

Converge ICT Solutions Inc. (CNVRG PM)

Bargain stock with improving metrics

Net adds improving; maintain BUY

CNVRG's 1H23 net income of PHP4.3b (+8.5% YoY) is within our/consensus estimates and 2Q23 net subscriber adds saw a 15% QoQ improvement to 49.3k. While this is over 3x the net adds in 2Q22, residential subscriber churn remains elevated at 2.0% (1Q23: 1.9%), prompting us to raise our provisions forecast by 17.3%, resulting in a 6.0% cut to our FY23E earnings estimate. We also cut our FY24E earnings forecast by 6% to reflect higher depreciation costs arising from CNVRG's higher FY24 capex guidance of PHP15-17b (MIBG: PHP12b). Our lower earnings forecast reduces our rolled-forward DCF-TP slightly to PHP14.30/sh (-1.2%). Despite this, at current levels, we believe that CNVRG is undervalued at >1SD below the mean (6x EV/EBITDA), particularly as we expect net income to rise by 15%/13% in FY23/24E. As of end-Sep, CNVRG already has 2m subs, inline our expectations. Maintain BUY.

Prepaid picking up; cheaper brand introduced

Net adds for CNVRG's *Surf2Sawa* prepaid product reached 25.1k (+76% QoQ) in 2Q23 and accounted for 51% of total net adds. While growth appears promising, trends are still inconclusive as this segment directly competes with GLO's and TEL's wireless broadband segment, where both are growing aggressively as well. *Surf2Sawa* and its PHP888 for 35Mbps offer (launched in Jun) should boost CNVRG's subscriber count at the expense of ARPU, which we expect to fall 2.5%/3% in FY23/24E.

Enterprise is strongest income driver

The enterprise segment, which grew revenue 26% YoY in 1H23, continued to be the fastest revenue growth driver due to the 34.2% YoY growth in its SME-centric subscriber base. We expect CNVRG to continue posing double-digit enterprise revenue growth in FY24E (+14% YoY), particularly due to higher bandwidth from international cables which come online next year.

Revising our dividend payout assumption to 25%

Given CNVRG's higher capex target for FY24E in relation to IRU payments for its international cables, we cut our dividend payout assumption to 25%, implying a FY24E dividend yield of 3.4%. Note that TEL's and GLO's initial payout ratios stood at 10% (1992) and 25% (2003), respectively.

FYE Dec (PHP m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	26,477	33,694	33,583	36,221	40,163
EBITDA	13,600	18,146	19,361	21,575	24,193
Core net profit	6,634	7,440	8,531	9,687	11,282
Core EPS (PHP)	0.91	1.02	1.17	1.33	1.55
Core EPS growth (%)	50.7	12.2	14.7	13.6	16.5
Net DPS (PHP)	0.00	0.00	0.00	0.29	0.40
Core P/E (x)	34.9	15.5	8.4	7.4	6.3
P/BV (x)	6.6	3.2	1.6	1.4	1.2
Net dividend yield (%)	0.0	0.0	0.0	3.0	4.1
ROAE (%)	21.1	20.9	21.1	20.0	20.0
ROAA (%)	9.7	8.3	8.4	8.8	9.5
EV/EBITDA (x)	18.2	8.1	5.2	4.7	4.1
Net gearing (%) (incl perps)	33.5	77.6	57.9	53.3	41.8
Consensus net profit	-	-	8,411	8,779	9,869
MIBG vs. Consensus (%)	-	-	1.4	10.3	14.3

Rachelleen Rodriguez, CFA
rachelleen.rodriquez@maybank.com
(63) 2 8849 8843

BUY

Share Price	PHP 9.85
12m Price Target	PHP 14.30 (+48%)
Previous Price Target	PHP 14.50

Company Description

Converge ICT is the largest pure play high speed fixed broadband operator in the Philippines.

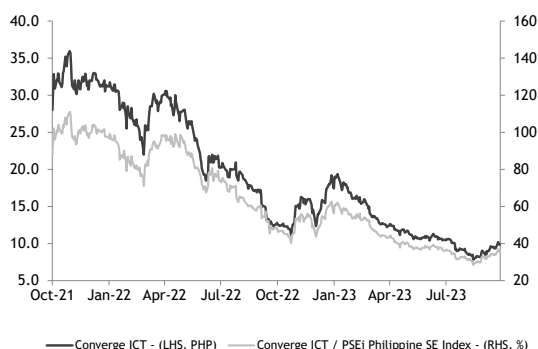
Statistics

52w high/low (PHP)	19.38/7.77
3m avg turnover (USDm)	0.9
Free float (%)	30.9
Issued shares (m)	7,266
Market capitalisation	PHP71.6B USD1.3B

Major shareholders:

UY FAMILY /CONVERGE/	66.0%
Converge Information & Communications Te	3.6%
WP XII Financial Investments Cooperatief	3.1%

Price Performance



	-1M	-3M	-12M
Absolute (%)	12	(6)	(21)
Relative to index (%)	10	(2)	(26)

Source: FactSet

Acronyms used

IRU: Indefeasible right of use
ARPU: Average revenue per user
FTTH: Fibre-to-the-home
HFC: Hybrid fibre coaxial
SME: Small and medium-sized enterprise

Stocks mentioned:

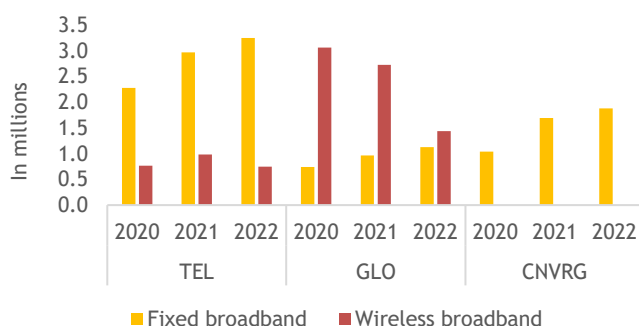
GLO: Globe Telecom, Inc. (CP: PHP1,794, BUY, TP: PHP2,470)
TEL: PLDT Inc. (CP: PHP1,217, BUY, TP: PHP1,978)

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Tear Sheet Insert

Value Proposition

- CNVRG is the largest pure play high-speed fixed broadband operator in the Philippines.
- Residential subs increased by 11% YoY in FY22 to 1.9m. CNVRG has the 2nd largest fixed-line subscriber share following TEL.
- Owns and operates end-to-end fibre network, reaching 14.9m homes, comprising of FTTH and HFC, and covering 56.2% of households as of FY22.
- Enterprise clients grew by 45% in FY22 to 37,742, driven by strong demand from the SME segment. Revenues for this segment grew by 26% in FY22.

