

24 January 2018 | 4QFY17 Results Review

Digi.Com Berhad

Losing its grip in the prepaid segment

INVESTMENT HIGHLIGHTS

- **FY17 earnings impacted largely by lower prepaid service revenue and higher depreciation and amortisation expenses**
- **However, postpaid service revenue grew higher, supported mainly by larger subscriber base**
- **Capital spending for FY17 remains at similar level with FY16, made up 12.5% of mobile service revenue**
- **FY17 dividend came in lower at 18.8sen per share in tandem with the lower earnings generated for the year**
- **Maintain NEUTRAL with a revised target price of RM4.62sen per share**

Broadly within expectation. Digi.Com Bhd (Digi) reported 4QFY17 earnings of RM360.1m. After adjusting for exceptional items amounting to -RM12.1m, the normalised earnings amounted to RM372.2m (-1.5%yoy). The drop in normalised earnings was mainly attributable to lower prepaid service revenue and lower profit margin, leading to a lower FY17 normalised earnings of RM1,482.0m, a reduction of -32.1%yoy. Note that the deployment of 900Mhz spectrum in 1st July 2017 has led to higher depreciation and amortisation expenses (+20.6%yoy) as well as higher borrowing costs.

All in, the group's full year FY17 financial performance came in within ours and consensus expectations, accounting for 96.1% and 98.1% of FY17 full year earnings estimates respectively.

Steady growth in the postpaid segment. 4QFY17 postpaid service revenue improved by +13.5%yoy to RM580m. Strong demand for its new postpaid plans broadened the subscriber base to 2.5m (+18.2%yoy). However, 4QFY17 postpaid ARPU decreased to RM78 per month (4QFY16: RM81 per month), indicating majority of Digi's postpaid customers subscribing to the middle and lower tier range of the postpaid plans.

We expect the postpaid ARPU to trend higher as the entry level postpaid plan has been revised to RM58 per month from RM50 per month previously. Nonetheless, we do not expect this to dampen the postpaid customer acquisition in view of stronger network capabilities.

Maintain NEUTRAL

Revised Target Price (TP): RM4.62
(previously RM5.02)

RETURN STATS

Price (23 rd January 2018)	RM4.92
Target Price	RM4.62
Expected Share Price Return	-6.1%
Expected Dividend Yield	+3.7%
Expected Total Return	-2.4%

STOCK INFO

KLCI	1,838.04
Bursa / Bloomberg	6957 / DIGI MK
Board / Sector	Main/ Services
Syariah Compliant	No
Issued shares (mil)	7,775
Market cap. (RM'm)	38,253
Price over NA	77.0x
52-wk price Range	RM4.36 – RM5.19
Beta (against KLCI)	0.93
3-mth Avg Daily Vol	5.1m
3-mth Avg Daily Value	RM24.5m
Major Shareholders (%)	
Telenor ASA	49.0
EPF	14.91
PNB and Associated funds	10.27
KWAP	5.35


Non-internet prepaid subscribers porting out. The prepaid service revenue declined by -10.6%yoy to RM933m as at 4QFY17. This was mainly caused by lower prepaid legacy revenues as a result of higher churn rate in the non-internet prepaid users. The non-internet prepaid users reduced to 2.8m (-27.3%yoy), while the internet prepaid users improved to 6.4m users. Meanwhile, ARPU rose to RM34 per month, supported by the stronger internet monetization from the prepaid internet subscribers.

Capital expenditure (capex). 4QFY17 capex subsided to RM170m from RM202m a year ago. Cumulatively, FY17 capital spending amounted to RM748m (-4.1%yoy). This represents capex to service revenue ratio of 12.5%, in-line with the management's guidance. The 4G LTE and LTE-A network coverage has reached 87% and 55% of population, supported by robust fiber network nationwide. The group has expanded the fiber network to 8,000km from 7,600km a year ago.

Impact. In view of weaker prepaid service revenue, we are cutting our prepaid subscriber assumption to below nine million. We also fine tune our FY18 postpaid ARPU assumption to better reflects the results thus far. All in, these led a more conservative FY18 earnings estimate of RM1,403.3m.

Dividend. Digi announced 4QFY17 dividend of 4.6sen per share, in tandem with the lower earnings. This is 0.2sen lower as compared to 4.8sen per share announced in 4QFY16. Cumulatively, FY17 dividend amounted to 18.8sen per share, a reduction of -10.0%yoy.

Target price. Due to the changes in our earnings assumptions, we are revising our target price to RM4.62 per share (previously RM5.02), deriving it based on DDM valuation methodology. Our target price implies a forward FY18 PER of 25.6x.

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 lead 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. The exclusion from the shariah list further limits investor's interest on the stock. All factors considered, we are maintaining our **NEUTRAL** recommendation on the stock. 

DIVIDEND DISCOUNT MODEL ASSUMPTIONS

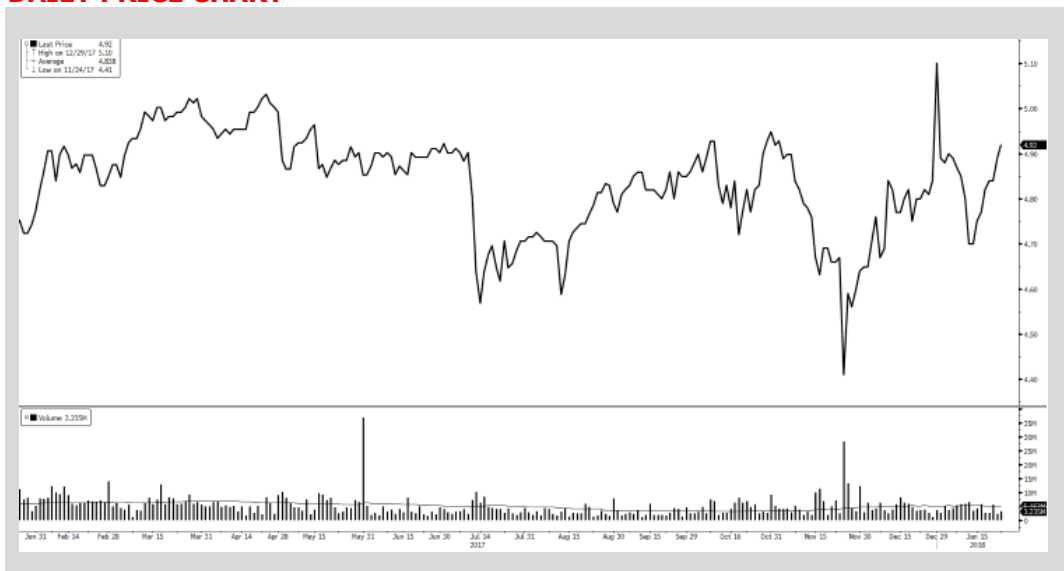
Expected market return	10%
Risk free rate	4%
Beta	0.95x
Terminal growth	5%

INVESTMENT STATISTICS

FYE 31 st 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)	23.4	26.2	27.3	25.8
Net Dividend (sen)	20.9	18.8	18.0	18.9
Net Dividend (%)	4.2	3.8	3.7	3.9

Source: Company, MIDFR

DAILY PRICE CHART



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

Digi.Com Bhd : 4QFY17 RESULTS SUMMARY

FYE 31 st December	Quarterly			Cumulatively		
	4Q17	% YoY	% QoQ	2017	2016	%YoY
Revenue	1664.5	-0.3	6.1	6340.5	6597.1	-3.9
EBITDA	725.3	-2.1	-0.2	2879.7	2954.9	-2.5
Depreciation and amortisation	-209.2	17.7	1.5	-785.6	-651.2	20.6
EBIT	516.2	-8.3	-0.9	2094.1	2303.7	-9.1
Finance costs	-41.3	79.9	162.0	-132.5	-78.1	69.6
Interest income	6.3	67.6	-1.3	23.7	12.5	89.4
PBT	481.2	-11.5	-5.9	1985.4	2238.2	-11.3
Taxation	-121.1	-28.3	-4.4	-508.7	-605.5	-16.0
PAT	360.1	-3.9	-6.4	1476.7	1632.7	-9.6
Normalised PAT	372.2	-1.5	-3.8	1482.0	1638.9	-9.6
Normalised EPS (sen)	4.79	-1.5	-3.8	19.1	21.1	-9.6
EBITDA margin (%)	43.6	-1.7	-5.9	45.4	44.8	1.4
EBIT margin (%)	31.0	-8.0	-6.5	33.0	34.9	-5.4
Normalised PAT margin (%)	22.4	-0.3	-8.8	23.4	24.8	-5.9
Effective tax rate (%)	25.2	-19.0	1.6	25.6	27.1	-5.3

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.