

16 April 2018 | 1QFY18 Results Review

## Digi.Com Berhad

*Postpaid segment continues to show good traction*

### INVESTMENT HIGHLIGHTS

- Improvement in postpaid and device revenue led to +2.1%yoy improvement in 1Q18 normalised earnings
- Double digit growth in postpaid revenue driven by +17.5yoy increase in postpaid subscriber
- Attrition of non-internet prepaid subscriber (-18.1%yoy) negatively impacted the prepaid segment
- Maintain NEUTRAL with a revised target price of RM4.70sen per share

**Supported by revenue growth in postpaid.** Digi.com Bhd (Digi) reported 1Q18 earnings of RM386.1m. Excluding the impact on MFRS15, the reported earnings would have come in lower at RM352.0m. The normalised 1Q18 earnings amounted to RM383.5m, a marginal increase of +2.1%yoy. The improvement in earnings was mainly led by the growth in postpaid segment and higher devices revenue.

All in, Digi's 1Q18 financial performance came in within ours and consensus expectation expectations, accounting for 27.3% and 26.0% of FY18 full year earnings estimates respectively.

**Steady growth in the postpaid segment.** 1Q18 postpaid revenue climbed by +13.7%yoy to RM591m. The improvement in postpaid take-up rate was supported by the positive traction from the Digi Postpaid Family plans, 'Gboost' proposition and 'Thank you' campaign. ARPU remained resilient at RM77 per month, supported by strong subscriptions for multi-sims plans and continued prepaid to postpaid conversions. This lead to +17.5%yoy expansions in postpaid customer base to 2.6m subscribers.

**Quarterly prepaid revenue fell below RM900m.** The prepaid revenue declined at slower pace of -6.4%yoy to RM891m from RM952 as at 1Q17. The lower revenue was attributable to -4.2%yoy decreased in subscriber base to 9.2m, which are mainly stemming from the non-internet subscriber. Meanwhile, ARPU remain stable at RM32 per month.

**Maintain NEUTRAL**

**Revised Target Price (TP): RM4.70**  
(previously RM4.62)

#### RETURN STATS

Price (13 <sup>th</sup> April 2018)	RM4.48
Target Price	RM4.70
Expected Share Price Return	+4.9%
Expected Dividend Yield	+4.2%
<b>Expected Total Return</b>	<b>+9.1%</b>


#### STOCK INFO

KLCI	1,868.47
Bursa / Bloomberg	6957 / DIGI MK
Board / Sector	Main/ Services
Syariah Compliant	No
Issued shares (mil)	7,775
Market cap. (RM'm)	34,832.0
Price over NA	49.8x
52-wk price Range	RM4.36 – RM5.19
Beta (against KLCI)	1.01
3-mth Avg Daily Vol	16.8m
3-mth Avg Daily Value	RM79.6m
Major Shareholders (%)	
Telenor ASA	49.0
EPF	15.74
PNB and Associated funds	9.86
Vanguard Group	1.68

**Capital expenditure (capex).** 1Q18 capex for network deployment came in at RM181m, a reduction of -8.1%yoy. This represents capex to service revenue ratio of 12.2% as compared to 13% as at 1Q17. The group continues to leverage on Telenor Group sourcing synergies, operating model shifts and efficient use of spectrum to provide cost levers to deliver competitive infrastructure capabilities sustainably. The 4G LTE and LTE-A networks coverage have reached 88% and 57% of population respectively, supported by over 8,200km of fiber network nationwide.

**Dividend.** Digi announced 1Q18 dividend of 4.9sen per share. This is 0.2sen higher as compared to 4.7sen per share announced in 1Q17.

**Target price.** We roll forward our valuation base year to FY19 and derive a new target price of **RM4.70** per share (previously RM4.62). This is based on DDM valuation methodology. Our target price implies a forward FY19PER of 24.7x.

**Maintain NEUTRAL.** The overall subscriber base, ARPU and service revenue were undermined by the contraction in the prepaid segment in view of heightened competition among its peers. We observed that there is strategic shift in service revenue mix which will further enable digital opportunities. This has led to continuous positive traction from the postpaid segment. As expected, the deployment of the 900Mhz has created positive impact on the postpaid segment by creating a more balancing playing field with its peers. However, we expect to see further earnings dilution from the prepaid segment as we do not see the competition on the prepaid landscape to abate anytime soon. This could potentially disrupt the prepaid market. All factors considered, we are maintaining our **NEUTRAL** recommendation on the stock. 

