

22 November 2006

Maxis Communications

Reuters: **MXSC.KL** Bloomberg: **MAXIS MK** Exchange: **KLS** Ticker: **MXSC**

3Q06 results review

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Good domestic performance and double-digit India growth

Improved domestic and strong Indian performance helped Maxis post steady 3Q06 results with Group revenues +4.5% QoQ, EBITDA +4.4% QoQ and PBT +3.7%. An upside risk is that Maxis is reviewing strategic options for Indonesia - this could suggest possible exit which would be a positive development. We maintain our forecasts and re-iterate our Hold rating and RM8.75 TP. This note marks the transfer of coverage from Matt Adams to William Bratton.

Domestic performance significantly better than 2Q06

More aggressive positioning in the domestic market supported strong subscriber acquisition (+388k), revenue growth (+3% QoQ) and PBT (+5% QoQ). These were significantly better results than 2Q06 and indicate that the company is able to both defend its market position and generate new revenues

India growing strongly and potential upside from possible Indonesia exit

India revenues hit RM240mn (+17% QoQ) driven by subscriber growth (+605k, +19% QoQ). The company has aggressive expansion plans for India which it is implementing. Management indicated an ongoing and significant strategic review of Indonesia which could suggest possible exit. This would be positive

Maintain Hold and TP RM8.75, pending more clarity on Indonesia

In the absence of specific clarity on Indonesia, we retain our Hold and forecasts. Our TP of RM8.75 is determined through DCF analysis (11% WACC, 2% g – same for all Malaysian Telcos, plus 10% discount due to India / Indonesia uncertainty). Risks: Increased Indonesia/India commitments, increased Malaysian competition, adverse regulation. Upside risks include possible exit from Indonesia and reduced capex requirements in India

Forecasts and ratios

Year End Dec 31	2004A	2005A	2006E	2007E	2008E
Sales (MYRm)	5,689.0	6,370.8	6,878.3	7,302.1	7,688.7
EBITDA (MYRm)	3,215.0	3,482.0	3,836.7	4,018.0	4,359.4
Reported NPAT (MYRm)	1,598.0	1,674.4	1,893.6	2,005.2	2,250.6
Reported EPS (MYR)	0.65	0.67	0.76	0.80	0.90
DB EPS FD(MYR)	0.64	0.83	0.77	0.82	0.92
DB EPS growth (%)	30.1	31.2	-7.6	5.9	12.2
PER (x)	13.7	11.4	12.2	11.5	10.3
EV/EBITDA (x)	6.3	6.0	5.3	4.7	4.1
DPS (net) (MYR)	0.36	0.42	0.53	0.56	0.63
Yield (net) (%)	4.1	4.4	5.6	6.0	6.7

Source: Deutsche Bank estimates, company data

¹ DB EPS is fully diluted and excludes non-recurring items

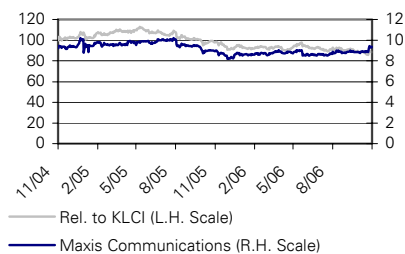
² Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Results Review

Hold

Price at 22 Nov 2006 (MYR)	9.40
Price target - 12mth (MYR)	8.75
52-week range (MYR)	9.45 - 8.20
KLCI	1,036

Price/price relative



Performance (%)	1m	3m	12m
Absolute	5.6	6.8	5.0
KLCI	5.8	9.6	14.8

Stock data

Market cap (MYRm)	23,472
Market cap (USDm)	6,431
Shares outstanding (m)	2,497.0
Major shareholders	Anandakrishna (32%)
Free float (%)	27

Key indicators

ROE (%)	29.7
Net debt/equity (%)	-49.7
Book value/share (MYR)	2.66
Price/book (x)	3.5
Net interest cover (x)	-
Operating profit margin (%)	40.1

