

# DiGi.com (DIGI MK)

## Steady does it

### Knowledge sharing

Digi's technology and sustainability teams shared their insights on the respective subjects. The session reinforced our view of Digi being a very well-managed telco. We also introduce an expanded ESG sheet for Digi. Maintain HOLD with an unchanged DCF-based TP of MYR3.50. We prefer TM (T MK, BUY, CP: MYR5.88, TP: MYR7.50) in the telco space.

### Network differentiation still possible

Digi showcased some of the recent modernisation (network and IT processes) and sustainability initiatives undertaken in a briefing. In general, Digi takes a controlled and integrated approach on network modernisation with the aim of optimising customer experience. While the front-end of the 5G network (radio access network) will move into a leasing model, the back-end (core network) remains under the control of telcos. Thus the overall network (speed and consistency) still needs to be managed appropriately with the optimal implementation of technology and process improvements.

### B2B - Controlled growth

The experiences gained from the internal implementation of various solutions, along with the selective addition of talent, have equipped Digi with the capability to offer some of these services externally. Digi views the B2B segment as a key growth driver (B2B revenue has grown >10% YoY in 1H22) particularly when 5G comes into play. The enterprise push will nevertheless be done in a gradual and controlled manner.

### Introducing expanded ESG sheet

Our earnings forecasts and our MYR3.50 TP (DCF-based assuming 7.5% WACC and 2% LT growth) are unchanged. We have introduced an expanded ESG sheet for Digi and has assigned an above-average overall score of 67, based on its aggregated quantitative, qualitative and target-based metrics. Digi disclosed that it will publish its maiden Task Force on Climate-related Financial Disclosures (TCFD) report in 2022.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	6,153	6,336	6,393	6,474	6,498
EBITDA	3,077	3,010	2,992	3,030	3,041
Core net profit	1,221	1,162	970	1,195	1,196
Core EPS (sen)	15.7	14.9	12.5	15.4	15.4
Core EPS growth (%)	(14.8)	(4.8)	(16.5)	23.1	0.1
Net DPS (sen)	15.6	14.9	12.5	15.4	15.4
Core P/E (x)	26.4	29.2	28.0	22.7	22.7
P/BV (x)	53.1	53.6	42.9	42.9	42.9
Net dividend yield (%)	3.8	3.4	3.6	4.4	4.4
ROAE (%)	192.9	187.6	153.4	188.8	189.0
ROAA (%)	14.9	14.5	12.3	15.0	15.0
EV/EBITDA (x)	12.1	12.8	10.6	10.5	10.5
Net gearing (%) (incl perps)	849.9	751.4	745.2	752.4	759.4
Consensus net profit	-	-	984	1,194	1,207
MKE vs. Consensus (%)	-	-	(1.4)	0.1	(0.9)

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# HOLD

Share Price	MYR 3.49
12m Price Target	MYR 3.50 (+4%)
Previous Price Target	MYR 3.50

### Company Description

Digi is a leading mobile telecommunication company in Malaysia.

### Statistics

52w high/low (MYR)	4.50/3.10
3m avg turnover (USDm)	1.9
Free float (%)	33.7
Issued shares (m)	7,775
Market capitalisation	MYR27.1B
	USD6.0B

### 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 (%)	(5)	7	(22)
Relative to index (%)	(2)	7	(19)

Source: FactSet

ESG@MAYBANK IBG  
Tear Sheet Insert

# ESG@MAYBANK IBG

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Risk Rating & Score <sup>1</sup>	24.1 (Medium)
Score Momentum <sup>2</sup>	+2.9
Last Updated	16 Mar 2022
Controversy Score <sup>3</sup> (Updated: 31 Jul 2013)	No reported incidents

## Business Model & Industry Issues

- The ESG pressure faced by telcos is overall benign. Telcos are not major emitters and thus do not pose a significant threat to the environment. Major social issues relate to digital inclusion and data protection, and can generally be well-managed from an operational perspective.
- We see telcos are potential ESG beneficiaries. Given the industry's extensive population reach and core speciality in connectivity, telcos are well-positioned to serve as ESG enablers, helping other industries address their respective ESG issues. This could mean new revenue streams for telcos (for example in the area of IoT solutions, mobile banking and mobile education to name a few), although telcos would then need to work on how to successfully monetise these opportunities (as with OTT services, the value proposition to telcos is not necessarily equitable).
- Being part of Telenor Group, Digi's ESG stance is heavily influenced by parent Telenor, which is headquartered in a jurisdiction that arguably conforms to higher ESG standards. Digi is revered for its strong execution capabilities, consistent financial delivery and proactive capital management.
- Digi also scores above-average in our proprietary scoring methodology (see pg.3) with an overall score of 67/100.

## Material E issues

- Environmental risks are inherently less pertinent for telcos, with operations being neither energy nor emission intensive. Regardless, Digi is targeting a 50% reduction in carbon emissions by 2030 from a 2018 baseline.
- Digi has reduced fuel dependencies by converting 156 generator-powered sites to grid-powered, thus reducing Scope 1 emissions.
- Electricity consumption has also been optimised through a reduction of running hours during low-peak traffic cycles.
- Over 900 sites have been identified to undergo installation of exhaust fans to minimise power consumption used in cooling systems.

## Material S issues

- Internet connectivity is deemed as an essential service, particularly during a pandemic. The government had mandated mobile telcos to provide free data (1GB/day) to subscribers during the MCO. This inevitably affected monetisation.
- The emphasis on digital inclusion and rural connectivity means telcos could be pressured to invest in areas that are not commercially-viable. In Malaysia, the regulator funds such investments through the USP fund (telcos contribute 6% of revenue to the fund annually).
- A major data breach occurred in 2017 with subscriber and device details of Digi and most Malaysia telcos being leaked online. The leak was eventually traced to the regulator's Public Cellular Blocking Service (externally-managed). Telcos were thus absolved of blame.
- Digi's has a gender-balanced workforce with a male-female split of 50%-50%. Women make up 45% of the extended management team.

## Key G metrics and issues

- Being part of the Telenor group (49%-owned), Digi's governance practices are inevitably heavily-influenced by Telenor.
- The Board currently has 6 Directors, comprising 3 Non-Independent Directors (including Chairman, all Telenor appointees) and 3 Independent Directors. At the time of writing, there is no intention to raise the proportion of Independent Directors.
- There are three women on the Board, reflecting a 50% female representation.
- Digi presently does not disclose remuneration details of senior management for confidentiality reasons. This practice could potentially be reviewed in the next two years.
- Digi has been audited by Ernst & Young for at least the past decade.
- There have been no questionable related-party transactions of note. Digi has generally benefitted from being under the Telenor umbrella (management expertise, technology transfer, procurement benefits). Its margins are presently the highest among its Malaysia mobile peers.
- Digi is very proactive with capital management, having already exhausted its retained earnings (through the payment of special dividends in the past). It now maintains a 100% dividend payout ratio.
- Digi has not undertaken any material M&As in recent years. A merger proposal between Celcom and Digi is currently ongoing, pending relevant approvals.

<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. <sup>3</sup>**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

# ESG@MAYBANK IBG

Quantitative parameters (Score: 43)						
	Particulars	Unit	2019	2020	2021	TM (T MK)
E	Scope 1 emissions	k tCO2e	9.76	10.75	10.34	11.00
	Scope 2 emissions	k tCO2e	174.04	185.75	196.78	24.55
	Scope 3 emissions	k tCO2e	1.64	0.73	0.33	0.01
	<b>Total</b>	<b>k tCO2e</b>	<b>185.44</b>	<b>197.23</b>	<b>207.45</b>	<b>35.55</b>
	Carbon intensity per data usage	tCO2e/TB	0.14	0.11	0.09	N/A
	Energy Usage per Data Terabyte (MWh)	MWh/TB	0.24	0.18	0.16	N/A
	Waste generated per employee	kg	183	170	103	22.3
	% E-waste recycled	%	100.0%	21.3%	100.0%	N/A
S	% of women in workforce	%	49.0%	50.0%	50.0%	39.8%
	% of women in management roles	%	46.0%	47.0%	45.0%	31.0%
	Average training hours per employee	Hours	51.3	59.8	52.6	41.0
	Suppliers signing up for Responsible Business Conduct	Number	111	130	179	N/A
G	Key management salary as % of net profit	%	1.3%	1.2%	1.5%	2.2%
	Independent directors on the Board	%	43%	43%	50%	55%
	Female directors on the Board	%	43%	43%	50%	36%
	Customer satisfaction - retail	%	90%	89%	91%	N/A
	Customer satisfaction - call centre	%	62%	62%	58%	N/A

