

07 February 2014 | 4QFY13 Results Review

## Digi.Com

**Maintain BUY**

### *Increasing prominence of non-voice business*

**Revised Target Price (TP): RM6.33**  
(previously RM6.23)

#### INVESTMENT HIGHLIGHTS

- **Earnings boosted by healthier operating margin and lower effective tax rate**
- **Topline grew at a steady pace of 5.9%**
- **Total dividend declared amounted to 21.30sen**
- **Maintain BUY with target price of RM6.23**

**Better profit margin.** Digi posted a strong 2013 core earnings growth of 41.4% to RM1.7b. This rise in earnings is mainly attributable to higher EBIT margin of 32%, in comparison to 25% in the previous year. This is partly brought about by lower depreciation and amortization expenses, which declined by more than one third to RM878.1m (2012: RM1.3b). The company also booked lower effective tax rate of 20% as compared to 24.2% in 2012.

**Topline continue to grow steadily at 5.9%.** Revenue topped RM6.7b supported by higher subscriber base of 11m, an expansion of 4.8%. The growth in subscriber mainly stemmed from its prepaid segment which grew by 5.3%, while the postpaid segment grew at a modest 1.7%.

**Internet subscribers increased by 14.5%.** Apart from internet subscriptions from both new and existing base, the company managed to leverage on new coverage areas through ground promotions and incentives. This led to higher internet revenue of RM1.2b, an increase of 47.5%. As a result, data revenue improved by 14.2% to RM2.1b.


**Blended ARPU increased by a modest 2.1% to RM48.** There is a shift in ARPU composition with the non-voice segment taking a bigger share of 35% as compared to 31.9% in the previous year. Geographically, increased in ARPU from existing subscriber base complemented those from emerging and less affluent coverage areas.

**Declared dividend of 7sen for 4Q13.** This translates to full year dividend declared of 21.30sen or a payout ratio of 97%. Based on last closing price of RM4.85, this translates into a dividend yield of 4.4%. This is in-line with our assumption that the dividend payout ratio would be in the range of between 90% and 100%.

RETURN STATS	
Price (6 February 2014)	RM4.85
Target Price	RM6.33
Expected Share Price Return	+30.5%
Dividend Yield	+4.6%
<b>Expected Total Return</b>	<b>+35.1%</b>

STOCK INFO	
KLCI	1,797.9
Bursa / Bloomberg	6947 / DIGIMK
Board / Sector	Main/ Services
Syariah Compliant	Yes
Issued shares (mil)	7,775
Par Value (RM)	0.01
Market cap. (RM'm)	37,708.1
Price over NA	67.9x
52-wk price Range	RM4.38 – RM5.07
Beta (against KLCI)	1.10
3-mth Avg Daily Vol	7.7 m
3-mth Avg Daily Value	RM37m
Major Shareholders (%)	
Telenor ASA	49
EPF	14.23
Skim Amana Saham	5.56

**Earnings upgrade.** After incorporating FY13 results, we tweaked FY14 and FY15 earnings assumption marginally higher by 0.5% and 1.0% respectively.

**Maintain BUY.** With its full scale modernised network, we view that the company to be in a better position to capture larger subscriber base. There is also no let down in operating profit margin expansion. This in turn will lift the expectation of higher dividend being declared. While the company is still tight-lipped on its business trust proposal, we believe this could be an additional sweetener which could further unlock the value of the company. Following our revision in earnings estimate, our target price has been tweaked slightly higher to RM6.33 from RM6.23 previously due to higher dividend projection. Our valuation methodology is based on Discounted Dividend Model with an estimated long term long –term dividend payout of ratio of 100% and required rate of return of 7.56%. 

