

Celcomdigi Berhad

(6947 | CDB MK) Telecommunications & Media | Telecommunications service providers

Unlocking its Synergistic Benefit

KEY INVESTMENT HIGHLIGHTS

- **Maintain BUY recommendation with a higher target price of RM4.97**
- **CDB delivered consistent performance in 2QFY23 with normalized earnings of RM523m (+8.1%qoq) thanks to better cost structure**
- **Potentially lower integration cost mainly driven by better-than-expected procurement synergies**
- **2QFY23 dividend payout ratio above 100%, a display of the group's healthy free cash flow**

Upside potential intact. We are keeping our **BUY** recommendation on Celcomdigi Bhd (CDB) with a higher **target price of RM4.97** post the 2QFY23 results announcement. The group maintains its growth momentum in 2QFY23 post the consolidation of Celcom and Digi towards the end of 2022. This surpassed our expectation, making up 62% of our FY23 full year earnings estimates. Moving forward, we anticipate there should be no let-up in the group's future performance with upside potential emanating from the procurement synergies.

Sustained positive trajectory. CDB's 2QFY23 normalised earnings came in at RM523m (+8.1%qoq). We view that the improvement came from lower USP fund and license fees (-22.22.3%qoq) as well as lower effective tax rate of 25.6%. Meanwhile, 2QFY23 revenue remained steady at RM2.7b. Note that assuming comparable basis results, 2QFY23 earnings translate into a growth of approximately 10%.

Exceed expectation. Cumulatively, 1HFY23 earnings amounted to RM1,037m. On comparable basis results, this translates into a growth of approximately 6%yoy. All in, CDB's 1HFY23 financial performance surpasses ours and consensus expectation, making up 62% and 64% of FY23 full year earnings estimates respectively.

Steady service revenue. 2QFY23 service revenue remained steady at RM2,707m (+0.1%qoq). The marginal decline in postpaid revenue (-0.1%qoq) was made up by higher revenue from the prepaid (+0.6%qoq), wholesale (4.9%qoq) and home fibre (+5.0%qoq) segments. Note that the postpaid revenue was impacted by interconnect rate reduction, lower on-demand services and curbed messaging traffic.

Sequentially lower cost. 2QFY23 total cost declined by -1.6%qoq to RM1,643m which was mainly attributable to lower regulatory compliance cost. This was partly offset by higher network and IT costs as well as planned sales and marketing activities.

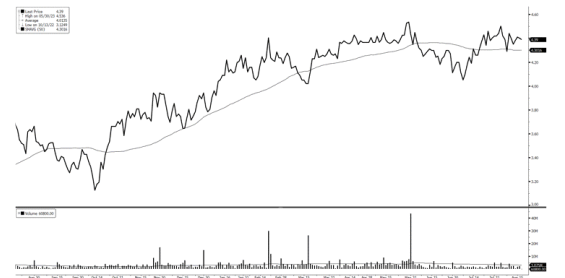
Capex to intensify in 2H. CDB recorded 2QFY23 capex of RM252m, an increase of +133.3%qoq. This was mainly due to continued investments in network capacity upgrades and IT initiatives. In-line with the ramping up of integration activities, 2HFY23 capex should increase at a much faster pace.

Maintain BUY**Revised Target Price: RM4.97***(Previously RM4.87)*

RETURN STATISTICS

Price @ 18 th August 2023 (RM)	4.38
Expected share price return (%)	+13.5
Expected dividend yield (%)	+3.5
Expected total return (%)	+17.0

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	3.1	-0.5
3 months	6.8	-2.2
12 months	15.8	20.8

INVESTMENT STATISTICS


FYE Dec (RM)	2023E	2024F	2025F
Revenue	12,861	12,912	13,067
Operating Profit	3,264	3,571	3,985
Profit Before Tax	2,703	3,176	3,611
Core PATAMI	2,000	2,351	2,781
Core EPS	17	20	24
DPS	13.6	16.0	19.0
Dividend Yield (%)	3.1%	3.7%	4.3%

KEY STATISTICS

FBM KLCI	1,446.09
Issue shares (m)	8,121.87
Estimated free float (%)	13.63
Market Capitalisation (RM'm)	51,501.32
52-wk price range	RM3.19 - RM4.60
3-mth average daily volume (m)	3.18
3-mth average daily value (RM'm)	13.96
Top Shareholders (%)	
Telenor ASA	33.10
Axiata Group Bhd	33.10
Employees Provident Fund Board	9.58

Foo Chuan Loong, Martin
martin.foo@midf.com.my

Higher dividend payout, a testament of CDB's cash generative capability. The group declared 2QFY23 dividend of 3.2sen which translates into a payout ratio of 109% which is above their dividend policy of at least 80% of net profit. This was funded by the group's healthy free cash flow (FCF). Note that FCF improved by +57.2%qoq to RM1,094m, underpinned by working capital initiatives.