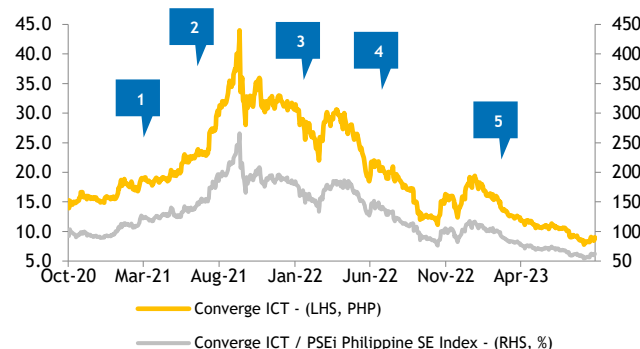
Fixed line and wireless broadband subscribers (in millions)



Source: Company

Price Drivers

Historical share price trend



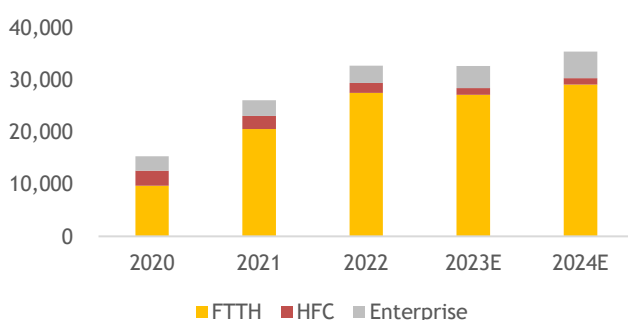
Source: Company, Maybank IBG Research

1. News reports Converge in talks with Starlink for potential partnership.
2. Fibre backbone lands in Cebu and Mindanao, expanding Converge's exposure outside Luzon.
3. Expiration of lock up of Coherent Cloud (CC) shares. CC owned 15.8% of CNVRG shares from the IPO listing.
4. Coherent Cloud fully exits CNVRG.
5. FY22 earnings fell below estimates.

Financial Metrics

- Revenues grew 27% in FY22, driven by robust growth in both residential and enterprise. We forecast 2% revenue growth in FY23E given a still weak outlook for fixed line. On a positive note, we expect enterprise to post 20% revenue growth.
- We expect residential revenues to stay flat in FY23E. While we expect fibre subscribers to rise by 9%, this will be offset by the expected reduction in HFC subscribers.
- EBITDA margin to stay in the high 50s as higher margin FTTH business increases its contribution and leased line costs decrease as it completes its network rollout.

Revenue segments (in PHPm)



Source: Company

Swing Factors

Upside

- Faster than expected port rollout, leading to increase in homes coverage to help sustain customer acquisition.
- Sustained subscriber adds in new locations in the island of Luzon, and potential expansion in Visayas in Mindanao upon the completion of the network backbone.
- Further market share gains from other internet providers.

Downside

- Reactionary competitive tactics from larger telcos could lead to ARPU compression.
- Delay in completion on nationwide backbone could push-back expansion in areas outside Luzon island.
- Faster adoption of 5G technology could curtail demand for broadband connections.

rachelleen.rodriguez@maybank.com

Risk Rating & Score¹	22.7 (Medium risk)
Score Momentum²	N/A
Last Updated	13 Apr 2023
Controversy Score³ (Updated: 27 Dec 2022)	0

Business Model & Industry Issues

- Major S issues of telco companies relate to digital inclusion and data protection, and can be well-managed from an operational standpoint. Converge is starting to baseline their sustainability metrics, following SEC's reporting requirements.
- CNVRG's fibre optic network provides them with inherent energy advantages over traditional copper networks maintained by local peers as they expend less energy to transmit data, thus requiring fewer cooling and control systems.
- The founder's vision to provide high speed internet access to underserved populations is in line with the increasing reliance on the internet to allow access to work, retail, entertainment, and education, during the pandemic.
- We think they can mitigate this S risk as they are now building a backup data centre in Cebu and improving their service responsiveness as their subscribers continue to increase.

Material E issues

- CNVRG's existing fibre network expends significantly less energy compared to traditional copper lines. Copper lines take up to 3.5 watts to transmit light pulses over 100 meters, vs 1 watt for fibre optic cables.
- FTTH or fibre optic cables are 85% more energy efficient than copper as it has lower cooling system requirements and fewer central nodes as they generate less heat.
- Converge is compliant with environmental regulations. Its planned nationwide submarine cable network linking the major island groups of the country, will require an environmental compliance certificate prior to rollout.
- In 2022, CNVRG was able to reduce GHG emissions by 7.6k tCO₂e from its conservation efforts, particularly driven by the renewable energy switch of their data centers in Pasig and Clark.

