

18 October 2018 | 3QFY18 Results Review

## Digi.Com Berhad

*Sustained EBITDA margin via operational discipline*

**Maintain BUY**

**Revised Target Price (TP): RM4.89**  
(previously RM4.70)

### INVESTMENT HIGHLIGHTS

- **3Q18 normalised earnings lifted by growth in postpaid revenue and resilient EBITDA margin of 46%**
- **Cumulative 9MFY18 normalised earnings of RM1,162.2m (+4.7%yoy) came in better than expected**
- **In-line with stronger earnings, Digi announced higher 3Q18 dividend payment of 5.0sen per share**
- **Maintain BUY with a higher target price of RM4.89**

**Revenue growth in postpaid and device revenue.** Digi.com Bhd's (Digi) 3Q18 normalised earnings came in at RM387.2m (+3.8%yoy). The improvement in earnings was mainly led by the growth in postpaid segment and higher devices revenue. In addition, efficient cost management, especially in the domain of traffic charges and sales and marketing expenses, keep EBITDA margin stable at 46%. This led to 9M18 normalised earnings of RM1,162.2m (+4.7%yoy). All in, Digi's 9M18 financial performance surpassed our expectation, making up more than 80% of FY18 full year earnings estimates.

**Double digit growth in postpaid service revenue.** 3Q18 postpaid revenue climbed by +14.9%yoy to RM640m, which constitutes 43.4% of total service revenue. The improvement in postpaid revenue was premised on strong take-up and plan upgrades to Digi's new higher value postpaid plans with device bundle, family and borderless roaming proposition. There is also continued acquisition momentum in entry level postpaid plans and prepaid to postpaid conversions. Meanwhile, ARPU remained resilient at RM76 per month, supported by a stronger postpaid subscriber base of 2.7m.

**Higher mix of prepaid internet revenue.** The prepaid service revenue continues to trend lower, registering a decline of -9.1%yoy to RM835m as at 3Q18. This was mainly attributable to progressive transition from voice to data and continued prepaid to postpaid conversion. On a positive note, the prepaid internet revenue has increased by +9.6%yoy to RM399m as the internet subscribers rose to 6.6m, making up 72.6% of the total prepaid subscribers. Meanwhile, ARPU remain stable above the RM30 level.

| RETURN STATS                          |               |
|---------------------------------------|---------------|
| Price (17 <sup>th</sup> October 2018) | RM4.46        |
| Target Price                          | RM4.89        |
| Expected Share Price Return           | +9.6%         |
| Expected Dividend Yield               | +4.5%         |
| <b>Expected Total Return</b>          | <b>+14.1%</b> |


| STOCK INFO               |                 |
|--------------------------|-----------------|
| KLCI                     | 1,740.59        |
| Bursa / Bloomberg        | 6957 / DIGI MK  |
| Board / Sector           | Main/ Services  |
| Syariah Compliant        | No              |
| Issued shares (mil)      | 7,775           |
| Market cap. (RM'm)       | 34,676.5        |
| Price over NA            | 49.8x           |
| 52-wk price Range        | RM3.93 – RM5.10 |
| Beta (against KLCI)      | 1.04            |
| 3-mth Avg Daily Vol      | 4.0m            |
| 3-mth Avg Daily Value    | RM18.6m         |
| Major Shareholders (%)   |                 |
| Telenor ASA              | 49.0            |
| EPF                      | 15.56           |
| PNB and Associated funds | 11.38           |
| KWAP                     | 4.94            |

**Dividend.** Digi announced 3Q18 dividend of 5.0sen per share. This is 0.1sen higher as compared to 4.9sen per share announced in 3Q17, in-line with higher earnings achieved during the quarter-in-review. Cumulatively, 9M18 dividend amounted to 14.8sen per share, up from 14.2sen per share for 9M17.

**Careful capital spending.** 3Q18 capital expenditure (capex) for network deployment came in lower at RM127m, a reduction of -16.4%yoy. This represents capex to service revenue ratio of 9% as compared to 10% as at 3Q17. Despite lower capital spending, the group efficiently delivered nationwide 4G-LTE network upgrades and LTE-A network coverage expansion to 59% of population. Meanwhile, it also significantly improved 4G network experience with additional capacity deployment.

