CelcomDigi

Credit Costs Will Ease

OUTPERFORM ↔

Price :	**RM3.25**
Target Price :	**RM4.27 ↓**

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CDB's FY25 results came in slightly below expectations. Nevertheless, service revenue met full-year guidance of low single-digit growth. This was manly fuelled by the group's continued push for converged plans - which expanded its subscriber base, strengthened customer retention, and supported ARPA growth. Additionally, topline was boosted by soaring demand for TechCo's connectivity and solutions offerings (particularly in IoT and cybersecurity).

QoQ subscriber and ARPU trends were positive for the mobile segment, but mixed for home fiber (as ARPU compression sustained).

FY25 earnings were pressured by higher debt provisions, but this should ease in FY26 on ongoing credit recovery efforts. Nevertheless, CDB guided for low single-digit growth in FY26 service revenue and EBIT, reflecting higher D&A and 5G access costs.

We cut FY26F earnings by 15%, lowered our TP to RM4.27 (from RM4.67) but maintain our OUTPERFORM rating.

Missed expectations due to D&A spike in 4Q. CDB's FY25 core net profit of RM1.5b (-16% YoY) came in below expectations, at 89% of both our forecast and consensus' estimate. The group declared 4QFY25 DPS of 3.6 sen (4QFY24: 3.7 sen), bringing total FY25 DPS to 14.7 sen (FY24: 14.3 sen), in-line with our projections.

The shortfall relative to our forecast was manly due to an unexpected spike in depreciation charges in 4QFY25, driven by residual tail-end network impairments.

Service revenue boosted by subs base expansion amid higher ARPA. FY25 normalized service revenue expansion (+1.1% YoY) was in-line with CDB's full-year guidance of low single-digit growth. The uptick was primarily driven by the postpaid segment, underpinned by strong uptake of CelcomDigi One convergence plans. In turn, this lifted ARPA to RM111.40 (1QFY25: RM105), marking four consecutive quarters of growth (since this metric was first introduced in 1QFY25).

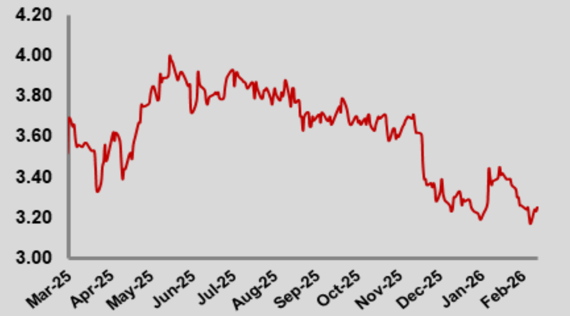
Additionally, FY25 service revenue benefited from stronger contributions from: (i) enterprise solutions: supported by robust demand for TechCo's core connectivity and solutions offerings (particularly in IoT and cybersecurity); and (ii) home fibre: driven by subscriber base expansion amid the popularity of convergence plans.

The above more than offset headwinds from: (i) prepaid: as subscriber churn persisted due to the group's continued strategic pivot away from low-value, casual SIM users; and (ii) enterprise mobile: weighed by ARPU compression and softer bulk SMS volumes.

Weighed by higher credit allowances and 5G cost… The decline in FY25 EBITDA (-8% YoY) was mainly attributable to: (i) uptick in 5G wholesale access charges from higher customer data consumption, (ii) greater allowances for expected credit loss (or provisions for doubtful debts: PFDD), and (iii) increased device costs. These pressures more than offset tailwinds from the absence of voluntary separation scheme expenses incurred in 1QFY24.

…but credit provisions expected to ease off. PFDD more than doubled YoY in 4QFY25, driven by the inclusion of receivables from selected customer segments (e.g. government-linked accounts). This reflects a more prudent provisioning approach, as these segments were previously not subject to allowances under CDB's earlier accounting framework.

Share Price Performance



KLCI	1,756.39
YTD KLCI chg	4.5%
YTD stock price chg	1.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	CDB MK EQUITY
Market Cap (RM m)	38,127.4
Shares Outstanding	11,731.5
52-week range (H)	4.00
52-week range (L)	3.15
3-mth avg. daily vol.	4,802,010
Free Float	26%
Beta	1.0

Major Shareholders

Telenor ASA	33.1%
Axiata Group Bhd	33.1%
Employees Provident Fund Board	10.7%

Summary Earnings Table

FY Dec (RM m)	2025A	2026F	2027F
Revenue	12,958	13,137	13,209
EBITDA	5,500	5,576	5,612
EBIT	2,652	2,660	2,634
PBT	2,103	2,117	2,130
Net Profit	1,530	1,609	1,618
Core Net Profit	**1,499**	**1,592**	**1,601**
Consensus (NP)	-	1,688	1,843
Earnings Revision (%)	-	-15.4	NEW
EBITDA Margin (%)	42.4	42.4	42.5
Core EPS (sen)	12.8	13.6	13.6
Core EPS Growth (%)	-16.4	6.2	0.6
DPS (sen)	14.7	15.6	15.7
BVPS (RM)	1.4	1.3	1.3
PER (x)	25.4	24.0	23.8
PBV (x)	2.4	2.4	2.5
Net Gearing (x)	13.8	10.2	6.7
Div. Yield (%)	4.5	4.8	4.8

Nevertheless, elevated PFDD since 2QFY25 are expected to moderate in FY26, with scope for potential write-backs. This is underpinned by improved debt collection from ongoing credit control and recovery initiatives. Hence, this should drive a gradual normalisation of PFDD intensity toward FY24 levels (as % of service revenue).

Meanwhile, the increase in 5G access costs reflects the group's minimum capacity commitments to Digital Nasional Bhd (DNB), along with additional capacity offtake.

Lower D&A outweighed by non-recurring tax gains. The relatively steeper decline in FY25 core net profit (-16% YoY) was primarily driven by the absence of tax-related benefits recognized in FY24 (i.e. green tax incentives and reversals of deferred tax liabilities). This more than offset the positive impact of reduced depreciation, reflecting the full decommissioning of network and right-of-use assets impaired in 4QFY24.

Postpaid momentum energized by popular convergence plans. QoQ postpaid net adds sustained for the 11th straight quarter in 4QFY25, inching up slightly to +81k (3QFY25: +64k), amid steady ARPU of RM60. This was supported by ongoing customer upgrades to converged plans, with 40% of fiber and convergence acquisitions coming from CDB's existing subscriber base. Additionally, targeted product and device promotions resulted in strong subscriber retention.

Shift away from casual prepaid subs uplifts ARPU but churn sustains. QoQ prepaid net churn moderated for the 3rd straight quarter to 65k (3QFY25: -221k) in 4QFY25. This was underpinned by the group's continued discipline in managing its base to achieve a leaner but higher-quality core subscriber base. This strategy also yielded QoQ ARPU improvement to RM29 (3QFY25: RM28, 1QFY24: RM27).

Home fibre net adds streak sustained, but ARPU continues to slip. CDB extended its home fiber subscriber growth for 11 consecutive quarters in 4QFY25, as net adds held firm at +25k (3QFY25: +24k). This was fuelled by sustained uptake of converged plans and continued traction in fixed wireless access (FWA) subscriptions. However, ARPU softened for the 4th straight quarter to RM90 (3QFY25: RM93), likely due to greater adoption of lower-priced FWA offerings.

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

1. CDB introduced its FY26 guidance, comprising: (i) service revenue: low single-digit growth (FY25: 1.1%), (ii) core EBIT: low single-digit growth (FY25 normalized: 1.4% YoY), and (iii) capex-to-total revenue ratio: 12% - 13% (FY25: 12.1%). We note that while service revenue outlook remains consistent with FY25 guidance, FY26 targets imply a more cautious stance on EBIT growth (lowered from low-to-mid single-digit).
2. Flattish FY26 EBIT guidance despite projected revenue growth is primarily driven by: (i) rising 5G wholesale costs on higher data traffic from customers, (ii) increased opex from greater reliance on outsourced services due to lower capex intensity, and (iii) higher depreciation stemming from elevated capex investments in recent years.
3. Looking ahead, DNB will be equity-accounted following the expected exercise of the Ministry of Finance's (MoF) put option on its shares to three mobile network operators (MNOs), including CDB. The group does not expect a "dramatic" financial impact from this transaction, noting that DNB's financial performance is improving steadily. This is underpinned by ongoing cost optimisation initiatives led by the MNOs, such as plans to leverage existing infrastructure, negotiate more favourable supplier terms, etc.
4. Since 2023, CDB has achieved gross merger synergies of RM2.7b, consisting of RM1.9b in capex avoidance and RM806m in P&L savings. Post-merger, over 90% of the group's network integration program has been completed, while IT consolidation initiatives have surpassed 80% completion. Against this backdrop, the group's 5-year target of RM8b in NPV synergies remains on track, with annualised steady-state savings of RM700m–800 m expected from 2028.

Forecasts. We introduce our FY27F earnings and lower FY26F profit by 15% to account for higher 5G access costs and increased depreciation.

Valuations. In tandem with the earnings cut, we lower our TP by 9% to RM4.27 (from RM4.67) based on an unchanged 11.3x EV/EBITDA valuation. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5). Maintain **OUTPERFORM**.

Investment case. We remain positive on CDB underpinned by three key factors: (i) earnings momentum should improve as post-merger cost synergies materialise (e.g. from rationalisation of workforce and duplicate network infrastructure, accelerated depreciation, write-off of redundant assets), (ii) healthy average FCF yield of 7% in FY25−26 supports the sustainability of dividend payouts, and (iii) CDB's position as Malaysia's largest mobile operator translates to meaningful economies of scale.

Risks to our call include: (i) slower and lower-than-expected realization of merger synergies, (ii) sluggish monetization of 5G as Malaysian enterprises are reluctant to deploy substantial technology investments, overhaul existing processes and retrench staff etc, and (iii) competition among mobile players turn irrational.

