

CelcomDigi

Aiming for Loyal Quality Prepaid Users

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CDB's 9MFY24 results were in-line with expectations, as weakness in prepaid service revenues were cushioned by an enlarged postpaid subscriber base. The key surprise emanated from CDB's clean-up of its prepaid subs by rationalizing dual SIM holders and focusing on quality customers. We maintain our forecasts, and OUTPERFORM call, but lower our TP to RM3.82 (from RM5.59). Our TP cut reflects our view that a resolution on the 5G dual network by 1QCY25 to drive a rerating for MNOs is no longer expected to hold. This is following UMobile's surprise win of the second 5G network, which introduces uncertainty on timeline and outcomes. We will reassess our valuation when more clarity emerges.

Tracked expectations. Its 9MFY24 core net profit of RM1.34b (+32% YoY) was in-line with expectations – coming in at 75% of our full-year forecast and 73% of the consensus estimate. CDB declared 3QFY24 DPS of 3.6 sen (3QFY23: 3.3 sen), bringing 9MFY24 DPS to 10.6 sen (9MFY23: 9.7 sen), which was within our expectation.

Elevating profile of prepaid subs base. 9MFY24 service revenue contraction (-0.6% YoY) remains below CDB's full-year guidance of low single-digit growth. This was largely attributed to net attrition in prepaid subs (QoQ: -104k, YoY: -774k) arising from: (i) dual-SIM consolidation of users that owned SIMs for both Celcom and Digi plans, (ii) strategic decision to reduce reliance on one-time rotational SIM segment and focus on long-term quality customers, and (iii) pre-to-postpaid migration. According to CDB, the impact of this rationalisation is stabilising, with subscriber churn at a notably lower rate than in previous quarters. In addition, topline weakness was exacerbated by decreased contribution at the enterprise segment due to competition amongst corporate mobile accounts.

Sustained traction in postpaid. On a positive note, service revenue contraction was partially cushioned by higher segmental contribution from: (i) postpaid: due to an enlarged subscriber base (QoQ: +92k, YoY: +377k) following higher take-up of convergence and family lines, a higher device contracting base, and value-accretive prepaid-to-postpaid migration, and (ii) home fiber: sustained traction in net adds (QoQ: +18k, YoY: +57k) due to the popularity of CelcomDigi ONE convergence plans.

Mixed ARPU trends. While prepaid ARPU was stable, weaker postpaid ARPU of RM61 (2QFY24: RM63, 3QFY23: RM63) was possibly attributed to the migration of prepaid users to postpaid. Meanwhile, the QoQ surge in home fiber ARPU to RM109 (2QFY24: RM103, 3QFY23: RM121) was likely due to below-the-line discounting activities having eased.

Profit boosted by lower depreciation and taxes. Despite topline weakness and higher cost of goods (due to higher 5G access fees), 9MFY24 core net profit jumped 32% YoY, driven by: (i) lower taxes (boosted by chunky deferred tax liability adjustments and green tax incentive recognized in 1HFY24), and (ii) lower depreciation following the completion of accelerated depreciation exercise in 1QFY24.

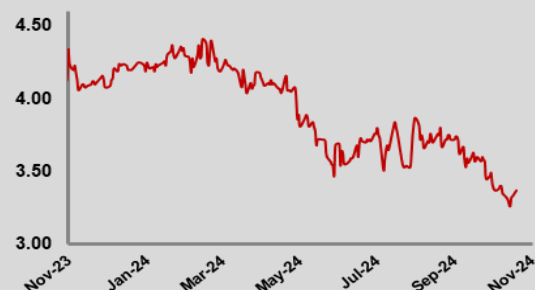
Key takeaways from CDB's analyst briefing are as follows:

1. Post-merger, CDB has achieved net synergies totalling RM947m, consisting of savings for capex (RM869m) and P&L (RM78m). Hence, the group is on track to achieve targeted P&L gross synergies totalling RM800m post-2027, upon reaching steady state. Merger integration costs are expected to peak in FY24 (YTD: RM240m, FY23: RM119m), following the recognition of chunky costs (i.e. staff VSS and accelerated depreciations) earlier.