Comparatives

	2005A	2006E	2007E
DiGi.Com (dsom.kl),MYR13.50			Hold
P/E (x)	9.2	15.9	12.3
EV/EBITDA (x)	2.7	6.1	5.3
Price/book (x)	2.5	6.5	5.4

Deutsche Bank AG/Hong Kong

All prices are those current at the end of the previous trading session unless otherwise indicated. Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1

Model updated: 27 October 2006

Equity Research

Asia

Malaysia

Telecommunications

Maxis

Reuters code **MXSC.KL**

Hold

Price as at 21-Nov **RM9.30**

Target Price **RM8.75**

Company Website
<http://www.maxis.com.my>

Company description

Maxis Communications Berhad and its subsidiaries supplies mobile communication services to businesses and individuals in Malaysia. The Company also provides domestic fixed line network which offers voice and data services and an international gateway network which offers cross border interconnect services.

Research Team

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Y/E 31 December	2000	2001	2002	2003	2004	2005	2006E	2007E	2008E
SUMMARY									
Reported EPS (RM)	0.23	0.38	0.47	0.75	0.65	0.67	0.76	0.80	0.90
P/E ratio (Reported) (x)	na	na	11.8	8.1	13.5	14.2	12.3	11.6	10.3
Reported EPS growth (%)	172.8	68.1	23.8	59.1	-13.6	3.9	12.6	5.9	12.2
DB EPS FD (RM)	0.14	0.32	0.39	0.49	0.64	0.83	0.77	0.82	0.92
P/E ratio (DB) (x)	na	na	14.4	12.5	13.8	11.4	12.1	11.4	10.1
Operating CFPS (RM)	0.79	0.90	0.84	0.97	1.36	1.25	1.37	1.41	1.39
Free CFPS (RM)	0.21	0.24	0.36	0.54	0.92	0.78	0.93	0.98	1.02
P/CFPS (x)	na	na	6.6	6.3	6.5	7.7	6.8	6.6	6.7
DPS (RM)	0.01	0.47	0.15	0.20	0.36	0.42	0.53	0.56	0.63
Dividend yield (%)	na	na	2.7	3.3	4.1	4.4	5.7	6.0	6.8
BV/Share (RM)	0.99	0.89	1.24	1.85	2.17	2.44	2.66	3.00	3.34
Price/BV (x)	na	na	4.34	4.08	4.31	3.45	3.49	3.10	2.78
Weighted average shares (m)	1,579	1,579	2,015	2,454	2,467	2,487	2,497	2,497	2,497
Average market cap (RM m)	na	na	11,204	14,984	21,601	23,699	23,375	23,375	23,375
Enterprise Value (RM m)	na	na	10,390	14,954	20,370	21,064	20,073	18,949	17,817
EV/Sales	na	na	2.8	3.2	3.6	3.3	2.9	2.6	2.3
EV/EBITDA	na	na	5.5	6.2	6.3	6.0	5.2	4.7	4.1
EV/EBIT	na	na	7.8	9.2	8.8	8.6	7.3	6.5	5.6
EV/Operating Capital	na	na	4.7	3.3	5.3	5.7	6.0	6.2	6.4

INCOME STATEMENT (RM m)

Sales revenue	2,206	3,031	3,769	4,680	5,689	6,371	6,878	7,302	7,689
Operating EBITDA	843	1,413	1,883	2,403	3,215	3,482	3,837	4,018	4,359
Depreciation	416	400	549	699	766	891	937	979	1,011
Amortisation	0	0	0	85	133	146	145	145	145
Operating EBIT	426	1,013	1,334	1,619	2,316	2,445	2,755	2,894	3,204
Net interest income (expense)	-73	-45	-54	-25	-14	30	50	78	134
Associates/affiliates	0	0	0	0	0	0	0	0	0
Investment and other income/expense	0	0	0	0	0	5	-50	-50	-50
Exceptionals/extraordinaries	15	-190	0	-320	36	0	0	0	0
Income tax expense	12	177	331	-567	740	840	861	916	1,037
Minorities/preference dividends	0	0	0	0	0	-35	0	0	0
Net income	357	601	950	1,841	1,598	1,674	1,894	2,005	2,251