Upward revision in earnings and target price. To account for the impact on accelerated depreciation, we make an upward revision in FY23 to FY24 earnings estimate to between RM2b and RM2.8b. This also led to a higher target price of RM4.97 (previously RM4.87) while we maintain our valuation parameters. 

CELCOMDIGI BHD: 2QFY23 RESULTS SUMMARY

FYE 31st December (in RM'm, unless otherwise stated)	Quarterly			Yearly		
	2Q23	% YoY	%QoQ	FY23	FY22	%YoY
Revenue	3,123	102.9	-1.8	6,303	3,061	105.9
EBITDA	1,502	105.0	-1.1	3,020	1,459	106.9
Depreciation and amortisation	-896	189.8	-2.2	-1,813	-607	198.8
EBIT/(LBIT)	605	43.0	0.7	1,207	853	41.5
Finance costs	-160	137.2	-1.0	-322	-129	149.4
Finance income	23	270.4	12.0	44	13	244.3
PBT	468	29.3	1.7	929	736	26.1
Taxation	-120	-15.2	-13.7	-260	-280	-7.3
PAT/LAT	348	58.1	8.4	669	456	46.6
MI	4	n.m.	51.6	7	0	n.m.
PATAMI	344	56.1	8.1	661	456	45.0
Normalised PATAMI	523	137.5	1.5	1,037	456	127.4
EPS/(LPS) (sen)	4.5	57.4	1.5	8.8	7.8	13.4
EBITDA margin (%)	48.1			47.9	47.7	
EBIT margin (%)	19.4			19.1	27.9	
Normalised PATAMI margin (%)	16.7			16.5	14.9	
Effective tax rate (%)	25.7			28.0	38.1	

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	6,336	6,773	12,861	12,912	13,067
EBITDA	2,993	3,012	6,204	6,386	6,488
EBIT	1,730	1,466	3,264	3,571	3,985
PBT	1,515	1,218	2,703	3,176	3,611
Normalised PATAMI	1,134	1,203	2,000	2,351	2,781
Normalised EPS (sen)	14.6	15.5	17.0	20.0	23.7
Normalised EPS Growth (%)	-7.1	6.1	10.2	17.5	18.3
PER (x)	30	28	25.7	21.9	18.5
Dividend Per Share (sen)	14.9	12.2	13.6	16.0	19.0
Dividend yield (%)	3.4	2.8	3.1	3.7	4.3

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Fixed assets	2,864	6,409	5,205	4,326	3,784
Intangible assets	284	18,695	18,695	18,695	18,695
Others	3,270	8,383	8,383	8,383	8,383
Non-current assets	6,417	33,486	32,282	31,404	30,862
Cash	205	1,221	3,551	3,290	4,231
Trade debtors	1,050	2,426	2,114	3,538	3,938
Others	168	410	482	483	486
Current assets	1,423	4,056	6,147	7,311	8,655
Trade creditors	1,444	0	2,931	2,943	2,978
Short-term debt	1,123	4,139	4,139	4,139	4,139
Others	365	4,222	1,577	1,581	1,591
Current liabilities	2,932	8,361	8,648	8,663	8,709
Long-term debt	3,836	10,748	10,948	10,748	10,948
Others	439	2,119	2,119	2,119	2,119
Non-current liabilities	4,275	12,867	13,067	12,867	13,067
Share capital	770	16,596	16,596	16,596	16,596
Retained earnings	-137	-384	16	486	1,042
Minority interest	0	103	103	103	103
Equity	633	16,314	16,714	17,185	17,741

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	1,515	1,218	2,703	3,176	3,611
Depreciation & amortisation	1,263	1,546	2,940	2,815	2,503
Others	-324	-258	526	-1,409	-357
Changes in working capital	201	69	-846	-1,031	-1,056
Operating cash flow	2,655	2,575	5,323	3,551	4,700
Capital expenditure	-803	-888	-1,736	-1,937	-1,960
Others	10	-1,533	143	205	226
Investing cash flow	-793	-2,422	-1,593	-1,732	-1,734
Debt raised/(repaid)	-826	-1,674	200	-200	200
Equity raised/(repaid)	-2	-1	0	1	2
Dividends paid	-1,135	-1,011	-1,600	-1,880	-2,225
Others	2	3,550	0	-1	-2
Financing cash flow	-1,961	864	-1,400	-2,080	-2,025
Net cash flow	-99	1,017	2,330	-261	941
Beginning cash flow	303	205	1,218	3,551	3,290
Ending cash flow	205	1,218	3,551	3,290	4,231

Profitability Margins (%)	2021A	2022A	2023E	2024F	2025F
EBITDA margin	47	44	48	49	50
PBT margin	24	18	21	25	28
PATAMI margin	18	18	16	18	21

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (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 (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

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 MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment 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. MIDF Investment and its affiliates and related BNM and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loss, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such BNM mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology