

05 May 2022

Digi.com Bhd

Stable Margins

By Ahmad Ramzani Ramli | ahmadramzani@kenanga.com.my

1QFY22 PATAMI is in line with our/consensus expectation. However, top-line remained under pressure with decline in both Prepaid and Digital revenues offset by a moderate improvement in Postpaid. ARPU was still under pressure. On the flipside, margins remained stable. Management maintained its guidance of improvement in top-line for FY22 with EBITDA looking to be at FY21 level. Our FY22E earnings remained unchanged as well as the TP of RM3.80. Reiterate MARKET PERFORM.

In line. 1QFY22 core PATAMI of RM236m (-12% YoY, -7% QoQ) accounts for 23%/20% of our/market estimate. DPS of 2.9 sen declared is in line with our expectation of 13.2 sen for FY22.

YoY, 1QFY22 revenue fell 2% to RM1.53b underpinned by Service revenue (-2% to RM1.31b). Decline in both Prepaid (-4%) and Digital (-25%) revenues mitigated the moderate showing of Postpaid (+3% to RM633m). Postpaid subs saw positive improvement (+8% vs. Prepaid's decline of 4%) via quality acquisitions, low churn rate and attractive smart bundles. Both Postpaid and Prepaid saw ARPU coming under pressure - shedding RM4/RM1 respectively to RM61/RM32. Blended ARPU shed RM1 to RM42. Core EBITDA margin remained stable at 49%. ETR of 37% (arising from the one-off Cukai Makmur) saw CNP shrinking by 12% to RM236m.

QoQ, revenue continued to remain under pressure (-4%) with Service revenue buckling slightly (-1%) mitigated by a flattish Postpaid revenue. EBITDA margin remained stable. Sequentially, all ARPUs remained under pressure. Subs fell (<-1%) but this was mitigated by Postpaid (+1%).

Moving forward, DIGI reiterates its guidance of growth in Service revenue with unchanged EBITDA of c.RM3b and capex-to-sales ratio of 13%. We maintain our view of DIGIs' postpaid subs likely to continue rising as it focuses on bundled products and entry-level Postpaid packages, which may on the other hand, erode ARPU. That said, given that majority of Postpaid subs are on plans near the RM60 price point, we expect ARPU to fall another RM2 before stabilizing. With Prepaid subs continuing to decline, we reiterate our view of DIGI losing out prepaid market share to the smaller MNOs/MVNOs and Celcom.

Post results, no change in our FY22E/FY23E earnings estimates.

Maintain MARKET PERFORM with TP of RM3.80. Our TP is derived from 9.5x EV/EBITDA on our Celcom Digi's FY22E 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 : RM3.82
Target Price : RM3.80 ↔

Share Price Performance



KLCI	1,600.43
YTD KLCI chg	2.1%
YTD stock price chg	-12.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	DIGI MK Equity
Market Cap (RM m)	29,700.5
Shares Outstanding	7,775.0
52-week range (H)	4.50
52-week range (L)	3.75
3-mth avg daily vol	3,164,031
Free Float	20%
Beta	0.9

Major Shareholders

Telenor ASA	49.0%
Employees Provident Fund	15.1%
Amanah Saham Nasional	8.5%

Summary Earnings Table

FY Dec (RM b)	2021A	2022E	2023E
Revenue	6,336	6,404	6,691
EBITDA	3,009	3,010	3,278
EBIT	1,746	1,729	1,940
PBT	1,515	1,529	1,740
Net Profit	1,162	1,033	1,305
Core Net Profit	1,134	1,033	1,305
Consensus (NP)		1,164	1,201
Earnings Revision	N.M.	N.A.	N.A.
Core EPS (sen)	14.6	13.3	16.8
Core EPS growth	-8%	-9%	26%
NDPS (sen)	14.9	13.2	16.6
BVPS (RM)	0.1	0.1	0.1
PER (x)	26.2	28.7	22.8
PBV (x)	46.9	46.2	45.3
Net Gearing (x)	7.5	6.8	6.3
Net Div. Yield (%)	3.9	3.4	4.3