OUTPERFORM ↔

Price : RM3.37
Target Price : RM3.82 ↓

Share Price Performance



KLCI	1,604.04
YTD KLCI chg	10.3%
YTD stock price chg	-17.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	CDB MK EQUITY
Market Cap (RM m)	39,535.2
Shares Outstanding	11,731.5
52-week range (H)	4.43
52-week range (L)	3.25
3-mth avg. daily vol.	3,490,823
Free Float	23%
Beta	1.2

Major Shareholders

Axiata Group Bhd	33.1%
Telenor Asa	33.1%
Employees Provident Fund	10.2%

Summary Earnings Table

FY Dec (RMm)	2023A	2024F	2025F
Revenue	12,682	12,544	12,865
EBITDA	6,269	5,960	6,072
EBIT	3,039	2,859	3,027
PBT	2,181	2,143	2,444
Net Profit	1,567	1,693	1,931
Core Net Profit	1,902	1,801	1,913
Consensus (NP)	-	1,799	2,127
Earnings Revision (%)	-	-	-
EBITDA Margin (%)	49.4	47.5	47.2
Core EPS (sen)	-6.8	-26.4	-26.0
Core EPS Growth (%)	0.0	287.7	-1.8
DPS (sen)	13.2	14.5	14.3
BVPS (RM)	0.1	0.1	0.1
PER (x)	-64.0	-16.5	-16.8
PBV (x)	56.3	56.3	56.3
Net Gearing (x)	5.4	3.7	1.7
Div. Yield (%)	3.0	3.3	3.3

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- In 3QFY24, there was a slight sequential uptick in 5G access costs to c. RM37m (YTD: RM70m). Looking ahead, CDB expects sustained QoQ increase in 5G access fees, landing at c. RM40m in 4QFY24. The uptrend is in tandem with increased 5G traffic capacity trends.
- CDB updated its full-year service revenue growth guidance for FY24 to “flat-to-slight decrease” (9MFY24: -0.6% YoY) but maintained its EBIT guidance of “single digit decrease” (9MFY24 reported EBIT: +5.8% YoY). Recall that CDB’s current EBIT guidance was revised earlier back in 2QFY24 (from similar level in 2023).

Forecasts. Maintained.

Valuations. We downgrade our valuation on CDB to 9.0x FY25F EV/EBITDA (from 12x) following recent developments in which U Mobile unexpectedly secured the implementation of the second 5G network (NW2) over CDB and MAXIS. Previously, our valuation was based on the anticipated resolution of uncertainties surrounding the 5G dual-network model. While our rerating thesis remains broadly intact, the timeline for it to materialize is likely to be extended, as U Mobile’s win introduces multiple scenarios for how the dual 5G network may evolve. Our revised valuation translates to a 1SD premium over CDB’s 4-year historical average to reflect its larger economies of scale post-merger. 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 7.3% in FY24-25 implies capacity to pay steady dividends, and (iii) largest mobile subscriber base in Malaysia, translating to economies of scale. Maintain **OUTPERFORM**.

Risks to our call include: (i) slower-than-expected realization of merger synergies, (ii) slow monetization of 5G from Malaysian enterprises, and (iii) competition between mobile players turn irrational.