CASH FLOW (RM m)

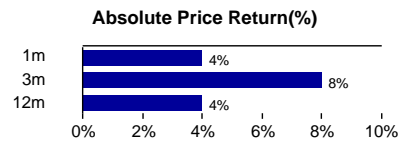
Cash flow from operations	1,243	1,418	1,692	2,374	3,347	3,097	3,425	3,529	3,459
Movement in net working capital	363	60	29	287	156	-37	261	211	28
Capex	-916	-1,031	-964	-1,044	-1,087	-1,146	-1,100	-1,080	-923
Free cash flow	327	386	728	1,330	2,260	1,951	2,325	2,449	2,536
Other investing activities	0	0	0	-1,475	-1	-13	0	0	0
Equity raised/(bought back)	0	0	704	0	-860	0	0	0	0
Dividends paid	0	-22	-738	-368	-62	-1,054	-1,231	-1,326	-1,404
Net inc/(dec) in borrowings	-355	-197	352	3	-355	159	-211	0	0
Other financing cash flows	-40	5	-13	-272	188	196	-426	0	0
Total cash flows from financing	-396	-214	304	-637	-1,089	-699	-1,869	-1,326	-1,404
Net cash flow	-69	176	1,032	-782	1,170	1,239	456	1,124	1,132
Movement in net debt/(cash)	-287	-373	-680	785	-1,525	-1,080	-667	-1,124	-1,132

BALANCE SHEET (RM m)

Cash and other liquid assets	642	818	1,850	1,068	2,238	3,477	3,933	5,057	6,190
Tangible fixed assets	2,781	3,216	3,630	3,936	4,254	4,508	4,835	4,936	4,848
Goodwill	0	0	0	1,292	1,158	1,260	868	723	578
Other intangible assets	0	0	0	0	0	0	0	0	0
Associates/investments	0	0	0	0	0	0	0	0	0
Other assets	441	560	820	1,654	1,022	874	825	824	815
Total assets	3,864	4,594	6,300	7,949	8,672	10,120	10,462	11,540	12,431
Interest bearing debt	880	683	1,035	1,038	683	842	631	631	631
Other liabilities	1,415	2,501	2,217	2,360	2,618	2,955	3,164	3,397	3,440
Total liabilities	2,295	3,184	3,252	3,398	3,301	3,797	3,795	4,028	4,072
Shareholders' equity	1,569	1,410	3,048	4,551	5,371	6,083	6,648	7,493	8,340
Minorities	0	0	0	0	0	240	0	0	0
Total shareholders' equity	1,569	1,410	3,048	4,551	5,371	6,323	6,648	7,493	8,340
Net working capital	-966	-1,862	-1,256	-1,522	-1,683	-1,793	-2,183	-2,417	-2,469
Net debt/(cash)	238	-135	-815	-30	-1,555	-2,635	-3,302	-4,426	-5,558
Capital	1,807	1,276	2,234	4,521	3,816	3,688	3,346	3,067	2,782