Material S issues

- CNVRG was established with a vision to provide high-speed fixed broadband access to millions of unserved and underserved households in the Philippines.
- Headcount comprise 1,071 female (23%) and 3,494 male (77%) employees. Total turnover stood at 23%, with voluntary turnover rate at 10%.
- During the pandemic, CNVRG provided the government's Inter-Agency Task Force with fibre internet connection, to allow for the fast and timely dissemination of information between the agencies and the public.
- The company has also provided free fibre internet service to the state university's scholars in Luzon who are in need of support with the new mode of online learning.
- Continuously ramping up capability to respond to customers due to a surge of inquiries and service requests as internet use spiked during the pandemic.
- It is a member of the Internet Watch Foundation which aims to stop sexual abuse against children

Key G metrics and issues

- CNVRG has 7 board members, composed of 4 independent directors (57%), 1 non-executive directors (14%), and 2 executive directors (29%).
- Two of its members have served on the board since the company's inception as the co-founders.
- Dennis Anthony H. Uy and Maria Grace Y. Uy both executive directors, are spouses and co-founders of the firm.
- The audit, corporate governance, board risk & related party transactions, and corporate governance committees are chaired by an independent director.
- CNVRG established a Sustainability Council, which is under the Board's Risk Oversight Committee.
- There are two female member on the board (29%).
- In 2022, the CEO and key management officers received PHP115.7m in salaries and other variable pay (1.6% of earnings). All other officers as a group, received PHP26.2m (0.4% of earnings).
- PWC (Isla Lipana) has been the external auditor since 2016. The current audit partner has served since 2018.
- Related-party transactions entered at arm's length agreements are limited to real estate leases and service agreements with affiliates Comclark, and a services agreement with Pacific Kabelnet Holdings Co (PKN).
- CNVRG typically participates in competitive bidding for government-related projects and accounts, typically comprising 10-15% of enterprise revenues, OR 2-4% of total revenues.

¹Risk 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. **²Score 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. **³Controversy 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).

Quantitative Parameters (Score: 12)							
	Particulars	Unit	2019	2020	2021	GLO	TEL
E	Scope 1	k tCO2e	NA	2.4	4.9	49.8	43.4
	Scope 2	k tCO2e	NA	12.1	7.2	522.9	607.3
	Total	k tCO2e	NA	14.4	12.1	572.7	650.7
	Scope 3	k tCO2e	NA	NA	NA	NA	1037.3
	Total	k tCO2e	NA	14.4	12.1	572.7	650.7
	Scope 1+2 emission intensity	tCO2e/PHP m rev	NA	0.92	0.45	3.8	3.3
	Energy intensity	GJ/PHP m rev	NA	6.08	5.63	17.3	18.4
	Green energy share of power usage	%	NA	NA	3.6%	NA	NA
	Water recycled as % of usage	%	NA	NA	NA	6.6%	NA
	% of recycled material used	%	NA	2.0%	4.0%	NA	NA
	% of green towers to total	%	NA	NA	NA	NA	NA
	% of subscribers impacted by data breaches	%	0%	0%	0%	0%	0%
S	% of women in workforce	%	NA	28.5%	26.0%	45.2%	34.8%
	% of women in management roles	%	NA	NA	NA	76.0%	65.1%
	Lost time injury frequency rate	%	NA	NA	NA	NA	0.32
	Employee turnover	%	NA	31%	24%	11%	8%
	% of subscribers impacted by data breaches	%	0%	0%	0%	0%	0%
G	CEO and top officers salary as % of net profit	%	2.8%	8.9%	3.1%	1.0%	0.9%
	All other officers salary as % of profit	%	0.3%	0.7%	0.7%	14.60%	4.2%
	Independent director tenure <10 years	%	42.9%	42.9%	42.9%	100%	100%
	Women directors on board	%	14.0%	14.3%	14.3%	9.1%	23%

Qualitative Parameters (Score: 67)	
a) is there an ESG policy in place and whether there is a standalone ESG Committee or is it part of Risk committee?	<i>Yes, there is an ESG policy in place. CNVRG established a Sustainability Council, which is under the Board's Risk Oversight Committee</i>
b) is the senior management salary linked to fulfilling ESG targets?	<i>No</i>
c) Does the company follow TCFD framework for ESG reporting?	<i>Not yet, but CNVRG is already taking initial steps to include TCFD recommended disclosures in its SEC form 17Q/17As. They also updated their enterprise risk profile to include climate risk.</i>
d) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	<i>Not yet, but CNVRG is exploring developing other relevant goals regarding emissions that occur in their value chain.</i>
e) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>CNVRG formed alliances with various non-government organizations for recycling and transforming waste to fertilizers. CNVRG also switched its Pasig headquarters and Data Center in Clark, Pampanga, to 100% renewable energy.</i>
f) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>By 2024, it plans completion of 3-year reforestation program for Angeles City: 2 hectares (4,000 seedlings)</i>

Target (Score: 100)		
Particulars	Target	Achieved
75% Scope 2 GHG emission reduction by 2030	-75%	NA
Net Zero GHG emissions by	2050	NA
Increase use of EV/Hybrid vehicles used by 2030 and 100% by 2050	20-100%	NA
Zero waste to landfill target by 2030	Zero	NA
Increase % of employees over 50 by 2025 to	10%	6%
Increase % of female employees by 2025 to	30%	26%
Impact		
NA		
Overall Score: 48		
As per our ESG matrix, Converge ICT, Inc. (CNVRG PM) has an overall score of 48.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	12	6
Qualitative	25%	67	33
Target	25%	100	50
Total			48

CNVRG has done a great deal of improvement in its sustainability targets as it launched its first sustainability report in 2021 with the target to be TCFD compliant in the medium term. Areas of improvement would be in improving employee diversity and turnover.

1. 1H23 earnings in line with forecasts

CNVRG reported 2Q23 net income of PHP2.3b, up 16.4% YoY (+6% QoQ), helping to lift 1H23 net income 8.5% YoY to PHP4.3b, in line with our and consensus estimates at 47%/50% of full-year forecasts.