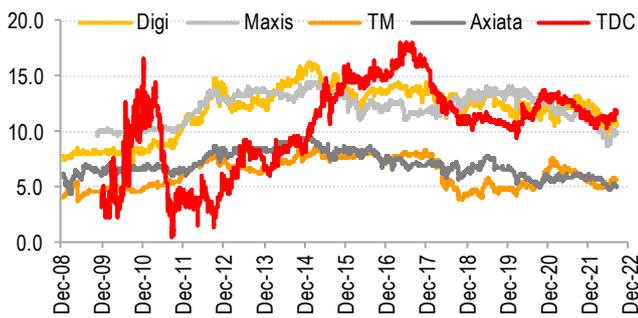
Qualitative Parameters (Score: 83)	
a) Is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?	<i>Yes. Responsible business is one of Digi's 3 key strategic pillars. The Responsible Business Forum (RBF), chaired by the CEO, oversees ESG matters.</i>
b) Is the senior management salary linked to fulfilling ESG targets?	<i>Yes. Management's reward matrix is assessed based on Digi's performance indicators under its 3 strategic pillars.</i>
c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?	<i>Not yet. The company plans to adopt the TCFD recommendations in a phased manner.</i>
e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	<i>Yes - Air travel and leased vehicles.</i>
f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>Optimising efficiencies from allocated radio spectrum, deploying AI tools to implement power-saving mode at RAN sites, pursuing green building certification.</i>
g) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>Yes</i>

Target (Score: 100)		
Particulars	Target	Achieved
Reduce emission in 2030 vs 2018 baseline by 50%	50%	N/A
Net-zero carbon emissions by 2050	2050	N/A
<b>Impact</b>		
NA		
<b>Overall score: 67</b>		
As per our ESG matrix, Digi has an overall score of 67.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	43	21
Qualitative	25%	83	21
Target	25%	100	25
<b>Total</b>			<b>67</b>

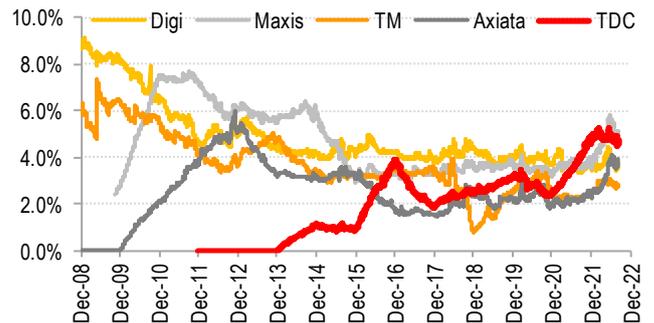
As per our ESG assessment, Digi has an established framework, internal policies, and tangible mid/long-term targets. Digi's overall ESG score is 67, which makes its ESG rating above average in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

**Fig 1: EV/EBITDA - Malaysia telcos**



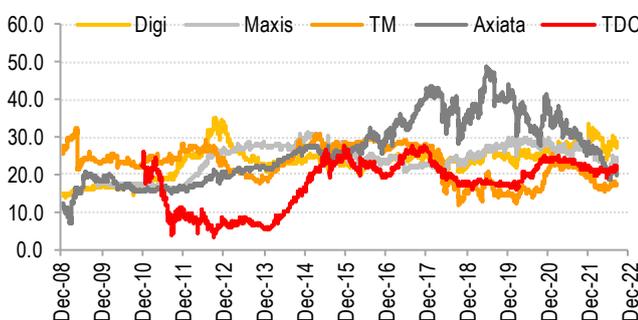
Source: Bloomberg, Maybank IBG Research

**Fig 2: Net dividend yield - Malaysia telcos**



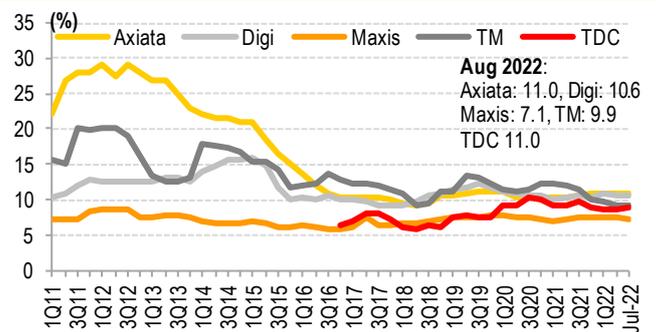
Source: Bloomberg, Maybank IBG Research

**Fig 3: PER - Malaysia telcos**



Source: Bloomberg, Maybank IBG Research

**Fig 4: Foreign shareholding**



Source: Companies

**Risk statement**

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

**Appendix I**

Methodology of our proprietary ESG scoring methodology.

We evaluate the ESG ratings based on quantitative, qualitative and ESG targets. We assign a score for each of these three parameters. The overall rating is based on the weighted average of the scores: quantitative (50%), qualitative (25%) and ESG target (25%).