RATIO ANALYSIS

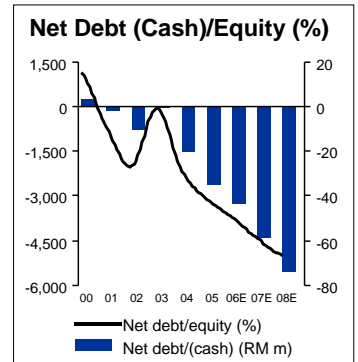
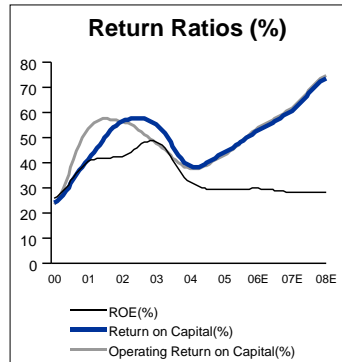
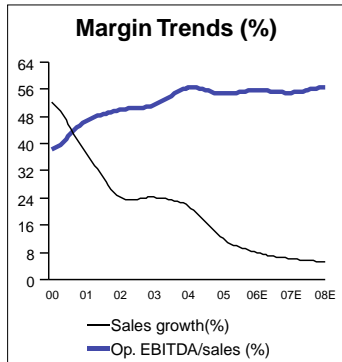
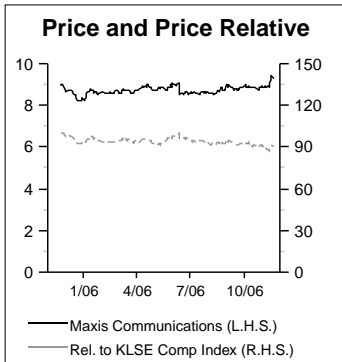
Sales growth (%)	52.3	37.4	24.3	24.2	21.6	12.0	8.0	6.2	5.3
Op. EBITDA/sales (%)	38.2	46.6	50.0	51.3	56.5	54.7	55.8	55.0	56.7
Op. EBIT/sales (%)	19.3	33.4	35.4	34.6	40.7	38.4	40.1	39.6	41.7
Payout ratio (%)	6.0	122.9	31.8	26.7	55.6	62.9	70.0	70.0	70.0
ROE (%)	25.7	40.3	42.6	48.5	32.2	29.2	29.7	28.4	28.4
Return on Capital (%)	24.1	41.4	56.4	55.2	38.6	44.1	52.9	60.9	73.8
Operating Return on Capital (%)	23.3	53.7	56.4	47.9	37.7	43.1	53.8	61.9	75.0
Capex/sales (%)	41.5	34.0	25.6	22.3	19.1	18.0	16.0	14.8	12.0
Capex/depreciation (x)	2.2	2.6	1.8	1.5	1.4	1.3	1.2	1.1	0.9
Net debt/equity (%)	15.2	-9.6	-26.7	-0.7	-28.9	-41.7	-49.7	-59.1	-66.6
Net interest cover (x)	5.9	22.3	24.9	65.3	165.4	nm	nm	nm	nm



52-week Range: **RM8.20 - RM9.45**
Market Cap (m): **RM 23,375**
US\$ 6,407

Company identifiers

Bloomberg **MAXIS MK**
Cusip **NA**
SEDOL **6530523**



3Q06: Good MY performance, upside through NTS exit?

The key points of the 3Q06 results are:

- Malaysia performance has been relatively strong with the company demonstrating an ability to defend its market position and secure incremental revenue and profit growth
- India continues to record double digit subscriber, revenue and profit growth and management continues to have aggressive expansion plans
- Indonesia remains non-existent but management indicated that they were reviewing strategic options and would announce soon - could exit be a possibility?

More aggressive positioning has supported domestic financial and operational performance

Maxis appears to have been more aggressive in 3Q06 in terms of subscriber acquisition as well as encouraging higher levels of usage and reduced churn through various promotions.

In addition, the company continues to aggressively deploy its wireless broadband service using HSDPA. This allows it to access new revenue streams utilizing its 3G network and to head-off potential competition by the new 3G entrants who have indicated a possible intent of offering a similar service.

Maxis generated Malaysia revenue and PBT growth in 3Q06 reflecting a significant improvement from the 2Q06 declines

This more aggressive market positioning has translated into revenue growth with revenues +3% (compared to -1% QoQ in 2Q06) and profit before tax increasing RM30m to RM665m (+5% QoQ) compared to -13% QoQ in 2Q06. It is an indication of the increasing competitive intensity of Malaysia's market that EBITDA margin in 3Q06 was 52.4% which although an increase QoQ compares to 56.4% in 1Q06. However, margins tend to compress in Q4 as a result of market campaigns which could impair financial performance.

Considering the competitive nature of the Malaysian market, we believe that the 3Q06 numbers are generally positive and demonstrate that the company retains its ability to aggressively defend its domestic market position despite India and Indonesia requirements.

Company remains confident on India given strong growth

The Indian operations continue to record relatively strong performance and support underlying Group growth.

- India accounted for 61% of Group net adds in 3Q06 with an additional 605k subs (+19% QoQ). In fact the Indian operations appears to be recording a faster net add rate than the overall Indian market
- India revenues grew 20% to RM247m (12.5% of total Group revenues) and this growth translated to a 20% increase in EBITDA to RM83m (8.8% of Group EBITDA)

Management continues to remain confident on India.

- A new CEO has been appointed to implement the expansion strategy

The company has aggressive Indian expansion plans in terms of new Circles and new services

- The company has been awarded new licences which will allow it to expand its reach (although of course network expansion will require incremental capex)
- Management expects to secure the additional spectrum to launch in the new areas
- The company has been awarded National Long Distance and International Long Distance licences which will allow it to offer these (potentially high margin) services across India

Capex for India is expected to be US\$250m for FY06F (down from previous guidance of US\$450m) although we expect the excess to be incurred in FY07F.

Indonesia: Waiting further clarity - exit possible?

There were no real surprises with respect to Indonesia (although end 3Q06 the company had just 7k subs - down -3k QoQ) with Maxis recording a pre-tax quarterly loss of RM-72m on NTS taking total incurred loss in FY06 to date to RM-175m.

The company faces a launch deadline of Feb 2007 to launch as part of its Modern Licence and management stated that it expects to provide greater clarity on the Indonesian strategy in the next few months.

Management indicated that it was reviewing a number of strategic options for Indonesia - could exit be one?

Specifically, management indicated that it was exploring a number of strategic options which may significantly impact on its Indonesian operations and plans. This is somewhat contrary to the statement in the quarterly report that "we continue to believe that the long term plan for Indonesia remains on track" but we believe that an option is exit from NTS and the Indonesian market.

We believe that an exit from or reduced exposure to NTS / Indonesia would be clearly positive both in terms of financial performance but also operationally - allowing management to focus on growth in India and defending a strong position in Malaysia.

Overall 3Q06 generally positive with strong India performance and Malaysia

The key outputs of the results are:

Total subscribers increased 1m with 61% from India but strong Malaysia performance

- Total subscribers reached 12.7m (+8% QoQ, comparable to performance in 2Q06)
- Indian subscriber base reached 3.8m, an increase of 605k QoQ (+19%) and now accounts 30% of the Group's total subscriber base
- The company continued to grow its subscriber base in Malaysia, with an additional 388k net adds taking its based to 8.9m (for reference, DiGi took 150k net adds in 3Q06 and in 2Q06 Maxis net adds in Malaysia was 265k)

Malaysia net subscriber acquisition has been very strong

But pre-paid registration will hurt the Malaysian base

- The deadline for the pre-paid registration process remains 15 Dec
- The company stated that it expects that the impact of the pre-paid registration process will be to reduce its pre-paid subscriber base by 1 - 1.5m subscribers (a reduction of up 21% on the current pre-paid base)
- It remains unclear whether this reduction in base will translate to a proportional increase in pre-paid ARPUs. In addition, the non-registered pre-paid accounts will still be able to receive incoming calls so there may be continued scope to receive incoming calls

Revenues continue to grow with India +20% QoQ but Malaysia also at +3%

- Total Group revenues increased RM85m (QoQ +4.5%) with Indian revenue growth accounting for 41% of total revenue growth and Malaysia mobile for 36%

After poor 2Q06, company generated revenue growth in Malaysia

- Revenues from the Indian operations grew 20% QoQ reaching RM247m and accounting for 12.5% of Group revenues (up from 10.9% in 2Q06)
- Malaysian operations demonstrated continued growth despite competitive market and penetration levels close to saturation with revenues growth at +3% QoQ
- Malaysia post-paid ARPUs remained steady supported by a +6% QoQ increase in monthly minutes of use (to approx 500 minutes per month) whilst pre-paid ARPUs declined -2% QoQ reflecting reduced voice usage and data revenues
- Despite increased used, mobile data revenues declined indicating strong downward pricing pressures

Group margins remained relatively stable QoQ although India still less than Malaysia