Fig 1: 1H23 earnings vs forecast

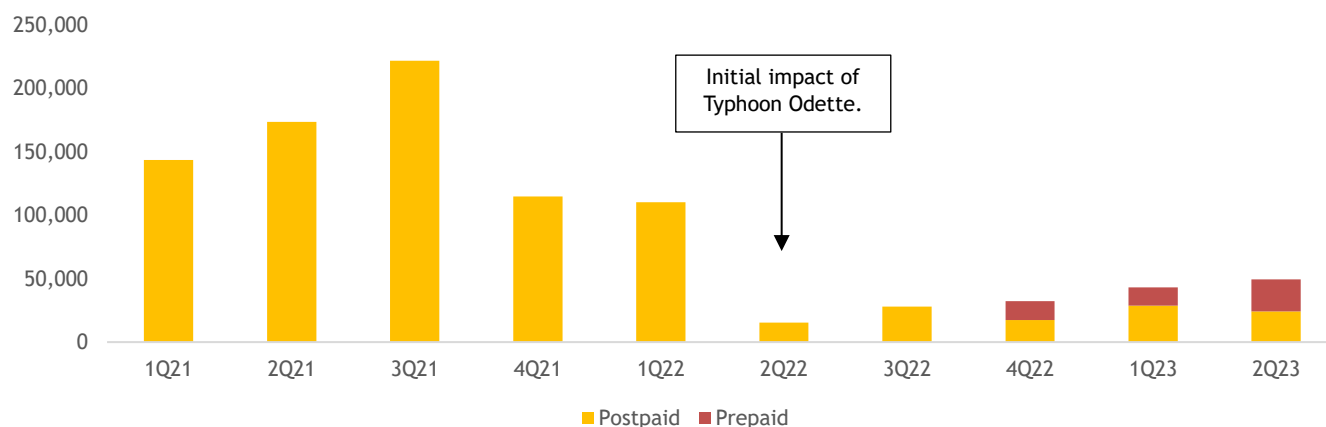
PHP m	2Q23	2Q22	% YoY	1Q23	% QoQ	1H23	1H22	% YoY	MIBG FY23e	% of FY23e
FTTH revenues	7,470	6,800	9.9%	7,089	5.4%	14,270	13,099	8.9%	27,603	51.7%
HFC revenues	133	472	(71.8%)	311	(57.2%)	605	985	(38.6%)	1,342	45.1%
Enterprise revenues	1,452	1,035	40.3%	1,243	16.8%	2,487	1,970	26.2%	5,077	49.0%
Gross revenues	9,055	8,307	9.0%	8,643	4.8%	17,362	16,054	8.1%	34,022	51.0%
Cost of services	(2,362)	(3,309)	(28.6%)	(2,813)	(16.0%)	(5,671)	(6,330)	(10.4%)	(11,197)	50.6%
Gross profit	6,693	4,998	33.9%	5,830	14.8%	11,691	9,724	20.2%	22,825	51.2%
GAEx	(2,002)	(1,640)	22.1%	(1,834)	9.2%	(3,642)	(3,077)	18.4%	(7,215)	50.5%
Provisions	(704)	(436)	61.5%	(431)	63.3%	(1,140)	(808)	41.1%	(1,531)	74.5%
Other income (loss), net	(100)	(87)	14.9%	(156)	(35.9%)	(187)	(117)	59.8%	(300)	62.3%
Profit from operations	3,887	2,835	37.1%	3,409	14.0%	6,722	5,722	17.5%	13,780	48.8%
Financial costs	(649)	(443)	46.5%	(533)	21.8%	(1,092)	(686)	59.2%	(1,989)	54.9%
Profit before income tax	3,238.0	2,392	35.4%	2,876	12.6%	5,630	5,036	11.8%	11,791	47.7%
Income tax expense	(933.0)	(412)	126.5%	(702)	32.9%	(1,345)	(1,086)	23.8%	(2,712)	49.6%
Net profit	2,305.0	1,980	16.4%	2,174	6.0%	4,285	3,950	8.5%	9,079	47.2%
EBITDA	5,428.0	4,628	17.3%	5,172	4.9%	10,056	9,186	9.5%	20,938	48.0%
EBITDA margin	59.9%	55.7%		59.8%		57.9%	57.2%		56.7%	

Source: Maybank IBG Research

Other 1H23 results snippets

- **EBITDA** grew 9.5% YoY to PHP10.1b. EBITDA margin stood at 57.9%.
- **Net adds** (FTTH and HFC) in 2Q23 was at 49.3k, bringing total residential subs to 1.97m, up 8.4% YoY. The lower-cost postpaid flanker brand Bida Fiber2 (PHP888) had net adds of 9.6k or more than 14x its contribution in 1Q23. The Surf2Sawa subsegment (prepaid) contributed 25.1k net adds during 2Q23. Total Surf2Sawa subs are now at 54.2k. FTTH and HFC churn for 2Q23 is at 2.12% and 1.19% (combined at 2.04%), up from 1Q23 churn of 2.09% and 1.16% (combined at 1.89%).
- **Residential revenues** saw 5.6% YoY growth. ARPU dropped by 0.9% QoQ for residential to PHP1,208.
- **Enterprise revenues** are up by 26.2% in 1H23, driven by 34.2% YoY growth in enterprise subscribers, mostly from the SME segment. SME saw 41.5% YoY revenue growth, followed by wholesale segment growth at 28.6% YoY and large enterprise at 18.5% YoY growth.
- **Operating costs** (cost of services) grew by 10.4% YoY, driven by repairs & maintenance, rent and utilities. Network materials costs decreased by 92.4% YoY due to a change in accounting policy, while bandwidth cost dropped by 35.4% YoY as CNVRG drew down on its international capacity from Telstra.
- **Capex** reached PHP3.2b, representing 21% of our FY forecast. Homes passed as of 1H23 is at 16.6m, translating to a household coverage of 62.3%.

