

Digi.com Bhd

3QFY21 Within Expectations

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3QFY21 CNP of RM295m and DPS of 4.0 sen came within our estimates. While an increase in postpaid subs at the expense of ARPU is as expected, we were surprised by the increase in prepaid subs, driven by DIGI's efforts to focus on its online-sales channels and at youth subscribers. Its subs base management and strategic decision to exit the high-churn low-end migrant segment should continue to drive prepaid subs retention and growth. We expect strong device sales to lift revenue in 4QFY21, but higher device costs to weigh on margins. We tweak our FY21E/FY22E CNP by 1% each on higher revenue (+4% each). Maintain MARKET PERFORM with unchanged TP of RM4.25, based on 10.5x EV/EBITDA on Celcom Digi Berhad's FY22E EBITDA of RM6b.

9MFY21 within expectations. 9MFY21 revenue of RM4.8b came within our/street's estimates at 79%/78%. 9MFY21 CNP of RM852m came within our/street's forecasts at 73% each. 3QFY21 DPS of 4.0 sen brings 9MFY21 DPS to 11.0 sen, in line with our estimates.

YoY, revenue rose 3.5% mainly lifted by a higher device revenue (+46% YoY). Without device and other revenues, service revenue fell 1.4%, weighed by (i) a decline in prepaid subs (-8%), which outweighed the RM3/mth (+10%) prepaid ARPU gain and (ii) 6% decline in postpaid ARPU, which outweighed the 4% postpaid subs gain. Notably, the prepaid ARPU gain is a result of DIGI's effort to attract and retain high quality prepaid subs. The higher device sales weighed on costs, and core EBITDA and net profits fell by 3% each.

QoQ, the lower device sales (-17%) weighed and brought revenue down by 2%. However, the underlying service revenue remained relatively flat at +0.2%. Postpaid subs continue to rise at the expense of ARPU, while prepaid subs are seeing an uptick for the first time for over a year, driven by DIGI's strategic decision to exit the high-churn low-end migrant segment and more targeted marketing. The lower device sales lowered device costs and lifted core EBITDA and net profits by 3% each.

Moving forward, we expect continued **postpaid** subs growth driven by: (i) the Jaringan Prihatin government initiative and (ii) growth in device and fibre bundles. While we expect postpaid ARPU to further decline, we are expecting it to stabilize around RM60/mth. On the **prepaid** front, DIGI's more targeted sales and marketing strategy, and their targeting of youths should allow it to continue driving prepaid subs growth. Moreover, the gradual reopening of borders and return of migrant subs should also boost DIGI's prepaid subs. While DIGI's prepaid subs base-management has allowed prepaid ARPU to recover, an increasing prepaid base of migrant subs may put downward pressure on prepaid ARPU. On the **merger with Celcom**, both parties are still seeking the necessary approvals and it's expected to be completed in 2QCY22.

Post results and accounting for management's guidance of a lower EBITDA decline, we raise FY21E/FY22E revenue by 4% each, and tweak CNP by +1% each. Accordingly, we tweak our FY21E DPS from 14.8 to 14.9 sen and FY22E DPS from 15.1 to 15.2 sen.

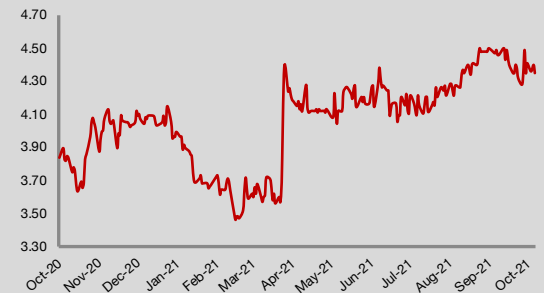
Maintain MARKET PERFORM on DCF-TP of RM4.25. The target price is based on a 10.5x forward EV/EBITDA on Celcom Digi Berhad's FY22E EBITDA of RM6b. The estimates revision has an immaterial impact on CDB's FY22E RM6b EBITDA.

Risks to our call include: (i) the proposed merger failing to obtain the necessary approvals, (ii) better/worse-than-expected service revenue, (iii) weaker/stronger-than-expected OPEX, and (iv) weaker/stronger-than-expected competition.

MARKET PERFORM ↔

Price : **RM4.35**
Target Price : **RM4.25** ↔

Share Price Performance



KLCI	1,591.62
YTD KLCI chg	-2.2%
YTD stock price chg	5.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	DIGI MK Equity
Market Cap (RM m)	33,821.3
Shares Outstanding	7,775.0
52-week range (H)	4.50
52-week range (L)	3.43
3-mth avg daily vol	2,651,442
Free Float	19%
Beta	0.8

