

# DiGi.com (DIGI MK)

## Navigating challenges

### Still holding up

1H21 results were in line with our/consensus forecasts as 2Q21 earnings held up with the aid of the government-led data/device subsidy program. Management is mindful of potential near-term postpaid challenges, but is maintaining its FY21 guidance for now. Maintain HOLD with an unchanged DCF-based TP of MYR4.30. We prefer TM (T MK, BUY, CP: MYR6.10, TP: MYR7.40) in the space.

### Results in line

Digi's 2Q21 net profit of MYR280m (-3% YoY, +6% QoQ) brings 1H21 net profit to MYR545m (-12% YoY), 47% of both our and consensus full-year forecasts respectively. 2Q21 revenue was supported by the government-led data/device subsidy program (PRIHATIN) for the B40 segment, without which, a sequential contraction could have occurred. A second interim DPS of 3.6sen was declared (-3% YoY, +6% QoQ), again representing c.100% payout ratio.

### Supported by government-led subsidy program

2Q21 service revenue was largely stable sequentially (+0.2% QoQ and 1.7% YoY) on marginal growth at both prepaid (lower subscribers, higher ARPU) and postpaid (higher subscribers, lower ARPU). Digi noted strong take-up for its PRIHATIN prepaid and postpaid bundles, which also led to increased device sales and thus higher reported revenue. Meanwhile, costs were higher sequentially on higher COGS (increased device sales). Consequently, 2Q21 EBITDA margin contracted by 1.6ppt QoQ to 45.9%.

### Maintain HOLD

As the movement restrictions continue, management is mindful of potential near-term challenges in postpaid (channel restrictions, collection challenges). Management is maintaining its FY21 guidance (low-single digit revenue decline and mid-single digit EBITDA decline). Our earnings forecasts and MYR4.30 TP (DCF-based assuming 6.8% WACC, 2% LT growth, and includes possible cost synergies) are unchanged.

FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	6,297	6,153	6,033	5,950	5,904
EBITDA	3,301	3,077	2,956	2,915	2,893
Core net profit	1,433	1,221	1,157	1,100	1,075
Core EPS (sen)	18.4	15.7	14.9	14.2	13.8
Core EPS growth (%)	(7.0)	(14.8)	(5.3)	(4.9)	(2.4)
Net DPS (sen)	18.2	15.6	14.9	14.2	13.8
Core P/E (x)	24.2	26.4	28.6	30.0	30.8
P/BV (x)	52.5	53.1	54.5	54.5	54.5
Net dividend yield (%)	4.1	3.8	3.5	3.3	3.3
ROAE (%)	215.0	192.9	190.9	181.6	177.4
ROAA (%)	20.0	14.9	14.1	13.5	13.2
EV/EBITDA (x)	11.9	12.1	13.0	13.2	13.3
Net gearing (%) (incl perps)	710.9	849.9	869.3	881.5	883.3
Consensus net profit	-	-	1,160	1,232	1,323
MKE vs. Consensus (%)	-	-	(0.3)	(10.7)	(18.8)

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# HOLD

Share Price	MYR 4.25
12m Price Target	MYR 4.30 (+5%)
Previous Price Target	MYR 4.30

### Company Description

*Digi is a leading mobile telecommunication company in Malaysia.*

### Statistics

52w high/low (MYR)	4.48/3.52
3m avg turnover (USDm)	3.3
Free float (%)	33.3
Issued shares (m)	7,775
Market capitalisation	MYR33.0B
	USD7.8B

### Major shareholders:

Telenor ASA	49.0%
Employees Provident Fund	14.9%
Permodalan Nasional Bhd.	10.3%

### Price Performance



— DiGi.com - (LHS, MYR) — DiGi.com / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	(1)	0	(3)
Relative to index (%)	2	6	0