Fig 2: Quarterly net subscriber adds



Source: Company

2. Forecast revisions

Fig 3: Summary of FY23/24E forecast changes

PHP m	FY23E (Old)	FY23E (New)	% Change	FY24E (Old)	FY24E (New)	% Change	Remarks
FTTH revenues	27,603	27,185	(1.5%)	29,651	29,202	(1.5%)	We slightly lowered our ARPU forecasts to factor in the impact of the new cheaper Plan 888 and fast growth in prepaid.
HFC revenues	1,342	1,321	(1.5%)	1,288	1,230	(4.6%)	Lower HFC revenue forecast due to faster than expected subscriber churn.
Enterprise revenues	5,077	5,077	0.0%	5,762	5,790	0.5%	
Gross revenues	34,022	33,583	(1.3%)	36,701	36,221	(1.3%)	
Cost of services	(11,196)	(11,307)	1.0%	(12,037)	(12,310)	2.3%	Higher FY24E costs due to higher depreciation from our higher capex forecast.
Gross profit	22,825	22,276	(2.4%)	24,664	23,911	(3.1%)	
GAEx	(7,215)	(7,130)	(1.2%)	(7,780)	(7,687)	(1.2%)	
Provisions and others	(1,831)	(2,147)	17.3%	(1,768)	(1,749)	(1.1%)	
Profit from operations	13,780	12,999	(5.7%)	15,115	14,475	(4.2%)	
Financial costs	(1,989)	(1,920)	(3.5%)	(1,818)	(1,913)	5.2%	Higher interest costs due to higher borrowing estimates due to increased capex.
Profit before tax	11,791	11,079	(6.0%)	13,297	12,562	(5.5%)	
Income tax expense	(2,712)	(2,548)	(6.0%)	(3,062)	(2,893)	(5.5%)	
Net profit	9,079	8,531	(6.0%)	10,235	9,669	(5.5%)	
EBITDA	20,938	19,857	(5.2%)	22,801	22,071	(3.2%)	

Source: Maybank IBG Research

3. Slightly lower TP at PHP14.30; maintain BUY

Our lower earnings forecast reduces our rolled-forward DCF-TP slightly to PHP14.30/sh (-1.2%).

At current levels, we believe that CNVRG is undervalued at >1SD below the mean (6x EV/EBITDA), particularly as we expect net income to rise by 15%/13% in FY23/24E. Maintain BUY. We expect upside could be realizable should CNVRG continually see improving residential net adds and post double-digit growth in enterprise.

Fig 4: TP computation

	Old TP	New TP	% Change
FCFF	41,576	38,456	-7.5%
Terminal value	128,150	128,310	0.1%
Enterprise value	154,277	166,766	8.1%
Net debt	14,079	27,827	97.7%
Equity value (PHPm)	140,199	138,939	(0.9%)
Weighted ave. shares outstanding (m)	7,266	7,266	0.0%
Target price before discount (PHP/sh)	19.3	19.1	(1.0%)
CG discount (25%)	4.8	4.8	(1.0%)
Target price (PHP/sh)	14.5	14.3	(1.2%)
Implied FY23E EV/EBITDA		6.2x	
Implied FY24E EV/EBITDA		5.6x	
2023F PER @ TP		12.2x	
2024F PER @ TP		10.7x	

Source: Maybank IBG Research

Fig 5: CNVRG 3-yr EV/EBITDA



Source: Bloomberg

Fig 6: Peer comparison

Stock	Mkt cap (USDm)	Rating	Price	TP	Upside (%)	P/E (x)		P/B (x)		Div yld (%)	
						22E	23E	22E	23E	22E	23E
TEL	4,628	Buy	1,217	1,978.0	70.3%	8.0	7.6	2.1	1.9	8.6	7.8
GLO	4,537	Buy	1,794	2,470.0	43.7%	13.6	12.8	3.0	2.9	6.0	6.0
CNVRG	1,260	Buy	9.9	14.3	48.2%	8.4	7.4	1.6	1.4	0.0	3.0

Source: FactSet

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	27.0	21.2	8.4	7.4	6.3
Core P/E (x)	34.9	15.5	8.4	7.4	6.3
P/BV (x)	6.6	3.2	1.6	1.4	1.2
P/NTA (x)	nm	nm	nm	9.9	4.9
Net dividend yield (%)	0.0	0.0	0.0	3.0	4.1
FCF yield (%)	nm	nm	6.1	3.8	11.0
EV/EBITDA (x)	18.2	8.1	5.2	4.7	4.1
EV/EBIT (x)	26.0	12.7	7.7	7.1	6.1

INCOME STATEMENT (PHP m)

Revenue	26,477.0	33,694.0	33,583.1	36,220.9	40,162.6
EBITDA	13,600.0	18,146.0	19,360.7	21,574.5	24,192.6
Depreciation	(4,085.0)	(6,557.6)	(6,361.8)	(7,085.0)	(7,743.8)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	9,515.0	11,588.4	12,998.8	14,489.5	16,448.8
Net interest income /(exp)	(486.0)	(1,732.0)	(1,920.0)	(1,913.0)	(1,802.3)
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	9,029.0	9,856.4	11,078.8	12,576.5	14,646.4
Income tax	(2,395.0)	(2,416.0)	(2,548.1)	(2,889.2)	(3,364.9)
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	6,634.0	7,440.4	8,530.7	9,687.2	11,281.6
Core net profit	6,634.0	7,440.4	8,530.7	9,687.2	11,281.6

BALANCE SHEET (PHP m)

Cash & Short Term Investments	8,083.9	10,214.1	13,839.4	11,729.5	11,947.4
Accounts receivable	3,033.7	3,337.1	3,700.9	3,991.6	4,426.0
Inventory	3,484.9	4,385.1	6,125.7	7,900.2	9,674.7
Property, Plant & Equip (net)	48,341.0	62,534.0	68,573.6	76,672.6	83,750.3
Intangible assets	1,968.6	2,384.6	2,722.7	3,205.4	3,606.7
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	15,682.4	15,243.4	11,195.4	10,439.3	9,763.6
Total assets	80,594.5	98,098.3	106,157.7	113,938.6	123,168.7
ST interest bearing debt	2,999.2	3,239.6	7,940.4	7,911.4	1,000.0
Accounts payable	18,598.4	17,055.4	15,583.6	16,057.1	19,181.0
LT interest bearing debt	16,847.0	35,000.2	31,761.5	31,645.5	36,268.2
Other liabilities	8,308.0	6,692.0	6,232.0	6,144.0	6,168.0
Total Liabilities	46,753.0	61,987.5	61,517.1	61,757.9	62,616.9
Shareholders Equity	35,110.7	36,110.8	44,640.4	52,180.4	60,551.4
Minority Interest	0.3	0.3	0.3	0.3	0.3
Total shareholder equity	35,111.0	36,111.1	44,640.7	52,180.7	60,551.7
Total liabilities and equity	81,864.0	98,098.6	106,157.8	113,938.6	123,168.6