Major Shareholders

Telenor ASA	49.0%
Employees Provident Fund	15.2%
Amanah Saham Nasional	8.5%

Summary Earnings Table

FY Dec (RMm)	2020A	2021E	2022E
Revenue	6,153	6,304	6,404
EBITDA	3,078	3,026	3,074
EBIT	1,856	1,765	1,793
PBT	1,622	1,561	1,593
Net Profit	1,221	1,171	1,195
Core Net Profit	1,231	1,171	1,195
Consensus (NP)	N.M.	1,161	1,262
Earnings Revision	N.M.	+1%	+1%
Core EPS (sen)	15.8	15.1	15.4
Core EPS growth	-13%	-5%	2%
NDPS (sen)	15.6	14.9	15.2
BVPS (RM)	0.1	0.1	0.1
PER (x)	27.5	28.9	28.3
PBV (x)	55.8	54.8	53.7
Net Gearing (x)	8.5	8.0	7.5
Net Div. Yield (%)	3.6	3.4	3.5

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Results Highlights								
	3Q		QoQ	3Q		9M		YoY
FYE Dec (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Revenue	1,584	1,618	-2.1%	1,579	0.3%	4,753	4,591	3.5%
Service Revenue	1,343	1,340	0.2%	1,374	-2.3%	4,020	4,078	-1.4%
EBITDA	788	743	6.1%	786	0.3%	2,268	2,312	-1.9%
Core EBITDA	766	744	3.0%	786	-2.5%	2,247	2,312	-2.8%
EBIT	466	418	11.4%	473	-1.5%	1,312	1,365	-3.9%
PBT	418	373	12.1%	432	-3.3%	1,149	1,245	-7.7%
Taxation	-105	-93	12.9%	-112	-6.0%	-292	-304	-4.1%
Net Profit	313	280	11.9%	321	-2.4%	858	941	-8.8%
Core Net Profit	295	287	2.8%	268	10.1%	852	878	-3.0%
Core EPS (sen)	3.8	3.7	2.8%	3.4	10.1%	11.0	11.3	-3.0%
DPS (sen)	4.0	3.6		4.1		11.0	12.0	
EBITDA Margin	49.7%	45.9%		49.8%		47.7%	50.4%	
C. EBITDA Margin	48.3%	46.0%		49.8%		47.3%	50.4%	
EBIT Margin	29.4%	25.8%		30.0%		27.6%	29.7%	
PBT Margin	26.4%	23.0%		27.4%		24.2%	27.1%	
CNP Margin	18.6%	17.7%		17.0%		17.9%	19.1%	
Effective Tax Rate	25.1%	25.0%		25.8%		25.4%	24.4%	

Source: Company, Kenanga Research

Revenue Breakdown								
	3Q		QoQ	3Q		9M		YoY
FYE Dec (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Service Revenue	1,343	1,340	0.2%	1,374	-2.3%	4,020	4,079	-1.4%
Postpaid Revenue	633	623	1.6%	626	1.1%	1,873	1,921	-2.5%
Prepaid Revenue	645	643	0.3%	668	-3.4%	1,928	1,981	-2.7%
Digital Revenue	65	74	-12.2%	80	-18.8%	219	177	23.7%
Device Revenue	213	257	-17.0%	184	15.7%	661	451	46.4%
Lease Revenue	28	22	29.7%	21	31.2%	71	63	12.8%

Source: Company, Kenanga Research

Key Operating Indicators								
FYE Dec (RM m)	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21
Postpaid Subs ('000)	3,032	3,061	3,032	3,022	3,044	3,090	3,185	3,247
Prepaid Subs ('000)	8,249	7,948	7,591	7,658	7,397	7,160	7,032	7,118
Total Subs	11,281	11,009	10,623	10,680	10,441	10,250	10,217	10,365
Postpaid ARPU (RM/m)	72	69	68	67	66	65	64	63
Prepaid ARPU (RM/m)	30	30	29	33	32	33	34	34
Blended ARPU (RM/m)	41	40	40	42	42	43	43	43

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net DivYld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
Stocks Under Coverage																	
AXIATA GROUP BHD	3.96	36,323.9	Y	12/2021	3.9%	4.3%	15.0%	18.2%	42.0	36.5	30.9	1.5	1.5	5.7%	2.0%	4.45	OP
DIGI.COM BHD	4.35	33,821.2	Y	12/2021	2.5%	1.6%	-4.9%	2.1%	27.5	28.9	28.3	55.8	54.8	191.4%	3.4%	4.25	MP
MAXIS BHD	4.80	37,566.1	Y	12/2021	2.7%	3.5%	0.6%	3.9%	26.5	26.3	25.3	5.3	5.2	20.0%	3.3%	4.55	MP
OCC GROUP BHD	0.500	527.2	Y	12/2021	11.4%	8.3%	24.9%	11.7%	20.2	16.2	14.5	0.8	0.8	6.0%	0.0%	0.590	OP
TELEKOM MALAYSIA BHD	5.85	22,076.2	Y	12/2021	4.4%	5.4%	15.2%	4.4%	22.3	19.3	18.5	3.2	3.0	16.1%	2.9%	7.00	OP
Simple Average					5.0%	4.6%	10.2%	8.0%	27.7	25.4	23.5	13.3	13.1	47.8%	2.3%		

Source: Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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