

DiGi.com (DIGI MK)

Coping with prepaid pressure

Sequential net profit recovery

3Q22 results were in line with our/consensus expectations as net profit recovered sequentially on lower taxes. Of slight concern is the ARPU step-down from the expiry of the “Jaringan Prihatin” subsidy program, which management is aiming to counter with its maiden prepaid unlimited plan. Maintain HOLD with an unchanged DCF-TP of MYR3.50. We prefer TM (T MK, BUY, CP: MYR5.40, TP: MYR7.50) in the telco space.

Results in line

Digi’s 3Q22 net profit of MYR264m (-15% YoY, +20% QoQ) brings 9M22 net profit to MYR721m (-16% YoY), 74%/71% of our/consensus full-year forecasts respectively. 3Q22 net profit recovered sequentially as taxes tapered (recall taxes were elevated in 1H22 due to *Cukai Makmur*’s effects on deferred taxes). A third interim DPS of 3.4en was declared (-15% YoY, +21% QoQ), again representing c.100% payout ratio.

Prepaid ARPU step-down

3Q22 service revenue was down 0.5% QoQ (and down 1.8% YoY) as lower prepaid revenue (c.MYR2/month ARPU dilution from the expiry of “Jaringan Prihatin” subsidy program) more than offset higher postpaid revenue. Encouragingly, subscriber growth across both prepaid and postpaid was healthy. Meanwhile, costs were lower sequentially from lower license fees and bad debt provisions. Consequently, 3Q22 EBITDA margin expanded by 0.7ppt QoQ to 48.9%.

Maintain HOLD

Management is aiming to counter the effects of the subsidy expiry with the launch of its maiden prepaid unlimited (but speed-throttled) plan (higher-priced). Management has maintained its FY22 guidance of low single-digit EBITDA decline on service revenue growth. Our earnings forecasts and MYR3.50 TP (DCF-based assuming 7.5% WACC and 2% LT growth) are unchanged.

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	22.8	22.8
P/BV (x)	53.1	53.6	43.0	43.0	43.0
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	10.7	10.6	10.5
Net gearing (%) (incl perps)	849.9	751.4	745.2	752.4	759.4
Consensus net profit	-	-	989	1,193	1,213
MKE vs. Consensus (%)	-	-	(1.9)	0.2	(1.4)

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HOLD

Share Price	MYR 3.50
12m Price Target	MYR 3.50 (+3%)
Previous Price Target	MYR 3.50

Company Description

Digi is a leading mobile telecommunication company in Malaysia.

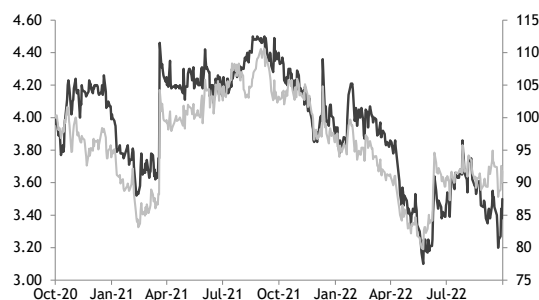
Statistics

52w high/low (MYR)	4.37/3.10
3m avg turnover (USDm)	1.4
Free float (%)	33.7
Issued shares (m)	7,775
Market capitalisation	MYR27.2B USD5.8B

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	0	1	(20)
Relative to index (%)	4	3	(10)