CASH FLOW (PHP m)

Pretax profit	9,029.0	9,856.4	11,078.8	12,576.5	14,646.4
Depreciation & amortisation	4,085.0	6,557.6	6,361.8	7,085.0	7,743.8
Adj net interest (income)/exp	486.0	1,732.0	1,920.0	1,913.0	1,802.3
Change in working capital	(95.4)	(1,755.6)	(532.6)	(1,586.9)	959.1
Cash taxes paid	(1,786.3)	(2,597.3)	(2,732.4)	(2,804.0)	(3,245.9)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	11,718.2	13,793.1	16,095.6	17,197.8	21,912.1
Capex	(23,816.0)	(19,446.0)	(11,754.1)	(14,488.4)	(14,056.9)
Free cash flow	(12,097.8)	(5,652.9)	4,341.5	2,709.5	7,855.2
Dividends paid	0.0	0.0	0.0	(2,132.7)	(2,905.2)
Equity raised / (purchased)	0.0	(6,261.5)	0.0	0.0	0.0
Change in Debt	8,532.4	18,393.5	1,462.1	(145.0)	(2,288.6)
Other invest/financing cash flow	(1,308.1)	(4,349.0)	(2,076.3)	(2,512.6)	(2,439.4)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(4,873.5)	2,130.1	3,625.4	(2,109.9)	217.9

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	69.2	27.3	(0.3)	7.9	10.9
EBITDA growth	80.0	33.4	6.7	11.4	12.1
EBIT growth	86.7	21.8	12.2	11.5	13.5
Pretax growth	85.1	9.2	12.4	13.5	16.5
Reported net profit growth	95.8	12.2	14.7	13.6	16.5
Core net profit growth	95.8	12.2	14.7	13.6	16.5
Profitability ratios (%)					
EBITDA margin	51.4	53.9	57.6	59.6	60.2
EBIT margin	35.9	34.4	38.7	40.0	41.0
Pretax profit margin	34.1	29.3	33.0	34.7	36.5
Payout ratio	0.0	0.0	0.0	22.0	25.8
DuPont analysis					
Net profit margin (%)	25.1	22.1	25.4	26.7	28.1
Revenue/Assets (x)	0.3	0.3	0.3	0.3	0.3
Assets/Equity (x)	2.3	2.7	2.4	2.2	2.0
ROAE (%)	21.1	20.9	21.1	20.0	20.0
ROAA (%)	9.7	8.3	8.4	8.8	9.5
Liquidity & Efficiency					
Cash conversion cycle	(415.8)	(338.2)	(314.5)	(219.3)	(194.2)
Days receivable outstanding	35.4	34.0	37.7	38.2	37.7
Days inventory outstanding	94.5	105.4	167.3	205.1	230.8
Days payables outstanding	545.7	477.6	519.6	462.7	462.7
Dividend cover (x)	nm	nm	nm	4.5	3.9
Current ratio (x)	0.7	0.9	1.0	1.0	1.2
Leverage & Expense Analysis					
Asset/Liability (x)	1.7	1.6	1.7	1.8	2.0
Net gearing (%) (incl perps)	33.5	77.6	57.9	53.3	41.8
Net gearing (%) (excl. perps)	33.5	77.6	57.9	53.3	41.8
Net interest cover (x)	19.6	6.7	6.8	7.6	9.1
Debt/EBITDA (x)	1.5	2.1	2.1	1.8	1.5
Capex/revenue (%)	89.9	57.7	35.0	40.0	35.0
Net debt/ (net cash)	11,762.3	28,025.7	25,862.4	27,827.4	25,320.9

Source: Company; Maybank IBG Research

Research Offices

ECONOMICS

Suhaimi ILIAS
Chief Economist
Malaysia | Philippines | Global
(603) 2297 8682
suhaimi_ili@maybank-ib.com

CHUA Hak Bin
Regional Thematic Macroeconomist
(65) 6231 5830
chuahb@maybank.com

Dr Zamros DZULKAFLI
Malaysia | Philippines
(603) 2082 6818
zamros.d@maybank-ib.com

Erica TAY
China | Thailand
(65) 6231 5844
erica.tay@maybank.com

Brian LEE Shun Rong
Indonesia | Singapore | Vietnam
(65) 6231 5846
brian.lee1@maybank.com

Fatin Nabila MOHD ZAINI
(603) 2297 8685
fatinnabila.mohdzaini@maybank-ib.com

Luong Thu Huong
(65) 6231 8467
hana.thu@maybank.com

FX

Saktiandi SUPAAT
Head of FX Research
(65) 6320 1379
saktiandi@maybank.com

Fiona LIM
(65) 6320 1374
fionalim@maybank.com

Alan LAU
(65) 6320 1378
alanlau@maybank.com

Shaun LIM
(65) 6320 1371
shaunlim@maybank.com

STRATEGY

Anand PATHMAKANTHAN
ASEAN
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

FIXED INCOME

Winson PHOON, FCA
Head of Fixed Income
(65) 6340 1079
winsonphoon@maybank.com

SE THO Mun Yi, CFA
(603) 2074 7606
munyi.st@maybank-ib.com

PORTFOLIO STRATEGY

ONG Seng Yeow
(65) 6231 5839
ongsengyeow@maybank.com

MIBG SUSTAINABILITY RESEARCH

Jigar SHAH
Head of Sustainability Research
(91) 22 4223 2632
jigars@maybank.com

Neerav DALAL
(91) 22 4223 2606
neerav@maybank.com

REGIONAL EQUITIES

Anand PATHMAKANTHAN
Head of Regional Equity Research
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

