

THIS REPORT IS STRICTLY FOR INTERNAL CIRCULATION ONLY*

Digi.Com Berhad

Weighted by the Prepaid Segment
TP: RM4.25 (-6.2%)

Last Traded: RM4.53
SELL

Wilson Loo, CFA

Tel: +603-2167 9606

wilsonloo@ta.com.my

www.taonline.com.my

Review

- On a pre-MFRS 16 basis, Digi reported IQFY19 net profit of RM366mn (-3.1% QoQ, -5.2% YoY), which came within ours and consensus estimates at 23.9% and 23.5% respectively.
- A 1st interim dividend of 4.3sen/share (-10.4% QoQ, -12.2% YoY) was declared. This represents a payout ratio of 91.5% which is consistent with the group's dividend policy of distributing at least 80% of net profit.
- YoY.** Service revenue declined 4.7% YoY to RM1,393mn as the prepaid segment's weakness on lower legacy voice revenues outweighed the postpaid segment's strength on higher data revenues. The prepaid segment was challenged by: 1) declining voice traffic, 2) the 33% reduction in mobile termination rates effective 1 January 2019, and 3) net churns of 790k YoY. Notwithstanding, driven by a growing mix of internet subscribers within both the prepaid and postpaid segment, contributions from internet as a percentage of service revenue improved further 9.8pp YoY to 61.9%.
- QoQ.** After holding steady for 3 quarters, service revenue declined 3.1% QoQ to RM1,393mn due to seasonality and challenges from the prepaid segment as aforementioned. Of note, net churns of 459k QoQ from the prepaid segment was the heaviest in 8 quarters and according to management this was attributed to its reviewed strategy to clean out rotational non-internet/traditional subscribers and focus on driving sustainable growth from internet subscribers. Meanwhile, the postpaid segment's growth moderated with service revenue marginally up 0.2% QoQ, supported by net adds of 50k QoQ and stable ARPU (unchanged at RM71/month).
- At the bottom line, EBITDA declined 2.3% QoQ and 6.7% YoY to RM723mn in tandem with the lower revenue. However, EBITDA margins improved 3.7pp QoQ and 0.5pp YoY to 47.9% as on-going cost optimisation efforts in areas such as sales and marketing, operations and maintenance, and staff led to leaner opex (-2.4% QoQ, -0.4% YoY).
- In terms of CAPEX, RM168mn or 12.1% of service revenue was expended mainly on network upgrades and expansion as well as digital capabilities. As at IQFY19, the group's 4G LTE and LTE-A coverage was at 89% (unchanged QoQ, +1pp YoY) and 67% (+2pp QoQ, +10pp YoY).

Impact

- Our FY19/FY20/FY21 earnings are revised marginally +0.2%/+0.5%/+0.7% to RM1,535mn/RM1,604mn/RM1,667mn upon imputing FY18 audited figures into our model.

Outlook

- For FY19, management reiterated its guidance for: i) service revenue to be around FY18's level, ii) EBITDA to grow by low-single digit, and iii)

Share Information

Bloomberg Code	DIGI MK
Stock Code	6947
Listing	Main Market
Share Cap (mn)	7,775.0
Market Cap (RMmn)	35,220.8
52-wk Hi/Lo (RM)	4.88/3.93
12-mth Avg Daily Vol ('000 shrs)	4,068.0
Estimated Free Float (%)	21.9
Beta	1.1
Major Shareholders (%)	
	Telenor - 49.0
	EPF - 13.9
	Skim Amanah Saham Bumiputera - 7.6

Forecast Revision

	FY19	FY20
Forecast Revision (%)	0.2	0.5
Net profit (RMmn)	1,535	1,604
Consensus	1,559	1,591
TA's / Consensus (%)	98.5	100.8
Previous Rating	Sell (Maintained)	

Financial Indicators

	FY19	FY20
Net debt/EBITDA (x)	0.7	0.6
CFPS (sen)	29.5	30.7
P/CFPS (x)	15.3	14.8
ROAE (%)	214.1	193.2
ROAA (%)	26.8	28.3
NTA/Share (RM)	0.1	0.1
Price/NTA (x)	71.1	53.6

