and cease coverage solely at the discretion of M&A SECURITIES SDN BHD.

Investors are to be cautioned that value of any securities invested may fluctuate from time to time. We advise investors to seek financial, legal and other advice for investing based on the recommendation of our report as we have not taken into account each investors' specific investment objectives, risk tolerance and financial position.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. M&A SECURITIES SDN BHD can accept no liability for any consequential loss or damage whether direct or indirect. Investment should be made at investors' own risks.

M&A SECURITIES SDN BHD and INSAS GROUP of companies, their respective directors, officers, employees and connected parties may have interest in any of the securities mentioned and may benefit from the information herein. M&A SECURITIES SDN BHD and INSAS GROUP of companies and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This report may not be reproduced, distributed or published in any form or for any purpose.

M & A Securities SdnBhd (15017-H)

(A wholly-owned subsidiary of INSAS BERHAD)

A Participating Organisation of Bursa Malaysia Securities Berhad

Principal Office:

Level 1,2,3 No.45 & 47,43-6

The Boulevard, Mid Valley City,

Lingkaran Syed Putra,

59200 Kuala Lumpur

Tel: +603 - 2282 1820 Fax: +603 - 2283 1893

Website: www.mnaonline.com.my

Research Team

research@mna.com.my

03-22821820 ext.

357 358 359 360 361

