

29 May 2024

CelcomDigi

Decent Start to the Year

By Kylie Chan Sze Zan / kyliechan@kenanga.com.my

CDB's 1QFY24 results was in line with expectations as better economies of scale post merger more than compensated for the slight weakness in mobile service revenues. Moreover, bottomline was boosted by lower taxes and tapered accelerated depreciation. We maintain our FY24F earnings, but raise our TP by 2% to RM5.97 (from RM5.83) as we roll forward our valuation base year. Maintain OUTPERFORM.

Commendable due to cost beat. Its 1QFY24 core net profit of RM534m (+97% YoY) tracked expectations – coming in at 26% of our full-year forecast and the consensus estimate. CDB declared 1QFY24 DPS of 3.5 sen (1QFY23: 3.2 sen), which was within our expectation.

Non-core exceptional items include chunky integration costs of RM156m (1QFY23: RM16m). This was largely attributed to one-off severance package amounting to c.RM139m for CDB's voluntary separation scheme (VSS) completed in 1QFY24.

Softer mobile service revenues. Lower service revenue (-1.1% YoY) in 1QFY24 fell short of CDB's guidance of low-single digit growth. This mainly emanates from: (i) lower interconnect rates (effective: Mar 2023), (ii) reduced bulk messaging traffic, and (iii) overall softer mobile usage. As such, this more than offset improved segmental revenues from: (i) home and fiber: on the back of an enlarged subscriber base (net adds: 38k), and (ii) wholesale: due to higher traffic demand.

Bigger is indeed better. In spite of topline weakness, EBITDA inched up 1.3% YoY given improved economies of scale as merger synergies progressively unfold. On the back of this, and coupled with lower depreciation and taxes, 1QFY24 core profit almost doubled YoY.

The reduction in depreciation charges were attributed to the revision in asset useful life since 2023 after the merger. Hence, the majority of the impacted assets were fully depreciated in 1QFY24. Correspondingly, this was reflected in lower accelerated depreciation charges of RM30m in 1QFY24 that has significantly tapered off post-merger. Meanwhile, taxes were lower following reversal of over-recognition of tax provision in prior periods.

Mixed ARPU and subscriber base trends. Post merger, CDB sustained its traction in quarterly subscriber net adds for postpaid (+61k) and home fiber (+13k). Postpaid additions in 1QFY24 were primarily driven by higher take-up of family and mid-value plans. On the other hand, net contraction in prepaid subscribers widened QoQ to 161k (4QFY23: 137k net losses).

Nevertheless, 1QFY24 prepaid APRU was stable QoQ at RM28 since 1QFY23, while postpaid ARPU sustained its post-merger sequential decline to land at RM64 (4QFY23:RM66). Meanwhile, home fiber APRU dipped sequentially to RM112 (4QFY23:RM124, 1QFY23: RM126), possibly due to a one-off reclassification.

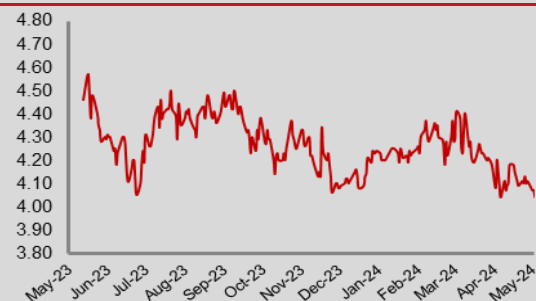
Key takeaways from its results briefing are as follows:

1. The VSS program, which received c.600 applications, will be implemented progressively through FY24. Hence, CDB expects to recognize cost savings totalling RM80m-90m progressively, starting from 2QFY24 until end-FY24. Following its completion, the group is expected to end up with a total workforce of c.3,500-3,700 employees.

OUTPERFORM ↔

Price : RM4.00
Target Price : RM5.97 ↑

Share Price Performance



KLCI	1,615.82
YTD KLCI chg	11.1%
YTD stock price chg	-2.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	CDB MK Equity
Market Cap (RM m)	46,926.0
Shares Outstanding	11,731.5
52-week range (H)	4.60
52-week range (L)	4.00
3-mth avg. daily vol.	2,562,036
Free Float	13%
Beta	1.2

Major Shareholders

Axiata Group Bhd	33.1%
Telenor Asa	33.1%
Employees Provident Fund	9.9%

Summary Earnings Table

FY Dec (RMb)	2023A	2024F	2025F
Revenue	12,682	12,995	13,368
EBITDA	6,269	6,462	6,629
EBIT	3,039	3,343	3,516
PBT	2,181	2,587	3,005
Net Profit	1,567	1,883	2,224
Core Net Profit	1,902	2,023	2,204
Consensus (NP)	-	2069	2346
Earnings Revision (%)	-	-	-
EBITDA Margin (%)	49.4	49.7	49.6
Core EPS (sen)	16.2	17.2	18.8
Core EPS Growth (%)	18.6	6.4	9.0
DPS (sen)	13.2	13.8	15.0
BVPS (RM)	1.4	1.4	1.5
PER (x)	26.9	25.3	23.2
PBV (x)	3.1	3.1	3.0
Net Gearing (x)	0.8	0.7	0.5
Div. Yield (%)	3.0	3.2	3.4

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- CDB is ahead of schedule on its network integration and modernisation programme, with over 7,200 sites modernised and 2,716 sites phased out as at end April 2024. This program is expected to exceed 50% completion in seven states by end-June 2024.
- CDB expects uplift in its postpaid ARPU and customer retention following the introduction of converged offerings. This emanates from options offered to customers that enable them to right-size their respective mobile plans.
- Recent new projects secured by its enterprise business division include: (i) partnership with PETRONAS to deploy 5G and a private 4G network on Kasawari offshore platform, (ii) implementation of smart city solutions powered by 5G in Ampang Jaya, and (iii) collaboration with 10 universities to enable digital learning via the Metaverse, AI, robotics and 5G.