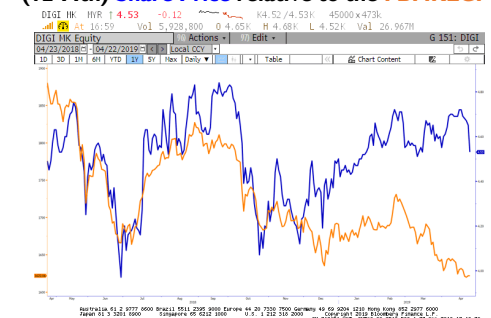
Scorecard

	% of FY	
vs. TA	23.9	Within
vs. Consensus	23.5	Within

Share Performance (%)

Price Change	DiGi	FBM KLCI
1 mth	(2.6)	(2.7)
3 mth	0.2	(3.9)
6 mth	7.3	(4.4)
12 mth	0.9	(13.7)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

CAPEX to service revenue ratio in the range of 11% to 12%. Focus would be placed on driving growth from existing customers, the postpaid segment, SME/B2B's (e.g., via digital businesses), enhancing network experience, and cost optimisation initiatives. Note, however, that our forecasts trail management's guidance with expectations for a low-single digit decline in service revenue (-2.8%) and EBITDA (-2.0%) as we foresee sustained challenges from the prepaid segment on the back of competitive pressures.

Valuation

- Rolling forward our valuation base year to CY20, we value Digi at a revised TP of RM4.25/share (RM4.20/share previously) based on a WACC of 7.5% and long-term growth rate of 1.0%. While the stock's forward dividend yields of 4.1%/4.3%/4.5% in FY19/FY20/FY21 may appear decent, we opine that it is not attractive enough to warrant an entry at current levels considering the downside risk from further challenges within the prepaid segment. Reiterate **Sell**.

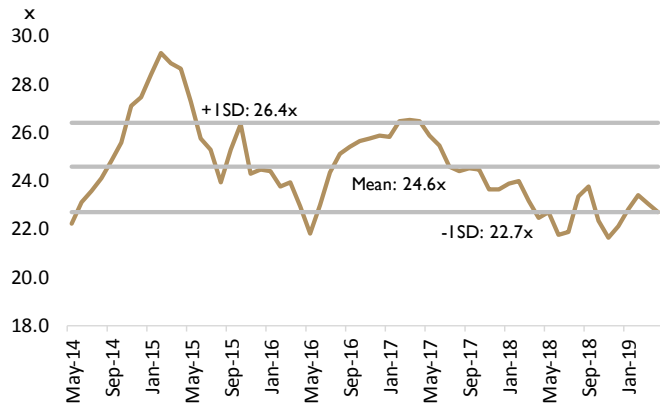
Table 1: Earnings Summary (RMmn)*

FYE Dec (RMmn)	FY17	FY18	FY19F	FY20F	FY21F
Revenue	6,340	6,527	6,342	6,465	6,588
EBITDA	2,880	2,993	2,935	2,997	3,059
EBITDA margin (%)	45	46	46	46	46
Dep. & amortisation	-786	-805	-804	-789	-780
EBIT	2,094	2,189	2,131	2,208	2,279
Net finance costs	-109	-109	-111	-98	-86
Others	0	0	0	0	0
Profit before tax	1,985	2,079	2,020	2,110	2,193
Taxation	-509	-539	-485	-506	-526
MI	0	0	0	0	0
Profit after tax	1,477	1,541	1,535	1,604	1,667
Core net profit	1,480	1,582	1,535	1,604	1,667
EPS (sen)	19.0	20.4	19.7	20.6	21.4
EPS growth (%)	(9.5)	6.9	(3.0)	4.5	3.9
PER (x)	23.8	22.3	22.9	22.0	21.1
EV/EBITDA (x)	13.0	12.5	12.8	12.5	12.3
DPS (sen)	18.8	19.6	18.8	19.6	20.4
Dividend yield (%)	4.2	4.3	4.1	4.3	4.5

*Post-MFRS 9 & 15

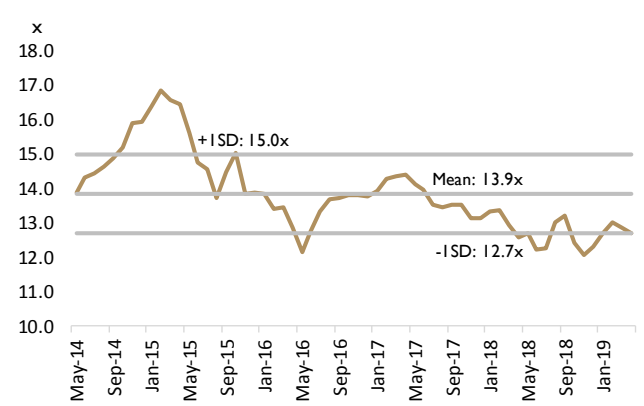
[THE REMAINING OF THIS PAGE IS INTENTIONALLY LEFT BLANK]