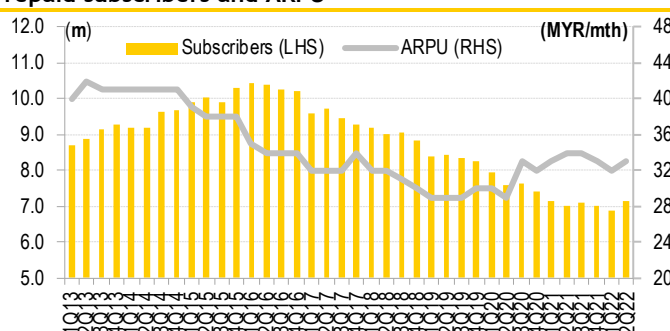
Source: FactSet

Summary Results Table - DiGi.Com

FY Dec (MYR m)	Quarterly					Cumulative		
	3Q22	3Q21	%YoY	2Q22	%QoQ	9M22	9M21	%YoY
Revenue	1,531.9	1,584.4	(3.3)	1,538.9	(0.5)	4,592.5	4,753.1	(3.4)
EBITDA	749.1	788.5	(5.0)	741.7	1.0	2,232.3	2,270.3	(1.7)
EBIT	429.9	464.4	(7.4)	423.3	1.5	1,282.7	1,310.7	(2.1)
Net interest expense	(50.1)	(46.0)	9.0	(61.3)	(18.2)	(166.5)	(160.9)	3.5
Pre-tax profit	379.8	418.5	(9.3)	362.0	4.9	1,116.2	1,149.8	(2.9)
Tax	(115.3)	(105.7)	9.1	(142.0)	(18.8)	(395.5)	(292.2)	35.3
Minority Interests	0.0	0.0	N/A	0.0	N/A	0.0	0.0	N/A
Reported Net Profit	264.5	312.8	(15.5)	220.0	20.2	720.7	857.6	(16.0)
Service revenue	1,319.0	1,343.0	(1.8)	1,325.0	(0.5)	3,952.0	4,020.0	(1.7)
EBITDA margin (chg in ppts)	48.9	49.8	(0.9)	48.2	0.7	48.6	47.8	0.8
Reported EPS (sen)	3.4	4.0	(15.5)	2.8	20.2	9.3	11.0	(16.0)
Net DPS (sen)	3.4	4.0	(15.0)	2.8	21.4	9.1	11.0	(17.3)
Net cash/(debt)	(4,580.2)	(4,547.7)	0.7	(4,612.0)	(0.7)	(4,580.2)	(4,547.7)	0.7
Gearing (%)	754.5	711.4		823.1		754.5	711.4	
Capex	169.4	165.7	2.3	173.9	(2.6)	425.6	512.3	(16.9)
Operations								
Prepaid	3Q22	3Q21	%YoY	2Q22	%QoQ	9M22	9M21	%YoY
Subscribers, period end (m)	7.3	7.1	2.5	7.1	2.3	7.3	7.1	2.5
Net additions (m)	0.17	0.09	94.2	0.23	(26.1)	0.27	-0.28	N/A
Subscribers, average (m)	7.2	7.1	1.9	7.0	2.8	7.4	7.4	0.1
ARPU (MYR/month)	31.0	34.0	(8.8)	33.0	(6.1)	30.6	32.6	(6.2)
Revenue	670.7	721.7	(7.1)	694.5	(3.4)	2,033.5	2,166.0	(6.1)
Postpaid	3Q22	3Q21	%YoY	2Q22	%QoQ	9M22	9M21	%YoY
Subscribers, period end (m)	3.4	3.2	5.6	3.4	1.3	3.4	3.2	5.6
Net additions (m)	0.04	0.06	(30.6)	0.05	(6.5)	0.13	0.21	(36.7)
Subscribers, average (m)	3.4	3.2	5.9	3.4	1.3	3.3	3.1	5.0
ARPU (MYR/month)	61.0	63.0	(3.2)	60.0	1.7	61.9	64.0	(3.3)
Revenue	623.4	607.8	2.6	605.2	3.0	1,835.7	1,807.9	1.5