**Impact on earnings.** We are inputting faster pace of growth stemming from the postpaid segment and trimming the traffic charges and sales and marketing expenses to reflect the group's effort to maintain its healthy EBITDA margin. As a result, our FY18F and FY19F earnings estimates are revised upwards by +9.6% and +6.3% respectively.

**Target price.** We are revising upwards our target price to **RM4.89** (previously RM4.70) per share. This is based on DDM valuation methodology. Our target price implies a forward FY19 PER of 24.2x.

**Maintain BUY.** The strategic shift in service revenue mix from prepaid to postpaid has bode well for the group. As at 3Q18, the ratio of postpaid to prepaid customer has risen steadily to 0.23 from 0.20 a year ago. This was supported by attractive and competitive postpaid internet proposition that Digi has introduced. We view that the higher proportion of postpaid revenue would also indicate better earnings stability. Meanwhile, EBITDA margin has been relatively stable at around 47% supported by higher mix of internet revenue and efficient cost management. The improvement in earnings translates into better dividend payment as Digi paid almost all of its earnings as dividend. At this juncture, we view that Digi has the most attractive dividend yield of more than 4.5% as compared to its peers. All factors considered, we are maintaining our **BUY** 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 | 6,495.0 | 6,569.3 |
| EBITDA (RM'm)            | 2,954.9 | 2,879.7 | 2,994.3 | 3,032.2 |
| Pretax Profit (RM'm)     | 2,238.2 | 1,985.4 | 2,063.7 | 2,112.2 |
| Net Profit (RM'm)        | 1,632.7 | 1,476.7 | 1,537.4 | 1,573.6 |
| EPS (sen)                | 21.0    | 18.8    | 19.8    | 20.2    |
| EPS (%)                  | -5.2    | -10.5   | 5.2     | 2.4     |
| PER (x)                  | 21.2    | 23.7    | 22.6    | 22.0    |
| Net Dividend (sen)       | 20.9    | 18.8    | 19.7    | 20.1    |
| Net Dividend (%)         | 4.7     | 4.2     | 4.4     | 4.5     |

Source: Company, MIDFR

## DAILY PRICE CHART



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

## Digi.Com Bhd : 3QFY18 RESULTS SUMMARY

| FYE 31 <sup>st</sup> December | 3Q18    | % YoY | % QoQ | 9MFY18  | 9MFY17  | %YTD  |
|-------------------------------|---------|-------|-------|---------|---------|-------|
| Revenue                       | 1,599.5 | 1.9   | -1.2  | 4,852.4 | 4,695.9 | 3.3   |
| EBITDA                        | 750.5   | 3.3   | 3.1   | 2,253.2 | 2,154.4 | 4.6   |
| Depreciation and amortisation | -194.4  | -5.6  | 6.2   | -608.4  | -576.4  | 5.5   |
| EBIT                          | 556.0   | 6.8   | 2.0   | 1,644.8 | 1,577.9 | 4.2   |
| Finance costs                 | -32.8   | 107.9 | -0.7  | -99.3   | -91.2   | 8.9   |
| Interest income               | 5.8     | -8.0  | 17.2  | 15.5    | 17.5    | -11.0 |
| PBT                           | 529.1   | 3.5   | 2.4   | 1,561.1 | 1,504.2 | 3.8   |
| Taxation                      | -136.6  | 7.9   | 3.0   | -398.1  | -387.6  | 2.7   |
| PAT                           | 392.5   | 2.1   | 2.1   | 1,163.0 | 1,116.6 | 4.2   |
| Normalised PAT                | 387.2   | 3.8   | -0.5  | 1,162.2 | 1,109.8 | 4.7   |
| Normalised EPS (sen)          | 4.98    | 3.8   | -0.5  | 14.9    | 14.3    | 4.7   |
| EBITDA margin (%)             | 46.9    | 1.3   | 4.3   | 46.4    | 45.9    | 1.2   |
| EBIT margin (%)               | 34.8    | 4.8   | 3.2   | 33.9    | 33.6    | 0.9   |
| Normalised PAT margin (%)     | 24.2    | -1.2  | 1.9   | 24.0    | 23.6    | 1.3   |
| Effective tax rate (%)        | 25.8    | 4.2   | 0.6   | 25.5    | 25.8    | -1.0  |

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 <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. |