16 July 2018 | 2QFY18 Results Review

Digi.Com Berhad

Continuous growth in the postpaid realm

***Upgrade to* BUY**

***Unchanged* Target Price (TP): RM4.70**

INVESTMENT HIGHLIGHTS

- **Improvement in postpaid and device revenue led to +8.3%yoy improvement in 2Q18 normalised earnings**
- **Double digit growth in postpaid revenue driven by +15.8%yoy increase in postpaid subscriber**
- **Higher 2Q18 dividend payment in-line with stronger earnings**
- **Upgrade to BUY (previously Neutral) with an unchanged target price of RM4.70sen per share**

Supported by revenue growth in postpaid. Digi.com Bhd (Digi) reported 2Q18 normalised earnings of RM389.0m (+8.3%yoy). The improvement in earnings was mainly led by the growth in postpaid segment and higher devices revenue. This led to 1H18 normalised earnings of RM772.4m, an increase of +5.2%yoy. All in, Digi's 1H18 financial performance came in within ours and consensus expectations, accounting for 55.0% and 51.5% of FY18 full year earnings estimates respectively.

Steady growth in the postpaid segment. 2Q18 postpaid revenue climbed by +15.5%yoy to RM619m. The improvement in postpaid take-up rate was supported by increased plan upgrades via subscriptions for high value plans enabled with borderless roaming proposition. In addition, there are easy entry plans and affordable 4G device bundles supported by stronger base management, data insights and digitisation capabilities which continued to drive prepaid to postpaid conversions. ARPU remained resilient at RM76 per month, supported by continued prepaid to postpaid conversions. This led to +15.8%yoy expansions in postpaid customer base to 2.7m subscribers.

Resilient prepaid revenue. The prepaid revenue declined at slower pace of -5.7%yoy to RM865m from RM917m as at 2Q17. The lower revenue was attributable to -7.5%yoy decreased in subscriber base to 9.0. There are also continuous conversions from prepaid to postpaid. Meanwhile, ARPU remains stable at RM32 per month.

Dividend. Digi announced 2Q18 dividend of 4.6sen per share. This is 0.3sen higher as compared to 4.6sen per share announced in 2Q17. Cumulatively, 1H18 dividend amounted to 9.8sen per share, up from 9.3sen per share for 1H17.

RETURN STATS	
Price (13th July 2018)	RM4.16
Target Price	RM4.70
Expected Share Price Return	+13.0%
Expected Dividend Yield	+4.6%
Expected Total Return	+17.6%

STOCK INFO	
KLCI	1,721.93
Bursa / Bloomberg	6957 / DIGI MK
Board / Sector	Main/ Services
Syariah Compliant	No
Issued shares (mil)	7,775
Market cap. (RM'm)	33,344.0
Price over NA	49.8x
52-wk price Range	RM3.93 – RM5.10
Beta (against KLCI)	0.87
3-mth Avg Daily Vol	5.8m
3-mth Avg Daily Value	RM25.6m
Major Shareholders (%)	
Telenor ASA	49.0
EPF	16.10
PNB and Associated funds	10.33
Vanguard Group	1.66

Capital expenditure (capex). 2Q18 capex for network deployment came in lower at RM147m, a reduction of -35.8%yoy. This represents capex to service revenue ratio of 10% as compared to 16% as at 2Q17. The group embarked on network operating model shift to establish a data-centric network centered on customer experience and to deliver optimal network operations. The 4G LTE and LTE-A networks coverage have reached 89% and 58% of population respectively, supported by over 8,300km of fiber network nationwide.

Target price. We maintain our target price of **RM4.70** per share. This is based on DDM valuation methodology. Our target price implies a forward FY19 PER of 24.7x.

Upgrade to BUY. The strategic shift in service revenue mix from prepaid to postpaid has bode well for the group. As at 2Q18, the ratio of postpaid to prepaid customer has risen to 0.72 from 0.58 a year ago. This was supported by attractive and competitive postpaid internet proposition that Digi has introduced. The improvement in earnings also led to better dividend payment. At this juncture, we view that Digi has the most attractive dividend yield of more than 4.5% as compared to its peers. In addition, given the share price weakness, the stock is currently trading at an attractive PER of 23x which is below the two-year historical average of 24x. This would represent an opportunity for investor to increase exposure in the stock. All factors considered, we are upgrading our recommendation to **BUY** from Neutral previously.