## DIVIDEND DISCOUNT MODEL ASSUMPTIONS

Expected market return	10%
Risk free rate	3.8%
Beta	1.04
Terminal growth	3%
Required rate of return	7.56

## INVESTMENT STATISTICS

FYE 31 Dec	FY12	FY13	FY14E	FY15F
Revenue (RM'm)	6,360.9	6,733.4	7,093.7	7,502.7
Core EBIT (RM'm)	1,592.9	2,154.8	2,294.0	2,843.9
Pretax Profit (RM'm)	1,590.9	2,140.2	2,272.4	2,463.0
Core Net Profit (RM'm)	1,199.4	1696.0	1,727.0	1,871.9
Core EPS (sen)	15.43	21.81	22.2	24.1
Core EPS growth (%)	-3.7	41.4	1.8	8.6
PER(x)	31.4	22.2	21.8	20.1
Net Dividend (sen)	26.3	20.2	22.2	24.1
Net Dividend Yield (%)	5.4	4.2	4.6	5.0

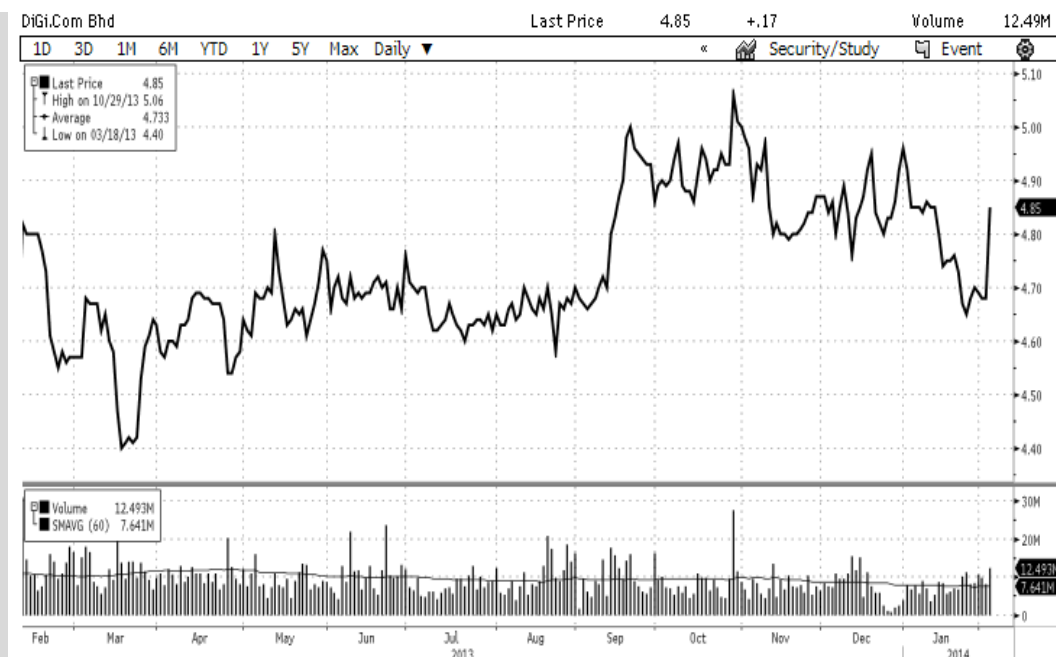
Source: Announcement, MIDFR estimates

## 4QFY13 RESULTS SUMMARY

(All in RM'm unless stated otherwise)	Quarterly results			Full year	
FYE Dec	4Q13	% YoY	% QoQ	FY13	%
Revenue	1733.4	6.4	2.0	6,733.4	5.9
Core EBITDA	801.4	10.6	4.4	3,032.9	4.0
Depreciation and amortisation	-121.8	-66.2	-44.9	-878.1	-34.0
Core EBIT	679.6	87.0	24.4	2,154.8	35.3
Exceptional item	9.0	1637.1	-570.9	9.9	56.8
Finance costs	-9.2	-35.1	-9.1	-43.5	-16.1
Interest income	3.9	-60.6	-13.7	18.9	-56.4
PBT	683.3	90.0	26.8	2,140.2	34.5
Taxation	-134.8	18.0	18.0	-434.3	12.7
Core PAT	539.5	120.2	26.5	1,696.0	41.4
Core EPS (sen)	6.94	120.2	26.5	21.81	41.4
		+/- ppts	+/- ppts		+/- ppts
Core EBITDA margin (%)	46.2	1.8	1.1	45.0	-0.8
Core EBIT margin (%)	39.2	16.9	7.1	32.0	7.0
PAT margin (%)	31.1	16.1	6.0	25.2	6.3
Effective tax rate (%)	19.7	-12.0	-1.5	20.3	-3.9

Source: Announcement, MIDFR

## DAILY PRICE CHART



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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	<i>Negative</i> total return is expected, by -15% or more, over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.