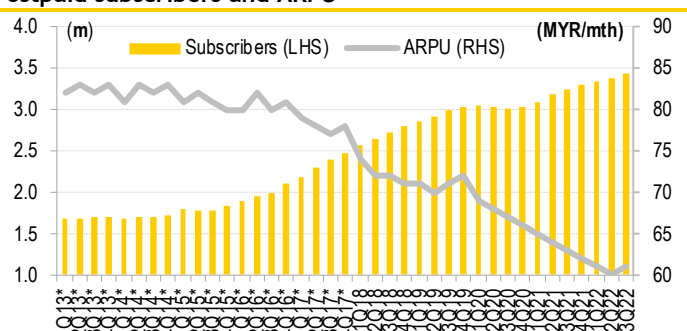
Source: Company, Maybank IBG Research

Prepaid subscribers and ARPU



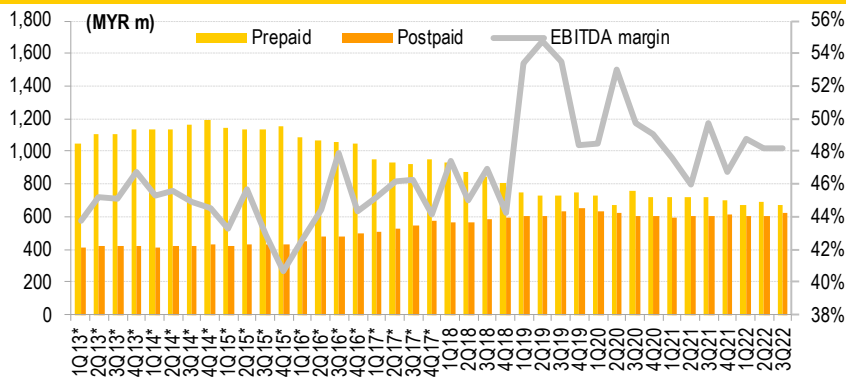
Source: Company, Maybank IBG Research

Postpaid subscribers and ARPU



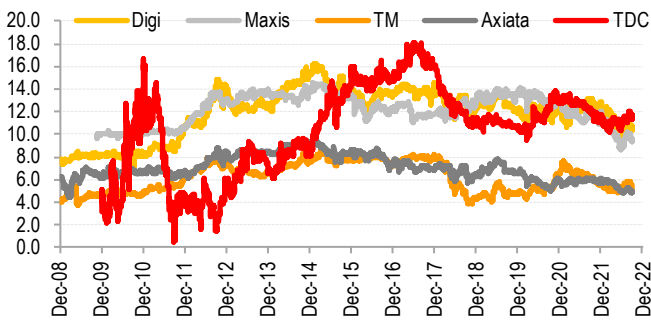
*Pre-MFRS15, Source: Company, Maybank IBG Research

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



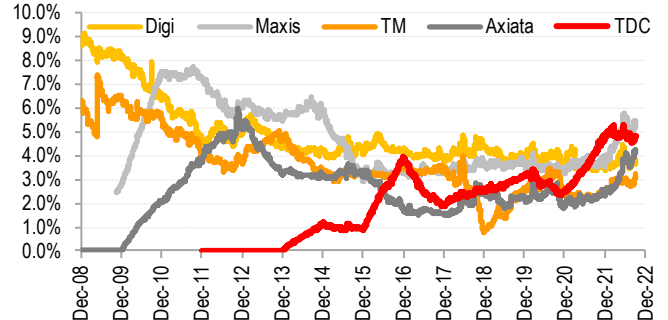
*Pre-MFRS15, Source: Company, Maybank IBG Research