For the quantitative, qualitative and ESG target, the sub-parameters are assigned a score - '0' for data not available, '+1' for improving trajectory, positive change, 'Yes', better than peers or a positive number if historical is not available and '-1' for declining trajectory, negative change, 'No', lower than peers or a negative number. The total of the scores of all the sub-parameters is divided by the total number of sub-parameters is the score of each of the three parameters.

The sub-parameters may be different for different industries depending on the key areas to monitor for each industry. A company should achieve a minimum score of 50 for an average ESG rating.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	27.0	27.6	28.0	22.7	22.7
Core P/E (x)	26.4	29.2	28.0	22.7	22.7
P/BV (x)	53.1	53.6	42.9	42.9	42.9
P/NTA (x)	(12.0)	(13.7)	(10.7)	(10.4)	(10.3)
Net dividend yield (%)	3.8	3.4	3.6	4.4	4.4
FCF yield (%)	6.0	5.9	6.3	6.9	6.9
EV/EBITDA (x)	12.1	12.8	10.6	10.5	10.5
EV/EBIT (x)	20.7	22.3	18.2	17.9	17.9
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	6,152.7	6,335.7	6,392.6	6,474.4	6,497.7
EBITDA	3,077.2	3,010.1	2,991.7	3,030.0	3,040.9
Depreciation	(1,272.6)	(1,280.2)	(1,238.4)	(1,246.8)	(1,254.0)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	1,804.7	1,729.9	1,753.3	1,783.2	1,786.9
Net interest income / (exp)	(182.6)	(215.0)	(212.9)	(211.0)	(213.3)
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	1,622.0	1,514.9	1,540.4	1,572.2	1,573.6
Income tax	(401.1)	(352.8)	(570.0)	(377.3)	(377.7)
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	1,221.0	1,162.1	970.5	1,194.9	1,195.9
Core net profit	1,221.0	1,162.1	970.5	1,194.9	1,195.9
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	302.9	204.5	243.4	197.8	154.0
Accounts receivable	1,037.8	1,101.5	1,120.9	1,135.2	1,139.3
Inventory	137.2	116.6	122.6	124.2	124.6
Property, Plant & Equip (net)	2,883.1	2,863.6	2,861.8	2,860.5	2,859.6
Intangible assets	3,280.0	3,112.8	3,176.3	3,230.8	3,277.7
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	544.8	440.7	440.7	440.7	440.7
<b>Total assets</b>	<b>8,185.7</b>	<b>7,839.8</b>	<b>7,965.7</b>	<b>7,989.2</b>	<b>7,995.9</b>
ST interest bearing debt	774.5	1,123.4	1,123.4	1,123.4	1,123.4
Accounts payable	1,738.3	1,790.1	1,839.0	1,862.5	1,869.2
LT interest bearing debt	4,677.5	3,835.9	3,835.9	3,835.9	3,835.9
Other liabilities	390.0	458.0	535.0	535.0	535.0
<b>Total Liabilities</b>	<b>7,579.9</b>	<b>7,207.0</b>	<b>7,332.9</b>	<b>7,356.4</b>	<b>7,363.1</b>
Shareholders Equity	605.9	632.8	632.8	632.8	632.8
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>605.9</b>	<b>632.8</b>	<b>632.8</b>	<b>632.8</b>	<b>632.8</b>
<b>Total liabilities and equity</b>	<b>8,185.7</b>	<b>7,839.8</b>	<b>7,965.7</b>	<b>7,989.2</b>	<b>7,995.9</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	1,622.0	1,514.9	1,540.4	1,572.2	1,573.6
Depreciation & amortisation	1,272.6	1,280.2	1,238.4	1,246.8	1,254.0
Adj net interest (income)/exp	182.6	215.0	212.9	211.0	213.3
Change in working capital	(402.8)	(323.7)	23.4	7.6	2.2
Cash taxes paid	(393.0)	(248.7)	(492.9)	(377.3)	(377.7)
Other operating cash flow	398.1	380.0	0.0	0.0	0.0
Cash flow from operations	2,679.5	2,817.8	2,522.2	2,660.3	2,665.4
Capex	(736.1)	(801.9)	(800.0)	(800.0)	(800.0)
Free cash flow	1,943.5	2,015.9	1,722.2	1,860.3	1,865.4
Dividends paid	(1,275.1)	(1,135.2)	(970.5)	(1,194.9)	(1,195.9)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(88.3)	(325.8)	0.0	0.0	0.0
Other invest/financing cash flow	(735.9)	(644.5)	(712.9)	(711.0)	(713.3)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(155.9)	(89.5)	38.8	(45.6)	(43.8)

