

CelcomDigi (CDB MK)

Improving risk-reward

Upgrade to BUY

CelcomDigi's risk-reward profile has turned more favourable, in our view, following the >15% share price decline in the past 3 months, as Malaysia's second 5G network comes closer to fruition. We believe 5G-capex risk is largely priced-in, and the stock could re-rate when merger synergies begin to manifest more meaningfully (possibly from FY25E onwards). Upgrade to BUY (from HOLD) with an unchanged DCF-based TP of MYR4.50.

5G capex risk priced-in

With some progress being made in recent months towards the setting up of a second 5G network, 5G capex risk has resurfaced for telcos. CelcomDigi has been hardest hit, losing >MYR8b of equity value in the past 3 months. The value erased is more than sufficient to fund a hypothetical participation into a consortium for the second 5G network, in our view (recall DNB had initially budgeted c.MYR12b for network / infrastructure costs).

Awaiting more meaningful realisation of synergies

Recall CelcomDigi's investment thesis had revolved mainly around realising the merger synergies - which are significant (c.MYR8b NPV over 5 years) but back-loaded. Integration works are still ongoing in FY24. We expect merger synergies to manifest more significantly from FY25 onwards, resulting in more meaningful earnings growth. Timeline wise, management should provide some guidance on FY25 synergies in the 4Q24 results briefing in Feb 2025.

Maintaining forecasts

Our earnings forecasts and MYR4.50 TP (DCF-based assuming 8.1% WACC and 2% LT growth) are unchanged. The process of splitting telcos' 5G participation into Entities A or B should soon begin (no verdict yet). The major mobile telcos have publicly declared a willingness to participate in the second 5G network. Longer term, we expect the respective 5G entities to eventually be equity-accounted for by the participating telcos.

FYE Dec (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	6,773	12,682	12,826	12,979	13,130
EBITDA	3,012	5,919	5,964	6,360	7,287
Core net profit	763	1,552	1,581	2,373	2,982
Core EPS (sen)	9.4	13.2	13.5	20.2	25.4
Core EPS growth (%)	(37.1)	40.8	1.8	50.1	25.7
Net DPS (sen)	12.2	13.2	12.8	18.2	22.9
Core P/E (x)	42.6	30.8	25.8	17.2	13.7
P/BV (x)	2.9	2.9	2.5	2.4	2.4
Net dividend yield (%)	3.1	3.2	3.7	5.2	6.6
ROAE (%)	9.1	9.5	9.6	14.3	17.7
ROAA (%)	3.4	4.2	4.3	6.5	8.1
EV/EBITDA (x)	15.4	10.2	8.9	8.4	7.3
Net gearing (%) (incl perps)	83.8	76.6	75.4	75.1	72.7
Consensus net profit	-	-	1,924	2,224	2,375
MIBG vs. Consensus (%)	-	-	(17.8)	6.7	25.6

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BUY

[Prior:HOLD]

Share Price MYR 3.47
12m Price Target MYR 4.50 (+33%)
Previous Price Target MYR 4.50

Company Description

CelcomDigi is a leading mobile telecommunication company in Malaysia.

Statistics

52w high/low (MYR)	4.50/3.47
3m avg turnover (USDm)	2.7
Free float (%)	22.7
Issued shares (m)	11,732
Market capitalisation	MYR40.7B USD8.6B

Major shareholders:

Axiata Group Bhd.	33.1%
Telenor ASA	33.1%
Employees Provident Fund	9.9%

Price Performance



— CelcomDigi - (LHS, MYR) — CelcomDigi / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	(15)	(18)	(19)
Relative to index (%)	(13)	(21)	(30)

Source: FactSet

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Tear Sheet Insert

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Risk Rating & Score¹	25.3 (Medium)
Score Momentum²	+1.2
Last Updated	27 Apr 2024
Controversy Score³ (Updated: 8 Nov 2023)	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).
- Coming on the back of a material merger, CelcomDigi’s is still developing its ESG strategy. CelcomDigi aspires to become a leading advocate for sustainability practices. Telenor, which is headquartered in a jurisdiction that arguably conforms to higher ESG standards, remains a major shareholder.

