

PP14767/09/2012(030761)

Digi.Com Berhad

“Equipped for Competition”

Results Review

- Actual vs. expectations.** Digi.Com (Digi) started FY16 with improving operational matrix despite recording sombre financials number. 1Q16 earnings touched RM399 million (-17.1% y-o-y), in line with ours and consensus estimates respectively, accounting 22% and 23% of ours and consensus full year estimates respectively. 1Q16 earnings were anchored by steady service revenue in postpaid segment, anchored by commendable revenue contribution from 1) data (+12% y-o-y) and 2) voice (+1% y-o-y).
- Dividend.** Digi declared first interim dividend of 5.1 cent, translating into 99% payout ratio, in line with management guidance of 99% payout ratio.
- Topline vs. bottomline.** Digi’s revenue slid by 8% y-o-y to RM1.65 billion caused by lower service revenue by 1.8% y-o-y. Voice revenue contributed to the weaker service revenue which fell 5.8% y-o-y, especially in prepaid segment. Nevertheless, the drop in service revenue was slower than 4Q15 (-2.5% y-o-y), cushioned by 6.9% y-o-y growth from postpaid service revenue. EBITDA declined by 9% y-o-y to RM704 million with margin held up at 42.6% (+70bps y-o-y, +190bps q-o-q).
- Postpaid segment.** Postpaid service revenue registered positive growth of 6.9% y-o-y and 3.1% q-o-q following the success of intensive 4G-LTE roll-out, attractive postpaid packages and on-ground campaigns during the quarter. Postpaid subscriber base expanded 8.2% y-o-y to 1.9 million subscribers. Postpaid internet subscriber surged to 1.5 million, representing 80.3% of postpaid subscriber base. Despite the industry’s

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BUY (TP:RM5.75)

Current Price (RM)	RM4.67
New Fair Value (RM)	RM5.75
Previous Fair Value (RM)	RM5.90
Previous Recommend.	BUY
Upside To Fair Value	23%
Dividend Yield (FY16)	4%

Stock Code	
Bloomberg	DIGI MK

Stock & Market Data		
Listing	MAIN MARKET	
Sector	Telco	
Shariah Compliance	Yes	
Issued Shares (mn)	7,775.0	
Market Cap (RM mn)	42,840	
YTD Chg In Share Price	-10.7%	
Beta (x)	0.97	
52-week Hi/Lo (RM)	RM6.65	RM4.86
3M Average Volume (shrs)	11,856mn	
Estimated Free Float	34.9%	

Major Shareholders		
Telenor	49.0%	
EPF	14.1%	
ASB	3.2%	

aggressive internet quotas, postpaid ARPU remained solid at RM80.

- **Prepaid segment.** Prepaid service revenue dipped by 5.3% y-o-y and 3.7% q-o-q to RM1.09 billion amid competing in a market with aggressive reload freebies and discounts. Prepaid internet revenue fell by 2.5% y-o-y and 1.8% q-o-q to RM332 million hampered by high speed internet quotas bundled in reloads and consequently, ARPU fell to RM35 (-RM3 q-o-q) as a result of increasing multi-sims. Digi reckoned that prepaid's competition was at all time high during 1Q16 with competitors introducing disruptive plans of which Digi responded swiftly in 1Q16
- **Digi new postpaid plan.** Digi introduced its new look on postpaid plan, amid increasing competition in the postpaid space. Digi introduced quota rollover feature and bundled digital service and at the same time, Digi expanded the data usage for its every postpaid plan while maintaining the price. Digi expects the plan will be able to compete with its competitors which are offering almost similar plans.
- **Leader in 4G LTE network.** Digi's 4G-LTE network reached 73% population coverage nationwide, and LTE-A reached 33% of populations.
- **Outlook.** We expect Digi to post stronger 2Q16 results given stronger demand for its newly launched postpaid plan that equipped with extra data as well as rollover internet feature. Despite the plan may bring unhealthy margins, we believe this could be offset with further addition of subscribers given popular demand for its postpaid plan. We also understand that Digi will not tweak its capex guidance in FY2016.
- **Change to forecast.** No change to our FY16 and FY17 forecast. At this juncture, FY16 and FY17 earnings are expected to grow by 7% y-o-y and 14% y-o-y respectively assisted by 1) impact of network modernization that expands its high speed coverage 2) biggest beneficiary of GST 3) higher take up rate in bundled offerings.
- **Valuation.** We tweak our TP on Digi to RM5.75 as we applied lower EV/EBITDA of 14.5x and reiterate our **BUY** call. Digi's strong operational metrics and nimble marketing strategy apart from a very attractive dividend payout ratio will push investors to shift its holding into the stock. Rerating catalyst on the stock will be underpinned by 1) new spectrum award from MCMC 2) completion of its 3G and LTE network expansion.