## DIVIDEND DISCOUNT MODEL ASSUMPTIONS

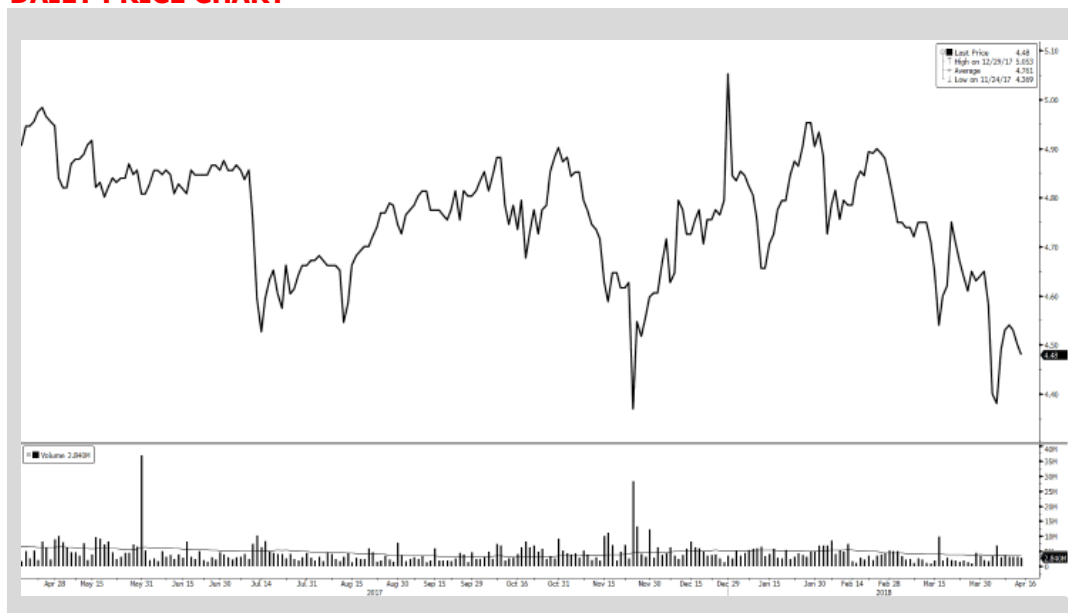
Expected market return	10%
Risk free rate	4%
Beta	0.95x
Terminal growth	5%

## INVESTMENT STATISTICS

FYE 31 <sup>st</sup> Dec	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	6,597.1	6,340.5	6,221.6	6,398.4
EBITDA (RM'm)	2,954.9	2,879.7	2,810.3	2,951.6
Pretax Profit (RM'm)	2,238.2	1,985.4	1,886.1	1,990.2
Net Profit (RM'm)	1,632.7	1,476.7	1,403.3	1,480.7
EPS (sen)	21.0	18.8	18.0	19.0
EPS (%)	-5.2	-10.5	-4.0	5.5
PER (x)	21.3	23.8	24.8	23.5
Net Dividend (sen)	20.9	18.8	18.0	18.9
Net Dividend (%)	4.7	4.2	4.0	4.2

Source: Company, MIDFR

## DAILY PRICE CHART



Martin Foo Chuan Loong  
 martin.foo@midf.com.my  
 +603 2173 8354

## Digi.Com Bhd: 1QFY18 RESULTS SUMMARY

FYE 31 <sup>st</sup> December	1Q18	1Q17	% YoY	4Q17	% QoQ
Revenue	1,634.5	1,574.0	3.8	1,664.5	-1.8
EBITDA	774.8	710.6	9.0	725.3	6.8
Depreciation and amortisation	-230.9	-176.1	31.1	-209.2	10.4
EBIT	543.9	534.5	1.8	516.2	5.4
Finance costs	-33.6	-28.9	16.3	-41.3	-18.7
Interest income	4.7	4.1	13.8	6.3	-24.9
PBT	515.0	509.8	1.0	481.2	7.0
Taxation	-128.9	-136.6	-5.7	-121.1	6.5
PAT	386.1	373.1	3.5	360.1	7.2
Normalised PAT	383.5	375.5	2.1	372.2	3.0
Normalised EPS (sen)	4.93	4.83	2.1	4.79	3.0
EBITDA margin (%)	47.4	45.1	5.0	43.6	8.8
EBIT margin (%)	33.3	34.0	-2.0	31.0	7.3
Normalised PAT margin (%)	23.5	23.7	-1.0	21.6	8.4
Effective tax rate (%)	25.0	26.8	-6.6	25.2	-0.5

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% 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.