Material E issues

- Environmental risks are inherently less pertinent for telcos, with operations being neither energy nor emission intensive.
- CelcomDigi is working on setting company-wide emission reduction targets in line with science-based net-zero through the Science Based Targets initiative (SBTi) by 2025.
- Electricity consumption has also been optimised by adopting energy efficient hardware and best practices and by retiring legacy networks.
- CelcomDigi has installed 74 sites with hybrid solar technology and 33 sites with hybrid battery gensets.

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.
- CelcomDigi’s has a gender-balanced workforce with a male-female split of 52%-48%. Women make up 48% of the extended management team.

Key G metrics and issues

- CelcomDigi was formed by the merger of Celcom with Digi in 2022. Axiata and Telenor group each holds a 33% stake in the merged entity.
- The Board currently has 10 Directors, comprising 6 Non-Independent Directors (including Chairman, Axiata and Telenor appointees) and 4 Independent Directors.
- There are three women on the Board, reflecting a 30% female representation.
- Digi presently does not disclose remuneration details of senior management for confidentiality reasons.
- CelcomDigi has continued to be audited by Ernst & Young (Digi was 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).
- CelcomDigi remains proactive with capital management, having already exhausted its retained earnings (due to Digi’s payment of special dividends in the past). It now maintains a c.100% dividend payout ratio.
- CelcomDigi has not undertaken any material acquisitions since its formation.

¹**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. ²**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. ³**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).

Quantitative Parameters (Score: 23)						
	Particulars	Unit	2021	2022	2023	Maxis (MAXIS MK)
E	Scope 1 emissions	k tCO2e	10.34	16.01	53.67	4.28
	Scope 2 emissions	k tCO2e	196.78	262.93	467.84	319.84
	Scope 3 emissions	k tCO2e	0.33	0.85	0.28	N/A
	Total	k tCO2e	207.45	279.78	521.79	324.12
	Carbon intensity per data usage	tCO2e/TB	0.09	0.11	0.09	N/A
	Energy Usage per Data Terabyte (MWh)	MWh/TB	0.16	0.17	0.17	N/A
	Waste generated per employee	kg	103	51	182	N/A
% E-waste recycled	%	100.0%	98.8%	20.0%	N/A	
S	% of women in workforce	%	50.0%	47.9%	48.0%	41.4%
	% of women in management roles	%	45.0%	39.0%	41.0%	44.4%
	Average training hours per employee	Hours	52.6	46.5	17.9	26.0
	Lost time injury frequency (LTIF)	Number	0	0	0	1.70
G	Key management salary as % of net profit	%	1.5%	2.6%	N/A	2.8%
	Independent directors on the Board	%	50%	40%	40%	50%
	Customer satisfaction score	%	N/A	66%	70%	N/A
	Female directors on the Board	%	50%	30%	30%	20%

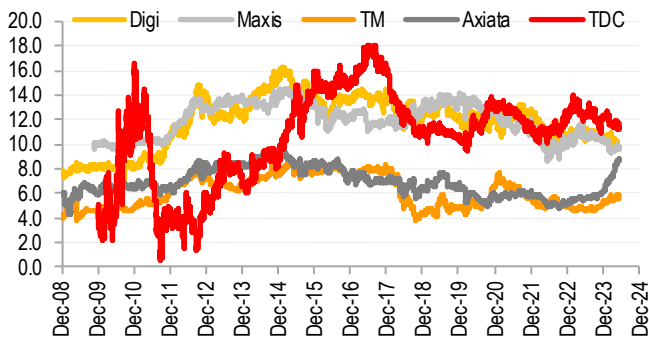
Qualitative Parameters (Score: 67)	
a) Is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?	<i>Yes, an ESG strategy was established in 2023. The Board Governance and Risk Management Committee oversees ESG matters.</i>
b) Is the senior management salary linked to fulfilling ESG targets?	<i>Not explicitly stated. CelcomDigi is nevertheless committed to integrating sustainability performance into its overarching business strategy.</i>
c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?	<i>Not yet. CelcomDigi plans to adopt the recommendations of the TCFD in phases.</i>
e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	<i>Yes. Currently only for employees' land travel for business purpose.</i>
f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>Optimise energy use of networks by adopting energy efficient hardware and best practices and by retiring legacy networks, installing 74 sites with hybrid solar technology and 33 sites with hybrid battery gensets.</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
Developed SBTi endorsed targets	2025	N/A
Net-zero carbon emissions by 2050	2050	N/A
Impact		
NA		
Overall Score: 53		
As per our ESG matrix, Digi has an overall score of 71.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	23	12
Qualitative	25%	67	17
Target	25%	100	25
Total			53