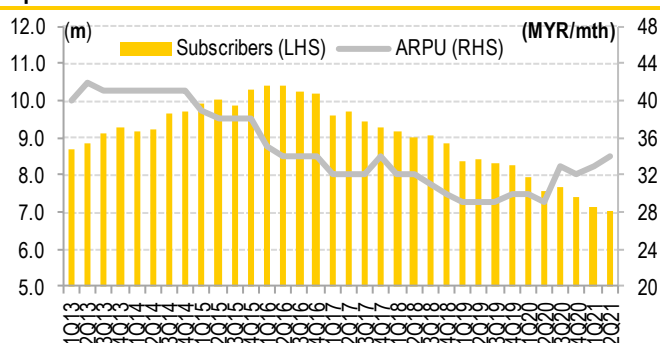
Source: FactSet

## Summary Results Table - DiGi.Com

FY Dec (MYR m)	Quarterly					Cumulative		
	2Q21	2Q20	%YoY	1Q21	%QoQ	1H21	1H20	%YoY
Revenue	1,618.5	1,452.5	11.4	1,550.2	4.4	3,168.7	3,012.7	5.2
EBITDA	743.6	769.8	(3.4)	736.5	1.0	1,480.1	1,525.3	(3.0)
EBIT	418.9	442.2	(5.3)	427.4	(2.0)	846.3	891.6	(5.1)
Net interest expense	(46.2)	(65.0)	(29.0)	(68.8)	(32.9)	(115.0)	(78.9)	45.7
Pre-tax profit	372.7	377.3	(1.2)	358.5	4.0	731.3	812.7	(10.0)
Tax	(92.8)	(89.2)	4.0	(93.7)	(0.9)	(186.6)	(192.7)	(3.2)
Minority Interests	0.0	0.0	N/A	0.0	N/A	0.0	0.0	N/A
Reported Net Profit	279.9	288.0	(2.8)	264.8	5.7	544.7	620.0	(12.1)
Service revenue	1,340.0	1,317.0	1.7	1,337.0	0.2	2,677.0	2,704.0	(1.0)
EBITDA margin (chg in ppts)	45.9	53.0	(7.1)	47.5	(1.6)	46.7	50.6	(3.9)
Reported EPS (sen)	3.6	3.7	(2.8)	3.4	5.7	7.0	8.0	(12.1)
Net DPS (sen)	3.6	3.7	(2.7)	3.4	5.9	7.0	7.9	(11.4)
Net cash/(debt)	(4,900.9)	(4,638.4)	5.7	(5,103.9)	(4.0)	(4,900.9)	(4,638.4)	5.7
Gearing (%)	808.3	758.7		863.9		808.3	758.7	
Capex	191.6	181.0	5.9	155.1	23.6	346.7	322.6	7.4
<b>Operations</b>								
<b>Prepaid</b>	<b>2Q21</b>	<b>2Q20</b>	<b>%YoY</b>	<b>1Q21</b>	<b>%QoQ</b>	<b>1H21</b>	<b>1H20</b>	<b>%YoY</b>
Subscribers, period end (m)	7.0	7.6	(7.4)	7.2	(1.8)	7.0	7.6	(7.4)
Net additions (m)	(0.13)	(0.36)	(64.1)	(0.24)	(46.0)	(0.37)	(0.66)	(44.5)
Subscribers, average (m)	7.1	7.8	(8.7)	7.3	(2.5)	7.5	8.1	(8.0)
ARPU (MYR/month)	34.0	29.0	17.2	33.0	3.0	32.2	28.8	11.8
Revenue	723.8	675.9	7.1	720.6	0.4	1,444.4	1,404.8	2.8
<b>Postpaid</b>	<b>2Q21</b>	<b>2Q20</b>	<b>%YoY</b>	<b>1Q21</b>	<b>%QoQ</b>	<b>1H21</b>	<b>1H20</b>	<b>%YoY</b>
Subscribers, period end (m)	3.2	3.0	5.0	3.1	3.1	3.2	3.0	5.0
Net additions (m)	0.10	(0.03)	N/A	0.05	90.0	0.15	0.00	N/A
Subscribers, average (m)	3.1	3.0	3.0	3.1	2.4	3.1	3.0	4.6
ARPU (MYR/month)	64.0	68.0	(5.9)	65.0	(1.5)	64.5	70.4	(8.4)
Revenue	602.4	621.5	(3.1)	597.7	0.8	1,200.1	1,252.1	(4.2)