Table 1: Peers Comparison

Company	FYE	Price (RM)	EPS (RM)		P/E (x)		P/B (x)		ROE (%)	Div Yield (%)	TP	Call
			FY16	FY17	FY16	FY17	FY16	FY17				
Axiata	Dec	5.88	0.29	0.32	20.4	18.4	2.2	2.1	11.5	3.7	6.45	Hold
Maxis	Dec	5.95	0.26	0.27	24.8	24.0	11.4	10.4	39.1	3.1	6.46	Hold
Digi	Dec	4.67	0.23	0.23	21.5	21.3	73.5	60.5	285.8	4.5	5.90	Buy
Telekom	Dec	6.73	0.24	0.26	27.2	25.4	3.2	3.15	9.1	3.2	6.87	Hold
Time DotCom	Dec	7.31	0.33	0.38	22.3	19.2	2.0	1.9	21.0	0.9	NR	NR
Average			0.27	0.29	23.24	21.6	18.5	15.6	73.3	2.9		

Source: Bloomberg, M&amp;A Securities

Table 2: Financial Summary

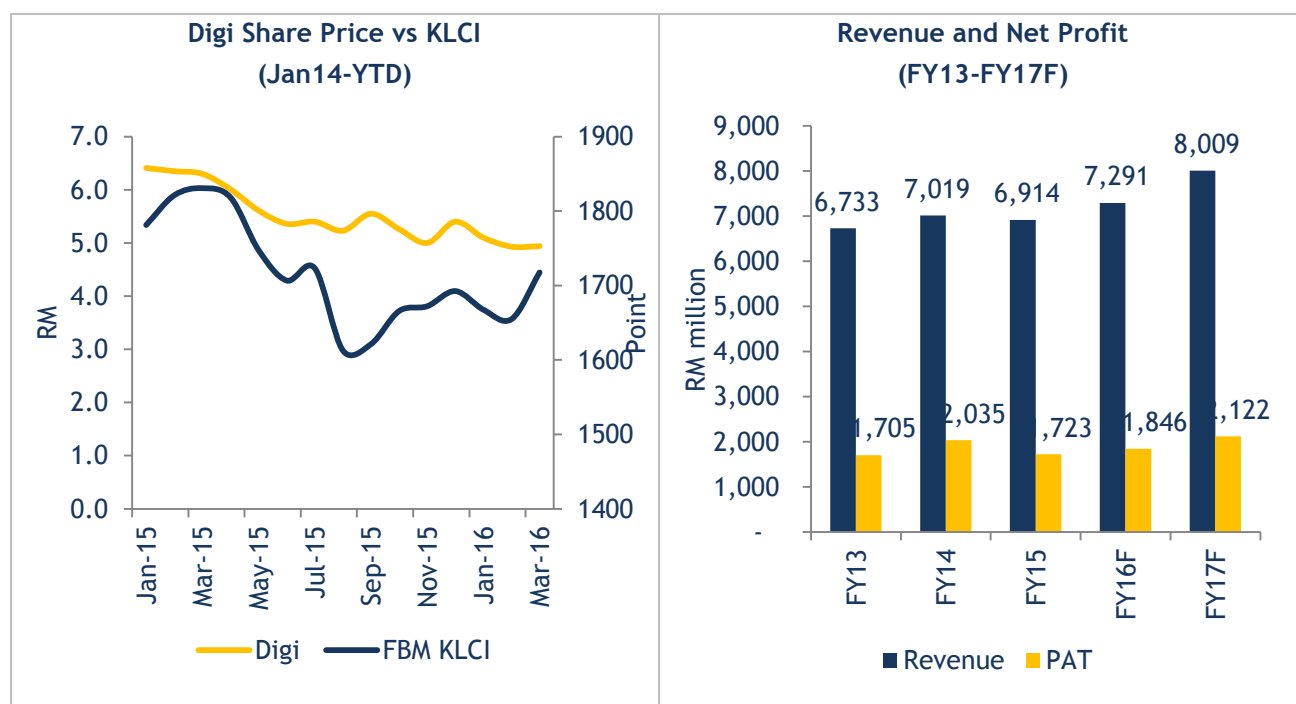
YE: Dec (RM million)	1Q16	4Q15	1Q15	y-o-y	q-o-q	3M16	3M15	y-o-y
Turnover	1,653	1,725	1,791	-8%	-4%	1,653	1,791	-8%
Expenses	-954	-1,025	-1,020	-6%	-7%	-954	-1,020	-6%
Other income	5	2	4	43%	136%	5	4	43%
EBITDA	704	702	775	-9%	0%	704	775	-9%
Depreciation	-156	-169	-139	12%	-8%	-156	-139	12%
EBIT	548	533	635	-14%	3%	548	635	-14%
Finance income	3	3	3	-8%	-3%	3	3	-8%
Finance cost	-17	-16	-12	43%	10%	-17	-12	43%
PBT	534	520	626	-15%	3%	534	626	-15%
Taxation	-135	-137	-147	-8%	-2%	-135	-147	-8%
PAT	399	383	479	-17%	4%	399	479	-17%
EPS (sen)	5.1	4.9	6.2	-17%	4%	5	6	-17%
EBITDA margin	42.6%	40.7%	43.3%			42.6%	43.3%	
PBT margin	32.3%	30.1%	32.1%			32.3%	34.9%	
PAT margin	24.1%	22.2%	23.7%			24.1%	26.8%	
Capex	171	288	193			171	193	
Operation matrix	1Q16	4Q15	1Q15					
<u>Prepaid</u>								
Subscribers (million)	10	10	10					
Net addition (million)	-0.41	0.38						
ARPU (RM/month)	35	35	39					
Revenue (RM million)	1,096	1,137	1,154					
<u>Postpaid</u>								
Subscribers (million)	1,902	1,840	1,758					
Net addition (million)	0.62	0.64						
ARPU (RM/month)	80	80	81					
Revenue (RM million)	464	450	434					