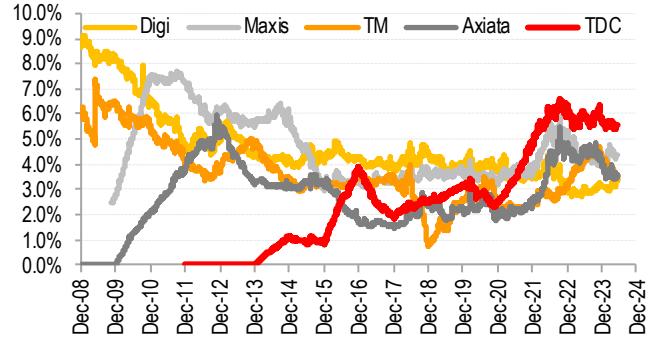
As per our ESG assessment, CelcomDigi has an established framework, internal policies, and tangible mid/long-term targets. CelcomDigi's overall ESG score is 53, which makes its ESG rating about average in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

EV/EBITDA - Malaysia telcos



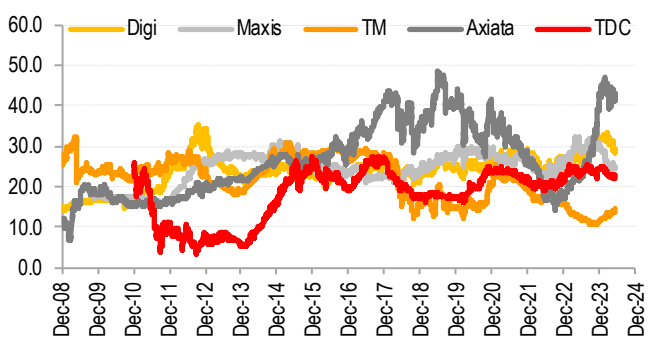
Source: Bloomberg, Maybank IBG Research

Net dividend yield - Malaysia telcos



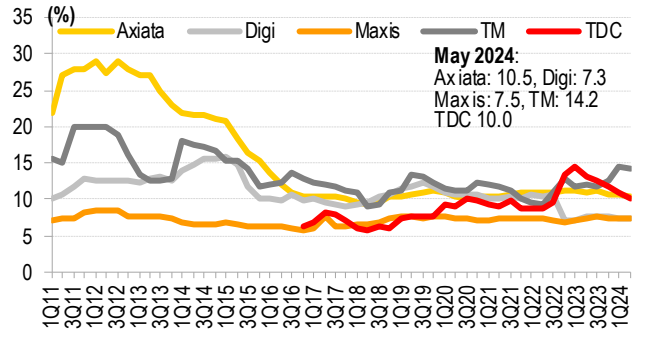
Source: Bloomberg, Maybank IBG Research

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 CelcomDigi. 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 CelcomDigi's earnings.