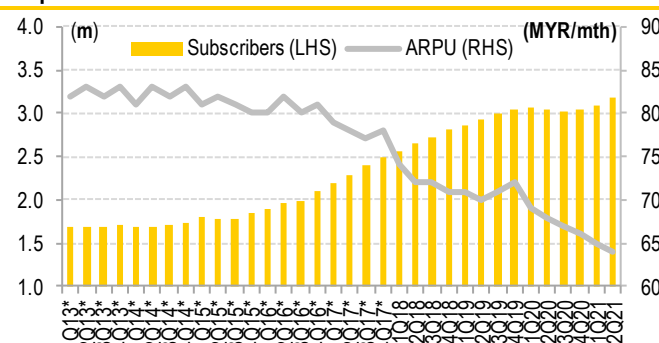
Source: Company, Maybank KE

## Prepaid subscribers and ARPU



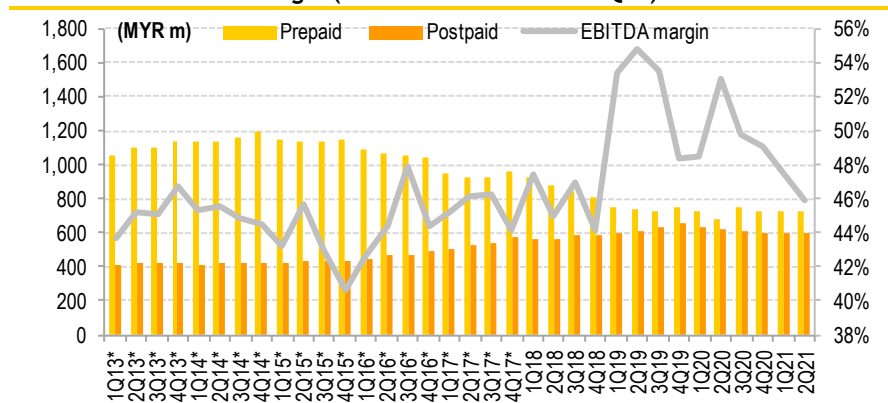
Source: Company, Maybank KE

## Postpaid subscribers and ARPU



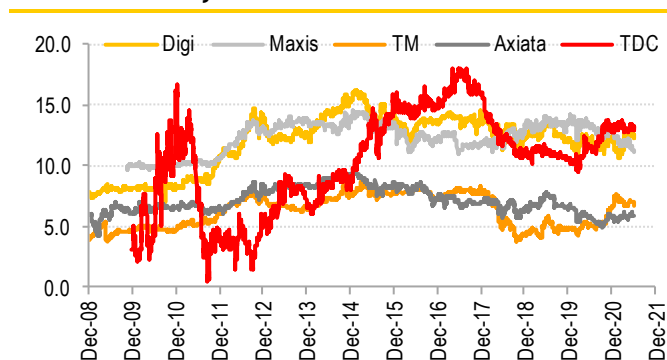
\*Pre-MFRS15, Source: Company, Maybank KE

## Revenue and EBITDA margin (MFRS 16 started from 1Q19)



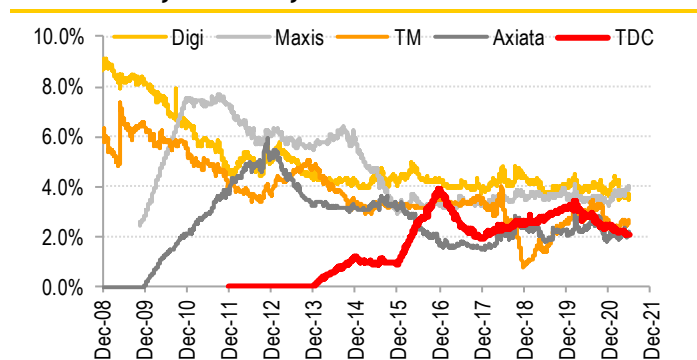
\*Pre-MFRS15, Source: Company, Maybank KE

## EV/EBITDA - Malaysia telcos



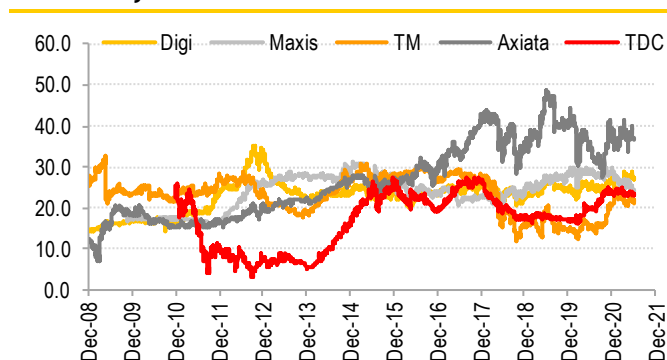
Source: Bloomberg, Maybank KE

## Net dividend yield - Malaysia telcos



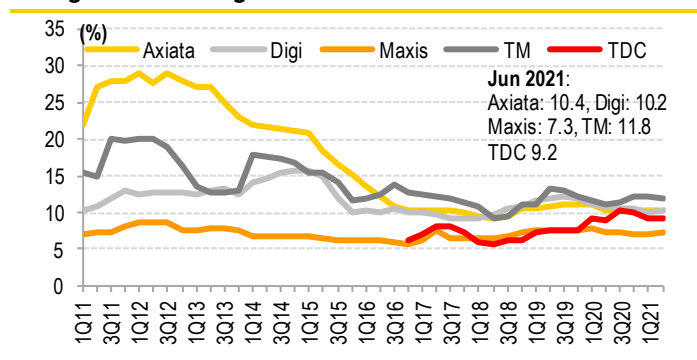
Source: Bloomberg, Maybank KE

## PER - Malaysia telcos



Source: Bloomberg, Maybank KE

## Foreign shareholding



Source: Companies

## Risk statement

There are several risk factors for our earnings estimates, price target, and rating for DiGi. Competitive developments, such as price wars would adversely affect monetisation and thus profitability. Regulatory developments pertaining to spectrum fees, taxation or product pricing also pose a risk to DiGi's earnings.