Results Highlights								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY24	FY24	Chg	FY23	Chg	FY24	FY23	Chg
Revenue	3,126.5	3,105.9	0.7%	3,104.4	0.7%	9,386.6	9,407.4	-0.2%
EBITDA	1,486.0	1,399.6	6.2%	1,542.7	-3.7%	4,368.8	4,473.0	-2.3%
Depreciation	(743.4)	(750.6)	-1.0%	(871.7)	-14.7%	(2,262.8)	(2,684.1)	-15.7%
Net Finance Costs	(151.8)	(143.4)	5.9%	(136.4)	11.3%	(427.8)	(413.7)	3.4%
JV	(12.4)	8.5	-245.6%	13.4	-192.9%	(1.3)	23.3	-105.4%
EI	28.2	6.1	361.9%	24.3	16.1%	(122.8)	102.2	-220.2%
Pretax Profit	606.6	520.3	16.6%	572.4	6.0%	1,554.1	1,500.7	3.6%
Taxation	(166.1)	(104.4)	59.0%	(113.6)	46.2%	(326.7)	(373.5)	-12.5%
Minority Interest	(3.5)	(9.8)	-64.1%	(3.1)	14.8%	(8.0)	(10.3)	-22.9%
Reported Net Profit	437.0	406.0	7.6%	455.7	-4.1%	1,219.5	1,116.9	9.2%
Core Net Profit	408.7	399.9	2.2%	431.4	-5.3%	1,342.3	1,014.7	32.3%
Core EPS (sen)	3.5	3.4	2.1%	3.7	-5.3%	11.4	8.7	31.9%
DPS (sen)	3.6	3.5	2.9%	3.3	9.1%	10.6	9.7	9.3%
EBITDA margin	47.5%	45.1%		49.7%		46.5%	47.5%	
PBT Margin	19.4%	16.8%		18.4%		16.6%	16.0%	
Core Net margin	13.1%	12.9%		13.9%		14.3%	10.8%	

Source: Company, Kenanga Research

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Segmental Highlights								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY24	FY24	Chg	FY23	Chg	FY24	FY23	Chg
Service Revenue								
Postpaid	1,046	1,039	0.7%	1,013	3.3%	3,118	3,052	2.2%
Prepaid	1,096	1,111	-1.4%	1,146	-4.4%	3,328	3,427	-2.9%
Wholesale	203	202	0.5%	210	-3.3%	608	617	-1.5%
Enterprise	295	301	-2.0%	305	-3.3%	890	927	-4.0%
Home Fiber	49	42	16.7%	36	36.1%	128	100	28.0%
Others	30	26	15.4%	28	7.1%	83	101	-17.8%
Total	2,689	2,695	-0.2%	2,710	-0.8%	8,072	8,123	-0.6%
Device	437	411	6.5%	394	10.9%	1,315	1,284	2.4%

Source: Company, Kenanga Research

Operating Metrics					
	3Q	2Q	QoQ	3Q	YoY
	FY24	FY24	Chg	FY23	Chg
Subscribers ('000)					
Postpaid	5,710	5,618	92	5,333	377
Prepaid	12,839	12,944	(105)	13,614	(775)
Home Fiber	159	141	18	102	57
ARPU (RM)					
Postpaid	61	63	(2)	63	(2)
Prepaid	28	28	0	27	1
Home Fiber	109	103	6	121	(12)

Source: Company, Kenanga Research

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Peer Comparison																	
Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RMm)	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	2.27	2.75	21.1%	20,845.0	Y	12/2024	7.5	7.9	27.7%	4.4%	30.1	28.8	1.1	3.2%	10.0	4.4%
CELCOMDIGI BHD	OP	3.37	5.59	65.9%	39,535.2	Y	12/2024	15.3	16.3	-5.3%	6.2%	22.0	20.7	2.4	10.3%	15.0	4.5%
MAXIS BHD	MP	3.57	3.80	6.4%	27,964.2	Y	12/2024	18.3	18.3	16.7%	0.1%	19.5	19.5	4.7	24.6%	20.0	5.6%
OCK GROUP BHD	MP	0.465	0.599	28.8%	496.9	Y	12/2024	3.3	3.8	-17.0%	13.9%	14.0	12.3	0.7	5.3%	1.0	2.2%
TELEKOM MALAYSIA BHD	OP	6.34	7.53	18.8%	24,331.0	Y	12/2024	45.7	46.3	-13.0%	1.2%	13.9	13.7	2.4	18.0%	23.5	3.7%
SECTOR AGGREGATE					113,172.3					-0.2%	3.0%	19.9	19.3	2.3	12.3%		4.1%

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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