- EBITDA margins QoQ remained relatively stable at the Group level (48%) with Indian margins at stable 33.6% and Malaysian margins improving to 52.4% (India is generally a lower margin environment than other comparable markets and we expect this difference to remain)
- Group EBIT margin stable QoQ at 35% with the impact of the substantial Indian capex requirements not yet impacting

Management guided down capex requirements for Malaysia inFY06F

- Management guided Malaysia capex for FY06F to be approx RM900m compared to earlier guidance of RM1.1bn
- Management guided India capex for FY06F to be approx US\$250m compared to earlier guidance of US\$450m

In summary:

Figure 1: 3Q07 financial and operational performance

Y/E Dec (Rm mn)	3Q06	QoQ%	YoY %	2Q06	1Q06
Revenue	1,974	4%	25%	1,889	1,727
Malaysia	1,727	3%	9%	1,684	1,697
India	247	20%	-	205	29
EBITDA	946	4%	-	906	933
EBITDA margin (%)	47.9%	0%	-6%	48.0%	54.0%
EBT	642	4%	7%	619	707
Reported net income	503	12%	28%	450	510
Capex	215	13%	-3%	191	139
Capex/sales (%)	11%	8%	-22%	10%	8%
Net operating cash-flows	2,192	96%	15%	1,117	391
Net investing cash-flows	-4,045	nm	nm	-3,294	-3,019
Net change in cash	468	nm	nm	-145	-978
End cash	2,822	20%	2%	2,354	2,499
Subscribers ('000)					
Malaysia	8,858	5%	26%	8,470	8,205
India	3,804	19%	-	3,199	2,611
Malaysia ARPU (RM)					
Post-paid	136	0%	-3%	136	137
Pre-paid	44	-2%	-17%	45	48

Source: Deutsche Bank, Company data

Maintain Hold and TP RM8.75

In the absence of specific clarity on Indonesia, we retain our Hold and forecasts. Our TP of RM8.75 is determined through DCF analysis (11% WACC, 2% g – same for all Malaysian Telcos, plus 10% discount due to India / Indonesia uncertainty.

Upside risks: Exit from Indonesia; reduced capex commitments in India; successful national expansion strategy in India; Malaysia market out-performance.

Downside risks: Large-scale capex requirements in India and Indonesia; enforcement of network roll-out commitments in Indonesia; increased market competition in India and Malaysia; adverse regulation.

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Maxis Communications Berhad	MXSC.KL	9.40 (MYR) 22 Nov 06	6
DiGi.Com	dsom.kl	13.50 (MYR) 22 Nov 06	NA

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

Important Disclosures Required by U.S. Regulators

Disclosures marked with an asterisk may also be required by at least one jurisdiction in addition to the United States. See "Important Disclosures Required by Non-US Regulators" and Explanatory Notes.

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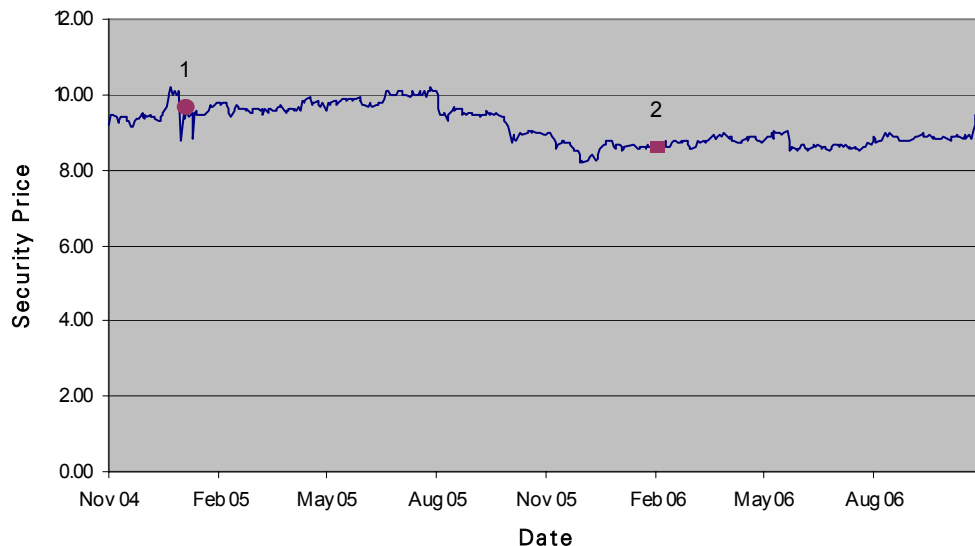
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Historical recommendations and target price: Maxis Communications Berhad (MXSC.KL)