Source: Bursa Malaysia

Table 3: Financial Forecast

YE: Dec (RM million)	FY13	FY14	FY15	FY16F	FY17F
Turnover	6,733	7,019	6,914	7,291	8,009
Expenses	-3,714	-3,868	-3,945	-4,229	-4,485
Other income	23	17	13	19	18
EBITDA	3,042	3,167	2,982	3,081	3,542
Depreciation	-878	-492	-628	-679	-766
EBIT	2,164	2,675	2,354	2,402	2,776
Finance income	19	13	11	9	6
Finance cost	-43	-39	-56	34	29
PBT	2,140	2,649	2,309	2,446	2,811
Taxation	-434	-614	-586	-599	-689
PAT	1,705	2,035	1,723	1,846	2,122
EPS (sen)	21.94	26.12	22.15	23.75	27
Dividend - sen	21.3	26	22	24	27
Dividend payment (RMm)	1656	2022	1705	1828	2101
Dividend payout (%)	97%	99%	99%	99%	99%
Retained Earnings	49	14	17	18	21
PER (x)	22.6	23.6	24.9	23.2	20.2
Price	5	6	6	6	6
Gross Yield	4.3%	4.2%	4.0%	4.3%	4.9%
EV/EBITDA	12.8	15.3	14.7	14.1	12.0
EV (Mkt Cap + Total Debt-Cash)	38,902	48,500	43,901	43,431	42,349

Source: Bursa Malaysia, M&amp;A Securities



Source: Bloomberg, M&amp;A Securities

# M&A Securities

## STOCK RECOMMENDATIONS

<b>BUY</b>	Share price is expected to be $\geq +10\%$ over the next 12 months.
<b>TRADING BUY</b>	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
<b>HOLD</b>	Share price is expected to be between $-10\%$ and $+10\%$ over the next 12 months.
<b>SELL</b>	Share price is expected to be $\geq -10\%$ over the next 12 months.

## SECTOR RECOMMENDATIONS

<b>OVERWEIGHT</b>	The sector is expected to outperform the FBM KLCI over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform the FBM KLCI over the next 12 months.

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