Forecasts. Maintained.

Valuations. Our TP is raised by 2% to RM5.97 (from RM5.83) based on 12.0x FY25F EV/EBITDA. This implies a 1x premium to the mobile players' historical average of 11x to reflect post-merger synergies and economies of scale. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

Investment case. We like CDB for the following reasons: (i) merger synergies are expected to amount to NPV of RM8b over 5 years – emanating from network (RM5.5b), IT (RM1.1b) and others (RM1.4b), (ii) robust average FCF yield of 7.9% in FY24-25 implies capacity to pay steady dividends, and (iii) leading subscriber base share of 39% and 20% in the postpaid and prepaid segments, respectively, translating to economies of scale. **Maintain OUTPERFORM.**

Risks to our call include: (i) slower-than-expected realization of merger synergies, (ii) unfavourable financial outcome on the new 5G dual network model, and (iii) competition between mobile players turn irrational.

Results Highlights					
	1Q	4Q	QoQ	1Q	YoY
FYE Dec (RM m)	FY24	FY23	Chg	FY23	Chg
Revenue	3,154.2	3,274.8	-3.7%	3,180.0	-0.8%
EBITDA	1,483.2	1,538.2	-3.6%	1,464.3	1.3%
Depreciation	(768.8)	(545.7)	40.9%	(916.4)	-16.1%
Net Finance Costs	(132.6)	(125.3)	5.8%	(141.2)	-6.1%
JV	2.6	7.3	-64.1%	7.0	-62.5%
EI	(157.2)	(194.6)	-19.2%	46.6	-437.2%
Pretax Profit	427.3	680.0	-37.2%	460.3	-7.2%
Taxation	(56.2)	(240.6)	-76.6%	(139.5)	-59.7%
Minority Interest	5.4	(4.3)	-224.9%	(2.9)	-287.2%
Reported Net Profit	376.5	435.1	-13.5%	317.9	18.4%
Core Net Profit	533.6	629.7	-15.3%	271.3	96.7%
Core EPS (sen)	4.6	5.4	-15.3%	2.3	94.9%
DPS (sen)	3.5	3.5	0.0%	3.2	9.4%
EBITDA margin	47.0%	47.0%		46.0%	
PBT Margin	13.5%	20.8%		14.5%	
Core Net margin	16.9%	19.2%		8.5%	

Source: Company, Kenanga Research

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Segmental Highlights					
	1Q	4Q	QoQ	1Q	YoY
FYE Dec (RM m)	FY24	FY23	Chg	FY23	Chg
Service Revenue					
Postpaid	1,249	1,268	-1.5%	1,283	-2.7%
Prepaid	1,121	1,146	-2.2%	1,137	-1.4%
Wholesale & Others	256	276	-7.2%	243	5.3%
Home Fiber	46	47	-2.1%	40	15.0%
Total	2,672	2,737	-2.4%	2,703	-1.1%
Device	483	538	-10.2%	478	1.0%

Source: Company, Kenanga Research

Operating Metrics					
	1Q	4Q	QoQ	1Q	YoY
	FY24	FY23	Chg	FY23	Chg
Subscribers ('000)					
Postpaid	6,999	6,938	61	6,726	273
Prepaid	13,322	13,483	(161)	13,459	(137)
Home Fiber	145	131	14	107	38
ARPU (RM)					
Postpaid	64	66	(2)	69	(5)
Prepaid	28	28	0	28	0
Home Fiber	112	124	(12)	126	(14)

Source: Company, Kenanga Research

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Peer Comparison																	
Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
TELECOMMUNICATION																	
AXIATA GROUP BHD	OP	2.84	3.05	7.4%	26,076.6	Y	12/2024	7.2	7.2	21.2%	0.6%	39.7	39.5	1.4	3.0%	10.0	3.5%
CELCOMDIGI BHD	OP	4.00	5.97	49.3%	46,926.0	Y	12/2024	17.2	18.8	6.4%	9.0%	23.2	21.3	2.8	11.4%	13.8	3.5%
MAXIS BHD	OP	3.67	5.30	44.4%	28,743.7	Y	12/2024	16.7	17.9	6.2%	7.2%	22.0	20.5	5.0	22.7%	20.0	5.4%
OCK GROUP BHD	OP	0.640	0.795	24.2%	679.4	Y	12/2024	5.1	5.2	26.8%	3.1%	12.7	12.3	1.0	8.0%	1.5	2.3%
TELEKOM MALAYSIA BHD	OP	6.44	7.22	12.1%	24,714.3	Y	12/2024	45.5	46.1	-13.4%	1.4%	14.2	14.0	2.4	17.9%	23.0	3.6%
SECTOR AGGREGATE					127,140.1					1.0%	5.3%	22.1	21.0	2.5	12.6%		3.7%

Source: Bloomberg, Kenanga Research

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	★	
	Community Investment	★	★	☆		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★	★	
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★	☆	
SPECIFIC	Cybersecurity & Data Privacy	★	★	☆		
	Network Quality & Coverage	★	★	★	★	
	Digitalisation & Innovation	★	★	★		
	Supply Chain Management	★	★	★	☆	
	Talent Management	★	★	★		
	Customer Satisfaction	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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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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