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Key Metrics</b>					
P/E (reported) (x)	25.6	27.0	28.6	30.0	30.8
Core P/E (x)	24.2	26.4	28.6	30.0	30.8
P/BV (x)	52.5	53.1	54.5	54.5	54.5
P/NTA (x)	(15.5)	(12.0)	(12.2)	(12.2)	(12.1)
Net dividend yield (%)	4.1	3.8	3.5	3.3	3.3
FCF yield (%)	4.6	6.0	5.3	5.3	5.4
EV/EBITDA (x)	11.9	12.1	13.0	13.2	13.3
EV/EBIT (x)	18.7	20.7	22.1	23.1	23.6

**INCOME STATEMENT (MYR m)**

Revenue	6,297.4	6,152.7	6,033.0	5,949.7	5,903.7
EBITDA	3,301.0	3,077.2	2,956.2	2,915.3	2,892.8
Depreciation	(1,197.4)	(1,272.6)	(1,225.2)	(1,254.8)	(1,264.2)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	2,103.7	1,804.7	1,731.0	1,660.5	1,628.6
Net interest income / (exp)	(211.3)	(182.6)	(209.0)	(212.5)	(214.7)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	1,892.3	1,622.0	1,522.0	1,448.0	1,413.9
Income tax	(459.4)	(401.1)	(365.3)	(347.5)	(339.3)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	1,433.0	1,221.0	1,156.7	1,100.5	1,074.5
Core net profit	1,433.0	1,221.0	1,156.7	1,100.5	1,074.5

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	457.7	302.9	185.3	111.4	100.6
Accounts receivable	1,300.5	1,037.8	1,024.8	1,010.6	1,002.8
Inventory	90.5	137.2	139.6	137.7	136.6
Property, Plant & Equip (net)	2,852.8	2,883.1	2,983.5	3,007.8	2,975.8
Intangible assets	2,900.4	3,280.0	3,304.4	3,325.2	3,343.1
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	547.5	544.8	544.8	544.8	544.8
<b>Total assets</b>	<b>8,149.4</b>	<b>8,185.7</b>	<b>8,182.3</b>	<b>8,137.5</b>	<b>8,103.7</b>
ST interest bearing debt	688.8	774.5	774.5	774.5	774.5
Accounts payable	2,067.9	1,738.3	1,734.9	1,690.0	1,656.3
LT interest bearing debt	4,461.0	4,677.5	4,677.5	4,677.5	4,677.5
Other liabilities	272.0	390.0	390.0	390.0	390.0
<b>Total Liabilities</b>	<b>7,489.5</b>	<b>7,579.9</b>	<b>7,576.5</b>	<b>7,531.6</b>	<b>7,497.9</b>
Shareholders Equity	660.0	605.9	605.9	605.9	605.9
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>660.0</b>	<b>605.9</b>	<b>605.9</b>	<b>605.9</b>	<b>605.9</b>
<b>Total liabilities and equity</b>	<b>8,149.4</b>	<b>8,185.7</b>	<b>8,182.3</b>	<b>8,137.5</b>	<b>8,103.7</b>

**CASH FLOW (MYR m)**

Pretax profit	1,892.3	1,622.0	1,522.0	1,448.0	1,413.9
Depreciation & amortisation	1,197.4	1,272.6	1,225.2	1,254.8	1,264.2
Adj net interest (income)/exp	211.3	182.6	209.0	212.5	214.7
Change in working capital	(656.6)	(402.8)	7.2	(28.7)	(24.9)
Cash taxes paid	(574.9)	(393.0)	(365.3)	(347.5)	(339.3)
Other operating cash flow	290.8	398.1	0.0	0.0	0.0
Cash flow from operations	2,360.3	2,679.5	2,598.1	2,539.1	2,528.6
Capex	(750.1)	(736.1)	(850.0)	(800.0)	(750.0)
Free cash flow	1,610.2	1,943.5	1,748.1	1,739.1	1,778.6
Dividends paid	(1,446.2)	(1,275.1)	(1,156.7)	(1,100.5)	(1,074.5)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	574.1	(88.3)	0.0	0.0	0.0
Other invest/financing cash flow	(656.0)	(735.9)	(709.0)	(712.5)	(714.7)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	82.1	(155.9)	(117.6)	(73.9)	(10.7)