Figure 1: Forward PE



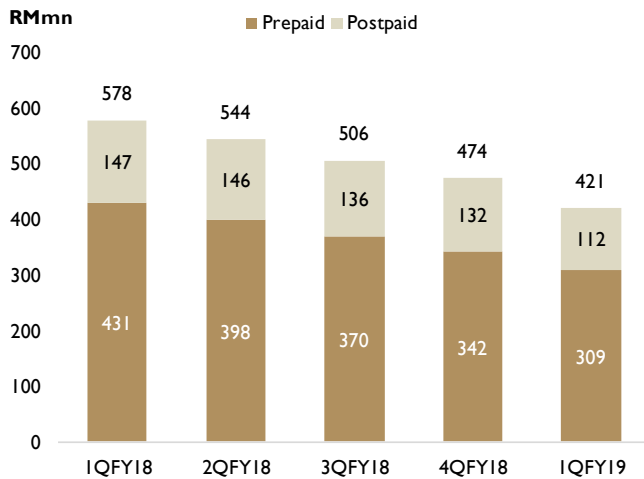
Source: Bloomberg, TA Securities

Figure 2: Forward EV/EBITDA



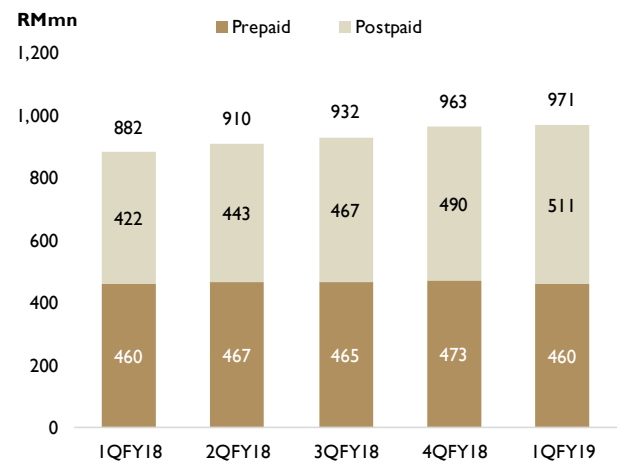
Source: Bloomberg, TA Securities

Figure 3: Voice Revenue



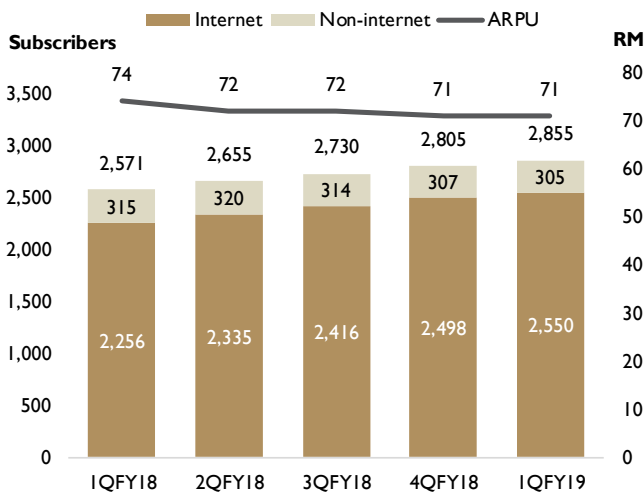
Source: Company, TA Securities

Figure 4: Data Revenue



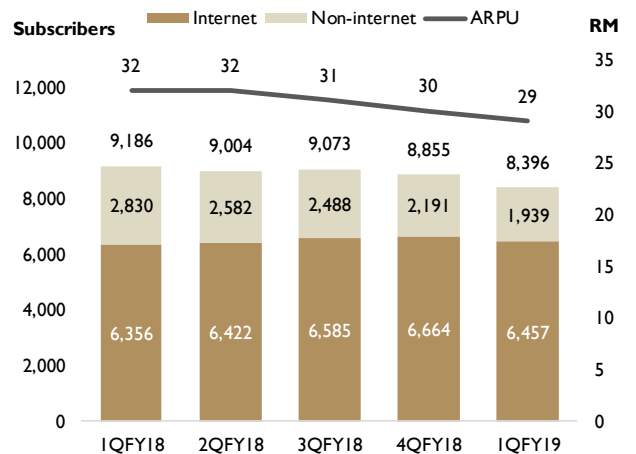
Source: Company, TA Securities

Figure 5: Postpaid



Source: Company, TA Securities

Figure 6: Prepaid



Source: Company, TA Securities

Table 2: 1QFY19 Results Analysis Pre-MFRS 16 (RMmn)

FYE Dec	1QFY18	4QFY18	1QFY19	QoQ (%)	YoY (%)
Revenue	1,635	1,675	1,509	(9.9)	(7.7)
<i>Service revenue</i>	1,461	1,437	1,393	(3.1)	(4.7)
Postpaid	569	622	623	0.2	9.5
Data	422	490	511	4.3	21.1
Voice	147	132	112	(15.2)	(23.8)
Prepaid	891	815	769	(5.6)	(13.7)
Data	460	473	460	(2.7)	0.0
Voice	431	342	309	(9.6)	(28.3)
<i>Device & other revenue</i>	174	237	116	(51.1)	(33.3)
EBITDA	775	740	723	(2.3)	(6.7)
Dep. & amortisation	-231	-196	-216	9.9	(6.5)
EBIT	544	544	507	(6.8)	(6.8)
Net finance costs	-29	-25	-22	(13.5)	(23.8)
Others	0	0	0	n/a	n/a
Profit before tax	515	518	485	(6.4)	(5.8)
Taxation	-129	-141	-119	(15.3)	(7.7)
MI	0	0	0	n/a	n/a
Net profit	386	378	366	(3.1)	(5.2)
Core net profit	386	378	366	(3.1)	(5.2)
Capex	181	230	168	(27.0)	(7.2)
EPS (sen)	5.0	4.9	4.7	(3.3)	(5.4)
DPS (sen)	4.9	4.8	4.3	(10.4)	(12.2)
Profitability ratios (%)				pp	pp
EBITDA margin	47.4	44.2	47.9	3.7	0.5
EBIT margin	33.3	32.5	33.6	1.1	0.3
PBT margin	31.5	31.0	32.2	1.2	0.6
Net profit margin	23.6	22.6	24.3	1.7	0.6