(as of 22/11/2006)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

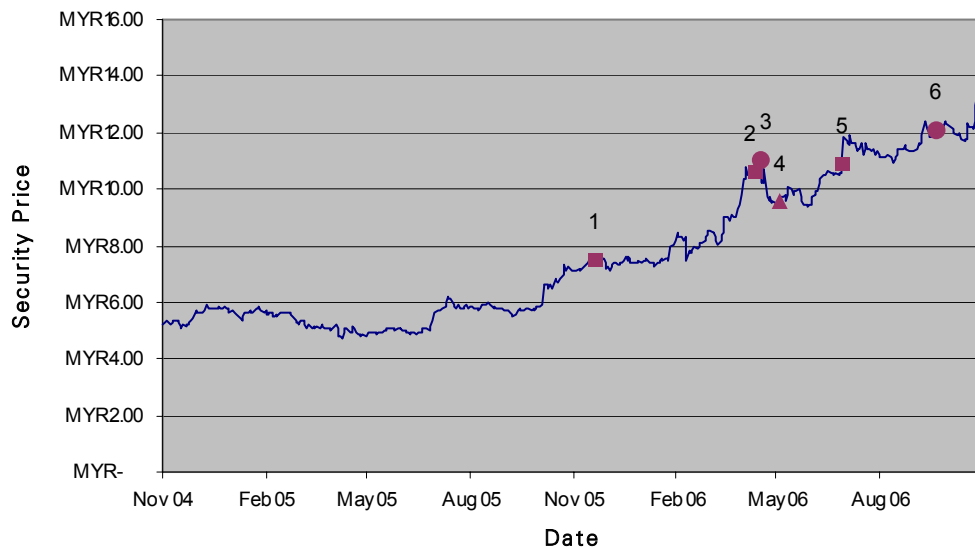
- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9, 2002

- | | |
|--|---|
| 1. 24/1/2005: Downgrade to Hold, MYR8.75 | 2. 22/2/2006: Hold, Target Price Change MYR8.75 |
|--|---|

Historical recommendations and target price: DiGi.Com (dsom.kl)

(as of 22/11/2006)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9, 2002

- | | |
|--|--|
| 1. 12/12/2005: Buy, Target Price Change MYR10.00 | 4. 25/5/2006: Upgrade to Buy, MYR12.25 |
| 2. 3/5/2006: Buy, Target Price Change MYR12.75 | 5. 20/7/2006: Buy, Target Price Change MYR13.00 |
| 3. 8/5/2006: Downgrade to Hold, Target Price Change MYR12.25 | 6. 11/10/2006: Downgrade to Hold, Target Price Change MYR12.40 |

Equity rating key

Equity rating dispersion and banking relationships

Buy: Expected total return (including dividends) of 10% or more over a 12-month period.

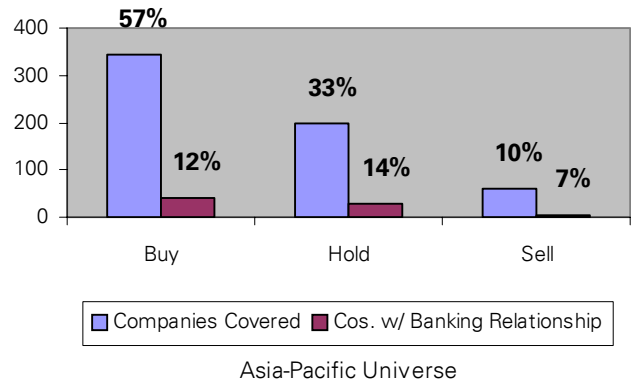
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