WONG Chew Hann, CA
Head of ASEAN Equity Research
(603) 2297 8686
wchewh@maybank-ib.com

MALAYSIA

Anand PATHMAKANTHAN *Head of Research*
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com
• Strategy

WONG Chew Hann, CA
(603) 2297 8686
wchewh@maybank-ib.com
• Equity Strategy
• Non-Bank Financials (stock exchange)
• Construction & Infrastructure

Desmond CH'NG, BFP, FCA
(603) 2297 8680
desmond.chng@maybank-ib.com
• Banking & Finance

ONG Chee Ting, CA
(603) 2297 8678
ct.ong@maybank-ib.com
• Plantations - Regional

YIN Shao Yang, CPA
(603) 2297 8916
samuel.y@maybank-ib.com
• Gaming - Regional
• Media • Aviation • Non-Bank Financials

TAN Chi Wei, CFA
(603) 2297 8690
chiwei.t@maybank-ib.com
• Power • Telcos

WONG Wei Sum, CFA
(603) 2297 8679
weisum@maybank-ib.com
• Property • Glove

Jade TAM
(603) 2297 8687
jade.tam@maybank-ib.com
• Consumer Staples & Discretionary

Nur Farah SYIFAA
(603) 2297 8675
nurfarahsyifaa.mohamadfuad@maybank-ib.com
• Renewable Energy • REITs

LOH Yan Jin
(603) 2297 8687
lohyanjin.loh@maybank-ib.com
• Ports • Automotive • Technology (EMS)

Arvind JAYARATNAM
(603) 2297 8692
arvind.jayaratnam@maybank.com
• Technology (Semicon & Software)

Jeremie YAP
(603) 2297 8688
jeremie.yap@maybank-ib.com
• Oil & Gas • Petrochemicals

TEE Sze Chiah *Head of Retail Research*
(603) 2082 6858
szechiah.t@maybank-ib.com
• Retail Research

Nik Ihsan RAJA ABDULLAH, MSTA, CFTE
(603) 2297 8694
nikmohdihsan.ra@maybank-ib.com
• Chartist

Amirah AZMI
(603) 2082 8769
amirah.azmi@maybank-ib.com
• Retail Research

SINGAPORE

Thilan WICKRAMASINGHE *Head of Research*
(65) 6231 5840
thilanw@maybank.com
• Banking & Finance - Regional
• Consumer

Eric ONG
(65) 6231 5849
ericong@maybank.com
• Healthcare • Transport • SMIDs

Kelvin TAN
(65) 6231 5837
kelvin.tan1@maybank.com
• Telcos • Industrials

LI Jialin
(65) 6231 5845
jialin.li@maybank.com
• REITs

Jarick SEET
(65) 6231 5848
jarick.seet@maybank.com
• Technology

Krishna GUHA
(65) 6231 5842
krishna.guha@maybank.com
• REITs

PHILIPPINES

Rachelleen RODRIGUEZ, CFA
(63) 2 8849 8843
rachelleen.rodriquez@maybank.com
• Banking & Finance • Transport • Telcos
• Utilities

Daphne SZE
(63) 2 8849 8847
daphne.sze@maybank.com
• Consumer

Alexa Mae CARVAJAL
(63) 2 8849 8838
alexamae.carvajal@maybank.com
• Consumer • Gaming • Property • REITs

THAILAND

Chak REUNGSINPINYA *Head of Research*
(66) 2658 5000 ext 1399
chak.reungsinpinya@maybank.com
• Strategy • Energy

Jesada TECHAHUSDIN, CFA
(66) 2658 5000 ext 1395
jesada.t@maybank.com
• Banking & Finance

Wasu MATTANAPOTCHANART
(66) 2658 5000 ext 1392
wasu.m@maybank.com
• Telcos • Technology • REITs
• Consumer Discretionary

Surachai PRAMUALCHAROENKIT
(66) 2658 5000 ext 1470
surachai.p@maybank.com
• Auto • Conmat • Contractor • Steel

Suttatip PEERASUB
(66) 2658 5000 ext 1430
suttatip.p@maybank.com
• Food & Beverage • Commerce

Natchaphon RODJANAROWAN
(66) 2658 5000 ext 1393
natchaphon.rodjanarowan@maybank.com
• Utilities

INDONESIA

Jeffro Rosenberg CHENLIM *Head of Research*
(62) 21 8066 8680
jeffro.rosenberg.lim@maybank.com
• Strategy • Banking & Finance • Property

Willy GOUTAMA
(62) 21 8066 8500
willy.goutama@maybank.com
• Consumer

Etta Rusdiana PUTRA
(62) 21 8066 8683
etta.putra@maybank.com
• Telcos • Internet • Construction

William Jefferson W
(62) 21 8066 8563
william.jefferson@maybank.com
• Property

Adi WICAKSONO
(62) 21 8066 8686
adi.wicaksono@maybank.com
• Plantations

Satriawan HARYONO, CEWA, CTA
(62) 21 8066 8682
satriawan@maybank.com
• Chartist

VIETNAM

Quan Trong Thanh *Head of Research*
(84 28) 44 555 888 ext 8184
thanh.quan@maybank.com
• Strategy • Banks

Hoang Huy, CFA
(84 28) 44 555 888 ext 8181
hoanghuy@maybank.com
• Strategy • Technology

Le Nguyen Nhat Chuyen
(84 28) 44 555 888 ext 8082
chuyen.le@maybank.com
• Oil & Gas • Logistics

Nguyen Thi Sony Tra Mi
(84 28) 44 555 888 ext 8084
trami.nguyen@maybank.com
• Consumer Discretionary