Results Highlights

FYE Dec (RM m)	4Q FY25	3Q FY25	QoQ Chg	4Q FY24	YoY Chg	12M FY25	12M FY24	YoY Chg
Revenue	3,445.1	3,124.8	10.2%	3,276.0	5.2%	12,957.7	12,679.4	2.2%
EBITDA	**1,413.1**	**1,422.3**	-0.6%	**1,576.4**	-10.4%	**5,499.8**	**6,005.8**	-8.4%
Depreciation	(812.3)	(699.8)	16.1%	(1,000.6)	-18.8%	(2,847.5)	(3,263.4)	-12.7%
Net Finance Costs	(142.6)	(143.2)	-0.4%	(152.8)	-6.7%	(569.5)	(597.3)	-4.7%
JV	1.0	(2.1)	>100%	6.2	-83.0%	5.1	4.9	5.0%
EI	(9.2)	(74.7)	-87.7%	(248.1)	-96.3%	15.0	(414.9)	>100%
Pretax Profit	**450.1**	**502.5**	-10.4%	181.0	148.6%	**2,102.9**	**1,735.1**	21.2%
Taxation	(97.0)	(152.5)	-36.4%	(19.8)	390.7%	(572.9)	(346.4)	65.4%
Minority Interest	(3.5)	(8.7)	-59.7%	(4.2)	-16.8%	(16.4)	(12.2)	34.9%
Reported Net Profit	**349.6**	**341.2**	2.5%	**157.0**	122.6%	**1,513.5**	**1,376.5**	10.0%
Core Net Profit	**358.8**	**415.9**	-13.7%	**405.2**	-11.4%	**1,498.6**	**1,791.4**	-16.3%
Core EPS (sen)	3.1	3.5	-13.8%	3.5	-11.5%	12.8	15.3	-16.4%
DPS (sen)	3.6	3.6	0.0%	3.7	-2.7%	14.7	14.3	2.8%
EBITDA margin	41.0%	45.5%		48.1%		42.4%	47.4%	
PBT Margin	13.1%	16.1%		5.5%		16.2%	13.7%	
Core Net margin	10.4%	13.3%		12.4%		11.6%	14.1%	

Source: Company, Kenanga Research

Segmental Highlights

FYE Dec (RM m)	4Q FY25	3Q FY25	QoQ Chg	4Q FY24	YoY Chg	12M FY25	12M FY24	YoY Chg
Service Revenue								
Postpaid	1,117	1,091	2.4%	1,062	5.2%	4,353	4,180	4.1%
Prepaid	1,056	1,051	0.5%	1,088	-2.9%	4,213	4,416	-4.6%
Wholesale	249	245	1.6%	206	20.9%	897	814	10.2%
Enterprise Mobile	204	199	2.5%	242	-15.7%	846	938	-9.8%
Enterprise Solutions	133	74	79.7%	65	104.6%	333	259	28.6%
Home Fiber	73	70	4.5%	56	30.4%	259	184	40.7%
Total	**2,832**	**2,730**	**3.7%**	**2,719**	4.2%	**10,901**	**10,791**	**1.0%**
Others	28	26	7.7%	27	3.7%	113	110	2.7%
Device	586	371	58.2%	529	10.8%	1,938	1,777	9.1%
Total Revenue	**3,446**	**3,126**	10.2%	**3,275**	5.2%	**12,952**	**12,678**	2.2%

Source: Company, Kenanga Research

Operating Metrics

	4Q FY25	3Q FY25	QoQ Chg	4Q FY24	YoY Chg
Subscribers ('000)					
Postpaid	6,091	6,010	81	5,784	307
Prepaid	12,282	12,347	(65)	12,862	(580)
Home Fiber	285	260	25	188	97
ARPU (RM)					
Postpaid	60	60	0	60	0
Prepaid	29	28	1	28	1
Home Fiber	90	93	(3)	107	(17)

Source: Company, Kenanga Research

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	MP	2.33	2.70	15.9%	21,404.0	Y	12/2025	5.8	5.9	-37.7%	2.8%	40.3	39.2	1.2	0.5%	11.0	4.7%
CELCOMDIGI BHD	OP	3.25	4.19	28.9%	38,127.4	Y	12/2026	14.4	16.1	-5.8%	11.6%	22.6	20.2	2.3	10.4%	12.0	3.7%
MAXIS BHD	MP	3.86	3.56	-7.8%	30,243.4	Y	12/2025	19.7	19.1	8.8%	-3.0%	19.6	20.2	4.9	25.5%	16.0	4.1%
OCK GROUP BHD	OP	0.375	0.430	14.7%	394.9	Y	06/2026	2.5	2.8	-12.6%	10.8%	14.8	13.3	0.6	4.4%	1.0	2.7%
TELEKOM MALAYSIA BHD	OP	8.00	8.86	10.8%	30,701.9	Y	12/2025	52.3	52.8	-2.7%	1.1%	15.3	15.1	2.8	19.2%	37.0	4.6%
TIME DOTCOM BHD	OP	6.05	6.12	1.2%	11,185.4	Y	12/2025	25.8	28.2	9.2%	9.1%	23.4	21.5	2.9	11.1%	28.0	4.6%
SECTOR AGGREGATE					**132,056.9**					**-4.9%**	**3.7%**	**21.2**	**20.4**	**2.5**	**11.8%**		**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

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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