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(3.5)	(2.3)	(1.9)	(1.4)	(0.8)
EBITDA growth	10.3	(6.8)	(3.9)	(1.4)	(0.8)
EBIT growth	(3.9)	(14.2)	(4.1)	(4.1)	(1.9)
Pretax growth	(9.0)	(14.3)	(6.2)	(4.9)	(2.4)
Reported net profit growth	(7.0)	(14.8)	(5.3)	(4.9)	(2.4)
Core net profit growth	(7.0)	(14.8)	(5.3)	(4.9)	(2.4)
<b>Profitability ratios (%)</b>					
EBITDA margin	52.4	50.0	49.0	49.0	49.0
EBIT margin	33.4	29.3	28.7	27.9	27.6
Pretax profit margin	30.0	26.4	25.2	24.3	23.9
Payout ratio	98.8	99.3	100.0	100.0	100.0
<b>DuPont analysis</b>					
Net profit margin (%)	22.8	19.8	19.2	18.5	18.2
Revenue/Assets (x)	0.8	0.8	0.7	0.7	0.7
Assets/Equity (x)	12.3	13.5	13.5	13.4	13.4
ROAE (%)	215.0	192.9	190.9	181.6	177.4
ROAA (%)	20.0	14.9	14.1	13.5	13.2
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(465.6)	(350.1)	(311.0)	(310.4)	(304.5)
Days receivable outstanding	84.1	68.4	61.5	61.6	61.4
Days inventory outstanding	19.0	26.6	32.3	32.8	32.7
Days payables outstanding	568.7	445.2	404.8	404.8	398.5
Dividend cover (x)	1.0	1.0	1.0	1.0	1.0
Current ratio (x)	0.7	0.6	0.6	0.5	0.5
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.1	1.1	1.1	1.1	1.1
Net gearing (%) (incl perps)	710.9	849.9	869.3	881.5	883.3
Net gearing (%) (excl. perps)	710.9	849.9	869.3	881.5	883.3
Net interest cover (x)	10.0	9.9	8.3	7.8	7.6
Debt/EBITDA (x)	1.6	1.8	1.8	1.9	1.9
Capex/revenue (%)	11.9	12.0	14.1	13.4	12.7
Net debt/ (net cash)	4,692.1	5,149.2	5,266.8	5,340.7	5,351.4

Source: Company; Maybank

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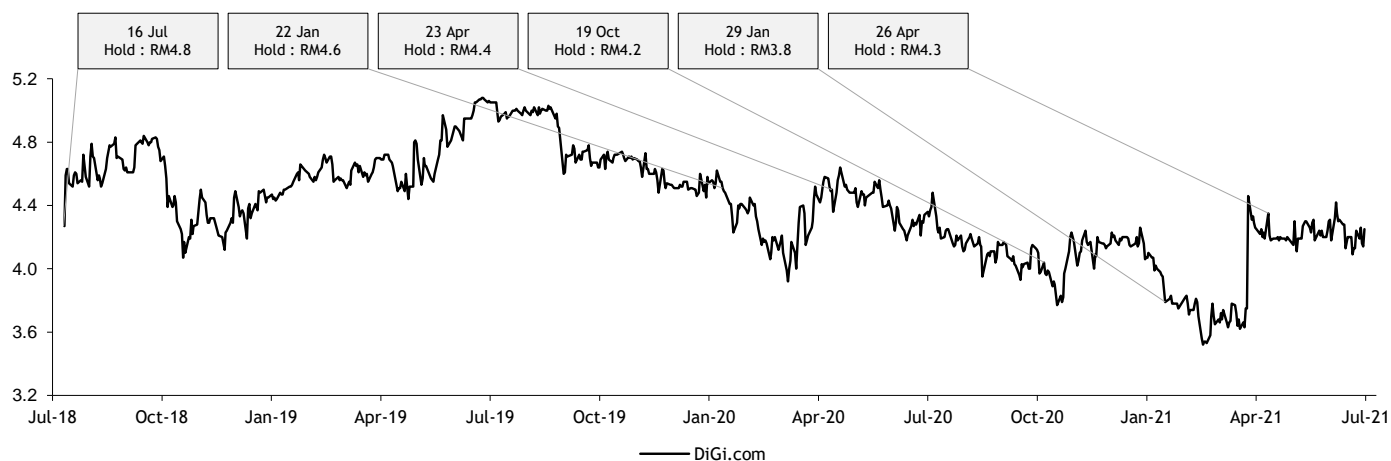
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