05 May 2022

Results Highlights								
FYE Dec (RM m)	1Q22	4Q21	QoQChg	1Q21	YoY Chg	3M22	3M21	YoY Chg
Revenue	1,521.7	1,584.0	-3.9%	1,550.2	-1.8%	1,521.7	1,550.2	-1.8%
Service Revenue	1,308.0	1,321.0	-1.0%	1,337.0	-2.2%	1,308.0	1,337.0	-2.2%
EBITDA	741.0	740.0	0.1%	737.0	0.5%	741.0	737.0	0.5%
Core EBITDA	744.0	740.0	0.5%	737.0	-100.0%	744.0	737.0	0.9%
EBIT	421.2	433.0	-2.7%	428.0	-100.0%	421.2	428.0	-1.6%
PBT	374.4	365.0	2.6%	358.5	4.4%	374.4	358.5	4.4%
Taxation	(138.2)	(61.0)	126.6%	(93.7)	47.5%	(138.2)	(93.7)	47.5%
Net Profit	236.1	304.0	-22.3%	264.8	-10.8%	236.1	264.8	-10.8%
Core Net Profit	236.1	253.0	-6.7%	270.0	-12.5%	236.1	270.0	-12.5%
Core EPS (sen)	3.0	3.3	-6.7%	3.5	-12.5%	3.0	3.5	-12.5%
DPS (sen)	2.9	3.9	-25.6%	3.4	-14.7%	2.9	3.4	-14.7%
EBITDA Margin	48.7%	46.7%		47.5%		48.7%	47.5%	
C. EBITDA Margin	48.9%	46.7%		47.5%		48.9%	47.5%	
EBIT Margin	27.7%	27.3%		27.6%		27.7%	27.6%	
PBT Margin	24.6%	23.0%		23.1%		24.6%	23.1%	
CNP Margin	15.5%	16.0%		17.4%		15.5%	17.4%	
Effective Tax Rate	36.9%	16.7%		26.1%		36.9%	26.1%	

Source: Company, Kenanga Research

Revenue Breakdown								
FYE Dec (RM m)	1Q22	4Q21	QoQChg	1Q21	YoY Chg	3M22	3M21	YoY Chg
Service Revenue	1,308.0	1,321.0	-1.0%	1,337.0	-2.2%	1,308.0	1,337.0	-2.2%
Postpaid Revenue	633.0	629.0	0.6%	617.0	2.6%	633.0	617.0	2.6%
Prepaid Revenue	615.0	625.0	-1.6%	640.0	-3.9%	615.0	640.0	-3.9%
Digital Revenue	60.0	67.0	-10.4%	80.0	-25.0%	60.0	80.0	-25.0%
Device Revenue	190.3	238.1	-20.1%	191.5	-0.6%	190.3	191.5	-0.6%
Lease Revenue	22.7	23.3	-2.5%	21.3	6.9%	22.7	21.3	6.9%

Source: Company, Kenanga Research

Key Operating Indicators								
FYE Dec (RM m)	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22
Postpaid Subs ('000)	3,032	3,022	3,044	3,090	3,185	3,247	3,297	3,339
Prepaid Subs ('000)	7,591	7,658	7,397	7,160	7,032	7,118	7,021	6,902
Total Subs	10,623	10,680	10,441	10,250	10,217	10,365	10,318	10,241
Postpaid ARPU (RM/m)	68	67	66	65	64	63	62	61
Prepaid ARPU (RM/m)	29	33	32	33	34	34	33	32
Blended ARPU (RM/m)	40	42	42	43	43	43	42	42

Source: Company, Kenanga Research

Pro Forma CDB Income Statement (Unchanged)			
RM (millions)	FY22E		FY23E
Revenue	13,024		13,423
EBITDA	6,026		6,716
EBIT	3,223		3,830
Core Net Profit	1,871		2,537
Fully-Diluted EPS (sen)	16.0		21.6
Dividend Payout Ratio	85%		85%
DPS (sen)	13.6		18.4

Source: Kenanga Research

05 May 2022

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	3.51	32,210.6	Y	12/2022	6.1%	2.4%	-1.4%	-2.7%	24.3	24.6	25.3	1.8	1.8	7.3%	3.4%	4.30	OP
DIGI.COM BHD	3.82	29,700.5	Y	12/2022	1.1%	4.5%	-8.9%	26.3%	26.2	28.7	22.8	46.9	46.2	162.0%	3.5%	3.80	MP
MAXIS BHD	3.80	29,739.8	Y	12/2022	3.0%	2.5%	-6.0%	20.4%	22.2	23.6	19.6	4.4	4.4	18.7%	4.2%	4.00	OP
OCC GROUP BHD	0.420	442.9	Y	12/2022	6.8%	6.0%	36.6%	12.6%	19.1	14.0	12.4	0.6	0.6	4.4%	0.0%	0.500	OP
TELEKOM MALAYSIA BHD	4.99	18,830.8	Y	12/2022	5.3%	3.6%	-1.4%	13.8%	15.9	16.2	14.2	2.6	2.5	15.6%	3.4%	7.00	OP
Simple Average					4.5%	3.8%	3.8%	14.1%	21.5	21.4	18.9	11.3	11.1	41.6%	2.9%		

Source: Kenanga Research

This section is intentionally left blank

05 May 2022

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.***

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my