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	39.4	32.4	25.8	17.2	13.7
Core P/E (x)	42.6	30.8	25.8	17.2	13.7
P/BV (x)	2.9	2.9	2.5	2.4	2.4
P/NTA (x)	(4.8)	(5.3)	(4.5)	(4.6)	(4.8)
Net dividend yield (%)	3.1	3.2	3.7	5.2	6.6
FCF yield (%)	5.9	8.3	8.0	8.9	11.0
EV/EBITDA (x)	15.4	10.2	8.9	8.4	7.3
EV/EBIT (x)	31.5	22.5	19.4	13.9	11.4
INCOME STATEMENT (MYR m)					
Revenue	6,773.3	12,682.2	12,825.7	12,978.9	13,129.7
EBITDA	3,011.6	5,919.0	5,964.0	6,359.7	7,287.0
Depreciation	(1,544.7)	(3,230.1)	(3,221.6)	(2,522.5)	(2,597.5)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	1,466.8	2,688.9	2,742.3	3,837.1	4,689.5
Net interest income / (exp)	(248.5)	(539.0)	(569.0)	(564.2)	(570.0)
Associates & JV	0.0	31.0	31.0	31.0	31.0
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	1,218.4	2,180.9	2,204.4	3,304.0	4,150.5
Income tax	(454.7)	(614.0)	(608.5)	(916.4)	(1,153.5)
Minorities	(0.2)	(14.6)	(15.0)	(15.0)	(15.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	763.5	1,552.3	1,580.9	2,372.6	2,982.1
Core net profit	763.5	1,552.3	1,580.9	2,372.6	2,982.1
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	1,220.8	397.0	517.5	372.0	543.5
Accounts receivable	2,573.8	2,764.2	2,811.1	2,666.9	2,518.0
Inventory	164.4	246.7	253.0	239.0	183.5
Property, Plant & Equip (net)	6,408.8	6,127.3	6,021.5	6,316.1	6,237.1
Intangible assets	25,951.4	25,395.1	25,429.3	25,462.2	25,493.7
Investment in Associates & JVs	0.0	171.0	202.0	233.1	264.1
Other assets	1,223.5	1,325.6	1,325.6	1,325.6	1,325.6
Total assets	37,542.7	36,426.8	36,560.0	36,614.7	36,565.3
ST interest bearing debt	4,139.3	2,227.5	2,227.5	2,227.5	2,227.5
Accounts payable	4,096.7	4,862.8	4,901.9	4,704.4	4,341.8
LT interest bearing debt	10,747.9	10,769.4	10,769.4	10,769.4	10,769.4
Other liabilities	2,244.0	2,108.0	2,108.0	2,108.0	2,108.0
Total Liabilities	21,228.2	19,968.1	20,007.1	19,809.7	19,447.0
Shareholders Equity	16,211.7	16,347.7	16,426.8	16,664.0	16,962.2
Minority Interest	102.7	111.0	126.0	141.0	156.0
Total shareholder equity	16,314.4	16,458.8	16,552.8	16,805.1	17,118.3
Total liabilities and equity	37,542.7	36,426.8	36,560.0	36,614.7	36,565.3
CASH FLOW (MYR m)					
Pretax profit	1,218.4	2,180.9	2,204.4	3,304.0	4,150.5
Depreciation & amortisation	1,544.7	3,230.1	3,221.6	2,522.5	2,597.5
Adj net interest (income)/exp	248.5	539.0	569.0	564.2	570.0
Change in working capital	(258.2)	(475.2)	(14.2)	(39.2)	(158.2)
Cash taxes paid	(338.9)	(666.6)	(608.5)	(916.4)	(1,153.5)
Other operating cash flow	402.7	933.4	(31.0)	(31.0)	(31.0)
Cash flow from operations	2,817.2	5,741.7	5,341.2	5,404.0	5,975.3
Capex	(885.1)	(1,774.6)	(2,100.0)	(1,800.0)	(1,500.0)
Free cash flow	1,932.2	3,967.1	3,241.2	3,604.0	4,475.3
Dividends paid	(1,010.8)	(1,501.6)	(1,501.8)	(2,135.3)	(2,683.9)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	2,414.4	(1,221.8)	0.0	0.0	0.0
Other invest/financing cash flow	(2,319.2)	(2,061.6)	(1,619.0)	(1,614.2)	(1,620.0)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	1,016.6	(817.9)	120.4	(145.5)	171.4