DIVIDEND DISCOUNT MODEL ASSUMPTIONS

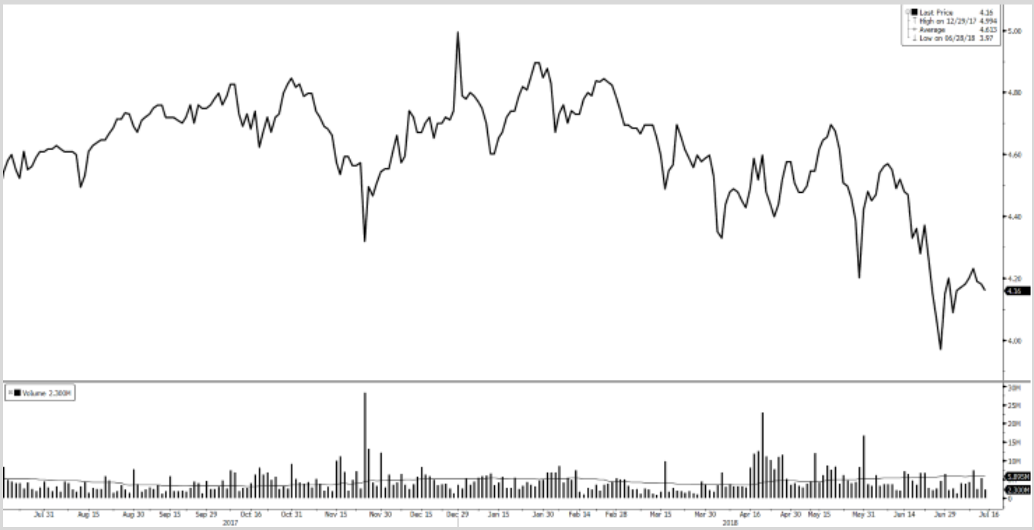
Expected market return	10%
Risk free rate	4%
Beta	0.95x
Terminal growth	5%

INVESTMENT STATISTICS

FYE 31st 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)	19.8	22.1	23.0	21.8
Net Dividend (sen)	20.9	18.8	18.0	18.9
Net Dividend (%)	5.0	4.5	4.3	4.6

Source: Company, MIDFR

DAILY PRICE CHART



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Digi.Com Bhd : 2QFY18 RESULTS SUMMARY

FYE 31st December	2Q18	% YoY	% QoQ	2018	2017	%YTD
Revenue	1,618.3	4.2	-1.0	3,252.9	3,126.5	4.0
EBITDA	728.0	1.5	-6.0	1,502.8	1,427.7	5.3
Depreciation and amortisation	-183.0	-5.8	-20.7	-414.0	-370.5	11.7
EBIT	544.9	4.2	0.2	1,088.8	1,057.3	3.0
Finance costs	-33.0	-29.2	-1.8	-66.5	-75.4	-11.8
Interest income	5.0	-28.5	5.8	9.7	11.1	-12.8
PBT	517.0	7.0	0.4	1032.0	993.0	3.9
Taxation	-132.6	6.7	2.9	-261.5	-261.0	0.2
PAT	384.3	7.1	-0.5	770.5	732.0	5.3
Normalised PAT	389.0	8.3	1.4	772.4	734.6	5.2
Normalised EPS (sen)	5.00	8.3	1.4	9.9	9.4	5.2
EBITDA margin (%)	45.0	-2.6	-5.1	46.2	45.7	1.2
EBIT margin (%)	33.7	0.0	1.2	33.5	33.8	-1.0
Normalised PAT margin (%)	24.0	4.0	1.8	23.7	23.5	1.1
Effective tax rate (%)	25.7	-0.3	2.5	25.3	26.3	-3.6

Source: Company, MIDFR

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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 *rise* 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 *fall* 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.