Tran Thi Thanh Nhan
(84 28) 44 555 888 ext 8088
nhan.tran@maybank.com
• Consumer Staples

Nguyen Le Tuan Loi
(84 28) 44 555 888 ext 8182
loi.nguyen@maybank.com
• Property

Nguyen Thanh Hai
(84 28) 44 555 888 ext 8081
thanhhai.nguyen@maybank.com
• Industrials

Nguyen Thanh Lam
(84 28) 44 555 888 ext 8086
thanhlam.nguyen@maybank.com
• Retail Research

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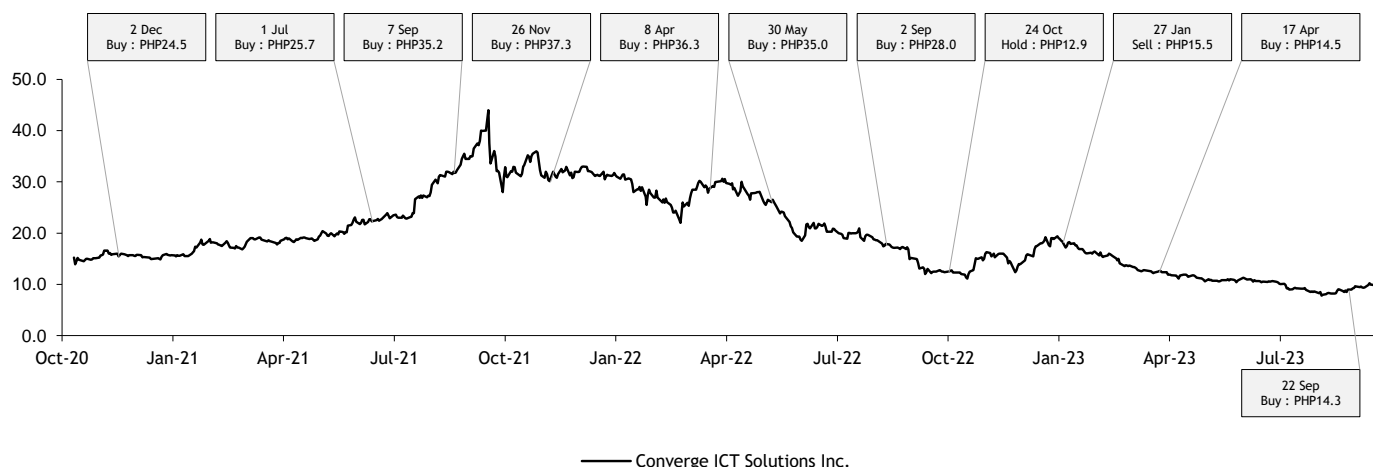
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Historical recommendations and target price: Converge ICT Solutions Inc. (CNVRG PM)



Definition of Ratings

Maybank IBG Research uses the following rating system

BUY	Return is expected to be above 10% in the next 12 months (including dividends)
HOLD	Return is expected to be between 0% to 10% in the next 12 months (including dividends)
SELL	Return is expected to be below 0% in the next 12 months (including dividends)

Applicability of Ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

Malaysia

Maybank Investment Bank Berhad
(A Participating Organisation of
Bursa Malaysia Securities Berhad)
33rd Floor, Menara Maybank,
100 Jalan Tun Perak,
50050 Kuala Lumpur
Tel: (603) 2059 1888;
Fax: (603) 2078 4194

Stockbroking Business:
Level 8, Tower C, Dataran Maybank,
No.1, Jalan Maarof
59000 Kuala Lumpur
Tel: (603) 2297 8888
Fax: (603) 2282 5136

Singapore

Maybank Securities Pte Ltd
Maybank Research Pte Ltd
50 North Canal Road
Singapore 059304

Tel: (65) 6336 9090

Indonesia

PT Maybank Sekuritas Indonesia
Sentral Senayan III, 22nd Floor
Jl. Asia Afrika No. 8
Gelora Bung Karno, Senayan
Jakarta 10270, Indonesia

Tel: (62) 21 2557 1188
Fax: (62) 21 2557 1189

Thailand

Maybank Securities (Thailand) PCL
999/9 The Offices at Central World,
20th - 21st Floor,
Rama 1 Road Pathumwan,
Bangkok 10330, Thailand

Tel: (66) 2 658 6817 (sales)
Tel: (66) 2 658 6801 (research)

London

Maybank Securities (London) Ltd
PNB House
77 Queen Victoria Street
London EC4V 4AY, UK

Tel: (44) 20 7332 0221
Fax: (44) 20 7332 0302

India

MIB Securities India Pte Ltd
1101, 11th floor, A Wing, Kanakia
Wall Street, Chakala, Andheri -
Kurla Road, Andheri East,
Mumbai City - 400 093, India

Tel: (91) 22 6623 2600
Fax: (91) 22 6623 2604

Vietnam

Maybank Securities Limited
Floor 10, Pearl 5 Tower,
5 Le Quy Don Street,
Vo Thi Sau Ward, District 3
Ho Chi Minh City, Vietnam

Tel : (84) 28 44 555 888
Fax : (84) 28 38 271 030

Hong Kong

**MIB Securities (Hong Kong)
Limited**
28/F, Lee Garden Three,
1 Sunning Road, Causeway Bay,
Hong Kong

Tel: (852) 2268 0800
Fax: (852) 2877 0104

Philippines

Maybank Securities Inc
17/F, Tower One & Exchange
Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines 1200

Tel: (63) 2 8849 8888
Fax: (63) 2 8848 5738

Sales Trading

Indonesia

Helen Widjaja
helen.widjaja@maybank.com
(62) 21 2557 1188

Philippines

Keith Roy
keith_roy@maybank.com
Tel: (63) 2 848-5288

London

Greg Smith
gsmith@maybank.com
Tel: (44) 207-332-0221

India

Sanjay Makhija
sanjaymakhija@maybank.com
Tel: (91)-22-6623-2629

www.maybank.com/investment-banking
www.maybank-keresearch.com