Tax rate	25.0	27.1	24.5	(2.6)	(0.5)
COGS and Opex					
<i>COGS</i>	376	435	304	(30.1)	(19.1)
Cost of materials	146	220	120	(45.5)	(17.8)
Traffic charges	230	215	184	(14.4)	(20.0)
<i>OPEX</i>	492	502	490	(2.4)	(0.4)
Sales and marketing	129	115	115	0.0	(10.9)
Staff costs	65	77	65	(15.6)	0.0
Operations and maintenance	114	108	108	0.0	(5.3)
Other expenses	184	202	202	0.0	9.8
USP fund and license fees	95	96	103	7.3	8.4
Credit loss allowances	16	14	14	0.0	(12.5)
Others	73	92	85	(7.6)	16.4
Operational metrics				Net adds	Net adds
Subscriber base ('000)	11,757	11,660	11,251	-409	-506
Prepaid	9,186	8,855	8,396	-459	-790
Postpaid	2,571	2,805	2,855	50	284
				%	%
ARPU (RM)	41	40	39	(2.5)	(4.9)
Prepaid	32	30	29	(3.3)	(9.4)
Postpaid	74	71	71	0.0	(4.1)

(THIS PAGE IS INTENTIONALLY LEFT BLANK)

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

Disclaimer

The information in this report has been obtained from sources believed to be reliable. Its accuracy and/ or completeness is not guaranteed and opinions are subject to change without notice. This report is for information only and not to be construed as a solicitation for contracts. We accept no liability for any direct or indirect loss arising from the use of this document. We, our associates, directors, employees may have an interest in the securities and/or companies mentioned herein.

As of Tuesday, April 23, 2019, the analyst, Wilson Loo, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

TA SECURITIES HOLDINGS BERHAD (14948-M)

A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048
www.ta.com.my