EV/EBITDA - Malaysia telcos



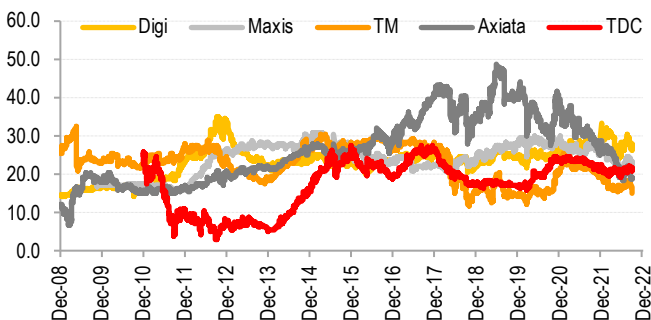
Source: Bloomberg, Maybank IBG Research

Net dividend yield - Malaysia telcos



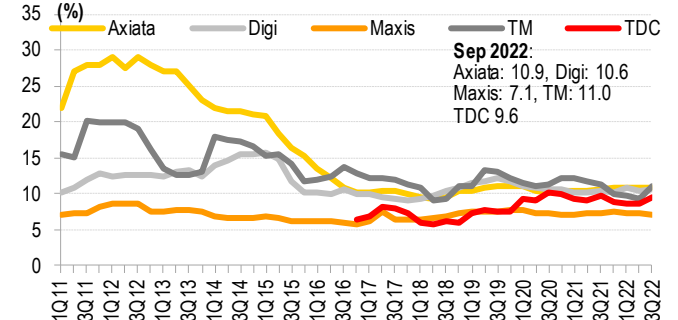
Source: Bloomberg, Maybank IBG Research

PER - Malaysia telcos



Source: Bloomberg, Maybank IBG Research

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	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	27.0	27.6	28.0	22.8	22.8
Core P/E (x)	26.4	29.2	28.0	22.8	22.8
P/BV (x)	53.1	53.6	43.0	43.0	43.0
P/NTA (x)	(12.0)	(13.7)	(10.7)	(10.5)	(10.3)
Net dividend yield (%)	3.8	3.4	3.6	4.4	4.4
FCF yield (%)	6.0	5.9	6.3	6.8	6.9
EV/EBITDA (x)	12.1	12.8	10.7	10.6	10.5
EV/EBIT (x)	20.7	22.3	18.2	17.9	17.9
INCOME STATEMENT (MYR m)					
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
BALANCE SHEET (MYR m)					
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
Total assets	8,185.7	7,839.8	7,965.7	7,989.2	7,995.9
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
Total Liabilities	7,579.9	7,207.0	7,332.9	7,356.4	7,363.1
Shareholders Equity	605.9	632.8	632.8	632.8	632.8
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	605.9	632.8	632.8	632.8	632.8
Total liabilities and equity	8,185.7	7,839.8	7,965.7	7,989.2	7,995.9
CASH FLOW (MYR m)					
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
Key Ratios					
Growth ratios (%)					
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
Profitability ratios (%)					
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
DuPont analysis					
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
Liquidity & Efficiency					
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
Leverage & Expense Analysis					
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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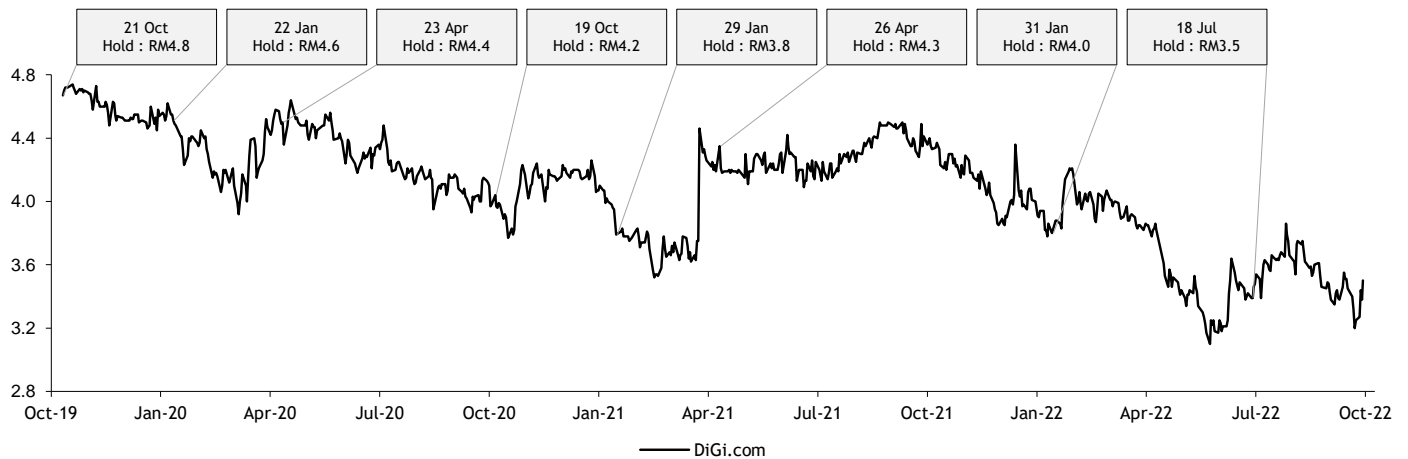
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