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	6.9	87.2	1.1	1.2	1.2
EBITDA growth	0.0	96.5	0.8	6.6	14.6
EBIT growth	(15.2)	83.3	2.0	39.9	22.2
Pretax growth	(19.6)	79.0	1.1	49.9	25.6
Reported net profit growth	(34.3)	103.3	1.8	50.1	25.7
Core net profit growth	(34.3)	103.3	1.8	50.1	25.7
Profitability ratios (%)					
EBITDA margin	44.5	46.7	46.5	49.0	55.5
EBIT margin	21.7	21.2	21.4	29.6	35.7
Pretax profit margin	18.0	17.2	17.2	25.5	31.6
Payout ratio	129.8	99.8	95.0	90.0	90.0
DuPont analysis					
Net profit margin (%)	11.3	12.2	12.3	18.3	22.7
Revenue/Assets (x)	0.2	0.3	0.4	0.4	0.4
Assets/Equity (x)	2.3	2.2	2.2	2.2	2.2
ROAE (%)	9.1	9.5	9.6	14.3	17.7
ROAA (%)	3.4	4.2	4.3	6.5	8.1
Liquidity & Efficiency					
Cash conversion cycle	(479.3)	(470.4)	(499.7)	(526.0)	(624.4)
Days receivable outstanding	97.7	75.8	78.2	76.0	71.1
Days inventory outstanding	28.9	26.3	31.2	32.5	34.1
Days payables outstanding	605.8	572.4	609.1	634.4	729.5
Dividend cover (x)	0.8	1.0	1.1	1.1	1.1
Current ratio (x)	0.5	0.5	0.5	0.5	0.5
Leverage & Expense Analysis					
Asset/Liability (x)	1.8	1.8	1.8	1.8	1.9
Net gearing (%) (incl perps)	83.8	76.6	75.4	75.1	72.7
Net gearing (%) (excl. perps)	83.8	76.6	75.4	75.1	72.7
Net interest cover (x)	5.9	5.0	4.8	6.8	8.2
Debt/EBITDA (x)	4.9	2.2	2.2	2.0	1.8
Capex/revenue (%)	13.1	14.0	16.4	13.9	11.4
Net debt/ (net cash)	13,666.4	12,599.9	12,479.5	12,624.9	12,453.5

Source: Company; Maybank IBG Research

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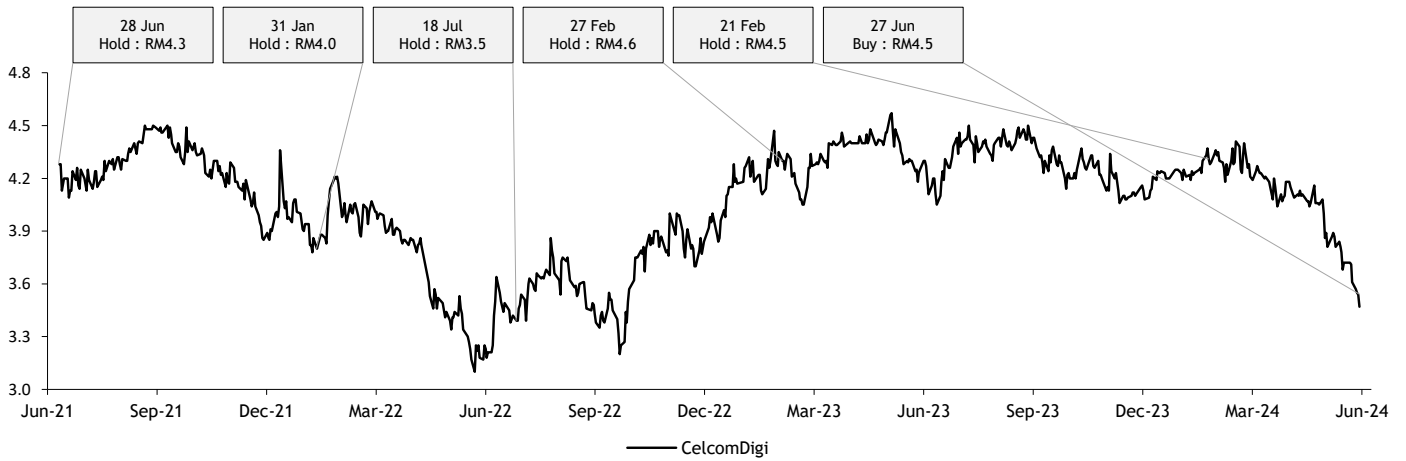
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