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(2.3)	3.0	0.9	1.3	0.4
EBITDA growth	(6.8)	(2.2)	(0.6)	1.3	0.4
EBIT growth	(14.2)	(4.1)	1.4	1.7	0.2
Pretax growth	(14.3)	(6.6)	1.7	2.1	0.1
Reported net profit growth	(14.8)	(4.8)	(16.5)	23.1	0.1
Core net profit growth	(14.8)	(4.8)	(16.5)	23.1	0.1
<b>Profitability ratios (%)</b>					
EBITDA margin	50.0	47.5	46.8	46.8	46.8
EBIT margin	29.3	27.3	27.4	27.5	27.5
Pretax profit margin	26.4	23.9	24.1	24.3	24.2
Payout ratio	99.3	99.7	100.0	100.0	100.0
<b>DuPont analysis</b>					
Net profit margin (%)	19.8	18.3	15.2	18.5	18.4
Revenue/Assets (x)	0.8	0.8	0.8	0.8	0.8
Assets/Equity (x)	13.5	12.4	12.6	12.6	12.6
ROAE (%)	192.9	187.6	153.4	188.8	189.0
ROAA (%)	14.9	14.5	12.3	15.0	15.0
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(350.1)	(275.3)	(278.3)	(280.3)	(281.6)
Days receivable outstanding	68.4	60.8	62.6	62.7	63.0
Days inventory outstanding	26.6	26.0	24.1	24.5	24.6
Days payables outstanding	445.2	362.1	365.0	367.5	369.2
Dividend cover (x)	1.0	1.0	1.0	1.0	1.0
Current ratio (x)	0.6	0.5	0.5	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)	849.9	751.4	745.2	752.4	759.4
Net gearing (%) (excl. perps)	849.9	751.4	745.2	752.4	759.4
Net interest cover (x)	9.9	8.0	8.2	8.5	8.4
Debt/EBITDA (x)	1.8	1.6	1.7	1.6	1.6
Capex/revenue (%)	12.0	12.7	12.5	12.4	12.3
Net debt/ (net cash)	5,149.2	4,754.7	4,715.9	4,761.5	4,805.3

Source: Company; Maybank IBG Research

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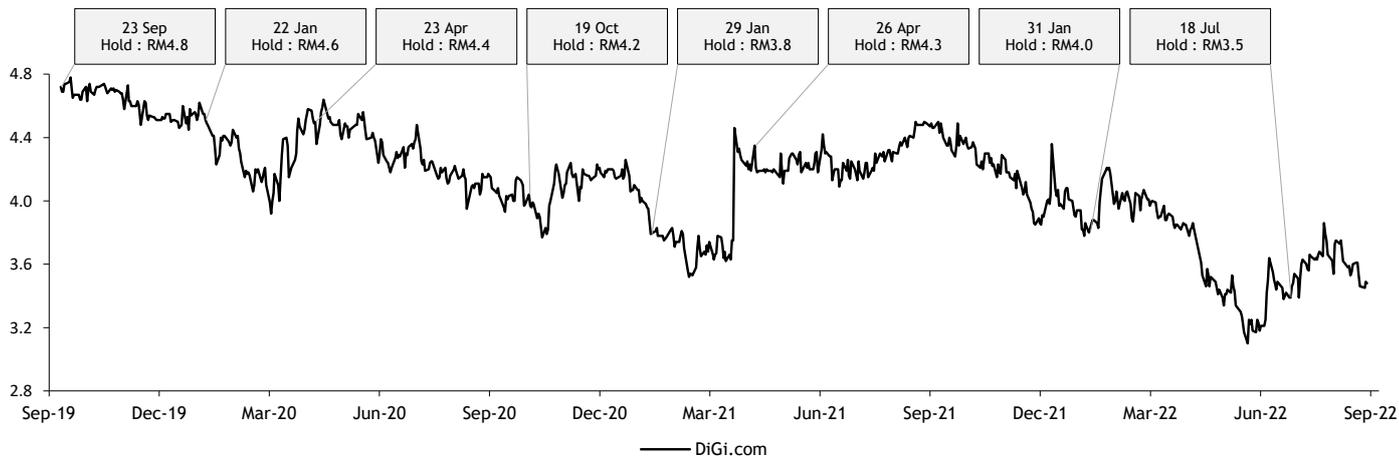
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